

# Mapping the Development Process in Cape Town

May 2018

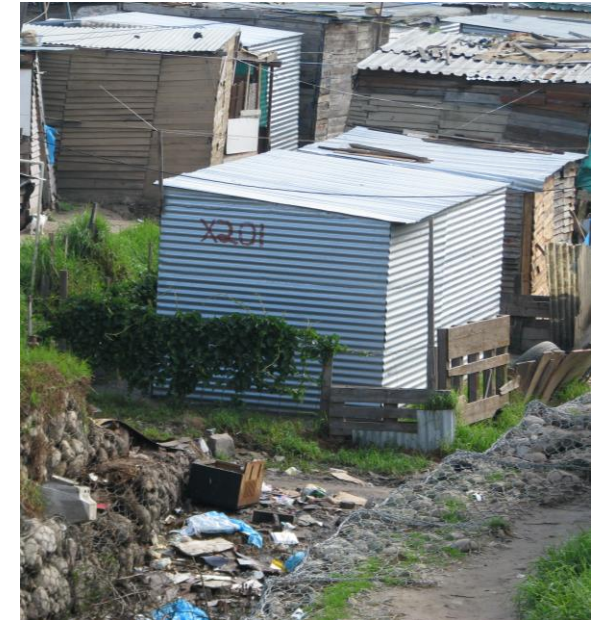
# The UCT Nedbank Urban Real Estate Research Unit (URERU) is a research unit in the Department of Construction Economics and Management

*Aim is to provide a research platform for urban real estate economic, finance and management issues on the African continent.*



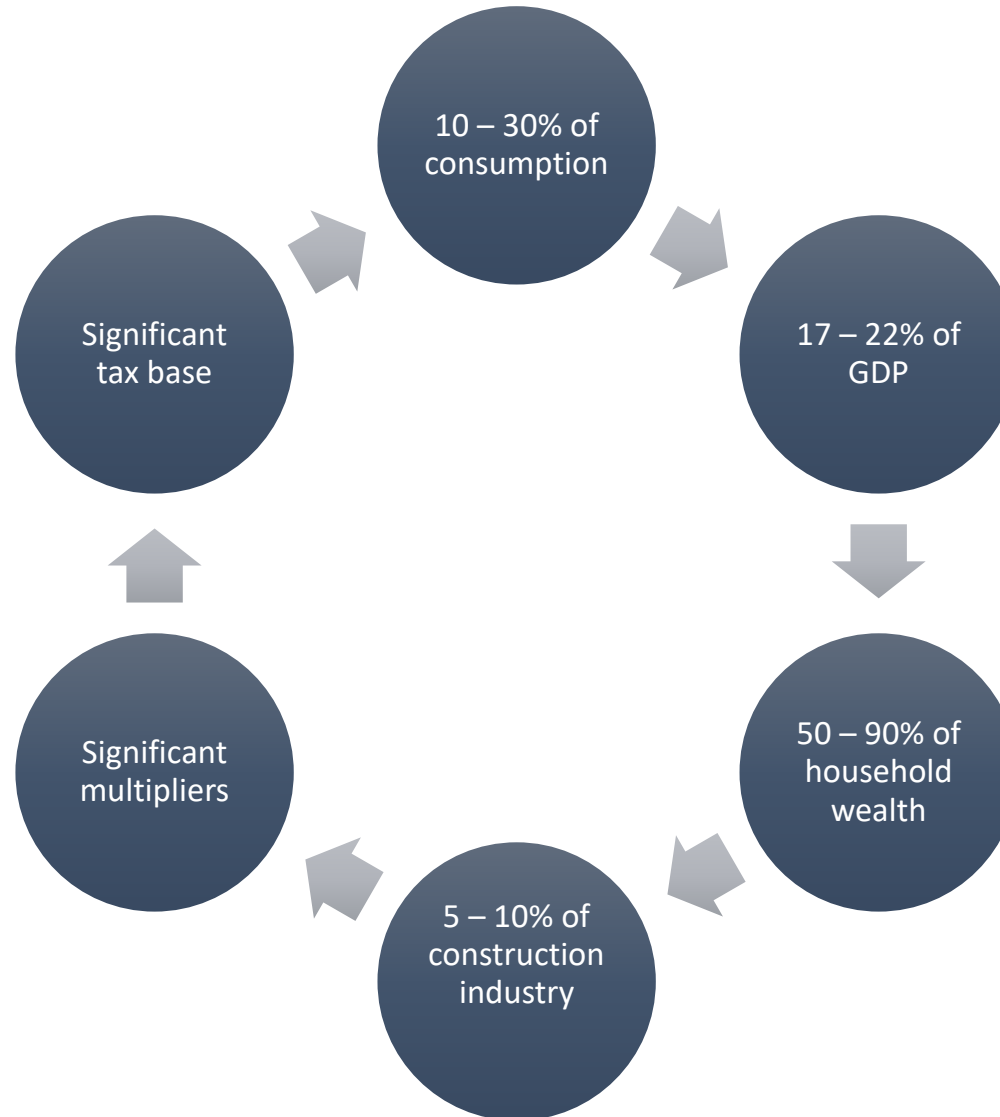
## Challenge: Not building enough (affordable) housing...

Estimated number of households	= 1 200 000
Estimated number of formal houses	= <u>880 000</u> (incl. shared)
<i>Estimated shortfall</i>	= 320 000
Estimated household growth	= 1,8% p.a.
Estimated house growth as a % of HH	= 1,1% p.a.
Need between 30 000 – 40 000 houses p.a.	
Building between 8 000 – 10 000 p.a.	



(Own calculation – STATSSA, CoCT)

Housing is also a critical part of the economy:



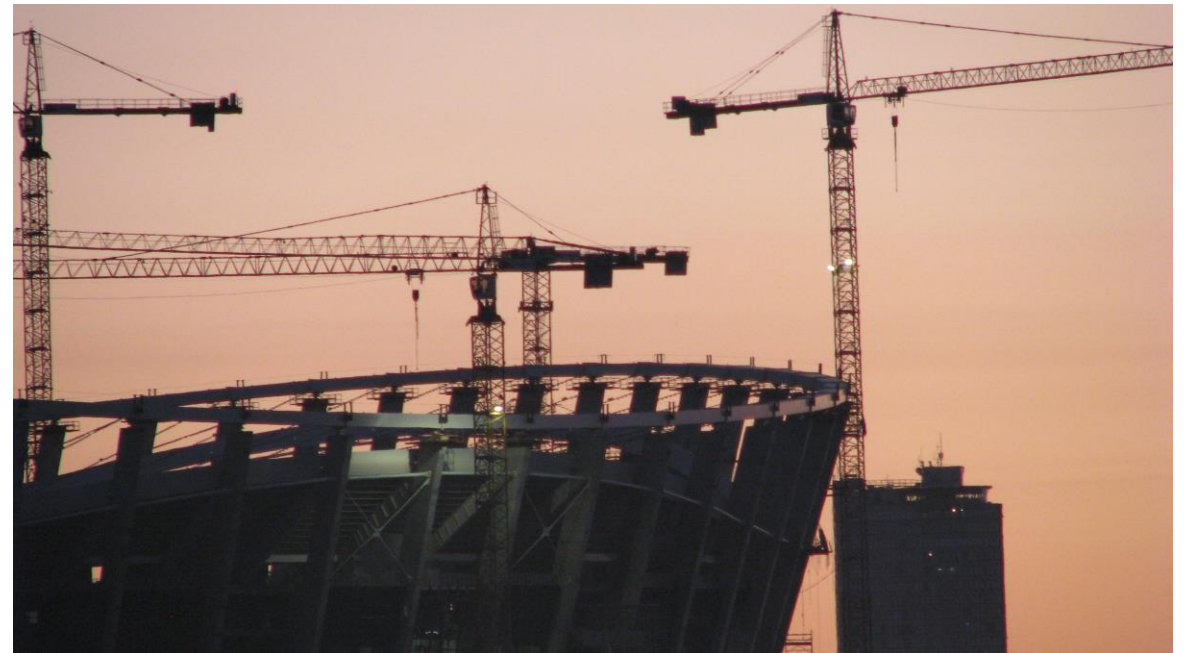
(Hoek-Smit, 2017)



**MDA**

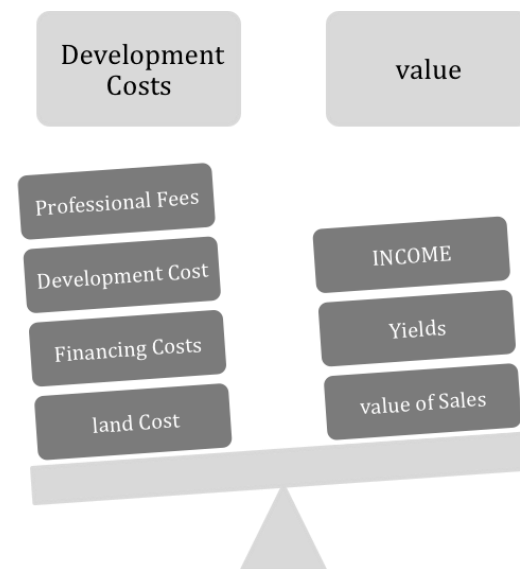
*MITCHELL DU PLESSIS ASSOCIATES*

Professional Project Management Services since 1979



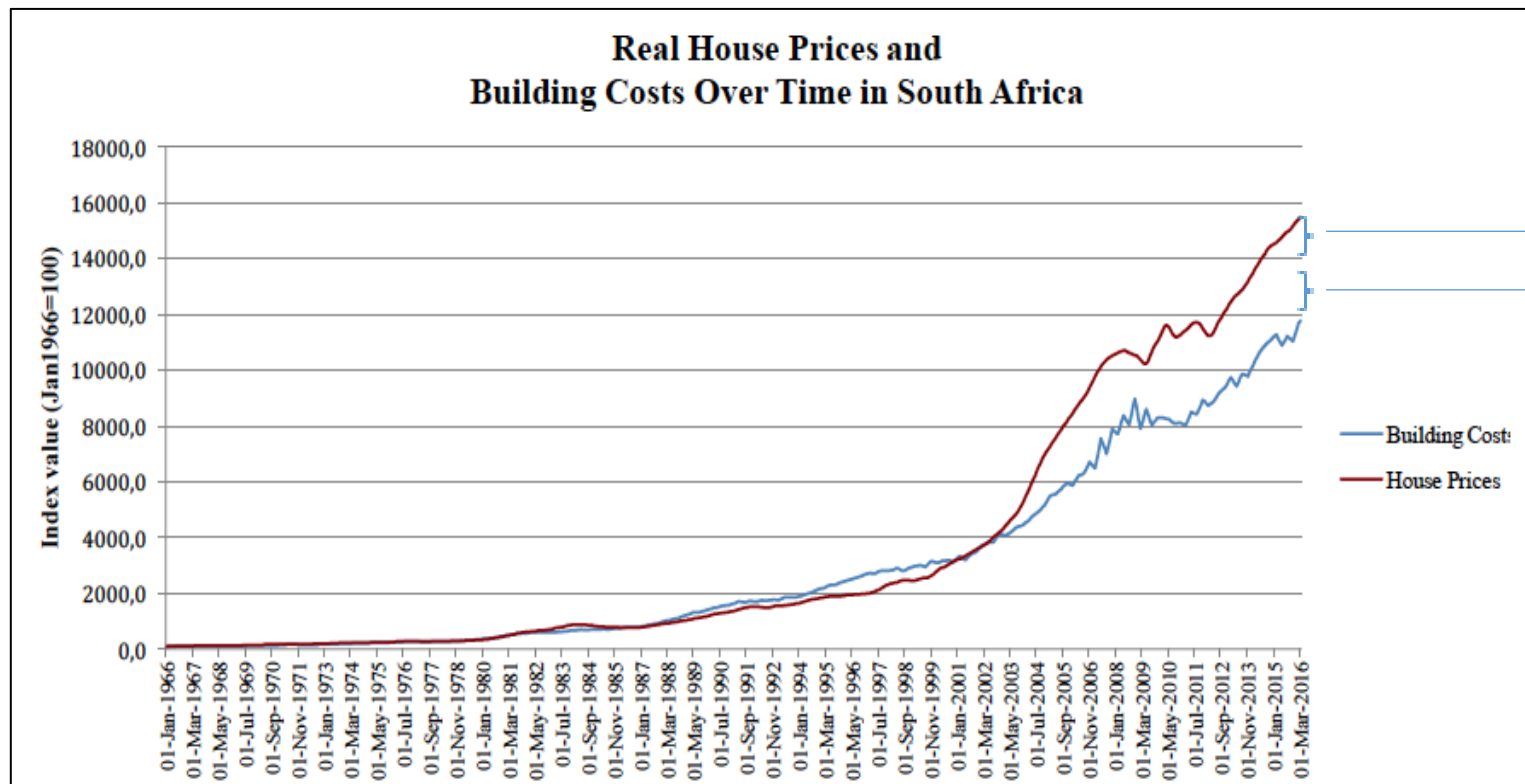
## Why?

- The “**Value vs. Cost**” equation is working the wrong way
  - Rental yields **5 – 7%**
  - Cost of finance **10 – 15%**



**Value is a function of income and is unlikely to change in the short-run, therefore need to look at costs**

# Drivers of Costs



Scarcity Factor

Non Construction Costs

(Njokweni et al, 2016)

## Drivers of Costs

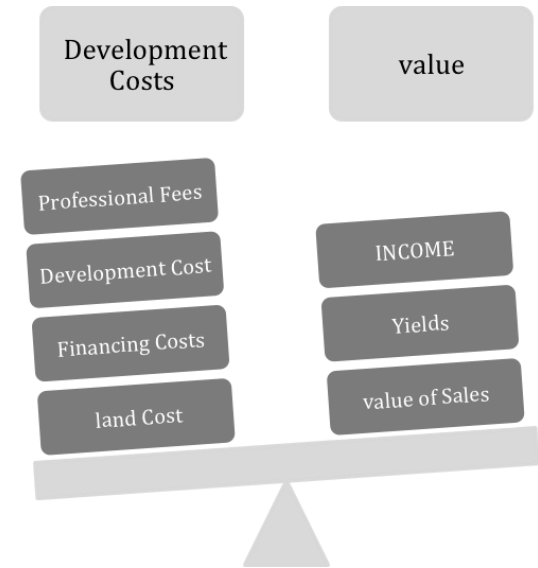
### Constructions costs:

- Building materials low (1,8%)
- Tender prices low (4%)

### Non construction costs:

- Land
- Development rights
- Infrastructure

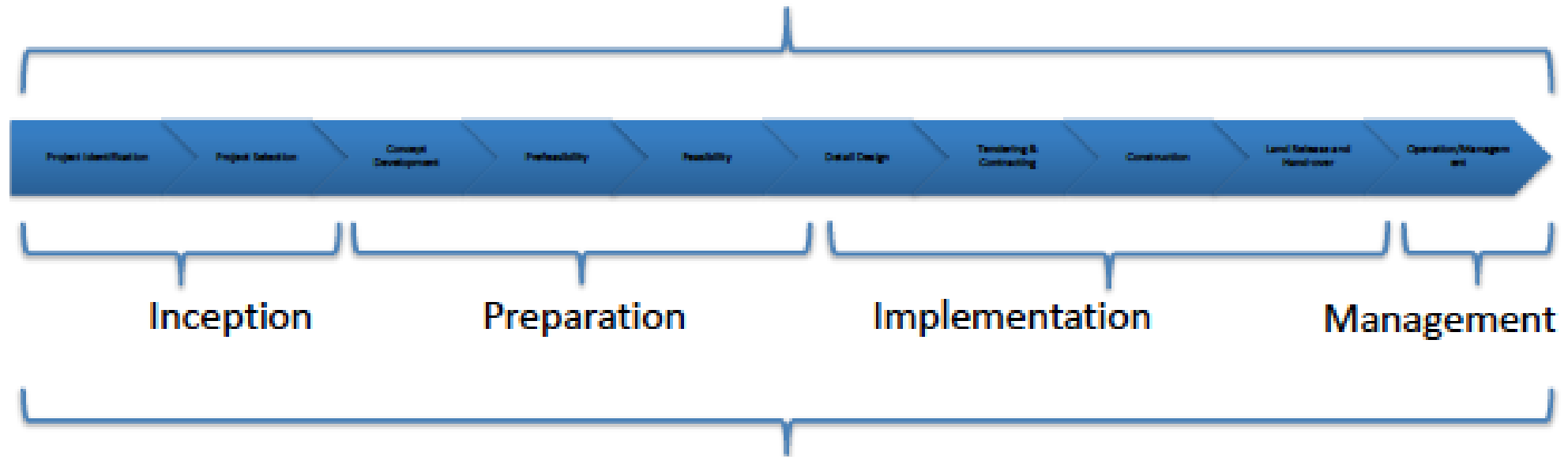
} Land production process





# Complicated Development Process

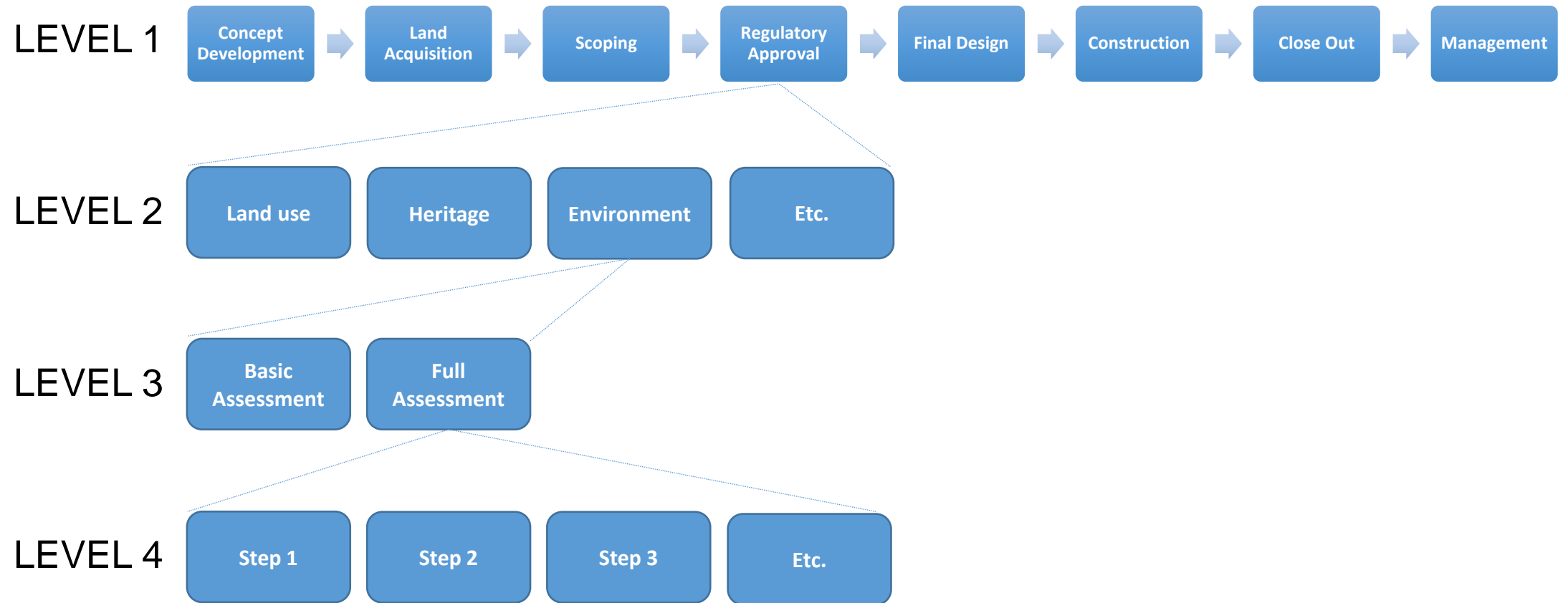
## Elements of the Cycle



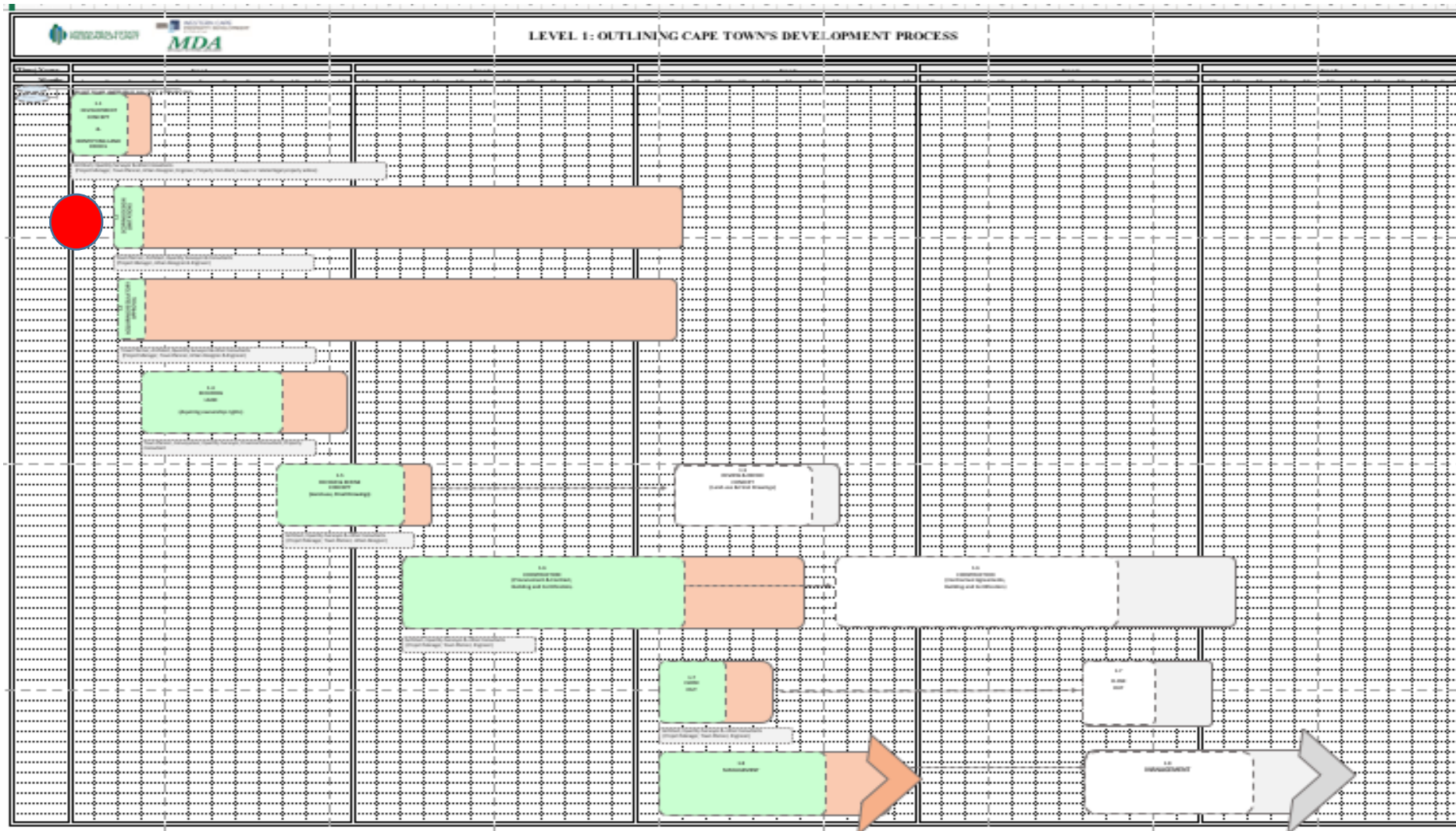
## Project Phase

## Mapping Exercise

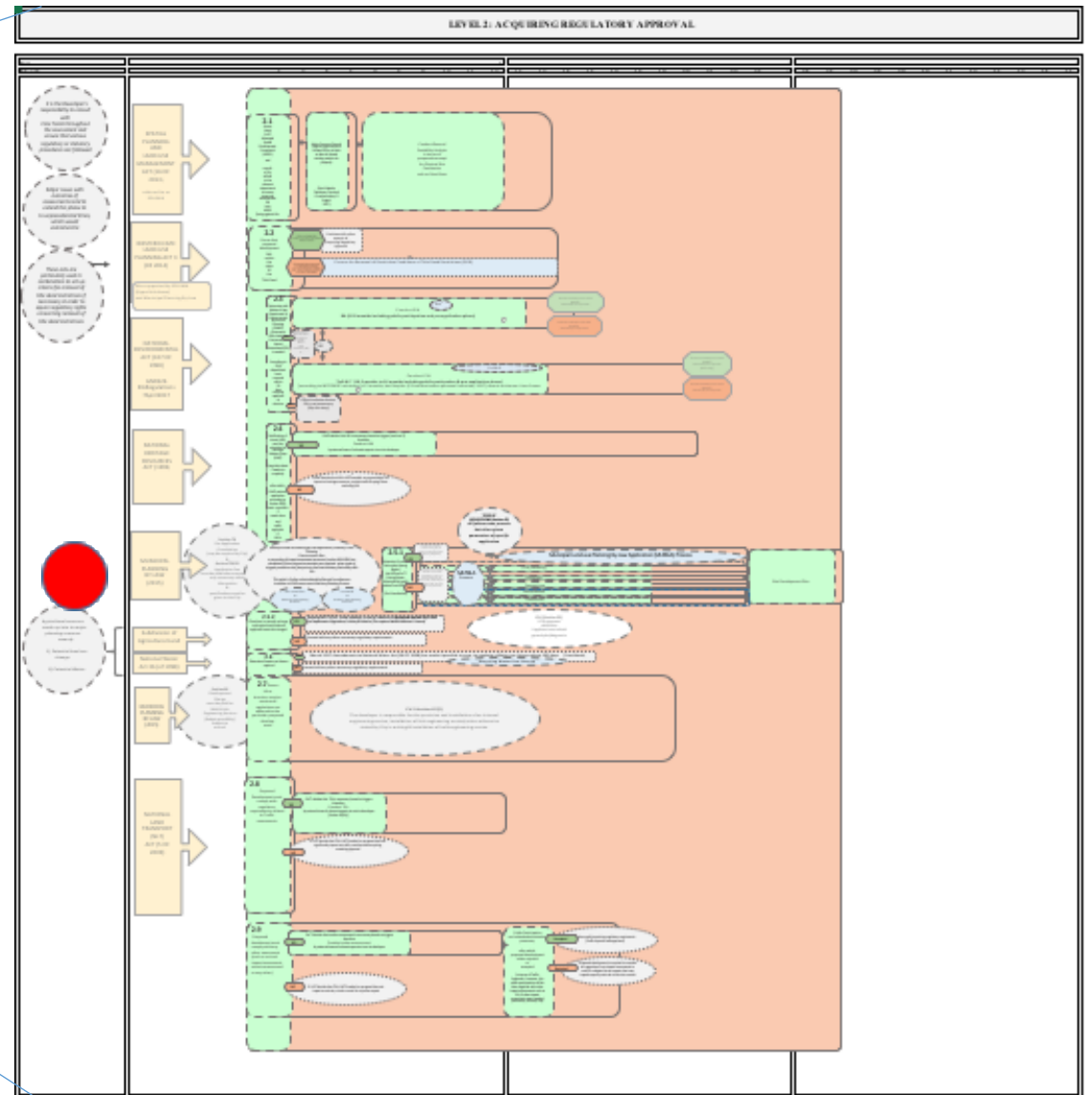
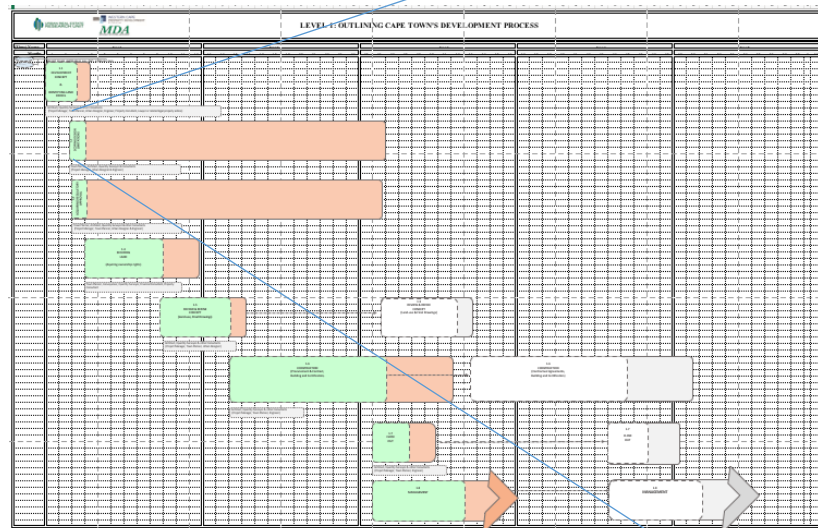
- UCT Nedbank Urban Real Estate Research Unit (URERU) identify non construction-related drivers of the cost of housing development.
- Unrelated, MDA Projects & WCDF begin mapping the development process.
- Informal agreement between URERU, MDA & CoCT for URERU to continue to map the development process.
- **Phase 1: Map steps and timeframes**  
Phase 2: Map costs & include acquiring finance process.



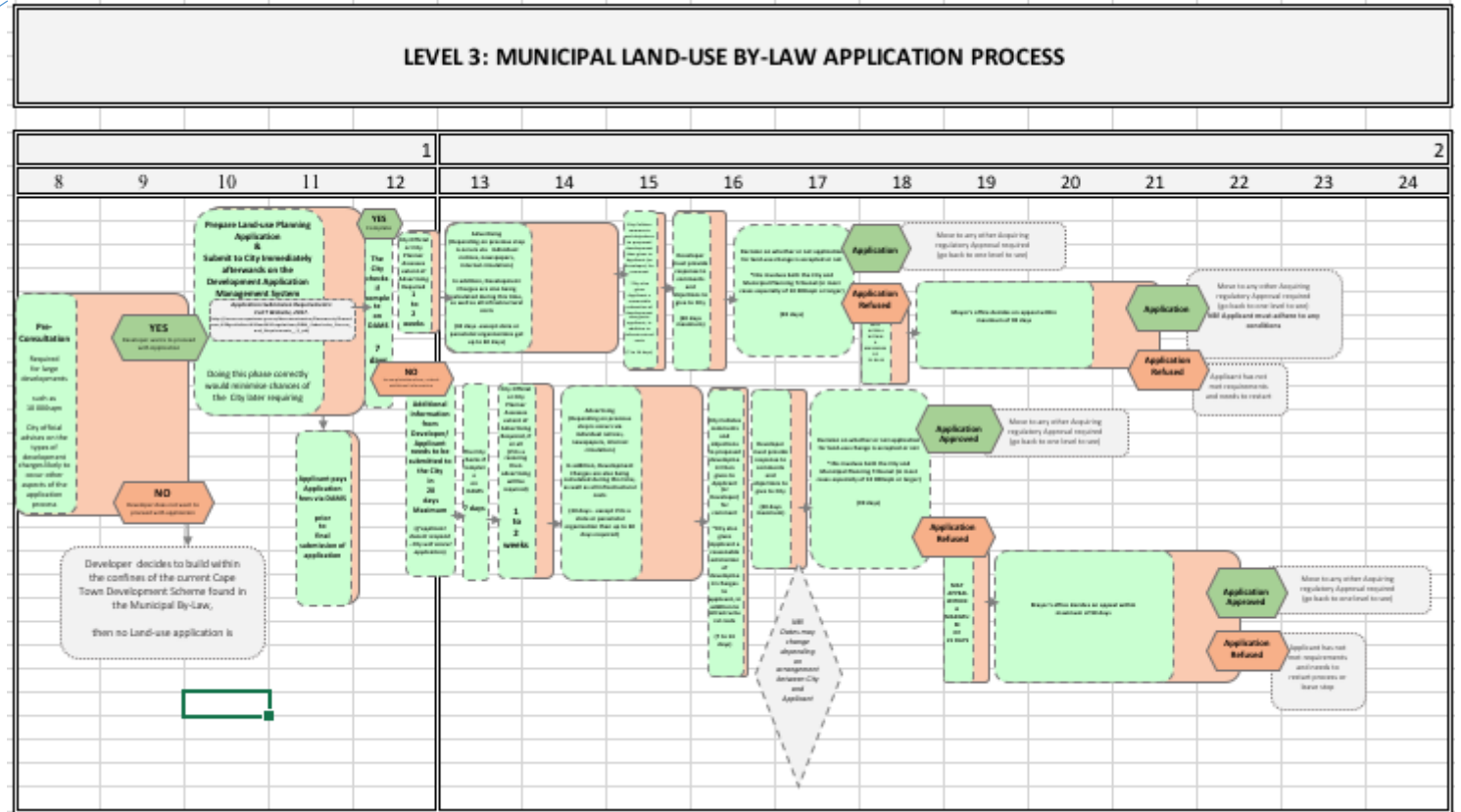
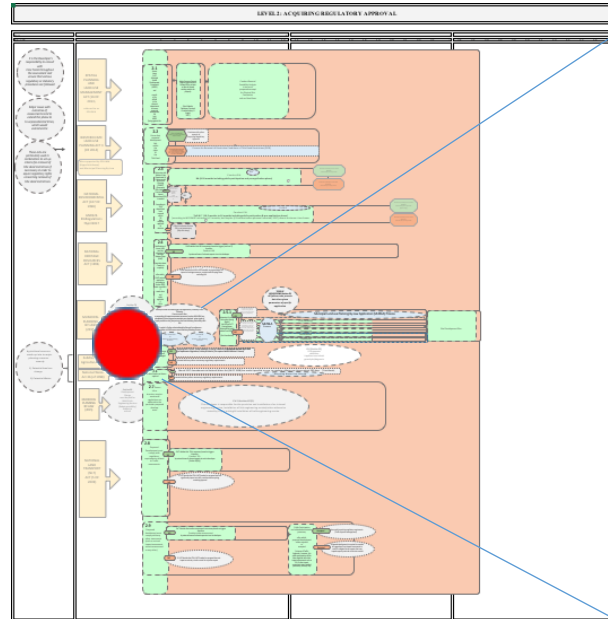
# Development Process



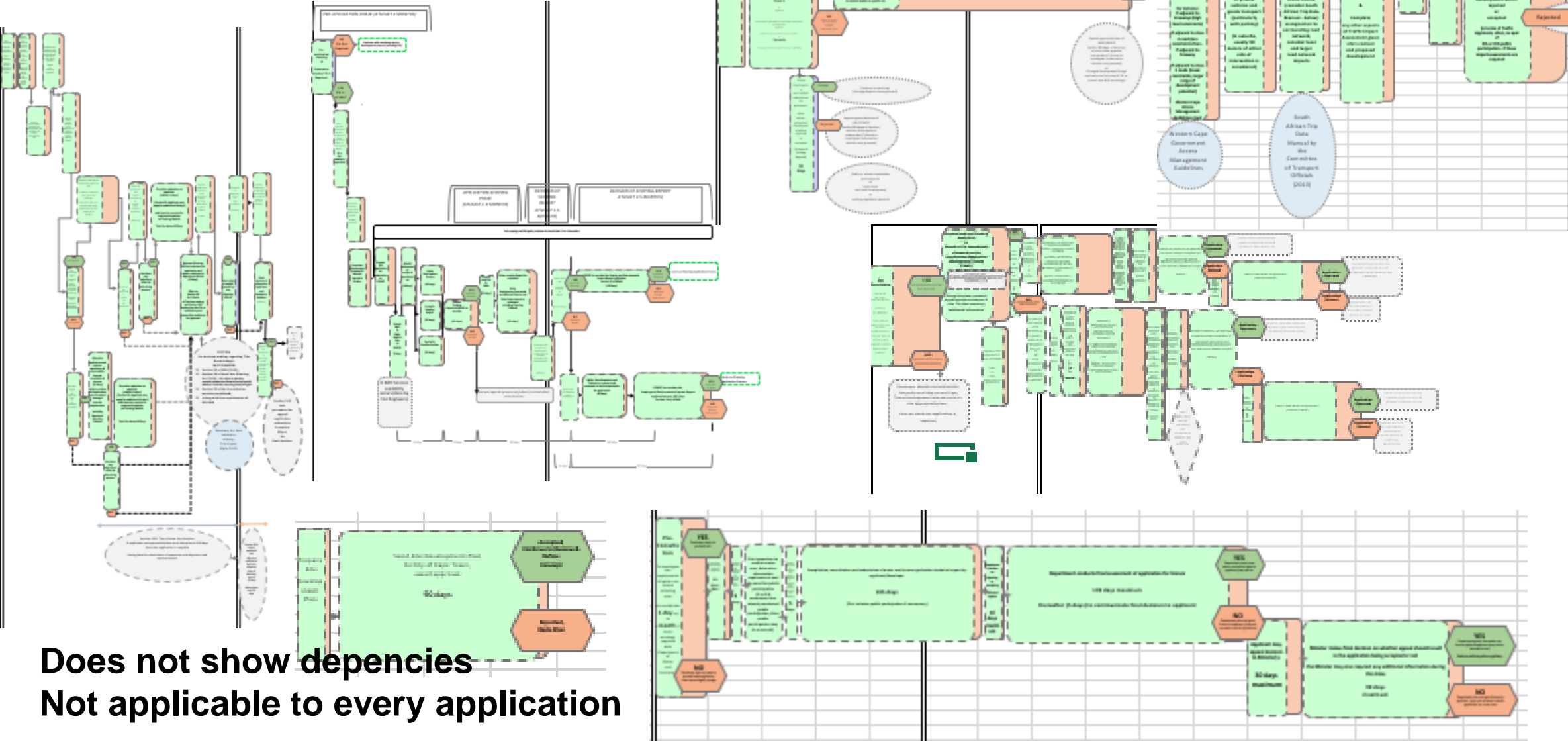
# Development Process



# Development Process



# Planning, EIA, HIA, Water License



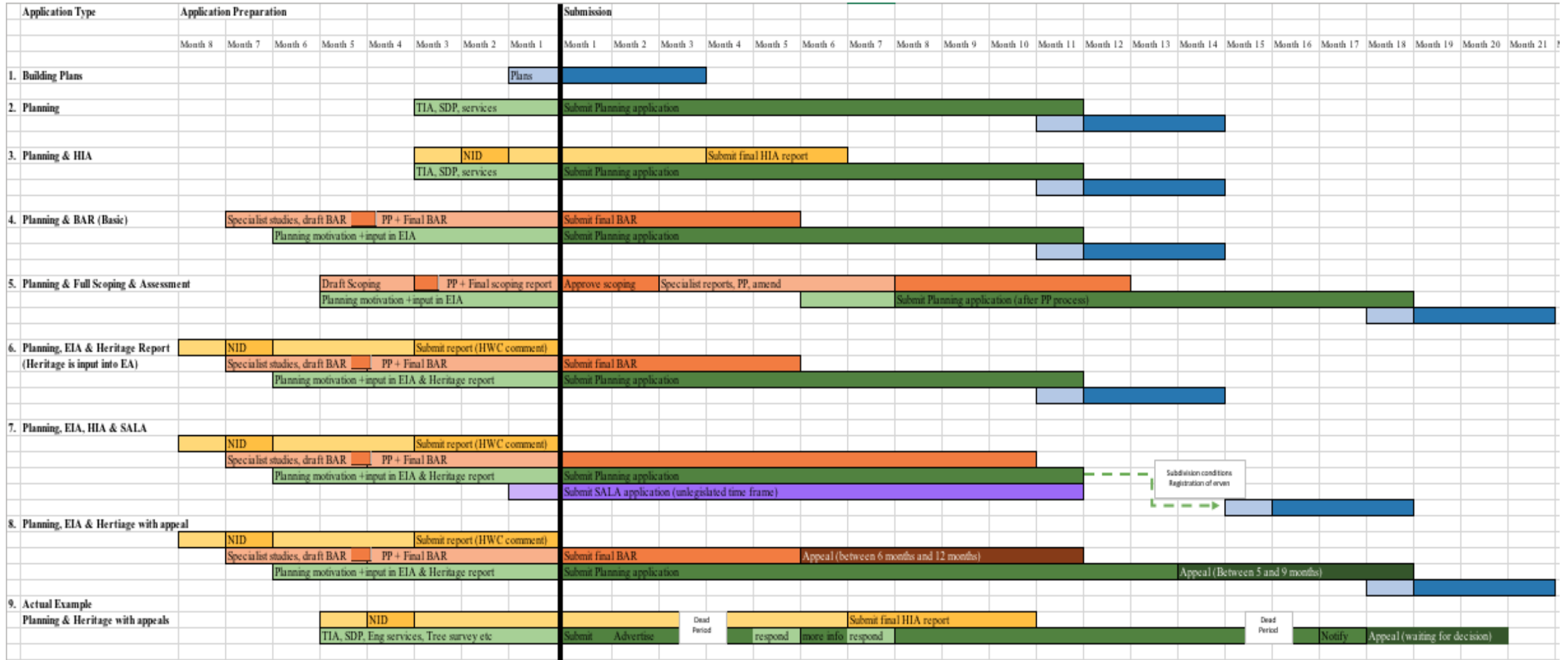
Does not show dependencies  
Not applicable to every application

## Process Triggers

	Triggers	Relevant Legislation
<b>Building plans</b>	<ul style="list-style-type: none"> <li>No approved building plans for intended development</li> </ul>	<ul style="list-style-type: none"> <li>National Building Regulations and Building Standards Act 103 of 1977. (NBR)</li> </ul>
<b>Planning</b>	<ul style="list-style-type: none"> <li>Change in land use rights from what is permitted in MPBL and Scheme</li> <li>Deviation from permitted development parameters</li> <li>Deviation from conditions applicable to land (title deed or other past approvals)</li> <li>Subdivision of land</li> </ul>	<ul style="list-style-type: none"> <li>Planning By-Law of relevant Municipality</li> <li>Relevant Municipal Zoning Scheme ( eg. Development Management Scheme in Cape Town)</li> <li>Roads Ordinance No 19 of 1975</li> <li>Roads and Ribbons Development Act 21 of 1940</li> <li>Western Cape Land Use Planning Act 3 of 2014 (LUPA)</li> <li>National Spatial Planning and Land Use Management Act 16 of 2013 (SPLUMA)</li> </ul>
<b>Heritage</b>	<ul style="list-style-type: none"> <li>Permits: Building older than 60 years, Provincial or National Heritage site, protected area, heritage objects, monument.</li> <li>Various triggers for NID submission (S38)</li> </ul>	<ul style="list-style-type: none"> <li>National Heritage Resources Heritage Act 25 of 1999. (NHRA)</li> </ul>
<b>Environmental</b>	<ul style="list-style-type: none"> <li>Various triggers i.t.o. the NEMA regulations for BAR or EIA</li> </ul>	<ul style="list-style-type: none"> <li>National Environmental Management Act 107 of 1998 (NEMA)</li> <li>Various other associated acts such as Water Use License Act, Waste management Act, Air Quality Act, Noise regulations</li> </ul>
<b>Agricultural</b>	<ul style="list-style-type: none"> <li>Agricultural land outside previous municipal boundaries</li> <li>Transformation of cultivated land</li> </ul>	<ul style="list-style-type: none"> <li>Subdivision of Agricultural Land Act 70 of 1970)</li> <li>Western Cape Land Use Planning Act 3 of 2014 (LUPA) (S 53 application)</li> </ul>



# Common Development Application Types (Before delays):



	MONTHS										
	6	12	18	24	30	36	42	48	54	60	66
<b>Site Acquisition</b>	Active										
<b>Concept Development</b>	Active										
<b>Development Rights</b>		Active	Active	Active	Active	Active					
<b>Final Design &amp; Tender</b>						Active					
<b>Construction</b>							Active	Active	Active		
<b>Close Out &amp; Sales</b>										Active	Active

	No delay	1 year	2 Year	3 Year	4 Year	Year 5
<b>1. Finance Cost on Land</b>	R22 204 069	R24 651 034	R27 367 663	R30 383 674	R33 732 060	R37 449 449
Difference		R2 446 965	R5 163 594	R8 179 605	R11 527 991	R15 245 380
<b>2. Construction Cost Escalation</b>	R101 720 500	R110 711 667	R120 497 572	R131 148 461	R142 740 793	R155 357 780
Difference		R8 991 167	R18 777 072	R29 427 961	R41 020 293	R53 637 2803.
<b>3. Rates &amp; Taxes</b>	R220 000	R237 600	R256 608	R277 137	R299 308	R323 252
<b>Total Difference</b>		<b>R11 675 732</b>	<b>R24 197 274</b>	<b>R37 884 703</b>	<b>R52 847 591</b>	<b>R69 205 913</b>
<b>TOTAL COST</b>	R171 000 000	R182 675 732	R195 197 274	R208 884 703	R223 847 591	R240 205 913
<b>% Increase in Total Cost</b>		<b>7%</b>	<b>14%</b>	<b>22%</b>	<b>31%</b>	<b>40%</b>

	No delay	1 year	2 Year	3 Year	4 Year	Year 5
<b>Cost of Rentable Area m2</b>	R19 322,03	R20 641,33	R22 056,19	R23 602,79	R25 293,51	R27 141,91
<b>Required Rental to Repay Finance</b>	R255,00	R273,00	R291,00	R312,00	R334,00	R359,00
<b>Floor Area Affordable</b>	20	20	20	20	20	20
<b>Rent</b>	<b>R5 000,00</b>	R5 352,94	R5 705,88	R6 117,65	R6 549,02	<b>R7 039,22</b>
<b>Required Income</b>	<b>R20 000,00</b>	R21 411,76	R22 823,53	R24 470,59	R26 196,08	<b>R28 156,86</b>
						<b>41% Increase</b>

# Causes of Delay

- Stipulated time-frames
  - Not all stipulated
  - Impacted by dependencies – Relationships within and between processes
  
- Actual time-frames
  - Poor quality applications
  - Resource shortages
  - Lack of prioritisation
    - Resource allocation to simple vs complex projects
  - Personality-driven
  - “Gaming of the system“

## Causes of Delay

- Additional regulation
  - Increases preparation time and cost e.g. Specialist studies
  - Increased opportunity for objections
- Conditions of approval
  - Direct cost
  - Impact on H&B Use
- Appeal process

# Selected Impacts Per Stage of the Development Process (Focus Group)

## 1. LAND PRODUCTION

- Availability and cost of options
- Direct costs:
  - Finance costs
    - Rates & Taxes
    - Finance costs
    - Opportunity costs
  - Professional costs
  - Fees – flat rate, no repetition factor or sliding scale

## 2. CONSTRUCTION

- Characterised by sub-contracting to avoid fixed costs:
  - Property cycle
  - Land production process
  - Specialist requirements
  
- Increases costs:
  - Project management costs – coordination
  - Profit ratcheting
  - Poor work – “lowest tender to ensure viability“



### 3. GENERAL

- Inability to secure a project pipeline
  - Ability to carry fixed costs
  - Ability to retain “IP” into development team (sub-contractors)
- Project management cost of addressing the delay
- Over specification by professionals to ensure indemnity

### 3. GENERAL

- Change in market conditions:
  - Construction costs
  - Rental and sales rates
  - Property type demand
  
- Time AND Timing of the delay is important
  - Issues need to be identified early in the process
  
- Time AND Uncertainty of the outcome increases contingency and profit requirement

## Phase 2:

- Refine in terms of trigger processes
- Include accessing development finance process
- Development a user-friendly interface
- Allow adaption to bespoke project types

## Thank you to the following for their assistance to date:

- Lewin Rolls
- MDA Projects, Talani and WPCDF
- CoCT
- Interviewed Planning and Development Professionals



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