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Land use differentiation, class differentiation, housing and the urban land market – international and SA frameworks in MMW4P perspective

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The MMW4P Perspective

The MMW4P (making markets work for the poor) perspective is being widely perceived as amongst the most useful of new policy approaches in many parts of the world. This is particularly so when considering maximizing the effectiveness of public resource allocations designed enhance the economic circumstance of, and opportunities available to, the poor. Since the MMW4P perspective is relatively new to South Africa (SA), however; and since there is also a strong tradition of anti-market thinking in the country, the potential of MMW4P to shed light on issues like accelerated delivery of higher quality of land to the poor in SA is likely to be regarded by many as counter-intuitive.

The MMW4P perspective is now being applied to a wide domain of development issues of relevance, beyond those of urban land markets and urban development (see for example ComMark and CDE, 2006). In the ComMark and CDE (2006) report for example are considered – telephones, radio, textiles, wool farming, tourism, education and financial markets amongst others - as sectors in which the MMW4P perspective can be applied in the SA context.

However, it needs to be cautioned here that not everyone starts from the same place in relation to MMW4P. For example, at least one internationally experienced development aid specialist has pointed out to the present author that, in their experience, the *a priori* disposition of many of those they engage with in SA on the MMW4P subject is more hostile here, than elsewhere in the developing world. Of course this situation is variable, and whilst those in the private sector, NGOs, and the SA Treasury amongst others and so may be somewhat better predisposed, and those say in the Trades Unions more suspicious, the MMW4P approach is fast becoming 'a broad church' of those interested in maximizing the effects of interventions designed to assist the poor. The broad church character to MMW4P is reflected for instance in a review of several MMW4P references (see for example DFID 2005; Ferrand, Gibson and Scott,, 2004).

Sectors of South African suspicion of MMW4P (although this is uneven) perhaps become more pronounced when one is dealing with the traditional "public goods" of aspirant socialist societies - goods such as education, or lower income housing.

Indeed, since in this paper we are specifically concerned with the issue of the urban land market as a context for the challenge of better access to urban land and housing on the part of South Africa's poor, one begins at something of a disadvantage – the likely incredulous starting points of one's more general audience, and perhaps more especially those in the public sector tasked with low income housing responsibilities. As Kecia Rust has remarked to the author, perhaps this is because, in government, Housing has traditionally been part of the so-called Social Cluster; whereas in other components of government – notably Treasury – there may be different views, more consistent with the MMW4P perspective.

The author's own approach here is not necessarily normative – or value oriented – but rather empirical. In the same sense that Urban Land Mark describes itself as being "evidence based" in its approach to advocacy, much of that which is to follow in the present paper should be seen as practice-based. In his practical experiences of actually implementing low income housing and land acquisition – for example as a so-called "project soft consultant" to the Independent Development (IDT), and as a Board Member of the Land Investment Trust during the 1990s; as well as in his more contemporary consultancy roles to various property development companies, the author has repeatedly found that the practical issue is not whether or not one 'likes' markets, but rather it is simply expedient to recognize their existence, and to try to establish how they are operating. It is in a similar spirit of such realism, amongst other considerations, that the MMW4P approach presupposes that prior to designing any 'intervention' intended to assist the poor, the implications such efforts should be located within an analysis of the contextual market processes (including market failures) for such interventions. It is this context of the realities of the SA urban land market that is the central feature of the present report.

As has already been observed, the MMW4P perspective can be interpreted in slightly different ways, but the core assumption is usually that since markets are such powerful and even ubiquitous forces, maximum value in assisting the poor is usually derived from either resolving market failures, or leveraging the operation of existing functioning markets towards the interests of the poor, or enhancing poor people's effectiveness in participating in markets (or some combination of all three). Some of the more practical aspects of this are tentatively explored, especially towards the end of this paper.

Most of the other papers in this Urban Land Mark project tend to focus specifically upon the issues of (often non-delivery) of urban land for the poor. The present paper does not take issue with that concern, but rather seeks to contextualize it within the sometimes competitive and sometimes oligopolistic land market frameworks within which it is located. Thus the present paper primarily reviews what is currently happening in SA urban land markets as a whole, and it only then reflects – rather briefly – on the implications both positive and negative for the urban poor.

Despite this concern with context and 'market realism, it should be recognized at the very outset that the author definitely believes – on the basis of evidence and experience - that there is a problem for the poor in terms of land, markets and access in contemporary South Africa. Throughout the world, urban land uses, and their location, determine the two most important costs for the urban poor beyond the basic necessities of food – namely housing and transport costs. In addition, as was pointed out over thirty years ago by John FC Turner in his book "Freedom to Build", the other important consideration about urban land for the poor is that it is vital for <u>access to opportunity,</u> which he argues is in contrast to other class groups for whom urban land is more relevant for example to social issues like security, or identity (this is a theme we return to later in this report) (Turner, 1972). Contemporary South African cities are clearly problematic in this regard, as other papers in the Urban Land Mark series recognize. However, in order to have maximum effects with any of our interventions, we need to begin with the rather grim matters of market realities (however distorted these markets might be in several instances).

Urban land use, spatial structure and class differentiation in international perspective

It is useful to begin with a brief reflection upon the global experience of class segregation. The is a long standing literature in urban studies which reflects upon the generalized nature of social class differentiation, residential differentiation and land use in cities world wide. The most prominent of these began with the models of the

Chicago School of Urban Sociology, most notably E W Burgess' 1920s so-called zonal of urban growth and structure. The Burgess model, and the Anglo-American works that followed in its tradition, presupposed rapid rates of in-migration to the urban core from an ethically-differentiated periphery, which contains some similarities to, but is also somewhat different to what happened historically in SA (McCarthy and Smit, 1983).

There have however been variants of this theme of socio-spatial differentiation perhaps closer to the specifics of the South African experience based, first, upon readings of similarities in so-called colonial cities (e.g. Davies, 1974) and – somewhat more recently – based upon generalizations about so-called Third World cities (e.g Roberts,1978). It was this last mentioned "Third World City" literature that proved particularly influential upon the generation of analysts who produced the first urban policies of organizations like the Urban Foundation and by extension that of SA's Government of National Unity (see for example the 1995 White Paper on Urban Development). However, as time progressed different perspectives on these issues emerged; and, perhaps most tellingly, more recent research in the Third World City *genre* has argued that current patterns of land use and urban development in Third World Cities are not very different now to those applicable in the most development countries (e.g. Dick and Rimmer, 1998).

The contemporary global perspective on socio-spatial differentiation is sobering. Perhaps ironically in the light of SA's post-apartheid experiences, a common theme in the empirical literature on class differentiation and land use in world wide cities is that, if anything, class differences and socio-spatial distancing is actually widening. This, amongst other considerations, is widely regarded to be part of a process in which higher income groups are prepared to pay considerable housing cost premiums in order to avoid the perceived negative externalities of exposure to the urban poor; as well as to the growth of so-called "edge cities" (see for example Garreau, 1991).

Of course it is true that South Africa started from an unacceptable base of race and class segregation; and of course there is a policy imperative to further reduce both. Still, it is also important to recognize progress since the *apartheid* era. As will be elaborated later, there has been considerable de-segregation, especially in central neighbourhoods, the building of significant quantities of low income housing sometimes (though not often) close to new, higher-income suburbs, and the proliferation of edge cities accommodating both the black and white middle classes, etc. Indeed, a point that is being made here is South Africa is now being seen as less than exceptional in world terms; and in particular class segregation is perceived – not least amongst the black middle classes – as part of that 'normal' world experience. Whether or not the reader is comfortable with this, the simple empirical observation that is being made is that undermining this aspect of world urban trends may prove to be particularly difficult in SA; although as we shall show later in the report, this need not detract from the challenge of supplying better located land and housing options for the poor in SA.

The SA apartheid city and post-apartheid urban form as variants on global experience

As has been observed above, most would argue that the particular variant of socio-spatial differentiation and land use that South Africa experienced was some variant on the Colonial or Third World, unusually rigidified through South Africa's infamous *apartheid* legislation and Group Areas planning. However, the edges of this highly structured system began blurring before the legislation was actually repealed, through *de facto* resettlement in areas in areas close to or within city centres, where many black South Africans worked, and where the major public transport terminuses existed.

When that legislation was actually withdrawn, there was some legal regularization of ownership and rental patterns, and some acceleration in the class normalization of patterns of settlement, but very little amendment to where and how the poor lived in the cities. They mostly remained in suburban township houses, backyard shacks attached to these, or in informal settlements in exurban areas beyond the townships. A problem associated with all of the last-mentioned was poor/non-existent services, and insecurity of tenure.

Probably the most important post-apartheid interventions in respect of the settlement of the urban poor was pioneered by the IDT with its so-called capital subsidy programme for the upgrading of informal settlements, and the delivery of serviced sites with freehold tenure. (These interventions were largely inspired by Peruvian and Brazilian experiences, amongst others, but it seems South Africa in some respect even improved on this).

In slightly modified form, this policy was taken up the Government of National Unity in 1994, and especially by Minister Joe Slovo. It depended upon considerable collaboration with the private sector in the process of low income housing and serviced land delivery, which for a while at least was impressive in terms of global standards, at least in terms of quantitative rates of supply (there were however debates about quality of outputs and the adequacy of subsidy levels).

Interestingly, as housing expert Kecia Rust reminded this author, recent research has revealed that the largely private-sector driven IDT serviced sites, from a resale perspective, performed much better than the so-called RDP homes, despite the higher level of subsidies deployed in the latter (Finmark, 2004.) As a qualification, perhaps it should be recollected that IDT settlements are older, and thus they may have been improved more over time. On the other hand, it must also be remarked here that at the time the IDT operated their programme there were a significant number of low income housing suppliers in the private sector; and they were assisted in many ways with their land acquisition and holding costs and working capital costs by combinations of development aid and low cost private capital supplied *inter alia* by the Land Investment Trust (LIT). In addition, it is worth recalling that an explicit instruction to IDT "soft consultants" was to evaluate applications in terms of the contributions they made towards undermining *apartheid* patterns, and offering well located urban land to the poor. Do we have here an earlier (however imperfect) outline of more of a MMW4P approach to low income land supply? (We leave readers to judge the answer).

Since then, the very high interest rates of the late 1990s, affirmative action requirements in procurement, plus growing time delays associated with increasing/slowed bureaucracy meant that it was not long before involvement in low income housing proved unattractive to most in the private sector, and also to development NGOs. Increasingly (after about 2000) the public sector (including municipalities) assumed the main responsibility for the upgrading of informal settlements, and for the delivery of serviced sites and starter homes. (For an elaboration, see Urban Sector Network/Development Works, 2004).

As already mentioned, part of the problem for the private sector was the high cost of working capital which, when combined with planning delays often associated with NIMBY (not in my back yard) opposition forces ostensibly motivated in ecological terms, made working in the area of delivery of low income housing very difficult in financial terms. Finding low income housing land where farm costs were low and neighbours were unlikely to hire expensive teams of lawyers and other professionals to delay progress inevitably drove lower income housing projects into remote and inconvenient locales. In short, the effect was to drive the lowest income housing – as for instance in Orange Farm and other cases – towards the metropolitan periphery. This was very often the opposite of what Turner (1972) contemplated, based upon his South American experiences, of the "freedom to build" ethos, where the poor found central opportunities denied to them which is what they needed most, in terms of easily accessing the (for them, desirable) "lottery of hiring and firing" in typical Third World labour markets (given the geographic centralization of such opportunity).

There were however exceptions to the rule, sometimes based upon historical irony or luck State sponsored remote "pools" of shacks housing "reserve armies" of poor for example at Orange Farm , could be contrasted to NGO driven central area rehabilitation for the poor in places like Cato Manor. Ironically however, often the stellar performance of NGOs like the Cato Manor Development Association seemingly became an embarrassment to many provincial and local government officials, who were anxious to bring such exceptions to their vision of a "Developmental State" within their ambit (see for example Robinson et al, 2004).

For the rest, however, the serious players in the SA property market effectively turned a blind eye to the low income housing sector and set their sights, almost to a fault collectively on the highest end; and in this phase the SA property market and land use operated much along the lines of international parallels, and some of South Africa's most experienced property developers actually successfully exported some of their better models elsewhere in the world. (Companies like Liberty for example became Britain's leading shopping centre owners/developers/operators).American, British and Dubai based professionals also freely interacted with their South African equivalents in this era, with South Africa and South Africans becoming increasingly integrated within a global industry. Not without its own ironies, some SA low income housing programmes were also internationalizing at the same time, the so-called RDP housing programme for example securing a UN award for Best Practice (arguably a better deserved one was a similar award to the Cato Manor Development Association).

In parallel to these globalised trends in property, in social terms, complex processes of racial desegregation and class re-segregation proceeded to characterize all SA cities. Horn's (2005) summary of contemporary Pretoria would reflect the trends in most of urban SA:

> "During the past decade distinctive population shifts took place in Pretoria, including African re-segregation in inner city areas, increased White concentration in the suburban zone, Asian and Coloured movement into higher-income, White dominated areas, African re-settlement in newer middle-income, previously White dominated residential areas in the same geographical regions as former townships or border towns, and large scale expansion of African townships" (Horn, 2005) .

This set of outcomes, defined in racial terms, however neglects what Kitchin (2003) has described as the social class 'normalisation' of SA cities; that is to say, in comparative context, the marked parallels in class terms with what has emerged for example in the cities of Brazil, Nigeria, Egypt and many other middle income developing economies..

Land use and property investment in SA cities in the 21st century

After a recession sparked by the high interest rates of the late 1990s , the SA property market generally started to boom, with average house prices for example doubling between 1999 and 2003; then doubling again in the three years to follow. This made house price inflation in SA the fastest in the world, although many would argue that prior to that SA property was undervalued in global context because of perceived political instability and (for a period) high real interest rates. Middle to upper income houses appreciated fastest. According to informants from KwaZulu-Natal's largest property developer – Moreland – in 2006 typical serviced stand prices for single family dwellings in upper-middle income suburban residential areas now are R500 000, which sometimes makes this use (in higher density formats) now price-competitive with even office and commercial use. (As a second source, Principal agent of Pietermaritzburg' *Homenet* is cited in *Sunday Tribune Property Classifieds,* November 19th, 2006, p1 as saying of that town that: "A year ago vacant land was averaging out at R360 000 for a single residential site, however the average price now is more than R500 000 per stand").

The relative rises in the values of residential property were however accompanied by similar, and in selected cases higher, rates of inflation of non-residential property, with serviced land for manufacturing in many metro centres now selling for R2million per hectare plus, and good office and commercial land selling for more (often R 5 million per hectare).

Of course, as is the case world wide, the rate of appreciation of property is strongly dependent upon the location and type of property (especially the age of existing building, or the slope of land). Older commercial and office buildings in CBDs did not appreciate rapidly, and some cases actually declined in absolute terms. In consequence, in several historical CBDs country-wide, there are moves to convert older office buildings into apartments (although this can be costly); whereas new office blocks are often charging R80-R100 per square meter per month, and shops R200 per square meter per month have mushroomed in selected near-freeway nodes in the suburbs (so-called edge city areas). To put these figures in comparative perspective, office space in the Durban CBD can be had for R30 per square meter per month; and shops only slightly more.

However, there are upward trends in central areas property prices/rentals emerging in late 2006, partly assisted by the government's so-called Urban Development Zone (UDZ) initiative which provides for tax rebates to be allocated to those property owners in these areas who upgrade their properties. (However, some would argue that this has ambiguous ‘gentrification’ effects, driving the poor out of well-located low cost accommodation).

In bigger picture perspective though, looking at new property, even with building costs increasing somewhat ahead of inflation (because of supply/demand imbalances during a protracted building boom), the escalation in prime location property prices has made investment in good quality offices and shopping centres often better investments than even the best buys of say industrial or mining on the JSE over the past few years (according to KZN estate agents, in the best quality locations, in 2005/6 property prices/rentals for the best shopping have increased at least 25% p.a., versus a JSE which has performed at more modest levels) .

In some cases, there have been spectacular increases in land values available for speculators. For instance, at Durban’s Riverhorse Valley business park (in the northern corridor north of the Mgeni River), as of late 2006, there are re-sales of serviced land occurring at R10 000 000 per hectare (typical prices for industrial land three years earlier in Durban were about a fifth of this) ; and even at fairly remote locations, sites are changing hands - inland of Ballito for example - for not much less than at Riverhorse (resales there are at R6 million per hectare). It is not merely South African capital that has benefited from this. The general rate of inflation in SA property prices initially attracted a lot of global attention, but it has however subsequently also made it increasingly debatable value-for-money in global terms. It is true of course that all property in England is more expensive than in SA, but it is sometimes forgotten that it is Britain that is the global exception rather than the rule, and that property prices for example in Spain are quite similar to those in SA, and prices say in Brazil or Argentina lower still.

South Africa’s integration into the globalised property industry has however really only been obvious in three or four major metropolitan areas, and in selected components of those areas, and it has been largely local market demand that has driven South African market prices. Amongst the local demand-side market forces have been: The growth of the black middle class, relatively low real interest rates, a sustained positive national economic growth rate (especially pronounced in the metros), and the perceived historical obsolescence of many areas regarded to be highly exposed to the under-classes and/or crime.

Indeed, avoidance of crime and the emergence of new security complexes – residential and non-residential – has been the primary new demand force of the past ten years; and it should not be forgotten that along with the rise of the construction industry, the fastest growing new industry in post-apartheid South Africa has actually been the private security industry.

Within this context land for low income housing was seen by developers and banks as not only uncompetitive in price terms with any other potential uses; but also it was perceived by private sector interests as a potential 'negative externality' for two reasons – its potential impacts upon rates of price appreciation of other properties, and its potential for enhancing neighbourhood crime rates. Procurement procedures issued by government to make development happen through municipalities further dampened private sector interest in this component. Combined with the very low profit margins associated with low income serviced land or housing delivery, this meant an effective total withdrawal of the private sector land and building industry from that sector. Where initiative was taken with regard the sector it was almost invariably restricted to state-owned land, and state delivery systems (and sometimes their smaller private sector sub-contractors). Alternatively, where low-income housing development was facilitated by the private sector, it inevitably tended to be on the land which they could not use for any other purposes.

Some might argue that, in global context, this division of labour is hardly unique. Nevertheless, it has been of questionable efficiency and benefit to the poor. But on a brighter note perhaps, what is also not unique to SA has been the quiet operation of a market-driven land use and residential "filtering" process, with potential for offering more benefit to the poor, the nature of which is sketched below.

Some Speculative Comments: Class and housing dynamics in SA cities in the 21st century

Americans use the concept of residential filtering to refer to how older dwelling units usually nearer to the centre of towns are resold at lower prices over time to people of lower income groups, offering the latter better value-for-money in terms of the Rands per square meter (or Dollars per square foot) cost of historic, as opposed to new, stock. It appears that something akin to that process is beginning to emerge in the South African property market at present, albeit imperfectly, and it might be that this will be the principal land market dynamic of the twenty first century in SA cities. Working with it for the poor, rather than in ignorance of it or against it, could be an important element of a MMW4P strategy.

Illustratively, the price per square meter of 30 year old suburban homes in Pinetown – where there is now a majority of black middle class residents present is some R3500 per built square meter, but this also includes the land/garden. At current building/land costs, it would not be possible to supply anything like this new, and it therefore is coming at a discount off the new price, plus it is coming with neighbourhood attributes like schools, parks and similar facilities, the nature of which are usually no longer supplied by local authorities and provinces. (Illustratively, no new schools have been provided to the tens of thousands of low income housing units delivered in eThekwini over the past decade, and it is understood that a similar situation pertains in Gauteng).

The evidence on this is not definitive, and is derived from a mosaic of various sources in the real estate industry, property development firms, and social researchers, but the consequential pattern looks as follows: Having acquired their value-for-money in Pinetown, the newer black middle class families resident here, in turn, often hail from former African townships like Umlazi or KwaMashu, where 40 to 50 year old housing stock, with lower levels of finish and neighbourhood quality than in Pinetown is often selling at an effective R1700 per square meter – again significantly below its replacement cost; and many "new" residents of such homes are reputedly former owners or tenants from the informal settlements of Inanda, or Cato Manor. In Inanda or Cato Manor, on the other hand, one will often find the best value-for money available for new entrants into the urban system.

The supply drive for upper-middle income housing creates much of the space for new lower-middle opportunity in this filtering process; as does the creation of new office space in suburbs allow for the opening up of former office blocks for low cost apartments in CBDs. These apartment blocks sometimes sell for less than R1000 per square meter, depending on condition, area and associated encumbrances; but even best quality office blocks with potential for conversion to flats in central Durban sell for well under R2000 per square meter. It could be argued therefore that if it was more effectively planned for (see later), the land use and residential filtering sequence that is beginning to unfold in SA cities could be the most efficient and redistributive form of market delivery for all class groups, including the poor.

The government subsidy formula for low income housing is to make available some R36 000 subsidy so one might infer that – after land and building costs of say R100 000- relatively remote, new suburban, low cost houses are now being envisaged to be built at much the same price as downtown (used) flats. Of course, these need not be competitive goods, but may rather be complementary goods in a well-functioning, diversified housing market. However, given that South Africa's overall population growth rate is beginning to steady, the comparative price figures do raise questions about the wisdom of notions of massive suburban, lower-cost housing "roll out", as opposed to more effective use and renovation of existing fabric.

This last point deserves some amplification. Factoring in the mortality effects of AIDS, as well as long term declines in fertility, most demographers now expect South Africa to reach an effective zero population growth rate soon (probably by 2015). So, on the aggregate demand side, we are looking at a likely slowing of demand. On the supply side, current government assessments of the "housing backlog" are partly founded upon debatable value judgments about the quality of the existing housing stock (e.g. informal settlements are not usually counted as part of it); yet as Catherine Cross' paper in this Urban Land Mark series demonstrates, in the ordinary household's eye, a very substantial component of informal settlement comprises likely long term stock, deserving of services upgrading (Cross, 2006). Research in KwaZulu-Natal has also indicated significant inter-linkages and migration between townships and informal settlements, substantial upgrading of both over time, etc (see for example Hindson and McCarthy, 1996). Overall, therefore, whilst there are of course some potential gaps in the overall housing "ladder" that deserve additional new stock (see discussion later), at the very least it now seems timeous to revisit the very substantial *existing* SA stock, not only of housing, but of also **viable neighbourhoods** and to consider what they might be offering in terms of extension, elaboration and recycling for all levels of housing consumers. Opening up new stock at the upper income level in such a chain-effect system can also be viewed in a new light, insofar as it potentially frees up historic stock for lower income groups, with potentially continuous knock on effects lower down the ladder.

'Normalisation' of SA cities - Deliberate versus unconscious strategies to assist the urban poor – illustrations from eThewekini and Msunduzi

Introductory remarks

Demonstrating the empirical salience of the more generic points made above usually requires reference to case studies. It is this aspect that will receive attention below. Specifically, a few KZN case studies open up for discussion the main factors that are likely to lead to the exclusion of lower income housing opportunities for new development, but also raise the question of how the poor might more effectively benefit from residential filtering processes.

As a general point of departure, it might be commented that the costs of land in newer development areas, plus rising building costs, often make the achievement of "integration" of lower income housing into new developments unlikely, at least on any scale. The current Ministry of Housing's proposals that 20% of units in new, up-market estates be reserved for lower income groups may work in a limited number of circumstances; but it is unlikely to work on scale for the poor. This is because the simple arithmetic of South Africa's pyramid-like class structure is such that one actually needs additional supplies of five lower income units per one higher income unit, rather than *vice versa*. (Although a serious question, also, is whether all these lower income units should be new).

Of course the Housing Ministry's proposals in this regard are not necessarily fundamentally problematic in MMW4P terms. They could be construed as a modest addition to a filtering-based market supply process, and as such will likely actually be of some value in the supply chain. However, the more general sense of housing strategy that is being set is at least arguable, insofar as it appears to rely upon a philosophy of 'atonement' for market performance, rather than on working with enlightened self interest and the leveraging market forces on any scale. In other words, it could be argued that the 20%-of-a-golf-estate-principle doesn't set a very useful <u>overall</u> policy direction.

Indeed, some aspects of the conscious, contemporary policy effort to release land for lower income housing, or to build lower income housing - most especially at provincial or municipal scale - seemingly operate in "open defiance" of market forces, partly because those forces are seemingly misunderstood at these levels of government in particular. For example, to adopt the view that one will not make available land re-zoning or bulk infrastructure for higher income housing development, since 'what we really need is lower cost housing', might effectively be cutting off one's nose to spite one's face. The households who will move into the new, upper income housing will not only often be paying higher rates than they did before, but they will be vacating lower priced suburban housing where there are good schools, parks etc and which offer good value for money to the growing black middle class; and they in turn will be vacating spaces in lower income neighbourhoods, etc.

If this zero-sum perspective of "punish the rich because were on the side of the poor" is to be reversed in favour of more effective supply on scale for the poor of both new and used stock, a more clear-sighted MMW4P perspective is going to be required, although clearly we are all only at the beginning of such a process now.

Entrée to the Durban northern corridor case

Yesterday's headline is not always the most reasonable place to start an analytical study, but for many outside of KZN it offers an entrée with potential for national recognition. In the *Weekly Mail* of 8-12 September 2006, there is a full-page (p12) article by Niren Tolsi under the heading "Abahlali demand information", the broader political themes of which are picked up again by Richard Calland on p27 under the heading "What future for SA politics".

Both articles refer to a growing, radicalised politics of demand for low income housing in South Africa, and in particular on a potential development area called Cornubia which will be the focus of our first case study. Cornubia, in turn, is situated in Durban's so-called northern corridor, which is the wider context that we need to address in order to understand land use competition in relation to low income housing.

Indeed, Durban's northern corridor provides a good illustration of many of the more general points made thus far. This corridor has been the focus of much property investment over the past decade (effectively Durban's Sandton, with tens of Billions of new development, including the La Lucia Ridge office estate, the 120 000 sq. m. plus 'Gateway' shopping centre, etc), and it has also seen some growth in lower income housing supply, with more currently under debate.

What the case tends to illustrate is that in terms of <u>current market realities</u>, at best, lower middle income housing is able to compete near to the core of this marketplace, and topographical (and associated engineering cost) constraints make much of the area unsuitable for low cost housing, even if it could be insulated from competitive land use processes. However, on the edges of the corridor and nearer Cornubia, significant state-led supply of lower income housing has already been achieved, in an area called Waterloo where provincial government supplied low income housing during the 1990s.

Waterloo, adjacent to Verulam, is however fairly far from the real centres of investment action in the corridor (6km as the crow flies from Gateway, but almost twice that by car); and Cornubia has stimulated so much debate because it is only 2km either by car (or birdflight) to Gateway. From an Urban LandMark perspective, it is perhaps through this area that key housing-related issues in relation to the northern corridor are probably best approached; as indeed they currently are in the focus of the Metro

Council and low income housing organizations, amongst others, regarding contemporary access to well-located urban land.

It is proposed by both the land owners and the Council that at least 20 000 “affordable housing” units be built at Cornubia amongst other uses – hence it is the largest of such developments contemplated in decades within the metro area. But understanding the regional context is key to its future.

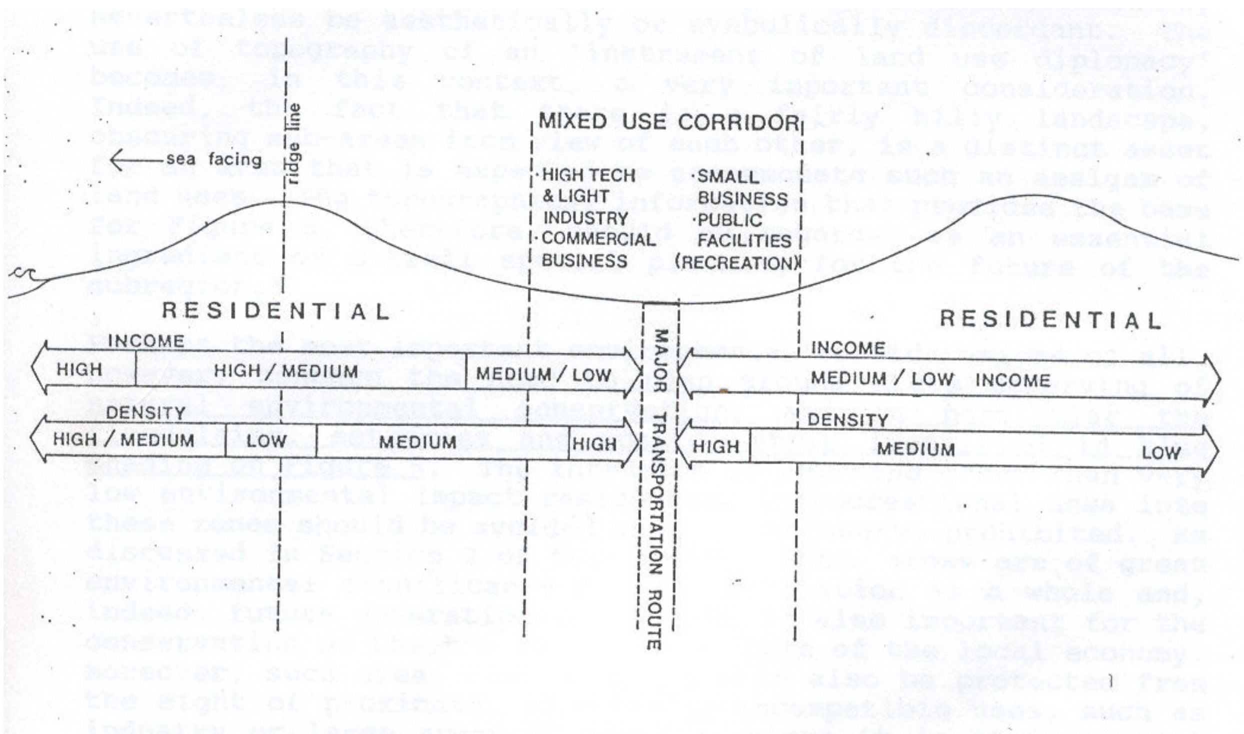
Regional and historical context

The some 1000 ha Cornubia area is adjacent to the Gateway shopping centre across the N2, and it forms part of much larger wedge of long-established caneland dating back to the nineteenth century between the Mgeni and Ohlanga Rivers and which, during the mid twentieth century *apartheid* era, used to function as a *de facto* “buffer strip” between the black, Indian and coloured and townships of Newlands, Kwa Mashu, Pheonix, and Inanda on the one hand, and the then white suburbs of Durban North and Umhlanga on the other.

By about 1990 however, with the anticipated demise of apartheid on the one hand and the growing demographic and commercial pressures for urbanization on the other, the land owners - the Tongaat-Hulett Group - recognized the need to develop the area as a post-apartheid “mixed use activity corridor”, in terms of which a “spine” of commercial, office and industrial development would accrete both sides of the N2, with middle and upper income housing to the east of that spine, and middle and lower income housing to the west of it (see figure 1).

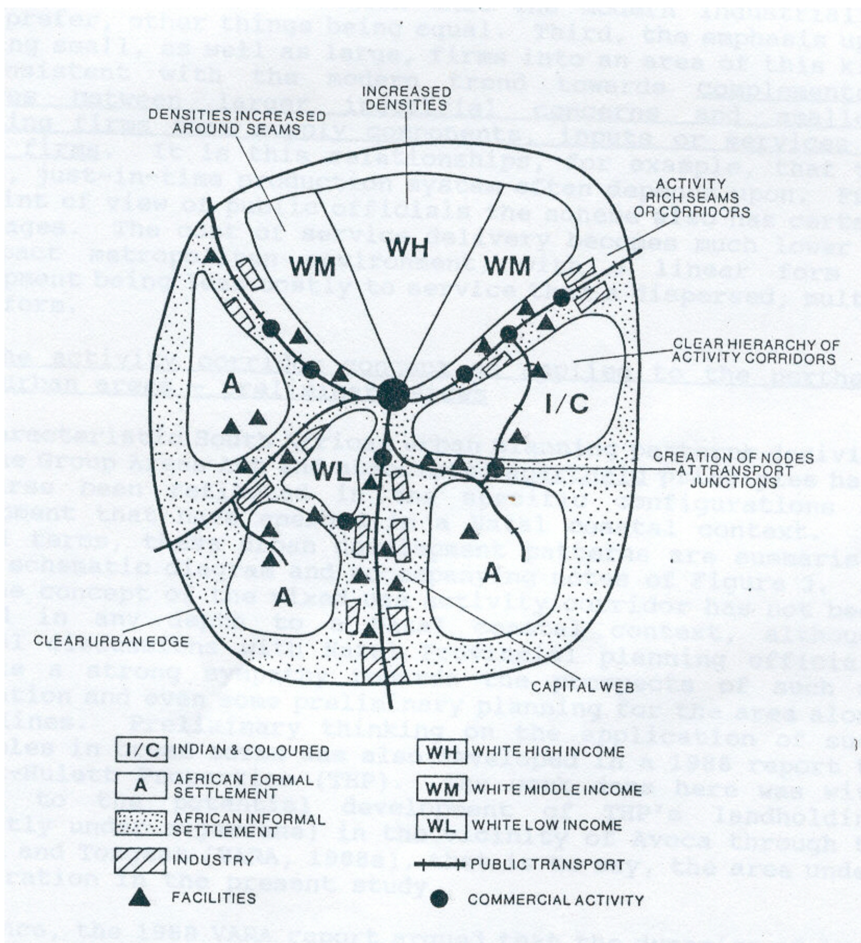
This concept in turn was supported by its inclusive “planning forum” of the early 1990s where, amongst other considerations, the ideas of Professor David Dewar of UCT - who had pioneered thinking on how to re-integrate the *apartheid* city – proved influential. In particular it proved helpful in that Forum to conceptualize a cross-sectional diagram of projected use in the northern Durban cane wedge in the late 1980s (figure 1), and this diagram may be thought of as a cross-sectional view through one of the hypothetical “activity rich seams or corridors” shown in figure 2 overleaf, which is reproduced from Professor Dewar’s more generic work in the 1980s (Dewar did not have a particular SA city in mind, whereas the topography etc reflected in figure 1 referred specifically to the northern canelands of Durban.).

Figure 1: A cross-sectional view of projected land use in the northern Durban caneland wedge



The employment and facility oriented "spines", "seams" or "corridors" in these schemes were seen as important both from the point of view of encouraging greater social interaction in previous buffer strips; and in the Durban context from the point of view of moving more work generally to the north given that, in previous decades, a great imbalance has developed with most residential development having occurred north of the Mgeni River (especially in greater Inanda) but most work further south (especially at in the southern Industrial basin and at Pinetown/New Germany). This Durban land use imbalance problem was explicitly referred to in the government's 1995 White Paper on Urban Development; and in the 1997 Spatial Development Framework document of the Durban Metro Council, where graphs of land use imbalance in the north were produced (too little work, too many homes in the north) and where it also endorsed the concept of an activity corridor extending along the North Coast Road/R102 up towards Verulam and Tongaat – a position which appears to be held in spatial planning frameworks of the Metro Council up until present.

Figure 2: Dewar's 1980s generic concept of reintegrating the apartheid city



Competition between land uses

The historical unfolding of development in this corridor is relevant to understanding Cornubia and the current housing debates surrounding it. In line with the planning concept shown in figure 1, one of the first sets of developments in the corridor was provincial government initiated lower income housing to the west of the corridor, near to Verulam, in the so-called Waterloo scheme where over a thousand RDP houses were built. This was some distance from Umhlanga but not very far (circa 6km), where market forces led development.

But: in the context of specifically market forces in metro Durban, the pressures for development in the northern Durban corridor were felt at first from the east (Umhlanga, La Lucia Ridge, Sunningdale, etc) and south (Briardene, Riverhorse valley, etc). These were mainly for office, retail and higher income housing, built largely in the SE quadrant of the corridor. But today (mid-2006) these pressures are also emerging further westwards and northwards, which is where Cornubia currently comes into the equation, at an intermediate location between Waterloo and Umhlanga. The market pressures are as much for lower middle income housing, as they are for anything else, but the political pressures are for low income housing (according, that is, to news reports referred to earlier).

In terms of contemporary IDP documentation Cornubia falls within what is referred to as "urban periphery", but immediately adjacent to an "investment corridor" (R102/M41) and close to one of three "major economic investment nodes" (Umhlanga). However, it is the more local particulars of this area which are now the topic of some debate; most particularly with the landowners tending to argue that more non-residential use, and middle income residential use, in the area is required to cross-subsidize lower income housing, and with the Council pressing for more lower income housing land allocation.

The issue is by no means straight-forward for Council though. The northern corridor has effectively become the "cash cow" for the metro as a whole. The Rates revenues derived from upper income housing, offices and shopping centres in the area, without significant associated infrastructural or operational cost to the municipality (they are now borne by developers and well-heeled end-users), make the northern corridor a god-send from the point of view of net public costs versus revenues.

Forcing lower income housing into such a context is difficult without major subsidy.. In this context it has to be understood that the market value of land in the area for shops and offices for example is orders of magnitude higher than for lower income housing (the exact size of the gap will vary depending upon densities, but it could be is much as a 1000%+ difference). Land sold for lower middle income housing would normally fetch R500 000 per hectare, whereas for offices or shops the price would be R2 500

000 or above. The agricultural value of land here is R250 000; and as a raw land price, this places if effectively out of reach of low income communities, unless some subsidy is involved. Bringing in a significant component of lower income housing here – which everyone agrees is necessary – is thus effectively *dependent* upon cross-subsidisation by other (in this case mainly non-residential) uses. The so-called competition between land uses therefore appears in microcosm here as **not** a so-called zero-sum one, where the land owners can only gain at the poor's disadvantage, or *vice versa*.

Land-use "Cash cows" and low income housing

In business terminology, a "cash cow" is something fast-selling that one is able to milk for cash whilst one invests in longer term growth areas. In South African land use, clearly, the "cash cow" is not low income housing, but commercial use and higher income housing often is. How can this be put to good use in relation to low income housing?

We may begin with commercial use. The Durban mall whose contribution is most relevant here is the Gateway at Umhlanga. This over 120 000 square meters in size, and is reputed to have a circa. R2 billion p.a. turnover in retail spend. Gateway is not merely a shopping centre however, and its entertainment and restaurant functions, amongst others, have led to the general public's perception of it as a desired environment in which to recreate (in the Gateway case, the average period a shopper is there is apparently 2,5 hours). Indeed, so successful has Gateway been as a privately-provided centre of recreation and public space, that land adjacent is selling fast for literally thousands of new middle income apartments priced at R12 000 per square meter and more. Older, more privileged people are now moving in their droves out of historic stock in places like Westville, Durban North and so on into such apartments, as are a new generation of "yuppies".

The rates income from these middle income flat units alone are likely to be about R30 million p.a., and virtually all associated services are supplied by the private sector. The Gateway centre itself is also a major generator of public benefits whilst it pays for all its internal policing and maintenance, car parks adjacent gardens etc. In Gateway's case these include: Paying municipal charges of some R44 million p.a.; taxes of some R19 million p.a.; employing some 4000 people (including shop assistants); generating circa. R250 million pa. in VAT; and unknown but high levels of payroll and company taxes. In addition to this are the tens of millions in annual rates generated by adjacent high income housing estates. In relation to these, and apparent hostility from certain quarters in government regarding their existence, the CEO of the Durban Chamber of Commerce Bonke Dumisa recently remarked:

> "The developers of such pro-rich housing estates do not expect the government to service and provide the necessary infrastructure for such areas; they do it on their own. This must create the opportunity for government to use existing resources to improve the 'dusty semi-developed' areas where the poor live....I believe we cannot afford to kill the goose that lays the golden egg" (B. Dumisa, "Rich, gated suburbs lay the golden eggs", *The Mercury,* 22-08-05, p.9)."

A real question from the point of view of low income housing however, is how this "golden egg" is currently being used to the poor's benefit, and how it might be better used in future. And this, of course, is partly an issue of local public finance, which we will return to in our conclusions.

Observations on the housing "ladder" in Msunduzi

For the sake of robustness of illustration, a final and less detailed set of observations are drawn from Maritzburg/Msunduzi. Although the KZN capital has some similarities to Durban/eThekweni, it is of course smaller, but (especially recently) growing just as fast. In common with most of the province (and the country) however, there was little in the way of properly serviced housing for the poor by about 1990, with most living in informal settlement southwards of the city, and at some considerable distance from work zones in areas of the former KwaZulu.

After 1990, IDT-sponsored site and service housing development was initiated north of the city much closer to work zones (at Copesville); and soon afterwards extensive upgrades were made to the better located informal settlements and townships like Edendale/Imbali. In addition, there was substantial settlement of African people in the

CBD and environs, and in several of the former Indian and White suburbs. By comparison with Durban, the price of the historical flats and houses was/is considerably lower, making potential sub-market “competition” through the construction of new, low-cost housing more difficult for aspirant lower income housing developers.

Three bedroomed houses in Imabali currently are advertised at circa R250 000; flats in the CBD at circa R100 000, two bedroom houses near to the CBD at circa R290 000; three bedroomed houses nearer the CBD at circa R390 000; and two and three bedroomed houses in the former Indian areas of Northdale and Bombay Heights at between R250 000 and R400 000 (sampled from five issues of *The Witness* newspaper for the week 11-15 September).

At the same time, with the recent relatively rapid growth of the Msunduzi economy, partly associated with the conferral of capital status, there has been an especially rapid growth of new middle classes. This has meant that housing developers in the city, after having initially concentrated on the upper end of the market, are now focusing on the mid-market, for example with planning applications now at fairly advanced stages for construction of some 7 500 circa. R600 000 priced homes on the eastern side of the city (towards Durban) alone. The likely impact/s of such a supply, of course, will be to build significant capacity within the middle-priced “rungs” of a housing ladder associated with residential filtering, freeing up stock of especially lower-priced, formal, historic stock in former White and Indian suburbs, as well as the CBD and environs. (People from Edendale/Imbali in tern will move into the latter areas, and people from the informal settlements into Edendale/Imbali, etc). In addition to this, as a result of the new mid-level income housing construction the Municipality (correctly) believes there will be a significant enhancement to the local public revenue base, with the addition of several billions of Rand of rateable property.

It is at least questionable how price-competitive would be new, lower-income housing supply on well-located land within such a context, even with the advantage of enhanced national subsidy. On the other hand, if such enhancement were to assume the form of a subsidy on housing bonds, for houses/flats bought by lower to lower-middle income persons in a designated central "renovation zone" (analogous, but not identical, to the UDZ policy referred to earlier), the benefits to the poor at least in terms of:

(i) use value of home compared to consumer monthly costs

(ii) capital growth of the housing asset, and

(iii) access to economic opportunity, and reduced commuting costs

would all be much greater.

In addition to this, the quality of local public services (already in existence) in such areas would likely be much better than those likely to emerge in a new housing environment that would have to be serviced by a fairly cash-strapped local authority. The reason we say here that the policy would be analogous (but not identical) to the UDZ is that the currently policy tends to favour inner city developers/speculators, and may encourage gentrification, whereas a subsidy and end-user focused subsidy approach would likely have better redistributive implications for the poor.

Conclusions

South Africa is probably still on the cusp, perhaps not yet even at the cusp, of breakthrough analysis on effectively applying MMW4P concepts to lower income housing supply. The present author, certainly, cannot claim to have all the answers, but the questions at least are becoming more focused, and there are a number of empirical clues to potential answers. Indeed, in all of the above analysis and illustration there emerges a common theme – the most effective impacts on the fortunes of the poor will most likely be achieved through leveraging market forces with earmarked public funds, derived from the public surplus that can be yielded partly through facilitating (especially "public-cost-free") middle or higher-end developments. To seek to "confront" the last mentioned forms of developments with "punitive" measures (e.g. denying them rezoning, or bulk infrastructure, imposing excessively high rates, etc) will likely lead to economically perverse outcomes, where the most adverse implications may actually be for the poor (although, admittedly the balance is often delicate and complex in practice – e.g. higher rates on the higher end do seem inevitable).

Instead of seeking to motivate lower income housing supply "in defiance" of market forces (e.g requiring it to be in places where the market – including from the demand side – simply won't bear it; preventing re-sales of RDP housing, etc), and thus minimize redistributive impacts, it seems more logical to use public funds to leverage influence on the operation of land and urban development markets, and (where this is not already done) to use progressive property taxes to enhance the scale of such funds. In certain situations (e.g. eThekweni where local public revenues are stronger) this enhanced local public revenue could arguably be used to subsidize better-situated housing areas with good public transport for the poor, both within the northern corridor e.g. at Cornubia, and/or nearer to city centres (e.g the. CBD, and Pinetown centre). In other instances, where local public revenues are more challenged, active facilitation of new, lower-middle to mid-market private housing supply maybe the most sensible initial tool.

Thus there is probably not a single, one-size-fits-all rule for MMW4P principles to be applied to lower income land and housing supply. Rather, the generic MMW4P principles should be applied with sensitivity and intelligence to the operations of locally variable housing sub-markets. (For example, in the case of the two cities discussed in case study form here, the "gaps" in the housing ladder and configurations of prices of new versus historic stock etc can look quite different from each other).

So, what are these general principles? According to the DIFD (2005) background analytical document supplied for this series of Urban LandMark papers:

> "A market which *works for the poor* is one which expands the choices available to poor people and produces market outcomes that benefit the poor. These outcomes include job opportunities with attractive wage rates, better returns on goods sold, and greater affordability of important products and services. Over time the participation of the poor in these key markets should increase. In terms of contributing to pro-poor growth, the key indicator will be the average rate of growth of the incomes of the poor. From the perspective of the poor, the important criteria are improvements in:

- o access to important markets and overcoming any forms of market exclusion;
- o affordability (for purchases);
- o returns (for sales) …" (DFID, 2005)

The present author would argue that not only is this a good summary of MMW4P principles, but also it is a reminder of the need to situate the contributions of urban land and housing policy for the poor within a <u>wider</u> MMW4P perspective. We are not simply talking about land and building costs here (as so often is the case amongst built environment professionals), but a perspective on the urban economy including reference to housing value-for-money, neighbourhood quality, access to economic opportunity, household savings and accumulation, etc.

This is not a perspective that the state or development aid agencies are always that well-attuned to. However, amongst South African NGOs (more so probably than within the private sector), the wider MMW4P perspective has been rapidly emerging. Indeed they appear to be appreciating this even better than the private sector, although they are beginning to argue now for more of a private sector role. In the Urban Sector Network and Development Works (2004) in their background document provided for this Urban LandMark series, for example, it is said that:

> "Greater involvement of the private sector and non-profit sector in delivery programmes needs to be promoted. The State lacks sufficient capacity to be able to deliver land, infrastructure and housing for the urban poor on its own. There also needs to be sufficient space to encourage innovation and creativity, to allow the private and non-profit sectors to experiment with new approaches of meeting the needs of the urban poor, e.g. through dense, well-located, mixed-use integrated development projects that have a range of income generating opportunities and social opportunities, and through peri-urban agricultural villages where there is the potential of combining "urban" and "rural" livelihood strategies."

Being more peri-urban in nature, the last-mentioned point from the above quotation is beyond the scope of this paper, but it seems deserving of further work and has potential for further elaboration. This could be organized around the economist's notion of mixed household income streams, and is consistent with the more expansive MMW4P concept being advocated here. What it has in common with the themes of this paper is to a request for us to "think outside the box" of "housing roll-out", or other non-market "delivery" concepts that are not only impractical in terms of actual benefits accruing to the poor, but which also place unrealistic stresses and pressures on public servants and private sector role-players alike.

These pressures are also not likely to be alleviated by demands from the housing-based social movements of the poor, whose confrontations with local governments are becoming increasingly widespread and sometimes violent. The MMW4P perspective offers the opportunity for a new discourse and set of practices that take us away from these growing tensions.

It should be clarified here that, whilst there is some evidence that housing markets are already working for the poor in various ways in SA cities, they are also doing so imperfectly, and more research is required on this in a variety of areas. Some of this research is already in progress. Kecia Rust (pers. comm., 2006) for example has pointed out to the present author that Commercial Bank time-series data reflect that price escalation rates for residential property in SA are such that higher priced homes have escalated in price at faster rates than lower priced homes. One consequence is likely to be that household capital accumulation prospects have been better higher up the ladder than lower down. This is something could be remedied to the advantage of the relatively poor through a variety of policy interventions (not least, through government bond subsidies and guarantees for lower middle income groups), provided that it did not exert undesirable exclusionary/price inflation effects upon even lower income tenancy markets. There may, of course, be other measures too, but again unintended consequences will deserve examination. Indeed, the analysis of continuous ripple-effects through interlinked housing sub-market "ponds" is one which Rust has developed in this regard that offers much potential for further research elaboration.

Of course, it might also be argued that a purely economic or financial perspective upon land values, MMW4P and land availability for the poor is also perhaps too one-dimensional. One critical observation of an earlier draft of this paper, for example, implied that this economic bias may be a deficiency, and that land rather should be appraised in terms of a variety of "performance indicators", other than the economic – including for example ecological performance, and social performance. Our observation here is that this is correct, and that ordinarily this is what public sector planners and Integrated Development Planning (IDP) planning processes are supposed to superimpose upon the operation of land markets. The present perspective upon using a MMW4P perspective to enhance the efficacy of filtering for the poor in competitive land markets is not meant to detract from that responsibility.

Reverting finally to the political tensions associated with low income land and housing, however, it is also not sensible to inadvertently displace all of this political tension onto a "silver bullet" notion of the MMW4P approach. MMW4P as applied to lower income land and housing cannot solve everything that we may have distaste for in our cities, like for example the overall class structures of developing economies. Rather, it is a <u>contribution</u> to the reduction of such ills; and what matters most is the <u>relative effectiveness</u> of the contribution that is made.

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