

CHAPTER FIVE: THE RELEVANCE OF LOW-COST HOUSING DELIVERY IN LOCAL ECONOMIC DEVELOPMENT

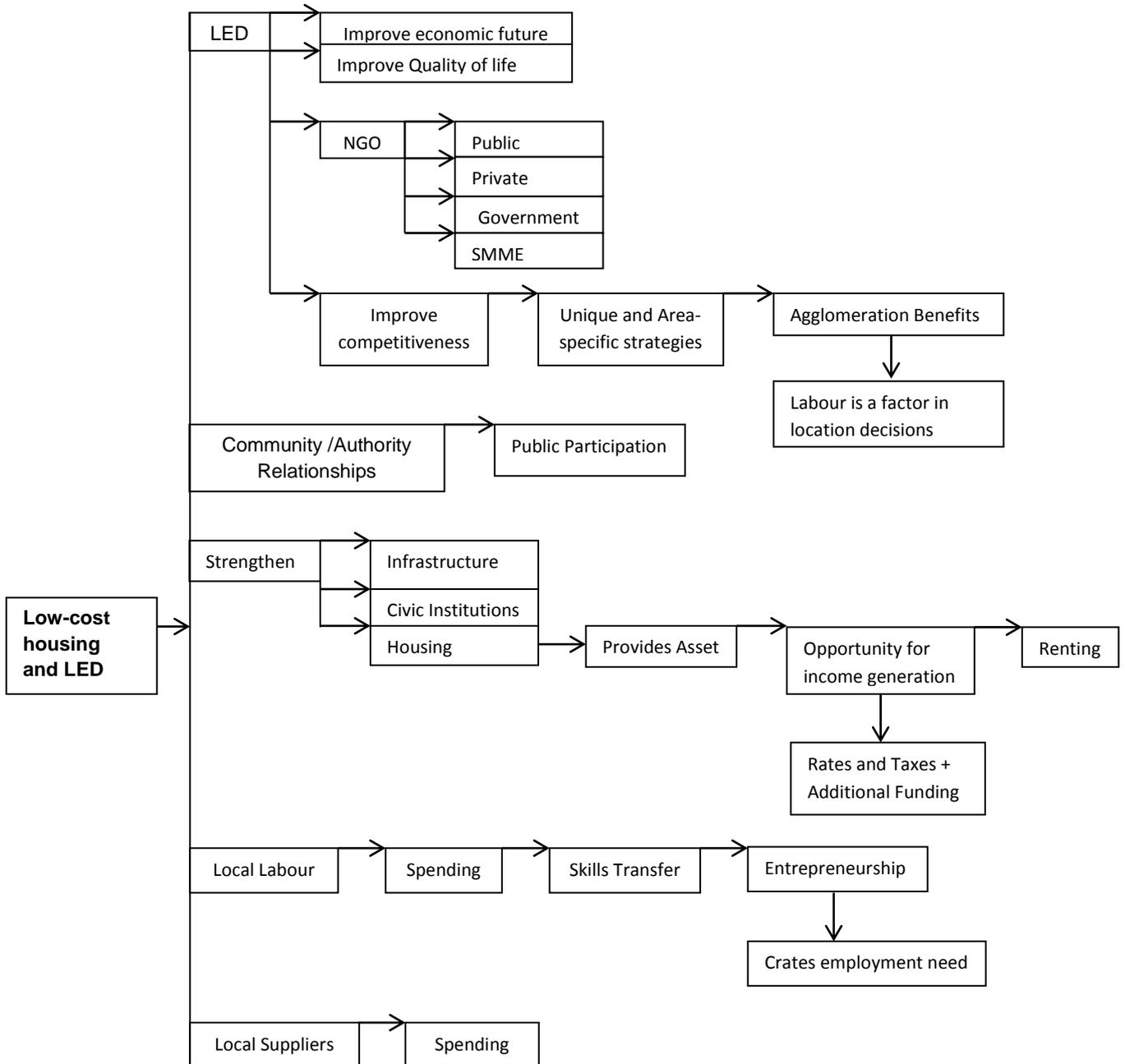


Figure 9: Summary of Chapter 5: The relevance of low-cost housing delivery in local economic development

Source: Own construction (2012)

Chapter 4 discussed the division of housing responsibilities between provincial and local authorities and established the importance of the local municipality in housing delivery. Chapter 5 will continue the focus on the local level by establishing the relevance of low-cost residential delivery in local economic development (LED).

The following chapter will aim to clarify the significance of low-cost housing development as part of Local Economic Development strategies. According to Rogers & Blatt (2003:2) the value of housing development to national and local economies is widely recognised but the contribution of affordable options meant for low-income beneficiaries has been underestimated. The development of low-cost housing should be seen as a tool and opportunity to benefit the community in its entirety and not just those who receive a home.

5.1 Background and introduction to LED

Swinburn et al. (2006:1) describes LED as follows: 'The purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all. It is a process by which public, business and non-governmental sector partners work collectively to create better conditions for economic growth and employment generation.' This definition was accepted and used in context of this chapter, in an attempt to evaluate the LED strategies and current reality in South Africa, applicable to the theme of research.

5.2 LED strategies

According to the UDF (SA, 1997:33) Local Economic Development strategies have the potential to address South Africa's prevailing economic problems by contributing to employment creation and an environment conducive to investment. SA (2009:13) states that housing development programmes may potentially contribute to the South African government's objectives in relation to social and economic upliftment.

Key strategies involved in LED include (SA, 1997:33):

- support for small businesses
- improvement in urban infrastructure and services
- training
- information and advice service
- investment in particular sectors

The establishment of effective LED strategies implies a need to institute dedicated municipal economic units, to support public works programmes, support for small, medium and micro enterprises (SMMEs), local procurement policies, as well as suitable regulatory and planning frameworks (SA, 1997:33). Swinburn et al. (2006:4) states that good practice indicates that LED should always be guided by predefined and well-structured strategies, including housing sector plans. In order to achieve this intergovernmental- and departmental partnerships are vital. According to Becker et al. (2007:72) there is generally little collaboration between intergovernmental departments. In this regard the establishment of an interdisciplinary approach which encompasses economic, housing and community development is difficult.

Housing and LED strategies should not only focus on economic development, but also on the social and environmental components which are inevitably linked to economic advances. One cannot address housing on a purely economic front, as social and environmental factors will unavoidably play a part. According to Becker et al. (2007:23) economic growth, environmental protection, and social equity are concepts which stand in conflict with one another. This implies a diminished focus on the remaining two when the emphasis is placed on one of these. It thus becomes evident that LED strategies should take the social and environmental consequences of their projects into account and that approaches which allow a balanced approach be followed.

The UDF of 1997 (SA, 1997:33) states that there is no universally correct LED strategy. Given the diverse nature of the South African socio-economic landscape, strategies should be adopted which are influenced and shaped by local circumstances, needs, challenges and realities. Where a strategy was successful in one area, it cannot be expected to perform equally well in another. Basic principles may however be adjusted and tweaked in order to conform to new parameters. Where housing is utilised as an economic multiplier in the larger LED programme of an area, care should be taken not to generalise what the community will accept nor to what extent development will influence the local economy. This is especially important where housing strategies are formulated which rely on alternative construction and layout approaches.

Given the differences in skill, expertise and capacity to implement alternatives by the community, contractors and authorities, the same strategy will perform differently in different areas. According to Swinburn et al. (2006:1) the potential for LED is enhanced or prohibited by each communities distinctive set of circumstances. These conditions determine the areas relative advantage in the attraction and generation of investment and its ability to retain said investment. LED strategies should thus be very thoroughly and meticulously constructed within the context of the area for which they are intended. Some basic principles should however be kept in mind as guidelines which will aid in the construction of a successful LED programme, especially once these concepts are applied according the area-specific conditions. These good practice principles are illustrated by Table 8 which also indicates how these principles relate to low-cost housing provision in terms of LED.

Table 8: Good practice principles in constructing LED strategies

Principle		Link
An Integrated approach	-Addressing economic, social, environmental and physical issues.	-Delivering housing in a sustainable manner within the context of the applicable area.
An approach based on partnership	-Public/private partnerships with a shared vision.	-Secured partnerships will prolong the economic multiplier effect.
An all-inclusive economic strategy	-With reference to a link between the formal and informal economy.	-Housing development should accommodate the establishment of both the formal and informal economic sectors, by providing market places etc.
A diversified approach	-With reference to short, medium and long term projects.	-Development should take place according to predefined goals, in phases to ensure manageable delivery timetables.
Utilising local leadership	-Making use of local, influential leaders to provide credibility and unification.	-As part of community participation processes.
Capacity building	-In terms of team management and training,	-Project management and constant training + evaluation programmes.
Inter-governmental commitment	-Support from all levels of government is needed.	-Shared government resources. (Financial & human capital).
Accountability	-A committed campaigner and manager is required to implement LED strategies accountably.	-Accountability should warrant priority.

Source: Constructed based on Swinburn et al. (2006:8)

5.3 LED and local conditions

As the term Local Economic Development suggests, local conditions are one of the most prevalent factors that need to be taken into account when these strategies are contemplated. This includes the attitude and preference of the community regarding development and also the nature of the community's relationship with authorities. Development at local level utilises advantages related to trust and mutual support embedded in community relationships. This reduces transaction costs and facilitates resource mobilisation (South Africa, 1997:33). It is thus permissible to suggest that community participation processes and the establishment of a favourable relationship between the community and local authorities and development agencies, will aid in the success of housing development as economic multiplier. A good relationship between the community and development authorities serves as a good basis for economic development, but it is by no means the only deciding factor. Housing programmes and strategies should facilitate community participation and stakeholder engagement in order to promote skills transfer and ultimate economic growth. This must entail consumer education and establishing institutions which provide support and training (SA, 2009:13).

5.4 LED and sustained growth

South Africa (1997:33) states that it is important to strengthen informal sector operations and civic institutions. Strengthening operations should include training, financial and infrastructural support and regulatory reforms. Land use planning and design systems should be utilised to promote the development of civic institutions.

Becker et al. (2007:9) states that incorporating trading and business uses in communities encourages entrepreneurship and employment generation. In this regard mixed-use development which provides social, residential and economic prospects collectively can be strategically addressed through housing development. The introduction of more flexible building and planning standards, permitting mixed-use development and innovative land uses should be considered. In this regard mixed-use and multi-functional building development which provides facilities for the establishment of business uses on second storeys may increase economic potential and growth (Becker et al., 2007:9).

This should be combined with the promotion of community access to information on minimum building standards and appropriate design (South Africa, 1997:33). Wherever possible innovative planning principles should be utilised to promote economic growth, sustainable development and an improved living standard.

Planners must ensure that an environment conducive to sustainable economic growth is created within the legislative framework which governs urban and regional planning activities. This should be done, for example, by making it as easy as possible for home owners in more informal areas to apply for rezoning or uses of special consent. This principle also extends to the design of new housing developments, where planners should attempt to provide as many inhabitants as possible with access to economic opportunities and transportation corridors.

The provision of enough space and access to civic institutions such as schools and churches will furthermore lead to a satisfied and therefore more productive community, in turn positively influencing economic competitiveness.

According to Arku and Harris (2005:1) housing development may be efficiently used as a tool to reduce unemployment, improve health and productivity and provide capital by providing the previously destitute and poor with an asset. Once an individual/family becomes a homeowner, the opportunity should be given to utilise the new asset as a form of income generation, should the owner feel the need. As part of a LED strategy the opportunity must be granted to homeowners to extend homes or to provide rentable accommodation according to building regulations. Low-cost housing delivery will furthermore not only benefit the physical inhabitants of new units. Benefits may be extended well beyond the community by providing the local authority with funds.

The development of low-cost housing increases spending and employment creation in the surrounding economy. Housing development becomes a source of revenue for local authorities in various ways, including the potential expansion of the local tax base (Wardrip et al., 2011:1). According to Eglin (2011) municipalities may collect rates and taxes from homes owned fully by individuals. These funds can then be attributed towards the improvement of the neighbourhood, thereby increasing property values and enticing investment.

Where low-cost housing is delivered the tax base will in most cases not increase dramatically, given that most low-cost housing inhabitants will often fall below the lowest tax bracket. According to Eglin (2011) many households may not be able to pay the required rates and service charges which accompany home ownership, indicating that municipalities may not be assured of the taxes and fees which are needed to provide municipal services. However municipalities do not rely solely on rates and taxes for income, as municipalities receive substantial amounts from equitable share transfers based on the number of poor households in their jurisdictions (Eglin, 2011). Low-cost housing development may thus still make economic sense.

According to Wardrip et al. (2011:2) housing development of any kind greatly benefits the local economy. Funds spent on materials and labour can greatly impact local business, given that suppliers are kept as local as possible. Where supplies are sourced locally, they may need to increase production capacity, thereby increasing the use of local materials and labour. Although local suppliers and contractors must always be favoured, care should be taken not to assign too much responsibility and unrealistic expectations to incapable and incapacitated local vendors for the mere sake of attempted local economic development. This is especially applicable in smaller towns and municipal areas where suppliers and contractors are often not as well qualified or experienced in large scale delivery. Where vendors are found to be lacking, more skilled and better equipped contractors and suppliers may need to be appointed from further afield.

These vendors, especially builders, should however be required to utilise local labour as extensively as possible, also committing themselves to the training of the local labour force. This will ensure that skill transfer takes place, enabling workers to apply new skills as professional tradesmen in future.

This will not only make the local labour force more employable in future projects, but may also foster an entrepreneurial spirit by providing previously unskilled individuals with proficiencies which may prompt them to start their own businesses. These factors will promote local economic development in a sustainable manner and should thus be incorporated when LED strategies are compiled. New enterprises will in turn employ even more people. This concept is illustrated by Figure 10.



Figure 10: Housing development leads to sustainable economic growth

Source: Own construction (2012)

The local economy is also indirectly impacted by housing development through spending by local labourers from salaries earned. Both skilled and unskilled labourers will likely spend a portion of their earnings at local stores. According to Juthe (2012) providing the utilities which accompany housing delivery such as water, sanitation and electricity, affords beneficiaries with new opportunities to buy home appliances from local vendors. This indicates the economic multiplier effect of low-cost housing development which may extend beyond the construction sector. However the local construction and supply sectors experience pronounced benefits in areas where construction related suppliers and business enterprises are locally situated. Where these industries are not locally situated, employment creation will still occur but in such cases the effect will be more dispersed (Wardrip et al., 2011:2).

At the very least the economies of areas where suppliers are located will benefit from low-cost housing development in a neighbouring economy. Where development thus has a minimal impact on the local economy in terms of spending by labourers and suppliers, it will have a much broader effect in neighbouring economies, thereby strengthening the broader region's economic competitiveness.

According to Twala (2005:2) low-cost housing investments have the potential to equalise South Africa's high levels of unemployment and poverty by addressing skill shortages in low-income communities. According to SA Commercial Property News (2012) the housing construction sector as a whole presents one of the highest employment multipliers in South Africa. On a more practical front it takes between 1200 and 1500 man-hours to build a 40m² house. This is an average of approximately 1289 hours, comprised of 541 hours of skilled and 748.8 unskilled work hours (Crown, 2012). This in turn implies that 2.45 people will be employed continuously in the completion of a typical house which can last up to 13 weeks (SA Affordable homes, 2012). Twala (2005:7) states that in low-cost housing development, up to 30% of construction costs may be credited to labour which is directly utilised in physical construction.

Labour utilised in the production and distribution of building materials may contribute to 11% of total development costs. It thus becomes clear that the most basic and relatable form of employment, namely labourers directly involved in the construction of each unit and in the production and transport of materials, will attribute greatly to the reduction of unemployment figures.

Figure 11 illustrates the relationship between economic development through low-cost housing development in terms of agglomeration benefits, labour and suppliers.

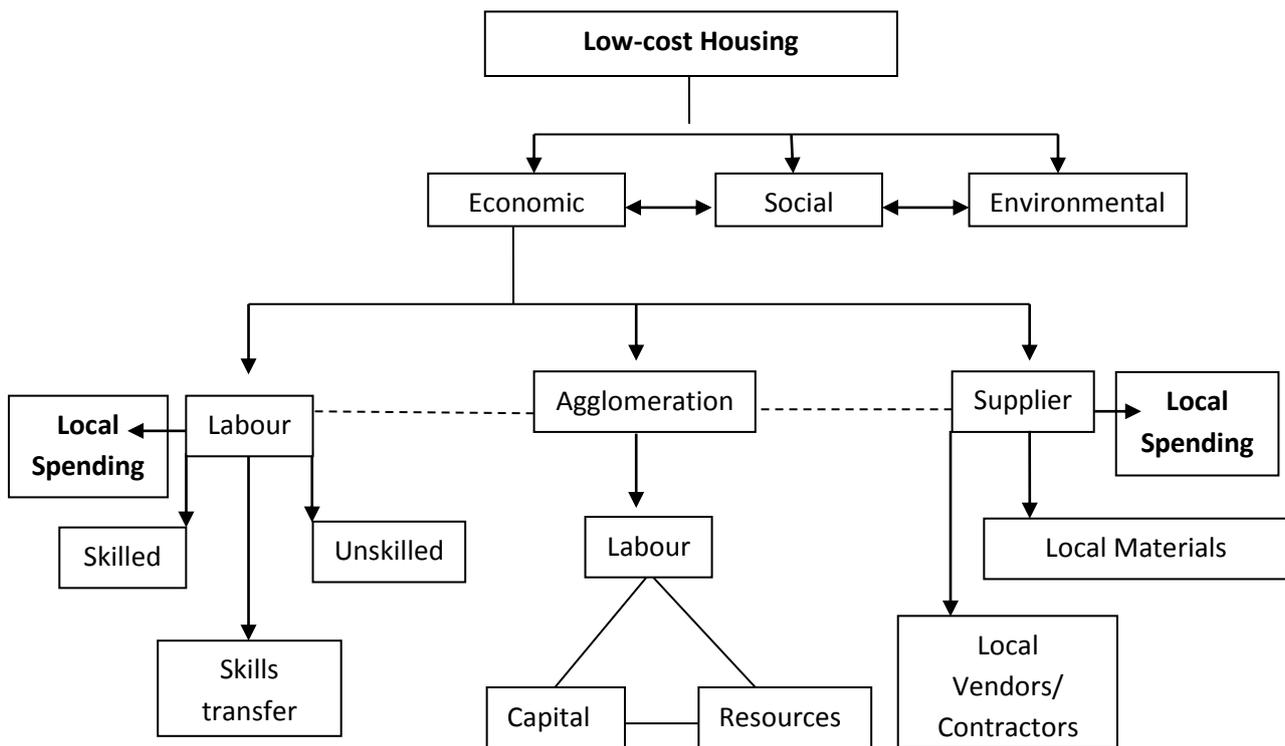


Figure 11: The relationship between economic development through low-cost housing development in terms of agglomeration benefits, labour and suppliers

Source: Own construction (2012)

According to Wardrip et al. (2011:10) local business enterprises find it difficult to recruit and retain a substantial work force in areas which lack adequate housing provisions. For this reason many enterprises factor in the position and provision of low-cost housing when making location decisions.

This indicates that low-cost housing development, paired with skills training, will entice entrepreneurs to establish industries in the area. Swinburn et al. (2006:2) states that businesses establish themselves in certain urban areas because of agglomeration economics.

The availability of labour pools greatly influences this decision. Labour is in turn influenced by the availability and quality of housing. It should also be noted that labour only partly influences location decisions and that a myriad of other factors, including natural resources, capital, local economic conditions and politics play a part.

Housing development should thus never be seen as an isolated drawing card, but it can improve the competitiveness of an area by expanding agglomeration benefits. Figure 12 illustrates the three factors which may influence location choice. Industries will decide on a location according to the availability of these factors in order to increase productivity and reduce transportation costs.

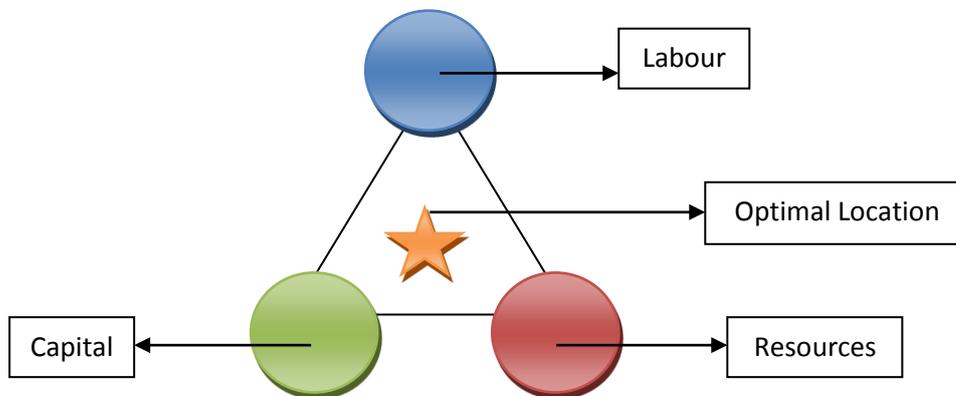


Figure 12: Agglomeration benefits will be optimised where deciding factors such as labour, capital and resources are best located

Source: Own construction (2012)

It is furthermore important to keep in mind that substantial housing development will intrinsically imply a greater need for employment opportunities. This will occur due to the fact that housing development inevitably attracts newcomers to the area. Newcomers may consist of individuals/families migrating to new housing developments where family members have received housing. These family members may rent a room or backyard structure or may move in rent-free. In other cases newcomers may be lured to the area in hopes of also receiving housing.

Extensive housing provision in an area already suffering from high numbers of unemployment and poverty, may thus exacerbate these problems. All measures possible should be taken to ensure that economic development in the form of employment creation accompanies housing development.

The entire process should be seen as cycle, as shown in Figure 13, in which housing development has the potential to combat unemployment, but also one where housing may create a larger need for employment by attracting newcomers to the area.

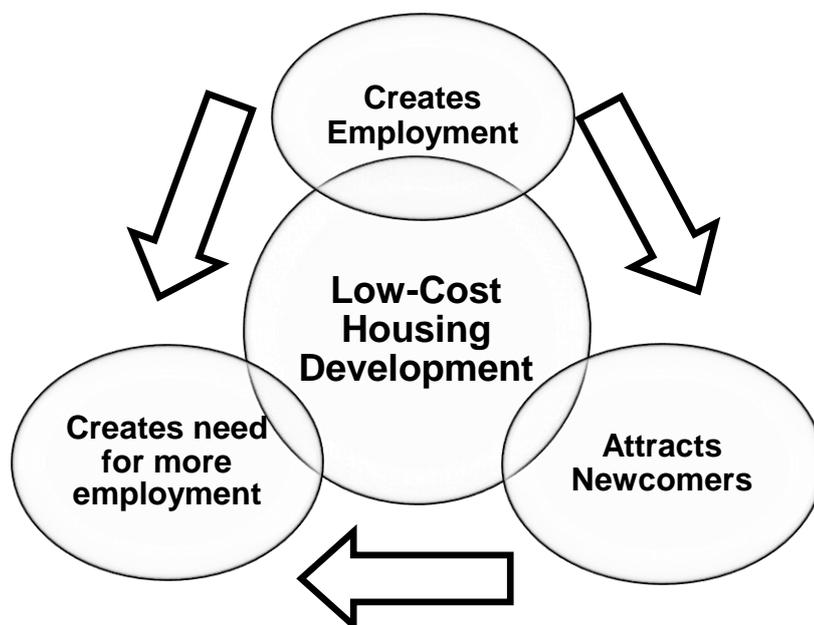


Figure 13: Low-cost housing development's influence on employment

Source: Own construction (2012)

5.5 Conclusions with regard to LED and the theme of research

Low-cost residential development has the potential to generate income at a local level and may provide sustained economic growth. With an effective LED strategy the effects of housing on the local economy may be multiplied. Detailed conclusions linked to the theme of research are captured in Chapter 13 (Refer to p 200). Recommendations will also be made to address these issues within the local South African environment, as captured in Chapter 14 (Refer to p 222).

Chapter 6 will accordingly discuss the informal backyard rental sector in South Africa with regard to possible strategy applications to be implemented in order to regulate and improve backyard conditions.