INVESTIGATION INTO THE PROLIFERATION OF LOW-INCOME PRIVATE RENTAL HOUSING SUPPLY, AND THE DEVELOPMENT OF RECOMMENDATIONS CONCERNING APPROPRIATE INTERVENTIONS / RESPONSES

FINAL REPORT

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EXECUTIVE SUMMARY

This report is a synthesis of four processes, including a strategic assessment of the research work undertaken locally and internationally in the low-income private rental sector to date; direct consultation with groups of tenants and landlords in Johannesburg, Durban and Cape Town; two technical workshops; and consultation sessions with key professionals.

The outcome of these processes point to the fact that low-income private rental is a significant, efficient, effective, functioning market that provides poor people with affordable accommodation that is well located. Furthermore it is a market that works, as demonstrated by the fact that there is very little conflict between landlords and tenants. Significantly, low-income private rental also provides a significant income for many poor households. Numbers demonstrate that low-income private rental has provided more accommodation for poor households than the housing subsidies to date. Low-income private rental also provides the opportunity to densify human settlements and leverage existing stock and infrastructure so that poor people are integrated into the urban fabric and have better access to transport, work opportunities and services. All these factors suggest that low-income private rental should be supported and not undermined.

However, despite the evidence, low-income private rental is viewed negatively, especially in South Africa at the current point in time. It is associated with informal housing, and as such is seen as illegal, exploitative, bad, inadequate and linked with slums and disorder. Government responses to low-income private rental have been limited to date, despite Breaking New Ground (BNG) supporting this form of rental and advocating for further exploration of this market. Gauteng Province has undertaken two pilot projects building formal backyard rooms in an attempt to eradicate informal dwellings and provide tenants with better living conditions. These pilots provided a grant to the landlords, with the Department of Housing managing the service providers and or the contractors (Abrahams, 2008). An evaluation of this effort has demonstrated that few of the intended objectives have been realised. Critically, people were displaced, and living conditions do not appear to have been improved. Tenants were particularly unhappy as they felt the effort was misplaced and benefited a landlord who had already been housed (Rust, 2009). It is clear that a new approach is needed if we are to achieve sustainable integrated communities.

In trying to determine a new response, two distinct (and contradictory) positions emerged. One was the idea of supporting the low-income private rental sector, as a way to significantly increase the supply of affordable rental accommodation. The other was to say we can't support the low-income private sector in its current form, as it promotes people living in inferior living conditions. The approach should then be about improving and upgrading the living conditions of those living in low-income private rental situations. This comes with the acknowledgment that the improvements will lead to a reduction in the supply of low-income private rental. Through this report process a solution was then sought that could accommodate the best intentions of both perspectives. So how do you support the sector in such a way that supply is increased, while improving living conditions in a way which does not lead to the displacement of the poor and does not increase rentals?

The solution was sought in introducing minimum health and safety standards. This means that not all kinds of low-income private rental is to be supported and acknowledges that much of the existing low-income private rental accommodation needs to be upgraded in terms of these standards. Low-income private rental which is exploitative and accommodates people in inhumane conditions should be eradicated. Where low-income rental accommodation contributes positively towards the building of more sustainable human settlements (in the broad understanding of what sustainable human settlements should be[1]) they should be supported in a way

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[1] This includes social, environmental, political and economic benefits. Low income private rental provides households with an income as part of a livelihoods strategy, provides tenants with affordable, well located accommodation, landlords and tenants provide support for each other so there is social cohesion, crime is reduced as tenants and landlords look out for each other. From an environmental perspective it promotes more sustainable use of well located urban land and services. Politically it means that it

that builds on the positive aspects and reduces the negative aspects. Positive aspects of low-cost rental accommodation are that it supports more sustainable land and infrastructure use; it promotes urban integration; it provides a very important livelihoods strategy for many households and as such supports economic activity for the poor; and it provides an affordable accommodation solution for a growing market. Negative aspects include exploitation; health and safety issues such as the spread of disease and fire; the "invisible nature" of tenants; and the overloading of urban infrastructure and services.

In order to develop recommended responses, three central policy themes emerge. They are densification, health and safety, and land and tenure rights. The report concludes with recommended interventions in these themes and a strategy for implementation. These include introducing incentives encouraging people to develop low-income rental themselves, investigating alternative land and tenure rights, addressing bulk and connector infrastructure requirements, introducing minimum health and safety standards, promoting home and rental unit improvements through housing micro-finance or other loans and by introducing a landlord / tenant support programme.

supports meeting peoples needs sooner, supports the government mandates and economically leads to more responsible use of resources.

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GLOSSARY & ACRONYMS

Bulk infrastructure: Major services outside the boundary of a project required to link up infrastructure in the project to the urban service networks, e.g. trunk sewer lines and pump stations.

CBD: Central Business District

CMIP: Consolidated Municipal Infrastructure Programme

COHRE: Centre on Housing Rights and Evictions

CRU: Community Residential Units

CRRU: Concession of the Real Right to Use

CS: Community Survey

DFID: UK Department for International Development

GHS: General Household Survey

MDG: Millennium Development Goal

MIG: Municipal Infrastructure Grant

Nurcha: National Urban Reconstruction and Housing Agency

RDP: Reconstruction and Development Programme

SHF: Social Housing Foundation

ULM: Urban LandMark

1. INTRODUCTION

This report is an accumulation and synthesis of four processes. Firstly, a strategic assessment of the research work undertaken in the informal rental sector to date, both locally and internationally. While summarising data and trends and patterns, the focus of the strategic assessment was on listing and analysing different responses to informal rental. Secondly, and importantly, the information was tested through direct consultation with groups of tenants and landlords in Johannesburg, Durban and Cape Town. The information received from the synthesis study and the focus groups was discussed with key stakeholders working in the sector in two separate technical workshops. Lastly, consultation sessions were held with key professionals.

The report has been prepared for two organisations, the Social Housing Foundation (SHF) and Urban LandMark (ULM), for them to take forward as part of their ongoing work.

The SHF is a national rental housing support institution providing capacity-building, policy and technical support services to social housing institutions, and more broadly to the public and private rental housing sectors. The SHF also facilitates the development of a national policy framework for the social housing sector in South Africa. In fulfilling this mandate the SHF commissioned a study into the supply, demand and trends of the residential rental market (published in August 2008). This study strongly indicated an overwhelming demand for well-located, low-cost rental housing and an increase in low-income private rental supply. Along with a subsequent smaller investigation into shack rentals in South Africa, the study raised a range of critical policy issues for government. Gauteng and the Western Cape Province have developed policies to deal with the low-income private rental market, and Gauteng has undertaken some pilot projects, which have provided valuable lessons. So while some provinces have gone ahead with developing a response to the issue, there is no clear direction from national government. The critical issue for government is how to encourage and support the expansion of low-income private rental accommodation; as such, landlords (and potential landlords) offer very significant supply potential. At the same time it is important for government to ensure that basic standard levels are maintained, that services are provided and exploitation is avoided. The SHF has undertaken this project to provide support to government in addressing these issues and will present this report to the National Task Team set up to develop new policy for low-income private rental.

ULM is a 'making markets work for the poor' programme, funded by the United Kingdom Department of International Development (DFID). In the tenure and rights theme area, the focus is on making informal land markets work better for poor people. To advance this objective, ULM advocates for greater official recognition of a range of channels of supply in order to increase points of entry for poor people, beyond the supply of subsidy houses. Due to the significance of the low-income private rental market as a supplier of affordable accommodation, ULM considers low-income private rental to be an important sub-market, although the main area of current focus in the tenure theme area is developing an incremental approach to securing tenure.

Any response to low-income private rental needs to be seen in the context of the housing subsidy in South Africa, which has provided home ownership for over two million households, but at the same time distorts any meaningful attempt at determining real housing rental needs. When faced with the option of a 'free house', people will say they are waiting for the chance to cash in their entitlement and own a house. However, while they are of course going to accept a free house, they are not necessarily going to stay in it, as it does not serve their actual housing need. So although some people state that they are renting because they are waiting for a subsidy house, many acknowledge that renting is their preferred option. Renting is cheap, flexible and rental units are often well located, resulting in transport savings and access to all kinds of urban opportunities for tenants. Some of the need for rental also comes with the realisation that, even with the best intentions of government, they are not going to be able to deliver sufficient housing to meet the housing backlog in the foreseeable future. Also, many choose rental because of the stage of the lifecycle that they are in (young

people seeking independence) and because they do not qualify for a housing subsidy. The housing subsidy therefore extends the myth that everyone is hankering after home ownership.

A response also needs to be seen in the context of the broader housing mandate and is about increasing choice, providing alternatives for poor people and meeting the broader human settlement objectives as articulated in Breaking New Ground (BNG)[2]. An initial assessment may suggest that low-income private rental undermines government's intention to eradicate informal settlements, and its commitment to the Millennium Development Goal (MDG) to substantially improve the lives of at least 100 million slum dwellers by 2020 (Goal 7, Target 11). But their existence is also indicative of a demand for affordable rental accommodation that our housing policy is not currently meeting. Any response from government therefore needs to support the improvement of living conditions of those living in low-income private rental. How this is done though, requires a different course of action (Rust, 2009).

2. DEFINITION AND SCOPE

Definition
Despite much work being undertaken in the sector, there is no definitive shared definition of what constitutes low-income private rental. It sometimes relates to the characteristics of the dwelling, the characteristics of the settlement area or the nature of the rental agreement itself, or any combination of these. This has resulted in significant discrepancies between data sources and the size of the market. Generally, low-income private rental refers to the physical form of the accommodation considered as being informal, and includes shelter that is in some way inadequate, irregular or not intended for habitation, rather than the nature of the lease agreement. This is because in many low-income private rental situations, the nature of the rental agreement is almost always informal (i.e. will not involve a legal, signed lease) and may involve payment in kind (or services) as well as (or instead of) cash. (Watson, 2009). However, situations where the accommodation is formal, but where the terms of the lease are informal, are also not uncommon. It often takes the form of a tenant signing a formal lease and then sub-letting informally to others. A portion of-low income private rental units are occupied by family members on a no-rental, sharing or limited rental basis, but mostly generally accepted rentals that vary according to location, nature and size of the unit are charged by landlords (Nurcha, 2003).

Scope
The scope of this project was to include all definitions of low-income private rental wherever they might occur. For the purposes of the report then, low-income private rental includes:

- Backyard rentals, of two kinds:

    o Structures built by the landlord or main lease-holder[3] for rental or occupation by tenants or extended family. These may be formal or informal.

    o Structures built by the tenant or extended family, on space rented (for cash or payment in kind) from the landlord or main lease-holder. These are usually informal.

- Rented rooms: the physical structure may be formal or informal, but part of the dwelling is rented informally (for cash or payment in kind) to tenants or extended family. This often applies to inner city situations with tenants sub-letting. Excluded from the definition of household rental are the hostels and unsold public housing units currently being targeted by the Department of Housing's Community Residential Units (CRU) Programme for upgrade and conversion to public rental units and spaces.

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[2] Breaking New Ground (BNG): A Comprehensive Plan for the Development of Sustainable Human Settlements is the Department of Housing's plan for the development of sustainable human settlements, embracing the People's Contract as the basis for delivery.
[3] Many tenants of public housing rental stock also sublet space or structures.

- Main dwelling rental: full rental of main dwelling, generally by absentee landlords. This occurs in informal settlements and in inner city rental situations.

- Rentals (for cash or payment in kind) in informal settlements. These may occur within the envelope of the original dwelling, as an addition to the dwelling, or as an out-house or backyard dwelling in relation to the main dwelling. In these situations, the tenant in fact mostly only rents the space and access to services (however limited they may be), as they generally provide / set up the shack themselves.

- Rentals occurring in buildings originally designed and built for other purposes, often occurring in central city areas: warehouses, factory buildings and ex-office blocks[4]. This kind of rental usually happens through the occupation / hijacking of these types of buildings. However, together with tenant farming in informal settlements, this kind of rental is generally exploitative and should not be considered as part of household rental. Different strategies should be used to deal with these situations. The CRU Programme will be acquiring certain "dilapidated, derelict and dysfunctional buildings" in inner city areas or townships and converting these to public rental, at which point they would also no longer fall within the definition of household rental.

The overall focus of this report is therefore on cheap, privately rented space used for dwelling purposes in any urban context. However, it sometimes happens that this space is converted to a business use. This issue should also be considered, given that the income-generating capacity of additional space (from whatever source) is an important concern (Watson, 2009).

3. WHY IS LOW-INCOME PRIVATE RENTAL IMPORTANT?

It fits in with the Government's Mandate: Millennium Development Goals (MDGs) and Breaking New Ground (BNG)

MDGs
Goal 7 is to Ensure Environmental Sustainability. One of the targets for achieving this (Target 11) is a human settlement issue. It commits to having achieved by 2020, a significant improvement in the lives of 100 million slum dwellers. The achievement of this target is to be measured by:
- The proportion of the population with access to improved sanitation;
- The proportion of the population with access to secure tenure (S.A. Government, MDGs: Mid-term Country Report, September 2007).

Low-income private rental, with the proposed support recommended in the report, offers government a 'quick-win' means for achieving these targets, by providing poor households access to improved sanitation by leveraging and upgrading existing bulk infrastructure to provide additional sanitation; upgrading sanitation facilities in existing areas; and providing additional sanitation facilities in new-build (green field) subsidised human settlement areas, so that these can be capitalised on later through low-income private rental opportunities. By recognising those living in low-income private rental situations, the housing process can be better managed, and more people provided with secure and appropriate tenure.

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[4] It has been noted that property hijacking syndicates in Johannesburg's Inner Cities are making up to R10 million a month from taking over occupied or unoccupied buildings (Shisaka Development Management Services (Pty) Ltd, and CSIR, 2006).

BNG

In September 2004, Cabinet approved a Comprehensive Plan for the Development of Sustainable Human Settlements (Breaking New Ground) which offered some specific objectives for the Department of Housing to move towards more responsive and effective delivery. These include:

- Accelerating the delivery of housing as a key strategy for poverty alleviation;
- Utilising the provision of housing as a major job creation strategy;
- Ensuring property can be accessed by all as an asset for wealth creation and empowerment;
- Leveraging growth in the economy;
- Combating crime, promoting social cohesion and improving the quality of life of the poor;
- Supporting the functioning of a single residential property market to reduce duality within the sector by breaking the barriers between the first economy residential property boom and the second economy slump;
- Utilising housing as an instrument for the development of sustainable human settlements, in support of spatial restructuring.

By supporting and facilitating the increase of low-income formal rental, government will accelerate the delivery of housing substantially (if you consider that this market has already delivered more housing than the housing subsidy scheme, with no assistance). Low-income private rental is already a major livelihoods strategy for many people, and through support, could easily be extended as a major job creation strategy. Through individuals upgrading and developing rental properties on their existing properties, property becomes an asset for wealth creation and empowerment in a very real and readily achievable manner for the poor. Supporting and facilitating the increase of low-income private rental also leverages growth in the economy in that it leverages off existing stock and infrastructure. The associated densification better supports public spending on transport and services. It supports integration and provides another rung in the property ladder, which in turn promotes the functioning of a single residential market. In looking at how to build sustainable settlements over time (long-term vision as to how cities should operate and how housing fits into that vision), densification through increasing the supply of low-income private rental provides a solution by making better use of well located and serviced land, placing people closer to opportunities and services. This is because well-located urban residential land is in short supply and low-income private rental maximises the use of this land. Low-income private rental therefore fits well with wider arguments for compact (densified), sustainable cities and urban renewal. (Some of these points are expanded upon below).

Demand

Research shows significant demand for-low income private rental (landlords get between 6 and 12 queries for accommodation per month) (Nurcha, 2003). Over 60% of landlords in both inner cities and townships said that it was easy to find tenants. Township landlords report that vacancy is effectively zero. This reported potential for growth is, however, not being realised (Finmark Trust et al, 2006).The current economic slow-down is also likely to greatly escalate the numbers of poor and unemployed and as such, growth of this sector is set to increase significantly (Watson, 2009) in the near future. Also, despite the laudable delivery of subsidy houses by government, the reality is that the housing backlog continues to grow and household rental plays an important role in accommodating those waiting for a house or who do not qualify for a housing subsidy. All of this gives a clear indication of sufficient demand to encourage growth in this sector (Rust, 2009).

Affordability

Importantly, low-income private rental is not only about the numbers, it is also about affordability. For many, many households, low-income private rental is all they can afford, or choose to afford, for now. Home ownership, even of a 'free subsidy house', comes with costs.

It works

A study undertaken by Nurcha in 2003 shows low-income private rental as the "second-most successful functioning housing sub-market" (Nurcha 2003). It is important to note that market efficiency is considered in the context of the ability of supply to meet demand. This does not suggest that rental units supplied are effective in meeting minimum housing standards, or perhaps even the specific needs of the target market (Gardner, 2009). Overall, South Africa's formal rental sector has had reasonable growth in rentals, and the informal market has been shown to have the best returns for an investor of any rental sub-market (SMM / MNA, 2002). A study by Shisaka Management Services concluded that small-scale landlords have delivered more accommodation opportunities than the national subsidy scheme since 1994 (Smit et al, 2006).

Increased choice / provision of housing alternatives

With the increasing housing backlog comes the realisation that the provision of subsidy houses will not 'solve' the urban housing problem immediately, hence there is a search for other alternatives. Current housing policy is focussed on providing home ownership and some rental opportunities. However, rental policy to date has not yet focussed on low-income private rental, but rather on institutionalised rental and the development of Community Residential Units (CRU). Low-income private rental provides affordable accommodation for those waiting for a subsidy house, for those for whom rental provides an urban foothold or access to a job and services, and for non-qualifiers (those without dependents, or who are under 21 years of age, or who are not South African citizens). By acknowledging low-income private rental and supporting the increase of supply across the range of urban contexts, households will be able to filter themselves up and down the property ladder. Currently, many people stay in the situation they are in because of a lack of choice. By increasing the choice, landlords will also be put under pressure to provide a better service.

Economic benefits

Low-income private rental creates landlord 'entrepreneurs' who are able to supplement their income through rental activities. This provides an important livelihood strategy for many households and the idea is to further encourage this as it builds economic growth. Low-income private rental could also be a way of bringing additional resources, such as micro-financiers and employers, into the housing market. It has an important economic benefit to the state in that it makes better use of land and infrastructure and has positive benefits for developing more efficient and effective modes of transport. It is estimated that the sector is currently generating a rental income in excess of R420 million per month, or just over R5 billion annually (FinMark Trust et al, 2006).

Social benefits

Discussions with landlords and tenants for this project and FinMark Trust (et al) research into small-scale landlords have shown that there are generally positive relationships between landlords and tenants. They provide support for each other, including food, child-minding and cleaning. With people living in the yard, crime decreases as there are more people around to look out for you and your belongings.

Builds civic visibility

Many of those living in low-income private rental circumstances are not registered on a housing waiting list and are certainly not registered with local service providers or the municipality where they live. Any form of civic correspondence or query is done through the main household. These households are therefore invisible to city officials or service providers. From the focus group discussions it seems that many households in low-income private rental situations are not registered on the housing subsidy waiting list. It is therefore important that low-income private rental is acknowledged so that government can better manage the housing process in general and better rationalise any future interventions. Citizens need to be made visible so that services and infrastructure can be better planned for and upgraded. Crime is also then better managed.

Leverages off existing stock and infrastructure

In South Africa the housing challenge is a challenge of both numbers and affordability. A solution to these challenges is to be found in our existing housing stock. If all properties in our cities were to deliver an average of one additional unit on their existing properties (either for rent or purchase), government would double the availability of stock within the city, rather than on the periphery. Whether for rental or subdivision, this new stock would contribute towards densification intentions and create income-earning potential for existing owners, who would either elect to sell off subdivided plots or offer rental housing. In order to leverage off the potential of existing stock, government must view all existing home owners in cities as potential housing suppliers and facilitate their building processes, by reviewing and developing infrastructural capacity in specific, targeted areas, making plans available, streamlining regulations, shortening approval times, and by promoting this as a housing option (Smit et al, 2006).

Low-income private rental delivers at scale

By 2006 an estimated 1.85 million households rented accommodation provided by low-income private rental. Sixty percent of this (1.1 million households) is provided on the property of the landlord, in either formal or informal backyard dwellings (FinMark Trust et al, 2006).

4. WHAT DO WE KNOW?

Statistics: backyard shacks and informal settlements

Approximately half a million households rent shacks as their primary dwelling. Data sources do differ, but regardless of which figures used, shack rentals do comprise of a significant proportion of the rental market. According to the 2006 General Household Survey (GHS), of the 2.4 million households who rent their primary dwellings, almost 520 000 of them (21%) live in shacks. The 2007 Community Survey (CS) estimates a total of 420 000 households who rent shacks (SHF, 2008). The 2001 census indicated that 29% (or 3,3 million) households in South Africa live in rented accommodation, of which 18% (or 600,000 households) lived in what they term 'household rental' (house, flat, room in backyard, informal dwelling, shack in backyard), although some under-reporting could be expected. A further 12% (or 1, 4 million) households lived in informal settlements, but it is not clear if rental arrangements in these kinds of areas were captured. An estimate of urban households in backyard dwellings based on the October 1999 household survey suggested a total of 746 697 households (Gardner, 2003). Once again, definitions relating to the nature of the rental agreement impact on the findings. Some backyard dwelling households may pay rent in kind rather than cash. Tenants may regard themselves as occupying the dwelling rent-free as opposed to renting the dwelling. Importantly, since it is a form of accommodation which is nearly always in violation of the law, there is also likely to be massive under-reporting in official surveys or censuses (Watson, 2009). There is also no data available to identify households that rent space on which they build their own shacks (SHF, 2008). Through discussion, this type of household seems to account for a large number of shacks, which have not in effect been accounted for.

The majority of shacks are located in the backyards of formal dwellings, with only between 23% and one-third of rented shacks being located in informal settlements. Data from the CS show significant variability in the extent of shack rentals. The Greater Johannesburg area (City of Johannesburg and Ekurhuleni) accounts for 30% of all rented shacks (almost 200 000), followed by the North West and the Western Cape.

Ninety-five percent (95%) of households renting shacks in informal settlements pay rent of less than R200 per month. Around one quarter of households who rent backyard shacks pay more than R200 per month, with the average rent coming to R147. Households who rent backyard shacks spend an average of 14% of their gross monthly income on rent while households who rent shacks in informal settlements pay 9%. While 53% of shack renters earn less than R1 500 per month, 47% earn more than R1 500.

Figure 1: Household income distribution of shack renters

53% of shack renters have a household income of less than R1500

Household income distribution of shack renters

[R1500, R3500)
34%

[R3500, R7500)
12%

[R7500, R10000)
1%

< R850
30%

[R850, R1500)
23%

■ < R850   □ [R850, R1500)   ■ [R1500, R3500)   ▨ [R3500, R7500)   ■ [R7500, R10000)

Source: IES 2005/6
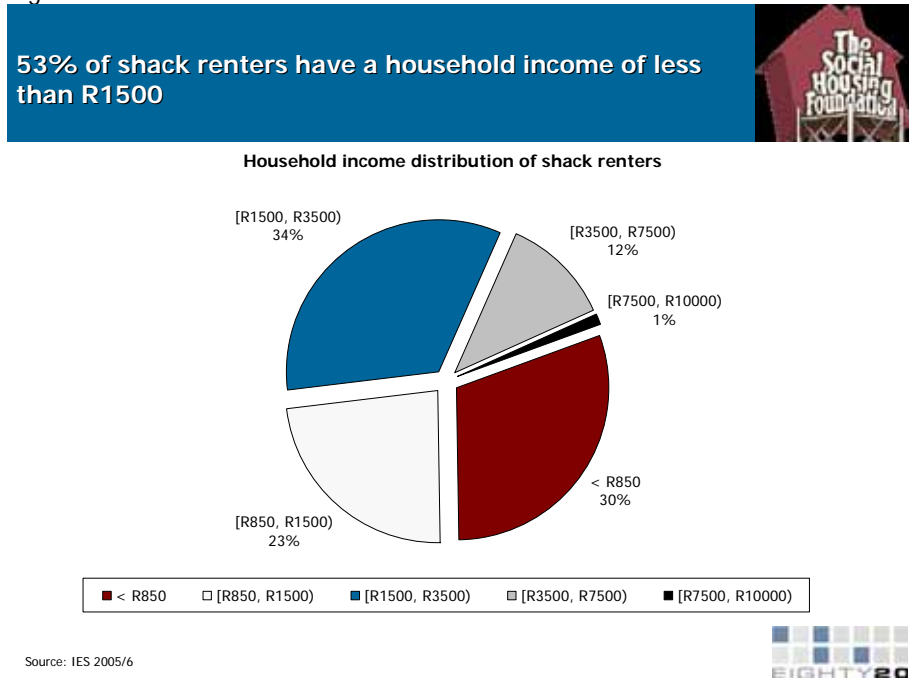
The data indicates that, while 18% of all households in South Africa are single-person households, between 30% and 43% of households who rent shacks as their primary dwellings are comprised of a single individual. As with single-person households in general, males dominate within the single-person shack renter segment. According to the GHS 2006, over 180 000 single males rent shacks, compared to 41 000 single females. A sizeable proportion of shack renters are newly formed households, with 44% under the age of 30 and a further 30% between the ages of 30 and 40.

Figure 2: Monthly per capita income distribution of shack renters

Given that over 40% of households who live in shacks contain one person, a per capita income measure provides a more nuanced picture of poverty in the household

Monthly per capita income distribution of shack renters

[R1000, R2000)
28%

[R2000, R4000)
13%

R4000+
2%

[R0, R200)
10%

[R600, R1000)
18%

[R200, R600)
29%

This is income per person per month in the household (and not income for the household)

Note that while 40% look pretty poor – people in the household living on less than R20 per day – 60% are not

■ [R0, R200)   □ [R200, R600)   ■ [R600, R1000)   ▨ [R1000, R2000)   ■ [R2000, R4000)   ▨ R4000+

Source: IES 2005/6

The highest propensity towards shack rentals is found among those earning between R1 000 and R2 000 per month.

Figure 3: Percentage of households who rent shacks within each per capita income band

Percentage of households who rent shacks within each per capita income band

Source: IES 2005/6
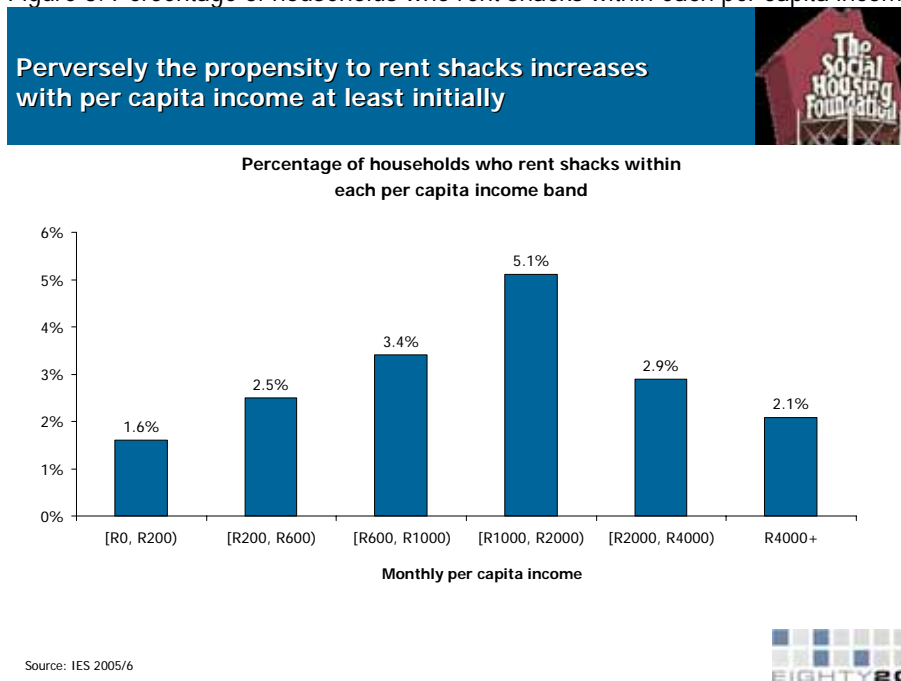
Statistics: Inner city

While reports on specific areas of the inner city household rental market, and rental within warehouses, factories or office blocks, are available, no consolidated data exist. However, it is known that household rental is happening in all the cities in South Africa. Information from specific reports on Johannesburg and Pretoria have been included to provide some idea of what is happening in the inner city.

In the inner city, four categories of small-scale landlords have been identified:

- Landlords who sublet their own unit, share the space with another person or household and realise an income from this;
- Landlords who own units that are separate from their own residence;
- Landlords who own a whole building and who maintain a direct relationship with their tenants; and
- Landlords who own units or buildings but who outsource the management function to a managing agent (FinMark trust et al, 2006).

For the purposes of this study, the focus is on the first two types of small-scale landlord identified above.

According to Setplan Dludla Development, Hillbrow-Berea is one of the highest density urban areas internationally, with 135 000 people living in just under 2km², or 67 500 per square kilometer (Hong Kong, with one of the highest densities in the world, has 25 000 people per square kilometer). This is a result of high building densities, high occupancy densities and the lack of relative open space. Historically, the building stock in Hillbrow / Berea would have been designed on the basis of one household per flat, with both rooms and services configured on this basis. Since then densities have increased significantly – either with or without the owner's consent. There is anecdotal evidence of flats accommodating up to 15 people (Singh in Silverman and le Roux 2004), more reliable evidence of flats accommodating up to 11 people (Shisaka 2006) and evidence from fieldwork of 4 people sharing a single room. Affordability issues have prompted owners to sublet. In the

study undertaken by Silverman and Zack (2007) 57% of people living in the building were tenants, even though sectional title buildings were expressly intended to facilitate ownership. Furthermore, when owners chose to reside in their flats, they often decided to sub-let (73% to strangers they did not know before) (Shisaka, 2006).
There is also evidence of well managed buildings allowing flats to be occupied at twice the design density, in order to make the flats more affordable. There is some evidence of retail establishments like spazas, shebeens, hairdressing salons, laundry services and crèches being operated from the upper floors of residential blocks of flats, where access control is not strictly enforced (Silverman and Zack, 2007).

In inner city areas today, demand outstrips supply. The demand is driven by two factors: a desire to live in the inner city because of its locational advantages, as well as the undersupply of housing stock to cater for the gap market (people who earn above the subsidy bands, but who cannot buy any stock at a mortgage they could afford). A report by Trafalgar acknowledges that inner cities are gentrifying and that this has had significant consequences for the poor. Rents charged by management agents in well managed buildings range between R650 per month for bachelor accommodation and R1 300 per month for shared accommodation, excluding services. Slumlords are charging between R600 and R700 a month for communal housing, which can be a partitioned-off area in a bad building. So rentals from well managed buildings are not that different from rentals charged in badly managed buildings (Silverman and Zack, 2007).

The Trafalgar tenant survey in Johannesburg reports that 10% of tenants report a household income of less than R1 500, while 40% indicate that they earn between R1 501 and R3 000, and 33% earn between R3 001 and R5 000 per month. For Trafalgar's tenants the most appealing part of living in the inner city is proximity to work (59%), proximity to schools (18%) and affordability (9%). The survey indicates that tenants in the inner city are typically black, under 30 years of age, male and more likely to be married than single. The youth of the population and predominance of males are reflected in an analysis of household structures. 26.7% of households have families, 32.9% of people are 'friends', and 27.1% are households of people under 18 years of age staying with friends. Half the tenants had recently moved into the inner city (within the last two years). About 47% of tenants have children (Trafalgar, 2006).

In the COHRE report, the socio-economic profile of the occupiers of 'bad' buildings is as follows:
- 97% of respondents earned less than R3 000 per month;
- Major bread winners have entry-level formal jobs in the inner city or are engaged in informal survivalist activities;
- For 45% of residents, reduced transport costs by virtue of their central location was a significant factor;
- Respondents said that the inner city was an easier place to find work or to survive without formal work than the townships, informal settlements or rural areas;
- 20 500 households earning less than R3 200 per month are living in the inner city of Johannesburg (COHRE, 2005).

General trends identified from the strategic literature review
- Low-income private rental is a vitally important and growing part of the housing market for the poor in South African cities. In many cities in Africa and Asia, over half the urban population rents, and in Latin America it is a third[5]. Rentals have achieved this status without government assistance or intervention[6].

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[5] Gilbert et al (1997)
[6] Nurcha (2003) describes the informal rental sub-market as perhaps the second-most successful functioning housing sub-market after the private, high-income housing market.

- Although low-income private renters and landlords are not a homogenous group, there are broad patterns in South African cities which closely match patterns elsewhere[7]. Tenant households tend to be smaller and younger, but are more likely to be employed. Landlords are often older, poorer, and female and have been in urban areas for longer.

- Although many renters are on housing waiting lists and state that they would like to own a house at some stage, many have been renters for a long time. Evidence in SA cities suggests that 80% of renters have been in their accommodation for 5 years or more and there are relatively few evictions. In contrast, SA housing policy has regarded low-income private rental as 'transitional' housing[8], assuming that renters will move into new RDP ownership projects. However, renters often remain where they are, even when new housing projects are delivered, as these new projects are usually poorly located and have cost implications which renters cannot meet. They may also be directing any surplus income to a rural family home where they hope to retire.

- Generally, relations between owners and renters are good (although conflicts can certainly occur)[9]. Renters are very often extended family members or part of broader social networks. Research shows a great deal of sharing and mutual support between landlord and renter families. When conflicts do occur, they are dealt with internally, rather than resorting to formal legal channels. Renting can therefore offer as much security as ownership.

- Household renting is cheap and flexible payment is often arranged. Sometimes payment is in kind rather than cash: renters perform services for owners such as childcare, cooking, cleaning, help with a business etc. One survey[10] showed that most informal renters paid less than R200 per month and would not be willing or able to pay much more. In many backyard situations, and most commonly in informal settlements, renters are paying for the use of land, and build their own shelters. In better located township areas it is likely that the competition for rental space will be more intense and rents higher.

- The stereotype of the greedy landlord, building rentable units and extracting maximum profit from them, is not common (either in SA or in many other southern cities). Most landlords have few units for rent and are not profit-maximisers. They do not view renting as a business, but rather as a way of supplementing income, supporting family members, or gaining some help at home. Renting is a low-risk and simple way to generate some income. They would be called 'subsistence landlords' in the international literature.

- Most owners and renters have little or no contact with the formal legal system or building regulation system. Very few have formal legal lease agreements and most rented units violate building and planning regulations in various ways. To conform to the demands of these formal systems would impose costs (in time and money) that would put renting beyond the means of poorer households.

- There are some exceptions to the above picture of the small-scale landlord. In some informal settlements, 'shacklords' claim some form of right or authority over land and extract 'rent' or 'protection money' from households. Rental situations in abandoned or deteriorated inner city buildings can also be less benign, with whoever has managed to gain control of these buildings (slumlords) charging high rents, sometimes for a sleeping space on a per-night basis.

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[7] Note that informal rental in Kenya (Nairobi) is very different to the South African pattern and different to rental in many other southern cities, due to particular historical factors.

[8] Bank (2007)

[9] See Bank (2007) on the changing nature of this relationship and the greater power of tenants when they have built their own shelters. A 2005 survey in Duncan Village showed 70% of households reporting no conflict.

[10] Nurcha (2003)

- Many landlords do in fact have capacity to finance their rental housing themselves. Research into small-scale landlords in townships and inner cities in Gauteng found that just under a third had accessed a loan to construct the rental dwelling. Between 62% and 82% had used savings. Others offered just the land for rent, and required the tenant to build their own unit. Contrary to popular (and policy) belief, households earning above R500 per month are in principle able to afford some level of housing finance. From R1 500 per month, a household can afford as much as R7 626 in the form of a housing micro-loan (Rust, 2009). A recent study by Melzer (2009) shows that from a population of 5.1 million households, 451 000 (8.7%) are too poor to afford credit and a further 858 000 (16.5%) cannot access the product because their existing financial obligations are already equal to or greater than 70% of the household's disposable income. The remaining 74.8% of the FSC target market population can afford some form of housing finance. A household's capacity to improve its housing with a loan or savings is not necessarily a factor of income, but is rather related to a much more nuanced understanding of affordability. Based on the evidence, it is inaccurate to assume that all landlords would struggle to afford the costs of providing and / or upgrading rental accommodation (Rust, 2009).

- High densities have the potential to offer both residents and municipalities a number of significant advantages. They offer residential thresholds that are high enough to support an active retail sector, well located social amenities, a viable public transport system and the efficient provision of urban infrastructure. However, badly managed high-density environments can facilitate the rapid spread of disease and fire (Silverman and Zack, 2007).

- Significant increases in residential density also impacts on public facilities. It means more people in the area and the consequent need for more services, public open space and social amenities. In the absence of increased rates from the area the municipality may be reluctant or unable to commit the additional resources that are needed in the area. Provincial education departments may also not be in a position to respond to the radical increases in population. Inadequate social amenities compel people to go outside the area to gain access to these amenities, resulting in a breakdown in community ties (Silverman and Zack, 2007). Planning for the upgrade of all services is therefore essential.

- Various factors impact on the extent of low-income private rental. These include location, site layout, availability of services and housing alternatives, by-laws and enforcement capacity as well as social norms (Gardner, 2006).

- There is a gender dimension to low-income private rental, which plays itself out in a number of ways. Most explicitly is the selection of men rather than women as tenants, as women are considered to use too much water and electricity. More inner city tenants and landlords are men. Many landlords in existing townships are often elderly women who supplement their grants with rental income. Women landlords and tenants are more likely to be found in informal settlement situations.

Much of the empirical research now being carried out on both landlords and renters is self-reinforcing[11], and it may be safe to claim that enough is known about household rental to move forward on aspects of intervention.

5. KEY ISSUES FROM FOCUS GROUPS

Landlords
Being a landlord as a livelihoods strategy rather then a profitable business.

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[11] Case study research on particular local areas will always throw up variations from the generalisations listed above, but it is unlikely that anything significantly different would be found.

Renting out rooms is a vital source of income, as many landlords are unemployed. Rental income helps to pay for groceries, school fees, and transport. In general, the rental business seems to be 'reasonable', but not very profitable. The rent landlords receive is lower than their monthly expenditure and especially insufficient as a sole income for the unemployed. People with jobs (even if they are badly paid) can subsidise their income with the rental money and 'get by'. In Cape Town landlords rent out between 1 and 3 shacks in a yard.

In general, landlords <u>select their tenants</u> on face-value, considering things like gender, age ("children [students] listen and respect me"), discipline, and upbringing (in case of young tenants). Female landlords in the focus groups often feel responsible for their young tenants and claim that they are "treated like their own children", but they do not support elder tenants. Data suggest that male tenants are preferable to females, as they use less electricity and water. While some tenants in Johannesburg experience ethnic segregation, landlords in Durban seem to be more tolerant and open-minded towards new cultures and languages. In Cape Town, backyard shacks in formal areas tend to be for family members (children / grandchildren); in these cases, landlords say they often don't charge rent, or tenants pay what can afford. This is because landlords are doing people a favour by allowing them access to space and services, with the tenants putting up the shack. So tenants only really pay for services. Shack conditions are however poor. Shacks in informal areas are mostly rented out to rural people from the Eastern Cape who have come to Cape Town to look for a job.

There is a high demand for low-income private rental and landlords can be selective in their choice. Needless to say, potential income of tenants plays a major role in the selection process. The average rent is about R250 per shack, depending on location (rent being higher in formal settlements), general condition of the shack, and provision of services and infrastructure. Landlords tend to all agree on an increase of rent in the area. However, the focus groups did not uncover evidence of a single incident of a written rental agreement between a tenant and landlord being concluded. In informal settlements, the rent is often just for the use of the services and the space (around R50 per week). Most tenants put up their own shack. Rentals in Cape Town appear to be much higher, with tenants paying as between R500 and R1 600, plus service charges. The better the location, the higher the rent charged.

While tenants see <u>upgrading</u> as a "waste of time" since they prefer to invest in their own house, landlords are willing to upgrade their facilities if they are assisted accordingly (with financial resources and/or building material) by their council. Increasing the number of toilets seems to be of the utmost importance to tenants and landlords.

From discussions with the focus groups there is a <u>high demand</u> for low-cost accommodation (renting and housing). However, a lack of space and limited access to financial resources prevent people from building new units. In Cape Town, the plots sizes are fairly large (300 square metres) which means they are able to accommodate more shacks. Municipal laws are acknowledged but not enforced by the municipality. Residents mentioned that they continue building more units although it has been prohibited by the municipality.

The data suggest that there are various <u>options to become a stand owner</u>, such as buying the land in previously undeveloped areas (about R 6000 per stand), bribing officials to be given a space, or forcefully occupying the land and registering the stand later with the municipality to formalise ownership. Though ownership of the *land* can often be proven, the ownership of shacks is rather unclear. Landlords in Umlazi complained that they do not have title deeds, although they bought the land legally from their councillors. Hence there is a lack of security, as their house could be "bulldozed anytime".

The distribution or allocation of <u>house numbers</u> seems to be problematic as only the main house has a number, but not the additional rental units within the yard, resulting in challenges concerning tracking and tenants rights (as they are apparently only attended to with an existing house number, including e.g.

application for an RDP house, complaints to the councillor, statements at the police in case of theft etc.) "You can't be assisted if you don't have a house number."

Landlords complained about the following <u>problems</u>: lack of title deeds/proof of ownership, security issues (in terms of high crime rates and concerning the problematic ownership situation), as well as deficient support from the municipality and councillors. Data indicate that difficulties experienced with accessing infrastructure and services are most problematic, especially in informal settlements, including water and sanitation (either too many people have to share one tap, or taps are leaking or broken, or there is no access to clean water or sewer systems, and insufficient number of toilets). The electricity either trips or there is no access at all, and there is irregular or no refuse removal.

The provision of services by landlords to tenants is managed very differently, depending on the site. Water and electricity is either included in the rent, with the landlord buying pre-paid electricity and hence controlling usage, or the tenants are directly responsible for payment – if electricity is available. Water is mainly supplied by the municipality and is therefore considered as free. In Cape Town tenants use the toilet in the main house, or a long-drop outside.

The quality of the relationship between the tenants and the landlords seems to depend mainly on prompt payment by tenants and following rules as set by the landlords. Some of the main problems arising include:
- Tenants pay too late or they do not pay at all (often resulting in eviction);
- Tenants are disrespectful and do not follow the rules concerning the number of visitors permitted, cleaning duties, alcohol abuse and noise;
- Tenants, especially female tenants, are seen to waste water and electricity;
- Tenants cause problems that require maintenance, such as drain blockage; and
- Political tension.

Relationship problems are also caused by a lack of clear communication, rumours and personal issues (such as what respondents referred to as 'jealousy'). Relationships between landlords and tenants seem to range from extremely maternal (most landlords seem to be women), to 'hands off', in the case of absentee landlords. The former is characterised by rules, not necessarily written, which seek to control both tenant movements and those the tenant socialises with, especially the kind of company the tenant brings home. "Dignity of the home" is the main reason provided for these rules, as the behaviour of a tenant is seen to reflect on the household as a whole in the eyes of the community.

Landlords are restricted from providing a better service to tenants by problems such as access to land and financial resources (also for unemployed people), and provision and maintenance of basic services and infrastructure, such as water, sanitation, electricity and waste removal, by the municipality. Police control and instalments of gates and security systems could improve safety measures if implemented thoroughly. In addition, the provision of title deeds and ID books were requested during group discussions.

Tenants

The data suggest that most tenants are <u>renting informally because</u> "there is no other option". They either had to move out from home due to personal problems and/or lack of space, or they chose to leave because of employment opportunities in the city (migrant labour) and/or aspired to a more 'independent' life.

A lack of financial resources (including lacking access to finance) seems to dominate the rental situation. Renting is less expensive and more flexible (in case one has to move for better job opportunities), but the less preferred housing option. Most tenants would like to own a house, but can't afford it. Some tenants have

registered for RDP houses but are still waiting. The housing waiting lists are seen as a waste of time. In Cape Town, tenants in the formal areas would prefer to stay where they are because they have strong social connections, are in a good location and have access to services. They think they will be in a worse position if they are given a RDP house in a poor location, without their support networks. They would therefore like to stay where they are.

Upgrading is not considered desirable by some tenants as this would lead to increased rental, forcing tenants to move. These tenants perceive it as a "waste of time" and as a "delaying tactic" (as they are waiting for a "proper house"). Those who are working could pay extra rent for an upgrade, but would prefer to own a house. Some shacks are in such a bad condition that they could not be upgraded/renovated and would need to be rebuilt completely. In Cape Town, being on the housing waiting list is seen as a waste of time and tenants would rather have their situation improved where they are.

Access to different kinds of transport, close location to work, shopping malls and town, and low rent are the main reasons for settling in an area.

Support from landlords depends on the relationship between tenant and landlord (partly defined by whether payment is regular). According to tenants, in general, the support seems to be the other way around, with tenants supporting their landlords, e.g. emotionally, by cutting the grass, cleaning the yard, and by bringing food from their home area.

The data indicates mixed responses towards the tenant's sense of security. In general, tenants in informal settlements feel less secure. It does, however, also depend on the landlord and the rest of the 'yard community' (some respondents claimed that they "look out for each other"), on the location (e.g. distance to railway station, shebeen etc.), on the number of gates, and inner social structures of the community.

Difficulties experienced with being a tenant of informal accommodation include the following: ethnic segregation (in Johannesburg); overcrowding (in Cape Town tenants reported as many as 10 people in a shack in formal areas and up to 6 people in informal areas); rules and regulations as set by the landlord (cleaning responsibilities, number of visitors, children can't play in the yards); maintenance issues (who's responsible? who pays?); problems with the cleanliness of toilets and yard; payment issues and not being able to afford rent; relationship and communication problems; as well as difficulties with services and infrastructure (water, limited access to electricity, blocked pipes and drains, sanitation); and lack of space (resulting in lack of privacy).

Difficulties experienced seem more severe amongst tenants in informal areas (security issues, infrastructure and services, vulnerability to sexual harassment). Bad living conditions related to the condition of shacks (low quality of housing structure, vulnerability to weather, heat, cold, floods) and lacking/insufficient/dirty sanitation facilities affect the health of tenants and their children, often resulting in flu and diarrhoea. A lack of house/shack numbers, as mentioned in Umlazi, affects the tenant's rights status (e.g. no assistance in case of theft, can't seem to register for an RDP house).

Eviction of tenants
Focus group discussions suggest that there are no written agreements between tenants and landlords that formalise their relationship. As tenants enter the landlord's yard/house they have to obey their rules ("My house, my rules"), which is the informal understanding on both sides. Accordingly, tenants are not aware of their rights ("We don't have rights in someone else's house"), neither do they know the landlord's responsibilities. Even with additional training on rights and responsibilities, data suggest that enforcement might be difficult. The struggle for power and control over their tenants is related to the rules landlords set. Accordingly, respect for a tenant (which affects the overall relationship) is related to how rules are followed.

Although the eviction of tenants is mainly connected to breaking/following the landlords' rules (including punctual payment) people can get 'chased out' any time (e.g. to be replaced with a landlord's friend or relative). In Cape Town, tenants in formal areas fear eviction if they are not able to pay. If they have not paid they are not allowed to use the services (particularly the toilet in the main house). Tenants generally complain that they do not have security of tenure. However, in informal areas in Cape Town tenants have been there for a long time (between 8 and 13 years) and don't feel threatened by eviction.

Opportunities for improvement in their circumstances as a tenant (including their relationship with the landlord) and in their circumstances in life in general, mainly included the availability, quality and affordability of houses, access to finance, job creation, and maintenance/improvement of services and infrastructure (waste removal, water and sanitation, electricity). Tenants indicated that they wouldn't upgrade shacks due to lack of security (as shacks belong to the landlords) nor would they be prepared to pay for upgrading, but would prefer to spend money on their own house (as mentioned above). They also requested that councillors and municipalities were held accountable for delivery.

Organised tenant associations do exist in Cape Town, and they have direct contact with government officials to try and improve their situation. It is felt that ward committees are not doing anything to support the tenants and that they give jobs to friends and family members. Red Cross food parcels go to people for favours. (Tenants' unhappiness about the Gauteng pilots which led to them being displaced has also led them to form a Backyard Dwellers Association in Soweto) (Social Surveys Africa, 2009).

6. SUMMARY

In developing meaningful responses to what the statistics, research and focus groups are saying, the following key issuess need to be considered.

Table 1: Summary of data for landlords and tenants in different contexts

Category	Typical Characteristics of landlords	Benefits	Problems
Landlords in formal areas (existing townships)	Mostly older females (66-75%) and average age 53/54	Landlord / tenant arrangement generally good. Conflict resolved internally and mostly related to non-payment and lack of adherence to the rules	Access to services for rental units relatively poor. Electricity taken from main house or pre-paid meter, but service unreliable (trips often)
	Low income (earn less than R1 500 p/m)	Mostly did not build shacks themselves, so did not have to use any of their own money.	Flush toilet shared with main house and sometimes long drop outside
	Mostly unemployed / retired so rely on rental and if they qualify, government grants. Can have up to 6 shacks on stand.	Rent as a social benefit (don't want people to be on the streets)	Only cold water available
	Low levels of education	Security and company	Lack of space
	Limited business experience	Learn about other cultures and languages	Lack of finance
	Mostly African	High demand so can be selective	Infrastructure constraints
			Lack of support from municipality
			Maintenance – who is responsible and who pays?
Landlords in informal settlements	Mostly female	Rental income received (between R100 and R240)	Shared services (up to 10 people using 1 toilet and tap)
	Varied age (between 20 and 50)	They don't pay any service charges	Waste removal
	Mostly unemployed	Tenants mostly built shacks	Security of tenure

		so did not have to use their own money	
	Stay in the area	Tenants sometimes bring food and share it	Lack of space
		High demand	Lack of finance
			Cleaning of toilets
Landlords in inner city areas			
Sub-letter landlord	Just over half are male (53%) – black African	32% make money	They have to share their space with others. Relationship issues can exist
	Average age 32	Helps supplement their income	Social and public services badly managed and insufficient for increased density
	Well educated (70% matric or above)	Have on average been landlords for 4 years, so are stable. Benefits must outweigh problems or would have stopped	Toilets get blocked
	Low incomes (76% below R3 000)	Good relationship, and no problems collecting rent	
	Under half (42%) formally employed		
One-unit landlord	Mostly male (60%) – black African	32% make money	Social and public services badly managed and insufficient for increased density
	Average age 36	Helps supplement their income	Toilets get blocked
	Well educated (75% matric or above)	Have on average been landlords for 4 years, so are stable. Benefits must outweigh problems or would have stopped	
	Low incomes (65% earn below R3 500)	Live close by so can maintain direct relationship	
	Over half (58%) formally employed	Good relationship and no problems collecting rent	
	Most (73%) live in neighbourhood	Opportunity to use unit for a home-based business	
Landlord of warehouse / factory / hijacked building used for accommodating people	No data.	Landlords earn a lot of money out of exploiting people's needs.	No service charges, rates etc, are paid
			Building conditions deteriorate because of overcrowding and lack of management
			Crime is enabled
Tenants in formal areas (existing townships)	Mostly male (between 60 and 70%)	Affordable (rent between R150 and R300). Can negotiate payment	Demand is very high, so they have limited choice
	Young (between ages of 23 and 40) and mostly single	Good relationships – been there for between 6 months and 10 years	Most could not afford an increase in the rental
	Mostly unemployed, with a few receiving government grants, and doing informal work (mostly earn below R2 500)	Good location – reduced transport costs and increased opportunities for finding work / earning money	Services a problem – share 1 toilet / tap with up to 12 people
	Most rent shacks already existing, rather	Access to other services –	Small space (1 room mostly

	than provide the shack themselves	hospitals, clinics, shops.	3 m²) shared with between 1 and 6 people
			Maintenance a problem
Tenants in informal settlements	Mostly female with children	Affordable (rent between R150 and R200). Can negotiate when payment is made	Bad location – far to work opportunities and transport expensive
	Age varied (between 20 and 56)	Renting is cheaper than home ownership	Space (shack between 3 m² and 9 m²) shared with up to 5 people
	Mostly unemployed, some access grants or do informal work	Independence	Shared services – limited toilets and taps
	Most built their own shacks. Cost between R250 and R3000 to build. Used their savings and borrowed money from friends / family to do so	Flexibility – able to move according to where they find work.	Don't have secure tenure so would not want to invest more money into structure
		Stable (some have been there up to 19 years)	Limited support from landlords
			Don't have a house number (use landlord's number and can't be assisted until they have their own number)
			It is not safe
Tenants in inner city	10% earn less than R1 500, while 40% earn between R1 501 and R3 000, and 33% between R3 001 and R5 000	Good location	Increased densities have been badly managed
	Typically African male and under 30	Opportunities for business enterprises from rental space	Demand is very high, so they have limited choice
	More likely to be married than single (26.7% with families)	Well managed buildings charge similar rents to those in bad buildings	Criminal activity
	32.9% sharing with friends	Good proximity to work and schools	
	Recent migrants to the city (within last 2 years)	Limited transport costs	
	Major breadwinners have entry-level formal jobs or are engaged in survivalist activities	Easier to find work and survive in the city without formal work than in the townships, informal or rural areas	
Tenant in hijacked-building, warehouse, factory	No data	Have a foothold in the city	Very poor living conditions Health and safety hazards
		Cheap (although not much cheaper than 'decent' shared accommodation in the inner city)	High threat of eviction

7.   RESPONSE FOR LOW-INCOME PRIVATE RENTAL

7.1.   INTERVENTIONS

Different demand and supply-side strategies are required for dealing with low-income private rental in the different contexts (inner city, existing townships, newly planned townships and informal settlements). A review of existing strategies (both local and international) was undertaken to guide recommended responses.

7.1.1. REVIEW OF EXISTING INTERVENTIONS (DEMAND AND SUPPLY)

Strategies to support, encourage or cope with low-income private rental and the issues arising from it can be divided into *supply-side strategies* (focussing on the willingness of landlords to make rental accommodation available, the nature of the built stock, or other ways to encourage the provision of shelter in this sector of the housing market) or *demand-side strategies* (focussing on the ability of renters to occupy and pay for rental accommodation). Other kinds of strategies are *legal* (the settling of disputes between landowners and renters; lease agreements), related to *planning and design* (service and infrastructure capacity; plot and dwelling design), or *regulatory* (standards and requirements on dwelling densities; size; service access; building construction and materials; positioning on land; and use – residential, commercial etc).

Supply-side strategies

Research on low-income private rental in South Africa indicates that the primary source of supply of this form of accommodation is small-scale, 'subsistence' landlords, who are often older and poorer than their tenants and are often women. Rents are low and may comprise cash and services in kind. Where the landlord has provided the rental unit (backyard shack, shack extension in an informal settlement, or a rented room in the landlord's house) the quality of the structure and services is usually low. Tenants also often provide their own structures on space rented from the landlord, and therefore may also be suppliers of accommodation. Inner-city slum-lords and building hijackers are also suppliers of rental accommodation, usually in deteriorated or abandoned buildings. The quality of these spaces is often very poor and relationships with landlords frequently exploitative.

A range of strategies has been put forward (in SA and internationally) to improve the **supply** (quantity and quality) of household rental accommodation. The main approaches are:

- **Capital subsidies to landlords** for them to build or improve rental units. Capital subsidies can also be applied to the construction of new units which also have rentable backyard rooms and services.

- **Tax incentives** or tax relief on rental incomes, targeted at individuals.

- **'Urban investment zones'** which incentivise landowners (via loans, grants or tax relief) within a defined area to construct or improve dwellings for commercial purposes.

- **Loans (including small mortgage, pension-backed loans and housing micro-finance)** for landlords to allow them to build or improve rental units as a means of deriving an income and adding value to their properties. There is a growing micro-finance sector in South Africa, although it has not yet been used to support the construction of low-income rental accommodation. An important prerequisite for micro-finance lenders getting involved in this sector is that there is security of tenure from a risk perspective.

- **Relaxing and revising building and planning controls** which hinder rental development. Allowing more than one dwelling on a plot (extending the 'granny-flat' policy); allowing alternative building materials and more flexible standards; and allowing mixed-use zoning so that backyard or additional spaces can be used for rental or a home business.

- **Design of new areas to facilitate informal rental**. This strategy has significant potential as it avoids interfering in existing fragile landlord-tenant relations. Aspects of the design that are important are:

  o   Design of service capacity to cope with growing densification;

o   Positioning of a main dwelling on the plot to allow for informal rental (particularly access to the back without the need to go through the main house). The usual practice of placing the house in the middle of the plot prevents efficient use of the site.

o   Design of units to facilitate rental e.g. the 'courtyard dwellings' found in Kenya (a series of rooms facing on to a communal courtyard which contains services). This arrangement also allows the use of front rooms for home businesses.

- **State or NGO-initiated emergency or temporary shelter.** This could be considered semi-formal. An example is *Strollers,* funded by the city of Durban and using the transitional subsidy. It provides temporary (overnight or weekly) accommodation for migrants working in Durban markets. The physical design provides space for economic opportunities and storage rooms on the bottom storey with rooms above that cost from R18 per night (multi-sleep) to R40 per night (single room). This includes beds, communal washing and kitchens.

Demand-side strategies

These strategies attempt to reduce the cost of rental, by giving subsidies or grants to renters or by regulating the level of rents charged. In the South African context the level of rents does not appear to be a major issue in township or informal settlement situations. However, in those parts of urban areas where rental space is scarce, exploitation has been occurring – mainly by those controlling the illegal occupation of buildings.

The main demand-side strategies have been:

- **Subsidies paid to households** as a part of or full contribution to rental, in the form of housing allowance, vouchers or rent supplements. Another possibility is that renter households are given a capital grant which is then held until such time as they wish to draw on it for an owned property. In the meantime they are paid the interest on the grant to supplement rentals.

- **Free or subsidised building materials for renters.** Where it is common for renters to hire land and provide their own building materials (as in many SA townships and informal settlements), pre-fabricated units (eg Wendy-houses) can be given to renters or sold at subsidised rates. Similarly, building materials can be made available under these conditions as well.

- **Rent pooling.** Where tenants are given allowances or supplements, they could pool these to gain access to better services or structures. However, with vouchers and allowances there is no guarantee that tenants will use this money on rental, and it is possible that landlords raise rentals when they know that tenants are being subsidised.

- **Rent control**, in which rent levels are set through legislation, sometimes tied to the age or condition of the rented unit. These have widely recognised distortionary effects: they create a disincentive to produce or maintain rental accommodation, and there are many ways of avoiding the controls, such as landlords adding 'key money' to the rental to compensate for low rents.

- **State provision of rental housing or spaces** (as in converted hostels) at subsidised rents. This is a formal rather than an informal rental situation.

- **Public acceptance of informal settlements.** The 'shacklord' situation (in which certain individuals demand 'protection money' from households) is far less likely to be successful where informal settlements are legally recognised and in the process of in-situ upgrade and the establishment of tenure security.

- **Land sharing.** In Thailand most informal occupiers have rental agreements with private owners of undeveloped sites. When an owner wishes to redevelop a site, land sharing has been successfully negotiated as an alternative to eviction. In order to obtain access to the site, the landowner leases or sells part of it to existing occupants, who redevelop their houses at higher densities, sometimes with a cross-subsidy. Land sharing is complex to negotiate and has been possible only with NGO support and well organised communities. In addition, some households may have to leave to make densification feasible, and some may be unable to afford the newly built accommodation.

- **Leaseholds in informal settlement upgrade.** Residents in *favelas* in Brazil, designated for upgrading, are generally opposed to freehold, because they are not interested in mortgaging their homes and do not wish to be liable for payment of property tax or enforced compliance with the building code. The *favela bairro* programme therefore concentrated on the right to adequate and affordable housing rather than absolute property rights, especially when regularising settlements on public land. A form of leasehold, the Concession of the Real Right to Use (CRRU), was adopted (typically 30 years, inheritable, can be sold or rented out, can be used for collateral, and is registered in the names of both partners where appropriate). It provides social housing rights, recognises individual security of tenure and helps promote socio-spatial integration in a combined manner.

- **Communal land arrangements and community land trusts.** This would involve the landowner (public or private) and an association of prospective occupiers who would hold intermediate tenure until titles are issued. This arrangement in Colombia allowed the association to qualify for a subsidy on condition that it was non-profit and provided accommodation (which could be rental or ownership) in an affordable way. The Community Land Trust in District Six, Cape Town, is a local example of this, but has not yet been able to produce accommodation.

7.1.2. OBSERVATIONS / CONCLUSIONS FOR INTERVENTIONS

Supply-side strategies

The following general conclusions on supply-side strategies for rental accommodation have been made, drawing on both international and local experience:

- International experience shows that production *inefficiency* is much more prevalent in projects that use supply-side subsidies.

- Supply-side subsidies are usually open-ended, very costly, and provide only a fraction of the real need due to limited resources and management expertise.

- Most supply-side subsidy schemes are not very effective in terms of achieving production for the lower end of the market on a sustainable basis.

- Supply-side subsidies or incentives must be accompanied by other housing stock being made available to poor households which will be displaced.

- Middle-income rather than lower-income groups usually emerge as the major beneficiaries of supply-side strategies.

- Capital subsidies are less transparent and make accountability difficult. A capital subsidy model has been applied on a pilot basis in two neighbourhoods in Gauteng (Orlando East and Zola in Soweto). An evaluation of this effort has demonstrated that few of the intended objectives have been realised. Critically, people were displaced, and living conditions do not appear to have been improved. Tenants were particularly unhappy as they felt the effort was misplaced and benefited a landlord who had

already been housed. Improving their rental accommodation is seen as a distraction, and government should rather put effort into building more subsidy houses. Making landlords eligible for an additional subsidy therefore simply expands the financial obligations of the state and is not sustainable (neither from a financial or social perspective) (Rust, 2009).

- Low rent-paying tenants are displaced in favour of higher rent-paying ones; family members are displaced in favour of paying tenants or in order to use of the space for a business (as in the Gauteng pilot).

- Capital subsidies put the obligation to regulate on the public sector, which is difficult to do.

- Where the main dwelling is constructed via a capital subsidy, building additional rooms may require a second or larger subsidy. This can be viewed as inequitable.

- In the context of low-income private rental, subsidies or incentives are usually linked to conditions which stipulate minimum standards for the completed units, plan and building approval processes, and inspections. These will all raise the cost of production and result in accommodation not being affordable for the poor.

- Relaxing building and planning controls will facilitate the supply of cheap rental accommodation, although in many township and informal areas there is little recognition of these anyway and hence their relaxation may not achieve a visible difference. In new developments, indicating that the construction of additional rooms for rental will be allowed, could give significant encouragement to potential landlords – unless standards for these rooms are set too high.

Demand-side strategies

The following general conclusions on demand-side strategies for low-income private rental accommodation have been made, drawing on both international and local experience:

- Subsidies and grants to renters can be problematic in that there is no guarantee that the funds will be directed to accommodation. Such subsidies would also be very likely to encourage landlords to raise rents. Free building materials or pre-fab units given (or sold cheaply) to tenants could assist but it would be necessary to keep a record of who benefits from these, otherwise certain individuals could simply sell these on as a business venture.

- The strategy of rent control, widely used in the past in many countries including South Africa, is now generally discredited due to its distortionary effects, and is particularly inappropriate for low-income private rental. The level of low-income private rentals is very often personally negotiated, flexible, and payment may occur in various forms (cash and kind). It would be close to impossible to implement and police a policy of this kind in the low-income private rental sector. It would probably also dissuade many landlords from renting space (as it does in the formal rental sector) and would counter the objective of increasing the supply of rental accommodation.

- Strategies which aim to create a more positive and flexible environment for low-income private renters are more likely to have potential. Official recognition of informal settlements and indications of future upgrade would remove the necessity for exploitative shacklords. Offering households a lease situation rather than full title in an informal upgrade is relatively simple to do and basically formalises an informal tenure arrangement.

- Land sharing and community land trusts are far more complicated and time-consuming strategies, and municipalities would require relatively high levels of capacity to make them work. Both would be useful in specific situations but are not applicable generally (Watson, 2009).

7.2. RECOMMENDED RESPONSE

7.2.1. OVERALL INTENTION

The intention is to increase the supply of low-income private rental accommodation that meets minimum health and safety standards, without causing increased rentals and the displacement of the poor. This means that not all kinds of low-income private rental is to be supported and acknowledges that much of the existing accommodation needs to be upgraded in terms of these standards. Low-income private rental which is exploitative and accommodates people in inhumane conditions should be eradicated. It is important therefore that the distinction be made between acceptable low-income private rental which is encouraged and supported so that it is improved in incremental ways, and that which is to be eradicated. This should be seen as part of the overall human settlement strategy to increase all forms of housing delivery for low-income groups, so that low-income households are presented with more choice and are able to position themselves according to their housing need.

7.2.2. POLICY THEMES

The three policy themes that have emerged for focusing the achievement of this intention are:

1. Densification;
2. Health and safety; and
3. Land and tenure rights.

Densification
A densification policy response is needed to encourage the better use of well located land, infrastructure and services through creating opportunities for low-income private rental in all urban contexts (from Sandton to Soweto). The intention is to support densification as an important livelihood strategy for the poor, both as landlords and tenants, by encouraging low-income private rental. This would support what is already happening on the ground, whilst ensuring that urban infill is better planned for and that health and safety standards are maintained (Smit, 2009). Given low population densities and relatively large plot sizes, an opportunity exists to get individuals to invest in providing additional stock for rental, or to subdivide, build or sell off new stock (Smit et al, 2006). By viewing it as a densification programme, it increases the scope, providing an increased supply of differentiated stock, which allows for choice and the natural filtering of people into suitable accommodation. Theoretically, by increasing the supply, tenants will have more choice, and as such landlords will need to improve their 'service' if they want to retain or attract new tenants. Different tools to encourage densification in different areas are to be used to encourage investment decisions and activities of household landlords.

By encouraging and supporting informal rental through a densification programme, low-income private rental accommodation can be generated relatively easily for large numbers of people. It will improve accessibility and will have a fundamental socio-economic impact through integration and gearing. Densification therefore has the real and exciting possibility of changing the face of our human settlements, with the effects of apartheid

planning being eroded by bringing people together. Ultimately then, this supports the building of more sustainable human settlements for government as it leverages existing stock and infrastructure and provides densities that support better use of urban services and infrastructure.

Health and safety

Government has committed itself to improve the lives of slum dwellers. Although the overall aim is to increase the supply of low-income private rental, it needs to be done in the context of improving peoples' lives. This is to be addressed by introducing and enforcing minimum health and safety standards. Key issues which emerged are fire and sanitation. Much of the accommodation produced in the low-income rental market presents a fire hazard from inflammable building materials, crowded shacks and use of fuels for cooking and heating. A minimum intervention would be to erect concrete walls dividing plots from each other to act as a fire-break. In-situ upgrade of informal settlements should include a solid plot boundary wall, which can also provide some support to a back-yard shack.

Land and tenure rights

A second component of improving the lives of slum dwellers is increasing the proportion of the population with access to secure tenure. Through the review process it became clear that information about people living in low-income private rental situations is very limited. Few had registered on housing waiting lists, with many not being registered or qualifying for any other state benefits (such as free basic services) as they had no 'recognized' address. It became clear that a better housing data process is needed to improve the management of the housing process and to better plan for and provide services to those living in low-income private rental accommodation. Most tenants had stayed in their rental accommodation for many years and as such were not afraid of evictions *per se*, and were happy with the informal nature of their rental arrangement, but felt that they needed to be recognised in the system in some way, particularly by local government. Landlords complained as many did not have title deeds and as such could not leverage any funds from their property as an asset. They also expressed reluctance to invest in their properties until they had their title deeds.

7.2.3. POLICY PRINCIPLES

In developing a response to low-income private rental the following principles should be adhered to in terms of what the response is trying to achieve:
- Encourage tolerance / acceptance / support of low-income private rental;
- Protect and promote benefits of backyard dwellings;
- Understand that it is one aspect of overall housing market and should not be dealt with in isolation;
- Avoid displacement through upgrade / gentrification (reduce backlog);
- Outcomes must benefit both tenants and landlords – equality in beneficiary;
- Avoid double subsidies;
- Meet tenant rights / basic rights;
- Flexibility;
- Affordability is a priority;
- Promote spatial efficiency / maximise densities;
- Do no harm to areas where low-income private rental is currently working;
- Develop appropriate health and safety standards which are enforceable across the board;
- Keep it simple;
- Build civic visibility and build on existing interactions; and
- Incentivise densification.

7.2.4. RECOMMENDATIONS FOR ACTION

Based on the assessment of different models and from the consultations the following are recommended actions:

1. 'Carrot' rather than 'stick' methods are to be used to encourage people to develop low-income rental accommodation which comply with minimum health and safety standards. This should be done as part of an overall densification policy. Key tools to do this include the following:
   - Planning, zoning and inclusionary zoning;
   - Incentives for subdivision and investment in new/improved stock;
   - Densification interventions to promote subdivisions;
   - Leveraging off new stock by allowing for and encouraging backyard rental in greenfields incremental projects;
   - Upgrading and improving existing inner city stock through targeted incentives aimed at inner city investors and small-scale landlords;
   - Conversions of warehouses, office blocks and other industrial and commercial property as residential accommodation;
   - In the long term, leveraging off property values to fund delivery of subsidised housing (Abrahams, 2008).

2. Capital subsidies should not be applied as they have proved to be ineffective, inefficient, costly, inequitable, difficult to manage and have not achieved the intended outcomes. They are also not sustainable.

3. Low-income private rental should be viewed as part of the broader rental housing strategy towards building more sustainable human settlements in order to create more formal rental income opportunities for low-income people. This is to be done through encouraging innovative social housing and special-needs housing models which accommodate the poor and very poor, expanding CRU and by encouraging the private sector to develop lower-cost rental.

4. The land and tenure rights of the landlord and the tenant are to be confirmed and the respective roles and responsibilities of each articulated. In the process every household is to be acknowledged and provided with the right to secure residence. Possible solutions include a lease or a legal instrument like the Brazilian CRRU. This may include the development of appropriate bylaws that respond to the reality of backyard rental (these exist in wealthy suburbs as well) and which generally encourage the development of appropriate and affordable rental accommodation by small-scale, private landlords. It may also involve the development of a specific, free basic services policy for properties with backyard dwellers, or a density bonus towards property rates for properties with a second dwelling (Rust, 2009).

5. Address the bulk and connector infrastructure requirements for increased densities on a settlement-wide basis. Improving the quality and distribution of services throughout whole townships or settlements would have a significant impact on the quality of life of people living in slum conditions in those townships or settlements. This should be a priority response far in advance of the provision of quality housing. By focusing on whole areas rather than on specific sites, economies of scale might be reached. More critically, homeowners who may not currently be landlords may be encouraged to become landlords, thereby adding to the overall supply of rental housing in the settlement (and possibly addressing problems arising from the need to de-densify certain plots) (Rust, 2009).

6. Minimum health and safety standards are to be set for each given urban context and mechanisms set up so that they can be enforced. The basic infrastructure aspects of applying the minimum health and

safety standards should be linked to the Municipal Infrastructure Grant (MIG) [12]. MIG is applied according to guidelines for municipalities. The latest version, 'An Industry Guide: Infrastructure Service Delivery Levels and Unit Costs' was released at the end of 2007 but has been recalled to update infrastructure costs for 2009/10, particularly around sanitation costs. This is very important for low-income rental as one of the key recommended improvements is around increasing the numbers of toilets provided. The biggest threat in existing townships is fire. Concrete walls on plot boundaries as firebreaks (where they do not exist already) and extension of electricity connections to backyard shacks would be the most effective minimal interventions. There is also talk that this may be handed over to the new Department of Human Settlements to manage. An opportunity therefore exists to influence the delivery of basic infrastructure in a way that supports low-income private rental.

7. Promote home and rental unit improvements through the introduction of housing micro-finance[13], pension-backed loans[14], or even small mortgage loans[15], coupled with targeted housing support services. Lenders need to know that their clients will have access to services that facilitate the development of quality housing products – this is important for their risk management strategies. The promotion of housing support services might involve:
    o   Identifying local NGOs that can provide housing advice, access to housing services (contractors, builders, architects, etc.), access to building materials, etc.
    o   Locally approved, standard plans that respond to the kind of housing found in a local area. These could be made freely available by the municipality to encourage building to standard (Rust, 2009).

8. Introduce a landlord and tenant support programme to assist the various roleplayers to negotiate their relationships. This support programme can also help landlords and tenants ensure their access to free basic services offered by the municipality, provide mediation services in instances of non-payment or other disputes, etc. Local housing advice centres might include a database of housing opportunities to facilitate access to properties (Rust, 2009) or tenants looking for accommodation.

8. STRATEGY FOR IMPLEMENTATION

While this is primarily a planning and economic intervention, it essentially requires that landlords are urged to take the responsibility to densify and provide household rental accommodation, or to improve the living conditions of their existing tenants. However, government needs to provide the groundwork to make this happen. The following key steps are recommended as a strategy for implementing this approach:

- **High-level engagement with the Department of Human Settlement (previously the National Department of Housing).**

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[12] MIG is a municipal infrastructure funding arrangement that combines all of the capital grants for municipal into a single consolidated grant and is aimed at assisting the poor to gain access to infrastructure for basic household (residential) services including electricity, water supply, sanitation, storm water management, municipal roads, refuse removal and street lighting.
[13] Housing Micro Finance (HMF) is a subset of microfinance that is applied to housing-related activities, whether specified by the lender or determined by the borrower. In his book on the subject, Daphins and Ferguson (2004) explain that housing micro loans are for relatively small amounts, based on the client's capacity to repay; repayment periods are relatively short – in South Africa the term is for usually 36 months; loan pricing is expected to cover the real, long-run costs (operational and financial) of providing the service; and loans are generally unsecured and loan providers rely on other mechanisms to reduce the risk of non-payment (such as relationship-based lending, or payroll deduction). In this, housing microfinance is the "micro financing of housing needs: the application of a micro-finance based approach to housing finance".
[14] A pension-backed loan is a loan that is secured by the withdrawal benefit of the borrower's pension fund. These loans are generally offered at rates below prime.
[15] The Banking Association suggests that the smallest size mortgage that is financially viable given registration and other costs, is about R40 000.

The change in government departments presents an opportunity for new thinking being incorporated. The SHF needs to arrange an engagement opportunity with high-level officials (preferentially even the new Minister) to gain support for implementing a programme to support low-income private rental as part of an overall densification strategy as recommended in the report. To do this, the SHF will need to demonstrate the benefits for government for doing so, and make the case for the department to take forward the recommendations. Importantly, the link into discussions around the future use of the MIG needs to be made. The second component of this research work to be undertaken by David Gardner will also play an important role for building the argument.

- **Engagement with provincial and local governments**
  Provincial and local governments who are keen to support low-income private rental should be engaged so that support for a new way of doing things can be garnered. The City of Johannesburg should be engaged to follow through on the implementation of its densification strategy.

- **Health and safety standards**
  Minimum health and safety standards need to be investigated and recommendations made regarding how they are to be financed, implemented and applied across the different urban contexts.

- **Land and tenure rights**
  As part of its work, ULM should investigate lease and/or other legal instruments which will serve the needs of tenants and landlords in the low-income private rental sector so that tenants are 'recognised' and landlords able to apply for loans / assistance by government for extra free basic services etc.

- **Finance**
  Housing financiers and housing NGOs need to be approached to discuss the possibility of their involvement in developing the sector and what kind of support they could offer and would require.

9. CONCLUSION

This report has begun the important process of bringing together lessons learnt and recommendations for low-income private rental in South Africa. It has recommended that low-income private rental be supported to encourage people to continue developing low-income private rental accommodation, but in a way that meets minimum health and safety standards. Government is encouraged to support this process by introducing an overarching densification policy which incentivises this kind of development, but also to invest in infrastructure development. The critical component, however, for the SHF and ULM in taking this forward, is to influence the process to ensure that implementation occurs.

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10.   LIST OF ATTENDEES

Johannesburg Workshop: 17 February 2009

1. Petal Thring (Gauteng Province Department of Housing)
2. Alison Hickey (Western Cape Department of Local Government and Housing)
3. Jill Strelitz (Nurcha)
4. David Gardner (consultant)
5. Illana Melzer (Eighty 20)
6. Sarah Charlton (Wits Planning Department)
7. Margot Rubin (consultant)
8. Mark Napier (ULM)
9. Goodwill Ditlhage (City of Joburg)
10. Themba Masimini (Policy Unit, NDoH)
11. Mthosi Tshabalala (Research Unit, NDoH)
12. Lauren Royston (ULM)
13. Adrian Di Lollo (SHF)
14. Susan Carey (consultant)

Cape Town Workshop: 13 March 2009

1. Alison Hickey (Western Cape Department of Local Government and Housing)
2. Helen Macgregor (DAG)
3. Trevor Mitchell (City of Cape Town)
4. Sophie Oldfield (UCT)
5. Owen Crankshaw (UCT)
6. Felicity Kitchin (consultant)
7. Myrtle Stierman (Western Cape Department of Local Government and Housing)
8. Craig Sam (STBB Consulting)
9. Fatma Daniels (Western Cape Department of Local Government and Housing)
10. Petal Thring (Gauteng Province Department of Housing)
11. Malcolm Mc Carthy (consultant)
12. Gerry Adlard (consultant)
13. Romano Del Mistro (UCT)
14. Adrian Di Lollo (SHF)
15. Sophie Mills (ex-Kuyasa)

16.   Kecia Rust (FinMark Trust)
17.   Warren Smit (ACC)
18.   Illana Melzer (eighty 20)
19.   Vanessa Watson (UCT / consultant)
20.   Lauren Royston (ULM)
21.   Susan Carey (consultant)

18 March 2009: Consultation Sessions

1.   Matthew Nell
2.   Sarah Charlton
3.   Francois Viruly.