



Building a Legacy:

A Single Mother's Journey to Becoming a Homeowner Micro-Developer



"People were saying 'your flats are beautiful', but I was not that happy at first," recalled Thozama Malefu*, of the four flats recently built at the back of her property in Makhaza, Khayelitsha. Gesturing to the neat finishes gracing the bright and relatively spacious 20m² studio unit, tears came to the eyes of the 39-year-old police constable and single mother as she added, "But now I'm glad. Because this is going to be a lifetime opportunity for me and my family."

Thozama is one of a growing number of the 'homeowner micro-developers' (See Box 1) whose collective efforts are formalising the long-standing South African practice known as 'backyarding'¹; in doing so, they are also contributing to the changing face of the nation's affordable housing market.

Constructing and renting out brick and mortar rooms or flats — usually in the backyards of their own government-subsidised RDP houses — homeowner micro-developers are servicing a market neglected by both public and private sector housing actors. That is, providing affordable and dignified housing for the so-called 'gap market', or people whose earnings are too high to qualify for subsidised housing, but too low to be eligible for a bond.

While there are no reliable stats for how many new housing opportunities the sector is providing

± 919,000 households already living in this type of formal backyard accommodation².
± 5% of National total.

According to the 2016 Community Survey.

annually, what is certain is that the number is growing rapidly³.

And this is important, as it has increasingly become clear that the state alone cannot meet the affordable housing backlog⁴, currently standing at 2.6 million households⁵. This shortfall is not for lack of effort⁶. Since 1994, national government's Reconstruction and Development Programme (RDP) has provided approximately 3.5 million free houses for low-income households⁷. In 2004 the programme was replaced by 'Breaking New Ground (BNG)', which broadened the scope of housing provision with programmes focused on integrated and sustainable human settlements, improved housing location, and informal settlement upgrading.

However, amid parallel realities of rapid

urbanisation and high unemployment⁸, South Africa's housing backlog has only grown, with the number of lower income and poor households far

"this is going to be a lifetime opportunity for me and my family."

¹ Originating in response to apartheid-era laws intended to restrict the number of black people in South Africa's cities, so-called "backyarding" began as an individual household response to the need for accommodation. Informal shacks used to constitute its main typology, imbuing the practice with connotations of the informal and illegal. Despite the fact that the practice evolved to encompass many forms — according to a recent CoCT study, some 40% of backyard additions are believed to be formal brick and mortar structures — perceptions of backyarding, especially outside of townships, remain largely negative. See also CoCT 2020. ² Statistics South Africa, 'Community Survey Statistical release', 2016, URL: http://cs2016.statssa.gov.za/wp-content/uploads/2016/07/NT-30-06-2016-RELEASE-for-CS-2016-Statistical-releas_1-July-2016.pdf NB: this number is distinct from the well over 1.8 million households living in some form of backyard housing that Brueckner (2018) provides—a figure that has doubtless increased, given the fact that households living in informal backyard dwellings increased by 256% in Cape Town alone, between 1996 – 2016 (CoCT 2020). ³ Extrapolating figures from a CoCT desktop study (2020), the sector could be providing approximately 33,750 additional housing opportunities across Khayelitsha, of which 40% (approximately 13,370) are formal. ⁴ A CoCT report (2020) estimates that for the next 10 years, there will be a shortfall in the development of formal housing opportunities of approximately 30,000 per year. Also see CDE 2020. ⁵ <https://www.businessinsider.co.za/government-is-calling-for-the-downscaling-of-housing-projects-heres-how-it-will-work-2020-12>. ⁶ In terms of numbers of units provided by the state, South Africa's housing programme has been described as "spectacularly better than public housing programmes in most other countries" (CDE 2020, p.1). ⁷ Scheba & Turok, 2020. ⁸ Urbanisation in 2019 stood at over 66% (<https://www.statista.com/statistics/455931/urbanization-in-south-africa/>), while official unemployment hit a record at 32.5% in 2020 (<https://www.news24.com/fin24/economy/sas-jobless-grows-to-72-million-as-unemployment-rate-breaches-new-record-20210223>). *Names have been changed to protect identities.

outpacing affordable formal urban accommodation. As a result, cities like Cape Town, where Thozama lives, have seen households living in informal backyard dwellings — often patched-together structures vulnerable to fires, floods, and poor sanitation — increase by 256% between 1996 to 2016⁹.

"homeowner micro-developers are servicing a market neglected by both public and private sector housing actors."

Perceiving this gap in the affordable rental market, local micro-developers are embodying what urbanists have coined the 'massive small' movement¹⁰. Encompassing both homeowners micro-developers like Thozama (individuals adding a maximum of six rental units on their personal property) and 'entrepreneurial micro-developers' (individuals or property stokvels constructing a minimum of six units on land purchased expressly for such redevelopment), South Africa's micro-developers are not waiting for an invitation or subsidy to get into what many see as the potentially lucrative formal affordable rental market.

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What is a Homeowner Micro-Developer?

Not so dissimilar from 'typical' backyarding, 'homeowner micro-developers' add a few rooms (generally 2-6) to their own backyards, and remain on-site, usually serving as landlord. The shift from 'traditional' backyarding is slight, but evident in both structure — the rooms are brick and mortar, and intent — this is a once-off effort to secure a long-term source of income rather than to accommodate additional family members. Though the market is constantly evolving, the typical profile is:

- An individual with their own house — often a government subsidised/RDP home, but also through purchase via traditional banks, and/or a bond registered house — and with the backyard space and personal motivation to develop flats once-off.
- Often female- and/or pensioner-head of households.
- Employed, semi-employed, or social welfare beneficiary.
- Develops a maximum of six rental units, with average unit size: 15-20 m².

Gaps Identified:

- Lack of title deeds in their names
- Lack of access to affordable finance packages catering for this sector.
- Need access to built-environment professionals to support (engineers, architects, construction managers, etc.)

⁹ CoCT 2020. ¹⁰ CDE 2020.

Dynamic and exciting as it sounds, this market, which is primarily located in urban townships, remains poorly understood. Government and other formal sector counterparts from traditional finance institutions like banks to built-environment professionals have yet to adequately recognise, much less actively support, these new players, and a perception of the sector as 'too risky' prevails.

"I think investors are curious about how to get [involved]. But the recurring question from investors is 'how do you de-risk this?'" commented Brett Wilks, co-founder and CEO of Hello Nandi, a new startup in this space that sees its role as 'innovator, collaborator, and kick-starter'.

Indeed, finance in particular remains elusive. But while the majority of micro-developers cobble funds together through a combination of savings, expensive personal loans, and/or lines of private credit, Thozama's development was made possible by a collaborative partnership that represents the opportunities, complexities, and persistent challenges of this space.



Pictured above: Growing pool of formalised backyard developments - 'Non-DAG related developments'.

Thozama originally got the idea to build from her friend Zoleka*, another homeowner developer, who in early 2020, had four rental flats constructed in her backyard by Bitprop, one of the few companies that supports homeowner micro-developers¹¹. Bitprop's model requires the homeowner to provide the land and then manage the resulting rental units, with repayment via a rental-share agreement, usually over a period of up to ten years.

Zoleka put Thozama in touch with her employer, the entrepreneur Joanne Smollan. Having collaborated with Bitprop on Zoleka's property¹², Smollan came away from the experience eager to enter the space, which led to her co-founding Hello Nandi. As luck would have it for Thozama, Hello Nandi was looking for pilot projects to help the company better understand how to make its investments in this market count.

Thozama left the meetings with Hello Nandi thinking that her flats would be funded like Zoleka's – meaning she would neither pay nor owe anything for the development, but would share her rental profits. However, Hello Nandi was in the midst of negotiating a new partnership with iBuild, a home financier offering mortgage-backed loans for affordable housing development. 'House Thozama' would be Hello Nandi and iBuild's first collaboration.

The project was already underway – Hello Nandi had assisted in the complex process of transferring the title deed from Thozama's father's to her

own name, one of the baseline requirements for any would-be micro-developer – when iBuild's credit check came back saying that Thozama didn't qualify for the full amount required to build four units, the minimum requirement for financial viability. Hello Nandi thus fronted the amount needed to fill the gap, itself entering into a rental-share agreement with Thozama to repay that equity loan. For Thozama this would mean repaying the iBuild loan from her salary (R6,500 per month for seven years), as well as relinquishing 50% of the flats' rental income to Hello Nandi for five to six years.

If this arrangement seems complicated, that's because it is. However, numerous lessons can be gleaned from the experience.

"Housing activists say credit-worthiness itself needs a creative rethink – for example, developing systems that can evaluate applicants with a good track record of work outside a formal sector economy."

First, the necessity of co-financing points to the reality that even with new players increasingly entering this space, access to finance remains severely limited. Lenders assess applicants based on affordability and credit, and do not consider the potential

yield of the units once complete. Critics say that this model should be rethought, especially in light of what appears extremely high occupancy and reliability of rental payments in this sector¹³.

Additionally, even with her stable salary, Thozama's credit proved inadequate. This is problematic because there are still no institutions willing to supply equity finance in this space (Hello Nandi stepped in because it had committed to

¹¹ For more detail on the finance available for homeowner micro-developers, see DAG publication, Enabling Affordable Rental Housing: Interplay of finance & planning policy. ¹² Smollan provided the finance for Zoleka's units, but Bitprop managed the process. ¹³ Although only anecdotal, landlords that DAG has worked with in this sector say they rarely have vacancies, and rent payments are about 90%.

the project, for which ground had already been broken). In other words, plenty of working class people with fulltime jobs lack immaculate credit records, often for reasons – historic debt, support to other family members, both of which increase monthly expenditures, and thus reduce a person’s affordability ratio – that do not necessarily reflect their ability or willingness to repay a home loan.

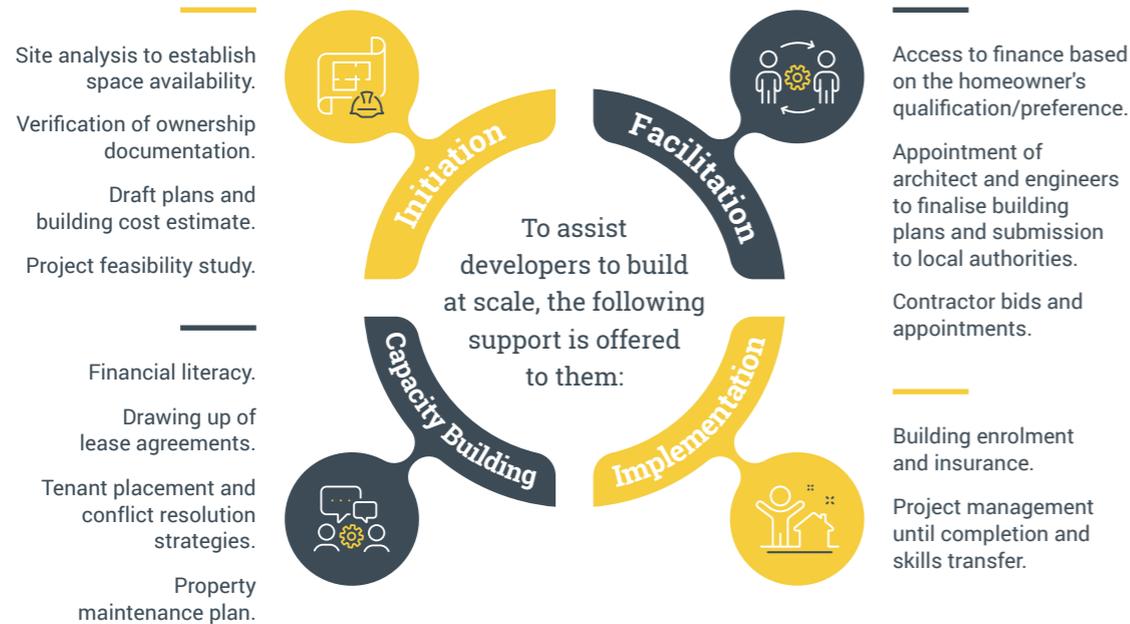
Housing activists say credit-worthiness itself needs a creative rethink – for example, developing systems that can evaluate applicants with a good track record of work outside the formal sector economy. Financial products that can meet these shortfalls are also needed, and their existence would help protect would-be homeowner developers from resorting to borrowing from loan sharks and incurring bad debt.

“There is a need for bridge finance or equity partners or investors willing to invest in this

space, providing that additional finance to micro-developers who only qualify for x amount of a home loan,” said Chuma Giyose, a coordinator at the Development Action Group’s (DAG) Contractor and Developer Academy.

An NGO with a long history of working for urban land rights, DAG was one of the early players to grasp the significance of this sector – both in terms of its provision of affordable housing, but also its economic potential for township-based micro-developers and builders.

In response, in 2017 DAG incubated the Contractor & Developer Academy (CDA) to provide trainings and support to both micro-developers and contractors; it also aimed to better understand the sector, whose expansion it advocates for, but in line with the building and planning regulatory compliance that underlie the creation of safe and sustainable neighbourhoods.



Pictured above: CDA offerings and model for emerging micro-developers.

For its part, DAG became involved with House Thozama following a 2020 virtual dialogue it hosted with the various financial institutions already active in the affordable rental development space (e.g., TUHF/ uMastandi, Bitprop, and iBuild), to which it had invited new investors like Hello Nandi. Post-dialogue, Hello Nandi asked DAG to collaborate on the pilot project that would become House Thozama.

“The set up was good, because we had DAG,” said Sakhele Ngwamba*, the contractor for House Thozama, introduced by DAG to Hello Nandi and Thozama.

Playing go-between linking the financiers, the contractor, and Thozama, DAG’s presence was constant. Conducting an initial site analysis (where Giyose himself literally measured the erven to ensure it was appropriate for the envisioned flats), formulating draft plans and facilitating the appointment of an architect and engineers, liaising with and ensuring timeous disbursement of payments to Sakhele, and answering Thozama’s own questions about the confusing financial arrangement, the project management role played by DAG was critical to the development’s smooth roll-out.

Such assistance is particularly vital given that most homeowner micro-developers lack experience in building or development. As anyone who has ever renovated or built a house is aware, even after finance is secured, there are numerous moving parts – from assessing the suitability of the land for development and complying with numerous municipal regulatory requirements for building approval¹⁴, to coordinating the building process itself.



Pictured above: Sakhele’s construction team in action.

¹⁴ See: <https://resource.capetown.gov.za/documentcentre/Documents/Procedures,%20guidelines%20and%20regulations/BDM%20Booklet%202.pdf>.

Inefficiencies or delays at any of these stages translate into increased costs, which is something that homeowner micro-developers – already working on tight margins and in many cases with excessively costly finance – can ill afford.

In Thozama’s case, pre-secured finance from Hello Nandi/iBuild and project management from DAG translated into a project completed in less than three-months, and which resulted in a product that all partners agree is high-quality.

That said, misunderstandings at project inception around the financial arrangement speaks to how the lack of products serving this space leads to the need for experimental and innovative partnerships,

and how in those rapidly evolving configurations, momentum can unintentionally trump the requirements of communication.

“There was a deep learning journey on the building process, but the even deeper learning journey for us was the mechanics of finance in affordable housing,” acknowledged Hello Nandi’s Wilks. “We accept that there was an internal dialogue in the company figuring [those mechanics] out on a daily basis, and at some point there was confusion about it. But in the end, we did our best¹⁵. The house was built and everyone has won.”



Pictured above: CDA's contractor training award ceremony.

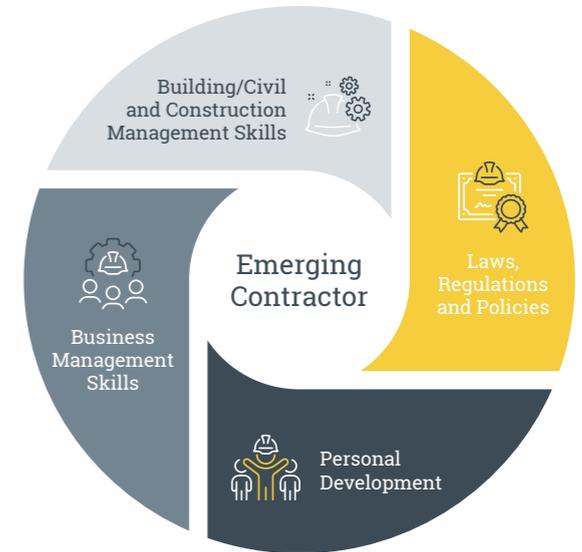
¹⁵ Hello Nandi ultimately encouraged Thozama to seek legal counsel to ensure she understood the financial loan component and their equity investment component in her project. Both parties signed the resulting agreement, which could be useful as a future template for such mixed-finance arrangements.

Chuma Giyose inspected one of the finished units at House Thozama, raising an eyebrow at a small section of grout that appeared a few shades darker than the rest. “I’ll have to ask Sakhele about this – I want to be sure there isn’t any damp here,” he noted.

In addition to connecting would-be homeowner developers to finance and managing builds underway, the CDA connects the developers to builders who have participated in the Academy’s trainings. In fact, the CDA initially began as a training ground for emerging contractors, offering modules or workshops for small groups of township-based contractors. Tailoring its content to the expressed needs of participants, CDA has trained builders in everything from business management to building and construction management skills¹⁶. Builders who complete the training and a one-day workshop, and who also exhibit the kind of professionalism and character that inspire trust are put on CDA’s database, which exists to link local micro-developers to trusted contractors.

“They identified me from that cohort. I was one of the people who had the experiences and resources, and the compliance – NHBRC, tax clearance, BEEE, all that,” Sakhele explained of winning the contract for House Thozama, which, valued at R470,000, represented an opportunity for a contractor to increase their CIDB grading from 2 to 3¹⁷.

Set by the Construction Industry Development Board (CIDB), CIDB gradings range from 1 to 9, and eligibility for much-coveted public sector building contracts usually require a minimum CIDB grading of 2¹⁸. Upgrading requires contractors to have completed jobs valued at certain threshold amounts (e.g., R450,000 for a Grade 3), and for which they have managed both material



Pictured above: CDA's capacity building course outline.

procurement as well as labour provision. However, emerging contractors are often hired exclusively for labour 'brokering'. This prevents them from improving their CIDB grade, and thus their prospects for professional advancement.

Another part of the CDA's mission, then, is to introduce emerging contractors to local micro-development projects that will help them improve their CIDB gradings, should they wish to go that route.

“You’ll find most black people are always in the lower levels of the CIDB grading, because they only get jobs to do subcontracting,” Sakhele explained, adding that access to capital for material procurement on bigger jobs can also hinder emerging contractors trying to improve

¹⁶ Training focus is on (but not limited to): Building/Civils & Construction Management skills and Business Management (project management, procurement and compliance and risk management). Also see Contractor & Developer Academy (DAG 2021). ¹⁷ In Sakhele's case, he was already grade 3. ¹⁸ CIDB 2 companies are eligible to build BNG houses. For more information about grading requirements, see <http://www.cidb.org.za/publications/Documents/Application%20for%20Contractor%20Registration%20Grade%202%20-%209%20%28July%202016%29.pdf>.



Pictured above: Thozama's unit with tenants.

their grading. In other words, in order for emerging contractors to grow their businesses and be more than just labour on someone else's job, they need experience managing the whole value chain of a given project.

This is also important because local contractors are more likely to keep profits within the local economy. While smaller jobs like House Thozama are often executed from start to finish by local contractors, as the sector continues to grow and formalise, it is important to ensure that the full value chain remains local and developmental.

"We believe that local money must stay local," Sakhele said, referring to the sector's potential both to contribute affordable housing units and to uplift township economies more broadly.

The CDA would agree. By connecting homeowner micro-developers and local contractors, it helps ensure that contractors have the opportunity to take

responsibility for materials and labour for a given project, meaning that, by the end, the contractor's ability to run a sustainable business — and upgrade his or her CIDB level — is improved. This arrangement also provides the micro-developer with trusted local contractors, who understand relevant dynamics and labour pools. Unfortunately, even with the CDA's database, certain skills remain in short supply. In particular, engineers and architects who understand the needs of the sector, and, more importantly, how to work with homeowner developers who themselves usually lack building experience, are needed.

Skills shortages also inflate the price of development, which, according to Hello Nandi, remains alarmingly high. "[Sakhele] produced a high-quality product, but good as it is, we missed a trick, because the cost per unit felt expensive," Wilks noted of House Thozama. Intended as a control prototype, Hello Nandi built Thozama's units using conventional building materials and methods, in

order to better understand where tweaks to design, methods, or materials could translate into savings.

Certain that there are ways to reduce the cost of building in people's backyards, Hello Nandi is, to that end, busy developing a building prototype that uses locally available bricks to build not only the walls, but also floors and roofs, and thus save on subcontracting costs for those latter elements.

"After completing Thozama's units, we asked ourselves, have we done everything to strip out the fat, the excess costs, and deliver a quality product that is the same as what any other informal producer can deliver? Because that's ultimately how you need to value it," said Wilks, who added that those cost savings are what will create more value to be shared by both the client and company.

Hello Nandi is not alone in trying to find ways to reduce building costs. BitProp is also working on developing a few standard 'copy and paste' plans for the most common backyard configurations. By massively reducing professional fees as well as being better able to employ economies of scale in material procurement, it believes it can also bring building costs down.

While these are all valid ways to reduce costs, critics warn of pushing things too far, with the risk of leaving homeowners with decent, but lower-quality structures that ultimately will be less appealing to tenants.

That said, all parties agree that open-minded innovation is necessary in driving the sector



Pictured above: Inside Thozama's 20m² unit.

"for emerging contractors to grow their businesses and be more than just labour on someone else's job, they need experience managing the whole value chain of a given project."

forward, and the search for ways to simplify and expedite it is gaining exciting momentum. In late 2020, the City of Cape Town (CoCT) broke new ground when it formally acknowledged the importance of the micro-developer sector¹⁹, and committed

to finding ways to support it, including introducing pre-approved building plans to expedite regulatory processes.



Pictured above:

Complete build of Thozama's development of four (20m²) backyard rental units.

"This is going to be a legacy for my son, and it's going to help me a lot," Thozama said, looking at her eight-year-old boy who, due to COVID regulations, was only attending school every other day. "My only worry now is about the flats not being full," she added.

Although the four units were ready as of the end of February, by early April she still had two vacancies²⁰. While job losses due to the pandemic led to many people leaving the city or their own flats for rural homes or cheaper arrangements, there was undoubtedly also an element of management that she was still getting the hang of.

To this end, CDA provides assistance with tenant management, including creating and maintaining a Facebook marketplace page that connects tenants and landlords²¹. While Giyose assisted Thozama in posting an ad to the page and designing hard-copy flyers for distribution, he says there is also a point where the homeowner must take charge.

"We've created the platform, it's up to homeowners to utilise it effectively.

That means looking up individuals who are looking for a place, not expecting people just to come. It's up to Hello Nandi and Thozama, they are in this thing together."

Hello Nandi is well aware of this, and Smollan says she has been working with Thozama on how to maintain a 'sales pipeline' – building a good reputation as a landlady, keeping a database of everyone who comes to view the flats, and

immediately acting when someone gives notice. "People are struggling, and can't afford to spend 2 to 2.5 thousand a month. So that is a reality. But [having a pipeline] is the best way to buffer yourself against economic knocks."

Determined to better understand the affordable rental market, Hello Nandi and DAG recently entered another collaboration, this time to analyse DAG's Facebook marketplace data. The hope is that increased understanding of the market's demand side will help root out further inefficiencies in the system. Using Hello Nandi's commercial experience and networks, the company believes it can close additional gaps, creating a more investor-friendly product, and ultimately increasing stock of – and thus access to – quality affordable housing.

Like all partnerships, this one has already had its ups and downs. But like all good partnerships, its real value is greater than the sum of its parts, and its strength comes from both the diversity and commitment of the actors who have come together around a shared vision.

"How do we build a partnership of multiple specialised players

to channel capital to produce more affordable housing?" Wilks asked. "That's what we're trying to figure out, that is the dialogue around the table."

"How do we build a partnership of multiple specialised players to channel capital to produce more affordable housing?."

²⁰ By May 2021, all the units were rented. ²¹ <https://www.facebook.com/groups/2272087176399192>.

Lessons and Recommendations:

Communication

As this sector grows it will be by necessity one of innovation, experimentation, and partnerships between a diverse range of stakeholders. As such, clear communication is key, particularly when it comes to financial arrangements between homeowners and lenders.

- Appropriate translation services, written contracts, and taking the time to ensure mutual understanding are all paramount.
- Building should not commence until the financial arrangement (including repayment schedules) and building contracts are clear.

Finance

- Need for bridging and equity finance: who to approach?
 - NHFC and other investors including traditional banks should create packages that address this need
 - Mechanisms that allow income-stream to be considered when evaluating a client's credit should be developed
- Financial support needs to come with project management support (like that provided by CDA/DAG)
 - Such support should be included in total development costs, and paid for by the financier as a protection of their investment

Planning/Regulatory space

- Develop building prototypes to reduce costs:
 - Determine the scale at which savings are made.
 - Prototypes raise questions of design and sustainability: if designing prototypes, consider use of solar and renewable energy, water-wise features, etc.
- Title deed transfer in this case was done by Hello Nandi, but this was a once-off; there is a need for:
 - All spheres of government need to work together to address the Title Deed backlog.
 - More support for services like those offered by the Transaction Support Centre.

Supporting emerging contractors

- Homeowners typically lack construction/development background:
 - public sector/municipality needs to streamline and simplify requirements around building approvals and land-use management.

- Where can emerging contractors get more training?
 - CDA is playing an important role but other bodies like CIDB should/can take over in the long-term?
- CDA trainings lead to work opportunities, but to ensure that more contractors can improve their CIDB grade, there should be a concerted effort to support the use of local contractors and offer them full-value-chain opportunities.

Rental management and tenants:

- Homeowners need to be trained to aggressively seek tenants and build 'tenant pipelines':
 - Western cape rental housing tribunal could play a role in capacitating landlords and tenants (comes back to need for this sector to be recognised and included by industry associations).
- Need better understanding of the demand-side of the affordable rental market:
 - How tenants and landlords find each other?
 - Analysing DAG's Facebook marketplace page, potential to develop a tool/app to remove inefficiencies.

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The CDA is a recognition that government alone cannot deliver on its mandate of housing and economic transformation. In fact, only through **appropriate support for emerging entrepreneurs and businesses**, can we realise a **complete rethink** of the economy and ultimately the housing crisis.



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