STELLENBOSCH MUNICIPALITY: INCLUSIONARY ZONING POLICY

NEW

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1. DEFINITIONS AND TERMS OF CLARIFICATION

"Additional land use rights (obtained through development permissions)" refers to any development permission that increases or enhances allowable bulk or development yield over and above the existing rights, including the removal of restrictive title deed conditions (WCG 2022).

"Affordable housing" are determined by National Government as an income threshold for the affordable or gap housing market of households earning up to R22 000 per month. The Financial Services Charter (FSC) defines the affordable housing target market to be the approximate cost of bonded entry-level housing in the country, capable of being mortgaged, adjusted annually by the midpoint of the average Consumer Price Index (CPI) and the average Building Cost Index (BCI). The Banking Association of South Africa annually updates this measure and makes this available on its website. However, affordability can fluctuate depending on the context and for the purposes of municipal inclusionary housing policies, affordability can be determined by using the aforementioned sources, as well as considering the outcomes of housing market studies for particular settlements. Also refer to gap market/housing below (WCG 2022).

"Affordability preservation" - the purpose of inclusionary housing is to increase the stock of well-located affordable housing over the long term. If such housing is not restricted from being sold or rented in the open market following the first generation of allocation, the purpose is defeated, while public value profits a few. Preserving the affordability of inclusionary units over the long term is therefore a key policy concern (WCG 2022).

"Density bonus" refers to a zoning tool that allows developers to increase height and/or bulk in a project by allowing building heights or a floor factor/floor space greater than the zoned maximum as well as relaxations of related requirements, such as parking, in exchange for a public good namely affordable housing (also referred to as inclusionary housing). This tool is used primarily for projects that include the development of housing units. The added density is intended to compensate the developer with additional revenue from the construction of additional dwellings. This recognises the added costs of development or differences in profit margins between market rate units and the inclusion of below-market rate units or unprofitable amenities. The result is development that provides additional density and public benefits without direct public funding. The density bonus is a one-time, in-kind obligation in which the private sector developers' cost of capital investment in affordable housing can be offset by granting additional, monetizable development rights, greater than the zoned maximum for a specific development site. (WCG 2022).

"Development charges" also known as an impact fee, is a charge that a local government imposes on the developer of a new development project to pay for all or a portion of the costs to the public sector of providing public services to the new development. Development charges have been used by local governments to help offset fiscal burdens created by new developments related to municipal infrastructure and provision of public services such as sewer and wastewater management treatment systems, road networks, parks and so on. Development charges are calculated by assessing the costs that the development would impose on the current municipal infrastructure network and what additional capacity or infrastructure would be required to ensure that the new development is adequately serviced. The fee is often able to be paid either in kind or in cash (NT 2017).

"***Finance-linked Individual Subsidy Programme (FLISP)"*** is a housing subsidy for first-time home buyers to assist with purchasing a property. The subsidy can be used on its own or in combination with mortgage and non-mortgage finance facilities, making it more affordable to purchase a property (plot and/or house). Households with an income between R3 501 to R22 000 may qualify for the FLISP subsidy if they meet all the criteria. The subsidy amount depends on the income of the applicant and ranges between R27 960 – R121 626 (WCG 2022).

"Gap market/housing" refers to households falling into the portion of the market that earn too much to qualify for full grant housing assistance, but too little to be able to afford a bond of sufficient size to purchase an entry level market house. The gap housing market is understood to fall within the broader affordable housing market. Also refer to affordable housing above (WCG 2022).

"Housing/property ladder" refers to where there are "progressive stages of securing adequate and improved housing. This encompasses moving from informal to formal housing, and within the formal realm, from renting to owning and from owning a small house/flat to owning a larger and/or more valuable property" (WCG 2022).

"Land-based financing" **(LBF)** goal as defined by National Treasury (Cities Support Programme 2017) is a mechanism to be primarily used to maximize and unlock the value of government assets, advance a city's spatial restructuring goals, and promote transit orientated development. This mechanism refers to policy and regulatory mechanisms that allow the public sector to participate in the appreciation of real estate values resulting from public, and at times, private improvements. These improvements may make land parcels more accessible in the case of transit investments, or may prepare land (proactive zoning through the use of an overlay zone such as the ATC overlay zone) for private sector development through the provision of network infrastructure (such as water connectivity and sewerage access) and additional public amenities (such as public open space, hospitals, and schools). Mechanisms associated with LBF include special assessment districts, tax increment financing, development charges, leveraging the value of municipal real estate, sale of development rights, density bonus, inclusionary housing, land readjustment schemes and so on (NT 2017; OECD 2022).

"Land value capture" refers to a policy approach that enables communities to recover and reinvest land value increases that result from public investment and government actions (i.e. planning permissions). It is rooted in the notion that public action should generate public benefit. When used in conjunction with good governance and urban planning principles, land value capture can be an integral tool to help governments advance positive fiscal, social, and environmental outcomes. Well-known instruments include land banking, land readjustment, land leasing, inclusionary housing, transfer of development rights, charges on building rights, special assessments, impact fees, land value taxes, and exactions (OECD 2022).

"***Leveraging the value of municipal real estate"*** refers to the municipal land as an asset which can be leveraged for improved strategic use. Transacting in municipal land can take the form of sales, auctions, leases, or any other conveyance that sees the rights and entitlements to municipal owned property transferred at below market cost value in exchange for a policy benefit required by the municipality. Depending on the municipality's goals, legal, and regulatory framework, and institutional capacity, it could decide to convey a parcel of land for a fee, receive an in-kind payment of infrastructure in lieu of cash, or participate as an equity partner in the development (NT 2017).

"*Municipality*" means Stellenbosch Local Municipality;

"Open-market housing" refers to housing sold or rented on the open market (willing buyer and seller) with no state assistance, with or without a mortgage (WCG 2022).

"***Overlay zone"*** means a category of zoning applicable to a defined area or land unit, which stipulates additional development parameters that may be more or less restrictive than the base zone as defined in the Stellenbosch Municipality Zoning Scheme Bylaw (2019).

"Planning permissions" refers to authorisations given in response to applications made to a competent authority to develop land (WCG; 2022).

"***Priority development areas"*** as defined in the Stellenbosch Municipal Spatial Development Framework (2019) and subsequent Capital Expenditure Framework (2020) refers to the urban functional areas of Stellenbosch, Klapmuts, and Franschhoek. These areas are priority development areas where the municipality intends to focus investment in order to achieve the goals of the MSDF as well as other strategic documents, namely the Adam Tas Local Spatial Development Framework and Development Guidelines (2022).

"Set-aside requirement" refers to the number of inclusionary housing units that must be provided in a development according to the size of the development or in relation to the additional rights given (WCG 2022).

"***Settlement restructuring*"** refers to the need to transform i) the apartheid form of our urban settlements where the poorest live the furthest away from opportunities – spending the most time and money accessing these opportunities or being caught in spatial poverty traps – and residential areas are defined and separated by class and race ii) the unsustainable modernist form of our settlements where settlements are designed with the automobile as the main form of movement and land uses is monofunctional. Typically, settlement restructuring is planned for and implemented through investment in socially integrated, mixed-use infill development on well-located land, along with densification, intensification of land uses, public transport and non-motorised transport and taking high quality facilities and amenities to marginalised township areas (WCG 2022).

"Social housing" refers to rental housing targeted at households earning R1 850 – R22 000 per month. Social Housing is governed by the Social Housing Act, 2008 (Act 16 of 2008) and the policy prescripts of the National Housing Code (WCG 2022).

"Spatial apartheid" refers to "the legacy of apartheid – communities segregated from one another based on race (and class) with so-called black and coloured people relocated to less well-resourced urban areas or prevented from accessing or owning property in these areas – as well as the impacts of the legacy of the modernist approach to city building based on the automobile and functional separation of land uses. This has left South Africa with cities that are inefficient, inequitably developed and environmentally, socially, and fiscally expensive to live in and to manage. It has also meant that discrimination has been structured into settlement patterns" (WCG 2022).

"Spatial transformation" as a national focus on transforming of cities as envisaged by the NDP 2030. Namely ensuring that a larger proportion of the population of the population should live closer to places of work and that travel distances and costs should be reduced, especially for poor households. Urban systems are key levers to overcome the debilitating impact of distance and separation on the fortunes of the individual, household, business, and the state, as well as the environment and the resilience of the system as a whole. These include both hard (physical structures and networks) and soft (such as governance systems including urban management and land use management) systems that facilitate and enable compact cities and transformed urban spaces of social and economic inclusion on an equitable basis. The equitable distribution of resources within cities, as well as building systems that facilitate affordable and safe access to the full ambit of resources that makes urban living productive, are critical to spatial transformation. The South African Local Government Association (SALGA) defines spatial transformation as the overhaul of an inherited segregated spatial dispensation and preventing it from re-establishing itself in new forms of post-apartheid class and income-based spatial segregation and spatial inequality. In considering how to measure whether we are spatially transforming our settlement, SALGA identifies four themes: proximity and access; housing and basic services; integration and inequality; safety and amenity; and agency and governance (WCG 2022).

"Spatially targeted areas" refers to "a built environment investment prioritisation approach where specific areas are designated for investment or specific land uses, within an urban system, to achieve transformative development outcomes. Spatial targeting is an approach recommended by the National Development Plan 2030" (WCG 2022) and the Integrated Urban Development Framework (2016).

2. PURPOSE

2.1 The intention of this document is to support Stellenbosch Municipality and other key role players in delivering more high-quality affordable housing (also referred to as inclusionary housing) within mixed sustainable communities by using all the municipal planning tools (regulations, mechanisms, & incentives) available to them. It outlines the affordable housing challenge that needs to be met, and provides information on how the existing municipal planning tools operate and recommendations on how they need to change to assist in delivery.

3. OBJECTIVES OF THE POLICY

3.1 To increase the supply of high-quality affordable housing (also referred to as inclusionary housing) in well-located and priority development areas, creating a mix of income groups across new and infill developments in Stellenbosch Municipality promoting social and economic integration (also referred to as settlement restructuring).

3.2 Using the municipal spatial planning, land use planning system, and land-based financing tools and their mechanisms to leverage and incentivize land value gains in spatially targeted areas for the creation of public goods (i.e. affordable housing), enabling well-performing settlements (i.e. integrated, inclusive, resilient, efficient) in order to address current and historical spatial imbalances/inequalities (also referred to as spatial apartheid).

3.3 Achieve a more inclusive, efficient, and effective municipality by providing a wide choice of quality affordable housing to meet the needs of the community, widening the opportunities for homeownership, and creating flexibility and choice of tenures and price ranges for those who rent and seek the security of tenures (also referred to as housing/property ladder) as envisioned by its adopted and approved spatial policies.

3.4 Facilitate and grow strong partnerships with the private sector in terms of delivering more quality affordable housing.

4. LEGISLATIVE FRAMEWORK

4.1 This document should be read in conjunction with the following documentation namely; Western Cape Government Inclusionary Housing Policy Framework (November 2022), Stellenbosch Municipality Land Use Planning By-law (2015), Stellenbosch Municipality Zoning Scheme By-law (2019), Stellenbosch Municipal Spatial Development Framework (2019), Adam Tas Local Area Spatial Development Framework and Development Guidelines (2022);

Adam Tas Local Area Overlay Zone (in progress), Stellenbosch Municipality Development Contributions Policy (2022); Stellenbosch Municipality Rates Policy (2022); Municipal Fiscal Powers and Functions Act (2002), and the draft Municipal Fiscal Powers and Functions Amendment Bill (2020).

4.2 The details of the municipal planning tools reflect the position in December 2022, and will be subject to change. Accordingly, the document will be robust to changes in future policies and some parts are likely to evolve which will necessitate periodical updates.

5. PRINCIPLES OF INCLUSIONARY ZONING

5.1 Inclusionary zoning must be understood as a planning system tool (also referred to as a land use regulatory mechanism) used to create affordable housing and foster social and economic inclusion through the regulation of private development. Therefore its use and powers are guided by the broader understanding of the power to regulate land use for the public good (i.e. affordable housing).

5.2 The goal of inclusionary zoning is achieving racially and/or socio-economically integrated communities by confronting and addressing the exclusionary impact of development, which in many contexts has often been facilitated by planning and land use regulation (also referred to as spatial transformation).

5.3 Inclusionary zoning is one of the land and planning tools where spatially targeted financing (also referred to as land-based financing) leverages the benefits of agglomeration, increasing land demand, infrastructure investments, and planning decisions that drive up the value of urban land. Land-based financing is based on the recognition that property owners and developers benefit from this rising value and the possibility for local government to capture some of the rising value for the public good (also referred to as land value capture).

5.4 This policy option provides the scope for securing affordable housing through the regulatory system of development planning permissions to oblige property owners and developers to provide affordable housing, for sale or rent, within the new residential and mixed-use developments (also referred to as set-aside requirement) in well-located and priority development areas as defined by the municipal spatial development framework and/or other strategic spatial policies (namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022) and the associated urban management mechanisms (namely the Adam Tas Local Area Overlay Zone (in progress)).

5.5 The policy option provides scope for securing affordable housing through the land-based financing and planning systems to oblige property owners and developers to pay developer contributions (also referred to as impact fees and development charges), and/or additional land use rights (benefits obtained through development permissions), as well as offsetting the cost by one or more incentives, such as a density bonus (which includes parking reductions or other planning parameters variances), providing and leveraging public land leasing and land sales, discounting or deferring the payment of developer contributions, expedited planning processes through an overlay zone mechanism (i.e. Adam Tas Local Area Overlay Zone, in progress) and/or any other land-based financing and planning system mechanisms deemed appropriate by the Municipality.

5.6 It is not the intention, in this mechanism, that a housing subsidy is made available to assist the property owners and developers to meet this affordable housing contribution, but that the cost of the contribution is absorbed in the land price paid for the land and in the award of additional land use rights to offset the costs of such a contribution.

5.7 When the inclusion of affordable units on-site within market-rate projects has been demonstrated based on the financial viability criteria as unfeasible, the property owners and developers can enter into an inclusionary zoning agreement that sets out alternatives, such as payments of an affordable housing fee (also referred to in-lieu requirement/impact fee/development contribution) or provision of affordable units off-site in another project within the priority development areas.

6. INCLUSIONARY ZONING: REGULATIONS, MECHANISMS, AND OFF-SET INCENTIVES IN SPATIALLY TARGETED AREAS

The following applies within the Municipality:

DEFINITIONS

Inclusionary zoning

6.1 Inclusionary zoning, is a planning system tool used to secure affordable housing (alternatively referred to as inclusionary housing) within private residential and mixed-use developments, through the regulatory system of development planning permissions to oblige an applicant to provide affordable housing, for sale or rent, within the new residential and mixed-use development in well-located located and priority development areas as defined by the municipal spatial development framework and/or other strategic spatial policies (namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022) and the associated urban management mechanisms (namely the Adam Tas Local Area Overlay Zone (in progress)).

6.2 The applicant should pay developer contributions, and/or adhere to the additional land use rights obtained through development permissions, and the municipality will reasonably offset the cost by means of using one or more incentives, such as a density bonus (which includes parking reductions or other planning parameters variances), providing and leveraging public land leasing and land sales, discounting or deferring the payment of developer contributions, expedited planning processes through an overlay zone mechanism (i.e. Adam Tas Local Area Overlay Zone, in progress) and/or any other land-based financing and planning system mechanisms deemed appropriate by the Municipality.

6.3 When the inclusion of affordable units on-site within market-rate projects has been demonstrated based on the financial viability criteria as unfeasible, the property owners and developers can enter into an inclusionary zoning agreement that sets out alternatives, such as payments of an in-lieu fee or provision of affordable units off-site in another project within the priority development areas.

Affordability

6.4 Households should not spend more than a third of their income on housing (also referred to as the premium to income ratio). The standard differentiates between renters with a premium-to-income ratio of 30% and owners with a premium-to-income ratio ranging between 30 – 35%.

6.5 Property owners and developers can use the international spatially targeted approach for calculating affordability usually referring to affordability as being aligned with a proportion of an area's median income and below. Households below the median household income or households with a monthly income below 50%-80% of the area's median household income are targeted. A detailed household income analysis is required as part of the pre-application process requirements and should be submitted to the municipality.

Affordable housing

6.6 In the local context, affordable housing has traditionally been used to describe the "GAP market/Housing". The "GAP market/Housing" refers to persons/households who earn in excess of R3 500 monthly household income and can therefore not qualify for a full government housing subsidy, but earn too little to qualify for a mortgage loan to purchase a property. The government ceiling for the “GAP market/Housing” is R22 000 monthly household income.

6.7 The Financial Sector Charter (FSC) defines the affordable housing target market to be the approximate cost of bonded entry-level housing in the country, capable of being mortgaged, adjusted annually by the midpoint of the average Consumer Price Index (CPI) and the average (Building Cost Index). The Banking Association of South Africa annually updates this measure and makes this available on its website for example the 2022 rate is determined as R27 200 monthly household income a month.

6.8 The housing market study (refer to Annexure A) outcomes reflect the undersupply of houses valued in the affordable (R300 000 – R600 000) and conventional (R600 000 – R900 000) market segments. The high-end market segment (R900 000 – R1.2 million) also appears to match the current demand and considering the urbanisation and migration trends expected and projected in this market segment, this segment is included.

6.9 Based on the aforementioned standard definitions of affordability and the evidence gathered through the housing market study, affordability in the Stellenbosch Municipality context refers to the following market segmentations – affordable (R300 00 – R600 000), conventional (R600 000 – R900 000), and high-end (R900 000 R1.2 million).

Affordability thresholds estimates/examples using the ratios discussed above

6.10 As examples of the application of affordability thresholds, the following estimates can be derived based on some assumptions[i] (refer to Annexure A):

Market segment (residential property value)	Minimum monthly household income needed to purchase in this market segment	Maximum monthly household income needed to purchase in this market segment
Affordable (R300 000 – R600 000)	R7 300	R14 750
Conventional (R600 000 – R900 000)	R14 750	R22 200
High end (R900 000 – R1.2 million)	R22 200	R29 600

Table 1:Extract from Stellenbosch housing market study (source: WCGb, 2022)

6.11 The abovementioned affordability thresholds as evidenced in the housing market study, accommodate the government-defined “Gap Market/Housing”, as well as the FSC affordable housing target market and the affordability threshold for Stellenbosch Municipality ranges between R3 500 and R27 200 (2022 rates, to be updated yearly). The housing market study and its affordability threshold as determined should be applied when updated every two years.

Well-located

6.12 Areas (such as suburbs, neighbourhoods, town centres, and activity corridors) with good public transport and non-motorised transport, access to existing urban service, public and private education, health and social facilities, amenities, retail facilities, and work opportunities.

6.13 Based on the municipal spatial development framework of the Municipality, these areas are defined as priority development areas (also referred to as growth nodes), namely Stellenbosch, Klapmuts, and Franschhoek. The settlements are further delineated by the adopted urban edges, and priority development areas focused on housing (i.e. social restructuring zones; PHSHDA’s), intensification zones (i.e. mixed-use community and residential infill; strategic sites, projects and/or infill opportunities) and development corridors (including activity routes).

6.14 Based on the strategic spatial policies namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022 and the associated enabling urban management mechanisms (namely the Adam Tas Local Area Overlay Zone (in progress), the delineated areas are priority spatial targeting areas.

6.15 The listed priority spatial targeting areas are primarily identified for mandatory implementation of affordable housing provision through the inclusionary zoning mechanism, with alternative options requiring approval incorporated.

REQUIREMENTS FOR INCLUSIONARY ZONING WHEN MANDATORY, SPATIALLY TARGETED, OR VOLUNTARY IMPLEMENTATION

Mandatory implementation with off-set requirements (primary option)

6.16 The mandatory application of inclusionary zoning means that the property owner and developer are automatically required to include a portion of affordable housing units (also referred to as inclusionary housing or the set-aside requirement) as part of their development within the well-located priority development areas as defined. The municipality therefore only grants approval for the development if the developer builds a proportion of the affordable units.

6.17 Inclusionary zoning requirements are triggered by land development applications, as such, the requirement does not affect existing, approved land use rights.

6.18 Inclusionary zoning is mandatory for all new development applications under the jurisdiction of Stellenbosch Municipality that request additional development rights from the municipality within their residential or mixed-use developments.

6.19 New residential or mixed-use developments which include 20 dwelling units or more, are required to contribute a minimum of 20% of the total units to be targeted at affordable housing.

6.20 The affordable units can be designed to provide non-market housing accommodation for rental or ownership.

6.21 The affordable units are intended for dwelling units and not student housing, community residential buildings, communes, hostels, or less formal residential. The dwelling units should be used for permanent residence and excludes any of the land uses associated with transient guests (e.. home lodging, bed and breakfast, hotel, tourist accommodation establishment, tourist dwelling unit, etc.)

6.22 All conditions for affordable housing will be in place for not less than 30 years, or until repealed by a Council resolution.

6.23 Any off-set incentive packages contemplated as part of the off-set requirement will be over and above the allowable development parameters as per the prevailing zoning defined in the zoning scheme by-law. As such, development parameters must be determined first, with off-set incentive packages added to that determination.

6.24 The affordable housing contribution should be delivered on-site, and if demonstrated and deemed unfeasible an inclusionary housing agreement can be entered into to determine in-kind off-site or affordable housing fee (in-lieu) contributions.

6.25 When inclusionary housing is applicable, it will be implemented as a condition of approval (section 66.(1)(d))(settlement restructuring) by the Stellenbosch Municipality. The

Municipality may take action against property owners and developers who do not comply with the conditions for inclusionary zoning outlined in land use/development approvals, as with any condition of approval.

6.26 The priority development areas as identified by the municipal spatial development framework are Stellenbosch, Klapmuts, and Franschhoek, and fall within the delineated and adopted urban edges. Refer to Annexure B containing the current maps.

Spatially targeted implementation within an applicable overlay zone (primary option)

6.27 Implementation of inclusionary housing in targeted areas within the municipality, where an overlay zone has been designated or higher-density developments are encouraged by means of spatial policies or strategies in areas for urban infill, transit-orientated development, etc. These targeted areas normally have a well-performing housing market and public investment has been targeted in the area.

6.28 The mandatory application of inclusionary zoning means that the property owner and developer are automatically required to include a portion of affordable housing units (also referred to as inclusionary housing or the set-aside requirement) on-site as part of their development within the well-located priority development areas as defined. The municipality therefore only grants approval for the development if the developer builds a proportion of the affordable units.

6.29 Inclusionary zoning requirements are triggered by land development applications, as such, the requirement does not affect existing, approved land use rights.

6.30 Inclusionary zoning is mandatory for all new development applications and when property owners and developers want to utilize the land use rights as applied by the Adam Tas Corridor Local Area Overlay Zone.

6.31 New residential or mixed-use developments which include 20 dwelling units or more, are required to contribute a minimum of 30% of the total units to be targeted at affordable housing on-site or as defined by an approved precinct site development plan.

6.32 The affordable units can be designed to provide non-market housing accommodation for rental or ownership.

6.33 The affordable units are intended for dwelling units and not student housing, community residential buildings, communes, hostels, or less formal residential. The dwelling units should be used for permanent residence and excludes any of the land uses associated with transient guests (i.e. home lodging, bed and breakfast, hotel, tourist accommodation establishment, tourist dwelling unit, etc.)

6.34 All conditions for affordable housing will be in place for not less than 30 years, or until repealed by a Council resolution.

6.35 The inclusionary zoning parameters as defined in the Adam Tas Local Area Overlay zone are applicable. The Municipality may take action against property owners and developers who do not comply with the parameters as outlined in land use/development approvals, as with any condition of approval.

6.36 Based on the strategic spatial policies namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022, and the associated enabling urban management mechanisms (namely the Adam Tas Overlay Zone (in progress), the delineated areas are priority spatial targeting areas. Refer to Annexure C containing the current maps.

Voluntary implementation (alternative option)

6.37 The voluntary application of inclusionary housing means that affordable housing units are only required when the property owners and developers choose to utilise off-set incentive packages provided by the municipality. Such incentive packages could include flexible development parameters or bonuses i.e. density bonuses. This approach is based on willing partners that strike a mutually beneficial arrangement that will result in the delivery of affordable housing.

6.38 A property owner and developer developing below the threshold of 20 units, but who meets the criteria for one of the inclusionary zoning options in this framework, may still benefit from the off-set incentive packages associated with the option chosen.

6.39 The affordable housing contribution can be delivered on-site, in-kind off-site, or an affordable housing fee (in-lieu payment).

6.40 This approach will be assessed on a case-by-case basis and in alignment with the criteria and requirements as stipulated in the inclusionary zoning policy.

AFFORDABLE HOUSING CONTRIBUTION (ALSO REFERRED TO AS SET-ASIDE REQUIREMENT)

6.41 Set-aside requirement is a proportion of the extra development rights granted by the municipality that must be set aside as a contribution towards affordable housing.

On-site requirement

6.42 The affordable units are built on-site as part of the market-related development i.e. in the same building or on the same land parcel.

6.43 The tenure type of the set-aside contribution must be similar to the market-related component of the development.

6.44 The on-site requirement is the primary option in the mandatory - and spatially targeted implementation approaches, with exemptions incorporated within these options.

In-kind contribution

6.45 In-kind contribution (also referred to as the in-kind off-site requirement) refers to when the affordable units are built off-site on well-located land in areas identified by the municipality in its spatial development framework. The units can be built on municipal-owned land, on land owned by private developers, or another state partner, or on a site under development by an SHI, or another registered affordable housing developer.

6.46 This method will be advisable for market-related developments that are not that well-located, thus capturing the value of the development by re-directing it to a well-located site.

6.47 The tenure of the units can be either rental or ownership.

6.48 The property owner and developer can choose this option in the voluntary implementation approach or when demonstrated and deemed acceptable by the municipality in the mandatory implementation approach.

Affordable housing fee

6.49 Affordable housing fee also referred to as the in-lieu requirement (also referred to as an impact fee/development contribution/development charges). It is the contribution of the affordable housing units in the form of a cash contribution which is ring-fenced into a municipal fund dedicated to the building of affordable housing for the benefit of households in the income range targeted by this policy, as well as in designated / priority development areas, as identified by the municipal spatial development framework, the applicable land use planning by-law or zoning scheme-by-law.

6.50 The contribution can either go towards the acquisition and/or assembly and/or packaging of well-located land to be developed for affordable housing; the construction of affordable housing on such land; ensuring the financial sustainability of social housing development, or towards planned in-kind off-site development of affordable housing by the municipality via existing national housing programmes.

6.51 Each application is considered on a case-by-case basis, with negotiations taking place based on a standard proforma submitted by the property owner and developer. This proforma should take into account the differing land values in each area, as this is a significant cost driver. This proforma should be able to calculate affordable housing contributions for on-site, in-kind off-site, and affordable housing fees (in-lieu).

6.52 The property owner and developer can choose this option in the voluntary implementation approach or when demonstrated and deemed acceptable by the municipality in the mandatory implementation approach.

AFFORDABILITY PRESERVATION OF NON-MARKET HOUSING

6.53 Preserving the long-term affordability of units produced by inclusionary zoning is key to ensuring that targeted beneficiaries are able to benefit from the policy over a specified period of time.

6.54 Affordable units created by inclusionary zoning developments be maintained not less than 30 years, or until repealed by a Council resolution.

Mechanisms for maintaining affordability are as follows:

Inclusionary units for ownership

6.55 Property owners and developers can sell a unit outright to a qualifying household where the beneficiary will independently secure finance from a financial institution and may qualify for and make use of the Finance-linked Individual Subsidy Programme (FLISP).

6.56 Property owners and developers can run an instalment sale or lease with an option to buy programme.

6.57 The sale price of affordable housing units for sale must be stipulated in the inclusionary housing agreement tied to the planning permission with a view to ensuring this is clearly tailored to the targeted market. The agreement should record provisions for the adjustment of this price year on year.

6.58 An increase in the value of the units should be fixed to the Consumer Price Index (CPI), to ensure that homeowners benefit from price appreciation while protecting against the unaffordable escalation of house prices.

6.59 Each affordable housing unit needs to be registered with the municipality, to ensure that the valuations process recognizes their status as affordable housing units and as such can be valued and taxed or rated accordingly.

6.60 The registered affordable ownership units require municipal approval on resale prices before the transaction takes place in order for the municipality to monitor and track escalation in the price restrictions and ensure that the inclusionary housing register and valuation process are updated accordingly.

6.61 To enable the effective management and monitoring of these affordable housing units and the inclusionary housing agreement, the property owners and developers are required to place a restrictive condition in the title deeds, or any other affordability preservation mechanism deemed appropriate and effective by the municipality.

6.62 Resale should only be for pre-approved buyers that meet the affordability criteria as set out by the municipal policy.

6.63 Capacity should be put in place for Home-Owner Associations (HOA) and/or Body Corporates to effectively market and manage the allocation process. The affordability preservation and any other requirements as agreed in the inclusionary housing agreement as part of the planning permissions, need to be stipulated in the constitutions of these bodies, including the annual reporting to the municipality as agreed upon.

Rental inclusionary units

6.64 Fixed-term leases will be the primary instrument for ensuring that inclusionary units continue to benefit the intended income group as identified in the planning permission associated with the inclusionary housing agreement.

6.65 Property owners and developers may choose to retain the units in their ownership and rent them to households that fall within the agreed targeted income range and meet the criteria, along with any additional criteria introduced by this policy and in the inclusionary housing obligation set out in the planning permission.

6.66 Capacity should be put in place to market and manage the allocation process and conduct regular income certification, as well as provide the normal services of a landlord, as with any tenant.

6.67 Rents charged must remain within the affordability threshold, which will be reviewed annually to accommodate inflation and its impact on maintenance costs, as well as changes in the affordability dynamics in the housing market and changes to income categories in amendments to the inclusionary zoning policy.

6.68 Lease agreements need to ensure that the tenants are subject to regular income certification to ensure that the affordable housing units remain as allocated and available to the intended income group. This must include allowance for some income growth over time. Successive tenants would pay the rental as adjusted for inflation at the time of occupation.

6.69 The lease agreements should stipulate that sub-letting isn't allowed, and excludes any land uses associated with student housing and transient guests (i.e. home lodging, bed and breakfast, hotel, tourist accommodation establishment, tourist dwelling unit, student housing, etc.).

6.70 Property owners and developers may choose to build affordable housing units and hand them over to a social housing institution (SHI) to manage them. In this case, the annual monitoring of affordability preservation as required by the municipality will be managed by the SHI and the property owners and developers will not have to comply with this specific requirement.

6.71 When affordable housing units are delivered through partnering with SHIs and where they provide a capital subsidy (administered by the SHRA) the requirement for subdividing and registering the affordable units needs to be accommodated within the application and the conditions of approval.

6.72 Each affordable rental unit needs to be registered with the municipality, and approval of new tenants should meet the affordability criteria by the policy. In the case of rental agency management, the affordability criteria of the social housing institution should be met.

6.73 In the case where property owners and developers retain ownership and become landlords or use a rental agency for the management of these units, the compliance of the annual reporting should be managed by these parties. The municipality should be informed of the managing rental agents in order for the inclusionary housing unit register as administered by the municipality to be updated accordingly. Annual reporting mechanisms will be agreed upon and stipulated in the inclusionary housing agreement as part of the planning permissions.

Other affordability considerations.

6.74 Municipal rates and taxes as approved within the Rating Policy, will be adapted to ensure that affordable housing units are not undermined by the municipality's own policies. The Municipality may consider adding an inclusionary housing category that may benefit/qualify for exemptions, rebates, discounted rates, as well as capped valuation of these units. The criteria and annual application process will still be applicable as defined in these municipal policies to ensure that the household can maintain affordability including avoiding unjustifiable subsidisation.

6.75 Failure to comply with the planning permission and associated agreement should result in a penalty, with rates due on units meant as affordable housing units, calculated for the whole period when units were supposed to be affordable and were not.

BENEFICIATION

6.76 The broad principle for dealing with an allocation is whoever takes development or marketing risk for affordable housing may control the allocation of units to the end-users. The responsibility of affordable housing units for ownership vests with the developer/financiers/body corporates/homeowners associations and in the case of rental the landlord, or SHI management.

6.77 The allocation process of affordable housing units in inclusionary zoning developments will be different for rental or ownership units. It will also differ depending on whether the property owner or developer will do the allocation, or if the municipality or SHI is involved in the allocation process.

6.78 The standard affordability measures as described above applies.

6.79 The target market for beneficiation should benefit employed households (excl. students) earning stable incomes that fall within the affordability threshold as defined above.

6.80 Developers can deviate from the income profiles if they use the median income formula as explained above.

6.81 Proportional allocation within the affordable market income range & units per segment within the range is encouraged.

6.82 The developer should consider the following targeted beneficiaries;

6.82.1 Key workers refers to an employee who provides a vital service, typically in the police, health, and education sectors (WCG 2022). Targeting these individuals or households presents an opportunity to empower them to climb the property ladder over time and save on costs associated with travel, access to community facilities, etc.

6.82.2 Vulnerable groups such as the youth, elderly, and people living with disabilities.

6.82.3 Gender, with specific reference to female-headed households.

6.83 The developer may partner with companies with employee housing assistance programmes when the beneficiaries comply with the criteria as stipulated in the inclusionary housing agreement.

6.84 The municipality may impose requirements on the reporting with regard to allocation within these criteria.

DESIGN

6.85 The affordable units should be integrated into the projects and blend in with the surrounding buildings and the development as a whole.

6.86 The architectural styles should be similar i.e. tenure blind from the outside, but the interior may differ to enable affordability.

6.87 The municipality may regulate the requirement and standards for these units within policies and by-laws i.e. number of bedrooms, size of units, location of affordable units on a site or within a building, or the exterior access to the units.

6.88 The affordable housing units need to comply with the National Housing Building Regulatory Council.

6.89 The minimum standards must be met regarding bathroom and kitchen areas and fittings and the quality of these facilities must avoid higher maintenance costs. It is proposed that the Social Housing norms and standards are used as a benchmark in this regard.

6.90 The property owner and developer needs to consider variety in the housing typologies, based on household composition found within the municipality, namely a mix of studio, one-bedroom, and two-bedroom units in order to respond to different family compositions. The reviewed optimum unit sizes as proposed for social rental stock can be used as a guideline:

Type of unit	Optimum size (sqm)	Minimum size	Occupancy
Room	12	10	1b1p
Bachelor / Studio	25	18	1b2p
1 Bedroom	35	25	1b2p / 2b3p
2 Bedroom	48	42	3b3p / 4b4p
3 Bedroom	60	52	3b4p / 5b6p

Table 2:Extract from Western Cape Government Inclusionary Housing Policy Framework, 2022 (source: WCGa:2022)

OFF-SET INCENTIVE PACKAGES

6.91 Fast-tracking of approval processes by a dedicated municipal project team in the Adam Tas Corridor Local Area Spatial Development Framework, 2022 and its overlay zone (in progress), or any area identified in the priority development areas of the municipal spatial development framework and capital expenditure framework; or other urban management mechanisms (e.g. integrated decision-making, changes in delegations, etc.) as deemed appropriate and applicable by the municipality.

6.92 Density bonus which allows private developers to provide units in addition to the prescribed land use density.

6.93 Parking requirements: reducing parking requirements for the affordable housing component, particularly in areas close to public transport routes, or as deemed appropriate by the municipality.

6.94 Removing or reducing associated planning requirements as deemed appropriate by the municipality and accordingly demonstrated in the financial viability estimates during the pre-application phase.

6.95 Development contribution discount: Ten percent development contribution discount on the affordable housing component of the development.

6.96 Development contribution deferment (also referred to as bulk services infrastructure payment “holiday” for the affordable housing component of the development.

6.97 The off-set incentive packages should not place a cost burden on the municipality to the extent that it amounts to a hidden subsidy and is not sustainable for the municipality.

INCLUSIONARY ZONING APPLICATION IN STELLENBOSCH MUNICIPALITY

6.98 The table below provides the various options:

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
Option A	Mandatory inclusionary zoning (units/ha)	20% of dwelling units fall within the affordability thresholds (either using the standard or spatially targeted approach) for rental or ownership within the new residential or mixed-use development of 20du or more. Provision of affordable housing must be provided on-site within the priority development areas, namely Stellenbosch, Klapmuts, & Franschhoek, or as alternatively demonstrated. Applicable to the conventional residential zone, multi-unit residential zone, local business zone, and mixed-use zone of the zoning scheme by-law.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set incentive package:** Density bonus – increase in density (du/ha) to accommodate the inclusionary housing units. AND/OR Parking reduction for inclusionary housing units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option B	Mandatory inclusionary zoning (Bulk/FAR)	Minimum of 10% or a maximum of 17% (depending on the applicable zoning) of the total residential floor area (complying with the minimum 20% requirement) is made up of dwelling units that fall within the affordability thresholds (either using the standard or spatially targeted approach) for rental or ownership within the new residential or mixed-use development of 20du or more.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set incentive package:** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
		Provision of affordable housing must be provided on-site within the priority development areas, namely Stellenbosch, Klapmuts, & Franschhoek, or as alternatively demonstrated. Applicable to the conventional residential zone, multi-unit residential zone, local business zone, and mixed-use zone of the zoning scheme by-law.	Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option C (ATC)	Mandatory spatial targeted inclusionary zoning (units/ha) – overlay zone	30% of dwelling units fall within the affordability thresholds (either using the standard approach or spatially targeted approach) for rental or ownership within the new residential or mixed-use development. Provision of affordable housing can only be provided on-site within the delineated area and in accordance with the precinct site development plans, within the Adam Tas Corridor. Applicable to the Adam Tas Corridor Local Area Overlay Zone.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions & Precinct Site Development Plan & Compliance with applicable LSDF and Development Guidelines **Off-set incentive package:** Overlay Zone – upzoned property and expedited planning process **AND** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount.

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
			AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option D (ATC)	Mandatory spatial targeted inclusionary zoning (Bulk/FAR) – overlay zone	Minimum of 25% of the total residential floor area (complying with the minimum 30% requirement) is made up of dwelling units that fall within the affordability thresholds (either using the standard or spatially targeted approach) for rental or ownership within the new residential or mixed-use development of 20du or more. Provision of affordable housing can only be provided on-site within the delineated area and in accordance with the precinct site development plans, within the Adam Tas Corridor. Applicable to the Adam Tas Corridor Local Area Overlay Zone.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions & Precinct Site Development Plan & Compliance with applicable LSDF and Development Guidelines **Off-set incentive package:** Overlay Zone – upzoned property and expedited planning process **AND** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
			Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option E	Voluntary inclusionary zoning	20% of dwelling units fall within the affordability thresholds (either using the standard or spatially targeted approach), or as agreed to by the for rental or ownership within the new residential or mixed-use development. Provision of affordable housing can be provided in-kind off-site or in-lieu within priority development areas, namely Stellenbosch, Klapmuts, & Franschhoek.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set benefit package:** Public land leasing & land sales AND/OR Leveraging municipal real estate **AND** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
Option F	Targeted in-kind off site affordable housing provision	To the satisfaction of the municipality, when the development already targets the affordability thresholds. The application may be exempted from the provisions of the policy provided that the development assessment and ultimately the permission places this on record for monitoring and compliance processes.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set incentive package:** To be negotiated.

Table 3: Inclusionary application in Stellenbosch Municipality, (own source)

6.99 Planning permissions will be accompanied by a Inclusionary Zoning Agreement between the applicant and the Municipality setting out the basis on which the affordable housing contribution will be made in line with the municipal inclusionary zoning policy, including inter alia:

6.99.1 Whether the contribution will be met on site, off site or as an in-lieu contribution;

6.99.2 When and where the inclusionary housing units will be constructed;

6.99.3 The number and sizes of units to be provided on site or off site;

6.99.4 How off-site units will be provided;

6.99.5 Whether the units will be rented or sold and the sale price or monthly rental;

6.99.6 How levies will be dealt with in terms of units sold within sectional title schemes;

6.99.7 The income group (or groups within the broader income range) to be targeted to purchase or rent the units as well as other priority groups such as women, the youth or people with disabilities, along with the proportional allocation of units, if relevant;

6.99.8 Who will undertake the screening and allocation process and how this process will be undertaken;

6.99.9 If the rented units will be sold on and to whom;

6.99.10 The total amount of the in-lieu contribution, should this be the case, and to whom, how and when it will be paid. An in-lieu contribution should be paid prior to issue of the occupancy certificate for the development and the issue of such certificate should be conditional on proof of payment;

6.99.11 The reporting requirements to enable the monitoring of affordability of the affordable housing units over time, and to whom reports will be provided;

6.99.12 Title deed restrictions to be introduced on stock for sale to maintain affordability.

FINANCIAL VIABILITY CRITERIA

6.100 In the pre-application phase of the application, the property owner, developer and municipality need to consider and evaluate the economic trade-offs involved in requiring a certain percentage of affordable units in new residential or mixed-use development.

6.101 Following this approach ensures that it is economically sound, will not deter development, and will deliver the types of new affordable units the local community needs. It can also be used to determine how a new inclusionary zoning would affect market-rate housing development costs and profits.

6.102 It also assists in highlighting what is economically reasonable for the municipality trying to set affordable housing requirements and offer developers meaningful incentives.

6.103 It does not replace a detailed financial feasibility analysis prepared by a trained professional.

6.104 Variables that make the greatest difference to the bottom line results: hard construction costs (usually 60-70% of development costs can be attributed to materials and labour – drives the cost side of the equation); average rental rates or market price sales (average monthly starting rental rates for new rental projects and average market prices for for-sale projects are the most important assumptions on the revenues side of the equation); capitalization rates (used to translate net operating income in a year of stabilized occupancy into total project value).

6.105 The literature and local case studies suggests the following financial viability criteria for consideration and these factors and measures should form part of the pre-application phase of the application:

Factors and measures
Property size / development footprint
Current zoning and land use
Proposed new zoning

Vacant land cost
Municipal property valuation
Developed land value per land use: Residential sales income
Developed land value per land use: Rental income per land use
Developed land value per land use: Office rental income
Developed land value per land use: Retail rental income
Developed land value per land use: Parking rental income
Developed land value per land use: Parking sales income
Total number of parking bays required
Assign parking requirements to each site (per m² and per dwelling unit), for each chosen/permitted land use, for both scenarios. m² parking requirement residential no concession m² parking requirement residential with concession m² parking requirement office no concession m² parking requirement office with concession m² parking requirement retail no concession m² parking requirement retail with concession
Percentage of residential floor area allocated to the ratio of affordable housing units for each site.
Define the floor area of 0-bedroom, 1-bedroom, 2-bedroom and 3-bedroom units. Proportion of residential floor area allocated to each dwelling unit type 0bedroom:1bedroom:2bedroom:3bedroom (ratio) 0bedroom:1bedroom:2bedroom:3bedroom (size)
Land-use distribution - define/calculate the maximum proportion of floor area allocated to permitted land uses (residential and/or retail and/or office) on each site under both scenarios according to land-use zone and parcel size. % residential no concession % residential with concession % office no concession % office with concession % retail no concession % retail with concession
Based on calculation above, calculate within each land use, floor area the allocation to parking, according to the parking requirements established in. m² parking area residential no concession

m^2 parking area residential with concession m^2 parking area office no concession m^2 parking area office with concession m^2 parking area retail no concession m^2 parking area retail with concession
Municipal rates
Monthly cost of municipal rates per site for both scenarios is calculated, according to land-use zone, estimated municipal valuation and construction floor area. R/m^2 residential no concession R/m^2 residential with concession R/m^2 office no concession R/m^2 office with concession R/m^2 retail no concession R/m^2 retail with concession
Rental income per land use, per site, per scenario (floor area multiplied by suburb market data values)
Define discount factors, for low- ,medium-income and open-market units under the inclusionary zoning scenario* - Users to define % reduction in residential rental income estimates in relation to estimated open-market rental incomes for the sites' suburbs. Discount factor low-income rent Discount factor medium-income rent Discount factor open-market rent
Define occupancy rates of rented floor area. % residential occupancy rate
Levies income from sold residential units, per site, per scenario (proportional to building maintenance costs of sold units)
Define the percentage of open market residential floor area sold under both scenarios. % open-market residential units sold no concessions % open-market residential units sold with concessions
Monthly municipal rates per site, per scenario
Define building maintenance costs (R) per m^2, per scenario
Cost of land per site
Cost of construction per site, per scenario Construction cost (R) per square residential per m^2 Construction cost (R) per square office per m^2 Construction cost (R) per square retail per m^2 Construction cost (R) per square parking m^2

Define construction duration (months) for each site for no concession Construction duration residential Construction duration office Construction duration retail Construction duration parking
Define construction duration (months) for each site for with concession Construction duration residential Construction duration office Construction duration retail Construction duration parking
Income from sold residential units, per site, per scenario
Income from sold residential units parking bays, per site, per scenario
Debt at project completion per site, per scenario
Generated equity at project completion per site, per scenario (value of completed construction, minus value of units sold, minus any debt owed on loans to fund projects)
Monthly profit, per site, per scenario (monthly income minus monthly debt)
Net rental yield, per site, per scenario (annual rental income minus annual expenses, divided by total cost of project)
Define loan interest rate
Number of years to settle loan per site, per scenario (using monthly profit)

Table 4: Financial viability criteria

SUMMARY: Key considerations for the Inclusionary Zoning Policy and Regulations for Stellenbosch Municipality

Which type of policy is the municipality considering in adopting?	
Hybrid	• Mandatory requirements and additional, optional developer incentives for greater affordability in targeted areas. • Tend to produce more affordable units than voluntary policies. • Tend to serve more low-income households in well-located areas. • Offer uniformity and predictability for property owners and developers.
Where does the policy apply?	
Target areas	Inclusionary Housing Trigger Area • Requirements apply to specific priority development areas (i.e. Adam Tas Corridor, Stellenbosch Town, Klapmuts and Franschhoek) located within the delineated and adopted urban edges. Priority receiving areas for Inclusionary housing. • Well-located specific priority development areas as defined by the municipal spatial development framework. capital expenditure framework, Adam Tas Corridor Local Spatial Development Framework, and Adam Tas Local Area Overlay Zone, social restructuring zones, PHSHDA's, and so on.
To whom does the policy apply?	
Residential and non-residential property owners and developers	• Applies to property owners and developers if the development project trigger the policy to go into effect. • Allows mixed-use property owners and developers to contribute to the community.
To what types of projects does the policy apply? (i.e. What's the trigger for the policy to be in effect?)	
Minimum development size	• Trigger is 20 dwelling units or more. • May apply to smaller developments on voluntary implementation option.
Tenure type	• Applies to both rental and ownership development projects.

How can the property owner and developer meet the policy's requirements?	
Constructing affordable housing contribution on-site	• Promotes social and economic integration in well-located areas. • On-site construction is the standard requirement within the spatially targeted and mandatory implementation approaches, with alternative options requiring approval incorporated.
Deciding duration for affordability preservation	• Rental and homeownership units to remain affordable for at least 30 years, or until repealed by Council.
Defining the share of affordable housing contribution	• 20% of total units or total floor area within the priority development areas (Stellenbosch Town, Klapmuts and Franschhoek) located within the delineated and adopted urban edges. • 30% of total units or floor area within the priority development areas delineated in the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022 and the Adam Tas Local Area Overlay Zone (in progress).

Varying income requirements within development project	• Proportional allocation within the affordable market income range and units per segment within the range is proposed.
	• Affordable housing market segments targeted are:
	  • Affordable (R300 000 – R600 000);
	  • Conventional (R600 000 – R900 000); and –
	  • High-end (R900 000 – R1.2million).

Offering trade-offs for deeper affordability	• Development projects that targets the affordable housing market segments as defined is exempted from applying the policy.
Deciding the location of affordable housing contribution within the development	• Affordable units on-site may be clustered, located on certain floors, or in adjacent buildings.

Setting specification requirements for affordable housing contribution	• Require affordable units to be identical to market-rate units (tenure blind) and allow internal variations with minimum standards. • Social Housing norms and standards are proposed as minimum design requirements regarding bathroom, kitchen areas, fittings and quality of facilities is recommended to be used as a guideline. • Variety of housing typologies are proposed, based on household composition within the municipality to respond to different family compositions. Optimum unit sizes as proposed for social rental stock is recommended to be used as a guideline.
What are the prices and income requirements for affordable units?	
Affordability criteria for households	• Focus on households falling within the GAP market/Housing and affordable housing target market namely >R3 500 – R27 200 (FSC 2022, rates to be updated yearly) annual gross household income. • Provisions for household income over time for annual income verification has been proposed in line with CPI.
Targeted beneficiaries	• Employed households (excluding students) earning stable incomes falling within the affordability threshold. • Suggestions around targeted beneficiaries (e.g. key workers, vulnerable groups, etc.) are proposed for consideration in the beneficiation process.
Setting affordable housing cost for household income	• Premium to income ratio for renters not more than 30% and for homeowners between 30-35%. • Differentiated procedure for premium to income ratio allowed when detailed household income analysis are provided.
What are the off-set incentives available to property owners and developers?	
Deciding whether and how resources from existing land-based financing and housing mechanisms may be used by renters or homeowners	• Municipal rates and taxes to be adapted to ensure the affordability of these units. • Municipality to consider inclusionary housing category for these households to qualify and benefit from exemptions, rebates, discounted rates, and capped valuation of units. • Households can apply for financial subsidies, such as FLISP.
Expedited planning permissions	• Fast-tracking of approval processes by a dedicated municipal project team for implementing the Adam Tas Corridor Spatial Development Framework and Development Guidelines, 2022 and its overlay zone (pro-active rezoning mechanism in progress).

Density, height, bulk bonus, or other zoning variances	• Density bonus which allows private developers to provide units in addition to the prescribed land use density. • Reducing parking requirements for the affordable housing component, particularly in areas close to public transport routes, or as deemed appropriate by the municipality. • Removing or reducing associated planning requirements as deemed appropriate by the municipality and accordingly demonstrated in the financial viability estimates during the pre-application phase.
Cost offsets	• Development contribution deferment (also referred to as bulk services infrastructure payment "holiday" for the affordable housing component of the development.
Receiving discounts	• 10% development contribution discount on the affordable housing component of the development.

Table 5: Summary table for the application of the inclusionary zoning mechanism in Stellenbosch Municipality

ANNEXURE A

ANNEXURE B

ANNEXURE C

[i] Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no subsidy (i.e. FLISP). There are cautionary notes which should be considered in the interpretation of the calculations, namely – 1) house purchases below R1.2 million avoid transfer fees, there are other transfer costs which can be applicable to the household and have not been included; 2) not all households purchase in the market segment they can afford as some may have additional funds from a once-off source, and some may have other competing expenses that prohibit them from spending the benchmark figure of 30% on housing; 3) Some households may be living in properties that they accessed either by purchase or inheritance or gift, that today they might not be able to afford to buy.

APPENDIX 1

STELLENBOSCH MUNICIPALITY: INCLUSIONARY ZONING POLICY

NEW

JANUARY 2023

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1. DEFINITIONS AND TERMS OF CLARIFICATION

"Additional land use rights (obtained through development permissions)" refers to any development permission that increases or enhances allowable bulk or development yield over and above the existing rights, including the removal of restrictive title deed conditions (WCG 2022).

"Affordable housing" are determined by National Government as an income threshold for the affordable or gap housing market of households earning up to R22 000 per month. The Financial Services Charter (FSC) defines the affordable housing target market to be the approximate cost of bonded entry-level housing in the country, capable of being mortgaged, adjusted annually by the midpoint of the average Consumer Price Index (CPI) and the average Building Cost Index (BCI). The Banking Association of South Africa annually updates this measure and makes this available on its website. However, affordability can fluctuate depending on the context and for the purposes of municipal inclusionary housing policies, affordability can be determined by using the aforementioned sources, as well as considering the outcomes of housing market studies for particular settlements. Also refer to gap market/housing below (WCG 2022).

"Affordability preservation" - the purpose of inclusionary housing is to increase the stock of well-located affordable housing over the long term. If such housing is not restricted from being sold or rented in the open market following the first generation of allocation, the purpose is defeated, while public value profits a few. Preserving the affordability of inclusionary units over the long term is therefore a key policy concern (WCG 2022).

"Density bonus" refers to a zoning tool that allows developers to increase height and/or bulk in a project by allowing building heights or a floor factor/floor space greater than the zoned maximum as well as relaxations of related requirements, such as parking, in exchange for a public good namely affordable housing (also referred to as inclusionary housing). This tool is used primarily for projects that include the development of housing units. The added density is intended to compensate the developer with additional revenue from the construction of additional dwellings. This recognises the added costs of development or differences in profit margins between market rate units and the inclusion of below-market rate units or unprofitable amenities. The result is development that provides additional density and public benefits without direct public funding. The density bonus is a one-time, in-kind obligation in which the private sector developers' cost of capital investment in affordable housing can be offset by granting additional, monetizable development rights, greater than the zoned maximum for a specific development site. (WCG 2022).

"Development charges" also known as an impact fee, is a charge that a local government imposes on the developer of a new development project to pay for all or a portion of the costs to the public sector of providing public services to the new development. Development charges have been used by local governments to help offset fiscal burdens created by new developments related to municipal infrastructure and provision of public services such as sewer and wastewater management treatment systems, road networks, parks and so on. Development charges are calculated by assessing the costs that the development would impose on the current municipal infrastructure network and what additional capacity or infrastructure would be required to ensure that the new development is adequately serviced. The fee is often able to be paid either in kind or in cash (NT 2017).

"Finance-linked Individual Subsidy Programme (FLISP)" is a housing subsidy for first-time home buyers to assist with purchasing a property. The subsidy can be used on its own or in combination with mortgage and non-mortgage finance facilities, making it more affordable to purchase a property (plot and/or house). Households with an income between R3 501 to R22 000 may qualify for the FLISP subsidy if they meet all the criteria. The subsidy amount depends on the income of the applicant and ranges between R27 960 – R121 626 (WCG 2022).

"Gap market/housing" refers to households falling into the portion of the market that earn too much to qualify for full grant housing assistance, but too little to be able to afford a bond of sufficient size to purchase an entry level market house. The gap housing market is understood to fall within the broader affordable housing market. Also refer to affordable housing above (WCG 2022).

"Housing/property ladder" refers to where there are "progressive stages of securing adequate and improved housing. This encompasses moving from informal to formal housing, and within the formal realm, from renting to owning and from owning a small house/flat to owning a larger and/or more valuable property" (WCG 2022).

"Land-based financing" **(LBF)** goal as defined by National Treasury (Cities Support Programme 2017) is a mechanism to be primarily used to maximize and unlock the value of government assets, advance a city's spatial restructuring goals, and promote transit orientated development. This mechanism refers to policy and regulatory mechanisms that allow the public sector to participate in the appreciation of real estate values resulting from public, and at times, private improvements. These improvements may make land parcels more accessible in the case of transit investments, or may prepare land (proactive zoning through the use of an overlay zone such as the ATC overlay zone) for private sector development through the provision of network infrastructure (such as water connectivity and sewerage access) and additional public amenities (such as public open space, hospitals, and schools). Mechanisms associated with LBF include special assessment districts, tax increment financing, development charges, leveraging the value of municipal real estate, sale of development rights, density bonus, inclusionary housing, land readjustment schemes and so on (NT 2017; OECD 2022).

"Land value capture" refers to a policy approach that enables communities to recover and reinvest land value increases that result from public investment and government actions (i.e. planning permissions). It is rooted in the notion that public action should generate public benefit. When used in conjunction with good governance and urban planning principles, land value capture can be an integral tool to help governments advance positive fiscal, social, and environmental outcomes. Well-known instruments include land banking, land readjustment, land leasing, inclusionary housing, transfer of development rights, charges on building rights, special assessments, impact fees, land value taxes, and exactions (OECD 2022).

"Leveraging the value of municipal real estate" refers to the municipal land as an asset which can be leveraged for improved strategic use. Transacting in municipal land can take the form of sales, auctions, leases, or any other conveyance that sees the rights and entitlements to municipal owned property transferred at below market cost value in exchange for a policy benefit required by the municipality. Depending on the municipality's goals, legal, and regulatory framework, and institutional capacity, it could decide to convey a parcel of land for a fee, receive an in-kind payment of infrastructure in lieu of cash, or participate as an equity partner in the development (NT 2017).

"Municipality" means Stellenbosch Local Municipality;

"Open-market housing" refers to housing sold or rented on the open market (willing buyer and seller) with no state assistance, with or without a mortgage (WCG 2022).

"Overlay zone" means a category of zoning applicable to a defined area or land unit, which stipulates additional development parameters that may be more or less restrictive than the base zone as defined in the Stellenbosch Municipality Zoning Scheme Bylaw (2019).

"Planning permissions" refers to authorisations given in response to applications made to a competent authority to develop land (WCG; 2022).

"Priority development areas" as defined in the Stellenbosch Municipal Spatial Development Framework (2019) and subsequent Capital Expenditure Framework (2020) refers to the urban functional areas of Stellenbosch, Klapmuts, and Franschhoek. These areas are priority development areas where the municipality intends to focus investment in order to achieve the goals of the MSDF as well as other strategic documents, namely the Adam Tas Local Spatial Development Framework and Development Guidelines (2022).

"Set-aside requirement" refers to the number of inclusionary housing units that must be provided in a development according to the size of the development or in relation to the additional rights given (WCG 2022).

"Settlement restructuring" refers to the need to transform i) the apartheid form of our urban settlements where the poorest live the furthest away from opportunities – spending the most time and money accessing these opportunities or being caught in spatial poverty traps – and residential areas are defined and separated by class and race ii) the unsustainable modernist form of our settlements where settlements are designed with the automobile as the main form of movement and land uses is monofunctional. Typically, settlement restructuring is planned for and implemented through investment in socially integrated, mixed-use infill development on well-located land, along with densification, intensification of land uses, public transport and non-motorised transport and taking high quality facilities and amenities to marginalised township areas (WCG 2022).

"Social housing" refers to rental housing targeted at households earning R1 850 – R22 000 per month. Social Housing is governed by the Social Housing Act, 2008 (Act 16 of 2008) and the policy prescripts of the National Housing Code (WCG 2022).

"Spatial apartheid" refers to "the legacy of apartheid – communities segregated from one another based on race (and class) with so-called black and coloured people relocated to less well-resourced urban areas or prevented from accessing or owning property in these areas – as well as the impacts of the legacy of the modernist approach to city building based on the automobile and functional separation of land uses. This has left South Africa with cities that are inefficient, inequitably developed and environmentally, socially, and fiscally expensive to live in and to manage. It has also meant that discrimination has been structured into settlement patterns" (WCG 2022).

"Spatial transformation" as a national focus on transforming of cities as envisaged by the NDP 2030. Namely ensuring that a larger proportion of the population of the population should live closer to places of work and that travel distances and costs should be reduced, especially for poor households. Urban systems are key levers to overcome the debilitating impact of distance and separation on the fortunes of the individual, household, business, and the state, as well as the environment and the resilience of the system as a whole. These include both hard (physical structures and networks) and soft (such as governance systems including urban management and land use management) systems that facilitate and enable compact cities and transformed urban spaces of social and economic inclusion on an equitable basis. The equitable distribution of resources within cities, as well as building systems that facilitate affordable and safe access to the full ambit of resources that makes urban living productive, are critical to spatial transformation. The South African Local Government Association (SALGA) defines spatial transformation as the overhaul of an inherited segregated spatial dispensation and preventing it from re-establishing itself in new forms of post-apartheid class and income-based spatial segregation and spatial inequality. In considering how to measure whether we are spatially transforming our settlement, SALGA identifies four themes: proximity and access; housing and basic services; integration and inequality; safety and amenity; and agency and governance (WCG 2022).

"Spatially targeted areas" refers to "a built environment investment prioritisation approach where specific areas are designated for investment or specific land uses, within an urban system, to achieve transformative development outcomes. Spatial targeting is an approach recommended by the National Development Plan 2030" (WCG 2022) and the Integrated Urban Development Framework (2016).

2. PURPOSE

2.1 The intention of this document is to support Stellenbosch Municipality and other key role players in delivering more high-quality affordable housing (also referred to as inclusionary housing) within mixed sustainable communities by using all the municipal planning tools (regulations, mechanisms, & incentives) available to them. It outlines the affordable housing challenge that needs to be met, and provides information on how the existing municipal planning tools operate and recommendations on how they need to change to assist in delivery.

3. OBJECTIVES OF THE POLICY

3.1 To increase the supply of high-quality affordable housing (also referred to as inclusionary housing) in well-located and priority development areas, creating a mix of income groups across new and infill developments in Stellenbosch Municipality promoting social and economic integration (also referred to as settlement restructuring).

3.2 Using the municipal spatial planning, land use planning system, and land-based financing tools and their mechanisms to leverage and incentivize land value gains in spatially targeted areas for the creation of public goods (i.e. affordable housing), enabling well-performing settlements (i.e. integrated, inclusive, resilient, efficient) in order to address current and historical spatial imbalances/inequalities (also referred to as spatial apartheid).

3.3 Achieve a more inclusive, efficient, and effective municipality by providing a wide choice of quality affordable housing to meet the needs of the community, widening the opportunities for homeownership, and creating flexibility and choice of tenures and price ranges for those who rent and seek the security of tenures (also referred to as housing/property ladder) as envisioned by its adopted and approved spatial policies.

3.4 Facilitate and grow strong partnerships with the private sector in terms of delivering more quality affordable housing.

4. LEGISLATIVE FRAMEWORK

4.1 This document should be read in conjunction with the following documentation namely; Western Cape Government Inclusionary Housing Policy Framework (November 2022), Stellenbosch Municipality Land Use Planning By-law (2015), Stellenbosch Municipality Zoning Scheme By-law (2019), Stellenbosch Municipal Spatial Development Framework (2019), Adam Tas Local Area Spatial Development Framework and Development Guidelines (2022);

Adam Tas Local Area Overlay Zone (in progress), Stellenbosch Municipality Development Contributions Policy (2022); Stellenbosch Municipality Rates Policy (2022); Municipal Fiscal Powers and Functions Act (2002), and the draft Municipal Fiscal Powers and Functions Amendment Bill (2020).

4.2 The details of the municipal planning tools reflect the position in December 2022, and will be subject to change. Accordingly, the document will be robust to changes in future policies and some parts are likely to evolve which will necessitate periodical updates.

5. PRINCIPLES OF INCLUSIONARY ZONING

5.1 Inclusionary zoning must be understood as a planning system tool (also referred to as a land use regulatory mechanism) used to create affordable housing and foster social and economic inclusion through the regulation of private development. Therefore its use and powers are guided by the broader understanding of the power to regulate land use for the public good (i.e. affordable housing).

5.2 The goal of inclusionary zoning is achieving racially and/or socio-economically integrated communities by confronting and addressing the exclusionary impact of development, which in many contexts has often been facilitated by planning and land use regulation (also referred to as spatial transformation).

5.3 Inclusionary zoning is one of the land and planning tools where spatially targeted financing (also referred to as land-based financing) leverages the benefits of agglomeration, increasing land demand, infrastructure investments, and planning decisions that drive up the value of urban land. Land-based financing is based on the recognition that property owners and developers benefit from this rising value and the possibility for local government to capture some of the rising value for the public good (also referred to as land value capture).

5.4 This policy option provides the scope for securing affordable housing through the regulatory system of development planning permissions to oblige property owners and developers to provide affordable housing, for sale or rent, within the new residential and mixed-use developments (also referred to as set-aside requirement) in well-located and priority development areas as defined by the municipal spatial development framework and/or other strategic spatial policies (namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022) and the associated urban management mechanisms (namely the Adam Tas Local Area Overlay Zone (in progress)).

5.5 The policy option provides scope for securing affordable housing through the land-based financing and planning systems to oblige property owners and developers to pay developer contributions (also referred to as impact fees and development charges), and/or additional land use rights (benefits obtained through development permissions), as well as offsetting the cost by one or more incentives, such as a density bonus (which includes parking reductions or other planning parameters variances), providing and leveraging public land leasing and land sales, discounting or deferring the payment of developer contributions, expedited planning processes through an overlay zone mechanism (i.e. Adam Tas Local Area Overlay Zone, in progress) and/or any other land-based financing and planning system mechanisms deemed appropriate by the Municipality.

5.6 It is not the intention, in this mechanism, that a housing subsidy is made available to assist the property owners and developers to meet this affordable housing contribution, but that the cost of the contribution is absorbed in the land price paid for the land and in the award of additional land use rights to offset the costs of such a contribution.

5.7 When the inclusion of affordable units on-site within market-rate projects has been demonstrated based on the financial viability criteria as unfeasible, the property owners and developers can enter into an inclusionary zoning agreement that sets out alternatives, such as payments of an affordable housing fee (also referred to in-lieu requirement/impact fee/development contribution) or provision of affordable units off-site in another project within the priority development areas.

6. INCLUSIONARY ZONING: REGULATIONS, MECHANISMS, AND OFF-SET INCENTIVES IN SPATIALLY TARGETED AREAS

The following applies within the Municipality:

DEFINITIONS

Inclusionary zoning

6.1 Inclusionary zoning, is a planning system tool used to secure affordable housing (alternatively referred to as inclusionary housing) within private residential and mixed-use developments, through the regulatory system of development planning permissions to oblige an applicant to provide affordable housing, for sale or rent, within the new residential and mixed-use development in well-located located and priority development areas as defined by the municipal spatial development framework and/or other strategic spatial policies (namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022) and the associated urban management mechanisms (namely the Adam Tas Local Area Overlay Zone (in progress)).

6.2 The applicant should pay developer contributions, and/or adhere to the additional land use rights obtained through development permissions, and the municipality will reasonably offset the cost by means of using one or more incentives, such as a density bonus (which includes parking reductions or other planning parameters variances), providing and leveraging public land leasing and land sales, discounting or deferring the payment of developer contributions, expedited planning processes through an overlay zone mechanism (i.e. Adam Tas Local Area Overlay Zone, in progress) and/or any other land-based financing and planning system mechanisms deemed appropriate by the Municipality.

6.3 When the inclusion of affordable units on-site within market-rate projects has been demonstrated based on the financial viability criteria as unfeasible, the property owners and developers can enter into an inclusionary zoning agreement that sets out alternatives, such as payments of an in-lieu fee or provision of affordable units off-site in another project within the priority development areas.

Affordability

6.4 Households should not spend more than a third of their income on housing (also referred to as the premium to income ratio). The standard differentiates between renters with a premium-to-income ratio of 30% and owners with a premium-to-income ratio ranging between 30 – 35%.

6.5 Property owners and developers can use the international spatially targeted approach for calculating affordability usually referring to affordability as being aligned with a proportion of an area's median income and below. Households below the median household income or households with a monthly income below 50%-80% of the area's median household income are targeted. A detailed household income analysis is required as part of the pre-application process requirements and should be submitted to the municipality.

Affordable housing

6.6 In the local context, affordable housing has traditionally been used to describe the "GAP market/Housing". The "GAP market/Housing" refers to persons/households who earn in excess of R3 500 monthly household income and can therefore not qualify for a full government housing subsidy, but earn too little to qualify for a mortgage loan to purchase a property. The government ceiling for the "GAP market/Housing" is R22 000 monthly household income.

6.7 The Financial Sector Charter (FSC) defines the affordable housing target market to be the approximate cost of bonded entry-level housing in the country, capable of being mortgaged, adjusted annually by the midpoint of the average Consumer Price Index (CPI) and the average (Building Cost Index). The Banking Association of South Africa annually updates this measure and makes this available on its website for example the 2022 rate is determined as R27 200 monthly household income a month.

6.8 The housing market study (refer to Annexure A) outcomes reflect the undersupply of houses valued in the affordable (R300 000 – R600 000) and conventional (R600 000 – R900 000) market segments. The high-end market segment (R900 000 – R1.2 million) also appears to match the current demand and considering the urbanisation and migration trends expected and projected in this market segment, this segment is included.

6.9 Based on the aforementioned standard definitions of affordability and the evidence gathered through the housing market study, affordability in the Stellenbosch Municipality context refers to the following market segmentations – affordable (R300 00 – R600 000), conventional (R600 000 – R900 000), and high-end (R900 000 R1.2 million).

Affordability thresholds estimates/examples using the ratios discussed above

6.10 As examples of the application of affordability thresholds, the following estimates can be derived based on some assumptions[i] (refer to Annexure A):

Market segment (residential property value)	Minimum monthly household income needed to purchase in this market segment	Maximum monthly household income needed to purchase in this market segment
Affordable (R300 000 – R600 000)	R7 300	R14 750
Conventional (R600 000 – R900 000)	R14 750	R22 200
High end (R900 000 – R1.2 million)	R22 200	R29 600

Table 1:Extract from Stellenbosch housing market study (source: WCGb, 2022)

6.11 The abovementioned affordability thresholds as evidenced in the housing market study, accommodate the government-defined "Gap Market/Housing", as well as the FSC affordable housing target market and the affordability threshold for Stellenbosch Municipality ranges between R3 500 and R27 200 (2022 rates, to be updated yearly). The housing market study and its affordability threshold as determined should be applied when updated every two years.

Well-located

6.12 Areas (such as suburbs, neighbourhoods, town centres, and activity corridors) with good public transport and non-motorised transport, access to existing urban service, public and private education, health and social facilities, amenities, retail facilities, and work opportunities.

6.13 Based on the municipal spatial development framework of the Municipality, these areas are defined as priority development areas (also referred to as growth nodes), namely Stellenbosch, Klapmuts, and Franschhoek. The settlements are further delineated by the adopted urban edges, and priority development areas focused on housing (i.e. social restructuring zones; PHSHDA's), intensification zones (i.e. mixed-use community and residential infill; strategic sites, projects and/or infill opportunities) and development corridors (including activity routes).

6.14 Based on the strategic spatial policies namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022 and the associated enabling urban management mechanisms (namely the Adam Tas Local Area Overlay Zone (in progress), the delineated areas are priority spatial targeting areas.

6.15 The listed priority spatial targeting areas are primarily identified for mandatory implementation of affordable housing provision through the inclusionary zoning mechanism, with alternative options requiring approval incorporated.

REQUIREMENTS FOR INCLUSIONARY ZONING WHEN MANDATORY, SPATIALLY TARGETED, OR VOLUNTARY IMPLEMENTATION

Mandatory implementation with off-set requirements (primary option)

6.16 The mandatory application of inclusionary zoning means that the property owner and developer are automatically required to include a portion of affordable housing units (also referred to as inclusionary housing or the set-aside requirement) as part of their development within the well-located priority development areas as defined. The municipality therefore only grants approval for the development if the developer builds a proportion of the affordable units.

6.17 Inclusionary zoning requirements are triggered by land development applications, as such, the requirement does not affect existing, approved land use rights.

6.18 Inclusionary zoning is mandatory for all new development applications under the jurisdiction of Stellenbosch Municipality that request additional development rights from the municipality within their residential or mixed-use developments.

6.19 New residential or mixed-use developments which include 20 dwelling units or more, are required to contribute a minimum of 20% of the total units to be targeted at affordable housing.

6.20 The affordable units can be designed to provide non-market housing accommodation for rental or ownership.

6.21 The affordable units are intended for dwelling units and not student housing, community residential buildings, communes, hostels, or less formal residential. The dwelling units should be used for permanent residence and excludes any of the land uses associated with transient guests (e.. home lodging, bed and breakfast, hotel, tourist accommodation establishment, tourist dwelling unit, etc.)

6.22 All conditions for affordable housing will be in place for not less than 30 years, or until repealed by a Council resolution.

6.23 Any off-set incentive packages contemplated as part of the off-set requirement will be over and above the allowable development parameters as per the prevailing zoning defined in the zoning scheme by-law. As such, development parameters must be determined first, with off-set incentive packages added to that determination.

6.24 The affordable housing contribution should be delivered on-site, and if demonstrated and deemed unfeasible an inclusionary housing agreement can be entered into to determine in-kind off-site or affordable housing fee (in-lieu) contributions.

6.25 When inclusionary housing is applicable, it will be implemented as a condition of approval (section 66.(1)(d))(settlement restructuring) by the Stellenbosch Municipality. The

Municipality may take action against property owners and developers who do not comply with the conditions for inclusionary zoning outlined in land use/development approvals, as with any condition of approval.

6.26 The priority development areas as identified by the municipal spatial development framework are Stellenbosch, Klapmuts, and Franschhoek, and fall within the delineated and adopted urban edges. Refer to Annexure B containing the current maps.

Spatially targeted implementation within an applicable overlay zone (primary option)

6.27 Implementation of inclusionary housing in targeted areas within the municipality, where an overlay zone has been designated or higher-density developments are encouraged by means of spatial policies or strategies in areas for urban infill, transit-orientated development, etc. These targeted areas normally have a well-performing housing market and public investment has been targeted in the area.

6.28 The mandatory application of inclusionary zoning means that the property owner and developer are automatically required to include a portion of affordable housing units (also referred to as inclusionary housing or the set-aside requirement) on-site as part of their development within the well-located priority development areas as defined. The municipality therefore only grants approval for the development if the developer builds a proportion of the affordable units.

6.29 Inclusionary zoning requirements are triggered by land development applications, as such, the requirement does not affect existing, approved land use rights.

6.30 Inclusionary zoning is mandatory for all new development applications and when property owners and developers want to utilize the land use rights as applied by the Adam Tas Corridor Local Area Overlay Zone.

6.31 New residential or mixed-use developments which include 20 dwelling units or more, are required to contribute a minimum of 30% of the total units to be targeted at affordable housing on-site or as defined by an approved precinct site development plan.

6.32 The affordable units can be designed to provide non-market housing accommodation for rental or ownership.

6.33 The affordable units are intended for dwelling units and not student housing, community residential buildings, communes, hostels, or less formal residential. The dwelling units should be used for permanent residence and excludes any of the land uses associated with transient guests (i.e. home lodging, bed and breakfast, hotel, tourist accommodation establishment, tourist dwelling unit, etc.)

6.34 All conditions for affordable housing will be in place for not less than 30 years, or until repealed by a Council resolution.

6.35 The inclusionary zoning parameters as defined in the Adam Tas Local Area Overlay zone are applicable. The Municipality may take action against property owners and developers who do not comply with the parameters as outlined in land use/development approvals, as with any condition of approval.

6.36 Based on the strategic spatial policies namely the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022, and the associated enabling urban management mechanisms (namely the Adam Tas Overlay Zone (in progress), the delineated areas are priority spatial targeting areas. Refer to Annexure C containing the current maps.

Voluntary implementation (alternative option)

6.37 The voluntary application of inclusionary housing means that affordable housing units are only required when the property owners and developers choose to utilise off-set incentive packages provided by the municipality. Such incentive packages could include flexible development parameters or bonuses i.e. density bonuses. This approach is based on willing partners that strike a mutually beneficial arrangement that will result in the delivery of affordable housing.

6.38 A property owner and developer developing below the threshold of 20 units, but who meets the criteria for one of the inclusionary zoning options in this framework, may still benefit from the off-set incentive packages associated with the option chosen.

6.39 The affordable housing contribution can be delivered on-site, in-kind off-site, or an affordable housing fee (in-lieu payment).

6.40 This approach will be assessed on a case-by-case basis and in alignment with the criteria and requirements as stipulated in the inclusionary zoning policy.

AFFORDABLE HOUSING CONTRIBUTION (ALSO REFERRED TO AS SET-ASIDE REQUIREMENT)

6.41 Set-aside requirement is a proportion of the extra development rights granted by the municipality that must be set aside as a contribution towards affordable housing.

On-site requirement

6.42 The affordable units are built on-site as part of the market-related development i.e. in the same building or on the same land parcel.

6.43 The tenure type of the set-aside contribution must be similar to the market-related component of the development.

6.44 The on-site requirement is the primary option in the mandatory - and spatially targeted implementation approaches, with exemptions incorporated within these options.

In-kind contribution

6.45 In-kind contribution (also referred to as the in-kind off-site requirement) refers to when the affordable units are built off-site on well-located land in areas identified by the municipality in its spatial development framework. The units can be built on municipal-owned land, on land owned by private developers, or another state partner, or on a site under development by an SHI, or another registered affordable housing developer.

6.46 This method will be advisable for market-related developments that are not that well-located, thus capturing the value of the development by re-directing it to a well-located site.

6.47 The tenure of the units can be either rental or ownership.

6.48 The property owner and developer can choose this option in the voluntary implementation approach or when demonstrated and deemed acceptable by the municipality in the mandatory implementation approach.

Affordable housing fee

6.49 Affordable housing fee also referred to as the in-lieu requirement (also referred to as an impact fee/development contribution/development charges). It is the contribution of the affordable housing units in the form of a cash contribution which is ring-fenced into a municipal fund dedicated to the building of affordable housing for the benefit of households in the income range targeted by this policy, as well as in designated / priority development areas, as identified by the municipal spatial development framework, the applicable land use planning by-law or zoning scheme-by-law.

6.50 The contribution can either go towards the acquisition and/or assembly and/or packaging of well-located land to be developed for affordable housing; the construction of affordable housing on such land; ensuring the financial sustainability of social housing development, or towards planned in-kind off-site development of affordable housing by the municipality via existing national housing programmes.

6.51 Each application is considered on a case-by-case basis, with negotiations taking place based on a standard proforma submitted by the property owner and developer. This proforma should take into account the differing land values in each area, as this is a significant cost driver. This proforma should be able to calculate affordable housing contributions for on-site, in-kind off-site, and affordable housing fees (in-lieu).

6.52 The property owner and developer can choose this option in the voluntary implementation approach or when demonstrated and deemed acceptable by the municipality in the mandatory implementation approach.

AFFORDABILITY PRESERVATION OF NON-MARKET HOUSING

6.53 Preserving the long-term affordability of units produced by inclusionary zoning is key to ensuring that targeted beneficiaries are able to benefit from the policy over a specified period of time.

6.54 Affordable units created by inclusionary zoning developments be maintained not less than 30 years, or until repealed by a Council resolution.

Mechanisms for maintaining affordability are as follows:

Inclusionary units for ownership

6.55 Property owners and developers can sell a unit outright to a qualifying household where the beneficiary will independently secure finance from a financial institution and may qualify for and make use of the Finance-linked Individual Subsidy Programme (FLISP).

6.56 Property owners and developers can run an instalment sale or lease with an option to buy programme.

6.57 The sale price of affordable housing units for sale must be stipulated in the inclusionary housing agreement tied to the planning permission with a view to ensuring this is clearly tailored to the targeted market. The agreement should record provisions for the adjustment of this price year on year.

6.58 An increase in the value of the units should be fixed to the Consumer Price Index (CPI), to ensure that homeowners benefit from price appreciation while protecting against the unaffordable escalation of house prices.

6.59 Each affordable housing unit needs to be registered with the municipality, to ensure that the valuations process recognizes their status as affordable housing units and as such can be valued and taxed or rated accordingly.

6.60 The registered affordable ownership units require municipal approval on resale prices before the transaction takes place in order for the municipality to monitor and track escalation in the price restrictions and ensure that the inclusionary housing register and valuation process are updated accordingly.

6.61 To enable the effective management and monitoring of these affordable housing units and the inclusionary housing agreement, the property owners and developers are required to place a restrictive condition in the title deeds, or any other affordability preservation mechanism deemed appropriate and effective by the municipality.

6.62 Resale should only be for pre-approved buyers that meet the affordability criteria as set out by the municipal policy.

6.63 Capacity should be put in place for Home-Owner Associations (HOA) and/or Body Corporates to effectively market and manage the allocation process. The affordability preservation and any other requirements as agreed in the inclusionary housing agreement as part of the planning permissions, need to be stipulated in the constitutions of these bodies, including the annual reporting to the municipality as agreed upon.

Rental inclusionary units

6.64 Fixed-term leases will be the primary instrument for ensuring that inclusionary units continue to benefit the intended income group as identified in the planning permission associated with the inclusionary housing agreement.

6.65 Property owners and developers may choose to retain the units in their ownership and rent them to households that fall within the agreed targeted income range and meet the criteria, along with any additional criteria introduced by this policy and in the inclusionary housing obligation set out in the planning permission.

6.66 Capacity should be put in place to market and manage the allocation process and conduct regular income certification, as well as provide the normal services of a landlord, as with any tenant.

6.67 Rents charged must remain within the affordability threshold, which will be reviewed annually to accommodate inflation and its impact on maintenance costs, as well as changes in the affordability dynamics in the housing market and changes to income categories in amendments to the inclusionary zoning policy.

6.68 Lease agreements need to ensure that the tenants are subject to regular income certification to ensure that the affordable housing units remain as allocated and available to the intended income group. This must include allowance for some income growth over time. Successive tenants would pay the rental as adjusted for inflation at the time of occupation.

6.69 The lease agreements should stipulate that sub-letting isn't allowed, and excludes any land uses associated with student housing and transient guests (i.e. home lodging, bed and breakfast, hotel, tourist accommodation establishment, tourist dwelling unit, student housing, etc.).

6.70 Property owners and developers may choose to build affordable housing units and hand them over to a social housing institution (SHI) to manage them. In this case, the annual monitoring of affordability preservation as required by the municipality will be managed by the SHI and the property owners and developers will not have to comply with this specific requirement.

6.71 When affordable housing units are delivered through partnering with SHIs and where they provide a capital subsidy (administered by the SHRA) the requirement for subdividing and registering the affordable units needs to be accommodated within the application and the conditions of approval.

6.72 Each affordable rental unit needs to be registered with the municipality, and approval of new tenants should meet the affordability criteria by the policy. In the case of rental agency management, the affordability criteria of the social housing institution should be met.

6.73 In the case where property owners and developers retain ownership and become landlords or use a rental agency for the management of these units, the compliance of the annual reporting should be managed by these parties. The municipality should be informed of the managing rental agents in order for the inclusionary housing unit register as administered by the municipality to be updated accordingly. Annual reporting mechanisms will be agreed upon and stipulated in the inclusionary housing agreement as part of the planning permissions.

Other affordability considerations.

6.74 Municipal rates and taxes as approved within the Rating Policy, will be adapted to ensure that affordable housing units are not undermined by the municipality's own policies. The Municipality may consider adding an inclusionary housing category that may benefit/qualify for exemptions, rebates, discounted rates, as well as capped valuation of these units. The criteria and annual application process will still be applicable as defined in these municipal policies to ensure that the household can maintain affordability including avoiding unjustifiable subsidisation.

6.75 Failure to comply with the planning permission and associated agreement should result in a penalty, with rates due on units meant as affordable housing units, calculated for the whole period when units were supposed to be affordable and were not.

BENEFICIATION

6.76 The broad principle for dealing with an allocation is whoever takes development or marketing risk for affordable housing may control the allocation of units to the end-users. The responsibility of affordable housing units for ownership vests with the developer/financiers/body corporates/homeowners associations and in the case of rental the landlord, or SHI management.

6.77 The allocation process of affordable housing units in inclusionary zoning developments will be different for rental or ownership units. It will also differ depending on whether the property owner or developer will do the allocation, or if the municipality or SHI is involved in the allocation process.

6.78 The standard affordability measures as described above applies.

6.79 The target market for beneficiation should benefit employed households (excl. students) earning stable incomes that fall within the affordability threshold as defined above.

6.80 Developers can deviate from the income profiles if they use the median income formula as explained above.

6.81 Proportional allocation within the affordable market income range & units per segment within the range is encouraged.

6.82 The developer should consider the following targeted beneficiaries;

6.82.1 Key workers refers to an employee who provides a vital service, typically in the police, health, and education sectors (WCG 2022). Targeting these individuals or households presents an opportunity to empower them to climb the property ladder over time and save on costs associated with travel, access to community facilities, etc.

6.82.2 Vulnerable groups such as the youth, elderly, and people living with disabilities.

6.82.3 Gender, with specific reference to female-headed households.

6.83 The developer may partner with companies with employee housing assistance programmes when the beneficiaries comply with the criteria as stipulated in the inclusionary housing agreement.

6.84 The municipality may impose requirements on the reporting with regard to allocation within these criteria.

DESIGN

6.85 The affordable units should be integrated into the projects and blend in with the surrounding buildings and the development as a whole.

6.86 The architectural styles should be similar i.e. tenure blind from the outside, but the interior may differ to enable affordability.

6.87 The municipality may regulate the requirement and standards for these units within policies and by-laws i.e. number of bedrooms, size of units, location of affordable units on a site or within a building, or the exterior access to the units.

6.88 The affordable housing units need to comply with the National Housing Building Regulatory Council.

6.89 The minimum standards must be met regarding bathroom and kitchen areas and fittings and the quality of these facilities must avoid higher maintenance costs. It is proposed that the Social Housing norms and standards are used as a benchmark in this regard.

6.90 The property owner and developer needs to consider variety in the housing typologies, based on household composition found within the municipality, namely a mix of studio, one-bedroom, and two-bedroom units in order to respond to different family compositions. The reviewed optimum unit sizes as proposed for social rental stock can be used as a guideline:

Type of unit	Optimum size (sqm)	Minimum size	Occupancy
Room	12	10	1b1p
Bachelor / Studio	25	18	1b2p
1 Bedroom	35	25	1b2p / 2b3p
2 Bedroom	48	42	3b3p / 4b4p
3 Bedroom	60	52	3b4p / 5b6p

Table 2:Extract from Western Cape Government Inclusionary Housing Policy Framework, 2022 (source: WCGa:2022)

OFF-SET INCENTIVE PACKAGES

6.91 Fast-tracking of approval processes by a dedicated municipal project team in the Adam Tas Corridor Local Area Spatial Development Framework, 2022 and its overlay zone (in progress), or any area identified in the priority development areas of the municipal spatial development framework and capital expenditure framework; or other urban management mechanisms (e.g. integrated decision-making, changes in delegations, etc.) as deemed appropriate and applicable by the municipality.

6.92 Density bonus which allows private developers to provide units in addition to the prescribed land use density.

6.93 Parking requirements: reducing parking requirements for the affordable housing component, particularly in areas close to public transport routes, or as deemed appropriate by the municipality.

6.94 Removing or reducing associated planning requirements as deemed appropriate by the municipality and accordingly demonstrated in the financial viability estimates during the pre-application phase.

6.95 Development contribution discount: Ten percent development contribution discount on the affordable housing component of the development.

6.96 Development contribution deferment (also referred to as bulk services infrastructure payment "holiday" for the affordable housing component of the development.

6.97 The off-set incentive packages should not place a cost burden on the municipality to the extent that it amounts to a hidden subsidy and is not sustainable for the municipality.

6.98 The table below provides the various options:

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
Option A	Mandatory inclusionary zoning (units/ha)	20% of dwelling units fall within the affordability thresholds (either using the standard or spatially targeted approach) for rental or ownership within the new residential or mixed-use development of 20du or more. Provision of affordable housing must be provided on-site within the priority development areas, namely Stellenbosch, Klapmuts, & Franschhoek, or as alternatively demonstrated. Applicable to the conventional residential zone, multi-unit residential zone, local business zone, and mixed-use zone of the zoning scheme by-law.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set incentive package:** Density bonus – increase in density (du/ha) to accommodate the inclusionary housing units. AND/OR Parking reduction for inclusionary housing units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option B	Mandatory inclusionary zoning (Bulk/FAR)	Minimum of 10% or a maximum of 17% (depending on the applicable zoning) of the total residential floor area (complying with the minimum 20% requirement) is made up of dwelling units that fall within the affordability thresholds (either using the standard or spatially targeted approach) for rental or ownership within the new residential or mixed-use development of 20du or more.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set incentive package:** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
		Provision of affordable housing must be provided on-site within the priority development areas, namely Stellenbosch, Klapmuts, & Franschhoek, or as alternatively demonstrated. Applicable to the conventional residential zone, multi-unit residential zone, local business zone, and mixed-use zone of the zoning scheme by-law.	Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option C (ATC)	Mandatory spatial targeted inclusionary zoning (units/ha) – overlay zone	30% of dwelling units fall within the affordability thresholds (either using the standard approach or spatially targeted approach) for rental or ownership within the new residential or mixed-use development. Provision of affordable housing can only be provided on-site within the delineated area and in accordance with the precinct site development plans, within the Adam Tas Corridor. Applicable to the Adam Tas Corridor Local Area Overlay Zone.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions & Precinct Site Development Plan & Compliance with applicable LSDF and Development Guidelines **Off-set incentive package:** Overlay Zone – upzoned property and expedited planning process **AND** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount.

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
			AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option D (ATC)	Mandatory spatial targeted inclusionary zoning (Bulk/FAR) – overlay zone	Minimum of 25% of the total residential floor area (complying with the minimum 30% requirement) is made up of dwelling units that fall within the affordability thresholds (either using the standard or spatially targeted approach) for rental or ownership within the new residential or mixed-use development of 20du or more. Provision of affordable housing can only be provided on-site within the delineated area and in accordance with the precinct site development plans, within the Adam Tas Corridor. Applicable to the Adam Tas Corridor Local Area Overlay Zone.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions & Precinct Site Development Plan & Compliance with applicable LSDF and Development Guidelines **Off-set incentive package:** Overlay Zone – upzoned property and expedited planning process **AND** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
			Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.
Option E	Voluntary inclusionary zoning	20% of dwelling units fall within the affordability thresholds (either using the standard or spatially targeted approach), or as agreed to by the for rental or ownership within the new residential or mixed-use development. Provision of affordable housing can be provided in-kind off-site or in-lieu within priority development areas, namely Stellenbosch, Klapmuts, & Franschhoek.	**Planning requirement:** Inclusionary Zoning Agreement & Developer contributions **Off-set benefit package:** Public land leasing & land sales AND/OR Leveraging municipal real estate **AND** Density bonus – increase in density (du/ha) to accommodate the inclusionary units. AND/OR Parking reduction for inclusionary units in well-located areas. AND/OR Development contribution discount. AND/OR Development contribution deferment. AND/OR Other planning parameters deemed to assist in the financial viability/project feasibility as demonstrated.

Options	Description	Planning obligation	Planning requirement & Off-set benefit packages
Option F	Targeted in-kind off site affordable housing provision	To the satisfaction of the municipality, when the development already targets the affordability thresholds. The application may be exempted from the provisions of the policy provided that the development assessment and ultimately the permission places this on record for monitoring and compliance processes.	**Planning requirement**: Inclusionary Zoning Agreement & Developer contributions **Off-set incentive package:** To be negotiated.

Table 3: Inclusionary application in Stellenbosch Municipality, (own source)

6.99 Planning permissions will be accompanied by a Inclusionary Zoning Agreement between the applicant and the Municipality setting out the basis on which the affordable housing contribution will be made in line with the municipal inclusionary zoning policy, including inter alia:

6.99.1 Whether the contribution will be met on site, off site or as an in-lieu contribution;

6.99.2 When and where the inclusionary housing units will be constructed;

6.99.3 The number and sizes of units to be provided on site or off site;

6.99.4 How off-site units will be provided;

6.99.5 Whether the units will be rented or sold and the sale price or monthly rental;

6.99.6 How levies will be dealt with in terms of units sold within sectional title schemes;

6.99.7 The income group (or groups within the broader income range) to be targeted to purchase or rent the units as well as other priority groups such as women, the youth or people with disabilities, along with the proportional allocation of units, if relevant;

6.99.8 Who will undertake the screening and allocation process and how this process will be undertaken;

6.99.9 If the rented units will be sold on and to whom;

6.99.10 The total amount of the in-lieu contribution, should this be the case, and to whom, how and when it will be paid. An in-lieu contribution should be paid prior to issue of the occupancy certificate for the development and the issue of such certificate should be conditional on proof of payment;

6.99.11 The reporting requirements to enable the monitoring of affordability of the affordable housing units over time, and to whom reports will be provided;

6.99.12 Title deed restrictions to be introduced on stock for sale to maintain affordability.

FINANCIAL VIABILITY CRITERIA

6.100 In the pre-application phase of the application, the property owner, developer and municipality need to consider and evaluate the economic trade-offs involved in requiring a certain percentage of affordable units in new residential or mixed-use development.

6.101 Following this approach ensures that it is economically sound, will not deter development, and will deliver the types of new affordable units the local community needs. It can also be used to determine how a new inclusionary zoning would affect market-rate housing development costs and profits.

6.102 It also assists in highlighting what is economically reasonable for the municipality trying to set affordable housing requirements and offer developers meaningful incentives.

6.103 It does not replace a detailed financial feasibility analysis prepared by a trained professional.

6.104 Variables that make the greatest difference to the bottom line results: hard construction costs (usually 60-70% of development costs can be attributed to materials and labour – drives the cost side of the equation); average rental rates or market price sales (average monthly starting rental rates for new rental projects and average market prices for for-sale projects are the most important assumptions on the revenues side of the equation); capitalization rates (used to translate net operating income in a year of stabilized occupancy into total project value).

6.105 The literature and local case studies suggests the following financial viability criteria for consideration and these factors and measures should form part of the pre-application phase of the application:

Factors and measures
Property size / development footprint
Current zoning and land use
Proposed new zoning

Vacant land cost
Municipal property valuation
Developed land value per land use: Residential sales income
Developed land value per land use: Rental income per land use
Developed land value per land use: Office rental income
Developed land value per land use: Retail rental income
Developed land value per land use: Parking rental income
Developed land value per land use: Parking sales income
Total number of parking bays required
Assign parking requirements to each site (per m^2 and per dwelling unit), for each chosen/permitted land use, for both scenarios. m^2 parking requirement residential no concession m^2 parking requirement residential with concession m^2 parking requirement office no concession m^2 parking requirement office with concession m^2 parking requirement retail no concession m^2 parking requirement retail with concession
Percentage of residential floor area allocated to the ratio of affordable housing units for each site.
Define the floor area of 0-bedroom, 1-bedroom, 2-bedroom and 3-bedroom units. Proportion of residential floor area allocated to each dwelling unit type 0bedroom:1bedroom:2bedroom:3bedroom (ratio) 0bedroom:1bedroom:2bedroom:3bedroom (size)
Land-use distribution - define/calculate the maximum proportion of floor area allocated to permitted land uses (residential and/or retail and/or office) on each site under both scenarios according to land-use zone and parcel size. % residential no concession % residential with concession % office no concession % office with concession % retail no concession % retail with concession
Based on calculation above, calculate within each land use, floor area the allocation to parking, according to the parking requirements established in. m^2 parking area residential no concession

m^2 parking area residential with concession m^2 parking area office no concession m^2 parking area office with concession m^2 parking area retail no concession m^2 parking area retail with concession
Municipal rates
Monthly cost of municipal rates per site for both scenarios is calculated, according to land-use zone, estimated municipal valuation and construction floor area. R/m^2 residential no concession R/m^2 residential with concession R/m^2 office no concession R/m^2 office with concession R/m^2 retail no concession R/m^2 retail with concession
Rental income per land use, per site, per scenario (floor area multiplied by suburb market data values)
Define discount factors, for low- ,medium-income and open-market units under the inclusionary zoning scenario* - Users to define % reduction in residential rental income estimates in relation to estimated open-market rental incomes for the sites' suburbs. Discount factor low-income rent Discount factor medium-income rent Discount factor open-market rent
Define occupancy rates of rented floor area. % residential occupancy rate
Levies income from sold residential units, per site, per scenario (proportional to building maintenance costs of sold units)
Define the percentage of open market residential floor area sold under both scenarios. % open-market residential units sold no concessions % open-market residential units sold with concessions
Monthly municipal rates per site, per scenario
Define building maintenance costs (R) per m^2, per scenario
Cost of land per site
Cost of construction per site, per scenario Construction cost (R) per square residential per m^2 Construction cost (R) per square office per m^2 Construction cost (R) per square retail per m^2 Construction cost (R) per square parking m^2

Define construction duration (months) for each site for no concession Construction duration residential Construction duration office Construction duration retail Construction duration parking
Define construction duration (months) for each site for with concession Construction duration residential Construction duration office Construction duration retail Construction duration parking
Income from sold residential units, per site, per scenario
Income from sold residential units parking bays, per site, per scenario
Debt at project completion per site, per scenario
Generated equity at project completion per site, per scenario (value of completed construction, minus value of units sold, minus any debt owed on loans to fund projects)
Monthly profit, per site, per scenario (monthly income minus monthly debt)
Net rental yield, per site, per scenario (annual rental income minus annual expenses, divided by total cost of project)
Define loan interest rate
Number of years to settle loan per site, per scenario (using monthly profit)

Table 4: Financial viability criteria

SUMMARY: Key considerations for the Inclusionary Zoning Policy and Regulations for Stellenbosch Municipality

Which type of policy is the municipality considering in adopting?	
Hybrid	• Mandatory requirements and additional, optional developer incentives for greater affordability in targeted areas. • Tend to produce more affordable units than voluntary policies. • Tend to serve more low-income households in well-located areas. • Offer uniformity and predictability for property owners and developers.
Where does the policy apply?	
Target areas	Inclusionary Housing Trigger Area • Requirements apply to specific priority development areas (i.e. Adam Tas Corridor, Stellenbosch Town, Klapmuts and Franschhoek) located within the delineated and adopted urban edges. Priority receiving areas for Inclusionary housing. • Well-located specific priority development areas as defined by the municipal spatial development framework. capital expenditure framework, Adam Tas Corridor Local Spatial Development Framework, and Adam Tas Local Area Overlay Zone, social restructuring zones, PHSHDA's, and so on.
To whom does the policy apply?	
Residential and non-residential property owners and developers	• Applies to property owners and developers if the development project trigger the policy to go into effect. • Allows mixed-use property owners and developers to contribute to the community.
To what types of projects does the policy apply? (i.e. What's the trigger for the policy to be in effect?)	
Minimum development size	• Trigger is 20 dwelling units or more. • May apply to smaller developments on voluntary implementation option.
Tenure type	• Applies to both rental and ownership development projects.

How can the property owner and developer meet the policy's requirements?	
Constructing affordable housing contribution on-site	• Promotes social and economic integration in well-located areas. • On-site construction is the standard requirement within the spatially targeted and mandatory implementation approaches, with alternative options requiring approval incorporated.
Deciding duration for affordability preservation	• Rental and homeownership units to remain affordable for at least 30 years, or until repealed by Council.
Defining the share of affordable housing contribution	• 20% of total units or total floor area within the priority development areas (Stellenbosch Town, Klapmuts and Franschhoek) located within the delineated and adopted urban edges. • 30% of total units or floor area within the priority development areas delineated in the Adam Tas Local Spatial Development Framework and Development Guidelines, 2022 and the Adam Tas Local Area Overlay Zone (in progress).

Varying income requirements within development project	• Proportional allocation within the affordable market income range and units per segment within the range is proposed.
	• Affordable housing market segments targeted are:
	  • Affordable (R300 000 – R600 000);
	  • Conventional (R600 000 – R900 000); and –
	  • High-end (R900 000 – R1.2million).

Offering trade-offs for deeper affordability	• Development projects that targets the affordable housing market segments as defined is exempted from applying the policy.
Deciding the location of affordable housing contribution within the development	• Affordable units on-site may be clustered, located on certain floors, or in adjacent buildings.

Setting specification requirements for affordable housing contribution	• Require affordable units to be identical to market-rate units (tenure blind) and allow internal variations with minimum standards. • Social Housing norms and standards are proposed as minimum design requirements regarding bathroom, kitchen areas, fittings and quality of facilities is recommended to be used as a guideline. • Variety of housing typologies are proposed, based on household composition within the municipality to respond to different family compositions. Optimum unit sizes as proposed for social rental stock is recommended to be used as a guideline.
What are the prices and income requirements for affordable units?	
Affordability criteria for households	• Focus on households falling within the GAP market/Housing and affordable housing target market namely >R3 500 – R27 200 (FSC 2022, rates to be updated yearly) annual gross household income. • Provisions for household income over time for annual income verification has been proposed in line with CPI.
Targeted beneficiaries	• Employed households (excluding students) earning stable incomes falling within the affordability threshold. • Suggestions around targeted beneficiaries (e.g. key workers, vulnerable groups, etc.) are proposed for consideration in the beneficiation process.
Setting affordable housing cost for household income	• Premium to income ratio for renters not more than 30% and for homeowners between 30-35%. • Differentiated procedure for premium to income ratio allowed when detailed household income analysis are provided.
What are the off-set incentives available to property owners and developers?	
Deciding whether and how resources from existing land-based financing and housing mechanisms may be used by renters or homeowners	• Municipal rates and taxes to be adapted to ensure the affordability of these units. • Municipality to consider inclusionary housing category for these households to qualify and benefit from exemptions, rebates, discounted rates, and capped valuation of units. • Households can apply for financial subsidies, such as FLISP.
Expedited planning permissions	• Fast-tracking of approval processes by a dedicated municipal project team for implementing the Adam Tas Corridor Spatial Development Framework and Development Guidelines, 2022 and its overlay zone (pro-active rezoning mechanism in progress).

Density, height, bulk bonus, or other zoning variances	• Density bonus which allows private developers to provide units in addition to the prescribed land use density. • Reducing parking requirements for the affordable housing component, particularly in areas close to public transport routes, or as deemed appropriate by the municipality. • Removing or reducing associated planning requirements as deemed appropriate by the municipality and accordingly demonstrated in the financial viability estimates during the pre-application phase.
Cost offsets	• Development contribution deferment (also referred to as bulk services infrastructure payment "holiday" for the affordable housing component of the development.
Receiving discounts	• 10% development contribution discount on the affordable housing component of the development.

Table 5: Summary table for the application of the inclusionary zoning mechanism in Stellenbosch Municipality

ANNEXURE A

Western Cape
Government
FOR YOU

Centre for Affordable
Housing Finance
in Africa

Department of Environmental Affairs and Development Planning

Housing Market Studies for Intermediate Cities/ Larger Towns in the Western Cape

Stellenbosch Town Report

FINAL REPORT. August 2022

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  What are the key trends in the housing market?
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This report was produced by the
Centre for Affordable Housing Finance in Africa (CAHF)

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Western Cape Government

Centre for Affordable Housing Finance in Africa

Introduction

Western Cape Government

Centre for Affordable Housing Finance in Africa

Project background and purpose

Problem statement

Developed in 2021, the draft Western Cape Inclusionary Housing Policy Framework provides a guide for municipalities to develop local policies which harness inclusionary housing as a mechanism to promote better located affordable housing in towns and cities, in partnership with the private sector. As a first step to determining if inclusionary housing has the potential to be an effective policy tool in the local municipal context, its necessary to have a clear understanding of the residential property market in the municipality.

Given that many local governments do not have the means to undertake this detailed analysis themselves, the Western Cape Department of Environmental Affairs and Development Planning (DEADP) in partnership with the Department of Human Settlements appointed the Centre for Affordable Housing Finance in Africa (CAHF) to deliver housing market studies for identified urban areas of George, Stellenbosch, Mossel Bay and Drakenstein municipalities.

Project objectives

The overall aim of the project is to underpin and support each of the municipalities to decide on the applicability of an inclusionary housing policy for their municipality and then to assist with the design and development of that policy, by providing key data to inform the design and parameters.

The reports include: analysis of the residential property markets; housing supply and demand assessments; and analysis of the affordability gap in each area, and are intended to provide the intelligence needed to ensure an evidence-led understanding of the housing markets in these urban areas.

Key research questions

In order to inform the potential development of a local inclusionary housing policy, the analysis of the residential property market must address the following questions:

- What is the profile of housing in the city? – by market segment, property type, neighbourhood
- What is the state of the residential market currently? – in terms of market performance, activity, key players, government and private sector delivery
- What is the affordability gap? – where is affordable housing needed, how much and what type? what is the target market for the affordable housing market?
- Is there an active property development market that would make the application of an inclusionary housing policy viable?

Data sources

- **Deeds data from Lightstone Pty.**

Deeds data was purchased from Lightstone Pty for the study areas in each of the local municipalities, covering the period 1 January 2017 – 31 December 2021. Record-level data is aggregated over time by calendar year, at subplace level, using StatsSA boundary delineations.

NB: The data purchased from Lightstone, and detailed in the Supply and Market Activity sections of this report, reflects only the Census sub-places contained within the study area, as well as the relevant portion of the Stellenbosch NU subplace which is within the study area—see **Appendix A** for a detailed explanation. The deeds data therefore reflects the study area, and *not* the entire municipality.

- **TPN Credit Bureau data on rental market**

Given that the deeds data from Lightstone does not allow sight of the rental market, we obtained rental market data from TPN Credit Bureau, who produce and sell Investor Reports for specific areas. The reports provide data on rental prices by size of unit (no. of bedrooms) for last three years, low, average and high monthly rental. The drawback of the TPN data is that a) it only includes formal properties, and b) only includes data from landlords and companies that voluntarily provide the data to TPN. The lack of updated municipal or sub-place level data on the rental market is critical gap impacting on municipal planning.

- **Stats SA sources**

Demographic data and data on housing circumstances was sourced from Stats SA sources, including the: 2011 Census, 2016 Community Survey, 2019 General Household Survey, and Labour Force Survey Q4 2021. For many key indicators, the most updated data is not available at municipal level, forcing a trade-off between how recent the data is, and whether it is too high level to be useful to a study of the city area.

- **DEADP and other Western Cape provincial sources**

Population estimates were provided by the WC Department of Social Development and DEADP. Quantec data (2021) published in the Municipal Economic Review and Outlook was provided by Provincial Treasury. Additional data was obtained from DHS on: housing project pipeline status per municipality; FLISP and social housing delivery; Restructuring Zones; and demand information acquired through public Open Day events in municipalities.

- **Income segments**

Apart from more outdated income data from Stats SA source, recent data on income at municipal level was difficult to obtain. In addition to Quantec data acquired from Provincial Treasury, the WC Department of Economic Development and Tourism also provided municipal-level income data for 2021. GeoTerraImage provided income data at subplace level for the four municipalities, which allowed us to isolate the data for the George city area.

Data from Stellenbosch municipality

The municipality provided a wealth of information, including: valuations data; housing demand database data; housing project information; backyard dwellings; and land use management decisions. Shapefiles were provided for: land use and zoning; the urban edge, priority development areas, zoning schemes, informal settlements and LUPO applications. This data was overlayed with deeds data from Lightstone to get a spatial understanding of market activity.

- **Key respondent interviews**

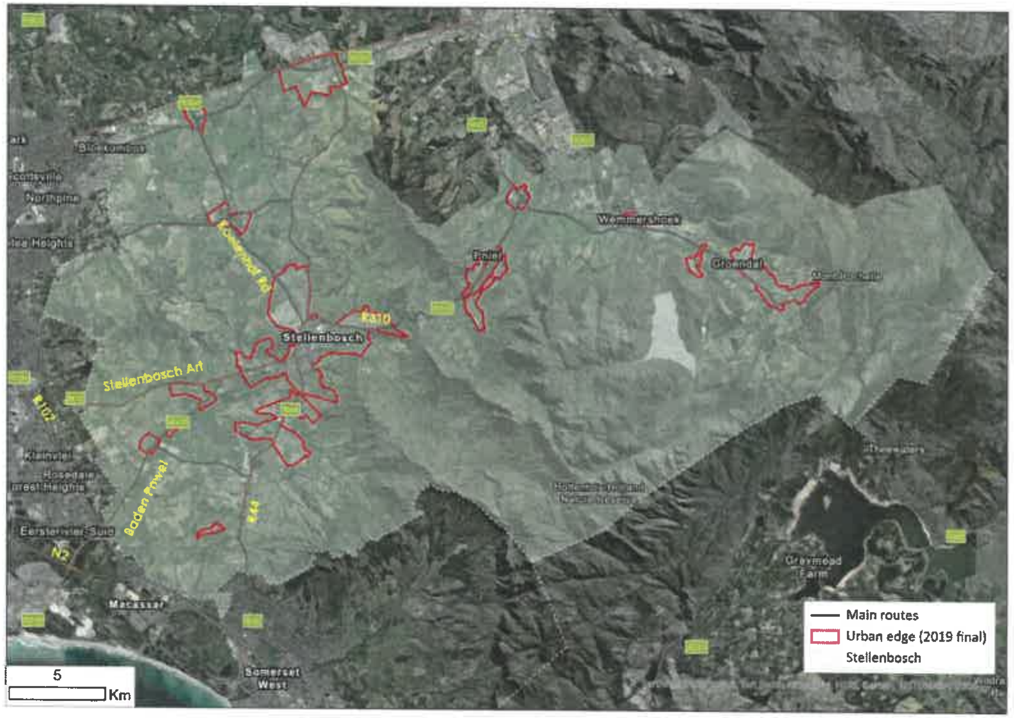
A limited number of key respondent interviews were undertaken to supplement the quantitative data sources. In Stellenbosch, we spoke to two private developers and an executive manager at the University of Stellenbosch. The interviews explored: trends in the market; the nature of demand and the target market; the level of activity and growth in the rental and ownership markets; and market prices (rental and ownership.

- **Additional sources**

Additional sources included: the Social Housing Regulatory Authority (SHRA), Consumer Credit Market Reports, and other sector reports and publications.

Study area

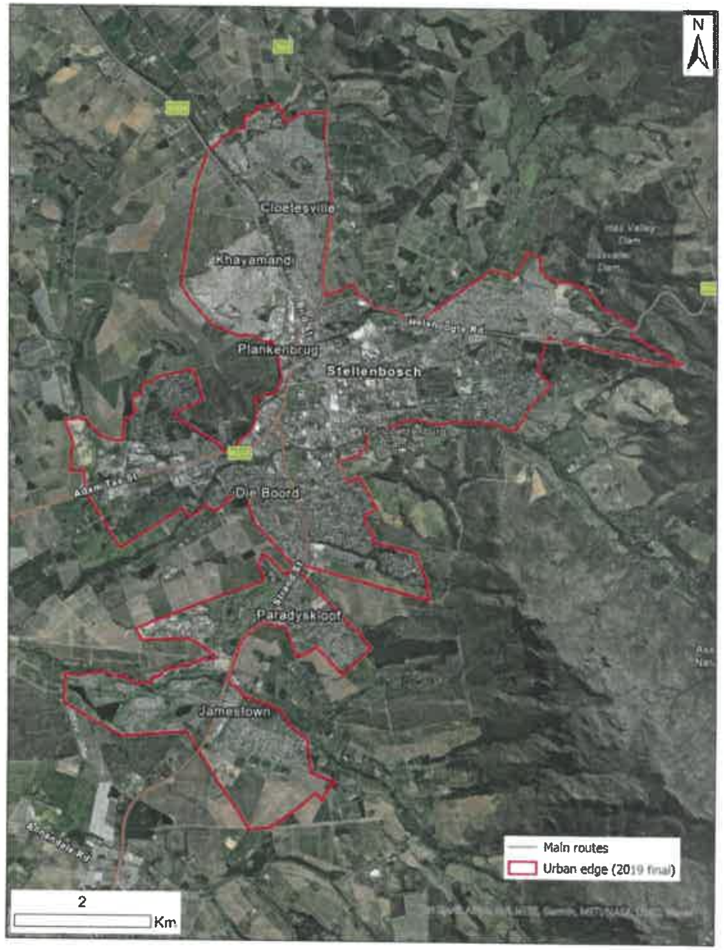
Stellenbosch municipality: Urban edge



Data source: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

As shown in the map above, the 2019 urban edge for Stellenbosch municipality includes a number of separate outlying areas—such as Pniel and Groendal—in addition to the town of Stellenbosch itself. The scope of this study is limited to the main central town of Stellenbosch, as encircled by the urban edge (map to the right)—see **Appendix A** for further detail.

Study area: Stellenbosch town



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

Methodology

Deeds data analysis

The indicators obtained from Lightstone were organized into five market segments according to property value, according to Lightstone's own valuation method (see box on pg 20):

- Entry level market – Properties valued under R300 000
- Affordable market – Properties valued R300 000 – R600 000
- Conventional market – Properties valued R600 000 – R900 000
- High end market – Properties valued R900 000 – R1.2m
- Luxury market - Over R1.2m

By lumping all properties valued over R1.2 million into one market segment, instead of setting up market segments with equal intervals, this classification is notably biased towards the lower end of the market. These market segments were identified with the aim of providing detail on segments within range of the affordable housing market, and therefore do not prioritise detailed stratification in the market over R1.2 million. Visually, this distorts the size of the segment above R1.2 million, as many smaller segments are collapsed into one. This is an acknowledged limitation in the report, as a more detailed understanding of the market above R1.2 million, particularly below R3 million, would enhance understanding of the ecosystem impacting on affordable housing.

A second key point of note is that the deeds data—by definition—only includes those residential properties which are recorded in the Deeds Office, and therefore excludes informal settlements and backyard dwellings, and units that may be occupied but not transferred. Census 2011 data includes these areas, but it obviously outdated, and must either be used to model and estimate the current population in informal dwellings, or municipalities must undertake specific surveys, which is not feasible and affordable in most cases. In this report, we have used data from the WC Department of Social Development and GeoTerraImage, as well as data from the municipality itself.

Third, government-subsidised houses are not explicitly recognised or marked on the title deed. Therefore its necessary to use a proxy to identify these properties on the deeds registry—our proxy is based on common programme characteristics of BNG/RDP houses, including the year, first registration price and buyer type, maximum prices, and proximity to other similar housing types. Further detail is provided at **Appendix B.**

Although not in the form of records-level data, the Lightstone data indicators enable analysis of: housing stock by market segment and property type; new and resale transactions; bonded and non-bonded transactions; housing typologies (freehold, estate, sectional title); first-time home buyers; and government-subsidised properties. Analysis of these indicators enables improved understanding of market depth and scope, affordability and inclusion.

The deeds data obtained from Lightstone is not an exact match to the boundaries of the study area / urban edge, but it is very close. **Appendix A** provides detail on the geographic areas included in the deeds data for the Stellenbosch town area obtained from Lightstone. The data covers: the 16 Census subplaces within the urban edge of the town, and one specific populated area which is located within the urban edge, but part of the larger Stellenbosch NU subplace which surrounds the city area and covers rural lands. Thus all the deeds data obtained from Lightstone which is presented in this report does not encompass the entire municipality, but only the Stellenbosch town which is the focus of this study.

Mapping

The mapping data received from the municipality and province (CSV, databases and Excels) was stored in a SQL data base where applicable to allow for connections to Power BI and Tableau software. A connection to Tableau was required as our purchased deeds data is geolocated to the Stats SA Census boundaries at the lowest level of subplace and we have pre-customized the mapping on our license in line with the Stats SA Census boundaries.

Furthermore, Tableau was also utilized to conduct analysis of the municipal data, survey data and purchased data as well as the output of graphical report charts and generic maps for the study places and the lowest level of subplace.

Additionally, for the mapping outputs, ArcGIS was utilized to produce shape files with analyzed deeds data as well as the province and municipal data where applicable, overlayed in the study focused areas.

Demand side assessment

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Key demographics

Stellenbosch town is the largest settlement in the municipality, followed by Klapmuts and Franschoek and a number of smaller rural settlements. Home to a major university of 22 000 students, the town serves as a centre for the municipality with education, commercial and government services. Stellenbosch is an important centre for tourism, due to its natural environment and wineries, and also attracts retirees.

Population

Identified as the main urban node of the municipality, Stellenbosch town had a population of 101 843 in 2021, with a total of 27 359 households. Stellenbosch town is home to 52% of the total households in the municipality.*

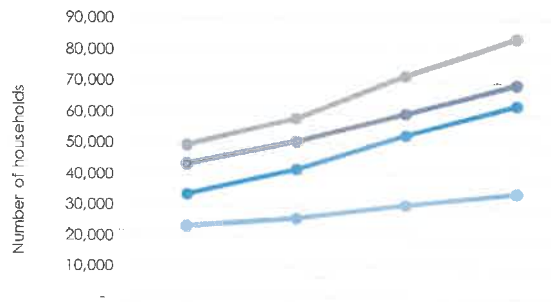
At municipal level, 73% of households have access to basic services, as well as live in a formal dwelling. Municipal population estimates by WC DSD are shown to the right, alongside figures for Drakenstein, George and Mossel Bay.

According to earlier DEADP estimates, having increased relatively faster at 2.8% per annum between 2001 and 2011, Stellenbosch municipality's population growth is estimated to slow to 2.2% per annum from 2011 to 2023, at which point the population growth rate is expected to increase to 2.5% per annum up to 2028. The municipal IDP forecasts a lower population growth rate of 1.7% per annum for the period 2021-2025. Household size in the municipality has been declining slightly, from 3.4 in 2001, to 3.3 in 2016. The municipal IDP 2022-2027 puts household size at 3.7 in 2021.

Density

Stellenbosch municipality's population density is 236 persons per km^2, higher than neighbouring Drakenstein municipality at 191 person/km^2. The 2019 SDF set the target density for the municipality at 25 dwelling units per hectare, but noted that the average density in 2015 was only 8.17, indicating that significant changes to settlement patterns needed to be effected in order to increase density within the urban edge.

Number of households per municipality



	2002	2011	2021	2031
George	43,463	50,498	60,162	69,089
Mossel Bay	22,938	25,977	30,308	34,229
Stellenbosch	33,577	42,070	52,653	62,972
Drakenstein	49,706	58,410	72,207	84,027

Source: W C Department of Social Development. Population and Household Estimates created for Inclusionary Housing Project/Study, 2022. Excel file: *DSD\IHSstudy_SummaryOutputDraftML20220223 2011SPaligned.xlsx*

Number of households by gender of head of house
Stellenbosch, 2016

	Number of households	Percent of total
Female	19,122	36.58%
Male	33,152	63.42%
Grand Total	52,274	100.00%

Source: 2016 Community Survey.

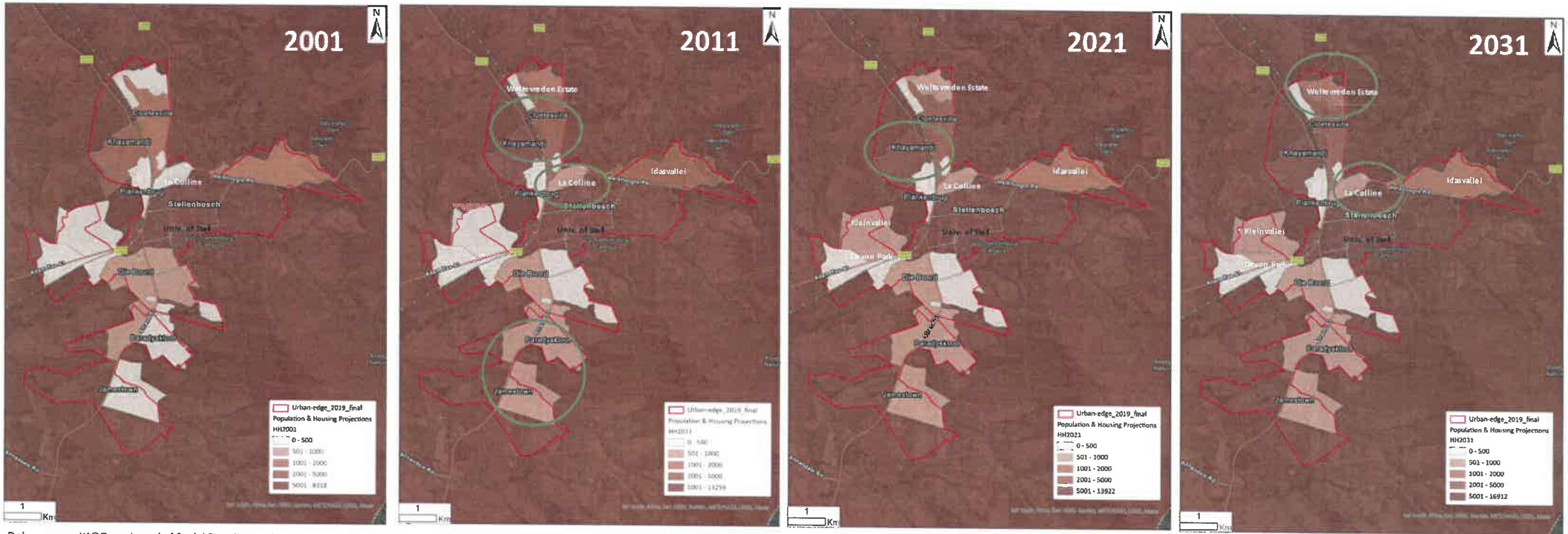
Demographics

As of 2021, the municipal population is 51.2% female (2021), while the 2016 Community Survey puts the number of women-headed households at just 37%.

According to the 2016 CS, approximately 30% of Stellenbosch municipality's population were adults, 42% were youth (15-34) and 4% elderly persons (65 and over). Stellenbosch municipality has an ageing population, with the cohort of persons 65 or over, growing faster than the cohort of working age adults. The great majority of stable homeowners are over 50 years old, with only about 5% under 35.

* Source is W C Department of Social Development. Population and Household Estimates created for Inclusionary Housing Project/Study, 2022. This figure for the household total differs from that sourced from GTI for 2021 (see pg. 15). The DSD figures were used here as shapefiles were available at sub place level to do a spatial analysis (next page).

Growth of number of households by subplace (2021 -2031)



Data sources: WC Department of Social Development. Population and Household Estimates created for Inclusionary Housing Project /Study, 2022.

Urban Edge
HH2021
0 - 500
501 - 1000
1001 - 2000
2001 - 5000
5001 - 13922

Population growth by area – 2001-2031

Between 2001 and 2011, Khayamandi more than doubled in size, with an additional 5 004 households. Cloetsville also grew in population with 1 081 additional households. Stellenbosch SP dropped by one third, losing nearly 3 000 households. Reflecting densification at the centre of town, La Colline more than doubled its number of households. Jamestown and Paradyskloof to the south also gained population.

The next ten years until 2021 saw continued growth in Khayamandi, with another 2 760 households being added.

Looking forward, the growth in Khayamandi is forecast to continue at the same rate, growing by one third before 2031. La Colline and Cloetsville will also continue to densify. Having dropped in size prior to 2021, Welgevonden is anticipated to gain another 420 households in the next 10 years.

In total, the Stellenbosch town area is anticipated to gain an additional 6 146 households between 2021 and 2031, according to these estimates by WC DSD.

Housing context

- **Dwelling type and tenure**

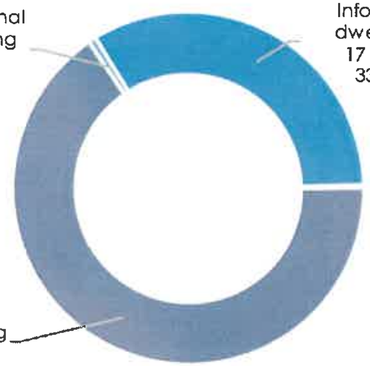
The data from the 2016 Community Survey shows that 66% of households in Stellenbosch municipality stayed in formal dwellings and 33% in informal dwellings—see pie graph. According to more recent figures from the 2021 MERO, 36 592 households in the municipality reside in formal dwellings, or 73% of total households. An estimated 25% of residents live in the 29 informal settlements in the municipality (2022-2027 IDP).

The 2016 CS has the most recent data at municipal level on tenure status—see table to the right. At that point in time, one half of the municipality's households reported that they owned their property (50%) while 19% rented. Stellenbosch municipality has a lower ownership rate than the national average (65%) and lower rates of rental than the national average (26%)—according to national data from the 2019 GHS.

Of those who owned, 41% of households reported they possessed the title deed to their home, while 37% said they did not have the deed to their property (2016 CS).

At the time of the 2011 Census, one third of households reported that they were in an RDP or government-subsidised dwelling, while 37% indicated they were not.

Number of households per dwelling type
Stellenbosch municipality (2016)



Source: 2016 Community Survey.

Number of households by tenure status
Stellenbosch municipality (2016)

	Number of households	Percent of total
Do not know	569	1.09%
Occupied rent-free	10,089	19.30%
Other	5,661	10.83%
Owned and fully paid off	22,002	42.09%
Owned; but not yet paid off	4,121	7.88%
Rented from other (incl. municipality and social housing ins	1,754	3.36%
Rented from private individual	8,077	15.45%
Grand Total	52,274	100.00%

Source: 2016 Community Survey.

Housing demand

Stellenbosch town housing demand database

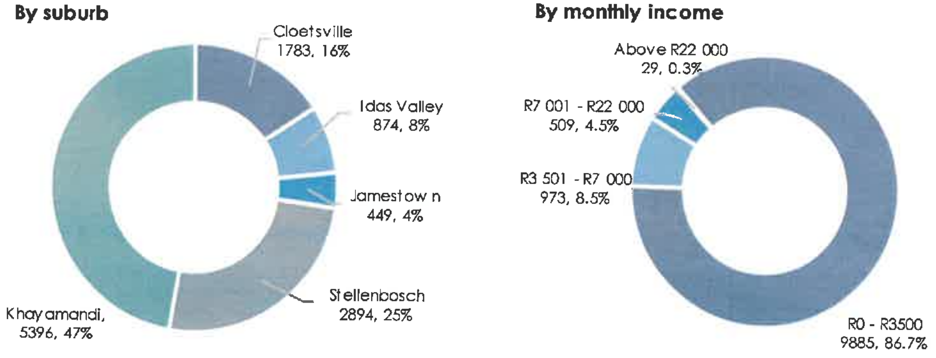
According to data provided by the municipality, as of November 2021, the number of people on the Stellenbosch municipality housing demand database was 17 945. Residents of Stellenbosch town made up 64% of the database (11 396), of which: 64% were aged 41-65 years old, and 0.12% (or 14 people) indicated a member in the household had a disability.

The housing demand database information must be viewed with caution for a number of reasons. The data is based on those people who voluntarily come forward, and income data is self reported and not verified. Furthermore, the demand data is a moving target and thus these figures only speak to one point in time as recorded at one event. Finally, it has been observed that this open day methodology typically undercounts persons with disabilities.

Housing gaps

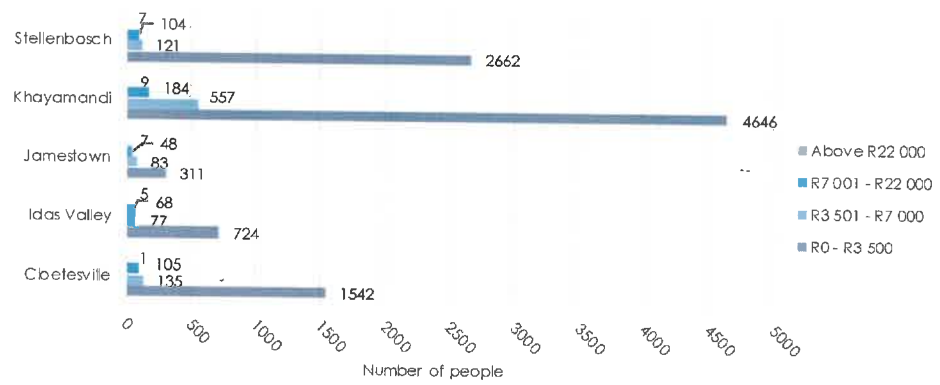
Because state housing delivery has not produced sufficient units and the private sector is not building units affordable to low and middle income households at scale, there is a significant shortage of adequate, affordable housing in Stellenbosch town, resulting in land invasions, a growth in informal settlements, and large numbers of workers and students from the university or private sector needing to commute daily

Stellenbosch town housing demand database (November 2021)



Source: Stellenbosch Municipality, Stellenbosch November 2021 statistics.

Stellenbosch town housing demand database by suburb and monthly income (Nov 2021)



Source: Stellenbosch Municipality, Stellenbosch November 2021 statistics.

into town. The current housing gap is specifically with respect to student housing and affordable housing for employed, lower and middle income groups. The demand for lower-value rental accommodation for university students is in the region of 4 000 units.

The data indicates that housing need is concentrated in particular areas of the town. Cloetesville, Idas Valley, Khayamandi, and Jamestown make up nearly half of the municipality's total BNG housing need. Cloetesville (84%), and Idas Valley (88%) have the highest proportion of applicants on the waiting list for 10 years or more.*

Many people on the housing demand database have been waiting for housing assistance for years. According to the 2019 SDF, 74% of the applicants (for the entire municipality) had been on the waiting list for longer than 10 years, 24% of which are currently on the waiting list for more than 20 years.

Looking at the demand database for the municipality in 2018, the majority of people (53%) were over 40 and had been on the waiting list for more than 10 years, according to the 2019 MSDF.* Those applicants who were under 40 years of age were mainly located in Khayamandi and Klapmuts, which falls outside the study area (see pg 6).

* Sourced from 2019 Stellenbosch SDF, which includes an analysis of a May 2018 extract from the WC Housing Demand Database for the municipality.

Unmet housing needs – Informal settlements and backyard dwellings

The presence of informal settlements and backyard dwellings in Stellenbosch town, provides a sort of proxy for housing demand, indicating the number of households unable to find alternate, adequate accommodation which is affordable. The location of these dwellings may indicate areas of opportunity for settlements, or may express preferences for location with respect to formal or informal employment.

As shown in the map, informal settlements within Stellenbosch town are almost entirely located in Khayamandi, at the northern end of town. Its important to note that, absent a recent survey of informal settlement residents which provides data on type and quantum of income, its difficult to know if those households would qualify for subsidized housing, and thus whether the required housing opportunities would need to be provided by government through fully-subsidized units, service sites, social housing or FLISP. These households may have income which make them ineligible for full subsidies and unable to purchase a newly-built unit, but adequate to enable some affordability—perhaps affordable rental or a low value house on the resale market. The existence of the informal settlements and backyard dwellings are therefore an indication of housing inadequacy, but not evidence of effective housing demand or capacity to pay.

- **Backyard dwellers in Khayamandi**

A 2021 survey of backyard dwellers in Khayamandi yielded good information on the circumstances of residents, with implications for determining demand for adequate housing. A total of 1 629 households were interviewed.

backyard dwellings were mostly occupied by single youth. Nearly three quarters (73%) of backyard structures were inhabited by one person, and 62% of

heads of households were aged between 18 and 25. Another 45% of household heads were 26-35 years old, while only 2% were over 55. The great majority of the heads of households were single (84%).

Although 48% of persons were employed, incomes were low, with 59% earning R4 000 or less a month. Only 4% reported a monthly income over R10 000. The share of households receiving a social grant—primarily the child support grant—was only 18%.

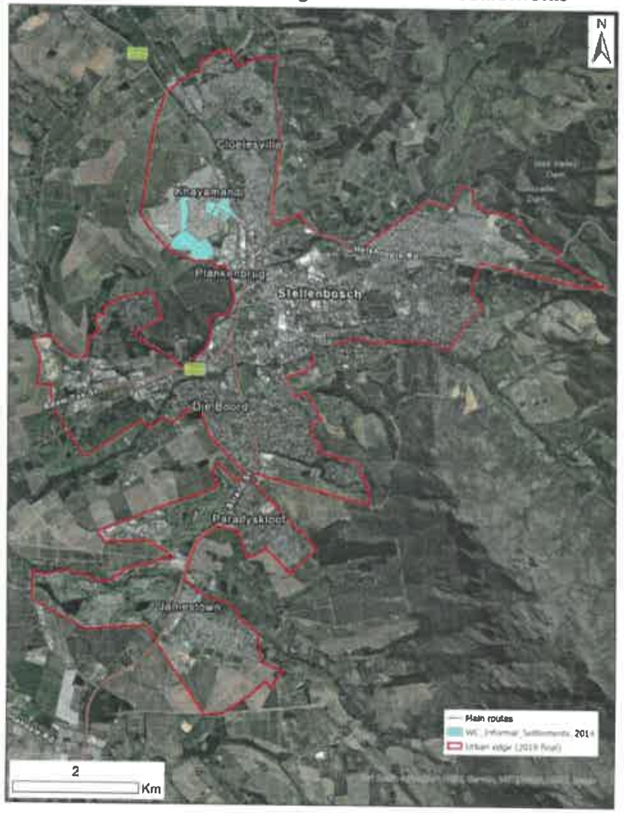
Of those who were employed, 57% indicated they were in permanent employment—mostly unskilled or low skilled—primarily as restaurant workers, general workers, and security personnel.

Approximately half of backyard households had been staying at the same address for five years. Most respondents indicated they were renting their dwellings and/or the land on which it sat. Importantly, only 11% of respondents had registered on the housing demand database.

While reported income levels would suggest that approximately one third of backyard dwellers would meet the income requirements below R3 500/month, single persons who did not have dependents would be ineligible for a housing subsidy unless they were elderly or had disabilities (both of which were very small numbers). However the relative frequency of permanent employment suggests steady formal income which would support access to credit.

Source: Demographic Survey of Khayamandi and Klapmuts Backyard Dwellers Socio Economic Report, June 2021.

Stellenbosch town: Urban edge and informal settlements



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

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Employment

In 2020 Stellenbosch municipality's GDP per capita was R89 378, exceeding both Drakenstein at R76 561 and the provincial figure of R84 967 (2021 MERO). Given the concentration of jobs, the GDP per capita in Stellenbosch town itself is likely higher than the municipal figure.

The 2022-2027 IDP reports that the economy of Stellenbosch municipality grew by an average annual growth rate of 0.9% between 2015 and 2019, but contracted by 6.7% in 2020, largely due to COVID and economic lockdowns.

- **Employment**

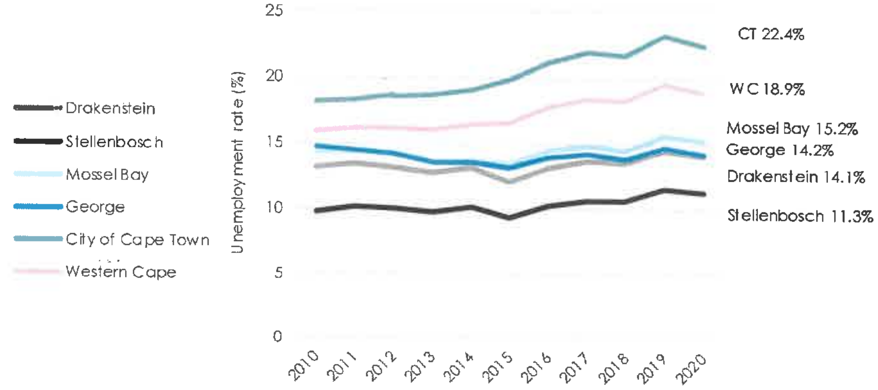
Despite the onset of the pandemic, unemployment in Stellenbosch municipality actually dropped very slightly from 11.6% in 2019, to 11.3% in 2020.

Of the approximately 73 800 workers in 2020, 74% were formally employed while 26% worked in the informal sector.

With respect to formal employment, 24% of workers in 2020 were skilled, 43% semi-skilled, and 32% low-skilled, with the number of low-skilled workers declining in the last four years.

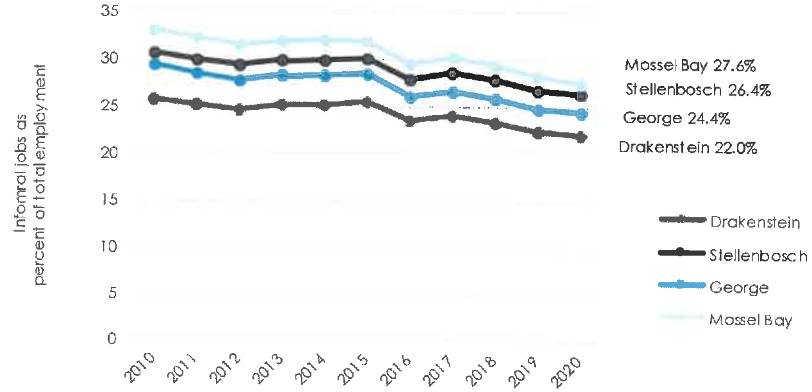
Apart from those who are unemployed, the large number of persons in informal employment creates a challenge for accessing finance to support their housing. Mortgage finance is likely unavailable to these households as banks require evidence of formal employment with a regular income.

Unemployment rates (2010-2020)



Source: 2021 Quantec, calculations by Urban Economics.

Informal employment (2010-2020)



Source: 2021 Quantec, calculations by Urban Economics.

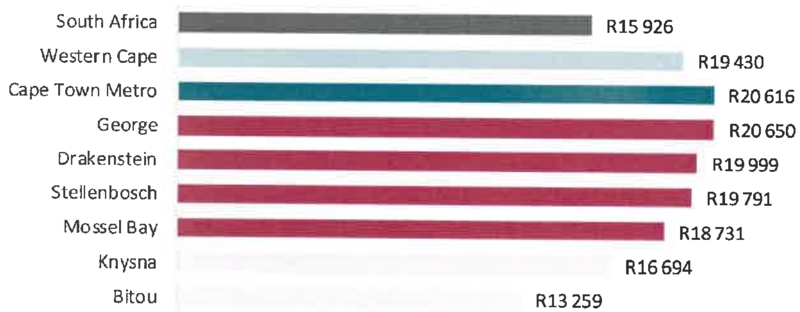
Income

Household income

At R19 791 in 2019, average monthly household income in Stellenbosch municipality exceeds the average for the country, and for the province (2021 MERO). However it is just slightly below the average for Cape Town metro, as shown in the graph below. Stellenbosch municipality's average monthly household income is just R208 below that of Drakenstein.

While average household income in the metro and the province overall declined from 2015 to 2019, the average household income in Stellenbosch increased very marginally—by 0.1% between 2015 and 2019.

Average monthly household income (current prices), 2019

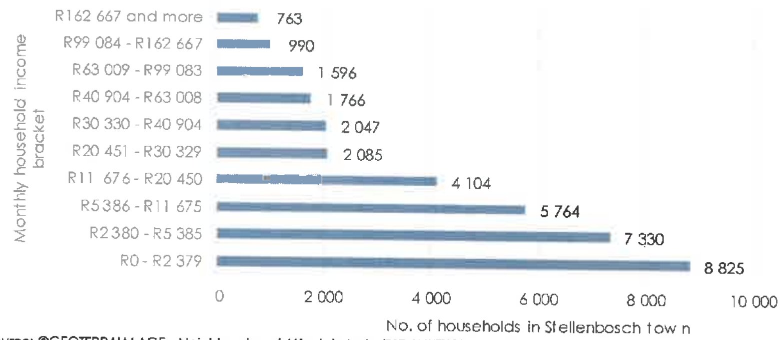


Source: 2021 Quantec, calculations by Urban Economics.

Income distribution

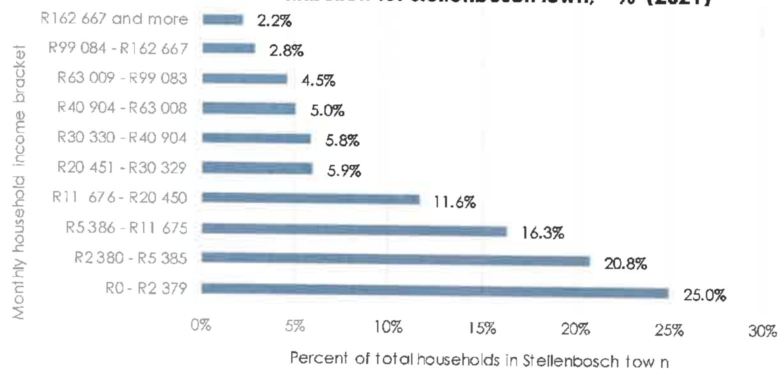
Income data obtained from GeoTerraImage (GTI) for 2021 at subplace level allowed analysis of the income profile of households in Stellenbosch town, instead of the entire municipality.* The graphs to the right display the income distribution. In Stellenbosch town, 8 8825 households, or 25% of the total, earn R2 379 or less / month. Approximately 62% earn about R12 000 or less per month.

Monthly household income distribution for Stellenbosch town (n=35 271) **



Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™® (NLI™®) Release 2021.

Monthly household income distribution for Stellenbosch town, % (2021)**



Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™® (NLI™®) Release 2021.

* The W C Department of Economic Development and Tourism also provided municipal level household income data for 2021. A comparison of the DEDT and GTI data shows that the overall number of households at municipal level is close, but the GTI data has considerably more households in the bottom income segment. A comparison of the two data sources is provided in **Appendix C**. The GTI data is used in this report because it was available at subplace level.
** Includes data from 16 subplaces in Stellenbosch town.

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Rental market

- **Rental rates**

As noted above, the 2016 CS put the overall rental rate for Stellenbosch municipality at 18.8%. The 2016 Community Survey reported that 15.45% of households rented from private individuals, while another 3.36% rented from the municipality or social housing institutions.

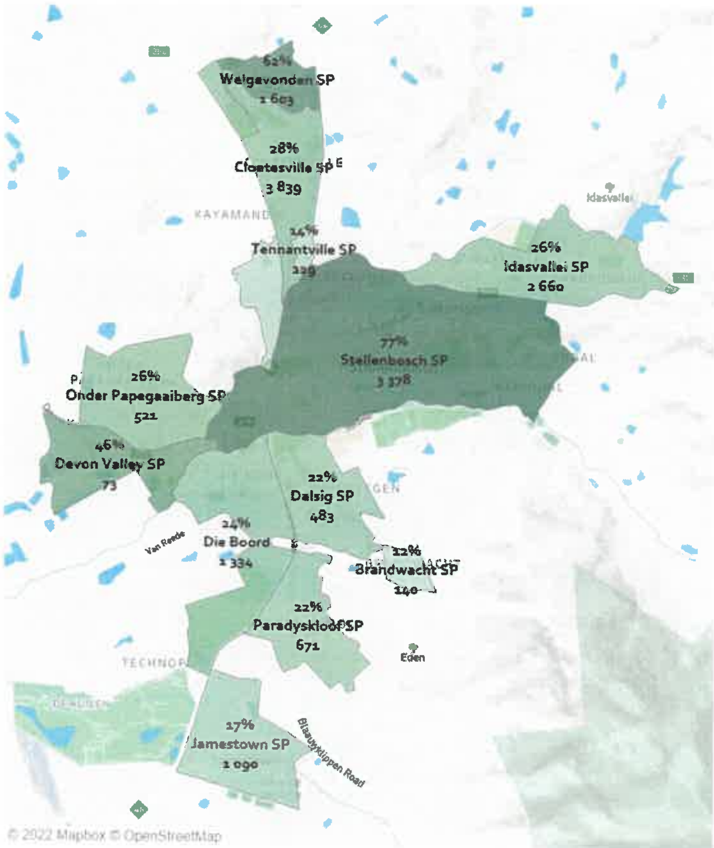
However subplace-level data on the percentage of households who rent is scarce. The most recent data on the percent of households renting by *sub place* is only available from the 2011 Census, and indicated that—at that time—overall 31% of households in the municipality rented their accommodation. In Stellenbosch town alone, that percentage was higher at 47%. At that time, rental rates were highest in central areas of Stellenbosch town, Stellenbosch sub place itself and La Colline. This makes sense given the presence of the university and the number of student renting their accommodation during their studies.

The pie graph displays Census 2011 figures for Stellenbosch town only. In terms of the size of rental units, 21.5% were 1-2 bedroom units, 12.1% were 3 rooms, and 23.8% had 4 rooms back in 2011.

However clearly these areas, and Stellenbosch town, has changed significantly in the last eleven years. The new Census 2021 data will provide much more recent figures.

Percent households renting

Stellenbosch, 2011

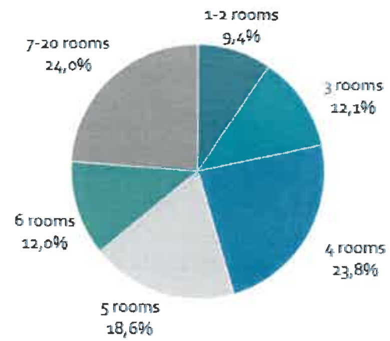


Source: Stats SA Census 2011

Percent Renting

12% 85%

Stellenbosch town: Rental dwellings by number of room (2011)



Source: Stats SA Census 2011

Summary of demand side assessment

- **Demand for affordable housing**

Stellenbosch town had a total of 27 359 households in 2021, and is expected to grow by 2.5% per annum between 2023 and 2028 (DSD). With a relatively high population density of 236 persons per km^2, the municipality has an ageing population, with the cohort of persons 65 or over growing faster than the cohort of working age adults. Particular areas of the town are expected to densify more rapidly, especially Khayamandi , La Colline, Cloetsville and Welgevonden. In total, the Stellenbosch town area is anticipated to gain an additional 6 146 households between 2021 and 2031.

As of November 2021, the number of households from Stellenbosch town on the waiting list was 11 396, of which 47% stay in Khayamandi. The current housing gap is specifically with respect to lower-income student housing and affordable housing for employed, lower and middle income groups. Housing need is concentrated in particular areas of the town: Cloetesville, Idas Valley, Khayamandi, Jamestown, and central Stellenbosch. In addition to unmet housing needs for students reliant on financial aid, there is lack of housing for

Demand for student housing

Approximately 8 000 students at the University of Stellenbosch are in need of private accommodation off campus. Students who receive assistance from the National Student Financial Aid Scheme (NSFAS) have a housing allowance of approximately R60 000/year, or R5 000 /month. About 4 500 NSFAS students stay on campus but there is still about 2 500 who need to find their own accommodation. Although a number of private developers have started building for the wealthier student market (see pg 30), there is a gap for NFAS students who require a safe place to stay at around R5 000 per month.

Of the approximately 8 000 students who require private accommodation in town, about one quarter are in the rental bracket of R5 000/ month, another portion rent in the region of R8 000/month, while the wealthier segment rent units between R8 000 and R15 000 month. The gap in supply therefore remains for affordable private accommodation for lower income students, many of who receive NSFAS support.

young families and young people starting their career. Technopark employees, university staff, teachers at local schools, lecturers, support staff at university are also another key market which is not sufficiently met.

- **Affordability**

According to the 2021 MERO, the average monthly household income in Stellenbosch municipality in 2021 was R19 791, which exceeded the average for the country and the province. A household with this income could purchase a house priced approximately R796 000 with a mortgage.*

As shown in the table below, 32.8% of households in Stellenbosch town earn less than R3 500/month and 19.8% of households earn R3 501-R8 000/month. According to the calculations presented in the table, only 20.5% of Stellenbosch town households could afford to purchase a home worth approximately R1.2 million or more, with a mortgage. The following section explores whether there is a sufficient supply of houses in the price bracket which is affordable to these households.

Stellenbosch town household income brackets and affordable housing purchase price (2021)

Monthly household income bracket **	No. of households	Percent of total households	House affordable to household at lowest end of the bracket *	House affordable to household at top end of bracket
R0 - R3 500	11 557	32.8%	---	R142 112
R3 501 - R8 000	6 991	19.8%	R142 112	R328 887
R8 001 - R16 000	5 390	15.3%	R328 887	R649 654
R16 001 - R30 000	4 097	11.6%	R649 654	R1 218 103
R30 000 - R50 000	2 843	8.1%	R1 218 103	R2 030 171
R50 001 - R100 001	2 650	7.5%	R2 030 171	R4 060 343
> R100 000	1 739	4.9%	R4 060 343	---
Total	**35 267**	**100.0%**		

Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021. Own calculations.
*Assuming a 7.75% interest rate, loan tenor of 20 years, 10% deposit, 30% housing premium to income ratio, and no FLISP. Also assuming the household has a regular formal income and is not accessing other finance. See cautionary notes of methodology on page 31.
** The GTI income brackets shown on pg 15 have been converted here to standard income brackets. The conversion assumes the number of households is evenly spread across the income bracket, which may not be true. The total number of households in this table differs slightly from the total on pg 15 because of the conversion.

Supply side assessment

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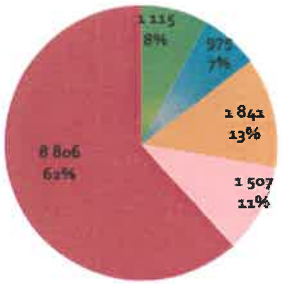
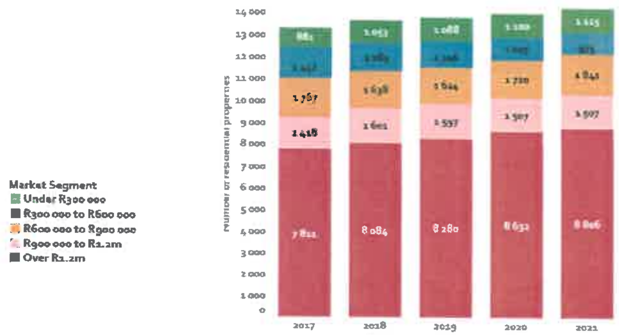
Ownership market – Housing stock by market segment

Market segmentation allows for analysis of how categories of properties have performed differently over time. Most properties under R300 000 were developed through government housing projects, with resale restrictions for houses under eight years old. Properties between R300 000 and R1.2 million are of current interest to government, investors and developers keen on providing more affordable housing, while houses valued over R1.2 million typically trade in more conventional and organic ways.

Number of residential properties by market segment
Stellenbosch, 2021



Number of residential properties by market segment
Stellenbosch, 2017 to 2021



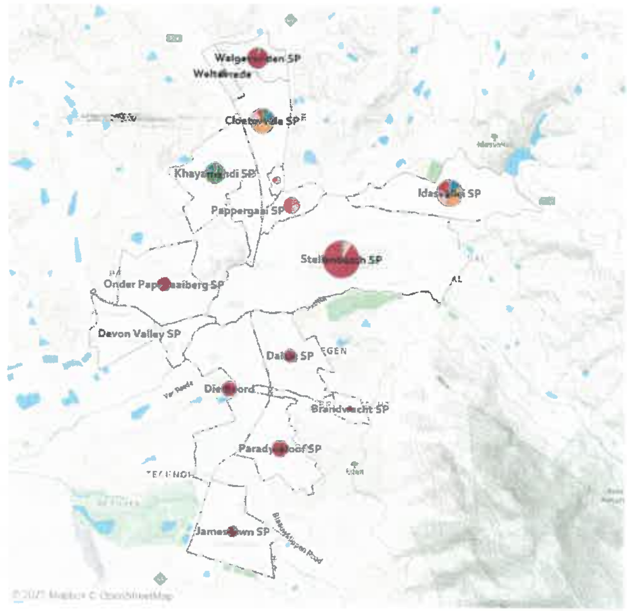
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

With a count of 14 244 residential properties, the total value of the residential property market of Stellenbosch town was is R32.39 billion in 2021, having increased by 4.7% from 2020, and an average of 3.65% per annum over the last five years.* Just 8% of Stellenbosch town's residential properties are in the entry market (under R300 000) and only 7% are in the affordable segment (R300 000 – R600 000), while 13% are in the conventional market valued between R600 000 and R900 000.

Eleven percent of residential properties in Stellenbosch town are in the high-end market (valued between R900 000 and R1.2 million), while the large majority (62%) are in the luxury market over R1.2 million. This means that only about 1 in 3 residential properties is under R1.2 million. Only 28% of the residential properties, or 3 931 houses, are valued R900 000 or less.

These properties valued over R1.2 million would require a minimum monthly household income of R29 600 in order to purchase with a mortgage. (This calculation—and others in this report—assume a 7.75% interest rate, 10% deposit, 30% housing premium to income ratio, 20-year loan tenor, and no FLISP subsidy.)

Distribution of residential properties by market segment
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential properties	Market Segment
2	Under R300 000
1 000	R300 000 to R600 000
2 000	R600 000 to R900 000
3 000	R900 000 to R1.2m
3 885	Over R1.2m

Of the 1 115 entry market properties, 92% are government-subsidised properties (GSP). As shown in the map above, the entry level housing is clustered in Khaymandi, while the bulk of properties valued over R1.2 million are located in the centre of town. Cloetesville is a fairly mixed neighbourhood with the majority of residential properties in the conventional market.

* NB: As noted in the Data Sources section above, the data purchased from Lightstone, and detailed in the Supply and Market Activity sections of this report, reflects only the Census sub-places contained within the study area (Stellenbosch town). The deeds data therefore reflects the study area, and *not* the entire municipality.

Comparing Lightstone deeds data to the Stellenbosch Valuation Roll

The Lightstone data for the study area as of 31 December 2021 includes 14 244 residential properties in total, while the Stellenbosch Valuation Roll (2 July 2020) contains 15 709 properties, approximately 1 500 more.

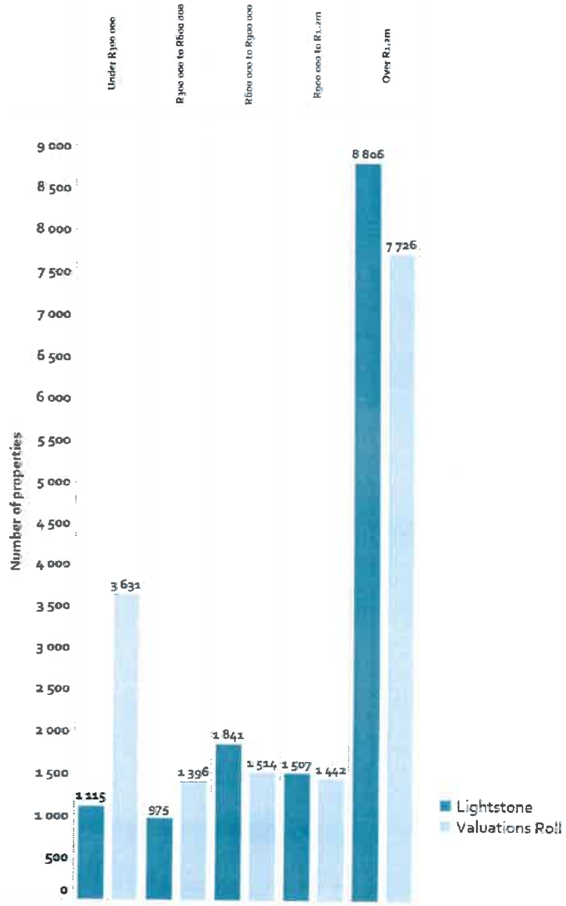
The difference between the total residential stock counts of Lightstone and the municipal valuation roll are to be expected, for a number of reasons. Firstly, there may be a difference in timing between the date that the municipality published their roll, and the updated data from the Deeds Office and Surveyor General which Lightstone uses for its count at any point in time.* Second, the municipality may categorise residential properties differently than Lightstone. Finally, municipalities may undervalue properties in order to avoid widespread disputes over rates.

Having acknowledged these differences in methodology, a comparison of the two datasets is still valuable as it provides a more detailed picture of the market. Furthermore, the municipal valuation roll permits sight into the market segment above R1.2 million.

In our analysis of the Stellenbosch Valuation Roll, we only included properties that are zoned residential and that are located in the neighbourhoods which are part of the Stellenbosch city area, inside the urban edge. The areas included in the Lightstone data are delineated in **Appendix A**.

The graph compares the data from the two sources and shows the number of properties in each market segment. The number of properties in the Lightstone data is higher than the valuation roll for the lower market segments (especially under R300 000), while the valuation roll has a bigger count of properties in the higher market segments, most notably above R1.2 million.

Stellenbosch town: Number of properties, by market segment (Lightstone and municipal VR)



Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

Lightstone's valuation methodology

Lightstone's valuation approach is broadly based on three methodologies and uses a combination of these methodologies to estimate the value of a property at a given point in time:

1. Repeat sale valuation of the property: A previous sale price is inflated to current value using the Lightstone Residential Property Price Indices. Properties may have an extremely low purchase prices and as such these prices are often not used to generate a repeat sale valuation, but may sometimes be utilised where it appears that there are volumes that carried similar sale prices in the area.
2. Comparable sales valuation: This methodology uses comparable sales in the area in recent times inflated to current value using the Lightstone Residential Property Price Index. If low value sales occurred in the area, these values will affect the comparable sale valuation downwards.
3. Third party valuations: These are valuations completed by third parties such as municipalities and physical valuers which Lightstone uses as input at a property level in valuing a particular property. The Lightstone Residential Repeat Sale Indices is then used to bring historic valuations to current value.

* The date of valuation for the Stellenbosch VR was 2 July 2020. The roll was approved/implemented 1 July 2021.

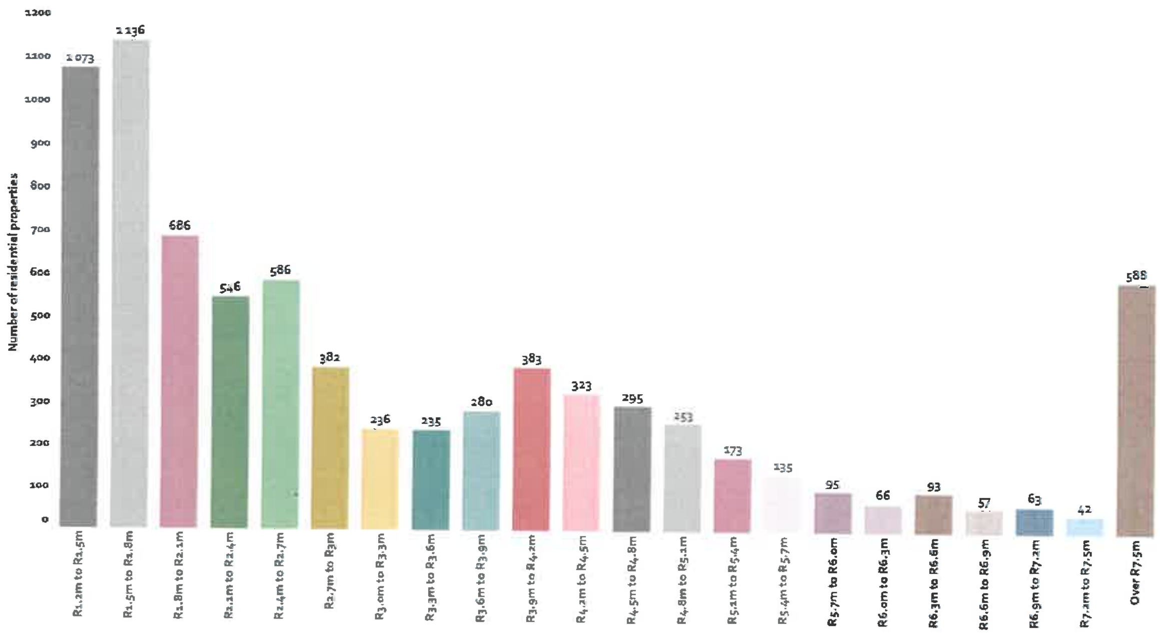
Comparing Lightstone deeds data to the Stellenbosch Valuation Roll

The graph below further segments the properties valued over R1.2 million, as per the Stellenbosch VR, and shows that many of the properties are grouped at the bottom end of the luxury segment—R1.2 million to R1.8 million.

- **Properties over R1.2 million**

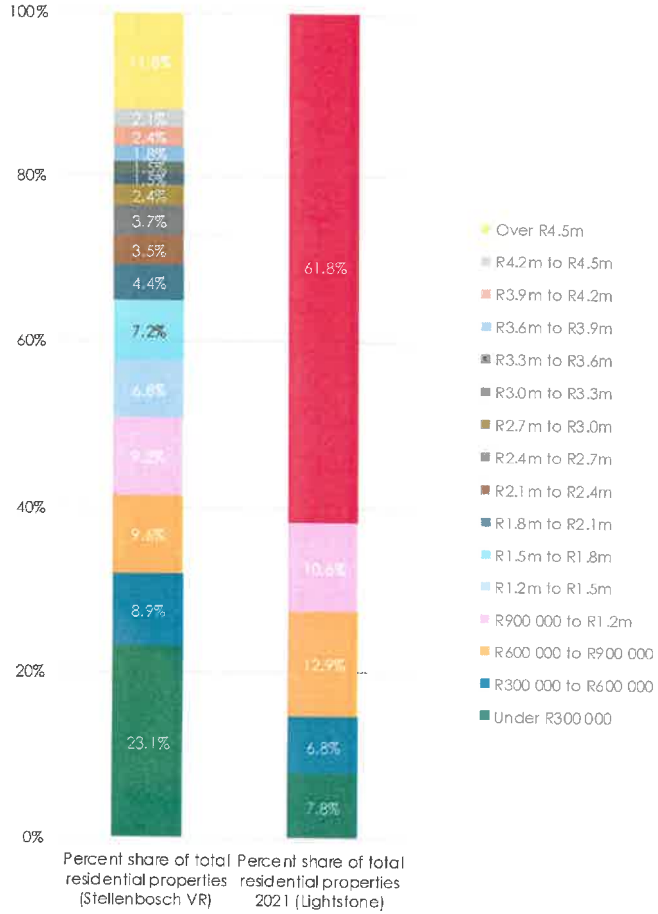
A critical drawback of the five market segments we use to analyse the Lightstone data is that all properties valued above R1.2 million are grouped together and not separated into R300 000 increments, which would allow for more detailed and nuanced understanding of the upper end of the property market. The graph to the right displays the Lightstone market segmentation, alongside the detailed market segmentation possible with the VR data.

Stellenbosch town: Number of properties valued above R1.2 million, by market segment, per municipal valuation roll



Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

Stellenbosch town: Lightstone data vs. municipal valuation roll, per market segment



Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

Ownership market – Housing stock by property type

Property type categorization is particularly relevant because of its implications for affordability. Often estate properties are higher value, while sectional title—in some, but not all cases—offer a more affordable option. Second, the property type is particularly relevant to an inclusionary housing policy as typically estate properties are located outside the main urban areas, while sectional title units may be better located in relation to economic opportunities.

In Stellenbosch town, in 2021 the largest portion of residential properties are freehold title outside an estate (54.5%), followed by sectional title outside an estate including student rental (27.2%), and 18.0% freehold within a private estate. Fifty properties—0.4%–are sectional title properties within estates.*

- **Property type by market segment**

In 2021, 88% of freehold estate properties were in the luxury market—mostly located in Welgevonden to the north, as well as Paradyskloof to the south. The great majority of sectional title units (outside of an estate) are also in the luxury market (33.7% of luxury market stock). Much of the high end market is also sectional title (39%).

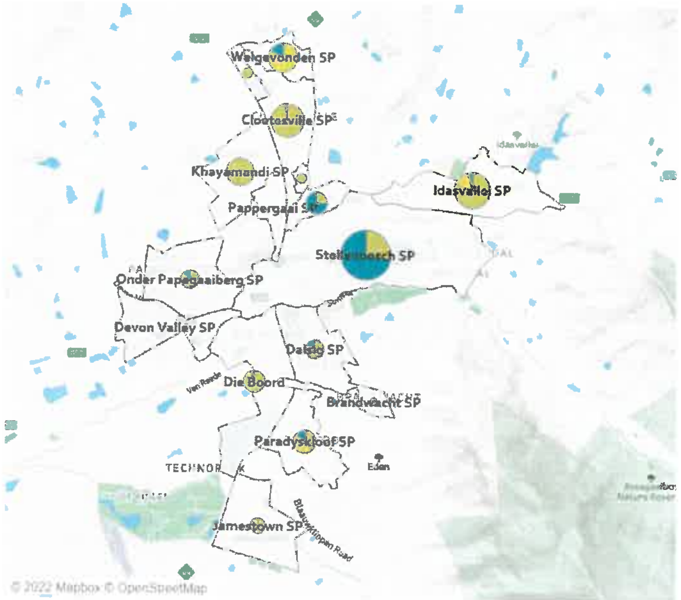
While freehold properties (outside of estates) exist in every market segment, all entry level properties are freehold (except for one sectional title unit). Notably, 93% of these entry level, freehold properties are government-subsidised properties.

- **Property type by location**

As shown in the map above, not surprisingly, the great majority of sectional title units outside of estates are in central Stellenbosch, in the Stellenbosch sub place in the centre of town. A large portion of these properties would be student rental units. Typically rental units would be part of a sectional title development with a body corporate managing the complex, and common areas. A block of flats with one owner would also likely be a number of sectional title units on the same erf.

Distribution of residential properties by title type

Stellenbosch,2021



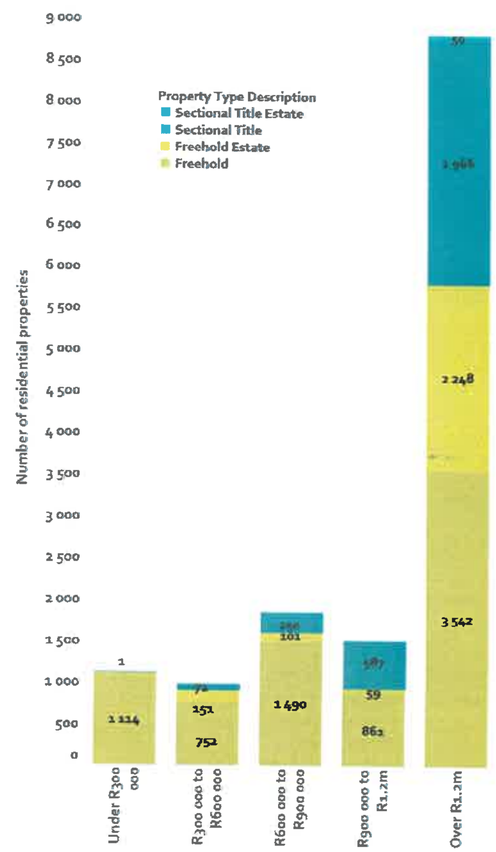
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Number of residential properties
2
1 000
2 000
3 000
3 885

Property Type Description
- Freehold
- Freehold Estate
- Sectional Title
- Sectional Title Estate

Total number of properties by title type by market segment

Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

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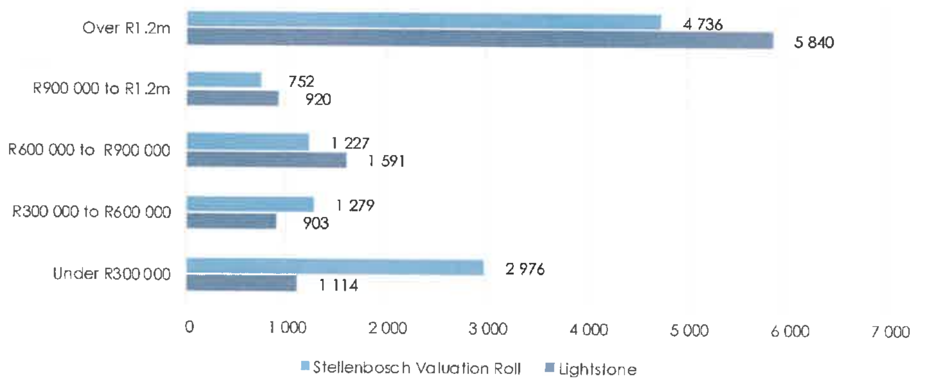
* The four property types used in the analysis of deeds data in this report are: freehold title (outside an estate); freehold title within an estate (referred to as freehold estate); sectional title (outside an estate); and sectional title within an estate (referred to as sectional title estate).

Comparing Lightstone deeds data to the Stellenbosch Valuation Roll - Property types

These graphs below compare the data on the number of freehold and sectional title properties from the two data sources, the Stellenbosch Valuation Roll and the Lightstone deeds data (grouping together properties that are inside and outside private estates).* Notably, the overall split between freehold and sectional title in the Lightstone data is very similar to the ratio reflected in the Valuation Roll; the VR contains 69.8% freehold and 30.2% sectional title, while the Lightstone data is split 72.8% freehold and 27.2% sectional title.

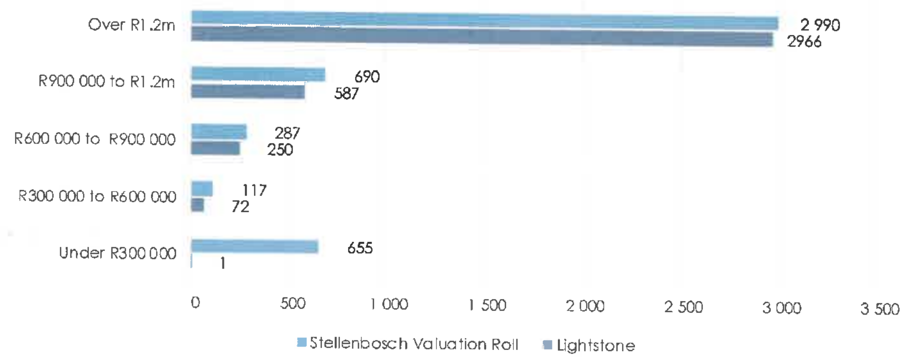
In total, the VR contains 602 more freehold properties than what is contained in the Lightstone data (10 970 Valuation Roll; 10 368 Lightstone). However, within the luxury market segment, approximately 1 100 more freehold properties are captured in the Lightstone data, as shown below.

Stellenbosch town: Number of freehold properties, by market segment (Lightstone & municipal VR)



NB: Both freehold properties inside and outside estates are included.
Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

Stellenbosch town: Number of sectional title properties, by market segment (Lightstone and municipal VR)



NB: Both sectional title properties inside and outside estates are included.
Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

Similar to freehold properties, the VR contains more sectional title units (863)than the Lightstone data. There are approximately 4 739 sectional title properties on the VR, compared to 3 876 in the Lightstone data.

In the entry market segment, again, there is a large disjuncture. The VR includes 655 sectional title properties below R300 000, while the Lightstone data has a single property.

In summary, the comparison of the stock data for freehold and sectional title properties from the VR and Lightstone reflects a similar pattern. For both property types, it appears the municipal valuation roll has a higher total count, with the difference most pronounced in the entry market where it appears that the either the VR contains an overcount or Lightstone is undercounting.

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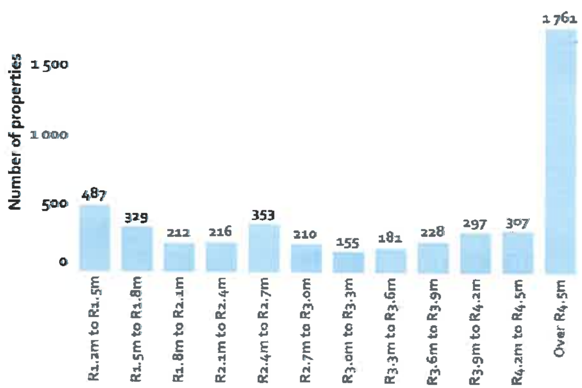
* The Stellenbosch Valuation Roll does not distinguish between freehold estate and freehold properties (outside private estates).

Comparing Lightstone deeds data to the Stellenbosch Valuation Roll - Property types

The data in the Stellenbosch Valuation Roll enables us to look at the properties valued over R1.2 million, in smaller market segments, to get a sense of the distribution. The graph on the left shows freehold properties over R1.2 million as per the Stellenbosch Valuation Roll.

In the Lightstone data, 56% of freehold properties (inclusive of properties inside and outside estates) are in the luxury segment (5 790), compared to only 43% of freehold properties in the municipal valuation roll (4 736).

Number of freehold properties over R1.2 million by market segment: Stellenbosch Valuation Roll

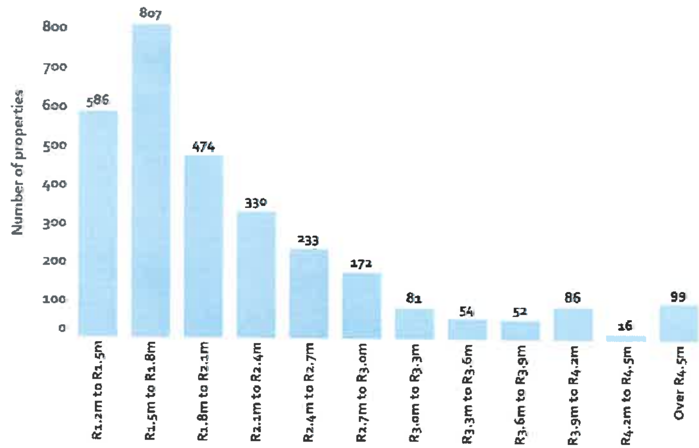


NB: Both freehold properties inside and outside estates are included.
Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

The graph below looks at the sectional title properties valued over R1.2 million on the Stellenbosch Valuation Roll.

In the Lightstone data, 77% of sectional title properties (both inside and outside estates)are in the luxury segment (3 016), compared to only 43% of the sectional title properties listed in the municipal valuation roll (2 990). The considerable difference in the counts of sectional title luxury properties bears further exploration.

Number of sectional title properties over R1.2 million by market segment: Stellenbosch Valuation Roll



NB: Both sectional title properties inside and outside estates are included.
Source: Lightstone data as of 31 Dec 2021. Stellenbosch Valuation Roll, July 2020.

Comparing municipalities – By size, market segmentation, GSP and property type

The graph to the right compares the study areas in George, Mossel Bay, Stellenbosch and Paarl/Wellington (Drakenstein) with respect to: the number of residential properties by market segment, the share of government-subsidised properties (GSP), and property type.

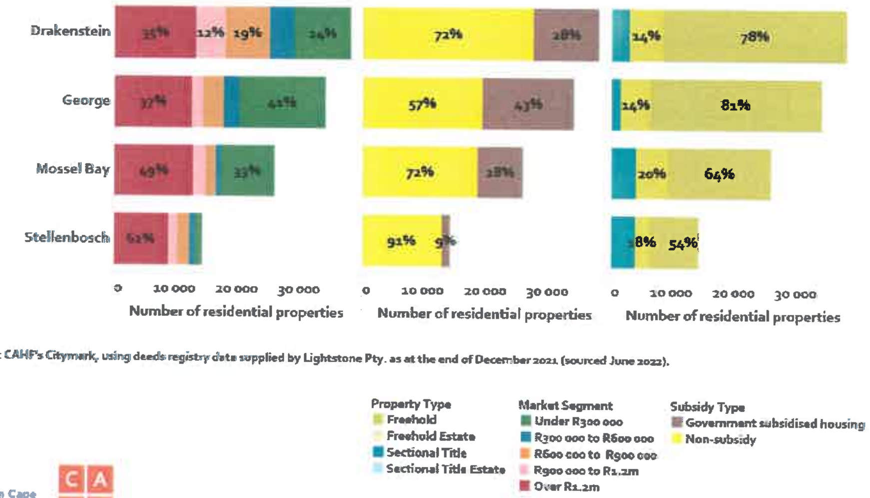
- **Market size and segmentation**

In terms of the number of residential properties, among the four study areas, Stellenbosch town has the smallest residential property market, with a total of 14 244 properties. As shown in the bottom graph, Stellenbosch town also has the smallest residential property market in terms of value (R32.35 billion in 2021).

Of the four areas, Stellenbosch town has the largest proportion of properties in the luxury market over R1.2 million (62%). Stellenbosch also has the smallest portion of residential properties in the entry market, just 7.8%, compared to George with 41% of properties valued below R300 000.

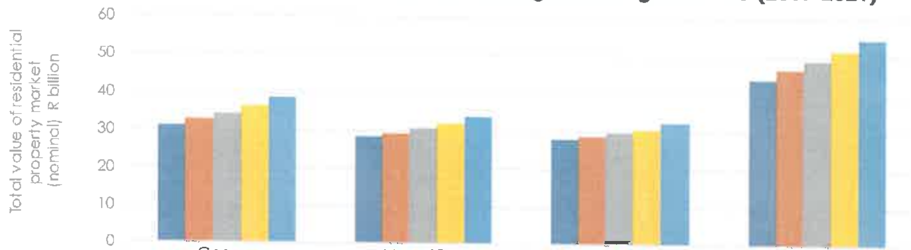
Residential market size

Properties by market segment, government -subsidised housing and property type
Western Cape Housing Study Municipalities, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Total value of residential property markets and average annual growth rate (2017-2021)



	George	Mossel Bay	Stellenbosch	Drakenstein
2017	31.23	28.29	28.03	43.99
2018	33.02	29.45	29.02	46.97
2019	34.39	30.47	29.61	49.25
2020	36.39	32.15	30.89	51.94
2021	38.66	33.84	32.35	54.96
Annual average growth rate	6.5%	5.2%	2.0%	6.9%

Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

- **Contribution of government housing programmes***

In Stellenbosch town, only 9% of residential properties are government-subsidised, making up just 1.2% of the total residential property market in terms of value. In contrast, neighbouring Drakenstein has 28% GSP, while as much as 43% of the residential properties in George are GSP.

- **Property types**

Unlike the other three municipalities, only 54.5% of residential properties in Stellenbosch town are freehold title (outside an estate). This is likely due to the presence of student rental as well as the small number of GSP.

About 18% of properties are freehold houses in a private estate. Due to the university, Stellenbosch has the largest proportion of sectional title properties among the four areas (27.2%).

* GSP are identified through a proxy which is applied by Lightstone the deeds data. See further details on page 26 below.

Government-subsidised properties – Number and spatial distribution

Government-subsidised houses are not explicitly recognised or marked on the title deed. Therefore its necessary to use a proxy to identify these properties on the deeds registry—the proxy is based on common programme characteristics of BNG/RDP houses, including the year, first registration price and buyer type, maximum prices, and proximity to other similar housing types (see **Appendix B**). This analysis helps to understand the contribution of public investment in subsidised housing programmes, and the performance of these assets on the ground.

Notably, by virtue of the fact that the data is from the Deeds Office, these figures only include those subsidised houses where a title deed has been transferred to the beneficiary. According to the 2016 CS, title deed possession was low in Mossel Bay municipality (41%)—among both GSP and non-GSP properties. Due to the title deed backlog, these figures will not reflect those units delivered by government and handed over to beneficiary households who have not yet received a title deed.

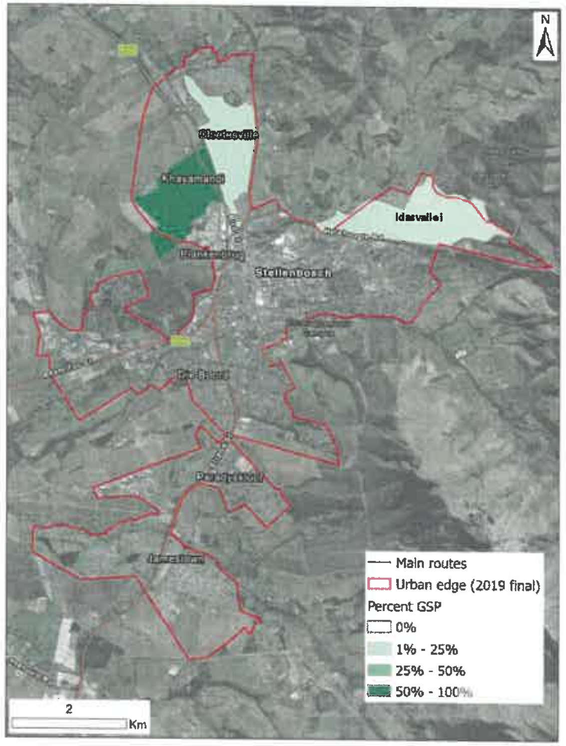
Number and location of GSP

Stellenbosch town contains only **1 353 GSP**, making up **9.5% of residential properties** in 2021. The GSP in Stellenbosch town are fairly new, with 62% eight years old or less.

All of the GSP are concentrated in just three subplaces: Khayamandi, Cloetesville and Idas Valley.

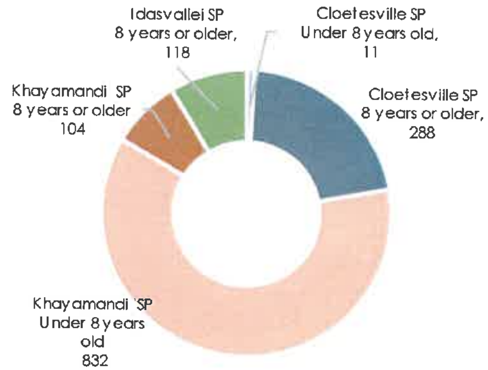
- Khayamandi contains 69% of the total GSP in the town. The area is almost entirely government-subsidised properties, with 78% of the houses subsidised by the state. Only 11% of these GSP are over 8 years old, indicating the area is a fairly new settlement.
- In contrast, Cloetesville is a more mixed neighbourhood with 18% of the residential properties GSP. However 96% of these GSP are over 8 years old, and thus eligible to be sold on the resale market.
- In Idas Valley, GSP make up only 6% of the total properties—all of which are over 8 years old.

Stellenbosch town: Distribution of GSP



Source: Lightstone data as of 31 Dec 2021; Municipal Demarcation Board (MDB), ESRI South Africa. .

Number of GSP by subplace and age (2021)



Source: Lightstone data as of 31 Dec 2021.

Subplaces containing GSP in Stellenbosch town (2021)

Subplace name	No. of GSP	GSP as share of total properties in subplace	Subplace share of total GSP in Stellenbosch town	No. of households (2021)	No. of GSP 8 years or older	No. of GSP 8 years or older as share of total GSP in subplace	Subplace share of total GSP over 8 years old in Stellenbosch town
Khayamandi SP	936	78%	69%	10 287	104	11%	20%
Cloetesville SP	299	18%	22%	2 923	288	96%	56%
Idasvallei SP	118	6%	9%	1 765	118	100%	23%
	1 353		**100%**	**16 617**	**510**	**38%**	**100%**

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021.

Government subsidised properties – Performance and role of GSP

Value of GSP properties

Together the 1 353 GSP in Stellenbosch town were valued at R378.6 million in 2021, with an average value of R279 848. In 2021, 76% of GSP in the Stellenbosch town were entry market properties valued under R300 000, with 13% in the affordable segment valued R300 000 to R600 000, and another 10% in the conventional market.

As shown in the left-hand graph, GSP dominate the entry level market in Stellenbosch town: 92% of entry level properties were built by government, and 18% of residential properties in the affordable market (R300 000 – R600 000). Thus, not only are most GSP in the entry market segment, most of the entry market segment are GSP.

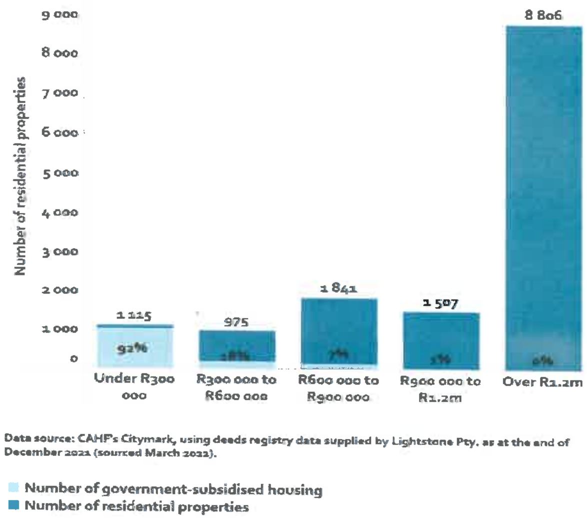
As shown in the bottom graph, the GSP in Stellenbosch town have appreciated over time. Unlike the other study areas that mostly have older GSP stock, only 38% of the GSP are over 8 years or older. However these 510 properties had an average value of R442 388 in 2021, much higher than in the other study areas. The newer GSP less than 8 years have a significantly lower average value of just R181 515. The performance of these properties over 8 years is particularly relevant as GSP older than 8 years are eligible to be sold in the formal property market.

Residential exclusion for property rates

Notably, the residential exclusion threshold as per the Stellenbosch rates policy is R250 000, meaning that the average owner of a GSP under 8 years old will not be levied any rates, while the average owner of a GSP over 8 years old would be levied rates on approximately R192 400, or 43% of the value of their property.*

* Its noted that the number of residential properties in Stellenbosch town valued under R250 000 was 3 2727 in 202, or 23%, meaning that 23% of total residential properties fall under the residential exclusion threshold.

Total number of residential properties
Stellenbosch, 2021



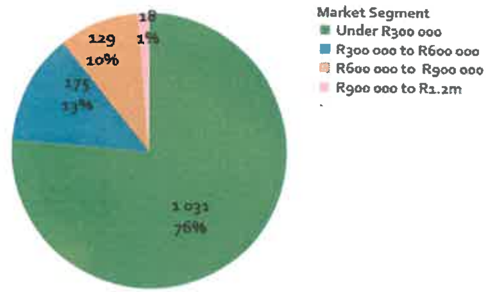
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Total number of residential properties
Stellenbosch, 2021

Market Segment	Number of residential properties	Number of government-subsidised housing	Government-subsidised houses percent share of market segment
Under R300 000	1 115	1 031	92%
R300 000 to R600 000	975	175	18%
R600 000 to R900 000	1 841	129	7%
R900 000 to R1.2m	1 507	18	1%
Over R1.2m	8 806	0	0%
Grand Total	14 244	1 353	9%

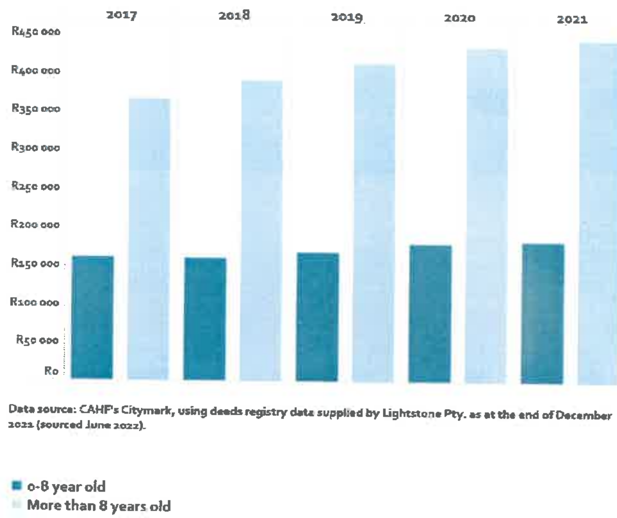
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of June 2021 (sourced June 2022).

Number of residential properties by market segment: Government-subsidised properties
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

Average value of GSP under and over 8 years (2017 - 2021)
Stellenbosch, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

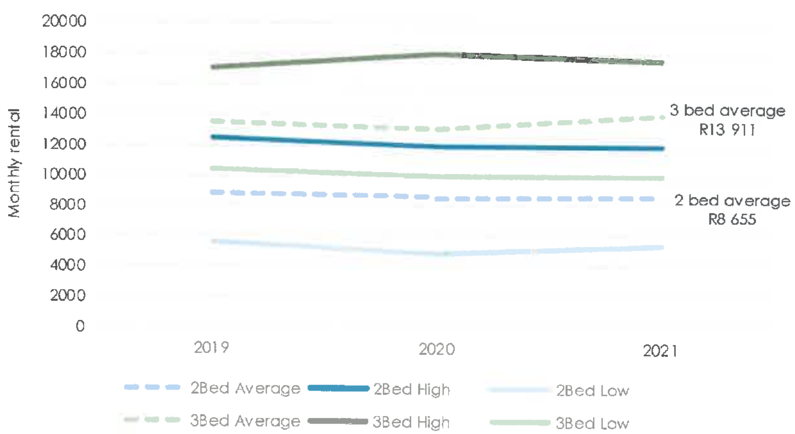
Rental market – Rental prices by property type and size

The TPN Credit Bureau provides updated data on the rental market, however its important to note that these figures are for the municipality as a whole, and not Stellenbosch town.

By number of bedrooms

According the TPN data, the average monthly rental for a 3 bedroom unit in 2021 in Stellenbosch municipality was R13 911, and for a 2 bedroom unit it was R8 655. These averages dropped very slightly in 2020—as shown in the graph below—and then returned to 2019 levels.

Monthly rental prices for 2 and 3 bedroom units (2019-2021)



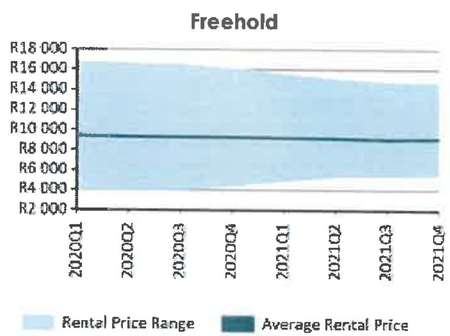
Source : TPN Credit Bureau, Investor Reports March 2022

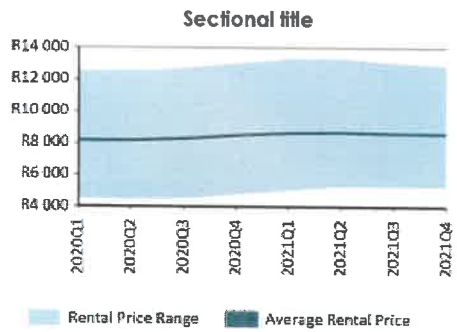
By property type

On average, rental prices for sectional title units are more affordable than freehold property. (Notably, the TPN data does not disaggregate freehold properties inside and outside of private estates as the Lightstone data does.)

According to TPN data, at the end of 2021, average rent was around R9 000/month for freehold properties and around R8 000/month for sectional title units. The graphs below show the average rental price as well as the price range, from Q1 2020 to Q4 2021. As at the final quarter of 2021, the minimum rental price was approximately R5 000/month for both freehold and sectional title properties.

Rental price range (2020-2021)





Source : TPN Credit Bureau, Investor Reports March 2022

Target market

Assuming a benchmark of 30% of income spent on rent, the lowest-priced freehold or sectional title property (R5 000/month) would be affordable to households with a minimum income of R16 670/month—which is approximately 31% of households in Stellenbosch town.*

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* Calculation based on income data from ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021.

Rental market – Rental price distribution

- **Rental price distribution**

The graphs to the right display the distribution of rental units (less than 3 rooms, 3 rooms, and more than 3 rooms) according to their rental price. Data is from TPN, for 2021, for Stellenbosch municipality as a whole.

For **freehold** properties, the largest share of rental units with *less* than three rooms (approximately 27%) go for a rental price of R8 000/month. However freehold property with less than three rooms can rent for as low as R3 000/month, and as high as R14 000/month.

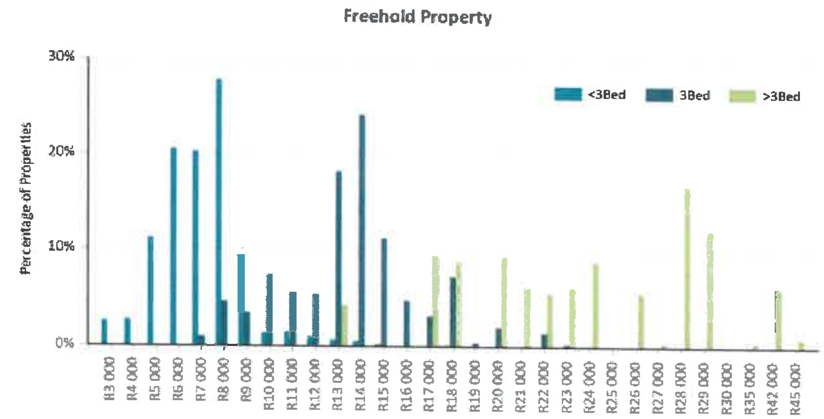
Most three bedroom units are priced R10 000 – R18 000 /month, but the range extends from R7 000 to R23 000 per month. Larger properties with *over* three bedrooms are all above R13 000/month and have the widest distribution of prices, from R13 000 to over R45 000 per month.

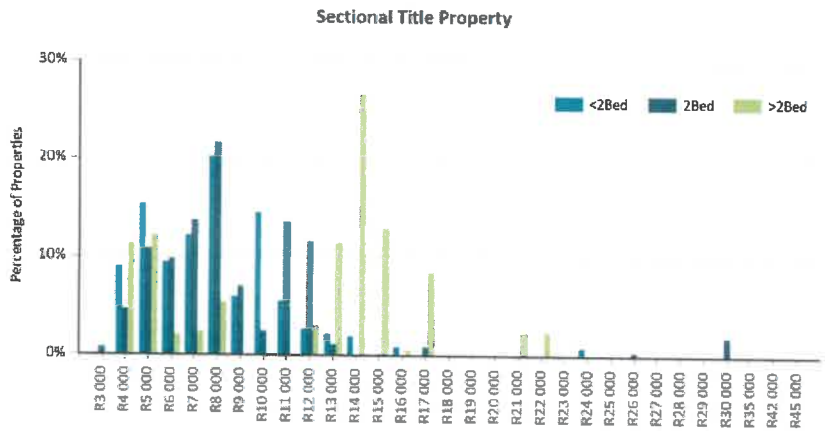
Again assuming a 30% rent to income ratio, a household would need a monthly income of R26 670 to rent the most common small freehold with *less* than three rooms (R8 000)—only an estimated 23% of households in the municipality earn this much or more.

For **sectional title** properties, the most common sectional title unit with 2 bedrooms rents for R8 000/month. The most common sectional title unit with *less* than 2 bedrooms rents for the same price, but it is easier to find units less than that (R4 000 – R5 000 / month). The biggest portion of larger sectional title units with more than 2 bedrooms rent at R14 000/month, but prices range from R4 000 to R22 000 per month.

The average household in Stellenbosch is unlikely to locate a rental unit in their price range. For example, a household looking for a 3 bedroom house in Stellenbosch municipality is most likely to find a R14 000/month freehold property (requiring an income of R46 670 /month)—only 13% of households fall in this category. Alternatively they if they are looking for a sectional title unit, they would typically find apartments for R8 000/month, which require a monthly income of R26 670. Approximately 23% of households in the municipality earn this much.

Rental price distribution (2021)





Source : TPN Credit Bureau, Investor Reports March 2022.

Rental housing for students

Rental price distribution

With a total student body of 22 000, the University of Stellenbosch is a critical force in the residential property market of the municipality, and especially Stellenbosch town itself. The university itself accommodates approximately 6 500 students in its residences, leaving around 8 000 students who require affordable accommodation in town.

A number of years ago, many students stayed in granny flats of houses in town, but more recently homeowners have converted these properties for tourist accommodation. Until the 2000's, the primary private student accommodation was blocks of flats which would work for students, or a small family. Small student flats were built in the CBD area, providing a good location, and bringing students closer to campus. However these private units were primarily affordable to wealthier students only.

Currently, there are a number of developers building for the higher income bracket of the student market, but there remains a gap in supply for students who receive support from the National Student Financial Aid Scheme (NSFAS). Much of the stock built now is narrowly targeted at the student market (with small rooms and shared facilities), and is not suitable for small families or young professionals.

In the next year, the University is planning on adding 400 units in the residences, and another 800 private student units will be developed for the top market.

High end student accommodation

The flagship residential development in Stellenbosch, called MySpace, was built by developer Abacus and serves as an example of the types of rental units being built presently which narrowly target wealthier students.

Currently there is one My Space Residence located in Paradys (125 units), with two more locations set to open in January 2023 in Drostdy and Dorpstreet with a further 550 beds. Most of the units are sharing, with some singles available.

Prices per bed range from R8 500 to R12 500 per month, and include a wide range of amenities including: study area, wifi, gym, lounge area, water and electricity. The least expensive beds (R8 500/month) are in a $24m^2$ twin room, with a small kitchenette, bathroom and two beds. These units are not affordable to NSFAS students who receive an allowance of R5 000/month for accommodation.

Summary of supply side assessment

House prices in Stellenbosch have been rising for a number of years. Out of the four study areas, Stellenbosch town has the largest proportion of luxury market properties (62%) as well as the smallest portion of entry market units (8%). One developer operating in the area said that its very difficult to find residential properties for less than R900 000, and most properties under R700 000 would be of lower quality and size. Only 28% of residential properties, or 3 931 houses, are valued R900 000 or less.

Government-subsidised properties

In Stellenbosch town, just 9% of the residential properties are government subsidised (1 353). Stock in the entry market is almost entirely the result of public investment: 92% of entry market houses are GSP, with all concentrated in 3 subplaces: Khayamandi, Cloetesville and Idas Valley.

Most GSP in Stellenbosch town are fairly new—62% are less than 8 years old—but the older ones have seen significant appreciation over time. The 510 GSP 8 years or older had an average value of R442 388 in 2021, while the newer GSP have a significantly lower average value of just R181 515.*

Rental market

On average, rental prices for sectional title units are more affordable than freehold property. According to TPN data, at the end of 2021, average rent was around R9 000/month for freehold properties and around R8 000/month for sectional title units. The average monthly rental for a 3 bedroom unit in 2021 in Stellenbosch municipality was R13 911, and for a 2 bedroom unit it was R8 655.

The average household in Stellenbosch is unlikely to locate a rental unit in their price range—most units are only affordable to less than a quarter of households. A household looking for a 3 bedroom unit is most likely to find a R14 000/month freehold property which would require a monthly income of R46 670—only 23% of households fall in this bracket.

* It should be noted that the valuation of the GSP under 8 years old is likely an underestimation due to the fact that they have not been sold formally since primary transfer.

Estimated household incomes required to purchase property with a mortgage, per market segment (2021)

Market segment (residential property value)	No. of properties	% share of total properties	**Minimum** monthly household income needed to purchase in this market segment*	**Maximum** monthly household income needed
Entry level: < R300 000	1 115	7.8%	--	R7 300
Affordable: R300 000 - R600 000	975	6.8%	R7 300	R14 750
Conventional: R600 000 - R900 000	1 841	12.9%	R14 750	R22 200
High end: R900 000 - R1.2m	1 507	10.6%	R22 200	R29 600
Luxury: > R1.2m	8 806	61.8%	R29 600	--
Total	**14 244**	**100%**		

* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP.
Source: Lightstone data as of 31 Dec 2021. Own calculations.

Affordability

Only 20% of residential properties (or approximately 2 800 houses) fall in the bracket between R300 000 and R900 000 (affordable and conventional market segments), which is theoretically accessible for purchase by households earning between R7 300/month and R22 000/month—see table above. As noted above, with the average monthly household income for Stellenbosch (R19 791), a household could only afford a house priced R796 000—but there are less than 3 500 properties valued this amount or less in the town.

Nearly 62% of residential properties are valued over R1.2 million (luxury market) and thus would require a monthly income of approximately R29 600 or more in order to purchase with a mortgage (no FLISP). This implies that those units would be out of reach for nearly 80% of households in the town.

Word of caution regarding affordability calculations

There are a number of important cautionary notes which should be raised with respect to these calculations:

- While house purchases below R1.2 million avoid transfer fees, there are other transfer costs which are not included here—see box on pg 43.
- Not all households purchase in the market segment they can afford: some may have additional funds from a once-off source, and some may have other competing expenses that prohibit them from spending the benchmark figure of 30% on housing.
- Some households may be living in properties that they accessed either by purchase or inheritance or gift, that today they could not afford to buy - in some cases properties appreciate faster than incomes.

Current market activity

New vs. resale market activity

Analysis of resale and new transactions provides a view into current market activity—which geographic areas are seeing more private development and new sales, and which properties are being traded more frequently, and where.

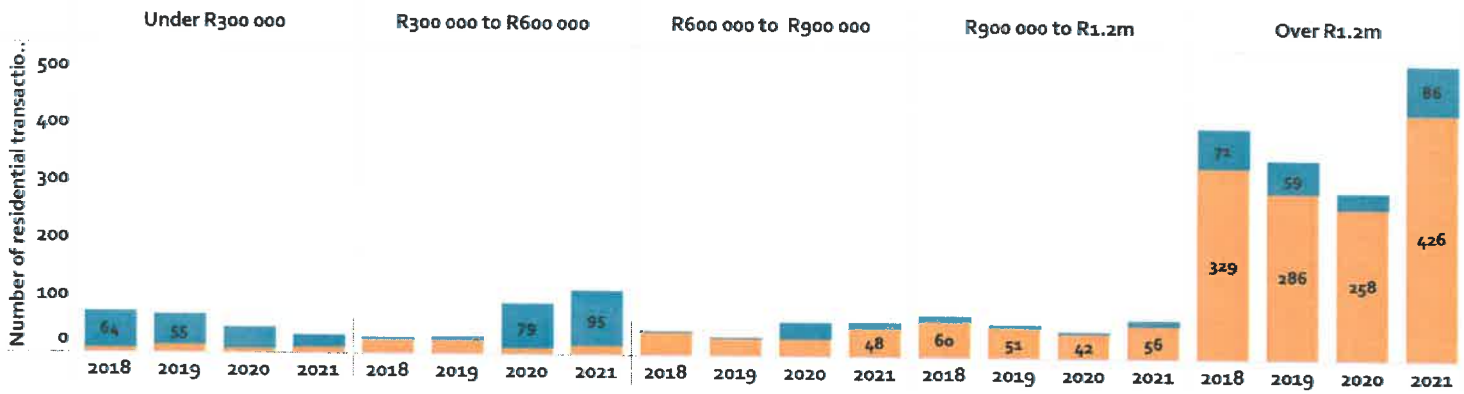
In Stellenbosch town, as in the rest of the country, the resale market is nearly twice as large as the new build market, accounting for the great majority of sales. In 2021, there were 554 resale transactions and 226 new transactions in the area.

Despite the continuation of the pandemic and restrictions into a second year, the market activity picked up significantly in 2021, compared to the first year of COVID. In 2020, there were just 343 resale transactions and 182 new transactions recorded.

As shown in the graph, Stellenbosch town saw far more transactions over R1.2 million than below. The exception was new construction in the affordable market segment, where there were 95 new transactions between R300 000 and R600 000 in 2021. This will be unpacked further in the sections below.

Number of new and resale transactions market segment

Stellenbosch, 2018 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Transaction Type
- New transactions
- Resale transactions

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Market for new build – New transactions by market segment

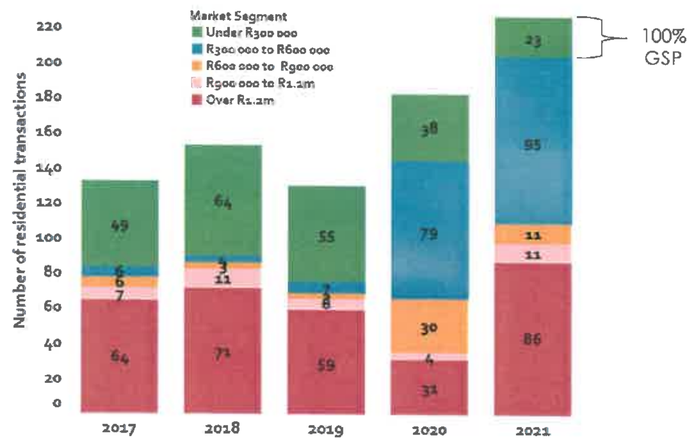
Unlike Mossel Bay and George, new transactions in Stellenbosch town were *increasing* pre COVID. Having dropped from 2018 to 2019, the volume of new transactions rose by 40% in 2020, driven primarily by more sales in the affordable and conventional markets. 2021 saw a further increase in new affordable transactions, as well as a jump in luxury sales, which together boosted the total number of new transactions by 24% in 2021.

In 2021, there were 226 new transactions in Stellenbosch town, totaling R252 million in value. New transactions in Stellenbosch town have averaged 165 per annum over the last five years.

Its important to note that new transactions include both the sale of houses newly constructed by private developers, as well as the transfer of new subsidised units to government housing programme beneficiaries.

For Stellenbosch town, the entirety of the new transactions in the entry market in 2021 (23 transactions) were GSP—there was no private sector construction of new houses below R300 000 in 2021. These 23 new transactions in the entry market were the only GSP registrations in 2021.

New residential transactions by market segment
Stellenbosch, 2017 to 2021

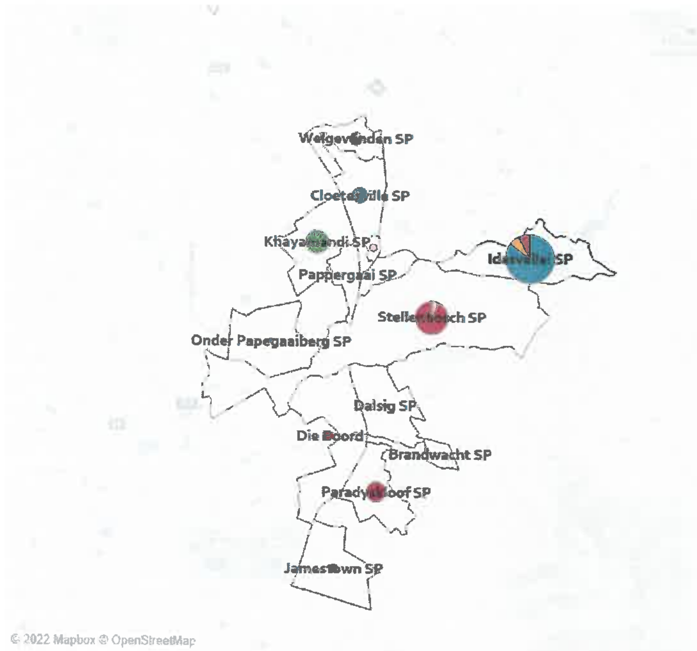


Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

In 2021, 90% of new transactions were sales of *non-GSP* houses which were built by the private sector. These non-GSP new transactions in 2021 totaled R62.7 million.

As shown in the map to the right, the entry level new transactions in 2021—all GSP—took place in Khayamandi, while the affordable new transactions were in Idas Valley. New construction and sales by private developers was centred in Stellenbosch central and Paradyskloof primarily.

Distribution of new transactions by market segment
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions	Market Segment
0	Under R300 000
20	R300 000 to R600 000
40	R600 000 to R900 000
60	R900 000 to R1.2m
80	Over R1.2m
103	

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New build market – New transactions by property type

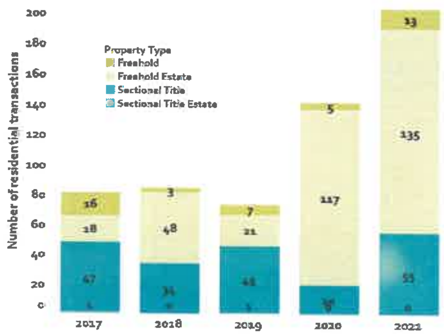
Analysis of new transactions (excluding GSP) by property type sheds light on the typologies of units which developers are constructing and bringing onto the market within Stellenbosch town.

New units from private sector

The graphs below show the number of new transactions each year, by property type, *excluding* GSP. Over the last five years, the consistent majority of units built and sold by the private sector have been freehold properties in estates (67%), with another 27% sectional title outside estates.

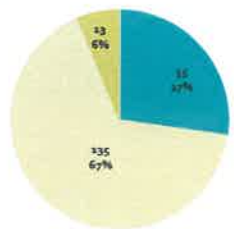
Very few regular freehold houses are being built by the private sector. Only 6% (just 13 houses) of new transactions in 2021 were freehold units outside of estates. The private sector is not building sectional title within estates—only two have been built and sold in Stellenbosch town in the last five years.

New residential transactions by property type: Non-subsidy properties
Stellenbosch, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

New residential transactions by property type : Non-subsidy properties
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

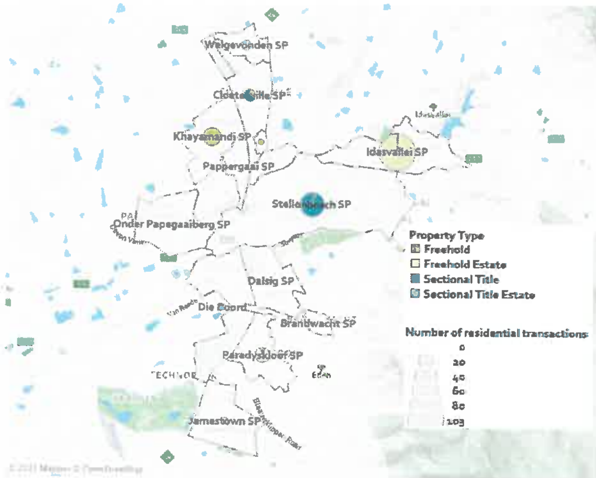
Property Type
Sectional Title
Freehold Estate
Freehold

Total new transactions

The bar graph to the right *includes* GSP, and thus gives an overall picture of new units being sold or transferred each year. As indicated previously, the 23 new freehold transactions in the entry market are all GSP. However notably there is a significant number of new transactions of freehold estate properties in the affordable segment—88 transactions in 2021—which are not GSP. Many of these are part of the Idas Valley housing development—see next page.

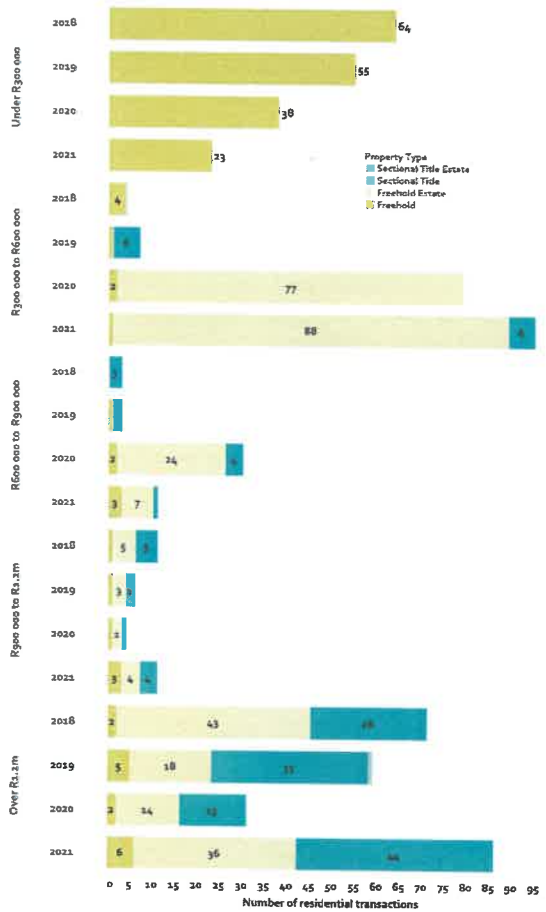
New transactions of sectional title units (outside an estate) are dominant in the luxury market, where there were 44 of these new units sold in 2021.

Distribution of new transactions by property type
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of new transactions by property type by market segment
Stellenbosch, 2018 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

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Idas Valley

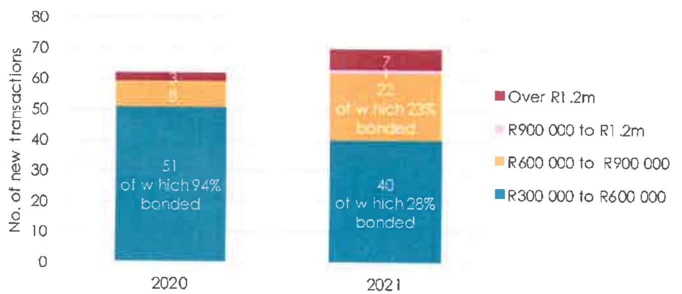
Located in the northern portion of Stellenbosch Municipality, north of Helshoogte Road and east of Lelie Street, Idas Valley has a stock of 1 953 residential properties in 2021, of which 39% are in the conventional market, between R600 000 and R900 000 as per the Lightstone data (see also pg 26).

The municipality appointed ASLA Magwebu to execute two projects in Lindida as part of the Idas Valley Housing Project. The project is a mixed housing development, with 113 GAP houses, and 87 fully subsidized units. It's a multi phased development, with families beginning to move in in 2019 and 2020. As part of the Khay Lam project, the Free Market Foundation has also been involved in facilitating the transfer of the properties so that owners receive their title deeds.*

The website of Oak Tree Village, one of the developments in the area, advertises the following new units for sale. These properties are targeted at first time home buyers with gross monthly income below R30 000:**

- 55.7 m^2 2 bedroom from R607 950
- 43.4 m^2 2 bedroom from R468 000
- 54.6m^2 3 bed from R699 500

Idas Valley: New transactions by market segment (2020 & 2021)



Source: Lightstone data as of 31 Dec 2021.

The Property24 and Private Property websites offer limited listings for sales of existing housing in Idas Valley below R1 million, as shown in online adverts.

Googlemaps screengrab of Idas Valley (24 July 2022)

Screengrabs from Property24 and Private Property websites (24 July 2022)

* Stellenbosch Monitor, 30 April 2021. "Idas Valley residents benefit from housing project."
** See https://www.oaktree-village.com/

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Resale market – Secondary market sales

The resale market has behaved somewhat differently than the new build market over the last few years in Stellenbosch town. Resale transactions were declining since 2017, and continued to drop into the first year of the pandemic. However in 2021, the total number of resale transactions shot up by 62%, to higher levels than 2017. This increase was driven almost entirely by a boost in resale transactions of properties in the luxury market over R1.2 million.

In total there were 554 resale transactions in 2021, totaling R1.38 billion in value. The great majority of these transactions were over R1.2 million (77%). 10% were in the high end market, 9% in the conventional market, and 3% in the affordable market. There were only 9 resale transactions of entry market properties in 2021.

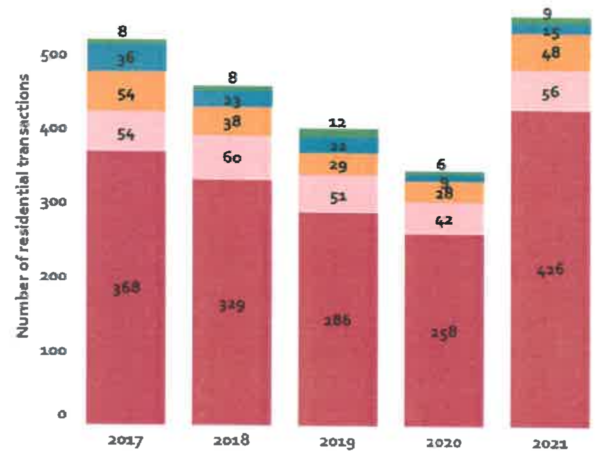
Over the five-year period, the majority of resale transactions have been in the luxury market over R1.2 million, averaging approximately 73% of total resale transactions annually.

Resale transactions of GSP

A number of resale transactions each year are sales of existing GSP which are older than 8 years (and thus no longer subject to sales restrictions). In Stellenbosch town, 62% (501) of the total 1 353 GSP are over 8 years old, comprising a total asset value of R225.6 million. In 2021, 12 GSP were sold on the resale market, at an average price of approximately R254 583. These resale transactions of GSP made up just 2% of all resale transactions in 2021.

Eight of the 9 entry market resale transactions in 2021 were cases of GSP changing hands. This underlines the critical importance of GSP properties, not only in their original delivery to beneficiary households, but also their role in providing a critical supply of affordable housing for households purchasing property on the resale market.

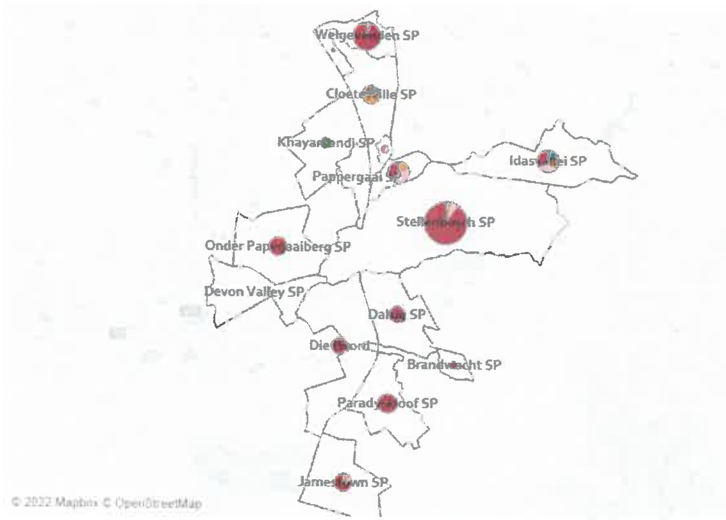
Resale residential transactions by market segment
Stellenbosch, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Market Segment
- Under R300 000
- R300 000 to R600 000
- R600 000 to R900 000
- R900 000 to R1.2m
- Over R1.2m

Distribution of resale transactions by market segment
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions
0
50
100
173

Market Segment
- Under R300 000
- R300 000 to R600 000
- R600 000 to R900 000
- R900 000 to R1.2m
- Over R1.2m

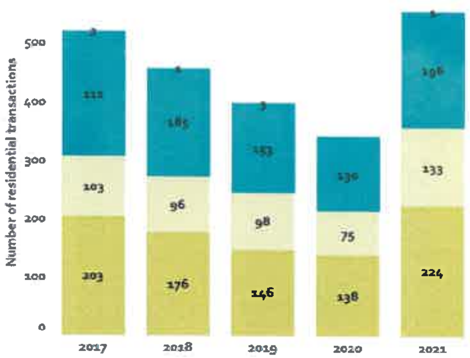
Resale market – Resale transactions by property type

As shown in the pie graph, the largest share of resale transactions are of regular freehold properties outside of private estates (40%). The resale of sectional title units outside estates accounted for 35% of total resale transactions in 2021, with the remaining 24% made up of resale transactions of freehold properties *inside* estates.

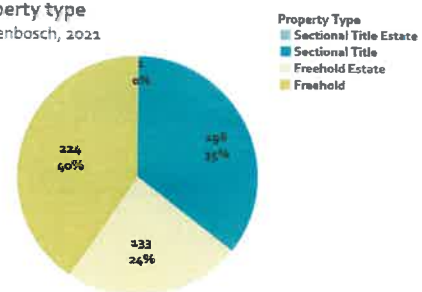
Most resale activity was transactions of properties valued over R1.2 million, both regular freehold and sectional title.

The sale of student units for rental would be reflected in the numbers of resale transactions of sectional title units outside estates. Most of these were properties over R900 000.

Resale residential transactions by property type
Stellenbosch, 2017 to 2021

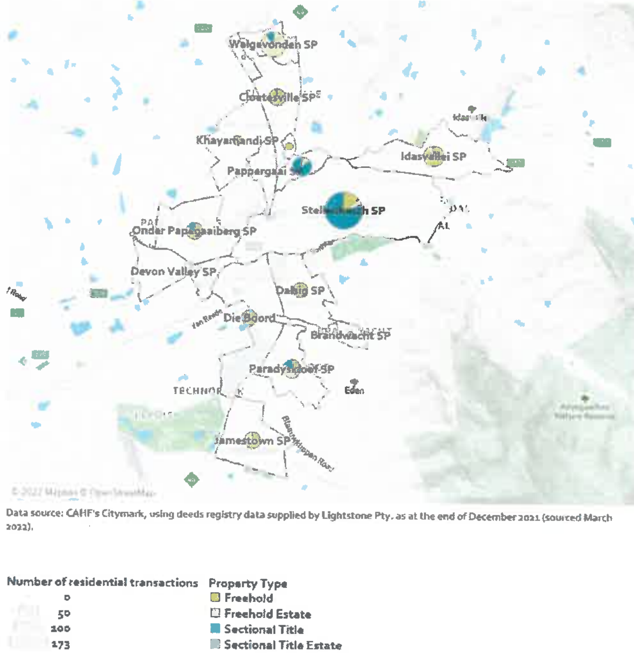


Resale residential transactions by property type
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

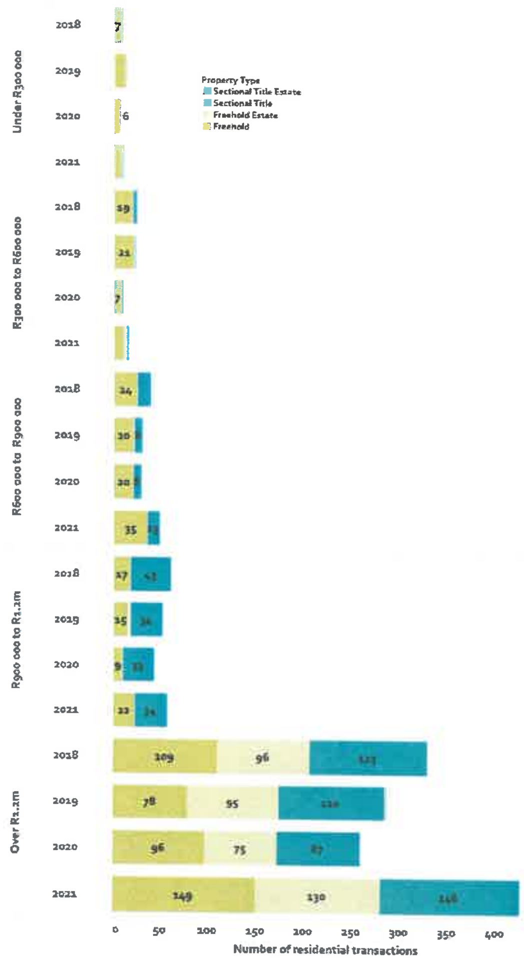
Distribution of resale transactions by property type
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

As shown in the map above, sectional title resale transactions are mostly in downtown Stellenbosch and Pappergaai—most of these sales are for units over R1.2 million.

Number of resale transactions by property type by market segment
Stellenbosch, 2018 to 2021



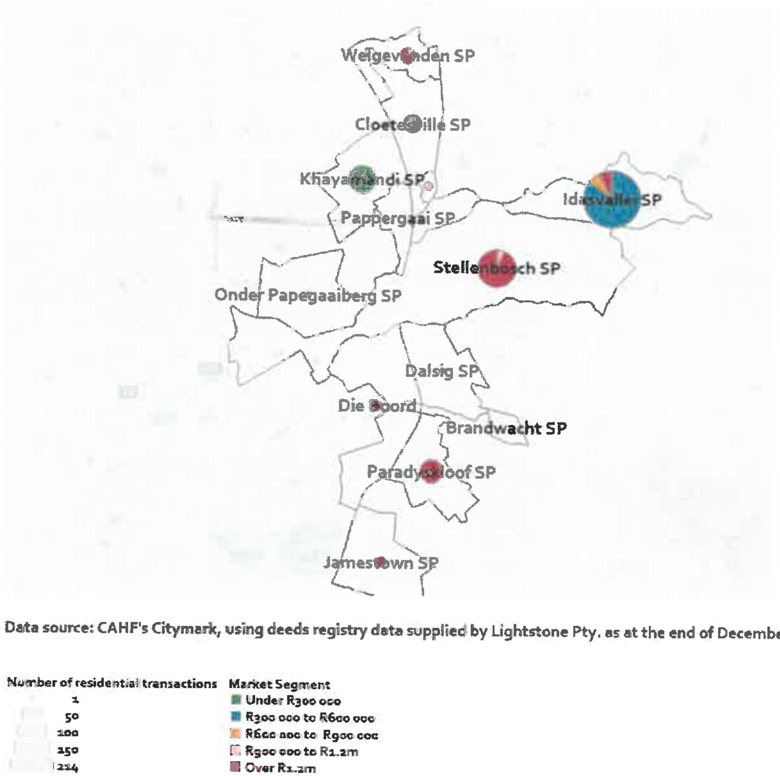
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Spatial distribution of new vs. resale market activity

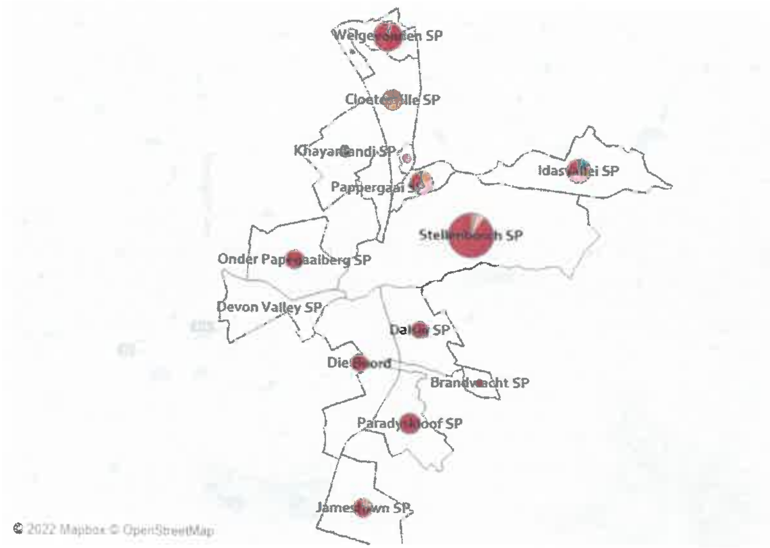
These two graphs illustrate the marked differences between the new build and resale markets in Stellenbosch town. A clear pattern is visible in new transactions: entry market new build of GSP in Khayamandi, new affordable segment transactions in Idas Vallley, and new build of luxury units over R1.2 million in central Stellenbosch.

Resale activity was overwhelmingly transactions valued over R1.2 million, and was spread across the town, with the majority of resale activity in Welgevonden and central Stellenbosch again.

Distribution of new transactions by market segment
Stellenbosch, 2021



Distribution of resale transactions by market segment
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Churn – Levels of resale transactions by market segment

Another important indicator of market activity is the churn rate. Churn rates measure the rate of formal (registered) turnover of the property market: the total number of formal repeat transactions divided by the total number of properties less new registrations, calculated as an annual ratio. It serves as a useful indicator for understanding how well filtering is happening within the property market, or whether markets in particular neighbourhoods are constrained.* Churn can also indicate a level of market interest. More resale activity also brings new people into an area. Given apartheid's legacy of racially-divided cities, neighbourhoods with very low churn rates are unlikely to diversify quickly.

However it should be noted that churn rates may be undermined by the number of informal sales in the market, which would not be reflected in the formal deeds data.

Prior to the pandemic, the churn rate in Stellenbosch town had been falling, from 4.0% in 2017, to a low of 2.5% in 2020. However, resale activity picked up in 2021, returning to its 2017 level of 4.0%. The graph below shows how the churn rate for Stellenbosch town compare to the other four study areas. The George city area,

Churn rate for four study areas (2017-2021)

	2017	2018	2019	2020	2021
George city area	4.3%	3.9%	3.5%	2.7%	4.1%
Mossel Bay city area	5.0%	5.0%	5.0%	3.8%	6.1%
Stellenbosch town	4.0%	3.4%	3.0%	2.5%	4.0%
Paarl/Wellington	3.3%	2.9%	2.8%	2.3%	3.6%

Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

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* See Appendix D for a full explanation of filtering, and its importance to access to affordable housing.

Stellenbosch town and Paarl/Wellington have followed the same pattern over this five-year period, while the churn rate in the Mossel Bay city area has been consistently higher.

- **Churn rates by market segment**

Churn varies significantly between market segments, with higher value properties changing hands more frequently than lower value properties. While the top market segment of properties worth more than R1.2 million have relatively high churn rates – reaching 4.89% in 2021—the bottom entry level market segment of properties worth less than R300 000 have churn rates of 0.82% in the same year. For properties in the affordable market, the churn rate is also low, 1.7%. This means that properties in those market segments are not selling – the potential benefits of filtering are not being realised.

Churn rate by market segment (2017-2021)

	2017	2018	2019	2020	2021
Under R300 000	1.09%	0.81%	1.28%	0.62%	0.82%
R300 000 to R600 000	2.50%	1.79%	1.84%	0.96%	1.70%
R600 000 to R900 000	3.07%	2.32%	1.79%	1.66%	2.62%
R900 000 to R1.2m	3.83%	3.77%	3.21%	2.79%	3.74%
Over R1.2m	4.75%	4.11%	3.48%	3.00%	4.89%

Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

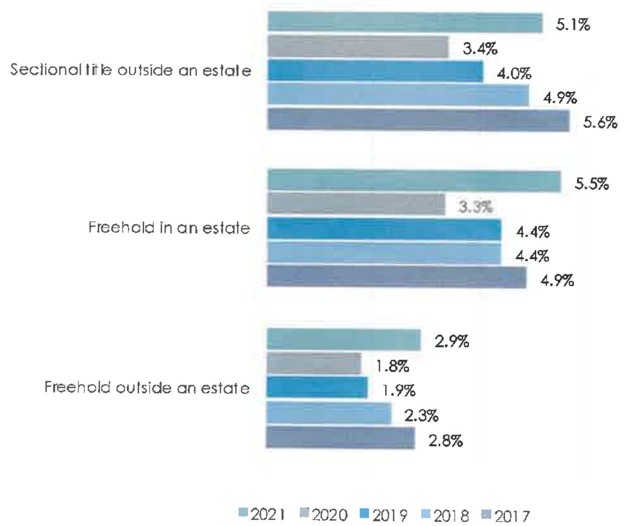
Churn – Turnover of GSP

Churn rates by property type

Resale market transaction rates (or churn) also vary significantly by property type. Freehold estate and sectional title properties (outside private estates) have relatively high levels of turnover – almost twice as large as regular freehold properties outside an estate (including GSP). This suggests a more vibrant market within private estates and sectional title properties outside of estates in Stellenbosch town, and substantial market interest in these property types. Given the demand for student housing, and the regular turnover as students locate there and then leave after their studies, the higher turnover for sectional title outside an estate makes sense.

The churn rates for all the property types was dropping prior to the pandemic, and then rebounded in 2021 to rates higher than the pre-pandemic rates.

Churn rates (2021) by property type



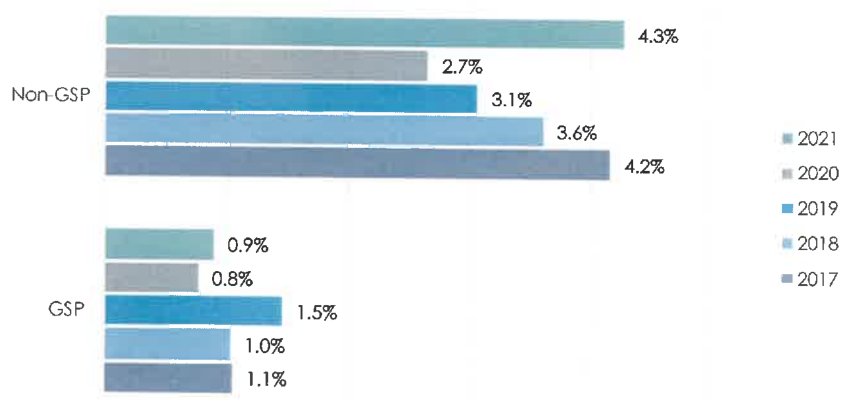
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Churn rates of government-subsidised properties

The analysis by property type indicates that the lower levels of churn with freehold properties outside estates, is responsible for reduced overall average of 4.0% across Stellenbosch town. This is partly due to a very small churn rate for GSP—just 0.9% in 2021—largely because of the 8-year preemptive clause attached to government-subsidised properties.

However the impact of the Housing Act restriction on GSP sale in Stellenbosch town is limited, given that only 38% of GSP are 8 years or older and therefore can be transacted freely. The low resale activity of older GSP houses is a cause for concern, as the small churn rate indicates that homeowners are not realizing the asset value of their property.

Churn rates: GSP or non-GSP (2017-2021)



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

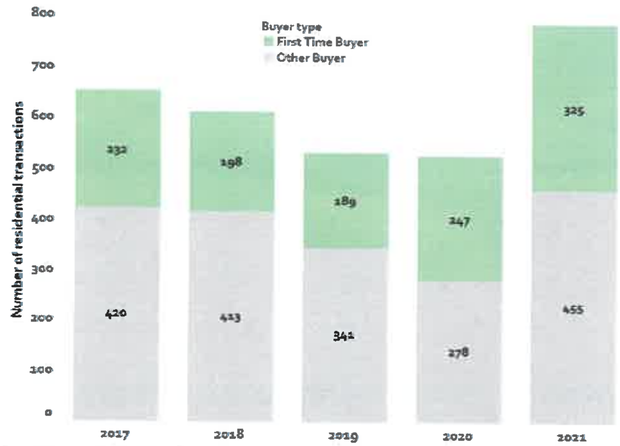
First-time home buyers – How do households step onto the property ladder?

FTHB as share of total transactions

First-time home buyers (FTHB) are a critical force in the residential property market, particularly the affordable housing segment, making up 42% of total transactions in Stellenbosch town last year. In 2021, 325 households became home-owners for the first time—of which only 7% received a new house from government.

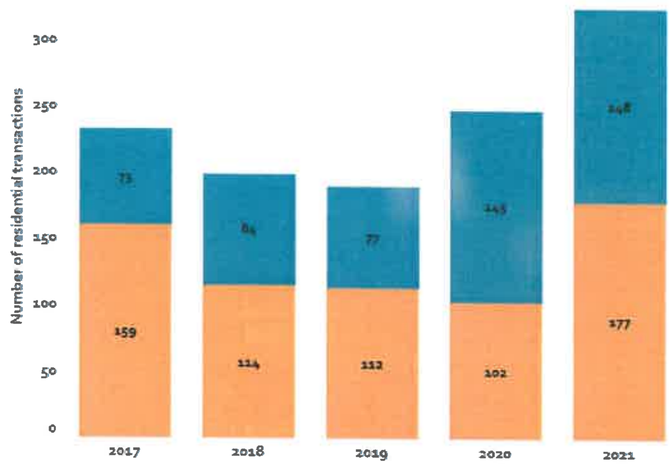
As shown in the middle graph, transactions by FTHB rose by about 32% in the second year of the pandemic. Likely influenced by the record-low interest rates in 2020, the number of bonded FTHB transactions went from 75 in 2019, to 136 in 2020. In 2021, 45% of FTHB transactions were bonded.

First time home buyers: Total residential transactions
Stellenbosch, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

First time home buyers: Total residential transactions
Stellenbosch, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Sales Type
- New transactions
- Resale transactions

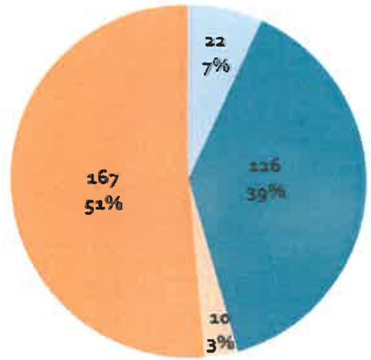
How do FTHB step onto the property ladder?

A little over half of FTHB purchase an existing house (55%). More households become home-owners by buying on the resale market, than by purchasing new affordable housing units from private developers.

Of the 177 resale transactions to FTHB, just 10 were older GSP being sold to FTHB. This small number makes sense given that only 38% of the GSP in Stellenbosch are over 8 years old and able to be sold.

First time home buyers

Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Transaction type
- New transactions government-subsidised housing
- New transactions non-subsidy
- Resale transactions government-subsidised housing
- Resale transactions non-subsidy

The majority of FTHB who move into a new house did not receive it from government, but instead purchased it from a private developer (126 transactions, or 39% of FTHB).

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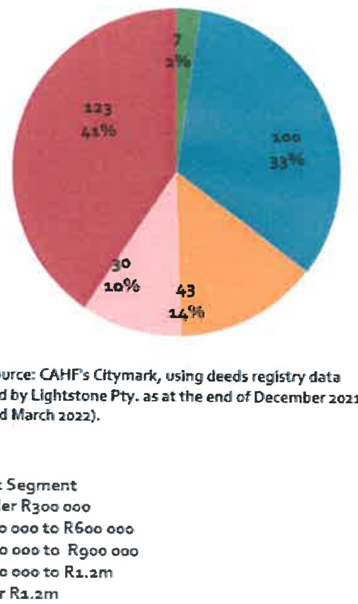
First-time home buyers – By market segment

By market segment

Excluding the 22 households who were beneficiaries of government-subsidised housing in 2021, approximately half of FTHB are purchasing properties which are R900 000 or less—see pie graph below. Ten percent are buying units in the high end market, and 41% are purchasing in the luxury market over R1.2 million.

FTHB are particularly important to the affordable market segments, making up 91% of sales in this market.

Number of first time home buyers by market segment
(Excludes new transactions of government-subsidised properties)
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Transfer payments and other costs associated with buying a house

For first-time homebuyers, there can be many unexpected associated costs to purchasing a home including VAT, bond initiation fees, bond registration fees and monthly loan account administration fees. However, the largest additional costs for a home-buyer are the transfer fees, and transfer duty payments.

Transfer fees are paid to the attorneys who complete the transaction paperwork and are typically the largest portion of the total transfer costs—ranging from R23 000 to R35 000 for a R1.2 million house.

Transfer duty payments are owed to the South African Revenue Service (SARS). Homes valued below the threshold of R 1 million are exempt from any duty payments. If the house is R1 million - R1.375 million, 3% of the value over R1 million is owed. The percentage owed continues to climb as the value of the house increases. Transfer duty payments are exempt for those who acquire a house through marriage, divorce, inheritance, or if a property purchase is canceled before it is registered at the Deeds Office.

The threshold adjustment for transfer duty payments took effect on March 1, 2020, prior to which the threshold was R900 000. This adjustment specifically enacted to aid those trying to enter the property market.

Mortgage market – New and resale bonded transactions

An analysis of bonded transactions provides a picture of the health of the mortgage market and the degree of confidence by the financial sector in the residential property market. In 2021, 53% of all transactions (419) in Stellenbosch town were bonded: of which, 80.5% were resale & 19.5% new transactions.

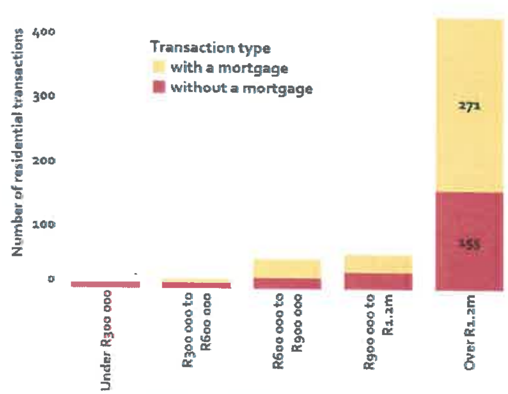
The graphs to the top right show the number of bonded transactions in each market segments—both new and resale. Overall, 36% of new transactions were bonded, although this number is impacted by the number of GSP which are transferred to beneficiaries, obviously without a bond. As noted above, 90% of the new transactions in 2021 were non-GSP. Of these 203 new transactions of non-GSP, only 40% were bonded, meaning that approximately 60% of the households who bought a new house from a developer in Stellenbosch town, did not require financing to do so. Interestingly, most of these cash purchases were for properties in the affordable segment (80).

In total, 61% of all resale transactions were bonded. Of the 337 bonded resale transactions, only one was a GSP.

As would be expected, banks primarily lend to the top of the market. There were no bonded transactions under R300 000 in 2021. Of the total bonded transactions, over 78% were for properties valued over R1.2 million in 2021. Only 28% of transactions under R900 000 were bonded, while 63% of transactions over R1.2 million were bonded.

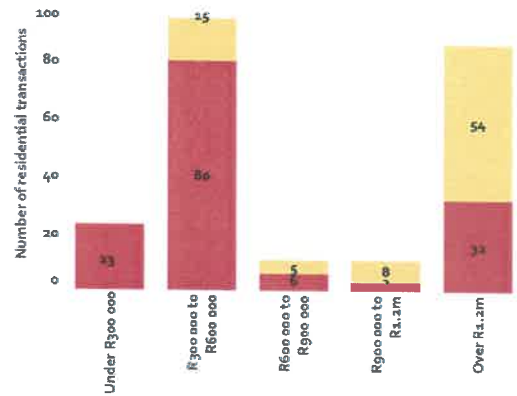
In an area such as Stellenbosch with a large number of wealthy residents, non-bonded transactions could be the result of high-income buyers who don't require financing, or low income households who can't access a mortgage. It may also be that these homes were purchased with non-mortgage loans. In Stellenbosch town, excluding new GSP registrations, 55% of all transactions in 2021 were bonded (see bottom graph), meaning that 45% of households (338 transactions) managed to buy a house cash. This proportion is low compared to Drakenstein at 62%, but higher than Mossel Bay, where only 34% of transactions (excluding new GSP) were financed with a bond.

Number of resale transactions
Stellenbosch, 2021 :554



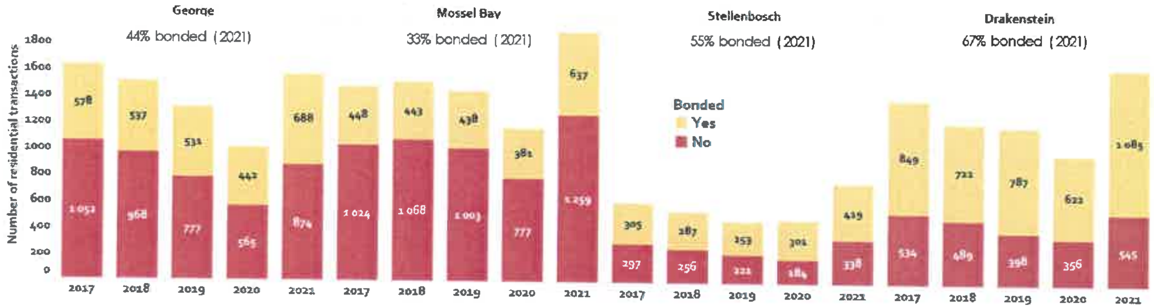
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of new transactions
Stellenbosch, 2021: 226



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number new and resale transactions: Bonded and non-bonded
(Excluding new government -subsidised transactions 2017 to 2021)



Source: Lightstone data as of 31 Dec 2021.

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Mortgage market – Bonded transactions by lender and property type

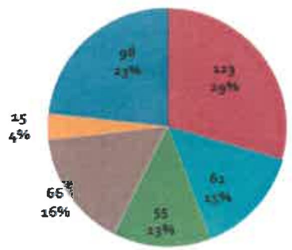
By lender

In total, 419 bonds were issued for new and resale transactions in 2021, over half of which were issued by Standard Bank and Absa.

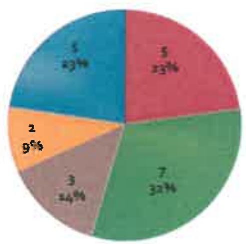
However, if we focus specifically on bonds for transactions under R600 000, the picture shifts. No bonds were issued in the entry market in 2021, and there were only 22 bonds issued in the affordable segment. Nedbank issued one third (7 bonds) with Absa and Standard Bank both issuing 5 bonds in the affordable segment—see bottom right pie graph.

All of the five main banks are lending in every segment (except the entry market) but the bulk of lending is for properties over R1.2 million.

Residential transactions by lender
Stellenbosch, 2021



Residential transactions by lender: Under R600 000
Stellenbosch, 2021



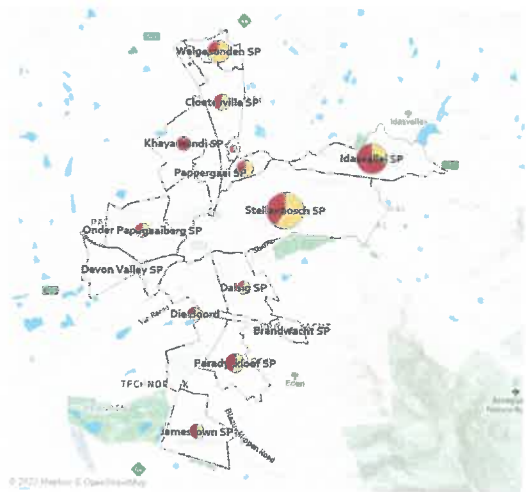
Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Lender
- Absa
- FNB
- Nedbank
- Other Lenders
- SA Home Loans
- Standard Bank

By geographic area

As shown in the map below, in 2021 the banks were primarily lending in central Stellenbosch, Welgevonden and Idas Valley. The graphs to the right zero in on two areas with much of the lending activity: Stellenbosch SP and Welgevonden. In both areas, Absa and Standard Bank issued the most bonds. And in both areas, the overwhelming majority of bonds were for properties valued over R1.2 million.

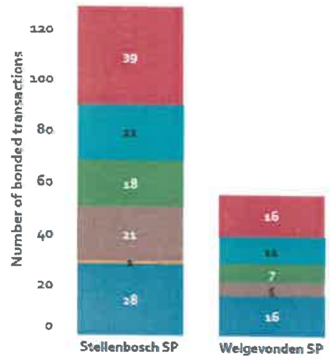
Distribution of new and resale transactions: Bonded and non-bonded
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions: 0, 50, 100, 150, 219
Transaction type
- With a mortgage
- Without a mortgage

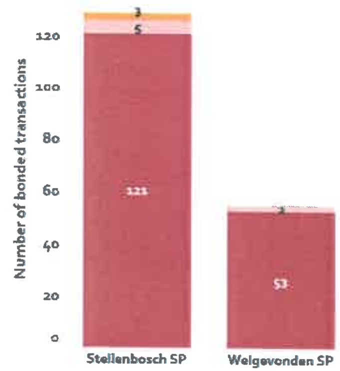
Number of new and resale bonded transactions by lender
Stellenbosch SP & Welgevonden SP
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Lender
- Absa
- FNB
- Nedbank
- Other Lenders
- SA Home Loans
- Standard Bank

Number of new and resale transactions: Bonded by market segment
Stellenbosch SP & Welgevonden SP
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Market Segment
- R600 000 to R900 000
- R900 000 to R1.2m
- Over R1.2m

By property type

Bonded transactions were fairly evenly spread between the three property types: 36% freehold, 34% sectional title, and 30% freehold estate. There were no bonded transactions for sectional title properties in estates in 2021.

The rate of bonded transactions was highest for freehold and sectional title properties (58% bonded), compared to 46% of freehold estate transactions which were bonded in 2021.

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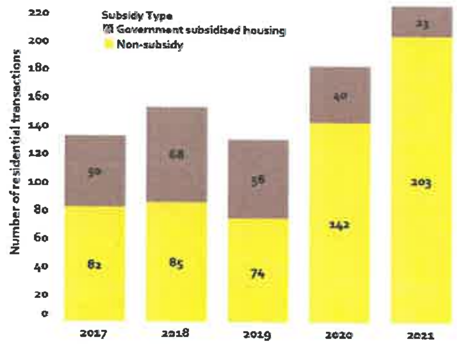
Government housing delivery

According to the Lightstone deeds data, which uses a proxy to identify GSP, as described above, the number of new registrations of GSP in Stellenbosch town over the last five years was only 237 units, as shown in the graph below. Again, it must be noted that the deeds data will only reflect GSP where the beneficiary has received their title deed, and therefore will not necessarily match municipal or provincial figures of houses delivered.

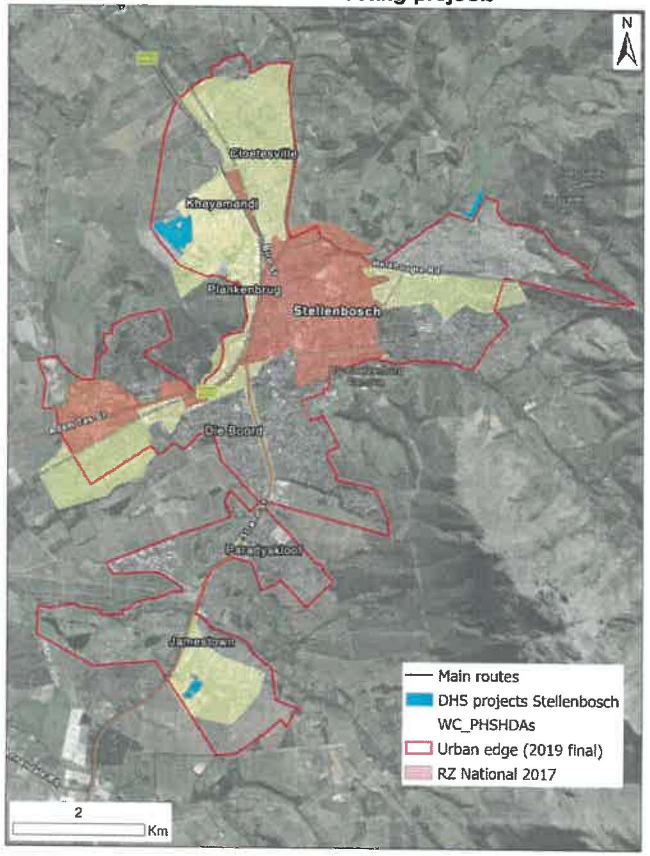
New residential transactions : GSP and non-GSP
Stellenbosch, 2017 to 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty, as at the end of December 2021 (sourced March 2022).

The development of the Adam Tas corridor is positioned as the main catalytic project highlighted in the 2022-2027 IDP. This involves re-design and development of the land around the Adam Tas Road, along the R44 and the railway line, bringing in a range of housing typologies and different income groups. The intention is for the district to be residentially-led with mixed-use, high density development and an emphasis on non-motorized access to the town centre.

Stellenbosch town: Government housing projects



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

The municipality's housing pipeline covers the ten-year period to 2030/31 and is focused on social housing, the provision of serviced sites, affordable housing, upgrading of informal settlements and mixed-use housing (formalized homeownership employer housing, especially farmworker housing) (2022-2027 IDP). Projects within the Stellenbosch town area include:

- Jamestown, Farm 527 (phases 2, 3 and 4)- Work is being undertaken to finalise the sub-division plan, and obtain development rights for mixed-use development, approximately 2000 housing opportunities. The project is a Mayoral priority.
- Idas Valley (erf 9445, Oak Tree Village)
- Rectification of Cloetesville subsidy houses at The Steps and Orlean Lounge – These are temporary units with toilets erected for temporary relocation of occupants (161 housing opportunities).
- Erf 7001, Cloetesville – The intention is to obtain development rights on erf 7001 in order to establish GAP housing (360 GAP housing units).
- Upgrade of the Khayamandi CBD – This project is also a Mayoral priority and involves approximately 1 854 housing opportunities.
- Development of the northern extension, Khayamandi – Approximately 5000-6000 housing opportunities.
- Upgrading of Zone 0 in Khayamandi – 711 housing opportunities.

Restructuring zones and social housing delivery

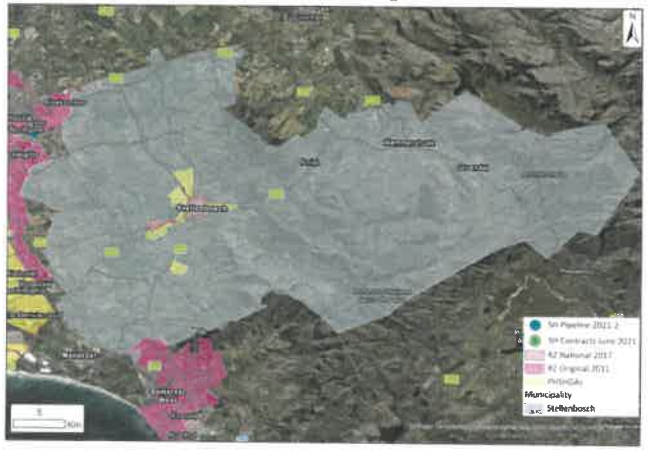
Activity in the rental market in Stellenbosch town includes government plans for social housing projects. Two Restructuring Zones for Stellenbosch municipality were included in the National 2017 Gazette: Greater Stellenbosch and Plankenburg.

In the map to the right, the area in red marks the RZ which includes central Stellenbosch, as well as the area around Adam Tas Street. The Priority Human Settlements and Housing Development Area (PHSHDA) for the Stellenbosch town is shown on the map in yellow. Some areas of the PHSHDA and RZ extend outside the current urban edge, but both are mainly within the urban edge.

Although there are not currently any social housing projects in implementation, there are four projects in pre-planning stage (and thus not reflected on the map):*

- Lapland Flats—This is a refurbishment of existing medium-rise council flats (400 units), with estimated delivery in 2022/23.
- Two projects in La Colline—The two projects total 550 units and are in early stages.
- Town Centre, Erf 2609—This involves unused or underused buildings that can be demolished and re-developed for social housing, yielding potentially 600 units.

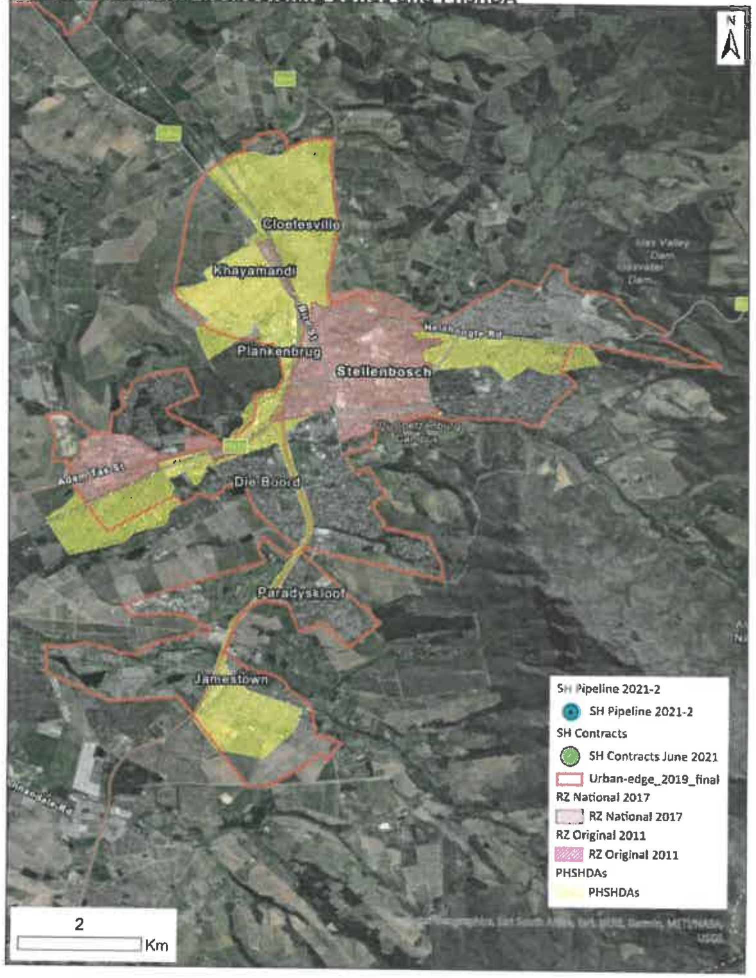
Stellenbosch municipality: Restructuring zones and PHSHDAs



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

* Source: W C DHS, Credibility Provincial Analysis – Social Housing Pipeline updated December 2021.

Stellenbosch town: Restructuring zones and PHSHDA



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

Rental market

Rental yields provide an indication to landlords and potential landlords which properties would be profitable to rent out.

- **Freehold property rental yields**

Since 2010, the gross rental yield for freehold properties in Stellenbosch municipality has stayed below the national average, despite variations during the period. As at the end of 2021, the gross rental yield was approximately 5.1%, while the effective yield (taking into account outstanding rental payments) was a slightly less at around 4.9%.

- **Sectional title rental yields**

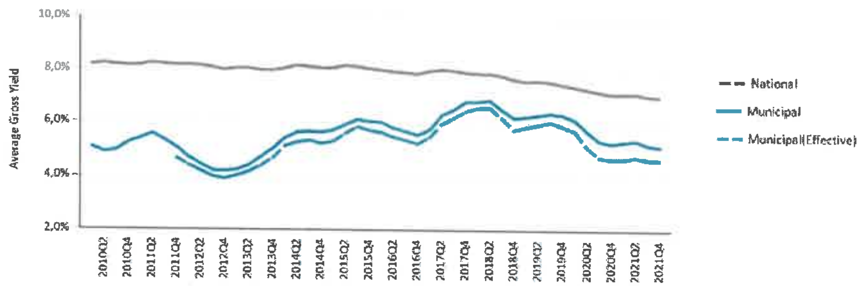
Gross rental yields for sectional title also stayed below the national average. At the end of 2021, the gross rental yield for sectional title (6.8%) was higher than that of freehold properties. Effective rental yield for sectional title was again slightly less, at approximately 6.2%. At the end of 2021, gross rental yield for sectional title was approximately 1.7 percentage points higher than for freehold units.

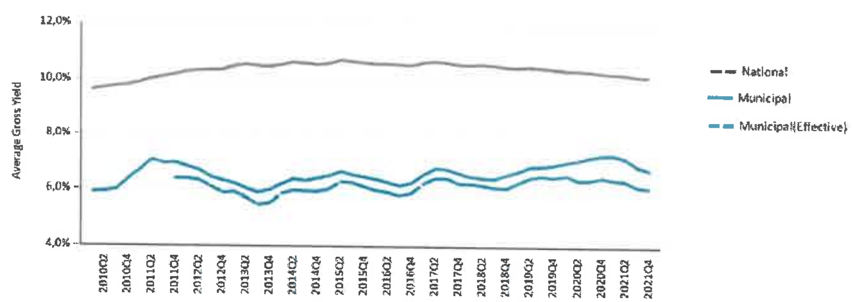
- **Percentage of tenants in good standing**

The percentage of tenants in good standing reflects the number of tenants who are up to date with their monthly payments,* and serves as another indicator of profitability for landlords. The indicator took a heavy hit in the second quarter of 2020, due to the economic impact of COVID and associated lockdowns. At that time the national average dropped to 74%. Since then the national average for percentage of tenants in good standing has substantially recovered, reaching 81.4% at the end of 2021.

At the end of 2021, the good standing rate for Stellenbosch municipality was strong (90.28%), higher than both the national and provincial averages.

Stellenbosch municipality rental yields (2010-2021)





Source : TPN Credit Bureau, Investor Reports March 2022.

Effective rental yields for four municipalities (Q4 2021)

Source : TPN Credit Bureau, Investor Reports March 2022

* Tenants in good standing includes those who have paid on time, those paying within the grace period, and those who have paid late.

Summary of current market activity

As with the other study areas, market activity picked up substantially in 2021—led by resale transactions of luxury properties. The property typologies that are seeing the most activity and higher churn rates are freehold estate (5.5%) and sectional title outside estate (5.1%).

New build market

Unlike Mossel Bay and George, new transactions in Stellenbosch town were *increasing* pre COVID. Then in 2021 they shot up by 24%, due to growth in affordable and luxury transactions. In 2021, all of the new transactions in the entry market (23 transactions) were GSP—there was no private sector construction of new houses below R300 000 in 2021.

Over the last five years, the consistent majority of units built and sold by the private sector have been freehold properties in estates (67%), with another 27% sectional title outside estates. New transactions of sectional title units (outside an estate) are dominant in the luxury market, where there were 44 of these new units sold in 2021. Very few regular freehold houses (outside estates) are being built by the private sector—just 13 houses in 2021. Nor is the private sector building sectional title within estates—only two have been built and sold in Stellenbosch town in the last five years.

Resale market

Unlike new transactions which have been on the rise, resale transactions in Stellenbosch town were declining since 2017, and continued to drop into the first year of the pandemic. However in 2021, the total number of resale transactions shot up by 62%, to higher levels than 2017, driven mostly sales in the luxury market over R1.2 million. In total there were 554 resale transactions in 2021, totaling R1.38 billion in value. The great majority of these transactions were over R1.2 million (77%), 10% were in the high end market, 9% in the conventional market, and 3% in the affordable market. There were only 9 resale transactions of entry market properties in 2021.

Resale activity of GSP is very thin, because stock of GSP in Stellenbosch town is very small (only 9%), of which only 62% of these units are over 8 years old. In total, 12 GSP changed handed formally in 2021.

The impact of student housing on the residential market is apparent. Given the university setting, 35% of resale activity was sectional title transactions outside estates, with another 40% being freehold properties outside estates. Despite the student market, the overwhelming portion of these transactions are over R1.2 million.

On the whole, the churn rate for Stellenbosch town is at the lower end of the four study areas (4.0% in 2021) yet slightly higher than nearby Paarl/Wellington (3.6%). Similar to the other intermediate cities, low value properties have lower churn rates—one fifth the rate of luxury properties.

First time home buyers

In 2021, 325 households became home-owners for the first time—of which only 7% received a new house from government. Likely influenced by the record-low interest rates in 2020, the number of bonded FTHB transactions went from 75 in 2019, to 136 in 2020. More households become home-owners by buying on the resale market, than by purchasing new affordable housing units from private developers. Approximately half of FTHB are purchasing properties which are R900 000 or less, 10% percent are buying units in the high end market, and 41% are purchasing in the luxury market over R1.2 million. In 2021, 45% of FTHB transactions were bonded.

Mortgage market activity

In the new build market, only 40% of non-GSP transactions were bonded, mostly in the affordable segment. In Stellenbosch town, excluding new GSP registrations, 55% of all transactions in 2021 were bonded . This proportion is low compared to Drakenstein at 62%, but higher than Mossel Bay, where only 34% of transactions (excluding new GSP) were financed with a bond.

In total, 419 bonds were issued for new and resale transactions in 2021, over half of which were issued by Standard Bank and Absa. There were no bonded transactions below R300 000 in 2021, and only 22 bonds issued in affordable segment.

Implications for inclusionary housing

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C A H F

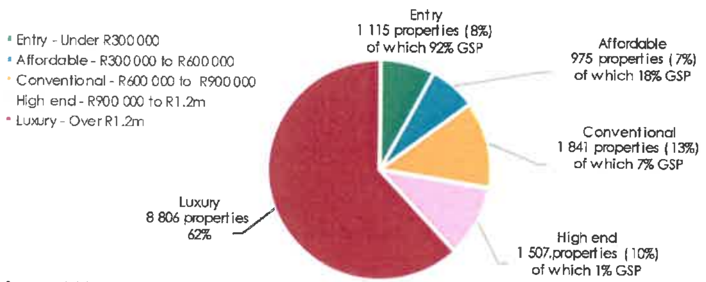
What is the profile of housing in Stellenbosch town?

In order to better understand the implications of the above analysis on inclusionary housing, we return to the key questions set out for this study:

- What is the profile of housing in the city? – by market segment, property type, neighbourhood
- What is the state of the residential market currently? – in terms of market performance, activity, key players, government and private sector delivery
- What is the affordability gap? – where is affordable housing needed, how much and what type? what is the target market for the affordable housing market?
- Is there an active property development market that would make the application of an inclusionary housing policy viable?

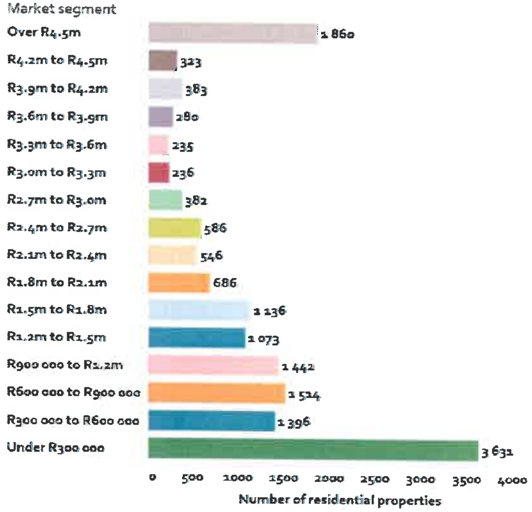
This concluding section of the report pulls together the main points of the above analysis to identify the characteristics and trends of the residential property market in Stellenbosch town which would critically impact on the success of an inclusionary housing policy.

Number of properties by market segment: Lightstone data (2021)



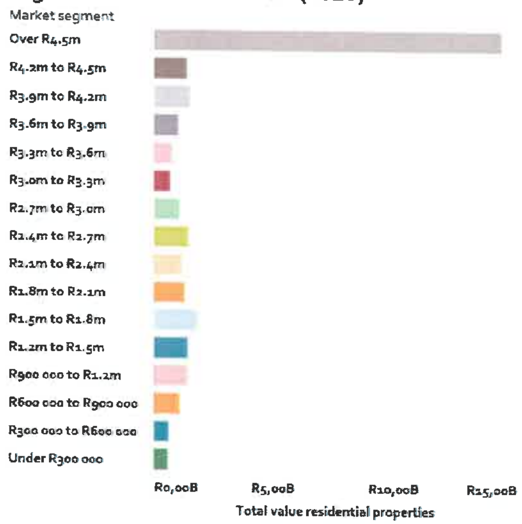
Source: Lightstone data as of 31 Dec 2021.

Number of residential properties by market segment: Stellenbosch VR (2020)



Source: Stellenbosch Valuation Roll, July 2020.

Total value of residential properties by market segment: Stellenbosch VR (2020)



Source.: Stellenbosch Valuation Roll, July 2020.

With approximately 35 300 households (as per GTI data), nearly one quarter of households in Stellenbosch town earn R2 379 or less. Of the four study areas, Stellenbosch town has the smallest residential property market in terms of number of properties, and also the smallest in terms of value (R32.35 billion), growing at an average 2.0% annually over the last five years.

The municipal valuation roll from July 2020 records 15 709 residential properties while the Lightstone data as at the end of 2021 has fewer (14 244). However both indicate a predominantly luxury market. More than the other three study areas, Stellenbosch town's residential property market is biased towards high value properties, with 62% valued over R1.2 million in 2021. Just 15% (or 2 0 90) are valued under R600 000, and over half of these lower value properties are government-subsidized units. The stock of GSP in Stellenbosch town is fairly low—just 1 393 units all located in Khayamandi, Cloetesville and Idas Valley; the majority of the GSP are under 8 years old.

Given the location of the university in town, rental rates are high and the share of sectional title properties outside estates (27%) is large.

What is the state of the residential market currently?

Market activity in Stellenbosch town is centred in private estates, in the upper market segments, with sectional title resale playing a larger role due to the presence of the university.

- **New build market**

Unlike Mossel Bay and George, new transactions in Stellenbosch town were increasing pre COVID, and continued to climb through the pandemic, driven largely by luxury market sales and the construction of some affordable housing developments.

Delivery of government housing programmes is limited, with 23 new registrations recorded in the Lightstone data in the entry market below R300 000 in 2021, in Khayamandi. However the private sector built and sold 203 units with a total value of R62.7 million, of which 46% were actually affordable housing valued between R300 000 and R600 000. A new development in Idas Valley saw the sale of 88 new homes in the affordable segment between R300 000 and R600 000 in 2021.

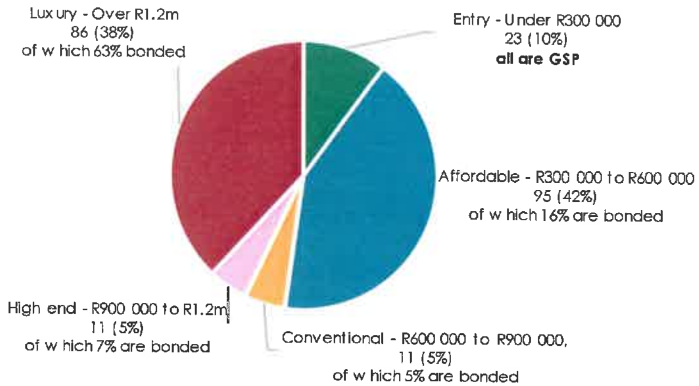
Over the last five years, the private sector has primarily been building freehold properties in private estates (67% of total new non-GSP transactions), with another 27% sectional title units outside estates—much of which is likely upper end rental housing for students. The private sector is mainly investing in new gated developments, or student rental housing. Very few regular freehold houses outside of estates are being built—less than 15 in 2021.

Notably, of the approximately 200 new transactions of non-GSP in 2021, only 40% were bonded (80), yet most of these non-mortgage purchases were for properties in the affordable segment. If the majority of units are bought without finance, it may be that these affordable housing developments are not reaching the target market, but instead are being purchased by higher-income households and/or buyers who are purchasing a second property with cash.

- **Resale activity**

Resale activity has followed the same pattern as the other three study areas in the last five years, declining from 2017 to 2020, and then rebounding past 2017 levels in the second year of the pandemic. This was clearly driven by secondary sales of luxury properties, primarily in Stellenbosch SP, in the centre of town, as well as Welgenden.

Stellenbosch town: New sales by market segment (2021)



Source: Lightstone data as of 31 Dec 2021.

Some of these resale transactions are of GSP, but very few. As noted earlier, Stellenbosch town differs from the other three study areas in its small stock of GSP (only 1 353 houses in total, or 9% of total residential properties). Over half of these (62%) are newer GSP which are still bound by the 8 year sales restriction. In 2021, only 12 GSP changed hands on the secondary market, at an average price of R254 583.

Purchases by first time home buyers jumped to 325 transactions in 2021. Most first time home buyers are purchasing on the secondary market (54%), while 39% are buying new units from private developers. The data suggests that many first time home buyers are wealthier and/or have higher incomes: excluding government housing beneficiaries, 41% of first time home buyers are purchasing properties valued over R1.2 million, and just 49% are purchasing with a bond.

- **Mortgage lending**

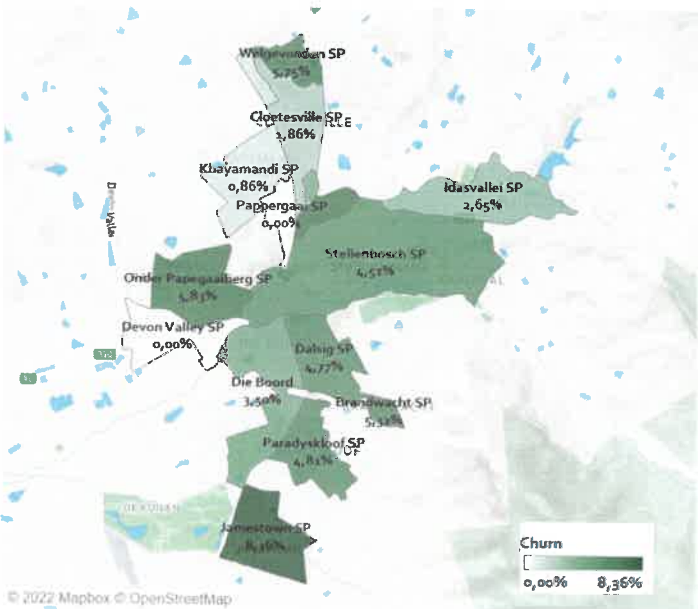
Excluding new GSP registrations, only 55% of all transactions in 2021 were bonded. Nearly 78% of the bonded transactions in 2021 were over R1.2 million, indicating that not only is the mortgage market limited in volume, it is also largely limited to high-value transactions. While some of these households may have drawn up once-off lump sum payments (e.g. pensions or inheritance), many of them will have been drawing upon equity from a previous home.

What is the state of the residential market currently?

Churn rates

After having declined 2018-2020, the overall churn rate for Stellenbosch town returned to 4.0% in 2021. As with the other study areas, the churn rate for the higher market segments exceeds that of the lower market segments—ranging form 0.82% for the entry market, to R4.89% for the luxury market.

Churn rates by subplace
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced June 2022).

As a result of the very low churn rates at the bottom end of the market, filtering is not taking place. This is important because, without turnover at the lower end of the ladder, current homeowners (both GSP and not) are unable to realise the asset wealth of their properties and move up the ladder.

As reflected in the churn rates, the market activity for sectional title outside estates and freehold properties in private estates is substantial.

Market activity is clearly concentrated in particular neighbourhoods and suburbs, as shown in the map. Highest churn rates in 2021 were in Jamestown (8.36%) and Onder Papegaaiberg (5.83%) and Welgevonden (5.75%). One developer interviewed described a process of gentrification in Jamestown as it transformed into a more up-market area, 85% of properties valued over R1.2 million.

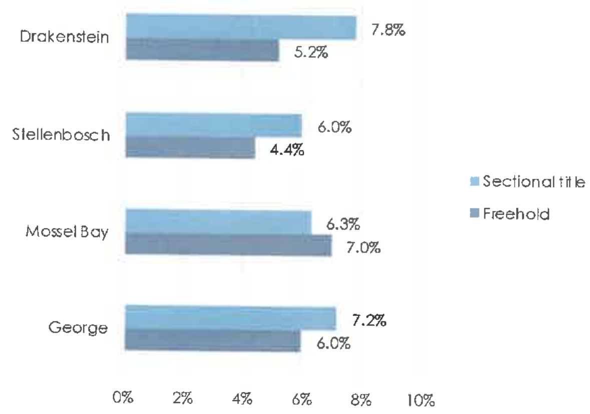
Rental market

Data on the rental market is painfully scarce—the TPN data used in this report does not include absolute figures and thus does not assist with quantifying supply and demand. According to a representative of the university, there is a gap in supply of affordable private accommodation for lower income students, many of whom receive NSFAS support.

According to TPN's municipal level data, a 2 bedroom sectional title unit would typically rent for R8 000/month, which require a monthly income of R26 670. Approximately 23% of households in the municipality earn this much, and students dependent on national financial aid, would have a budget of R5 000/month only.

The graph below compares Stellenbosch municipality to the other three municipalities, demonstrating that effective rental yields for freehold *and* sectional title were smallest in Stellenbosch.

Effective rental yields for four municipalities (Q4 2021)



Source : TPN Credit Bureau, Investor Reports March 2022.

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What is the affordability gap? – Town level

The table to the right compares the stock of housing per market segment in Stellenbosch town, to the number of households with the income required to purchase a house with a bond in that market segment. The results point to:

- **Unmet housing needs in the lowest segment**

The unmet housing need is most pronounced in the lowest segment. The table shows a large number of households with a monthly income below R7 300—approximately 17 900 households, or 51% of the total. However there are only 1 115 formal houses on the deeds registry valued below R300 000. This would suggest an unmet need for affordable formal housing: many of these households may currently be renting, and/or staying in informal settlements or backyard dwellings which are not reflected in the deeds data.

Similarly, in the income segments between R7 300/month and R22 200/month, there are far more households (approximately 8 500) than there are houses in the corresponding market segment which would be affordable to households with this income (around 2 800). One possibility may be that a number of these households are renting, or staying in informal dwellings. The data does suggest there is an undersupply of houses valued in the affordable and conventional market segments.

- **Apparent market clearing in the high end segment**

In the high end market segment of houses valued between R900 000 and R1.2 million, there are 1 507 residential properties, and 1 562 households with monthly incomes that would theoretically enable them to purchase a house at this value. The supply appears to roughly match the demand.

- **Potential oversupply in the luxury market**

However there does appear to be a disjuncture at the top end of the market. There are about 8 800 residential properties valued over R1.2 million in Stellenbosch town (approximately 62% of the total), however there are only about 7 300 households with incomes over R29 600 which would enable them to purchase a house with a bond at this cost. This is consistent with the findings of this study which indicate private developers are focusing on the top end of the market.

Estimated household incomes required to purchase property with a mortgage, per market segment (2021)

Market segment (residential property value)	No. of properties in that market segment	% share of total properties in that market segment	Minimum monthly household income needed to purchase in this market segment*	Maximum monthly household income needed to purchase in this market segment	No. of 2021 households that fall in this income bracket**	Percent of 2021 households that fall in that income bracket
Entry level: < R300 000	1 115	7.8%	--	R7 300	17 909	50.8%
Affordable: R300 000 - R600 000	975	6.8%	R7 300	R14 750	5 447	15.4%
Conventional: R600 000 - R900 000	1 841	12.9%	R14 750	R22 200	3 035	8.6%
High end: R900 000 - R1.2m	1 507	10.6%	R22 200	R29 600	1 562	4.4%
Luxury: > R1.2m	8 806	61.8%	R29 600	--	7 316	20.7%
Total	**14 244**	**100%**			**35 269**	**100%**

* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP.
** Assuming even spread of number of households at each income level, within an income bracket.
Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021. Own calculations.

Word of caution regarding affordability calculations

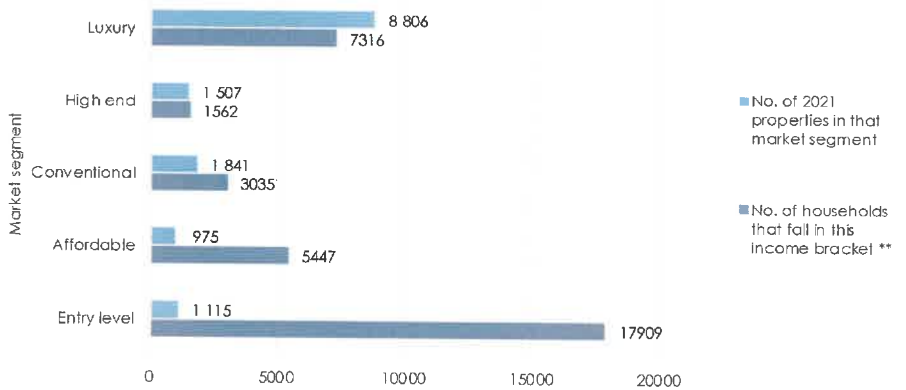
There are a number of important cautionary notes which should be raised with respect to these calculations:

- While house purchases below R1.2 million avoid transfer fees, there are other transfer costs which are not included here. See box on page 43.
- Not all households purchase in the market segment they can afford: some may have additional funds from a once-off source, and some may have other competing expenses that prohibit them from spending the benchmark figure of 30% on housing.
- Some households may be living in properties that they accessed either by purchase or inheritance or gift, that today they could not afford to buy - in some cases properties appreciate faster than incomes.

The affordability gap – Town level

The graph below shows the gap between the housing stock in each market segment and the number of households with an income required to purchase a house with a bond in that market segment.

Stellenbosch town: Number of properties per market segment and number of households in associated income bracket (2021)



* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP.
** Assuming even spread of number of households at each income level, within an income bracket.
Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021. Own calculations.

It should be emphasized that this analysis must be considered with caution and due recognition of its limitations (see box on prior page). This is not a quantification of demand, but only a comparison of the available stock and the number of households with an income required to purchase that stock with a bond. It does not consider the rental market, and does not take into account the multitude of circumstances that also impact on a household's housing choices and ability to pay e.g. large once-off income such as pension payout or inheritance; equity from a previous property; housing preferences and needs with respect to size, location and other factors; and other sources of credit.

Where is the affordability gap? – Neighbourhood view

With subplace level income data, its possible to undertake the same analysis we did at municipal level, comparing the number of properties per market segment to the number of households in the associated income band, at neighbourhood level. The graphs below display this comparison for three subplaces in Stellenbosch town, selected because they had a combination of average churn rates and sizable populations—Idas Vallei, Cloetesville and Welgevonden.

Idas Vallei and Cloetesville both have older GSP properties that make up 6% and 18% of the total, respectively. Idas Vallei's residential properties are fairly mixed in value, with the largest portion in the conventional market, due to recent new developments (see pg 36). There are a large number of households in the lowest income segment, yet no properties below R300 000. Its not likely the 'surplus' properties in the conventional and high end market are affordable for households with these incomes.

Similarly, Cloetesville has a disproportionate number of households in the lowest income segment, and clearly insufficient supply of entry level and affordable units in the area. Again, there appears to be an oversupply of conventional market units, relative to the income level of most households in the neighbourhood.

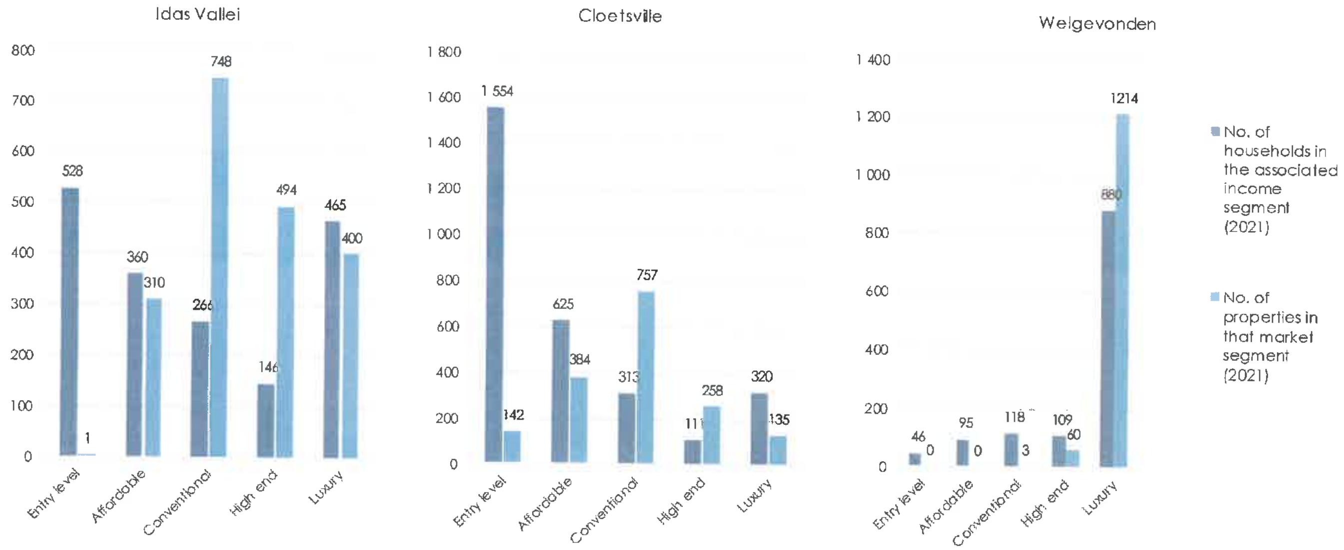
Welgevonden is an entirely different neighbourhood, with zero GSP and nearly all luxury properties. The majority of households are also in the top earning segment. It appears that private investment has resulted in an oversupply of homes over R1.2 million, or those units were likely developed with a target market in mind that comes from outside the area.

Churn, GSP and number of properties by market segment –selected subplaces (2021)

	Churn (2021)	GSP as share of total properties in subplace (2021)	Total no. of households in subplace (2021)	No. of GSP over 8 years as share of total GSP in subplace (2021)	Number of properties per market segment (2021): Under R300 000	R300 000 to R600 000	R600 000 to R900 000	R900 000 to R1.2m	Over R1.2m	Total residential properties (2021)
Idas Vallei	2.66%	6%	1 765	100%	1	310	748	494	400	1 953
Cloetesville	1.86%	18%	2 923	96%	142	384	757	258	135	1 676
Welgevonden	5.75%	0%	1 248	-	0	0	3	60	1214	1 277

Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021. Own calculations.

Number of properties per market segment and number of households in associated income bracket (2021) *



* Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no FLISP. Also assuming an even spread of number of households at each income level, within an income bracket.
Source: Lightstone data as of 31 Dec 2021; ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021. Own calculations.

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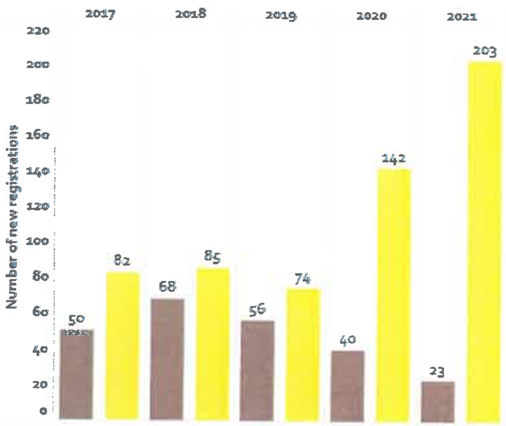
Is there sufficient developer activity and interest? – Non GSP new transactions by market segment

Given that inclusionary housing leverages planning permissions to compel the incorporation of affordable housing units into private developments, the presence of strong developer interest is a necessary prerequisite for the regulatory mechanism to be effective.

The top left graph compares the number of new registrations of GSP and new transactions of non-GSP properties over the last five years. In 2021, 203 housing units were built and sold by private developers or households in Stellenbosch town.

New registrations and transactions of GSP and non-GSP (2017-2021)
Stellenbosch



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

- New GSP transactions
- New non-GSP transactions

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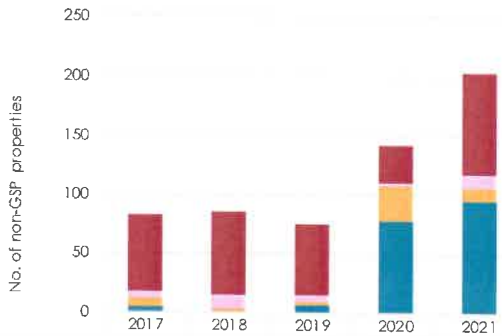
The graph below then unpacks the non-GSP new transactions for each year, by market segment. The graph thus reflects the types of products that private developers are putting into the market, providing evidence of the degree and nature of recent private developer activity and investment.

As shown in the map to the right, the apart from the Idas Valley development which already is largely affordable housing, private investment in building new luxury units in the Stellenbosch SP has been substantial.

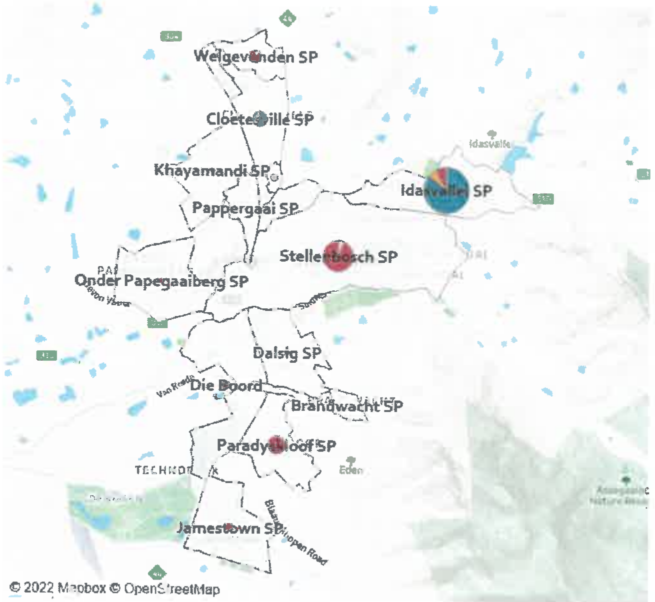
New transactions non-GSP by market segment (2017-2021)



	2017	2018	2019	2020	2021
Over R1.2m	64	71	59	31	86
R900 000 to R1.2m	7	11	6	4	11
R600 000 to R900 000	6	3	3	30	11
R300 000 to R600 000	5	0	6	77	95
Under R300 000	0	0	0	0	0

Source: Lightstone data as of 31 Dec 2021.

Distribution of new transactions by market segment: Non-subsidy properties
Stellenbosch, 2021



Data source: CAHF's Citymark, using deeds registry data supplied by Lightstone Pty. as at the end of December 2021 (sourced March 2022).

Number of residential transactions
0
20
40
60
80
103

Market Segment
- Under R300 000
- R300 000 to R600 000
- R600 000 to R900 000
- R900 000 to R1.2m
- Over R1.2m

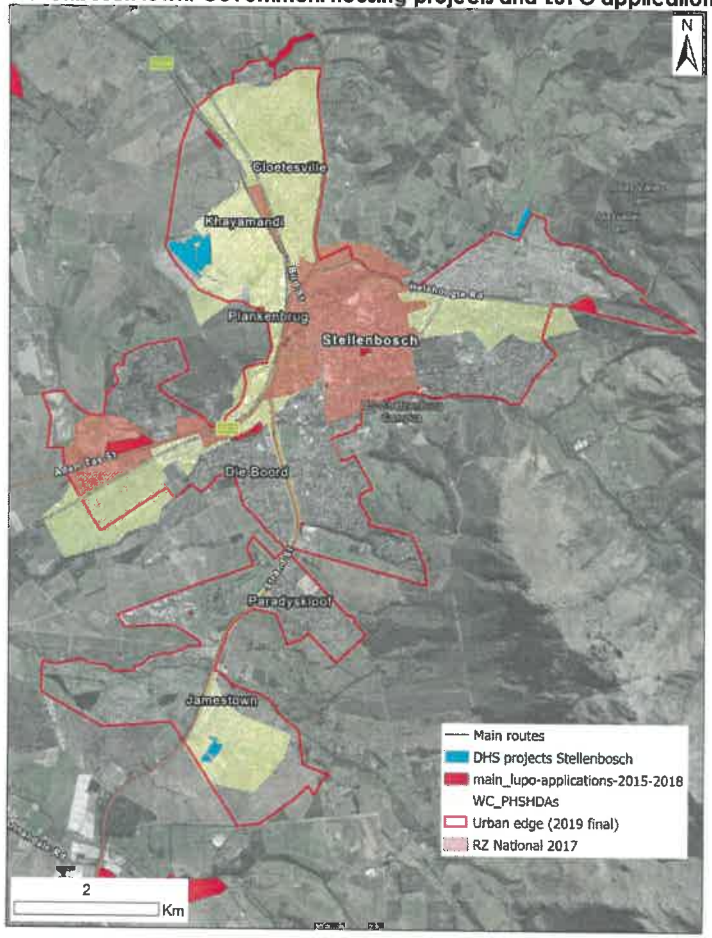
Is there sufficient developer activity and interest? – Evidence from land use management applications

The left-hand map shows the main LUPO applications (red) alongside the location of government housing projects (blue). It therefore gives a visualization of public investment alongside private sector intentions for development and investment.

The LUPO applications are centred in the Adam Tas corridor, in keeping with municipal plans for developing that area. Additional applications are for developments near Idas Valley and Cloetesville, and in the centre of town.

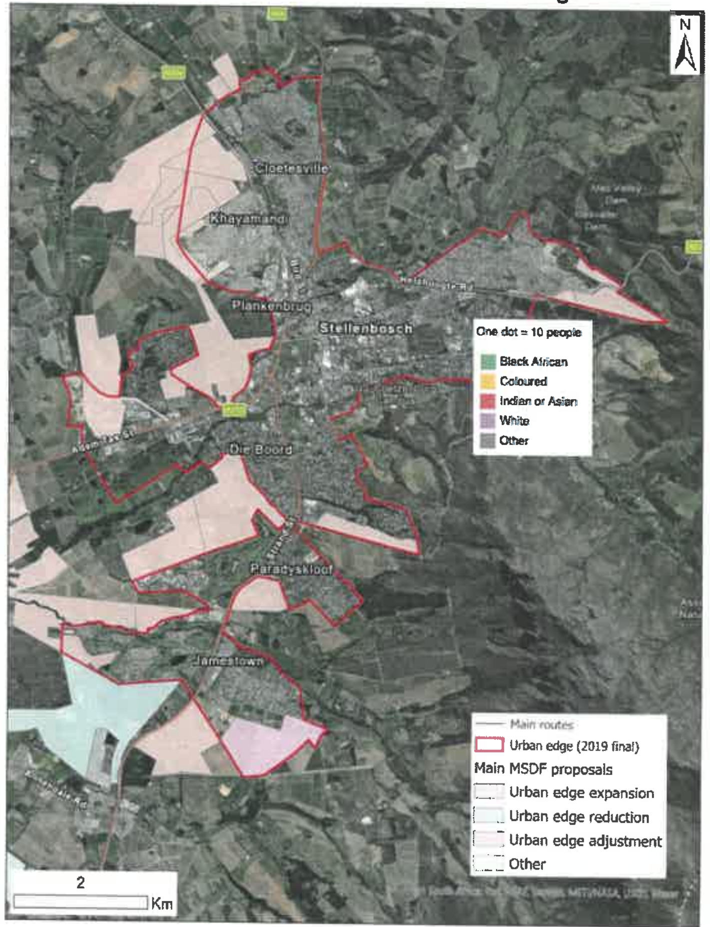
The map to the right displays areas proposed for changes to the current urban edge, which also provide an indicator of developer interest. Most are areas of expansion, near Khayamandi, and north and south of the Adam Tas corridor. There is also a proposed adjustment to the urban edge in Jamestown.

Stellenbosch town: Government housing projects and LUPO applications



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

Stellenbosch town: MSDF proposals to amend urban edge



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

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Conclusion

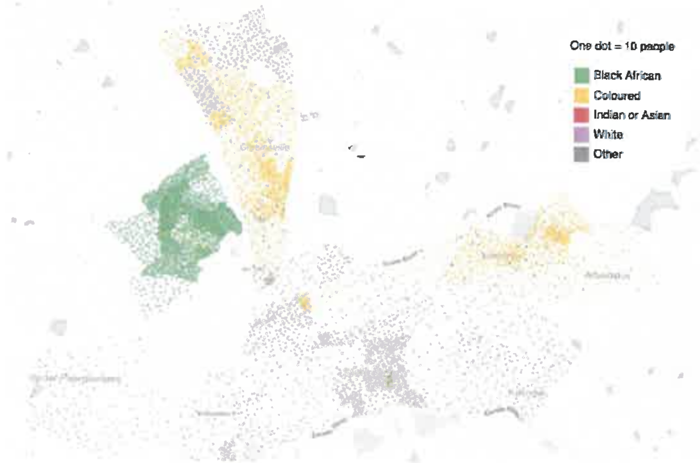
Inclusionary housing is intended to promote better located affordable housing, create more inclusive neighbourhoods and contribute to spatial transformation. The geographic target of an inclusionary housing policy would thus be areas that harbour a potential for greater inclusion and diversity in property value bands, while also containing the space and potential for new developments (in terms of appropriate residential zoning and the existence of bulk infrastructure), in addition to being well-located with respect to transport, jobs and amenities.

The demand and supply side assessments of the residential property market in Stellenbosch town point to opportunities to leverage private developer investment towards the construction of additional affordable housing, both ownership and rental, especially in those areas experiencing increased market activity post-COVID and high churn rates. This includes the centre of town (Stellenbosch subplace) as well as Idas Valley and Jamestown.

The map to the far right displays areas of residential zoning which would allow for further development. The map to the far left, apart from showing the striking racial divisions that continue to define Stellenbosch town spatially, suggests that there is considerable room in these largely-white areas to further densify, before moving to expand the urban edge.

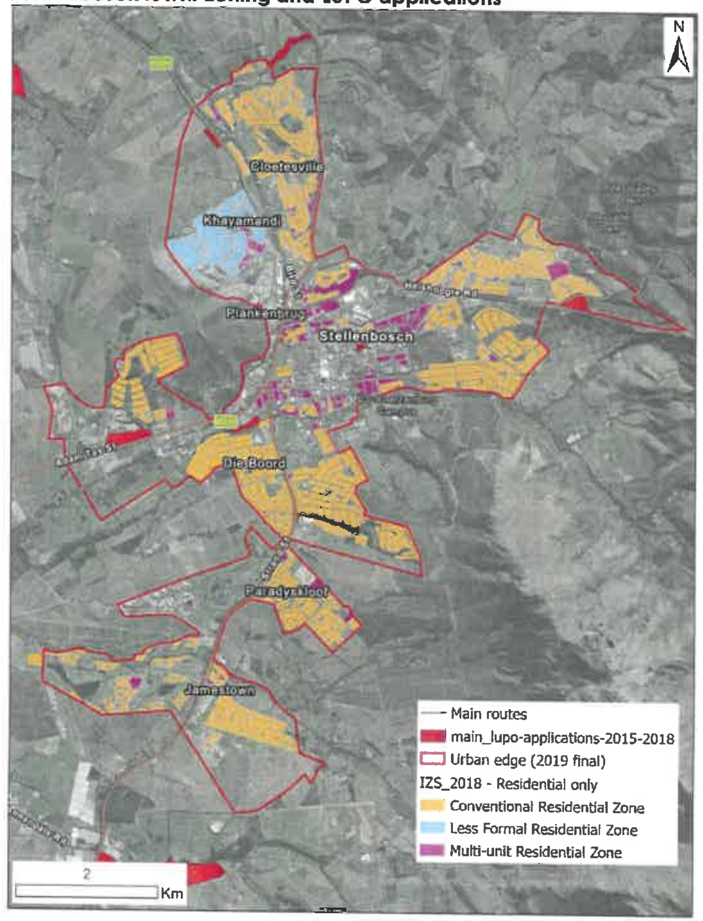
Despite the evidenced demand in the entry and affordable markets, private developers are currently focused on building luxury properties—mostly freehold estate and sectional title. An inclusionary housing policy has the potential to leverage this developer interest towards increased investment in affordable housing, thus increasing supply and contributing to mixed neighbourhoods. The challenge is to ensure that demand in each sub market is met, while preserving new affordable housing for the intended target market.

Stellenbosch town: Racial distribution



Source: Stellenbosch Municipality Spatial Development Framew ork, Approved by Council on 11 November 2019, pg. 36.

Stellenbosch town: Zoning and LUPO applications



Data sources: Stellenbosch Municipality, Municipal Demarcation Board (MDB), ESRI South Africa.

This report was prepared by the Centre for Affordable Housing Finance in Africa (CAHF) under the commission of the Western Cape Department of Environmental Affairs and Development Planning (WC DEA&DP) and the Western Cape Department of Human Settlements (WCDHS)

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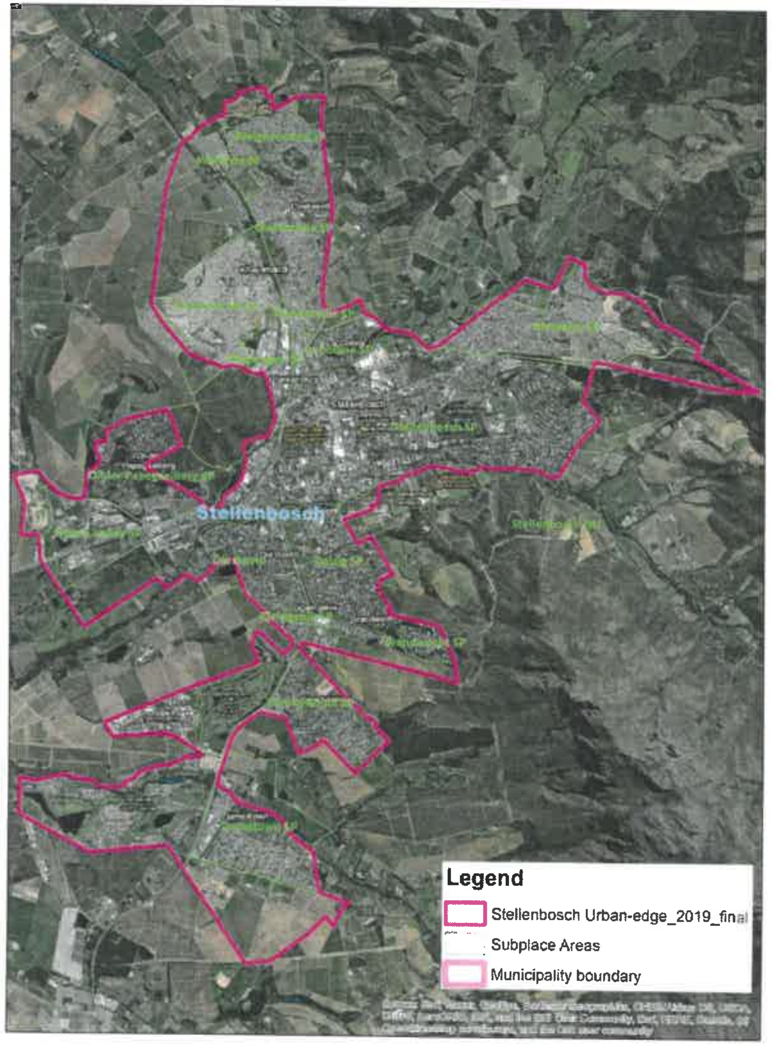
Appendix A. Scope of Lightstone deeds data

As noted in the Introduction of the report, the area identified for the focus of this study is the Stellenbosch town area within the urban edge. However the borders of the Census subplaces are not perfectly aligned with the urban edge. The map to the right shows the urban edge of Stellenbosch town in purple, which is also the boundary for the study area. The boundaries of the Census subplaces are shown in green.

We purchase the Lightstone indicators at Census sub-place level. For the most part, the boundaries of the Census subplaces align with the urban edge and thus the study area. However in some cases there are portions which fall inside the urban edge / study area, but are part of the expansive Stellenbosch NU which surrounds the town area and also covers the rural areas of the municipality. We identified four of these areas, as shown in the small maps to the right, and considered whether we should request deeds data for this particular portion of the Stellenbosch NU for the purposes of this study:

- Area 1: A luxury golf estate and thus not a priority to include in the study.
- Area 2: A Technopark with mainly office buildings, and thus not a priority to include in the study.
- Area 3: An informal settlement, and thus would not reflect in the deeds data.
- Area 4: A formal residential development, fairly recent and therefore relevant for this study.

We therefore felt it worthwhile to include the data for area 4, as a particular subsection of Stellenbosch NU, and add this data to the 16 subplaces fully (or nearly fully) contained within the study area / urban edge (see list).



Sp Code	Subplace Name
167010001	Welgevonden SP
167011001	Weltevrede
167011002	Cloetesville SP
167012001	Khayamandi SP
167013001	Pappergaai SP
167015001	Tennantville SP
167017001	Idasvallei SP
167018001	Stellenbosch SP
167018002	Die Boord
167019001	Onder Papegaaiberg SP
167020001	Devon Valley SP
167022001	Dalsig SP
167024001	Paradyskloof SP
167025001	Brandwacht SP
167026001	Jamestown SP
167014001	La Colline SP

Appendix B. Proxy for identifying government-subsidised housing

The term "government-subsidised properties" refers to any properties created as a result of government subsidies, including provision of land, construction of top structures, and where possible, financing. The definition is limited to the data indicators available from the deeds registry, and/or those extrapolated from Lightstone's databases. The methodology uses the knowledge of the government programmes, namely RDP/BNG, discount benefit scheme and 99-year leases, to identify particular characteristics of a residential property to designate it as "government subsidised."

Properties are deemed to be government subsidised, and under which programme, **if** *all* of the following conditions hold true:

RDP/BNG:

1. The property's first transaction price is less than the government subsidy amount (R184 658 for 2017; R187 275 for 2018-2021), plus R50 000, depending on the year of transacting, *and*
2. The property's first seller to a private owner should be a government entity or a major developer/development company,[2] *and*
3. The property should be a freehold non-farm property,[3] *and*
4. The stand size of the property should be less than or equal to 500 m^2,[4] *and*
5. New private transactions are not bonded,[5] *and*
6. The property's first registration should have taken place also after 1 January 1994,[6] *and*
7. The property should not fall in luxury/super wealthy areas or within a gated estate, *and* [7]
8. Properties located in suburbs (Lightstone suburb spatial layer) with 10 or more flagged active RDP/BNG properties. [7]

Subsidy Other:

In order to be classified as the 'Subsidy Other' subsidy type, all the following conditions must hold true:[8]

1. The property is not an RDP/BNG property as defined above, and
2. The title deed type should be freehold (non-farm), and
3. The transferor of the property to the first private owner is a government entity, and
4. The property's first private registration date occurs on or after 1 January 1989, and
5. The property is not located in a luxury or gated estate area.

Alternatively, the following conditions must be met which attempt to identify 99-year leasehold subsidy properties:

6. The property does not meet the RDP/BNG requirements, and
7. The property's first private transfer title deed begins with 'TL'.[9]

Note that 99-year leasehold properties are also classified as "Subsidy Other" subsidy type. **Properties identified in this report as GSP are a combination of both RDP/BNG and Subsidy Other.**

[1] Subsidy amounts were often used as the default property value on the deeds registry at the time of registration. An amount of R50 000 was added to these amounts to take into consideration the incidences where registrations attempted to consider actual market v alues.
[2] The Residential Dev elopment Programme (RDP) and Breaking New Ground (BNG) programmes prov ided funding to prov inces, municipalities or dev elopers to build housing directly on top of land made av ailable for that purpose. Both were implemented after 1 January 1994. All RDP/BNG homes were transferred directly from the prov ince or municipality or the developer to the owner directly.
[3] All RDP/BNG properties were transferred to owners in freehold title.
[4] The RDP/BNG programme implemented lot size limitations of up to 500 square metres.
[5] As RDP and BNG properties were prov ided to owners for free, there should be no bond.
[6] The programmes were implemented after 1994, with land initially designated in large plots to the dev eloper, province or municipality, and delivered to the homeowners upon completion.
[7] Due to the programme guidelines, properties were only dev eloped in large dev elopment tracts; this indicator is to prev ent isolated properties which might meet other criteria from being inadvertently included (such as due to data entry errors).
[8] The two other major gov ernment housing interv entions precede the RDP and BNG programme, namely the Discount Benefit Scheme and the 99-year lease programme.
[9] 99-year leaseholds were properties provided by the government, in order to adhere to national legislation prev enting land ownership by race category. Leasehold ownership was created to provide collateral assurance to those lenders and inv estors providing acquisition loans. Note that bonded first-time priv ate registrations are allowed for when classifying a property as a 99-year leasehold.

Appendix C. Comparison of municipal level income data from WC DEDT and GTI

For this project, income data was provided by the Western Cape Department of Economic Development and Tourism for 2021, at municipal level only. Income data obtained from GTI, also for 2021, was available at subplace level, allowing isolation of the study area.

Total number of households by municipality (2021) – GTI and WC DEDT data

	GTI total no. of households	DEDT total no. of households	Difference	
			No. of households	%
George	65 010	64 480	-530	-0.8%
Mossel Bay	41 649	33 137	-8 516	-25.7%
Stellenbosch	58 593	50 567	-8 034	-15.9%
Drakenstein	72 931	73 736	805	1.1%

Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021; W C Department of Economic Development and Tourism, 2021.

Monthly household income distribution (2021) – GTI and WC DEDT data*

	GTI		WC DEDT	
	No. of households	Percent share	No. of households	Percent share
R0 - R2 379	16 704	29%	4 606	9%
R2 380 - R5 385	11 720	20%	10 282	20%
R5 386 - R11 675	9 805	17%	12 897	26%
R11 676 - R20 450	6 367	11%	6 267	12%
R20 451 - R30 329	2 935	5%	4 368	9%
R30 330 - R40 904	2 946	5%	2 498	5%
R40 904 - R63 008	2 670	5%	3 313	7%
R63 009 - R99 083	2 458	4%	3 230	6%
R99 084 - R162 667	1 635	3%	1 659	3%
R162 667 and more	1 352	2%	1 439	3%
Total	**58 593**	**100%**	**50 559**	**100%**

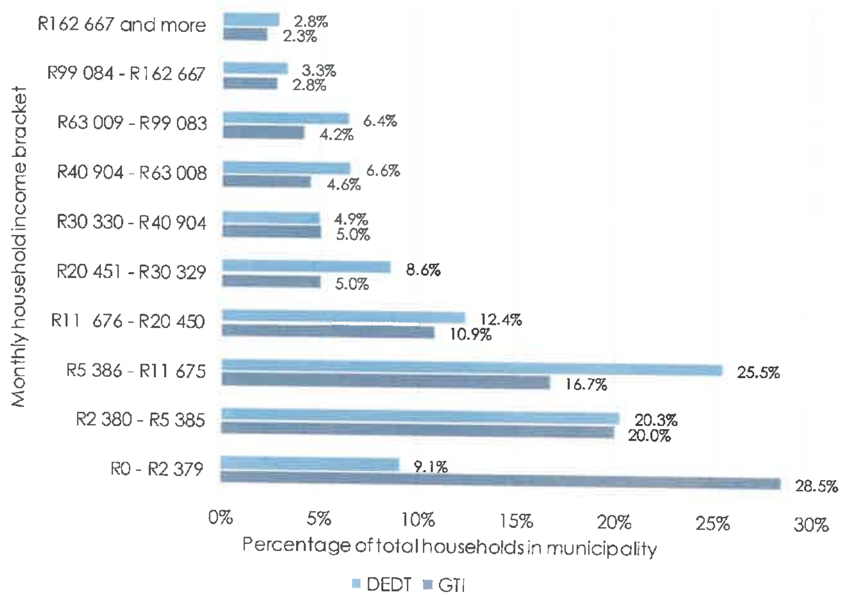
Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021; W C Department of Economic Development and Tourism, 2021.

* The municipal total for W C DEDT differs slightly from the total of income brackets due to calculations to convert W C DEDT income brackets to those of GTI.

At municipal level, the number of total households for 2021 does not differ significantly between the two data sources: according to GTI, total households for Stellenbosch municipality was 58 593, while DEDT reported 16% less, 50 567 households.

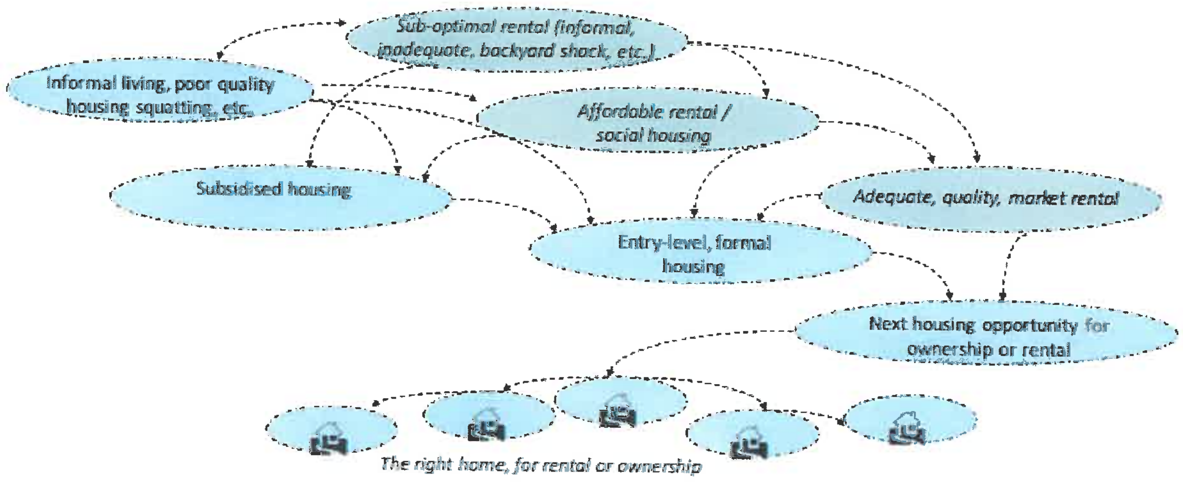
The data does differ significantly in its distribution however. The graph below compares the income data from the two sources. Given that the two sources used different income brackets, the DEDT data was converted into the GTI income segments, which required an assumption that the number of households in an income bracket is evenly distributed across the income range.*

Monthly household income distribution at municipal level (2021) – GTI and WC DEDT data



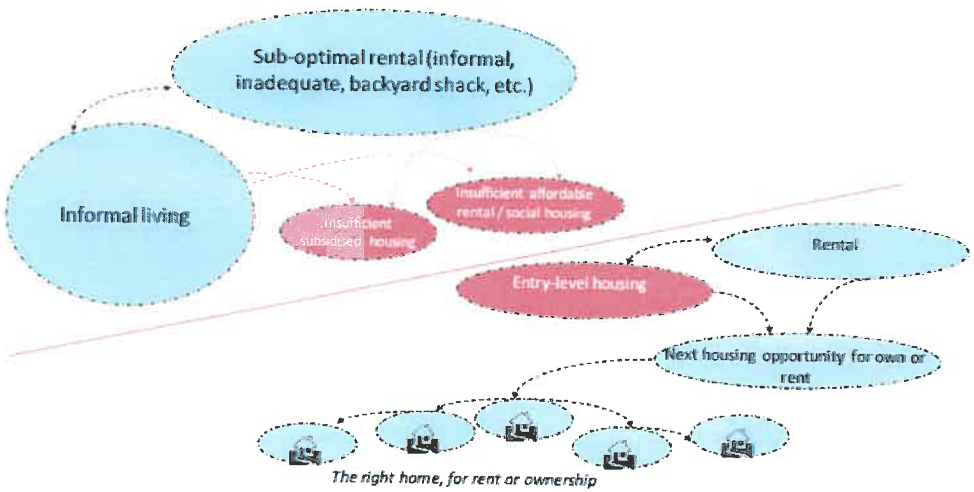
Source: ©GEOTERRAIMAGE – Neighbourhood Lifestyle Index™© (NLI™©) Release 2021; W C Department of Economic Development and Tourism, 2021.

Appendix D. Filtering in residential property markets



Filtering is when households move from one house to another to meet their needs affordably

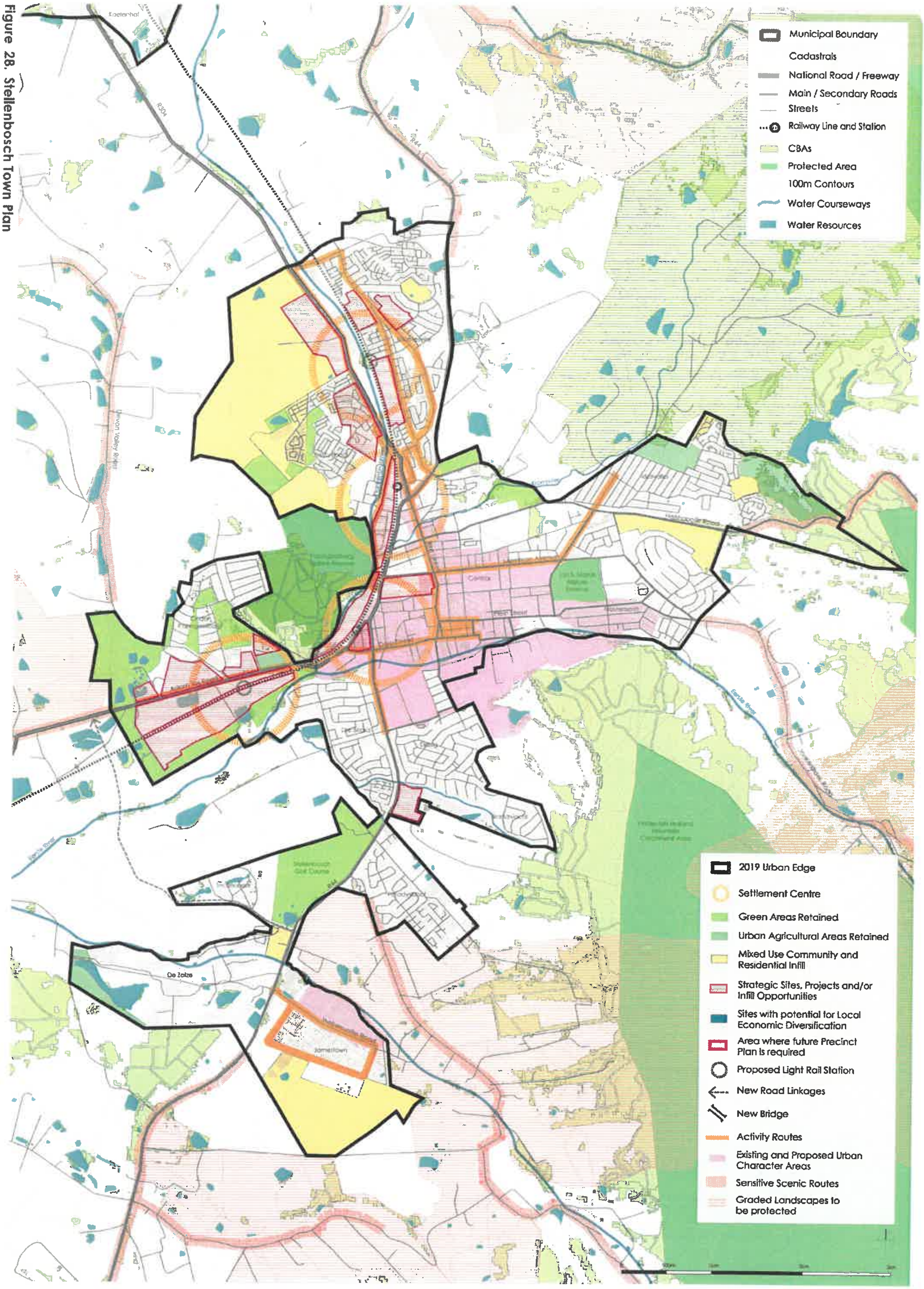
- **New housing supply** and **functional resale markets** enable filtering
- When filtering works there is **sufficient supply of affordable housing** for ownership and rental, enabling **household mobility** and the **leverage of the housing asset**.
- When filtering doesn't work, **household mobility** is constrained, the **value of the housing asset declines**, and poor households cannot access the property market. This also depresses household affordability for entry-level housing, and widens the housing gap, as first time buyers come without equity.



Source: CAHF (2018). Understanding housing markets: An analytical framew ork.

ANNEXURE B

Figure 28. Stellenbosch Town Plan



STELLENBOSCH FRAMEWORK

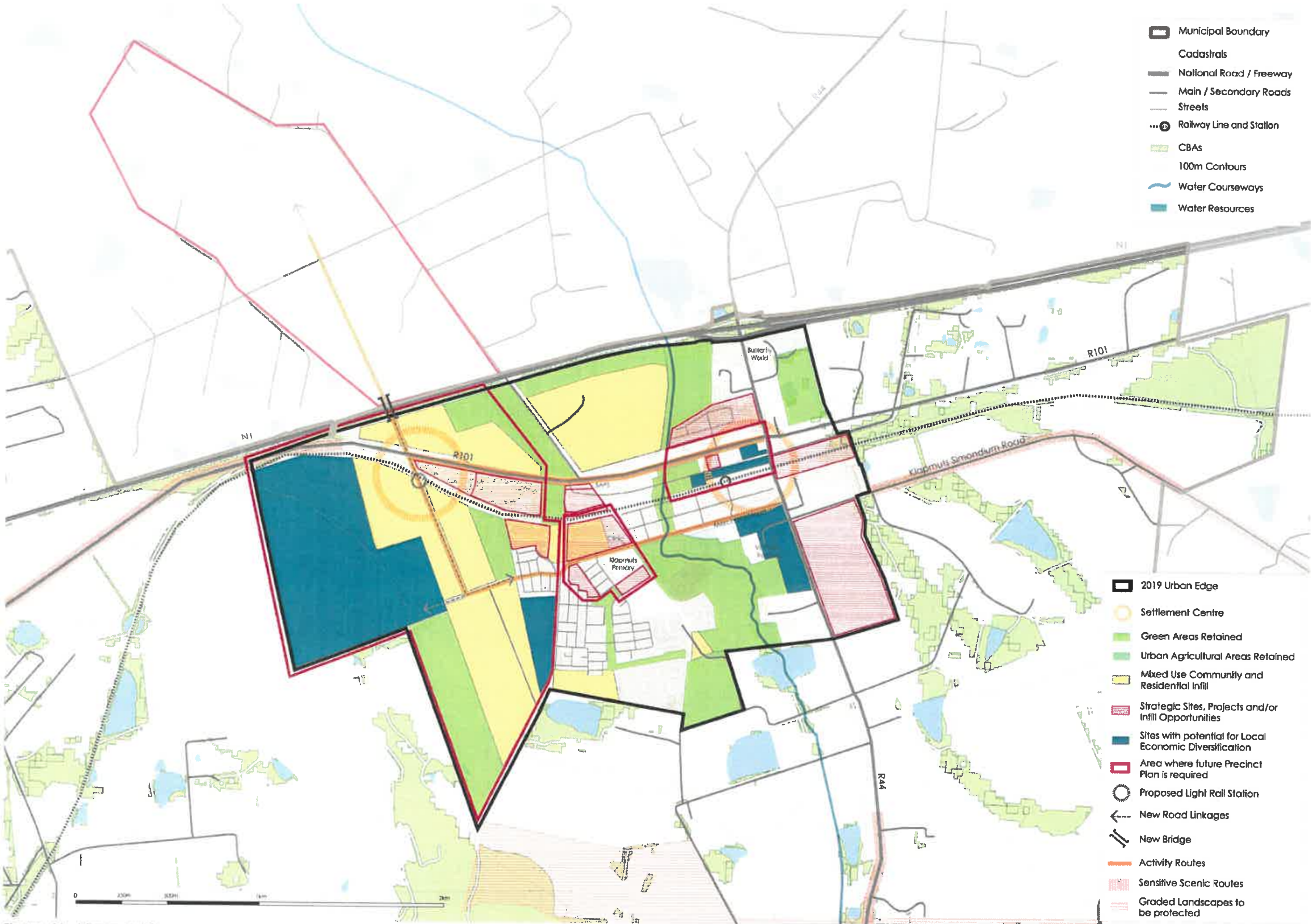


Figure 30. Klapmuts Plan

FRANSCHHOEK FRAMEWORK

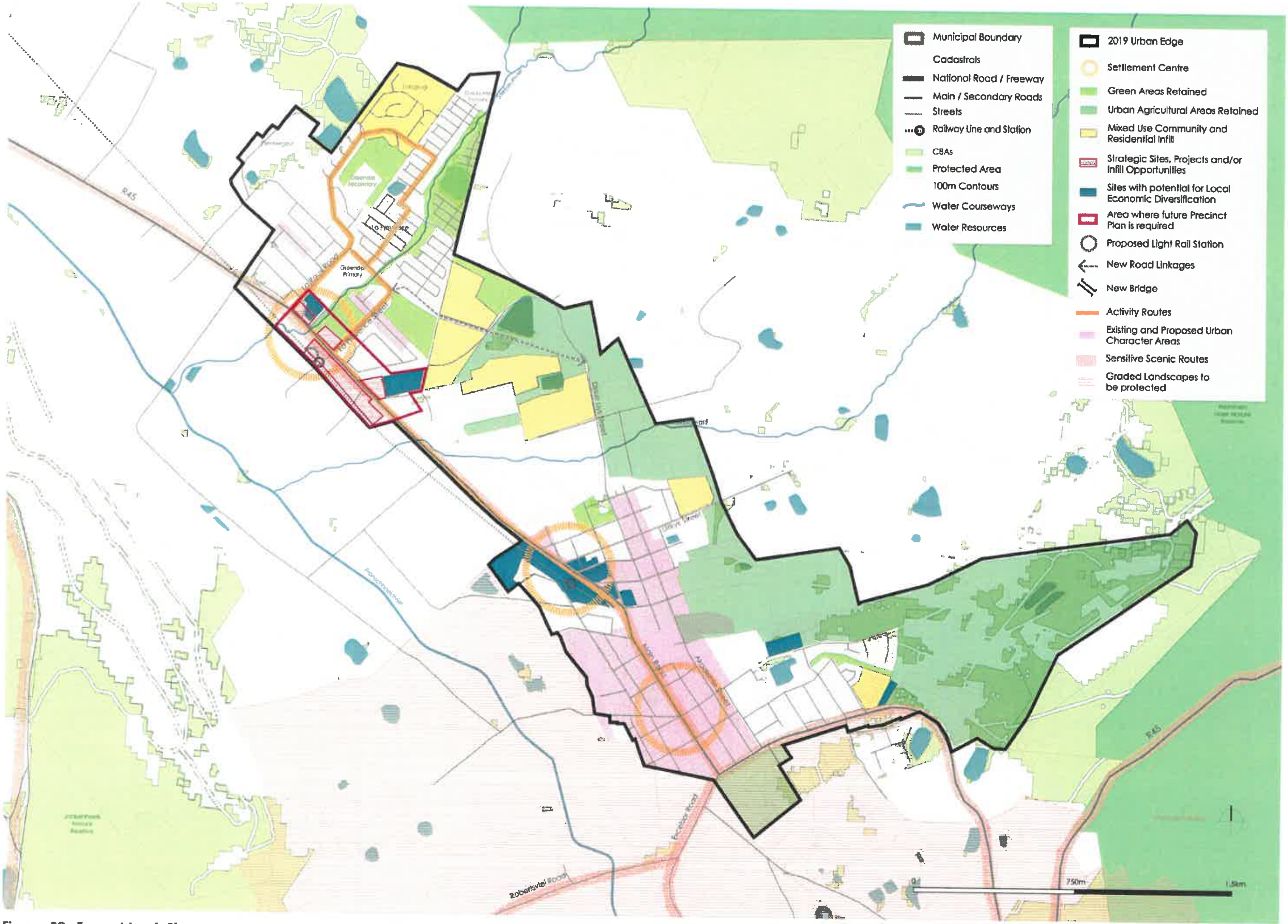


Figure 32. Franschhoek Plan

ANNEXURE C

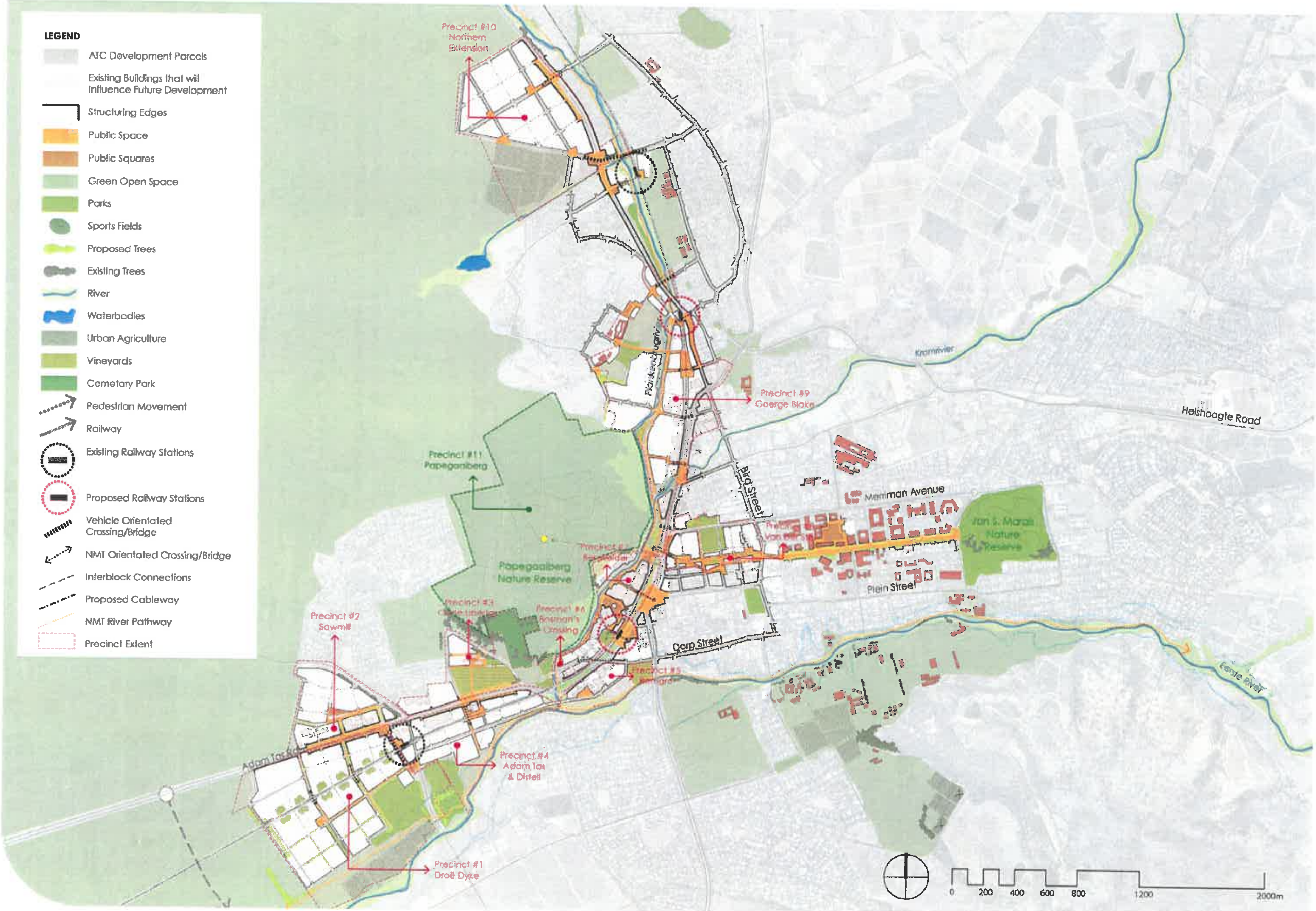


Figure 14. ATC Local Spatial Development Framework

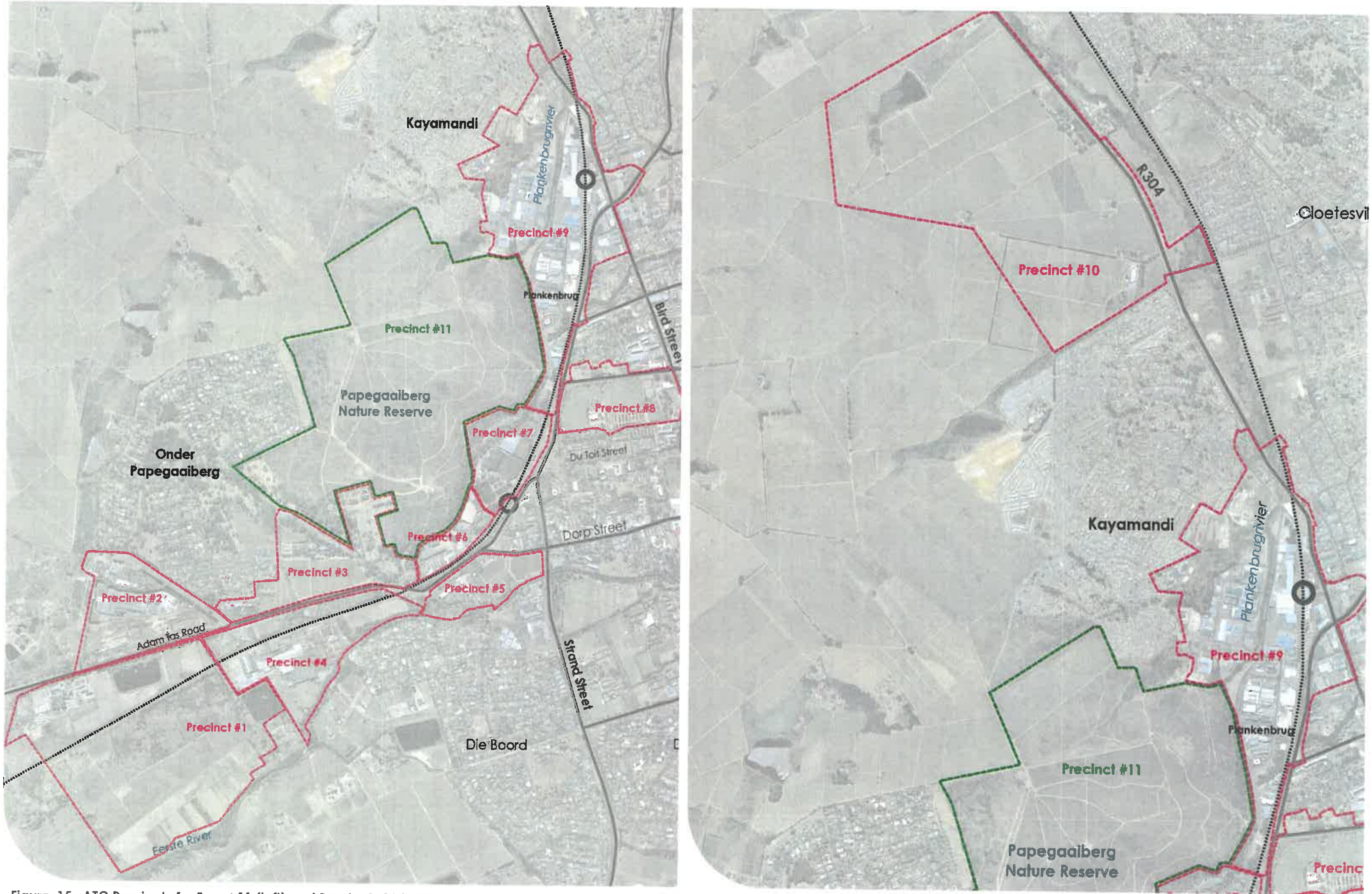


Figure 15. ATC Precincts 1 - 9 and 11 (left) and Precincts 10 in the broader context (right)

[i] Assuming 7.75% interest rate, 20 year loan tenor, 30% premium to income ratio, 10% deposit and no subsidy (i.e. FLISP). There are cautionary notes which should be considered in the interpretation of the calculations, namely – 1) house purchases below R1.2 million avoid transfer fees, there are other transfer costs which can be applicable to the household and have not been included; 2) not all households purchase in the market segment they can afford as some may have additional funds from a once-off source, and some may have other competing expenses that prohibit them from spending the benchmark figure of 30% on housing; 3) Some households may be living in properties that they accessed either by purchase or inheritance or gift, that today they might not be able to afford to buy.