27 August 2008

G:ENESIS

The Dynamics of the formal Urban Land Market in South Africa

Findings and Recommendations

Presentation for the Urban LandMark Conference

Note: this presentation is incomplete without the accompanying verbal presentation

Urban LandMark

Introduction

- These findings and recommendations are the product of research into the dynamics of the **formal urban land market** in South Africa
- The study's scope encompassed the **residential, commercial and industrial** property markets
- This presentation outlines some of the **key findings** and **recommendations** of the research

Key Findings

1) Land markets are driven by a financial logic

- Urban property markets function in a predictable way – demand and supply interact across all sectors to allocate land to its best and highest value use
- **Affordability** is therefore the key determinant for any actor to participate in the property market
- Market forces are sufficiently strong to prevail in the face of any policy distortions or direct interventions.
- For example: Low income housing developments located on prime land will tend to be converted to higher income groups and uses (for example through informal sub-letting and re-sale).
- This suggests that state interventions need to take account of the logic of the market, and work **with** the market, and not **against** it

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Key findings

2) The housing ladder extends further than previously thought

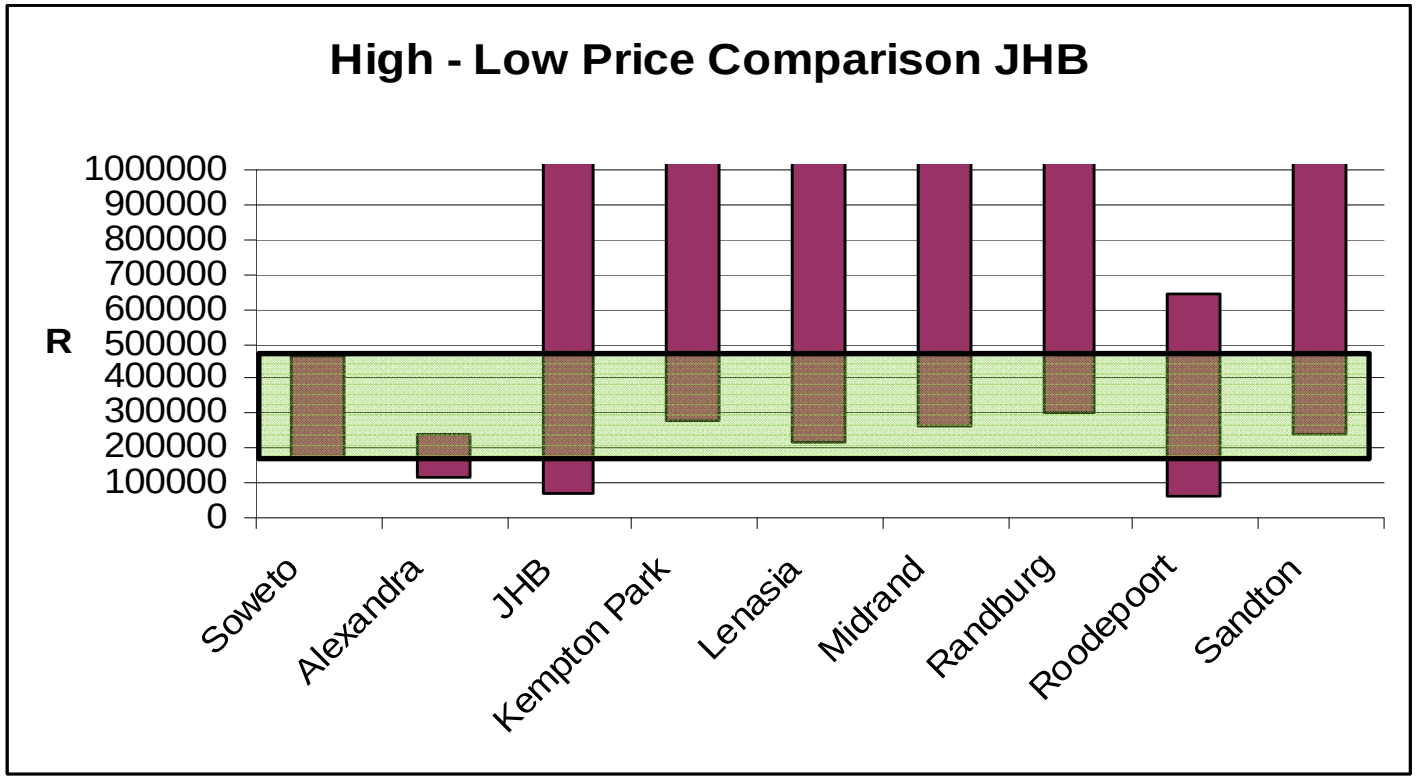
- Data from the deeds registry indicates that there has been **differential price growth** in suburbs over the past ten years, which has begun to enhance access by poorer households
- The table below shows that some suburbs have become **more affordable** over time, while others have become **less affordable**
- These findings provide only an indication, and should be interpreted with caution

	2007		1996		2007- equivalent Income	CAGR 10yr%
Suburb	Value	Income	Value	Income		
Meadowlands	160000	R 6,904.74	R 65,000.00	R 2,805.05	R 4,833.10	11.26
Yeoville	162500	R 7,012.63	R 85,000.00	R 3,668.14	R 6,320.21	5.29
Berea	182842	R 7,890.48	R 60,000.00	R 2,589.28	R 4,461.33	9.32
Bellevue central	185000	R 7,983.61	R 91,500.00	R 3,948.65	R 6,803.52	7.47
Jeppestown	190000	R 8,199.38	R 352,500.00	R 15,212.01	R 26,210.29	7
Wilfordon (Roodepoort)	245000	R 10,572.88	R 228,000.00	R 9,839.26	R 16,953.04	-4.34
Bellevue East	245000	R 10,572.88	R 105,000.00	R 4,531.24	R 7,807.32	9.37
Lombardy West	255000	R 11,004.43	R 99,500.00	R 4,293.89	R 7,398.37	28.98
Rabie Ridge	260000	R 11,220.20	R 500,000.00	R 21,577.32	R 37,177.71	-6.33
Paarlshoop	267000	R 11,522.29	R 58,500.00	R 2,524.55	R 4,349.79	11.24
Marlboro South	268500	R 11,587.02	R 250,000.00	R 10,788.66	R 18,588.86	20.24

Key findings

2) The housing ladder extends further than previously thought

- One result of this differential growth is that there is now considerable **overlap in value** between former townships and suburbs
- This suggests that ‘price cliffs’ between these areas are being eroded, allowing **increased mobility** between areas
- It should be noted there may be a limited amount of stock available which could, in reality, prevent this mobility



Key findings

3) There are serious land, regulatory & planning constraints

- Land supply, regulatory and planning constraints are at the core of the market's current inability to meet more low-end demand
- Policies and regulations are frequently contradictory, for example:

Planning regulations aimed at densification	VS	No densification policies
• There is a growing shortage of zoned land in SA metro areas • This is partly driven by the imposition of an 'urban edge' which turns land into a scarce and speculative commodity		•Planning restrictions on bulk and density exist in most metros •Systematic and broad-based densification policies and incentives are virtually non-existent

- These types of contradictory policies result in increased land prices as there is sustained demand for what is essentially a limited commodity
- The property market is governed by a number of pieces of legislation, encompassing environmental, heritage, planning and local government laws. These laws often aim to achieve conflicting goals

Key Findings

Problems at local government level

- Interviews with developers and municipalities highlighted a **lack of capacity** at local government level, which is causing excessive delays (up to 5 years) in the 'land to stand' processes
- These delays **raise costs**, and uncertainty regarding duration and outcome of planning approvals **increase the risks** associated with development
- The cumulative effect is to encourage **the departure of developers** from the lower end of this market

Developer obtains finance to purchase land for development → Interest payments have to be made whilst waiting for necessary approvals → After 3-5 years, developers have made repayments on the loans, paid connections fees and have not yet begun construction

1. Recognise the power of the market, and its limitations

- Policies and interventions which are contrary to the market's logic will tend to **compromise delivery** at scale, **undermine sustainability** and **encourage informality**
- Policies and interventions which **enable, catalyse and incentivise** market forces to achieve social outcomes are likely to realise additional leverage and enhance 'bang for buck'
- Policy makers need to take market forces into account, and leverage them where possible, when designing policy and interventions

2. Incentives are more powerful than prescriptions

- Incentives are more effective than prescriptions, exhortations or threats
- The Urban Development Zones (UDZ's) is virtually the only incentive based policy tool – and has been used to great effect
- The exemption on transfer duty for houses less than R500 000 in value is another example of a market-developmental incentive
- There is scope and opportunity for innovative incentives to be used to achieve policy goals.
- **For example**: pro-poor densification could be achieved through incentives for citizens to build second dwellings for rental or sale, in exchange for a rates rebate
- **Mortgage tax relief** for first time home owners is another possible, market based incentive which will enhance affordability at the bottom of the 'housing ladder'

3. There is a need for legislative simplicity, coherence and certainty

- A consistent and efficient policy and regulatory environment is a pre-requisite for enabling markets to work for the poor
- Players in the market need **clarity and certainty**, regardless of the policy
  - Housing Development Agency, Inclusionary Housing and the Expropriation Bill are examples of policies which are increasing uncertainty, and hence risks
- Improved local planning, transactions support and regulatory enforcement will reduce costs and risks – and lower barriers to entry by private developers. This encourages market participation and hence increases supply
- Over-reliance on an already overburdened State for implementing a multiplicity of legislation and policy simply is not workable.

Areas for future research

- This study was only able to touch on a number of very complex issues
- There is therefore a need for **further research**
- This further research should include:
  - The feasibility of market based incentives for pro-poor development
  - Assessing the length and breadth of the property ladder
  - Regulatory Impact Assessments (either post- or pre-implementation) of proposed and existing legislation impacting on the property market