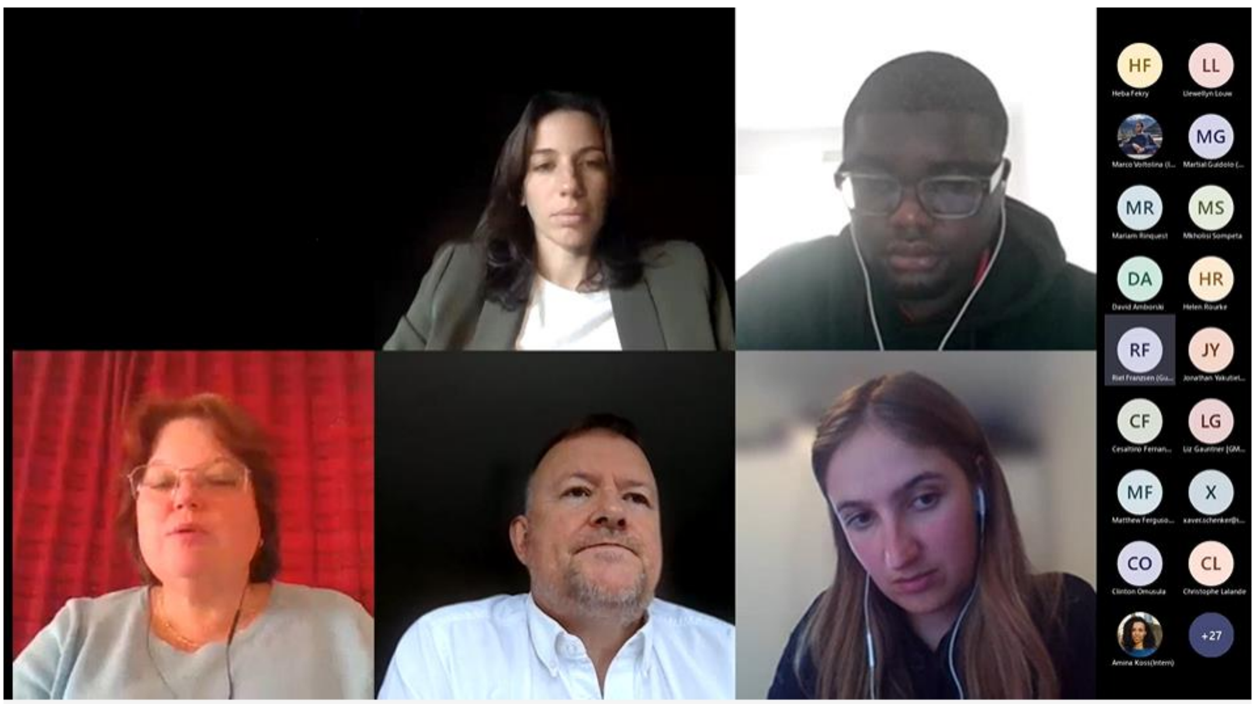
UN-HABITAT AND THE GLOBAL LAND TOOL NETWORK LAND-BASED FINANCE LEARNING SERIES 2

Theme: Leveraging Land for Delivery of Services, Building the Social Contract and Promoting Peace and Security

REPORT ON SESSION 6

Subject: Key issues concerning the introduction of property tax as part of the municipal response to the changing township-built form in the South African context.

14 November 2022



Drafted by Jonathan Yakutiel, reviewed by Kevin Kihika.

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Table of Contents

Introduction and Welcoming Remarks (Jean du Plessis and Giulia Lavagna)

On 14 November 2022, the Land, Housing and Shelter Section of the United Nations Human Settlements Programme (UN-Habitat) and the Global Land Tool Network (GLTN) Secretariat, in partnership with the Local Government Revenue Initiative (LoGRI) of the International Centre for Tax and Development (ICTD), presented Session 6 of its Land-based Finance Learning Series 2, on the theme "Leveraging Land for Delivery of Services, Building the Social Contract, and Promoting Peace and Security". The session, titled "Key issues concerning the introduction of property tax as part of the municipal response to the changing township-built form in the South African context", consisted of two presentations and a facilitated discussion integrated by sidebar questions and comments, and concluded with closing observations by the discussant. The session registered 43 participants representing 8 institutions (see list of participants in Annex 1).

Giulia Lavagna, the session moderator, welcomed the participants to this session, which she mentioned to be the second last session of the year 2022 and welcomed Jean for his opening remarks.

Jean introduced the title of the session, "Key issues concerning the introduction of property tax as part of the municipal response to the changing township-built form in the South African context." He then introduced the theme, purpose, and learning objectives of the learning series and presented its two learning streams . The first stream, which includes this session, is more of a high level showcasing and learning stream while the other is a more focussed, case specific problem-solving stream.

So far, the second learning series has looked at:

- The role of land in achieving adequate and affordable housing.
- The role of governance in optimising local revenue collection.
- Points-based assessment for land and property taxation – Solutions, lessons, and way Forward.
- FMDV and the PIFUD project in Uganda – Progress, challenges, and way forwards (a follow up meeting is being organised between UN-Habitat's team in Uganda and DAG).
- Dynamics of local-central government collaboration: Examples and lessons from different countries.
- Today on the subject: Key issues concerning the introduction of property tax as part of the municipal response to the changing township-built form in the South African context.

The final learning session of the year 2022 will be on:

- Land-based finance in fragile states project: Lessons, opportunities, and way forward.

Today's session was presented as follows:

Session 6 Programme

SERIES 2 SESSION 6: PROGRAMME ***"Key issues concerning the introduction of property tax as part of the municipal response to the changing township-built form in the South African context"*** **14 November 2022, 15h00-17h00 (Nairobi time)**		
Moderators: Jean du Plessis and Giulia Lavagna, GLTN Secretariat; Land, Housing & Shelter Section; UN-Habitat Session discussant: Peadar Davis, Ulster University		
Time	**Topic / Activity**	**Process, Roles**
15h00	Welcome Agenda and process	- Moderators (10 min)
15h10	Presentation 1: *Opportunities and challenges for mainstreaming property rates in historically underdeveloped urban areas: The case of Cape Town small scale rental housing*	Claudia Hitzeroth & Willard Matiashe, Development Action Group (20 min) *- All: questions and comments in meeting chat during presentation*
15h30	Presentation 2: *Incorporating Small Scale Rental Units into the property rating fold*	Louise Muller, Director: Valuations, City of Cape Town (20 min) *- All: questions and comments in meeting chat during presentation*
15h50	Key questions	Peadar Davis as discussant, in dialogue with presenters (15 min)
16h20	Facilitated discussion	Moderator, all (25 min)
16h45	Concluding observations: *Key lessons, priority actions, areas of potential collaboration*	Speakers and discussant (15 min) *- All: final comments in meeting chat during discussion*
17h00	Closing	Moderator

Presentation: "Opportunities and challenges for mainstreaming property rates in historically underdeveloped urban areas: The case of Cape Town small scale rental housing" (Claudia Hitzeroth and Willard Matiashe)

Claudia Hitzeroth started her presentation by thanking the organisers for the opportunity to present today along her co-presenter Willard Matiashe, both from Development Action Group (DAG). She said that today's session was going to look at the opportunities and challenges for mainstreaming property rates in historically underdeveloped urban areas in Cape Town, regarding small scale rental housing in the town ship areas.

Small scale rental housing is unfolding in township neighbourhoods in South Africa. These areas have been historically disadvantaged and were majorly established during the end of apartheid or at the beginning of democracy through the provision of state-subsidised housing. Most of the properties in those neighbourhoods are exempt from property taxation as their property value falls in the exemption bracket. Moreover, many of the households are exempt from service fees and qualify for free basic services such as water and electricity or are levied at a significantly lower rate.

The current state in the township neighbourhoods is that the built form is changing. Property owners are adding additional units to their property and renting out the new added space as small scale rental units. Homeowners and micro developers are investing large sums of money in better quality brick and mortar flats. Brick by brick they are altering the physical fabric of townships and providing the sought-after affordable rental units which neither the public nor the conventional private sector supply. Hence, the sector of small-scale rental housing in not only changing the character of cities but also filling in the housing gap and consequently solving the housing crisis through affordable accommodation that serves predominantly the underserved gap market in the cities.

It is important to realize the scale of the sector. The small-scale rental sector comprises of 6% of South Africa's total housing market, 3% formal and 3% informal, approximately comprising 1.1 million units, more significantly in metros and secondary cities. The number of households living in the small-scale rental housing is almost equal to the number of households living in informal settlements. These figures are likely to be significant underestimates as they are from 2016 and the submarket has experienced radical growth in the past years, and this is likely to increase. In Johannesburg, for instance, the submarket experienced a growth of 17% between 2011 and 2016.

The Development Action Group, has been involved with the sector through their Contractor and Developer Academy by:

- Conducting information sessions in partnership with community forums and other sector entities.
- Offering small-scale developer & contractor training courses that help build the capacity of emerging contractors & micro developers.
- Project packaging through linking developers to finance institution, BEP, local authorities, contractors etc.

- Compiling a database of vetted & trusted emerging contractors & BEP
- Data management and analysis through understanding market trends and managing Township Rental Stock.
- Fostering engagements and partnerships with key sector players – i.e City of Cape Town, Built Environment Professionals, Private Sector, Township Developers Forum (TDF)
- Documenting lessons learnt, conducting research, publications & popular material.

Working in the sector of small-scale rental housing, it is important to understand its nuances due to the different actors and developers undertaking development in those areas. Such actors could be subsistence homeowners building additional accommodation units on their own property not only for economic purposes but also reasons such as expanding families and social networking. This act is often referred to as "backyarding". The second type of actors are the homeowner developers, who are property owners who have developed rental units in their property for the purpose of renting additional units. The most recent actors are the entrepreneurial micro-developers who are businesspeople that buy properties for the purpose of renting affordable housing as a financial activity.

Overall, these developments are happening informally without building plan approvals. This means that the township sector is at cross-roads where if we keep doing business-as-usual, township neighbourhoods could become overcrowded, insecure, and missing critical infrastructure. Nevertheless, this is an opportune moment where if the right regulatory reform and incentives are implemented, we could transform township neighbourhoods and speak to the needs of the community. The kind of regulatory reform necessary can be read through this publication here. The publication covers reform in planning approval processes, change in national building regulations, unblocking of title deeds, streamlined and supportive administrative system.

Willard Matiashe continued with the presentation by saying that there are two parallel processes with direct implication on the ability to scale up the development of affordable rental units within the township sector. The first approach relates to the clear opportunity for the state to find ways to incentivize micro-developers to scale-up. The package of incentives is also outlined in the publication. The second approach relates to the emerging interest to levy developer charges and implement the property rates. Today's discussion will focus on the second approach.

Within the current context there are three different types of fiscal burdens that are payable by the property owner in townships. These are:

- Service tariffs on electricity and water that are paid but quite discounted
- Property rates not necessarily paid (exemption of properties with a value lower then R300,000) nor understood due to the unwillingness/ lack of interest to pay taxes (low level of social contract).
- Development Charges are more understood but there is still the issue of unwillingness to pay due to high cost of developer charges, particularly as it is to be paid upfront. This is difficult for the developers as the financing options available only cater for the top structure and not the land acquisition or professional fees. A monthly payment agreement would be more desirable.

Regarding property rates, the major challenge is the uncertainty of the valuation methodology that reflects fair and just property values. If the municipal valuation is not accurate, and significantly below market values, it impedes access to loans from financial institutions into the secondary resale market of the affordable rental housing sector. Having a valuation role that reflects the capital investment cost also presents some problems as the property rates are too high since a significant chunk of the rental revenue is paid towards servicing the debt, which comes with high interest. There is also the question of how to acknowledge the social value linked to the provision of affordable housing when determining the rate contribution of the micro development sector. The valuation methodology for the development charges contribution is challenging. This can be attributed to micro-developers having weak financial capacities to pay development charges, inconsistencies in the approach across the city and a weak culture of payment. The township market is highly segmented with different rentals making valuation even more difficult.

This showcases that there is need to create and introduce property rates and development contributions that fit the capacity of the township market and that benefit both the city and the property owners. Hence, finding a clear and equitable methodology to do so is important. This involves creating a collaborative approach to establish appropriate values for small scale rental units. There is need to balance actions in terms of maintaining the affordability of rental units and introducing a culture of paying taxes as this will benefit both the developers and the municipality. This will be done by taking into consideration the current legislation, while also trying to do things differently, allowing space to experiment and innovate. This would include offering a special payment plan as a basis of introducing the culture of payment.

Presentation: “Incorporating Small Scale Rental Units into the property rating fold” (Louise Muller)

Louise Muller, of the City of Cape Town, started her presentation by sharing the current context of the housing crisis in Cape Town. In Cape Town over 400,000 units of subsidised housing are awaited while 650,000 low cost units are required to meet the ongoing demand due to rapid urbanisation. Urbanisation is ongoing and 108,000 people are coming to the Western Cape on an annual basis, with most of these people coming from other areas within the country with the view that opportunities for work and accommodation are perceived to be better than some other urban areas. The supply of affordable housing is very low, especially near reliable transport systems, as is not easily supplied by developers due to low profit margins.

Local government in South Africa can value property based on its current use - even if such use is inconsistent with the permitted use of the property. The options for any municipality to provide relief in respect of the payment of rates is strictly governed by legislation and only specific legislated ‘categories of owners of properties’ or legislated ‘property categories’ can enjoy relief. This relief can be provided, in terms of legislation, to different categories of properties through the levying of a specified rate per property category (i.e. different rate-in-the-Rand per different property category); and/or to the specified ‘categories of owners of properties’, or ‘categories of properties’, for the purpose of granting exemptions from rates, rebates against the rates payable or a reduction in the valuation as a measure of making the rates payable more affordable for ratepayers (i.e. progressive reduction as a standard reduction in valuation makes up a far greater portion of value on a lower valued property than it does on a higher valued property). In the 2022/23 financial year, the City of Cape Town provides for a reduction in the property valuation of residential properties resulting in no rates being payable on residential properties with a valuation of R300,000 or under. [The legislation dictates that the first R15,000 of the value of a residential property is exempted from rates and up to 30 June 2023 the City of Cape Town has added an additional R285 000 to the portion of the valuation that enjoys a rates rebate.]

The valuation department of the city was asked to run a project to normalise unregulated development and bring it into the property rating fold. When considering the unregulated development – which mostly resulted in blocks of apartments or boarding houses being built without any planning approval - it was clear that a significant amount of work is needed before these properties can be normalised. An area called Du Noon is such an unregulated area. In 2020 it was found that up to 10% of the original free housing (government subsidised housing) allocated to the poor in this particular area had been converted into blocks of apartments. Valuations of these properties were prepared based on this additional unregulated development, based on average market price. Managing non-payment of rates, service charges and fees are significant and tackling non-payment in every areas is critical. While legislation allows for the planning authority to issue fines and conditions for unapproved development, it is clear that these developments are meeting the needs of those many people awaiting government funded or affordable housing. While there is authority provided to local government to demolish properties that are not well-built – which must be done to protect the lives of those living there - the consequential legislated result is that the city is required to provide alternate accommodation. Even if the City had the necessary housing stock at its disposal, this is an unfunded or underfunded obligation given the low revenue collection rates from rental housing provided by a sphere of government. In many cases, those who would be potentially displaced if a demolition were required, would result in a relocation area with a non-permanent wood and iron structure.

The owners of the unregulated developments are advertising these properties widely, with market rentals considered relatively high, and yet have demand for these properties as well as waiting lists of those who will move in the minute rental is not paid and the tenant is evicted. Thus, considering the income of the developer of the apartments, it is essential to raise a culture of payments for the property developed.

Given the low revenue collection and rising debt due to non-payment in the area, there are significant negative implications on infrastructure and services such as: solid waste, sewage, health, roads, clinics, and schools. Thus, the city is struggling to provide the necessary services and infrastructure needs of the community.

Unregulated development is not only taking place on private land but also in city-owned land. Properties are being sold with encroachments onto other publically or privately owned land. Market information shows that most of these unregulated buildings are sold privately, without the necessary title deeds and ownership records being changed at the National Deeds Office. This results in the owner being unknown, accounts being incorrectly issued and potentially not delivered, as well as the new “owner” being unable to leverage finances against the asset or to sell on the open market. The city regulatory role is to ensure the requirement and regulations for building development are in place. However, in the current context much of the building development taking place disregards the regulations. Some of the issues to be considered by the city include:

- Taking up the city regulatory role which may necessitate demolishing some of these properties.
- Zoning changes will be required as these properties are exceeding the existing limit of two residential properties.
- Transitional Relocation Areas should be funded by the rates to cater for the displaced people.
- There is need to find alternate service delivery mechanisms.
- Social compact between the city and the community to improve social services and the overall environment and safety of those renting apartments or boarding in the boarding houses.
- There's need to replace the current infrastructure to accommodate the densification.
- Debt collection and management is one of the most important issues to deal with to both fund and reform the sector.

Key Questions: Discussant (Peadar Davis)

Giulia Lavagna thanked the presenters and said that what came out strongly in the presentations is the need of a social contract to be put in place to incentivise developers to contribute to the city by paying the fees and charges. Giulia also picked up a question from the chat box related to zoning regulations on how to balance zoning regulations and building standards as they contribute to the affordability of the houses. Claudia said that in terms of building regulations, a lot of areas fall into special planning zones established around less formal areas. However, these special planning zones do not allow enough density to accommodate these additional rental units. Currently the city is undergoing a regulatory reform process to allow for additional density and to understand the different blockages within their planning system that are creating non-compliance, while waiving different fees to make it more affordable to becoming compliant. Moreover, Giulia said that the presentations showcased the real issues cities are having when talking about densifying neighbourhoods and the management needed by the city to provide services and infrastructure. The work is complex and building incentives, to strengthen neighbourhoods' resilience in terms of balancing the right ingredients is critical.

The discussant of the session, Davis Peadar, said that the issue that immediately rose in the presentation is the provision of housing and the significant externalities that are difficult to deal with. He then raised the question on where the focus should be to get some revenue between the development activity and the investment activity and whether the charges should vary between the different categories of developers. Louise responded by saying that it is probably easier to levy the tax based on the market value and charge the property owners as they are never short of income since they can eject tenants without formal processes. The other main question raised is to do with the social contract and participatory budgeting concept. Davis inquired thoughts on whether entrepreneurial developers should be levied more. Willard added that saying that the property owners are making income from the properties would be a bold assumption. Much of the gains are used to service their debts which are offered at high interest rates. Claudia added that differentiation is very crucial. Formalization will go a long way in encouraging compliance as it will translate into cheaper finance. Peadar asked if it was possible to have special rating zones where the money would be ring fenced to be reprocessed into that specific area. Willard answered that there is a special rating legislation in South Africa that requires the establishment of the special rating zone to be an initiative out of the property owners themselves. The challenge is not necessarily technical but making the owners pay their bills and normalizing and regularizing owners' properties. Often it is difficult to identify the property owners. Moreover, we cannot either assume that the developers are making enormous profits as developers use their savings and take short term loans with high interest rates. Hence, the money from the rental income is often paid to finance the loan. There is a need to consider the incentives to bring micro-entrepreneurs into discussions to find agreeable solutions to normalise their business ventures. Moreover, it is important to package incentives around compliance by supporting micro-developers in accessing cheaper loans to be able to pay the tax rates.

Open Discussion, Facilitated by the Moderator

Jean du Plessis: In the process of what we are seeing is that the right to some form of housing is being realized and is a social benefit. Hence, this current benefit needs now to be coupled with taxation to support further development and sustainability in the township sector.

Riel Franszen: On differentiation regarding compliance, we must be careful in terms of selective enforcement. Rampant densification has an impact on existing property owners while negatively influencing value, thus undermining the current tax base.

Comments coming from the chat box:

- The process of zoning and mapping, is highly political, how to go about it to make it less controversial?
  - Answer: Willard answered that politicization of the zoning process is quite a substantial problem in affluent neighborhoods as opposed to the township sector. Reviewing the municipal zoning schemes would see several property owners asking for additional development grants as part of the submission to the proposal of reviewing the scheme. Claudia agreed with Willard and added that spatial segregation of affluent and less affluent areas is a problem in South Africa. There is real opportunity for the regulatory reform around urban densification to spread to affluent areas as an integrated planning system is created. However, this is politically difficult to navigate as a lot of affluent areas do not support densification.
- Whose role is it to facilitate the role of participatory budgeting?
  - Answer: Building a social contract is important, homeowners, representatives of communities, as well as city authorities can play an important role. Discussions are on for people with rental income of more than R20,000 to contribute something towards the city.

- Are these small-scale rental housing being built in accordance with the government zoning regulations, in terms of density (FAR), etc.? That is, are these "permitted" or are they technically "illegal" structures? Are the areas where these housing is being built have the infrastructure to handle the added density?
    - Answer: a few of these structures are built in accordance with zoning regulations but majority without.

Concluding Observations

Willard Matiashe concluded by saying that there is need to look at the role of external actors for the sustainable development of the township areas. In South Africa, municipalities have been receiving municipal infrastructure grants on WASH and electricity for underdeveloped communities. The amount of grants per year has now been decreasing. The National Treasury mandated municipalities to find other sources of revenue to meet needs. The sector of small-scale rental units is one of such sources.

Claudia Hitzeroth concluded by stressing on how difficult the situation is around bulk infrastructure services, particularly sanitation. This has seen the rise of community street groups which monitor the number of small-scale properties in the street. They regulate and prohibit more rentals being built to reduce the pressure on available infrastructure. The city is increasingly talking about having a housing support center that could be a hub for activities such as accessing quicker planning approvals, accessing cheaper finance, offering technical support in terms of compliance, and educating the community on property rates and its compliance.

Peader Davis concluded by saying that this kind of informal sector has a vital role in housing provision. However, with significant externalities going with it due to informality, pressure is being built on the demand of services and infrastructure. Hence, a simplified lower tax system might be needed, while providing support to the property owners to develop a more idealized system. The honest broker in this would be the city. Peader acknowledged the kind of vital support DAG is offering and applauded the City of Cape Town for the practical approach of deciding to take up the development.

Louise Muller concluded by saying that we all want to see formality happening moving towards a formal and neat environment. One where people will thrive instead of compromising their safety.

ANNEXES

Annex 1 Attendance list

Name	Organization	Email Address
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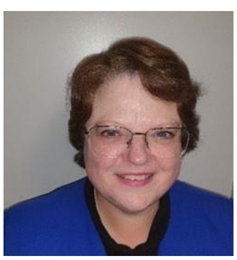
		jonathan.yakutiel@un.org ; giulia.lavagna@un.org

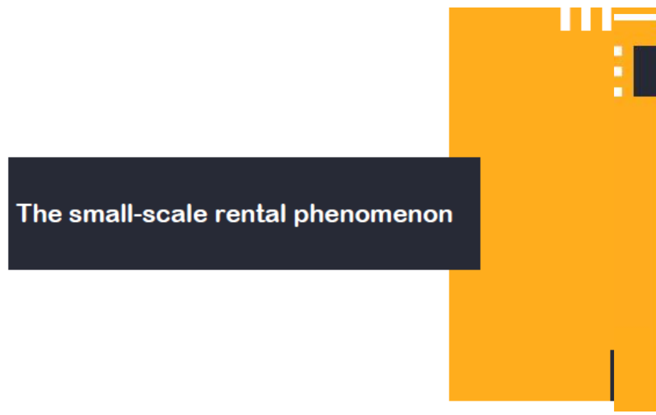
Annex 2: Presenters

SERIES 2 SESSION 6: PRESENTERS AND FACILITATORS		
Name and Institution	**Role and Topic**	**Brief Bio**
Claudia Hitzeroth, Development Action Group 	Presenter: "*Opportunities and challenges for mainstreaming property rates in historically underdeveloped urban areas: The case of Cape Town small scale rental housing*"	Claudia Hitzeroth is a Project Officer at the Development Action, a Cape Town-based non-profit organisation specialising in land and housing. She holds a MSc in Sustainable Development from the Bartlett Development Planning Unit, UCL and completed her BSc Environmental Science at University of Cape Town. Claudia's work and research focuses on land-based financing and sustainable urban development, with a particular interest in participatory planning practices and governance systems. Currently, she is a part of a National Land Value Capture Programme in partnership with National Treasury's Cities Support Programme and the Lincoln Institute of Land Policy and is working on institutionalising innovative and relevant land-based financing and land value capture strategies in South African metropolitan cities.
Willard Matiashe, Development Action Group 	Presenter: "*Opportunities and challenges for mainstreaming property rates in historically underdeveloped urban areas: The case of Cape Town small scale rental housing*"	Willard Matiashe is an urban development specialist with over 10 years of experience in land-based financing, informal settlement upgrading, and urban land use planning and management. He works at DAG as a Senior Researcher and he is currently the project leader of a National program on Land Value Capture, initiated by a tripartite partnership between DAG, the Lincoln Institute of Land Policy (LILP), and the National Treasury's Cities Support Programme (CSP). His work includes a variety of policy submissions, design, and implementation of capacity building training sessions for built environment practitioners, and development of LVC related practice notes for practitioners. Willard holds a Master's in Spatial Planning from University of Aberdeen (UK), and he is also pursuing PhD studies with the School of Economics and Management Sciences at the University of Pretoria.
Louise Muller, City of Cape Town 	Presenter: "*Incorporating Small Scale Rental Units into the property rating fold*"	Louise Muller is the Director of Valuations at the Finance Directorate at the City of Cape Town. She has over 30 years of experience in the local government finance sector and has served in both National and Local Government spheres. She holds a BCom in Accounting Science from UNISA and has completed a range of further professional development courses since including PGD: Property Studies and a Leadership Development Programme.

Discussant: Peadar Davis (Ulster University) 	Discussant	Peadar Davis is a Chartered Surveyor and real estate academic at Ulster University. He specialises in research, consultancy and training solutions for property valuation and taxation in developing and transitional jurisdictions. He is currently acting as Own Source Revenue Specialist for UNIDO in India and for UN-Habitat examining Fragile States, and as a Valuation Expert for the World Bank in Uzbekistan. He has previously worked for donors and Government clients in the property taxation and valuation area in the UK, India, Uganda, Kenya, Tanzania, Ethiopia, Dubai, Egypt, China, and Kosovo. He is also involved in research concerning built environment sustainability, infrastructure financing, urban resilience, disaster recovery and critical infrastructure protection. Peadar is the Managing Editor for the Journal of Financial Management of Property and Construction and Director of Global Research at the Centre for Appraisal Research & Technology.

Annex 3.

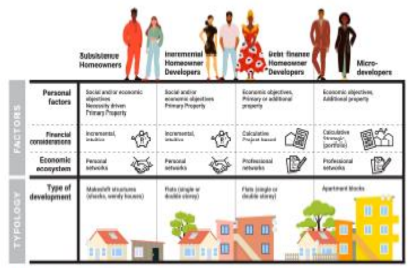
Presentation: "Opportunities and challenges for mainstreaming property rates in historically underdeveloped urban areas: The case of Cape Town small scale rental housing" (Claudia Hitzeroth and Willard Matiashe)



DAG's Contractor & Developer Academy

- CONDUCTING INFORMATION SESSIONS- in partnership with community forums and other sector entities
- DEVELOPER & CONTRACTOR TRAINING COURSES - building the capacity of emerging contractors & micro developers
- PROJECT PACKAGING - .inking developers to finance institution, BEP, local authorities, contractors etc
- DATABASE OF PROFESSIONAL SERVICE PROVIDERS - compiling a database of vetted & trusted emerging contractors & BEP
- DATA MANAGEMENT AND ANALYSIS - Understanding market trends and Managing Township Rental Stock – FACEBOOK GROUP.
- SECTOR COORDINATION - fostering engagements and partnerships with key sector players – i.e City of Cape Town, Built Environment Professionals, Private Sector, Township Developers Forum (TDF)
- DOCUMENTATION- lessons learnt, conducting research, publications & popular material

Spectrum of Developers

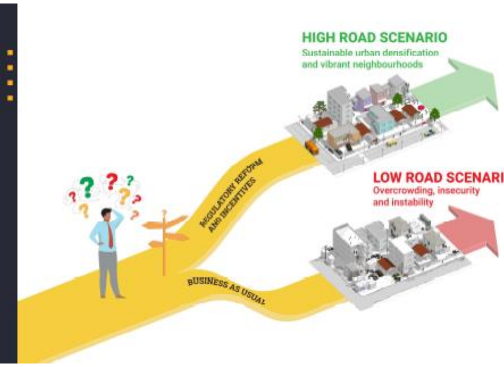


Source: Small Scale Rental Housing, Moving from the Low to the High Road. 2022. Prepared by HSRC for DAG.

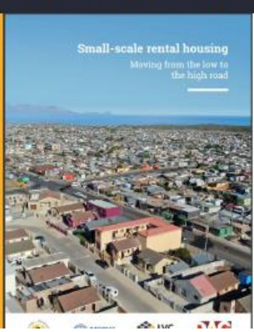
Backyarding/ Subsistence Homewoners

Homeowner Developer

Entrepreneurial Micro-developer



Regulatory Reforms & Incentives



Planning Approvals
Incremental expansion of incentive-based overlay zone | Additional rights | Removal of fees and D/C for individuals |

National Building Regulations
Adjust standards |Category 1 exception | Proto-type building plans | Design guidelines

Title deeds
Case-by-case approach | Systemic interventions (Operation Vulindlela) | Delink title deeds from other approvals

Administrative systems
Streamline municipal approvals | Housing Support Centres | Neighbourhood level support

Governance
New social contract | Partnerships & enterprise development

Implications

- Two approaches:
  1. Good opportunity for the state to find ways to incentivize micro developers to scale-up
     - Outlined in our publication
  2. Interest from city departments to levy DCs and implement property rates
     - Louise will provide detailed presentation on property rates aspect

Current status quo: narratives of fiscal burdens

- Service Tariffs
  - Paid but lower
- Property rates
  - Not necessarily paid nor understood
  - 'I pay property in exchange for what?'
- DCs
  - More understandably linked to bulk infrastructure
    - Willingness to pay deferred DCs

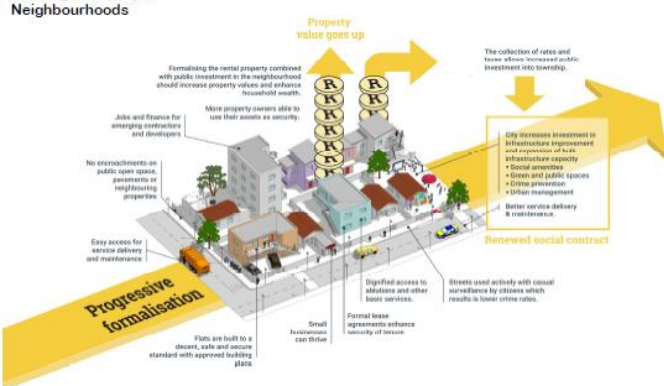
Property Rates

- How to establish appropriate (**ratable**) value?
  - Issue: Valuation methodology
    - Challenge in township areas, as there are very few comparable sales or rentals (no market information)
  - Issue: property value also the baseline value used by the financial institution to determine loan amounts issued to the small-scale development sector
    - If municipal rates valuation is not accurate and significantly below real market values, inhibits financial flows into the secondary resale market of the affordable rental housing sector
- How to determine the appropriate amount of **rates contribution**
  - Danger of overburdening small-scale developers
  - How can one acknowledge the social value (linked to the provision of affordable housing) when determining the rate contribution of the micro development sector?
- Importance of process
  - Creating a collaborative approach toward establishing the appropriate value of small-scale rental properties
  - LBF as a community and peace-building tool
  - What can we learn from other experiences in terms of process?

Developer Contributions

- Developer Contributions (DCs) consider the following variables:
  - Cost of construction for building
    - Data we have does not consider cost of land
  - Rental income
    - Highly variable across socio-spatial context; vacancy rates etc.
  - Market value of recent sales
    - No secondary market
  - Within the township sector these variables raise concerns
    - Micro-developers are not necessarily making a profit & ability to contribute to DC while attaining financial feasibility compromised
- Inconsistency in approach across the city
  - Voortrekker Corridor vs. Khayelitsha
- But how does one start a culture of payment?

Source: Affordable Rental Housing in Cape Town Townships. Facebook Report Jan - April 2022. DAG.



Main points & questions

- Introduction of formal property tax system within the township sector could benefit both developers & municipality
- Process will be important to get to a win-win situation
  - What experiences & lessons can we learn from in this regard?
- Balancing act between maintaining product as affordable rental & introducing culture of payment
- Potential implication of current legislation?
  - Standardised or room to do things differently?
  - Experimenting & innovation as phase in approach toward the culture of payment

LVC inclusive cities

Thank You

23

Presentation: "Incorporating Small Scale Rental Units into the property rating fold" (Louise Muller)

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Normalising the Development of Rental Units

Property Rates on Unregulated Developments – City of Cape Town

Workshop on 2022-11-14

Making progress possible. Together.

Agenda

- Overview of realities in the Cape Town jurisdictional area
- Review of what is taking place
- Considerations for the future

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Overview of realities in the City of Cape Town

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Overview – City of Cape Town realities

Demand for Housing:

- **City Housing Waiting List –** Well over 400 000 units awaited
- **Urbanisation** – approximately 108 000 people coming to the Western Cape on an annual basis
- **Limits on the number of lower valued housing opportunities or low rental opportunities** - especially near reliable transport
- **Minimal vacant land available for development**

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Overview – City of Cape Town realities (2)

City Strategies:

- **Allowance for a second dwelling**
- **Infrastructure design limitations**
- **Densification**
- **Funding, financial sustainability, fiscal viability**

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Overview – City of Cape Town realities (2)

Property Rating Realities:

- **Local Government Legislation allows for valuation based on use – even if such use if inconsistent with or in contravention of the permitted use of the property, as if the property is being used for a lawful purpose.** (MPRA Section 46(2)(c))
- **Options to provide relief in respect of payment of a rate are limited** (MPRA Section 3(6))
- **City does not charge rates on residential properties with a valuation of under R300 000**

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What is happening on the ground?

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Normalising Unregulated Development

Project: **Normalising Unregulated Development (Former LFTEA Areas)**

Project Objective endorsed by EMT on 12 November 2020 from City Manager Directive: CM 56711:

The plans is to ….

- City wide, develop an approach and business case for regularising development, incorporating [illegible] properties not currently considered in the valuations methodology and serviceable properties not currently in the City fold in order to bring dignity to those developing and providing shelter for others [illegible] the protection of service delivery.

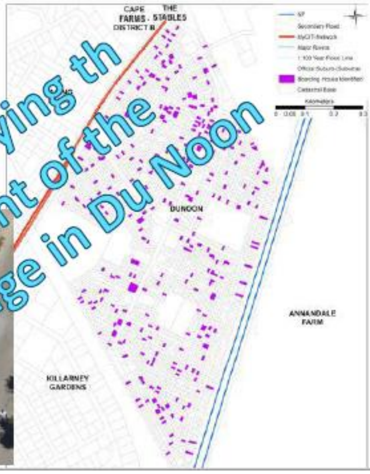
Pilot area : Du Noon

Transversal awareness created

Overview of Du Noon Pilot Area

In Du Noon:

- 3 017 unique properties
- Infrastructure accommodates about 15 000 people
- 310 converted to blocks of flats by 2020
- Over 10% conversion rate by 2020
- Unregulated development



Quantifying the extent of the challenge in Du Noon

Du Noon Valuation & Rates Income Calculation

310 Properties	As Originally Built	Average per property	On "Flats"	Average per property
Valuation	R61 507 000	R198 400	R265 [illegible] 000	R[illegible] 850
Annual Rates Income	R nil	R nil	R994 265	R3 207

- *Calculations based on 310 blocks of flats in Du Noon*
  - *Noting this number continues to grow and needs constant review*
- *Each property valued at R300 000 or below pays no rates*
- *The first R300 000 of valuation is rebated for rates purposes*
  - *R15 000 of valuation is exempt from Rates*
  - *R285 000 of valuation is determined as per Council resolution, as not being rateable*
- *Residential Rate-in-the-Rand for 2020/21 used in determining approximate rates income*

Understanding the investment made And the revenue potential in Du Noon

Du Noon Normalising Development - 2022-11-14

Developed unit – rented for between R 1500 to R 3500 per month (Du Noon)

Dunoon share no more...why you wait get your self one neat room in all in one room , not sharing.

R 2,500

Understanding that this is a business for the owner – their livelihood

An Overview of "Single Residential 2" Zoned Properties

Valuations Department has **visually inspected 95 349 properties** through Aerial Photography for unregulated development in SR2 zoned areas (2020)

- Approximately **3 047 blocks of flats** out of 95 349 properties 310 in Du Noon
- Over 3% conversion rate / 10% conversion in Du Noon
- Each block has between 6 to 8 (or even more) individual flats

These 3 047 properties provide:	Flats	People Accommodated
Minimum accommodation provided privately: 6 flats per property X 3 047 Blocks of Flats	18 280	36 000 – 50 000
More Realistic accommodation provision 6 – 10 (average of 8) flats X 3 047 blocks	24 350	48 000 – 70 000

APPROXIMATE change in value/income	As Originally Built	Average per property	On "Flats"	Average per property
Valuation	R604 524 800	R198 400	R2 607 774 950	R855 850
Annual Rates Income	R nil	R nil	R9 771 729	R3 207

Understanding investment lost (R2 billion), livelihood lost and Expense of consequential TRA space For minimum of 70 000 people, if demolished

Managing Debt

	Valuations	Properties	Average Valuation
GV 2018	R47 865 000.00	283	R 169 134.28
SV 2018 after identficiation	R443 655 000.00	283	R 1 567 685.51
Increase in Value	R395 790 000.00		

The Debt Match on May 2022 data gave us only a match on 273 properties with 10 properties with no rates raised (Will investigate the reason).

30Days	R442 283.97
60Days	R683 921.43
90Days	R606 470.06
120Days	R471 443.93
150Days	R412 364.04
150+365-Days	R3 550 503.73
365+-Days	R603 960.81
CurrentFuture	R321 015.63
Total	R7 091 963.60
PROPERTY RATES	R2 547 710.32
REFUSE	R722 684.19
SEWERAGE	R947 735.02
WATER	R2 838 848.56
OTHER	R34 985.51
TOTAL	R7 091 963.60

Eskom supply area – rogue meters and illegal connections

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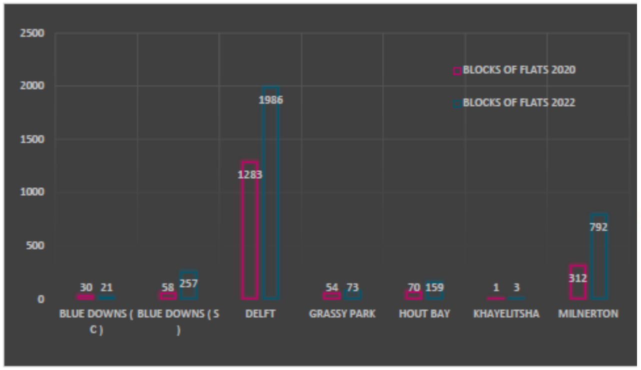
Development 2020 vs 2022



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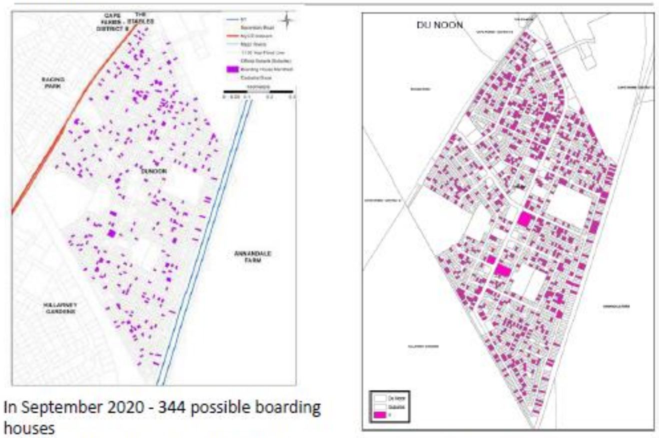
Du Noon rental unit developments: 2020 vs 2021 Aerial Imaging



In September 2020 - 344 possible boarding houses

July 2022 Count - 793 boarding houses

Impact...

- Solid waste – Unable to provide sufficient bins to accommodate back yard – correlation to increased dumping in areas?
- Sewerage – increase demand on service infrastructure – unplanned increa in usage – break down in service
- Health – dumping and sewerage – diseases
- Roads – back yarders encroach – making it difficult to maintain road infrastructure and all service infrastructure
- Clinics and Schools – Unable to accommodate the needs of the communit

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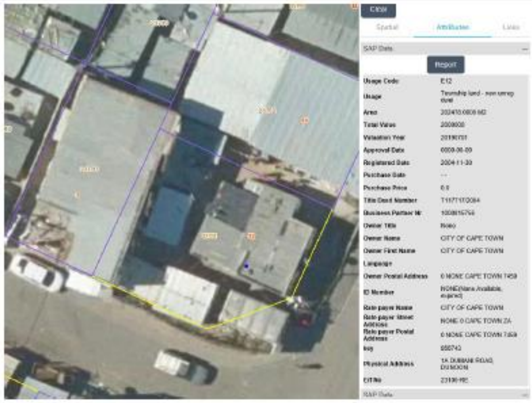
City owned land

City owned property: comprise of rental stock and properties not yet transferred into recipients name.

Understanding it is not only taking place on private land

Land in CoCT name Converted into Block of flats: top view



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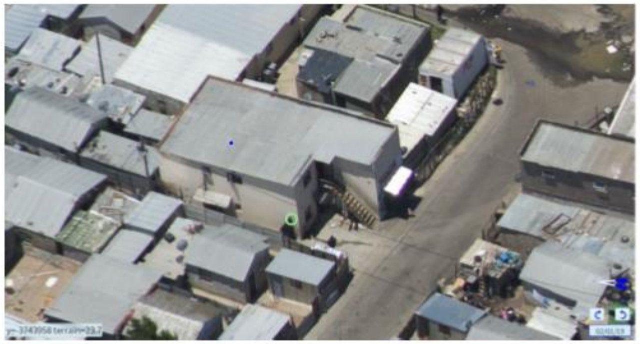
Land in CoCT name Converted into Block of flats: Side View



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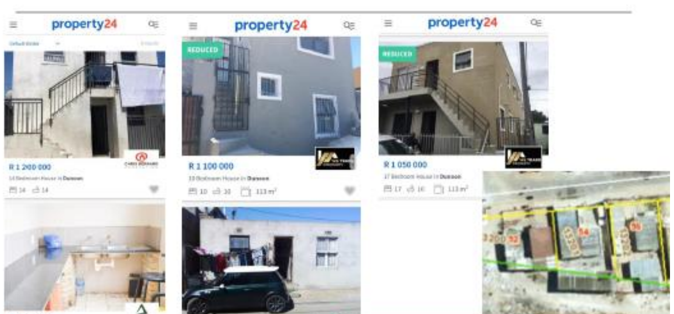
Du Noon Development -SMF Project - Steercom presentation 2020-09-23

Properties are being sold with encroachments and unregulated developments

Community Businesses

Market information



"Big house with 3 flats. Icon Property have just listed this spacious one bedroom home with three flats at the back. This is a perfect investment opportunity, the main house offer a spacious open plan kitchen and lounge, a bathroom and one big spacious bedroom. The yard is fully enclosed and paved with a security gate upfront. This is a free standing house…. There are 3 flats at the back each one with a security gate and a separate toilet from the main house"

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Some Legal Implications

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How does the **repealed** Less Formal Township Establishment Act impact on development?

- Townships were exempt from complying with National Building Regulations (NBR), this means that they are also considered as exempt from submitting a building plan.
- LFTEA Township developments had to comply with some basic conditions under which the township was established.
- Whether or not a building plan is required is dependent on how the township was established.
- SPLUMA doesn't reverse conditions established through LFTEA
- SPLUMA doesn't fill the gap left by LFTEA
- Must the current building then comply with the original LFTEA conditions? How would City be made aware of these buildings when development is happening outside of formal processes?
- Must minimum building requirements be established as a bridge between previously LFTEA areas and SPLUMA legislation/City building requirements?

Legal Opinion Sought By the City of Cape Town & Received in June 2021

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UN-HABITAT FOR A BETTER URBAN FUTURE

GLTN GLOBAL LAND TOOL NETWORK

ICTD International Centre for Tax and Development
Centre International pour la Fiscalité et le Développement

Final Legal Opinion Received by City on 9 July 2021

Bottom line:

- From the date that s 3(5) was repealed (along with the rest of LFTEA), the Building Act and planning laws were no longer excluded from designated land.
- Section 12(2)(b) of the Interpretation Act is clear that it preserves only the 'previous operation' (before the repeal) of LFTEA. Accordingly, the Building Act and planning laws have applied to designated land from 1 July 2015.

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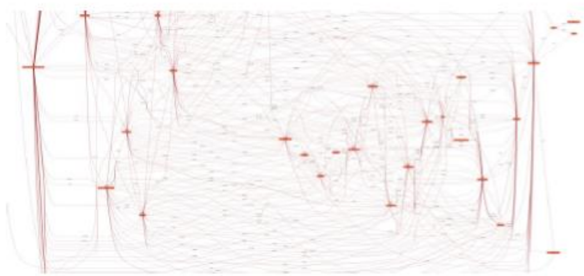
Challenge: Actual Complexity Across Systems - Spaghetti Junction



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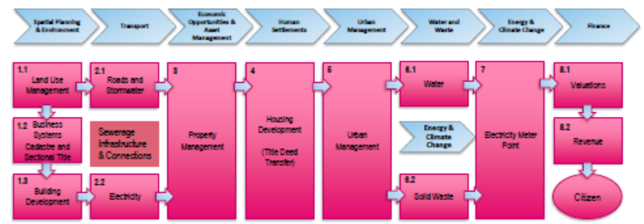
Strategic Management Framework: Ensure work flows through all departments



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Challenges facing the City

Are there some ready-made answers to these challenges?

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Issues to be Considered:

City Regulatory Role : responsible for implementation of Building Regulations and related legislation

Zoning Changes

Transitional Relocation Areas, funded from rates, if people are displaced

Alternative Service Delivery Mechanisms

Infrastructure replacement to accommodate densification

Social Compact: Clinics, Schools, Parks, etc.

Rates Debt

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Communication

No Reinventing of the Wheel – **what is already available that will be suitable?**

CITY OF CAPE TOWN
10 MAY 2021
MEDIA RELEASE

Residents to check for illegal stormwater-to-sewer connections as rainy season approaches

Leading up to winter, residents are encouraged to work with the City to help address illegal stormwater-to-sewer connections in their areas as these contribute to sewer overflows and pollution during heavy rains. Read more below:

There are many illegal stormwater-to-sewer cross-connections on private properties in areas across Cape Town, where water is channelled from residents' roofs, gutters, and paved or hard yard surface areas into sewer drains. Ingress of rainwater causes sewers to flood, causing overflows in the network.

These cross-connections are illegal in terms of the City's Wastewater and Industrial Effluent Bylaw. According to this legislation, rainwater should always be directed via the gutters (stormwater pipes), into the stormwater system.

As many residents may not be aware that these cross-connections are illegal, and damaging sewer infrastructure, City officials are currently doing smoke testing and door-to-door inspections. These are currently taking place in the Hout Bay area but will be rolled out in others as well.

Examples from CCT

Residents are also reminded to **'Bin it, Don't Block it'** when it comes to items like wet wipes, rags, sanitary pads, and any other material that does not belong in the sewer system. Misuse of the sewer network causes blockages and in turn, overflows,' said the City's Mayoral Committee Member for Water and Waste, Alderman Xanthea Limberg.

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