

Strategies to help poor people access urban land markets

This case study draws on research that examines the notion of 'bidding power' (see page 2 for a definition of bidding power) and how this can marginalise poor people in South African cities. It then examines various strategies by which poor people's bidding power might be increased. The case study is based on a paper by Urban LandMark. See Sheet 5 for Reference details. Note that this case study draws heavily on that work, which use is acknowledged with thanks.

An introduction to the study is given below. On the back of this sheet some learning and reflection activities based on the case study are provided. You can do these activities on your own or in groups, as appropriate for your learning session. Look carefully at these activities before you read the case study so you know what to look for while you are reading.

The next part of the document (Sheets 2, 3 and 4) examines the notion of bidding power and strategies for increasing the bidding power of poor people to allow them to compete more effectively for better located and higher value urban land. The final component of this document (Sheet 5) includes a summary of the key points that were covered in the case study and recommendations arising from it.

Learning outcomes:

By the end of this session participants will be able to:

- Describe the concept of bidding power and its influence on the spatial economy of South African cities
- Describe strategies by which the bidding power of poor people might be increased.

Introduction to the case study

City planners mostly agree that poor people need to be better located in cities to improve their access to social amenities and economic opportunities. Living, trading or producing goods on better located land also gives people access to markets, which improves the potential for sustainable poverty alleviation.

This vision has been at the heart of planning for cities in developing countries for decades. And yet it has not happened to any great extent, at least not in South Africa. The poor remain in poor locations and on low value land, disconnected from physical and market networks.

Urban land that would give poor people the means to create wealth is in high demand and thus sought after by the more powerful sectors of the economy. Given the 'logic' of the market, poorer communities, and state actors such as municipalities that act on their behalf, are often unable to bid competitively on valuable land. State interventions can distort the market in favour of poor people, but they are still vulnerable unless they are also using the land in ways which extract sufficient value. Low-income housing and small-scale production and trade are rarely profitable or intense enough to compete for good locations in market terms within the current predominant South African urban form.

Therefore the development planning vision of equitable and integrated cities remains unrealised, not to mention the achievement of slum-free cities.

The case study looks at this conundrum in the South African context and suggests ways in which poor people can be spatially and economically integrated into cities by increasing their bidding power, including improving the intensity of land utilisation.

Photo: Tanya Zack



Informal trade can compete for space on sidewalks in central, high-intensity locations

Part of a series of case studies developed as a teaching and learning resource for studies in urban land markets. Urban LandMark Tel: 012 342 7636 Fax: 012 342 7639 email: info@urbanlandmark.org.za • www.urbanlandmark.org.za
The UK Department for International Development (UKaid) funds Urban LandMark

Learning activities

Before you start

Before you read the case study, spend a couple of minutes noting the main reasons, in your opinion, why poor people are unable to gain access to and make effective use of well-located urban land in South Africa.

After reading Sheets 2 to 4 of the case study

In your group develop an outline of a state strategy for promoting the social and economic integration of poor people into the urban fabric of South African cities. Be prepared to report this back to the main group if called upon to do so.

Reflection

- Talk about your experience of reading this material.
- What new key ideas have you gained from your reading of Sheets 2 to 4?
- Reflect on what you have learned so far through your group learning process.

Bidding power

Bidding power is how much power someone has to bid for something and to compete with someone else for the same item. Bidding power is more than about paying – people's access to knowledge or networks is part of what makes them able to bid for something. Poor people have low bidding power for premium spaces, but high bidding power for more marginal spaces. This is why you will find informal traders selling from certain kinds of spaces right next to retail stores – they are both in expensive parts of town, but they compete for different spaces. It is also about sustaining your activity in a certain place where someone else could not. A retail store could not sustain its activities on a city pavement, which is why an informal trader can outbid them for that

space and continue to sustain their informal retail activities in that space (assuming city regulations allow them to stay there).

Photo: Urban LandMark



Which land uses will outbid others for space in this area of downtown Johannesburg?

Planning solutions for a more integrated South African city

Planners are committed to creating compact cities where the benefits of urban living are more accessible to all. By spatially integrating people into the city and into its social and economic networks, people who would otherwise not be able to afford well-located urban living might have the means to reverse the effects and trends of poverty.

In the South African situation, with its history of urban segregation, the arguments for social and spatial integration have even higher priority. With a city structure where the poorest are located on the spatial and social margins, planners, engineers and urban managers have seen the reversal of this pattern as their key challenge. Many of the spatial planning solutions to re-integrating the city have been examined and tried.

For example, it was thought that such integration could be achieved by proactively directing state investment to housing and infrastructure, by having the right kinds of spatial plans and inclusionary planning processes, by ensuring good land use planning and urban management, and by incentivising the private sector to actively participate in the development of equitable cities. Thus it was envisaged that the post-apartheid city would become a place fit for the so-called 'rainbow nation' to live, socially and economically integrated and sustainable, and incorporating mixed-use settlements and mixed income brackets in the same areas.

In an age of fuel and other energy shortages, of high costs of urban infrastructure, and the impact of cities on environmental resources, the compact city is shown to be functionally and environmentally more efficient.

Planning visions have not been realised

However, the evidence in South Africa suggests that this vision has not been realised, either socio-economically or spatially. The city is still largely segregated, now economically rather than racially, and new 'affordable' and informal housing is far from integrated into the urban fabric. Unequal growth in property values and uneven supply of different types of built stock reveal and confirm this pattern.

The vision of an integrated new South African city has not been realised, either socio-economically or spatially.

Although municipal investment strategies and national policies consciously elevate the needs of poorer people and of parts of the city that have historically been under-developed, urban infrastructure investment is most often drawn towards development on the wealthier sides of the city. And although the lives of poorer people in South African cities have been improved by our progressive social welfare system and housing policies, ironically, integration has not happened – travel times to work have generally increased and direct access to markets has decreased.

State and private sector planners and urban managers are puzzled by the failure of apparently sound and well-intentioned spatial planning processes and designs to reverse unequal spatial patterns. This is evidenced by widening income gaps between the rich and the poor.

Perhaps we need an economic solution?

Why is it that our well-intentioned planning interventions seem not to have been successful in integrating poor people socially and economically into the city? Perhaps the answer lies not so much in planning, but in urban economics and in understanding how the urban land market plays a role.

Photo: Kevin James



The peripheral and marginalised location of poorer settlements

Competitive bidding as an explanatory factor

Economists talk about land being allocated to its “best and highest use”, with price – conditioned by demand and supply – as the key determinant. Even though asserting the dominance of land market dynamics goes against the grain for land activists, there is some truth in the observation that the market optimally allocates land to the agent or sector that can extract the greatest value from using that space, or with the greatest bidding power.

Land is usually allocated to the “highest and best use”. Price, conditioned by supply and demand, is the key determinant of this.

The different sectors (e.g. residential, office and retail) bid for urban land in competition with one another. Given the assumptions that different sectors of the property market bid for a limited supply of land, and that these sectors compete freely, the assertion is that it will be in the interest of whoever can extract the greatest value from any one piece of land to outbid the others. Of course, the market is not entirely free, as state regulations and land management practices place limits on this market system. What is not in question is the outcome of this competitive bidding process – high prices are put on land that is optimally located.

Referring to Figure 1, as one moves away from the city centre or a place where there is a concentration of economic opportunities, the section of the graph between the origin, point O and point A is where the retail sector can pay a higher value than the office sector, whereas between point A and point B the office sector is in a position to ‘outbid’ the retail sector. It is not that the prices are higher between A and B, but that the retail sector is less interested in land further from the centre, while it is relatively more attractive to the office sector. This means that land between points O and A will tend to be used for retail developments, while in the area between points A and B, the market will tend to allocate land to the office sector. Beyond point B, even though the land value is lower, it is not attractive to retail and office use, so residential land users are able to ‘bid’ for that land at lower values.

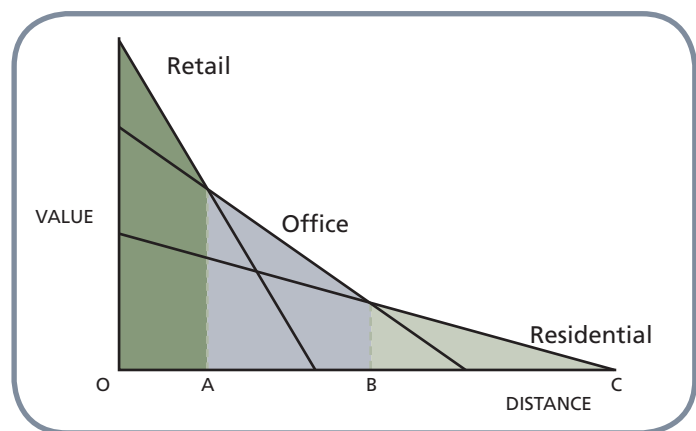


Figure 1: The competitive allocation of land between sectors.

Applying this logic and even given current regulatory and management conditions, it becomes evident that the state has very low bidding power for land for low-density, low-cost housing. And individuals and communities with limited buying power also do not usually get the opportunity to access desirable land for living, for retail or for small production.

photo: Urban LandMark



Pretoria city centre showing high intensity use, trending down to lower intensity use in the suburbs beyond

This goes some way to explaining why the apartheid city has not transformed and why low-cost housing is built on the fringes of the sprawling city. Essentially that is where land is cheap and can bear low-intensity land use. People living and trading there are distant from many of the formal employment opportunities, which mainly develop in and around the economic centres of South African cities. Potential markets for the goods people may produce there are also far away.

So can there be a market-related approach to integrating poor people into the urban fabric?

The state's role in influencing the market

The state's response to the dominance of the urban land market over planning solutions and to the lack of spatial transformation since democracy in South Africa is to attempt to influence the market. For example, the state can protect low-value land uses in premium areas, most typically public open spaces. It can also take state land off the market and make it available for specific uses that the open land market would not normally sustain. The state can further engage private sector actors through regulations and incentives to give land access to a greater diversity of people and land uses (for example, through establishing mixed-use areas).

The state can influence the market by protecting land in high-value areas, by taking land off the open market, and by employing regulations and incentives. These interventions work best if market forces can be combined with instruments available to the state.

Approaches available to the state include developing urban development strategies, establishing state funds for purchasing private sector land for housing, introducing inclusionary housing policies and possible legislation to incentivise the private sector to build mixed residential developments and providing tax incentives for inner-city developments. These are mostly 'positive', incentive-based ways of working. There are also regulatory mechanisms that have been tried in the past that have a negative effect, for example, rent control, onerous bulk infrastructure contributions from the private sector, poorly targeted land taxes and mono-use zoning schemes. Positive regulatory mechanisms send the right price signals which stimulate rather than curtail development, but also protect and enhance the place of the poor in urban areas.

These strategies work more effectively if they combine market forces with the use of the sophisticated tools available to government to manage land and land values, through planning, regulations, taxing and state investment.

Given the competitive bidding process for land outlined above, a free-market type of option is for the state to sell off well-located land to the highest bidder at market value and then to use this to bolster municipal funds for reinvestment in areas where poor people live and where infrastructure needs to be upgraded. Another is for local government to improve the efficiency of property rating and to use this for such reinvestment. This, it is argued, would lead to the emergence of a more vigorous property market in peripheral areas, thus giving the poor the means to accumulate wealth. However, neither of these necessarily results in greater social and economic integration, nor necessarily achieves the gains inherent in a more compact and integrated city.

So will we ever succeed?

Are we saying that the integration of the poor into the South African city is an unachievable vision? Will the market inevitably displace the poor despite the attempts of the state, civil society and international donors? Are there ways to create conditions in which the poor can produce and use at the intensity required to satisfy the rule of best and highest use, without fundamentally distorting the market?

Photo: Alistair Clacherty



Social housing in Pretoria city centre area

Improving the bidding power of poor people

How might communities gain access to and use sought-after land in the face of competitive market pressure? What strategies might be employed to achieve the goal of an integrated, higher density, mixed use and more sustainable South African city?

What examples exist of 'highest and best use' in prime locations that include more than just the urban elite? What regulatory and institutional conditions give rise to the integration of the poor into urban projects (large or small)?

The following sections cover some of the available strategies for increasing the bidding power of the poor. These are (i) quantity of appropriate land, (ii) intensity of land use, (iii) value capture, (iv) partnerships, and importantly, as it is a powerful and more formal, legislated set of options, (v) municipal rates policy.

Land availability in premium areas

There is a lack of market supply of land in the right quantities, in the right places and with the right designated uses, particularly for small-scale retail use by poorer people. But the formal market is not totally dominant in this regard. When retail shopping malls are built and opened, or when new neighbourhoods of government housing are made available, within days there is vibrant street trading activity on the pavements around the malls or on residential street corners.

By making small parcels of space available for productive use in high-end locations, there will be demand for what is otherwise an unaffordable commodity on the market.

Photo: Felicity Kitchin



Street trading shelters provide affordable space in central Durban

In Durban, a city of over 2.5 million people, the municipality has for many years now formalised pavement trading by demarcating bays for traders. The traders are organised into associations and also liaise with the formal shop owners in the vicinity where they trade. The arrangement is supported by an informal economy policy adopted in 2001.

What this highlights is that if appropriate quantities of affordable space are made available where there is a vibrant market, there will be take-up by small traders. By making small parcels of space available for productive use in high-end locations, there will be demand for what is otherwise an unaffordable commodity on the market.

Intensity

Poor people generally find it difficult to use land in ways that are intense enough to bid successfully for high-end locations in urban areas. This situation can be addressed by providing support or a framework for higher intensity land use, thereby increasing the bidding power of poorer people.

Again referring to a case from Durban, the Mansell Road Night Market was established in 1998 on land in the central business district leased from the railways. Since the 1980s women have been occupying land informally to trade goods to bus passengers and traders who were coming to Durban from rural areas. Multi-purpose accommodation was built, along with a bus station, that allowed the women to sleep at and trade from the same premises.

Photo: Felicity Kitchin



The Mansell Road multi-purpose accommodation known as "Strollers"

The combination of a transport node, retail space and overnight accommodation has meant that the use of the land is intense enough to warrant its location in the eyes of the municipality, the railway property owner and the market. South Africa rarely sees this intensity of land use for small-scale production, since markets are very localised and informal settlements are rarely located in the inner city. Residential zoning regulations also limit what businesses may officially be located in residential areas.

Local value capture

In some cases, communities and individuals already have effective tenure over valuable land. Whilst this may not be the norm in South Africa, there are cases where communities wish to consolidate their hold over land which they are occupying. These communities are in a position to capture value from the land by virtue of its prime location and associated market value.

The Hangberg community in Hout Bay lives on high-value land, but is struggling to secure their rights to live there. The community occupies prime hillside land that is keenly sought after by private property developers. The settlement comprises mainly shack housing, but to ensure their position on the land, the community would need to find a viable source of funding to improve their own housing and maximise the value of their position there. One solution would be to zone the land for collective community rights so that the community could collectively extract value from their prime position. Once such a collective community rights amendment has been put in place, further negotiations would become possible, including allocating parcels of land (lease or sale) for hotel or other high-value use, negotiating local labour and procurement, and many other more intense and higher value land uses whose returns could be to the benefit of the collective.

Partnerships

The private sector's bidding power is often strengthened by the formation of groupings of common interest. In working with vulnerable communities, traders and producers, the association of collective interests is another means to compete. In the earlier example of street traders in Durban, an association of informal traders is the key bargaining body for negotiating the rights of traders with the municipal 'Informal Economy Forum'.

Similarly, communities in Cape Town who still live in shack settlements or have moved to state-funded formal housing struggle to get fair treatment around their rights to land, the valuations of their properties, and the municipal bills they receive based on those valuations. Most often in contention is the basis of their tenure claims in informal settlements, or the availability of their title deeds in formal neighbourhoods. One route for improving this situation is the formation of localised resident associations which have an increased ability to lobby the state for clarity on these issues, and for securing property rights.

South African townships have many home (or 'spaza') shops. As the buying power at the 'bottom of the pyramid' is slowly increasing, large retail concerns are moving into poorer areas. At the moment, large liquor outlets form direct relationships with a wide network of township 'shebeens'. As retail outlets move closer to where people live, they could also form direct relationships with spaza shops to improve their reach. Similarly, small portions of retail and production space could be made available within formal retail premises, as argued in the earlier section on land availability in premium areas. The options or strategies described above, as well as property rates policies (see over), cannot be viewed in isolation. They are not either / or options, but need to be considered as a package.

Photo: Dylan Geldenhuys



A section of the Hangberg community

Municipal rates policies

Municipal property rates policy is another instrument that can be used to enhance the bidding power of the poor. First, by providing **direct** tax relief, municipal rates policies can make it more affordable to remain in one's current property or to move up the property ladder. Secondly, through **indirect** means, municipal rates policies can create incentives for property owners to make land use decisions that increase the supply of available, well-located land and the stock of low-income housing.

Direct tax relief to improve affordability for poor households

Municipal rates policies include rebates, exemptions and reductions which are targeted at vulnerable groups for the purpose of eliminating or relieving their rates liability. Direct tax relief like this can assist by putting more money in the pockets of low-income property owners or prospective property owners.

Direct tax relief does not necessarily aid poor people to occupy less peripheral spaces in the city, or fundamentally change the urban structure. This strategy should also not be seen in isolation, but as one element of a package of approaches. It is also important that direct tax relief is not seen as a long-term solution and that poorer people should move onto the tax base over time.

The Municipal Property Rates Act of 2004 (MPRA) provides for direct relief in the form of a residential rates exclusion on lands valued at R15 000 or less. This is likely the most important instrument in the municipal rates policy for providing direct relief to the poor.

Some municipalities like Johannesburg, have raised this limit to as much as R150 000. For Johannesburg this completely eliminates rates liabilities for 32% of residential property owners. They form only a very small portion of the total properties on the roll, with a total Rand value of only 3% of the value of all residential properties. Is the loss of this 3% of potential revenue justified? It must be balanced against the costs of attempting to collect bad debts and the socio-economic benefits gained.

Indirect measures: incentives to affect market behaviour

Property rates policies can also help to increase the stock of available land in urban areas by creating incentives that promote densification and integration. The MPRA allows municipalities to decide which properties to rate or exempt from rating, and whether rebates or reductions will be offered to some of the rateable property categories, based on local conditions and circumstances. Four examples of these categories and the application of differential rates or rebates to them follow.

Rating vacant land: to discourage absenteeism and speculation, and to create incentives for densification.

Special Ratings Areas: for neighbourhoods with a majority of poor households. To provide relief to a large number of poor households quickly, without requiring an application process and means tests.

Geographic targeting to promote densification and development: for example the inner city rebate in Johannesburg where property owners can apply for a 40% rebate if at least 80% of the property is used for residential purposes.

Photo: Kevin James



Municipal rates policies can encourage higher density housing

Sectional title rebate: to encourage higher density settlement.

The effectiveness of any of these indirect instruments will depend upon how significantly property rates feature in the decision-making factors considered by developers and property owners when buying, selling or making land use decisions on property. The tax benefit may be taken up, but the incentive will not effectively change behaviour unless the cost of compliance (or revenue foregone) by the property owner is less than the tax benefits.

Summary sheet

Improving the bidding power of the poor

This case study examined reasons why poor people tend to be located on the urban fringes, isolated socially and economically from the urban mainstream. Despite the best intentions of South African city planners, in the main the vision of an integrated, higher density, mixed use and more sustainable city has not been realised. The analysis suggests that the economics of 'bidding power' is an important explanatory factor, as well as a fruitful way of addressing the issues. It suggests that the (exclusionary) logic of the urban land market is not necessarily inevitable and that access to space and to markets can take place in different ways where poorer people may bid competitively on land.

The case study includes various strategies for the state to intervene in the urban land market and influence it in favour of the poor. These are ways in which poor people can be spatially and economically integrated into cities by increasing their bidding power, for example:

- providing access to suitable land
- supporting higher intensity of land use
- enabling local value capture on desirable land
- promoting partnerships and associations
- introducing pro-poor land access policies and incentives such as well-designed municipal rates systems.

The consideration of all of these strategies should serve to improve the bidding power of the poor on urban land, in competition with other sectors. The state should seek to enhance this bidding power in the short term in order to empower people in the longer term, as they become more able to put the land and space to good use.

Recommendations

The means to achieve all of this, apart from a growing economy in which the benefits of growth reach all sectors of society, probably resides in state action to manage land, creating enabling and efficient regulations and administrative systems, deepening land and property rights, improving tenure, directing infrastructure investment, and understanding markets while targeting spatial planning towards the needs of the poor.

Bottom-up demands and negotiation of power can be improved by the formation of associations of the poor in partnership with NGOs if needed, and recognised by municipalities and in law. Private-sector driven partnerships can be incentivised by the state. Municipalities can enhance the value of land and location by the way they plan and invest, while always seeking to enhance the position of poor communities and individuals in those processes.

Photo: Kevin James



Isolated socially and economically from the urban mainstream

As the South African case has demonstrated, cities which ghettoise the poor and relegate generations to the economic and spatial margins also make for an unpredictable and volatile investment climate. The management of urban land in a way which builds a solid set of access, tenure and property rights for the most vulnerable sectors of society and integrates people into urban economies will help to create a predictable economic climate and contribute to a more stable society.

Cities are made up of different land uses, and informal settlements are large components of many African cities. They are very much a part of the urban economy, and in intervening for their improvement, their role in the urban economy has to be properly understood if the (geographical) position of their residents is to be enhanced. Otherwise the market will often displace the very people who were meant to benefit from the intervention.

Effective direct property tax relief measures must a) be narrowly targeted to the poor, b) reach a majority of the eligible population, and c) be cost-effective from the perspective of the municipality, which must weigh revenue foregone and administration costs. This analysis has suggested that the residential rate exemption is one of the most effective and least costly mechanisms (from an administration perspective) for targeting the poor for rates relief.

Better information on collection rates within different income bands in poorer areas can assist to improve the methodology for setting the residential exclusion threshold. This will also improve its pro-poor benefits while respecting municipal revenue needs. Income-based rebates and other specific measures to address particular vulnerable groups can then be used to enhance the rates safety net for the poor.

There is also a need for alignment between different government initiatives to support the poor so that tax measures and social programmes work in harmony with each other. The residential rate exemption amount mandated in national legislation should be calibrated to keep pace with a government-subsidised house, in order not to unfairly and unevenly burden beneficiaries from one municipality to another.

Reading

Primary source documents for this case study:

Hickey Tshangana A and Van Donk M (2009), *Municipal rates policies and the urban poor: How can municipal rates policies promote access by the urban poor to urban land markets?* Palmer Development Group (Cape Town), Isandla Institute (Cape Town), SA Cities Network (Johannesburg) and Urban LandMark (Pretoria), October 2009.

Napier M (2008), *Competing for urban land: Improving the bidding power of the poor (a discussion paper)*. Urban LandMark, Pretoria, June 2008.

Photo: Kevin James

