A research project sponsored by the Social Housing Foundation, Nedbank Ltd, the National Department of Housing and the FinMark Trust

Small Scale Landlords

Key findings and proposals



Introduction



Rationale for the research

- South Africa faces a **number of significant challenges including:**

  Poverty : Approximately 49% (21,9 million people) live below the national poverty line.

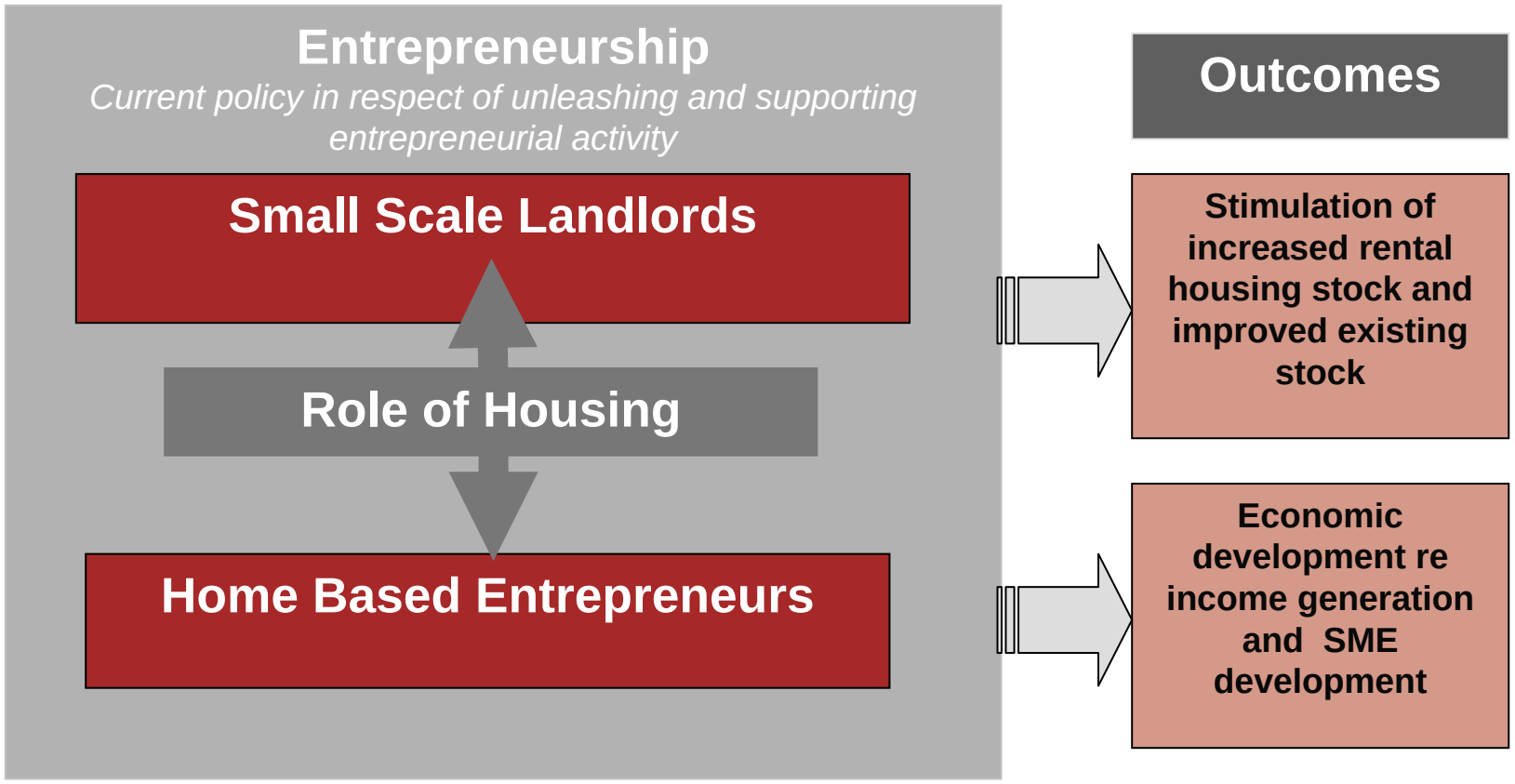
  Unemployment : Currently assessed as 26%

- Government has set a target of reducing unemployment to below 15% and halving the poverty rate by 2010.

- One critical element to achieve this is promoting economic activity via SME's

This research provides a deeper understanding of housing as a productive asset and it's role in promoting economic activity and improved affordable housing supply, as a result of the activities of Home Based Entrepreneurs (HBEs) and Small Scale Landlords (SSLs)

Conceptual approach



This presentation focuses on Small Scale Landlords only and covers research findings and proposals

Methodology

Phase 1: Research → **Phase 2: Preliminary proposals** → **Phase 3: Testing** → **Phase 4: Finalize proposals**

Research Specific to SSL

- **Literature review of SSL**
- **Literature review on financial needs and products available to SSL**
- **Research into SSL in Inner Cities** – *237 interviews with Landlords, 125 interviews with Tenants (Hillbrow/Berea, Sunnyside Pretoria Central)*
- **Research into SSL in Townships**- *Desk study using Nurcha research – interviews with Landlords in Katorus (400), Orlando East (400), Cato Manor (291). 2 focus groups*
- **20 Success stories**
- 2 Case Studies

Research findings



Importance

SSLs are contributing significantly to the supply and management of affordable rental housing for poor people, as well as generating significant income and wealth

- Provide a range of accommodation types for 15% of all South African households (1,85 million households)
- 60% comprises Household Rental
- Stock is well located and affordable for poor households – average income of tenants is R1800 pm
- Generating rental income of approximately R421 million per month (nationally)
- Potential for growth – over 62% of Landlords indicate it is easy to find tenants

Sector provides numerous development spin-offs

Significant value in supporting the growth of the sector

Differences

Inner City and Township Landlords and their rental stock are different

Area	Characteristics *(Landlord and stock)*	Types of Landlords
Inner City Landlords	Formally employed (42-58%) Well educated (62% >matric) Male (>53%) Formal rental accom (flats)	Sub-letting (38%) 1 Unit Owner (23%) 2+ Unit Owner (17%) Building Owner (2%) Managing Agent (21%)
Township Landlords	Unemployment high, many retired Poorly educated Female (>68%) Formal/informal rooms/units	Formal Unit (13-41%) Informal Unit (10-76% Tenant Built Unit (2-43%)

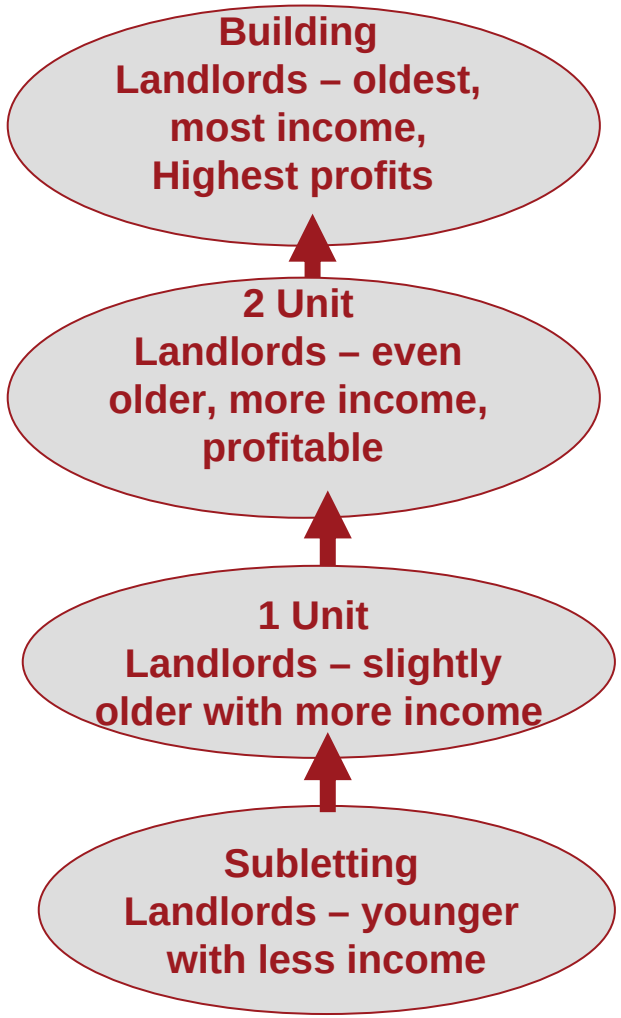
Application of policy, provision of funding and other support – must take into account differences

Entrepreneurship

Not all Landlords are entrepreneurial- only some invest, take risk and want to expand their portfolios

- **In Inner Cities:**
  - 38-45% motivated by investment
  - 49-56% motivated by monthly income
  - 56-69% would like to acquire additional stock
- **In Townships:**
  - Predominantly motivated by earning income (51-94%)
  - Less than 24% added a new unit in the last 5 years
  - >52% want to keep the status quo
  - < 38% want to improve or expand
  - Exception is Cato Manor (younger, entrepreneurial)

Evidence of a ladder of business growth in Inner Cities



Business Support

Performance and profitability of SSLs dependent on the extent to which the business is operated on a formal basis

- **Township, Subletting and Unit Owner Landlords**- manage stock themselves and operate business on informal basis
- **Building Owners and Managing Agents** – use agents and operate business on a formal basis
- Amount of rental charged and profitability relate not only to location and quality of stock but also operating formality:

  Informal

  Township – R97-R225

  Subletting – R898 (32% made money)

  1 Unit – R1038 (32% made money)

  2 Unit – R1053 (62% made money)

  Formal

  Building – R1183 (75% made money)

  Managing Agent – R1728 (not known)
- Maintenance levels higher were rents higher

SSLs will benefit from appropriate business support. Potential negative effect is increases in rentals and reduced affordability.

Key findings: Access to finance

Different categories of Landlords access finance differently and have different needs and preferences.

Those that operate on an informal basis have less access to finance than those operating more formally

Township, Subletting and Unit Owner Landlords

Mobilise personal savings rather than formal loans (62-82% used own money)

Access to financial products generally poor :

- Under one third of Subletting and Unit Landlords accessed loan to purchase unit
- Fewer than 12% of Township Landlords accessed loan

Township Llds reluctant to use house as collateral

Building Owner and Managing Agency Landlords

Access loan finance more easily – three quarters accessed a mortgage loan and half have a current or cheque account

Commercial Banks risk averse. Development Institutions focus on Social Housing. TUHF has Specific focus.

Need for a substantial increase in access to loan finance – loan product development (credit and business support) must be appropriate to market circumstances of different categories of Landlords

Type & quality of stock

- Stock includes rooms and flats- either formal or informal
- Access to services good in Inner Cities and poor in Townships
- Quality of stock not surveyed – but anecdotal evidence indicated that it is poor (esp in Townships)
- Maintenance is limited
- Most stock does not comply with NBR, Local Govt Town Planning and Building Ordinances and Bylaws
- However tenants expressed satisfaction

Need to review regulatory requirements – to make them applicable to the market sector.

Challenge is to upgrade stock to ensure health of occupants within resource constraints of Landlords and Tenants

Landlord/Tenant Relationships

Generally both Landlords and Tenants believe they have good relationships. Most tenants satisfied with quality of unit and services. Despite high levels of informality – high levels of understanding of roles and responsibilities

- Most (79-100%) of Township, Sub-letting and Unit Landlords do not have written agreements with tenants. All Building Owner and Managing Agent Landlords do.
- Subletting (27%) and Unit Landlords (23-28%) have **less problems collecting rent** than Building Landlords (100%) and Landlords using Managing Agents (30-40%)- could be result of **more personal relationship.**
- In Townships, levels of default low - although rescheduling is common.
- The use of eviction by Landlords **appears to be limited -** Of those who do evict most do not experience problems
- Generally Landlords (83-100%) believe that relationship with tenants is good - supported by Tenants (67-72%)

Written contracts contribute to formality and should be encouraged.

Regulation

There is a range of legislation/regulation that applies to SSLs focusing on how they operate as a business and quality of stock

Generally SSLs have limited understanding of and do not comply with regulation

Legislation/regulations not supportive/negative impact:

- Income Tax Act
- Common law and Rental Act
- PIE ruling
- Free Basic Services
- Sectional Title Legislation

Value in providing information on legislation and regulations – why important and how formality can improve the business

Regulatory impact assessment and review required

Perception & support

- Many Govt Officials and Politicians have negative perceptions of the Sector
- Recent Govt policy (Comprehensive Plan for the Development of Sustainable Human Development) calls for eradication of informal settlements – interpreted to include informal stock offered by SSLs

Value in informing Govt Officials and Politicians on development contribution of the sector:

- **Housing SA's poorer households**
- **Stimulating SME development and income generation**

Sector can be supported in a way where quality of stock is improved progressively

Public Sector Stock

- Historically developed by Government to provide affordable housing to low income households
- Generally, no new stock being developed - many units disposed of through Sale and Transfer of Housing Stock Policy
- Public Sector stock only appropriate for SSLs where they can operate it on market principles - for this to occur must resolve:

  Rights of tenants living in building to take transfer of their units.

  Relocation of those tenants who cannot afford increased rentals.

  Physical structure upgraded where necessary

Unlikely that SSLs will be a significant mechanism to address difficult to sell Public Sector Stock without considerable investment by the State.

Proposals



Terms of reference

Develop a range of interventions to:

- Inform policy and strategy to **better access housing investment opportunities for SSLs**
- Support **productive relationships** between Landlords and Tenants
- **Identify housing finance interventions** necessary to build a SSL sector in low income areas.
- Develop **appropriate information products and tools** for SSLs
- Develop a basis for **SSLs to deal with difficult to transfer state owned stock.**

Proposals developed

Policy implications

Financial products

Information products and tools

State owned stock

Proposal 1: Policy implications

Key considerations:

- Current policy in SA – **recognises the need to support the growth and development of private enterprise** – particularly SME's
- House provides a **critical platform for use by SSLs-** supply and manage affordable rental housing and promote income generation and wealth creation
- **SSLs provide substantial development outcomes (accommodation and income generation)**
- SSLs mainly operate in the informal economy – to formalise and grow need an **enabling environment, access to finance and business support**
- SSLs operate in the **private sector** – earning income and profit. Funding provided should encourage and support **investments made to create new stock or improve existing**. Govt funding should be aligned to incentives rather than subsidisation through the National Housing Subsidy Programme

Proposed programmes

- **Recognition and support**
- **Review of regulation**
- **Support to Municipalities**
- **Incentives for Landlords**

Proposal 1: Policy Implications

Programme 1: Recognition and Support of SSLs

To develop a national public policy framework whereby SSLs are recognized as providing affordable accommodation with flexible and good relationships with tenants, that increase densities in urban areas, improve city effectiveness, and have positive LED and BEE outcomes in respect of income and wealth creation and asset ownership.

Programme 2: Review of Regulatory Requirements

To review and streamline the regulatory requirements impacting on SSLs (legislation, regulation, by laws etc) through a Regulatory Impact Assessment

Programme 3: Support to Municipalities

To provide support to Municipalities to manage and regulate SSLs, in a manner that creates an enabling environment.

Programme 4: Incentives to SSLs

To provide incentives for SSLs in designated Development Zones (criteria to be applied) to encourage the emergence of additional SSLs and improve stock quality provided by existing and new Landlords. (Baseline Tariffs, investment incentives in Townships, UDZ incentives in Inner Cities)

Proposal 2: Financial products

Key considerations:

- Access to financial products for SSLs generally poor
- In Townships - reluctance to use house as collateral
- Performance of Municipalities impacts on lender appetite
- Provision of finance more effective when undertaken on credit plus basis

Proposed loan products

- **Township Accommodation Loan**
- **Inner City Sectional Title Loan**
- **Building Investment Loan**

Proposal 2: Financial Products

Township Accommodation Loan

Description	**Existing Accommodation Loans (Type A)-** extended to owners of existing units where unit utilised as rental accommodation **New Accommodation Loans (Type B)-** commitment to provide loan once new accommodation for rental has been built
Capital	R3,000-R40,000 - Loan amount determined on basis of the rental income
Term	Short (36 – 60 months)

Inner City Sectional Title Unit Loan

Description	**Loan to acquire or upgrade sectional title units in Inner Cities – a business support based loan** with condition that borrower must appoint business support Service Provider for the initial
Capital	R50,000 – R120,000 – Loan amount based on the net free cash flow from unit (rentals less costs incurred)
Term	Medium (60 – 120 months)

Building Investment Loan

Description	**Loan for the acquisition or upgrading of inner city buildings.** Linked to Business Support
Capital	Building specific. May incorporate mix of debt and equity.
Term	Long (120 to 240 months)

Proposal 3: Information products and tools

Key considerations

Stakeholder	Findings	Implications
Small Scale Landlords	Operate informally. Formalisation leads to improved business performance. Limited awareness, understanding and compliance with regulations and mechanisms.	Need for focused information on business operations, regulations and opportunities
Officials and Politicians	Mixed views on benefits of SSLs. Limited knowledge and recognition of economic and developmental outcomes.	Study findings should be disseminated and promoted - economic & developmental role
Service Providers and Funders	Offer range of products and services but do not recognise potential of sector	Encouraged to adapt existing and offer new products and services
General public	48% of households own a house - use to generate income and create capital is limited.	Promote use of house to generate income

Proposed programmes

- **Information and education campaign SSLs**
- **Information campaign general public**
- **Forums**
- **Communication prog for officials, politicians, lenders & practitioners**

Proposal 3: Information products and tools

Programme 1: Information Campaign Landlords & Tenant
To communicate roles and responsibilities, encourage the use of written lease agreements and house rules and enhance the understanding of sectional title and body corporates (Standard lease agreement and Information materials)

Programme 2: Communication Programme for Officials, Politicians, Lenders and Practitioners
To disseminate the findings of this research, particularly the developmental role of the sector and promote debate (Procedures, workshop and articles)

Programme 3: Information Campaign to the General Public
To promote income and wealth creation potential of being a SSL.

Programme 4: Forums
To facilitate information sharing among Small Scale Landlords and improve business operations and knowledge.

Proposal 4: State Owned Stock

Key considerations

- Research concluded that generally SSLs unlikely to be key mechanism for addressing difficult to sell State Owned Stock - without considerable investment by the State.
- May however be limited stock appropriate for SSLs
- Specified process required to ensure effectiveness of the engagement with SSL

Conclusions



Conclusions

- SSLs **delivering at scale** offering about as much accommodation as that delivered by the national housing subsidy scheme since 1994 - accommodation for 1,85 million households, 60% (1,1 million) provided in backyards
- Many SSLs are otherwise **unemployed** and in Townships many are elderly **women**
- SSLs offer accommodation that is **well located and affordable for poor people** – average income of tenants is R1800
- SSLs are low income **small scale enterprises who are earning income** – approximately R421 million per month or R5 billion annually
- **Significant growth opportunities exist** – both in terms of existing and new SSL's
- Given high levels of unemployment and poverty in SA, Government, Financial Institutions and Business Service Providers need to **recognise the house is an economically productive income generating asset**
- Government policy, the practice of Financial Institutions and other service providers needs to be adjusted to support SSL's
- **Focused initiatives and programmes should be implemented**