

RESEARCH INTO HOUSING SUPPLY AND FUNCTIONING MARKETS

**Banking Association of South Africa:
Housing Workstream Group**

Resource Report 5: Township Development and the Home Building Process



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1 Introduction

The Financial Sector Charter (the Charter) commits the Banks to provide some R42 billion of which the vast majority will be applied to mortgageable loans for housing units, with a maximum value of R180 000 per unit (December 2003), to households in the affordable housing sector (households with a maximum income of R7500) by the 31 December 2008¹.

The Banking Association of South Africa has established the Housing Workstream Group to ensure that Financial Institutions are able to meet this requirement of the Charter. The Housing Workstream Group needs to fully understand the market in which they will be operating, in particular the current dynamics which shape demand and supply in this market segment.

Accordingly the Banking Association of South Africa appointed Matthew Nell and Associates assisted by The Settlement Dynamics Project Shop to undertake research into **Housing Supply and Functioning Markets**.

The purpose of the research is to understand the current dynamics and factors influencing the supply and demand for new and existing housing in the ‘affordable housing market’ (with a mortgageable value of less than R180 000 and targeting people with an income of between R2500 and R7500 per month).

The objectives of the research are to:

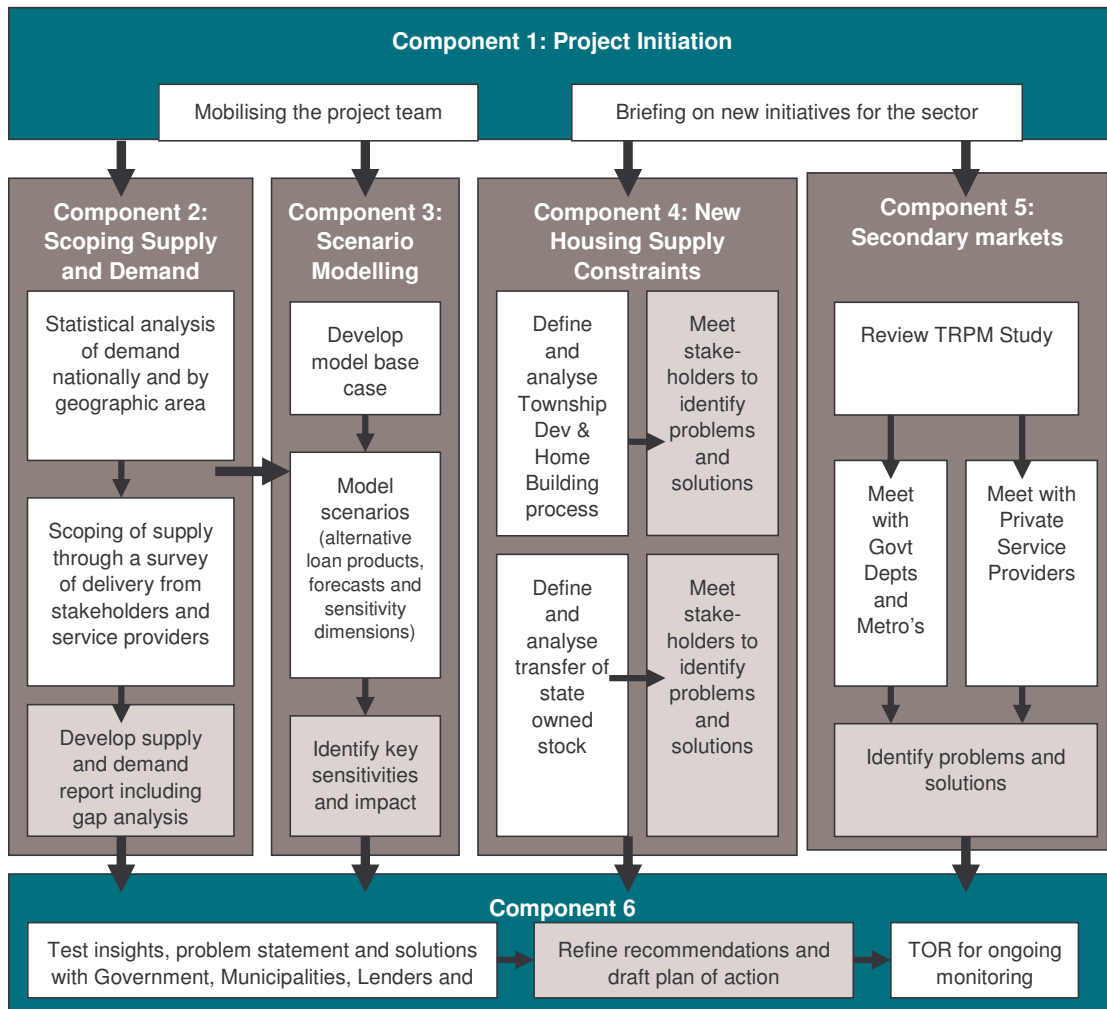
Scope the supply of and demand for affordable housing

- **Define market constraints and dysfunctionalities**
- **Propose a practical plan of action for the Financial Sector** in respect of:
 - The gap between the demand and supply of affordable housing
 - Addressing further demand and/or supply constraints relative to the **Financial Charter December 2008 targets**

¹ Both of the target figures [ie income and product price] were set at December 2003 and are subject to escalation in line with CPIX

The research is being undertaken in terms of six components detailed in Figure 1 below.

Figure 1: Overall Approach



This report outlines the work undertaken in respect of Component 4: New Housing Supply Constraints and defines and analyses new residential development and key issues and constraints pertaining to the targeted market sector. In undertaking the above, the township establishment, servicing, house building and transfer of title processes have been scoped. Key benchmarks and activities were assessed and risk exposure to the developer analysed.

In addition, a series of workshops and interviews with housing practitioners and authorities was undertaken and key issues and new housing supply constraints identified. The above are detailed in the following sections below:

- Background – brief overview of new residential processes and relevant

participants

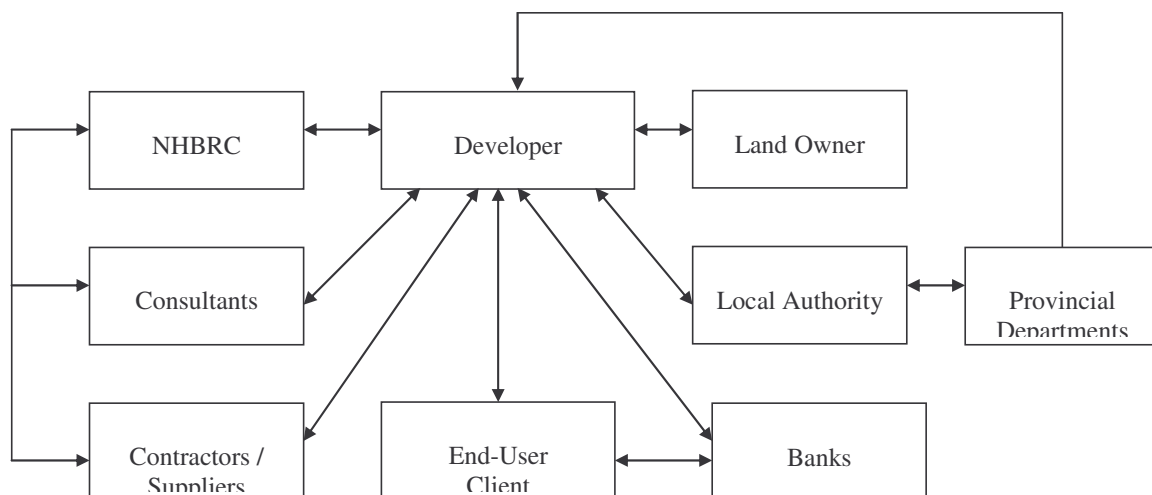
- Risk Categories and Analysis – the risks have been categorised and the impact and responses defined
- Legislation Governing Township Establishment and Development – an overview of the different legislative procedures available for the establishment of townships
- Land Proclamation and Servicing – scoping and analysis of this primary component of the new residential development
- Housing Development and Transfer of Title – scoping and analysis of the second component of new residential development
- New Housing Supply Constraints and Key Issues – a summary of key issues and constraints identified

2 Background

New residential development is that process required to deliver a housing product at a particular package price / cost. The housing product is essentially a house (top-structure) that is habitable, on a serviced site (access, water, electricity, sewer services) that is proclaimed so that ownership / title can be registered in the Deeds Office.

The developer is the “deliverer” of new housing units and sits at the centre of a project, directing its progress and managing the relationship between the relevant participants, from consultants, contractors through to authorities and end-user clients. The different participants and their linkages / relationships are given schematically below.

Figure 2: Flow Chart



Whilst the above applies to a conventional new greenfields development it is also, by and large, relevant for other forms of development and developers, viz:

- single unit developer through sub-division of single (occupied) sites and building of new unit on sub-divided portion;
- single or multi unit developers that convert existing buildings to residential use and dispose of units generally on a sectional title basis.

New housing supply entails two broad-based development components, viz:

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- land proclamation and servicing
- housing construction and marketing

Each of these components have unique cost and pricing structures to accommodate associated development effort and risks to the developer.

3 Risk Categories and Analysis

New housing supply involves various risks, particularly for the developers. These risks may increase the cost or duration of a particular activity, product component or transaction or increase the level of uncertainty. The development effort is increased to overcome these risks collectively. The risks (real or perceived) thus influence the way and manner in which developers respond to them. The typical responses (risk mitigation measures) normally applied, depending on type, severity and quantification of the risk, are:

- Price for risk (pass costs on to their customers).
- Provide for it (increase margins which, in turn, increases costs to customers).
- Offset it (pass risk on to relevant service provider or through relevant insurance cover).
- Resolve it (abstain from future effort / development activities until risk resolved or if not resolved, exit development).

The various risk categories are outlined below.

- **Technical Risk:**

Relates to the adequacy and accuracy of design responses to overcome both physical conditions of land and development of product (designs and types) suitable for target market, funders and authorities.

- **Statutory Risk:**

Relates to the time (and cost) implications of securing necessary approvals and clearance certificates and fulfillment by the public sector of its obligations.

- **Commercial Risk:**

Ability to deliver housing product to willing and able buyers – within budget and programme, ie to realize full cost and profit recovery within reasonable time period.

4 Legislation Governing Township Establishment and Development

The different legislative procedures available for the establishment of townships are:

- Provincial Land Use Ordinance (Ordinance): This procedure is applicable to all types of townships (residential, industrial, commercial) and can be used for all land under the jurisdiction of a local authority. Issued by the province, the Provincial Land Use Ordinance places implementation responsibility on the local authority.

It has long been in existence and local authority systems are geared for it and officials familiar with how it works. Importantly, transactional or administrative durations are not, in the main, prescribed or imposed on the local authorities.

- Less Formal Township Establishment Act (LFTEA): With the 1991 Land Reforms, the LFTEA was introduced and it has, until recently, been the mainstream procedure through which land for low income housing (generally subsidized housing) is brought onto the market. This is because it allows for relatively easy township establishment administration by public authorities with effect for housing subsidy scheme projects development.

It has generally been used in areas where certain land use or building regulations may not apply (informal settlements, site and services projects, incremental housing). Enacted at national level, the LFTEA places implementation responsibility on the province. Since last local government elections and also the introduction of the DFA (see below), provinces will not approve townships under LFTEA unless local authority approval has been secured. Consequently, LFTEA often results in longer, as opposed to shorter, approval processes and is therefore not widely used anymore for low income housing development.

- Development Facilitation Act (DFA): The DFA was introduced in 1995 on the basis that it would provide speedy procedures for delivery of housing subsidy schemes. Whilst it places responsibility on local authorities to administer processes within prescribed timeframes, authority is vested with the designated officer at provincial level. It includes provision for wider and more open participation by public at development tribunals. Because of this, it may result in unforeseen public objections and/or requirements which are difficult to pro-actively deal with and thus not favoured

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by housing practitioners. In addition, because of prescriptions, it's also not favoured by local authority officials. The authority of the designated officer has just recently been challenged by the City of Joburg as the City is declining to accept any further DFA applications.

In summary, the Ordinance route with its inherent administrative and transactional delays and uncertainties is still the most widely used route to establish townships. The subsequent scoping, processes and analysis are done with this in mind.

5 Land Proclamation and Servicing

5.1 Overview and Scoping

converting raw agricultural or other land into an area of subdivided serviced residential stands which are capable of being disposed of to purchasers and where the resulting change of ownership can be registered in the Deeds Registry.

The key milestones and benchmarks of the land proclamation and servicing process, with indicative current time frames, are summarized below.

- **Land Procurement and/or Secured Development Rights:**

This entails developer and legal input for securing development rights / acquiring land, evaluating restrictive conditions of title and development potential of the land, negotiating and concluding relevant development and services agreements with the local authority.

The duration of this component is primarily a function of whether the land to be procured is privately or publicly owned. For privately owned land with a willing seller, unencumbered and existing bulk services capacity adequate to accommodate the proposed development, the time duration can be as short as 3 months. Should the land be publicly owned and disposal / cession of rights subject to local authority administration and MFMA regulations, the minimum time period to secure rights is 6 months. This duration could well extend should the developer require the raising of project finance, or the local authority be required to provide for the upgrading of bulk or link services.

- **Township Application and Layout Plan Preparation:**

The developer obtains all planning information in respect of the land, including contour and cadastral maps, future road planning, geotechnical data, etc, from the local authority and provincial government and analyses these in respect of the development. The maximum and minimum erf sizes and property densities are defined, as is non-residential land use. A draft layout plan for the development is then drawn up as well as public sector provisions, servitude requirements, etc.

Environmental and social impact studies are undertaken at this point to facilitate the townplanning phase of the establishment process.

The duration of this component is really subject to the performance of services providers

under control of the developer and thus readily manageable. Some activities are interlinked although often pursued concurrently to shorten duration. The duration of this component is around 3 months.

- **Record of Decision (Environmental Management Plan Approval):**

On the basis of the EIA, traffic impact and social studies and prepared layout plan, an EIA exemption application is submitted to DACEL. DACEL also requires that the exemption application is publicly advertised as well as identified / targeted public organization and interest groups being invited / consulted for comment / objections. Once the two month comment period has expired, all comments received and DACEL's own requirements documented, these are given to the developer / applicant to either accommodate in the development (via an EMP) or appeal against / submit alternatives to address objections and DACEL's requirements. Once these are resolved, DACEL issues a Record of Decision, ie approval of proposed development subject to provisions / implementation of the finalised EMP.

The duration of the above is subject to both public comment, ie the "unknown" as well as possible appeals, and the efficiency of DACEL in processing the application. Typical current time durations range from 6 to 12 months.

- **Approved Township Application and Conditions of Establishment:**

On the basis of the previous three activities, a planning report which defines rezoning and sub-division plans is submitted to the local authority's townplanning department. The local authority also requires that an advertisement be posted in respect of the developers plans for the area, so that all interested parties may submit their comments or objections. Once the comment period has expired and all comments have been received, the townplanning department prepares a report on the application which is submitted to the council. Council approval results in the official establishment of the township.

In addition, use of the particular piece of land in question may be based on certain conditions. These need to be identified by a townplanner in consultation with the local authority and Conditions of Establishment prepared.

Whilst the above is generally pursued concurrently with the EIA exemption application, the township and CoE approval is subject to a record of decision by DACEL (assuming the

Ordinance route). Further, more recently, some RoD's have had a consequential impact on the future requirements of the local authority. As such, some local authorities (eg Ekurhuleni) do not entertain any township applications without a RoD first being in place. Time duration could thus be anything between 7 and 18 months.

- **Approved General Plan:**

This involves a complete cadastral survey of the land, and the definition of all the cadastral boundaries of the approved layout, so that a General Plan can be drawn up for the Surveyor General, who ensures that the General Plan conforms with current standards, and acts as the keeper of the plan if and when cadastral changes are made (such as the registration of new servitudes).

The duration of the erf pegging and GP preparation is dependant upon the extent (number of erven) to be pegged. Often townships are divided into smaller more manageable General Plans / construction phases. Typical durations for this process are around 3 to 5 months.

- **Approved Engineering Designs for Services:**

Detailed engineering designs are prepared on basis of approved preliminary designs completed during townplanning stage. Detailed designs, services specifications and tender documents are prepared and submitted to the local authority before the developer proceeds with tenders / services construction.

Typical duration of about 2 months.

- **Opening of Township Register:**

Importantly, the opening of the township register is subject to all pre-proclamation conditions (of CoE) being complied with.

This process involves undertaking whatever activity is necessary to address the conditions governing the land in question. In most cases applications to remove or cancel the conditions are made either directly to the organizations involved, or publicly by advertisement. Once all conditions of establishment have been removed, cancelled or

obeyed, documentary evidence of this is submitted to the Deeds Office.

Once the General Plan has been approved by the Surveyor General, it is forwarded to the Deeds Office. The conveyancer also forwards all other necessary documentation to the Deeds Office. Once all the documents have been examined, the Deeds Office notifies the developer that the register has been opened and that transfer documents for the first registration of title in the new township can be submitted.

Durations for this component are subject to the complexity of requirements and range of parties involved in compliance with the conditions. Often the developer does not have a direct contractual relationship with the same parties and therefore very little scope to ensure timeous compliance. Durations range from 2 to 6 months.

- **Installation and Handover of Services:**

Once the developer decides to proceed with project implementation, the engineer will produce a detailed design for all services, and prepare specifications and tender documents. These are submitted to the local authority for approval before tenders are called for. The tender stage is generally completed once tenders have been called for and a detailed tender report with recommendations has been submitted to the developer for consideration.

During the construction of services the engineer will oversee the operation of the contractor and perform quality control. This stage is completed upon the handover of completed services for the project, or on a per-phase basis and the issuing of a Services Certificate in respect of the project or the phase. The Services Certificate is signed by both the developer and the local authority and is an important milestone as risk for the services passes to the local authority.

The level of services is governed by the terms and conditions recorded in the Services Agreement and, to some degree, by the requirements of financial institutions. Local development objectives, defined in terms of the Development Facilitation Act, may also have a bearing on the design standards adopted by the local authority. Intended usage of the land also shapes the land servicing process. Negotiations regarding servicing standards take place in the project preparations process and are recorded in the Services Agreement and, more often than not, higher standards are demanded by local authorities.

Durations are dependant on project or servicing phase size. Based on a 300 site phase / project, full level of services can be completed and handed over in a 6 to 7 month period.

Based on research and consultation with authorities, developers and professionals, the above land proclamation and servicing process has been mapped out in detail and included in Annexure 1. In order to reduce the levels of uncertainty and contain risks, it currently takes approximately 24 to 28 months to establish and proclaim townships in order for sites to be transferable and thus serviced as compared to 12 to 18 months a few years ago.

This deteriorating trend in the line in which townships are proclaimed has heightened the sense of caution of developers. It was previously not uncommon for developers to take a “higher risk” approach (pursuing activities concurrently to shorten overall development duration) where the possibility of administrative malfunction and statutory risk materializing was not taken into serious account. Recent trends have changed this and developers, particularly those still operating in the entry level / lower margin housing sector, are no longer inclined to undertake development processes concurrently.

5.2 Process Assessment and Risk Analysis

A detailed schedule of the key benchmarks and activities in respect of the participants, risks and risk impact and reasonable response to such risks by developers is given in Annexure 2. These have been consolidated in the table below.

Table 1: Key Benchmarks and Activities

Key Benchmarks and Activities	Technical Risk			Statutory Risk			Commercial Risk		
	Y/N	Impact	Response	Y/N	Impact	Response	Y/N	Impact	Response
<ul style="list-style-type: none"> ▪ Land Procurement / Secured Development Rights 									
Land identification and evaluation	Y	Inc. Costs	Price & Resolve	N			Y	Inc. Costs	Price
Conclusion of services agreement	Y	Delay & Uncertainty	Offset	Y	Delay	Offset	N		
Conclusion of land purchase or availability agreement	Y	Delay	Offset	Y	Delay	Offset	N		
<ul style="list-style-type: none"> ▪ Townplanning Layout Plan and Preparation of Township Application 									
Base mapping, contour surveys, etc	N			N			N		
Environmental Impact Assessment	N			N			N		
Preparation of layout plan and prelim engineering designs	Y	Inc. Costs	Price	N			Y	Inc. Costs	Price
Preparation of application	N			N			N		

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<ul style="list-style-type: none"> ▪ Record of Decision (EMP Approval) Submit EIA exception application 	N			N			N		
DACEL response, public advertisements	Y	Inc. Costs & Uncertainty	Price & Margin	Y	Uncertainty & Delay	Margin & Price	N		
Record of Decision	Y	Increased Costs	Price	Y	Delays & Uncertainty	Price & Margin	Y	Uncertainty	Resolve
<ul style="list-style-type: none"> ▪ Approved Township Application and Conditions of Establishment Submission, advertise and circulate 	N			Y	Increased Delays & Uncertainty	Margin & Price	N		
Conditions of establishment prepared	N			Y	Increased Delays	Margin & Resolve	N		
<ul style="list-style-type: none"> ▪ Approved General Plan Peg erven 	N			N			N		
Submit General Plan to SG	N			N			N		
SG plan evaluated and approved	N			Y	Increased Delays	Margin & Resolve	N		
<ul style="list-style-type: none"> ▪ Approved Engineering Designs for Services Prepare detailed engineering designs 	N			N			Y	Increased Costs	Price
Secure approved engineering designs	N			Y	Increased Delays	Margin	Y	Increased Delays & Uncertainty	Resolve
<ul style="list-style-type: none"> ▪ Opening of Township Register Comply with conditions of establishment 	N			Y	Delays	Margin	N		
Submit CoE and GP to Deeds Office	N			N			N		
Township register opened	N			Y	Increased Delays	Margin	N		
<ul style="list-style-type: none"> ▪ Installation of Services Construction of services 	Y	Increased Costs	Offset & Price	N			Y	Increased Delays	Margin or Absorb
Handover of services to LA	N			Y	Increased Delays	Margin	Y	Increased Delays & Uncertainty	Resolve

The associated technical risks relate primarily to physical, legal and bulk services constraints pertaining to the land to be developed. The physical and legal constraints are readily overcome by appropriate planning of the township layout, designs of the engineering services and servitudes and conditions of establishment provisions to provide for any other legal constraints. The consequences are, however, generally increased costs, eg possible lower unit yield due to undevelopable portions of the land where the land cost is thus recovered through the sale of fewer sites. In other instances of technical proficiency, such risks are usually offset to the professional service providers.

The associated statutory risks are significant and relate to that of securing the necessary township application, environmental exemption (Record of Decision), General Plan and Deeds Registry approvals.

Of these, the most difficult to assess is the townplanning risk as approval requires a process of securing specific statutory support from a range of Government agencies as well as advertising the proposed development to establish objections from the general public. Particularly, a Record of Decision is required by DACEL before townplanning approval and draft conditions of establishment can be prepared. Once planning approval is secured, the processing of applications through the Surveyor General's office and the Deeds Registry are administrative hurdles rather than subjective processes. With many authorities, however, a lack of administrative capacity, and in some cases, diligence, lead to uncertainty and severe delays against which very little recourse is available to applicants / developers.

The incidence of margin provisions is therefore substantial. Further, the amount of margin provision per incidence increases further along the development process as delays result not only in inflationary costs but holding costs / interest on expenditure already incurred, which expenditure increases as more activities are completed.

The commercial risks, in turn, are influenced by the statutory risks as, due to significant margin provisions, reduce the developers ability to realise full cost and margin recovery within a limited price structure. In addition, the pricing structure of proclaimed serviced sites is subject to bank valuations. These valuations are often done on a comparative market analysis method where comparisons are made with historical (out of date) transactions in a largely dysfunctional and undervalued market sector. Land (serviced site) valuations are then also set on an area basis and do not really take into account the localized merits / demerits of the individual sites. Particularly in the lower and entry level housing market where valuations and targeted affordability exert substantial downward pressure on margins and investment returns, developers are inclined to withdraw from land assembly and land servicing projects and focus on house building and marketing activities only.

6 Housing Development and Individual Transfer Processes and Analysis

6.1.1 Overview and Scoping

Housing development comprises the marketing of housing packages, concluding of sales (including organising finance for the purchaser), constructing houses to agreed plans and specifications and handing over the houses to purchasers.

The key milestones and benchmarks of the housing development and individual transfer processes are summarized below.

- **House Design and Building Plan Approval:**

Plans and base specifications are prepared for different house options and corresponding cost implications defined. Once costings and pricing resolved, the building plans for different house types are usually given to the local authority for “overall approval”. Thereafter, they are also given to financial institutions for scrutiny and project funding (end-user loan) commitments.

The time duration for the above is a function of the efficiency of the professionals and compliance of house products specifically to both NBR and those set out by Association of Mortgage Lenders. Time durations range from 1 to 3 months but this component is generally undertaken concurrently with preliminary townplanning and engineering design stages.

- **Sales Agreements Concluded:**

In developer terminology, a “sale” is a sale when an offer to purchase, bond application and approval and conveyancing / transfer documentation prepared for lodgement. The development is usually launched for marketing once the developer has certainty on the township being proclaimed, ie when Conditions of Establishment are finalised as these have a bearing on the provisions required in future Title Deeds. The developer and its agents (or bond originators) usually process the offers to purchase, sale and bond documentation which entails pre-screening credit check of purchasers and the conclusion and assembly of all bond applications and supporting documentation. Where a bond application at one financial institution may be declined, it may be accepted at another. If

not, the developer cancels the agreement and makes the unit available for another purchaser.

The relatively low “hit-rate” in first time bond approvals reported by developers necessitates duplication of this process and transactions. The completion of sales and sales agreements thus requires anywhere between 1 and 3 months.

- **Title and Bond Registration and Bond Drawdowns:**

Once the sale agreements are concluded, they are lodged either simultaneously with issuing of build orders or before. For transfer of title, a clearance certificate is required from the local authority. Issuing of such clearance certificates is often dependant on local authority valuing the property, setting up trading services and rates accounts and ensuring no outstanding service charges, rates, etc, are due on the property.

The assembly and the lodgement of documents, including clearances, can take anything between 2 weeks and, in some cases due to delays in clearances, 6 months. Current Deeds Office processing of transfers and bond registrations are between 3 and 4 months.

- **House Construction and Handover:**

House construction is demand, as opposed to delivery, driven. After setting rates with builders, developers issue building instructions as and when a purchase agreement is concluded and mortgage bond approval (or, often, only after title and bond registration) for purchaser and house secured. While building operations are not governed by legislation, there are certain given standards (eg NBR) and requirements (eg NHBRC enrolment and occupancy certificate) which influence the way in which house structures are built, inspected and handed over to the purchaser. With handover, certificates are issued (NHBRC, local authority occupancy, engineers) which are required either for mortgage drawdowns and/or transfer of title from developer to the purchaser.

The above process, from issuing of building instruction to house completion and handover, is really dependant on efficiency of builders but typically endures for between 2 and 3 months.

6.1.2 Overall Processes and Analysis

A detailed schedule of the overall processes, benchmarks and activities with associated risks and analysis thereof is given in Annexure 3. These are summarised in Table 2 below.

Table 2: Overall Processes and associated risk analysis

Key Benchmarks and Activities	Technical Risk			Statutory Risk			Commercial Risk		
	Y/N	Impact	Response	Y/N	Impact	Response	Y/N	Impact	Response
<ul style="list-style-type: none"> House Design and Building Plan Approval Building plan approval by Local Authority 	N			Y	Delay	Margin	Y	Uncertainty & Delay	Resolve
Housing valuations by financial institutions	N			N			Y	Uncertainty	Resolve
<ul style="list-style-type: none"> Sales Agreements Concluded Offer to purchase 	Y	Delays	Offset	N			N		
Bond applications and approvals	N			N			Y	Uncertainty & Inc. Costs	Price & Resolve
Lodgement documentation finalised	N			N			N		
<ul style="list-style-type: none"> Title and Bond Registration and Drawdowns Registration of Title Deed and bond 	N			Y	Delays	Absorb	N		
Bond drawdowns	N			N			Y	Delays	Absorb
<ul style="list-style-type: none"> House Construction and Handover Issue building instructions 	N			N			Y	Delays	Margin
Construction of houses	Y	Increased Costs	Offset	N			N		
Handover and occupation	Y	Increased Delays	Margin	N			N	Delays	Margin

The key technical risks relate to the structural and construction quality of the housing products.

This is particularly sensitive in large-scale developments where a design or construction failure can be multiplied by a large number of houses. The risk of foundation failure is not limited to the remedial work to correct the failure, but also includes the consequential remedial work and making good, as well as the “upset” costs of accommodating families and their household goods while the remedial work is being undertaken.

These risks can by and large be offset through performance and retention guarantees from builders, Professional Indemnity insurance from engineers and other contractors All Risk insurances.

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The significant statutory risks relate to delays in securing relevant clearance certificates from local authorities and title and bond registration at the Deeds Office. At this stage of the housing development, there is very little scope for the developer to take corrective measures in addressing such risks that materialise as prices, margins, etc, have already been set prior to this stage. The financial consequences of such delays are, however, significant. On a product value of R180 000, and finance costs at 10% pa, a one month delay relates to R1 500 increase in holding costs. Assuming a net profit of some 5% (R9 000) on the product, the above one month delay reduces profitability by 17%.

The commercial risks during this stage of the development are less significant as they would have already been dealt with during the land servicing component. Notwithstanding, developers are still exposed to potential illegal occupation of completed houses, extended work stoppages and statutory delays where it either cannot hand over houses timeously to purchasers or, alternatively, secure timeous bond drawdowns. Again, its scope to retrospectively provide for these is very limited.

7 Key Issues and Constraints

Notes on the interviews and discussion groups with housing practitioners and officials of Cape Town, Ethekeweni and Joburg are attached.

Arising from these, key issues identified in respect of new housing supply in this sector are given below.

Key Issues:

- **Serious delays in the township establishment and statutory approval process under applicable regulations:**

The most pressing issue raised has been the extended time duration and delays experienced in land proclamation process. Reasons cited are various but generally pertain to malfunctioning or inadequate / under-capacitised local authority administrations. This is exacerbated by the lack of co-ordination between departments and lack of delegated authority (real or perceived) to officials handling township applications.

Other reasons cited are:

- The legislation provisions for a more transparent and consultative township establishment process, specifically the environmental provisions, which provision are often abused by public groups opposed to further / proposed developments for selfish reasons.
- The lack of existing bulk services capacity in most well-located metro areas and reluctance on the part of the local and provincial authorities to increase bulk services capacity within committed time periods.

- **Delays in the registration of title and, commonly, mortgages:**

These delays have been attributed to inadequate capacity at most Deeds Offices. While this may be the case, the authorities have argued that, given the nature of the transaction

and “absolute” certainty of property rights – particularly as security for loans – errors in documentation, etc, cannot be tolerated. Delays are thus attributable to incorrect / incomplete documents. The reported practice by Deeds Offices of rejecting a transaction once the first error is found (and not scrutinizing balance of documents for correctness) exacerbates delays.

➤ **Access to well located and reasonably priced land:**

Where privately and land is found, the underlying land value / asking price exceeds that which could reasonably be recovered through the sale of lower income housing. Public sector land has, to date, not been assembled for low income housing purposes by local / public authorities. The alienation of this land is also encumbered, to a large extent, by the MFMA and competing social and commercial aims / desired outcomes of the authorities.

➤ **Product costs, type, specifications and valuations:**

In addition to higher land costs, the conventional AML A/B grade specifications, high levels of service and single / detached housing unit product costs have outstripped CPIX (inflation). Ignoring profit and finance and risk mark-up provisions, present day base costs for building work and fees on top-structures are around R2 400 per m² for given specifications. Land servicing costs, including fees but excluding land costs for a typical 250m² site are R45 000. Thus, base costs for a detached 52m² house are already around R170 000 before land costs, finance costs and mark-up.

Against this are financial institution valuations which limit the amount of margin (difference) between base costs and deemed mortgage valuation.

➤ **Development and end-user finance:**

The providers of long-term individual mortgage loans are, today, essentially the large A1 commercial banks. The lending practices of these banks with traditional credit criteria applied for higher income housing sector has resulted in significant gaps in the end-user financing of entry level and lower-income housing sector. This is further aggravated by the recent demise of both the A2 banks, eg Saambou and NHFC’s Gateway intermediary financing that provided capacity and competition in this sector.

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The lending criteria applied by the four large banks appear to be inconsistent and subject to change at short notice, resulting in a tremendous amount of uncertainty. Evidence exists of individual bond applications failing a standard ITC credit check with one bank, but passing same with another bank. Further, while the banks have standard criteria to lending exposure in specific areas, it generally is the relevant branch that decides of the extent of exposure to an area which can, and does, differ from area to area.

Development finance in this sector has, to date, been mainly provided by NURCHA. Its credit criteria, similar to those of the A1 banks, however, result in the exclusion of smaller land servicing developers that do not have adequate equity / balance sheet. Thus, should some developers have the risk appetite and access to land, they may not be able to raise the necessary development finance.

8 Conclusion

In brief, the demonstrated consequence of the above findings and analysis is that developers are inclined to withdraw from land assembly and land servicing projects and focus on house building and marketing activities only, particularly in the lower and entry level housing market where affordability constraints exert significant downward pressure on margins and investment returns.

The higher income property market, with no absolute restrictions on package prices and buoyant market demand, offers far better returns for developers. Despite the increasing demand for entry level housing, the limited access to well priced and located land and associated development uncertainties in converting raw land into an area of sub-divisible serviced residential sites which are capable of being disposed of to purchasers have further constrained cost effective delivery. Delays in the proclamation process and upfront bulk services contributions increase land holding costs which, in turn, exert upward pressure on selling prices.

As a result, future new housing supply in this sector is declining and will soon be negligible. This is evidenced by statistics obtained from the NHBRC where, over the period 2000 to 2004;

- average year on year growth in the R200 000 and below new housing packages is declining by some 15%
- average year on year growth in the R200 000 to R500 000 sector is increasing by some 165%
- average year on year growth in the above R500 000 sector is increasing by some 225%

9 Annexure 1: Land Proclamation and Servicing

<u>Overall Description</u>								<u>Overall Benchmark</u>		
Land proclamation and servicing comprises all activities involved in acquiring and converting raw agricultural or other land into an area of subdivided serviced residential stands which are capable of being disposed of to purchasers and where the resulting change of ownership can be registered in the Deeds Registry.								Saleable and registerable Site		
RISKS										
Key Benchmarks and Activities	Participants	Technical Risk			Statutory Risk			Commercial Risk		
		Y / N	Impact	Response	Y / N	Impact	Response	Y / N	Impact	Response
<ul style="list-style-type: none"> ▪ Land Procurement / Secured Development Rights <ul style="list-style-type: none"> ○ Land identification and evaluation in respect of physical attributes, legal attributes, bulk services availability ○ Negotiation and conclusion of services agreement ○ Negotiation and conclusion of land purchase or availability agreement 	Developer Owner	Y	Inc. Costs	Price & Resolve	N			Y	Inc. Costs	Price
	Developer Professionals Local Authority	Y	Delay & Uncertainty	Offset	Y	Delay	Offset	Y	Inc. Costs	Price
	Developer Owner	Y	Delay	Offset	Y	Delay	Offset	Y	Inc. Costs	Price
<ul style="list-style-type: none"> ▪ Townplanning Layout Plan and Preparation of Township Application <ul style="list-style-type: none"> ○ Base mapping, contour surveys and Floodline determination ○ Environmental Impact Assessment of surrounding residential areas and natural environment ○ Preparation of layout plan and prelim engineering designs taking cognizance of EIA, base info, targeted market and bulk services arrangements ○ Preparation of motivational memo and application for submission 	Developer Professionals	N			N			N		
	Developer Professionals	N			N			N		
	Developer Professionals	Y	Inc. Costs	Price	N			Y	Inc. Costs	Price
	Developer Professionals	N			N			N		

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Key Benchmarks and Activities	Participants	RISKS								
		Technical Risk			Statutory Risk			Commercial Risk		
		Y / N	Impact	Response	Y / N	Impact	Response	Y / N	Impact	Response
<ul style="list-style-type: none"> ▪ Record of Decision (EMP Approval) <ul style="list-style-type: none"> ○ Submit EIA exception application to Daicel, supported by EIA ○ Daicel response, public advertisements and address objections and Daicel requirements ○ Finalise EMP based on Daicel requirements and resolution of objections and Record of Decision issued 	Developer Daicel	N			N			N		
	Daicel Developer Public	Y	Inc. Costs & Uncertainty	Price & Margin	Y	Uncertainty & Delay	Margin & Price	N		
	Developer Daicel Public	Y	Increased Costs	Price	Y	Delays & Uncertainty	Price & Margin	Y	Uncertainty	Resolve
<ul style="list-style-type: none"> ▪ Approved Township Application and Conditions of Establishment <ul style="list-style-type: none"> ○ Submission, advertisement and circulate to relevant authorities and receive objections from public and departments and comments / objections forwarded to developer to address ○ Conditions of establishment prepared based on above and approved and SG and Deeds Office informed of township and erf no's issued 	Developer Professionals Local Authority Other Authorities / Departments Public	N			Y	Increased Delays & Uncertainty	Margin & Price	Y	Increased Delays & Costs	Price & Margin
	Developer Professionals Local Authority	N			Y	Increased Delays	Margin & Resolve	Y	Increased Delays & Uncertainty	Resolve
<ul style="list-style-type: none"> ▪ Approved General Plan <ul style="list-style-type: none"> ○ Peg erven based on approved layout plan ○ Calculate, prepare and submit General Plan to SG ○ SG plan evaluated and approved 	Developer Professionals	N			N			N		
	Developer Professionals	N			N			N		
	Surveyor General	N			Y	Increased Delays	Margin & Resolve	N		
		RISKS								

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Key Benchmarks and Activities	Participants	Technical Risk			Statutory Risk			Commercial Risk		
		Y / N	Impact	Response	Y / N	Impact	Response	Y / N	Impact	Response
<ul style="list-style-type: none"> ▪ Approved Engineering Designs for Services <ul style="list-style-type: none"> ○ Prepare detailed engineering designs based on prelim designs, Services Agreement, calculated GP ○ Submit and secure approved engineering designs / bulk services in place, guarantees, etc 	Developer Professionals	N			N			Y	Increased Costs	Price
	Local Authority Professionals Developer	N			Y	Increased Delays	Margin	Y	Increased Delays & Uncertainty	Resolve
<ul style="list-style-type: none"> ▪ Opening of Township Register <ul style="list-style-type: none"> ○ Comply with relevant conditions of establishment ○ Submit CoE and supporting docs (compliance) and General Plan to Deeds Office ○ Township register opened and proclaimed 	Developer Local Authority	N			Y	Delays	Margin	N		
	Developer Professionals	N			N			N		
	Deeds Office	N			Y	Increased Delays	Margin	N		
<ul style="list-style-type: none"> ▪ Installation of Services <ul style="list-style-type: none"> ○ Construction and installation of services ○ Handover of services to LA 	Contractor Developer Professionals	Y	Increased Costs	Offset Price &	N			Y	Increased Delays	Margin or Absorb
	Contractor Developer Professionals Local Authority	N			Y	Increased Delays	Margin	Y	Increased Delays & Uncertainty	Resolve

10 Annexure 2: Housing Development and Transfer of Individual Ownership

Overall Description							Overall Benchmark			
Housing development comprises the marketing of housing packages, concluding of sales (including organising finance for the purchaser), constructing houses to agreed plans and specifications, handing over and transferring the houses to purchasers.							Individual ownership of completed housing unit achieved.			
Key Benchmarks and Activities	Participants	RISKS			RISKS			RISKS		
		Y / N	Technical Risk Impact	Response	Y / N	Statutory Risk Impact	Response	Y / N	Commercial Risk Impact	Response
<ul style="list-style-type: none"> ▪ House Design and Building Plan Approval <ul style="list-style-type: none"> ○ Preparation of house plans, specifications costings and building plan approval by Local Authority ○ Housing product approval and valuations by financial institutions 	Developer Professionals Local Authority NHBRC	N			Y	Delay	Margin	Y	Uncertainty & Delay	Resolve
	Developer Professionals Banks	N			N			Y	Uncertainty	Resolve
<ul style="list-style-type: none"> ▪ House Construction and Handover <ul style="list-style-type: none"> ○ Issue building instructions ○ Construction and completion of houses ○ Handover and occupation of houses 	Developer Builder	N			N			Y	Delays	Margin
	Builder Professionals	Y	Increased Costs	Offset	N			N		
		Y	Increased Delays	Margin	N			N	Delays	Margin
<ul style="list-style-type: none"> ▪ Sales Agreements Concluded <ul style="list-style-type: none"> ○ Offer to purchase ○ Bond applications and approvals ○ Sales agreements and lodgement documentation finalised 	Developer Agent Client	Y	Delays	Offset	N			N		
	Developer Professionals Client Bank	N			N			Y	Uncertainty & Inc. Costs	Price & Resolve
	Developer Professionals Client	N			N			N		
RISKS										

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Key Benchmarks and Activities	Participants	Technical Risk			Statutory Risk			Commercial Risk		
		Y / N	Impact	Response	Y / N	Impact	Response	Y / N	Impact	Response
<ul style="list-style-type: none"> ▪ Title and Bond Registration and Drawdowns <ul style="list-style-type: none"> ○ Lodgement and registration of Title Deed and bond ○ Bond drawdowns 	Developer Professionals Deeds Office	N			Y	Delays	Absorb	N		
	Developer Professionals Client Bank	N			N			Y	Delays	Absorb