

# How a focus on asset performance might help 'Breaking New Ground' contribute towards poverty reduction and overcome the two-economies divide

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## Abstract

In 2007 the Presidency called for a review of second economy strategies<sup>1</sup> contained within the national housing programme with particular reference to how it has fared in relation to the so-called 'second economy'. This article draws from that review. The article reflects on the emphasis that policy places on the notion of the housing asset, and argues that while this is useful, it falls short in understanding the nuance of how housing assets perform for different stakeholders – individuals and the public. Within this, the persistence of informal settlements becomes a special challenge that might benefit from an understanding of asset performance. The article considers how state programmes and the intentions of Breaking New Ground have and have not facilitated absorption of the poor into the urban space economy, and what this means for the two-economies debate.

## Hoe 'n fokus op bate-prestasie in die staat se 'Breaking New Ground' beleid mag help om nuwe geleenthede te ontgin, 'n bydrae tot armoede verligting te maak en die twee-ekonomieë verdeling te oorbrug

Die Kantoer van die President het in 2007 opdrag gegee vir hersiening van tweede-ekonomie strategieë wat in die nasionale behuisingsprogramme vervat is. Spesifieke melding is gemaak van die prestasie van hierdie programme met betrekking tot die sogenaamde 'tweede ekonomie'. Hierdie artikel steun op dié hersiening en reflekteer op die klem wat beleid plaas op die idee van behuising as bate. Die waarde van hierdie benadering word uitgelig. Daar word egter beredeneer dat dit nie die nuanses in prestasie van behuising as bate vir verskillende belangegroepes (individue en die publiek in die algemeen) kan verstaan en verklaar nie. Hiermee saam word die blywende aard van informele nedersettings gesien as 'n spesifieke uitdaging wat voordeel kan trek uit 'n beter begrip van die prestasie van bates. Die artikel oorweeg hoe staatsprogramme en die doelwitte van beleid soos vervat in "Breaking New Ground" die opneem van armes in die stedelik-ruimtelike ekonomie bevorder het, al dan nie, en wat dit vir die debat rondom 'n tweeledige ekonomie beteken.

## KA MOO TSEPAMISO YA MAIKUTLO E KA THUSANG KA TENG HO BULA LESOBA LA MENYATLA MABAPI LE HO FOKOTSA KAPA HO FEDISA BOFUMA ESITANA LE HO HLOLA KAROHANO YA DITSELA TSE PEDI TSA MORUO

Ka selemo sa 2007, ba kantoroya Bookamedi (Presidente), ba ile ba re ho boele ho tadingwe botjha ditsela tse pedi tsa moruo tse kentsweng ka hara lenaneho la setjhaba la tsa matlo ho lebisitswe ka ho otloloha hore na di sebeditse jwang ha di bapiswa le ditsela tse pedi tsa moruo. Ditaba tsena di tswa tabeng ena ya ho tadingwa botjha. Ditaba tsena di bontsha toboketso ya hore leano le itshetlehlele tabeng ya dintho tsa bohlokwa tse mabapi le tsa matlo esitana le ho qholotsa ditaba hore le ha ena e le ntho ya bohlokwa, e a haella kutlwisong ya maikutlo hore na dintho tsa bohlokwa tse mabapi le tsa matlo di sebeletsa ba ikarabellang moo ba fapaneng jwang, e leng motho ka mong le setjhaba. Ka hara taba ena, ho hahamalla dibaka tsa mekhukhu tse sa hlabollwang e eba phepetso e ikgethileng e ka folang molemo ho tswa kutlwisong ya tshebetso. Ditaba tsena di tadimana le ka moo mananeho a mmuso esitana le maikemisetsa a ho bula menyatla di phethisitseng kamohelo le ho kwenngwa ha bafumanehi ho kena moruong wa dibaka tsa metse ya ditropo kapa e sa kang ya etsa jwalo, le hore na taba ya mofuta wona e bolela eng kapa e reng ngangisanong ya mekgwa kapa ditsela tse pedi tsa moruo.

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## 1. INTRODUCTION

Post-Apartheid South Africa has witnessed massive state investment and, within this overall effort, the poor have derived some benefits of property ownership and access to basic services. While the delivery of over two million fully subsidised housing units has made a significant impact on the living conditions of many low income families, the impact, both in terms of the original 1994 policy as set out in the Housing White Paper, and the Comprehensive Plan for the Development of Sustainable Human Settlements (known as 'Breaking New Ground', or BNG) of 2004, has not been as significant as expected.

Under 'New Housing Vision', BNG (South Africa. Department of Housing, 2004: 7) expects the following (our emphasis added):

- Accelerating the delivery of housing as a key strategy for poverty alleviation.
- Utilising provision of housing as a major job creation strategy.
- Ensuring property can be accessed by all as an asset for wealth creation and empowerment.
- Leveraging growth in the economy.
- Combating crime, promoting social cohesion and improving quality of life for the poor.
- Supporting the functioning of the entire single residential property market to reduce duality within the sector 'by breaking the barriers between the first economy residential property boom and the second economy slump'.
- Utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring.

These expectations arise from the established notion that housing is an asset, and that in this regard it contributes to poverty reduction by building the asset wealth of the property owner. They also arise from an awareness of the fundamental role that housing plays in the economy given the extensive backward and forward linkages that exist.

The South African literature raises a number of criticisms of housing policy's

progress in South Africa to date (see for instance, Khan & Thring, 2003; Tomlinson, 2007; Charlton & Kihato, 2006). Relevant to this article, it has been argued that urban areas remain spatially inefficient and exclusionary (Mammon, Ewing & Paterson, 2008) and that subsidy beneficiaries often find greater financial challenges once they are home owners (Zack & Charlton, 2003). Overall city form – which is of a sprawling nature and poorly linked to public transport – does not enhance the accessibility of the poor to employment or income generating opportunities. New subsidised housing has been developed on the urban periphery and integration has not been achieved (South Africa. Department of Housing, 2004). Together, these and other factors have limited the possibilities of subsidised housing "breaking the barriers between the first economy residential property boom and the second economy slump" (South Africa. Department of Housing, 2004: 7).

Also contrary to policy expectations is the persistence of informal housing, whether manifest in backyard shacks or in informal settlements, or in slummed inner city buildings – this notwithstanding subsidised housing delivery rates. The 2007 Community Survey released by Stats SA indicates that between 1996 and 2007 the percentage of households living in informal dwellings decreased from 16.0% to 14.5%, while the percentage of households living in formal dwellings increased from 64.4% to 70.5% in the same period. While this indicates an improvement in the housing conditions of a substantial number of poor and marginalised households it is marginal given the size of the challenge. With 14.5% of South Africa's population of 12 500 609 households living in informal circumstances, this translates into 1 812 588 households, or over 7 million people who are housed informally. Additional to this figure are the other so-called formal, but inadequate accommodation types, as well as households who live in overcrowded conditions in their housing. The Department of Housing estimates a housing backlog of over two million households (Sisulu, 2007).

As in other sectors, therefore, the housing sector has had to contend with persistent inequity despite policy

efforts to the contrary. This conundrum was popularly referred to by former President Mbeki as a dual economy, which he described as a house with two floors and no stairs between them. In this analogy, the majority of our population live at the bottom floor, trapped in the so-called second economy with no access to the floor above, where the minority wealthy people enjoy the opportunities that the first, or mainstream economy provides (Mbeki, 2003). Philip (2008) clarifies that the terms 'first' and 'second' economies describe the different ends of a spectrum that in its entirety reflects the breadth of our economy, with wealth and resources concentrated at one end – and poverty and disadvantage at the other. The role of policy, in this analogy, is to build the stairs in between.<sup>2</sup>

In housing policy terms, the stairs of the analogy are the subsidised housing units provided to qualifying beneficiaries. The reference is explicit, both in BNG as well as in Ministerial speeches (Sisulu, 2007). The policy is mistaken, however, to assume that a shift from an informal to a formal housing unit, as facilitated by the national housing subsidy or through the market, will immediately translate into a move between a 'second economy' status in which people may be trapped in conditions of social exclusion and economic poverty to a 'first economy' status of social inclusion and economic prosperity. The degree of economic and social mobility that households might derive from their housing is dependent upon many factors of which the actual dwelling is only one.

This article considers the potential for housing to bridge the two economies divide as it hopes, by exploring the notion of the housing asset – what does this actually mean within the context of poverty reduction and given the wealth building aspirations that policy suggests? How does the notion of the housing asset then apply to the reality of informal settlements? The article concludes with a series of recommendations for how the interpretation of BNG might be strengthened in practice.

<sup>2</sup> It is worth noting that others in the debate (see Royston, 2007) have argued that the continuum analysis suggests a linear progression towards a single set of "good" outcomes. This perspective, it is further argued, undermines the possibility that those in the first floor might not want to operate within the parameters of the second floor at all, and may rather seek to build their own sites of relative advantage – a front garden perhaps (to carry the analogy further). While this is a useful challenge to the dual economy debate, it is not directly relevant to the argument in this article.

## 2. HOUSING AS AN ASSET

Repeatedly in the literature, in policy statements, and in Ministerial speeches, housing is referred to as an asset. It is possible that the conversation started in earnest on a global scale, with Hernando de Soto's (2003) thesis on "the mystery of capital", in which he set out to demonstrate a linkage between formal title and access to finance. De Soto argued that the poor are poor because they lack access to assets that they can collateralise in order to access finance, which they can then use to grow their wealth (De Soto, 2003).

De Soto's views are not uncontested. At a colloquium held in 2006, participants were asked to consider: "Are Hernando de Soto's views appropriate to South Africa?" (Davies, Narsoo & Tomlinson, 2007). Royston (2006) argues that "the category of the 'the poor' requires much greater differentiation" than is allowed for in de Soto's thesis. Others have argued that a fixation with assets is unhelpful in realising the right to housing, which should rather focus on the welfare obligation of the State (Kingwill, Cousins, B., Cousins, T., Hornby, Royston & Smit, 2007). Certainly, the notion of housing as an asset extends beyond de Soto's fixation on formal title (Rust, 2007a). Still, a link between housing and poverty reduction (whether this has anything to do with assets) is difficult to dismiss. Satterthwaite has noted that: "a successful housing intervention can do much to reduce poverty. It can dramatically improve health, increase income, greatly expand a low-income household's asset base and improve security" (Satterthwaite, 2005). In the policy debate which expects housing to be a bridge in the two economies, contributing towards poverty reduction and overcoming inequalities, it is useful to explore the notion of the housing asset further and consider it in terms of its 'performance' – both for the individual and their household, as well as for the wider public.

First, at the level of the individual household, the housing asset performs in at least three different ways: as a social asset, an economic (or income earning) asset, and as a financial asset. The house as a social asset – something which provides an address, which can be transferred as inheritance, which gives shelter, was a fundamental underpinning of the original housing policy in 1994. As a social asset the house enhances identity and security.

The social networks within neighbourhoods enhance the building of community, as does the ability to access to social facilities and services as a result of having a legal address (Satterthwaite, 2005). As an economic asset, housing also offers the potential of income generation through home based enterprises – whether through retail, production or services, or the provision of rental accommodation. Finally housing can play a more traditional role in individual financial growth when it is used as collateral for finance, or as a tradeable asset and a foothold into the property market.

The housing asset also performs as a public asset for the broader neighbourhood, municipality and society. It can be argued that good housing makes for good neighbourhoods, which in different ways contribute to the overall social cohesion, governability and economy of the society. In this view, the performance of the housing asset in terms of job creation, sustainable human settlements and economic growth is also important. Housing plays a role in job creation through various backward and forward linkages in the land development, housing construction, and furniture and white goods sectors. It is also intended to contribute to the sustainability of the human settlement, where housing is well integrated with the services and functioning of municipalities. Housing serves both to integrate individuals into community and as a point of engagement with governance structures for service delivery. Finally, housing construction contributes to overall economic growth as it stimulates the demand for a range

of other goods. It also contributes to the municipal rates base.

This framework for understanding the housing asset does *not* mean that the reverse is true: the absence of formal housing does *not* necessarily mean an absence of assets. Informal settlements offer a useful example in this regard, where local residents make do in difficult circumstances, seeking to realise sustainable livelihoods with the (albeit limited) resources that the informal settlement provides them (see Pithouse, 2009 in this journal issue, and Urban LandMark, 2008). In informal settlements, it is possible that the social asset prevails as communities band together to share in their survivalist strategies. The economic asset may also prevail, if the household is able to run a business from their shack, or if it is so well located that it can access economic opportunity elsewhere. Demand for well-located accommodation may also mean that the household can experience the value of their shack as a financial asset that can be traded. From a public perspective, informal settlements provide a useful transitional space that facilitates residential mobility in the absence of sufficient affordable rental accommodation, or even affordable freehold housing. Informal settlements are also the primary reception points for the very poor into urban areas, providing low barriers to entry, low cost and high levels of mobility for the poor. These are important ingredients in supporting livelihoods in a context of low employment levels (Klug & Vawda, in this issue). However, it is important to acknowledge that in many respects (although not all,

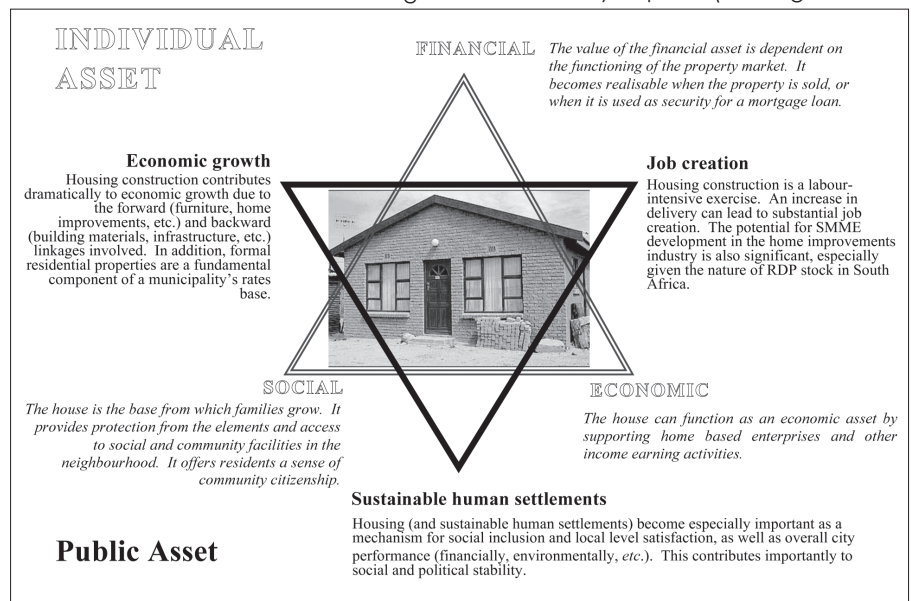


Figure 1: The Housing Asset  
Source: Rust, 2008: 6

for all persons), formal housing areas do perform better both for their residents and for the public. The progress of the property market in the past eight years is one example of this: while residents in formal settlements benefited from property appreciation, those in informal settlements did not.

This multi-dimensional way of understanding the housing asset is foreign to policy, which emphasises assets without explanation. Housing policy implies that houses are assets by definition, irrespective of the role the public sector may play or how the housing market and wider economy may function. It also implies that informal settlements do not provide any asset base to the residents, even though this flies in the face of much literature. This narrow approach to the notion of assets undermines the role that government's subsidised housing process might play in bridging the two economies divide and reducing poverty.

### 3. IS THE SUBSIDISED HOUSE AN ASSET?

A study of beneficiary responses to the first wave of housing delivery from 1994 to 2003 found that:

(T)he post-1994 housing programme has been highly significant in a number of ways. Housing delivery has been important in demonstrating the distribution of a tangible asset to the poor, and in this sense it can be argued to have played a key role in establishing a degree of state legitimacy among low-income households. In addition, it is contended that 'the government housing programme is one of the few state interventions which places a physical asset directly in the hands of households living in conditions of poverty' (Mabandla, 2003: 6). In general, the programme has provided beneficiaries with access to basic services, security of tenure, shelter, and fulfilled an important 'psychological need' in fostering a sense of pride and dignity in having a place to call home (Zack & Charlton, 2003).

However, for various reasons such as poor location of housing projects, cost of home ownership in the form of rates

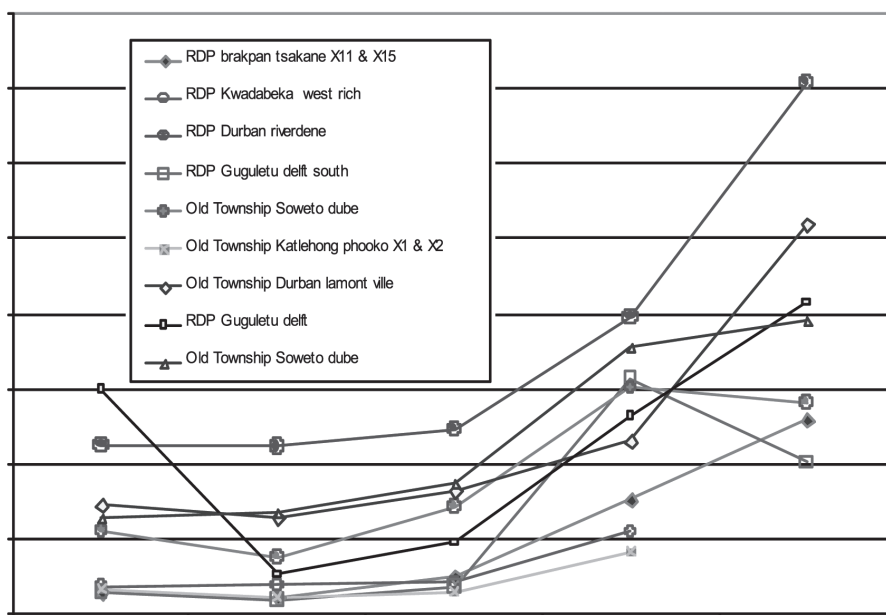


Figure 2: Property prices in selected RDP and Old Township areas.  
Source: Rust (2007b: 2)

and service charges, and unemployment, increased access to low-income housing by the poor has been found to have limited impact on poverty alleviation. "The programme has been much criticised for contributing to urban sprawl, perpetuating the marginalisation of the poor, and for failing to play a key role in the compaction, integration and restructuring of the apartheid city" (Charlton & Kihato, 2006: 255-256, citing Narsoo, 2000; Huchzermeyer, 2001; Todes, 2003; Zack & Charlton, 2003). Referring to Bond, 2003, Charlton & Kihato, (2006: 7) continue: "[I]ndeed, some commentators argue that social programmes such as housing have, in some cases, economically and spatially marginalised the poor further".

These criticisms are all justified, and together point to the key challenge facing policy makers today: the need to engage with housing as an asset at all levels, and the need to engage with the reality of informal settlements from the perspective of enhancing asset performance.

#### 3.1 Subsidised housing as a financial asset

Unfortunately very little is known about the performance of RDP stock and whether subsidy beneficiaries are selling their homes for a profit and using the

equity they've earned to improve their housing situations further. Analysis done in 2007 by Metonymy for the FinMark Trust (see Rust, 2007b) suggests that values are improving in at least some developments.<sup>3</sup>

The following graph shows the average value of formal property transactions as recorded on the Deeds Registry, in five RDP and four old township housing areas.

On the basis of this limited analysis, it appears that state-subsidised properties are starting to perform as the housing assets that policy has envisioned. It is worth noting, however, that the degree of improvement varies from neighbourhood to neighbourhood. The identical government subsidised house (whether RDP or old township) in different areas has a different value when traded. This means that while subsidy beneficiaries get the same standard from a visual and even (in some cases) accounting perspective, the benefit they receive is entirely variable, subject to market conditions.<sup>4</sup>

Of course, a property may only be sold if it is legally recorded in the Deeds Registry. Delays in allocating title deeds means that even in cases where beneficiaries have passed the eight year threshold prohibiting sale, there are some who have not yet received their title deeds, and are therefore unable

<sup>3</sup> Unfortunately, the analysis raises more questions than it answers. For example, given the resale restriction imposed by the Housing Act (South Africa, 1997) which stipulates that subsidised housing units may only be sold eight years after occupation by the subsidy beneficiary, how was it possible that any RDP properties were sold in at least the first period illustrated in the graph (1995-1998), or even the second (1998-2001). Also, how many actual transactions actually comprise the different value points in the graph? Are these trends common throughout South Africa, or only prevalent in the metros, or are they unique? These and other questions will be the subject of further investigation by the FinMark Trust and Urban LandMark who are creating an "Affordable Land and Housing Data Centre".

<sup>4</sup> This challenges notions of equity in the subsidy programme.

to engage in formal sale transactions. In 2004, this was estimated to be true for some 11 % of all subsidy beneficiaries (Nell, Gordon & Bertoldi, 2004: 17). Failure to allocate title deeds to beneficiaries when they occupy their subsidised houses may have a number of consequences. If households remain in their homes as the policy expects them to, the absence of a formal title may act as a disincentive to further invest in the housing, undermining the potential for property appreciation and also limiting the potential value of the social asset as residents do not feel the security of tenure that a title deed may provide. Alternatively, the household may wish to sell their home. Without a title deed, their sale would have to be done informally. The 2004 Township Property Markets Study (Nell *et al.*, 2004) found substantial evidence of informal sales: while 16% of households in the sites and services sample said they had sold and bought their homes, only 2% of these transactions were visible on the deeds registry; 15% of RDP respondents said they had sold and bought their homes but only 3% were visible on the deeds registry. For old township stock and privately developed (bonded) units the percentage was smaller but still evident: 4% of old township respondents said they had bought and sold their homes and 3% were evident in the deeds registry; 10% of bonded respondents had said they had bought and sold their homes and 8% were visible on the deeds registry (Nell *et al.*, 2004). It is further possible that the pre-emptive clause in the Housing Act encourages informal transactions. Whatever the reason, the problem with informal transactions is that they make subsequent formal transactions more difficult, further encouraging informal processes. When transactions are informal they are not eligible for mortgage financing, and this depresses the sale price that can be realised by the seller.

There is a second issue, however, which is more significant in the current property market. Given current property prices, the majority of beneficiaries are unable to sell their homes and realise the asset value of the unit because there is no affordable housing up the property 'ladder' that they can afford to buy. For example: A household earning R3500 per month

(the subsidy income upper threshold) can afford (at 16.5% over 20 years) a maximum mortgage loan of R73 500 (housing finance at this value is, in fact, available as a result of the Financial Sector Charter). The cheapest newly built house is currently about R200 000, affordable at current rates to a household earning about R9000 per month. This means that the subsidy beneficiary with a R3500 income would need to sell their RDP home for at least R130 000 in order to have sufficient equity to afford the new house (which is likely to be very similar to their RDP house). At R130 000, the RDP house for sale would only be affordable to a household earning about R6500 per month. It is unlikely that someone in this income bracket would aspire to purchasing an RDP house with a twenty-year repayment obligation. As a result, the property ladder, where one property appreciates in value, bringing equity to the owner so they can purchase a more expensive property over time, is blocked. Without access to such housing up the ladder, the beneficiary household remains where they are and whatever financial value may exist in the housing unit is virtual – a notional principle. This also means that lenders will be wary of extending mortgage finance even for the de Soto-promised opportunity of business finance, because the underlying security is not marketable.

The reasons for this blockage are many and have to do with property price appreciation (which has been rapid in the past six years), the distortion in affordability caused by the housing subsidy, and a dearth of housing supply to the market just outside the subsidy target. This last issue is a result of the failure of BNG to address the performance of the non-subsidised housing market, despite the promise of "Supporting the functioning of the entire single residential property market to reduce duality within the sector 'by breaking the barriers between the first economy residential property boom and the second economy slump'" (South Africa. Department of Housing, 2004: emphasis added).

A further problem, relating to earlier subsidised or 'RDP' housing stock, is created by its location on the periphery of urban areas where land values are depressed. There are many reasons why RDP housing stock was peripherally located:

land on the periphery is cheaper leaving a greater portion of the subsidy available to meet top structure minimum standards; developers had such land available and sought to use this to maximise their returns within the subsidy; and peripheral locations were less likely to attract contestations from neighbouring communities. The potential for a subsidy beneficiary to sell his/her property and realise a return substantial enough for him/her to afford better housing is severely limited. There are also likely to be fewer buyers on the urban periphery than might be found in the urban centre.

By failing to understand and engage with the dynamics of the property market, the housing policy undermines the potential for poverty reduction through the financial value of the housing asset that the subsidy mechanism suggests. In the current economic environment, with prices falling and private housing finance becoming less accessible (Melzer, 2009), it is likely that the performance of the house as a financial asset will continue to be poor as opportunities to transact formally all but disappear.

### 3.2 Subsidised housing as an economic asset

Where the financial asset value of the house cannot be realised, the income earning potential of the house could still offer poverty reduction opportunities. The housing policy has viewed income earning narrowly however, linking it to the job creation possibilities in the actual construction of units<sup>5</sup>, rather than income earning potential within the unit, by the beneficiary, once the house has been built (Napier, Ballance & Macozoma, 2000).

In terms of income earning potential, research undertaken by the FinMark Trust and others into the activities of 'housing entrepreneurs' found that an estimated 355 000 home based enterprises are active in townships and inner cities across South Africa, earning collectively an estimated R5 billion annually. In addition, small scale landlords provide rental accommodation in their backyards and in flats to approximately 1.8 million households, the majority of whom earn less than R1500 per month, and earn collectively another R5 billion annually

<sup>5</sup> BNG is ambitious around the extent of job creation that subsidised housing delivery might facilitate. There is a concern that the jobs created have been short term and project-specific, however. Drawing on local labour means that local communities only ever build their own houses. However, small scale contractors, builders, etc. offer a tremendous opportunity for post-subsidy house improvements and expansions, but support for this is not explicit in BNG.

(Rust, 2007a). There is great potential for the housing unit to become a source of income, especially for unemployed or under-employed households. Sixty two per cent of landlords in both inner cities and townships said it was easy to find tenants, suggesting a potential for growth. Township landlords report no vacancies. Home based entrepreneurs (HBEs) are not simply biding their time waiting for work: only one third of HBEs surveyed said they would take permanent employment if it was offered to them and the vast majority want to expand (Rust, 2007a).

However, municipalities with their traditional zoning and planning regulations are often uncreative in their response to these initiatives, choosing rather to curtail activity than find a healthy way for them to thrive. The national housing subsidy policy also overlooks the potential of supporting small scale landlordism: subsidy delivery standards are based on a nuclear family living in a single unit on a single plot, and there is no attention to rental opportunities other than those offered by large institutional landlords. Further, some have suggested interesting possibilities relating to the design of the housing unit – to accommodate a home based enterprise – or the design of the settlement – to accommodate diversity such as the corner shop. The potential of supporting small scale landlordism and home based entrepreneurs is significant. While the rental sector is clearly undersupplied, its role in the overall housing sector is declining (from 31% in 1999 to 27% in 2005). The prevalence of home based enterprises in South Africa is lower than in most other countries: HBE's represent a still largely untapped opportunity for unemployed South Africans (Rust, 2007a).

The peripheral location of older RDP settlements is also an issue in terms of the economic potential of the housing asset to the extent that such housing is removed from wider economic markets, job opportunities, and so on. Also, costs are higher. Transport to the urban centre is expensive and time consuming, basic foods items must be bought from small shops rather than bulk centres, and social amenities such as schools and clinics are beyond walking distance. These factors contribute to people being trapped in the marginalised conditions that characterise the disadvantaged end of the economic spectrum – their new house notwithstanding. Coupled with poor access to education opportu-

nity, these conditions lay the ground for intergenerational poverty.

### **3.3 Subsidised housing as a social asset, and as a public asset**

Much of the literature has engaged with the performance of housing as a social asset (Zack & Charlton, 2003; Charlton & Kihato, 2006, Tomlinson, 2007), although perhaps without an explicit reference to 'asset'. How housing performs socially for its residents: does it contribute towards social inclusion, does it build communities, does it give residents a sense of citizenship: these are all questions that have been asked in the literature (Khan & Thring, 2003). Certainly with the old era of subsidised housing (pre-BNG), the conclusions were not favourable. Subsidised housing was found to create alienating neighbourhoods where neighbours were strangers, isolated from economic opportunity and on the periphery of the city's pulse and life. In part in response to this research, the focus in subsequent policy shifted to sustainable human settlements and the performance of housing as a public asset. Out of BNG have come the new generation of housing projects, among which Cosmo City in Gauteng and the N2 Gateway project in the Western Cape are the flagships, each seeking to create sustainable human settlements with socio-economic integration as well as a mixed use approach that includes residential opportunities alongside retail and commercial land.

BNG was informed by a number of processes. The document identifies these as including a detailed assessment and understanding of the local context, a review of performance and a consultation process. It was also informed by the Millennium Development Goals, especially target 11: "Achieve significant improvement in lives of at least 100 million slum dwellers by 2020" which has led to the national Minister's goal of "eradicating informal settlements" by 2014. It is to this specific reference that an asset framework has been missing.

### **3.4 Addressing informal settlements with an assets-based approach**

The growth of informal settlements has demonstrated that formal housing provision cannot keep up with the pace and scale of delivery required to meet growing accommodation needs. Given financial, capacity, land scarcity

and other constraints, the Millennium Development Goal targets of improving the lives of 10% of slum dwellers by 2020, let alone the South African target eradicating slums 2014 are not achievable via conventional upgrading and housing delivery programmes. BNG provides a new paradigm to address the challenge, but in implementation, the failure to understand the asset performance that already does exist in informal settlements, undermines the potential of the new approach. In this journal, Klug & Vawda (2009), as well as Pithouse (2009) and others, explore the limitations in implementing BNG with specific reference to informal settlements. These arguments are critical to understanding the gap between policy and practice that has prevailed. This article adds nuance by focusing on the asset performance of informal settlements.

In housing terms, the poorest and most marginalised citizens occupy informal dwellings in insecure, informal settlements. The housing strategies of desperate communities that take responsibility for their own shelter, in informal settlements, represent an important means of poor people accessing housing quickly. Given their efforts, the recognition of the workings and value of the land market in these informal settlements and in townships, markets which are dominated by social relations, is an important area of focus (Marx, 2007).

Social networks play an important role for in-migrants to urban areas. Kinship ties in the destination area offer new migrants potential access to housing, food, financial means and community support. Spatially, these support networks often occur in informal settlements. As such, a disruption of the physical fabric of a settlement can have drastic social and economic consequences for inhabitants. These consequences are also multiple as they impact on primary households as well as tenants and subtenants within settlements. Informal networks are central to a successful migration experience. This would apply as much to shelter security, access to land and to housing opportunity as to other social and economic essentials of sustaining a livelihood in urban areas.

Opportunities for employment and for social mobility do not rely solely on education and skills but, critically, on social networks. So-called weak ties (ties across a wide range of networks rather

than strong ties in a tight, closed circuit) provide the next step to social and economic integration. Where a housing settlement is located critically influences the social networking possibilities, particularly for poor and marginalised groupings. Studies have shown that the very location of a settlement enables migrants to create and sustain networks outside of the immediate kinship dependency ties that assist them in gaining a first foothold to urban areas. Proximity to job opportunities and to affluent areas allows migrants to construct valuable relationships which are a source of direct access to employment opportunities as well as access to information about employment, training and other urban benefits – information that would not normally be available within the social networks mentioned (Deumert, Inder & Maitra, 2005).

Informal settlements therefore emphasise the performance of the social asset: a combination of strong communal networks and wider social networks enable new migrants to 'get by' or 'get ahead' in urban area. Given this, an informal settlement strategy which focuses on minimising disruption of the social and communal benefits of informal settlement (the social asset), and of fostering housing opportunities for the poor in locations that offer access to economic and social opportunities as well as to networks within economically prosperous communities (Deumert *et al.*, 2005) is necessary. While the text of BNG sounds allied to this approach, however, implementation and the prevailing policy statements to "eradicate" informal settlements, do not.

Huchzermeyer (2008) traces the confusion and misinterpretation of the Millennium Development goals that has characterised recent official discourse on response to informal settlements. In 2001 housing minister Mthembu-Mahanyele referred to the need to eradicate informal settlements as a 'daunting task'. This challenge, Huchzermeyer notes, has been interpreted by officials a 'directive' to eradicate informal settlements by 2014. It stems from "South Africa's response to the Millennium Development Goals (MDG) and targets, to which South Africa committed itself in 2000" and which outline the goal of significantly improving the living conditions of 100 million slum dwellers by 2020 – a target that represents a mere 10 percent of the estimated global population of slum dwellers (Huchzermeyer, 2008: 95).

Huchzermeyer notes "an unfortunate divergence between, on the one hand, the target of significantly improving the living conditions of 100 million slum dwellers, and, on the other hand, the slogan (that is officially attached to the MDG 7 Target 11) of slum-free cities" (Huchzermeyer, 2008: 95).

It is a case of cutting off the nose to spite the face: informal settlements offer substantial asset performance in particular ways – in individual terms as a social asset (but possibly also as an economic and even financial asset), and in public terms as reception areas which in their way offer a level of local, social sustainability. But when policy argues "assets" without a sense of nuance and performance, the immediate assumption is formal, financially tradeable units, and informal homes fall out of the scope of the definition.

#### 4. HOW WELL DOES BNG ENGAGE WITH THE ASSETS FRAMEWORK?

Four BNG programmes respond directly to the notion of the housing asset (Zack, 2008):

- **Supporting and transforming informal settlements:** This programme falls within Section 3 of BNG, "From Housing to Sustainable Human Settlements" and is set out in the unfortunately phrased section on "Progressive Informal Settlement Eradication", as well as in Section 4.1 "The Informal Settlement Upgrading Instrument". The programme aims to integrate informal settlements into the broader urban fabric in order to overcome social and economic exclusion. This programme adopts an in-situ upgrading approach in line with international best practice. The objective is to upgrade informal settlements in a phased approach that delivers security of tenure, municipal engineering services, social and economic opportunities and, finally, housing opportunities. The housing opportunities will be linked to consolidation subsidies that include options for higher density rental housing. (South Africa. Department of Housing, 2004: 12, 16-17)
- **Enabling the housing market to work:** This programme is included in Section 2, "Supporting the Entire Residential Property Market" (South Africa. Department of Housing, 2004: 7). To this end it has introduced mechanisms including: promoting

demand-side subsidies, reducing prohibition on sale period to five years (rather than the previous eight year stipulation), accrediting municipalities, and enhancing access to title. The way that the housing programme is implemented impacts on the housing and property market more broadly. Projects can be designed and located in ways which maximise the usefulness of the house as an asset to the household and allow the house to be sold at a reasonable market value if families wish to move house. To date, delivery at scale has not contributed as much towards a functioning residential property market as it should.

- **Urban restructuring and changing the face of the RDP housing landscape:** This programme falls within Section 3 of BNG, "From Housing to Sustainable Human Settlements". The key interventions of this programme are: a strategy for the more efficient release of public land for housing purposes and a policy framework for the acquisition of private land for housing purposes; strategy and programmes for urban renewal and the production of denser types of housing with appropriate tenure types, and the densification of existing residential areas; support for improved settlement design and the promotion of appropriate technology and construction methods to achieve quality housing environments; the provision of essential social facilities in existing and new residential settlements; and the provision of community facilities in existing and new housing areas and within informal settlement upgrading projects (South Africa. Department of Housing, 2004: 12-15)
- **Adjusting institutional arrangements within government:** The new housing plan introduces an expanded role for municipalities in Section 5 "Adjusting Institutional Arrangements within Government" (Department of Housing, 2004: 20). The interventions proposed include: the accreditation of municipalities to manage housing subsidies; capacity building of accredited municipalities; enhanced strategic planning; and an increasing shift in the roles and responsibilities of the National Department of Housing and Provinces towards policy formation, monitoring, and facilitation. In shifting away from a supply-driven framework towards a more demand-driven process, BNG

places an increased emphasis on the role of the State in determining the location and nature of housing as part of a plan to link the demand for, and supply of, housing. This approach will enable municipalities to assume overall responsibility for housing programmes in their areas of jurisdiction, through a greater devolution of responsibility and resources to them. BNG assumes that municipalities will proactively take up their housing responsibilities given that clear guidelines and resources will be forthcoming from the national sphere (Rust, 2007a). This allowance will make it possible for them to engage in housing as a public asset.

These four areas of intervention all seek to stimulate the asset potential of housing towards bridging the two economies divide and reducing poverty. However, they fail in their efforts by overlooking the nuance of the asset framework. Implementation has also been removed from policy intentions and rested, instead, on old expectations of what constitutes a desirable housing outcome (Pithouse, 2009).

Although the new *Upgrading of Informal Settlements Programme* (Chapter 13 of the *Housing Code*), released in 2004, makes *in situ* upgrading of informal settlements possible with minimal disruption to residents' lives, this has not translated into the active implementation of this policy by municipalities (Misselhorn, 2008). Elsewhere in this journal issue Klug & Vawda (2009) demonstrate that in acknowledging the existence and significance of informal settlements and in the regulations and rules established for incremental upgrading with associated infrastructural, economic and social support, the BNG policy makes significant shift and explicitly adopts a livelihoods approach. Such an approach focuses on improving people's access to assets and income generating activities within a supportive social and institutional framework that enables households to sustain themselves. This approach directly addresses the poverty traps that constrain the poorest of households and so offers the policy framework for applying informal settlement upgrading in a manner that leverages anti-poverty measures. However, as Klug & Vawda (2009) show, the actual practices by state structures charged with implementing the BNG has been minimal. The phased upgrading approach has not been put into practice and regulatory mechanisms

and systems to support such an approach are not in place.

Figures do not exist on the number of projects or beneficiaries that have already benefited from this programme. However, national and local government officials have indicated that the take up has thus far been minimal (Klug & Vawda, 2009). Several pilot projects have been introduced at provincial level. These are not all complete and early signs are that they have progressed with varying success. At local level there are varying interpretations of this strategy as the recognition and possible *in-situ* upgrading of settlements, the removal of existing settlements to new greenfields housing development, or the removal of settlements without the provision of alternative accommodation (Zack, 2008).

Huchzermeyer (2009) shows that there is local municipal reluctance to upgrading and that critical re-skilling and capacity building is necessary before local government can roll out the informal settlement upgrading programme at scale. The newness of the programme, the skills and systems required for a community facilitated approach (which local governments are not all set up for) and the long time frames envisaged for implementation - at least in the first projects (while systems are introduced) - have possibly been barriers to local government implementing these projects. Huchzermeyer (2008) argues these are mere excuses by government, which in BNG set out to have reached full implementation by 2007/8. The exception is in KZN where a tradition of *in situ* upgrading exists and local authorities have continued to roll out this form of development, but with no reference to the framework and funding set out under Chapter 13 of the *Housing Code*. It will be important to uphold this tradition of practice in the face of the *KZN Elimination and Prevention of Re-emergence of Slums Bill, 2006*, which potentially represents a retrogressive step in the state's attempts to improve living conditions in informal settlements.

Enabling the housing market to work: The concerns with improved access to the property market, with enhanced opportunity for income generation from housing and with the recognition and upgrading of informal settlements aligns with a number of programmes linked to BNG. These concerns call for the prioritisation of access to land and housing beyond the state delivery of subsidised

units. In drawing together a large body of research into property markets and property rights, Urban LandMark (2008: 14-15) concludes that:

Access to the land market is important for poverty reduction because land provides a foothold in the city from which livelihoods are secured, assets created and socioeconomic rights realized. Urban landscapes contain pockets bursting with potential for creative engagement with market dynamics. Within these spaces that the priorities encompassed by the three themes of informal recognition, market efficacy, and functional governance converge.

The key to improving access to urban land markets is to improve the bidding power of the poor. There are multiple strategies that feed into this plan: infrastructure development can create value in its wake and promote property investment; spatial efficiencies should be optimized so that higher residential densities can compete with other land uses; partnerships can be developed to allow the poor to access underutilized space in the city (Urban LandMark, 2008: 14-15).

For the creation of sustainable human settlements the focus needs to shift beyond shelter provision as a distinct benefit. Overall city form - how space in urban areas is allocated and how it is connected by transportation - is crucial. This is because investment in urban infrastructure is not in itself poverty reducing but contributes toward poverty reduction when well targeted, building the public asset components of the housing asset. Although there are obvious benefits to simply having access to services, and such access is critical, the economic benefit of access may be greater or lower depending on its location, its linkages with other urban services and its potential to unlock investment in other infrastructure or land uses. Similarly shelter is in itself not poverty-reducing but can enhance income generation and promote asset building where it is well located. Where housing and services are located matters fundamentally (Zack, 2008).

The location of new housing and the upgrading of existing well located informal settlements through urban restructuring can consciously contribute to the breaking of segregated city patterns and enhance the asset potential of the housing product. In addition, initiatives



that promote inner city housing development and improvement are key to the upgrading of degraded inner city areas while simultaneously impacting on the restructuring of apartheid city form. These initiatives are to be encouraged through urban renewal programmes, the creation of Urban Development Zones and tax incentives for the development of low income housing in central locations. Social housing plays an important role in these environments and has been successfully developed in several cities. The challenge of dealing with overcrowded high density buildings that suffer slum lording in the context of poor land use management needs to be tackled aggressively to ensure that poor entrants to the city have access to affordable, decent housing units in inner city locations. This requires the consideration of public involvement in the development of social housing, of strategies that do not dispose of public residential assets in these environments and of proactive acquisition of buildings for redevelopment for low income residents in inner cities.

In practice little progress has been made in terms of institutional arrangements, on the accreditation of municipalities – this needs to be fast-tracked as a matter of urgency both to scale up housing delivery and to speed up spatial restructuring of urban landscapes. Large municipalities meanwhile are attempting to align with BNG. Already, the cities of Johannesburg, Ekurhuleni, eThekweni and Tshwane have sought to redraft their housing strategies in line with BNG. Allied to municipal accreditation for housing development is the devolution of powers for land use management to local level. The current systems which involve both provincial and local government in much land use planning and management are inefficient and cumbersome. Metros particularly need to be empowered to undertake land use management. These systems need to be streamlined in order to speed up development.

Finally, an area not addressed at all within BNG is the use of housing as an income generating, or economic asset. This is fundamental to building a role for housing in poverty reduction, especially when the financial asset is not performing. Housing subsidy beneficiaries are very likely candidates for self-employment either as small scale landlords or home based entrepreneurs (Gordon, Hudson, & Nell, 2006). While realising an income themselves (thereby

overcoming the additional costs of home ownership), they can also support the diversity of land uses in otherwise exclusively residential settlements (otherwise known as dormitory suburbs). Local shops are critical to creating vibrant neighbourhoods, and we know that there is insufficient rental stock available for low income South Africans. The enabling of backyard rental is critical for both the speedy provision of housing solutions for that requiring rental accommodation. At the same time, households who invest in providing rental accommodation improve the longer term financial asset value of their housing. The benefits to family and community in working from home extend beyond income: increased local residential traffic improves general safety, children benefit from a parent being home to receive them after school, the cost of transport to work is removed, and neighbours can access basic needs items close by without incurring transport costs to get to the shops. For renters, the added social value of close networks for newcomers to urban areas is critical to community building and to providing poor households with a foothold into urban systems.

## 5. CONCLUSION

Breaking New Ground is a progressive policy (Pithouse, 2009) with many of the right ingredients on paper. Its drafting was clearly part of a concerted effort by government to address the unintended consequences of the 1994 Housing White Paper policy and the policy set out in the *National Housing Code*. It was widely welcomed by housing industry stakeholders. Unfortunately, however, its implementation has been less than spectacular and has failed to meet most expectations. Why? This article has argued that the failure to consider the nuanced performance of housing as an asset – for individuals in terms of social, economic and financial performance, and for the public in terms of creating sustainable human settlements, growing the economy and contributing to job creation – has undermined the implementation of BNG and created an environment where old standards in housing form and formality prevailed.

Government efforts to distribute land and to house poor people need to keep their momentum, but more attention needs to be given to how

these assets perform once conferred to beneficiaries. This requires attention to how the poor are integrated into urban areas, and integrated into markets (housing markets, land markets, and urban economies generally). Land and housing remain a major asset redistribution tool for the state, but if people who receive such from the state are to benefit as intended, then maintaining the multi-dimensional value of those assets for the people and for municipalities is essential. Otherwise we face the situation where households become asset rich in terms of a structure, but remain income poor in terms of that structure's use, and as a result often lose their grip on the property asset. Maximising the ability to generate income via the land/housing asset is an essential focus that needs to be embraced by the state (Zack, 2008). The other major factor is for government to take on the challenge of improving location and class integration, so that benefiting households are able to maximise their access to urban amenities and markets, which will in turn enhance their ability to earn incomes and become less poor. Attention to these issues will also create a more productive urban citizenry able to contribute towards the sustainability of municipalities and the economy more generally (Zack, 2008).

South African housing programmes since 1994 have been ambitious. They have achieved a great deal in terms of quantity and more recently, the quality of the structure is also being addressed. What remains absent, however, is attention to the practicalities of how housing can play a role in poverty reduction. To this end, the performance of the house as a financial asset (which depends on housing market forces) and as an economic asset (which depends on immediate opportunities for home based entrepreneurialism) have been ignored, as have the performance of informal settlements in asset terms. To some extent, BNG confronts these challenges on paper. In order to ensure that the implementation of this policy does not revert to a concern with quantitative delivery, but achieves the desired aim of integrated human settlements, several aspects of the policy and of allied programmes need to be fast-tracked.

Broadly if housing delivery is going to work in a way that allows poor people to have access to affordable housing in locations where they want to live, this requires that the multi-dimensional value of housing as an asset be

stimulated. This value is dependent not only on the housing unit but on all aspects of housing development and on the creation of integrated, sustainable settlements rather than the norm, dormitory suburbs. Addressing poverty reduction and providing a launching point for economic development in housing requires that informal settlement upgrading be stepped up, that land acquisition for the development of well located low income housing be strongly established at local government level and that land use planning and management in the interests of enabling equity is implemented.

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