Micro-developers in South Africa:

A case study of the micro-property development in Delft South and Ilitha Park, Cape Town.

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Abstract

Housing affordability in South Africa has been a significant challenge in recent decades. Efforts from both government and private sector have been unable to quell the ever-expanding deficit of housing in the country, especially at the lower end of the residential market. Small-scale or '*micro-developers*' are beginning to respond to the scarcity of affordable housing by providing low-cost rental stock, typically in the form of 8-12 unit blocks on existing residential erven. Using 10 cases in Delft South and Ilitha Park in Cape Town, the paper uses the relational structure-agency model to describe the micro-development process in order to better understand the opportunities and challenges associated with this phenomenon. The findings revealed that there are two different types of micro-developers; the '*homeowner-developer*' and the '*enterprise-developer'*, and this distinction defines how they respond to the structure inherent to the local context. According to estimates provided by the respondents, financial performance of the projects are extremely good. However, access to affordable finance and a lack of formal construction management skills were identified as the major challenges encountered by these developers. Better understanding the opportunities and challenges of micro-development is vital in supporting these developers as agents of urban change in low-income areas in South Africa.

Keywords: Micro-development, housing affordability, rental affordability, informal settlements, homeowner-developer, enterprise-developer, South Africa

Introduction

Urbanisation in South Africa over the past three decades has led to a significant housing affordability and supply problem. Formal development processes, structures, and land markets are unable to manage the increase in housing demand associated with rapid population growth (Chimhowu & Woodhouse, 2006; CAHF, 2017). A report compiled by the Centre for Affordable Housing Finance (2017) calculated that the cheapest newly built house in South Africa is estimated to cost R 400 000. At current mortgage rates, this is affordable to households earning at least R 15 000 per month; approximately 15% of the current population. Furthermore, subsidised housing is only provided to households earning less than R 3 500. Thus, this creates a massive gap (households earning between R 3 500 and R 15 000) of 6.4 million households, or 40% of the population, that cannot afford to buy a house and are ineligible for a government subsidised house. Thus housing affordability in South Africa is a critical issue (CAHF, 2017). Consequently, much of the country's poorer urban migrants are forced to reside in informal settlements or backyard shacks[1]. In 2014, StatsSA reported that 11% of South Africa's urban population live in informal settlements. Further, a report on the South African rental market stated that nearly half of all small-scale rental units consisted of backyard shacks (Urban LandMark, 2010).

There is a great demand for affordable rental accommodation in centres of economic development for low-income earners (CAHF, 2017). As such, the demand for rental accommodation in Cape Town is extensive, and both government and formal private sector housing supply cannot satisfy this demand. Resultantly, a gap has developed in the informal 'township'[2] residential property market sector. In response to this growing gap, 'township' or '*micro-developers*' have emerged[3]. This is evident through the Khayelitsha-Mitchells Plain District Office of the Department of Planning and Building Development Management for the City of Cape Town which received around 6000 applications for second dwelling (flats) in 2017 (Rudman, 2017).

[1] Backyard shacks refer to informal dwellings on a privately-owned property

[2] Referring colloquially, in South Africa to low income, largely African working class, and informal residential areas.

[3] A 'micro-developer' refers to a formal and/or informal entrepreneur developing small-scale formal rent-earning accommodation.

Given that these ventures offer opportunities for local economic development, provide affordable housing, improve the quality of the built environment in 'townships', and increase densities in these areas, it is vital to assess ways to support these developers. However, there is still very little that is known about the micro-development process, the actors involved, and how local authorities can best respond to these developers. The aim of the study is therefore to gain a better understanding of this phenomenon in an attempt to guide policy and formal institutions in supporting these development processes.

The overarching aim of this research is to gain a deeper understanding of informal property development processes to deepen knowledge related to urban change in South African 'townships'. To this end, the investigation involves a case study of 10 Cape Town rental housing stock developments; 5 in Delft South and 5 Ilitha Park in Khayelitsha, to understand the 'township' development processes using a relational structure-agency model. The term structure refers to the 'rules of the game' and the institutional dynamics that support it. Agency refers to agents that act within this structure; including their motives, and challenges. Thus, the investigation entails an analysis of the relationships between the interests, strategies and behaviour of the various actors (agents) involved in property development, as well as examining the 'structure' according to which decisions are made and activities are organised. Moreover, through the structure-agency lens, the study aims to evaluate the micro-development process, including: inception and motivation; securing land and property acquisition; financing; the building process and its associated costs; tenanting; and finally, the property economics of rental stock development.

The paper is structured in four parts. It starts with a review of urban land development literature followed by a motivation for the research approach and an outline of the case-study method used. It then provides a description of the local context of the study areas. The findings section follows with a detailed account of the studied developments, involving; a profile of the two types of developers, a description of the development process; property acquisition and financing mechanisms and property project economics. The fourth provides an analysis of findings with recommendations and conclusions.

Theoretical Framework

Urban land development processes are viewed through three broad theoretical perspectives in the literature. The first perspective is centred around 'structure' oriented approaches based on either neo-classical or Marxist analysis. The former analyses property development in terms of profit maximisation and the underlying forces of supply and demand, while the latter explains property development in terms of the prevailing "mode of production" and broader political economy. (Ball, 1998; Healey & Barrett, 1990; Guy & Henneberry, 2002). Both of these ideologies tend to focus their interest on theoretical, model-driven analysis, and their strengths are that they can describe how a system of interrelated forces can account for many of the preferences and decisions made by individuals over time (Ball, 1998).

Neo-classical approaches have been criticised for their underlying assumptions of rational, informed and profit-maximising actors operating in an efficient market and the assumption that all the agencies automatically align themselves to deliver 'at the right place at the right time' in order for supply to respond to demand (Healey & Barrett, 1990; Ball, 1998; Guy & Henneberry, 2002; Henneberry & Parris, 2013). Whilst criticisms of the classic Marxist approaches centre around the limitations of the industrial mode of production models that they use, or on the absence of human choice (agency), that influences the flows of capital described (Healey & Barrett, 1990).

These shortcomings saw the emergence of the second perspective, which focuses on the workings of the institutions of property development (including finance, government, construction industries etc.) as a collection of individual actors making decisions. Furthermore, it is argued that institutions are established to reduce transaction costs and to implement the structure, or 'the rules of the game' (Healey & Barrett, 1990; Guy & Henneberry, 2002). As Moulaert et al (2016, p. 171) state, "…institutions comprise a more or less coherent, interconnected set of routines, organizational practices, conventions, rules, sanctioning mechanisms, and practices that govern more or less specific domains of action".

However, due to the fact that institutions are seen as facilitating and implementing broader structures, the institutional perspective is seen in this paper as a critical component of the structure approach and as a result this paper combines the structure and institutional approaches to explore the micro-development processes occurring in the Cape Town's townships. For this reason, any reference to structure in this paper includes those involving institutional forces and arrangements as well.

In response to the above criticisms relating to the structure/institutional perspective a third perspective, orientated around the concept of agency, has emerged (Ball, 1998). This perspective argues that individuals or groups are not neutral in responding to the structural forces impacting upon them, and responses vary depending on the characteristics and capabilities of the individuals involved.

The above binary structure-agency position has however been questioned and attempts have been made to combine the two into more pluralistic approaches that combine the two to varying degrees (Giddens, 1986; Healey and Barret, 1997; Guy and Henneberry, 2002; and Henneberry and Parris, 2013). The common thread running through these pluralist positions is that structure direct and influence people's behaviour, decisions and actions, but that these responses equally shape and redefine the overarching structures governing them (Moulaert et al., 2016).

This paper draws on these more pluralistic approaches to illustrate that township micro-development processes are 'structured' by the rules and procedures imposed by the property market, financial and municipal land-use management systems, as well as the disposition and responses of the responsible officials towards these rules and procedures. However, all of these are subjected to agency with respect to the motivation and disposition of local 'developers'. Furthermore, it is argued that through the lens of the structure-agency model the categories of formality and informality become blurred and this division is not useful in understanding the development process itself. The distinction between the two is whether they are regulated or not, but as Marx (2007) and Le Roux and du Trevou (2016) show, informality is not ad hoc, but is rather a set of standard, socially-managed practices that are equally structural in nature. Considerable increases in informal property markets in Africa are primarily attributed to the complexity and costs associated with formal market transactions (Chimhowu & Woodhouse, 2006). Agents tend to bypass formal structures in the development process if the structure creates an operating environment that is prohibitive in terms of outcome, time, expense and complexity (Napier et al, 2013). Informality is a consequence of the governing structure and 'rules of the game', which are often at odds with the context and local circumstances, including local power relations, the interests and resources of local buyers and sellers, as well as those of 'developers' and other intermediaries in the local institutions.

This pluralistic approach is important from a policy perspective as it accounts for how institutions operate, i.e. how people within and outside them respond to or push back against the conditions created, and what impact this actually has on the development process. It also allows for an approach which can show the planner, administrator and developer how these forces *should* be approached to achieve the desired outcomes. By not doing so, it is argued that housing delivery in South Africa has been undermined because specific housing programmes (structure) are expected to translate 'unproblematically' into human settlements, city wide urban change and efficient housing delivery. Empirical research shows this not to be the case and that development processes are unique to (spatial) circumstances, period and the structure and agency relationships involved (Healey & Barrett, 1990).

In essence, what the literature highlights is that the production of the built environment, urban structure and form in its entirety, involves spatially local development processes comprising the interests and actions of multiple actors. This includes: landowners, the regulatory authorities and various types of finance providers, on the one hand; and numerous intermediaries, such as: developers, construction companies, consultants and estate agents, on the other. Developers play a central agency role in these property development processes, which are given limited attention in the South Africa urban development literature but they are key to understanding urban development and change. As a result, the case study described below attempts to add to the existing literature by framing the centrality of the developer in local development processes, in linking their local knowledge, interests and strategic responses to rules and resources, and practices through their actions.

Approach to Research

The method adopted for the research is a case study of a purposive selection of 10 'property developers' of flats; five in Delft South, and five in Ilitha Park, Khayelitsha. The case study aims to produce a descriptive account of the development process; the rules and resources; the intentions; and the strategies deployed by the agents involved. This is, however, a preliminary investigation and a larger sample of micro-developers, localities and development processes would be necessary to achieve a more generalised understanding.

Interviews were guided by a loosely structured set of questions starting with questions regarding the working background and status of the respondent. This was followed by asking the respondents about the acquisition and value of the property, and how it was financed. Then they were asked about the building process and its associated costs; the development process and rentals charged; the experience with tenanting; and the overall financial performance of the projects. The respondents were also asked about the problems they encountered; whether they intended undertaking a similar development again and what they would do differently if they did. An inspection of the flats followed whenever possible, and photographs were taken.

Local Context and Description of the Case Study

The case study is of five developers who have built flats in Delft South and five developers who have built in Ilitha Park. These townships are primarily Black African working-class areas located to the East and South East of Cape Town.

Ilitha Park, Khayelitsha

Ilitha Park is situated in the South-West corner of Khayelitsha; Cape Town's biggest and fastest growing 'township'. Ilitha Park is a relatively new, low-middle income area. Houses here are typically on sites of 170-200m^2. The properties in Ilitha Park are generally larger than those in Delft South and are typically void of backyard shacks.

Ilitha Park has a population of 14 822 (7871.88 people per km^2), and 4077 households (3.63 people per household) and 98% are Black African, and 52% are female (City of Cape Town, 2011). Most of the property owners are part of the active working population.

Four of the developments in Ilitha Park are very similar; consisting of a standard mortgaged, well-built brick and mortar structures set in the middle of the site. There is just enough space at the back of the sites to build four units, two below and two above. The units are in the region of 12-15m^2 each with either individual or communal ablution facilities.

Delft South

Delft South is situated to the east of the Cape Town International Airport and is one of Cape Town's first mixed race (including 'coloured' and 'black' residents) townships (Affordable Land & Housing Data Centre, 2011).

Delft South has a population of 36 105 (15231 people per km²) and 9 890 households (3.65 people per household). Demographically it is 60% Black African, 37.5% Coloured, and 50% female. Unemployment is noticeably higher in Delft South (38%) compared to Ilitha Park (City of Cape Town, 2011).

The Delft sites are in an earlier (RDP) [4] subsidised housing area on plots of approximately $150m^2$. Three of the five developments involved the demolition of existing 'RDP' house structures and the building of new double storey flats of 5-8 units which are roughly $12\text{-}15m^2$.

Case Study Findings

The findings section first describes the two types of micro-developers. Following that, the development process that took place on the case study sites is discussed from inception to tenanting.

1. Micro-Developer Profiles and Typology

Two types of *'micro-developers'* were identified in the study. The first type are *'development entrepreneurs'* or *'enterprise-developers'*. They take a commercial interest in the project as a business venture and aim to learn from, and repeat, the development ventures. They use their own equity and secure personal loans from banks.

The second type of '*micro-developer'* use second mortgage loans on their existing houses to develop rental units on their own properties for the purposes of supplementing other household income. They are referred to as '*homeowner-developers'* or *'owner-developers'*.

The section below categorises the developers into their respective typologies and provides a brief profile to give a contextual background of the developers under each category. Alternative names have been used

[4] Reconstruction and Development Programme (RDP) is a socio-economic policy aimed at addressing the socio-economic consequences of apartheid. This policy is most notably recognized through the provision of housing for the poor. These houses are known as 'RDP' houses.

to identify the developers so that their identity remains anonymous. They are denoted using their alternative names and an acronym that represents the area in which they operate, for example: developer Zama from Delft South will be coded with Zama (**DS**), Mzi, from Ilitha Park will be Mzi (**IP**) and so on.

Development Entrepreneurs

Zama (DS)- is a 'drop-out' pharmacy student who worked as a pharmacist's assistant for 3 years. Zama's development is one of the more ambitious projects in the Delft area with an 8-unit development comprising of four, two room units below, and four above. Each flat is 24m^2 and comes with an en-suite toilet and shower. Unlike other projects in this area, Zama's development also includes entertainment (DSTV), internet, CCTV, and security. The project was funded through a combination of savings, a personal bank loan and family financial assistance. The project is still under construction.

Luvo (DS)- owns a taxi and hires a driver. In 2014, he started development on a plot that he acquired in 2010. Luvo built a house which consisted of 5 rentable en-suite units of 16m^2, a kitchen, and a shed. The project was funded by a combination of savings, a personal loan from the African Bank (at 28%), loans from friends, credit cards, and through income from his taxi business. The units were habitable by the end of 2014, and were tenanted in the beginning of 2015 even though the project was only completed in March. All the units are filled and he has never had an issue with vacancies. He is currently working on his second development.

Masande (DS)- is employed as a paramedic. He purchased a plot with an 'RDP' house which was demolished to make way for a double story block of flats. Once completed, there will be six units of 16m^2. This project was funded in through the sale of one of the taxis he owned; personal loans from Standard Bank and Nedbank (with high interest rates of 22-26%); and through a housing subsidy that was obtained via his niece. Due to financial challenges, he developed the site incrementally and began to rent out rooms as they were habitable. The project is now complete and all the units are tenanted. Masande intends to expand his development business and has purchased a house in Parow to re-develop.

Mzi (IP)- was an air steward until the end of 2016 when he decided to start developing property. His project is the most ambitious of all the cases. It is a double storey block comprising 10 single room flats of various sizes and prices. All the rooms have an en-suite bathroom, DSTV connection and shared security. The smallest flat is 18m^2, and the biggest is 24m^2. Mzi is the best resourced developer of the respondents and funded the project entirely with his own capital. He is currently working on two, even more ambitious projects in Ilitha Park and Delft. All of his units are tenanted.

These "*developer entrepreneurs*" are men in their thirties who are enterprising investors who take on personal financial risk to complete their developments. They have purposefully sought to buy properties with the intent of developing flats to rent, and they have used their own equity, taken credit, and expensive personal loans to build the flats.

Homeowner-developers

Kholisa (DS)- is a police constable and a single mother. She bought a plot in 2008 which she used to build her family home. At the end of 2016 she started work on building four flats, each of around 10m^2, over two storeys on her property. The project is funded by savings and a personal loan from Nedbank. A major issue faced by this development is an incompetent and unreliable building contractor. The result is that the project has experienced significant delays, the flats are built inefficiently on the site (and may be structurally unsound), and the project is incomplete. There are currently no tenants occupying the units.

Bulelani (DS)- is currently employed building flats for others micro-developers in the Delft South area. To date he has completed 5 micro-developments. Bulelani lives in a 'RDP' house and has developed 3 flats over two storeys on his property. There is a communal bathroom and kitchen and the rooms are roughly 17m^2. The development process was incremental and funded primarily through a series of personal bank loans over a 5 year period. His employment in the construction industry is erratic, and his family circumstances and ability to raise finances are more constrained than the other developers. He is a builder rather than an assertive risk taker.

Phumlani (IP)- works as an account manager at Shell. He bought a 100% mortgaged house in 2013. In 2015 he started building rooms to rent behind his house. There are four units over two storeys. The upstairs units share a bathroom whilst the ground floor units have their own, and are roughly 16m^2. The development was funded by an additional mortgage loan taken out on the existing house. All of the units were tenanted four months after construction started.

Mrs Lugalo (IP)- works for the City of Cape Town. She built four units on a plot she purchased in 2009. The flats are $15m^2$ and were built over two storeys, with a shared bathroom on each level. Both her, and her husband earn a consistent salary and were able to secure a mortgage to build a family home on the plot. In 2013, she took out an additional mortgage loan to fund the rental units behind her property. All the units have been tenanted since completion in 2013.

Nzinzi (IP)- is the third female developer of the case study. She works for the Western Cape Government in the Department of Public Works. She bought an empty plot in 2007 where she lived in a shack until she could start building in 2010. Her house was funded by a personal loan and her own personal savings. Work commenced on four rental units on her property in July 2013. The units are $15m^2$ and each have their own bathroom. The development of the flats was financed through savings and an unsecured personal loan at an interest rate of 25%. All of the units are tenanted.

Loyisa (IP)- works as a supervisor at a printing company. He bought a small, two-bedroom house in 2014. This was paid for with a 100% mortgage loan and an additional personal loan from Standard bank to do repairs. He used some of this money to develop four flats at the back of the property. He developed four $18m^2$ units over two storeys, all with an en-suite shower and toilet. The work started in July 2015 and took 5 months to complete. To finance the project he also used personal loans from Nedbank and Absa, credit cards, and savings from work to pay for the rest of the work. Two of the units are occupied by family who do not pay rent, the other two are let out.

These '*homeowner-developers'* are looking to supplement an existing income or provide income stability as opposed to grow a property development portfolio. Five of the six '*owner-developers'* have full time employment; two are in the private sector (**Phumlani** [**IP**], **Loyisa** [**IP**]), and the other three work for government (**Kholisa** [**DS**], **Mrs Lugalo** [**IP**], **Nzinzi** [**IP**]). **Bulelani** [**DS**] works for himself on a contract basis. The four developers in Ilitha Park (**Phumlani, Loyisa, Mrs Lugalo, Nzinzi**) have mortgages and have built their flats with second mortgages on their properties.

Reflection on Developer Typology

Factors that appear to distinguish between the developers and developments in this case study are gender, disposition to risk taking, and personal and employment circumstances.

The “*developer entrepreneurs*” tend to be younger males who take on more ambitious, higher risk projects, and are involved in higher yielding ventures than the other developers. Similarly they tend to buy land to develop.

Conversely, the *‘owner-developers’* tend to be slightly older, have full-time employment and want to supplement their income. All of the women respondents were *‘owner*-developers’. The *‘owner-developers’* tend to develop on land that they already own.

The essential interest and rationale driving both types of developers is income generation; both intend to hold onto the assets for rental income and not to on-sell the property. However, particular motives and circumstances of the developers, as agents in the development process, are different as is their relationship to the ‘structure’ and the activities they embark on to realise their interests. Whilst the risk itself is presented to the developers in different ways, the risk is largely the same for both types of developers. However, access to finance and finance costs differ, and as a result the relationships with the builders are different.

These differences are elaborated upon below where the development process is outlined in more detail.

2. The Development Process

2.1 Inception and Motivation

Interviews with developers, including entrepreneur developers, indicated that the initial interest was to supplement their existing incomes rather than to simply replace them. *‘enterprise-developers’* have expressed an added intent to follow the first with a second development. Indeed, two of the developers (**Luvo [DS]**, **Masande [DS]**) have already purchased properties outside of the township in lower middle-income suburbs of Cape Town to live in, and have started building flats to let on the properties. A third (**Mzi [IP]**), has nearly completed one development in Ilitha Park and has already started a second development in Delft.

2.2 Property Acquisition and Property Value

For the most part, the ‘*enterprise-developers*’ acquired their properties via cash. **Mzi** [**IP**] bought his plot for cash in 2016 at a “good price” of R150 000. He explained that presently you cannot get a plot (200m^2

or 250m^2) now for less than R350 000 in Khayelitsha. **Luvo** [**DS**] purchased his for R60 000 in 2010. Two of the developers didn't have freehold; they were **Zama [DS]** and **Masande [DS]**. **Zama**'s development is being built on his mother's land; the investment has involved a collective family effort in pooling land and finance to undertake the development. He reported that the property is owned jointly by the family for its mutual benefit.

In the second case, **Masande [DS]** utilised a government housing subsidy to secure the plot for development. He bought a house with rooms at the back in early 2014. He paid a deposit of R20 000 with the right to occupy the house while formal transfer was in progress. By agreement he could only take transfer when the second, and final payment was made to the owner who lived in a two-roomed flat at the back of the property. He arranged for his niece to apply for a government housing subsidy. An amount of R75 000 was provided by the Department of Human Settlements. This was used to make the final payment and the property was transferred. A personal arrangement was made by **Masande** and his niece, which was not elaborated on. This was the only property in this study sample that was acquired using a state subsidy. Furthermore, the subsidy was a means by which to 'work' the subsidy system to acquire property. This is a prime example of the interplay between structure and agency. The developers work the system, in this case access to resources, in relation to rule regarding government subsidy.

The interest, strategy and action of the '*enterprise-developers'* are direct, in that they approach the land owners of sites, acquire them, then develop it themselves whilst living off-site.

The 'homeowner-developers' acquired properties to live on with the intention of renting units developed on a portion of their property. The **Delft South** 'homeowner-developers', **Bulenani** and **Kholisa** purchased their properties in 2005 for R20 000, and in 2008 for R25 000 respectively. Out of the **Ilitha Park** 'homeowner-developers', the first property was purchased by **Nzinzi**, who bought a plot for R40 000 in 2007. **Mrs Lugalo** purchased her plot with a 'RDP' house on it for an undisclosed amount in 2009. **Loyisa** purchased his property for R260 000 in late 2013. Then **Phumlani** bought his property at an auction for R250 000.

The location had an important role to play in the acquisition of the properties. There is no estate agent or broker capacity evident in Delft South. The dwellings are 'RDP' houses and not assets of the same value as Ilitha Park houses which are mostly supplied by the market. Here, property values for the same size plot are double that of Delft South. Property, including a three-bedroom house in Ilitha Park is reported to cost anything from R500 000 to R750 000. The main road running adjacent to Ilitha Park has three estate agents, a conveyancing firm, and a house design services provider. This suggests that there is an active property market in the area. This is less apparent in Delft South.

Based on this very limited sample of transfers in Delft South, the property values increased from R20 000 to nearly R95 000 in 10 years for 150m^2 properties with low-cost corrugated fibre-concrete houses. This offers a compound annual growth rate of more than 16.5% per annum over the period, comparable to a 10-year high price growth rate of 15.7% for Cape Town recorded in the first quarter of 2016 (PropertyWheel GLP, 2017). Whilst, the market may not be as mature in this area, it is evident that there is considerable opportunities for the property market in Delft South to develop.

2.3 Financing

A common theme amongst the developers was that the flow of cash used to finance the projects was erratic. As a result, the building processes were often incremental and closely linked to the availability of funds, especially towards the end of the project. Projects were commonly started without securing funds to ensure completion and delays were routinely encountered as a result of insufficient cash flow.

The dominant financing strategy of the '*entrepreneur-developer'* was to assemble funds from various sources; mostly through a combination of personal savings, investment of income from earnings and business income of the developers, and personal loans from banks and family and friends. Financing projects in this manner comes with a significant amount of risk, but the perceived pay-off of the development appeared to be worth the financial risk.

Typically, the financing strategy adopted by the '*owner-developer'* was to secure a second mortgage on their properties from their mortgage lender. **Phumlani [IP**] and **Loyisa** [**IP**] funded their developments on the back of a 100% mortgage bond. Once the mortgages are approved by the bank, construction could be completed without too much attention to cash flow. Despite this common trend, **Bulelani** [**DS**] and **Nzinzi** [**IP**] did not fund their developments through mortgages. They have taken personal loans from banks, saved their wages and built incrementally. The costs associated with this are much higher as interest rates for credit card, overdraft credit, and personal loans are much higher when compared to mortgaged finance. **Bulelani**, who could be sub-categorised within the '*owner-developer'* class as a *'builder-developer'* is a bricklayer who built 5 units himself incrementally on his property. This was also financed this through personal loans and savings.

2.4 Building Process and Cost of Building

All of the developers in this study, except one, went through the necessary planning applications. **Luvo** [**DS**], who didn't get planning permission, had the correct plans for approval but was unwilling to wait for approval before starting his project and decided to abort the planning approval process altogether. The planning process involves getting draftsperson to draw up the plans, then submitting them to the municipal planning department and awaiting approval. Mortgages are approved based on the accepted plans from the City. Construction itself can take anywhere between 3 and 6 months to complete. It can take longer due to delays in securing the necessary cash-flow or difficulties with building contractors.

The '*enterprise-developers*', with the exception of Masande [**DS**] developed the properties on vacant plots. **Zama** [**DS**] developed a vacant plot owned by his mother, and **Luvo** [**DS**] bought an empty plot in 2010 which he started in to develop in 2014. Mzi [**IP**] also followed this trend. Masande [DS] purchased a plot with an RDP house which he later demolished and redeveloped.

In the instance of the '*enterprise-developers'*, their financing strategy meant that the construction process had to be managed personally and closely by the developer as money was not always available. Thus, they employed labour only contractors and purchased the materials themselves. This model of using labour-only contractors was a common preference expressed by '*enterprise-developers*'. It allowed for time, risk, finances, and builder productivity to be managed more efficiently. As a result, these developers experienced less issues with contractors and other delays.

Of the '*homeowner-developers*', the dominant approach to the development was characterised by a brick and mortar structure in the middle of a site, using the small area behind the house to construct a double storey block of 4 units, between 12-15m^2. This was illustrated by **Phumlani** [**IP**], **Mrs Lugalo** [**IP**], **Nzinzi** [**IP**], **Loyisa** [**IP**]**.** The other approach exhibited by this developer type was characterised by demolishing existing 'RDP' structures and building new, double storey flats. Interestingly, these techniques were adopted only by the two ‘homeowner-developers’ in Delft South. The general characteristic of these developers is that they

The ‘*owner-developers’* typically had a different model of managing their projects. All of these developers, except **Bulelani** [**DS**], have full-time employment which means they are mostly eligible for bank approved mortgages. However, the nature of their employment meant that it was not possible to provide the same level of supervision as ‘*enterprise-developers’*. As such, more responsibility had to be granted to the contractors. The agreements made between developer and contractor were all verbal, and in many cases contractors would not fulfil their obligations. **Kholisa** [**IP**]’s builder is reported to have run off to the Eastern Cape after receiving a deposit and returned months later after some effort by the developer. Other developers reported that their builders were unreliable, which is generally attributed to having different tempos of productivity, and labour and cash-flow problems.

2.5 Rental and Tenancy

All respondents reported that there is considerable demand for the type of rental stock they offer in both areas. **Mzi [IP**] stated that there is “*...no advertising needed. As soon as you start building flats people come* [to register their interest]*”*. He also commented that tenants introduce their friends when they leave to take another job elsewhere so there are never any periods of vacancy. Rent is paid on time and no defaults were reported. The tenant mix for the flats are mostly employed young adults such as: nurses and teachers, and government employees. In Delft South, the rentals are reported to be set at R1500 per month. It is between R1800 and R2000 in Ilitha Park. The reason for the higher rentals in Ilitha Park was explained as being due to it having a lower incidence of crime and a newer, better maintained suburban public environment. Further, its proximity to Khayelitsha CBD and transport routes were also cited as reasons for higher rentals.

Water and electricity are an added expense for tenants which is subject to use. Rentals do not vary a great deal with the size of rooms or quality of building and the ‘rules’ of tenanting are set for a period until the developer (landlord) chooses to make improvements or add amenities as referred to above. Rent is not increased unless additional amenities or improvements are added to the units. Additionally, rent is discounted when tenants occupy the flats before construction has finished.

Both types of developers face financial risks related to time, which involves securing of tenants and rents as early as possible to repay mortgage bonds or expensive debts. As such, developers built the units and let them out as soon as they could, sometimes with work still in progress. This appears to be a general tendency. It is incremental building, financing and tenanting as far as this is possible. The demand is reported to be so high that people will move into the flats as soon as they can to secure them, regardless of whether they are complete or not.

2.6 Financial Performance

The majority of the costs associated with developing one rentable unit is between R40 000 to R50 000. Naturally, this amount increased for units that were larger than the standard 15m^2 unit. A couple of other developments had costs in the region of R80 000-R100 000/unit, and the 24m^2 two room units developed by, the '*enterprise-developer*', **Mzi** [**IP**] cost around R120 000/unit. The costs vary according to the size of flats; the level of finish; the inclusion of an en-suite toilet and shower; and cost efficiency of managing the construction. The capital cost per unit for the entire sample sites are estimated to be between R60 000 to R100 000 per unit, with annual rentals running from R18 000 to R24 000 per unit per annum. Thus, yields range from 20% to 30%. **Loyisa** [**IP**], the *'owner-developer'* who exposed himself to considerable risk by acquiring a range of debt in order to fund his project, had repaid all of his loans within 2 years of starting construction.

Interestingly, the developers were unable to provide any level of detail regarding the construction expenses and wages. As such, the amounts provided are approximations of costs and should not be regarded as accurate. However, it should be noted that despite this, the construction cost estimates correspond with the cost of 'RDP' houses at 2016 prices. Nevertheless, the figures are indicative of the financial viability and potential of the ventures, and all indications suggest that they are viable investments and there is certainly an appetite for these development projects.

Analysis and Discussion

The purpose of this section is to take the findings from the case and present them in terms of the structure-agency model introduced earlier in the paper. This highlights the interplay between structure and agency which underlies the urban development process. Such analysis can help identify how agency encounters constraints created by the structure, and thus, how these constraints can be understood in order to better facilitate the micro-development process. This analysis will follow the sequence of the development process as described in the previous section.

The inceptual opportunity for these developments has been created by an inability for the 'structure' to provide adequate affordable housing in low-income areas in South Africa. The agents have responded by attempting to fill this void to earn an income.

Acquisition of property sees a fairly unproblematic interplay between structure and agency. In fact, one developer/agent, in the case of **Masande** [**DS**], has worked the 'structure' to his advantage by gaming the subsidy programme through his niece.

Additionally, there were no issues regarding formally acquiring title deeds and transfers. The study reports a large increase in the number of formal and informal estate agents in the Delft area. There was already an existing presence of these services in Ilitha Park. These 'intermediaries' help implement the structure and facilitate agents' interaction with the structure. This is achieved through administrative and legal work of applications for subsidies, permissions and conveyancing.

Financing the development projects showed mixed results in terms of the structure-agency model. Whilst many of the *'owner-developers'* were able to secure mortgage loans through banks, most of the developers were unable to finance their projects this way, and none of the *'enterprise-developers'* financed the project with mortgages. This presents a primary constraint created by the 'structure' as access to formal finance was difficult to secure for most the micro-developers. Agents (in this case the '*enterprise-developers'*), in turn, responded by going through whatever formal avenues of acquiring finance that are available to them. In the process exposing themselves to financial insecurity and exorbitantly high interest rates. In other cases, agents bypass the structure altogether by borrowing from friends and family, interest free.

In terms of the building process, the interplay between structure and agency also appeared to be unproblematic. Despite the informal nature of these developments, nearly all projects went through the necessary planning approval to complete the work. Only in one instance, the '*enterprise-developer*', **Luvo** [**DS**] subverted the 'structure' to avoid time delays associated with planning applications. It is suggested that due to the higher risk associated with the 'enterprise-development' time delays have a larger impact on this type of developer. However, it is thought that the other developers decided not to bypass this 'structure' (despite the additional time and costs) to ensure legal protection from defaulting tenants, and the developers could use the house for collateral for finance. This could also explain why the developers chose this venture over renting out portions of land to backyard shack dwellers. It is worth highlighting that agents choose this particular development route when they could earn income through renting out backyard shacks. This model offers lower risks and higher yields as there are no capital costs associated with renting out a portion of their property for backyard shack dwellers. This suggests a key structure-agency dynamic where agents take on higher risks in order to gain an asset that has a recognised value to formal structures (banks etc.). Essentially, this offers the agent better mechanisms to build wealth as they will drastically increase their access to finance if they have an asset which they can use to secure finance. None of the developers expressed a desire to sell the properties for a profit. This could also explain why all of the developers (except **Luvo**) got the necessary planning approval (which is necessary to apply for a mortgage) to complete these projects. To this end, it is argued that the motivation behind these developments is to both provide a sustained income stream and build an asset base in order to further develop wealth.

Another issue related to the structure-agency model that was identified as a constraint in the building process was the unreliability of building contractors. Whilst this is also a significant issue in formal development projects, there is legal grounds for protection afforded to the developer when a contractor defaults on their obligations. However, the costs associated with employing a formal contractor are too high for micro-developers and they bypass this structure in favour of riskier, and cheaper procurement strategies. This ultimately means that the developer (or agent) must be a lot more hands-on and play a larger role in the development process.

In terms of tenanting, formal structures are subverted as they are not relevant to the micro-developer's needs. Hence, tenanting is free from formal rental agreements and deposit payments and thus, additional costs that help manage formal relationships between tenant and landlord are stripped away. Thus, there are no lawyers and estate agents involved in tenanting and eviction processes. Working outside of formal systems, landlords were also relatively flexible about when rent is paid.

Financial performance was an aspect of the developments that showed no signs of conflict. The demand created by the housing backlog means that developers do not even market their developments, and none of the developers with completed projects experience vacancies. This allows for developers to comfortably meet their debt obligations with the rental income.

It is interesting to consider the way that developer's circumstances in terms of structure and agency inform the way that they interact with the structure. For instance, those without formal work were unable to get mortgages, which meant that they had to find other avenues of finance, at greater risk. Despite this, these developers chose an even riskier development approach, which was that of the *'enterprise-developer'* instead of being more risk averse, like the *'owner-developers'*.

Recommendations

Based on this understanding it becomes possible to identify ways in which the structure can respond to the agents' needs and foster the growth of these developers as implementation agents. There are very clear opportunities that exist in the below R 600 000 market for developers, lenders and investors. An obvious way in which these opportunities can be realised would be through creating better access to finance for these developers. This could be in the form of a bank or a niche finance provider. Whilst the newly established South African Housing Development Bank does endeavour to facilitate better access to housing finance (CAHF, 2017), there is a great deal of pressure to provide solutions at scale.

Additionally, it is suggested that these developers would benefit from property development, construction management and business finance training and mentoring. In terms of local municipality, it could be argued that they could play a supportive role in the design, planning and approval of 'micro-developments'.

Both types of development contribute to densification and provision of scarce rental stock for young, working adults. In the case of the micro-developers, investment in their capabilities, technical and financial would, at least theoretically result in a multiplication of implementation agents. In the latter instance, in addition to increasing residential stock and rental opportunities, support would add to family income, spending and possibly savings.

The purpose of the above discussion is to illustrate that the structure-agency model enables targeted policy and programmatic interventions at the level of the structure, which create conditions for agents to act on their interest and strategies, whilst supporting the overarching objectives of the structure. Financial viability is evident in the calculations of 'Yield' or the return on investment of the projects. So, the market imagined in a neo-classical economic sense could be made to work better for suppliers and users of the space provided. In developmental language, housing and service delivery could be encouraged to supply the huge backlog in housing demand and settlement upgrading. It is also evident, as argued by Harvey (1978; 2011) that the primary driver in the production of the built environment is the flow of capital, which is a function of localised power relations and the availability of capital through the banking system.

Conclusion

The Centre for Affordable Housing Finance (2017) highlight an urgent need for innovative solutions to address South Africa's affordable housing crisis. Whilst, they are not the panacea to this massive challenge, micro-developers are beginning to bring affordable housing to the market for use of some of South Africa's most vulnerable citizens. Understanding and supporting this micro-development phenomenon could offer genuine solutions to issues relating to economic development and affordable housing, whilst also meeting town planning objectives. Through a structure-agency lens, the study set out to explore this phenomenon as a means of creating the initial blocks to build a deeper understanding of micro-development using 10 projects in low-income areas in Cape Town. The resultant knowledge is intended to guide institutions so that they can respond to agents in a manner that supports and expands this growing trend in South African 'townships'.

It is shown through the documentation of the development process, the categories of formality and informality referred to in the literature above function as an interplay between structure and agency. Use of informal means by those in the development process is suggestive of a dysfunction in the relationship between structure and agency resulting, at least in part, from a rigidity in the structure component. The agents respond to this structure in a way that enables them to fulfil their interests and objectives. These were detailed through the analysis of the development process of micro-developers in Delft South and Ilitha Park. By understanding where in the process developers bypass formal structures, instances of structural 'dysfunction' within this context can be identified.

To this end, this study identified two primary constraints impacting the way developers organise their activities to achieve their development intent, these are: access to finance, and contractor efficiency and reliability. In both instances, it is related to 'rules' regarding resources – that being: money, and efficient and reliable builders as an implementing resource. Despite the difficulties that these developers face, 6 out of the 10 developers expressed an interest in continuing to develop flats as a business. To this end it is likely that these industrious agents will likely perfect ways in which to interact with the structure too.

Additional research is necessary to better understand the structure agency relationship and refine the understanding of the problems that have been outlined above. Also, further research is required to understand capital flows into low-income housing and the broader structural implication of this in the economies, local and national.

What is clear from this research is that micro-developers offer valuable and viable options to supply the housing market with affordable rental stock, whilst also catalysing local economic development in areas traditionally deprived of investment. Therefore it is key that these agents are recognised and supported as vital instruments of urban change in low-income areas in South Africa.

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