



UNLOCKING TOWNSHIP MARKETS

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- 2.2** Improving the land market
- 2.3** Enhancing labour market competitiveness
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- 2.5** Commercial property markets and small business



2.1 INTRODUCTION

It is essential to consider township markets when planning for renewal and economic development. Planners and practitioners need to be aware of how interventions will affect different markets.

This module discusses economic development in townships and highlights the interlinked markets that operate within this setting. It focuses on how to enhance labour market competitiveness, and the role of functioning residential and commercial property markets. It also examines how public- and private-sector actions can improve market efficiency.

MAKING MARKETS WORK FOR THE POOR

A market is a set of arrangements through which buyers and sellers exchange goods, services or information. It is not only buyers and

sellers who operate in a market, but a range of people and institutions, including regulators, quality-control bodies and service providers.

Market institutions and social relations facilitate the exchange between buyers and sellers. In well-functioning markets, the costs involved in this exchange should be as low as possible. Markets consist of three principal components:

- An institutional foundation consisting of laws, rules, regulations and regulatory enforcement capacity
- Organisations that provide services, such as banks and financial institutions
- Support organisations such as audit, legal, IT and market research firms.



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Well-established, functioning markets exhibit certainty and stability, while newer markets can be characterised by greater flux, with roles still being defined.

Resources are allocated through markets. In a theoretically 'perfect' market, characterised by ample competition and information, the market operates efficiently and generates growth. It is assumed that in such markets there are minimal costs associated with the exchange between buyers and sellers.

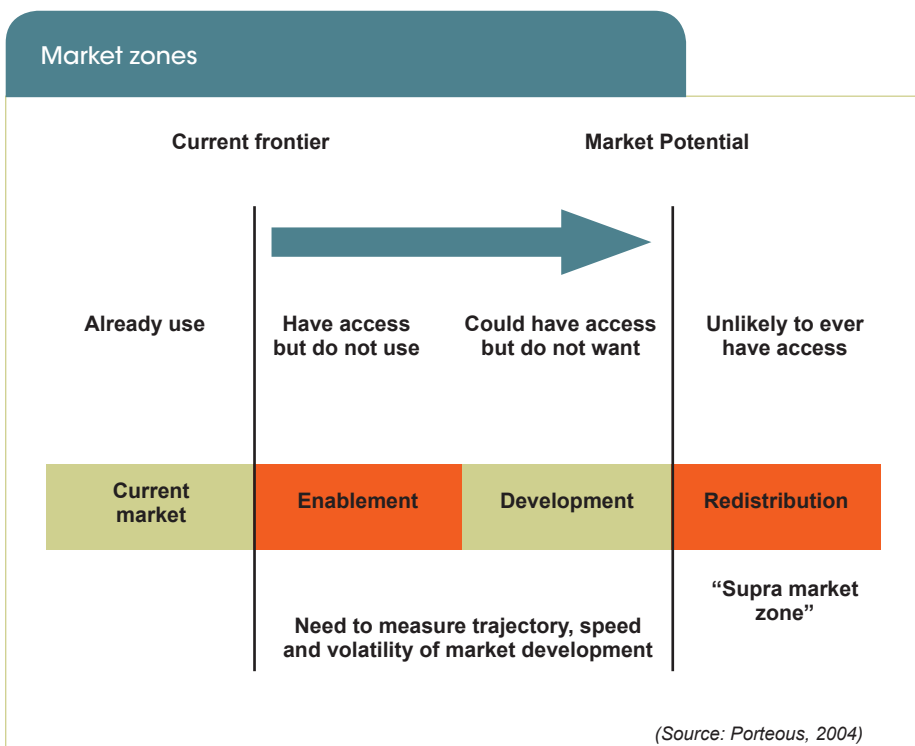
Perfect markets, of course, do not exist. In reality, buyers and sellers often lack information and trust, or are physically separated. The resources needed to bring buyers and sellers together are known as transaction costs. These costs are increased by regulatory requirements, such as license fees or levies.

More efficient markets have institutions that find ways of dealing with these costs by reducing risk, making information available, maintaining and enforcing standards, and protecting consumers.

The market on its own, however, cannot address the deeply rooted income, access and spatial inequalities that characterise South African townships. The market's inability to distribute resources efficiently is known as market failure. In such cases, state intervention is needed to deal with anti-competitive behaviour. When there is alignment between the state's operating and regulatory environment, and the market logic, pro-poor outcomes can be enhanced.

ACCESS FRONTIERS

The term 'access frontier' refers to the current maximum proportion of people in a society who could access



a product or service, given the current configuration of costs and market structure. Such frontiers are affected by regulatory and other considerations that influence what is supplied, at what price, and to which consumers.

This approach segments the market into four groups:

- those who use it now
- those who could have it but don't want it
- those who are within the reach of the market now and in the foreseeable future
- those beyond the reach of the market mainly because of limited income.

The access-frontier model identifies three zones based on current usage, and current and future access frontiers: a market enablement zone, a market development zone and a market redistribution zone, as shown in the figure above.

The figure on the left demonstrates how the access frontier needs to shift to expand the number of people served by the market.

How government can expand the access frontier

State regulation and investment can help to expand the access frontier. For example, people who own property and sell it in a registered sale are part of the current market. Owners who decide to sell their property without registering the sale (and therefore the title deed does not officially change hands) are trading informally, and are beyond the access frontier. Similarly, people who do not have title to the land they are living on are beyond the access frontier, and are forced to exchange the rights to their land informally.

In 2006, government removed the transfer duty on property exchanges below R500 000. This reduced the transaction costs and extended the

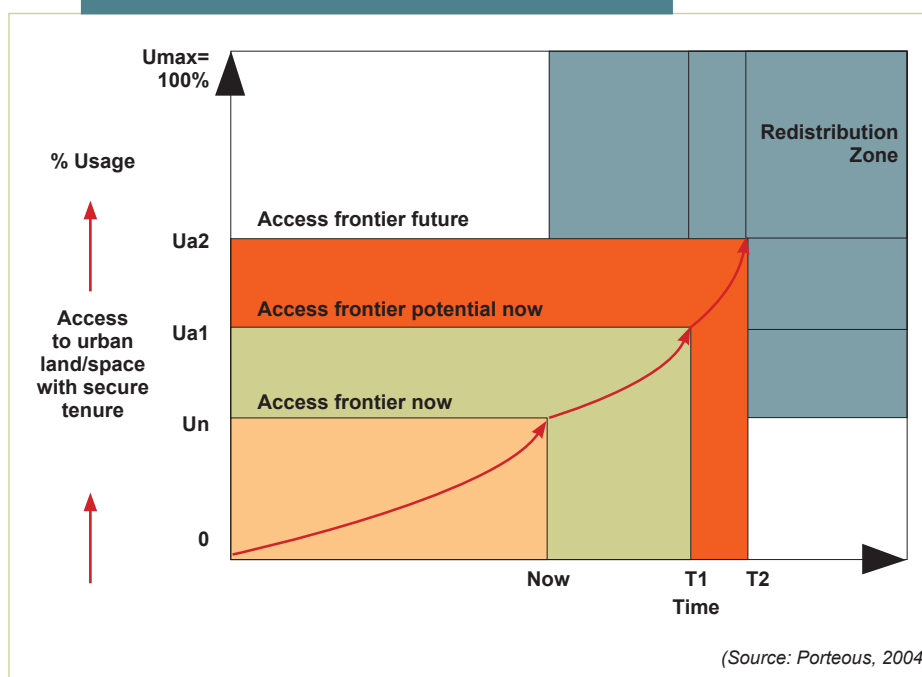
access frontier. This highlights how state regulation can make it easier for people to register changes in ownership, as well as reducing the costs associated with such changes. The focus for township managers and government programmes is most often on the redistribution zone, also known as the 'supra-market' zone, where people do not have land, houses and urban services because they cannot afford them. They are beyond the reach of direct market solutions in the medium term.

While government investment in townships affects all market segments, it is the 'supra-market' zone where investment has the greatest impact. Such investment can draw in the private sector and extend the access frontier. For example, the South African Revenue Service's urban regeneration tax initiative incentivises investment in urban development zones.

To support development in township markets, the state needs to invest directly in urban infrastructure, good planning and skills; provide incentives where necessary; and promote effective regulation. Markets operating in an inclusive way, with proactive state support, have the potential to offer jobs, opportunities, goods, services and higher incomes to the poor. A market that works for the poor is one that expands the choices available and is accessible and appropriate.

This thinking is summarised in an approach known as 'Making Markets Work for the Poor', which aims to accelerate pro-poor growth by improving outcomes that matter to the poor in their roles as entrepreneurs, employees or consumers. It focuses on changing the structure and characteristics of markets to increase participation by the poor on terms that are of benefit to them.

Market development and the access frontier



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TOWNSHIP MARKETS AND ECONOMIC DEVELOPMENT

The overall size of township markets depends on the following:

- The net income flows into townships, which consists primarily of the net wages of residents employed outside the township, welfare payments and net revenues earned by township enterprises from clients outside the township.
- The extent to which the income inflows are invested locally, or spent on locally produced and/or distributed goods and services.

Initiatives aimed at growing the size of the township market (market potential) should focus on increasing the net wages of residents employed outside the township, expanding the capacity of township enterprises to capture the investment and consumption spend of residents (and enterprises), and increase their share of markets outside the township. The following strategies suggest themselves as the main avenues for building the size of township markets.

- Expanding the number of township residents employed in the regional economy.
- Increasing net incomes earned either through reducing the costs of accessing employment (e.g. travel costs) or by supporting progression into higher-earning jobs.
- Retaining middle- and upper-income earners within the township, and attracting these income groups into the township.
- Expanding the capacity of township enterprises to provide goods and services needed by residents.

- Expanding the capacity of township enterprises to compete for external opportunities.
- Increasing the amount that residents invest locally.

There are four areas of intervention to achieve these strategies: land market interventions, labour market interventions, residential sector interventions and commercial sector interventions. These areas are discussed in greater detail in the sections that follow.

Township businesses usually face a number of problems, many of which are absent or less severe in other parts of the city. These include low incomes of local customers, lack of discounts from suppliers, high transport costs, lack of capital for equipment, unreliable or non-existent services, lack of suitable premises and credit facilities, cost and risks of crime and corruption, and little trust or cooperation between businesses.

To overcome these problems, and shift the access frontier, all forms of capital (human, natural, financial, physical and social) need to be boosted and used. The key to the success of township development strategies is addressing exclusion in a social, spatial and economic sense (including distance from markets, cost of inputs, education and skills, and supporting institutions).



2.2 IMPROVING THE LAND MARKET



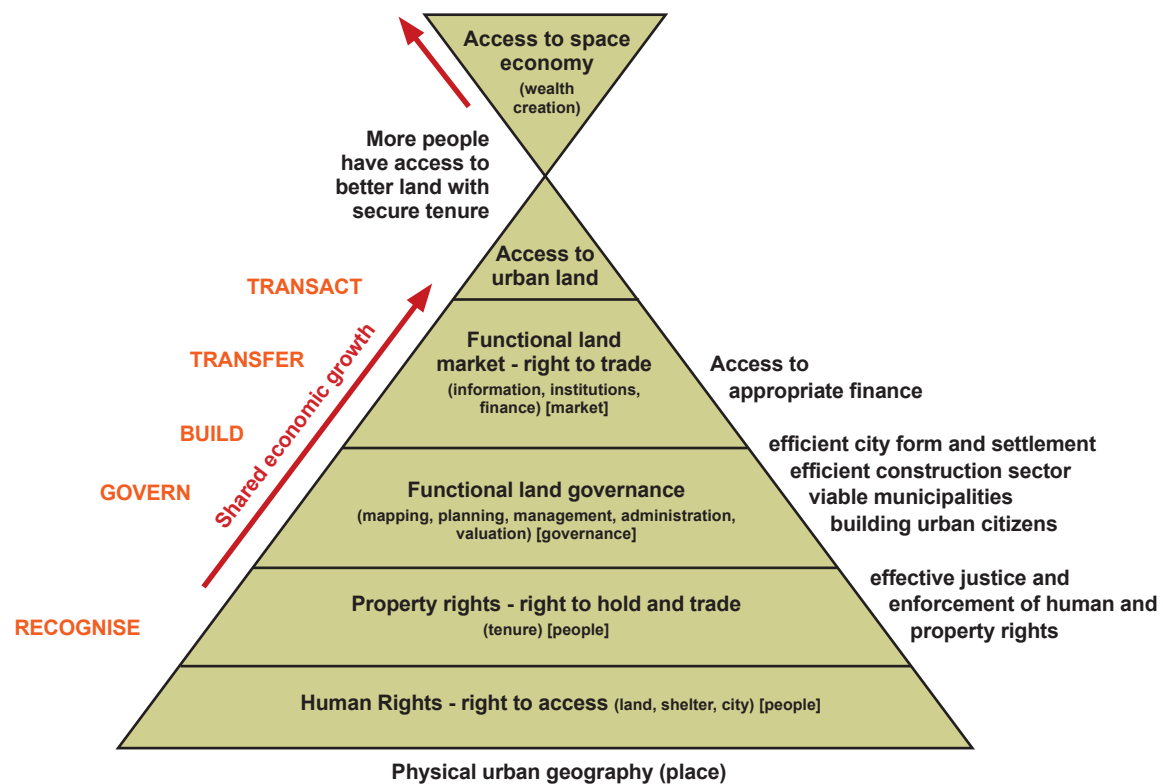
Markets do not operate in isolation. It would be unrealistic to expect the property market, for example, to operate well where there are no clear land and property rights, or where there are no state institutions to register land and transactions.

The land market in South Africa operates within the country's constitutional framework. The Bill of Rights guarantees existing property rights, while simultaneously charging the state with enabling equitable access to land. The Bill of Rights also promotes security of tenure, which includes rights to occupy, use and enjoy property; to restrict others from entry; to sell, buy, inherit, develop or

improve land; to use land productively; to rent and sublet land; to realise a return; and to access services and formal credit.

Government is responsible for land administration, which is necessary for a properly functioning land market. Beyond intervening to change the shape of the market, the public sector should also intervene through instruments that enhance knowledge, skills, relationships and information among potential market participants. In townships, the state can harness the power of the market and broaden access to urban land. Ultimately, this will lead to more poor people having access to better land, and greater

The Making Markets Work for the Poor approach



Source: Carey and Lewis

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access to other markets (such as labour and capital markets).

A schematic representation of this approach as it applies to land is provided in the figure on the previous page.

How land is managed affects how socio-economic rights are realised, how well livelihoods are secured, the pattern of asset formation, the development of social networks, the strength of political power bases and the environmental sustainability of a city.

This implies effective urban planning is needed for a developmental state. For the poor, urban land is important in fighting poverty: it can be used as an asset and to generate wealth. Municipalities can play a role in the following areas:

- Planning and land use management: Municipalities can identify desired patterns of land use and allocate rights to use and develop urban land.
- Taxing land values: Local governments can generate revenue by taxing land through property rates.
- Land acquisition and disposal: Local governments have the power

to acquire and dispose of land that they own.

The state has a critical role to play in ensuring urban land markets function effectively and in a manner that works for the poor. National government must ensure that an institutional framework for land rights exists, and is administered efficiently, while local government must fulfil critical planning, and regulatory and enforcement functions relating both to transactions as well as to the enforcement of local regulations. All spheres of government need to ensure that policies and interventions are aligned, and work with the market.

Public interventions need to be market-enhancing and incentive-compatible. This involves designing interventions to address market failure. To do so may require introducing market-compatible incentives, simplified legislation, measures to support coherence and certainty, and for enhanced affordability at the lower end of the commercial residential market. This could be done through home-loan tax relief, the introduction of declining interest rates for low-end first time buyers, and greater incentives for employer-financed housing and accommodation schemes.

2.3 ENHANCING LABOUR MARKET COMPETITIVENESS

For township economic development to occur, it is important to increase the flow of money into, and circulating within, townships. One way to do that is through a well-functioning labour market and increased employment of township residents.

Townships usually have high levels of unemployment. For example, in Inanda, Ntuzuma and KwaMashu (INK) unemployment is at about 40 per cent, and about 120 000 jobs are needed. An increase in the number of jobs created both in and outside the township will increase the net flow of income into townships. This requires interventions at a national, provincial and local level to boost the regional economy and create additional jobs. The city's economy should be geared towards growth sectors to increase the total labour demand.

It is important that people living in townships are eligible for these jobs, by having the appropriate skills and experience. Residents should also have access to opportunities through improved physical infrastructure and increased information. Encouraging increased employment in cities requires a three-pronged approach:

- Increasing the overall demand for labour and making township labour more attractive to increase its share of total city labour demand.
- Optimising labour supply by aligning skills of township labour pools with the city's economic growth sectors.
- Reducing transaction costs by facilitating information flows and providing cheap and efficient transportation between the township and the city.

One way of increasing the incomes of residents who are employed outside the township is through increasing the relative competitiveness of township labour. Many townships, such as INK, do not provide employees with the desired skills for growth sectors. Greater skills training, and retraining is needed to maintain competitiveness and ensure that township residents are employable.

To stimulate township labour markets, the economy both within the township and external to it need to be considered. Labour supply needs to be optimised by ensuring that available skills match labour demands, and to lower transaction costs by setting up local placement agencies and job-seeker databases.

There are a number of aspects to labour market competitiveness, relating to both individual workers and overall access. The general environment in which an individual worker operates is important. People need information and knowledge about available jobs, the required skills and means of acquiring such skills, and access to areas in which jobs are available. Enhancing labour market competitiveness needs to address both structural issues of access (transport and access to information), and individual issues such as skills, which are linked to the nature and quality of the entire education system.

An important aspect of the labour market is the informal sector. Many township workers are involved in informal employment, which is usually less secure than formal employment, and rarely provides opportunities for increasing qualifications and recognised skills. However, research has shown that formalisation is a key contributor to

employment generation and growth. Formalisation usually means that businesses are able to apply for loans, upgrade their infrastructure, and spend more time on marketing and promotions, leading to increased turnover and hiring more employees.

KEY COMPONENTS OF A SUCCESSFUL SYSTEM

There are several key aspects to enhancing the competitiveness of the labour market:

- Align skills of township labour with the city's economic growth trajectory.
- Ease and facilitate information flows between labour pools and employers.
- Reduce costs, for example by focusing on more affordable transportation costs.
- Other aspects such as labour's productivity and health.

Improving skills and qualifications

While there is greater demand for skills throughout the South African economy, most township residents remain largely unskilled. Improving labour's competitiveness is strongly related to developing people's skills and qualifications. This extends from pre-primary through to tertiary level.

Access to education, and the quality and relevance of training, including teachers' qualifications are key, and providing bursaries and information on education opportunities can increase labour market competitiveness.

Economic growth sectors require workers who are flexible, adaptable and mobile, underlining the need to acquire and maintain skills throughout the course of their working life.

Education systems need to be revised to suit these changing conditions, creating opportunities for on-the-job training, mentorship, internships and apprenticeships.

To accommodate informal activities, limited finances and other constraints, it is important that skills development is conducted locally wherever possible. Part-time classes, for example, may be introduced.

Long term skills-related interventions should be about improving basic education and providing access to tertiary education to prepare residents for employment in the knowledge economy or value-added manufacturing industries.

Municipalities can assist workers to identify and access appropriate training to improve their ability to compete in the market. Provision of a database with current employment opportunities, and requirements can be used to develop skills-placement programmes for residents and existing municipal employees.

Local governments can play a role in increasing the relative competitiveness of township labour by developing or supporting interventions related to skills development, providing bursaries and scholarships to residents, and providing opportunities to increase work experience.

Municipalities can work with the private sector and tertiary institutions, particularly FET colleges, to develop programmes to address skills gaps, and with other spheres of government to develop or fund the necessary programmes. Procurement processes can be a useful tool to promote training and skills development by insisting that locals are employed and trained.

Skills development in south Durban

In the south Durban Basin, area based management programme, staff emphasise the importance of working with local industries to develop local skills to meet industry needs and address unemployment. These skills are also expected to help people start their own businesses.

A skills development agency at the Sizakala Customer Service Centre in the Umlazi Mega City has been established to help people find out about training courses. An opportunity exists for businesses, schools and training colleges to become involved in training initiatives.

Project Recruit is a skills development programme partnership that focuses on first-line maintenance for young people between the ages of 18-35. It aims to ensure that young people are equipped with skills required by most industries in the basin. At the end of the course, learners complete a portfolio that is evaluated by Merseta so that they can attain the 30 credits towards their NQF Level 3 Automotive Component Manufacturing and Assembly Qualification.

The South Durban Basin ABM Programme has worked closely with local industry role players to devise programmes to address the skills shortage. It has therefore developed a partnership with Mondi, a large industrial company in the area, to fund local learners to participate in the maths, science and technology programme. Mondi then sponsored two learners to pursue a career in a science-related field.



Facilitating information flows and reducing transaction costs

Labour's competitiveness is linked to the ability to access jobs, skills and information. This includes physical access (transport) and virtual access (information technology).

The geographic isolation of townships increases the costs of searching for jobs, contributing to the continued inability to integrate labour and capital markets. Interventions to reduce transaction costs need to focus on reducing the amount households spend on transport by improving road and rail infrastructure and the public transport system, and promoting corridor development to improve accessibility and connectedness. These interventions are discussed in detail in Module 3.

In addition, 'soft' interventions – such as a database of employers and job-seekers, establishing local placement offices, liaising with employment agencies, increasing access to IT, training of SMMEs and providing career advice – can reduce transaction costs and increase knowledge of and access to work opportunities.

Other issues related to labour competitiveness

Although increased skills, access to information and job opportunities are the most obvious ways to increase labour market competitiveness, other factors such as the provision of adequate health care through clinics, hospitals, and HIV/AIDS education, can raise workers' productivity.

The relative bargaining power of workers affects the market in a variety of ways. Better organised workers may be able to gain employment and improve their incomes more than less organised workers; on the other hand, employers may see high levels of labour organisation as a threat.

Municipalities can play a valuable role in facilitating greater labour competitiveness by increasing access to skills training and available jobs. The case study on page 30 shows how the labour-market competitiveness of township residents can be improved.

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CASE STUDY: ADDRESSING LABOUR MARKET COMPETITIVENESS IN INK

Socioeconomic context

In 2001, the President identified 21 Presidential Poverty Nodes in rural and urban areas for development. INK is one such node, which is managed as one of eThekweni's five area-based management regions. INK lies about 20 km northeast of the Durban city centre. Unemployment and poverty are high, and education and skills levels are low. Most of INK's employed residents work outside the township.

INK's economy is dependent on that of eThekweni. A key development likely to affect commuting and employment patterns in INK is Bridge City, a new city centre on a 60 ha site situated

between KwaMashu, Ntuzuma, Inanda and Phoenix comprising supermarkets, civic buildings and spaces, mixed commercial, business and light industrial areas, and railway, bus and taxi terminuses.

INK is close to major movement routes, particularly the N2 and N3. However, by apartheid design, INK is not connected in a meaningful way to these urban systems, which are conduits for economic and social opportunity. As a result, INK has limited access to employment and retail services. Only 31 per cent of the labour force work in the area, and township residents spend a relatively high proportion of their monthly incomes on transport.

To overcome the relative spatial and social isolation of INK from

the city, municipal officials have identified several areas of intervention. These include establishing the Job Shop, supporting the furniture industry, and improving transport linkages to increase access to jobs and information.

The Job Shop

The Job Shop is a dedicated employment information centre for INK, connecting job seekers and job opportunities. It provides a database of current employment opportunities, uses this to design appropriate skills development programmes, and allows people to apply for available jobs. This entails conducting a skills audit to determine the type of skills and competencies needed, and to establish the existing skills of township workers.





The centre provides career counselling, training, access to an employer database, technical support and mentorship opportunities. It is designed to operate in partnership with local organisations that can provide expertise and mobilise community members to register on the database. Logistical issues include setting up registration points and determining what interventions and assistance are appropriate and feasible. Compilation of the database is accompanied by an assessment of needs and referral to available opportunities with regards to bursaries and employment.

Ultimately, the database will provide township residents with relevant employment information, enhance labour competitiveness, and market the skills of INK residents more effectively to potential employers in the city as a

whole. By 2008, 4 000 people were registered on the database.

Furniture skills development

INK ABM officials have developed a skills development programme targeted at the growing furniture industry. This is directly linked to the recent development of KwaMashu town centre and Bridge City, which will result in new housing in the area and increased demand for furniture. Key outcomes of the project are:

- technical and business skills provision for 60 people
- a business incubation programme targeting five existing survivalist businesses for two years
- existing business enterprise improvement and development (10-15 businesses)
- new venture creation (targeting

five start-ups) for two years.

The furniture industry is seen as well suited to local labour: it is labour intensive and presents empowerment opportunities, has limited barriers to entry, is able to address a local need and relies on local inputs, is concentrated in the eThekweni municipality with a comparative advantage in KZN, and has high export potential.

Transport improvements

To build on current developments and growth trends, the municipality is developing initiatives not only to prepare INK residents for employment in the key growth sectors, but also to facilitate improved linkages to centres of opportunity such as the Dube Trade Port and north Durban development. These are discussed in the KwaMashu case study associated with Module 3 of this Sourcebook.



2.4 SUPPORTING RESIDENTIAL MARKETS

A well-functioning township housing market would embrace both commercial and social imperatives, with the latter supported by government. Market-related prices would be achieved in both market types, allowing for social and economic upward mobility. Lending institutions would be willing to provide credit for the trading of properties, housing improvements and for supporting home-based enterprises. There would be sufficient stock for trading.

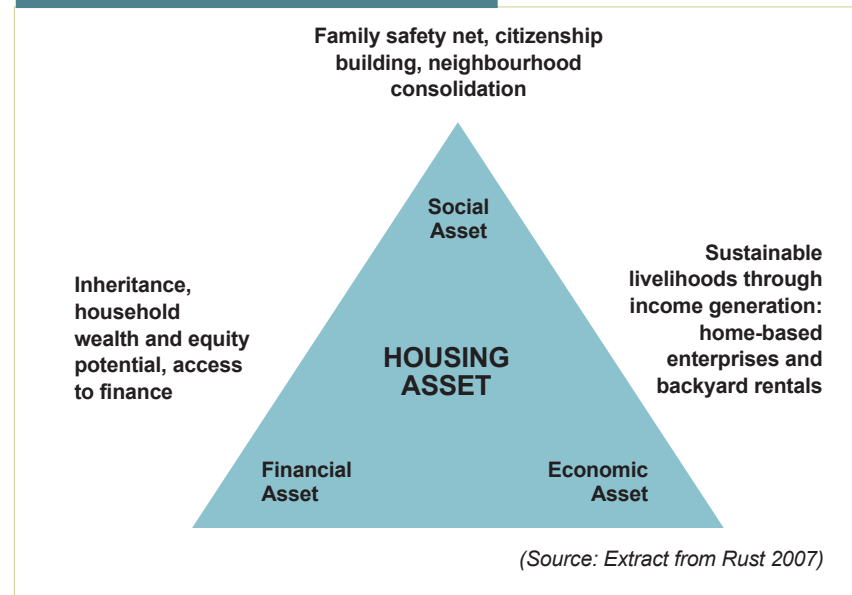
However, South Africa's economic and spatial legacies have combined to block such developments.

UNDERSTANDING FINANCIALLY AND SOCIALLY DOMINATED MARKETS

To determine the role of residential markets and economic development, it is important to understand how these markets operate within the township areas. The formal market is generally inaccessible to the poor as a result of high land values, land regulations that protect former white areas and high costs of accessing land linked to the need for specialist skills and legal costs.

Recent research has shown that land markets do operate outside traditional formal areas (such as in informal settlements, RDP projects, backyard shacks and traditional authority areas), but that in these cases social relations are more dominant than financial relations. The operations of this market are far from disorganised or dysfunctional, and transactions are highly responsive to state action (such as shack registration). So there is a complex system of land transactions – some in which land is regarded as a financial asset, and is formally recognised by the state and law, and

Housing as an asset



others in which forms of social and community recognition are more prominent.

UNDERSTANDING HOUSING AS AN ASSET

The Breaking New Ground policy, launched by the then Department of Housing in 2004, introduced the notion of housing as an asset and a means for wealth creation and empowerment. As shown in the figure above, urban poor housing has three components: it is a social asset, a productive or economic asset, and a financial asset.

Social asset

This component ensures that poor households have a family safety net, a sense of citizenship and a sense of belonging to the city.

Financial asset

This becomes relevant when a household wants to improve its housing situation by selling the current

‘Poor people save...but they hold these resources in defective forms: houses built on land whose ownership rights are not adequately recorded and unincorporated businesses with undefined liability... Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow, local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment.’

(Hernando de Soto 2000)



home to move up the housing ladder. The price obtained for the current house determines a household's affordability level for the next home. To realise housing as a financial asset, key elements need to be in place such as:

- A functioning secondary property market and solid linkages between the primary and the secondary property markets.
- Sufficient, affordable housing stock for the target market.
- Affordable mortgage finance.
- Mortgage lenders willing and able to cater for the lower end of the market.

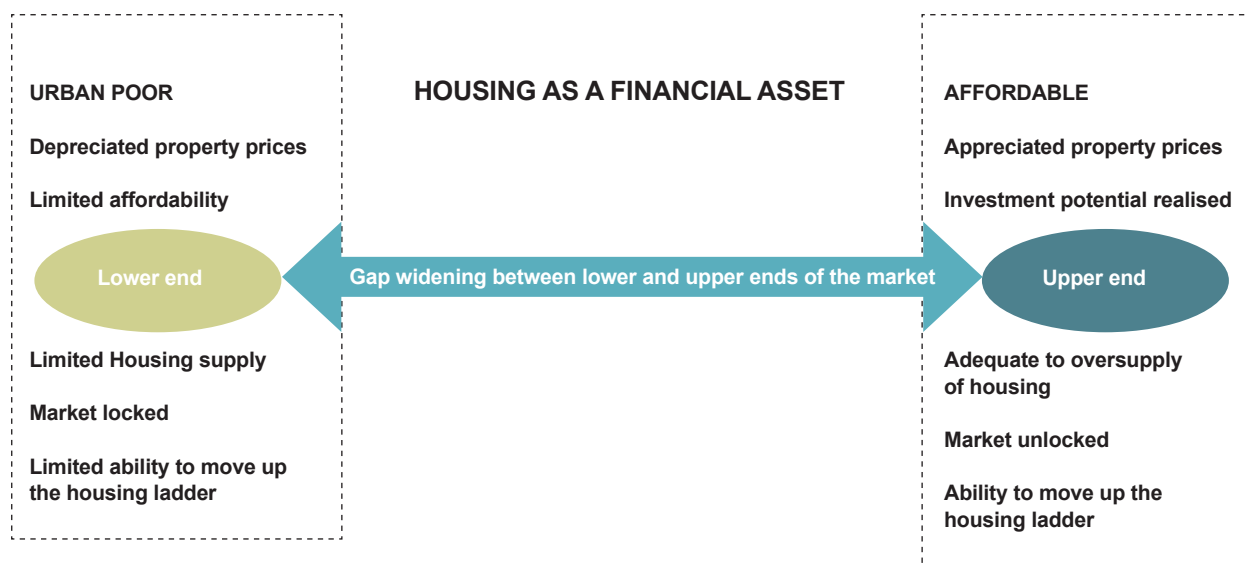
There has been a substantial depreciation in the value of RDP houses while middle- and upper-income housing has increased in value. This has created a widening gap between the upper- and lower-

ends of the housing market. At the upper end of the market, the investment potential is thus being realised; at the lower end, it is not.

Consequently, fewer families living in RDP housing are able to climb the housing ladder, with less than 10 per cent of South African households being able to buy an average affordable house. At the lower end, few households sell their properties, decreasing the supply of housing and thereby locking the market. In the market below R200 000, less than 17 339 units were delivered in 2005. Moreover, 53 per cent of households in the so-called 'equity market' are ineligible for mortgage finance.

Research undertaken by FinMark found that the investment potential of housing that is being found at the top end of the property market is not being realised at the bottom end. So when low to moderate income earners invest in their housing by improving

The investment potential of housing



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fittings, extending, and so on, they cannot rely on realising a return on this investment at some later point of sale. Consequently, the incentive to invest in quality improvements in that market is diminished. This undermines the potential for neighbourhood gentrification and further reinforces the split between rich and poor.

The constraints to selling and buying within this segment of the market also undermines household mobility and access to higher priced markets – more broadly, undermining South Africa's expectations for integrated communities and the intention for broad-based black economic empowerment.

Government directly influences the possible value attainable for a property through the provision of social and other services, levels of upgrading, the efficiency of transport networks etc.

Economic asset

This refers to the income-earning potential of the house and the extent to which it can contribute towards sustainable livelihoods. Income can be derived through a number of means, such as the rental of accommodation or home-based enterprises. A number of the characteristics typically associated with township housing, blocks efficient functioning of the residential property market, and asset realisation, as shown in the table below.



| HOUSING TYPE | ECONOMIC ASSET | FINANCIAL ASSET | SOCIAL ASSET |
|------------------------|--------------------------------------|--|---|
| Old 51/9 housing stock | Limiting town planning regulations | Access to finance Limited housing stock for trading | Family safety net Citizenship building |
| RDP housing | Limiting town planning regulations | Access to finance Limited housing stock for trading May not be formally sold due to state imposed 10-year ban on trading Commonly traded below market related or construction price | Family safety net Citizenship building Requires social network No formal tenure given when traded Limited stock |
| Informal settlements | Location Vulnerable to demolition | No formal financing mechanism Price determined in social negotiations Limited stock for trading | Insecurity of tenure Requires social network for access Location Informal settlement eradication programmes |
| Gap housing | Town planning regulations | Access to finance Limited housing stock for trading | Location Family safety net Citizenship building |



REALISING RESIDENTIAL PROPERTY POTENTIAL

The decisions and actions taken by township managers will have both a direct and indirect impact on the residential housing market. Actions can strengthen or weaken rights to land. Township managers, along with the municipality, can influence the following:

- The location of informal settlements.
- The level of legitimacy of the informal settlement, such as shack number, upgrading, extent and type of services provided.
- Other off site activities, such as the provision of public amenities.
- The link between informal settlements and the RDP housing developments.
- Demolition of shacks, affecting supply in the socially dominated housing market.

Access to urban infrastructure is pivotal for the integration of the urban poor into cities and the creation of differentiated markets. Research has found that without sufficient access, many beneficiaries are no better off in RDP housing than in informal settlements. The inability to differentiate their land and housing from others reduces the ability to realise a difference in value.

When working in the poorer and more vulnerable areas of cities, it is important to understand and acknowledge that land markets exist in a number of different forms. Interventions may need to:

- Recognise socially dominated land markets through legal reform, reform of practice at a municipal level within existing legal frameworks or awareness raising.
- Support the role of informal settlements and recognise the risks

of ill-considered eradication of such communities.

- Develop social interventions that support poor people's access to land.
- Recognise how the financially dominated land market depends on the socially dominated market, and develop ways of promoting integration to increase access by the poor.
- Support greater urban land market differentiation through public investment.

Other research has highlighted the need for a land audit to identify vacant and underused land, the need to improve access to relevant information to communities, issues around high-density inner-city housing, and the need to enhance and expand the housing subsidy scheme.

Indicators of a market that is working for the poor include increasing tenure security, increasing access to livelihoods, increasing access to broader opportunities, increasing scale of supply, increasing equity, decreasing risks and costs of exchange, and the resolution of disputes.

Recognition involves developing proposals for enhancement of this market, building on its strengths and addressing its limitations. An important corollary of this is the need for integration of the two markets (socially dominated and financially dominated). For example, although socially dominated markets tend to work well in the short term, in the longer term the poor tend to become trapped into poor locations, without access to alternatives. An emphasis on integration, rather than eradication, has important policy consequences. Specifically, proposals should recognise socially dominated land markets, achieve better integration between financially and socially



dominated land markets, achieve better performing socially dominated land markets; and implement other reforms that address the manner in which the financially dominated land markets operate.

Finally, the income generating or economic aspect of housing as an asset requires greater understanding and support. This would include actions such as zoning rights, improving access to markets and appropriately targeted support programmes.

CASE STUDIES: UNDERSTANDING THE SOCIALLY DOMINATED HOUSING MARKET

Township managers and planners should be aware of the intricacies of socially dominated residential markets, as highlighted in several recent studies.

Research undertaken in several small towns examined the extent to which an informal land market existed. Where such a market existed, particularly in Ingquza Hill/Lusikisiki and Emakhazeni/Dullstroom, it was found to operate differently for different types of housing. Officials and councillors were generally unaware of whether and how informal land markets operate, and tended to deny that they exist. Despite this, in some cases mechanisms have been put in place by the municipality to try to prevent informal land transactions, such as the yellow card system in Rustenburg, and similar processes in Sasolburg. In Ingquza Hill home owners use their homes as collateral to borrow from loan sharks, which works against the goals of RDP housing and the need to encourage investment in homes. This was in contrast to Pietermaritzburg, where home owners used their homes as collateral to rise up the property ladder.

An issue raised in several cases (particularly Sasolburg and

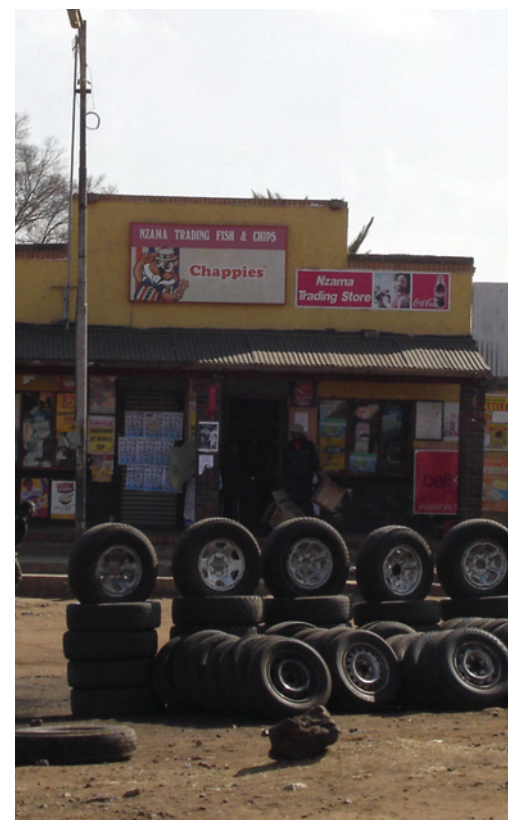
Pietermaritzburg) was the need to educate current and potential home owners on how the market operates, what their rights and responsibilities are, and what processes are involved in acquiring land and a house.

Facilitating such education and related communication is a potential role for local government.

Of key significance is the proportion of homes that are regarded as formal. Obviously, only those homes that are formal are able to be transacted in the formal market, whereas informal homes are forced to be traded informally. This potentially represents a very high proportion of transactions that are not being recognised by authorities, with a concomitant loss of potential property rates income. It is crucial that municipalities develop a greater understanding of how land transactions take place in the informal market.

The table on page 37 summarises a number of case studies that have examined characteristics of the socially dominated housing markets. Overall, the following key findings emerge from this research:

- Socially dominated markets are active in both informal settlements and RDP housing developments, confirming that land markets are not absent in the poorer parts of cities.
- In every five years, an average of 26 per cent of households in shack settlements exchanged houses.
- In RDP housing, while there is a state limitation on the resale of houses for five years, some 11 per cent of households were transacting, with
 - 6 per cent seen as sales
 - average house prices of between R5 750 and R17 000
 - almost all off-register, title deeds not officially changing hands
 - state officials often called in to witness.



Summary of case studies

| AREA | HOUSING TYPE | DESCRIPTION OF AREA | TRANSACTION CHARACTERISTICS | AVERAGE RATE OF EXCHANGE |
|-----------------------------|----------------------|--|---|--------------------------|
| Delft, Cape Town | RDP | <ul style="list-style-type: none"> • Occupants mainly from informal settlements • Perceived lack of control of how land is being used, such as uncontrolled trading on main roads • Provision of low-income housing in Cape Town has not kept pace with demand, resulting in growth of backyard shacks • Municipality has failed to maintain services adequately | <ul style="list-style-type: none"> • Socially dominated market • Housing supply is starting to differentiate by tenure type • Only 14% of the RDP housing stock has been traded in the last 5 years • Houses trade well below construction cost | R17 000 |
| Kingsway, Ekurhuleni | RDP | <ul style="list-style-type: none"> • 2 500 RDP units – households relocated from informal settlements • Largely youthful | <ul style="list-style-type: none"> • Socially dominated market • Only 11% of RDP houses have been traded in the last 5 years • Trade well below construction cost | R15 000 |
| Old Dunbar, eThekweni | RDP | <ul style="list-style-type: none"> • Old Dunbar area is part of Cato Manor which was settled informally in the late 1980s/early 1990s • Allocation of formal houses commenced in 1998 | <ul style="list-style-type: none"> • Socially dominated market • Only 8% of RDP houses have been traded in the last 5 years • Trade well below construction cost | R5 750 |
| Nkanini Cape Town | Informal settlements | <ul style="list-style-type: none"> • Located adjacent to Khayelitsha • Started settling the area in 2003 • Started as 30 shacks – while threatened, the municipality took no action • Area has grown substantially | <ul style="list-style-type: none"> • Socially dominated market • 16% have traded shack houses | R1 350 |
| Somalia, Ekurhuleni | Informal settlements | <ul style="list-style-type: none"> • Land is privately owned • Households came from Vosloorus, farms, Transkei, Lesotho, Free State and Malawi • Due to the growth of the area, community leaders now allocate plots • Settlement is close to employment and town | <ul style="list-style-type: none"> • Socially dominated market • 38% of shacks have been traded • Possibly traded below construction cost | R50 |
| Blackburn Village eThekweni | Informal settlements | <ul style="list-style-type: none"> • Established more than 20 years ago by Indian families • Community now a mix of Indian and African • Currently about 900 households | <ul style="list-style-type: none"> • Socially dominated market • 24% of shacks have been traded • Possibly traded below construction cost | R590 |

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- In these markets, social relations dominate as opposed to the rules of supply and demand mediated by price.
- Social networks are pivotal in gaining access.
- Many people feel that it is inappropriate to make a profit from the sale of the house that they received free from the state.
- While the average transaction cost is often far lower than the construction cost, some households do transact on the basis of price rather than social values, particularly when improvements have been made.
- Government policy has failed to recognise the existence of socially dominated markets.
- Transaction agreements may be verbal or a formal affidavit.
- There is a link between informal settlements and RDP housing, with the former representing a reception area for accessing state housing projects.
- The state is present in socially dominated land markets in the following manner:
 - urban policy and practices
 - land selected for development
 - registration of shacks, leading to the perception of a right to future development.

Housing and income generation

Housing provides an important platform for residents to become entrepreneurs. Not only are households able to generate an

| SMALL-SCALE LANDLORDS | HOME-BASED ENTERPRISES |
|--|--|
| Small-scale landlords are delivering at scale: An estimated 1.85 million households (15% of South African households) rent accommodation provided by small-scale landlords. 60% of this (1.1 million households) is provided on the property of owners, in either formal or informal backyard dwellings. | Home-based enterprises are significant contributors to local economies: An estimated 355 000 home-based enterprises generate about R476 million per month. They operate in residential areas, enhancing access to services and products for low-income households, and contributing to the development of sustainable human settlements. |
| Small-scale landlords are offering well located, affordable rental housing for low-income earners: The average income of their tenants is only R1 800 per month, lower than is targeted by the state-subsidised social housing programme. | The home is an important asset for entrepreneurs: Most township entrepreneurs operate from home, reducing costs and risks. |
| Small-scale landlords are income-earning enterprises: The sector generates over R5 billion annually. The majority of landlords are otherwise unemployed, and often elderly women with little other income. | Many home-based enterprises are entrepreneurial: Just under half (42%) of such enterprises in townships were the first to undertake the business in their area. Only one third (32-33%) of such enterprises surveyed said they would accept offers of permanent employment. |
| There is potential for growth: Demand for stock is high and over 62% of landlords in townships said that it was easy to find tenants. Township landlords report that vacancy is effectively zero. However, this potential for growth is not being realised. | There is potential for growth: Most home-based enterprises want to expand. Many feel that their businesses are growing. This represents an untapped opportunity for unemployed South Africans. |



income – they can also assist with the provision of affordable rental income for other low-income households. The meaning of the house is therefore different for lower-income township residents – it serves as a means of generating income, usually either through rental derived from backyard shacks or second dwellings, through home-based enterprises (such as spaza or phone shops), or through urban agriculture. It is important that this is understood and acknowledged in planning and related by-laws and their enforcement, so that the revenue-generating aspects of houses are supported in ways that are acceptable. The table on page 38 outlines the key research findings in more detail.

Comparative studies of Ulundi, Lusikisiki, Dullstroom, Rustenburg, Pietermaritzburg, and Sasolburg

revealed the following in terms of the value of housing as a revenue-generating asset:

- In most cases there are backyard shacks. In Rustenburg and Pietermaritzburg, officials indicated that the number of planning applications for second dwellings (in the case of the former) or 'servants' quarters' (in the latter) have increased significantly. These are therefore legal buildings, although their use is not as anticipated as they are rented out to supplement mortgage repayments. In other cases such as Dullstroom, backyard shacks add to the value of properties.
- Urban agriculture was evident in many municipalities, some in formal houses in the centre of town, such as in Ulundi and Edendale in Pietermaritzburg, and in informal settlements such as Ash Road, Pietermaritzburg. The development and promotion of urban agriculture can have important benefits for people's livelihoods. It would be useful for municipalities to investigate this, to ensure that policies are developed to manage and support such practices where appropriate.
- Home-based enterprises appear to be flourishing in many towns and municipalities, particularly outside former white towns. In most cases there is no clear regulatory policy, nor capacity to enforce existing regulations. The distinction between how policy is applied to former white areas versus former black areas is linked to the lack of clear land use management systems in many former black areas, and needs to be addressed.

The photographs, left, highlight the aspects mentioned above.

Home-based enterprises in Phokeng, Rustenburg: tuck shop and phone shop



Ulundi: Bed and breakfast establishment



Rustenburg: Thlabane proper – backyard shacks



2.5 COMMERCIAL PROPERTY MARKETS AND SMALL BUSINESS

This section examines the roles of the commercial market and small businesses in fostering township economic development.

During apartheid, township areas were predominantly dormitory areas without access to formal commercial activities. The landscape has been changing since 1994. Many shopping centres have been built or are under construction, and investors are considering all aspects of the commercial market – including offices, industrial facilities and hotels.

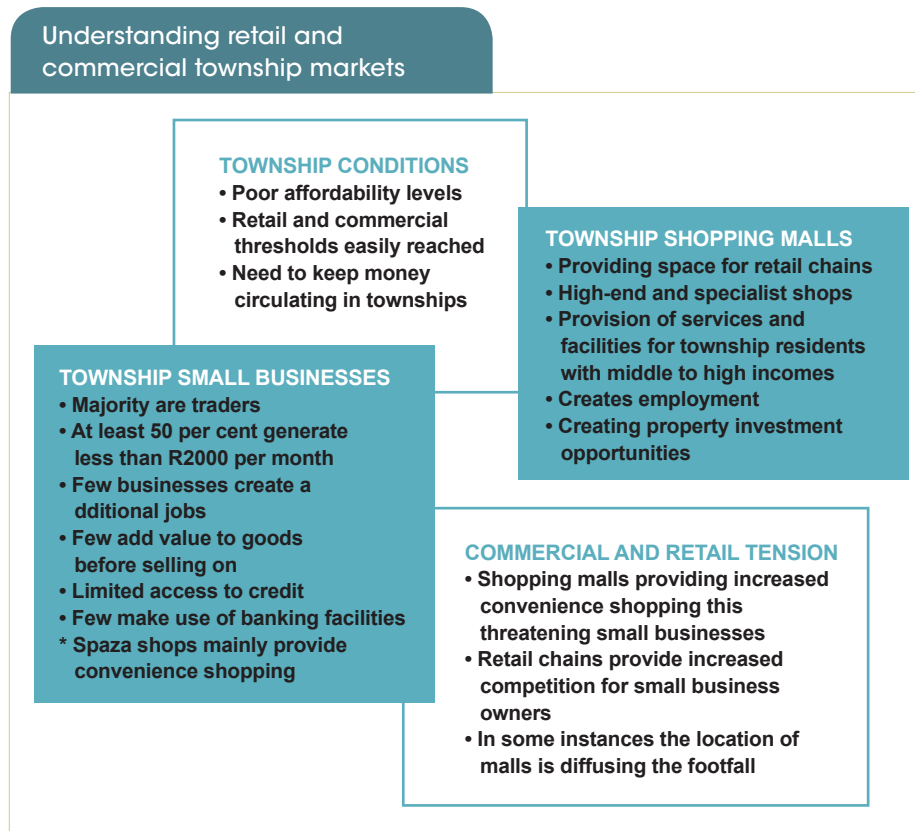
There is also evidence of a focus on mixed-use developments. As one observer notes, the 'commercial property market will form part of the township built environment in the future.'

At the same time, small businesses perform a vital role in townships by providing employment, competition and innovation. In the South African context, they also help to reduce the overconcentration of economic power.

To achieve economic growth in townships, practitioners need to attract large-scale commercial developments, while ensuring that such developments do not choke off opportunities for small businesses. The diagram above illustrates this tension.

UNDERSTANDING THE CONSTRAINTS FACING SMALL BUSINESS

Small business is a key contributor to faster economic growth. Yet research indicates that government-led initiatives have to date not been very successful. Progress in this area will require a more sophisticated understanding of the small-business market for more focused interventions. In Gauteng in 2006, there were 1 053 818 small businesses, with about 1 in



6 adults operating within this market. The Finscope study developed a business sophistication model (BSM) with seven business types ranging from BSM 1 to BSM 7. The former are small informal businesses, the latter sophisticated formal entities. The baseline characteristics are shown in the table on the right.

The key findings from the Finscope study are as follows:

- Youth own more than half of all small businesses in Gauteng.
- Income generated from the small business is the only source of income for 78% of those surveyed. Income generated in BSM1 and BSM2 falls below the poverty line.

BSM Analysis

| SEGMENT | DESCRIPTION | CHARACTERISTICS | ACCESS TO FINANCE | EXPERIENCE WITH BANKS |
|---------|--|---|--|---|
| BSM 1 | Informal businesses - 99% Unregistered individuals - 1% Registered businesses - 0% | <ul style="list-style-type: none"> • Stall traders • Operate on a footpath • No ownership of facilities in business • Some high school education • Employees: 0.1 • Annual turnover R9 113 • 79% unbanked (personal) | <ul style="list-style-type: none"> • Do banking personally • Travel over an hour to bank by taxi • Current bank selected through advertising and convenient location • Don't need a business account - use personal account • Receive communication from bank in branch - would prefer telephonic communication | <ul style="list-style-type: none"> • Hard to open a bank account • Manage fine without a bank account |
| BSM 2 | Informal businesses - 92% Unregistered individuals - 7% Registered businesses - 1% | <ul style="list-style-type: none"> • Stall traders • Operate on a footpath • Have a cell phone • Some high school education • Employees 0.14 • Annual turnover R10 723 • 64% unbanked (personal) | <ul style="list-style-type: none"> • Travel between 30 minutes to 1 hour to bank • Do not qualify for business account • Small penetration of business account - Post Bank • Selected current bank as they were prepared to open an account | <ul style="list-style-type: none"> • Hard to open a bank account • Like to switch bank accounts but not sure if I'd be accepted |
| BSM 3 | Informal businesses - 74% Unregistered individuals - 18% Registered businesses - 8% | <ul style="list-style-type: none"> • Sale of goods • Home-based business • Electricity in business • Some high school education • Employees 0.23 • Annual turnover: R16 793 • 62% unbanked (personal) | <ul style="list-style-type: none"> • Travel to the bank by taxi or walk (monthly) • Bank recommended by friend • Reason for no business bank account: "my income isn't high enough" | <ul style="list-style-type: none"> • Manage fine without a bank account |
| BSM 4 | Informal businesses - 64% Unregistered individuals - 24% Registered businesses - 12% | <ul style="list-style-type: none"> • Unregistered individuals • Home-based business • Hot running water • Matric • Employees: 0.47 • Annual turnover: R24 710 • 47% banked (business) | <ul style="list-style-type: none"> • Travel to bank by taxi, approximately twice a month • Get statements at the branch • No business bank account - income is irregular • Selected current bank because of its advertising • Current communication by bank is in branch | <ul style="list-style-type: none"> • Banks give you too much credit and get you into financial trouble • Banks are not understanding if you cannot make your repayments |
| BSM 5 | Informal businesses - 58% Unregistered individuals - 29% Registered businesses - 13% | <ul style="list-style-type: none"> • Unregistered individuals/sole proprietors • Home-based business • Landline telephone • Matric • Employees: 0.85 • Annual turnover: R27 841 • 64% banked (business) | <ul style="list-style-type: none"> • Travel to bank by taxi • Use branch for inter-account transfers, for payments and balance statements • Bank currently communicates by cellphone | <ul style="list-style-type: none"> • I have a good relationship with people at my bank and they are very helpful • When I need help about financial or business matters I usually ask my bank |

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| SEGMENT | DESCRIPTION | CHARACTERISTICS | ACCESS TO FINANCE | EXPERIENCE WITH BANKS |
|---------|--|---|---|--|
| BSM 6 | Informal businesses - 30% Unregistered individuals - 41% Registered businesses - 29% | <ul style="list-style-type: none"> Unregistered individuals/ sole proprietors Home-based business Computers Post-matric qualification Employees: 1.78 Annual turnover: R66 597 81% banked (business) | <ul style="list-style-type: none"> Go to the bank by car; travel less than 10 minutes to the bank Use current account cheque deposits at ATM Bank currently communicates by cellphone Can bank daily Selected the bank for business as used it previously | <ul style="list-style-type: none"> When I need help about financial or business matters I usually ask my bank I have a good relationship with people at my bank and they are very helpful The bank has products and services for people like me |
| BSM 7 | Informal businesses - 1% Unregistered individuals - 5% Registered businesses - 94% | <ul style="list-style-type: none"> Close Corporations/ partnerships Office block Shop Credit card machine Post-matric qualification Employees: 8.88 Annual turnover: R463 747 97% banked (business) | <ul style="list-style-type: none"> Travel to bank in own car weekly - takes less than 10 minutes Prefer e-mail communication with bank Have a business loan, credit card, overdraft facility Use Internet banking | <ul style="list-style-type: none"> The bank has products and services for people like me When I need help with financial or business matters I usually ask my bank Bank charges are very high Have a good relationship with bank staff |

- Very few small businesses add value to the products, which are then sold on.
- About two-thirds of small businesses are traders.
- There are 10 times more service businesses than manufacturing businesses. Finscope suggests that the latter requires more capital for startup which is commonly not available.
- About 69 per cent of small businesses are operated from home and 70 per cent do not create jobs.
- Small businesses perform an important function in making "the poor a little less poor" with about half generating R1 300 and R2 000 per month, and one-fifth earning between R750 and R900 per month. The life of these small businesses is seen as precarious.

- Credit extensions to survivalist businesses are extremely low and about 41 per cent remain unbanked. Finscope noted that access to finance remains one of the most critical hindrances to the further development of the informal sector. The research demonstrates that the main source of financial borrowing is from family and friends.
- Most small business do not keep financial records, preventing them from being legally compliant and/or scaling up to access wider markets and capital.

It is clear that small businesses require support. This should include appropriate policy and regulation; inclusion in planning, infrastructure and services; settlement design to accommodate and stimulate the emergence of small business;





appropriate financial products; and support to increase linkages to marketing, networks and so on. An important aspect of this support is the way the property market functions for the commercial sector.

MICRO AND MACRO-ECONOMIC INFLUENCES ON PROPERTY MARKETS

In examining the township commercial property market, it is important to understand how potential investors will reach a decision. There are two broad areas of influence:

- Micro influences include considerations such as the attractiveness of a node from a retailer's or service provider's perspective. Generally, an investor selects a site or location that will be most profitable. Based on the principles linked to the demand for land, retailers are willing to pay higher prices for a site with optimal exposure to shoppers. Conversely, lower rents are then paid for less attractive sites.
- Macro influences include general conditions in the economy, such as GDP growth or contraction, inflation and so on. Such factors imply increased or reduced demand for rentals resulting in higher/lower rental demanded by developers; interest rates, which can reduce the rate of return for investors; the capitalisation rate; property prices increasing more rapidly than building costs, leading to an increased supply; oversupply and the associated decline in rentals and property values; or a combination of any of these.

The challenge for local government is to ensure that a node offers the necessary attributes to attract a particular user to a particular site. The constraints to township retail development – which negatively affect the commercial property market – include:

- Crime
- Unstructured and unmanaged street vendors
- Limited banking facilities
- Limited business management skills among entrepreneurs
- Difficulties with rental space (poor building maintenance, low rental take-up, high rents)
- Long queues at retail outlets.

Developers tend to distrust the ability of local government structures to ensure proper management and maintenance. Consequently, they are reluctant to invest as the proposed development is perceived to be high risk. Often, it may require the municipality to demonstrate its commitment to an area by undertaking catalytic projects such as improving the management of traffic, civic plaza development, improved public transport networks and facilities, directional signage, upgrading avenues, street-scaping, park development and management.

Currently, most urban regeneration incentives are funded by national government grants, which are in turn driven by sector imperatives. This results in administrative and project planning complexities and makes it difficult to achieve locally specific and appropriate outcomes.

INTERVENTIONS TO RELEASE THE POTENTIAL OF COMMERCIAL PROPERTY MARKETS

To realise the potential of township commercial property markets, practitioners need to consider a range of options, including providing reliable information to potential developers, urban regeneration and upgrading, offering incentives, undertaking a property market and retail market



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analysis, and organising existing business. Such interventions need to offset the competitive advantages of CBDs and suburban business centres, providing investors with clear market advantages.

In developing the formal commercial and retail sector in the townships, care must also be taken to secure the interests and the growth potential of small businesses. This is a difficult balance to achieve. Providing relevant information and incentives is important to large developers. However, mechanisms need to be put in place to ensure that the benefits of these incentives are passed

on to the consumer or existing small business, and do not merely increase the profits accruing to the developer. By facilitating easier registration of businesses, making more affordable premises available, and lowering the transaction costs associated with conducting business in townships, municipalities can play a significant role in supporting small businesses and advancing the access frontier. This can be complemented through increased training, improved access to credit, maximising BEE opportunities, and supporting partnerships between big and small businesses.



CASE STUDY: MDANTSANE URBAN REGENERATION INITIATIVE

Mdantsane township lies 20 km from East London. Established in the 1950s, it has a current population estimated at 175 000. Despite high poverty and unemployment, the area has a growing middle class mainly due to the return of better earners such as government officials, leading to changes in the rental property market.

While much of the land in Mdantsane has remained undeveloped, commercial developments have been established over time. There are three main commercial sites: Kuyasa Shopping Centre, Mdantsane Mall and Shoprite Centre. These are surrounded by taxi ranks and a number of informal traders, which has resulted in a high footfall in the area.

Before the implementation of the projects linked to the Mdantsane Urban Regeneration Initiative, the trade, service and retail industries structured their services for a low-income market. While the Mdantsane Town Centre was the core location for commercial activity, there were no upmarket chains.

The facilities were in a poor state of repair and many residents preferred to do their shopping in Beacon Bay, the East London CBD and the Vincent Park Shopping Centre.

In October 2003, the Buffalo City Municipality launched the Mdantsane Urban Renewal Programme. The programme addressed factors affecting both markets and people's daily lives, including safety concerns, lack of public amenities and congestion. Several catalytic projects have been undertaken to provide signs of visible improvement in the commercial sector and commercial property. Three key projects are the Mdantsane City shopping complex, the upgrading of the CBD, and a strategic commercial project at Mount Ruth intended to support the upgrade of the railway system.

The Mdantsane City shopping complex is 4 km from the Mdantsane CBD along the main access road. It provides about 36 000m² of shopping facilities, the second-largest such complex in the Eastern Cape. The 95 tenant stores are middle- to high-end brands targeting the emerging middle class.

The CBD revitalisation programme aims to stimulate local economic development by providing an environment that is more attractive and conducive to business and property investment. The vacant land within the CBD, most of which is owned by the municipality, is to be developed to increase the commercial density, growing the footfall and smoothing taxi traffic flows.

The site selected for the Mdantsane City Mall, 4 km from the CBD, was apparently the result of political pressure and the availability of land. Buffalo City's planners and the Mdantsane Urban Renewal Programme do not appear to have been consulted. Moreover, construction was well underway before it was included into the spatial plan for the area. While a decision was taken to retain the CBD as the main transport hub, there has been a concern that the reduction of commercial concentration in the CBD may negatively affect both the area and the new centre owing to the lower footfall. However, the success of the Mdantsane Mall attests to the need and the threshold that exists in the immediate area and broader sub-region.



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