How can municipal rates policies promote access by the poor to urban land markets?

Presentation of research on property rates policies and the urban poor

Alison Hickey Tshangana

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South African CitiesNetwork

isandla institute

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Introduction and background

Barriers to functioning township property market (TRPM, Finmark Trust et al. 2004)

- Factors for properly functioning property market include:
  - Sufficient supply of housing stock
  - Sufficient supply of end-user finance
  - Secure land title
  - Adequate number of willing sellers and buyers
  - Ease in performing transactions
  - Information

To what extent can municipal property rates policy impact on these factors?

- Legal, institutional and procedural constraints to functioning land market for the poor
  - Insufficient supply of stock
  - Very few formal transactions (mostly informal)
  - Housing ladder not active (people don't move between markets)
  - Secondary market dysfunctional:
    - lack of legal title
    - delays in transferring title to subsidy beneficiaries
    - difficulty obtaining mun clearance certificate required of new owner
    - prohibited from selling for 8 years
    - lack of conveyancers and estate agents
    - expensive transaction costs

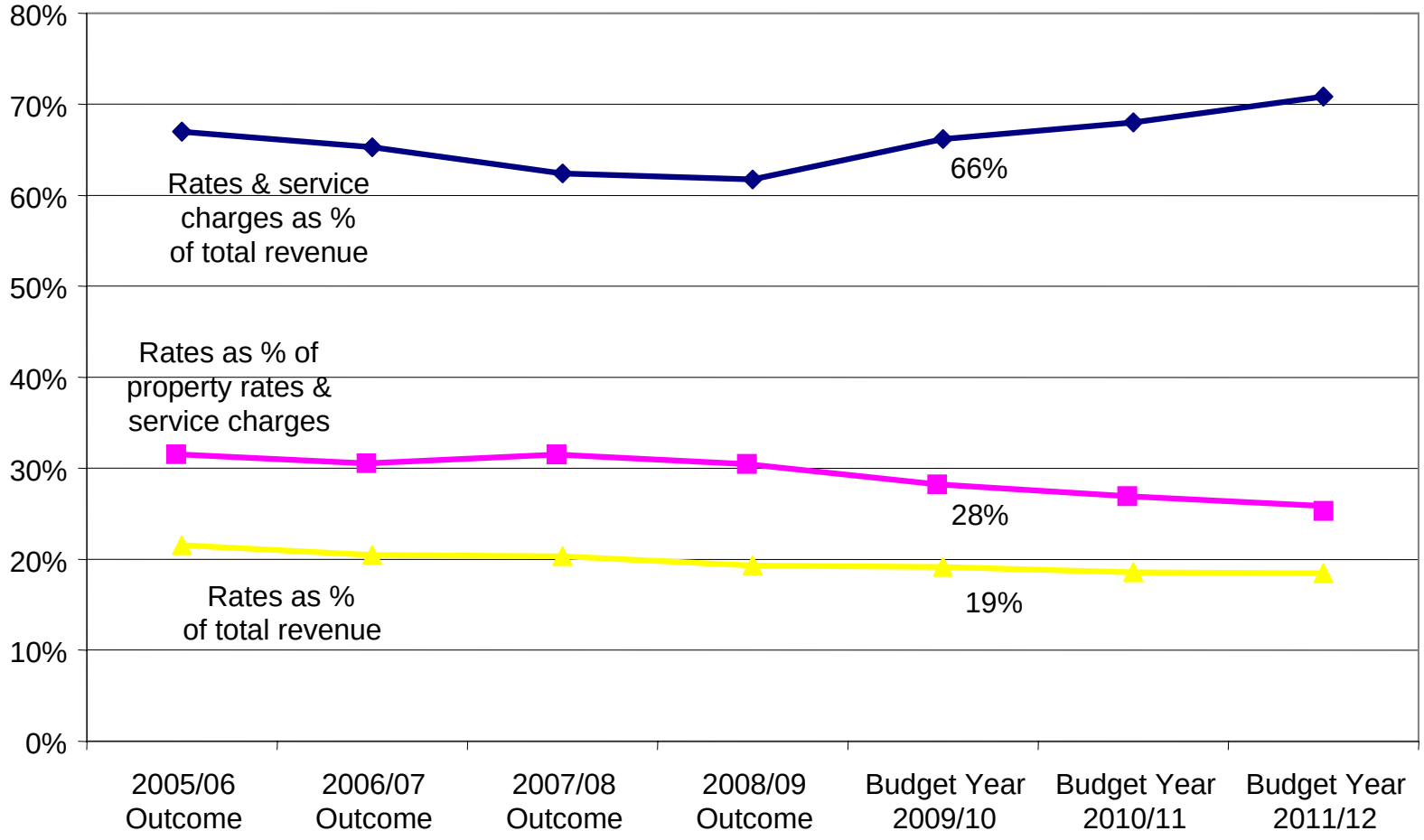
Exploring the impact of mun property rates on access by the poor to urban land

- Considering the identified obstacles which block the poor's access to urban land markets, can rates policy be used to tackle those barriers?
  - Is it an **effective** lever? How significant are property rates as a determinant of access by the poor to urban land markets?
  - Is rates policy the **appropriate** lever for influencing property markets in favour of the poor?

- What innovative instruments in mun rates policy could be put in place to assist the poor to access urban land?
  - What are the potential advantages?
  - What are the obstacles in the implementation of these tools?

Significance of property rates as municipal revenue source

Average for six metros:



Source: NT municipal database

How could municipal property rates impact on the poor?

- Tax incidence: inequitable spreading tax burden among categories of residents/property owners?
- By imposing unaffordable tax burden, prompting eviction or inability to move up housing ladder
- By impacting market behaviour: affecting prices and land use decisions by property owners

Potential instruments in municipal property rates policy to impact on access by the poor to urban land markets

- Direct tax relief for poor
  - Exemptions, exclusions and rebates
  - Circuit breakers
- Indirect property rates instruments to impact market behaviour
  - Impact of differential rates on pricing of property categories
  - Taxing vacant land
- Special rating areas
- Other planning and zoning instruments

Demand-side means:

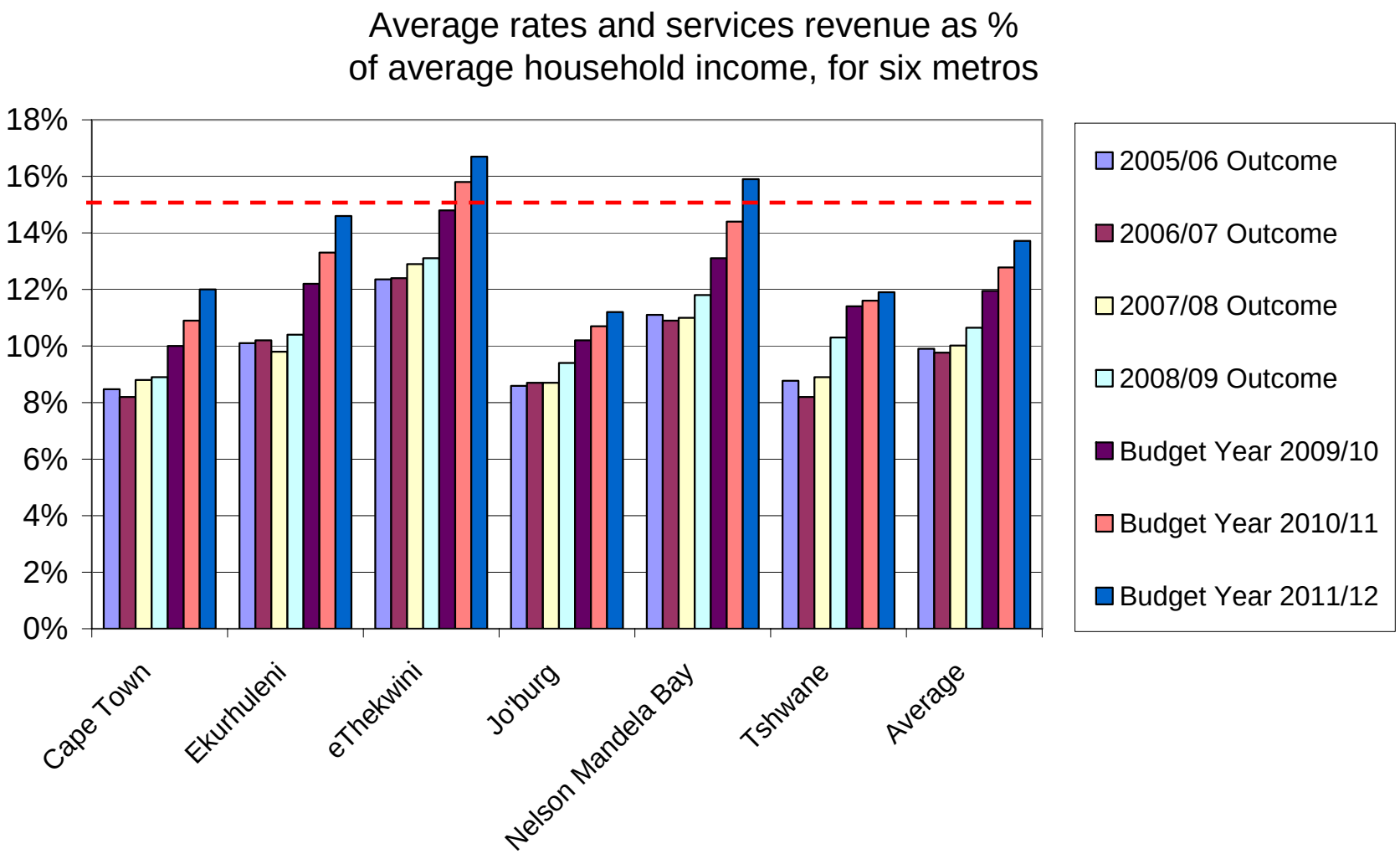
Increasing affordability?

Supply-side means:

Improve stock of available affordable land/housing?

- Direct tax relief instruments

Affordability from a household perspective

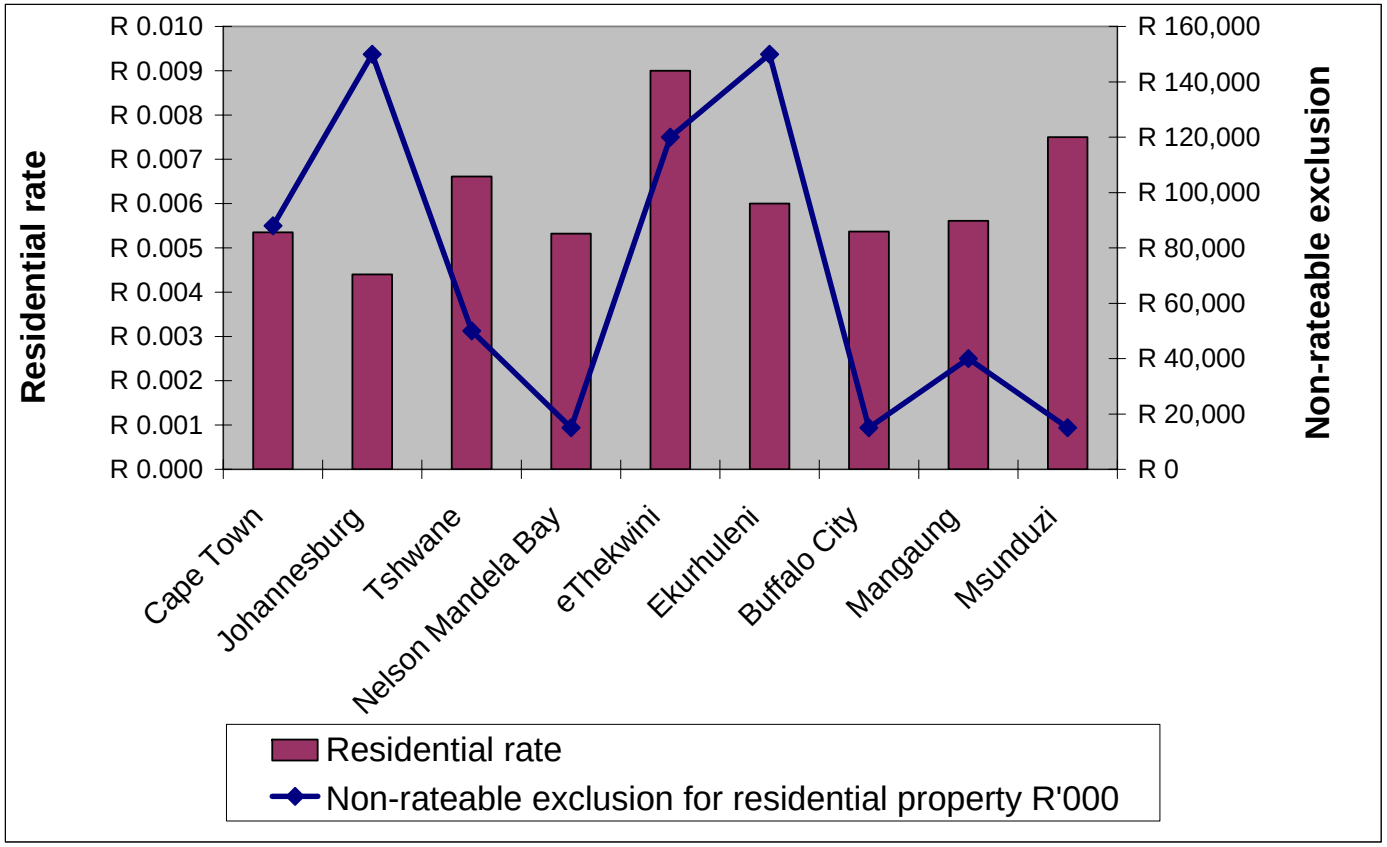


Source: NT municipal database.

Affordability from household perspective

- 2009/10 for 6 metros: 12% of monthly household income spent on rates and service charges
  - → Below 15% benchmark
- However many cities set the cut-off for indigent support at an income level equal to two social pensions (R2020).
  - → Group worst affected by rates and service charges is poor/lower-income households whose income exceeds limit for indigent register, and whose property values may exceed the residential exclusion.
  - → Often pay over the 15% mark

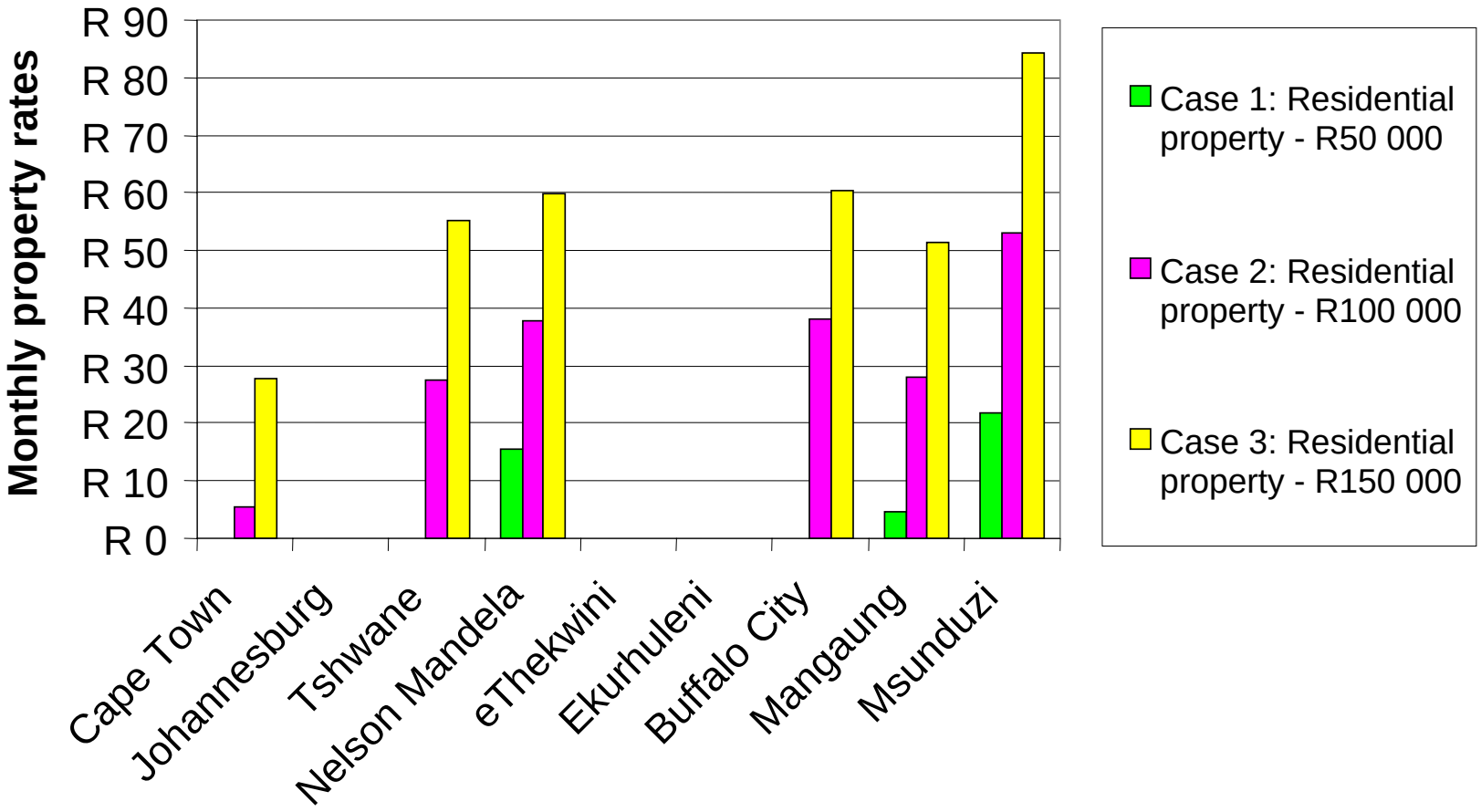
Section 17(1)h: First R15 000 of residential property exempt from rates



Msunduzi rate is R0.0075, net of residential reduction from 'general rate'
Tshwane rate is R0.0066105, net of 35% reduction from quoted residential rate
Mangaung gives R100 000 exclusion for indigents. Msunduzi gives R130 000 exclusion for indigents.

Source: Municipal rates policies. Own calculations.

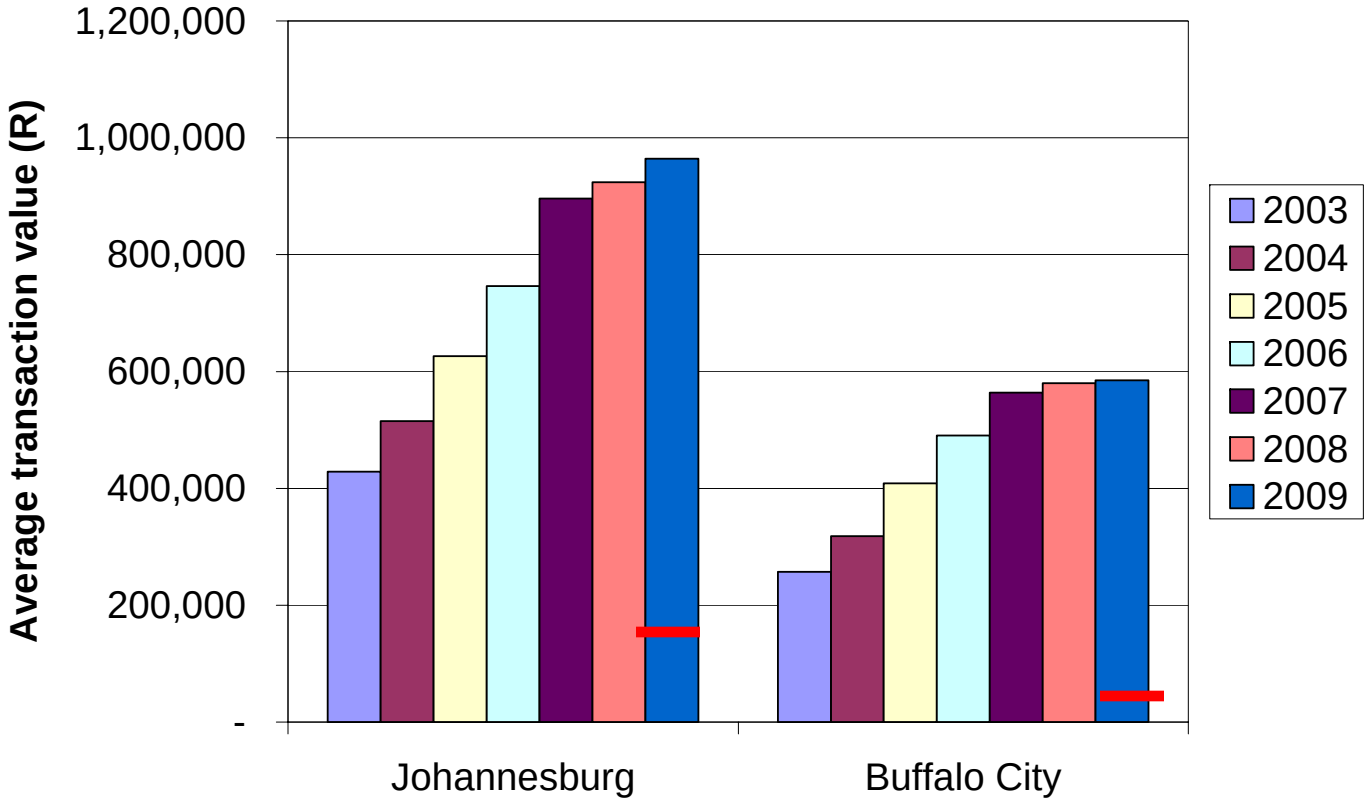
Comparing monthly property rates bills for low-value properties, across nine cities



Source: Municipal rates policies. Own calculations.

How does residential exclusion amount compare to property values?

Average price of property transactions in BCM and Joburg, 2003-2009



Source: Centre for Affordable Housing Finance in Africa

Impact of residential exclusion on poor

- Thresholds for residential exclusion differ widely: up to R150 000
  - Joburg: prior collection rates for low-value properties; aim is to continue relief to same group
  - BCM: adopted from MPRA
- Originally intended to exempt RDP house but not kept pace with subsidy amount
  - Logical link between RE and value of RDP house; alignment of policy
  - Amount of subsidy climbed from R15 000 in 1994 to current R55 706
- Also not kept pace with input costs or estimated re-sale price of RDP house
  - Input costs: top structure approx. R65 000; land and servicing approx. R40 000
  - Re-sale restricted; prices anywhere from R7 000 – R50 000

➡ RDP beneficiaries in some municipalities liable for rates while beneficiaries in neighboring municipalities may be exempt.

Who benefits from residential exclusion?: ***Household income levels***

- What is estimated income level of property owners with properties R150 000 and below?

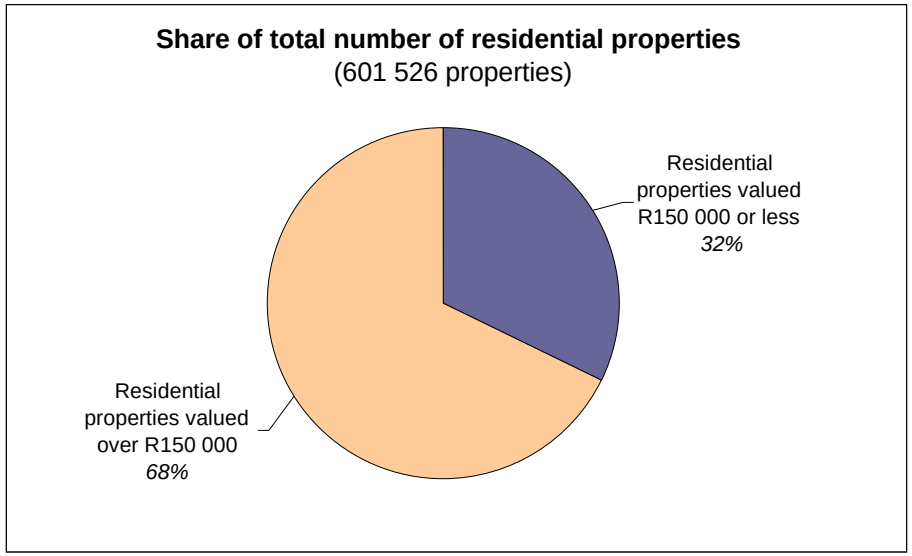
Household income (R/month)	***Monthly payment as share of monthly income***	***Monthly payment (R)***	***Affordable bond (R)***
1000	20%	200	19,766
1500	20%	300	29,649
2000	25%	500	49,414
2500	25%	625	61,768
3000	25%	750	74,122
3500	25%	875	86,475
4000	30%	1200	118,595
4500	30%	1350	133,419
5000	30%	1500	148,243
5500	30%	1650	163,068
6000	30%	1800	180,292
6500	30%	1950	195,316
7000	30%	2100	210,341
7500	30%	2250	225,365

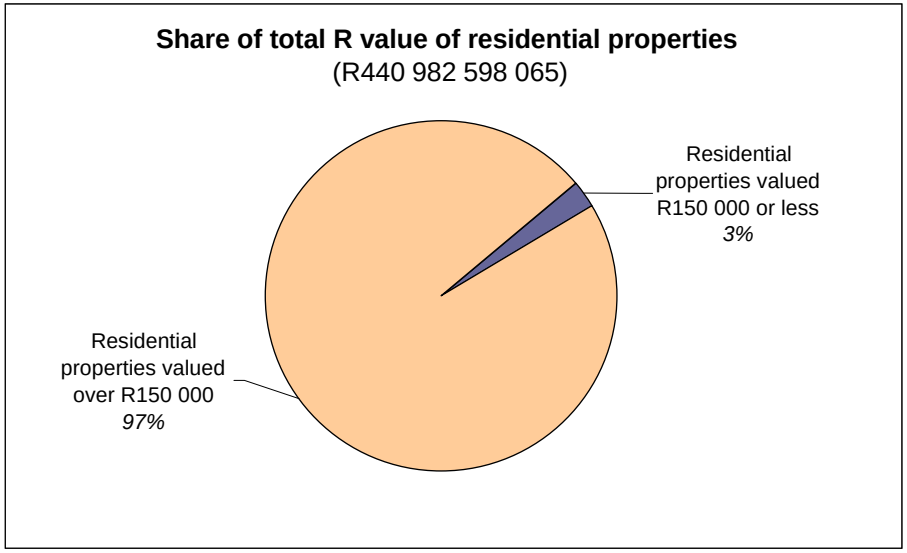
Assuming 10.7%interest rate; 20 year loan; National Credit Act requirements re: bond payment as share of hh income.

Source: NDOH (2008). "Investigation into the perceived impact of market distortions ostensibly created with the residential housing market as a result of government subsidies." 30 June 2008. Prepared by Kecia Rust with support from Illana Melzer and Ria Moothilal. Own calculations.

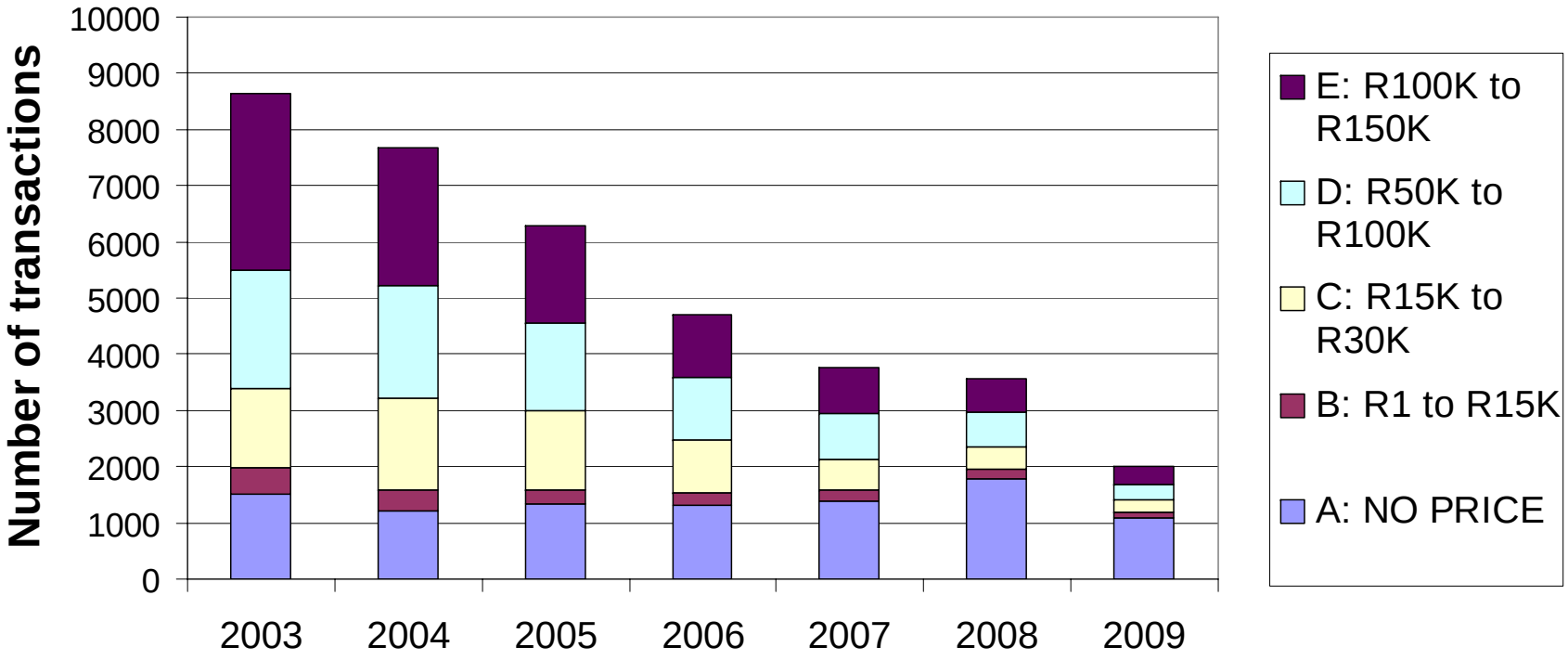
Who benefits from residential exclusion?:
Share of valuation roll and number of properties

- Joburg current valuation roll: 794 000 properties; approx. R679 billion
  - 76% of properties are residential (65% of R value of total roll)
- Of residential properties, 32% are valued R150 000 or less
  - Residential exclusion completely eliminates rates liabilities for 32% of residential prop owners; 2% of total rate-payers
- Total R value of res properties R150 000 or less is R11.6 billion
  - 3% of R value of res properties
  - 2% of R value of entire roll



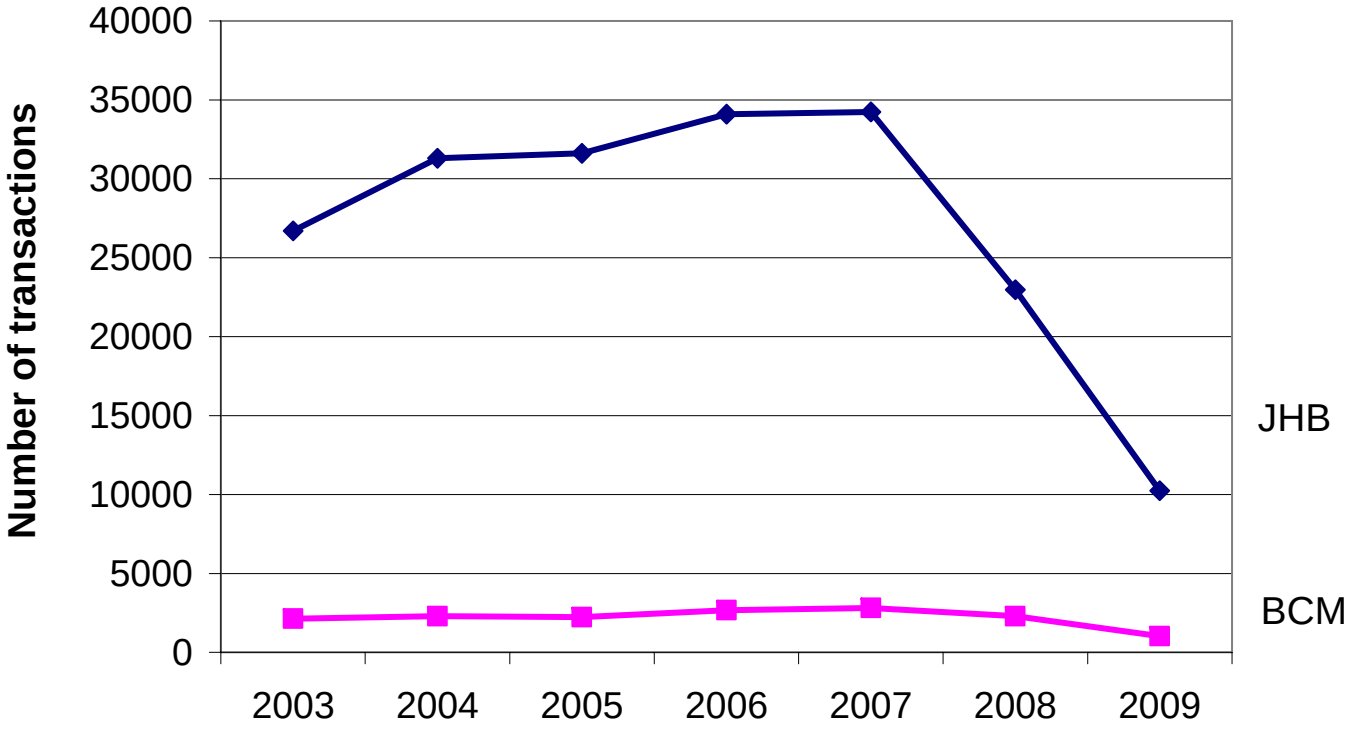


Johannesburg:
Number of transactions in price bands R150k and below



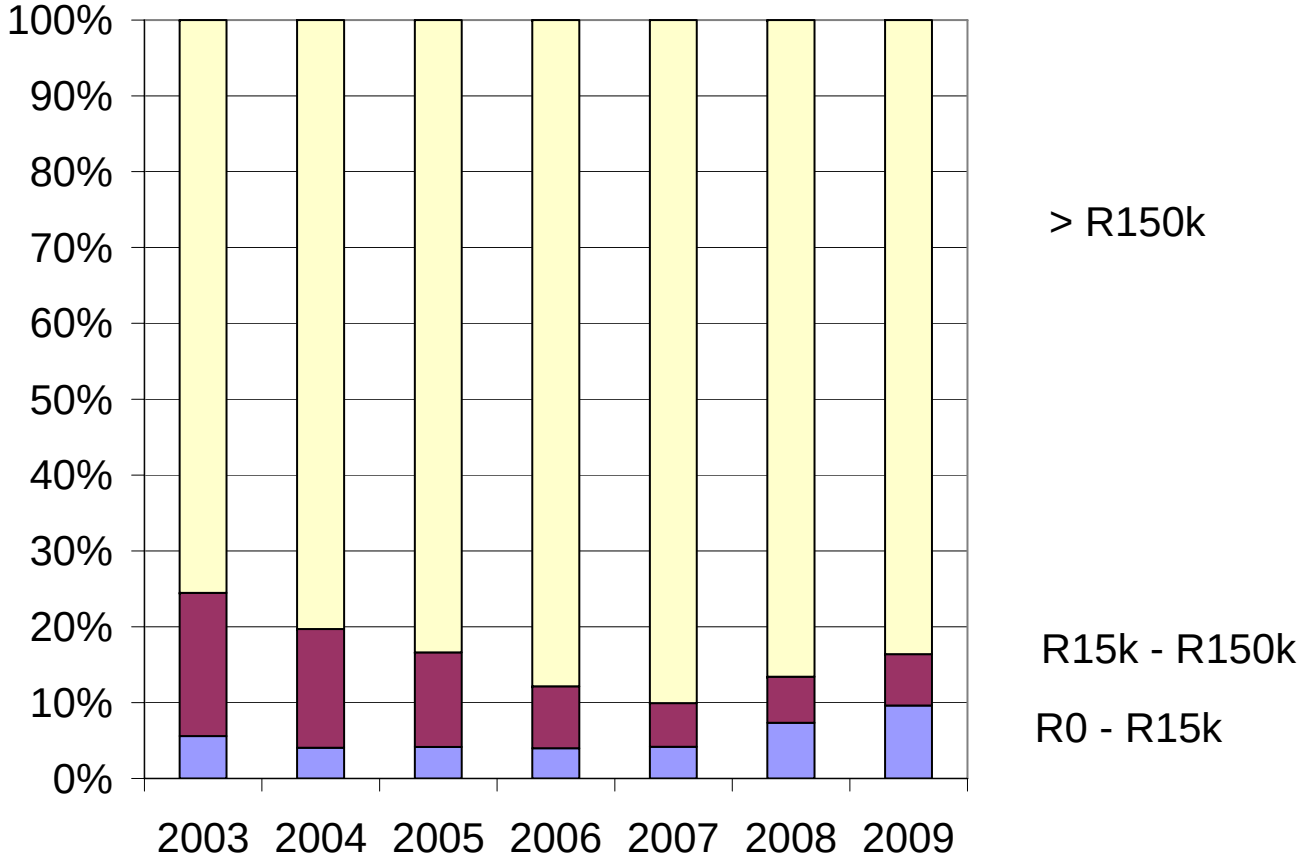
Source: Centre for Affordable Housing Finance in Africa

JHB and BCM:
Number of transactions over R150 000



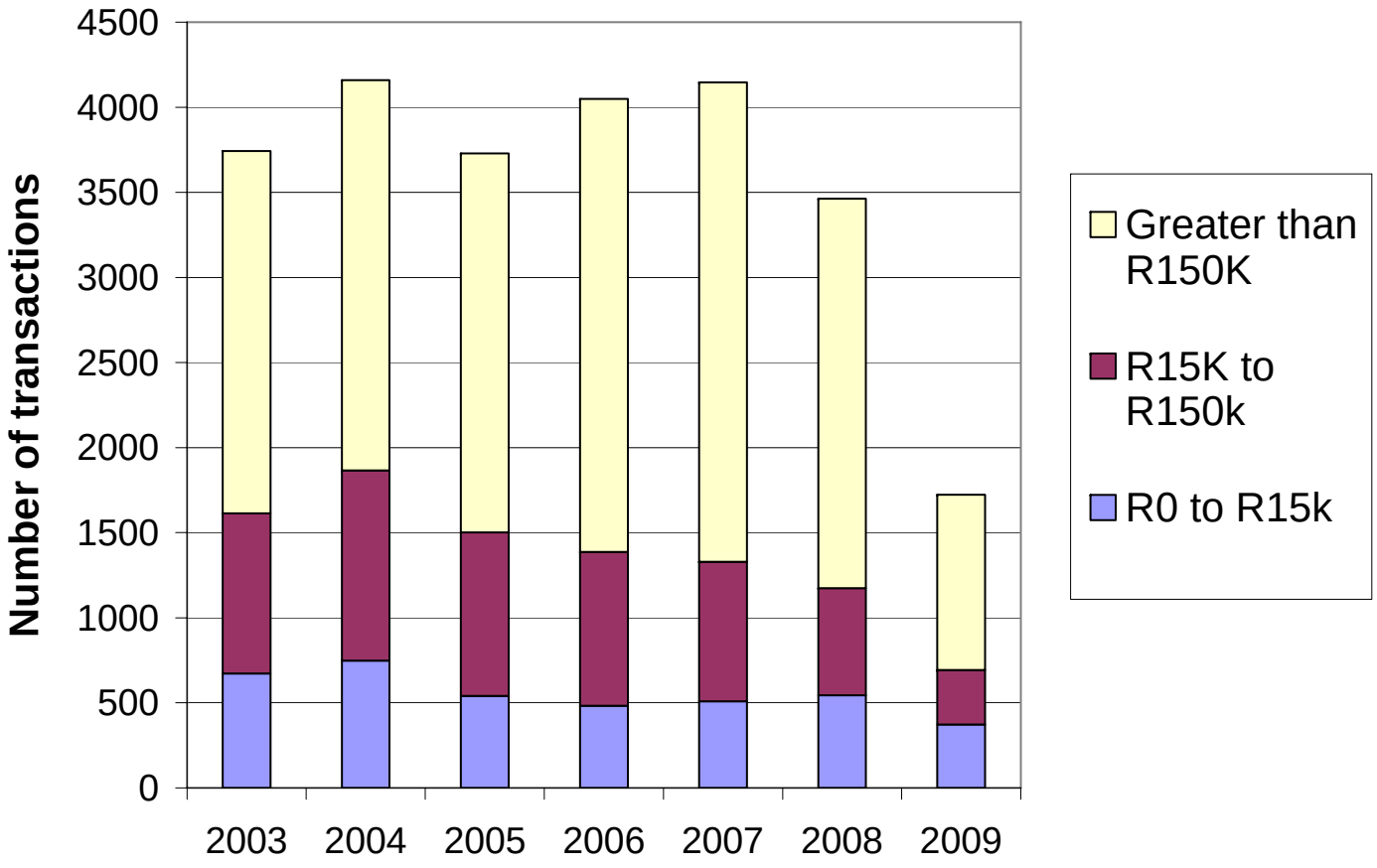
Source: Centre for Affordable Housing Finance in Africa

Johannesburg:
Share of total transactions in each price band

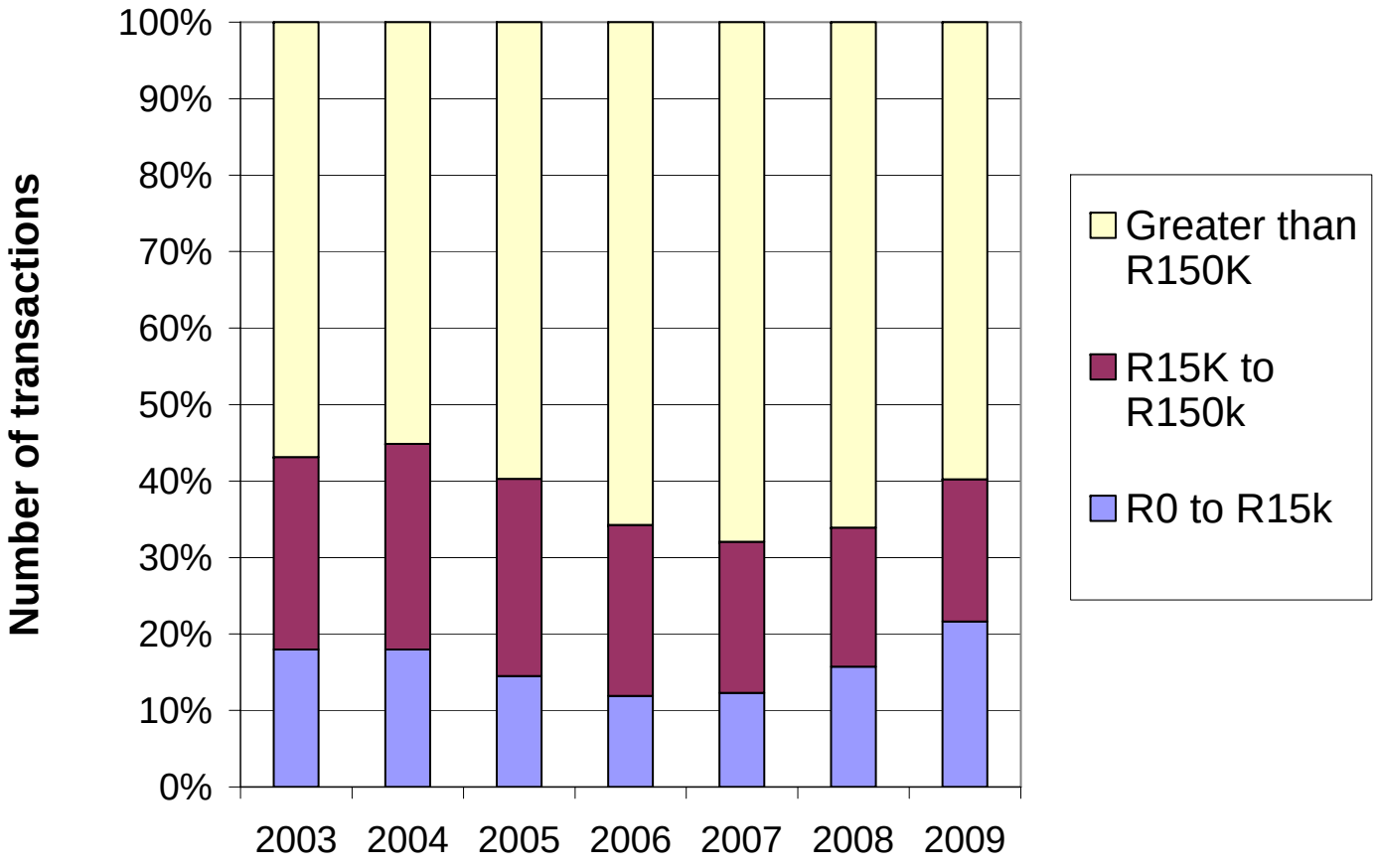


Source: Centre for Affordable Housing Finance in Africa

BCM: Number of transactions per price band



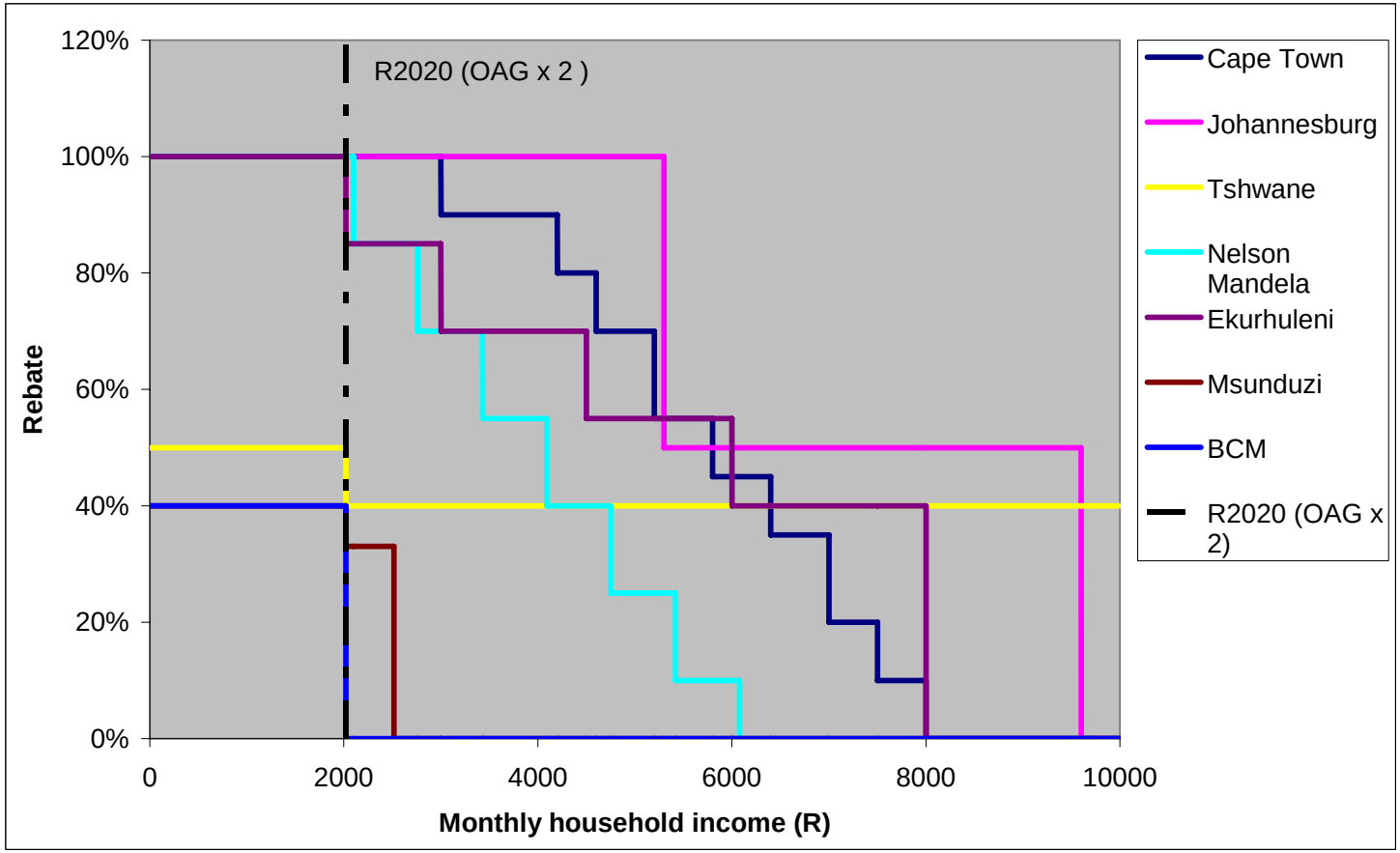
BCM: Percent share of total transactions per price band



Rebates for senior citizens and people with disabilities

- Some municipalities limit themselves to the minimum in rebates and exemptions, while others apply more generous and innovative rebates
- Seven SACN muns have sliding scale, with varying number of blocks
  - Rebates from 10% - 100%; typically for hh with income < R8000
- Can be combined with condition related to property value
- Frequently linked to OAG and disability grant; also cover those who don't receive grant but can demonstrate same income level
- How to protect those who are income-poor, asset-rich?
  - JHB: Rebate limited to R1.5 m property or less
  - BCM: 40% rebate for seniors with income R2020 (over and above R61 indigent subsidy for rates which covers R165 000 property)

Rebates for senior citizens and people with disabilities



Mangaung rebate to be implemented in July 2010. eThekwini exempts seniors and people with disabilities from paying any rates on the first R400 000 of property value; no limit on the maximum value of property in order to be eligible.

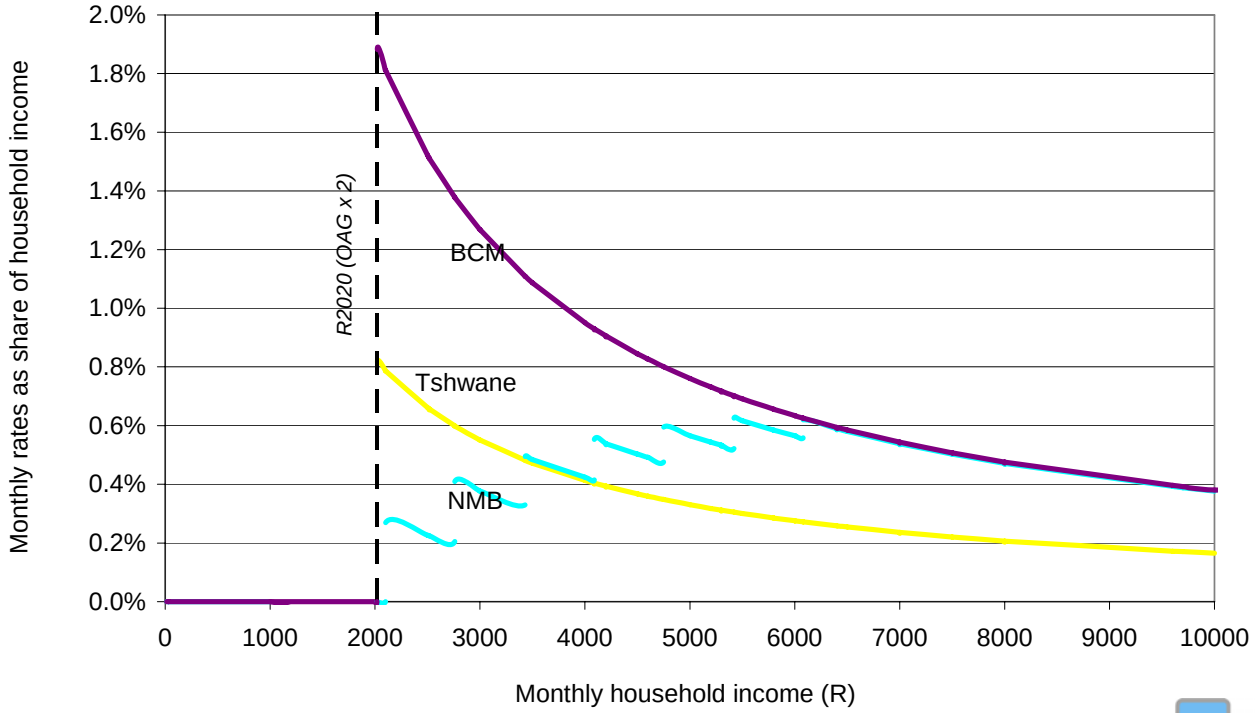
Source: Municipal rates policies. Own calculations.

Rebates for indigent households

- Typically those on indigent policy 100% exempt
- Other two options:
  - Cap full exemption at certain property value,
  - Or limit benefit to prop rates bill on certain value of property (BCM)
- Different approach in Joburg: Expanded Social Package
  - Individuals given poverty index score which takes into account other factors than income, including access to services.
  - Individuals grouped into one of three bands; differentiated comprehensive subsidy package available to each band.
  - subsidies applied on additive per-person basis, with a maximum cap per band applicable for each household.
- Link between indigent policy and property rates policy
  - Example of BCM:
    - Indigent subsidy for prop rates (R60.7) covers residential property valued up to R165 000
    - Must earn R5500/month to qualify for bond of this value
    - Cap on income for indigent is R2020

How do rebates improve affordability for poor households?

- *Take the case of an elderly couple over 65 years of age with residential property valued at R100 000; registered as indigents if qualify…*
- In other muns, zero (or very small) rates liability due to regular residential exemption or increased exemption for indigents
- Significant variation between muns: If earn R80/month addtl to OAG, property rates bill could be anywhere from zero to R38/month (1.8% of their income)



Source: Municipal rates policies. Own calculations.

Take-up of rebates

- Joburg:
  - 2008/09: approx 4500 pensioners received rebate
  - Very difficult to compare recipients to total number eligible
- BCM:
  - 2008/09: 130 rebate applications
  - Due to outreach and awareness-raising efforts, No. of applications increased in 2009/10 to 1479
    - Bulk of these were for non-availability of services
  - Reliance on councillors and ward committees
  - 2-month indigent registration campaign, Operation Xhamla, in early 2009
    - Took process and forms directly to potential beneficiaries, through visits by city officials to communities, particularly in rural areas.

Buffalo City	**2008/09**	**2009/10**
Pensioners	126	242
Persons with disabilities	4	3
People with income equal or less than R2020 (who are not disabled or pensioners)	n/a	-
Child headed households	n/a	1
Rebates due to non availability of services		1233
Total number of rebates	**130**	**1479**
Total Rand amount of rebates given	R 90,372	R3 892 093

Source: BCM Rates Dept.

How does indigent register compare to eligible population?

- Estimating coverage of the indigent register:
  - Mid-year population estimate for BCM: 765 343
  - 2006 EC survey: 53% of households live on monthly income less than R1,500 (Source: BCM Indigent Policy)
  - Current indigent register (June 09) contains *61 913 names* (82% urban), or 8% of BCM population
  - Even by the most conservative estimate, this represents a small portion of eligible population

➡ Although updated 2008-09 survey data not available, scale of the gap is large enough to conclude that a high number of eligible poor people are not accessing available property tax rebates.

Considering revenue foregone

- Revenue foregone for residential exclusion is function of:
  - value of the threshold,
  - number of qualifying properties on the roll, and
  - collection rate.
- Joburg:
  - Revenue foregone due to R150 000 residential exclusion was R89.1 million (in comparison to estimated total property rates revenue of R3.95 billion in 2008/09)
  - Raising the residential exclusion to R200 000 would decrease cash revenue by 2% or R70 million, and take 19 000 rate-payers off the database

    Source: PWC 2009 Report
- BCM:
  - 2008/09: R90 000 rebates granted vs. R359m rates revenue.
  - 2009/10: R8.5m valuation reduction (res exclusion and PSI) vs. R408 m total rates revenue

➡ Analysis of collection rates of different property value bands is critical to determining residential exclusion

➡ Revenue foregone itself not significant, but….

➡ …total cost to municipality includes admin costs, public awareness campaigns

Direct property tax relief instrument	***Select municipal examples***	***Benefits***	***Costs or Downsides***
Rebate based on monthly income – single or multiple tiers/blocks *Variation: Cap property value for eligibility for rebate.*	Cape Town: Senior citizens and disabled persons receive 100% to 10% rebate based on monthly income (R8000 or below) – 9 tiers	Improved targeting of vulnerable group (reduce errors of inclusion) In case of multiple blocks, sliding scale increases accuracy of targeting	Revenue foregone (but may be small if collection rates low) Low coverage/take-up due to requirement that residents come forward to apply Financial and institutional costs related to administrative burden of: - verifying documentation to test eligibility - conducting public awareness campaigns
Exemption on rateable property for vulnerable groups	Mangaung: Child-headed households exempt for properties with value up to R100 000	Means test not required Ease of administration compared to % rebate	Same as above Less accurate targeting of benefit: Provides same maximum benefit to all, regardless of income
Residential exclusion for all ratepayers	eThekwini: Rates are not levied on first R120 000 of value of residential property	Low administrative costs (automatically applied to rates accounts)	Revenue foregone (larger than for rebate) Applied to everyone: potential errors of inclusion (e.g. high-income property owners residing in low value houses) Assumes property value as proxy indicator for income (this problem is rectified if this measure is combined with means test)

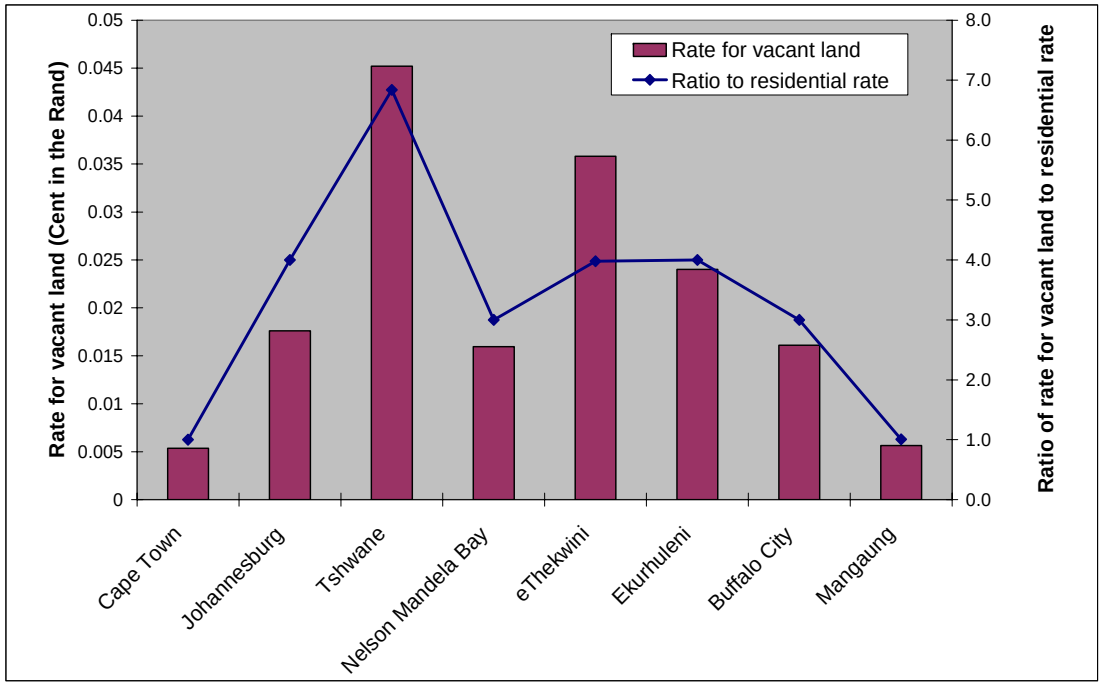
Evaluating effectiveness of direct tax relief measures

- Muns must consider trade-offs between the various methods for providing direct property rates relief to the poor
  - Targeting effectiveness
  - Degree of coverage of eligible population (take-up)
    - Ease of application process/verification of documents
    - Public awareness
  - Revenue foregone
    - Lower collection rate, lower revenue foregone.

- Indirect rates policy instruments to impact land use decisions and property market

Comparing rating of vacant land

- Highest is Tshwane: R0.0452, approx 6.8 times residential rate
- Joburg provides 50% rebate if land can't be developed because Council not provide services.



Source: Municipal rates policies. Own calculations.

- eThekwini also gives R30 000 reduction
- Msunduzi: vacant land valued < R60 000 gets 100% rebate
- CT and Mangaung: no differential rate

Note: Tshwane effective residential rate net of 35% rebate.

Examples of geographic targeting: Joburg

- 40% inner city rebate in Johannesburg
  - For property accommodating three or more dwelling units and no less than 80% of the floor space on the property is being used for residential accommodation
  - Effective in 2009/10, aimed at properties which shared commercial and residential use but were being hit by the higher commercial rate.
  - Low take-up to date
  - Potential incentive to promote residential use in inner city; revitalise downtown area?

- 20% sectional title rebate – automatic
  - Mainly advantages non-poor
    - 85% of sectional title properties exceed R150 000 in value; nearly all res properties under R150 000 are free-standing
    - Thus 22% of total residential property owners are sectional title residents in properties valued over R150 000 who will benefit from 20% rebate

- Rebate also applies to properties which are part of a development with density greater than 70 dwelling per hectare
  - Progressive: promotes high density
  - Take-up slow

Summary and concluding thoughts I

- Residential exclusion is powerful pro-poor instrument
  - Careful analysis needed of collection rates, property values in poor areas
  - Link to value of govt-subsidised house to align policies

- Applying indirect instruments: Some municipalities bolder than others: innovative instruments with potential to promote densification, revitalisation, economic growth

- Challenges:
  - Implementation, take-up
  - Success depends on how significantly property rates feature in the decision-making factors considered by developers and property owners when buying, selling or making land use decisions on property
  - From mun perspective: main issue is legality with impermissible discrimination

Summary and concluding thoughts II

- Monitoring of municipal implementation of the Act is critically important
  - Compliance with ratios
  - Equitably applying rebates/reductions/exemptions
  - Quantifying revenue foregone
- Shift from compliance to how ratings derived and their subsequent impact on the poor
  - Book balancing exercise, or modelling/analysis of impact on poor?
  - Closer scrutiny needed on interpretations and trade-offs by muns

- Thank you

Special rating areas

- Levy addtl rate on property in geographic area for purpose of raising funds for improving or upgrading services in that area

- *Possible use of SRA as means to target rates relief to the poor?*
  - Apply lower rating to designated area with large majority poor households/properties
  - Advantage: provide relief to a large number of poor households quickly, without requiring an application process and means tests.
  - Possible negatives: Incentive for wealthy to move into area; ‘stickiness’ of benefit, difficult to remove once in place

Potential negative impacts of SRAs on the poor

- MPRA only requires 'consent of the majority of the members of the local community in the proposed SRA who will be liable for paying the addtl rate' Section 22(2)
    - "May not be used to reinforce existing inequities in the development of mun"

- Possible negative impacts of SRA on poor:
  - Low-income households cannot afford addtl levies
  - HHs earn too much to qualify for exemption, still cannot afford addtl levy, but outvoted in area
  - Increased segregation in urban areas and inequality in levels of service

- Mitigation strategies:
  - Incorporate a clause in SRA policy stating all those eligible for rebates under the municipality's rates policy also exempt from any additional SRA levies (e.g. CT)
  - Limited SRAs (discretion of Council)
  - eThekwini: Increase majority required to 66% of owners; 51% property value
  - Allow smaller percentage to disestablish SRA
  - Minimum size of SRA (No. of properties and value)

Summary and concluding thoughts II

- Monitoring of implementation of the Act by municipalities is critically important
  - Compliance with ratios
  - Equitably applying rebates/reductions/exemptions
  - Quantifying revenue foregone
  - Shift from compliance to how ratings derived and their subsequent impact on the poor
    - Book balancing exercise, or modelling/analysis of impact on poor?
    - Closer scrutiny needed on interpretations and trade-offs by muns
  - NT municipal budget format reform will assist to support implementation of Act
    - Including household bills

- Need to examine impact of entire taxation system on access by the poor to urban land markets
  - Pricing of tariffs
  - Transfer duties: 5% for properties valued R500 000 to R1 million – Prohibiting upward movement in housing ladder?
  - VAT charge on developer-built houses