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## **Inclusionary housing: A novel approach to building integrated cities**

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*Inclusionary housing policy offers a new way of addressing the urban housing crisis in South Africa. It involves private developers contributing to the production of well-located affordable housing in return for public incentives. What are the main principles and mechanisms involved in these partnerships? We look at the experiences of three South African cities at different stages of adopting and implementing the policy.*

### **Introduction**

South African cities need to find new ways of tackling the housing crisis. The metros are caught in a triple bind by shrinking housing budgets, soaring urbanization pressures and exclusionary property markets that prolong spatial apartheid and consign many people to lives of hardship and misery. Meanwhile, diminishing trust between public and private sector actors corrodes efforts to accelerate housebuilding and forge more diverse and inclusive neighbourhoods.

There is no single or simple formula for overcoming the shortage of affordable housing in places that are accessible to jobs, services and amenities. A multi-pronged partnership approach is necessary to mobilise investment from diverse sources and expand the institutional capacity available to design and construct decent homes in desirable locations.

This means getting relevant parties to work together on a common agenda geared to building integrated settlements in compact cities. It requires changing tack from the disjointed efforts that have dominated the past 30 years, where the tendency has been for public and private sector housing schemes to be delivered through separate systems and in disparate locations.<sup>1</sup>

### **The case for inclusionary housing**

Inclusionary housing policy (IHP) could form a valuable part of the playbook. The basic

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<sup>1</sup> There are some exceptions to this generalization, including mixed-tenure and mixed-income projects in Fleurhof and Cosmo City (Johannesburg), Cornubia (eThekweni) and Conradie Park (Cape Town).

idea is straightforward and involves private developers contributing to the production of well-located, below-market-rate housing in return for public incentives. These incentives focus on planning-related instruments that add value to the land by granting additional development rights. The concept of land value creation and capture for the purpose of affordable housing has been tried and tested elsewhere and has become common practice in many countries.<sup>2</sup>

The possibility of inclusionary housing was first raised in South Africa in the mid-2000s, but didn't gain traction at national level because of opposition from real-estate interests. The government has also been less enthusiastic about public-private partnerships than one would have expected considering the ethos of cooperation that imbues the Constitution. It was therefore no great surprise that the recent White Paper on Human Settlements gazetted last December showed very little understanding or support for the IHP idea.<sup>3</sup>

Yet, inclusionary housing is now finding favour at the local level through the foresight and efforts of civil society activists, politicians, officials, and selected private developers in several South African cities. They are deliberately exploring different ways to prod and encourage the local real-estate sector to support affordable housing in high value areas. They recognise that property development is a high-risk industry subject to cycles of boom and bust, so IHP needs creative design, careful calibration and astute timing to avoid undermining confidence and deterring investment.

This article outlines the main principles and mechanisms behind inclusionary housing, and examines the experiences of three cities in South Africa at different stages of adopting and implementing such policies.

## What is it?

Cities around the world are seeking to pressurise and persuade the private sector to cooperate in delivering housing because central government funding has been declining and raising local property taxes is resisted.<sup>4</sup> Local governments are using their powers of land-use regulation to lever increases in land value in order to create affordable housing as a public good. There can be enduring benefits if developers use their ingenuity to adapt their neighbourhood layouts and house designs to be more socially integrated and affordable into the future.

Inclusionary housing requires developers to set aside a proportion of cheaper units within their new residential projects in exchange for land-use planning concessions and inducements. Most important, municipalities can offer them enhanced rights to develop land in priority areas to enable more market-rate houses to be built. Such areas may be 'greenfield' sites along transport corridors or vacant 'brownfield' sites suitable for relatively high-density infill development.

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<sup>2</sup> Germán and Bernstein, 2018; OECD; Lincoln Institute, 2022

<sup>3</sup> Government Gazette, 18 December 2023.

<sup>4</sup> Wang and Balachandran, 2021

Municipalities can also reduce the car-parking requirements for such projects, since some of the residents may be expected to use public transport and this saves on the development costs. In addition, municipalities can streamline and speed up their regulatory procedures to reduce the holding costs for developers so they can start construction sooner.

There are different options for IHP with varying obligations on developers and public entities. Mandatory schemes compel developers to provide a specified amount of affordable housing in target areas, whereas voluntary programmes involve some negotiation and give developers various choices in return for specific incentives. The inclusionary housing that is produced in both cases may be for sale or for rent.

There are also multiple ways that developers can provide the inclusionary housing – within their projects, on separate sites elsewhere, or through *in lieu* financial contributions to a ring-fenced fund. Other important variables for policymakers to define include the price that households will have to pay for the housing and the proportion of inclusionary units that must be set aside within residential schemes. These variables have a major bearing on project costs and viability, so they need very careful calculation.

### **Different perspectives of inclusionary housing**

Housing commentators hold divergent views of IHP, depending on whether they take a narrow, short-term perspective, or a broader and longer-term standpoint. Critics tend to focus on the short-term costs, especially to developers. They view IHP as a tax on new development because developers are obliged to subsidise below-market-rate housing. This reduces their return on investment and is alleged to distort the housing market. If the financial burden is excessive and developers can't pass on the costs to other groups, they will withhold their investment and less new housing will be constructed.

This explains the hostile response of real estate lobbies in South Africa to inclusionary housing proposals in the past. Private developers and landowners have been accustomed to reaping all the rewards from development rights, and feel threatened by the growing weight of regulation that is shaped by broader social obligations.

A contrasting view suggests that it is reasonable for developers to share the increase in land values that is attributable to planning approval and government investment in local infrastructure, especially if the resources that are raised are reinvested in neighbourhood improvements or social facilities. This lies at the heart of the land-value capture concept.<sup>5</sup> The provision of affordable housing is seen as an appropriate contribution that developers ought to pay in exchange for their projects gaining public approval and material support in the form of infrastructure. There is a *quid pro quo* because developers can obtain important benefits, including lower administrative

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<sup>5</sup> Jacobus, 2015

charges and cheaper land costs.

In theory, land values in the areas targeted for inclusionary housing should decline over time to reflect the additional costs incurred by developers and their efforts to negotiate lower prices from landowners. IHP reforms are still contentious and face resistance because they challenge existing practices and alter the established relationships between developers, landowners and the state. By changing the 'rules of the game', they create uncertainty and can be disruptive, at least in the short term. However, they can benefit all stakeholders if they are carefully calibrated.

### **Making inclusionary housing acceptable**

There are various ways in which inclusionary housing can be made less threatening and more palatable to developers. Phasing in the obligations can help the land market to adjust to the new realities without dislocation, and thereby shift at least part of the burden from developers onto landowners. Absorbing the cost into the price paid for the land is particularly beneficial in overheated property markets where land prices are inflated and speculation is rife. Lower land prices stand to benefit both housing developers and occupiers.

Providing developers with options and flexibility is another way of overcoming resistance, because they can make choices depending on the circumstances of the specific site and the state of the local housing market at the time. Calibrating the obligations and incentives on the basis of detailed feasibility studies and reliable evidence can increase transparency and reduce suspicion that some groups will derive disproportionate benefits or face undue costs. Consultation and engagement are important to create opportunities for dialogue, learning and negotiation between relevant parties. The Development Action Group has been actively encouraging such interactions through their National Land Value Capture Programme.<sup>6</sup> They have also been providing technical support to tailor inclusionary housing to local conditions.

### **Lessons from Johannesburg**

In 2019, Johannesburg became the first municipality in the country to introduce an IHP. It took several years to be approved, after various false starts and abortive efforts. The initiative was driven by a group of proactive planning officials determined to encourage more affordable housing in areas accessible to jobs and amenities. This was part of a broader spatial transformation goal in the City's Integrated Development Plan.

The planners encountered some internal resistance from other City departments, who objected to several of the incentives they hoped to incorporate. These included reduced bulk infrastructure contributions for developers and property rates rebates. The planners were able to address certain concerns by engaging and persuading the officials.

However, they could not overcome other concerns, so the inducements ultimately

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<sup>6</sup> DAG, 2021a, 2021b

offered to developers were curtailed.

There was more opposition to the IHP proposals from property developers themselves, which the planners addressed through dialogue and detailed consultations. They listened carefully to the developers' objections by modifying some of the main obligations on them. This was a complicated path to steer and it required difficult compromises.

The adopted IHP gave developers four options. Two of them defined affordable housing based on the dwelling size rather than the price. The developers had argued that it was unreasonable and unfeasible for the City to prescribe the price. Therefore, allowing them to provide small units without any price ceiling was an important concession. Subsequent implementation of the IHP has coincided with a market trend towards apartments. Developers have discovered stronger demand for small and medium-sized flats than for larger dwellings. Consequently, there has been a healthy flow of planning applications for residential projects with an inclusionary housing component. Almost 8,000 IH units had been approved by the end of 2023. Although many of these schemes have not yet been built, the upward trajectory of approvals is notable in a lacklustre Johannesburg property market.

City planners attribute this outcome to their pragmatism and willingness to engage with developers. Yet there are some concerns about the acceptance of unit size to qualify for being affordable, rather than the rental or sale price. The criticism is that small units may be affordable to low- or moderate-income households in some parts of the city, but not in the more desirable areas, where the affordable housing is supposed to be targeted and where many of the current developments are being built.

It should also be borne in mind that the planners' hands in the negotiations with developers were somewhat tied by the limited incentives they could offer. At the very least Johannesburg deserves credit for pioneering an IHP, even if there is scope for improvement. IH was not intended to be the only tool driving integration and inclusion, but one of several instruments that could be used. A systematic evaluation of the policy's full impact would help the City and other cities learn from and refine its experience.

### **Civic strife in Cape Town**

The impetus for an IHP in Cape Town has come from civil society rather than municipal officials or politicians. Legal activists and NGOs have advocated inclusionary housing as one way of mitigating the city's high house prices, exclusionary property market and burgeoning private investment in upmarket apartments in and around the heart of the city.

The core city attracts disproportionate interest from developers because of its unique natural amenities and abundant economic and social opportunities. It is an increasingly popular destination for high-income groups to live, work, study, and socialise. But rising

property prices and redevelopment pressures have eroded affordability for older working-class communities and fuelled gentrification and displacement to outlying townships.

The City of Cape Town was initially receptive to the idea of IHP, but has subsequently become more sceptical. There is a concern that it will be difficult to implement and will also discourage and deter much-needed private investment in housebuilding. The politicians' disapproval coincides with objections to inclusionary housing from developers and residents' associations in affluent areas.

The activist NGO and law centre Ndifuna Ukwazi has responded to the City's indifference by using public participation provisions in the national planning legislation to submit formal objections to every rezoning application in the core city larger than 30 housing units. To date they have objected to more than 50 planning applications over a five-year period.

Each objection triggers an automatic delay for referral to a planning tribunal for adjudication. These delays have caused huge uncertainty and financial costs for developers by deferring construction. The standoff has prompted some developers to abandon or indefinitely postpone their planned projects.

Yet other developers have sought to avoid the objections and delays by offering to make deals with the decision-makers and even voluntarily embarking on their own inclusionary housing initiatives. There is some evidence that up to 16 of the 50 objections resulted in developers proposing to make a contribution, adding about 600 affordable housing units altogether.<sup>7</sup>

Some of these projects have gone ahead, partly out of enlightened self-interest. For example, the developer Amdec voluntarily provided 100 rental units at 50% of the market rent in the first phase of their major Harbour Arch scheme. This amounted to 10% of the total apartments developed. These were 30m<sup>2</sup> one-bedroom units and earmarked for their own employees in the building.

Most observers agree that if the City adopted an IHP, this would generally be preferable to piecemeal initiatives like Amdec's. With transparent rules and regulations, approval decisions would be quicker and more consistent, and there would be fewer objections and appeals. There would be benefits to developers through reduced holding costs of land, greater investor confidence, lower ultimate house prices, and an ability to negotiate lower land prices.

## **Rebranding Stellenbosch**

Stellenbosch is the latest municipality to adopt an IHP, in 2023. The town is relatively prosperous but also highly segregated. Many low-income workers are forced to

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<sup>7</sup> Cogger and Park-Ross, 2023

commute from far away because house prices are generally unaffordable. Developers have a strong interest in the town because it is a desirable place for well-off groups to live, work, and study. A recent housing market study revealed an under-supply across the board, especially in the low- and middle-income segments.

Municipal leaders agreed to support inclusionary housing partly as a way of improving the town's image. They were assisted by officials from the Western Cape Provincial Government, which had recently approved an IHP framework.<sup>8</sup> Stellenbosch has attracted negative publicity over the years as an exclusive enclave controlled by a network of elusive Afrikaner businessmen.<sup>9</sup> Several recent business scandals have further tarnished its reputation, most notably the collapse of Steinhoff under Markus Jooste.

The spatial plan for the town seeks to expand housing for a wider range of income groups and to promote more balanced and mixed communities. A significant opportunity to accelerate residential development arose along one particular corridor called Adam Tas.<sup>10</sup>

After extensive consultations, the municipality has made it mandatory that all developments larger than 20 housing units that are in priority areas should set aside a minimum of 20% of these units as affordable. In the Adam Tas development corridor the proportion is 30%. The policy states that the units should ideally be provided on site, unless this is clearly not feasible. The housing must also remain within an affordable price threshold for 30 years.

Stellenbosch also introduced a voluntary scheme whereby the developers of projects in non-priority areas can choose to provide affordable housing in return for incentives, such as enhanced development rights, reduced parking requirements, discounts on development charges and quicker approvals.

Stellenbosch's IHP is an advance on Johannesburg's in that there is a price ceiling for the affordable housing. This is in line with the official definition of GAP housing, which refers to households whose income is too low to afford the cheapest newly built house available on the market. The current threshold is a gross household income of R27,200 per annum. The policy states that the cost of buying the inclusionary houses must not be more than 35% of these household incomes, or 30% if the units are rented.

Given the recency of this policy, its impact on the local housing market and social integration is uncertain. However, it deserves to be closely monitored because it could prove to be a valuable test case for IH in other cities and towns.

## Conclusion

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<sup>8</sup> Western Cape Government, 2022

<sup>9</sup> Du Toit, 2019

<sup>10</sup> Stellenbosch Municipality, 2023

South Africa's urban housing crisis requires multiple responses that harness the resources of role-players across different spheres of society. Inclusionary housing is a novel land-use planning tool with the potential to mitigate the stark patterns of spatial segregation by expanding the supply of decent accommodation in well-located places. If carefully designed, it can shift part of the burden of affordable housing onto the price of land, which should benefit developers and households alike.

South African cities are beginning to demonstrate that it's possible to bring diverse interests together at the local level where it really matters to negotiate a more inclusive and sustainable future. Municipalities have powers to regulate land that can be used in more imaginative ways to deliver wider social objectives. Developers seem willing to cooperate in delivering lower cost housing in return for public sector support and meaningful consultation. Civil society organisations can play a valuable role in promoting awareness and understanding of inclusionary housing as a mechanism of land value capture.

There is some momentum emerging around IHP after many years of prevarication. Cities are acquiring the technical capabilities and financial competencies to pursue appropriate opportunities, and are engaging in practical experimentation that should allow for incremental progress. It is important that they monitor the impact of their initiatives and evaluate the outcome to learn from experience and encourage policy adoption in other places. Cities also need to document the efforts of developers and disseminate good practice in affordable housing design and inclusive neighbourhood planning.

Complementary national legislation could help to guide and facilitate municipal efforts. A clearly directed and reliable legal foundation can embed IHP in consistent principles and procedures that create more predictable decisions and help inclusionary housing practices to become the norm. Appropriate laws and regulations could also reduce risks and curb disputes. This could all have potent implications for restructuring SA cities and reconfiguring relationships between key urban actors.

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