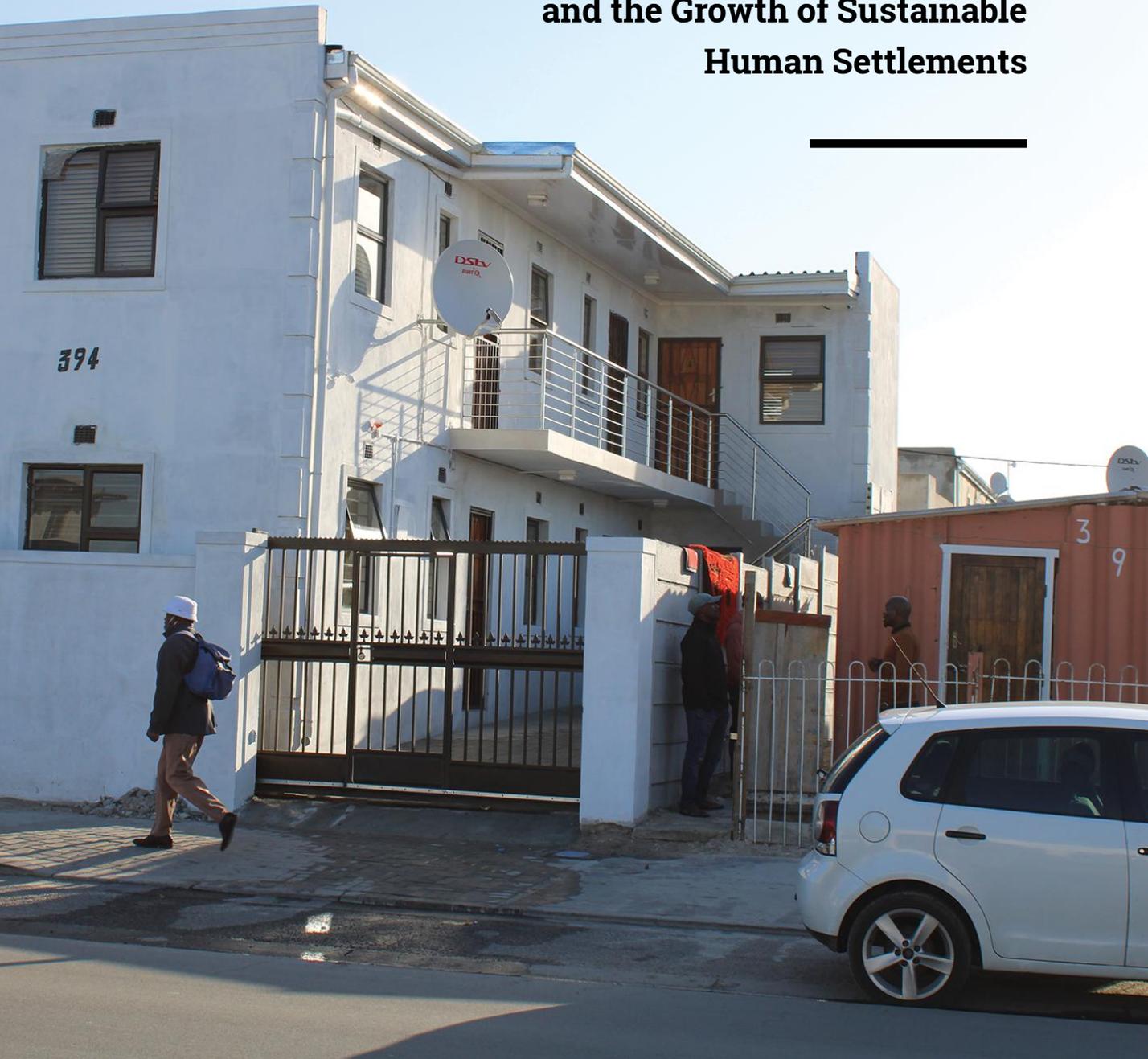


# Pushing the Boundaries:

## Entrepreneurial Micro-Developers and the Growth of Sustainable Human Settlements

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Along Delft's Main Road, an elegant two-storey development rises up from what was, just a few months prior, a weed-choked yard hosting a dilapidated shack. The plot's transformation is so complete as to be recognisable only by triangulating it in relation to its old neighbours – an adjacent salmon-coloured house and the church opposite.

Sitting in the lounge of an upstairs unit, Siya Lubenga smiles, overseeing the controlled chaos as his construction team applies the finishing touches – installing light fixtures, screwing doors on built-in-cupboards, wiping down the bright white tiles – to six one-bedroom flats.

"Some of my calculations were not correct, and it's a month late, but the difference this time? It was fully funded. So, there was much less stress," says the entrepreneurial micro-developer of this, his third development project since 2015.

Newish players to South Africa's property game, so-called 'micro-developers' are the entrepreneurs and homeowners supplying affordable formal rental housing to the township property market, and in so doing, filling a massive gap left by both public sector housing programmes and traditional private sector developers.

While taking cues from the township practice known as 'backyarding' (i.e., adding accommodation – from flimsy shacks to formal structures – to one's own backyard, often, though not only, for family members), micro-developers have evolved that long-standing tradition in two key ways, and are doing so with neither subsidies nor appreciable external support.

Whether homeowners<sup>1</sup> (building two to six units on properties where they reside and usually act as landlord) or entrepreneurs (building six or more units, for rental or potentially sale, as part of a development portfolio), the first point distinguishing micro-developers from backyarders is that the former use formal materials – brick and mortar – to build. The second difference is one of intent: that is, building explicitly for wealth creation, whether through rental or resale, rather than creating additional space for one's own household.

The name, which may seem cumbersome, differentiates micro-developers both from backyarders and from traditional developers, and this is important for several reasons. First, as explained above, micro-development is more narrowly defined than backyarding; further, while backyarding can include safe and dignified accommodation, the term itself remains

**"Newish players to South Africa's property game, so-called 'micro-developers' are the entrepreneurs and homeowners supplying affordable formal rental housing to the township property market, and in so doing, filling a massive gap left by both public sector housing programmes and traditional private sector developers."**

loaded with historic negative connotations of informality and illegality.

Second, although they could arguably just be called 'developers', as a group, micro-developers share important characteristics that simultaneously

\*Names have been changed to protect identities.

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## What is a Micro-Developer?

Evolving from the practice known as 'backyarding', micro-developers' efforts are distinguished in both material and intent:

- Their builds are always formal brick and mortar (backyard units may or may not be formal).
- They are building explicitly for wealth creation, through rental or resale (backyarders are often, though not always, building to create additional space for their own household).

### There are two 'types' of micro-developers:

- Homeowners: building two to six units on properties where they reside and usually act as landlord.
- Entrepreneurs: building six or more units, for rental or potentially sale, as part of a development portfolio.

The name, while cumbersome, importantly differentiates micro-developers both from backyarders and traditional developers. The name matters, because it distinguishes them from the negative connotations historically (if often unfairly) associated with backyarding; and, it acknowledges their differences from 'traditional' developers. That is, as a group, micro-developers come from the black and coloured township spaces where they are building, and rarely possess built-environment training or qualifications.

As a result, they have a better understanding of the township's market dynamics and needs than do traditional developers, but also are less likely to qualify for traditional home loans and affordable finance packages.

advantage and disadvantage their efforts. Hailing from the black and coloured township spaces where they also are building, micro-developers rarely possess built-environment training or qualifications. Meaning that while they have a better understanding of the township's market dynamics and needs than do traditional developers, they (and their developments<sup>2</sup>) are also less likely to qualify for traditional home loans and affordable finance packages.

Thirdly and perhaps most importantly, micro-developers are, potentially more than any other developers, addressing the critical need to produce formal affordable rental housing – one of South Africa's most under-served and in-demand property markets. For this alone, they should be categorically distinguished, particularly because of the challenges they face as a group, so that they can receive "the kinds of supportive measures that this sector requires", as Mirjam van Donk, director at urban governance NGO Isandla Institute, points out.

<sup>1</sup> For a more detailed look at homeowner micro-developers, see DAG's Contractor & Developer Academy Booklet. <sup>2</sup> Even when loan-seekers themselves have good credit, many financial institutions are wary of mortgage-backed bonds on properties located in township areas, due to (unproven) fears around their ability to collect in the event of foreclosure (DAG 2020).



"micro-developers are, potentially more than any other developers, addressing the critical need to produce formal, affordable rental housing – one of South Africa's most undeserved and in-demand property markets."

Pictured above: Siya with his team of artisans.

Whatever one calls them, micro-developers are on a growth trajectory, as Siya amply demonstrates. In 2015, he funded his first development – a five-unit block in Delft South – through a combination of personal savings (he works fulltime in the public sector), personal loans (paid back at 26% interest), maxing out credit cards and bank overdrafts, and incrementally finishing the last three units with rental income from the first two. Embarking on his second development in 2017, he added four units to the 'backyard' of the property where he resides, again piecing funding together through a combination of personal savings, personal loans, and rental income from his first development.

When Siya undertook his third development in 2019, he partnered up with an accountant to form a property development company. Pooling their joint shareholder equity, they purchased the land, reserved R150,000 for the build (which they estimated at R650,000), and then secured R500,000 in housing finance.

"Our target was to get finance from start to finish. It's better to have the whole capital, so once you start, you don't stop because of finance – you stop because you're done," says Siya of the loan secured from iBuild, one of the few lenders working in the affordable housing space<sup>3</sup>.

Describing itself as providing "innovative lending solutions to low-income workers that banks would typically reject based on affordability", iBuild offers mortgage-backed loans of a minimum of R60,000

with a repayment rate less than traditional personal loan financing options. Having successfully gone through iBuild's credit scoring process, Siya hopes the company – which has proven one of the more flexible lenders to emerge in this space<sup>4</sup> – may be open to renegotiating his interest rate following a track record of good payments.

"It was just a verbal discussion, nothing formal, but they said we could talk," Siya says, adding, "The rules are a bit looser now."

Although iBuild views the rules as just as fixed as ever, the company does acknowledge that it

"access to affordable finance is the key to unlocking this sector's growth and contribution to affordable formal housing provision at scale."

can take a more flexible approach to return-clients in good standing. "If someone is already a client, and their repayment history is good, that gives us a sense of comfort that we know who we are dealing with. So, from a risk point of view as a lender,

we are far more comfortable dealing with [that person] not on the terms of a first-time client, but as a known and trusted client," affirms Sibusiso Zitha, iBuild's CEO.

However, for first-time micro-developers, the reality is that the finance landscape remains as restricted as ever. Perceptions of risk deter traditional financiers like traditional banks from putting even a toe in these waters, and continue to limit the number of emerging lenders like iBuild. And this is a problem, because access to affordable finance is the key to unlocking this sector's growth and thus contribution to affordable formal housing provision at scale.

<sup>3</sup> Other financiers are TUHF/uMustandi and Bitprop. See DAG publication Enabling Affordable Rental Housing: Interplay of finance and planning policy for more detail on finance options. <sup>4</sup> Unlike its competitors, iBuild doesn't observe strict geographic limitations in terms of where it will consider lending.

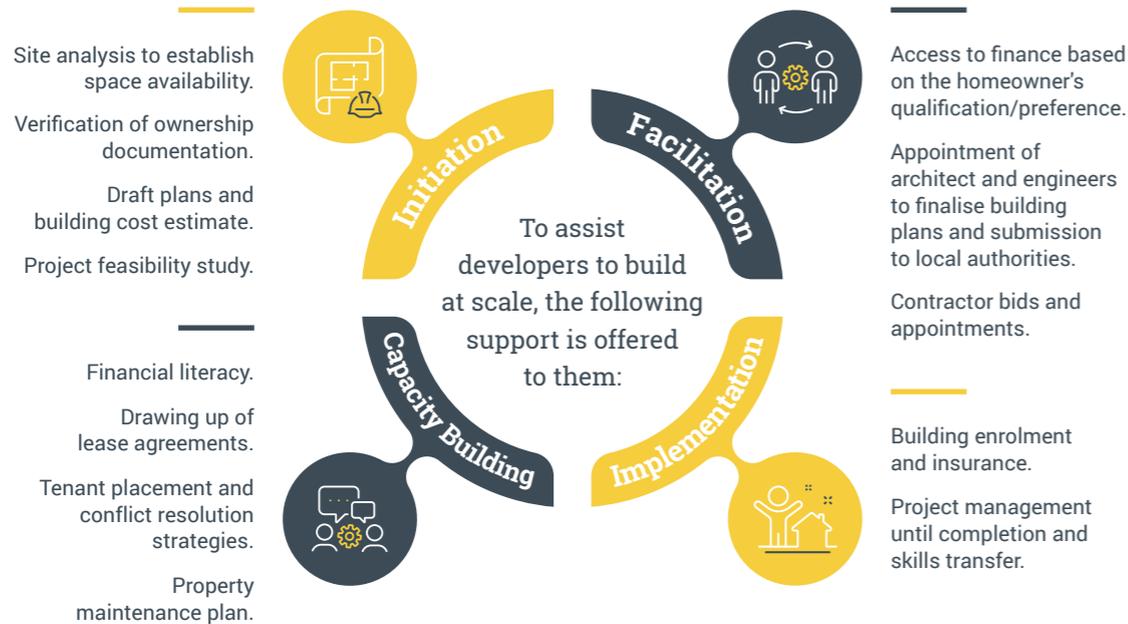
“This is actually the largest proportion of the [property] market, and where you essentially have the most opportunity in the country. So you need policy and regulation that makes it easier to create an environment that allows for more unsecured lending in innovative ways,” agrees Tessa Dooms, a product consultant (from Jasoro Consulting) at iBuild.

While such sentiment is highly encouraging, iBuild’s own model remains constrained by current policy and regulation. “iBuild’s finance model is based on affordability and credit worthiness (as per prescribed NCA regulations), thus if you have secured finance from them, you’ll have to wait for seven years to complete the current loan term before securing another loan,” notes Chuma Giyose, Project Coordinator at the Development Action Group (DAG). “If they could provide development finance, entrepreneurial-developers could benefit more, as it’s an approach that takes into account

future income versus the current prescribed NCA credit standing of a client.”

An urban land rights NGO that was one of the first 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 – DAG in 2017 incubated what it calls the Contractor and Developer Academy (CDA). In addition to providing trainings and support to both micro-developers and emerging contractors, the CDA also exists to better understand the sector, whose expansion it advocates for, particularly when it comes to policy around finance options.

“In order to attract any form of development finance, whether for private developments, infrastructure finance, or for public housing, the regulatory framework is essential,” explains Adi Kumar, executive director at DAG, of the thinking behind



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



Pictured right: DAG facilitating a dialogue with developers.

the CDA’s policy advocacy<sup>5</sup>. “Such a framework would provide the confidence that any third-party development finance will be invested responsibly and will provide both social and financial return. A good example is the basket of options for development finance and equity available for social housing as result of the Social Housing Act and the formation of the Social Housing Regulatory Authority,” Kumar explains.

The CDA also reminds micro-developers to advocate for themselves, and to that end, has encouraged developers who have attended its workshops and trainings to create their own forum. Despite the pandemic, since mid-2020, a group of over 20 first-time and seasoned micro-developers began meeting, initially via Zoom and more recently in person. Siya welcomes the group’s emergence, saying that

as micro-developers, they need to also engage with proposed policies, regulations, and processes around this sector as they arise.

And those engagements may be coming sooner than later. In September 2020, the City of Cape Town (CoCT) formally acknowledged the important role the sector is playing in addressing the affordable housing crisis, and pledged various types of support, particularly of the type that simplifies compliance with regulations: prioritised and expedited plan approvals, overlay zones, and bulk infrastructure improvements.

This kind of support is critical, as without it, it is hard to say what will be built. “People are building quality houses, but not submitting plans,” acknowledges Siya of the micro-development sector generally.

<sup>5</sup> A decade of declining fiscus compounded by the COVID-19 pandemic has spurred national government’s realisation that it has neither the financial resources nor capacity to meet the housing demand. Fortunately, indications are ripe that government is looking to use regulations to attract development finance. For instance, the current emphasis on FLISP is coupled with a proposed land release programme that will make land available for banks and other financial entities to provide bond finance for low income households, all of which will be supplemented by a government subsidy programme (Adi Kumar, personal communication).

While build quality may be generally good, the logic of regulatory systems established for the public good demands actual submissions to confirm such claims. Furthermore, buildings with approved plans hold more value, making them more appealing to finance institutions. Given the impact this sector could have on township neighbourhoods – where a majority of Cape Town’s population resides – regulations should be designed to simplify compliance.

In other words, simplifying regulatory compliance is probably the best way to ensure that this activity – which, make no mistake, will continue with or without the state – will yield more affordable, safe, dignified, well-planned, and thus desirable places for working-class people to call home.

A review of regulatory systems is also an opportunity to consider larger questions around building sustainable human settlements. Core to that concept is adequate bulk infrastructure that can meet the increased demands implicit in the exchange of single residences for multi-unit blocks like Siya’s. In principle, such infrastructure upgrades are triggered in part by rezoning – in most cases from Single Residential (SR2) to General Residential (1-6).

While it’s the rare entrepreneurial micro-developer that bothers to re-zone a township property, Siya in fact did initiate the process, which was a condition

of a loan he initially sought from TUHF/uMastandi<sup>6</sup>. Paying R12,000 in fees for the first stage of the rezoning process (fees for the City to advertise the rezoning, and scrutinise the request), he and his partner were shocked by the calculation that came back.

“It was 80 or 90,000 Rand. The land was only R250,000. So it means you’re putting nearly 350,000 in [before building]. It’s not worth it. We’d do it provided the area was better – where houses are [worth] 700,000 or 800,000, up to a million Rand,” he explains, adding that he was open to rezoning, just not at that price. “Maybe it should be a different fee? Like R20,000 I could do.”

Although the rezoning application metrics do factor in respective property values<sup>7</sup>, Siya’s sense that this added expense would push them into overcapitalising remains. This sentiment appears to be echoed by others, who simply ignore the process, which, Siya adds, is also administratively confusing. “They make it difficult for people to comply in terms of the rezoning,” he says.

Finally, there is the critical and undeniable lack of evidence concerning the upside of paying the price to rezone. That is, surrounded by the infrastructural backlogs that characterise

township life, why would micro-developers take money from their own pockets to invest in infrastructural ‘upgrades’?

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<sup>6</sup> “The mortgage-finance trailblazer that opened up Johannesburg’s inner-city affordable property development space in the early 2000s, TUHF launched uMaStandi, its pilot township development finance programme, in 2017. Seeing the massive demand, uMaStandi set out to regularize the township rental market by financing compliant, safe, and legal structures that would bring in the necessary profits for their developers” (DAG 2020). <sup>7</sup> There is a R6,000 basic rezoning fee, after which additional fees are imposed, depending on the development.

“We just checked the price [for rezoning], and that was it,” Siya laughs, “I actually don’t know [what rezoning is for]. I think something about the right to do business or whatever you want to do inside?” he suggests, trailing off.

This uncertainty speaks to another issue around a lack of communication about what municipal planning approval processes are for more generally (not just around zoning), and the need to reduce the excessive complexity around them. This is Siya’s third development; given that in all other respects, he has complied with regulations (plans submitted, NHBRC registered, etc.), the fact that he is unsure why rezoning is important is something that should make municipal officers sit up and take note, and then get down to fixing.

As far as paying rezoning (scrutiny) fees and associated development charges (for rendering municipal engineering services), affordable housing advocates have suggested that instead of coming as a once-off capital cost, the City should look into a staggered process. That is, allowing micro-developers to pay these fees over time or through their monthly rates bills, thus making compliance more affordable. In the more immediate term, it has also been proposed that national government should consider covering these costs through funding to local authorities, particularly as government distances itself from building public housing.

“The housing need is such, and government is not within its resources nor its mandate to provide housing for everyone. A strategic and pragmatic

way of engaging with [affordable housing provision] is to find the opportunity to work with external partners, and make sure that they contribute to this housing need,” agrees Isandla Institute’s van Donk. “So if that means reducing or waiving some of the fees, then that seems to be a sensible thing to do.”

The development of pragmatic municipal policies that assist officials in expediting and prioritising the sector, as well as increased clarity around densification policies at the bylaw level were also flagged as priorities to support the sector’s roll-out.

“If you’re [micro-developing] in township areas, you need government on board to ensure that you manage densification. So you’re not just building living spaces, but you’re creating communities, and you’re servicing those communities with the basic services that they need. You’re building the infrastructure and you’re doing real township renewal at an economic level, at a social level, and not just at the level of the individual,”

says iBuild’s Dooms on the need for government to work alongside micro-developers in realising a more holistic vision.

However municipalities approach it, ramping up supply of affordable housing without engaging in the larger debate around sustainable human settlements would be a massive missed opportunity. Van Donk describes sustainability at the neighbourhood scale as neighbourhoods that have “the various infrastructure – under and above ground, as well as social – needed to create a good quality of life

**"ramping up supply of affordable housing without engaging in the larger debate around sustainable human settlements would be a massive missed opportunity."**

that doesn't take away from the rights of future generations to have a similar quality of life".

This, then, invokes the question of resource consumption. Here, again, an opportunity is dangled for the municipality to consider how to incentivise developers to contribute to more sustainable settlements through wide-scale uptake of relatively simple technologies like solar geysers and power and rainwater collection tanks, which, like most long-term interventions for sustainability, are too often cut due to immediate-term financial implications.

"With the drought and energy crisis, one would like to see a lot more opportunities there. So that's a bigger agenda," says van Donk, who also notes that the City is reliant on income from such services,

which further complicates the reconciliation of these agendas. "From a business point of view, it's a hard thing for the City to resolve."

Finally, sustainable neighbourhoods are not islands unto themselves, and must be integrated into the broader city fabric, meaning they should be well-connected in terms of transportation and opportunities, and equipped with adequate public spaces, social facilities, etc. "You want to do more than just create structures that are giving value to the person building and renting out, but create value for the renter in terms of the kind of environment that gets built around [the development]," affirms Dooms.



Pictured above: Complete build of 6 one-bedroom units.

The influence micro-developments have on township neighbourhoods remains to be seen, but the novelty and dynamism of the sector is ripe for state support that avoids repeating mistakes — approaches that have toggled between demolition and disavowal — of the past. Importantly, enabling these entrepreneurs to build better is not just about ticking off a quantum of units.

"Although having good quality housing doesn't necessarily transform a neighbourhood, that good quality of housing is likely to create a different experience of the neighbourhood," notes van Donk.

The significance of small local interventions — how a high-quality block of flats can anchor 'the experience' of an area — is a subtle, but real phenomenon.

For his third development, Siya analysed the market, putting a lot of thought into what he was building, and ultimately choosing quality over quantity.

"I check the flats wherever I go, and on Facebook, I see what people are marketing," says Siya, whose visit to a friend's one-bedroom flat sparked the idea of catering to tenants looking for more than a bachelor unit.

"Instead of the ten studio flats, I thought I'll make it bigger and offer parking for the biggest units. I can attract better people, people who can stay longer, people who will look after the place."

"Siya understands the market and the different needs of tenants. He adapted his plans to make the project more marketable," says Zama Mgwatyu, Programme Manager



Pictured above: Inside Siya's one-bedroom units.

at DAG, who goes on to describe the shift that the market has seen since Siya's first development in 2015: "Initially tenants wouldn't mind to share ablutions. Then they wanted their own toilet and electricity box. Now they ask, 'But what if I have visitors?' Hence, Siya has added a sitting area. In one development he has added access to WiFi and lights without Eskom."

DAG and Siya's relationship dates back to 2014, when Siya, planning his first rental development project in Delft, approached DAG about a database of construction companies that the NGO was working with from previous housing construction projects. The relationship has grown alongside each of Siya's builds, with DAG assisting with everything from access to finance and regulatory compliance issues, to project management and lease agreements.

For this most-recent build, Siya sought DAG's advice when he changed his design. "I had the vision, but it was a matter of putting it on paper. We had such a long discussion about the dimensions of this one window," he laughs, recalling the need to balance structural and aesthetic issues. "I would phone Chuma anytime, at 9pm, if I had an idea, and he was always there for me," he recalls with a smile.

Access to this kind of support is critical as the sector expands. And while Siya's professional development and accomplishments are his own, they also speak to the difference having such support can make.

Looking at the case of this seasoned micro-developer, the benefits that local micro-developers have when building locally are also made clear. Not only does Siya understand the markets, he also understands the labour pool, down to who does quality work where. Despite a nationwide shortage of skilled labour, many skilled artisans reside in the townships, and Siya makes a point of knowing who they are.

"When a flat is built, I go talk to [the contractor] and analyse the job – that's how you see quality," he says. "Normally these are guys who do other big projects out [in the suburbs], but they live here," he says of local contractors, who give him an affordable rate.

This speaks to yet another valuable aspect of this sector, which is what its growth could mean for local economies more generally. By stimulating and supporting micro-developers through regulatory support and better finance, economic transformation of local builders is also spurred.

"We need to think about this less as just home loans, and more about entrepreneurship, investment, and wealth creation. You have to think about the full value chain and the full ecosystem, and how to get them to work together," says iBuild's Doom.

Van Donk agrees, noting how support for micro-developers could also help "transform the construction and housing sector, which is largely white, male-dominated, big infrastructure companies, etc. We're comparing David and Goliath here, but there's a possibility of transformation."

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"For my next project, the idea is to move out of the township, to a better area, and to build something bigger, more stylish. Hopefully, I can get better capital then," Siya says of his plans for the future.

Siya's aspirations point to the reality that entrepreneurial micro-developers with the patience and drive can indeed use the stepping stone of a handful of 'backyard' units to grow a property portfolio. But the move to bigger, more stylish builds both in and out of the township also begs the question of affordability.

"That's the question everyone is grappling with. Will it remain affordable? And what is affordable? Affordable for whom?" asks Giyose. With that in mind, DAG is currently researching questions around the direction of the market, and with that, assessing the term affordable.

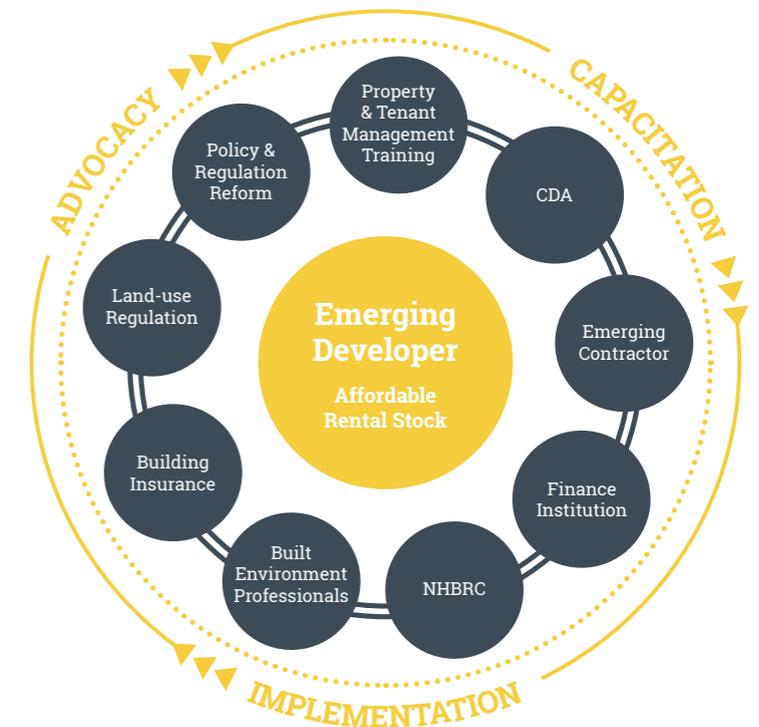
As the majority of entrepreneurial micro-developers come to the sector with neither training nor experience in built-environment professions, the question around which institutions can support their positive growth – accessing finance, business and administrative management, regulatory compliance, project management, material procurement, tenant management – remains wide open.

For the CDA, seeing someone like Siya aspire to develop outside of the township shows the exciting promise of this space, but also exposes the sector players to a new set of challenges.

"If entrepreneurial micro-developers want to grow and be players outside of their comfort zones, what are the things they need to know?" muses Mgwatyu.

### Take-away

CDA general acknowledgements for support and collaborations, key stakeholders to realise well-built and managed affordable rental stock.



## Lessons and Recommendations:

### Principles of property development: what skills are needed?

- Most micro-developers are not built-environment professionals: but progress is real and possible:
  - What technical support do micro-developers most require: both pre- and post-construction?
- CDA has identified the need for a customised training program for micro-developers to understand the principle of property development.
  - Needs to address questions around scaling-up, in or out of townships.

### Finance

- Finance and especially equity finance still an issue, even for a proven entrepreneur like Siya:
  - Finance is getting a bit more 'flexible' for proven developers, but still many gaps exist, especially for first-time developers.
- Need to develop policy that speak to loaning in this sector:
  - National regulatory framework that supports development finance.
  - Traditional banks need to enter this space.
  - NHFC needs to support this effort further, clarify the packages developed for this sector.
  - Considerations around a housing development bank.
- CDA to articulate and advance its advocacy role.

### Regulatory issues

- Need for a municipal policy regarding this sector, with clear guidelines/specifications.
- Need to simplify municipal regulatory space:
  - Possibility of deferred or incremental payments of rezoning fees and development charges.
- Micro-developers need in-depth and aligned understanding with lawmakers (i.e., government) about why the 'rules' are there (e.g., rezoning).

### Sustainable Neighbourhoods

- Townships have been dumping ground for subsidised housing:
  - how to turn this around, and use this sector to stimulate affordable rental housing development across the city, but in doing so, to enable a holistic approach to neighbourhoods, and develop them into self-sustaining economic nodes.

- How to ensure that we are creating sustainable neighbourhoods and not just concrete shacks:
  - social facilitation/human settlements need to be involved.
- Affordable housing must be linked to larger debate around sustainable human settlements:
  - Densification mandate needs to be clear at policy and bylaw level.
  - If waiving Dev Charges, how do you decide who gets the subsidy?
    - National could be subsidising this.
    - What are the policy/legal implications here?
- This sector represents a massive opportunity to broadly implement sustainable technologies (solar, water-wise), but these must be built into finance packages.

### A growth trajectory

- Let us ask: "What's in a name?". That is, what should this sector be called to distinguish it from 'traditional' development and from 'backyarding'.
  - This distinction is important in order to support the sector.
- Looking beyond the township: what kind of support do micro-developers need to move to 'the next level', both for themselves, and to become meaningful economic contributors.
- How to get micro-developers to support/talk to each other more:
  - Support the growth and function of an association/forum.
  - Promote active use of WhatsApp group of CDA graduates – how to scale up?
  - Link micro-developers to established bodies (MBA – Master Builder Association), estate agent bodies, etc.

### Understanding the market

- The market is growing and diversifying:
  - More amenities and choice are emerging: how to address in conjunction with local municipalities, while still remaining affordable to the end benefactor?
- How to ensure a certain segment of micro-development remains affordable, and clarify on what that means.
  - Track and maintain a market database of trends around affordability, demand, and occupation trends.

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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