# Micro-units: Big solutions in small spaces?

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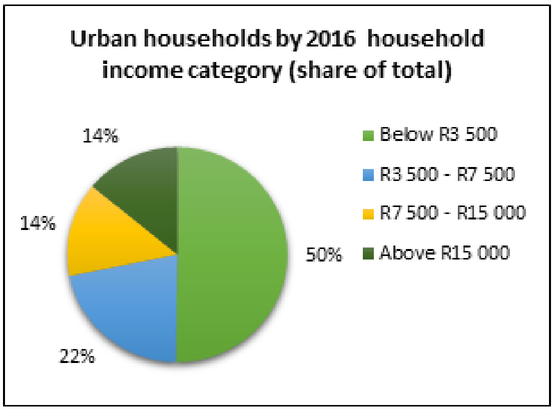
The State has now effectively acknowledged that the housing 'gap' market has grown by increasing the FLISP[1] eligibility income band to R3 500-R22 000 (previously R3 500-R15 000).




*Source: Simkins & Fonkam (2018)*

By this definition, and restricting our focus to urban areas,[2] less than 20% of South African households comprise the conventional market – a market where housing markets clear[3], facilitated by a well-functioning financial system. According to survey data, approximately 50% of households can be considered indigent, leaving more than 30% – or some 5,4 million households – in the housing gap: earning too much to receive fully subsidised housing, but too little to afford housing on the open market (Simkins & Fonkam, 2018). Far from being a market niche, the housing gap market is the source of burgeoning demand for new housing.

The numbers are staggering and appear likely to rise further. In urban areas alone, the population in this group is growing at an annual rate of 65 000 households (Simkins & Fonkam, 2018). Very little new stock is being delivered to meet this need, excepting social housing, which may add approximately 5 000 units per year. With fiscal constraints now binding, and little headroom for National Treasury beneath the debt ceiling, breakthrough solutions must come from the private sector, enabled by the State. About 27% of the total annual growth in the housing gap, comprising 17 500 households, earn R7 500-R15 000 (i.e. the 'upper gap'). If rentals could be delivered at scale within a range of R2 500-R5 000, corresponding to a development cost of approximately R180 000-R350 000 per unit, this would make a real dent in resolving the mammoth housing backlog.

**Micro-units, being compact, self-contained units typically smaller than 30 m², could be a solution.** These units are gaining in popularity as affordable housing solutions in major metropolitan centres like London, Tokyo

1 Finance-Linked Individual Subsidy Programme
2 Including metropolitan, other urban and traditional urban areas, as per Simkins & Fonkam (2018). This accounts for 85% of the population in SA.
3 In a free market, market clearing is the process by which the supply of whatever is traded is equated to the demand, so that there is no leftover supply or demand. – Wikipedia

and New York, where the combination of long-term growth in land prices, swelling populations and infrastructure capacity limits has forced urban planners and property developers to think creatively about doing more with limited space. The design of compact units is often linked to innovation in building technology, since modular units are well-suited to manufactured solutions including lightweight steel frame and precast concrete. These can amplify the effects on affordability through reducing building cost (especially in respect of labour) and the cost of interest during the construction period.

**In the absence of modification to built form, less affluent households simply get pushed to the urban periphery, where land prices are lowest**. While this movement out of the city centre may be considered efficient for scholars of the neoliberal school of economics, it creates urban sprawl, increases pressure on public infrastructure budget envelopes, and results in unequal cities that perpetuate patterns of privilege and poverty. By being located far from opportunity and the best-quality social services (public schools, hospitals, etc), the poor become trapped in poverty, spending ever greater shares of income on transport and losing access to valuable educational institutions and social networks that would facilitate social mobility. Eventually social stability is negatively impacted, with rising levels of inequality resulting in polarisation, crime and a brooding sense of discontent.

**South Africans have been slow to adopt micro-units**, although exponential growth in the backyard rentals sector reveals surging acceptance in the informal sector. A legacy of racially based dispossession resulting in cramped and squalid living conditions has, for many, raised high the ideal of a 40-m$^2$ two-bedroom home on a stand owned by its residents. Yet, available vacant land is often on the urban periphery, and the cost of delivering this product in its most basic form – the RDP/BNG home – thought to be close to R300 000. New private sector units of comparable size sell for R400 000 or more, adding amenities and finishes as differentiation from free units. Despite being relatively affordable in an African context, these units are expensive solutions, irrespective of who pays for them.

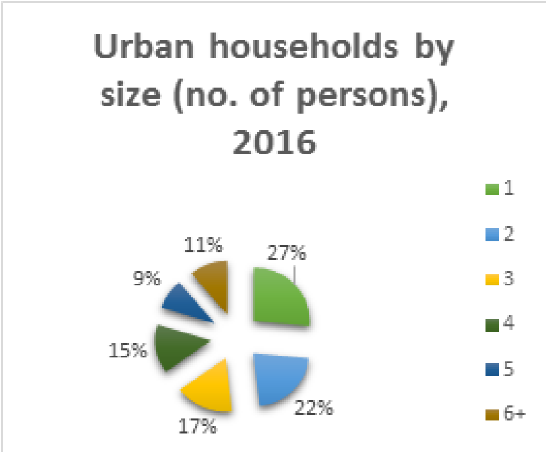
**Critics view micro-units as dehumanising and uncomfortable**, with restrictive spaces offering inhabitants inadequate privacy and amenity. Internationally, these issues are increasingly addressed through innovative and multi-functional design, thoughtful construction (e.g. incorporating soundproofing), and provision of shared public spaces – either on-site, such as crèches, gyms or socialising areas, or nearby, for example parks. In high-density applications, good building management is central: even more than in conventional buildings, neighbours need to abide by a set of rules that makes co-existence tolerable.

**The first micro-unit developments reflect potential at both the top and bottom of the market**. An extended property boom in certain areas in Cape Town has yielded the first luxury micro-units, developed for the sales market. 1 on Albert in Woodstock and Zero-2-One in Cape Town Central are two examples of higher-density application in desirable areas. Units are available in the region of R0,8-R1 million (excluding parking bays, which could set owners back an extra R250 000), catering to the conventional market, with price points achieved through high-end design, smart finishes and premium appliances. On-site amenities include shops, a heated swimming pool and shared recreational space. Residents may be a mix of first-time millennial home-owners and renters seeking work-live-play lifestyles or visiting tourists occupying short-term Airbnb lets.

Johannesburg leads in micro-units developed for rental by the gap market. Live Easy is releasing units starting at 15 m$^2$ into the R2 000-R3 000 range, targeting small households earning R6 000 to R10 000 per month. The focus here is typically on security, child care and proximity to public transport, considering typical resident profiles: working singles, single parents and couples. Anecdotes suggest waiting lists are lengthy.

**Which factors drive the diverse pricing for a similar product?** In the case of Cape Town inner city, high land prices are resulting in higher-density development. But building costs are substantially higher for high-rise buildings than 'walk up' blocks of 3-4 storeys, due to additional structural (foundation, reinforcements) and building service (elevators, air conditioning, fire protection) requirements. Developers move upmarket to recover their investment as a result. This commercial strategy has been supported on the demand side, due to the broad appeal Cape Town holds for both locals and visitors. In Johannesburg, lower input costs in the form of cheaper vacant land or existing buildings suitable for conversion to residential enable substantially lower pricing. The ability of micro-units to challenge existing housing prices, so making a real difference to the man in the street, accordingly depends fundamentally on context.

While micro-units are less attractive to the ownership market, they can effectively address the need for accommodation for small households. More than a quarter of urban households are single people. Households of 1-2 people account for almost half of urban households, according to recent Statistics South Africa surveys. These households may derive less value from the standard 2-bedroom affordable housing product than families of 3 and more, yet struggle to find smaller, cheaper units that meet their requirements.




*Source: StatsSA Community Survey, 2016*

Applying the solution to real-world challenges, currently there are over 97 000 workers aged 18-25 in urban call centres, according to Business Process Enabling South Africa (BPESA). Typical entry-level salaries in the two major provincial hubs, Gauteng and Western Cape, span the upper gap continuum, implying housing affordability of R2 500-R5 000 rent per month. While a few flats are available for R3 000-R5 000 in Gauteng, usually in converted or refurbished buildings, workers in Cape Town would be hard pressed to find any affordable rentals near the city centre. By default, they would share with parents or friends, often in areas located 1-2 hours away in peak traffic, or else rent a backyard dwelling. Self-contained 'bricks and mortar' units in informal settlements near Cape Town rent for R1 500-R2 000: an attractive price range but offering little protection from crime and few amenities desired by young graduates. Drawing these young people into economic hubs would do as much for urban revitalisation as their quality of life, networking and future career opportunities.

Micro-units alone will not resolve SA's housing problems because most households will need larger accommodation. Parents may see more value in spacious accommodation in the suburbs near to grandparents, schools and community amenities than in compact spaces near their workplaces. Yet, adding them in meaningful numbers *will add a valuable rung* to SA's housing ladder, expanding the range of options to residents prioritising proximity to economic hubs. Most importantly, kickstarting this sector is not reliant on scarce public funding. ◇

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**About the author**

Megan Sager is the founding director of Sustainable Solutions Pty Ltd and has 10 years of experience in business strategy, business development, consulting and research. With a strong focus on practical innovation, Megan has helped several leading financial institutions identify the commercial opportunity in sustainability, supporting teams actively in achieving buy-in with top leadership, handling the change process, and implementing new business models.

Megan's formal training is in development economics. She holds an MSc in Economics for Development from the University of Oxford and an MCom in Economics (cum laude) from the University of Stellenbosch.