

Small-scale Private Rental in South Africa

This case study draws on research that aimed to provide greater understanding of the small-scale private rental market in South Africa. The research study was coordinated by Adrian Di Lollo of the Social Housing Foundation and Lauren Royston of Urban LandMark and was undertaken by David Gardner. See Sheet 5 for reference details.

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

The next part of the document (Sheets 2, 3 and 4) examines the potential of small-scale private rental to address housing backlogs in South Africa as well as factors that currently inhibit that delivery. The final component of this document (Sheet 5) includes a summary of the key points that were covered in the case study and recommendations arising from it.

Learning outcomes:

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

- Articulate a clear definition of small-scale private rental in South Africa
- Explain how small-scale private rental can help to address the housing backlog in South Africa
- Suggest ways to improve the delivery of affordable rental accommodation in South Africa.

Introduction to the case study

This case study examines the small-scale private rental sub-sector and its potential to deliver housing in South Africa. The case study describes this sub-sector as a housing delivery system that is based on contracts between landlords and tenants, and exists on privately held land. It presents a continuum from single room, affordable-for-low-income-group options to the 'granny flat' options more commonly found in the suburbs.

There are various reasons why small-scale private rental should be considered a viable option within South Africa's human settlements strategy and programmes. These include the following:

- there is a significant demand for housing from single people to small family units for whom the standard Reconstruction and Development Programme (RDP) solution (i.e. low-cost, subsidised housing to buy) is not appropriate
- many people have sufficient disposable income to afford low-end rentals offered privately
- in most residential areas (whether suburbs or townships) infrastructure already exists, so additional small-scale private rental in these areas is not a significant cost to the state
- accommodation within existing residential areas gives many locational advantages (e.g. access, transport, or amenities).

The case study also examines various barriers to more effective delivery of housing by this sub-sector, for example, perceptions that it promotes 'slums', and various current policy and delivery failings or gaps.

The case study recommends that new policy is required that enables the small-scale private rental sub-sector to deliver housing as an integral part of the state's human settlements strategy and programmes.

Photo: Kevin James



A suburban garden cottage freestanding from the main house

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

Learning activities

Before you start

Before you read the case study, spend a couple of minutes noting (i) what you think are some key criteria that define “small-scale private rental accommodation in South Africa” and (ii) factors that might be preventing this sector from making a greater contribution to addressing the housing backlog in South Africa.

After reading Sheets 2 to 4 of the case study

In your group develop an outline of a state strategy for realising the potential of small-scale private rental in South Africa to provide affordable housing for low-income groups. Be prepared to report this back to the main group if called upon to do so.

Reflection

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

Photo: Kevin James



Multiple-room units for rent in a backyard with the main house in the foreground

Small-scale private rentals – good or bad? You decide.

This introductory section presents short quotes showing various opinions on and experiences of small-scale private rentals, particularly in areas catering for poorer people.

Landlords

"I am unemployed, so I made rooms at the back of my place. The rental is not much but it helps to pay for groceries, school fees and transport. But it is not very profitable for me."

"I like young people to rent here because I treat them like my own children. I don't help older tenants."

"Tenants don't care, especially female tenants, they waste water and electricity. They also cause problems such as drain blockages."

"'Dignity of this home' is important in my community, that is why I have rules for my tenants. My house, my rules."

Tenants

"I like my freedom, and it is safe here, we look after each other in the yard."

"It is not right, I have no lease papers, just verbal, of which I am not secure."

"There is good transport around here like a train station, taxis and buses. And it is closer to the shops and to find work, so it costs less."

"I won't help to upgrade my room because my money goes to the landlord and then she will increase the rent for an upgraded room."

"I had no choice. I had to move out from home due to personal problems and lack of space."

"This backyard room is cheap for me, and it is close to transport and some shops."

Officials and politicians

"These people, we give them RDP houses and then they just rent them out to other people. They can't do this!"

"We would like to assist them to rent these rooms but we are concerned about slums developing."

Academics

"Small-scale landlords are housing entrepreneurs. They are investors, earning incomes and making profits."

"In numbers of people housed, their delivery matches the government's subsidised housing programme. Their landlordism is an important sustainable livelihood strategy that should be supported."

Definition and scope of small-scale private rental housing

Based on the extensive research that this case study draws on, the following universal working definition of small-scale private rental has been proposed. This definition is based on the underlying characteristics of the delivery system (rather than the physical shape, size or standard of the accommodation).

Small-scale private rental in South Africa is generally a small-scale activity, seldom exceeding five units per property, produced on privately held land and managed by private individuals. It is offered to occupants who are separate households through private rental treaty, whether formal (written) or informal (verbal) in nature.

This definition excludes corporate and publicly owned accommodation as well as rental of units in informal or illegal settlements. It also excludes social housing and housing co-operatives.

Photo: Kevin James



An example of rental units down the length of the site

Photo: Kevin James



How can small-scale private rental address the housing backlog in South Africa?

Small-scale private rental is an international phenomenon, and is not unique to South Africa. This sub-sector is generally one of the most successful, efficient and pervasive accommodation delivery systems in South Africa. Of the 2.4-million South African households that rent their primary accommodation, 850 000 (35%) occupy small-scale private rental units. This equates to approximately 10% of all South African households.

Contrary to popular belief, 53% of all small-scale rental units are formally constructed (houses, flats, or rooms), with the balance (47%) being shacks in backyards.

Photo: Kevin James



Contrary to popular belief, 53% of all small-scale rental units are formally constructed (houses, flats, or rooms), with the balance (47%) being shacks in backyards. The small-scale private rental sub-sector achieves this with no direct state support, and at times in contravention of a hostile policy framework. It is also interesting to note that the fastest-growing sub-sector within the small-scale private rental sector is houses, flats and rooms built on properties with existing dwellings, with a growth rate of 83% between 2002 and 2006. The average delivery of formal, small-scale private rental units between 2002 and 2006 was 33 500 units per annum – without direct state support.

The sector is currently estimated to be generating a rental income in excess of R420 million per month, or just over R5 billion annually. The majority of landlords are otherwise unemployed. In the townships, many are elderly women with little or no other sources of income.

The small-scale private rental delivery system includes various role-players and elements – private landowner, suitable accommodation, existing infrastructure, willing renter and affordable rental rates. The system produces a wide spectrum or continuum of accommodation types across many of South Africa’s urban and rural human settlement zones. These include low-income townships through to medium- and upper-income, low-density suburbs.

Photo: Kevin James



Therefore, backyard rooms and shacks, domestic workers’ quarters, communes, converted garages and small-scale tenements, and ‘garden’ or ‘granny’ cottages associated with middle- and upper-income neighbourhoods, are all outcomes of the same basic system.

Recognising and understanding this continuum of small-scale private rental options, delivered by the same basic delivery system, leads to a more balanced policy response and concentrates attention on the factors that will lead to the delivery of improved small-scale private rental outcomes, rather than simply on those elements deemed undesirable, for example that they are slums, unhygienic, chaotic or unsafe.

A wide spectrum of accommodation options across many human settlement zones

Factors affecting the supply of small-scale private rental accommodation

There are several key factors that affect the supply of small-scale private rental.

Availability of privately held land: Considering our definition of small-scale private rental, which does not include publicly held or illegally occupied land, or informal settlements, small-scale private rental can occur only on sites with recognised title (even if progressive in nature, e.g. informal, but locally validated ownership systems), and under the control of a landlord with legal rights of occupation and use over the site. The availability of space on existing titled sites within existing proclaimed urban areas is therefore a critical precondition for the growth of small-scale private rental.

Access to on-site infrastructure: Infrastructure such as sanitation, water and electricity needs to be available for small-scale private rental to be an effective supplier of acceptable accommodation.

Willing and able supplier: With these two basic requirements in place, the next is an owner or occupier who is motivated and has the resources needed to develop accommodation that they can rent out. This is coupled to the requirement for access to resources (capital or materials) for small-scale private rental construction, either from the landlord or, in certain cases, the tenant.

The absence of these factors is generally the largest impediment to the sustainable growth of small-scale private rental due to political stigma and statutory or regulatory controls, as well as constraints on accessing finance for small-scale private rental development.

The large numbers of existing properties in low-density housing areas on which most or all of the above preconditions are met present a major human settlement opportunity in South Africa. This offers a potential short-cut to the provision of acceptable accommodation compared to other delivery systems that are currently not very effective in creating viable human settlements.

Photo: Kevin James



Multiple small-scale private rental opportunities in a low-density suburb

The absence of these three factors (see left) is generally the largest impediment to the sustainable growth of small-scale private rental

Preconditions affecting the demand for small-scale private rental accommodation

An important precondition for the growth of this sub-sector is adequate demand, particularly from small and intermediate-sized households.

An analysis of household dynamics generally in South Africa, and specifically in informal settlements and the small-scale private rental sub-sector, indicates a trend towards smaller households, and therefore a need for intermediate-size accommodation. Of those households that are generally considered to fall into the "housing backlog" statistics, on average, about one-third comprises single-person households, one-third comprises two-member households, while the remaining third comprises households of three or more members. Assuming South Africa's "backlog" to be only those 1.2 million households currently housed in informal settlements, this implies that there is a demand for approximately 400 000 single-person accommodation options, 400 000 options appropriate for two people and 400 000 units suitable for households with three or more members.

Further evidence of demand exists in Johannesburg's inner city, where private developers indicate immediate take-up of units as small as 12m² bachelor flats, mostly occupied by single people, couples or single parents, whereas it is often difficult to let larger, two or more, bedroom units in similar areas.

There is a major demand for single-person and two-person accommodation options, and many people have sufficient disposable income to afford such low-end rentals.

In support of this demand, and contrary to the situation in informal settlements, low-end renters of small, private accommodation do have disposable income to pay regular rentals to landlords. Such rentals are generally not high; research indicates that an average rental in informal small-scale private rental dwellings in 2006 was R147 per month, and for formal dwellings, R291. In other words, such accommodation is affordable to low-income households, which is where a large potential market exists.

This substantially changes the complexion of the accommodation delivery challenges facing South Africa as it points to small-scale private rental as a viable option for large-scale delivery of affordable housing.

The benefits of small-scale private rental

The role of small-scale private rental in South Africa's human settlement development framework offers various potential benefits to government. Specifically, it provides flexible accommodation opportunities for households waiting for subsidised houses, as well as a choice of accommodation that is generally a rung or two up the housing ladder than that found in an informal settlement, especially for intermediate-sized families. Small-scale private rental offers a safety net for many marginalised households that cannot procure better accommodation, because it might be unavailable or too costly.

Acceptable standards

Contrary to common belief, many small-scale private rental units already meet minimum acceptable accommodation standards. Surveys have shown that most small-scale private rental units offer secure tenure and most units have access to basic services on-site. Furthermore, over half of all small-scale private rental stock is formally constructed and meets basic international norms and standards in relation to space required per person.

Effective housing delivery option

Small-scale private rental has potential as a "quick win" delivery system that could rapidly produce affordable and acceptable accommodation without placing significant demands on the state. In addition, through densification of existing human settlements, various economic benefits can be achieved, such as the utilisation of existing infrastructure in such areas and easing transportation requirements from areas further afield. In addition, increased household incomes provide better opportunities for a future rates base and payment for services.

Income generation potential

Small-scale private rental also offers income-generation potential. For instance, a R15 000 investment in a well-located formal small-scale private rental unit can command a starting rental of R500 per month (based on 2009 figures in the Midrand, Gauteng area). This is a return on investment of about 40%, with a 2.5-year payback period, after which this becomes a regular, unencumbered income stream to the household (although maintenance and running costs need to be accounted for).

Small-scale landlords are motivated by a variety of factors. Some become landlords to earn more money, while others are actively investing, taking risks and expanding their property portfolio. Subsistence landlords are generally pensioners who use the rental income to supplement their pensions – they do not want to expand. Entrepreneurial landlords in the townships are generally younger people. They are keen to improve their stock and to develop new stock. There is evidence of a ladder of growth in inner cities, with new landlords starting small and progressing to more significant investments and profitability.

For the tenant, opting to live in small-scale private rental is a rational social and economic decision to gain access to land and basic services and/or accommodation of a certain size and type. While there are undoubtedly some negative considerations, especially with low-end small-scale private rental (see quotes on Sheet 2), these are factored into the mix and a decision is made on that balance of factors.

Photo: Kevin James



These rooms for rent are of a good quality

Barriers to growing the small-scale private rental market

Negative perceptions

An analysis of language commonly used in policy discourse, for example “backyard shacks” and “slums”, and the inclusion of census figures for “backyard rooms” and “backyard shacks” into national backlog statistics, suggests that small-scale private rental is officially considered to be “slum-like” and therefore undesirable. Furthermore, “informal rental” is seen in some quarters to be undermining the upgrading of informal settlements. Perhaps as a result there is as yet little movement towards recognising the role of small-scale private rental within national settlements policy.

Current policy failings

Current housing policy focuses on those earning less than R3 500 per month, while an income of around R12 000 per month is needed to buy a house in the private sector. This creates an artificial “gap” in the housing market. A further effect of current policy is that households who qualify for a subsidy but have not yet accessed it are effectively penalised if they take the initiative and build their own houses. These households would rather wait for subsidised housing than commit private resources to alternatives in the interim.

A similar gap has been created by current policy relating to the provision of affordable rental housing. The Social Housing and the Community Residential Unit (CRU) programmes provide small-scale rental units priced at R150-R300 per month, while the commercial rental market tends to operate above R1 500 per month. The small-scale private rental delivery system has the potential to fill this gap with affordable rental accommodation.

Inadequate capacity for housing delivery

It is generally recognised that the state, under current policy, cannot deliver housing (whether to buy or to rent) on the scale required in South Africa at a sustainable rate and within the means of lower-income households. For example, the cost of providing RDP houses for the estimated 1.2 million households in informal settlements (such households are estimated to be growing at a rate of between 2% and 6% per annum) has been estimated at R84 billion, or 70% of the projected national housing budget from 2009 to 2015.

Photo: Kevin James



A room for rent built on to a house

Photo: Kevin James



Additions to an RDP house, with caravan accommodation on the left

There is also an increasing awareness that current housing programmes do not meet the human settlement requirements of all households (which goes beyond merely “a house per household”). The inability of the state’s subsidy policy to meet the required diversity of affordable accommodation demand is clear. This was acknowledged in the Breaking New Ground (BNG) strategy revision in 2004, yet the stated intent to offer a greater choice of tenure, location or affordability has to date not been realised to any significant degree. Prioritising fully subsidised, low-density, detached, freehold family accommodation over other delivery modes, tenure systems and accommodation outcomes is therefore not a justifiable response to South Africa’s diverse and changing demographic composition.

The key challenge is how to encourage and support the potential supply of affordable rental accommodation that small-scale private rental offers, while simultaneously ensuring basic standards and levels of service are met.

Similarly, the Millennium Development Goal (MDG) target to eradicate “informal settlements” with its diversity of household structures by 2014 through the provision of more of the same types of accommodation cannot be successful under current conditions. The current subsidised housing policy that delivers, with little variation, 40m², mostly free-standing, freehold houses is not a comprehensive or responsive solution to the demand patterns illustrated earlier.

Mismatch between needs and provision

Some beneficiaries who have received RDP or BNG houses choose to dispose of these, move out and rent them, or build a small unit on-site and rent the main house. Reasons for this include a mismatch between the size of the accommodation and their needs, an inability to afford the ongoing costs of such accommodation, incompatibility with locational requirements, a desire to rent rather than own accommodation, or a desire to gain rental income from the house. Any housing supply channel that offers the potential to meet this demand for smaller, better located, more flexible accommodation must be considered within South Africa’s human settlements policy.

The need for a new policy, strategy and programmes

Given the negative perceptions cited above and the failings of current policy and delivery capacity, any attempts to link new small-scale private rental policy to one or other of the current policy frameworks or programmes are not likely to cover the needs of the sector adequately, or to result in unintended negative consequences, thus doing a disservice to its potential benefits, or continuing to sideline small-scale private rental within South Africa’s human settlement policy framework.

The key challenge is how to encourage and support the potential supply of affordable rental accommodation that small-scale private rental offers, while simultaneously ensuring basic standards and levels of service are met.

Summary sheet

Small-scale private rental in South Africa

The central lesson learned from this case study is that, in the face of multiple failures of current policy to deliver housing and to meet the state's own human settlements guidelines, small-scale private rental is a significant potential provider of affordable, acceptable quality rental accommodation in South Africa. This offers an opportunity to policy-makers to harness and facilitate this delivery system to rapidly increase the rate and scale at which affordable accommodation is provided.

In addition to providing a housing benefit, small-scale private rental meets a wide range of urban development objectives simultaneously, including densification, use of existing human settlement investments, encouraging private sector activities and enhancing the growth of capital in housing areas. Unfortunately, current policy does not address the significant potential that small-scale private rental housing provides, and in many cases unintentionally stifles this important sub-sector.

For these reasons, new approaches to housing policy and standards are needed. Lateral thinking is required to redefine key aspects of housing policy and strategy in a way that can facilitate the growth of the small-scale private rental sector. Any new rental sector strategy for South Africa must indicate the importance of, and mechanisms for, enhancing small-scale private rental as a core component of South Africa's future housing strategy.

In order to bring this sub-sector into the mainstream, a range of interventions is required by national, provincial and local governments. These interventions should include pilot small-scale private rental facilitation projects across a range of existing and new settlement types in South Africa. The interventions will require participation by landlords and tenants, as well as private sector actors such as financial institutions and contractors.

Selected recommendations

The research report that this case study is based on concludes by calling for the inclusion of small-scale private rental as a key element of a revised National Rental Housing Strategy, as well as including a new and comprehensive strategy specifically addressing small-scale private rental within South Africa's human settlements strategy, policy and regulations.

A two-pronged strategy is proposed:

- Recognition of, and acceptance and support for, the small-scale private rental sector as an important component of South Africa's total human settlement system that houses a large number of households at little cost to the state.
- Acknowledgement of the potential of the sector to contribute to meeting future accommodation needs through the production of new, intermediate, well-located and affordable accommodation in existing settlements.

Photo: Kevin James



State-assisted housing with rental units as part of a Breaking New Ground project

This strategy should provide the platform for the creation of a policy framework that supports and facilitates the production of more and better human settlement opportunities. New policy needs to attempt to level the playing fields towards small-scale private rental options. Current policy favours informal settlements because people move there hoping they will be able to jump the queue to RDP housing when informal upgrades are done.

A small-scale private rental sub-sector policy framework and strategy should include:

- stimulating the provision of additional affordable, acceptable quality rental accommodation
- engaging private actors
- encouraging lenders to develop products which offer both loan finance and business support
- reducing the per-unit cost of housing provision to the state
- gaining additional settlement benefits from existing expenditure on housing and urban infrastructure.

Such interventions must be considered from the initial stages of settlement planning and urban design, which will require a more multi-disciplinary approach to planning, including close liaison among planners, urban designers and engineers. Township loans should provide support for constructing backyard units, while inner city loans should target the purchase of sectional title units and buildings.

Facilitating small-scale private rental as a supplier of intermediate options will address the major “gap” market, which consists mainly of:

- single people
- people economically between subsidised housing and the private market
- those who are waiting for RDP housing
- those who are in the gap between the state rental market and the private rental market.

Accordingly, and taking all of the other recommendations in this case study into account, a new small-scale private rental strategy that addresses these issues and optimises the potential of the small-scale private rental market should be integrated with the key primary housing delivery programmes in the Housing Code, specifically the BNG and the Informal Settlements Upgrading Programme.

Reading

The primary source document for this case study is:

Gardner, D (2010) *Small-scale private rental: A strategy for increasing supply in South Africa*. Published jointly by Urban LandMark (Pretoria) and the Social Housing Foundation (Johannesburg), January 2010.

Further reading:

Carey, S (2009) *Investigation into the proliferation of low income private rental housing supply, and the development of recommendations regarding appropriate interventional responses*. Report for the Social Housing Foundation (Johannesburg) and Urban LandMark (Pretoria).

Gordon, R and Nell, M (2006) *Small-scale landlords: Research findings and recommendations: Final Report*. Shisaka Development Management Services (Johannesburg) in association with CSIR Built Environment (Pretoria), May 2006.

Social Housing Foundation (2008a) *Supply and demand of rental accommodation in South Africa*. Compiled by SHF and Eighty20 (Johannesburg).

Social Housing Foundation (2008b) *Shack rentals in South Africa*. Compiled by SHF and Eighty20 (Johannesburg).

Watson, V (2009) *Strategic literature assessment for informal rental research project*. Report for the Social Housing Foundation (Johannesburg) and Urban LandMark (Pretoria).