Financing Micro-Developments of Residential Rental Stock: Case Studies of Seven Small-Scale Landlords in Cape Town

JOHN SPIROPOULOS

1 INTRODUCTION

It is well known that the majority of housing across Africa is built incrementally by households themselves or by small builders contracted by households. In South Africa, policy and practice, including financial products and services offered by lenders, imagine a larger scale of provision in which an experienced developer delivers new housing, primarily for ownership, within greenfield projects. In the absence of products and support services crafted to their circumstances, “owner-builders” or “micro-developers” finance their construction projects opportunistically from multiple sources including savings, loans from friends and family, and, in some cases, personal loans from lenders. This has an impact on the efficiency and scale of their operations, the costs associated with construction and the supply of affordable housing in the area.
It is possible to conclude that there is visible demand for affordable housing in South Africa: backlogs persist but existing conventional developers cannot deliver within the affordability parameters of the market. As such, the majority of housing is being built by small or household builders. And yet micro-developers struggle to access finance and are constrained by institutional and regulatory factors in the housing supply chain. The study includes seven cases that together offer an indicative, though not necessarily representative, perspective of the experience of micro-developers and the problems they face.

There is a clear demand for a different approach to affordable housing. The Western Cape Department of Human Settlements (WCDHS) estimates that there are more than 270,000 households that are inadequately housed.¹ Not all these households are eligible for state subsidies. Nearly 52,000 of these households include employed adults earning more than ZAR3,500 (US$244) per month, and almost 19,000 of these households include employed adults earning between ZAR3,500 and ZAR7,500 (US$517) per month. While this constitutes a potential and financeable housing demand of 20,000 - 40,000 units, entry-level housing built in greenfield developments by conventional developers is slow to materialise and expensive. It is into this niche market that micro-developers, making private investment into the development of formal dwellings (studio apartments or flats), have begun to make a mark.

A 2019 study by the Human Sciences Research Council (HSRC), commissioned by the WCDHS, reported a dramatic increase in backyard shacks in Cape Town with the number increasing by nearly 56,000, in the 20 years from 1996 to 2016. Backyard flats, on the other hand, increased by nearly 17,500 units or 84 percent during the same period.² In the five years from 2011 to 2016, the number of backyard flats³ more than doubled to 38,360 units compared to a growth of only approximately 3,200 backyard shacks in the same period.

Backyard rental constitutes a significant component of housing supply. Moreover, rental income is an important addition to the shared household income of the homeowner. It is also an important addition to savings for re-investment or repayment of loan obligations by entrepreneur developers. For regularly employed and intermittently employed young adults, backyard rental provides much-needed accommodation in a context where government housing programmes lag far behind an ever-increasing demand. Moreover, backyard units often spring up in well-located areas providing important, affordable housing in key locations for tenants and family members.

The capacity of micro-developers to deliver at scale is, however, limited by financial and institutional constraints. This case study seeks firstly to understand how current practices of the study sample can inform the development of appropriate financial products and services in support of their efforts, and secondly to build a business case for government and the housing finance sector.

2 PURPOSE AND SCOPE

2.1 PURPOSE OF THE STUDY

The purpose of this study is to document the experiences of a selected sample of small-scale entrepreneur landowners and micro-developers⁴ in financing the construction of what constitutes an emerging supply of residential rental stock in low income areas in Cape Town. The study is supplementary to the case study and paper prepared by McGaffin, Spiropoulous and Boyle in 2019 (Micro-developers in South Africa: A Case Study of Micro-property Developers in Delft South and Ilitha Park, Cape Town) which provides a theoretical framework for the study of the sector and its development.⁵ The theoretical framework advocates a systemic examination of the supply chain in which the development process is an interaction between regulator and finance providers, on the one hand, and developers, on the other, with intermediaries in the form of service providers facilitating their interaction. This project adds to that study by tracing the sources and application of finance in the development value chain as managed by different

³ Human Sciences Research Council (March 2019). Pg. 38.
⁴ A distinction is made in this document between a developer that invests his or her own money or borrows and builds stock that he/she will own and manage and a builder that would be contracted to undertake the work of construction.
micro-developers and attempting to unpack the rationale of the choices they make. It also examines regulatory challenges, the spatial economic context and dimensions of the local housing market.

Considering both the policy and legislative environments (including local by-laws) as well as the availability of financial services, both formal and informal, the study identifies opportunities for more appropriate policy support and financial product development to enable the capacity of this emerging micro-development sector to respond to the growing demand for affordable residential rental units.

The overall aim is to inform policymakers, regulators and lenders on how and when they might support the efforts of entrepreneur micro-developers to build a sustainable delivery system for this market segment. It is to inform how they might develop policies, deliver services and assist entrepreneur micro-developers to re-invest in sustainable ways in their properties so as to provide accommodation for their family members and tenants, to secure a stable source of household income in the form of rent and to provide a liveable and efficient, safe and healthy environment.

2.2 SCOPE

The case study records and analyses commonalities and differences among the cases of seven micro-developers from Cape Town’s predominantly working-class areas focusing on the townships of Khayelitsha, Delft, the Wallacedene area of Kraaifontein and Masiphumelele and concludes on ways in which government and financial institutions might support the efforts of entrepreneur micro-developers in the provision of private rental stock.

The case studies include a range of entrepreneur micro-developers who have already had the experience of implementing local property development of flats. At one end of the spectrum are those who are more experienced and resourced and operate within formal regulatory requirements and, at the other, those who are less experienced and have developed informally. The sample of micro-developers was selected based on contacts from previous fieldwork and through introduction by other micro-developers. The sites were selected to provide a spread of low-income settlements or townships across Cape Town.

This study provides an account of the different approaches and experiences of these entrepreneurs. Some purchased property with the specific aim of re-development, some developed flats on land they inherited or obtained from family members, and some developed land they received from government.

Study Methodology

A qualitative research method was adopted using unstructured but guided interviews of entrepreneur micro-developers and discussion resulting in case studies of financing and project implementation that are contextualised in relation to the background and recent work histories of the study respondents. All respondents are conversant in English. The interviews were conducted in English in the respondents’ homes or at the site of their development. All respondents were assured anonymity and to this end the names used in this report are aliases. The data on costs and amounts of finance sourced are drawn from memory of the interviewees. It can therefore be expected that numbers have been rounded off, up or down, and should be regarded accordingly. Some respondents were more willing to divulge detailed financial information than others.

The background and work histories of the respondents focused on personal background and employment history, access to property for development, government housing subsidies and finance/credit. The interviews explored their disposition and attitude toward money, savings, borrowing and investment. Explicit attention was given to the sources and utilisation of finance in the construction value chain.
3 CONTEXT

3.1 SPATIAL AND SOCIO-ECONOMIC CONTEXT

The Western Cape Department of Human Settlement (WCDHS) states, based on 2011 Census data, that ‘The total calculated number of inadequately housed households [in Cape Town], comprising those in informal dwellings, informal backyards and overcrowded dwellings is 274,581, which represents 24 percent of the total.’ The financial circumstances of the population living under these inadequate housing conditions is mainly related mainly to their employment status and what they earn and indicates their ability to afford the available rental stock. These two considerations largely determine the potential demand for rental accommodation ‘flats,’ including built, brick and mortar structures in backyards and in new developments built by micro-developers.

The 2015 Human Settlement Demand Profile for the City of Cape Town indicates that there was a small increase in the population of low income areas from 4,024 million to 4,175 million (150,000 people) in the two-year period from 2015 to 2017. There was also an increase, albeit smaller, in the number of households from 1,212 million to 1,305 million (93,000) in the same period. Overall, household size decreased from 3.32 in 2015 to 3.2 in 2017. This suggests two possibly inter-related changes: first, changes in household composition; and second, an increase in the number of housing units reflected in the overall increase of housing stock in Cape Town from 2011 to 2016 as indicated in Table 1 below:

Table 1: Trend in Housing Units by Settlement Type (2011 – 2016)

<table>
<thead>
<tr>
<th>Settlement Type</th>
<th>Informal Settlements</th>
<th>Backyard Shacks</th>
<th>Backyard Flats</th>
<th>Formal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>143 566</td>
<td>74 469</td>
<td>16 151</td>
<td>811 432</td>
<td>1 045 618</td>
</tr>
<tr>
<td>2016</td>
<td>145 286</td>
<td>77 534</td>
<td>38 360</td>
<td>989 746</td>
<td>1 251 026</td>
</tr>
<tr>
<td>Total Change</td>
<td>1 720</td>
<td>3 165</td>
<td>22 209</td>
<td>178 314</td>
<td>205 408</td>
</tr>
<tr>
<td>Percentage Change</td>
<td>1.18%</td>
<td>4.08%</td>
<td>57.9%</td>
<td>18.02%</td>
<td>16.42%</td>
</tr>
</tbody>
</table>

Source: Human Sciences Research Council (March 2019). Research Project Investigating Backyarding Housing Segment in the Western Cape Province. Pg. 38.

The biggest increase in housing type can be seen in what has been referred to as backyard flats which from observation are commonly occupied by single and employed young adults in the study sample. The growth in the supply of backyard flats, as indicated above, was 57.9 percent from 2011 to 2016. More than 60 percent of the 16.42 percent growth in residential units in the City of Cape Town between 2011 and 2016 was in informal settlements, backyard shacks and flats which are predominantly in lower income areas. The data would therefore suggest that there has been a growing supply of rental flats in the study areas of Khayelitsha, Delft, the Wallacedene area of Kraaifontein and Masiphumelele.

Regarding the extent of the rental market, the WCDHS reports, based on 2011 Census data, that approximately 30 percent of accommodation in Cape Town is rented and that approximately 20 percent of this is in what is referred to as “inadequate” conditions. Approximately 55 percent of accommodation is owned. Households with a monthly income of less than ZAR7 500 (US$517) make up 55 percent of those who own properties and approximately 65 percent of the households that rent accommodation. This same study estimates approximately 36,000 households with a monthly household income of between ZAR3 501 and ZAR7 500 (US$241 and US$517), making up more than 20 percent of those who are considered to be inadequately housed. These households constitute a pool of potential demand for rental accommodation in Cape Town’s low income areas.

The socio-economic profiles of the four study areas describe the conditions in which the property

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8 Backyard shacks are dwellings built predominantly of corrugated iron and timber.
9 Backyard flats include brick and mortar structures.
10 Human Sciences Research Council (March 2019). Research Project Investigating Backyarding Housing Segment in the Western Cape Province. Pg. 38.
developments have been implemented. Further detail on the policy environment, development regulations and financial sector context in Cape Town is contained at Annex 2.

3.1.1 Delft

Delft is a dense and largely formalised township situated in the south east corner of the City of Cape Town’s Tygerberg district. The area is adjacent to Blue Downs and Khayelitsha and is situated near Cape Town International Airport and the industrial areas in its proximity. Delft is highly accessible, being bordered by Settlers Way and the R300. It is a popular suburb because of its good transport connections. The area is predominantly zoned SR2: Incremental Housing and community zoned properties mostly used for social facilities.

The 2011 census count for Delft was a population of 152 030 and the number of households was 39 576. The average household size was 3.84 compared to a city-wide average of 3.2 (in 2017). The population density was 13 715 persons per km², which is nine times higher than Cape Town’s average of 1 530 persons per km². 83 percent of Delft’s population (152 030) lives in formal dwellings and over 90 percent have access to piped water, flushing toilet connected to a public sewer system and electricity. Regarding tenure status, 35.1 percent own their properties and 19.8 rent. 14

69 percent of households have a monthly income of R3 200 or less. A large majority (67.9 percent) were of working age (15-64) and 59 percent were employed. Delft had a 66 percent labour participation rate and a 38.5 percent labour absorption rate. Further, 12 percent of the employed population, or up to 4 900 households, had a monthly household income of between ZAR6 400 (US$441) and ZAR25 600 (US$1 766). 82 percent of households had a monthly household income of less than ZAR3 200 (US$ 221).

3.1.2 Masiphumelele

Masiphumelele is a low income settlement with a core of government subsidised housing and a large component of informal settlement and backyard shacks. It is a very dense area covering 0.40 km² and is reported to have a population density over 100 times higher than surrounding suburbs. The area is zoned SR2: Incremental Housing.

According to the 2011 Census, Masiphumelele’s population was 21 904 and the number of households was 7 413. The average household size was 2.95. 15 From the Census, 27 percent of households lived in formal dwellings but 73 percent of households had access to piped water in their dwelling or inside their yard and more than 90 percent of households had access to a flush toilet connected to the public sewer system. 95 percent of households had access to electricity for lighting in their dwelling. A mere 13.5 percent of the population owned their dwellings with renters representing 60.3 percent.

There is a high concentration of foreign Africans living in Masiphumelele. 16 Many residents work as domestic workers, gardeners or service personnel in the surrounding high income suburbs of Noordhoek, Sun Valley, Capri, Fish Hoek and Kommetjie. According to the 2011 Census, Masiphumelele had a working age (15-64) population of 16 100 and a labour force of 33 000. It had comparatively high labour absorption and labour participation rates of 55 and 80 percent respectively. The rate of employment was 69 percent. This is a higher proportion than in Delft but only 4.5 percent of households had a household income of between ZAR6 400 (US$ 441) and ZAR25 600 (US$ 1 766). 82 percent of households had a monthly household income of less than ZAR3 200 (US$ 221).

3.1.3 The Wallacedene Area of Kraaifontein

Wallacedene is 40 kilometres from Cape Town in the eastern suburb of Kraaifontein and is zoned SR2: Incremental Housing. While Kraaifontein encompasses Wallacedene, among other residential areas, they are listed as separate suburbs by the City of Cape Town for planning and statistical purposes. According to the 2011 Census, the population

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12 According to the City of Cape Town Municipal Planning By-Law, 2015, SR2, or Single Residential Zoning 2, is intended to facilitate upgrading and incremental housing. In recognition of circumstances in low income areas, the development rules are intended not to be onerous or very restrictive. This is discussed in detail in Section 3.2 below.
14 The percentage of those occupying dwellings rent-free ranges from 25.1 percent in Masiphumelele to 35.1 percent in the Wallacedene area of Kraaifontein. Khayelitsha has 27.6 percent occupying rent-free and Delft has a 38.5 percent labour absorption rate.
15 Labour participation is the proportion of the working age (15 to 64 years) population that is economically active. The absorption rate is the proportion of working age (15 to 64 years) population that is employed.
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of Wallacedene was 35,583 and comprised of 10,392 households with an average size of 3.52 compared to a city-wide average of 3.2 (in 2017). "Over half of Wallacedene’s population lived in formal dwellings. 87 percent had access to electricity, 83 percent had access to piped water in their dwelling or inside their yard and 89 percent had access to flush toilets connected to the public sewerage systems. 35.1 percent of Wallacedene residents owned their dwellings and 19.8 percent rented. Seventy percent of Wallacedene’s population were of working age (15-64) of which 65 percent were employed. 81 percent of households had a monthly income of ZAR3,200 (US$221) or less of which 40 percent had a monthly income of ZAR1–ZAR1,600 (US$0.06 – US$110) and 30 percent reported no income. 12.6 percent of households earned between ZAR3,201–ZAR6,400 (US$221 – US$441) per month and only 6.4 percent earned more than ZAR6,400 (US$221) per month. Wallacedene had 69 percent labour participation rate and 45 percent labour absorption rate.

3.1.4 Khayelitsha

Khayelitsha is a much larger lower-income population suburb as compared to Delft, Masiphumelele and Wallacedene. Census 2011 counted a population of 391,748 which is an increase of 19 percent in the ten years since 2001. The number of households was 118,806 in 2011 and the average household size had declined to 3.30, down from 3.83 in 2001. 20

Forty-five percent of dwellings were considered to be formal, a further eight percent in backyards, and the remainder were in informal settlements. Sixty-two percent of households had access to piped water in their dwelling or inside their yard, 72 percent had access to a flush toilet connected to the public sewer system and 81 percent of had their refuse removed at least once a week. 83 percent of households used electricity for lighting in their dwelling. Dwelling ownership in Khayelitsha was the highest among the four study areas at 56.7 percent while 11.8 percent of Khayelitsha’s population were renters.

According to the 2011 Census, Khayelitsha has a working age population of 275,000 with approximately 180,000 in the labour force (economically active – employed and unemployed). Just over 50 percent of the population was 25 years and older. 62 percent of the labour force (aged 15 to 64) was employed with a 40 percent labour absorption rate and 65 percent labour participation rate. 10 percent of households had a combined income of between ZAR6,400 (US$441) and ZAR25,600 (US$1,766). That is equivalent to 11,200 employed workers assuming one employed worker per household. 74 percent of households had a monthly income of ZAR3,200 (US$221) or less and 25 percent had a monthly income between ZAR3,200 (US$221) and ZAR25,600 (US$1,766).

3.2 CONTEXTUAL CHALLENGES FOR MICRO-PROPERTY DEVELOPMENT

Micro-property development is framed, operates and responds broadly to three sets of challenges. The first is operating within the limits of need for accommodation and affordability. Second is a set of regulatory and infrastructure conditions and third are the challenges of financing development given the product offering of the financial sector. In this context are also the developers’ own work and earning circumstances, ambitions and disposition.

The first challenge relates to the extent of demand given the affordability of rented rooms or ‘flats’ relative to alternative lower cost options of living in either backyard shacks or shacks in informal settlements or living with family.

Secondly, within the micro-development supply chain environment, there are regulatory and infrastructure challenges; there are challenges with quality of building work, as evidenced, especially given the need to demonstrate support for local builders, and there are challenges with access to supply chain support services such as architectural and engineering services, lawyers and conveyancers.

Thirdly, apart from one study respondent, the only financial product currently used is unsecured personal loans from their banks. There are providers of small loans at higher interest rates that are secured against documentary proof of creditworthiness. Property development finance providers such as iBuild and Trust for Urban Housing Finance’s uMaStandi programme provide larger loans at 18 percent for seven years and 15 percent for 15 years respectively. There are also the unsecured personal loan lenders, including the large banks, which are used by the study respondents to borrow short-term at 25-28 percent per annum. Further, the study’s respondents fall below the remit of NURCHA for finance provision because they are too small and have no track record. A


The case study findings are presented in sections representing the cross-cutting themes in the experience of the study participants. Similarities and differences are identified, thereby determining factors that impact on their success and their challenges. The findings include:

- Background and profile of the micro-developers, identifying similarities and differences relevant to their success;
- Use of professional services or failure to do so;
- Access to land, title and land prices in their localities;
- Construction costs;
- Product and development process;
- How their developments were financed;
- Tenants, rentals and tenant relations;
- Property management, including operation, repair and maintenance;
- Assessment of return on investment and risks;
- Return on investment; and
- Risks.

4.1 OVERVIEW AND PROFILE OF MICRO-DEVELOPERS

The seven micro-developers highlighted in this case study provide a useful variety of experiences and backgrounds for understanding the challenges and context of small-scale property entrepreneurs. More detailed descriptions of their individual stories are contained at Annex 1.

Two developers, one male and one female, Dinga and Nombulelo, took their provident funds payouts and invested in flats to let. Both obtained building plan approval and were actively involved in the construction process. Additional success factors in these two cases include, in the case of Nombulelo, a financially stable home environment and her confident, hands-on involvement in her property business. Dinga, on the other hand, had a long career in a lower management position in a formal sector business; he is well-resourced and confident and understands the need for practical involvement in the development and management of his property.

Akhona and Vuyisile are currently government employees but were both previously taxi drivers. Akhona is a junior official in the Western Cape Department of Education and Vuyisile is an ambulance driver working for the Western Cape Department of Health. After completing their first developments, they both moved up-market to live in lower middle class areas of Cape Town where they have again built flats to let. Their success can be attributed to their ability to mobilise resources into their property ventures, their permanent employment and their nascent entrepreneurship.

Doc is a wheelchair-bound entrepreneur. He is a businessman and a healer operating a traditional medicine and healing practice. He also owns a delivery vehicle which he leases to a courier company. He recently completed his first development, a set of 12 flats he is letting. He is driven, confident and well-networked. His income and position as a traditional healer place him in a good position to mobilise resources in spite of his disability.

Zukile is a male nurse whose contract expired. He borrowed and saved and is building a block of six flats incrementally. He has completed three 15 m² flats and is letting them out and is currently looking for finance to complete the remaining three flats upstairs.

Thozama and her partner Michael are a married couple. Both were insecure in their employment, one a waiter and the other a shop attendant, so decided to build flats. They initially built two two-room apartments on the ground level and the same above. They occupied one of the flats while waiting for government to deliver an RDP (government subsidised) house on the rest of the site. They gave up on that and decided to build more accommodation to let on the site. They have since developed another site nearby with their earnings, a double storey building with 14 units. Their strength comes from their collaboration around a common vision and sharing in the benefits of their business.

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21 Micro-developers, as defined in this study, are individuals or companies in townships that invest their own savings and take personal loans to build flats or rooms to let. They are entrepreneur developers and do not include homeowners that build rental flats on their properties in order to supplement their household income. Their investments are generally less than ZAR800 000 (US$55 200).
Seven micro-developers

Dinga was a salaried employee for an automotive parts firm. He took early retirement and cashed in his pension package of ZAR620 000 (US$42 759). He used ZAR120 000 (US$8 275) of that to buy his first property for development.

Nombulelo left her job with a bakery in January 2006 to help her husband with his bottled gas business. She took her retirement benefits of ZAR168 000 (US$11 586) and bought a plot to build a house for their family and another one to build flats. She has undertaken seven developments with her own savings.

Akhona was a taxi driver before he was employed in 2008 as a clerk at the Department of Education. He is still working in government while building his own property portfolio. He is now building his third development.

Vuyisile was also a taxi owner and driver before he took a job as a paramedic. He sold one of his two taxis for ZAR80 000 (US$5 517) and bought a plot to develop.

Doc worked as gardener after leaving school and set up a spaza shop (informal trading stall) with the proceeds. He became both a traditional healer and welder before purchasing a truck for a courier business and investing in flats.

Zukile was employed as a male nurse during which time he borrowed to build. He was earning ZAR10 000 (US$690) per month. His nursing contract has come to an end and he is currently unemployed.

Thozama and Michael – Thozama was a shop attendant who resigned and started making vetkoek (doughnuts) and Michael was initially a waiter and then a minibus taxi and bus driver before they got into property.

Availability of architectural services in the low income areas of Cape Town is typically limited to draughting capacity and, where it is available, the experience is that service provision is slow though inexpensive. Production of drawings for approval in Khayelitsha, for example, costs ZAR500 - ZAR600 (US$35 – US$41) per room and the owner of the architectural drawing office reports that he submits 15 plans a week for approval.

Demand for his services is high and service is slow. Five of the seven developers have employed architectural draughtsmen to prepare and submit drawings but only three submissions have received building plan approval. A fourth submission is still in progress.

It is reported that drawings are usually prepared for purposes of construction and with the intention to submit them for approval. However, they will sometimes be withheld from submission once costs of drawing up plans and submission fees are note. Alternatively, they will not pursue the approval procedure following an initial rejection and request for further information. In one instance, Zukile was told by friends, other developers, that it takes too long. Building plan approval can take between six and 12 weeks to process. While building plan approval is legally obligatory, this requirement does not appear to be enforced and there are no incentives to encourage building plan submission.

Against the trend, one developer, Dinga, commissioned an engineer to inspect and advise on structural issues. Dinga also employed a conveyancer and paid Eskom to upgrade the electricity supply and install a second meter. Nombulelo used precast concrete for her floors and the suppliers undertook the structural engineering.

In practice, one district planning office response to a particular application may differ to another. The criteria are more open to interpretation than other residential zoning categories and attitudes among officials varies. No town planning submissions were required as in all instances there was no requirement for rezoning. The zoning is SR2 Incremental Housing, which is a more flexible and, theoretically, a more lenient form of residential zoning.

4.3 ACCESS TO LAND, TITLE AND LAND PRICES

Having title deed provides an strong legal claim to property. The study participants recognise the security provided by a title deed and that it will enable future sale of the property. While title deeds are also a prerequisite for securing mortgage finance, this is not the uppermost rationale for seeking title. Only three of the seven study

22 Based on informal discussions with the author.

4.2 USE OF PROFESSIONAL SERVICES

The developers recognise the value of hiring professional architects to design and prepare drawings to submit for municipal approval and guide construction, of appointing structural engineers to ensure structural safety and conveyancers to do their jobs are well recognised by the developers. While they would like to ensure quality and ‘durability’ of their structures, these services come at an additional cost and are not readily available. According to the respondents, the professional services available in the study areas are conveyancers and architectural service providers. Few, if any, civil engineers or land surveyors are located in any of the four study areas.
respondents employed a conveyancer to transfer title into their names and one is currently in process. Two developers transferred the properties into the names of a relative and another entered into an agreement with his sister to build on a site that is in her name.

Land prices, including any buildings on a plot of approximately 160 m$^2$ vary from ZAR60 000 (US$4 138) in 2010 to ZAR120 000 (US$8 276) in Delft South in 2014. That is, from ZAR95 000 to ZAR150 000 (US$6 552 to US$10 354) at 2018 prices in Delft South. The price for Doc’s land in Wallacedene in 2018 was ZAR100 000 (US$6 897) and for the couple in Masiphumelele the land price was ZAR70 000 (US$4 828) in 2009 or nearly ZAR120 000 (US$8 276) at 2018 prices. In the experience of the respondents, prices vary according to: site size, which can be from 60m$^2$ or 170m$^2$; the circumstances of the site; the desperation of the seller to sell; and the appetite of the buyers in the area. Nombulelo purchased her 673 m$^2$ property in Khayelitsha in 2014 for ZAR100 000 (US$6 897) and for the couple in Masiphumelele the land price was ZAR118 000 (US$10 828) per m$^2$.

There are also estate agents, formal and informal, operating in the study areas as well as a few overstretched conveyancers but none of the study participants purchased their properties through an estate agent, formal or informal.

4.4 CONSTRUCTION COSTS

Construction costs are subject to efforts by the developers in sourcing bargain materials. Otherwise material prices do not vary significantly. Costs are also kept low through prevention of on-site theft. One of the developers, Dinga, had his brother-in-law stay at the building site overnight to look after the materials. Labour costs are subject to quotes and negotiation with the builders and the experience and local networks of the micro-developer.

The construction costs incurred by respondents, that is to say the money spent to build rooms as indicated in Table 3, depends on the stage of their completion at the time of the interview. Six of the seven developments had been completed at the time of the field work.

Construction cash flow constraints result in a slower, incremental building process. However, this incremental construction of rooms to let generates the necessary cash flow to continue with construction. In four of the seven cases, the construction process was incremental and slowed down toward the end when it came to what the micro-developers regard as the expensive finishing, plumbing and electrical services.

The total construction costs, excluding land price, varied from between ZAR240 000 and ZAR750 000 (US$16 552 and US$51 724) at 2018 prices. One development was just over ZAR5 million (US$344 828) construction cost at 2018 prices for over 875 m$^2$.

Table 2: Summary of Case Study Land Information

<table>
<thead>
<tr>
<th></th>
<th>Dinga</th>
<th>Nombulelo</th>
<th>Akhona</th>
<th>Vuyisile</th>
<th>Doc</th>
<th>Zukile</th>
<th>Thozama and Michael</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td>Yes</td>
<td>Yes</td>
<td>In mother's name</td>
<td>In niece's name</td>
<td>In progress</td>
<td>In sister's name</td>
<td>Yes</td>
</tr>
<tr>
<td>Location</td>
<td>Delft</td>
<td>Khayelitsha</td>
<td>Delft</td>
<td>Delft</td>
<td>Wallacedene area of Kraaifontein</td>
<td>Delft</td>
<td>Masiphumelele</td>
</tr>
<tr>
<td>Land price (at 2018 prices)</td>
<td>R151 500</td>
<td>R946 800</td>
<td>R95 630</td>
<td>R121 500</td>
<td>R100 000</td>
<td>Nil paid*</td>
<td>(Estimated land value R180 000)</td>
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<tr>
<td>Site area (m$^2$)</td>
<td>175</td>
<td>673</td>
<td>160</td>
<td>170</td>
<td>89</td>
<td>150</td>
<td>167</td>
</tr>
<tr>
<td>Cost per m$^2$</td>
<td>R866</td>
<td>R1 407</td>
<td>R598</td>
<td>R715</td>
<td>R1 124</td>
<td>R1 200</td>
<td>R707</td>
</tr>
<tr>
<td>Lettable area</td>
<td>210</td>
<td>875</td>
<td>118</td>
<td>90</td>
<td>96</td>
<td>54</td>
<td>96</td>
</tr>
<tr>
<td>Number of units built</td>
<td>12</td>
<td>35</td>
<td>5</td>
<td>6</td>
<td>8</td>
<td>3</td>
<td>8</td>
</tr>
</tbody>
</table>

*Note: No payment made because the property is owned by his sister. Imputed land cost: ZAR180 000

Escalated at 6 percent per annum.
of lettable area. The estimated construction cost per m² ranged from between approximately ZAR3 500 to ZAR5 700 (US$241 to US$393) per m². It is noteworthy that QS estimates for a moderately higher quality building are estimated to be up to ZAR5 200 (US$359) per m² using industry cost estimates. The difference between these prices is partially due to estimation error and partially due to the construction process deployed by each of them.

Table 3: Summary of Case Study Financial Information

<table>
<thead>
<tr>
<th>EXPENDITURE</th>
<th>Dinga</th>
<th>Nombulelo</th>
<th>Akhona</th>
<th>Vuyisile</th>
<th>Doc</th>
<th>Zukile</th>
<th>Thozama &amp; Michael</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>R151 500</td>
<td>R946 800</td>
<td>R95 630</td>
<td>R121 500</td>
<td>R100 000</td>
<td>R180 000</td>
<td>R118 000</td>
</tr>
<tr>
<td>Construction</td>
<td>R700 000</td>
<td>R5 000 000</td>
<td>R202 500</td>
<td>R460 000</td>
<td>R422 000</td>
<td>R130 000</td>
<td>R354 600</td>
</tr>
<tr>
<td>Materials</td>
<td>R483 300</td>
<td></td>
<td>R172 750</td>
<td></td>
<td>R300 000</td>
<td>R97 000</td>
<td></td>
</tr>
<tr>
<td>Labour</td>
<td>R180 000</td>
<td></td>
<td>R29 750</td>
<td></td>
<td>R120 000</td>
<td>R33 000</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>R21 200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>R2 000</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>R15 500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL EXPENDITURE</td>
<td>R851 500</td>
<td>R5 946 800</td>
<td>R298 130</td>
<td>R581 500</td>
<td>R522 000</td>
<td>R310 000</td>
<td>R472 600</td>
</tr>
</tbody>
</table>

| Number of rental units | 10 x 15 m² | 35 | 5 | 6 | 8 | 3 | 8 |
| Rentable area (m²)     | 210 | 875 | 118 | 90 | 96 | 54 | 96 |
| Cost per rental unit (excluding land) | R58 333 | R142 857 | R40 500 | R76 667 | R52 750 | R43 333 | R44 325 |
| Cost per m² (excluding land) | R3 333 | R5 714 | R1 716 | R5 111 | R4 396 | R2 407 | R3 694 |

<table>
<thead>
<tr>
<th>FINANCING</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Savings</td>
<td>R500 000</td>
<td>R75 600</td>
<td>R80 000</td>
<td>R522 000</td>
<td>R22 000</td>
<td>R287 000</td>
<td></td>
</tr>
<tr>
<td>Cash flow (other business)</td>
<td>R5 946 800</td>
<td>R47 640</td>
<td>R10 100</td>
<td>R10 000</td>
<td>R95 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>R90 000</td>
<td>R130 000</td>
<td>R40 000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan finance</td>
<td>R200 000</td>
<td>R37 600</td>
<td>R69 000</td>
<td>R65 000</td>
<td>R17 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit cards</td>
<td>R18 950</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Overdraft</td>
<td>R12 625</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>R151 500</td>
<td>R16 000</td>
<td>R294 000</td>
<td>R180 000</td>
<td>R71 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL FINANCING</td>
<td>R851 500</td>
<td>R5 946 800</td>
<td>R298 415</td>
<td>R583 100</td>
<td>R522 000</td>
<td>R307 000</td>
<td>R470 000</td>
</tr>
</tbody>
</table>

| Monthly rental income | R31 000 | R91 875 | R8 500 | R9 000 | R16 000 | R5 400 | R14 400 |
| Return on Investment (annual rental income / total financing) | 43.6% | 18.5% | 34.1% | 18.5% | 36.7% | 21.1% | 36.7% |

Note: ZAR amounts escalated to 2018 values.

24 The construction costs per square metre for Akhona and Zukile in Annexure B may be incorrect due to recollection error or interviewer interpretation or, in the case of Zukile, due to his project being incomplete. Breakdowns of construction expenditure were provided when available. Totals are, however, comparable.
### 4.5 PRODUCT AND DEVELOPMENT PROCESS

A walk through Delft, Khayelitsha, the Wallacedene area of Kraaifontein and Masiphumelele reveals a wide range in the quality of double story flat complexes from higher quality materials, construction and finishing to structures made of corrugated iron and timber. The structures are usually made of concrete blocks with a ribbon block or in-situ concrete slab on the first floor and corrugated iron roofs. In some instances, stairs and passages to rooms are made of timber. The rooms are plastered and painted and have ceilings and either internal toilet and shower rooms or shared facilities. Sharing of toilets and showers are not the preferred situation for tenants, particularly women sharing with men.

The buildings in this study are two-story structures with six to 12 rooms of between 12 - 18 m² each. In each instance, the developers provided either one or two parking bays for their tenants which conforms with the City’s planning by-laws. The range in the number of rooms in each development and their size varies due to the size of the plots themselves, the variety of design decisions by the property owners and their architects, the ambition of the developer and available funds. Nombulelo’s flats are larger, ranging from 24 to 32 m². The quality of construction varies from low, in the instances of Zukile and Thozama and Michael, too high in the instance of Nombulelo.

In four out of the seven cases the development process, after securing the land, involved a period of saving followed by incremental building. First, the downstairs rooms are built and let as soon as possible to earn rent to help pay for further improvements and building. Some actually let partially completed rooms for the rental income. In only two instances did the developers wait for project completion before tenanting. Concrete work and brickwork are followed by plastering and painting, electrical and plumbing work, outside clearing and addressing snags. The work is managed by the developers themselves enabling them to manage cashflows, reduce costs of materials and labour and to let the property as soon as possible.

The length of time for completion varied according to availability of funds. Construction was completed and let in 3.5 to four months in four of the seven instances, regardless of the construction area. One development was in progress at the time of writing this account with only three of the six planned rooms having been completed. Nombulelo’s larger project was completed in 11 months.

In all cases the developers bought the building materials directly from producers or wholesalers or from local hardware suppliers. In one instance, Vuyisile bought reject bricks from a brick manufacturer. They then contract local labour-only contractors, preferably those who are known for reliability and good quality construction. Notably, Dinga mentioned the importance of attending to local social dynamics and hiring a local builder to mitigate against the risk of vandalism and theft.

### 4.6 FINANCING

Those in the study who are employed amassed their savings from wages earned or from their small business activities. In two cases, the developers invested their provident fund payouts in the buildings. Two other developers sold assets such as a wife’s car and a taxi. Three of the study respondents used savings clubs (stokvel) savings and borrowed from other savings club members. In one instance, the house was completed with ZAR180 000 (US$12 414) from regular savings club contributions together with loans from other savings club members.
From another known case, a young developer received an accumulated amount of ZAR300 000 (US$20 690) from his family to invest on their behalf. In this case study, on three occasions, family members either provided property for re-development or held the title over the land for the developer. In one of these instances, the niece applied for and received a government subsidy and made a private arrangement with her developer uncle to purchase her land.

In another instance, the developer saved all the rental income from her seven properties over 10 – 12 years to buy land and pay for construction. In almost all instances, any surplus rent and income from business is directed toward completion of the developments.

Five of the seven developers took short-term personal loans from one or more commercial banks including ABSA, African Bank, Nedbank and Standard Bank ranging from ZAR30 000 to ZAR70 000 (US$2 069 to US$4 828). Dinga had the necessary credit rating and savings in the bank so was able to borrow ZAR200 000 (US$13 793) repayable over 72 months from ABSA. Interest rates charged ranged from 22 percent to 25 percent. Finance is also available from micro-lenders at higher interest rates but none of the study respondents chose to borrow from home loan micro-lenders. Zukile borrowed from iBuild, a building loan micro-lender at 18 percent over seven years. Akhona and Vuyisile extended their overdraft facilities and became overdrawn on their credit cards. There were not any instances of mortgage financing.

Perceptions are that interest rate charges are too high and indebtedness too risky. When pushed whether he would consider borrowing, Dinga agreed he would do so if the interest rate was 12 percent per annum or less. Doc states that ‘...you are going to have to share the money with the bank’ and ‘banks over-charge.’ But, he says, ‘...if you are not managing you can borrow.’ Debt is not a preferred mode of financing for this group of developers. It is used as little as possible and generally only toward the end of a project for expensive items such as plumbing and sanitaryware. Building comes to a halt when they run out of cash and resumes when they have saved enough from rental income or other sources.

If ‘affordable’ property finance were readily available, the projects could be completed earlier thereby improving the developers’ cash flow and enabling them to proceed to their next investment sooner. Overall, this would accelerate the rate of residential development.

4.7 TENANTS, RENTALS AND TENANT RELATIONS

The tenants are generally young adults with regular employment. In some cases, these tenants are willing to pay up to 40 percent of their wages in rent. Demand is keen and rents range from ZAR1 500 to ZAR1 700 (US$103 to US$117) for a 12 – 15 m² room up to ZAR2 200 (US$152) for an 18 m² room including water and an ensuite toilet and shower. The cost of electricity is always for the tenants’ own account.

Tenants are required to pay a deposit of one or one and a half month’s rent which is withheld against rent default. The landlords’ management style is firm but is also present and active. Landlords report visiting their sites on a weekly basis and dealing with their tenants personally. Only one respondent had signed leased agreements with his tenants which he obtained off the internet. Unlike formal sector tenant landlord relations, the respondents have personal relationships with their tenants.

Rent is collected by the landlords themselves. The respondents’ attitude to a tenant’s inability to pay rent due to loss of employment, for example, is accommodating but firm. This is clear from the words of the various developers. Nombulelo explains: ‘For example, there is a tenant, he was renting my flat for seven years. Now he lost the job. He didn’t [pay] rent [to] me for four months. I told him I will wait for you. Because he came to me, he told me that...immediately I’ve got this money, I will pay you. I’m part timing [with] someone, but that money is very little, it’s only for me to buy food.’

Asked about difficulties regarding rent payment by tenants, Vuyisile’s response was yes - ‘Once, that old lady...but it’s not all the times I won’t complain; because I don’t bother with them, you understand. Now they fail to pay...they phone. They say, hey, I have the money now, please wait for me until to that date but in all I don’t have a problem with them.’

Akhona was asked the same question - what happens if they don’t pay. His response was ‘They know mos the standard, the township way, you know. I’ve heard that out there, people they’ve got rights. [Here] it’s not about rights. It’s about you must pay as we agreed. You pay me the rent, I gave you the space to occupy.’ He goes on to say ‘I haven’t changed tenants. There’s only one person who left because he relocated. I started [letting at] the beginning of 2015 with tenants. The first one, she’s here. Second one, she left and brought her friend and then came back. That friend is still here, and now she left, she came back, she’s still here.’
4.8 PROPERTY MANAGEMENT

The owners manage properties and employ people to clean and do every day, minor maintenance. Major repairs and maintenance are done by themselves or contracted out.

While the Trust for Urban Housing Finance (TUHF), which lends to this group of property investors, considers 20 percent of rental income for repairs and maintenance to be at the low end of the spectrum, developers estimate they spend less than this. Maintenance is limited to essential repairs. While industry standards are 25 – 30 percent, the study respondents’ operating, and maintenance costs are unlikely to be more than 10-15 percent of annual rental income. These micro-developers are seemingly more interested in the cash their investments generate in the short-term rather than maintaining the asset value of their building in the longer term.

4.9 RETURN ON INVESTMENT

For those interviewed, the return on investment, excluding repairs and maintenance, and rates and insurances and not including any appreciation of the asset for the year, varies between 19 percent for Nombulelo and Vuyisile and 44 percent for Dinga.

The developments are generally viewed as a regular source of monthly income whether used to spend or to save and re-invest. Their accounts and their practice suggest an annuity income-based business model of property development rather than building an asset base or assets to sell.

4.10 RISKS

The financial risk is the possibility that tenants will default on their rent payments for one reason or another and cannot be evicted. This is highly unlikely given the nature of the relationship between landlord and tenant described above. The respondents claim there are no arrears or non-payment of rent by tenants although there appears, in at least one instance, to be a lenience in the postponement of rent payment when tenants encounter what has been referred to as financial difficulties. In addition, there are not any mortgage loans in this case study and therefore no risk of repossession in the event of financial distress. The loans are personal loans. There is risk of fire and none of the study participants pay insurance so they could lose everything in a fire. Over time there is risk of building deterioration that is more rapid than would otherwise be the case due to poor quality construction and limited repairs and maintenance.

There are several reasons for below par construction depending on the circumstances of the developer, including poor building skills, poor use of materials, under-capitalisation leading to the developer cutting corners or rushing completion to rent the space. This is not the case in all instances. Those that are well-capitalised and have good building capacity and experience such as Dinga and Nombulelo are easily identified by quick inspection.

5 CONCLUSIONS

The findings indicate that the success of all these micro-developers, in different ways, is a result of their perseverance and entrepreneurship. The respondents who stand out in this group are the two that were already in business, deployed their savings and earnings purposefully in the construction of their developments to completion before letting and had a higher household income and a stable home financial life. They built better quality buildings, secured title and adhered to building plan approval requirements. As an example, Nombulelo is currently on her seventh property development. Others who have demonstrated success, Akhona and Vuyisile, are both employed. From their first developments in Delft, they have both moved to lower middle class areas where they now reside and are building flats in their back yards. The couple from Masiphumelele and Doc tenaciously assembled savings and earnings from a number of informal business activities.

Nevertheless, it is the under-supply of ‘adequate’ accommodation that has created a market in which these entrepreneurs can flourish despite four main challenges they face. The first challenge relates to the limits of earnings and affordability of tenants. From the field work, it appears that these are mostly young single adults or a couple. Second is a set of regulatory challenges. The third challenge relates to economic infrastructure including local building capacity and professional service provision. The last set of challenges concerns the financial products currently on offer to the developers.

The first challenge relates to the extent of demand given the affordability of rented rooms or ‘flats’ relative to alternative lower cost options of living

25 According to the Director of TUHF uMaStandi.
26 Calculation is based on gross rental income for the first year of operation as a percentage of total investment costs including land and total construction costs, professional fees and other expenses.
in either backyard shacks or shacks in informal settlements or living with family. Backyard shack rent in the study areas varies from R600 (US$41) to R800 (US$55) per month.\textsuperscript{27} From the findings, rents are comparatively high relative to affordability. Young adults earning ZAR3 500 (US$241) to ZAR7 500 (US$436) spend up to 40 percent of their monthly income on rent. This is a function of inadequate supply of stock and the wages and cost of living. It is also noteworthy that employed workers are also required to provide financial support to unemployed household members.\textsuperscript{28} There is a market risk but the demand for rental accommodation currently experienced by the respondents is strong.

Second there are regulatory challenges within the micro-development supply chain environment. While there is no identifiable aspect of City of Cape Town policy or planning and development regulations, including the MPBL, that prohibits the development of rental accommodation, it does not support or encourage small-scale private rental development in the townships. The Single Residential 2 (SR2) zoning conditions currently permit two residential dwellings with rooms for five family members but the design implications of these are inconsistent with the accommodation arrangements preferred by tenants (a room with own shower and toilet). Consequently, even when building plans are submitted and approved, inspections are unexpected and, as a result, construction can deviate from approved plans. The building plan approval process is perceived as administratively onerous, slow and costly. As an example, Zukile was advised not to bother applying for plan approval, having been told ‘The Council will give...[trouble],’ ‘...they will struggle to approval...and it will take long. All flats in Delft are building without plan.’

There are also challenges with quality of building work, especially given the need to demonstrate support for local builders, as well as challenges with access to supply chain support services such as architectural and engineering services, lawyers and conveyancers.

The fourth challenge relates to access to finance. Small loans secured against documentary proof of creditworthiness are available, but the respondents consider the interest rates to be too high. Property development finance providers such as iBuild and TUHF’s uMaStandi programme provide larger loans at 18 percent for seven years and 15 percent for 15 years respectively. There are also the unsecured personal loan lenders, including the large banks, which are used by the study respondents to borrow short term at 25 to 28 percent per annum. The study’s respondents fall below the remit of NURCHA for finance provision because they are too small and do not have a track record. A further challenge is that the micro-developers prefer to use savings – either their own or of others they can borrow from interest free - or their salaries and rental income. They only use unsecured loans when required.

Within the limits of the case study sample, it is possible to conclude that while there are a number of financial products in the market, few on offer by the financial sector address the circumstances and the preferences of the developers toward credit. Yet, the study’s property developers operate through the regulatory and operational difficulties and deliver accommodation to those in need with a high return on investment for themselves, using alternative savings to finance their projects. However, if the finance sector were to develop financial products and provide services that support development of the value chain, the market for these financial products would grow. While there is a cost in the short term associated with development, testing and promotion of the new products, and in their promotion as well as investment required to develop the methods and institutional arrangements to the support the market, there is a business case for doing so.

5.1 THE BUSINESS CASE

The primary factor in the making of a business case is demonstration of the scale of opportunity and its potential impact – for micro-development in the low income area property market, for the financial sector and for government as policymaker, regulator and provider of infrastructure.

First, as an indicator for comparison, the extent of micro-credit opportunities for investment by homeowners in their own properties is well-defined in the 2017 market research study prepared by the Centre for Affordable Housing Finance in Africa and Eighty20 for the Rural Housing Loan Fund (RHLF) entitled Understanding Demand for Housing Microfinance in South Africa. It estimates that those earning less than ZAR15 000 (US$1 034) per month spend ZAR20 billion (US$1.38 billion) per year on home repairs and improvements.\textsuperscript{29} The first task of this calculation is to estimate the size of the micro-development rental market in the

\textsuperscript{27} Based on the author’s field knowledge.


urban areas of South Africa, thereby motivating a business case to the financial sector and government.

5.1.1 Dimensions of the target market

Based on the information from the case study, the tenants of flats built and let by micro-developers are employed young adults in the youth category 15-35 years. Estimation of the extent of the market below draws from labour market statistics on youth in 2015. It is estimated that there are 3.5 million individuals nationally aged 15-35 earning a regular salary who are either homeowners or tenants or living with their parents, with most living in urban areas. The salaries of these regularly employed individuals would be upward of ZAR3 500 (US$241) per month with the vast majority falling in the ZAR3 500 to ZAR15 000 (US$241 – US$1 034) income range.

The above-mentioned RHLF study estimated there are 9.9 million households in urban areas with a monthly income of less than R15 000 (US$1 034), of which 15 percent are in Cape Town. 5.4 million of these 9.9 million households earn between R3 500 and R15 000 (US$241 and US$1 034) per month. Using the National Income Dynamics Study (NIDS) 2014/15 data estimates, the RHLF study estimated 4.4 million individuals over the age of 18 earn between R3 500 and R15 000 (US$241 and US$1 034) per month. It is estimated that 37 percent, or 3.68 million, of the 9.9 million households in urban areas live in inadequate conditions in dwellings visibly in need of repair and improvement.

An estimation of the Cape Town market for private rental accommodation for young adults in low income areas can also be made using the Western Cape Provincial Government’s Municipal Human Settlement Demand Profile dated June 2015. According to 2011 Census data, 234 790 households in Cape Town have a household income of between ZAR3 500 and ZAR15 000 (US$241 and US$1 034) and did not qualify for government housing subsidies.

5.1.2 Extrapolation of the opportunity

Based on 2011 Census data, 15.15 percent (47 517) of households in the Western Cape with a monthly household income of between ZAR3 500 – ZAR15 000 (US$241 – US$1 034) live in conditions defined as inadequate by the Western Cape Department of Human Settlements (informal dwellings, informal backyard and overcrowded conditions). Further, 34 percent (101 193) of households in this income range rent their accommodation. Assuming that 34 percent of the 47 517 households in the Western Cape with a monthly income of ZAR3 500 – ZAR15 000 rent their accommodation, we can estimate that 16 150 households with monthly incomes ranging between ZAR 3 500 and ZAR15 000 (US$241 and US$1 034) live in inadequate conditions and are renters.

Sixty-nine percent of households living in inadequate conditions have household heads under the age of 40. 69 percent of the abovementioned 16 150 households is 11 144. This is a pro rata calculation of the proportion of the population under the age of 40 earning between ZAR3 500 to ZAR15 000 (US$241 to US$1 034) living in rented accommodation classified as inadequate by the Western Cape Department of Human Settlements.

The figure of 11 144 can be considered a conservative estimate of potential tenants given that this excludes, among others, those currently living in inadequate conditions under different tenure options besides rental. It can therefore be concluded that there are approximately 12 000 young adults in Cape Town who would constitute a market of potential tenants for micro-developer flats.

According to the study conducted by Eighty20 Consulting looking at the demand for housing microfinance in South Africa, of households “in urban areas with an income of less than ZAR15 000 per month,” ... “15% live in the Western Cape.” Assuming that the Census figures are reasonably accurate and assuming Cape Town does constitute 15 percent of the national market, this would compute to a national market of approximately 80 000 micro-flats. Further assuming an average of eight flats per development (based on this case study’s observations), 1 000 developments nationally per
annum for 10 years would be required to address the demand backlog. This opportunity for the financial sector would equate to an estimated ZAR712.8 million (US$49.16 million) per annum for 10 years.\(^{38}\) This does not include the business opportunities resulting from the multiplication effect that would derive from the savings and borrowing of up to 1 000 new local area business men and women.

From an economic point of view, for government, the multiplier effect of an additional ZAR712.8 million (US$49.16 million) per annum investment in the local township construction sector, in the form of wages and purchase of building materials, would be considerable. It would also result in up to 1 000 new property entrepreneurs with a stream of disposable income to support investment in other sectors of the local economy. In addition, a viable alternative operationally dispersed housing delivery system would be developed, based in the low-income areas, capable of delivering 8 000 additional rental opportunities per annum to accommodate young adults and couples.

5.2 RECOMMENDATIONS

This case study suggests that a coordinated, proactive supply-side approach is required of the financial sector, working with both government and professional institutions, to develop the market. Effective support of micro-developers depends upon financial institutions seeing the long-term commercial opportunities and the social and economic benefits from investing in the expansion of the private rental market and micro-developers as agents in this venture without expecting usual returns. National government and municipalities must also recognise the social and political economic benefit from supporting a system of provision of accommodation that has both national and local economic benefits.

Specifically, the financial sector must craft innovative products that target the circumstances of local micro-developers. They need to simultaneously invest to build economic infrastructure, find ways of providing easy and local access to finance, and provide the technical and business services required by their micro-developer clients.

The study indicates that financial products should be designed as business loans with the following attributes:

- Interest rates that are considered reasonable by the target client base and structured to start low for easy entry. Interest rates and terms would need to be flexible and adjustable, within agreed limits, to accommodate the financial circumstances of the client and their tenants. The term should be as short as possible, and the loan should incentivise savings for future investment by individuals and groups.

- Business loans that provide and incentivise the use of a digital rental payment system for tenants linked to loan repayment and savings and investment benefits for the micro-developer/landlord.

- Loans that are conditional on demonstrated savings in a dedicated project savings account by individual clients or by a collaborative group of three or four micro-developers or homeowners.

- Support to assist clients to improve their credit ratings and demonstrate creditworthiness. Consideration should be given to household finance related risks in assessment of creditworthiness.

The financial offering would need to proactively support clients with loan applications and provide technical and legal administrative business services through the project cycle. This implies that the financial institutions should have greater physical proximity to this market and these clients and personal knowledge of their clients’ development activities. Ideally, each client should be given private client status and, accordingly, the required time and effort.

The second set of recommendations relate to economic infrastructure – specifically, training, mentoring and support to local contractors and builders to improve technical, financial and administrative competence. In addition, professional institutes and the legal fraternity should encourage operation and extension of services of their members into low income areas, preferably with local partners.

Thirdly, government, including policymakers and municipal planners and regulators, needs to develop policies and revise planning and building control regulations that support growth of the sector.

In the first instance, government (both national and provincial) should provide infrastructure funding for the upgrading of municipal infrastructure that incentivises municipalities to implement targeted land use intensification programmes. Such programmes would support local private rental property development, including homeowners and developers, by waiving payment of development fees.

\(^{38}\) This is based on an assumption of construction costs of R5500 per m\(^2\), which was arrived at after consideration of the proportion of circulation area, the quality of construction, and the general costs and professional fees.
contributions that become due on rezoning. In addition, it should promote modest rentals by recommending guidelines for prices, practices, rights and obligations which can be adapted and localised by municipalities.

It is further recommended that the Municipal Planning By-Law (MPBL) be reviewed and amended to encourage densification and intensification of land use and waive the town planning fees and development contributions payable by micro-developers. The MPBL should be amended to allow for building of 15-18 m² flats to let without consent use or rezoning requirements. SR2 consent uses could be included as primary or additional land use rights thereby allowing more than one additional use. In this way, costly and time-consuming rezoning procedures would be avoided. The Municipality should also consider applying a zoning scheme overlay zone to pre-emptively re-zone use that would accommodate and encourage densification.

Furthermore, the current off-street parking policy should be relaxed, acknowledging that the majority of tenants are young, do not have their own transport and depend largely on public transport. The current practice by the micro-developers of providing one or two parking bays satisfies requirements and should be adopted as policy.

It is also recommended that the Municipality become more proactive in encouraging and supporting local township private rental investors, both homeowners and developers. It can do so by expediting planning and building plan approval procedures, without cost – but also, importantly, without undermining health and safety in the building design and overall environment. To this extent, the Municipality should intensify the availability of building inspectors to pre-emptively encourage adherence to the approved building plans and to discourage bad building practices that are in contravention of building regulations. They could also provide technical advice and support to improve building methods. Building inspectors’ advice may also prevent wasteful and sometimes unsafe building construction.

The developers themselves must be a target for direct support and skills development. They need to be encouraged and incentivised to produce better building stock and to accept modest rental increases. The study suggests that they may well be encouraged by lower interest rates linked to provision of information, by training and promotion of better financial and business management practices, and by networking opportunities in the property industry.

Developers should also be incentivised to take the initiative to build their savings track record. They should obtain tax clearance and actively implement measures to improve their credit rating in exchange for lower costs of finance. They should also make greater efforts to obtain building plan approvals and satisfy requirements for improved quality building stock.

Finally, strengthening of the supply chain for this market must include improving local access to the necessary professional services by local micro-developers and homeowners. These services include property agents, conveyancers, planners, architects, quantity surveyors and engineers. These professionals should explore opportunities for extending their practices in townships with local partners.

It is important to bear in mind that these recommendations are provisional, working recommendations that will need to be deepened and extended through learning and documenting while doing. Through partnership with financial institutions, government and the micro-developers themselves, there is substantial scope for greater investment in the low income residential rental market in urban areas.
ANNEX 1. INDIVIDUAL MICRO-DEVELOPER STORIES

DINGA’S STORY

Background

Dinga is from Port Elizabeth in the Eastern Cape. He worked as an operations manager for an automotive parts company from which he took his provident fund package of ZAR620 000 (US$42 759) in 2014 to invest in property. He regards this as his exit plan to retirement. He considered Du Noon and Slovo Park as potential investment locations but settled on Delft South. He lives in Parklands, a middle-class suburb in the northern suburbs of Cape Town.

Access to property

He bought the property for development for ZAR120 000 (US$8 276) at the end of 2014.

Services employed

Dinga employed a conveyancer that he befriended when he bought their family house in Parklands to transfer the Delft South property into his name and paid him ZAR15 500 (US$1 069). He engaged an architectural practice in Bellville to design the building for him and paid ZAR12 000 (US$828) for drawings including cost of submission for building plan approval. He also employed a surveyor and engineer. Dinga managed construction of the building himself and was on site daily to make sure everything went according to plan. He bought the building materials himself, initially from local retailers but later directly from large national chain suppliers who gave him discounts. ‘You learn as you go along,’ he says. This was his first building project. ‘They offered transport but it was expensive. So, you look around and look for cheaper transport and you are getting better and better.’

His brother-in-law stayed at the site overnight to look after the materials because ‘People stole a lot of stuff.’ They stole bricks, but he got them back. ‘I was born and bred in the township.’ ‘I made these people my people.’ He did not know anyone in the area but introduced himself to the locals and employed locals from the immediate surroundings. ‘Very crucial. If you don’t employ locals, they can vandalise your building.’

Dinga selected from local labour-only39 builders with experience in construction of flats and it took 3.5 months to complete. Construction started the third week of May 2018. By the end of August the building was completed and by September 1st the flats were occupied. He waited until the construction was completed before he allowed occupation.

Product

He built 12 units only on a 175 m² site. Each room has a pre-paid electricity meter, hot water geyser and DSTV connectivity. The DSTV and service charges for water and sanitation and refuse collection are all included in the rent. He employs someone to take rubbish out on Wednesday and clean the courtyard. He bought extra bins and while he has not registered them, municipality does collect the refuse from these bins. He also paid Eskom ZAR21 000 (US$1 448) to upgrade the electricity supply to the house from 20kw to 60kw and to provide a second meter.

He built 10 rooms of 15 m² and two of 30 m². All rooms are let unfurnished. Tenants pay one month’s rent deposit, ZAR2 500 (US$172) rent per month for the smaller rooms and ZAR3 000 (US$207) per month for the two larger rooms.

He wants to build more flats in Cape Town and has identified what he considers to be some good sites in Du Noon or Joe Slovo Park (JSP). He is negotiating for one in Joe Slovo Park for ZAR320 000 (US$22 069). Asked whether he would consider borrowing to develop the property and what he would consider to be a reasonable interest rate, he answered that he does not like to borrow but that he might if the interest rate was low enough, around 12 percent.

Financing

Dinga estimated that he spent approximately ZAR820 000 (US$56 552) on the land and building, including professional fees, electricity, foundation and construction. He banked ZAR620 000 (US$42 759) provident fund payout and used the remaining ZAR120 000 (US$8 276) plus a personal loan of ZAR200 000 (US$13 793) from ABSA bank at ‘around 25 percent,’ and around ZAR500 000 (US$34 483) of his and his wife’s savings to build the flats. Labour costs totalled ZAR180 000 (US$12 414).

Tenancing

Dinga stated he wants to attract reliable tenants: professionals, people who are employed, adding ‘You don’t have to look for tenants. The moment you build they come to enquire.’ He interviewed 25 prospective tenants to select what he considered to be the most reliable. He gave an example of someone who paid a cash deposit which made him wonder about the applicant’s business since he wasn’t working. As a result, he did not trust him and rejected his application.

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39 Labour-only builders sell their labour and the labour of their employees only. They do not supply materials.
He prepared a proper lease agreement and asked his tenants to sign and initial every page. He found the sample agreement on the internet and made sure it addressed all eventualities. For example, he specified that a maximum of two people per flat (excluding children) are permitted and included the right for the owner to inspect the room. Nuisance issues: ‘you get two notices, the third notice you are out.’ He also charges a fee for late payment. Tenants pay by bank transfer. So far, they have always paid their rent.

Disposition

Dinga is a confident, religious man, proud of his occupational achievement and status and of ‘doing things properly.’ He says, for example, about the transfer of property ‘I learnt that you should not take shortcuts. I am a Christian convert, a Jehovah’s Witness. We do things above board. I wanted to do everything properly.’ He also demonstrates a commitment to providing a better quality product but his rentals are also high compared to other landlords.

NOMBULELO’S STORY

Background

Nombulelo came to Cape Town in 1991 to complete her schooling, at which time she started working part-time at a Tiger Brands Albany Bakery. She left them 15 years later in 2006 with her provident fund package of ZAR168 000 (US$11 586) to help her husband with his bottled gas distribution business. She puts it this way:

At that time, that money, it was a huge amount. I said to my husband let us do something with this money because I don’t want to eat it. I don’t want to invest it to your business. Let’s buy the properties, the vacant land. Then with this one we build those blocks [of flats].

Access to property

In 2006 she bought two plots in Litha Park,⁴⁰ Khayelitsha. The one plot was 68 m² on which they built a three-bedroom family home and the second plot was 167 m² on which they built 12 flats. The first plot was bought for ZAR38 000 (US$2 621) and the second was bought for ZAR45 000 (US$3 103). That was the start of Nombulelo’s real estate business. Since then she has developed seven sites in Litha Park with flats to let.

She bought the land for her latest development from a Chinese businessperson who resides in China with the intention of relocating her husband’s bottled gas business. The municipal authorities considered the gas bottling business hazardous in its location and they were given a deadline by which to vacate. Nombulelo negotiated with them to provide alternative municipal land to relocate. The municipality allocated land to them elsewhere for the gas business. Nombulelo’s lawyer contacted the businessperson in China and arranged the purchase of the 673 m² plot for ZAR750 000 (US$51 724). The land was formally transferred into her name in 2014.

Services employed

Nombulelo did obtain building plan approval for all her developments, including the latest, which is also her largest. She hired an architect to draw up plans which she took through the building plan approval process herself. She manages all the properties herself but does have a full-time cleaner who cleans yards and toilets. She reinvests all the rental income back into the property business to buy new sites and develop them for the rental income.

Product

In her first project they used ‘rejects,’ she says, but after that they used ‘proper’ materials, alluding to improvement in quality and to her financial capability. The latest development, a three-storey block of 25 flats and 10 ground floor shops, was completed in December 2018 and took 11 months to build. The arrangement with her builder is that he provides labour and she provides the building materials herself to get the best prices. They built a total of 875 m² of lettable space for just over ZAR5 million (US$344 828) excluding the purchase of the land. She has contracted the same Malawian builder on all her projects.

There are 20 24 m² - 28 m² studio and one-bedroom apartments and five 32 m² two-bedroom units. She lets the one-bedroom 28 m² units for ZAR3 000 (US$207) and the two-bedroom 32 m² units for ZAR3 500 (US$243). The 24 m² and 25 m² studios are let for ZAR2 500 (US$172). The smallest studio is 19 m² and it is let for ZAR1 800 (US$124). The ground floor shops are let for ZAR1 500 (US$103) each. Three months after completion she was still waiting for an Eskom electricity connection. Because all the flats were already tenanted, she offered the flats at half the asking rental pending the electricity connection. All flats are occupied, because, she says, they don’t have a place to stay. The shops were still untenanted. The rental income from the flats is being used to finish painting the outside walls.

⁴⁰ Litha Park is a so-called bonded area. Owners in this area are usually securely employed and able to obtain mortgage bonds. According to Zoleka Ndongeni at Property24, property prices in Litha Park in April 2019 range from ZAR450 000 (US$31 034) upward to ZAR1 million (US$68 965).
Financing

She saved her rental income from her other properties for three years before building on the 673 m\(^2\) site at the beginning of 2018. Regarding financing of her developments, she claims she has never borrowed and has only used rental income. The construction cost came to just over ZAR5 million (US$344,828) and includes labour, materials and other expenses but excludes the initial land cost.

Tenanting

All of her tenants are employed. She does not know their employment status, whether they are employed permanently or not, but she demands a month and a half deposit which she uses if they default. She expects her tenants to tell her when they don’t have a job and she offers to find a cheaper place for them. She tells of a loyalty for her tenants. One had been renting from her for seven years; he lost his job and after four months managed to secure part-time employment which was just enough money for food and essentials. Nombulelo waived his rent until he got a better paying job because of his long tenure with her.

Disposition

Nombulelo is a very practical, down-to-earth person who plays a direct role in the implementation of her projects. Indicative of her disposition is the advice she gives people who want to invest in the local property business, which is to save and be patient and build the financial capacity and knowledge from the bottom up. She advises perseverance, financial prudence and effort. She also advises those who are interested in the business to consult with those who have actually implemented property projects (rental accommodation) in the townships.

AKHONA’S STORY

Background

Akhona was a taxi driver staying in someone’s backyard paying rent. In 2008 he secured employment as a clerk in the Department of Education which allowed him to get a personal loan from the bank. He used it to buy a property on which he lived, in a small asbestos cement house, until he demolished it to start building flats to let toward the end of 2014.

Access to property

He bought the plot for ZAR60 000 (US$4,138) in 2010 to live on but also with the purpose of building flats on it. He was introduced to the owner of the property by someone who referred to himself as an agent. He transferred it in his mother’s name because, he said, if he had put it in his name ‘it would have closed some doors’ for him. He would not explain what he meant by this. Akhona’s mother has title deed ownership.

Financing

He built the flats with approximately ZAR30 000 (US$2,069) of his own savings that he had saved with Alan Grey from 2011 when he moved on to the plot until 2014. He also applied for a loan from Standard Bank, his own bank, but they declined ‘because I was still on contract.’ African Bank did, however, give him a loan of ZAR25 000 (US$1,724) at what he regards as a high interest rate of 26 or 28 percent. He speculates that it was high because it was his first loan and his credit score was bad.

He borrowed the balance from anywhere he could. He extended his credit card and his overdraft to the limit and ‘I pushed my petrol card.’ He also took out a personal loan. ‘Altogether, I think my overdraft I pushed to ZAR10 000 (US$1,034) - together that’s ZAR25 000 (US$1,724).’ He had also saved ZAR2 000 (US$138) a month for 11 months with a Stokvel (savings club) at work. He aimed to get the payout
in December when he would need the cash. He received approximately ZAR22 000 (US$1 517) from that. Altogether he was able to assemble around ZAR75 000 (US$5 172) in addition to his savings. He also received a ZAR40 000 (US$2 759) interest-free loan from a fellow taxi driver. His sources of funding were multiple and his attitude demonstrated tenacity and enterprise.

**Tenanting**

He tells that he could tenant the units before final completion because of the ‘huge’ demand. He did not need to advertise; tenants approached him when he started construction.

He started renting the place at ZAR1 300 (US$90) at the start of 2015 when building was still incomplete and pushed it up to ZAR1 400 (US$97) when sinks were put in at the end 2015. He charged ZAR1 500 (US$103) per room rent in 2017 which is now (2019) letting at ZAR1 700 (US$117) per room. The same rate is used for the rooms below which share common living area and toilet and shower room. He receives ZAR8 500 (US$586) per month.

His tenants are mainly nurses earning a regular salary. He has not had any problem collecting rent. Two or three of his tenants have relocated and the spaces have been filled immediately. When asked what happens if people don’t pay rent, after a moment’s hesitation, he answered:

> They know the standard - the township way, you know. I’ve heard that out there, people they’ve got rights. It’s not about rights...you must pay as we agreed. You pay me the rent, I gave you the space to occupy.

By the end of 2017 he had paid off all his loans.

**Disposition**

Akhona is serious, quiet and determined. He retains his permanent and regular employment in government while systematically building his portfolio and experience. After building and renting his first development in Delft South he went on to buy a property in a lower middle-class working suburb of Montana and started by building four units to let on the property. He then set up a company with a partner. His partner paid for the purchase of a property in Delft South and they have applied for building finance to develop the property together, as a company. Both partners have permanent employment. They are young adults in their 30’s, single and enterprising.

**VUYISILE’S STORY**

**Background**

Vuyisile was a taxi owner and driver and is now a paramedic. He had two taxis; one was giving him trouble so he sold it for ZAR80 000 (US$5 517) and bought a property with the money, which he later developed.

**Access to property**

He bought the property, including a small asbestos RDP (Government subsidised) house typical of the area for ZAR95 000 (US$6 552) at the end of 2013. He lived in the house during 2014 and 2015. He paid the owner ZAR20 000 (US$1 379) and was allowed to live on the property for ZAR500 (US$34) per month rent until final payment was made in early 2015. He had his niece apply for an individual subsidy from the provincial government’s human settlements department: ‘they came to inspect the property to be purchased and an amount of ZAR75 000 (US$5 172) was approved.’ The property was registered in the name of his niece at the beginning of 2015 but he only started construction after title deed transfer was finalised and owner was paid out in October 2015.

**Services employed**

He did not have the building plan approved but he did employ a conveyancer to transfer property into his niece’s name.

**Product**

He started construction with ZAR80 000 (US$5 5 17) in his account. He knew it would not be enough but, he says, ‘I have to be strong, to see how I am going to make it.’ He bought reject bricks from somewhere in Eersterivier for ZAR25 000 (US$1 724). The bricks were sufficient in number to complete the ground floor walling. He bought cement for the brickwork and for the slab and negotiated with the builder who was a friend - a ‘homeboy’ - to do the construction. He managed the construction process himself and finished the ground floor to the point where it could be let in January 2016. He had let all six rooms by the end of February although he still needed to complete the showers and ‘... touch up here and there.’

**Financing**

The development process was staggered and incremental. He borrowed to build the first floor. His own bank, ABSA, denied him a loan so he went to Nedbank, which gave him a ZAR25 000 (US$1 724) personal loan. He cannot remember the interest charged but, he says, it was around 25 percent. With this, he paid for the first floor slab. It cost him around ZAR50 000 (US$3 448); it was expensive according to him.
His taxi brought in ZAR20 000 (US$1,379) per month less ZAR7 000 (US$483) expenses leaving ZAR12 000 (US$828) - ZAR13 000 (US$897) per month. As it came in, he used the cash to buy what was needed to complete the ground floor so it could be let while construction was continuing above. The most expensive item was plumbing, including sanitaryware. He needed plumbing materials and sanitaryware for six rooms. The cost was ZAR6 000 (US$414) per room at end 2014 prices.

He took a second loan of ZAR35 000 (US$2,414) in January of 2016, this time from Standard Bank. The interest rate was 22-26 percent per annum. He also had a dividend payout of ZAR40 000 (US$2,759) from MyCiti bus shares in December. This allowed him to continue with the construction at a faster pace, in his words. He also invested ZAR60 000 (US$4,138) into the property from a taxi contract with a fish company to transport their workers from the airport home after their night shift. In total, he estimates he spent between ZAR400 000 (US$27,000) – ZAR50 000 (US$3,448) gross per month less ZAR10 000 (US$690) for diesel and ZAR15 000 (US$1,034) for repairs and maintenance.

Tenanting

He started renting out the rooms at ZAR1 500 (US$103) and kept it at the same level until sinks and cupboards were installed. At the time of the interview he was contracting someone to install DSTV.

His rental income was 6 x ZAR1 500 (US$103) per month totalling ZAR9 000 (US$621) per month less repairs and maintenance. An older couple is staying in the old, pre-existing two-roomed house at the back. Four of his tenants are nurses. All have reliable employment. He claims there is a big demand for his flats. He hasn’t had any defaults for two years since he started letting and not one of the tenants want to move even though he wants to increase the rent.

Vuyisile moved out of the property once he had let all the rooms and went to live in Parow South, a lower middle-income residential area nearer Cape Town’s industrial areas.

Disposition

Vuyisile is married with two young children. His wife also has a steady job. He is ambitious and enterprising. Once he completed his first development in Delft South, he, like Akhona, moved to a lower middle-class area to a property he purchased with a mortgage bond. He has since built two 50 m² two-bedroom units at the back of his house which he lets for ZAR5 000 (US$345) per month each and plans to build another two units above.

DOC’S STORY

Background

Doc grew up in Mount Fletcher in the Eastern Cape looking after cattle. He came to Cape Town in 1992 at the age of 20 and went to school in Mfuleni. After finishing school in 1994 he went to Hermanus to look for a job where he worked as a gardener ‘cutting trees.’ He worked there for two months after which he returned with ZAR1 000 (US$69) nd six months later set up a spaza shop (informal trading stall) on his mother’s property, an RDP site in Mfuleni. ‘Ja, it’s the free land,’ he says.

He reports that in 2007, at 9 o’clock, tsotsis (gangsters) came; they wanted money. They shot him and left him in the dirt paralysed from the waist down. In his words, he went in to hospital in 2007 and came out in 2008 in a wheelchair.

In 2010 he had a calling; “…the calling came faster and faster”. So, eventually, he went to the Eastern Cape and went through the ritual and training to become a traditional healer and when he returned to Cape Town in 2011 his first patient was a cancer patient and he healed her. He realised then, he says, that he was a doctor. His popularity as a healer grew. He gave his spaza shop to his younger brother and bought the property on which he runs his healing business in 2012. He bought the property but reports that he is still waiting for title to be transferred into his name.

From 2012 to 2017 he worked as a healer and also as a welder. He claims he did this in his wheelchair. During 2017 he gave up his welding business to concentrate on his healing business. Sometime during that year he bought a new Chevrolet that he sold soon after and bought a truck. He opened a driving school using the truck but gave that up as there was no money in it. He now leases his truck to a courier business and makes ZAR40 000 (US$2,759) and ZAR50 000 (US$3,448) gross per month less ZAR10 000 (US$690) for diesel and ZAR15 000 (US$1,034) to pay the three workers he employs. He makes a net profit of approximately ZAR10 000 (US$690) for the truck excluding depreciation of the vehicle, repairs and maintenance.

He tells that he makes a lot of money from his healing business from which he also dispenses traditional medicine. He gave an example of (traditional) medicine given to an epileptic patient that cost him ZAR100 (US$7). He charged ZAR800 (US$55) for the medicine and consultation. He explains his high charges as the price of his successful healing methods and, no doubt, reputation. He has also built and operates a block of flats – his first. This more detailed account of his sources of income is to demonstrate his enterprising disposition and the flows of cash that he has now decided to invest in property.
Access to property
Doc bought his first property in 2018 for ZAR100 000 (US$6 897) in the Wallacedene area of Kraaifontein, which included a house that he demolished to build the flats. ‘It’s not a big piece of land – it’s 6-8 metres wide’, he says. He bought the property from adult children whose mother passed away; they wanted to move, he says.

Services employed
He employed a lawyer to do the conveyancing - to transfer title to his name, but this is ‘still with the lawyer.’ Despite the fact that it is still in process, he has already built the flats and let them out. He also had building plans drawn up by a Khayelitsha architectural draughtsman, which have been submitted for approval. He is still waiting for approval but this has not stopped him from building the flats and letting them out. The architectural service fees were ZAR2 000 (US$138).

Product
He built eight flats, four below and four above. Each room is approximately 12 m² and each has a toilet and shower. A contractor from Khayelitsha charged him ZAR120 000 (US$8 276) excluding costs of the plumber and electrician. The building materials cost him in total approximately ZAR300 000 (US$20 670), including plumbing and electrical.

Financing
Doc financed the project without borrowing, using only his savings from his various businesses. Asked why he did not borrow, he answered that borrowing costs are high – ‘…you are going to have to share the money with the bank’ and ‘Banks over-charge.’ He does not know the interest rate but knows the amounts repaid for a given loan. But, he says, ‘if you are not managing you can borrow.’

He plans to build more flats. It’s a good business, he says, because property never loses value like a car, and maintenance costs are lower. He checked the sales value of his flats and claims he could sell for ZAR1.5 million (US$103 448). He claims the biggest maintenance problem is as a result of poor plumbing work.

Tenanting
He charges ZAR2 000 (US$138) per room, making ZAR16 000 (US$1 103) per month. Water is included but tenants buy their own electricity. All but one of the tenants are foreigners – Zimbabweans. The South African tenant works for government as a manager. All have jobs and all pay directly into his bank account. He has only been letting since October 2018, but as of March 2019, he had not had any defaults. He claims a big demand – ‘people are always knocking.’

ZUKILE’S STORY

Background
At first Zukile does not appear to be entrepreneurial but this is not an accurate perception. He was employed as a nurse and while he was still earning a regular wage of ZAR10 000 (US$690) per month he decided to borrow to invest in a block of flats with his sister on her land in Delft South.

Access to property
The site belongs to his sister, who was present for our discussion before Zukile arrived for the meeting. It is an RDP site allocated to her. She had not been informed about our meeting and was gently curious about my visit. She acknowledged her brother’s role when he arrived which is, evidently, to undertake the construction, including paying for all the building costs. He claimed he owns the property with his sister, who has the title. They have an agreement between them that they will share the rent earned equally. He will get rent from the ground floor and she from the storey above.

Services employed
He employed a local draughtsman to do drawings for construction and with the aim of submitting them to the municipal planning authorities for approval. He was advised by people he knows not to bother applying for plan approval. In his words ‘The Council will give…[trouble],’ ‘…they will struggle to approval…and it will take long. All flats in Delft are building without plan.’ No other professionals were involved and the quality of construction is low to medium.

Product
Zukile and his sister plan to build six rooms. Three ground floor units are already near completion. Two people had occupied one of the three rooms at the time of the interview and pay rent of ZAR1 800 (US$124) per month, including water. The room still needs shower fittings to be installed, a geyser and some sanitaryware. It also needs a ceiling. The upper floor has walls and a roof and is plastered internally. The staircase and access passage to rooms above is still to be built, as are the ceilings, electrical work and toilet and shower plumbing and some fittings. Zukile estimates that another ZAR25 000 (US$1 724) - ZAR30 000 (US$2 069) is required for labour and materials to complete this work. He adds that he will need an additional ZAR12 000 (US$828) for doors, burglar bars and one geyser. This does not include painting.

He plans to add another four flats on the site once he has completed the first six - two down and two up.
He sources the cheapest materials he can himself and contracts with local builders (labour-only contractors) directly. He contracted someone he knows, his neighbour, to build the basic brick and cement work – all the work except for the roof, ceilings, and electrical and plumbing work. This work has been completed. Other people are doing what he refers to as finishing. The builder charged him ZAR33 000 (US$2 276) for labour.

**Financing**

He financed the construction with a ZAR65 000 (US$4 483) loan from iBuild, savings and income earned as an event photographer. He continues to make repayments to iBuild of ZAR1 900 (US$131) per month in spite of the fact that his employment contract has now come to an end. He is not sure of the interest charged but the repayment period is seven years. After repayment, he says, he will have paid them ZAR96 000 (US$6 621). iBuild lends to people who are employed regularly and earn ZAR5 000 (US$345) or more per month.

He used ZAR22 000 (US$1 517) from his savings account at Capitec and he thinks he used up to ZAR40 000 (US$2 759) from a payout from his divorce settlement as well as income earned working as a photographer. He is currently looking for work.

To date, he has spent a total of around ZAR125 000 (US$8 621) or ZAR130 000 (US$8 966) on the building. He has approximately 50 m² of currently rentable area and the floor above as described earlier. He continues to build and improve the building in small increments whenever he has money.

When asked what he would say about financing of flats to government he answered that he would tell government he needs their (financial) support to build the flats since he has no job and he is trying to make a living from renting these flats. Regarding borrowing, he says he does have an account with Capitec but he thinks he used up to ZAR40 000 (US$2 759) from a payout from his divorce settlement as well as income earned working as a photographer. He is currently looking for work.

**THOZAMA AND MICHAEL’S STORY**

**Background**

Thozama and Michael are a husband and wife team. Thozama was a shop assistant at a nearby mall and Michael was working in a restaurant. While they were both full-time employees, neither felt themselves to be permanent or secure in their employment. She was depending on hours allocated to her and the whim of ever-changing managers and he was depending on tips.

They were considering going into business when there were some issues at Thozama’s work so she resigned and set up a shop on their site to sell vetkoek (doughnuts). Shortly thereafter her husband also resigned and bought a mini-bus to take children to school. After dropping them off he would help his wife with the vetkoek business. ‘It was very busy time.’

Their story demonstrates determination and perseverance. Once their first development was completed and their debt repaid, they immediately developed a second property from their savings.

**Access to property**

They bought the plot they built on in 2009 for ZAR70 000 (US$4 828). They paid a deposit of ZAR20 000 (US$1 379), paid the balance the following year and moved onto the plot. There were seven shacks on the land, all paying rent at the time. They reported that they do have title over the land.

**Services employed**

Michael designed the building himself with the help of the builder. There are not any formal drawings and there has not been a submission to Council for building plan approval. They estimated that the construction cost them around ZAR250 000 (US$17 241) in 2012.
Product

In 2010, they took the regular rent from the shack dwellers and the income from the mini-bus and vetkoek businesses and added it to their savings with the intention of building. They gave notice to the shack dwellers to vacate, demolished and started building in 2012 and began taking rent from the flats in the same year. They did not borrow from the bank to build but did borrow interest-free from other stokvel (savings club) members who did not have an immediate need for their payout. They asked the builder how much he would charge and increased their savings with the stokvel accordingly so that they received ZAR180 000 (US$12 414) when it came their turn to be paid out.

They ran out of money when the construction was nearly completed so Michael went to work as a driver for MyCiti Bus to supplement their income. At that point, after running out of money, they took out a personal loan of ZAR12 000 (US$828) from Capitec Bank to do the finishes. He did not know the interest rate he was charged but did know he was repaying ZAR500 (US$35) per month.

They built an L-shaped double storey building with two 2-room units on each level, each sharing a toilet and shower and occupied one of the units themselves. They were also waiting for an RDP house to be allocated to them. Because they were on the waiting list and expected an RDP house to be built on their property, they built against one side of the site to accommodate the RDP house. In 2013 they decided not to wait and built on the other side. They built two rooms below and a hair salon, a commercial space, above. They left a space between the two buildings to park their vehicle.

Tenanting

They charge ZAR1 800 (US$124) rent per room plus ZAR150 (US$10) for water (2018 prices). Electricity is a pay-as-you-go arrangement and is paid by tenants themselves. The units are around 12 m² each. Since 2012 they bought a second site nearby, this time a 400 m² site, and built a block of 14 units, seven on each level, charging ZAR1 600 (US$110) per room.

Asked whether their tenants have permanent jobs they answered that they don’t but that they pay their rent. They feel there is demand for this type of accommodation and attribute the demand to the fire hazard associated with living in shacks.
ANNEX 2. POLICY ENVIRONMENT AND DEVELOPMENT REGULATIONS

1. POLICY ENVIRONMENT

Two city level policies are relevant to the ventures of the case study respondents. The City of Cape Town’s Densification Policy\(^1\) which aims to encourage more intensive use of land and of available infrastructure and services at specific locations and its Urban Design Policy.\(^2\) Both policies are planning guidelines for implementation whereas the zoning as set out in the City of Cape Town Development Management Scheme, which forms part of the Municipal Planning By-Law (MPBL),\(^3\) is legally enforceable. While there is no identifiable aspect of City of Cape Town policy, including the MPBL, that actively prohibits the development of flats, it does not actively support or encourage small-scale private rental development in the townships – whether in the form of backyard shacks or flats such as those implemented by the study participants.

Regarding national policy, a draft policy was prepared in 2016 by the National Department of Human Settlements\(^4\) for backyard dwellings, not specifically flats such as those of the study, but it was never approved for implementation. It proposed that the national government’s Municipal Infrastructure Grant (MIG) transferred to municipalities be used in areas designated by the municipalities to install additional water and sanitation to each backyard. It also stated that municipalities should encourage higher density development and streamline their building approval procedures and by-laws to support second dwellings on residential properties. The programme was explicit that funds should not be used to fund formal house construction.

The City of Cape Town is currently (May 2019) drafting a human settlements policy but early drafts are not ready for distribution. Also, according to a senior official of the Policy and Research unit at the WCDHS, there is no existing policy for backyard shacks or flats in the Province.

The current land use management regulatory and building management procedures are outlined below and provide an account of the policy and regulatory context for the case study participant.

1.1 Planning and land use management regulations

Each application for change in land use and for assessment of building plans is considered on its own merits in relation to an applicant’s compliance with the relevant legislation and regulations. The legislative framework is made up a collection of land use management, building design, construction and environmental legislation that frames the operations of the micro-developers. The regulatory framework is outlined below.

The Spatial Planning and Land Use Management Act (Act 16 of 2013) (SPLUMA) was passed by Parliament in 2013 and came into effect on 1 July 2015. It provides national norms and standards, policies and procedures related to spatial planning and land use management. It also allows for the creation of provincial legislation and municipal by-laws. Chapter two of SPLUMA sets out the principles to be considered by any government when making decisions on land use management and planning. These principles relate to spatial justice, sustainability and efficiency, spatial resilience and good administration.

The Western Cape Government enacted the Land Use Planning Act (Act 3 of 2014) (LUPA) bringing it into effect simultaneously with SPLUMA in July 2015. LUPA set the legislative framework for the City of Cape Town MPBL of 2015 later amended in 2017. The MPBL provides the mechanisms for land use applications which are assessed in terms of Section 99(2) of the by-law. Public hearings for proposed amendments to the MPBL closed on 1 April 2019. The amendments have not yet been approved. They propose a primary use right for a third dwelling, allowing owners to add a third dwelling without the need for town planning approvals while still requiring building plans.

Further, the City consolidated its 27 different outdated zoning schemes into a set of overlay zones on the existing zoning scheme - the Cape Town Development Management Scheme - which was promulgated in the MPBL in June 2015 according to provisions set out in SPLUMA. The city planning authorities use the City of Cape Town Municipal Planning By-Law, which sets out the legislative framework for the City of Cape Town in 2013 and came into effect on 1 July 2015. It provides national norms and standards, policies and procedures related to spatial planning and land use management. It also allows for the creation of provincial legislation and municipal by-laws.

Municipal Spatial Development Framework and District Plan together with the MPBL to promote land use intensification and encourage medium to higher density forms of urban development.

Another important policy for any property development, with special significance for development in the townships, is the City of Cape Town’s parking policy. Parking requirements for SR2 are one parking bay for any site over 100 m². The parking policy specified in the MPBL leaves it to the attendant official to decide parking requirements for other additional or consent use.45

Aside from planning and land use management regulations, the National Environmental Management Act (107 of 1998) and EIA Regulations identify and regulate certain activities that may be detrimental to the environment. In addition, the National Heritage Resources Act (Act 25 of 1999) aims to encourage communities to nurture and conserve their legacy. While these pieces of legislation do not have immediate relevance to the ventures of the micro-developers, the national building regulations do.

The National Building Regulations and Standards Act 103 of 1977 sets out the prescribed norms and standards required to be met in the construction of buildings within South Africa. Section 4(1) of the Act prohibits the erection of any building without prior written approval of the local authority in question. Doing so would constitute an offence punishable by a fine. All construction projects of the study respondents are therefore required to submit building plans and obtain approval by the local District Planning offices of the City of Cape Town municipality.

1.2 The regulation and application of Single Residential 2

The intention of SR2 zoning in the City’s zoning scheme regulations is ‘...to facilitate upgrading and incremental housing from an informal settlement to a formal settlement.’ In recognition of the realities of poor and marginalised communities, development rules are not very restrictive...Once upgrading of an area has reached an appropriate stage, as determined by Council, it is contemplated that the area may be rezoned to SR1 or another appropriate zone.46

Delft, Khayelitsha, the Wallacedene area of Kraaifontein and Masiphumelele are mainly zoned SR2. All zoning, including SR2, provides three types of use rights: primary, additional and consent use. Primary and additional rights do not require the owner to obtain permission from the municipality before proceeding with development.

Primary use rights in SR2 zoning include a second dwelling, outbuilding and domestic staff quarters (for staff employed by the property owner) as prescribed within the parameters and definitions contained in the MPBL. Landlords in the study areas are therefore permitted to erect a backyard dwelling as a second dwelling without obtaining permission from the municipality.

Additional SR2 use rights permit shelters, house shops, home occupation, bed and breakfast establishments, home childcare, informal trading and any educational, religious, occupational or business purpose provided the structures and activities are safe, structurally sound and do not pose a fire risk or health hazard. This means that developers may erect shelter(s) without City approval. The by-law implies flexibility and places the responsibility on the owner to ensure ‘structural, habitability, fire resistance or other standards...’ and, if instructed and fail to do so, the owner becomes guilty of an offence and liable for an administrative penalty.

The third use right is consent use, which is only permitted with City approval on a case by case basis. Examples of these for SR2 include group housing, boarding houses, places of worship, institutions, clinics, places of assembly, places of instruction, offices, restaurants, guest houses (for transient guests), places of entertainment, service trade, authority use, rooftop base telecommunication stations, wind turbine infrastructure, halfway houses and veterinary practices. SR2 thus enables building of a boarding house or group housing. A block of flats could be interpreted to be either of these.

The SR2 zoning permits ‘shelter’ as an additional use right which the municipality defines as ‘a structure and unit of accommodation intended for human occupation, constructed of any material whatsoever, even though such material may not comply with the standards of durability intended by the National Building Regulations.’49 This implies a more flexible approach by the municipality both in permitting backyard developments and with regard to permissible building materials.

The definition of structure and unit of accommodation is, however, subject to...
interpretation and creates uncertainty as to what is permitted as an additional use right. For instance, from a town planning approval point of view, if the owner builds a block of flats, the rooms could be classified as ‘shelters.’ If, however, the development is determined by the official concerned to be a boarding house or group housing, it would require consent use. More than one use, including a shop, is prohibited or would require rezoning to one of the higher zonings, such as General Residential. This has been the experience of one of the study participants (Akhona) with a recent building plan application to the district planning office responsible for Delft South.50

Further, parking requirements for a dwelling on a site with an SR2 zoning is one bay if the erf is larger than 100 m². In Akhona’s case, the official responsible determined that six parking bays would be required for this development (six flats on a 160 m² plot) on the grounds that tenants may wish to buy motor vehicles in the future and park them on the property. Akhona’s story suggests a need for inter-departmental alignment of SR2 zoning definitions and procedures to support and incentivise rather than discourage formalisation of development.

Legally, if the use of the property changes or if extensions are made without permission, the property owner is in contravention of the by-law. In such an instance the City may impose an administrative penalty in terms of Item 129 of the by-law which is determined by the Municipal Planning Tribunal.

Consent use and rezoning require a planning application. The process and costs are outlined below.

1.3 Planning application process and costs

In general, applications for consent use or re-zoning of a site commence with a pre-application consultation followed by submission of the necessary documents by the applicant. Any additional information required must be requested by planning authorities within seven days or, alternatively, the applicant must be informed that the application is complete. Additional information required must be provided within 20 days. Once the application is complete there is a 30-day notice period for objections to be filed after notice is served and the intention to develop is advertised. If there are no objections, the process could take a further 90 days. If there are objections, however, the applicant is provided with comments and objections within seven days and has 20 days to respond. If the objections are satisfactorily resolved, the process to a decision takes 90 days, after which the decision is communicated publicly.

The costs of this process would be upward of ZAR20 000 (US$1 379) for a town planning firm to shepherd the application through the process, depending on the scale of the project. It would cost an additional ZAR7 000 (US$483) for advertising and other charges. None of the micro-developers in this case study were required to apply for consent use or rezoning and therefore did not incur any planning application costs. They did, however, have to apply for building plan approval as per the process set out below.

1.4 Building development management

The municipality’s Building Development Management (BDM) unit scrutinizes building plans prior to the erection of any building to determine whether the planned structure satisfies the National Building Regulations and Building Standards Act 103 of 1977. The details which are generally required to be on scaled drawings include: a site plan, layout drawing of the structure, fire installation drawing, drainage installation drawing and, if demolition is intended, an indication of the portions of the structure to be demolished. These requirements apply in all instances of building plan approval.

Once the documentation is submitted for scrutiny, the planned structure is classified according to classes outlined in the National Building Regulations and Building Standards Act 103 of 1977 and is scrutinised according to its primary function. These classifications set out specifications for habitable occupancy as well as fire regulations and requirements regarding energy efficiency.

The building plan approval process commences with a complete application to the BDM unit counter clerk who captures the application onto the system and may refer it to land use management for clearance. If it is cleared, payment is made and verified and the clock starts with an internal allocation to a plan examiner and circulation of plans to relevant departments. The plans are scrutinised by the plan examiner and, if amendments are required, are referred back to the applicant. The clock stops until the amended application is resubmitted. The plans are then recommended for approval. When the plans are signed off the applicant is notified, and the approval is logged with the building inspectorate. The length of time for approval is reported to be a minimum of six weeks up to three months and

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50 This is not an application related to this case study but a second development by one of the study participants (Akhona).
the cost is calculated\textsuperscript{51} to be ZAR6 183.75 (US$426) excluding VAT for a 150 m\textsuperscript{2} block of flats (20 rooms).

These specifications and procedures are comprehensive and generally adhered to in the South African property and construction industry but, from the vantage point of the micro-developers, the applications translate into a sequence of steps that are merely obligatory, involve appointment of an architect, cost money and take too much time and effort to implement. While the case study participants were not required to apply for planning approval, all were required to submit building plans for municipal scrutiny. However, in only four of the seven cases were applications for building plan approval reported to have been made. These were made by local ‘architects’ or architectural draughting technicians on behalf of the developers. There were not any follow-up building inspections and, from visual observation by the author, no enforcement of the building regulations.

1.5 Development contributions

In addition to planning and building plan approval costs in Cape Town, ‘land development’ is subject to Development Contributions toward municipal infrastructure. The policy applies to all areas and zoning in the City of Cape Town, including the SRz zoning. Development contributions are triggered by a ‘land development application’ for rezoning, subdivision, consent use or permanent departures from existing land uses which intensify land use thereby increasing the load on existing infrastructure. They do not apply when planned developments are ‘...deemed to have no significant impact on provision of external infrastructure.’\textsuperscript{52}

The formula for the calculation of the development charges payable is provided in City of Cape Town Development Charges: An Implementation Guide to the Development Charges Policy for Engineering Services for the City of Cape Town (Nov 2014). An application for rezoning by one of the study participants – a development including a small shop and five residential units totalling 165 m\textsuperscript{2} - triggered a development contribution of ZAR45 000 (US$3103).

2. FINANCIAL SECTOR CONTEXT

This overview of the financial sector provides an outline of the sources and terms and conditions of financing available to the subjects of this case study for their ventures. It includes property linked loans (uMaStandi and iBuild) and unsecured microcredit (Kuyasa, Thuthukani and Real People Finance). The third category of finance available to micro-developers is personal finance from the major banks.

While housing microloans are generally unsecured loans, two property finance companies servicing small-scale rental landlords and micro-developers in townships around Gauteng and Cape Town, iBuild Home Loans and uMaStandi, provide credit secured against legal title to property to build income-producing accommodation. An important difference between these two is the level of training and mentorship offered by uMaStandi. On the other hand, iBuild\textsuperscript{53} operates on a ‘community banking’ model and currently has branches in the communities of Gugulethu, Makhaza, Khayelitsha, Mitchell’s Plain, Delft, Brackenfell and Soweto.

iBuild provides loans to low income earners who bank but whose loan applications would typically be rejected based on affordability. Loan applicants must have a minimum joint household monthly income of ZAR5 500 (US$379), with loans starting from ZAR60 000 (US$438) and monthly instalments from ZAR1 500 (US$103) for a seven year bond. Interest rates are charged at prime plus 8.5 percent. iBuild provided a loan to Zukile of ZAR65 000 (US$483) at 18 percent over seven years. Funds are disbursed directly to building material suppliers with the balance paid to the applicant for labour and incidental expenses. The onus for managing the project and budget is largely on the applicant.

The Trust for Urban Housing Finance (TUHF) provides finance and training to title deed holders to develop their township properties for rental. It has a product called uMaStandi\textsuperscript{54} which currently has loans in Soweto in Gauteng and Mandalay and Khayelitsha in Cape Town. It does not have a minimum monthly salary requirement for loan applicants and evaluates each application on its own merit. Qualification criteria include location and financial creditworthiness. If an applicant qualifies it conducts a feasibility study. If approved, uMaStandi provides finance at a prime-linked interest rate of prime plus 5 percent over 15 years. It charges a once-off raising fee and no monthly service fees. Because of the costs related to loan origination and monitoring it does not consider.

\textsuperscript{51} This is for a structure greater that 25 m\textsuperscript{2} which is a block of flats, group housing or townhouse development. The formula is the number of metres of the building by a factor of 0,0085 multiplied by ZAR4 850 (US$334).


loans below ZAR250 000 (US$17 241). Their stated maximum loan value is ZAR1.5 million (US$103 448) although they currently have one ZAR3 million (US$206 897) loan.

There are currently three organizations offering unsecured housing microloans to applicants with good credit ratings: The Kuyasa Housing Finance Company, Thuthukani Financial Services and Real People Finance (Pty) Ltd. While these micro-lenders target applicants that are generally unable to access formal finance, they are nonetheless governed by the Financial Intelligence Centre Act (FICA) and the National Credit Act (NCA) requirements. All applicants must be 18 years or older, have a valid identification document, proof of residence and employment, for salaried applicants, or proof of income for self-employed or commission-earning applicants. They must have title deeds and a clean credit history. Loan initiation and monthly fees are governed by NCA guidelines.

Kuyasa\(^5\) requires a minimum monthly income of ZAR3 500 (US$241) and their loan values range from ZAR1 000 to ZAR20 000 (US$70 to US$1 379), with loans capped at ZAR7 000 (US$483) for first time borrowers. Their current interest rate is repo plus 27 percent (or 33.5 percent). Its projects are currently mainly in the Western Cape. A minimum of 50 percent of the loan value is paid to the building materials supplier with the balance paid to the applicant for labour and project related expenses.

Thuthukani\(^6\) is currently focusing on housing finance for lower income, salaried applicants. With their main financier being the Rural Housing Loan Fund, their historical focus has been on rural housing in Limpopo and Mpumalanga provinces. Thuthukani envisages the adoption of a more urban model with the establishment of the Human Settlements Development Bank. They do not currently have any representation in either the Western or Northern Capes. They do not have a stated minimum monthly salary requirement but evaluate each applicant’s credit worthiness and risk profile. Their loan values range from ZAR2 000 to ZAR80 000 (US$138 to US$5 517) with interest rates ranging between 20-30 percent over a 6 – 48-month loan period. Thuthukani prefers to pay most of the loan funds directly to the merchants but will pay 10-20 percent of the loan value to the applicant for labour and other expenses.

Real People Home Finance\(^7\) offers loans from ZAR1 000 to ZAR120 000 (US$69 to US$78 276) through more than 600 participating building materials suppliers nationally. Customers have up to 48 months to repay the loan to Real People which it pays directly to the hardware store for the materials purchased on credit. In the first six months of the loan period, interest is payable on the portion of the loan used for materials purchased. Thereafter, the instalment is calculated on the balance owed as a fixed instalment until the loan is settled. The interest rate charged is dependent on the applicant’s credit profile and ranges between 22 – 32 percent per annum. A deposit will be required if the loan amount is less than the amount quoted for materials.

There are a number of smaller banks that offer personal loans, including African Bank and Ubank. African Bank focuses on providing unsecured loans. Their personal loans range from ZAR500 – ZAR250 000 (US$35 to US$17 241) for a period of 7 – 72 months with interest rates between 15 – 27.75 percent.\(^8\) Similarly, Ubank operates in the microfinance sector offering personal loans of up to ZAR180 000 (US$12 414) for 1 – 72 months at prime-linked ‘fluctuating variable interest rates.’\(^9\) The applicant must earn a salary, be 18 years of age or older and have a bank account. They assess affordability and access to the loan is directly from a Ubank bank account. They charge an initiation fee, a monthly service fee and a credit life assurance premium. The applicant’s credit rating determines the interest rate charged which varies between prime and prime plus 21 percent.

The third category of finance available to micro-developers is personal finance. South Africa’s five largest banks and a number of smaller banks offer personal loans or unsecured lending against salary and creditworthiness. Applicants are required to be existing customers or open accounts upon loan approval. ABSA, Capitec, First National Bank, Nedbank and Standard Bank have a variety of personal loans typically ranging from ZAR500 – ZAR300 000 (US$35 – US$20 690) for a period of 6 to 72 months with interest rates ranging from 15 to 27.75 percent, depending upon the loan term and risk profile of the applicant. Some banks offer a payment break every January for loans longer than six months. Applicants must be 18 years or

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59 Ubank. https://www.ubank.co.za/ulend/
older, provide identification, proof of income, bank statements reflecting three salary deposits and proof of residence. Credit cheques and income and expenditure exercises or affordability checks are conducted. Initial loan fees and monthly administration fees are comparable and are regulated by the NCR.

The major commercial banks offer mortgage-based loans as do a number of independent mortgage companies. Mortgage activity in South Africa has historically been limited to a small segment of property owners and the majority of mortgage lending currently is to salaried employees earning more than ZAR15 000 (US$1 035) per month. The strict credit and affordability scores applied by the commercial banks preclude a large number of applicants from qualifying for mortgage loans. In practice, commercial banks shy away from mortgaging properties in lower-income areas because of a number risk concerns.60

There seem to have been limited successful attempts to grow mortgage lending to the low income earning population. One product currently offered by First National Bank is aimed at homeowners earning a gross salary between ZAR3 500 and ZAR25 000 (US$241 and US$1 724). For joint applications, each person must not earn more than ZAR25 000 (US$1 724). These Smart Bond loans are offered for home loans, renovations, additions and refinancing to homeowners. This product is not available to developers. Loans for vacant land, business or commercial property loans are not considered. Loans must be at least ZAR100 000 (US$6 897), require a 10 percent deposit and terms are 20-30 years with an average 11 percent interest rate. Second mortgages, capped at ZAR70 000 (US$4 828), are also offered depending upon affordability. Property values and credit profiles of applicants are scored, and interest rates are determined based upon those risk factors. Credit profiles are reported to be the most important impediment.

PITEC confirmed telephonically that this bank only offers personal loans or home loans through SA Home Loans.61 They do not offer building loans. SA Home Loans has an Affordable Housing Package for applicants with a monthly household income from ZAR8 000 (US$552). This package is for applicants who do not have the required deposit to purchase affordable housing and can finance up to 100 percent of the purchase price.

SA Home Loans itself does not offer building loans but does offer development finance through the South African Housing Development Fund (SAHDF), a dedicated affordable housing development fund backed by the Government Employees Pension Fund (GEPF) and the Public Investment Corporation (PIC). They have a stated objective of ensuring a supply of affordable housing stock. Their loan facilities for developers range from ZAR20 million to ZAR150 million (US$1.38 million to US$10.35 million) for approved affordable housing projects. Houses must not exceed a selling price of ZAR800 000 (US$55 172).62 These parameters are set by the Fund’s investors and do not accommodate the scale or circumstances of the study participant micro-developers.

Similarly, NURCHA, an agency of the National Department of Human Settlements, is a development finance company providing bridging finance and support to contractors and developers. While NURCHA works in the affordable housing and enterprise development space, there are significant limitations to their lending conditions. Developers are required to be registered companies with awarded tender contracts. Their loan minimum is R1.5 million (US$103 500) and would typically be to roll out a project of at least 50 units of affordable housing.63 As a consequence, NURCHA are not a relevant source of finance for this study’s respondents.

60 This is an unverified assertion or opinion expressed during informal conversations with call centre staff from several commercial banks.
61 Telephonic interview with Kirshen Govender, SA Home Loans Manager Affordable Housing. 9 April 2019.
62 Telephonic interview with Kirshen Govender, SA Home Loans Manager Affordable Housing. 9 April 2019.
ADDITIONAL REFERENCES


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iBuild Home Loans. http://ibuildhome loans.com


NURCHA. http://www.nurcha.co.za

Real People Home Finance (Pty) Ltd. https://www.realpeople.co.za/what-we-offer/

The Kuyasa Housing Finance Company. http://thekuyasafund.co.za

Thuthukani Financial Services. https://www.thuthukani.co.za

TUHF. http://www.tuhf.co.za

Ubank. https://www.ubank.co.za/ulend/
About the Centre for Affordable Housing Finance in Africa (CAHF)

The Centre for Affordable Housing Finance in Africa (CAHF) is a not-for-profit company with a vision for an enabled affordable housing finance system in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all. CAHF’s mission is to make Africa’s housing finance markets work, with special attention on access to housing finance for the poor. We pursue this mission through the dissemination of research and market intelligence, supporting cross-sector collaborations and a market-based approach. The overall goal of our work is to see an increase of investment in affordable housing and housing finance throughout Africa: more players and better products, with a specific focus on the poor.

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