

## **Citizens in the middle class: The interstitial policy spaces of South Africa's housing gap**

### **Introduction**

Historically, research on urban socio-economic trends, processes and policies in Africa, and the global South more broadly, has focused on urban spaces and citizens that represent the extremes of wealth. This is demonstrated by bodies of literature addressing informal housing/slums for the poor on the one hand, juxtaposed against research on high-income elite forms of often privatised and secure forms of housing on the other (e.g. Lemanski and Oldfield, 2009). Recently there has been growing interest in the emerging indigenous middle-class in the global South (e.g. Bannerjee and Duflo, 2008; Lange and Meier, 2009; Ravallion, 2009), initially in India (e.g. Fernandes, 2006; Nijman, 2006), with more recent interest in Africa (e.g. Ncumbe, 2013), and particularly South Africa (e.g. Visagie and Posel, 2013; Southall, 2014; Khunou, 2015; McEwan et al, 2015), providing a new focus for global South scholarship that has traditionally been polarised between the elite and the poor. The emergence of a 'middle' group is relatively new in sub-Saharan Africa, a continent historically polarised between the affluent and the poor. However, debates surrounding how to define and measure Africa's middle-classes; specifically, whether to adopt a broad classification that includes the 'not so poor' (e.g. ADB 2011, Visagie 2013) or restrict the middle-class label to those with financial security and social mobility (e.g. Thurlow et al, 2015); highlight the limitations of using the middle-class label as a means to overcome the historic binary focus on elite versus poor within African cities. Furthermore, using a global class-based label carries normative expectations around lifestyle, education and income that are not easily transferred between countries and cultures. In contrast, this paper refers to 'middling', 'middle' or 'in the middle' citizens to reflect a status which is not exclusively about class or income per se, but refers to citizens who are neither affluent nor poor. While prior work has explored the governance strategies of "missing middle" citizens in urban India (Lemanski and Tawa Lama-Rewal, 2013), this research demonstrates how the needs of this middle group are easily misrepresented by policy interventions, caught in the interstitial spaces between social and economic interventions, and public and private institutions.

In South Africa there is a demographic group widely recognised as 'middle' in terms of their housing positionality, collectively classified in public discourse as 'gap' households, based on both income and inability to access homeownership either via state-supported or private sector mechanisms. Despite minimal scholarly discussion of the needs and attributes of this 'middle' demographic, it is estimated that approximately one-quarter of South African households are in the 'gap' category (Rust 2012b). Consequently, the empirical starting point of this research is an analysis of gap housing policies and practices in South Africa. These policies and practices target households who function in between South Africa's dual-housing markets, financially ineligible for either state-subsidised or banking-financed property ownership. Such citizens are not necessarily middle-income in the sense of being in the middle quintile of national income distribution, or middle-class in terms of occupation, education or self-identity, but they are politically positioned as 'middle' in policy terms, based on inability to access either public or private housing finance. This paper therefore uses housing policy as a lens through which to identify and explore the positionality and policy consequences of being a 'middle' citizen, neither affluent nor poor. Housing in South Africa provides a particularly pertinent lens through which to explore the notion of a 'middle' demographic because the post-apartheid state has prioritised housing as the primary means to

overcome past inequalities (Marais and Cloete, 2015). More broadly, homeownership has been promoted round the globe as the means to tackle poverty and ensure capitalist asset accumulation for all income groups (based on neoliberal agendas, and most recently influenced by the pro-titling arguments of Hernando de Soto, 2000).<sup>1</sup> While this paper uses housing as the means to illuminate the positionality of 'middle' households, arguably other sectors (e.g. education, health) would demonstrate both similar and different policy gaps. This paper employs the pre-existing context-specific term 'gap' in describing households caught in between policy provision (in this case between public and private institutions and interventions), whereas 'middle' refers to the broader demographic identity of those neither affluent nor poor. Arguably the very notion of a policy 'gap' group assumes a state welfare programme for the poor (i.e. where gap households are unable to access either state or private provision), and as the provision of a welfare state differs significantly according to sector and country, the 'gap' terminology may not hold traction in other empirical contexts. However, the problem of gaps in terms of policy provision for accessing homeownership is not unique to South Africa or the global South, with many Western Europe states implementing a range of policies to support middle-income groups to become homeowners (Hoekstra and Marais forthcoming). While each context uses empirically-specific language, such as 'gap' in South Africa, shared ownership schemes for 'key workers' in the UK, VPO housing in Spain, or 'koopgarant' in the Netherlands (ibid), the broader terminology of the 'middle' can be employed universally. Indeed, extending beyond housing, the concept of "being in the middle" is employed by Jeffrey (2010:97) in relation to men in India unable to transition from youth to adulthood, while Kihato (2013) refers to the "in between geographies" of African migrant women in Johannesburg who are caught between their past home and imagined future.

This paper is structured by first situating the research within broader debates on the emerging middle-class in the global South (as well as Africa and South Africa) and justifying use of the phrase 'middle' rather than 'middle-class' or 'middle-income'. The empirical context is subsequently explained, outlining South Africa's gap housing context as well as the specific methods used to research this paper. The paper then investigates the ways in which gap housing policies and practices are understood and experienced by both housing providers (e.g. the state, developers, bankers) and users (i.e. gap households). Analysis reveals the conceptual and practical limitations of using multiple actors (public and private) with divergent aims and agendas (economic and social) to stimulate (largely financial) support that aims to detach gap households from state reliance to secure homeownership. More specifically, the example of gap housing policy illuminates the ways in which 'middle' households fall into a policy and practice void, caught between rich and poor, public and private, economic and social identities, actors and agendas. The paper concludes by promoting use of the term 'middle' to better understand the needs of a large proportion of the urban demographic who are neither affluent nor poor.

### **In the middle: middle-class, middle-income or policy-middle?**

The creation of a middle-class identity has its conceptual roots in classical Marxist analysis juxtaposing the proletariat against the bourgeoisie (the worker and the capital-owning elite, respectively) where class is embedded in the social division of labour and the means of

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<sup>1</sup> While this obsession with homeownership has been critiqued, particularly by Alan Gilbert (2008), it remains dominant in global policy.

capitalist production (Wright Mills, 1951). While Max Weber extended Marxist class identity to include not just material assets, but also skills and education (Thurlow et al 2015), the post-industrial context challenged this two-tier labour-based class analysis leading some scholars to argue that class is fragmenting and declining in importance (Clark and Lipset 1991), while others argue that class remains pivotal to social understanding, but has stratified into multiple tiers (Hout et al 1993). Nonetheless, popular and scholar understandings of global society have continued to promote the middle-classes as a dominant feature of contemporary society, expanding in size and diversity alongside the apparent decline of the working-classes in the post-industrial era, demonstrated by the emergence of the so-called 'new' middle classes (Lees, 2014; McEwan et al, 2015). While precise definitions of the middle-class vary across time and space, with no universally agreed criteria, the two key indicators are financial (e.g. income and assets) and status, emphasising the role of education and occupation (Hauser and Warren, 1997; Atkinson and Brandolini, 2011). In this context, the upper-middle-classes are highly-educated professionals near the top of income stratifications, and the lower-middle-classes are semi-professionals, skilled artisans and lower management with more modest but still secure incomes that place them well outside poverty (Gilbert, 1998). In the global North popular and scholarly analysis has largely emphasised status rather than income as the primary determinant of class (recognising, for example, that a dual-income working-class household could potentially have a higher income than a single-income middle-class household, Gilbert, 1998), but this is partially mitigated by recognition that the two criteria of income and status inter-connect and overlap to such an extent that they reveal roughly the same population group. However, in the global South the inverse is found, where widespread reliance on static income-based class measures (albeit with some notable exceptions, e.g. Spronk 2012) are increasingly critiqued for ignoring status (e.g. Corral et al, 2015).

Contemporary academic and popular interest in the indigenous middle-class in the global South is framed around expectations that this demographic group have the potential to accelerate economic, social, cultural and political progress in their countries (e.g. Easterly, 2001; Bannerjee and Duflo, 2008; Amoranto et al, 2010; Birdsall, 2010; ADB 2011). While definitions differ according to author and context, the global South middle-class are broadly defined by the ILO as households with a \$4-13 daily per capita consumption, and it is estimated that 41.6% of workers in the global South are middle-class, a demographic category that has doubled in size since 1991 and is continuing to grow (Kapos and Bourmpoula, 2013). This ILO definition focuses on those who are a little wealthier than the "working poor" (under \$2 per day) and "near poor" (\$2-4 per day), and ignores status-based measures (Kapos and Bourmpoula, 2013). Focusing on sub-Saharan Africa, the emerging middle-class are frequently heralded in the media as the potential saviour of the continent's ills, expected to boost economic growth and democratic expansion (e.g. ABD, 2011; Ncube, 2013; Southall, 2014). However, much like the ILO definitions, the broadness of African middle-class definitions limits the likelihood of meeting these expectations. The African Development Bank's (2011) African middle-class criteria are widely used, and address those with per capita consumptions of \$2-20pd, a group argued to have risen in size from 80 million in 1990 to 120 million in 2010 (Thurlow et al, 2015). This is a vast income range that despite comprising one-third of Africa's population, is dominated by those barely (and potentially temporarily) out of poverty. Given that 60% of the ADB's African middle-class consume \$2-4 per day, and that this "floating class" (ADB, 2011) are reliant on irregular and/or informal labour (Banerjee and Duflo, 2008), it is unsurprisingly that the ADB's middle-class criteria have been highly criticised as a "stretch concept" (Mkandawire, CNN,

2011) that propels those literally just outside poverty into the lofty heights of the middle classes from whom so much is expected (McEwan et al, 2015; Lentz, 2016).

The majority of African middle-class scholarship focuses on South Africa, with heated debate on how to measure and define this group, alongside analysis exploring the economic and political potential of the black middle-class in the post-apartheid context (e.g. Burger et al 2004; Rivero et al 2003; Southall 2004, 2014; Visagie and Posel, 2013; Khunou, 2015; McEwan et al, 2015). As part of these ongoing debates, Posel and Visagie (2013) define South Africa's middle-class by employing two separate measures: income (50-150% of median national income) and status (professional occupations), revealing that these indicators relate to two completely separate population groups (also Visagie, 2013, 2015). While this finding is hardly surprising given the likelihood that a median-based income measurement will include the poor when used in a country with widespread poverty, (instead, the income-based indicator could more usefully have employed a minimum threshold that is well-above poverty levels), their analysis confirms the absurdity of attempts to define the African middle-class according to static income measurements. Posel and Visagie's (2013) analysis describes South Africa's median middle-income households, comprising nearly one-third of the population (31.6%), as largely poor and Black African, with household incomes of ZAR1520-4560 pcm (approx. \$4-12pd),<sup>2</sup> derived from labour-wages, government grants and remittances. In contrast, the occupation status criteria (ie. professionals) defines roughly one-fifth of the population (20.4%) as 'middle-class', and points to a Black African and White elite with household incomes of ZAR5600-40000 (approx. \$15-110pd), derived from labour-wages and investments (Ibid). The statistics analysed in the research indicate little overlap between these two demographic groups, and while Posel and Visagie (2013) argue that the diversity of interpretation across the two definitions enables a broad interpretation of middle-class identity, I disagree, arguing instead that such divergence highlights the limitations of using a 'middle-class' label rooted in Marxist and Weberian frameworks in the global South context of extreme poverty and inequality. This is particularly acute in South Africa, where the legacies of apartheid ensure severe socio-economic inequality and spatial separation. While those in the 'occupation' group comprise an extremely broad and heterogenous group that include those arguably middle- (and upper-) class in terms of Marxist or Weberian indicators of relative income and status, the 'median-income' group are not middle-class in either income or status, and use of the middle-class label in reference to this group is aspirational at best and misleading at worst. Furthermore, in South Africa where income inequality is extreme and the elite receive a disproportionate share of income (Seekings and Nattrass, 2005; Leibbrandt et al, 2012), there are two potential policy outcomes from promoting a very broad definition of middle-class identity. Firstly, the potential misuse of the 'middle-class' tag to target policy at the affluent elite as a (misdirected) means to tackle inequality, potentially at the expense of the less-affluent (Visagie, 2015), e.g. Black Economic Empowerment (Posel, 2010); and secondly, the potential that widespread expectations of the middle-classes bringing social, economic, cultural and political transformation could be placed on those in the 'middle-income', which in a country with high levels of poverty will include the poor.

The dominant scholarly critique of the ILO and ADB definitions is that the demographic group described as middle-class by their static financial indicators (income and consumption) does not match normative expectations of middle-class identity and status (Lentz, 2016).

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<sup>2</sup> All exchange rates are from [www.xe.com](http://www.xe.com) – June 2015. However, direct translation to the ADB criteria is limited as Posel and Visagie focus on households rather than individuals.

While normative understandings of the middle-classes are no longer framed around a traditional nuclear home-owning suburban family supported by a male bread-winner and a female home-maker (as critiqued in popular culture by films such as *American Beauty* and *The Stepford Wives*), middle-class identity is widely perceived as restricted to households with certain broad characteristics (e.g. financial security, a comfortable standard of living and the means (financial and education) to function independently within society). Consequently, when the ILO and the ADB employ the label of middle-class in reference to the 'not-so-poor' they are criticised for inaccuracy (Birdsall, 2010). Arguably, some of this 'inclusive' middle-class labelling is associated with policymakers' interests in using the ILO and ADB data to argue that households are moving out of poverty (Ballard, 2012). However, use of a class-based category that comes pre-loaded with normative expectations and assumptions about identity and transformative utility that are extended to those at risk of falling into poverty is arguably problematic in promoting unachievable policy outcomes. While there is ongoing questioning of the broadness and assumed homogeneity of this African middle-class category within scholarly debates, finance-led measures such as those from the ILO and ADB remain dominant within policy debates and popular media. Below I discuss three alternative measures for defining the middle-class in Africa that combine financial and non-financial indicators in order to demonstrate these ongoing scholarly definitional debates, and the positioning of this research on 'middle' citizens, within these debates.

Thurlow et al's approach (2015) proposes retaining class-based groupings, defining the African middle class as possessing economic security and the potential for social mobility based on three key indicators (none of which are income or consumption): completion of secondary schooling, access to basic housing services (piped water, flush toilet, electricity) and being employed in a skilled occupation. While Thurlow et al's definition is less dominated by static financial measures than the ADB/ILO criteria, it is still framed by a normative assumption of affluence-based class (e.g. access to services) and ultimately points to a high-income (in domestic relative terms) demographic group. More radically, Shimeles and Ncube (2014) use Sen's theory of capabilities to shift away from class-based labels, instead differentiating between the empowered (who can access material assets and services) and the disempowered. While this research endorses Shimeles and Ncube's (2014) avoidance of class-based labels, their reliance on a binary analysis overlooks those who meet neither classification, and is still framed by access to assets and services that require money. Lentz (2016) proposes using class as a behavioural descriptive, rather than the label for a pre-determined group, so that households can be understood as "doing being middle class" (at this specific time and place) without a deterministic identity category. While this research recognises that many households 'in the middle' are indeed "doing being middle class" (Lentz 2016:42) in terms of their consumption-based behaviour and aspirations, using class-based language can imply that 'middle' households are financially and socially secure, potentially overlooking their marginalised position in policy and practice. Indeed, Lentz's (2016) detailed overview of the literature on the global South and African middle-class identity leads her to argue that scholars within this field urgently need to undertake detailed empirical research on the middle-classes in Africa in order to "go beyond folk terminology, develop their own analytical categories, and critically engage with the baggage that received theoretical concepts bring with them" (Lentz 2016:19). Within this context, this research promotes the concept of a 'middle' identity that is divorced from class-based analysis in order to illuminate social and economic processes that are distorted by debates around defining class categories.

## **South African housing context**

Housing policy and practice in South Africa has overwhelmingly focused on the extremes of the market, prioritising the needs of the very poor alongside the demands of the elite. At one extreme, South Africa has implemented an extensive programme of house-building for low-income household ownership (e.g. Tomlinson, 1999, 2005; Huchzermeyer, 2001, 2003; Baumann, 2003; Gilbert, 2004; Lemanski 2008, 2011). Concurrently, there has been significant attention directed at privatised forms of housing for elite households in South Africa, such as gated communities and neighbourhood enclosures (e.g. Hook and Vrdoljak, 2002; Landman, 2004, 2006; Lemanski, 2004, 2006; Lemanski et al., 2008; Ballard and Jones, 2011). However, what has received far less attention (with the notable exception of Rust 2006, 2009, 2012a, 2012b; Cirolia forthcoming; Hoekstra and Marais forthcoming) are the housing needs of 'gap' households, eligible for neither the state housing programme nor able to access private housing finance.

Since the demise of apartheid, the South African government has prioritized housing provision as part of its anti-poverty agenda, promoting homeownership as integral to "the process of restorative justice" (Marais and Cloete, 2015:261). The three key strategies employed by the state to extend homeownership to previously excluded black South Africans<sup>3</sup> are the capital subsidy scheme for the poor, new housing finance models to extend credit to those previously excluded, and the transfer of ownership of public rental housing to tenants through the Discount Benefit Scheme. The National Housing Subsidy Scheme effectively provides low-income households (monthly income below ZAR3500 (approx. \$9 per day)) with ownership of a brick-built house with electricity, sewerage and running water. Notwithstanding criticisms of the policy's limitations in terms of its exclusive focus on homeownership, the poor quality of construction, small houses, delays in receiving title deeds and the creation of 'slum'-like communities on the urban periphery; the scale of construction has been rapid, with approximately three million<sup>4</sup> subsidy houses (known colloquially as 'RDP houses')<sup>5</sup> built since 1994. While some criticisms were addressed through the 2004 'Breaking New Ground' focus on producing higher quality and larger houses (40m<sup>2</sup> rather than 20-34 m<sup>2</sup>) within better-integrated communities (in terms of proximity to services and economic opportunities), this has slowed housing delivery. Since 2014 the focus has shifted again, to the production of mega human settlements on the urban periphery, as a rapid measure to clear housing backlogs and meet the shelter needs for South Africa's urbanising population. At the same time, South Africa's formal housing market has boomed, with house prices rising by an average of 20% per year from 2000 to 2007 (with a major 2008-2009 dip in property prices and number of sales following the 2008 global financial crisis and the 2009 recession), stabilising at just under 10% per year since 2013 (*Absa House Price Indices*, 2014). Between these two trends, a housing affordability gap has emerged and expanded, representing those on the "edges" of accessing homeownership via either public or private measures (Marais and Cloete 2015).

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<sup>3</sup> Although technically white South Africans are also eligible for these housing schemes, in reality, few would meet the financial criteria.

<sup>4</sup> There are conflicting figures for the number of subsidy houses constructed, and three million represents a broad compromise between these figures. At one extreme, South Africa's Minister for Human Settlement claims that 4.3 million houses and subsidies have been provided since 1994 (Sisulu 2016). However, a report by Shisaka (2011) concluded that while 3.85 million beneficiaries had been approved for a housing subsidy between 1994 and 2011, only 2 million received a registered property (it is unknown how many of the 1.85 million remaining beneficiaries received an unregistered property or no property).

<sup>5</sup> After the 1994 Reconstruction and Development Plan

In South Africa, the gap market is understood as comprising those who are financially excluded from homeownership due to the combined consequences of ineligibility for a government housing subsidy (e.g. due to earning above the income threshold) accompanied by inability to secure private bank finance (e.g. due to earning an insufficiently high and/or secure income). There is general agreement that this applies to households earning ZAR3501-15000 pcm (approx \$10-40pd).<sup>6</sup> Precise income-based definitions are problematic, due not only to the movable nature of household income, but also fluctuations in the income required to buy private housing (depending on for example interest rates, bond deals, construction costs and land availability), and indeed these income boundaries are policy constructs in any case. Notwithstanding these limitations, it is estimated that approximately 25% of South Africa's population fall into this gap bracket (Rust, 2012b),<sup>7</sup> estimated to comprise 2.7 million urban households (Cirolia, forthcoming), ranging from key public and private sector workers such as teachers, government employees, nurses and police officers, to manual workers such as maids, drivers and factory workers. Over the past decade, the South African state has provided various financial incentives designed to pressure the private sector, particularly banks and developers, to provide loans and construct houses targeting the gap market (Marais and Cloete 2015). Essentially, the state has promoted a private-sector-driven approach, with the onus on banks and developers to finance housing projects (with minimal state support), and for the private sector to engage directly with gap households. This has had limited success, and on the whole, inadequate housing finance for the non-affluent, alongside an absence of well-located serviced land for non-high-income housing development, has resulted in a shortage of housing units for gap households (Gunter and Manuel 2016). In effect, the state's goal is to facilitate the creation of and/or provide support for a tier of private property owners independent from the state for their basic welfare needs (as opposed to the reliance of state-subsidy housing recipients on the state). The widespread provision of state-subsidised housing for the very poor has not driven local economic growth in South Africa in the same way that social housing in other countries has had a stimulating effect (Gunter and Manuel 2016),<sup>8</sup> and consequently there is a clear desire for the state to limit the proportion of society heavily reliant on its services to meet their basic needs. The state's conceptualisation of gap housing policy is explicitly about expanding South Africa's bank-financed (rather than state-subsidised) home-owning class, and there is an implicit assumption that banks should support this as part of their redemption for redlining former black townships (Marais and Cloete 2015). Although issues of class are not explicitly discussed within the gap housing agenda, the state's ideal of private-sector-driven homeownership implicitly promotes a normative middle-class narrative of nuclear family financial independence. Indeed, the South African state has been strongly influenced by the neoliberal preoccupation with widening homeownership as a means to overcome poverty, a perspective that has significant traction around the world, from British Prime Minister Margaret Thatcher's call for "a nation of homeowners" to Peruvian economist Hernando de Soto's belief that title deeds are a magic bullet for social and economic transformation. These views remain dominant despite

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<sup>6</sup> There is some variation of definition within this income bracket. For example, Rust (2009) argues that the *real* gap is those earning R3501-9000 per month because there are so few policies/houses that benefit this group; while First National Bank's "Housing Finance" division (as opposed to their mainstream "Homeloans" department) targets those earning ZAR3501-25000. However, as the Finance Linked Individual Subsidy Programme (the most recent gap strategy) targets ZAR3501-15000 this paper employs that broad category (whilst recognising the limitations of using static income measures).

<sup>7</sup> Based on census 2011 data, approximately 60% of South African households are eligible for subsidy housing, and approximately 15% are able to secure a private mortgage (Statistics SA, 2012).

<sup>8</sup> This is due partly to the peripheral location of most settlements, with poor access to amenities inhibiting local economic stimulation, but also due to the conceptualisation of housing in South Africa as primarily about shelter and asset accumulation rather than as a contributor to local economic development (Gunter and Manuel 2016).

evidence that homeownership can actually *increase* marginalisation by acting as a financial burden (e.g. creating expectations that homeowners must furnish and maintain 'proper' standards of living as well as pay higher living costs) and by providing an asset that does not enable upwards property movement (e.g. Ross 2010; Lemanski 2011). Although the South African state is promoting homeownership for all income groups, the gap housing agenda is explicitly about creating a new tier of homeowners via private financing rather than state subsidies, as highlighted below.

Despite growing public awareness and state discussion of the concept of the gap market, until recently there had been minimal deliverables. President Zuma used his 2012 and 2013 State of the Nation Addresses to launch two new initiatives designed to stimulate private finance to support gap households to enter the existing housing property market (rather than to extend the housing market to meet their needs). Firstly, a ZAR1 billion guarantee fund, managed by the National Housing Finance Corporation (NHFC) facilitating private bank loans to those with household incomes in the gap range. Secondly, the re-launch of the FLISP initiative (Finance Linked Individual Subsidy programme),<sup>9</sup> also managed by the NHFC, enabling gap households to access banking finance by offering a subsidy that effectively provides a loan deposit. FLISP provides a one-off subsidy, on a sliding scale of between ZAR20,000-87,000 (\$1640-7100) to South African households with monthly incomes in the ZAR3,501-15,000 bracket (households with higher incomes receive less subsidy) who have not previously owned property, to support a bank loan for the purchase of a property (initially the property cost was capped at ZAR300,000 (\$25,000)), serviced site, or as a contribution to self-build. Initially FLISP, much like previous gap-related incentives, was restricted to developer-approved new-build projects (albeit now requiring eligible households, rather than developers, to apply for the subsidy), but was expanded in 2013, allowing households to apply for a FLISP subsidy to support a banking finance application for the purchase of a resale house on the open market. This represents a significant change in approach to the gap housing market, not only potentially opening the wider housing market to those in this income bracket (rather than restricting them to a handful of specific developments) but also encouraging an increased private individual/household-led (rather than developer-led) approach to securing housing and finance. However, this research reveals that in assuming gap households fit private banking models of finance (i.e. nuclear families with 1-2 incomes sufficient to support a housing loan over the long-term), the policy fails to recognise the insecure but multiple incomes and weak affordability amongst gap households. Furthermore, the focus on promoting gap households into the property market starts from the failed assumption that the problem rests with household deficiency rather than housing market failure. Consequently, gap housing policies focus on enabling gap/middle households to engage with the existing housing market without state support (i.e. as private households receiving finance from private lenders) rather than considering ways to extend a housing market that currently excludes roughly a quarter of the population from homeownership. Using the example of gap housing then, this paper argues that middle households in the global South fall between the extremes of traditional policy interventions and practices (in this example state subsidies for the poor and private finance for the affluent).

## Methodology

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<sup>9</sup> Although FLSIP originated in 2007, the subsidy at that time was ZAR40 000 and only accessible to developers for new builds, and was largely ineffective due to these two constraints. FLISP was therefore re-launched with a larger loan amounts in 2012 and opened to households (rather than just private developers) in 2013..



In researching this paper the key stakeholders involved in gap housing planning and delivery were interviewed, including state officials, policy researchers, private developers and banking finance representatives. A total of 65 interviews were conducted across several years (2009-2014) and consequently cover a range of gap housing policy and practices across municipal South Africa (pre- and post-FLISP). In-depth qualitative fieldwork was undertaken in 2009 in three developer-led housing projects that targeted the gap income bracket (prior to FLISP), comprising semi-structured interviews with 22 residents, one community leader, two local councillors, two site managers and two developers. The three settlements are all situated in Cape Town (Highlands Village, Royal Maitland, and Aliwal Gardens, see Figure One), where self-reported household incomes are broadly ZAR7500-15000pcm (approx \$20-40pd) comprising for example skilled labourers, office workers, bank tellers, factory supervisors and government employees.

Insert Figure 1

### **Policy mis-targeting: caught in the middle**

Given the large number (absolute and relative) of households with incomes in the gap bracket, alongside the overwhelming interest developers receive in response to gap housing projects, and the shortage of available gap housing, indications that gap housing policy is failing to reach its target market are of great concern. For example, while a blog post by housing expert Kecia Rust (2012a) explaining how the new FLISP subsidy might work received many hundreds of comments asking questions about eligibility, take-up of the FLISP has been exceptionally low. According to a senior banking representative fewer than 100 FLISP subsidies were released by their bank in 2013, and given that only three banks are approved for FLISP this indicates extremely low take-up (Senior banking official1). At the same time, the City of Cape Town reserved ZAR7 million for FLISP subsidies in 2012-2013, for which they received no applications (City housing official2). And while take-up has increased, with 1969 FLISP approvals from 2012 to October 2014, this is still a tiny proportion of the alleged 2.7 million urban households in this income bracket (Cirolia, forthcoming).

This section reveals two explanations for the low take-up of gap housing policies, both linked to the faulty expectations of the state, firstly in terms of affordability for gap households, and secondly, in terms of the housing market itself. While the state has an idealised vision of gap households as needing a small amount of financial support in order to secure privately-financed homeownership, the research presented here reveals that the bulk of gap households are unable to secure banking finance (e.g. due to irregular and/or low incomes alongside existing credit agreements), and that suitable housing is not available or affordable (to construct) in any case. Consequently, gap housing policies mis-target on two fronts: households are insufficiently financially secure to access private finance, and suitable housing is unavailable.

#### *Household affordability*

Due to South Africa's history of non-payment as a strategy for protest (e.g. apartheid-era township boycotts of rents and service charges, and the 1980s-90s mortgage defaults following mining job losses and interest rate rises) banks have historically been reluctant to provide loans to lower-income households (Pillay and Naudé 2006, Hoekstra and Marais forthcoming), and despite government incentives banks remain attached to traditional affordability requirements that ultimately exclude the majority of South Africans. The result

is that few households with incomes in the gap range can access housing finance (Cirolia, forthcoming). While FLISP is intended to provide the necessary deposit for gap households, in reality most gap households' existing financial commitments exclude them from bank affordability criteria (CAHF 2015). Specifically, gap households are over-burdened by multiple microloans coupled with subsequently poor credit ratings.

The biggest thing is credit that's been extended – like microloans. It's scary. I am looking at a complaint where we denied a bond because of affordability – this guy was paying ZAR3,000 per month on a micro-loan, so even with an income of ZAR12,000 we denied the loan. He wants a house but he cannot afford. It's so common. [Senior banking official1]<sup>10</sup>

We had a list of people who are interested in housing and earn ZAR3,500 upwards. We got it [the list] from the city ... Now we look at who can afford to pay and then the list collapses. These people earn enough [to qualify] but they have been overwhelmed with microloans from various shops and businesses. So they don't actually have enough disposable income to pay for housing, and their credit records have been ruined, so the banks won't touch them. And that's the rule, not the exception. Out of 10 interested people, 7 or 8 fall in that bracket. [D.W., private developer]

We gave a list of names to the gap developers, of the people in that area who earn over ZAR3,500. So we gave them 200 names, but only four qualified in terms of the banks' criteria [City housing official1]

The extent of indebtedness amongst South Africa's middle demographic is a huge (and largely unrecognised) problem, where consumption practices amongst previously disadvantaged groups have been facilitated by poor regulation in the finance industry around access to credit (James, 2014). James' (2014) in-depth study reveals how the most heavily indebted households (in relative terms) are not the poorest or the wealthiest segments of South African society, but those with a wage roughly in the middle, such as nurses, teachers, police officers and council officials, with sufficient salary to secure credit, but who face pressure from their families to borrow amounts that exceed their ability to repay. Those with secure salaries are expected to provide for their (often extended) families in very visible ways in order to demonstrate an aspirational status of material consumption. However, while Thurlow et al (2015) reveal the ways in which African middle households start spending 'like the middle class' in consumerist terms, even when they lack basic amenities, James (2014) cautions against assumptions that this materialist consumption is framed around luxury consumables, instead revealing how loans are used to access higher education as well as perform key rites of passages (e.g. weddings, bride price, funerals) that visually demonstrate aspirational markers of affluence. Taken in the context of housing, there is a clear mismatch between the income-based criterion of gap housing policy and banks' affordability-based criteria. Essentially this is the natural outcome of a policy designed to promote gap households into reliance on the private sector, but where households targeted in fact require additional support (e.g. education programmes on budgeting) in order to bridge the gap from state-supported to private-financed housing policies and practices, as well as better state regulation of the credit industry (formal and informal), and reform of housing finance models. The banking model for determining access to finance is based on western-centric

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<sup>10</sup> A pseudonym-based code for interviewees, alongside the date of the interview, are provided to preserve the anonymity of respondents.

norms that assume a nuclear family, and consequently assess 1-2 incomes per household. However, many low-income (gap and non-gap) households include extended family members who contribute financially to the household but whose incomes are ignored by finance models. Indeed, a senior banking official commented that one reason that their gap finance loans are *less* risky than traditional home loans is because while both loans are modelled on 1-2 incomes, in reality the former typically have 3-4 incomes per household and are therefore less likely to default. Consequently there is a need to alter banking models to reflect the true dynamic of each household's income, whilst still maintaining checks on likely long-term security given significant indebtedness amongst this group. However, despite evidence that approved gap home loans have a low risk of default, approval rates are extremely low (Senior banking official1) due to the affordability problems highlighted earlier. This mis-match, between private bank expectations and gap household affordability highlights the erroneous assumptions inherent in the state's conceptualisation of gap households as capable of functioning like affluent private-property owners, when in fact gap households require significant support in order to shift away from state reliance (e.g. education on household finances and budgeting that is separate from (failed) banking applications).

### *Housing Market failures*

In addition to weak household affordability, the other explanation for gap housing policy failure is the lack of available stock for those with middle/gap incomes, especially at the lower end (CAHF 2015). One solution to this has been the focus on developer-led new-build housing projects. However, weak affordability is equally a concern from the developer-perspective, with developers frequently lamenting their inability to construct a quality house, including land purchase and service installation, for a price that would be affordable for those at the lower-end of the gap income bracket. This is particularly acute in large cities like Cape Town, where land costs are high and consequently there are very few gap units being built (Cirolia, forthcoming).

Developers that produce under ZAR300,000 – the structure will be solid, but don't expect carpets, tiles, cupboards – you're buying a shell [Senior banking official1]

If we took out all the plastering, the kitchen, the flooring, all the quality construction and extra bits then we could sell for ZAR230,000 - but then you're giving someone just a shell, that's not good enough, but that's what a lot of other developers are doing [D.W., private developer]

We find that building a house for ZAR100k is very difficult. So people come to us saying we earn ZAR3501 can we get a house, and we say go away, we can't help you ... our target market for gap housing is people earning ZAR12,000–18,000 and not those earning ZAR3500-7500 because we can't make that work [W.F., social housing institution]

Taking the dual explanation for gap housing failure reveals a context in which not only are few new houses developed for gap households, but even when this is achieved, very few gap households are able to afford them. Within this environment there have been two responses: firstly, the construction of sub-standard houses, and secondly, the provision of housing only for those at the upper-end of the gap income range. Confirming the former, frustrations about the poor quality of housing construction were a major concern raised by residents in all projects where fieldwork was conducted, and largely a consequence of the economic impossibility of constructing quality housing for such low prices.

The mould is very bad, in some houses there are stalactites dripping off the ceiling ... everything was done on the cheap [ AM., Royal Maitland site manager]

This is gap housing ... our houses have mould, cracks, plumbing problems, electrical problems, the light fittings melt ... when the wind blows you can feel it and the tiles crackle. It's like being in an informal settlement, but there they don't have to pay! ... The only difference between us and living in a shack is that we have a roof and paint [M.C., Highlands Village resident]

While gap houses have been criticised for poor quality, especially at the lower-income end, in fact the primary response to the impossibility of financing gap housing has been to target only at those in the upper-income (i.e. earning more than ZAR8000pcm). This reveals the 'real' bottom of the gap market, meaning that those earning ZAR3501-8000pcm (USD10-22pd) are excluded from homeownership (CAHF 2015), permanently reliant on renting or living with family in a range of formal and informal structures and settlements, in what Yiftachel (2009) describes as "permanent temporariness".

80% of the loans we offer within the affordable housing branch are to those earning over ZAR8000, and the 20% earning ZAR6000-8000 are where family property is being sold cheap [senior banking official1]

We get no support from government. Your margins are tight ... You can target the upper end of that market, but the lower end, ZAR3500-7500, you can't service, it's not affordable. In that income bracket, the government is behind reality in terms of what things cost [M.M. private developer]

This section has highlighted the limitations of a housing policy that is framed around inaccurate assumptions about both demand and supply, ultimately resulting in policy failure. By trying to create a tier of private-sector (rather than state-) reliant homeowners, gap housing policy has failed to recognise that the needs of gap/middle households and the realities of the existing housing and land markets.

### **Caught in the 'middle': policy tension between actors and institutions**

Having identified the limitations of housing gap policy, this section considers the experiences of those in receipt of gap homeownership (pre-FLISP). An implicit goal of gap housing is to support the creation of a home-owning class that is not reliant on the state. This section demonstrates how this goal is complicated by the involvement of multiple actors and institutions (including the state) each with their own perspective, expectation and agenda. Part of this is due to the impossibility of the state creating a housing policy that encourages non-state actors to take responsibility for housing financing, provision and allocation, but in a context where state involvement is arguably required, not just to incentivise the private sector, but also to provide basic welfare support to middle households requiring assistance to function in the private market. Consequently, gap housing functions within a hybrid private-public partnership, which is constantly re-negotiated in practice. Within this context gap homeowners function in the 'middle', caught between different actors and institutions, with varying expectations and agendas. For gap households this results in significant frustration,

confusion, and ultimately a desire for state (or its imagined replacement) involvement that is diametrically opposed to the state's intentions.

According to state officials, gap housing is an exclusively private-sector endeavour in which the state does not function as the developer or financier (unlike with RDP subsidy housing).

Gap housing is exactly the same as buying a [private sector] house anywhere ... the control of who gets the houses is with the banks not the city [City housing official1]

The state cannot promise gap housing to people because it's developer-led [City housing official2]

Of course, this is not strictly accurate, because the state often provides access to land for reduced costs (and sometimes contributes to basic infrastructure, and with FLISP, provides a financial subsidy), but the construction of housing, determination of eligibility and long-term responsibility for beneficiaries is exclusively private in the sense that it is undertaken by developers and banks rather than the state. However, as a senior housing official remarked, this relationship is complex because "who determines availability? Government or banks? Who has the burden of responsibility?" (City housing official2). Clearly both public and private actors are crucial in the identification of, and delivery of housing to, middle households, and although virtually all residents interviewed were aware that both public and private actors were involved in their housing allocation and provision, most were unclear about how the relationships between these actors functioned, and where the burden of responsibility lay.

I saw these houses advertised in the newspaper, so I went to the City council offices to put my name down and I had to provide details of where I work and how much I earn ... then we had to pay ZAR500 to the lawyers who organised the bond, and I had to go to the bank to make arrangements [M.U., Highlands Village resident]

Most gap residents understand that their housing was largely private-sector constructed and financed, but that there was some state involvement at the stage of eligibility and allocation (though in reality this is largely finance-led). Indeed, as a highly visual reminder, all developments analysed in this research hosted billboards with logos from both the public municipality and private financiers and developers. As a consequence of the multiple actors involved many gap residents were unsure who should be held responsible for defects and concerns after occupation. And for many gap residents, the housing provider (whether a social housing institution or private sector developer) replaces the state in their imaginary in terms of long-term responsibility. This clearly conflicts with the state's desire to create a new tier of homeowners who are self-reliant and privately-financed. For while the state envisages gap housing as a policy to support independent households to enter the existing housing market (and to shift them into the 'affluent' demographic category), gap housing recipients themselves require additional support as new homeowners who are neither affluent nor poor.

They signed the contract with us, so they know us, so when things go pear-shaped they call us ... There have been some legitimate queries but also some people phone us just with any problems. I think our number must be right by their phone ... We marketed those projects ourselves, so we were the front-line [A.L. and G.W., Social Housing Institution]

We have a new gap housing project and the MEC opened it and said “don’t come to me if a door handle comes off – fix it yourself [W.F., social housing institution]

The city doesn’t want to be involved with us here. When I spoke to a council man ... he said we can’t get involved because this is not city housing [M.C., Highlands Village resident]

This roots of this tension, between the state's vision of gap households as self-reliant homeowners, and households' own perceptions of their homeownership position as highly reliant on their service provider, lie in the disjuncture between stakeholders’ perceptions of gap housing (and indirectly of gap/middle households), and its positionality in South Africa's housing market. Specifically, whether it is primarily a social project aimed at supporting not-so-poor beneficiaries as a step-up from state-subsidised housing, or an economic programme to create a tier of private-financed homeowners who can function independently in the property market. While the goal of South Africa’s state-subsidised housing policy has shifted from a primarily physical and social objective (to provide long-term shelter for poor beneficiaries) towards an overwhelmingly economic agenda (to provide a capital accumulating asset for homeowners) in line with the global emphasis on titling as a means for asset accumulation (Lemanski, 2011), the goal for gap housing is less clear due to the multiple players and lack of clearly demarcated roles. Certainly, city housing and banking finance officials view this form of housing strictly in terms of economic criteria and as an exclusively private arrangement with minimal state involvement (albeit not entirely accurate); but at the same time, those working at the coalface with gap households (e.g. private developers and social housing institutions) understand gap in terms of the ‘beneficiaries’ of a social and financial housing product who require additional support compared to other (higher income) private sector homeowners.

We look at a couple’s income ... it’s entirely an **economic** decision based on the risk of the loan for us [Senior banking official1]

Conceptually, gap should be about playing in the **financial** housing market, **not social** housing provision [City housing official2]

Gap is a **private** housing project because it’s private money ... the **beneficiary** puts down a deposit and the bank gives a bond [City housing official1]

Most gap models just focus on the costs of accommodation ... but we also do consultation with the community ... and **financial** advice for potential **beneficiaries** [J.W., Private developer]

We have to work hard with gap households ... we have to hold their hands at first ... we organise the bonds on their behalf ... then we educate the selected **beneficiaries** [M.M., private developer]

Gap housing is part of our **social** housing mandate ... we do work with banks on our gap projects, but we determine **beneficiary** eligibility [A.L. and G.W., Social housing institution]<sup>11</sup>

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<sup>11</sup> All highlighting by author

As is noticeable in the above quotes, a variety of terms are used in reference to the gap housing process and recipient households. Use of the term ‘beneficiary’ is surprisingly common, implying recipients of (public-private) assistance, rather than independent economic agents who have secured private homeownership via bank finance (as the state and banks conceive gap housing). Furthermore, gap residents themselves interpret gap housing as both a public social good *and* a private economic good – of course, residents understand that economic criteria were used to determine their eligibility for gap support (not just standard banking finance), but the very process of eligibility determination leads them to interpret it as form of social housing with state involvement, rather than as an entirely private sector housing model. This public/private tension further exacerbates the ability of gap housing to meet achieve its, largely unrealistic, target of creating non-state reliant homeowners.

As previously identified, the positionality of gap housing within South Africa's existing housing market is uncertain. This not only limits the potential for policy success but also causes confusion amongst (potential and actual) beneficiaries. One of the roots of this problem is in the state's conceptualisation of gap households as a functioning housing sub-market that can be targeted, when in fact, gap is a negative consequence of policy failure (Ciroli, forthcoming). While the government has conceptualised and promoted gap housing as the first step in private housing (ie. a private-driven programme to stimulate the housing market and create a new tier of independent homeowners); most involved in gap housing provision (from developers to recipients) refer to it as the next step-up from government subsidy housing (ie. a state-driven programme of housing provision for the not-so-poor). While conceptually it is simultaneously both and neither of these options, in practice the reliance of gap housing on access to banking finance as the primary determination of household eligibility ensures that gap functions as the first step on the private ladder. Consequently it is surprising to note how widely it is associated with the RDP subsidy market rather than the private sector market.

Gap housing is a stepping stone. People in RDP housing can't go anywhere, so gap is the next step for them. It will lead to activity in the subsidy market ... the people in the RDP houses will move up if they can afford [City housing official1]

We have gap housing projects ... that is housing which is just above RDP status [D.W., private developer]

This is like the government housing, but it's not [F.C., Aliwal Gardens resident]

As the quotes reveal, gap housing is perceived as closer to RDP subsidy housing than to private-sector financed housing, and indeed, the gap demographic and purchasing power are more closely aligned to subsidy beneficiaries than privately-financed homeowners (Ciroli, forthcoming). While the difference between conceptualising gap housing as either the next step up from RDP subsidy housing or the first rung on the private sector housing ladder may seem semantic, the implications in terms of the absence of policy coherence are significant. This is particularly acute when considering the lack of upward movement from the RDP market to the private property market, suggesting that for many households RDP housing is not the first step on the housing ladder, but the only housing step they will ever take (Lemanski, 2011). In practice, the state vision of gap housing as representing a new economic rung on the private housing market conflicts with gap homeowners' expectations and needs for some form of social intervention to support their new identity as a homeowner.

As an example to highlight the ways in which gap households are caught in the policy middle, the public/private income/affordability mis-match has resulted in great confusion amongst gap households, who perceive themselves as financially eligible for gap housing in terms of their income, but who are in fact ineligible after being rejected for banking finance. This confusion stems not only from misunderstanding regarding the positionality of gap housing between public and private housing, but also households' conceptualisation of themselves primarily as potential public (social welfare) beneficiaries rather than private consumers. Whilst under the former households' eligibility is determined by the state largely based on income, in the latter eligibility is determined by access to banking finance. So for example, there are numerous examples of gap households registering their interest for a housing project (and in many cases perceiving that this registration meant they would receive a housing unit, much like the subsidy system), but subsequently being refused a unit due to inability to secure banking finance, resulting in a perception of corruption based on a misunderstanding of the role of the banks (rather than the state or developers) in ultimately determining eligibility. Essentially, because the policy is implicitly geared towards a conceptualisation of gap households as socially and financially prepared for independent homeownership, it fails to recognise their middle status as neither affluent nor poor, exclusively reliant on neither public nor private forms of housing and finance, and in need of both economic and social support.

## **Conclusion**

"Individuals living in households which are 'middle of the road' in the national income distribution do not possess the socio-economic status typically associated with middle-class affluence" (Posel and Visagie, 2013:165)

This research has used the example of gap housing policy and practice in South Africa to identify and promote the notion of a demographic group of middle households, who function outside classic poor/affluent binaries, and whose needs and identity are not represented by contemporary middle-class labels. Contemporary debates on defining the middle-class in the global South highlight the mis-match between finance-based measures (income and consumption) that in Africa include the 'not-so-poor', and everyday understandings of the socio-economic status required for middle-class identity. While recognising that the middle-classes do exist within Africa, this research argues that broadening the definition to include the 'not-so-poor' is meaningless given the dominance of normative assumptions about what middle-class status requires (e.g. financial independence, social mobility). Instead, and responding to the need to focus attention on households who are neither affluent nor poor, this research promotes the concept of 'middle' households: caught 'in the middle' of traditional policy interventions and practices more suited to either the poor *or* affluent. By detaching this 'middle' identity from class it becomes possible to shift the goal towards supporting the needs of this emerging group, rather than seeking to harness them as the class-based means for national transformation. Consequently, the case study of gap housing in South Africa is used to highlight the ease with which policy can mis-target the needs of this middling group. Similar care studies could be identified elsewhere, for example by focusing on 'key workers' in the UK and 'affordable housing' in France, Spain, or the Netherlands.

In South Africa, gap households are those ineligible for state-subsidised housing and unable to secure private housing finance, and who therefore exist in the 'gap' between public policy and private practices. Various gap housing mechanisms have been promoted to support gap



households, with the implicit goal to create a class of private homeowners who are not reliant on the state. While the South African state is promoting homeownership for all income-groups, for example via state-subsidised housing programmes for the poor, the approach to gap housing is distinct in being explicitly focused on producing private-sector reliant (rather than state-supported) homeowners. Consequently the key critique of gap housing policy is at the scale of conceptualisation, in that attempts to push middle households towards private sector (rather than state) reliance have ignored their middle positionality in assuming that privately-financed domestic nuclear-family homeownership is achievable via a small amount of financial support. In contrast, the research presented here indicates that bank-financed homeownership actually requires *significant* state and market support for gap households that not only needs additional financial support, but also non-financial support such as educational programmes on for example, budgeting, savings, and credit. Furthermore, the lack of consensus regarding the positionality of gap housing policy: as a social or economic measure, public or private, a step-up from state-subsidised housing or a step-down from private-sector housing; ultimately restricts its potential to succeed in either supporting the needs of gap households, or creating the state-desired tier of private-reliant homeowners.

In the global South, the middle are an overlooked category. They exist in the socio-economic space between affluence and poverty (rather than within a static income or status boundary), caught between public and private initiatives and institutions, and between economic and social agendas and policy goals. Ultimately this hybrid middle identity is not a collective identity that provides a class consciousness around which those middle households might mobilise, but a negative and individualised identity, based on what middle households cannot achieve and are not eligible for. Consequently the middle are overlooked, and the contemporary fascination with the middle-classes in the global South only exacerbates this.

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