The role of the private sector in providing gap housing in Johannesburg

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A research report submitted to the faculty of Engineering and the Built Environment, University of the Witwatersrand, Johannesburg, in partial fulfilment of the requirements of the degree of Masters of the Built Environment in Housing.

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Declaration

I, Gerrit Coetzee, declare that this dissertation is my own unaided work being submitted for the degree of Master of the Built Environment in Housing at the University of Witwatersrand, Johannesburg, South Africa. It has not been submitted, in entirety or in part, at any university for a degree.

Gerrit Coetzee

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Abstract

South Africa has a significant housing shortage and even though the government has provided in excess of three million subsidised houses to beneficiaries since 1994, a shortage of 2.1 million units still exists. While households earning less than R3 500 qualify for a fully subsidised house, the most affordable newly built house on the market in Johannesburg is only affordable to households earning about R14 300. Therefore, a gap in the housing market exists between those too rich to qualify for a full housing subsidy and those too poor to access formal bonded housing.

A partial subsidy, called the Finance-Linked Individual Subsidy Programme (FLISP), is available to households earning less than R15 000 to help them access housing in the formal market. Although private developers are developing houses affordable to households earning less than R15 000, uptake of the subsidy has been limited. Johannesburg has roughly 385 000 households in the gap market.

This study seeks to establish what role the private sector currently plays in providing gap housing in Johannesburg. A qualitative study was done by interviewing various developers who are involved with gap housing developments, using semi-structured interviews and email correspondence. Furthermore, this study aims to establish what perceptions developers have of the market, what difficulties they face, what barriers exist to entering the market and how private companies help their employees in accessing gap housing.

It was found that developers have a positive view of the market. Many echoed the view that the market in Johannesburg is vast, growing and that there are plentiful opportunities. There are, however, factors that make delivering less expensive houses more difficult. Bulk service contributions, especially, are becoming excessive, while the time taken to approve new townships can lead to unnecessary holding costs. Poor access to development finance is seen as prohibiting new developers from entering the market. Developers are aware of only a handful of private companies involved with assisting their employees to access gap housing.

Although there are numerous gap housing developments in Johannesburg and many more planned, relatively few FLISP subsidies have been granted. These subsidies are tied to access to traditional mortgage finance. Fewer and fewer mortgages in the gap housing range have been given in recent years and if more houses are to be delivered, housing finance should be made more accessible to lower income earners.

Dedication

I dedicate this report to the millions of South Africans who do not have access to adequate housing. It is my hope that this report will contribute, in however little way, towards understanding the successes and shortcomings of both the state and private sector in delivering housing to the poor.

"If you have built castles in the air, your work need not be lost; that is where they should be. Now put the foundation under them." – Walden by Henry David Thoreau

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Acronyms and abbreviations

AL+HDC	Affordable Land and Housing Data Centre
BNG	Breaking New Ground
CAHF	Centre for Affordable Housing Finance in Africa
CBD	Central Business District
CoJ	City of Johannesburg
CPI	Consumer Price Index
CSI	Corporate Social Investment
FLISP	Finance-Linked Individual Subsidy Programme
FFC	Financial and Fiscal Commission
FSC	Financial Sector Charter
DoH	Department of Housing
DoHS	Department of Human Settlements
GCRO	Gauteng City-Region Observatory
GPHS	Gauteng Province Human Settlements
HDA	Housing Development Agency
MDB	Municipal Demarcation Board
NCR	National Credit Regulator
NHFC	National Housing Finance Corporation
PPP	Public-Private Partnership
RDP	Reconstruction and Development Programme
RES 3	Residential 3 (see Nomenclature)
ROU	Record of Understanding
SAARDA	South African Affordable Residential Developers Association
SAPOA	South African Property Owners Association
SARB	South African Reserve Bank
SPLUMA	Spatial Planning and Land Use Management Act

Nomenclature

Bulk contributions Also known as engineering services contribution. A financial contribution payable by an applicant to a local authority for the use of their bulk, or external, engineering services. Typically financed by the local authority using a development contribution from the developer.

Bulk services Engineering services that are typically the responsibility of the local authority to provide. This includes water networks, electrical installations, sewerage services roads and storm water as well as the links required to connect these services to a new development.

Development charge A collective name for the bulk and link contributions. Also known as a Capital Contribution, Bulk Infrastructure Contribution Levy or internationally as an Impact Fee.

Internal services Infrastructure inside the boundary of the development that services the development. Typically financed by the developer.

Link contribution Fee, typically financed by the developer, to cover the costs of the services required to connect the bulk services with the internal services of a development.

Residential 3 (Res3) Residential property development zone that permits a density of between 21 and 40 dwellings per hectare, typically in townhouse sectional title format. CoJ allows a 50% coverage.

Section 82 certificate A certificate from the municipality that states that all conditions have been met regarding the establishment of the township and arrangements have been made for installation of services. This signifies that transfer of stands has been authorized and building plans accepted.

1. GAP HOUSING IN JOHANNESBURG – AN INTRODUCTION

This chapter serves as an introduction to the topic and gives a brief background to the research and discusses both the problem statement and the aim of the study. Furthermore, the main research question and sub-questions are presented and an introduction to the research method, aimed at addressing the research questions, is discussed. The chapter ends with a brief discussion of the scope of research and the report structure.

1.1 Background

Worldwide urban populations are growing quickly and it is estimated that by 2030, 50% of Africa's population will be city dwellers, up from roughly 40% in 2010 (KPMG 2012). Between 2010 and 2015 the average rate of urbanization in Africa was 1.4% (Sy 2016). Comparatively, South Africa (SA) has a higher urbanized population (65% in 2015) and the rate of urbanization between 2010 and 2015 was 1.58% (Central Intelligence Agency 2016).

South Africa is one of the most unequal countries in the world in terms of income distribution, with only Namibia and the Seychelles having higher Gini-coefficients (Keeton 2014). Furthermore, the country has an unemployment rate of 27%, one of the highest in the world (Wired World 2017). The above mentioned economic issues, coupled with the growth in the urban population and the country's history of apartheid, has led to a housing shortage that has only grown since the advent of democracy (Wilkinson 2017). Although the state has delivered over three million houses and one million serviced sites since 1994, the housing backlog has grown from 1.5 million units in 1994 to 2.1 million units in 2015 (ibid.). In 2010, roughly 13% of the population were living in informal settlements (Housing Development Agency 2013).

Given that access to housing is enshrined as a right in the South African Constitution (Republic of South Africa 1996), the government started an aggressive housing provision program in 1994, but has been unable to eliminate the housing backlog (Tomlinson 1997). The initial housing policy focussed on providing beneficiaries with a serviced plot and a small 'starter' house (ibid.). Various shortcomings of this policy led to numerous revisions of the policy that ultimately allowed for a more dynamic housing product suiting a varying array of housing needs (Tomlinson 2007). The result of these revisions is a new housing policy that includes subsidies for full houses, social housing, rural housing and a wide array of housing types. One detrimental effect of this new policy has been a significant decrease in the rate of housing delivery, mainly due to houses having higher specifications and an increase in the overall complexity of housing projects (ibid.).

The need for housing was not only limited to the low-income population, but also to those too rich to receive fully subsidised housing and too poor to access housing on the established formal market. This is called the gap housing market. The next section will delve into the gap market in the South African residential space and also discuss the problem statement of this report.

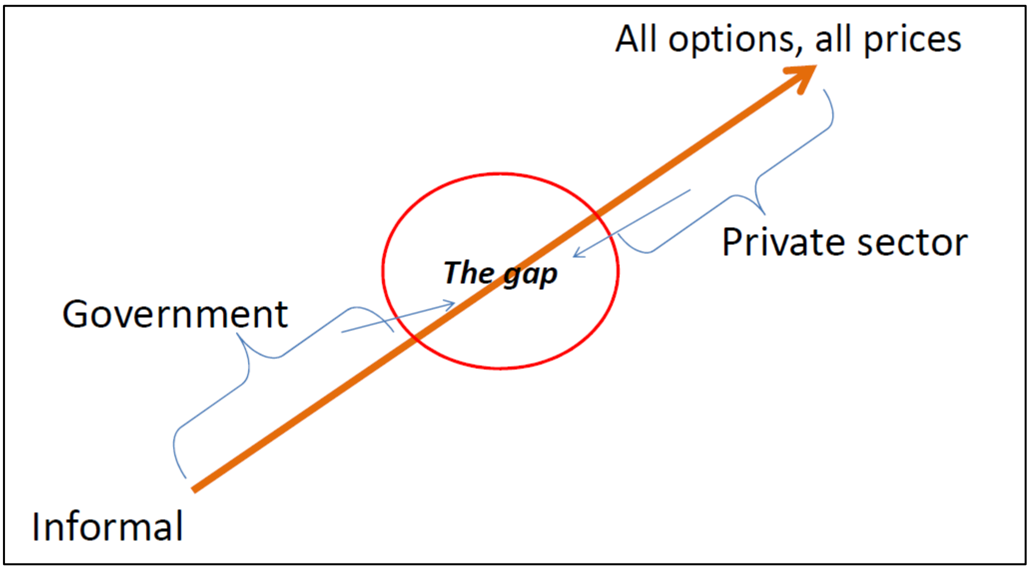
1.2 Problem statement

The initial post-1994 housing subsidy made provision for a free small house on a plot, commonly known as a Reconstruction and Development Programme (RDP) house. This was replaced in 2004 by the so-called 'Breaking New Ground' (BNG) house, a slightly larger and better fitted version of the RDP, available only to households earning less than R3 500 (Tomlinson 2007).

For those earning above R3 500, however, the BNG house was not an option and a gap in the market soon developed, including those who earn too much to be eligible for a BNG unit, but too little to afford a house on the traditional market, typically financed using bank loans. This so-called gap market, is currently roughly defined as houses costing between R180 000 and R500 000 and incomes ranging between R3 500 and R18 000 (Centre for Affordable Housing Finance in Africa 2016).

Figure 1 illustrates the gap market. A detailed definition of the market is presented in Section 2.3.1.

Figure 1: The South African housing continuum



(Source: Centre for Affordable Housing Finance in Africa 2016)

In order to address the gap in the market, government introduced the Finance-Linked Individual Subsidy Programme (FLISP), designed to act as a demand-side subsidy (Nene 2017). This subsidy gets paid as a once-off amount, ranging between R20 000 and R87 000, to a mortgage provider and the amount is determined by the household income, reducing as income increases (National Housing Finance Corporation 2015). The subsidy is available to households earning between R3 500 and R15 000 and is aimed at assisting households in the gap income range to access housing that is not fully subsidised or state provided (Cirolia 2016).

The introduction of the FLISP-subsidy has created an opportunity for the private sector to enter the market as housing developers, although at the higher end of the lower-income market. The private sector is, by its very nature, profit-seeking and with the exception of contractors, the low-cost housing market presents fewer opportunities for profit-making than at the higher end of the market. However, the FLISP subsidy changes this and private developers have started providing for the gap market.

The City of Johannesburg (CoJ) is situated in the north-east of South Africa close to the administrative capital Pretoria (see Figure 2). Little data is available on the shortage of houses in the gap market in Johannesburg. According to the mayor of the City of Johannesburg, Herman Mashaba (2017), the city has a total housing shortage of 300 000. This value corresponds to the number of households living in informal dwellings in the City (Statistics SA 2017a). In Chapter 2, the shortage of gap housing units in Johannesburg is estimated as roughly 130 000 units. It is clear that Johannesburg has a sizeable housing shortage in the lower-income market, while fiscal constraints, among others, keep the city from addressing this shortage (McGaffin & Kirova 2016).

Figure 2: Location of the City of Johannesburg

(Source: Map data copyrighted OpenStreetMap contributors; Municipal Demarcation Board 2013)

Market participation in Johannesburg by well-funded and listed companies indicates that there are profit-making opportunities in this segment. However, as a portion of total housing units, gap housing is tiny – in the 2015/2016 financial year only 2253 FLISP subsidies were given nationally, from a total of 153 000 housing units delivered, while only 818 FLISP subsidies were given in the province of Gauteng (Department of Human Settlements 2016; Gauteng Province Human Settlements 2016).

According to the South African Affordable Residential Developers Association (2017), the private sector cannot deliver gap and affordable housing on a large enough scale and there is a countrywide problem of insufficient supply. Furthermore, Kecia Rust (2012), executive director and founder of the Centre for Affordable Housing Finance in Africa stated:

> "Developers have been shifting their attention for some time to the sub-R500 000, so-called "gap" market that is increasingly also the focus of the State's attention. It also means that over time, the profile of our property market is shifting dramatically in favour of lower value, still Western-style but smaller than 80m^2 houses, targeted at the majority of the population."

In 2015, the then Minister of Finance, Nhlanhla Nene (2015), stated that "[i]n particular, the FLISP has not attracted much private sector contribution and support." Given the scale of the housing problem in the City and the large sums of money being spent on tackling the problem, it is worth investigating the role the private sector plays in providing gap housing in Johannesburg.

1.3 Aim of study

This study will be guided by the following objectives:

- To establish a body of literature showing how gap housing policy and projects have developed in South Africa and Johannesburg in particular, since 1994.

- To determine what role the private sector plays in delivering gap housing in Johannesburg.
- To establish why more houses are not being built in the gap market in Johannesburg.
- To establish barriers to entry and other factors keeping private developers from entering the market.
- To establish in what ways private businesses assist their employees to access gap housing.

1.4 Research question

Following on from the problem statement and aims of the research, the main research question of this report is:

> *What role does the private sector play in providing gap housing in Johannesburg?*

Sub-question 1

The number of FLISP subsidies given in Gauteng province has been disappointing (GPHS 2015; GPHS 2016). This has been partly due to administrative constraints, but also due to insufficient supply. This leads to the following sub-question:

> *What keeps the private sector from delivering more gap housing units in Johannesburg?*

Sub-question 2

Literature points to availability of land, access to credit and political risk as some of the reasons why gap housing delivery has been slow. This author aims to establish if there are any other reasons why private sector delivery cannot be increased.

What are the challenges faced by the private sector in providing gap housing in Johannesburg?

Sub-question 3

Although CSI spending is not mandated by law, companies are increasingly realising that they cannot operate in isolation from the communities they operate in and are diversifying their CSI spending (Mail & Guardian 2016). This author is interested in whether developers see the CSI landscape as one that can, in any way, be leveraged to increase gap housing delivery and whether there are others ways in which private sector companies assist their employees to access gap housing.

How can corporate social investment (CSI) contributions, or any other interventions, be used by private companies to assist their employees to access gap housing?

1.5 Introduction to research methodology

Since this study is descriptive, exploratory and analytical in nature, a qualitative study was chosen as a suitable method of inquiry (Creswell 2009). This method allows for a flexible approach and for questions to be asked that invoke rich and exploratory answers (Mack *et al.* 2005).

In-depth interviews were chosen as the main procedure for collecting data, since this allowed for personal, interpretive perspectives and elicits in-depth, nuanced responses (Mack *et al.* 2005). Semi-structured interviews were conducted where possible and questions were kept open-ended to allow a degree of flexibility to pursue themes touched on by the respondent.

Interviews were conducted with private developers who operate in the gap housing market in Johannesburg. Some are involved only with land developments, some only with top-structure developments and others with both. Where face-to-face interviews were not possible, questionnaires were answered over email.

The qualitative data gathered was analysed to spot trends and come up with answers to the above-mentioned research questions. A detailed discussion of the research method is presented in Chapter 3, while the results are presented and discussed in Chapters 4 and 5.

1.6 Scope of research

This section discusses the scope of the research done. It defines the section of the private sector the research focuses on, the geographical limits of the research as well as the financial limits (by defining the gap market).

According to Urban Landmark (2010) the majority of actors in the private residential property sector fall into the following categories: developers, investors, formal financiers, micro-financiers, property professionals, landlords, private individuals and tenants. While all of these actors play a role in ultimately delivering housing, this report will focus on the role of the former.

The author is based in Johannesburg and as a way to limit the scope of the research and facilitate face to face communications with developers; the geographic reach of the research was limited to the greater Johannesburg area. Figure 3 shows the municipal boundaries of the City of Johannesburg as well as the other metropolitan and district municipalities in Gauteng Province. As can be seen, the City is in close proximity to the other two large Metropolitan Municipalities in Gauteng, namely the City of Tshwane and Ekurhuleni. Although the study will focus on the City of Johannesburg, it cannot be viewed in isolation. Therefore, the research will encompass areas which serve Johannesburg with housing so these could be established right outside the borders of the municipality. There is also significant data available about the state of housing in Johannesburg and by focussing mainly on the municipal boundaries, the collection of data is simplified.

Figure 3: Metropolitan and District Municipalities of Gauteng Province

	City of Tshwane Metropolitan Municipality		Sedibeng District Municipality
	City of Johannesburg Metropolitan Municipality		West Rand District Municipality
	Ekurhuleni Metropolitan Municipality		

(Sources: Map data copyrighted OpenStreetMap contributors; MDB 2013)

The gap market is defined as households with an income range of R3 501-R18 000 (see Section 2.3.1). These households are able to afford houses priced roughly R180 000 to R500 000. This research will focus on gap housing as defined above and will exclude the fully subsidised and affordable markets.

As stated above, the term gap market refers to both an income range and a house price. This market includes both the new and second hand market. The scope of this study will focus predominantly on the new house market, although the second hand market is briefly discussed in Chapter 5).

1.7 Report structure

This chapter has demonstrated that there is a gap in the residential property market in Johannesburg, where people earning too much for a full housing subsidy, but earning too little to access housing on the traditional market, have few options when wanting to buy a new house. Research is needed to establish what role the private sector plays in providing gap housing in Johannesburg.

The literature review commences in Chapter 2, which discusses three main themes. Firstly, the role that the private sector plays in providing housing in general is discussed. The second section focusses on gap housing, the gap market and the how the FLISP subsidy relates. Finally, the chapter looks at the housing market in Johannesburg.

Chapter 3 explains the research method undertaken. The chapter discusses the research design, the research population, how data was collected and the method for data analysis. Ethical considerations are discussed as well.

The collected data is presented in Chapter 4 by breaking it into three sections. Firstly, the delivery of gap housing by various developers is presented. This is followed by a discussion on their feedback regarding barriers to entering the market that they have encountered. Lastly, their feedback on some recommended interventions that might improve market entry are discussed. An analysis of all results is discussed in Chapter 5 and the report ends with a conclusion and recommendations in Chapter 6.

All values presented in the report are in 2017 Rands, unless otherwise stated. This is done to simplify comparisons between sources from different years.

2. THE STATE OF GAP HOUSING IN JOHANNESBURG – A LITERATURE REVIEW

This chapter aims at accumulating a body of literature related to gap housing in general and in Johannesburg in particular. It also strives to provide the context of the research. A brief introduction of the literature is presented in the first section.

The second section gives a brief international overview of housing and the role that the private sector plays as a provider thereof. It also features a section that focusses on the private sector in SA. Since no discussion of gap housing developers would be complete without mentioning access to finance, this is discussed as well.

The third section covers gap housing in SA. It includes a description of the gap market, a brief history of the low-income market in SA, an introduction to the FLISP subsidy, gap housing delivery numbers and a discussion on why gap housing and the FLISP subsidy has been so poorly adopted.

The third section looks at housing in Johannesburg and aims to estimate the size of the gap market in both SA and Johannesburg. The chapter ends of with the conceptual framework and a short summary of the work covered.

2.1 Introduction

The Financial and Fiscal Commission (2012) states that only 12% of South Africa's total housing market is covered by the traditional mortgage market. Other sources (Eighty20 2015; Centre for Affordable Housing Finance in Africa 2016) estimate the figure to be closer to 14%. Therefore, only a relatively small portion of households live in formal bonded houses. The rest of the population is dependant, in some way or another, on the state for formal housing, or lives in informal housing (FFC 2012). Since the end of apartheid, the state has provided in excess of three million houses and over a million serviced sites (Wilkinson 2017).

According to the deeds registry, as quoted by The Banking Association of South Africa (2017), 6.1 million residential properties were registered in the country in 2015. Of the three million houses delivered by government, slightly less than half were not yet registered on the deeds registry by 2013 (City of Johannesburg Department of Housing 2013). Therefore, it can be estimated that of the 7.6 million formal houses in SA, roughly 40% were delivered by government.

By 2011 the housing backlog had grown to 2.1 million, from 1.5 million units in 1994 (Fiscal and Financial Commission 2012). Although the state should be applauded for the strides made so far, the housing shortage in the country is clearly growing and the rate of delivery is insufficient.

According to the Centre for Affordable Housing Finance in Africa (CAHF 2016) the formal residential market in SA can be divided into four main segments according to property value: the subsidy (state-provided) market, the gap market, the affordable market and the conventional market. The latter two tend to be bonded in some way or another, while the former is only available to households earning less than R3 500. The so-called gap market is defined by those households earning too much for a subsidised unit and too little to independently enter the formal market. An income of roughly R15 200 is required to enter the new market unassisted. This market includes properties valued between R180 000 and R500 000. Sources estimate that between 23% (Fiscal and Financial Commission 2012) and 28% (CAHF 2015c) of all households fall into the gap market.

The Department of Housing introduced the Finance-Linked Individual Subsidy Program (FLISP) in 2005, aimed at those households falling in the gap market segment (National Housing Finance Corporation 2017). The targeted recipients earned between R3 501 and R7 000, but the upper income was revised to R15 000 in 2012 to include a larger portion of the gap market (Cirolia 2016). The FLISP subsidy is dependent on an approved mortgage from a formal finance provider and is typically aimed at houses provided by private sector developers at the lower end of the cost spectrum (NHFC 2015).

The number of FLISP subsidies awarded has increased slowly between 2013 and 2017, both on a national and Gauteng provincial level (DoHS 2014; DoHS 2015;

DoHS 2016; DoHS 2017; GPHS 2014; GPHS 2015: GPHS 2016) . However, the actual delivery is far short of the targets set (see Section 2.3.4). This indicates that, private developers have either increased their housing stock delivery in the gap market or the second hand market has started to open up. What is evident, though, is that delivery is falling short of what is required.

2.2 Housing and the private sector

This section aims to discuss the role that the private sector plays in providing housing. The private sector, of course, is rarely the only housing provider in a country. Therefore, the role of the state as housing provider is discussed briefly as well.

The first sub-section briefly discusses the history of housing on a global scale, as well as the role of the state and how subsidies are used to facilitate the provision of housing. The next sub-section looks at the role that the private sector plays in the provision of housing in South Africa and draws comparisons with the state. No discussion of housing is complete without mentioning access to housing finance. Therefore, the last sub-section discusses the availability of mortgage finance in SA.

2.2.1 A brief global history

The latter half of the twentieth century saw a worldwide increase in rural dwellers migrating to cities in developing countries (Bertraud 2010). Confronted with rapidly growing slum populations in cities, governments started implementing national spatial plans and regulating minimum standards (ibid.). The latter intervention, especially, has led to the poor struggling to enter the formal housing market (ibid.). Some governments also started implementing large scale state-sponsored housing programs, but mainly due to the high price of land, state-provided housing tended to be located on the peripheries (ibid.).

By the 1970's there were numerous examples of failed public housing projects worldwide (Gilbert 2004; Bertraud 2010). Consequently, development institutions based in Washington started advocating for a different approach to the role governments play in housing markets (Gilbert 2004).

The 1970's and 80's saw The World Bank pushing more for projects that developed land rather than provide finished houses (Stein & Vance 2008; Bertraud 2010). These "sites and services" land was meant to be free of subsidies and provide a model that the private sector would be able to emulate. In order to help make these projects affordable, design standards were often lowered. However, the private sector was not allowed to use these lowered (but acceptable) standards, and consequently seldom successfully managed to enter the market at scale (Bertraud 2010).

The fall of European socialist economies and market reform in China during the late 1980's and early 1990's led to an interest in market principles being applied to land development and housing supply (Bertraud 2010). In its 1993 report *Housing – Enabling Housing Markets* The World Bank (1993) globalized the idea that governments should abandon their earlier roles of housing producers and stated that "privatization of housing production should go hand in hand with the overall privatization of public sector enterprise" (The World Bank 1993: 90; Gilbert 2004: 40). Governments should rather, it was argued, aim at adopting an enabling role, incentivise the private sector to become housing providers and focus on managing the housing sector (The World Bank 1993; Keivani & Werna 2001; Ogu & Ogbuozobe 2001; Mukhija 2004). Although this idea has been widely criticized, it has also been widely adopted in both the developed and developing world (Baken & Van der Linden 1993; Ogu & Ogbuozobe 2001; Mukhija 2004). A number of countries, such as Chile, had started adopting this approach before the report was released, but it was only after its release that this approach became widespread (Mukhija 2004; Gilbert 2004). In Britain, for example, a gradual transfer of state-owned social housing to private housing associations started in the 1980's (Berry *et al.* 2004). Simultaneously, building societies and especially banks started entering the lower income market more fervently (ibid.).

In many developing countries the private sector has now become the main provider of housing. In Nigeria, for example, private developers became the largest producer of low-income housing stock during the 1990's and 2000's (Ogu & Ogbuozobe 2001; Ademiluyi & Raji 2008). Similarly, after decades of state and employer provided housing, the bulk of China's urban housing needs are now provided by the private sector (Bertraud 2010). It is worth noting, however, that the private sector in that country is often criticized for not providing sufficient housing at the lower end of the scale. (ibid.).

This section has so far discussed how the worldwide norm has become for governments to act more as enablers as opposed to providers of housing. Angel (2000) suggests that subsidies, and especially targeted demand-side subsidies, can successfully be used as an enabling tool by governments. South Africa offers a mix of supply-side subsidies (like BNG) and demand-side subsidies (like FLISP) (Nene 2015), each aimed at targeting a different market failure. However, the impact of the latter subsidy has been limited (ibid.).

South Africa is not the only country with an affordability gap in the housing market. Numerous other countries have implemented similar capital credit-linked subsidies (such as FLISP) whereby beneficiaries are assisted to afford housing delivered by the private sector. These countries include Chile, Colombia and Costa Rica (Gilbert 2004; Stein & Vance 2008). Developed countries such as Canada and the USA have affordability gaps as well (Wallace 1995; Tsenkova & Witver 2011; McCarty, Perl & Jones 2014). The gap in the USA housing market is, although significantly smaller than in SA by market share, still large enough to warrant concern (Wallace 1995). The USA has a number of state-provided interventions to help lower-income earners to access housing. Very low-income households predominantly make use of rent vouchers where rent in private housing schemes is partially subsidised (McCarty *et al.* 2014). The higher end of the low-income spectrum is predominantly assisted to access home ownership either using state-provided insurance to lenders against default, resulting in lowered interest rates, or through housing tax credits where private developers are incentivised to develop affordable housing by getting access to tax credits, resulting in lowered unit costs (ibid.).

From the above it is clear that the role of the private sector in delivering housing on a global scale has changed considerably over the last few decades. Worldwide there is a larger dependence on the private sector to act as provider. In South Africa, though, the state is still the predominant provider of housing to low-income households and the uptake of enabling demand-side subsidies has been slow (Nene 2015).

2.2.2 The private sector in SA

According to Gardner (2003) there are three main sources of housing finance available in South Africa that, when combined, can offer some form of housing affordability. These are:

a. Subsidies – state provided capital contributions towards some form of housing
b. Credit – typically provided by some form of accredited financial provider
c. Own contributions – required to access most housing forms, typically accumulated through savings.

As stated earlier, the South African residential market can be broken up into four segments by property value: the subsidy market, gap market, affordable market and traditional market (see Section 2.3 for definitions of these markets). These markets are typically accessed using either one or a combination of the above-mentioned finance options.

The former market includes both households living in subsidised state-provided houses (typically RDP or BNG) and households living in informal settlements. In the RDP/BNG market the state acts as property developer, identifying land and beneficiaries and providing funding, while the private sector is typically tasked with providing professional services and acting as contractors (Tomlinson 2007; Huchzermeyer & Karam 2016).

In the informal sector, in contrast, the private sector tends to act as developers and contractors, although often in individual capacity and often informally (Lemanski 2009; Landman & Napier 2009; Mtanto 2016). In 2011 roughly 2.1 million (15%) households lived in informality (Statistics SA 2011). Of this, roughly 710 000 households (35% of all households living in informality and 5% of all households) were backyard dwellers in informal settlements (ibid.; Eighty20 2015). These backyard dwellings are typically constructed by small-scale (informal) contractors, the owners themselves, or bought as pre-made units in township markets (Lemanski 2009; Shapurjee, Le Roux & Coetzee 2014; Mtanto 2016).

The traditional (mortgaged) market is entirely developed, financed and constructed by the private sector (FFC 2012). This sector includes only the top 12-15% (depending on what income levels is used for the lower cut-off) of households, by income (FFC 2012; CAHF 2016; Eighty20 2015). According to the National Credit Regulator (2017) 94% of mortgages awarded (and 97% by value) in 2016 went towards individuals earning more than R15 000.

Table 1 shows the total floor area of residential buildings completed by the formal private sector between 2012 and 2015. Although total delivery has remained relatively stable, overall there was a significant increase in large house (>80m^2) delivery and a decrease in small house (<80m^2) delivery.

Table 1: Formal private sector delivery: Number of m^2

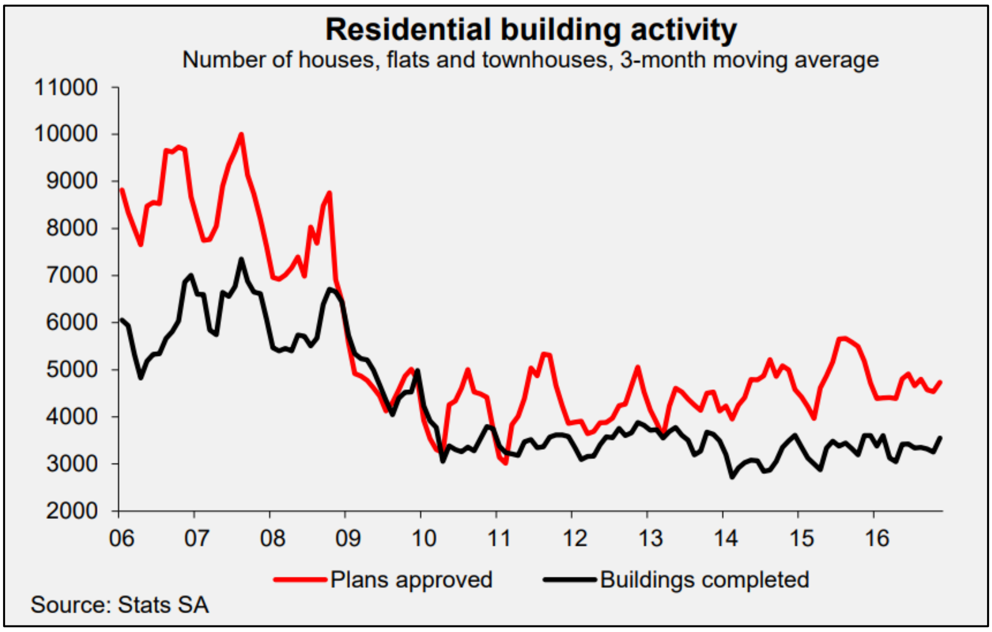
Buildings completed	**2012**	**2013**	**2014**	**2015**
Affordable housing <80m^2	902 955	808 514	764 268	791 987
Dwelling houses >80m^2	2 805 442	2 859 082	2 776 600	3 158 391
Flats & townhouses	1 104 767	1 218 234	1 166 426	1 174 581
Other residential	45 645	88 659	88 528	73 155
Total	**4 858 809**	**4 974 489**	**4 795 822**	**5 198 114**

(Source: adapted from Master Builders South Africa 2016)

The total floor area of state-provided housing that was delivered in 2015 can be roughly estimated in order to compare with the private sector delivery. Through the BNG subsidy scheme the state was able to deliver 95 210 units in the 2014/2015 financial year (Department of Human Settlements 2015). Assuming a house area of 40m^2 (Mguli 2013), this equates to roughly 3.8 million m^2 of housing delivered by the state. This value excludes social housing and other state provided delivery, which is minimal in comparison (Department of Human Settlements 2015). Therefore, of the roughly 9 million m^2 of residential housing built in 2014/2015, about 42% was provided by the state.

Figure 4 shows the number of dwellings built per year by the private sector. It is clear that the 2008 credit recession had a strong negative effect on the number of houses built by the private sector in the years following the recession. Interestingly, the affordable and gap markets showed more growth following the 2008 credit recession than the traditional market (CAHF 2015a).

Figure 4: Formal private dwellings built per year



(Source: Absa 2017, quoting Statistics SA)

In summary, the private sector, as developer, has played an important role in providing housing in the informal low-income market and the formal traditional market. In the formal subsidised market, the state has predominantly played the role of developer. In the gap market, the private sector is getting more involved as developers. The gap market is explained in more detail in Section 2.3.

The government has in recent years acknowledged the role that the private sector can play in housing delivery. Lindiwe Sisulu, Human Settlements Minister, said in 2014: “We have to make it attractive for them [the private sector] to come on board. I have an appointment to see the [finance] minister. Incentives exist in various other forms for the private sector for various reasons. I think this one is very necessary” (Cokayne 2014).

2.2.3 Mortgages in SA

Section 2.2.2 briefly mentioned the various types of housing finance typically available in SA. This sub-section will discuss the availability of credit, and more specifically, mortgage finance, in South Africa. Microfinance is available and used in SA to enhance access to housing (Gardner 2008), but this will not be discussed in any further detail in this report.

In SA, mortgage advances make up about 23% of credit extended by registered financial credit providers and 60% of the total household sector debt (South African Reserve Bank 2017). The so-called ‘Big Four’ banks, together with SA Homeloans, provide the bulk of mortages in SA (Mahlaka 2016; Kelder 2006).

Banks in SA have, in the past, been reluctant to grant home loans to lower income earners (Pillay & Naude 2006; Tomlinson 2007). However, a number of mortgage products have been developed aimed at the lower end of the market in recent years. A summary of affordable housing products on offer by traditional mortgage providers in SA is shown in Table 2.

Table 2: Summary of affordable housing mortgage products on offer

Loan Provider	Absa	SA Homeloans	Standard Bank	FNB
Product name	MyHome Loan	Affordable Housing Package	Affordable Housing Loan	Home Loan
Repayment period	Up to 30 years	Up to 20 years	Up to 20 years	Up to 20 years
Loan portion	Up to 100%	Up to 100%	Up to 100%	Up to 100%
Income	Up to R22000	R8000 and above	Up to R18600	R3500 – R25000

An alternative finance product was introduced by Old Mutual through a subsidiary called Housing Investment Partners (HiP) (Property24 2013). Although its products are not marketed specifically to be used in conjunction with the FLISP subsidy, the HiP's product is aimed at the sub-R500 000 residential market. The product is different in the sense that it takes into account an applicant's potential future income and adjusts loan repayments as income grows over time. The loan amount to be repaid is fixed as a percentage of income (HiP Housing n.d.). A possible drawback to this product can be that loan repayments can only be done via payroll deductions or debit orders.

Table 3 shows the number of mortgages granted in SA and their values by income category for 2015-2017. The data for 2017 is estimated from the quarter one results. The number of mortgages granted and the value of the mortgages are skewed towards the higher income earners, as can be expected. Roughly 93% of all mortgages granted and 97% of the value of the mortgages granted were for households with incomes of more than R15 000. Furthermore, there is a steady decrease in the number of mortgages granted in the R10 000-R15 000 income bracket between 2015 and 2017. Consequently, it can be concluded that, even though banks do offer mortgage products to lower income earners, relatively few are granted in reality.

Table 3: Size and number of mortgages granted in SA by income

	Number of mortgages			**Rand value of mortgages (R million)**		
Income category	**2015**	**2016**	**2017***	**2015**	**2016**	**2017***
R0-R3 500	20	8	28	R8.2	R2.3	R167.12**
R3501-R5 500	104	74	52	R16.7	R14.1	R23.1
R5 501-R7 500	544	502	464	R161	R180.8	R233.8
R7 501-R10 000	1 678	1 125	752	R448	R310.3	R219
R10 001-R15 000	9 790	7 186	4 912	R3 321.3	R2 480.5	R1 753
>R15 000	152 295	144 806	137 868	R143 104	R139 917	R134 667
Total	**164 431**	**153 701**	**144 076**	**R147 059**	**R142 905**	**R137 064**

*Estimation only. Values calculated by quadrupling the first quarter results

**possible mistake in results

(Source: NCR 2016; NCR 2017)

As stated earlier, the gap market can be defined by house price varying between R180 000 and R500 000 (see Section 2.3). As seen in Table 4, the number of mortgages in the gap market range has been decreasing since 2015.

Table 4: Number of mortgages granted by size

Size of mortgage granted	**2015**	**2016**	**2017***
R0-R50K	2 932	1 839	1 728
R51-R100K	6 199	5 558	5 760
R101-R150K	5 226	4 542	4 240
R151-R350K	22 508	18 958	17 440
R351-R700K	54 102	50 041	44 744
>R700K	73 465	72 764	70 164
Total	**164 432**	**153 702**	**144 076**

*Estimation only. Numbers calculated by quadrupling the first quarter results

(Source: NCR 2016; NCR 2017)

According to Eighty20 (2015) the most common reason given by banks for declining mortgage applications was an unacceptable credit record. A lack of affordability was only the second most common reason. In 2012, applicants earning between R10 000 and R15 000, had a 19% and 25% chance of getting a mortgage application approved at FNB and ABSA, respectively (Eighty20 2015).

2.3 Gap housing

This section provides an overview of the gap market in South Africa. The gap market is defined in the first sub-section. This is followed by a brief history of the formation of the gap market and an introduction to the FLISP subsidy. Next, FLISP subsidy delivery is discussed and lastly, reasons for the limited implementation of the FLISP subsidy are discussed.

It is worth noting that the terms gap market and FLISP are often used interchangeably. However, the gap market is a market defined by house values and income bands, while FLISP refers to the subsidy introduced to address the limitations of this market.

2.3.1 The gap market defined

The gap market can loosely refer to households earning too much to qualify for a fully subsidised state provided house, and too poor to access housing unassisted on the formal market. Various definitions are used by organizations to quantify the market. Some organizations, such as The Banking Association South Africa (2016), state that household income is the primary criteria used to determine whether a lending activity is aimed at gap housing. Both the National Housing Finance Corporation (2017) and The Banking Association South Africa (2016) align the gap market with the FLISP subsidy household income range of R3 501-R15 000. The FLISP subsidy is explained in more detail in Section 2.3.3.

The CAHF (2016) on the other hand, prefers to define the market by housing cost. According to the CAHF (ibid.), the South African housing market can be divided into the following four segments according to property value:

a. The subsidy market – properties worth R300 000 or less
b. The gap market – properties worth between R300 000 and R600 000
c. The affordable market – properties worth between R600 000 and R1.2 million
d. The traditional (conventional) market – properties worth more than R1.2 million

It is important to note that the incomes and house costs presented above are not correlated, not in 2017 rand terms at least. As is shown in Section 2.3.2, an income of R3 501 can only afford a house of R90 500, while an income of R15 000 can buy a house of R385 000, without access to the FLISP subsidy. Including FLISP, these values increase to R178 000 and R405 000, respectively. This is well short of the R600 000 gap market upper limit referred to by the CAHF (2016). This discrepancy can be partly explained by the fact that the upper limit of the FLISP subsidy has remained unchanged since 2012. If the R15 000 upper limit is adjusted to 2017 Rands using the consumer price index (CPI) over the stated period (as per Statistics SA 2017b), the upper limit would be closer to R18 500, able to afford a house of R485 000. As will be discussed in Chapter 5, the least costly new house that can be bought in Johannesburg costs about R400 000 in 2017. Therefore, the CAHF's (2016) upper house price limit of R600 000 is, perhaps, too high. In 2012 Rust (2012) referred to the sub-R500 000 market as the gap market. Even given inflationary changes, this value is more realistic.

The lower house cost limit of R300 000, proposed by the CAHF (2016) is high as well. The value of a non-credit-linked housing subsidy (or BNG subsidy) is currently R160 573 (Western Cape Government 2015). As stated above, the lower end of the gap income level of R3 501 can afford a house of roughly R178 000, if the FLISP subsidy is used. Therefore, a lower house value of R180 000 is realistic.

It should be noted that in 2017, households earning R15 000 can only just afford the least expensive new entry level house the market has to offer, assuming a good credit record and a contribution of 28% of income towards housing. Since many households will not be able to achieve this, is it is proposed that the upper income limit of the gap market should be taken as R18 000. This would allow households who can access a reasonable interest rate (prime +1%) to afford a house of R480 000. A household earning the same amount, but who can spend less on housing (arguably 25% of income) and gets a worse interest rate (prime +2%) will only be able to buy a house of R402 000. For the remainder of this report, the gap market will be defined by household incomes of R3 501 to R18 000, who are able to afford houses of between R180 000 and R500 000.

The Construction Industry Development Board (2017) states that the increase in construction costs roughly follows inflation. Therefore, it can be expected that gap house costs will increase by roughly the same amount. Therefore, the FLISP upper income limit will have to be adjusted upwards within the next year or two, to compensate for the expected increase in house prices.

Figure 5 shows the various market segments graphically. It also indicates the size and income range of each market segment, grouped by income. About 25% of households fall into the gap market segment (FFC 2012; CAHF 2015c; Eighty20 2015). Those who fall into the gap market include key public sector workers and entry-level workers in the private sector (FFC 2012). The market includes the

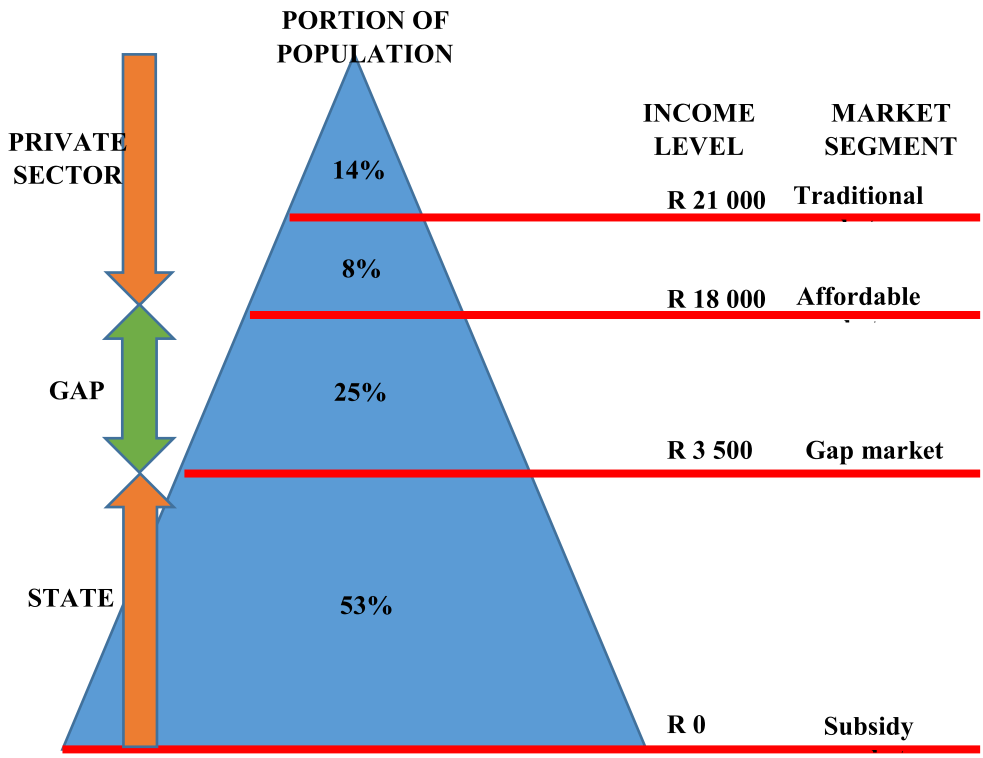
Note: It is generally accepted that a household should spend no more than 30% of its gross income on housing (Hulchanski 1995; Wallace 1995; Stone 2006). To calculate mortgage affordability, the CAHF (2016) uses an instalment/income ratio of 25% for their calculations. Furthermore, Statistics SA (2011) estimates that households earning between R10 000 and R24 999 spend only 21% of their income on housing. Therefore, the income ratio that households should comfortably spend on affordable housing varies widely. For the purposes of this report an instalment/income ratio of 28% is used. It should be noted that this ratio impacts the total mortgage a household qualifies for severely.

According to the CAHF (2015c), banks typically charge an interest rate of prime plus about 2% in the affordable housing market. However, one developer who was interviewed as part of the research for this report stated that the interest rates given to their clients range between prime +1 and prime +1.5%. For the purposes of this report, an interest rate of prime +1.25% (11.5%) was used for all affordability calculations. Furthermore, a payback period of 20 years, no savings contributions (as a deposit) and a good credit history was assumed.

Where prices have been adjusted for inflation, Consumer Price Index (CPI) values for past years were used, as per Statistics SA (2017b).

bulk of the lower-middle class and typical job descriptions for main breadwinners include mine and quarry workers, general clerks, motor vehicle artisans, nurses, teachers, secretaries and police officers (CAHF 2009).

Figure 5: The South African housing market



(Source: adapted from FFC 2012; CAHF 2016; Eighty20 2015)

The Banking Association of South Africa (2016) states that the affordable market had an upper income limit of roughly R20 000 in 2015. This value has been adjusted for inflation in Figure 5.

The lower income limit of the gap market is R3 501. As long as the upper income limit of the full capital subsidy, offered by the state, remains at R3500, the 'state' section shown in Figure 5 will shrink while the 'gap' section will grow as income increases over time. The FFC (2012) states that the gap market is growing predominantly due to affordability constraints. Both levels of unemployment and levels of debt are high, making it difficult for households to save and access mortgages.

2.3.2 Formation of the gap market in SA

Under apartheid law, non-white South Africans had been unable to legally buy land in urban areas until the late 1980's, when this legislation was abolished (Tomlinson 1997). In 1987 banks started selectively providing mortgages loans to the previously excluded, predominantly low-income black market. This opening of the market coincided with a severe deterioration of the South African economy and interest rates rising from 13% in 1987 to 20% in 1989. These factors made repayment of mortgage loans difficult for many first-time homebuyers (ibid.).

Furthermore, bond boycotts, used as a political 'weapon' of the anti-apartheid struggle, made it difficult for banks to repossess properties where households were regularly defaulting on their bond-repayments (Tomlinson 1997). These bond boycotts were labelled by banks as a 'political risk'. These factors all contributed to the banks having a perception of this market as posing a commercial risk. Subsequently, most lenders exited the market in the early 1990's (ibid.).

In 1992, prior to the advent of democracy, the National Housing Forum (NHF) was established, consisting of multiple parties and various industry stakeholders, aimed at formulating a non-racial housing policy (Cirolia 2016). The result was a negotiated process where much time was spent deciding which housing type to deliver ('four room' or 'progressive') and which delivery mechanism to implement. Ways of attracting financial institutions back into the predominantly black, low-income market that they fled from in the early 1990's, formed an important part of the discussion as well (Tomlinson 2007).

The housing policy that resulted, documented in the Housing White Paper of 1994, was characterised by a framework where the private sector would act as housing provider. All households earning less than R3 500 per month would be entitled to a subsidy from the state, enough for a 30 m^2 'starter house' on a 200 m^2 serviced site. There was an expectation that this subsidy, combined with a mortgage loan from a formal mortgage provider, would be sufficient to deliver a 'four room' house (Tomlinson 2007).

Cirolia (2016) states that, in order to attract mortgage financers to the subsidised market, a Record of Understanding (ROU), was signed between the Department of Housing (DoH) and the former Association of Mortgage Lenders (AML). Subsequently, to lessen the perceived political risk for lenders, the Mortgage Indemnity Fund (MIF) was established in 1995, to assist lenders in repossessing properties where defaulting on repayments have occurred (ibid.).

Between 1995 and 1998, only about half of the 140 000 loans falling under this agreement were given to subsidy holders (Tomlinson 2007). Disagreements between the state and banks over how the MIF guarantee was supposed to be implemented led to the dismantling of the MIF in 1998 (ibid.). The state was unhappy with the number of loans given to subsidy holders, with the banks stating that most subsidy holders were either unemployed or informally employed, making it difficult for them to afford a monthly mortgage repayment. This led to a second withdrawal of formal mortgage financers from the low-income market (ibid.).

In subsequent years, various other forms of housing finance started to become popular in SA. Both banks and non-bank finance providers had started focussing more on micro-loans aimed at housing purposes (Rust 2002). These loan amounts were typically small and aimed at incremental improvements and they were often secured with pension or provident fund benefits, as opposed to the house itself. However, while mortgage finance is typically provided at prime +2, the micro-loans were often given at prime +40, possibly putting large financial strains on recipients in the events of economic change (ibid.).

In order to manage and assist the non-mortgage lending market, the National Housing Finance Corporation (NHFC) was set up by government in 1996 (NHFC 2017). By 2003 the NHFC had provided housing finance to 209 000 households. However, rates of delivery had started to decrease and the organizations' appetite for risk was often questioned, seeing that one of its aims was to facilitate financing a perceived high-risk market segment (Tomlinson 2007).

While the state was trying to improve access to micro-finance provided by both bank and non-bank organizations, it was simultaneously pressuring banks to go down-market with their mortgage products. Tomlinson (2007), states that this effectively resulted in formal banks and smaller non-bank lenders competing in the same market; much to the harm of the latter.

Until the early 2000's, relations between the large banks and the government had been strained, with the state accusing banks of discriminatory practices (Tomlinson 2007). In 2004 the Financial Sector Charter (FSC) was introduced (Financial Sector Charter Council n.d.). During its inception, the Charter aimed to compel banks to disclose their mortgage lending figures, amongst others (Tomlinson 2007). The intent was to use another piece of proposed legislation, called the Community Reinvestment Bill, to force banks to meet certain lending targets for households earning between R1500 and R7500 (ibid.). However, there was resistance from the banks and in the end it was agreed that banks would voluntarily set its own lending targets (ibid.; Venter 2009).

According to Venter (2009) the initial voluntary target was set at a total lending book of R42 billion (to households earning between R1500 and R7500) in the first 5 years after the implementation of the FSC. By the end of 2008 the lending book was R52.2 billion, exceeding the target by 30%. Tomlinson (2007), however, highlights that a large portion of the households who were supposed to benefit from the FSC, simply could not. In 2007 the cheapest house on the market was R120 000, affordable only to those earning between R5000 and R7000. Porteous & Naicker (2003, cited in Cirolia 2016) states that those earning R4000 or less, were effectively excluded, making the credit gap smaller.

Therefore, there was an unserviceable 'gap' in the market, leaving households earning between R3500 and R5000 unable to access a full housing subsidy or a formal bond. Furthermore, it brings into question the results posted by banks. The mortgages included in the R52.2 billion lending book clearly were not reaching the lower end of the market. Also, results were reported by house size and not by house cost, making it more difficult to assess how successful the FSC intervention was.

The introduction of the FSC came just as the Department of Housing (DoH) was introducing its revised housing policy, the so-called ‘Breaking New Ground’ policy, in 2004 (DoH 2004). This new strategy was clearly aimed at attracting more private sector involvement into the housing sector.

2.3.3 The FLISP subsidy

In 2005 the Department of Housing introduced the Finance-Linked Individual Subsidy Program (FLISP), aimed at closing the so-called ‘gap’ in the market. The ‘gap’ refers to the affordability gap experienced by households that earn too much to qualify for a fully-subsidised housing unit and too little to successfully access mortgage finance from a formal financial institution (NHFC 2017). The FLISP subsidy is a once of amount paid directly to a mortgage provider to lessen the deposit obligations when applying for a mortgage from a formal finance provider (FFC 2013).

Initially, the FLISP subsidy was administered through accredited lenders. The subsidy was hardly implemented in the first few years following its introduction, mainly due to budgetary constraints and a lack of knowledge by housing officials (Cirolia 2016). To facilitate implementation of this subsidy, a centralized administration approach was adopted in 2011 and the NHFC was tasked with administering subsidies together with the various provincial housing departments (ibid.).

With its introduction in 2005, the subsidy was aimed at households earning between R3500 and R7000. After poor adoption of the policy, the amounts were revised in 2012 to include households earning up to R15 000. Furthermore, the subsidy could now be used for a serviced site, or buying or constructing a new home (Cirolia 2016). The initial subsidy was limited to buying new houses costing R300 000 or less, but this cost limit was removed in 2015 due to the limited number of houses being supplied for less than that amount (Gauteng Province Human Settlements 2015). Furthermore, the subsidy was extended to the resale market in 2013 (Rust 2013). In its yearly Estimates of Provincial Revenue and Expenditure report the Gauteng Provincial Government (2017) states that the FLISP subsidy qualifying income was adjusted to R18 000 per month in 2017, able to afford a house of roughly R470 000. However, no other proof of this adjustment could be found.

The subsidy works on a sliding scale model, with households earning R3500 able to access a maximum amount of R87 000 and those earning R15 000 able to access R20 000 (NHFC 2017). The FLISP subsidy is available for both sectional and freehold title purchases (ibid.).

Table 5 and

Figure 6 shows the total mortgage amount that can be afforded for various incomes in the gap range, with and without a FLISP subsidy. The FLISP amount decreases by R1 175 as income increases by R200 (Western Cape Government 2016). Calculations were based on the assumption described in the Note box on page 24 (Interest rate: 11.5%; 20 year payback period; 0% savings contribution).

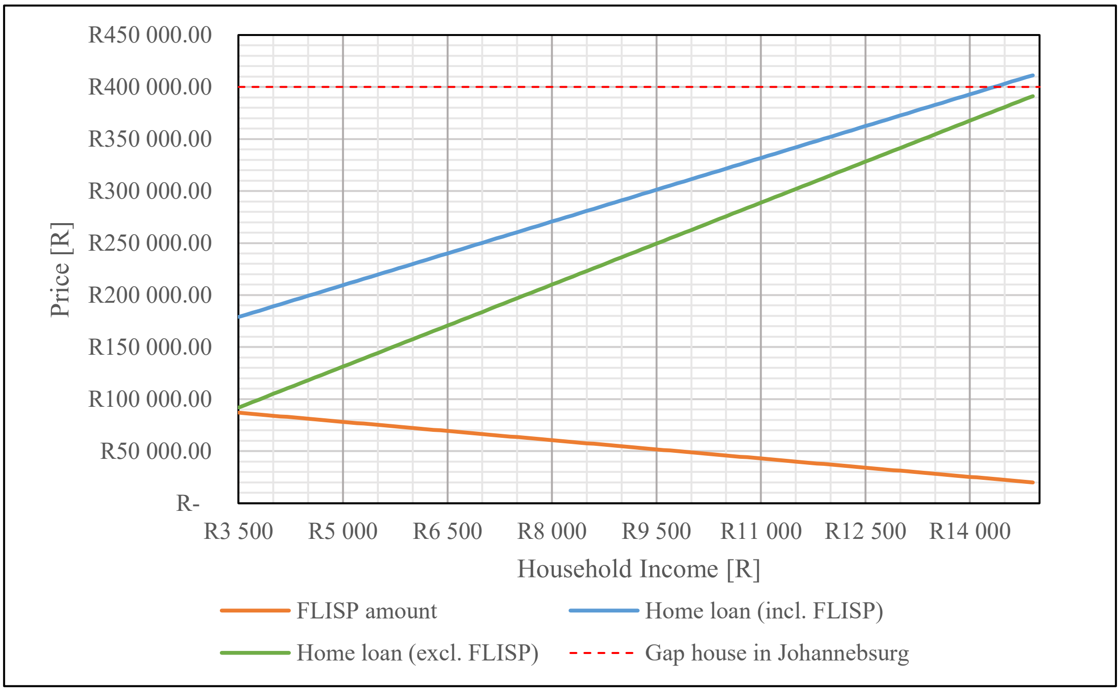
As mentioned in in Section 2.3.1, new gap houses in Johannesburg start at roughly R400 000. Therefore, one needs to earn about R14 300 to afford a new house at 2017 rates. However, McGaffin & Kirova (2016) states that purchasing power can vary widely across the cap income range, although demand can be seen as homogenous across the band.

Table 5: Affordability of mortgage for various income ranges

Income range	FLISP subsidy amount	Mortgage amount (excl. FLISP)	Mortgage amount (incl. FLISP)
R3 501-R3 600	R87 000	R92 000	R179 000
R7 001-R7 100	R66 400	R184 000	R250 400
R10 001-R10 100	R48 800	R263 000	R311 800
R12 501-R12 600	R34 100	R328 000	R362 100
R14 901-R15 000	R20 000	R391 000	R411 000

(Source: own calculations)

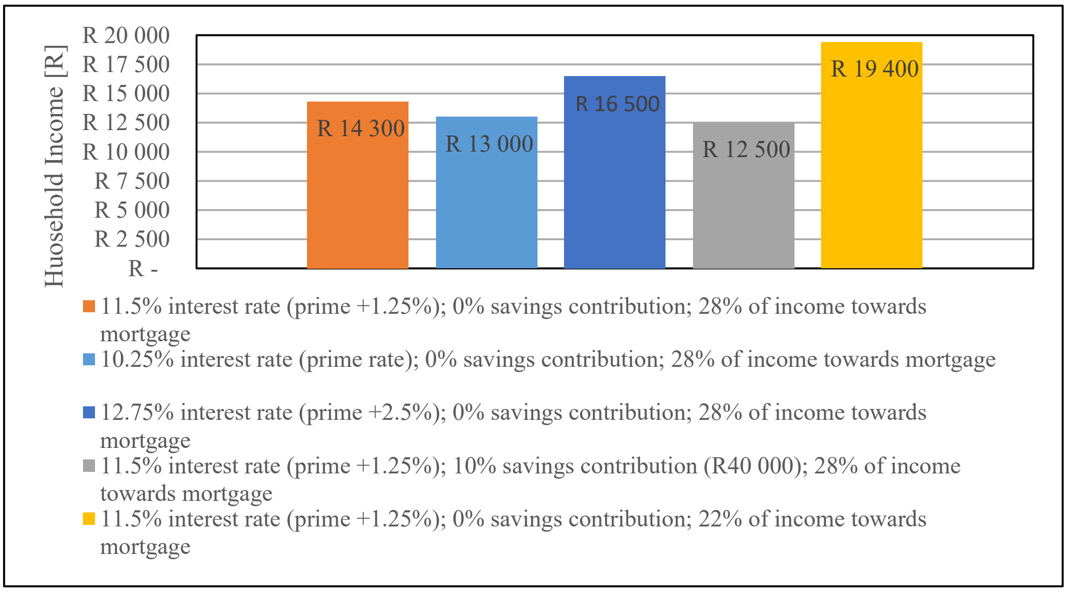
Figure 6: Affordability of mortgage for the gap income range



(Source: own calculations)

Figure 7 shows how the amount of income needed to afford a R400 000 house can vary. In this case interest rate, contribution from savings and mortgage contribution as ratio of income is varied. The ratio of income that can be spent on housing has the most detrimental impact on affordability.

Figure 7: Household income required to purchase R400 000 house



(Source: own calculations)

2.3.4 FLISP housing delivery

This section aims to discuss the past delivery of FLISP subsidies. Reliable data for subsidies delivered prior to 2013 could not be obtained. Data sources for later years vary widely, but the data from the Department from Human Settlements are presented in Table 6. Delivery data for Johannesburg specifically could not be obtained, but the data for Gauteng province is included.

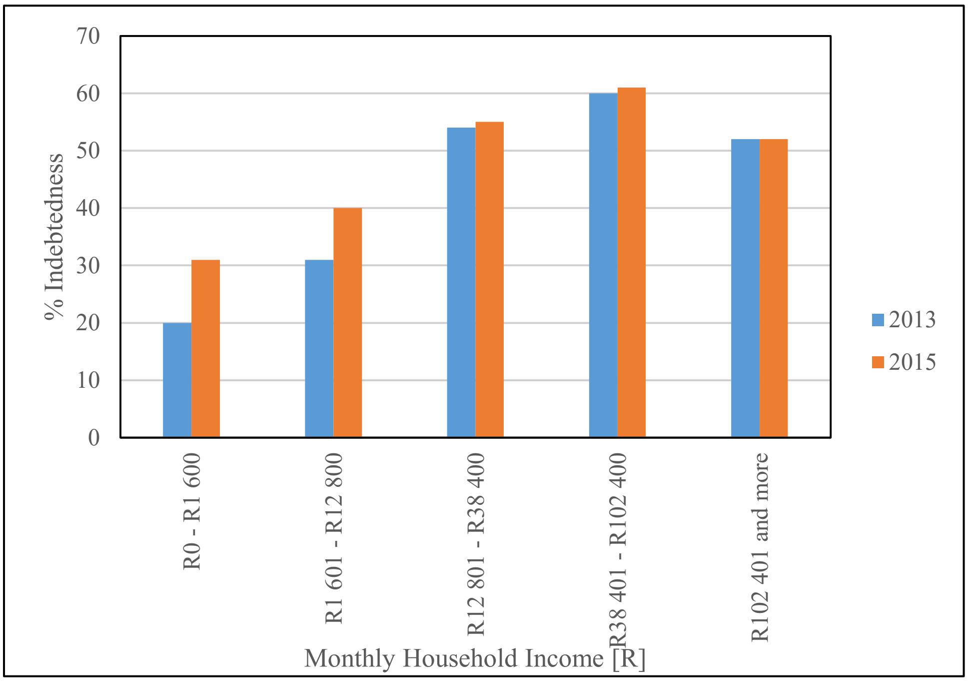
Table 6: Targeted and actual national and provincial (Gauteng) FLISP housing subsidy delivery since 2012

Year	Subsidies delivered				Source
	South Africa		Gauteng		
	Target	Actual	Target	Actual	
2012/13	-	-	-	-	n/a
2013/14	-	1 696	-	247	(DoHS 2014; GPHS 2014)
2014/15	1 101	1 193	50**	696	(National Treasury 2016; DoHS 2015; GPHS 2015)
2015/16	12 929	2 253	1 293	818	(DoHS 2016; GPHS 2016)
2016/17	17 231	2 660	-	-	(DoHS 2017)

**possible error in target setting

There is a clear increase in delivery for both Gauteng and South Africa, but targets are not being met. One possible reason might be that there is simply not enough new housing stock in the gap price range being provided, which would limit the amount of subsidies that can be delivered. In Gauteng, FLISP subsidy has been more successful than in South Africa in general, if measured against the target set. Another reason might be that people cannot get mortgages approved due to poor credit ratings, which would once again limit a FLISP subsidy from being delivered (DoHS 2016). This can be disputed though, since households in the gap market income range have lower portions of indebtedness than their peers in the higher income groups, as can be seen in Figure 8.

Figure 8: Proportion of indebtedness per income group in Gauteng



(Source: adapted from Joseph & Culwick 2016)

The Gauteng Provincial Government (2017) estimates that the following amount of FLISP subsidies will be delivered in the next three years: 893 in 2016/17 year, 1340 in 2017/18 year and 1378 in 2018/19 year. Human Settlements Minister Lindiwe Sisulu announced a new Human Settlements Development Bank to be launched in May 2017 (SA Property Insider 2017). Just before the launch of the bank, Sisulu said: “The strategic focus of the bank will be to facilitate the increased provision of finance across the human settlements value chain” (ibid.). One of the main functions of the bank would be to facilitate and scale up the delivery of FLISP subsidies (ibid.). However, the bank will only start to function once the Human Settlements Development Bill is passed, which was expected to happen in September 2017. By the time this report was concluded, no evidence could be found that the bank had started functioning. FLISP subsidy delivery in both Gauteng and South Africa as a whole has failed to meet the targets set over the last few years. Despite this, Gauteng Province has set ambitious targets for the coming few years. The bank launched by Minister Sisulu might just be what is required to increase FLISP subsidy delivery. The next section discusses some reasons for why FLISP housing subsidy delivery has been so slow.

2.3.5 Reasons for limited FLISP subsidies being awarded

FLISP subsidy delivery has failed year on year to meet the targets set. There are numerous reasons for this failure, most of which can be classified in three categories (FFC 2012; Khathi 2013; Venter 2015):

a. Shortage of supply by the private sector
b. Difficulty in accessing finance
c. Administrative issues on the DoHS/NHFC side

Shortage of supply

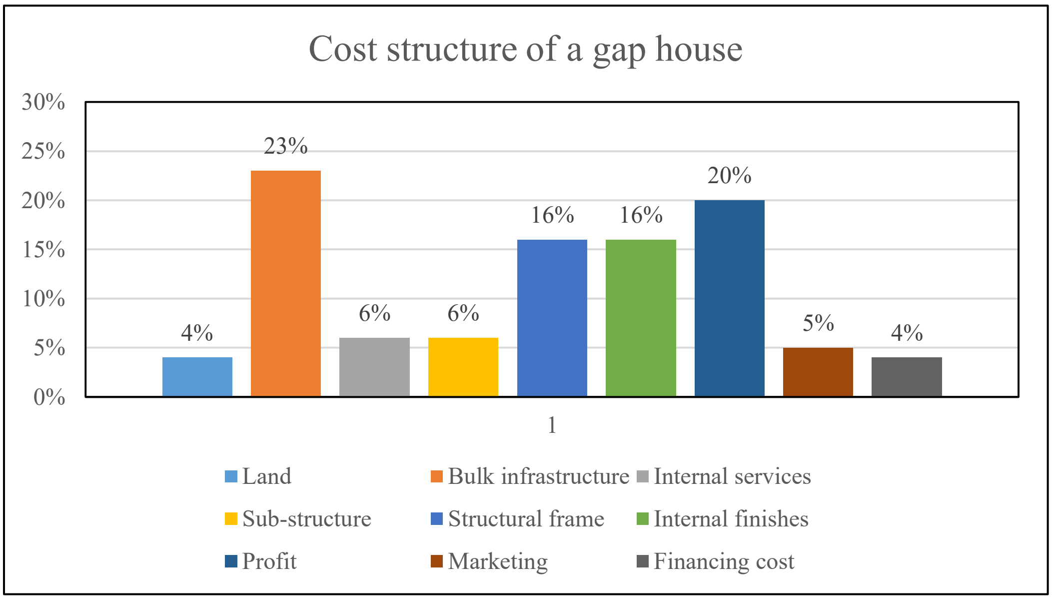
According to Venter (2015) the private sector is delivering too few houses in the gap market cost range, especially in the sub-R400 000 price range. In 2015 developers stated that they were unable to provide a 45m^2 house on a 125m^2 site for less than R400 000 (ibid.). Today the least expensive 40m^2 new house in Johannesburg costs R400 000. There are numerous reasons for this. Firstly, long implementation times tend to drive up the total costs of projects. The FFC (2012) states that gap housing projects take on average three years to implement (Figure 9). Of these three years, about half is for the township establishment and approval process. This includes the time required for processing tenders, rezoning and issuing of development rights. The time required for the transfer and handover process also tends to be highly variable, leading to uncertainty and higher costs (ibid.).

Figure 9: The housing value chain

Source: (adapted from FFC 2012)

Furthermore, the costs for internal reticulation (of water, electricity and other services inside the project boundaries) are typically seen as unfunded mandates, requiring the developer to cover these costs (FFC 2012). In mixed developments, where subsidised units are mixed with bonded units, the cost of internal reticulation needs to be subsidised using bonded units. This drives up the cost of the bonded units, making it less affordable and within range of fewer households (ibid.). Figure 10 shows a cost breakdown of a typical gap house. The bulk infrastructure is the most costly item, making up almost a quarter of the total cost. In total, around 33% of the total house cost lies in the serviced site (Rwida 2011).

Figure 10: Value chain for gap housing



(Source: adapted from Rwida 2011)

(Note: In the source document, the Author (Rwida) refers to affordable housing. But the market described is the gap market.)

According to the Construction Industry Development Board (2017), the cost of construction has, for the past few years, risen at roughly the overall CPI inflation rate. Therefore, houses are getting more expensive to build year on year and if the FLISP subsidy limit is not increased at the top end, even those earning R15 000 will soon be unable to afford new houses.

Developers are also cautious to enter the gap market. According to the CAHF (2009) developers and lenders are wary of offering housing units that are of a similar value to fully subsidised units, fearing the risks created when potential buyers realise that others are getting similar houses for free. In 2009, the average subsidised house cost R135 000 to construct. Households with an income of R5000 could only afford a loan of R128 000, meaning households earning R3500-R5000 could not afford a house that others were getting for free. This means a financed house needs to be built to a higher spec in order to be commercially viable. This effectively prices the first level of the market out of the affordability range of the target market.

Bertraud (2010) states that academics in the housing demand field either look at the wrong data or interpret data incorrectly when estimating housing demand. The formal housing supply system forms a continuum between the formal and the informal sector and the boundaries between the two are set by regulations and transactional costs between the two. This is one of the main reasons why gap housing is so scarce and so important. Therefore, stricter regulations push the cost of any formal developments up, irrespective of the target market.

A noteworthy side effect of insufficient supply of new gap housing stock is that it puts inflationary pressure on the existing housing stock. This further undermines household affordability (FFC 2012).

Difficulty in accessing finance

Finance can be difficult to come by for households in the gap market income range (Venter 2015). In 2010, 50% of households earning between R3 500 and R7 000 (what was then defined as the gap market income range) had formal credit, while only 3.4% had a mortgage (FFC 2012). Figure 8 shows that lower income groups has lower levels of indebtedness than their higher income counterparts, but this can partly be ascribed to their inability to access mortgage finance.

Access to formal credit for the poor has increased dramatically over the last decade. However, in the absence of mortgage finance, access to credit does one of two things. Firstly, it puts inflationary pressure on the existing housing stock, which further undermines household affordability. Secondly, it leads consumers to spend their money elsewhere, such as on consumer products (FFC 2012).

Khathi (2013) states that poor levels of savings also contribute to difficulties in accessing housing finance for applicants. Access to mortgage finance in discussed in more detail in Section 2.2.3.

Administrative issues on the DoHS/NHFC side

This section discusses two main administrative issues: a poor understanding of housing demand and limited administrative capacity at the Provincial and Municipal level. According to the FFC (2012) there is a poor understanding of the housing demand in South Africa. There is insufficient data on how backlogs are estimated and what the actual effective demand is. The state uses a number of ways to calculate demand and in the absence of a uniform estimation approach; resources will continue to be ineffectively allocated (ibid.).

Real housing demand should be a function of population growth, household formation, household size, rate of urbanization and life stage, amongst others (FFC 2012). Life stage is an especially important factor to consider. A proper understanding of housing demand is crucial for the entire housing spectrum, not just gap housing (ibid.).

There are a number of concerns with regards to the administration of FLISP subsidies. Firstly, while policy is fairly flexible in that it allows provincial and local government to adapt policy according to local context, there is a perception from industry stakeholders that national government dictates a “one size fits all” approach (FFC 2012).

Secondly, there is backlog with accreditation of municipalities, that keeps municipalities from implementing the full spectrum of subsidies and project types that are available to them. This severely hinders the municipalities' abilities to implement projects with a variety of housing types (FFC 2012)

Lastly, new properties are not being registered at high enough rates to combat the registration backlog. By 2010, only 50% of houses delivered by the state were registered on the Deeds registry, while the rate of new registrations has decreased every year since 2005 (FFC 2012). The result is that people are effectively denied entry into the housing market.

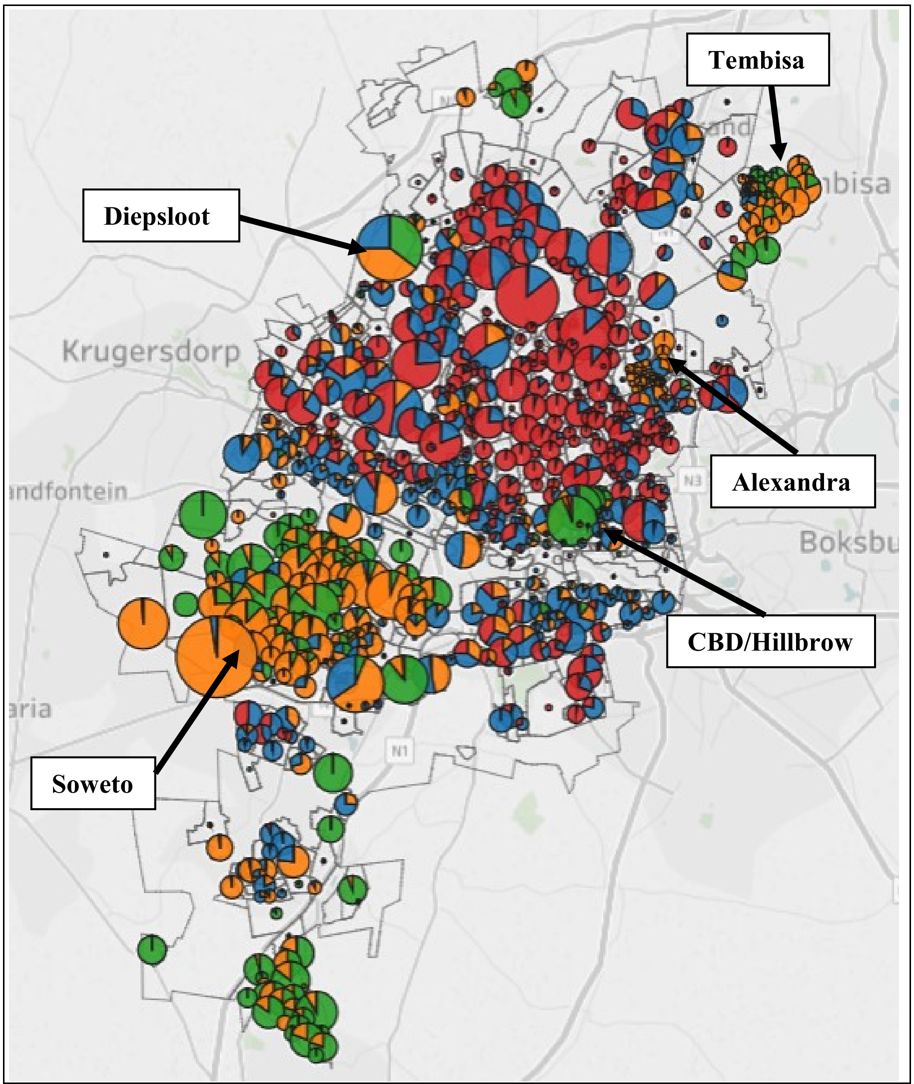
2.4 Housing in Johannesburg

As stated in Section 1.6, Johannesburg is closely interlinked with its neighbouring metropolitan municipalities. However, for the sake of simplicity and to keep the scope of this report within reasonable bounds, this section will focus only on the City of Johannesburg.

As can be seen in Figure 11, the housing market in Johannesburg is segregated economically. Circle sizes indicates the number of residential properties per ward council. The northern part of the city contains mainly expensive properties, with only a few exceptions of lower cost housing in Alexandra, Diepsloot and Tembisa. The south-western parts of the City and the city centre contains mainly more affordable properties. The remainder of this section will focus on estimating the size of the gap market in Johannesburg, as well as how the market has performed in recent years.

Establishing the size of the gap market in Johannesburg is difficult and no source could be found that gives a specific value. However, an attempt will be made to get a rough estimate based on available data. Data is mainly derived from Eigthy20 (2015) estimations, based on 2011 surveys by Statistics SA. Values have been adjusted to 2017 Rands. Upper income limits reported works out to roughly R14 300 in 2017, as opposed to R15 000 used to define the gap market, so it should be noted that these values are rough estimates at best.

Figure 11: House prices in the City of Johannesburg



	Under R300 000		R600 – R1 200 000
	R300 000 – R600 000		Over R1 200 000

(Source: adapted from CAHF 2017, showing data for 2011-2016)

Eighty20 (2015) estimates that roughly 25% of households (3.1 million) countrywide earn between R3 500 and R15 000. Of this 3.1 million households, roughly 980 000 (32%) are located in Gauteng. The 2011 Census indicated that 37% of Gauteng households reside in Johannesburg (Statistics SA 2017a). Assuming a uniform income distribution across Gauteng, we can estimate that Johannesburg has roughly 363 000 households in the gap market. The number of households in Gauteng increased by 6% between 2011 and 2017 (Statistics SA

2011; Statistics SA 2017a), therefore, roughly 385 000 households in Johannesburg are in the gap market.

According to Eighty20 (2015) about 34% of households in the gap market live in so-called ‘inadequate’ housing countrywide. Assuming a uniform distribution countrywide and that all households living in ‘inadequate’ housing strives towards so-called ‘formal’ housing, it can be calculated that Johannesburg has a gap housing shortage of around 130 000 units.

The performance of the gap market will now be explained. Data is mainly available for the years leading up to 2012/2013 and some sources use R500 000 as the upper house value limit of the gap market, while others use R600 000. The CAHF (2016) states that house values have also increased significantly over the last few years and houses in the gap market has grown more than the rest of the residential market. Once again, the values quoted below should not be taken as exact, but rather as rough estimates.

It was shown previously that roughly 25% of households are in the gap income range. Due to a lack of better information, it is assumed that Johannesburg has the same income distribution, meaning roughly 363 000 (385 000 in 2017) households are in the gap market in Johannesburg. Interestingly, the Affordable Land & Housing Data Centre (2012) states that 24% (172 000) of all registered residential properties in Johannesburg are valued between R250 000 and R500 000, falling in the gap market, while 8% (59 000) are valued at less than R250 000. This data is from 2010, so some more expensive properties would since have increased in value into the affordable market, while less expensive properties would have grown in value into the gap market. Furthermore, the value of 16% of registered properties is unknown. By 2012, about half of all government provided houses had not yet been registered on the Deeds Registry (City of Johannesburg Department of Housing 2013), therefore it is possible that the 59 000 properties valued at less than R250 000 is considerably higher in reality.

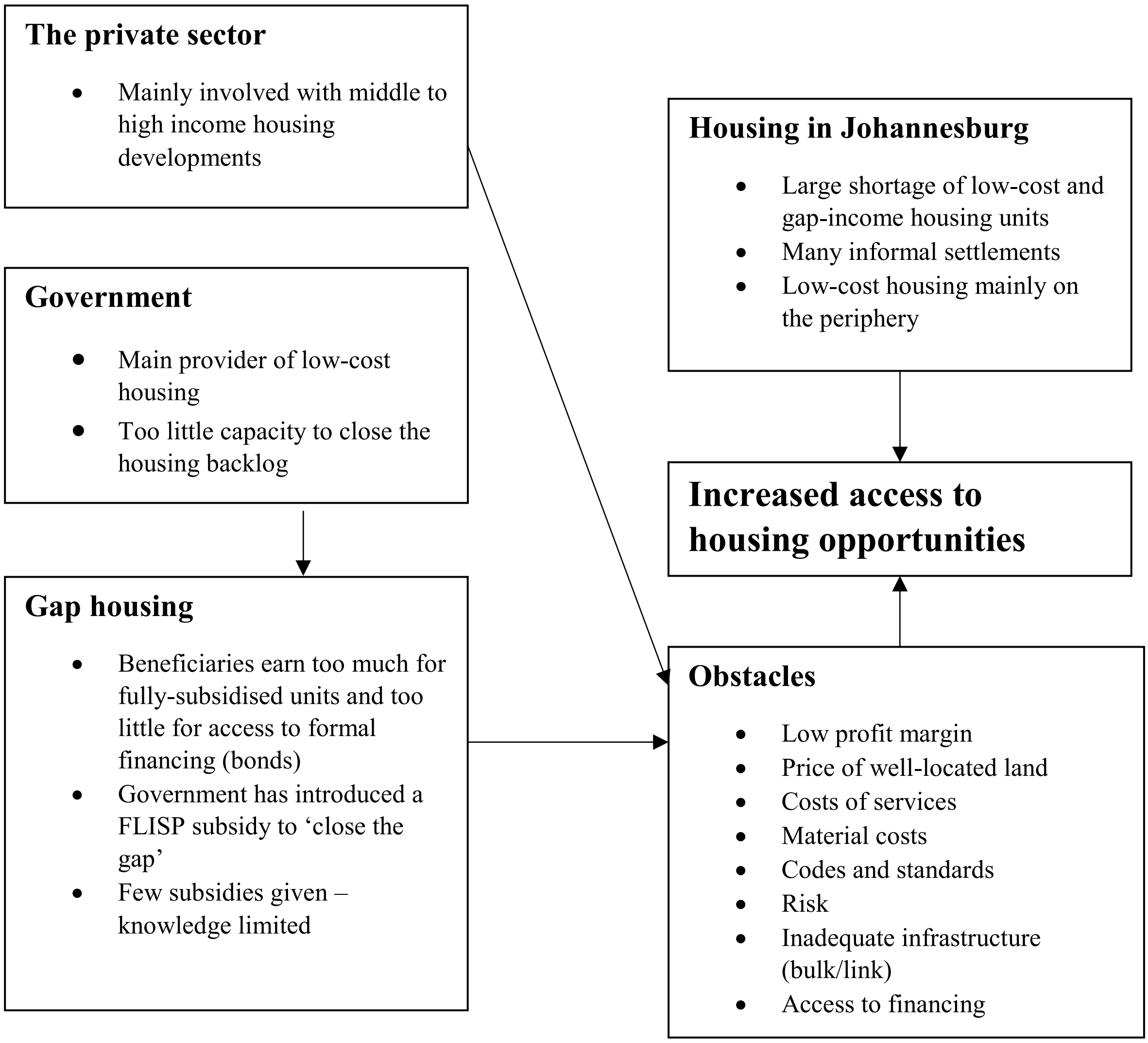
The residential market in Johannesburg is active. Of all properties sold in South Africa, around 20% of these are situated in Johannesburg (accounting for 17% of total sales value). Around 34% of all residential properties sold in the City Johannesburg has a value of less than R500 000 (AL+HDC 2012).

Property churn (the rate at which a property is sold) in Johannesburg is lower than average for properties costing less than R500 000 (AL+HDC 2012). This probably indicates either limited supply of housing stock in this price category or limited access to finance.

2.5 Conceptual framework

The proposed research will aim at researching the role played by the private sector in delivering gap housing in Johannesburg. It will focus on the role of private property developers. The conceptual framework diagram (Figure 12) aims at showing the relationship between the private sector and government in delivering gap housing in Johannesburg. It includes some of the obstacles faced by the private sector in entering the market.

Figure 12: Conceptual framework diagram



2.6 Summary

This section has provided an international overview of the housing market. South Africa is not the only country with a gap in its residential market. Many developing countries and even some developed countries encounter similar market failures, although at a smaller scale.

The private sector in SA is highly involved at the higher end of the residential property market, while the state is the predominant supplier of formal housing at the lower end of the market. However, with the introduction of the FLISP subsidy, the private sector has been incentivised to develop in the gap market. Unfortunately, the costs of developing houses has escalated so much that only the highest earners in the gap market can access new housing.

The gap market in Johannesburg is very large in terms of income. However, there is a clear shortage of houses in the R180 000 to R500 000 price range. The uptake of FLISP subsidies have also been limited and at current rates of delivery it is unlikely that the gap housing shortage in Johannesburg will be addressed. The next chapter discusses the research method used for this study.

3. RESEARCH METHOD

3.1 Introduction

This chapter seeks to describe the research method used for the study undertaken. Property developers operating in the gap market in Johannesburg were approached and interviewed, with the aim of using their feedback to answer the research questions stated in Chapter 1.

The study proposed is descriptive, exploratory and analytical in nature. According to Creswell (2009) a qualitative research method is suited for this type of study. The qualitative research method allows for a flexible approach and for questions to be asked that invoke rich and exploratory answers (Mack *et al.* 2005).

Qualitative research is a subjective scientific methodology used to describe the reality of a situation (Mack *et al.* 2005). It aims to understand and describe a scenario in a particular context and can be used to produce cross-contextual generalities (Mason 2002). This methodology is characterised by its reliance on the researcher to gather information (Creswell 2009).

According to Creswell (2009), qualitative research is a form of interpretive inquiry, where researchers interpret what they see and hear. The researchers' interpretations and conclusions cannot be separated from their own histories, backgrounds and cultures. This can be seen a weakness in the methodology, but can also give a multi-angled, nuanced view of the subject under investigation.

The qualitative research method is used to learn what meaning participants hold about the issue under study, not what meaning the researcher holds or what the available literature says about the subject. (Creswell 2009). Interaction with the participants is encouraged to ensure they have a chance to shape the themes that emerge as the process unfolds issue. Furthermore, this methodology relies on multiple sources of data, such as interviews, documents and observations. This research will make use of the former two data types, with a particular focus on using interviews (ibid.).

The remainder of this chapter describes how the research population was chosen, how data was collected and how it was analysed. Ethical issues associated with the research design are discussed as well.

The study under consideration is largely descriptive in nature as it seeks to describe the current involvement of the private sector in the gap market in Johannesburg. It also contains some explorative elements, which is particularly prevalent in the third research sub-question.

As provided in Chapter 1, the research question:

- **What role does the private sector play in providing gap housing in Johannesburg?**

and sub-questions for the study are as follows:

- What keeps the private sector from delivering more gap housing units in Johannesburg?
- What are the challenges faced by the private sector in providing gap housing in Johannesburg?
- How can corporate social investment (CSI) contributions, or any other interventions, be used by private companies to assist their employees to access gap housing?

The above questions are *what*, *why* and *how* questions. The aim of these questions is to ultimately establish what role the private sector, and more specifically private property developers, play in providing gap housing in Johannesburg.

To assist in answering these questions, data was gathered in two ways. Primary data was gathered by conducting interviews with private sector developers. The method by which these developers were identified is described in Section 3.2 and the interview structure is described in Section 3.3. Secondary data was gathered by looking at existing grey literature. This data was used to complement the primary data collected, where required.

3.2 Research population

This section discusses the manner in which the research population was chosen. As stated in Section 3.1, data was gathered predominantly through interviews with property developers and complemented with grey literature. This section will focus on the population contacted for the former data type.

Creswell (2009) emphasizes the importance of purposefully selecting participants that will best help the researcher answer the research questions. However, according to Saratankos (2005), sample representativeness is not consistent with the qualitative research paradigm, since little statistical analysis will be done. This does not mean that the manner in which samples are chosen is unimportant. Qualitative researchers should still be weary of using non-representative informants, overly relying on "elite" informants and of "generalising from unrepresentative events or activities" (ibid.: 97). To assist with answering the research questions, Creswell (2009) recommends using multiple sources and methods when conducting qualitative research and emphasizes.

In light of the above, the decision was made to contact all developers operating in the gap market in Johannesburg to ensure that sufficient data was gathered for a meaningful analysis and to account for some non-responses. Allowance was also made to account for some developers being unwilling to participate.

The scope of the study was limited to developers. Private financers and contractors were excluded from the study. Developers were identified using three methods. Firstly, an internet search was used. This was done by looking at Google results, combing through websites such as Property24.com and PrivateProperty.co.za and phoning real estate agents who sell houses in the gap market. Secondly, an organization that represents affordable residence property developers, the South African Affordable Residential Developers Association (SAARDA), was contacted and asked for a list of their members. Finally, some developers were willing to give me the details of other companies they have worked with and would perhaps be willing to assist me. The manner in which these developers were contacted and data collected from them is discussed in Section 3.3.

A total of 11 companies were approached to participate in the study. Some of the companies do only land development, others only top-structure developments and others do the full process, from identifying land to ultimately marketing and selling houses. Some of the companies I approached were relatively small and others were described to me as ‘the big players’. Of the 11 companies approached, two developers declined to participate, two were unresponsive and I interviewed seven in total.

3.3 Collecting data

As stated in Section 3.1, empirical data was collected mainly through semi-structured interviews, but grey literature was also consulted to gather supplementary data. This section seeks to describe how data was collected using both of these strategies.

3.3.1 Data collection using interviews

After the research population was identified, efforts were made to contact persons in the organizations who are knowledgeable about gap housing developments. This was done by talking to secretaries, scanning LinkedIn profiles and asking other developers for names. Ultimately, I found that the right people to talk to were either the company directors, or people with titles such as ‘Project Manager’ or ‘Development Manager’.

According to Simon (2006) it is important to know as much as possible about the people being interviewed. Studying LinkedIn profiles and company websites proved helpful to establish what companies and their employees do and what their backgrounds are.

After making contact with the relevant people, either by telephonic means or email, participants were sent a participant information sheet, explaining the nature of the study and what was expected of participants. Possible ethical issues, such as the use of participant names and confidential information are discussed in the document as well. The participant information sheet can be seen in Appendix A. Possible dates, times and locations of interviews were also discussed with participants.

Before interviews commenced, I gave an introduction of myself, the project, the methodology to be used and how data would be handled. Furthermore, participants were given a consent form to fill in and sign (see Appendix B). This was to give permission for the interview to be done, inform the participant of how data would be stored and used and to ask for permission to record the interview.

The questionnaires used in the interviews were set up in a semi-structured manner. Questions were designed to be open ended, set up to elicit the views and perceptions held by the interviewees. The questions were designed in such a manner that their answers could eventually be used to answer the research questions described in Section 1.4.

The full questionnaire can be seen in Appendix C. The questions covered in the questionnaire touched on the following themes:

1) Personal and company background
2) Overview of the gap market
3) Company participation in the market
4) Perception of the market
5) Barriers to entering or expanding in the market
6) Interventions to help deliver more houses

Simon (2006) mentions the importance of pilot testing questions to ensure that they are interpreted as intended. For this reason I tested my questions multiple times with people unfamiliar with the field of study. The majority of interview participants were Afrikaans speaking white males, like myself, and I was confident that there would be little misunderstandings due to language. However, I did, after the first interview, change some terms in my questions to what are more generally used in the industry.

Following permission from participants, interviews were recorded so as to facilitate dialogue that arose from answers given. Transcribing the interviews was done at a later stage, but as soon as possible after the end of interviews. The time, date and location of interviews were recorded at commencement. All interviews were done at the headquarters of the company being interviewed.

Only four of the developers were available for face-to-face interviews. The questionnaire was sent to the remaining three developers via email. However, emailed responses tend to be shorter and less comprehensive due to the inability to ask follow-up questions based on previous answers given.

All data collected was stored electronically in password protected files. Data was organised by type and theme to facilitate data analysis. The data analysis process is described in Section 3.4. Interviews were primarily conducted in Afrikaans, but the feedback is presented in English in this report. Being bi-lingual, I am confident that translations were done accurately.

While doing interviews and organising collected data, I kept a notebook with both descriptive and reflective notes in a journal. This helped me to organise my thoughts and highlight things that stood out. This method is advised by Bogdan & Biklen, as cited in Creswell (2009).

3.3.2 Data collection using documents

In order to complement the primary data collected using interviews, secondary data was collected using grey literature. These documents include annual reports, policies, websites and magazines. This data was collected where interview participants, for example did not know how many gap housing projects the company had done in the past. For some companies, this information was readily available on their websites. This data collection method also served another purpose. It helped me to familiarise myself with the industry and the terms typically used.

3.4 Approach to analysis

Data analysis is aimed at making sense of and understanding a given dataset. According to Creswell (2009) the process of data analysis involves preparing raw data for analysis, conducting different analyses, moving towards a deeper understanding of the data, representing data and interpreting it.

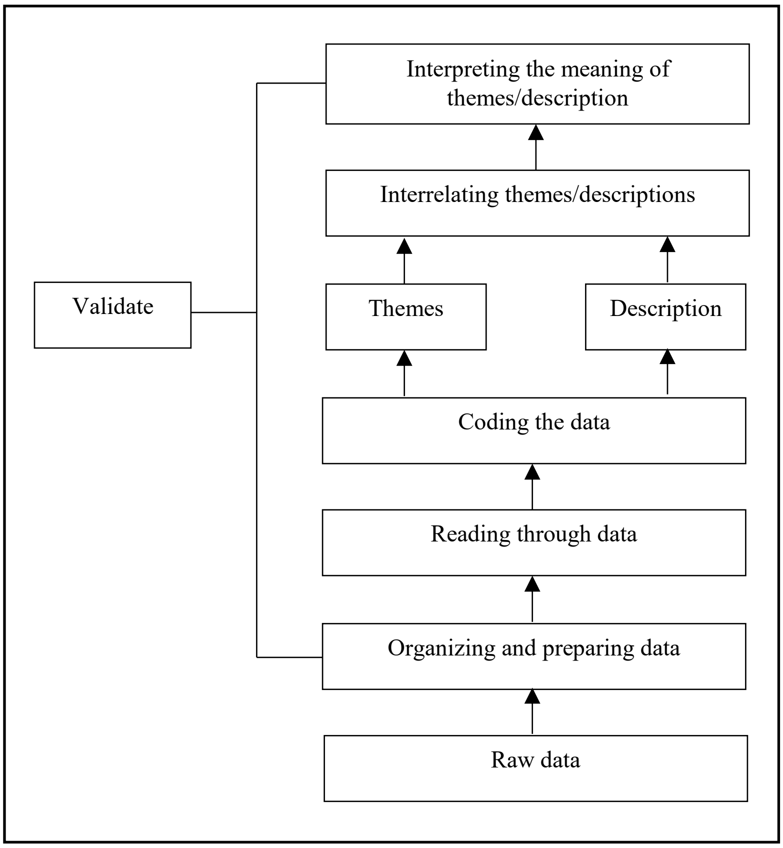
More specifically, qualitative data analysis is a process that translates raw data into codes that can be organized by theme (Creswell 2009). This process uses inductive reasoning whereby themes emerge from data through the researchers' examination of codes (ibid.; Huchzermeyer & Boshoff 2017). This approach was adopted while analysing data for this study.

Figure 13 visually shows the qualitative data analysis process that was followed, based on the process described by Creswell (2009). To start off, collected data was transcribed, scanned and noted, and organized by data type. Next, data was read and reread and recordings were played and replayed, to give an impression of the tone, content and credibility of data.

The data was then broken into fragments, called codes, either in sentence, phrase or picture form. These codes were studied for relevance and categorised by theme. Creswell (2009) suggests identifying four to five themes.

Another step in the process was to use inductive reasoning to interpret and find meaning in the themes that were identified. Creswell (2009) states that, even though Figure 13 suggests a linear approach to data analysis, the process is more interactive and iterative. The various stages of the process should not necessarily be done in the order presented.

Figure 13: Data analysis in qualitative research



(Source: adapted from Creswell 2009)

Throughout this process, data was continually checked for both reliability and validity, by checking transcripts against recordings, whether questions were asked as intended and by checking answers against grey literature. Reliability has to do with the accuracy of data collected, whilst validity has more to do with clarifying biases, presenting negative results and checking if themes emerge from various sources of data. While looking for findings from the analysis, care was taken with regards to making generalisations about the meaning of the data (Mack *et al.*; Creswell 2009).

3.5 Ethical considerations

The questionnaire presented to property developers is aimed as extracting information about the involvement of private developers in delivering gap housing in Johannesburg. The information requested might expose certain competitive advantages of a developer or other sensitive information. Care was taken to inform developers to answer questions carefully and not expose information that they feel might be sensitive. Furthermore, all developers were informed that their feedback would be presented anonymously in the final report.

To facilitate an easy, open dialogue with interview participants and ensure that all details were captured, discussions were recorded. Interviewees were informed at this at the start of the interview and they were given the freedom to stop the recording at any time.

Before any interviews commenced, ethics clearance was obtained from the Ethics Committee. The ethics clearance letter is attached in Appendix D.

3.6 Summary

In this chapter, I discussed the research method, methodology, design and approach to analysis used in this research study. The ethical issues under consideration when taking on a study of this nature, were discussed as well.

The study undertook was qualitative in nature and data was gathered using semi-structured interviews with representatives from property developers active in the gap housing market in Johannesburg. Complementary data was also collected from grey literature sources.

Eleven developers were identified and invited to participate in the study. Ultimately, seven participated: four by face-to-face interviews and three using emailed questionnaires. An extensive body of knowledge was collected using interviews, and analysed to identify emerging themes. This helped me understand the role played by the private sector in providing gap housing in Johannesburg. The next chapter accurately describes the empirical data collected.

4. WHAT DEVELOPERS HAVE TO SAY: A PRESENTATION OF THE DATA

4.1 Introduction

This chapter presents the data and results from the study undertaken. Feedback from all seven interviews are sorted by theme and presented below. Firstly, a short profile of each company is given. This is followed by a section that discusses various aspects of gap housing in Johannesburg. Next a section discussing issues that the private sector encounters while delivering gap housing is presented, followed by a short section on possible remedies that would facilitate more private sector involvement and increase the uptake of FLISP subsidies. The penultimate section discusses current and possible future interventions by which private sector companies can assist their own staff to access gap housing. A brief summary of the chapter is presented at the end.

To complement the data obtained from interviews, some extra figures and data was obtained from company websites and annual reports, as well as other sources of grey literature. In some cases the references for this data is not provided, to protect the identities of the participating companies.

4.2 Participant company profiles

This section aims to describe the contexts and markets in which the participating companies operate. A brief profile of each participant company is provided. The market sectors these companies operate in, the amount of units they've delivered and their typical clients are discussed as well

Table 7 gives a brief profile of each company. To protect the identity of the companies, the information provided is kept as vague as possible, while trying to provide sufficient context for the reader. The title of the person interviewed, type of developments, type of developer and rough age of the companies are provided.

Table 7: Summary of company profiles

Company	**Title of person interviewed**	**Type of developer**	**Age of company**
Company 1	Project Marketer	Land, top-structure	>20 years
Company 2	Director	Land, top-structure	>20 years
Company 3	Lead Developer	Land	>10 years
Company 4	General Manager	Land, top-structure	>20 years
Company 5	Sales Manager	Top-structure	>10 years
Company 6	Senior Project Manager	Land, top-structure	>10 years
Company 7	Development Manager	Land, top-structure	>20 years

There are some similarities and differences between the participants in the study. All of the participants are established companies started more than 10 years ago. Three companies were identified that are less than five years old, but they either declined to participate or were unresponsive.

Of the companies interviewed, all started out developing either land, or top-structures, or both in the lower end of the residential housing market. Three of the participants have since tried to move into higher end residential developments, two of them successfully.

One of the companies is also involved with commercial and industrial developments, while three others have developed large housing projects that include some commercial properties as well. The rest focus only on residential property.

The number of housing units delivered in the gap market varied widely between the companies. The lowest a company had delivered was 500 units over its lifetime, while the largest company had delivered in excess of 35 000 units in this market. Although, as is shown in section 4.3.1, the majority of developers define the gap market using the FLISP income indicators, few of these units were bought using FLISP subsidies.

The majority of the companies identified their typical clients in the gap market as whoever can afford it. One company stated that they develop in the areas where their typical cliental already live. Another company stated that their typical clients are wholly determined by the banks' criteria for giving home loans.

Only Company 7 stated that they do intensive market studies to identify their target market. This company only includes gap housing in their integrated housing developments and the market research is also aimed at establishing what portion of each housing type to include.

4.3 Gap housing in Johannesburg

This section discusses the feedback regarding the gap market in Johannesburg. It looks at the various definitions companies use to define the gap market, how companies perceive the gap market, the locations of their projects and their involvement with public-private partnerships (PPP's). Lastly, it also discusses how their projects are funded, marketed and sold.

4.3.1 The definition of the gap market

Developers have different definitions of the gap market, although the majority are tied, in some way or another, to the FLISP subsidy income ranges. A number of developers described the gap market as households earning between R3 501 and R15 000. Others were more aware of the limitations of the FLISP subsidy and stated that in their eyes, the gap market includes only those earning between R12 000 and R15 000. They acknowledged that households earning R3 501 – R12 000 cannot get access to the new housing market. One developer saw the gap market in the R15 000-R18 000 income range.

Some developers also included house prices in their definitions, since there is a direct link between income and affordable house price. For one developer the maximum house price in the gap market is R600 000. Another developer referred to the bank sector house price of R750 000 as the top end of the gap market.

A strong theme that emerged from the interviews is that the least costly new house the market can deliver is about R400 000 in Johannesburg. In general, this would be affordable only to those earning R14 300 and more, although numerous developers stated stat a minimum of R12 000 is required to enter the market. In more rural areas houses can be built for less, due to the lower cost of land, but people tend to earn less there as well. In Ekurhuleni and west of Johannesburg, in the West Rand District Municipality, house prices are slightly more affordable with new $40m^2$ units for sale for R380 000.

Company 3 mentioned that the term ‘gap’ has, in the industry, become synonymous with the FLISP subsidy. The term is used to refer to any house where a FLISP subsidy might be used to supplement a mortgage. However, the FLISP subsidy covers only a portion of the gap in the market – between fully-subsidised and fully-bonded units. Other mechanisms, such as sectional title RES 3 developments and rental developments can also be used to fill the gap between fully-subsidised and fully-bonded units.

Some developers opposed the use of the term ‘low-cost housing’, stating that it makes their developments sound cheap. Instead, they proposed using ‘affordable housing’ as an umbrella term for fully-subsidised, partially subsidised and social housing. This definition is in contrast to the market definitions discussed in Section 2.3.1, as per the CAHF, and shows that there is disagreement in the industry with regards to the meaning of certain terminology.

4.3.2 The perception of the gap market in Johannesburg

"If I build 30 houses today I'll have them sold by next week" – Company 3

The overall perception of developers of the gap market in Johannesburg is overwhelmingly positive. That said, there are numerous issues and bottlenecks in the processes that they feel can be improved upon, but these are discussed in Section 4.4.

The gap market in Johannesburg is seen as very large. One developer claimed a shortage of 800 000 units in the gap market, but it might be that he was confused with the total housing shortage in Gauteng, as stated by the Gauteng Province Human Settlements (GPHS) in 2017. According to this developer, the whole industry delivers less than 15 000 gap housing units per year across the country.

Another developer described it as the largest market in SA, both in terms of number of houses and number of people. Almost 50% of houses in Gauteng fall in the gap market price range. The market is also seen as one that's growing, and the void between the fully subsidised and gap market is growing as well.

One developer, responsible for the quote at the beginning of this section, was optimistic, but cautious, stating that the FLISP subsidy is not a sustainable intervention. He was not sure how much longer the state would be able to afford it.

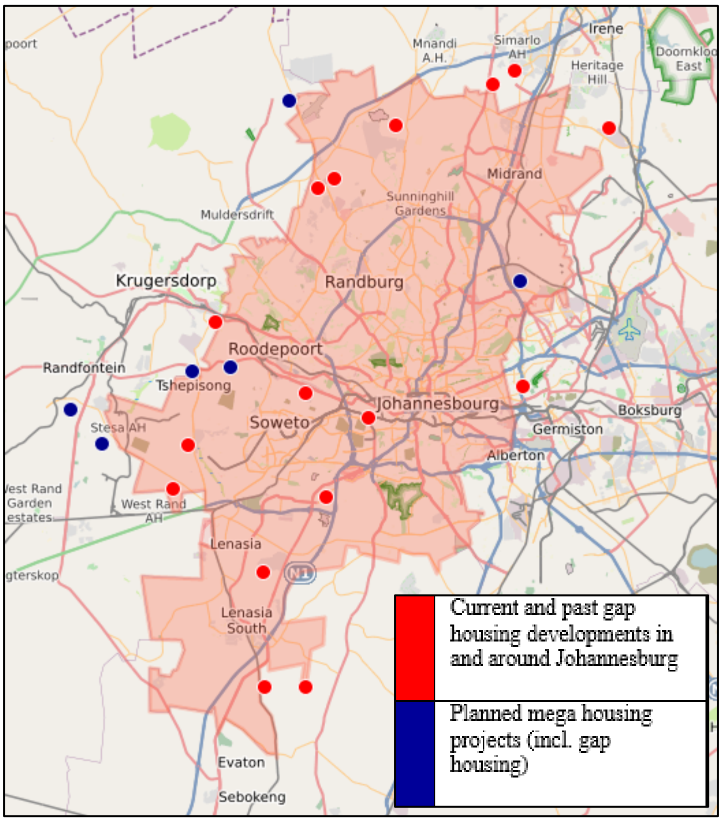
A general view shared was that it is impossible to develop and build a new house for less than R400 000 in Johannesburg. Therefore, the bottom end of the FLISP qualifiers, those earning between R3 500 and R12 000 (R14 300 according to this author's calculations), cannot be serviced in the new house market.

A number of developers found that their clients, typically first time buyers, were very excited to move into their houses. Soon after taking ownership, a number of alterations and additions are often made.

4.3.3 Location of projects

The majority of gap housing developments done by the companies included in this study are located close to the edge of the City of Johannesburg municipal boundary. Figure 14 shows the locations of the projects relative to the municipal boundary. Three of the projects shown are within 20km of the city centre and only five within 20km of the Sandton CBD. The GPHS in 2017 announced a number of so-called mega cities that are planned for the future and contain large amounts of gap housing units, some as much as 3 500 units. The locations of these are shown as well.

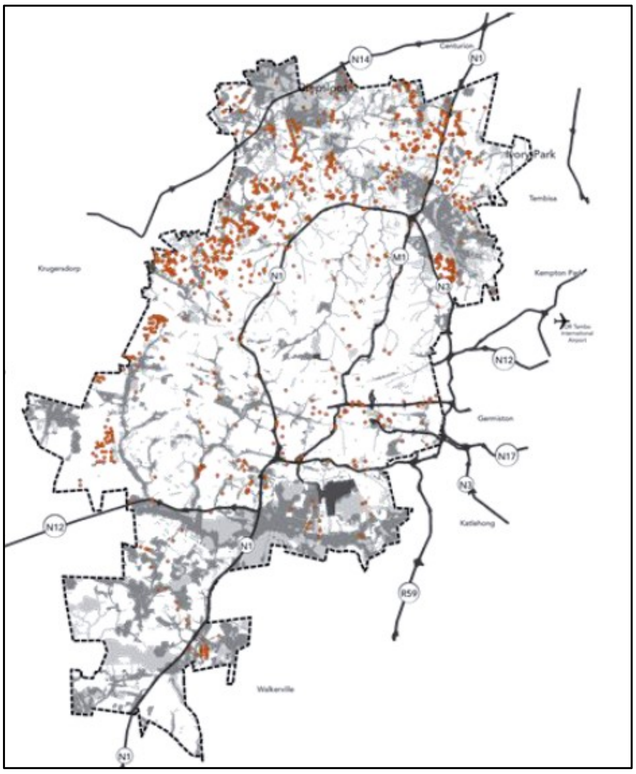
Figure 14: Location of gap housing projects of participating developers



(Source: Map data copyrighted OpenStreetMap contributors; MDB 2013)

The location of the projects loosely correlates to areas where applications were made for the establishment of townships, as shown in Figure 15. They tend to be closer to the less developed edge of the city boundary. The majority of applications were made in the north, western and north-western belt of the city. The source of this map does not state the time when these applications were made.

Figure 15: Township establishment applications in Johannesburg



(Source: City of Johannesburg Metropolitan Municipality 2016)

A number of reasons were given by developers for how the locations of their gap housing projects are determined. These included whether the land under consideration is serviced, what the cost would be to service the land, how accessible the land is, proximity to employment opportunities, proximity to social and religious amenities, being inside the urban edge and environmental constraints.

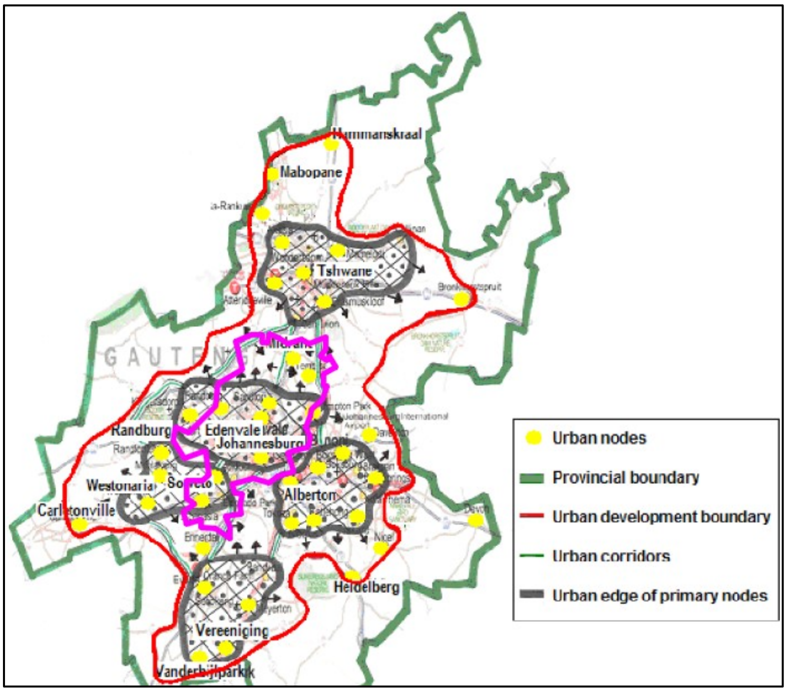
The most important factor determining the location of a project, according to all respondents, was the price of land. It was clear from talking to the developers that it is almost impossible to develop a freehold residential unit within the boundaries of Johannesburg for less than R400 000. The cost of constructing an 'entry-level' house and installing services is just about fixed. All developers who were willing to say how much they spend on these two factors reported roughly the same figures. The holding costs of the land while waiting to get a township approved by the city council depends on the time it takes for approval. However, the cost of land is a variable that can be controlled to a degree by the developer.

Two of the developers stated that in Gauteng, the location of gap housing is of secondary importance, as long as it's within the urban edge. The more important factor is the cost of land, and more specifically, serviced land. Both of these developers, however, were, at the time of interviewing, busy with mega-projects with over 10 000 units. These projects are so large that their sheer scale perhaps makes location less important.

One experienced developer also highlighted the importance of environmental and geotechnical conditions of sites. Anecdotes were given of how they've had issues with dolomite and being too close to watercourses and wetlands which ultimately had a significant detrimental effect on the cost of their projects.

Figure 16 shows the urban development boundary of the Gauteng province. The Johannesburg municipal boundary is wholly contained within the provincial urban boundary. All the projects identified in Figure 14 fall within this urban boundary.

Figure 16: Urban development boundary of Gauteng (Johannesburg in pink)



(Source: adapted from Cilliers 2009)

4.3.4 Involvement in public-private partnerships

Of the seven developers interviewed, two are or have been involved with public-private partnerships (PPP's). PPP's are agreements between public and private sector institutions where the private sector performs a function that is typically provided by the public sector and/or uses state property. Both of the companies involved with PPP's are large companies capable of delivering in excess of 2000 housing units per year. The sentiment from these companies was that PPP's are an important tool for infrastructure development at a large scale. Without these partnerships, mixed income developments containing fully-subsidised units are not possible. PPP's can significantly reduce the risks of developing and can assist in accessing funding. However, both companies stated that this type of arrangement only works if there is a good working relationship between government and the private developer, as well as a long-term goal in mind.

Three developers are not involved with PPP's, the reason being that their projects are not large enough to justify this sort of arrangement. The remaining developers shared negative sentiment towards the PPP concept. Company 2 stated that they do not like doing business with the government since they tend not to pay on time, while the business model of Company 1 is built around managing the entire development value chain and being in control of as many of the processes and decisions as possible.

4.3.5 Project funding

Gap housing developments can be broken into two main stages that typically requires two different types of funding. The first development type, land development, involves acquiring, servicing and rezoning land and is dependent on what the industry calls development finance. The second development type, top-structure development, involves the construction and sale of housing units. Developers tend to make use of different sources of finance for these two types of developments.

A number of the companies interviewed stated that they receive top-structure funding from a variety of banks. Most of them reported having good relationships with some or all of the co-called ‘big four’ banks in SA, namely Absa, Standard Bank, Nedbank and First National Bank. Some companies require a house to be sold from plan before construction starts, and the client’s mortgage is then used to pay for the top-structure construction.

The overall sentiment from companies was that accessing development finance is more complicated than top-structure finance and a wide range of funders are often used. When it comes to development finance, funders are more likely to work with developers with whom they have a longstanding relationship and who they know are experienced. Some of the funders that were named include Old Mutual’s Housing Investment Partners (HiP) Fund, the National Urban Reconstruction and Housing Agency (NURCHA), the National Housing Finance Corporation (NHFC), the ‘big four’ banks and the Department of Human Settlemenst (DoHS) in public-private partnerships (PPP’s). NURCHA is a development finance company, funded by the government that provides development finance to contractors and developers who operate in the subsidised and affordable housing markets.

One developer noted that the banks typically require presales of 10-20% of stands before development finance will be made available for a project. This is seen as a problem, due to the difficulty in selling lots before any servicing has taken place.

Another developer stated that all the banks have different criteria for giving finance, which makes applying to more than one institution difficult and time-consuming. This particular developer gets development funding from one bank and this bank only has about six land development clients in the affordable and gap market.

The companies who make use of PPP's reported various ways in which the government is involved in projects. Company 3 referred to a project where the City of Johannesburg gave land with the condition that a number of fully subsidised and credit-linked houses be developed. Company 6 stated how they received a subsidy to cover the costs for services for all their subsidised housing units.

4.3.6 Project marketing and sales

The sales and marketing strategies used by the six companies involved in top-structure developments varies somewhat, although there are similarities in strategy between similar sized projects. Company 3, involved with only land developments, have good working relationships with a number of top-structure developers and does not market to a significant extent.

On smaller projects, typically done by the smaller developers, there is an inclination to use external marketers and estate agents to sell top-structures. In some cases, a land developer would sell portions of land to different top-structure developers. Two of the smaller top-structure developers mentioned that they are likely to make use of the marketing done by competing developers in the same area to sell their units.

On larger developments, the strategy differs. Two developers makes significant use of their internal marketers and estate agents to sell their units. They would use billboards and pamphlets in the areas of their developments and even set up websites for their projects. One of these developers mentioned that the bulk of their employees work in the marketing department.

In contrast to the above, one developer involved in a so-called ‘mega-city’ mixed residential development stated that after an initial round of marketing, they don’t need to market their units any further. As their project has gathered momentum, word of mouth marketing in the area has made people aware of the project. However, this might only be possible with projects of a certain size.

4.4 Issues with the gap market

Developers experience a number of issues in the market that they feel, if solved, will facilitate higher delivery and more affordable housing units in Johannesburg. This section describes the difficulties faced by gap housing developers in general, issues specific to up and coming developers and issues with accessing FLISP subsidies.

4.4.1 Difficulties with gap housing development

A number of problems with the market were reported that makes the industry difficult to work in, expand in or enter. Access to well-priced serviced land is a universal issue reported by the majority of developers. The price of the land itself can be excessive, but it is more often the time and cost of servicing land and establishing it as a township that escalates the end-user cost per house significantly.

The costs of bulk and link service contributions are excessive and there used to be confusion around how these costs were calculated by the CoJ, although this has been clarified to some extent. Costs of R60 000-R80 000 per house were reported for bulk and link service connections on recent projects in Johannesburg.

The township establishment process can be time consuming. Company 2 reported that it had to, at times, wait up to a year to get a Section 82 certificate from CoJ. Section 82 refers to a certificate from the municipality that states that all conditions have been met regarding the establishment of the township and arrangements have been made for installation of services. Furthermore, it signifies that transfer of stands has been authorized and building plans have been accepted, In this particular case, the interest that had to be repaid on the loan for that time was R20 000 per stand, which ultimately had to be paid by the client.

Developers have to compete with the subsidised market to an extent, especially in mixed-income developments where fully-subsidised BNG units are in close proximity to gap units. Both BNG and entry price gap units tend to be the same size ($40m^2$). The finishes on the gap houses, however, are usually slightly more expensive. Some developers have found that there is a perception amongst some of their clients that they feel they shouldn't be paying for something that others are getting for free.

Property development is a capital intensive and risky business and the risks associated with a project must be priced into the financial model. Developers can manage and control, to a certain degree, the cost of land, professional services, construction and marketing; but there are uncertainties with regards to council processes that cannot be controlled. This makes it difficult for developers without significant cash reserves, and the end-user ultimately pays the cost of the risk.

4.4.2 Barriers to entering the market

Apart from the issues pointed out above, there are numerous others, raised by the established developers that keeps new developers from entering the market successfully. The most daunting, perhaps, is the difficulty in accessing finance, especially development finance. The process of applying for a finance from a bank, is complex and banks tend to be risk averse, as can be expected. One developer stated that the bank they typically use has about six developers they fund and are happy with the size of their share of the market.

Property development is capital intensive and new, small entrants do not have the capital to see them through the risks posed, especially by council taking long to approve applications. Holding costs of land while waiting for council approval can waste valuable capital funds. Company 2 quoted an emerging developer as saying that “the process simply beats us down.”

Writing in the SA Affordable Housing Magazine, Harry Gey van Pittius (2017), South African Affordable Housing Developers Association (SAARDA) committee member, stated that affordable housing developments are becoming more capital intensive. In recent years, bulk and link service contributions have started to make up a larger portion of the overall development cost. In the past, local authorities used to take out loans to cover the costs of bulk infrastructure installations, which the residents then repaid as part of their rates over a period. However, bulk infrastructure was not seen as a high priority and these loans were often used for other purposes.

With the introduction of the Spatial Planning and Land Use Management Act (SPLUMA) in 2013, the handling of funds for bulk services changed. According to the Act, bulk contributions now have to be calculated on the date of proclamation of a township and needs to be payed when submitting a Section 82 certificate. The contributions are not regulated by government, with the result that metros and councils can determine their own bulk service contributions. The extra and sometimes unpredictable contribution costs can add risk to developers, and especially emerging developers (Gey van Pittius 2017).

Five of the developers interviewed stated that scale plays an important role in the financial viability of gap housing developments. Larger developers can negotiate better prices from suppliers and contractors, and can afford lower profit margins. They are more equipped to utilise the benefits of economies of scale. Large, established developers can also create their own projects, while smaller top-structure developers, for example, are more dependent on the availability and affordability of serviced land. However, developers do have different opinions of what a large development is and the term is clearly relative. For some developers, a 1000 property development is seen as large, but for others, especially in light of the planned Mega Projects in Gauteng (GPHS 2017), a 10 000 unit development is seen as large.

In contrary to the above, one developer downplayed the importance of scale, especially with mixed income developments. The ratio between subsidised, FLISP and bonded housing becomes more important, especially if units are cross-subsidised internally. Managing the cost of bulk and link service contributions is more important than scale, since these costs tend to make or break projects.

4.4.3 Accessing the FLISP subsidy

Developers have varying opinions on the use and accessibility of the FLISP subsidy. Some developers are frustrated with the NHFC and the DoHS, complaining that the time to process applications is excessively long and the process tedious. One developer noted a few instances where their clients were so disgruntled that they had to, in the end, use alternative sources of finance to pay for their houses. Companies 3 and 6 noted a recent improvement in the process, but others stated that things have remained largely unchanged.

Not all developers had a negative perception of the subsidy process, though. Two of the larger developers interviewed reported a positive relationship with the NHFC and quick turnaround times for applications. There is, however, a perception, as noted in Section 4.3.2, that the FLISP subsidy scheme is not sustainable and some developers are uncertain of how much longer it would be available.

The biggest shortcoming of the FLISP subsidy is that it serves a too narrow band of people. In practice, only those earning between R12 000 and R15 000 can access the subsidy, while households earning R3 501-R12 000 are effectively excluded. The value of R12 000 reported by developers seems to include a 10% saving contributions towards the house price, according to this author's calculations. If no savings contribution is made, the value should be closer to R14 300.

4.5 Possible interventions to increase gap housing delivery in Johannesburg

Numerous suggestions were made by developers to enhance the delivery of gap housing by the private sector. These ranged from improvements to the FLISP subsidy, to administration reform within the city council, to alterations to the manner in which banks grant loans to gap housing applicants.

Increasing the income qualification range for the FLISP subsidy was seen by some developers as a possible positive intervention that would allow more households to access the subsidy. Earlier in this report it was mentioned that the upper income limit of the subsidy might be changed to R18 000 in the near future. Some developers welcomed this possibility, while others stated that an increase in the subsidy amount given should rather be investigated. For example, instead of households earning R3501 being eligible for a R87 000 FLISP subsidy, this value should be increased, which would benefit lower income household more. The FLISP application process should be streamlined as well to speed up access to funds.

As stated in Section 4.4.1, a significant portion of the end-user cost of a new gap house lies in the cost of the services. A bulk services subsidy would enable developers to lower house prices by the value of the subsidy given – leading to a direct saving to the client. A quicker township approval process and lower bulk and link services costs would also lead directly to lower selling prices.

Gey van Pittius (2017) suggests that bulk service contributions should be divided into three classes. The bulk service contributions for fully-subsidised (i.e.

RDP/BNG) housing should be fully subsidised, and partially subsidised for affordable or gap housing. Only traditionally financed housing should then be charged the normal bulk service contribution rate.

Another suggestion made was to encourage banks to lower the interest rates they charge their gap housing clients, while simultaneously limiting short term credit providers to give out loans too easily. This would enable a wider range of clients to qualify for mortgages and consequently, FLISP subsidies.

One developer noted that people are ill-informed about good credit behaviour. Many of their clients are unaware that late payments of retail accounts, for example, negatively affect their ability to access mortgage finance. A nation-wide educational campaign could help foster good credit behaviour.

A suggestion was also made to overhaul the whole subsidy policy. The upper income limit of the BNG subsidy should be increased so that the bottom end of the current gap market can access housing more easily. Furthermore, the use of FLISP subsidies for RES 3 type developments should be encouraged, since the subsidy is available for sectional title purchases as well. According to one developer, these units should cost less due to a lower land and servicing cost and thus enable lower income earners to access new housing. However, this would not necessarily be the case, since higher structures cost more and the saving on land might be offset by the increased cost of the housing structure.

4.6 The role of private companies in helping their employees in accessing gap housing

Developers have a wide range of experiences with regards to the role that other private companies are currently playing in assisting their employees in acquiring gap housing. A number of developers referred to initiatives launched by some of the large gold and platinum mining companies in providing housing assistance to their employees, but most of these fall outside of the geographic boundaries of this study and will not be covered in further detail.

Three of the companies interviewed have been approached by private companies where interest was shown in buying a number of houses for their employees. Company 2 reported that it had sold 20 houses to another company where the employer had paid for the deposits on the units.

Company 7 referred to a construction company that had assisted their employees to buy gap houses using both the FLISP subsidy and the HiP mortgage product offered by Old Mutual (and briefly discussed in Section 2.2.3). The developer could, however, not say to what extent the company provided help to their employees.

One developer knew of a large engineering firm who was investigating how to assist their employees to access gap housing by informing them of the FLISP subsidy, educating them on how credit works and using their Corporate Social Investment (CSI) to contribute with deposits. Once again, the extent to which this was done could not be established.

The general sentiment from developers was that private companies, with the exception, perhaps, of mining companies, helping their employees with housing is not a regular occurrence. The above-mentioned examples are more exceptions than rules.

4.7 Summary

This chapter aimed to give a structured overview of the feedback gathered from having semi-structured interviews with a range of private sector developers operating in the gap market in Johannesburg. The chapter started by presenting a brief profile of each participating company. The companies who participated in this study vary in size and the type of developments they are involved with.

The following section presented a detailed discussion of various aspects relating to gap housing in Johannesburg, from the perspectives of developers. These aspects includes their definitions of the gap market, their perceptions of the market, the locations of their projects, their involvement in PPP's and how their projects are funded. Developers had various definitions for the gap market, but overall, in their minds, the gap market and FLISP market is roughly the same market. For the most part, developers had a positive perception of the market in terms of size on future growth, although they mentioned a number of issues that make developing more difficult. The three largest issues identified was the high cost of bulk service contributions, process delays and access to funding.

A section discussing how the state can assist developers in delivering more gap housing in Johannesburg was also included. Feedback differed widely from developer to developer and every developer had a different suggestions as to what subsidy intervention would benefit them and their clients the most.

The last section in the chapter discussed the way in which private sector companies are currently, and can in future, assist their employees in accessing gap housing. With the exception of large mining companies, developers had few examples of private companies assisting their employees with accessing gap housing. The next chapter presents an analysis of the results.

5. THE ROLE OF THE PRIVATE SECTOR: AN ANALYSIS OF RESULTS

5.1 Introduction

A literature study was presented in Chapter 2 to contextualize the problem under investigation. Chapter 3 presented a research methodology and the results of the study were discussed in Chapter 4. This chapter seeks to analyse the results of the research and literature to answer the research questions discussed in Section 1.4.

The chapter consists of five more sections. The first four sections are dedicated to answering the main and sub research questions, while the final section presents a short summary.

5.2 The role of the private sector

This section aims to answer the main research question. This is done by discussing how private developers see the gap market and what products they offer. An estimation of the size of the gap market in Johannesburg is also attempted. Lastly, an analysis is presented that seeks to clarify the optimism shown by developers towards the gap market.

5.2.1 How developers see the market and what they offer

For the most part, developers tend to define the gap market strictly according to the FLISP income ranges of R3 501–R15 000. However, one developer proposed using an upper income limit of R18 000 to define the gap market, since calculations show that currently, only households earning R14 300 and above can afford a R400 000 house, assuming a contribution of 28% of income to covering a mortgage and reasonable interest rate. If a worse interest rate is obtained, or the ratio spent on mortgage is lowered only slightly, a household needs to earn considerably more to afford the same mortgage (see Figure 7, p.31).

It should be noted that the upper income limit of the FLISP subsidy has remained at R15 000 since 2012. However, construction costs (and consequently new build house prices) have since gone up (CIDB 2017) and the portion of the gap market who can afford to buy a new house using a FLISP subsidy has effectively decreased year on year. Adjusting for inflation, as per Statistics SA (2017b), the upper income limit of the subsidy should be roughly R18 500 in 2017. However, it is not certain how the R15 000 upper income limit was calculated in the first place. This author recommends an upper limit of R18 000 for defining the gap market. This would allow households who can access a reasonable interest rate (prime +1%) to afford a house of R470 000. However, this calculation is highly sensitive to the portion of income spent on housing and interest rate used. A household earning R18 000, but who can spend less on housing (arguably 25% of income) and gets a worse interest rate (prime +2%) will only be able to buy a house of R402 000.

What developers offer

For the most part, developers in Johannesburg use the FLISP income indicators to define the gap market, although some also used an upper income of R18 000. However, developers are only able to sell new houses in Johannesburg for about R400 000. A few instances were found south of Ekurhuleni and in the West Rand District Municipality of houses selling for R380 000. Figure 17 shows entry-level freehold title houses available in Johannesburg in 2017.

Figure 17: New gap houses available in Johannesburg (freehold title)

40m² house in Savanna City – R400 000 *(Property24 2017a)*	40m² house in Stretford – R 408 000 *(Property24 2017b)*

Developers are acutely aware that they can only provide the highest earners in the gap market with new freehold houses. Numerous developers stated that only those earning above R12 000 can effectively access housing. However, calculations show that this figure should be closer to R14 300 (Section 2.3.1). There are, of course, other options for those in the lower end of the gap market to access housing. These options include sectional title houses (such as townhouses and apartments), the second hand market and rental options. Developers in Johannesburg have started to develop sectional title apartment units, although none could be found that are significantly less expensive than similarly sized freehold units. Figure 18 shows a development in Fleurhof, in the west of Johannesburg, where 40m^2 apartment units are available for R365 000, affordable to households earning R12 700 (assuming an interest rate of 11.5% over 20 years). Another development that sells 22m^2 apartments for R250 000 is currently under construction in Soweto. These units would be affordable to households earning R7 000, although they only have one bedroom.

Figure 18: Sectional title development in Fleurhof 40m² – R365 000

(Source: Property24 2017c)

<u>*The second hand market*</u>

Although this report is primarily concerned with discussing new houses in the gap market, the importance of the second hand market should be noted as well. The second hand RDP (or fully-subsidised market) is especially worth mentioning. A quick search on PrivateProperty.co.za and Property24.co.za reveals that there are two bedroom houses for sale in the R180 000 – R220 000 price range (R3 600 – R5 600 income) in the second hand market, predominantly in the south and south-west of Johannesburg. These units are older than 8 years, since RDP units cannot be sold within the first eight years of taking ownership (Republic of South Africa 1997). Roughly 24% of all houses on the deeds registry are RDP, or fully-subsidised, units (CAHF 2015c). However, only half of units that have been delivered were registered by 2011, and should all of them be registered, the RDP share of the deeds registry would increase to 38% (ibid.). Although the second hand entry level housing stock is clearly high, these units tend to be resold at a low rate. Data from 2010 indicates that the churn rate of houses with values of less than R250 000 was 0.9% nationally and 0.56% in Johannesburg, roughly 4 times lower than houses with values of more than R500 000 (AL+HDC 2012). From an affordability point of view, these second hand RDP units can be a possibility for households in the lower end of the gap market, although supply is probably limited and access to traditional mortgage finance might be difficult to obtain.

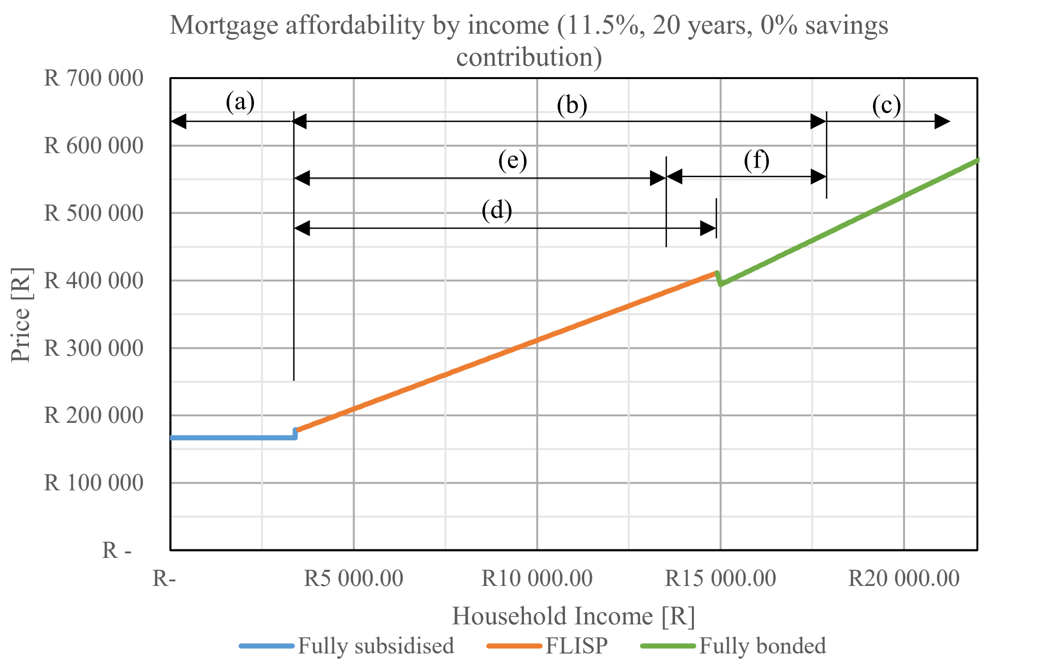
The second hand RDP market can be beneficial to those households selling their RDP units with the intention of moving up the housing ladder. Households selling their houses for R180 000 and looking to buy a R400 000 will need to earn only R5 600 to qualify for the R220 000 shortfall required. A significant portion of the gap market can potentially make use of this mechanism. The sale of RDP units at prices below the new build market would add valuable stock to the market that would be more within reach of the gap market that cannot afford new units (CAHF 2015c).

A summary of the market

The gap market is dynamic and complex to define accurately. Different organizations have different opinions of what constitutes the gap market. Figure 19 attempts to illustrate how this author sees the gap market. In terms of income, the gap market (b) income band stretches from R3 500 – R18 000. The gap market contains a relatively small serviceable (f) band, roughly R14 300 – R18 000, that can theoretically afford new houses on the market. The unserviceable band (e) cannot afford new houses on the market. They can, however, theoretically afford to buy in the second hand market and rent in the social housing market. The FLISP market (d) forms part of the gap market, although the majority of the market falls outside of the serviceable income band.

It should be noted that all calculations about housing affordability is based on contribution of 28% of income to housing. In practice, a considerable portion of the market have a housing affordability lower than their income suggests due to high levels of indebtedness (CAHF 2015c).

Figure 19: The lower end of the housing market unpacked



(a)	Fully subsidised market	(b)	Gap market	(c)	Affordable market
(d)	FLISP market	(e)	Unserviceable gap market	(f)	Serviceable gap market

5.2.2 The size of the gap market – making sense of the numbers

From Section 5.2.1 it is clear that the gap market is fragmented and that various housing solutions are needed to provide for the different income bands. The size of the gap market in Johannesburg will now be analysed in further detail. The number of households in the gap market in Johannesburg was estimated as 385 000 in Section 2.4, while roughly 130 000 of these households live in 'inadequate housing'. As stated earlier, private developers can only deliver houses at the bottom range affordable to households earning R14 300 and more. Therefore, although there is a shortage of 130 000 houses, only a round 11% (Eighty20 2015) or 14 300 of those households can afford to buy a house brand new. This estimation, of course, assumes that households living in inadequate dwellings have the same income distribution as the remainder of the gap housing market.

In 2016, about 31 000 mortgages were approved with values of less than R350 000 (Table 4, p.21). The NCR (2017) indicates that 43% of all credit is given in Gauteng. Taking into account that 37% of Gauteng households are based in Johannesburg and assuming a uniform credit distribution, it can be estimated that roughly 5000 mortgages below R350 000 were granted in Johannesburg in 2016. In 2009, about 40% of bond registrations in SA were for new properties (AL+HDC 2010). Assuming the same proportion in 2016, roughly 2000 new bonds were registered for values less than R350 000. It is assumed that the bulk of these bonds were used for housing in the gap range. One developer stated that the whole industry countrywide delivers about 15 000 units per year. Johannesburg has 10% of the countries' households (Statistics SA 2017a), therefore roughly 1 500 units can be expected to have been delivered in Johannesburg; slightly more if you consider Johannesburg's higher than average income distribution (Statistics SA 2012).

Only 818 FLISP subsidies were awarded in Gauteng in 2016 and given the poor uptake that has been reported by developers, 2000 new gap houses delivered in Johannesburg is, perhaps, not unreasonable. What is clear from the above is that the gap market in Johannesburg is sizeable. Furthermore, although developers should be applauded for the scale at which they have been delivering gap houses, they are still falling short of the demand.

Some developers overestimated the size of the gap market in Gauteng. As stated in Chapter 4, one developer claimed a total gap housing shortage of 800 000 units in Gauteng, while another claimed that 50% of Gauteng's housing market lies in the gap market. Based on the method followed above and information from Eighty20 (2015) these values should be closer to 350 0000 and 25%, respectively.

This section has tried to put the gap market in Johannesburg into perspective. When asked about the size of the market, five developers were hesitant to provide numbers. Most only stated that the market is very large. The two that did give numbers for the market size where, perhaps, overoptimistic. From the above it is clear that developers are correct in that the market is very large and that there is significant potential for growth on the supply side.

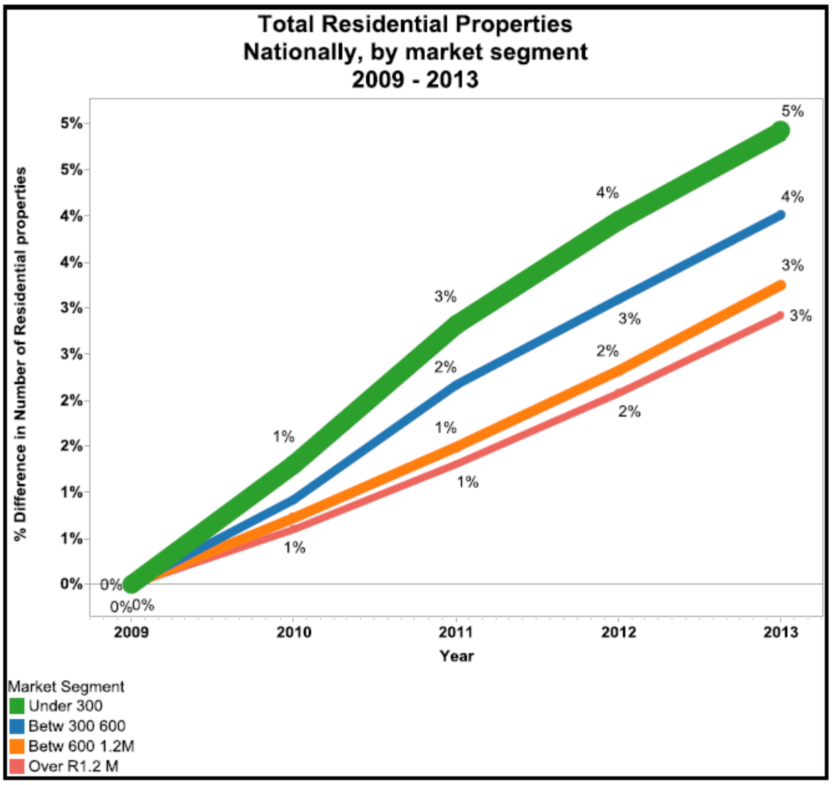
5.2.3 Optimism abound – the developers' perspective

As reported in Chapter 4, developers generally had an optimistic perception of the gap market. The previous section looked at the size of the market. This section aims to resolve why developers have such an optimistic view of the market by looking at past trends and future outlooks.

Historical data indicates that, prior to 2013, the affordable and gap residential markets in Gauteng's metros were growing faster than the overall market (AL+HDC 2012; CAHF 2015a). As shown in Figure 20 and Figure 21 the below-R600 000 market (covering the entire gap market) grew the most in terms of numbers and value on a national level. The difference in growth between the lower end of the market and the upper end of the market in both graphs can partly be blamed on the credit recession of 2009 (CAHF 2015a).

More recent data could not be found, but it expected that these trends might have died down a bit. From Table 4 (p. 21) it can be seen that the number of mortgages awarded countrywide in the 0-R350 000 and R350 000-R700 000 ranges reduced slightly year on year as a portion of the total number of mortgages given, between 2015 and 2017. This might be caused by a housing market recovering from the 2008 credit recession.

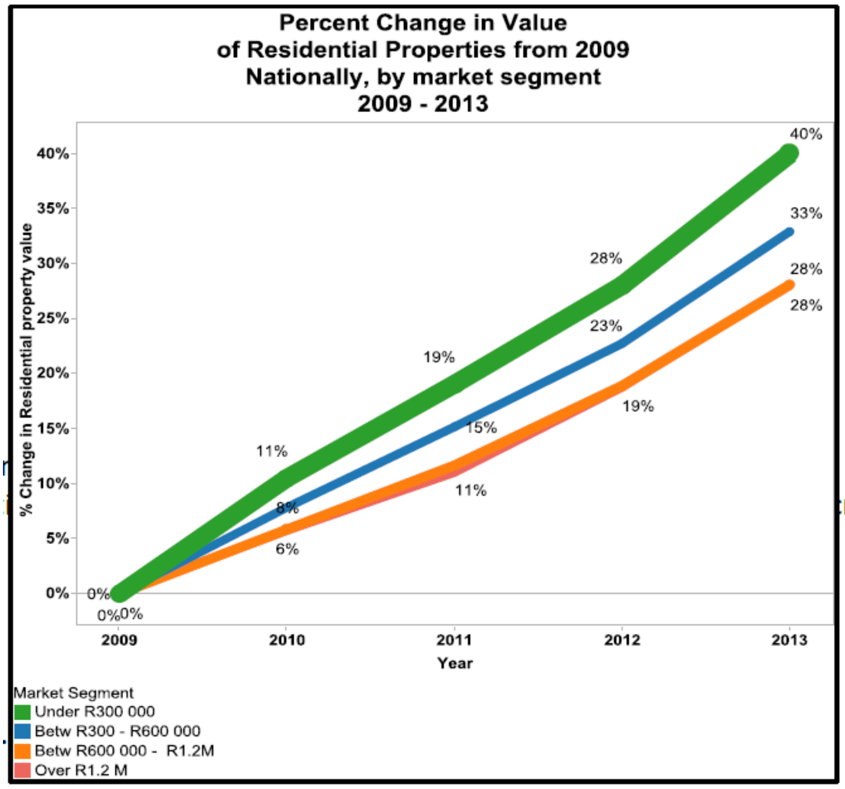
Figure 20: Growth in number of residential properties (2009-2013)



(Source: CAHF 2015a)

Considerable future growth is expected, especially in terms of number of new units. According to the 2017 Budget Speech, sufficient budget has been allowed to ensure the delivery of 66 554 FLISP subsidies countrywide by 2019, roughly 33 000 for the 2017/2018 and 2018/2019 financial years, respectively (National Treasury 2017). As shown in Table 6 (p. 32), roughly a third of FLISP subsidies granted in 2015/16 were in Gauteng – leading to an expectation of roughly 11 000 units 2018/18 and 2018/19 as well. As stated in Section 5.2.2, 37% of Gauteng households reside in Johannesburg, so the delivery figure can be further adapted to 4070 units expected per year in Johannesburg for the next two years.

Figure 21: Growth in value of residential properties (2009-2013)



(Source: CAHF 2015a)

Furthermore, the Gauteng Department of Human Settlements released a report in 2017 that outlines a number of mega projects planned in Gauteng in the next few years. Five are planned within the municipal boundaries of Johannesburg and the two projects with data available will have in excess of 3 500 FLISP units each.

From the above is clear why developers have such an optimistic view of gap market. Although some developers were sceptical about the sustainability of the FLISP subsidy, but judging by the number of subsidies budgeted for the next two years, developers have little to be concerned about, at least in the short term.

5.3 Challenges faced by the private sector

This section aims to answer the first and second sub-questions, as discussed in Section 1.4. Both questions are intrinsically linked and are concerned with difficulties developers face while doing gap housing developments. Sub-sections are included that discuss the cost of bulk services, the cost of land, access to development finance and access to mortgage finance. A brief sub-section discussing issues faced specifically by emerging developers is included as well. Lastly a brief breakdown of possible interventions that might be beneficial to both developers and clients, is discussed.

5.3.1 The cost of bulk service contributions

The majority of developers who formed part of this study mentioned the cost of serviced land as one of the main contributors to the high cost of gap houses. Rwida (2011) stated that roughly 33% of the cost of a gap house goes towards the cost of serviced land. Of the 33%, 4% is for the cost of land, 23% for the cost of bulk services and the remaining 6% for internal services. Clearly, the cost of bulk services is the single largest contributor to the total cost of serviced land.

Developers stated that bulk service contributions have escalated significantly in recent years. Harry Gey van Pitius (2017), chairman of the South African Affordable Residential Developers Association (SAARDA), even wrote an article in the SA Affordable Housing magazine titled 'RIP affordable developers', outlining how the rising cost of bulk service contributions is making it more difficult for developers to operate in the affordable market. In this instance the term 'affordable' is inclusive of the gap market.

Once source states that the cost of electricity connection contributions costs in some municipalities had escalated by 4500% in the 10 years leading up to 2015 (Infrastructure Dialogue 2015). Countrywide, other contribution costs, such as water, sewerage and roads, did not increase significantly, but there was a disproportionately high increase in contribution costs in 2014 (ibid.). Therefore, it is highly likely that Rwida's 2011 estimate has grown to more than 33% in recent years.

Developers stated that there is uncertainty about how bulk service contributions are calculated, although one developer was of the opinion that the calculation method had been clarified by the City of Johannesburg to some extent in recent years. According to Graham & Berrisford (2015), development contributions are a contentious topic for municipal engineers and they are inconsistently applied.

In the past, local authorities used to obtain loans to install bulk services. These loans were then repaid using a portion of the monthly rates, paid by residents (Gey van Pittius 2017). However, things have changed in recent years. According to the Spatial Planning and Land Use Management Act (SPLUMA), introduced in 2013, bulk service contributions must be calculated on the date of proclamation of a township and is payable on the date of submission of Section 82 (Gey van Pittius 2017). However, the costs of contributions are not regulated and there is uncertainty as to how these costs should be calculated (South African Property Owners Association 2015). Studies undertaken by SAPOA (n.d.; 2013) to establish the cost of developing residential stands in different municipalities shows a difference of up to 50% in the cost of service contributions. Gey van Pittius (2017) states that not only is the uncertainty with regards to how contributions are calculated a significant problem for developers, but the escalating costs of contributions as well.

As shown in Figure 3 (p. 9), the CoJ is located close to two other large metropolitan municipalities. Some of the developers who participated in this study have projects in more than one of these municipalities. According to the Dykes van Heerden Group (2017), each municipality has its own by-laws with regards to township establishment and bulk service contributions are not calculated in the same manner (ibid.). Administratively speaking one would assume that the processes are different between the various municipalities. None of the developers mentioned anything about costs and processes differing between the various municipalities, but it might be worth investigating further.

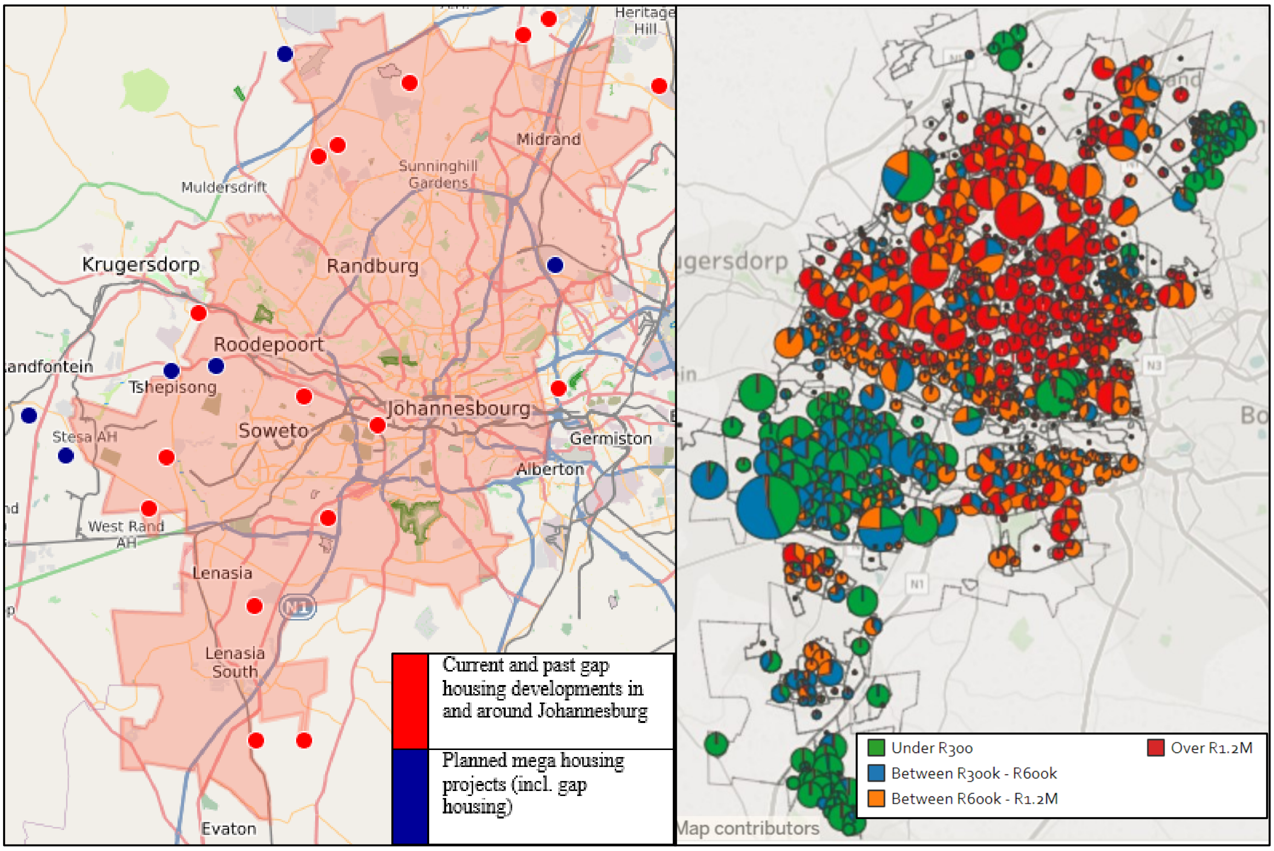
Developers mentioned very little about the cost of constructing houses. This might be due to the fact that the cost of construction is always increasing and in the years 2005-2015, the increase has been at rates close to inflation or CPI (CIDB 2017). So it might be that developers saw the increasing cost of construction as obvious and not needing to be mentioned. When asked about using alternative methods and materials, a few developers stated that it does not work in SA, mainly because of labour issues.

5.3.2 The importance of location and cost of land

The location of some gap housing developments were discussed in Section 4.3.3. The majority of developments were shown to be close to the edge of the municipal boundary, with only a handful being relatively close to the Johannesburg and Sandton CBD’s, where the majority of economic activity in Johannesburg is concentrated.

Attempts were made to compile a map showing land prices in Johannesburg. However, the data gathered was of poor quality and the map would not have added much value to this report. However, data about the cost of houses could be obtained as a second best alternative. Figure 22 shows both gap housing developments in Johannesburg, as well as house prices in Johannesburg. Larger circles indicate a higher density. As can be seen in Figure 22, gap housing developments in the west and south-west of the City are in so-called affordable areas (< R600 000). In contrast, the developments along the north-west of the City boundary are in more expensive areas. However, these developments are all mixed-use developments including fully-subsidised and fully-bonded units where the bonded units are typically used to internally cross-subsidise the rest of the development. The Gauteng Province Human Settlements (GPHS) in 2017 announced a number of so-called mega cities that are planned for the future and contain large amounts of gap housing units, some as much as 3 500 units. The locations of these are shown as well.

Figure 22: Gap housing developments and house prices in Johannesburg



(Sources: Map data copyrighted OpenStreetMap contributors; MDB 2013 (left); CAHF 2015b (right))

The City of Johannesburg cannot, of course, be viewed in isolation. Three of SA's eight Metropolitan Municipalities are located in Gauteng, within less than an hour's drive from each other. The City of Johannesburg, City of Tshwane and Ekurhuleni together house one fifth of the countries' population (Statistics SA 2017a). There is considerable movement between these cities on a daily basis. Figure 3 (p. 9) shows all the Metropolitan and District Municipalities in Gauteng. There are gap housing developments all around the three Metropolitan Municipalities. Further investigation is required to establish how these municipalities interact in terms of gap housing, but that falls outside the scope of this report.

Gauteng alone accounts for 35% of South Africa's economic output (Gauteng Province Treasury 2014). The bulk of this is concentrated amongst the three metropolitans. This would explain why some developers felt that location is not so important. As long as a development is within a reasonable distance of the cities, it should succeed. The price of land, and especially serviced land, is considerably more important, as echoed by almost all of the developers interviewed.

5.3.3 Access to finance for developers

The companies who participated in this survey noted that, although banks and other finance providers have very strict loan criteria, they did not struggle too much to access funding. However, these companies are all relatively established and the majority of them mentioned the good relationships they have with the financial institutions. A few of the smaller companies who participated mentioned that they only use one bank for financing, since all the finance providers have different criteria. The larger companies make use of a wider spread of finance sources.

It is clear from the interviews that established developers are of the opinion that emerging developers have a much harder time accessing finance. One developer in particular noted how the bank they use for development finance only has about six developers on their books. This particular bank sees their exposure to the gap market as sufficient and would not easily consider lending to an emerging developer they do not know.

Developers also have to put down a significant portion of their own money before financial institutions would consider giving development funding. For small and emerging developers, this can often be a stumbling block. The older, more established companies have often built up large reserves and can afford to put down larger sums of money and are more easily able to absorb shocks from changes in the market and poor decisions.

In an interview with Property24 (2014), Gary Palmer, CEO of Paragon Lending Solutions, stated that banks were wary of residential developers following the credit recession of 2008-2009, mainly due to bad debt that had been accumulated during the recession. Instead, they opted to lend to developers operating in the commercial market, which was seen as having lower risk. Palmer states that in the year or two prior to 2014, the focus had started to shift back towards the residential market.

Mphigalale (2015) notes that emerging developers in Gauteng struggle considerably with accessing development finance. They feel that banks have overly strict lending criteria and that the state should intervene somehow to assist them. However, these strict lending criteria is probably in place to guard financial institutions from lending to inexperienced developers with unproven track records.

The state does play a role in providing funding to developers, although at a much smaller scale than is preferable. The National Urban Reconstruction and Housing Agency (NURCHA) was established in 1995 as a fund that could bridge the financing gap between banks and poor South Africans with regards to accessing funding for housing (NURCHA 2016a). As a state-owned enterprise, it has changed over the years into an organization that aims to provide financing to developers and contractors in the subsidy and affordable housing market (ibid.). They do, however, have a shortage of funding available, which they state is a major challenge to their business (Khathi 2010). Although NURCHA tries to focus on the lower end of the market, only 10% of the value of their loan book went towards gap housing in the 2015/2016 financial year. A further 53% went to affordable housing and the remaining 37% went towards sectional title units (NURCHA 2016b). Only one of the developers who participated mentioned making use of NURCHA funding. However, this was a well-established company with more than 20 years of experience.

5.3.4 Issues with FLISP and accessing mortgage finance

A number of developers stated that they have, in the past, had issues with the FLISP subsidies from an administrative point of view. Applications take excessively long to process. It must be noted that some improvement in recent years was reported. However, judging by the number of FLISP subsidies budgeted for by the government (see p. 80), it begs the question whether the NHFC is prepared to deal with the increased number of applications that can be expected in the next few years.

Developers stated that the majority of FLISP applicants are successful. This is due to stringent checking by developers and the fact that mortgage finance must already have been acquired by the time of application. Applicants are considerably less likely to have their application for mortgage finance turned down. According to Eighty20 (2015) the most common reasons for banks to decline mortgage applications was an unacceptable credit record. A lack of affordability was only the second most common reason. In 2012, if you earned between R10 000 and R15 000, your chance of getting a mortgage application approved would have been 19% at FNB and 25% at ABSA (Eighty20 2015).

There are alternative finance models available, although no developers made mention of alternative financing being used by their customers. Smit (1999) pointed out at the end of the 20th century already that mortgage finance for lower income groups have not been successful in SA. He states that the products aren't suited for the needs of lower income households and they don't fit the risk profiles accepted by the traditional credit providers. This could explain, to some degree at least, why so few mortgages are awarded to lower income earners. Smit (1999) recommended investigating the use of microloans to service the housing needs of the lower income groups.

In the years following Smit's article, there have been numerous attempts to introduce microfinance as a vehicle to access housing in SA (Kihato 2014). South Africa does have numerous micro lenders and even some microfinance products aimed specifically at housing, but there is significant evidence that shows the portion of the market it covers is relatively small (compared to mortgage products) and that it's use is mainly aimed at incremental housing improvements, rather than new acquisitions (Gardner 2013; Kihato 2014).

5.3.5 Issues faced by emerging developers

All of the issues discussed thus far are applicable to both established and emerging developers, but there are issues that affect emerging developers more. Unfortunately, only established developers were interviewed as part of this study. However, they do interact frequently with emerging developers and have significant insight into the issues faced by emerging developers.

As stated in Section 5.3.3 access to finance, and particularly development finance, is difficult for emerging developers. This makes sense, since banks want to limit their exposure and would rather lend to developers they know. NURCHA is supposed to assist emerging developers, but their exposure to the gap and affordable markets are limited in practice.

Emerging developers also don't always have the skills in place to develop successfully. Developments are highly influenced by the costs of labour, materials and delays with approvals and emerging developers are often ill-prepared to deal with financial shocks.

5.3.6 Possible interventions that could assist scaling up housing delivery

A number of different interventions were proposed by developers that would help the gap housing market. Some suggestions were aimed at the supply side and seeks to help developers to deliver either more, or less expensive housing. Others are aimed at the demand side and can assist buyers to more easily access housing finance. These were discussed in Section 4.5 and are summarised below:

a) Increasing the upper income limit of the FLISP subsidy
b) Subsidised bulk service contributions
c) Streamline the processes at council
d) Lower interest rates and relax lending criteria
e) Educate consumers on good credit behaviour

These suggestions are discussed below, followed by some suggestions from other sources.

a) *Increasing the upper income limit of the FLISP subsidy*

Some developers mentioned that the industry will be assisted if the upper income limit were increased to R18 000 (or even more) as have been proposed. However, although this proposal will be beneficial to both developers and the upper end of the gap market, it will do little to assist the lower income groups stuck in the 'unserviceable' gap market (as shown in Figure 19, p.77).

Figure 23 shows the affordability of a mortgage against income, complemented with the current FLISP subsidy. Two alternative proposals for FLISP are shown as well. The green line shows the affordability for a FLISP subsidy with an increased upper income limit of R18 000. The FLISP subsidy value of R20 000-R87 000 is spread over the increased income range. As can be seen, this option would reduce the income required to afford a R400 000 house from R14 300 (current FLISP subsidy) to R13 800. The drawback of this option is that it the state would effectively be subsidising the higher incomes more than the lower incomes groups.

An alternative is proposed with the yellow line. This shows the current FLISP income ranges, but with the subsidy amount for the lowest income earners increased from R87 000 to R130 000, and for the upper earners from R20 000 to R30 000. This similarly reduces the income required for a R400 000 house to R13 700, but with the drawback that the state will be spending more money on the upper income groups.

The issue with both alternatives is that the added benefit in both cases only affects a small portion of the gap market and will be insufficient to properly address the problems in the market on its own.

Figure 23: Affordability of mortgages with various FLISP subsidy proposals

b) Subsidised bulk service contributions

As noted in Section 5.3.1, the size and calculation method used for bulk service contributions is an issue of contestation. Municipalities should aim to simplify their calculation methods and standardise across municipalities.

Furthermore, Gey van Pittius (2017) proposes that a bulk service subsidy should be introduced. Fully-subsidised houses should have their bulk services fully subsidised, while gap house developers should receive at least a partial bulk service subsidy.

If a bulk service subsidy of the same size of the FLISP subsidy is introduced as a replacement for the FLISP subsidy, it would not make any difference to the end user. Although the price of a house should come down by the bulk service subsidy amount, the amount of mortgage finance required remains unchanged. Furthermore, implementing a sliding bulk service subsidy amount would probably be more difficult to administer.

Introducing a bulk service subsidy to compliment the FLISP subsidy would be beneficial to both developers and their clients, but it is unlikely that the state would be able to afford such an intervention, since debt levels in municipalities continue to rise (Infrastructure Dialogue 2015). It would make more sense for municipalities to work on reducing bulk service contribution costs by focussing on introducing more effective solutions.

c) *Streamline municipal processes*

A number of developers mentioned that some municipalities take excessively long to give projects approval. This makes it difficult for land developers who need to take out large sums of money to buy and service land. The longer the approval processes take, the more they have to spend on interest accrued. This hits emerging developers especially hard and the extra cost paid to interest gets directly carried over to the cost of land and ultimately the end-user cost of the house. Municipalities should aim to streamline approval processes and possibly look at prioritising gap housing developments.

d) *Lower interest rates and relaxed lending criteria*

One developer proposed that relaxed lending criteria and lower interest rates would help their clients to more easily access funding. Many of their clients fail to acquire mortgage finance from the traditional providers and consequently cannot afford a new house.

Access to housing finance in the lower income markets is a worldwide problem and many solutions have been proposed. As discussed in Chapter 2, South African banks have had a contentious relationship with lower income markets and it is unlikely that they would change their ways. Even the introduction of the FSC in 2004 delivered only limited results.

Theoretically, lowering the interest rates charges to clients can substantially increase their ability to afford new housing as is shown in Figure 7 (p. 31). Banks should be encouraged to either give lower interest rates to their gap housing clients, or should investigate developing other, more suitable credit products.

Some developers mentioned that banks have overly strict lending criteria for people in the gap market. This could not be verified. However, as shown in Figure 8 (p. 33) lower income households in Gauteng have lower debt levels than their higher income counterparts. Therefore, an applicant in the gap market should theoretically have a better chance of accessing mortgage finance.

e) Educate consumers on good credit behaviour

Some developers mentioned that some of their potential clients have poor knowledge of good credit behaviour. Figure 8 (p. 33), mentioned above, contrasts this view to some extent. Although the South African debt to income ratio is relatively low compared to more developed nations (South African Reserve Bank 2017; Fin24 2015), almost 50% of households are in arrears with their debt. Educating people about good credit behaviour will not only be help them to better access gap housing mortgage finance, but finance in general, across all income levels.

f) Other interventions

According to the FFC (2013), investment incentives such as tax rebates can be a good way to stimulate additional funding for housing. Furthermore, possible value added tax (VAT) reliefs for new developments can significantly reduce the costs of new developments. VAT is not included when purchasing an existing house (BizCommunity 2017). The developers did not mention any of these interventions, but it might be able to assist them and their client and should be investigated further.

5.4 The role of private companies in providing housing to their employees

Developers were asked whether they know of companies who assist their employees in accessing gap housing, either using their corporate social investments or using other means. However, this question was not answered as was hoped. With the exception of large mining houses, developers knew of very few companies who assist their employees in accessing gap housing. Also, the answers were contradictory to some extent. Some developers felt that small companies were more likely to assist their employees, while others felt that large corporates are more likely.

Petersen (2009) notes how Tongaat Hulett, a large agri-processing company owning 14 000 Ha of land in KwaZulu Natal, sold of a portion of their land to the eThekweni Municipality and assisted them in developing low cost housing. With the exception of large mining corporations, this is the only evidence that could be found of a private company, who operates outside of the built environment, being actively involved in providing housing for the surrounding community.

Former Minister of Finance, Nhlanhla Nene (2015) mentioned a tax incentive that was introduced to incentivise businesses to assist their employees in accessing housing. An employer willing to provide a repayable loan to an employee, specifically to access low-cost, gap or affordable housing, can get back 10% of the outstanding loan amount at the end of the year from the South African Revenue Service.

Overall, the quality of answers to questions about the role of private companies in providing houses were disappointing. It might be that the questions were not structured well enough and were misunderstood. Furthermore, some developers came across as having lost interest or being in a hurry when they answered these questions, since they were last in line.

5.5 Summary

This chapter has aimed to discuss the data that was gathered from interviews and presented in Chapter 4, with the aim of answering the research questions. It was found that developers have a good reason for being optimistic about the gap market in Johannesburg. The market is very large and has been the best performing residential market in recent years in terms of growth and value. Although some developers exhibited scepticism about the sustainability of the FLISP subsidy, government has budgeted for high numbers of subsidies to be awarded in the next few years. Developers are aware that they are only able to service the top end of the gap market and feel that sectional title developments and the second hand market should rather be utilised to address the lower end of the gap market.

There are numerous issues with the development processes that drive up the cost of houses. The main issue is the cost of bulk service contributions. The availability and location of land is an issue, but not as much as was expected. This is mainly due to the Johannesburg's proximity to other large urban centres. Finance can be difficult to access and even more so for emerging developers.

There is not a lot of evidence that suggests that other companies use their CSI or other mechanisms to assist their employees to access gap housing. The final chapter presents a conclusion to the study.

6. CONCLUDING REMARKS AND RECOMMENDATIONS

This chapter aims to present a number of remarks to conclude the study. A brief summary is given of the study and the research method used followed by a section presenting the key findings of the report. The next section discusses recommendations into what can be done to improve the gap market, for developers, the state, and clients. To end off, some recommendations for future research are presented.

South Africa's housing market is severely fragmented and the legacy of apartheid can still be seen in the housing market today. To address the housing backlog of 1.5 million houses at the end of apartheid, the state introduced a large fully subsidised housing scheme, aimed at the lowest income earners. The state should be applauded for the three million houses they have built in the 23 years since.

As SA's economy grew, a gap formed in the market, with people too rich to access fully subsides housing and too poor to access conventional housing on the open market, being left with few choices. Government introduced a subsidy, called FLISP, in 2005, aimed at addressing the gap in the market. Uptake of the subsidy was poor and it was revised to its current state in 2012. Adoption of the subsidy has grown in recent years, but it is still being underutilized.

The private sector is responsible for the bulk of housing delivery in SA, although it tends to focus on the higher end of the market. Banks have, in recent years, increased their exposure to the gap and affordable markets, but accessing mortgage credit in the gap market remains difficult.

This study was concerned with establishing the role of the private sector in delivering houses in the gap market in Johannesburg. Although numerous developers work in the gap market in Johannesburg and they deliver roughly 2000 units per year, they are still delivering considerably less than what the market requires.

A qualitative study was done whereby developers were interviewed to establish what role they play in the market, what they see as issues in the market, what their perception is of the market and how they think private companies can assist in providing housing to their employees. The key findings of the research is presented in the next section.

6.1 Key findings

The study revealed the role played by the private sector in the gap market in Johannesburg. It also answered the research main and sub-questions presented in the beginning of the report. The key findings that emanate from the report are as follows:

- The gap market in Johannesburg is very large with roughly 385 000 households, or one quarter of cities' households. There is a shortage of about 130 000 units in the gap market range.
- Roughly 14 300 households (11%) of these households can afford to buy a new house.
- Numerous private developers operate in the gap market in the City of Johannebsurg, but they are only able to deliver roughly 2000 houses per year. As stated by the CAHF (2015c), the rate of delivery of new gap houses is much lower than the demand would suggest is commercially possible. This low rate of delivery puts upwards pressure on house prices.
- Although developers are aware of the shortcomings of the FLISP subsidy, they are optimistic about the gap market and its future. However, the environment is not conducive to delivering units at a large scale.
- The FLISP market forms part of the gap market and the subsidy is useful for accessing housing in the gap market. However, only the top end of the FLISP market can use the subsidy to access new housing.
- The whole gap market can theoretically access housing on the second hand market using FLISP. However, relatively few units are available at the lower end of the scale and getting access to credit is difficult. If the upper income limit of the FLISP subsidy is not increased soon, the subsidy will become obsolete in the new house market within the next few years.

- Numerous factors make developing in the gap market difficult. Bulk service contribution are too expensive and there is uncertainty about how it's calculated. Furthermore, municipalities don't all use the same methods to calculate contributions.
- The housing delivery chain is not streamlined. It can take a number of years before for a project to go from the planning stage to final delivery of developments. It is especially the approval processes of city councils that take long. Holding costs and the associated interest can drive up the prices of houses considerably.
- Funding is difficult to acquire, especially for emerging developers. Delays and uncertainty make it difficult for small developers to enter the market. They do not have the financing available to carry them through delays and they struggle to access funding due risks relating to their perceived inexperience and unproven project management track records.
- The cheapest new house developers can build in Johannesburg is R400 000, accessible only to those earning more than R14 300. The FLISP subsidy is, in practice, only able to assist the higher end of the gap market. The lower end, earning less than R14 300, cannot afford a new house.
- FLISP subsidies are primarily used for freehold title properties, which is not sustainable. More sectional title properties should be bought with FLISP subsidies.
- Traditional mortgage products are not suitable for the lower end of the gap market. Interest rates are simply too high.
- Gap housing developments in Johannesburg are mainly found on the municipal boundary, either just inside or just outside.
- It is not common for private companies to assist their employees to access gap housing, either by using their CSI or by other means.

Overall, developers are optimistic about the gap market and are eager to assist the government to deliver more. However, there are numerous factors prohibiting them from delivering more units. To conclude, Harry Gey van Pittius (2017), Chairman of SAARDA and a private developer, stated the following:

"We are ready and waiting to assist the government in housing delivery"

6.2 Recommendations

The gap market in SA and Johannesburg is large and promising, and yet developers struggle to deliver sufficient housing stock. A number of recommendations can be made to assist with problems currently experienced on both the demand and supply side of the market.

Firstly, Venter (2015) states that 20% of the gap market consists of civil servants. The Government Employees Housing Scheme, launched in 2016, should be used to provide low cost loans to civil servants en-masse. This would then leave more funds and resources for the remaining gap market.

Secondly, as shown in Chapter 2, the interest rate charged can play a significant role in the affordability of a loan. The Human Settlements Development Bank, announced earlier in 2017, should be opened as soon as possible and could be used to provide low-cost mortgage finance to the section of the gap market not covered by the Government Employees Housing Scheme, although questions should be asked about how the Government will be able to afford this.

Thirdly, the FLISP subsidy should be adjusted somehow to benefit the lower end of the market more. In its current form, only the upper end of the market benefits from the subsidy. These intervention will all assist on the demand side of the market.

Households should also be encouraged to save. A 10% saving contribution towards the cost of a house can greatly affect a household's ability to afford a loan.

The secondary market should be promoted by prioritising the backlog in title deed transfers. Social housing should also more actively be used to assist at the lower end of the market. Linking the FLISP subsidy to other financing models, such as pension-backed loans, should be explored, especially to benefit the lower end of the gap market.

On the supply side, developers should be encouraged to develop higher density housing units. Freehold titles are overly expensive and adds to the sprawling nature of South African cities.

Municipalities should also be encouraged to revise, simplify and possibly subsidise their bulk service contribution costs. Higher density developments should also lower these costs, which will ultimately make developments more affordable.

Emerging developers should be assisted to access affordable finance more easily. An established organization, such as Nurcha, can be used to assist. All of the abovementioned interventions can help create an environment where developers can deliver more units at more affordable rates.

6.3 Recommendations for future research

With the experience gathered from doing this research, a number of recommendations for future research are presented. Johannesburg is situated in close proximity to the large metropolitans of the City of Tshwane and Ekurhuleni. Although this study focused mainly on gap housing in the City of Johannesburg, the City cannot be seen in isolation and it is recommended that the role of private developers in Gauteng Province is investigated in more detail as well. More information is required with regards to how the cost of land and bulk service contributions differ between the cities.

The size of the gap market in Johannesburg was estimated very roughly. It is recommended that a more detailed method be developed to accurately estimate the size of the market. Furthermore, the size of the market should be broken down more finely by income group so that the number of households who can afford new house can be estimated more accurately.

The study was mainly concerned with new freehold title houses. This approach to housing is not affordable or sustainable and is in direct contrast with the principle of densification. Time and effort should rather be spent to research how so-called RES 3 developments can be used to fill the gap in the market.

South Africa's metropolitans all have their own unique characteristics and housing issues. It would be interesting to know if the results from this study can also be applied to the other cities and smaller towns in the country.

This report only consulted private property developers to find out what their role is in providing gap housing in Johannesburg. Further study is recommended to also find out what the City is doing to remove the backlog and how they view the gap market.

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Appendix A – Participant information sheet

PARTICIPANT INFORMATION SHEET

The Role of the Private Sector in Providing Gap Housing in Johannesburg

Dear Sir,

My name is Gerrit Coetzee and I am currently studying towards a masters degree in Housing (MBE) at the University of Witwatersrand. I am investigating the role of the private sector in providing gap housing in Johannesburg. This predominantly includes the role of property developers.

I am inviting you to be part of the study through an interview. It will take no longer than 30 minutes of your time. The interview can be done at the time and place of your convenience, or can be done electronically via email.

The interview will cover the following topics, among others:

- Your organization's past, current and future involvement in the gap housing sector
- Your organization's perception and the perceived risks of the market
- Challenges in the sector that needs to be addressed

The interview will be recorded using an audio recorder and hand written notes.

You have been selected due to your organizations involvement in the gap housing sector and your knowledge of the workings thereof. Your participation is voluntary, you may refuse to answer any questions that make you uncomfortable or that you feel might be lead to you giving away sensitive or confidential information. You will receive no payment or other incentives for your participation.

Your and your organization's name will be used in the report, unless you object to this.

The research undertaken is solely for academic purposes and once completed will be available electronically and can be accessed publicly.

If you have any questions, concerns, or comments or if you would like a copy of the final report, please feel free to contact me at 1558765@students.wits.ac.za or my supervisor, Prof Aly Karam at aly.karam@wits.ac.za.

Gerrit Coetzee
MBE (Housing)

Appendix B – Participant consent form

PROTOCOL NUMBER (for office use only): ____________________

Formal Consent Form for Key Informants

Master's Research Report titled 'The Role of the Private Sector in Providing Gap Housing in Johannesburg'

I hereby confirm that I have been informed of the purpose, procedures and my rights as a participant of the abovementioned interview. I have received, read and understand the written participation information sheet. I have also been informed of the voluntary nature of the study. The researcher informed me of the rights of refusal to answer some questions I do not feel comfortable with as well as the right to withdrawal from the study interview anytime I might feel the need to do so.

I have been informed that this interview will remain confidential, meaning nobody except the researcher will have access to it. I was also informed that my name and identity will be used, unless I object to it. I am aware that, if I do not give permission for my name to be used, that people directly familiar with the project, however might identify me with statements I make in this interview. I am aware that the name of my organization will be published, unless I object to it.

☐ I agree to participate in this interview.

☐ I agree ☐ do not agree ☐ n/a to audio recording during the interview.

☐ I agree ☐ do not agree to my name being used.

☐ I agree ☐ do not agree to my organization's name being used.

Respondent Name……………………………………………………

Signature………………………………………………..

Date…………………………………………………….

Appendix C – Interview questionnaire

Research Questionnaire:

Company: ……………………………………………………..

Date: ……………………………………………………

Time: ……………………………………………………..

Location:…………………………………………………….

Participants:………………………………………………………………

Title of research: The role of the private sector in providing gap housing in Johannesburg

[Introduction of myself, project, methodology, data handling, data storage]

INTRODUCTORY QUESTIONS	
Question 1	How long have you worked for *[Company name]*?
Answer 1	
Question 2	What is your role in the organization
Answer 2	
Question 3	Do you know how long the company has existed?
Answer 3	
Question 4	Has the company always been called *[Company name]*? If not, what was it previously called?
Answer 4	
THE GAP MARKET	
Question 5	How do you define the gap market? By income, or house cost? What is that income/cost bracket?
Answer 5	
Question 6	You do developments in the RDP/gap/affordable market. Who is your typical client and how do you identify the market that you operate in?

Answer 6	
Question 7	Have you always been involved in this market, or have you only recently entered?
Answer 7	
Question 8	Do you do land developments, top structure developments, or both?
Answer 8	
Question 9	What is the perception of your company of the gap market in Johannesburg? Do you see the market as growing?
Answer 9	
Question 10	What determines the location of your projects? It seems to be mainly on the peripheries of the city? Is this purely because of cost of land, or are there other reasons?
Answer 10	
Question 11	What does your company see as barriers to entering or expanding in the market?
Answer 11	
Question 12	How many projects have you delivered that involves gap housing? Value of the projects? How many units built? Typical prices of the units? *(In total and recently, if possible?)*
Answer 12	
Question 13	How are your houses marketed and sold? Is this done internally or do you make use of estate agents?
Answer 13	
Question 14	Are your developments aimed at a specific income group, or are they mixed income developments? Do you do any developments that are mixed with fully subsidised/RDP/BNG type units? Are any of your projects internally cross-subsidized?
Answer 14	

Question 15	Are you involved in any public-private partnerships? Why? Or why not?
Answer 15	
Question 16	How do you fund your projects? Through the big 5 banks? Or are there other institutions involved?
Answer 16	
Question 17	How do you fund bulk infrastructure? Do you get government assistance in any way? Or is the infrastructure cost included in the house price?
Answer 17	
Question 18	From looking at the size of typical developments containing gap housing, it looks like the market is more beneficial to larger developers. Is this the case? Why do you think this is? Is it purely scale that makes it worthwhile, or are there others factors as well?
Answer 18	
Question 19	On both a national and provincial level, the uptake of FLISP subsidies has not reached the targets set. Is there a shortage of supply? Or is it a lack of access to credit? Or are people too uninformed about the subsidy? What is your take on this?
Answer 19	
Question 20	The FLISP subsidy was widened to include households earning up to R15000 in 2012. Furthermore, the house cost ceiling of R300 000 was lifted and the subsidy was allowed for all houses, not only new ones. This not only allows more people access to the subsidy, but also potentially increases the client bases for developers. What else can be done by government/DoHS to incentivise more activity in the market from the private sector?
Answer 20	
Question 21	Are there any private companies out there who you know are involved with assisting their employees in acquiring gap housing? To what extent are they involved? Do you think there is a case to be made to use CSI initiatives to assist employees with housing?

Answer 21	
	Thank you for your time. It's much appreciated.

Appendix D – Ethics Clearance

SCHOOL OF ARCHITECTURE AND PLANNING
HUMAN RESERCH ETHICS COMMITTEE

CLEARANCE CERTIFICATE
PROTOCOL NUMBER: SOAP118/10/2017

PROJECT TITLE:	The Role of the Private Sector in Providing Gap Housing in Johannesburg
INVESTIGATOR/S:	Gerrit Coetzee (Student no#1558765)
SCHOOL:	Architecture and Planning
DEGREE PROGRAMME:	Master of the Built Environment (MBE)
DATE CONSIDERED:	25 October 2017
EXPIRY DATE:	25 October 2018
DECISION OF THE COMMITTEE:	APPROVED

CHAIRPERSON ______________________
(Professor Daniel Irurah)

DATE: 25-10-2017

cc: Supervisor/s: Aly Karam

DECLARATION OF INVESTIGATORS
I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to endure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee.

Signature **Date**

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