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## Understanding Financing and Decision-Making of Small-Scale Property Developers: The Case of South Africa

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### Abstract

There is growing evidence that small-scale property developers play an important role in delivering affordable housing units globally and especially in emerging economies such as South Africa. These developers are typically entrepreneurs who develop a few housing units to create income and wealth for themselves. The success of their projects is, however, constrained by the availability of finance, the institutional environment in which these developers operate and the products offered by the financial market. While financing for end-users is increasingly being addressed, developer finance has received less attention in emerging countries and is often unavailable. The objective of this research is to understand how small-scale property developers in South Africa make financing and other decisions, so that more effective financial instruments, support programmes and policy interventions can be designed. Our study employed a mixed-methods design based on two surveys: First, developers were interviewed, for example, about which financial instruments they use. Bankers and other market experts were then asked, for example, which financial instruments they consider suitable. The eleven interviews with the developers were analysed qualitatively, whilst the seven questionnaires completed by the experts were analysed quantitatively. The result suggests that the decision processes of small-scale developers are simpler than recommended in the literature and that they use fewer financial instruments than recommended by experts. The findings highlight the need for more accessible, context-appropriate development finance mechanisms, as well as supportive regulatory frameworks and trustworthy planning environments, to enable small-scale developers to contribute more effectively to affordable housing delivery.

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## 1. Introduction

South African cities continue to experience rapid population growth and rising housing demand (City of Cape Town, n.d.). At the same time, the public sector is no longer able to deliver or subsidise affordable housing units at its previous scale (Department of Human Settlements, 2020), deepening the country's housing crisis. A constrained fiscal environment and the absence of large and medium-sized developers have exacerbated the situation and increased opportunities for smaller property developers. Small-scale development, although crucial in many countries, is still under-researched. It can be considered as a form of entrepreneurship, but the literature has hardly addressed small-scale developers yet, either in developed or in developing countries. Existing studies on small-scale property developers largely focus on their contribution to affordable housing delivery and the regulatory constraints they face, while comparatively little attention is being paid to how they make investment and financing decisions (McGaffin et al., 2019; Scheba et al., 2022). Given the growing reliance on these developers to expand affordable housing supply in South Africa, understanding the factors that shape their decision-making is essential for designing effective financial instruments and policy interventions.

This article examines the role of small-scale property developers in addressing South Africa's affordable housing backlog. These developers are distinguished by the chosen market segments, the size and structure of their organisations, the types of development they undertake, and their financing options (Scheba et al., 2022). As larger actors have withdrawn, small-scale developers have stepped in, but their efforts are hindered by complex, opaque and costly regulatory barriers (Turok, 2025). Navigating these requires professional intermediaries, raising project risks, threatening financial viability, and limiting access to funding.

Our objective was to understand how small-scale developers in South Africa make financing and other decisions, for example, regarding the development process. We analysed their characteristics, decision-making processes and relationships with financial institutions. We also examined whether public policy has framed the concept of "developer" in ways that misrepresent reality.

It should be underlined that the terminology is inconsistent. Small-scale developers are sometimes referred to as micro developers (McGaffin et al., 2019; Scheba et al., 2022), emerging developers (NHFC National Housing Finance Corporation, 2025), or self-builders (Bredenoord & van Lindert, 2014). We adopted Özogul & Tasan-Kok's (2020) investor classification, which considers spatial scale, size, and social composition; investment objects and finance; and investment and social behaviour. Applied to property development and the case of South Africa, we defined small-scale developers as private individuals who develop a small number of affordable housing units for rent or for sale in their own communities, employing few or no employees, with the intention of creating income and wealth for themselves. This definition excludes, among others, private homeowners who add a shack to their backyard at one end of the spectrum and large property development companies with hundreds of employees who build large numbers of houses in several locations at the other end.

The article proceeds as follows: Section 2 reviews the literature and develops a theoretical framework. Section 3 outlines the methodology, Section 4 presents empirical findings, Section 5 discusses results in light of the theory and Section 6 concludes with policy recommendations.

## **2. Theoretical framework and literature review**

This section reviews studies on small-scale property developers in South Africa and internationally and introduces theoretical frameworks relevant to their decision-making. While no framework directly addresses small-scale developers in emerging economies, insights can be drawn from systems theory, decision theory and financial theory.

### ***2.1. Small-scale developers***

Apartheid's legacy shapes South Africa's housing system: segregated "townships" distant from economic centres, limited entrepreneurship in housing and concentrated lending (Mahajan, 2014). Despite post-apartheid policies aimed at providing public housing for lower-income groups (e.g., Massyn et al., 2015), migration and urbanisation have outpaced new supply. Informal dwellings remain widespread, with residents facing poor services, insecure tenure and restricted access to finance (Marais & Cloete, 2017).

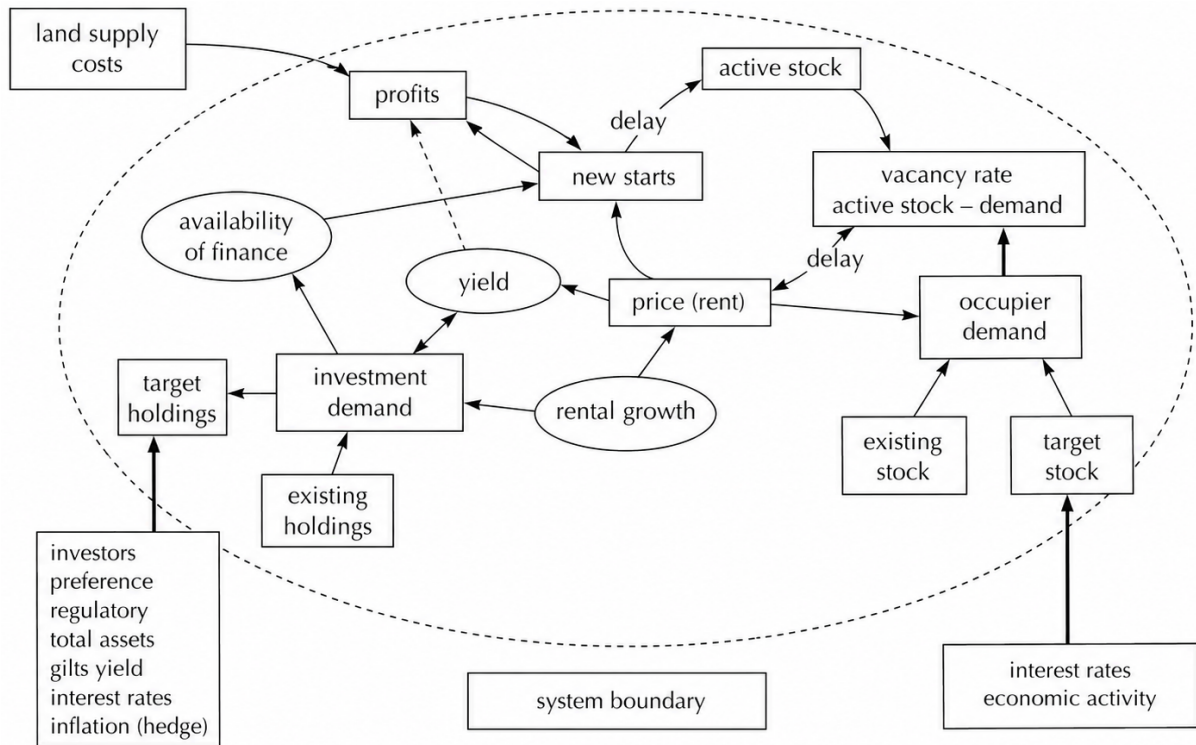
Small-scale developers—especially in townships—are increasingly vital to addressing the housing deficit. They are mainly homeowner-developers, who build on their own property with personal resources or second mortgages, and enterprise-developers, who pursue profit and replication with external funding (McGaffin et al., 2019). The main barrier for both is raising capital for property acquisition and upfront building costs (Chiwetu, 2019; Scheba & Turok, 2020). Traditional banks have lending criteria that favour established developers with proven track records, high equity and perceived lower-risk projects, and alternative lenders charge extremely high interest rates (Scheba & Turok, 2020; Spiropoulos, 2019). Only a few development finance institutions, such as Trust for Urban Housing Finance (TUHF), have created alternative financing models (Scheba & Turok, 2020).

Regulatory and administrative processes—such as land-use approvals—are often ill-suited to township contexts, adding costs and delays (Scheba et al., 2022; Turok, 2025). Small-scale developers, who typically have not received formal training, lack construction management and other skills and cannot afford to hire specialists, and therefore suffer more than professionals (McGaffin et al., 2019). In recent years, this problem has been addressed by NGOs such as Development Action Group (DAG) through training, advice, and direct support (Turok, 2025). Developers face relatively high property, location, market and management risks, which are heightened by social tensions, personal financial risk and unreliable building contractors (McGaffin et al., 2019; Spiropoulos, 2019).

Even though they may take different forms, small-scale developers exist in many countries (Kavaarpuo et al., 2023; Osunsan et al., 2024; Haas, 2021). Even in highly developed countries, they help to provide affordable housing (Goodyear, 2019).

### ***2.2. Systems approach***

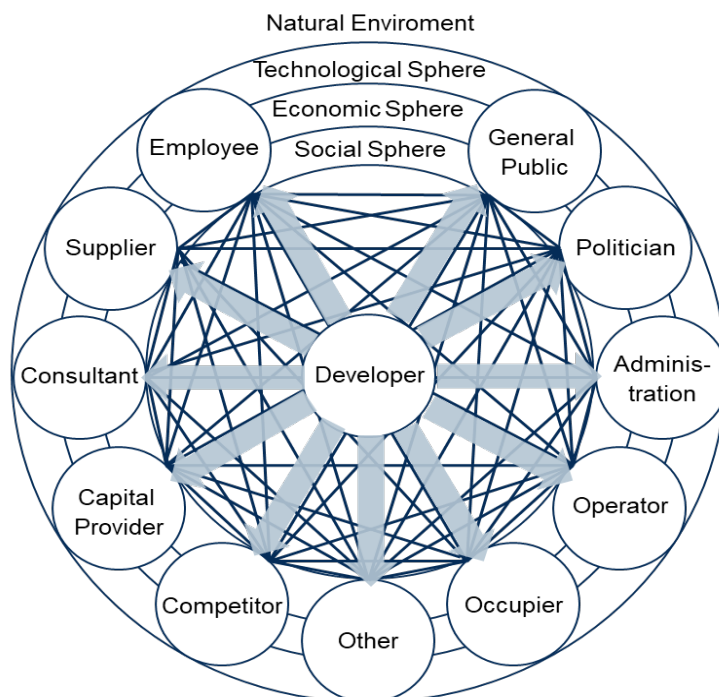
Developers are embedded in a complex web of relationships with their environments. A systems approach can capture these relationships. Graaskamp (1972, p. 515) states that sustainable property development is not only about economic feasibility, but about fitting "the project to the land and the irrational needs of man". Trevillion (2002) expands this to a systems perspective: he argues that although new developments begin only when a project promises a profit, there are other elements to consider, both inside and outside the system. For example, investor preferences and occupier requirements must be considered. As shown in Figure 1, this can involve causal loops that eventually affect the original cause, creating feedback mechanisms that drive the system's behaviour, either reinforcing or balancing previous outcomes *Figure 1*.



**Figure 1: The development, ownership and occupation system.**

Source: Trevillion, 2002, p. 184

Developers are at the centre of the real estate game and interact with all actors and subsystems, such as suppliers and employees (Figure 2). The system comprises a technological sphere (e.g., construction), an economic sphere (e.g., feasibility) and a social sphere (e.g., affordability) and is embedded in the natural environment. These can vary according to place, time and culture. Furthermore, the system can adapt through self-organisation and evolution, and individual stakeholders may enter and leave over time (Trevillion, 2002, pp. 188–191; referring to Allen, 1997).



**Figure 2: The Developer's Environment.**

Source: Own illustration based on Ulrich, 2001, p. 48; cf. Robin, 2022, p. 21

The role small-scale developers can play in a property market (and ultimately the system's outcome) depends on competition from larger developers and on links to other elements, such as the banking sector.

There are common themes and issues typically associated with developments. Property developers constantly face the challenge of meeting urban planning requirements without jeopardising the economic viability and financing of their project. There is a complex interplay between institutional factors (i.e., norms, regulations and routines) and agential factors (i.e., understandings, values, resources and relationships) in planning processes due to inherent tensions between individual and collective interest (Calderon & Westin, 2019, p. 24; Tait, 2011, p. 168). Property developments, the more of them there are, require a great deal of knowledge and involve many stakeholders and experts who connect to the different spheres and the environment (Robin, 2022, p. 206; compare Figure 2). Developers are sometimes criticised for using informal power strategies to circumvent local planning systems (Fox-Rogers & Murphy, 2014). While adherence to accepted procedural standards and norms is important, a coherent and trustworthy system must be established based on intersubjective understanding and shared values (Tait, 2011, p. 169). Given the long-term nature of property, there are also growing concerns about architectural quality and, more broadly, about Environmental, Social, and Governance (ESG) compliance (van der Kuil & Kurzrock, 2026).

**2.3. Decision theory**

Decision theory comprises normative (ideal rational behaviour), descriptive (actual behaviour) and prescriptive (practical improvements) approaches. Most property research takes a *normative approach*, particularly in investment (e.g., Farragher and Kleiman, 1996; Parker, 2014). Literature on property development decisions is scarce. Examples include timing models (Capozza & Li, 2002), evaluation procedures (Liapis et al., 2011), shareholder models (Caputo, 2013) and decision support systems (Montibeller et al., 2006). Apart from that, there are several texts on the different decisions along the development process. These range from textbooks based on serious research (e.g., Peiser et al., 2022; Reed, 2021) to “how-to-get-rich” guides (e.g., Child & Clapson, 2022; Leeds, 2021), which are not considered in this article.

*Descriptive decision theory* shows that decision-makers behave differently from what is suggested by normative (neoclassical) theory. Most papers address investment decisions (e.g., Adair et al., 1994; French, 2001; MacCowan & Orr, 2008), but some of their insights are nevertheless valuable for our research. One example is Gallimore et al. (2000), who interviewed 13 British “small” property companies. Although the smallest of these companies was bigger than a typical South African small-scale developer, some of the findings may be transferable:

Smaller companies [...] concentrate on local demographic and economic data that help with their active management strategies [...] and focus on one investment opportunity, as it becomes more viable, rather than continually seeking better opportunities. [...] Investors also place heavy weight on private information passed on through market contacts, potentially leading to availability bias and overreaction. (Gallimore et al., 2000, pp. 610–611)

The authors conclude that small companies do not follow normative models when making investment decisions. Similarly, Roberts and Henneberry (2007) find that the investment process in practice is much simpler than proposed by normative theory. The problem is that

using shortcuts and heuristics instead of detailed processes and rational thinking “can lead to biased or inefficient outcomes“ (Roberts & Henneberry, 2007, p. 302).

Examples for specific property development research include Healey (1991, 1992), who studied projects in Venezuela and England, and Zöllig and Axhausen (2012), who interviewed property developers in Switzerland. One interesting finding is that Swiss developers’ decision-making is heavily influenced by their purpose and professionalism, for example, in selecting information sources. Robson and Greenhalgh (2023) conclude, based on interviews with seasoned UK developers, that their decision-making is often biased and intuitive, even though the interviewees claimed to make rational, evidence-based decisions. Heurkens and Hobma (2014) report that informal cooperation between developers and town planners is crucial in the Netherlands and in the UK. Together, these descriptive studies emphasise that development processes require an understanding of the complex interplay of actors, institutions, markets and structural forces that cannot be captured in a purely economic model (Section 2.2).

Another example is the assessment of risk and return. Returns are often measured using simple indicators, such as development margins; advanced indicators, such as the internal rate of return, are rare (Crosby et al., 2020; Moorhead et al., 2024). The same is true for risk measures. This is partly because developments carry less risk (= known probability of an uncertain event) and more uncertainty (= unknown probability) compared to other property investments, which means that subjective assessments and rules of thumb are more justified.

*Prescriptive models* combine normative ideals with observed practice. Parker (2014), for example, first establishes a normative model for property investment decisions based on the literature, then constructs a descriptive model based on expert interviews, and finally proposes a prescriptive model informed by both. Major contributors in this field are Diaz (1990) and French and French (1997), but several of the aforementioned authors also fall into this category. Most of the literature focuses on particular decisions, such as location (Mwando et al., 2024) while only a few authors study decision-making as a whole. Pommer (2007) shows that decision support tools can help to make decisions more rational and less intuitive. Atherton et al. (2008) developed a tool based on knowledge of decision-making deficits in practice to improve the user’s understanding of possible outcomes. Lastly, Gehner (2008) designs an investment decision process based on an in-depth analysis of three property development companies.

Understanding how different types of developers make decisions is important if policy formulation is to be effective. Adams et al. (2012) critique policy reliance on the “notional property developer”— a rational, profit-driven actor who behaves predictably in response to planning rules and incentives. This concept, often used to design interventions, overlooks real-world diversity and constraints, including the specific issues that small-scale developers face. In practice, property developers come in many shapes, with different goals, risk appetites, constraints and behavioural characteristics shaped by local market conditions and personal experience.

#### **2.4. Financial theory**

Financial theory deals with decisions around the uses of capital (= investment, covered in Section 2.3) and the sources of capital (= finance). The main decisions in finance concern the capital structure and the types of capital. The optimal *capital structure* is more important for large than for small firms. This is also true for property developers. Squires et al. (2016) find a tendency towards a greater blend of financial instruments in large-scale projects by large developers. Unlike them, small-scale developers have few options: their internal financing is often limited to the profits from the last project, they cannot obtain bank loans because few

banks serve this market segment, and they lack access to the capital market. According to the pecking order model, firms prefer internal financing over debt and equity, whereas the trade-off model weighs the costs and benefits of the financing alternatives. International empirical evidence appears mixed (e.g., Echekoba & Ananwude, 2016; Sharma, 2018), largely because context matters (Beck et al., 2008). As a result, Max and Spolander (2021) reject both models, arguing that developers cannot reach the optimal capital structure due to banks' high pre-sales requirements and their preference for low leverage. In their study, Swedish property developers named the capital needed to start the project and the lack of bridging loans as their biggest financial problems (Max & Spolander, 2021, p. 46). In the same vein, Gallimore et al. (2000, p. 609f.) argue that, contrary to normative models, developers are usually forced to secure the investment before the financing.

The *types of capital* are more relevant for small firms. Several textbooks on property development and property finance (e.g., Peca, 2009; Long, 2011; Squires et al., 2021; Peiser et al., 2022; Rowley & Roche, 2024; Brueggeman & Fisher, 2024) deal with this subject. They tend to focus on conventional financing, such as construction loans from banks. However, forms of finance, especially important for very small enterprises in developing countries, such as peer-to-peer lending and loans from family or friends, are under-researched (Nguyen et al., 2021, p. 22). In particular, informal financing, including crowdfunding, could be an alternative (Lee & Persson, 2015; Chikalipah & Makina, 2019; Mago & Modiba, 2022; Baldwin, 2017).

The same is true for microfinance, which addresses financial services for low-income individuals and small businesses. It can take several forms, for example, “housing microfinance“ (mostly non-mortgage loans for low-income households to build or improve homes) and “backyarding“ (microloans to enable homeowners to build additional rental units, creating both housing and income) (Brueckner et al., 2018; Grubbauer & Mader, 2021). Some forms involve public-private collaboration, for example, when local governments support community initiatives in informal settlements or partner with microfinance institutions to provide loans. This connects to the entrepreneurial finance literature, which has not yet focused on small-scale developers.

There are many more ways to finance sustainable property development in South Africa. Some of them are well-established, for example, loans from development finance institutions (DFI), while others work well in other countries but are rarely used there, for example, cooperative banks (Mushonga et al., 2019), revolving funds (Wasser et al., 2020), or land-based financing (Berrisford et al., 2018).

A comprehensive list of the most common financing options, as reported in the academic and practical literature, is included in Appendix 1. Bonds, stocks, and other capital market instruments that are unsuitable for small companies are not listed.

Determinants of *financing decisions* extend beyond costs and other hard facts to institutional context, behavioural factors, organisational characteristics and other soft factors. There are indications in the literature on small and medium-sized enterprises (SMEs) that intangible factors may be more important. Rao and Kumar (2018) show that in SMEs, financing choices are strongly shaped by the personal traits and attitudes of owners or managers. These factors include the owner's ethnic background (Nguyen & Canh, 2021), gender (Osunsan et al., 2024), age, level of education and the emotional costs associated with bankruptcy (Briozzo et al., 2016). Furthermore, Nguyen and Canh (2021) show that location-specific factors, such as the quality of local governance, and firm-level characteristics, including social capital, influence the financing decisions of small businesses. Other firm-specific characteristics include growth opportunities, internal resources and the firm's age (López-Gracia & Sogorb-Mira, 2008).

In summary, significant knowledge gaps exist regarding the behaviour of property developers, as research often prioritises normative investment theory over the diverse goals and constraints that challenge the "notional property developer" assumption. Empirical evidence remains sparse regarding the direct outcomes of localised training initiatives and the transferability of international development models to the unique South African context. Within a systems framework, the specific "compromise" dynamics between regulatory planning requirements and economic viability require deeper investigation. The applicability of traditional capital structure models is further limited by institutional requirements that prevent developers from reaching a theoretically optimal financing mix. Finally, despite their practical importance, informal and micro-financing mechanisms remain significantly under-researched in the context of property development.

### 3. Methodology

This study employed a mixed-methods design to combine the strengths of qualitative and quantitative research and thus provide a more comprehensive understanding of social phenomena (Bryman, 2016). In-depth interviews with small-scale developers and consultants in this field were used to uncover key factors influencing developers' decisions. The qualitative survey was supplemented by a quantitative survey of financial experts, who were asked to assess the prevalence and suitability of various financial instruments. It was hypothesised that small developers are not fully aware of the available tools that are suitable for them.

Guideline-based expert interviews were selected as the qualitative research method. This approach enabled an analysis of how small-scale developers make decisions regarding new projects. It had the advantage of obtaining expert opinions and experiences that were difficult to gather from other data sources (Starr, 2014). The semi-structured interview format ensured consistency while allowing for flexibility in discussions (Bryman, 2016; Starr, 2014).

The study population comprised small-scale property developers active in South Africa's affordable housing sector. Participants were selected from a group of former students of TUHF's property development training programme. The selection criteria included:

- Experience with small-scale property development projects in South Africa.
- Involvement in securing financing for projects.
- A willingness to share professional experiences and insights.

To reduce sampling bias, participants were drawn from different regions, backgrounds and levels of experience. The survey was concluded once a satisfactory level of data saturation had been reached, and further interviews were expected to yield only marginal improvements in the information level. The sample size of eleven interviewees, while relatively small, was consistent with qualitative research practice, where the objective is to obtain rich and detailed insights rather than statistical representativeness. For example, Guest et al. (2006) find that thematic saturation often occurs within the first twelve interviews, while Patton (2015) argues that the quality of qualitative findings depends primarily on the information richness of the selected cases.

Data was collected between 17 April and 17 May 2024<sup>6</sup>. A pilot interview was conducted to ensure comprehension and alignment with the research objectives. Ten interviews were conducted via Microsoft Teams, one in person. Interviews averaged 35 minutes. The

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<sup>6</sup> The interviews were conducted in 2024. The interval between data collection and publication reflects the time required for data transcription, analysis, interpretation, manuscript preparation, and peer review. The overall conditions for small-scale developers in South Africa have not changed significantly in the meantime.

interviewees were encouraged to engage in open discussions, allowing for a richer exploration of relevant topics. Interviews were recorded, transcribed, anonymised and reviewed for completeness and consistency (Starr, 2014). Transcriptions were analysed using thematic analysis, employing deductive and inductive coding (Bryman, 2016). This ensured a comprehensive understanding of financing strategies and decision-making processes. Ethical guidelines were followed throughout the research. Ethical clearance was secured from the University of Cape Town before the interviews, and the participants were fully informed about the study's objectives, confidentiality measures and their right to withdraw at any time.

For the quantitative survey, the list of financing options in Appendix 1 was transformed into an online questionnaire. These financing options were drawn from the literature and largely reflected the financing instruments generally available in South Africa and internationally. It contained two questions: (1) Which of these financing options are used by and suitable for small-scale developers in South Africa? (2) Are you aware of other financing options that are currently used by or could be suitable for small-scale developers in South Africa? The target group was experts in property development finance in South Africa. A social media and general internet search was conducted to identify suitable individuals who, for example, had published on this topic, were cited as experts in press articles, or worked at banks and other institutions. The link to the survey platform was sent by email to about 200 experts, with a request to forward it to other experts. Due to this snowball sampling, the response rate was unknown.

#### **4. Empirical findings**

Following a description of the sample, this section primarily presents the results of the qualitative survey, broken down along the lines of the interview guide, such as the development process and sources of capital. In section 4.3, these are compared with the quantitative study's results.

##### ***4.1 Sample description***

**Error! Reference source not found.** presents an anonymised summary of participant backgrounds and experience. Usually, small-scale developers also had other occupations and the potential to turn their careers into property. The interviewees' experience ranged from 2 to 22 developed housing units.

Table 1: Characteristics of interviewees; source: authors' survey

Interviewee	Personal Background	Experience	Development Type
I1	Travel and tourism	18 units	New construction
I2	Real estate agent	3 units	Renovation
I3	Finance	2 units	New construction
I4	Sports career	(not disclosed)	(not disclosed)
I5	(not disclosed)	20 units	Renovation
I6	Quantity surveying	18 units	Renovation
I7	City municipal	22 units	Renovation
I8	Property manager (before: security and cleaning)	8 units	Renovation
I9	Detective	7 units	Renovation
I10	(not disclosed)	(not disclosed)	(not disclosed)
I11	(not disclosed)	(not disclosed)	(not disclosed)

#### 4.2 Development process

One of the first steps in the development process is usually the analysis of a target property's market and location. The research suggests that small-scale property developers employed various methods to do so (Figure 3). Some relied on property agents for insights, as noted by interviewees I2, I6, and I7, while others preferred to conduct their own analyses by visiting sites in person (I5, I9). Developers also used online resources (I4) and, in some cases, surveyed residents to gather relevant information (I1). Those with prior professional experience in property or finance, such as I3 and I8, tended to incorporate advanced considerations, such as market trends and migration patterns, into their analyses.

The proximity of a development to familiar areas is a significant factor for many developers. Interviewees I4, I5, and I7 highlighted that selecting a location close to their residence or workplace enabled easier oversight and enhanced their confidence in managing the project.

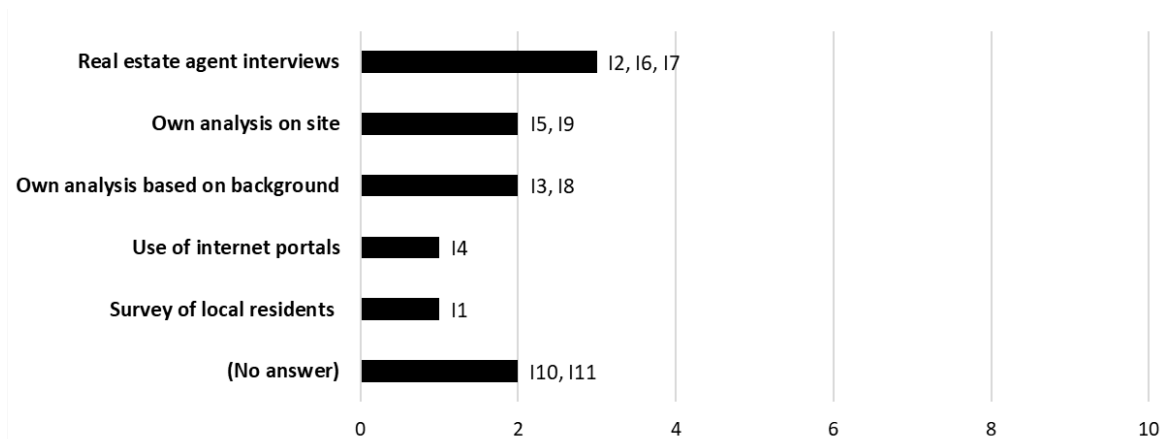


Figure 3: Market and location analysis types used by interviewees (n=11); source: authors' survey

Property analysis played a crucial role in the decision-making process, with developers assessing risks, renovation needs and the overall feasibility of a project. The majority of small-scale developers prioritised renovations over new builds, as renovations were perceived to entail lower financial risk and to allow for incremental project development (**Error! Reference source not found.**). Six of eight small-scale developers reported pursuing renovations, while only two opted to develop from scratch.

When selecting properties for renovation, interviewees used various approaches. For example, I7 explicitly stated that renovating existing properties is a more manageable approach for less-experienced developers, thereby reducing complexity and financial exposure. Some, like I6, worked closely with architects to identify opportunities for value appreciation, while others, such as I8, compared multiple properties before making a decision. Additionally, feasibility studies helped developers evaluate factors such as the condition, age and potential uses of a property, minimising risks (I3, I7).

Developers also differed in their long-term strategies. Some aimed to use the properties as stable income streams that could be passed down to their children, while others planned to sell soon after completion and reinvest the profits elsewhere. The diversity of strategic approaches highlights the absence of a standardised investment model. However, strategic planning remained essential, ensuring project sustainability and profitability. Many developers strived to balance financial success with social impact, emphasising the need to create affordable, safe and high-quality housing within their communities.

### *4.3 Sources of funding*

Limited support from traditional banks presented a major obstacle to small-scale property developers operating in informal township markets. Banks frequently refused to grant loans due to the perceived high risks associated with these markets and developers' insufficient financial track records. Many developers also lacked sufficient equity to secure financing through traditional channels. However, private institutions in South Africa have begun offering tailored financing solutions, training and support to address these challenges. Unlike banks, these institutions often prioritised project feasibility over the borrower's financial background and offered more flexible credit terms.

Nevertheless, these programmes required developers to raise at least 20% in equity, which was a significant challenge for many. Interviewees I2, I6, I7 and I9 reported struggling to meet this requirement. To do so, some developers sold existing assets (I6), utilised personal savings (I9), borrowed from friends and family (I4, I9), or even withdrew from their pensions (I3, I6). As I9 explained, "the skin in the game [equity] was also a bit of a challenge" because developers needed substantial capital available to contribute to a project. To proceed, he scaled down the project and contributed approximately R150,000 of his own funds before obtaining third-party finance. Similarly, I6 explained that they met the equity requirement by drawing on personal retirement savings: "I took my equity from my pension ... So, my development is my pension."

Mezzanine financing served as an alternative when the required equity could not be fully raised. However, such financing options came with significantly higher interest rates, further increasing the financial burden on developers.

One notable programme was uMaStandi, a division of TUHF, which provided tailored financing solutions that prioritised project feasibility over the developer's financial background. In addition to financing, uMaStandi offered coaching to help developers navigate regulations and improve project management skills. The programme also provided support to ensure compliance with municipal regulations, helping inexperienced developers complete their projects more efficiently and legally.

Some of the insights from the interviews corresponded to the results of the quantitative survey of finance experts. Seven questionnaires were completed (see Appendix 2). Of course, it is not possible to statistically test the hypotheses with such a small number of responses. But at least the results showed a fairly clear trend: The financing options most frequently mentioned were

mortgage loans as debt instruments, profit-sharing agreements as mezzanine instruments, joint ventures, and investments from family and friends as equity instruments. The interviewees mentioned none of these. Among the least frequently ticked items of the questionnaire were crowdfunding and crowdlending. Interestingly, the correlation between the financing options in use and believed to be suitable was close to zero (Spearman's rank correlation coefficient = 0.09). Joint ventures, for example, are both common and appropriate—according to the experts—whereas the dissolution of retirement assets was regarded as common but unsuitable. The survey also revealed evidence of other financial options that could be useful in the future. Apart from loans from credit cards and telephone companies, which fall under the broader category of credit lines, new internet-based businesses that provide loans to SMEs and offer revolving credit facilities were mentioned.

#### 4.4 Rationale Behind Financing Choices

The choice of financing method was largely shaped by the limitations of traditional banking systems and the flexibility offered by specialised programmes such as uMaStandi. Developers appreciated the tailored support provided by these programmes, particularly their emphasis on project feasibility and advisory services. For inexperienced developers, the “advice and handholding” (I8) offered by uMaStandi is crucial in navigating the complexities of property development. This was alluded to by interviewees I1, I4, I7 and I8. As interviewee I4 noted,

If there's one thing about uMaStandi, it's not just about getting the finance; it's the support. Because with all the challenges that I was going through, they were there, they were assisting me. I mean, if you have a delay, they would give you a payment break. They would review the financial structure and try to restructure it so you'd be able to pay. [...] If you need an engineer, they have people that they work with [...].

Developers' financing choices were also influenced by the need for flexibility and the desire to avoid bureaucratic hurdles (I1, I4, I6, I7). As I1 remarked, TUHF considered applicants as individuals and had more flexible criteria, making financing more accessible. Therefore, alternative financing programmes, despite higher interest rates and equity requirements, may provide a practical and viable option better suited to the realities of South African township developers.

#### 4.5 Risks

Small-scale property developers faced a variety of risks. Some of them were unique to township property investment and required careful consideration by the developers before they committed to a new project. The main risk categories included financial risks, lack of knowledge, crime, unreliable project participants, and political risks (

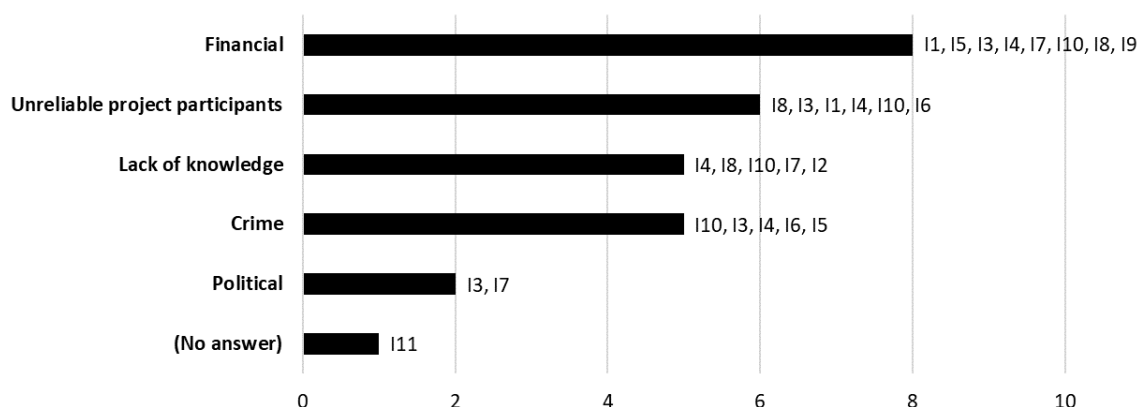
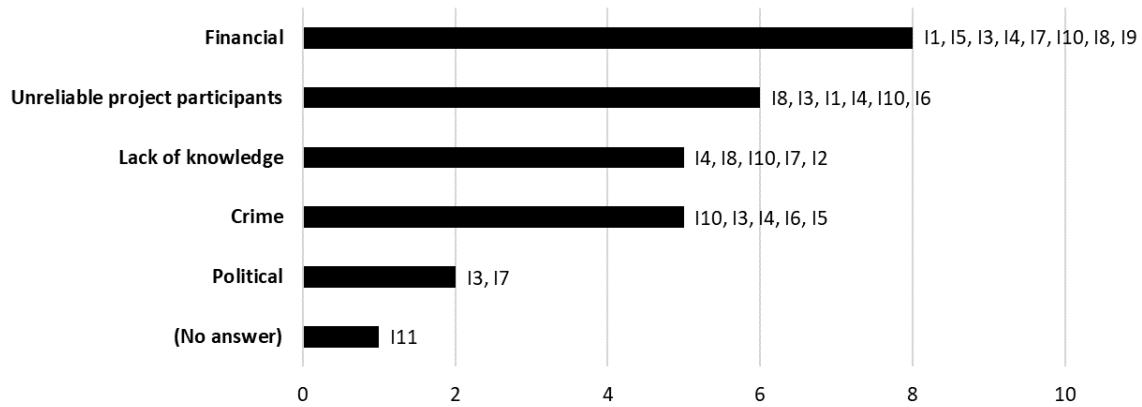


Figure 4).



**Figure 4: Risk categories mentioned by interviewees (n=11); source: authors' survey**

- Financial risks were the most significant concern among developers, with eight of the interviewees stating that financial uncertainty was a major issue affecting their projects (I1, I3, I4, I5, I7, I8, I9, I10). Developers risked running out of funds mid-project due to a lack of access to financing, which could lead to delays or abandonment. Additionally, non-payment of rent by tenants post-completion threatened loan repayment and the project's overall viability.
- Many developers lacked technical expertise, property management experience and an understanding of municipal approval processes. This was noted by five of the interviewees (I2, I4, I7, I8, I10). As interviewee 8 noted, “knowledge is the biggest barrier for those without a property background”. These knowledge gaps led to inefficiencies, additional costs and project delays. Poor planning and execution frequently resulted in projects taking longer and costing more than initially anticipated.
- High crime rates in townships necessitated additional security measures, increasing development costs. Developers also faced risks of theft, vandalism and extortion from local gangs during construction (I3, I4, I5, I6, I10). Interviewee 6 raised concerns about extortion threats, describing how criminals operating in the townships often demanded “protection fees” in exchange for not interfering with construction projects.
- Developers with limited construction experience often struggled with unreliable contractors, leading to substandard workmanship, project delays, and cost overruns. Poor-quality materials and non-compliance with building regulations further complicated projects, creating long-term structural and legal issues. Developers also encountered difficulties with tenants who failed to honour rental agreements or damaged properties. This was mentioned by interviewees 1, 3, 4, 6, 8 and 10.
- Broader systemic risks, such as political instability or unfavourable economic conditions, can negatively impact project feasibility and profitability. Two interviewees (I3, I7) raised concerns about the impact of fluctuating economic conditions on property values and rental income.

#### ***4.6 Obstacles and Challenges***

The financing process presented numerous challenges for small-scale property developers. One of the primary obstacles was the difficulty in accessing traditional funding, as banks frequently rejected loan applications due to the high risks associated with township markets and developers' limited financial records. This made it difficult for developers to secure affordable financing options.

A significant challenge was the high equity requirements imposed by alternative funding programmes such as uMaStandi, which demanded a minimum 20% equity contribution. Raising

this amount was a considerable hurdle for many developers, forcing them to rely on personal savings, asset sales, or mezzanine financing.

High interest rates further complicated financing. Loans from microfinance institutions typically carried interest rates much higher than those offered by traditional banks, which were generally close to the prime lending rate in South Africa (10.5% as of June 2026). Another issue was that microfinance loan periods were shorter. A traditional bank in South Africa, for example, typically offers loan terms of 20 to 30 years. As interviewee I4 noted, uMaStandi offered them a high rate of prime + 4.5% over 15 years. These elevated costs reduce project profitability and place additional financial strain on developers.

Additionally, developers encountered complex bureaucratic processes, particularly lengthy and complicated building plan approvals. Many were unfamiliar with these regulatory procedures, making navigation difficult and leading to costly delays.

#### ***4.7 Impact of Financing on Business Success***

The financing provided by TUHF and uMaStandi played a pivotal role in enabling several developers (I1, I4, I7 and I8) to succeed in ways that may not have been possible through traditional banks. For example, interviewee 4 described how uMaStandi provided not only construction funding but also essential non-financial support, including feasibility assessments, professional referrals, assistance with municipal bureaucratic requirements and payment flexibility during project delays. Similarly, interviewee 1 highlighted that TUHF was more lenient than commercial banks and took a more personalised approach to funding, thereby easing his access to capital and enabling him to complete his project. Interviewee 7 noted that uMaStandi assessed developers holistically, considering their skills and potential to complete projects rather than requiring formal qualifications and extensive financial documentation. Interviewee 8 also acknowledged that uMaStandi's "hand-holding" support was valuable to many developers with knowledge gaps navigating early-stage projects. These accounts demonstrate how microfinance programmes such as TUHF and uMaStandi have filled critical gaps left by conventional banking institutions, empowering small-scale property developers to achieve business success despite the adverse conditions in the townships where they operate.

### **5. Discussion**

The comparison of the empirical findings with the literature reveals similarities and differences. All respondents broadly adhered to the normative development procedure, with market and location analysis among the first steps, but the analysis often relies on local knowledge and is incomplete. This is consistent with descriptive decision theory and the works of Gallimore et al. (2000) and Robson and Greenhalgh (2023). Decision-making is heavily influenced by experience, with more seasoned developers employing more sophisticated market and risk analysis (e.g., Zöllig & Axhausen, 2012), although the experience level in our study was rather low. While local networks are generally important for property development (Section 2.2), the developers in our sample remained local to leverage these relationships.

The preference of small-scale developers for renovations over new builds differs from that of professional developers in developed countries. It contradicts the findings of McGaffin et al. (2019), who reported that their interviewees did not mention renovations. Renovations often carry significant risks, which small-scale developers may underestimate. The lack of a standardised investment model suggests a need for further skills training. Idealistic motives, such as community support or intergenerational wealth creation—normally not mentioned in the literature—are valuable but would benefit from a more strategic approach to maximise the fit of a project with the land and the developer's needs (Graaskamp, 1972, p. 515).

Small-scale developers face substantial entry barriers. One of those is financing, with traditional sources largely inaccessible and alternative programmes requiring high equity contributions and charging high interest rates, consistent with the literature (Section 2.1). Evidence was found for individual, organisational and contextual factors as determinants of financial choices (Nguyen and Canh, 2021). Traditional financial theory, designed primarily for large companies in highly developed countries, is hardly applicable here; the needs of small-scale developers are more fundamental—some are simply seeking any capital, regardless of capital structure. Our surveys also revealed that developers are unaware of available capital sources and sometimes assess known sources differently from experts, suggesting that educational and informational efforts could be helpful.

Financial uncertainty, unreliable contractors, crime, planning complexities and knowledge gaps complicate the development process, as anticipated from the literature (Section 2.1). These findings highlight the need for support, financial reform and regulatory improvements. The coaching provided by uMaStandi, together with tailored financing solutions, exemplifies a positive impact for sustainable growth. Traditional banks are unlikely to fill the financing and support gap in the foreseeable future without government incentives.

Recent policy initiatives in Cape Town aim to reduce planning requirements for small-scale developers (Turok 2025), but many issues remain. Individual constraints include expertise, attention, reliability, and access to financing; long-term success requires stronger knowledge in building regulations, financing, taxation, budgeting, and project management. A systemic approach, as presented in Section 2.2, is beneficial.

The study has several limitations: The relatively small sample does not fully reflect developer diversity, and generalisation is questionable. Hence, it should be seen as an exploratory study requiring verification. Participant recruitment may have introduced sampling bias, for example, in respondents' levels of education. Repeating the study to collect out-of-sample and out-of-time data, and employing different methods such as observation, would be valuable. Furthermore, the research captures a specific point in time rather than changes in decision-making as developer experience grows. Finally, the insights may not be transferable to other countries. Nevertheless, the gap between demand and supply of affordable housing is a global phenomenon, and small-scale developers exist in many other countries (Section 2.1), so our study adds another perspective to the growing literature on affordable housing and the informal housing sector.

## **6. Conclusion and Outlook**

The key finding of this study is that smaller developers exhibit characteristics that have rarely been described in the literature. Experience level influences how far developers can follow a normative development process. Interviewees showed a preference for renovations over new builds, highlighting a need for further training as risks are often underestimated. Financing presents a major barrier, as traditional banking options are largely inaccessible and alternative programmes are costly and require equity. Other challenges include crime, unreliable contractors, planning complexities and knowledge gaps in building regulations and project management.

This study contributes to the literature in two ways: it provides empirical insights into the decision-making and financing of property developers, and it reveals differences from and similarities with existing findings, opening avenues for further research. Although the sample is small and specific, the results are assumed to be transferable to other African housing markets.

Our findings suggest that planning interventions alone is insufficient; equal consideration should be given to funding interventions. We discovered a discrepancy between financing instruments used in practice and those considered suitable by experts. Available instruments, such as local development funds, should replace unsuitable ones, such as informal loans or the release of retirement savings. Local governments and financial institutions should also reduce the need for upfront capital. Beyond financing, systemic reforms—including streamlined regulatory processes—are necessary for long-term success.

Traditional theories on financing, decision-making and property development are hardly applicable to small-scale developers. This creates a need to investigate this target group in greater detail and develop a prescriptive theory. Future research could focus on particular development decisions or examine the target group from an entrepreneurship or microfinance perspective. Other relevant issues include obstacles to acquiring building rights, skills acquisition, cooperation and partnerships, sociological and psychological factors, power relations and stakeholder networking—investigated with regard to the duration and performance of developments and their impact on the local economy. Inter- and cross-disciplinary approaches are advisable given the complexity of the subject.

To unlock the potential of small-scale developers, interventions should integrate financial and non-financial measures that reduce transaction costs, recognise the diversity of market players, and account for varying capacities to engage with regulatory systems and financial institutions. Local governments need to reassess planning regulations, reduce administrative delays and costs, and thereby create an environment conducive to financing small-scale developers and attracting more financial intermediaries to the affordable housing sector.

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**Appendix 1: Financing Options for Developers**

*Table 2: List of common financing options for property developers according to the literature; source: authors' definitions*

### **Debt financing**

Microloan	Small unsecured loan, often from a microfinance institution or other specialized lender.
Family/friends loan	A loan from personal connections, usually unsecured.
Informal loan ("mashonisa loan")	Short-term, high-interest loan from an unregulated lender; often illegal and secured by ID, bank card etc.
Access bond	Home loan that allows borrowers to withdraw extra money paid into their bond.
Mortgage loan	Long-term loan, secured by a first mortgage (senior loan) or a second mortgage (junior loan).
Community/cooperative bank loan	Relationship-based loan by a local bank/stokvel.
Pre-development/acquisition loan	Short-term loan to cover soft costs in the first development phase.
Construction loan	Short-term loan, often secured by personal guarantees.
Bridging loan	Short-term loan for flipping houses or bridging the gap between short-term and long-term financing.
Supplier credit	Agreement with a supplier to provide building materials etc. on credit terms.
Government-backed loan	Loan as part of a housing development program by a local/regional/national government entity.
DFI/NGO loan	Loan as part of a program by a development finance institution (DFI) or non-governmental organisation (NGO)
Crowdlending/peer-to-peer lending	Borrowing from individuals via online lending platforms.
Credit line/overdraft	Flexible financing option from banks for small amounts.

### **Mezzanine financing**

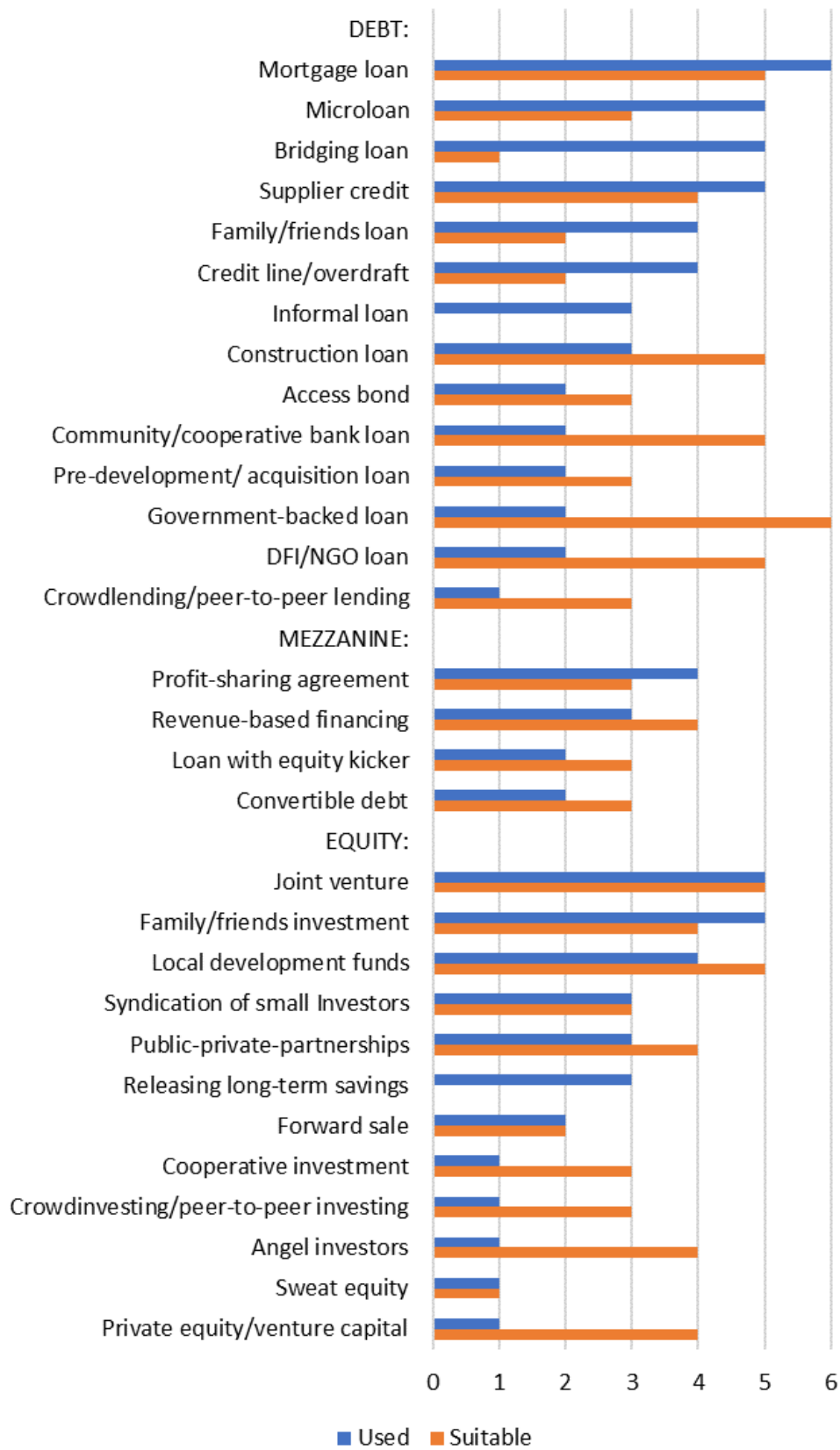
Loan with equity kicker	A loan from personal connections with profit-sharing arrangements.
Revenue-based financing	Repaying investors with a percentage of project revenue or rents rather than fixed interest.
Profit-sharing agreement	Offering builders or formal/informal lenders a stake in profits instead of full upfront payments.
Convertible debt	Raising funds with an option for investors to convert loans into equity.

### **Equity financing**

Joint venture	Partnering with local business owners, building contractors, banks or property investors.
Local development funds	Venture capital as part of a program for small-scale urban development by government entities, DFIs or NGOs.
Cooperative investment	Collaborative property ownership structures with shared investment.
Family/friends investment	Direct capital contributions from personal network.
Crowdfunding/peer-to-peer investing	Raising equity via online crowdfunding platforms or local initiatives.

Syndication of Investors	of small	Pooling funds from multiple small investors to finance a project.
Angel investors		Individual investors looking to support small-scale developments.
Sweat equity		Trading work, expertise, or other contributions for a stake in the project.
Public-private-partnerships		Government and private firms share risks and resources to develop housing and infrastructure projects.
Private capital	equity/venture	Investment from private investors or banks into property projects in exchange for high returns and ownership stakes.
Releasing savings	long-term	Cashing-in long-term savings from retirement funds or life insurance.
Forward sale		Selling a property before it is finished, either as a whole or in units.

**Appendix 2: Expert Survey on The Usage and Suitability of Financing Options**



*Figure 5: Number of mentions of the use (blue) and suitability (orange) of financing options for developers, sorted by usage (n=7); source: authors' survey*