

**Social Housing Foundation**

**Urban LandMark**

**STRATEGY**

**For Increasing Supply of**

**SMALL-SCALE PRIVATE DWELLING RENTAL**

**In South Africa**

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## 1. INTRODUCTION

This report outlines a proposed strategy to harness the power of small-scale private landlords in order to increase the rate and scale of delivery of affordable, acceptable rental accommodation in South Africa's existing suburbs and townships.

The document consolidates the key findings and recommendations emanating from a project undertaken by the Social Housing Foundation (SHF) and Urban LandMark. It constitutes the final outcome of a project that aims to provide greater understanding of, and profile to the Small Private Dwelling Rental (or "small-scale rental") market within South Africa's Human Settlements framework. Driven by the Social Housing Foundation and Urban LandMark, and involving a range of representatives from provincial government and civil society, it is the most comprehensive attempt yet to engage with the small-scale rental sector in South Africa's history.

The project incorporated the following activities: a strategic assessment of local and international literature relating to small-scale dwelling rental undertaken by Vanessa Watson<sup>1</sup>; eight tenant and landlord focus groups undertaken by Social Surveys<sup>2</sup>; a report compiled by Susan Carey and the SHF<sup>3</sup>; two focus group workshops for professionals and various one-to-one consultations.

This document does not review in depth all information from these inputs and processes, but rather highlights strategic implications flowing from them in order to develop a viable, comprehensive human settlements strategy for this important accommodation sub-sector.

## 2. DEFINITION & SCOPE

The lack of a clear definition of this type of accommodation and delivery system is partially responsible for a misinterpretation of its true nature and potential. Numerous terms and definitions are applied to such accommodation, many of which are factually misleading, refer to subjective definitions or generalise conditions found only in a proportion of accommodation in this sub-sector. These terms include:

- **Informal** rental: not all units are informal, either in terms of built form or legality of tenancy.
- **Backyard** rental: many, but not all units are found in 'backyards'. Such accommodation can also be the primary dwelling or one of many dwellings on a property.
- Backyard **shacks**: approximately half of all units are not shacks, but conventionally constructed dwelling units of varying standards.
- **Slums**: In certain areas, this form of accommodation leads to slum-like conditions, but the majority are not slums. Such accommodation can be

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<sup>1</sup> Social Housing Foundation (March, 2009): *Strategic Literature Assessment for Informal Rental Research Project*. Compiled by Vanessa Watson

<sup>2</sup> Social Surveys Africa (2009): *Informal rental research project*. Report for the Social Housing Foundation & Urban LandMark.

<sup>3</sup> Social Housing Foundation (May, 2009): *Investigation into the Proliferation of Low Income Private Rental Housing Supply, and the Development of Recommendations regarding Appropriate Interventions / Responses*. Compiled by Susan Carey and Social Housing Foundation.

completely acceptable in terms of all international and national norms and standards in relation to acceptable accommodation.

- **Second Dwelling Unit** rental: not all are in second dwelling units, others include more than two dwelling units and also may include the primary residence.
- **Household** rental: not all is managed by a household, there are also individual operators that procure sites or houses with the sole aim of renting out rooms in the main house as well as elsewhere on the property.
- **Room** rental: while many are single rooms, many are also more complete structures including multiple rooms, bathrooms and kitchens and most also have access to all key services (water, sanitation and electricity).
- **Secondary / Subsequent Dwellings**: While most are procured after the primary dwelling is constructed, certain delivery methodologies lead to such units being produced before the main unit<sup>4</sup>.
- **Informal Settlement**: In South Africa such accommodation is generally included in the definition of informal settlement, with respect to the government's intent to eradicate informal settlement. However, it has very different tenure and servicing conditions than informal settlements.
- **Illegal or Exploitative rental**: While exploitative and illegal activities may occur in this market, there is little evidence indicating this is of a significantly higher prevalence than in other rental sub-markets.

Using these different and often misleading terms interchangeably in policy discourse leads to a misrepresentation of this accommodation sub-sector, the shelter conditions and human settlement benefits it offers<sup>5</sup>. Critically, such terms polarise views about an important, complex and little-understood housing sub-market and delivery system. Through doing so, this leads to inappropriately conceived policy responses to such accommodation.

A universal definition must separate the accommodation **delivery system**, the accommodation **outcome** and the subjective description of accommodation **quality**. The delivery system refers to the processes through which such accommodation is procured. The accommodation outcome refers to the objective definition of the accommodation form and type. For example, whether the accommodation is built of formal/durable or informal/temporary construction materials; whether it is conventionally or unconventionally constructed, the size of the unit, and the level of services it has. The subjective description of quality relates to the perceptions of acceptability and illegality in relation to currently defined norms, standards and regulations relating to human settlement. It is only by separating these three elements that an informed response can be developed to the potential of this delivery system as a viable approach to the procurement of affordable rental stock.

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<sup>4</sup> For example, in-situ upgrading and phased development of subsidised housing may well result in the first, temporary or smaller unit produced by the household becoming the unit that is rented out once the core unit is completed.

<sup>5</sup> This can be likened to referring to the often-held public perception that the private taxi industry in South Africa is undesirable, dangerous, illegal and exploitative transportation, rather than focusing on what it can deliver (that is, privately-managed, accredited, state-sanctioned, affordable mass transportation). This places emphasis on the negative outcomes, rather than the positive prospects for this industry and how to improve the outcome of the delivery system.

Core defining elements of the delivery system are the following. First, although it is one of the largest housing sub-sectors in South Africa, it is generally a small-scale activity, seldom exceeding five units per property<sup>6</sup>. Second, it is produced on privately-held land<sup>7</sup>. Third, such stock is procured and managed by private individuals<sup>8</sup>. Fourth, accommodation produced is offered to occupants who are separate households<sup>9</sup> through private rental treaty<sup>10</sup>, whether formal (written) or informal (verbal) in nature. All other characteristics and outcomes of such accommodation are variable. Based on these considerations, a proposed universal working definition is:

**“Small-scale Private Dwelling Rental” (small-scale rental)**

By definition this therefore excludes corporate and publicly-owned accommodation such as social housing, private sector company rental housing, inner-city multiple-unit, multiple-storey accommodation and hostels. In addition, rental of units in informal / illegal settlements is also excluded from this definition, unless tenure in such settlements is being formalised<sup>11</sup>. These are deemed to be different delivery systems requiring separate analysis, policy frameworks and supports.

Adopting this universal definition based on the underlying characteristics of the delivery system focuses policy debate on the potential of this delivery system as a viable and necessary component of South Africa’s future sustainable human settlements development strategy. Defined this way, **the small-scale rental**

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<sup>6</sup> In certain locations such as Orlando East in Soweto, Johannesburg, densities of up to 18 units per property have been recorded. However, densities of one to three units per property are most common (Gardner, 2004). In addition, if regulated appropriately, prevalence (proportion of properties that have rental rooms) and density (number of units per property) could be maintained at acceptable levels.

<sup>7</sup> This includes privately-held or owned land, with a wide range of tenure types including freehold, leasehold, rental, allocated by traditional authority, or a part of a phased tenure process (such as the LANDfirst campaign of Urban LandMark and Afesis Corplan being piloted by the Johannesburg Metro (Urban LandMark, 2008).

<sup>8</sup> This definition specifically excludes corporate production of housing. However, an applied form of such accommodation could be larger-scale production by small-scale landlords (SSLs). This is however considered to be a separate delivery system, worthy of separate consideration. Generally this requires some form of corporate entity, the separation of the landlord from the rental units, more formal systems and procedures for managing the units and the occupants, and different procurement and financing mechanisms.

<sup>9</sup> This can include any separately identifiable households, including single person households such as students, unmarried people, single parents with one or two children and couples, migrant workers, widows / widowers, people with dread disease needing proximate care). If such accommodation does not house a separately identifiable household, it should be considered to be an extension of the main house.

<sup>10</sup> While accommodation is often allocated at no cost to family members or bartered for services, this is still subject to clear lease conditions such as period of occupation, basis of occupation, rental charged, services to be rendered in lieu of rental or in addition to rental and house rules (Gardner, 2004). Where this is not the case, such a unit is considered a part of the primary dwelling.

<sup>11</sup> While the delivery process through which rental units are produced and leased in informal settlements is similar to that in formalised areas, such units lack many of the inherent benefits of the small-scale rental sub-market. Such benefits include the underlying secure tenure, regularised plots, the potential for formally constructed units comprising permanent materials due to investment uncertainty, access to basic services for small-scale rental occupants, proximity to other urban services and amenities and the scope for improvement over time. Once informal areas are included in tenure regularisation or upgrade processes (within ULM’s wider definition of progressive land rights) they would fall into the definition of small-scale rental used here.

***delivery system must be viewed as a viable potential producer of appropriate, acceptable and affordable rental accommodation at scale.*** This emphasises the need to optimise the conditions under which, and processes through which the small-scale rental delivery system operates to produce desirable human settlement outcomes, rather than defining the sub-sector (and tarnishing the delivery system) based on one or more undesirable characteristics or outcomes from this delivery system that relates only to a proportion of accommodation produced<sup>12</sup>.

### **3. CHARACTERISTICS OF SMALL-SCALE RENTAL**

Small-scale rental is an international phenomenon, and is not unique to South Africa. Notwithstanding the fact that a proportion of such accommodation does not meet recognised housing standards, this sub-sector is 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 rental units. This equates to approximately 10% of all South African households (SHF, 2008). Contrary to popular belief, 53% of all small-scale rental units are formally constructed (houses, flats, or rooms), with the balance (47%) being shacks. The small-scale 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 rental sector is houses, flats and rooms built on existing properties, with a growth rate of 83% between 2002 and 2006. The average delivery of formal, small-scale rental units between 2002 and 2006 was 33 500 units per annum.

#### **3.1. Continuum of Small-Scale Rental Accommodation Options**

The small-scale rental delivery system produces a wide spectrum or continuum of accommodation outcomes across many of South Africa's urban and rural human settlement zones. Small-scale rental is generally associated with 'backyard rooms' and 'backyard shacks' in South Africa's lower-income, traditionally black townships. However, areas in which small-scale rental is found include old (pre-1994) townships, new (post-1994, RDP and BNG) subsidised settlements and traditionally white, coloured and Asian low, medium and high-income neighbourhoods.

Across and within various urban zones such as low-income townships and medium and upper-income, low-density suburbs the characteristics of small-scale rental vary. Therefore, the 'garden cottage' and 'granny cottage' associated with middle and upper-income neighbourhoods, second dwelling units, workers' quarters, communes, converted garages, backyard rooms and backyard shacks and small-scale tenements are all outcomes of the same set of processes. These different outcomes are determined only by changes to the factors of supply and demand for such accommodation.

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<sup>12</sup> An indicative example of this would be, for instance, referring to inner-city corporate rental accommodation as 'slums' because certain buildings have degenerated into slum-like conditions and other non-residential buildings have been occupied illegally. Clearly, there are many inner-city corporate-owned buildings that deliver good quality accommodation.

The universal (or fixed) elements of accommodation produced by the small-scale rental delivery system include the provision of relatively secure rental tenure<sup>13</sup> and access by tenants to at least basic levels of service<sup>14</sup>. Critically, these two elements comprise the core focus of the Millennium Development Goals' requirements for eradication of slums. The variable elements of accommodation produced by the small-scale rental delivery system include the size of the structure (varying from small single rooms to large, multiple-room dwellings<sup>15</sup>); the nature of construction (made of informal or impermanent materials through to conventionally constructed); Standards of accommodation (not meeting any recognised accommodation standards to fully complying with accommodation standards); and the number of units per stand (single unit per stand to multiple units). Across this continuum, landlords and tenants make rational supply-side and demand-side decisions that affect the development and operation of this sub-market in response to prevailing social, economic and policy parameters.

Recognising and understanding this complex continuum of small-scale rental outcomes, delivered by the same basic delivery system, concentrates attention on the preconditions that will lead to the delivery of improved small-scale rental outcomes, rather than on outcomes deemed undesirable. This then will lead to a more balanced policy response to an intricately balanced housing sub-market, rather than a blanket condemnation of all accommodation provided through this delivery system or indeed heavy-handed interventions that will upset the dynamics of the sector.

### **3.2. Preconditions for Small-Scale Rental Development**

Certain supply-side and demand-side preconditions are required for the development of small-scale rental irrespective of the zone in which it is developed. Considering the supply-side, by definition small-scale rental can only occur on sites with recognised title (even if progressive in nature), under the control of a landlord with legal rights of occupation and use (ownership, leasehold or rental) over the site. If this is not the case, it is then defined as informal or illegal rental. The availability of surplus space on existing titled sites within existing proclaimed urban areas is therefore the critical precondition for the growth of small-scale rental.

A further precondition is access to on-site infrastructure such as sanitation, water and electricity. In certain cases external access to services already exists, but at worst this requires a link to internal services on-site or possibly to mains lines on the boundary of existing sites.

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<sup>13</sup> While such tenure is often not recorded in formal leases, conditions of tenancy are generally well understood between landlord and tenant. There is little evidence indicating that the levels of exploitation of tenants by landlords is any worse in the small-scale rental sub-market than in any other rental sub-market. In fact, there is survey evidence from certain areas to indicate that small-scale rental tenants experience a more sympathetic, direct relationship with their landlords than tenants in other sub-markets such as inner-city private accommodation (Gardner, 2004).

<sup>14</sup> Note that as the definition excludes room and shack rental in informal settlements, the small-scale rental accommodation under consideration in this report will have access to at least basic services. Surveys in such areas have indicated almost universal access to at least shared water, sanitation and electricity connections albeit that these may not always meet regulated standards. Levels of service extend from this basic level of access through to fully-serviced units.

<sup>15</sup> While very small rooms and shacks do occur (say, 4m<sup>2</sup>), rooms are on average 6m<sup>2</sup> to 16m<sup>2</sup>, even in lower-income areas. Sizes do extend to fully self-contained, multiple-room housing units.

With these two basic requirements in place, the next precondition is an owner or occupier with the right and motivation to deliver small-scale rental accommodation on site. This is coupled to the requirement for access to resources (capital or materials) for small-scale rental construction, either from the landlord or in certain cases, the tenant<sup>16</sup>. These two preconditions are generally the largest impediment to the sustainable growth of small-scale rental, due to the political stigma and statutory or regulatory controls impeding the growth of small-scale rental in many areas, and constraints on accessing finance for small-scale rental development. Lack of political support and a regulatory framework that does not incentivise such development lead to minimum housing conditions being met rather than encouraging optimal outcomes.

The large number of existing properties in low-density housing areas on which most or all of the above preconditions are met offer the greatest latent human settlement potential in South Africa. Due to the existence of most of these preconditions immediately upon the delivery of subsidised and/or privately purchased accommodation, this offers a potential short-cut to the provision of acceptable accommodation in comparison to other delivery systems such as informal settlement upgrading or greenfields development.

On the demand side, small-scale rental relies on adequate demand from small and intermediate-sized households for such rental accommodation. Contrary to the situation in informal settlements, by definition small private dwelling renters have some disposable income to pay regular rentals to landlords (SHF, 2008). While rentals are low, average rentals in informal small-scale rental dwellings in 2006 is R147 per month, and for formal dwellings, R291<sup>17</sup>.

#### **4. MOTIVATING FOR INCLUDING SMALL-SCALE RENTAL IN HUMAN SETTLEMENTS POLICY**

Finding an approach through which the state can engage with small-scale rental has led to polarised views. On the one hand are those that see small-scale rental as a necessary and viable housing sub-market, offering the potential for rapid development of affordable and acceptable intermediate rental housing opportunities at scale. On the other hand are those required to work within existing legislative, policy and regulatory frameworks, who are required to focus on adhering to stated policy intent and existing housing standards. Underlying these polarised views are certain commonalities that must be highlighted if a mutually acceptable and beneficial way forward is to be found.

##### **4.1. Limitations of Current Settlement Policies**

It is generally recognised that current state housing delivery processes cannot deliver the scale of housing required in South Africa at a sustainable rate, and within the affordability constraints of lower-income households. There is growing evidence

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<sup>16</sup> Where landlords build accommodation this is either from informal materials or formal materials. Where the tenant constructs small-scale rental accommodation, it is exclusively informal.

<sup>17</sup> As with all housing markets, rentals vary per area and according to the size, nature and level of finish of dwellings. For instance, a basic, conventionally constructed backyard room in Tembisa commands around R500 per month at present.

that it will be impossible for South Africa's current settlement policy to meet its MDG targets to 'eradicate informal settlement' by 2014 as it is currently implemented. The housing delivery processes aimed at the needs of the urban poor suffer from severe capacity problems and cannot draw on the resources located in the traditional housing and property markets (Sustainability Institute, 2009:10). For example, consider the requirements just to house the estimated 1,1-million households in informal settlements (and estimated to be growing at a rate of between 2% and 6% per annum). Topham (2009: Interview) calculates that accommodating these households in a full RDP-package (40m<sup>2</sup> top structure, a 250m<sup>2</sup> stand plus 30 percent of the subsidy amount for roads and amenities) would require 35 750 Ha of land plus the bulk and connector infrastructure to service it, which would cost an estimated R84-billion, or 70% of the projected national housing budget from 2009-2015.

There is also an increasing awareness that current housing programmes do not meet the human settlement requirements of all households. The inability of a 'one size fits all' subsidy policy to meet the required diversity of affordable accommodation demand is clear. This was acknowledged in the Breaking New Ground 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<sup>18</sup>. 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.

Current housing policy has made little impact on stimulating the supply of rental accommodation affordable to lower-income households (earning less than R3 500 per month). Although the Social Housing Act requires a proportion of all stock to be affordable to households in the two lower subsidy bands (earning R1 500 to R2 500 per month and R2 500 to R3 500 per month), the scale of delivery in these bands is limited. There are increasingly better understood and clearly expressed requirements for alternative tenure arrangements (such as rental) and intermediate accommodation options (such as smaller-scale, better located units). For example, new private and social housing inner-city accommodation providers indicate very large demand for more affordable, smaller units. In Johannesburg's inner city, private developers indicate immediate take-up of units as small as 12m<sup>2</sup> bachelor flats, mostly occupied by single people, couples or single parents, whereas it is often difficult to let larger, two and more bedroom units in similar areas<sup>19</sup>.

Both quantitatively and qualitatively, alternative accommodation delivery strategies are required. Importantly, small-scale rental provides a delivery system through which rental accommodation affordable to households earning R3 500 and below is developed. The SHF (2008) shows that 87% of all shack renters have incomes of

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<sup>18</sup> Shifts towards improved delivery of social housing, and improved standards and mix of housing types in fully-subsidised settlements, have done little to improve the supply of rental accommodation generally, as well as affordable accommodation beyond fully-subsidised housing in any form.

<sup>19</sup> Interview with Andreas Bertoldi. Based on work undertaken for the Johannesburg Development Agency in 2009.

less than R3 500 per month<sup>20</sup>. The key challenge is how to encourage and support the potential supply of affordable rental accommodation that small-scale rental offers, while simultaneously ensuring basic standards and levels of service are met.

#### **4.2. Market Effects of Current State Housing Policy**

There is a growing recognition of the impacts that the current housing policy and programmes have on the housing market. The primary impact is at the low end of the private housing market, created by the promise of fully-subsidised, 'free' housing. This creates an artificial 'gap' in the housing market above the housing subsidy level due to the inability of the private market to deliver competitive, affordable housing costing less than about R300 000 to households earning less than around R12 000 per month (Gardner, 2009). A further impact 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 in the subsidised market. Such households would rather wait for subsidised housing than commit private resources to rational alternatives in the interim.

A further limitation of the programme is the shortfall in the production of affordable rental accommodation. The Social Housing programme and Community Residential Unit (CRU) programme provide limited new, affordable rental stock to the market. A gap therefore exists in the rental market between the average-value small-scale rental units (with average rentals of R300 per month for formally constructed units, and R150 per month for informally constructed units) on the one hand and the average-value private rental unit market with rentals of R1 500+. Supply shortages exist in the rental market right up to the R3 000+ per month level, where currently supply outstrips demand. The small-scale rental delivery system has a major potential to fill this gap with affordable rental accommodation.

The spatial structure of South Africa's cities and towns are also cause for concern. The many negative consequences of continued sprawl of low-density accommodation are well documented, yet few affordable accommodation programmes exist that rectify this.

#### **4.3. Demand for Intermediate Housing Alternatives**

A study commissioned by the Social Housing Foundation (2008) into the supply and demand for rental accommodation concludes that there is an overwhelming demand, and therefore a critical need for affordable rental accommodation in South Africa. Gardner (2004) shows that a very high demand for affordable rented rooms, both formally and informally constructed, exists in most South African urban areas. 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.

Analysing household dynamics generally in South Africa, and specifically in informal settlements and the small-scale rental sub-sector, indicates a trend towards smaller households, and therefore a need for intermediate-size accommodation. On average, about one-third of all households generally considered to fall into the

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<sup>20</sup> 30% earn less than R850 per month, 23% between R850 and R1500 and 34% between R1500 and R3500 per month. While the incomes of those in formal small-scale rental units are higher, they are not significantly so, and the majority still earn less than R3 500 per month.

'housing backlog' statistics comprise single-person households, one-third comprise two-member households, and the remaining third comprises households of three or more members. Some of these small households may exist out of necessity, as households may fragment simply due to the lack of adequate accommodation. But many smaller households result from normal demographic trends and include singles such as unmarried people, students, widows and widowers and temporary migrants, and two-member household units including young couples, couples without children, same-sex partners and single parents.

Even within perfectly efficient housing systems, a demand for smaller accommodation opportunities will exist. 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. This substantially changes the complexion of the accommodation delivery challenges facing South Africa over the next decade.

The current subsidised housing policy that delivers – with little variation - 40m<sup>2</sup>, mostly free-standing, freehold houses is not a comprehensive or responsive solution to such demand patterns. Similarly, the MDG target to eradicate 'informal settlement' 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<sup>21</sup>. The current occupants of small-scale rental have a much closer match to the overall profile of South Africa's poorly housed and unhoused households, and many find a better accommodation fit in such accommodation in relation to government-subsidised programmes.

#### **4.4. Acknowledge Diversity of Accommodation Needs**

There are calls for greater official recognition for the range of accommodation supply channels that exist beyond subsidised housing (Urban LandMark, 2008). There is an increasingly finely nuanced understanding of urban land markets in the lower-income areas of South African cities, and of the different land/housing options open to lower-income households (Smit, 2009 & Voices of the Poor study). Smit (2009:3) refers to *"a complex mix of financially-driven processes...mediated by local community-based organisations and ...by the state"* that lead to a number of housing sub-markets including but not limited to room and shack rental. Each sub-market, and each housing option within it, *"has various advantages and disadvantages, and respondents usually made conscious choices between different options (except with regards to RDP housing or public rental housing, where choice was limited)"*.

The motivation for households to choose specific accommodation options is based on various factors. These include adequacy of location, shelter, space and services, and affordability (upfront and on an ongoing basis), physical security and tenure security. However, while various options exist on the 'informal end' of the accommodation continuum for lower-income households (informal settlement,

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<sup>21</sup> In one survey, only 53% of respondents in RDP houses felt that their situation had improved after getting their RDP houses (Smit, 2009:73). Furthermore, there is documented evidence of subsidised housing beneficiaries opting to sell or rent such accommodation in favour of occupying it, as it does not meet one or more accommodation priority.

backyard shacks, sharing), there are few on the 'formal end' of the spectrum (Smit, 2009).

Different accommodation options are applicable at different stages in the lifecycle of individuals and households, and there is frequent movement between options where these exist (Smit, 2009). Various land/housing options are seen as having particular advantages and disadvantages, and are seen as suitable for particular households/individuals at certain times, rather than being considered inherently "better" or "worse" than other options in general (Smit, 2009).

Far from always being a forced, undesirable accommodation option necessitated by lack of choice, in many cases small-scale rental is a viable and rational accommodation choice by many households. Such households prefer rental over ownership, only require small living spaces (such as single people and small households), do not wish to - or cannot pay - large sums of money for accommodation or may prioritise accommodation location over unit size. Even with the option of procuring fully-subsidised houses, a proportion of all households in any society will still consistently opt for small-scale rental.

#### **4.5. Acknowledge Potential Benefits to State**

The role of small-scale rental in South Africa's human settlement development framework offers potential benefits to government on various fronts. Specifically, it provides preferable 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 informal settlement, especially for intermediate-sized families and those requiring more flexible tenure.

Small-scale rental has potential as a 'quick win' delivery system that could rapidly produce affordable, appropriate, acceptable and desirable accommodation. This could result in fiscal / economic benefits to government, if private sector actors produce affordable rental accommodation at scale. In addition, through densification of existing human settlements, various economic benefits can be accrued such as utilisation of existing infrastructure investments in such areas and reduced pressure on transportation infrastructure from settlements further afield.

Small-scale rental offers an economic / income generation potential as well. For instance, a R15 000 investment in a well-located formal PDR unit can command a starting rental of R500 per month (based on current market dynamics in the Midrand, Gauteng small-scale rental market). Rentals are also shown to escalate over time, although this may not be inflation-linked. This works out to a return of investment of about 40%, with a 2.5-year payback period after which this becomes a regular, un-gearred income stream to the household.

#### **4.6. Potential Implications of Intervention**

The overall housing system is an interrelated, fluid 'Housing Ecosystem' (Rust, Gardner & Bertoldi, 2007) of which small-scale rental is an integral part. Housing conditions within the small-scale rental sub-sector are linked to conditions and dynamics in all other housing sub-markets. As is the case with all housing sub-markets (with the exception of fully-subsidised housing), small-scale rental is what can be referred to as a 'financially dominated market' (Urban LandMark 2009). The

evidence supported the fact that monetary exchange, however small, was a defining element of these rental arrangements. Gardner (2004) found that rentals in this market vary according to location, size and nature of construction of small-scale rental units as they do in more regularised housing markets. Further, the small-scale rental sub-market is demand-driven<sup>22</sup>. Within the sub-market, tenant affordability versus stock availability determines the location, size and type of accommodation that can be procured. While small-scale rental offers the lowest rentals of any housing sub-market with the exception of shack rental in informal settlement, Smit (2009) indicates that unaffordability of rent is a key reason for the displacement of people from such units. It is therefore the housing sub-market most likely to be impacted by any intervention across the whole housing ecosystem.

As with any urban settlement programme, policymakers must consider the implications of displacement of those who are already housed there. Ill-conceived policy targeted at improving the small-scale rental sub-market could damage a necessary yet fragile housing ecosystem. The two most common strategy responses to small-scale rental internationally are eradication or removal ('slum clearance'), and upgrading or improvement (gentrification) of existing accommodation. Internationally, few strategies have attempted to facilitate the production of more small-scale rental units. Interventions that reduce the number of units in the market or change their affordability profile will necessarily lead to displacement of households, and without the availability of alternative, equally affordable accommodation this could be considered to be against South Africa's Constitutional principles. Furthermore, small-scale rental is located close to the bottom of the 'housing ladder'. Displacing households from small-scale rental without providing viable alternatives will at best force them into similar conditions elsewhere (often displacing others), or most likely into worse housing conditions on lower rungs of the housing ladder. Generally, such displacement implies relocation into informal settlements, often meaning a loss of access to (more) secure tenure, preferential locations and access to basic services.

#### **4.7. Recognise Human Settlement Benefits & Potentials of Small-Scale Rental**

Small-scale rental houses a large number of South Africa's households. While opting for small-scale rental is a rational choice given available accommodation options and costs for many households, it also offers a safety net for many marginalised households that cannot procure better accommodation, either because it is unavailable or because it is too costly.

Contrary to common belief, many small-scale rental units already meet minimum acceptable accommodation standards. Surveys have shown that most small-scale rental units in existing proclaimed townships and suburbs offer secure tenure<sup>23</sup> and most units have access to all basic services on-site. Furthermore, over half of all

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<sup>22</sup> This means that a lack of sufficient accommodation supply may push rentals above 'natural' limits. In an extensive study in three areas undertaken by Nurcha (2004), landlords indicate no difficulties in procuring new tenants, while tenants found it difficult to find alternative accommodation in the sub-sector.

<sup>23</sup> Informal tenure (that is, not recorded in a formal lease) must not be confused with insecure tenure. While in certain circumstances the security of tenure of small-scale rental occupants is unclear, evidence such as the length of time renters stay in small-scale rental units and perceptions of security from tenants indicate that a well regulated tenure system exists.

small-scale rental stock is formally constructed (SHF, 2008), and meet basic international norms and standards in relation to space required per person (Gardner, 2004).

Some beneficiaries who have received RDP / BNG houses choose to dispose of these, move out and rent them or build a small-scale rental unit on-site and rent the main house. Reasons for this include a mismatch between the size of the accommodation and needs, inability to afford 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.

There are also additional direct and indirect benefits that flow from the proliferation of small-scale rental in South Africa's human settlements. South Africa's often-quoted but little-implemented human settlement objectives are directly impacted. From a local government perspective, existing investments in procuring and regularising urban land and providing bulk and internal services infrastructure is leveraged through increasing the number of households benefiting from access to secure tenure and basic infrastructure, hence reducing the financial burden on local governments relating to the provision of additional serviced land for housing. In addition, increased household incomes provide better opportunities for a future rates base and payment for services.

From a human settlements perspective, urban areas are densified through housing additional households within existing settlements (albeit that on average these are one, two and three-person households). This in turn improves return on investments associated with a 'compact city' (such as savings on transport infrastructure and transport subsidies). Densified urban areas are also more likely to take on a mixed-use profile as force of numbers provide markets for other goods and services, as well as a more socially and economically integrated pattern.

From a housing perspective, intermediate (smaller) accommodation options more appropriate to the needs of smaller households and households with specific accommodation and locational needs are produced, and the proportion of rental to owned housing stock becomes more balanced. The asset value of township (and subsidised) housing stock improves through the creation of additional economic flows based on the underlying land and infrastructure investment in the stock.

Enterprise development objectives are also met by small-scale rental. On the part of the landlord in any small-scale rental transaction, a private investment in accommodation is made, leveraged against the inherent market value of serviced land as a property asset (in many cases, this starts realising the inherent value of subsidised housing). On the part of the tenant, opting to live in small-scale rental is a rational social and economic decision to pay rent for access to land and basic services and/or accommodation of a certain size and type. Such economic transfers can be significant in relation to other income sources for landlord households, and for many households this can be the only source of regular household income.

The current practice of separating housing subsidies from land and services subsidies provides a point of departure for a future approach. Given the basic rights approach to key services (water, electricity, sanitation) and the fact that infrastructure

financing is procured by metros and municipalities via separate funding channels (inter-governmental transfers, Municipal Infrastructure Grant financing), there is a case for the subsidisation of the basic services costs of small-scale rental units.

## **5. SMALL-SCALE RENTAL IN THE CONTEXT OF SOUTH AFRICAN HUMAN SETTLEMENTS POLICY**

Small-scale private dwelling rental has been consistently overlooked in South Africa's settlement policy. While it is alluded to in certain policy contexts, it is not dealt with overtly, and as a result, is not recognised as a potential viable deliverer of affordable rental accommodation on scale. There have been disparate attempts at national<sup>24</sup>, provincial<sup>25</sup> and metropolitan<sup>26</sup> level to develop policy and programmes relating to small-scale rental, but to date there is no national perspective, strategy or framework guiding this accommodation sub-market.

In certain cases, it is also considered to be encapsulated by policies dealing with 'informal housing', but this generally leads to small-scale rental being sidelined in the policy debate. While informal settlement upgrading has now been formally included in Chapter 13 of the Housing Code, no mention is made of small-scale rental in any of its descriptions.

### **5.1. Millennium Development Goals**

Target 11 of Goal 7 (Ensuring Environmental Sustainability) of the MDGs commits to a significant improvement in the lives of 100-million slum dwellers by 2014. Benchmarks for this are the proportion of the population with access to improved sanitation, and access to secure tenure. The South African government has interpreted this into its objective to '*eradicate informal settlements*' in South Africa by 2014 (BNG, 2004). It is not clear, but assumed due to the regular referral to 'backyard shacks' and 'slums' in policy discourse, and the inclusion of census figures for 'backyard rooms' and 'backyard shacks' into national backlog statistics, that small-scale rental is officially considered to be 'slum-like' in nature and therefore an overt target of 'eradication' under the Government's interpretation of its MDG commitments. Furthermore, 'informal rental' is seen in some quarters to be 'undermining' the eradication of informal settlement (SHF, 2009).

Careful consideration of the MDGs and the clearer definition and understanding of the small-scale rental sub-sector as outlined in this paper points to the opposite being true. Small-scale rental by definition implies a certain formality of tenure over land or a structure on a site with recognised tenure, whether the rental contract is verbal or written. Multiple studies in South Africa refute the fallacy that 'informal

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<sup>24</sup> The issue of 'backyard rental' was considered in the formulation of the Breaking New Ground policy, but short of non-specific undertakings to 'engage with informal' this has not been specifically included in national policy. This document is the final phase of a research programme initiated by the Department of Housing (now Department of Human Settlements) to consider the development of approaches to dealing with the entire rental market in South Africa. The development of an 'informal rental' policy was outlined in a presentation made to the Parliamentary Portfolio Committee by the Department of Housing in (2008)

<sup>25</sup> For example, Gauteng's Backyard Rental Programme and the Western Cape's draft backyard rental policy.

<sup>26</sup> The Johannesburg Metro included informal rental as a component of its City Strategy (Smit and Rust, 2008?), and Ekurhuleni is considering the potential of 'Backyard Rental' in its Informal Settlements Upgrading Support Programme (ISUP) (Interview: Steve Topham 2009).

tenure' rental arrangements in small-scale rental necessarily results in insecure tenure<sup>27</sup>. Considering access to sanitation, the same is true. A very high proportion of small-scale rental occupants have access to at least basic, shared sanitation and potable water supplies. Generally, this is on-site and shared, but can in cases be off-site within reasonable distance, or within the unit itself.

Therefore, a high proportion of the 850 000 households in the small-scale rental sub-sector can be considered at worst to have what Gardner (2004) referred to as 'next to formal' tenure, and at best secure tenure, as well as generally acceptable access to formal sanitation systems and potable water. Huchzermeyer (2009) questions whether South African human settlements policy has in fact misinterpreted the MDG targets. She quotes the UN Special Rapporteur on Adequate Housing that there *"...may have been a misunderstanding as to how to respect international commitments, such as the MDGs, that may have led to efforts being directed to the eradication of slums rather than the improvement of the lives of slum dwellers"*. Looking at small-scale rental in this light, it is clear that a rational interpretation of the average conditions in this sub-sector can significantly alter the focus, nature and extent of South Africa's 2014 housing targets.

## **5.2. National Housing & Human Settlement Policy**

The Department of Housing's Breaking New Ground<sup>28</sup> policy, implemented in 2004, aimed to radically change the *status quo* of housing provision in South Africa. This was based on a shift from 'quantity over quality' to more participative, sustainable human settlements (NDoH, 2004). Elements of the BNG strategy include fast-tracking land release and service interventions to pre-empt the formation of informal settlement, as well as a recent focus on the upgrading of informal settlement. However, most of the instruments used to deliver low-income housing remain unchanged and there is as yet little movement in respect of recognising the role of small-scale rental within national settlements policy.

The National Housing Subsidy Scheme (NHSS) continues with minor increases in its quantum, mostly relating to the built form and potential integration of new settlement areas. The Social Housing Subsidy Scheme, although expanded under the Urban Restructuring Zones initiative, continues as the only state-supported programme delivering limited numbers of social housing rental stock. The Community Residential Units (CRU) scheme (formerly called the Hostel Redevelopment Scheme), primarily aimed at conversion of single quarters / hostels to family units and some single units, at times reduces rather than increases the stock of much-needed intermediate rental housing opportunities<sup>29</sup>.

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<sup>27</sup> Nurcha (2004), Smit (2009), SHF (2008). Insecure tenure must not be confused with informal tenure. While exploitative practices are in evidence in certain communities (as with all housing sub-markets), a majority of tenants indicate that tenure is regularised (whether verbal or written) and well-controlled. There is a general view that 'backyard tenants' can be evicted at the whim of the landlord, but in practice, as long as the rent is paid and no conflicts arise, backyard rental can also be fairly secure (Voices of the Poor study in Smit, 2009). In fact, although it is not used to regulate such tenancy agreements much, they are covered by the Rental Housing Act, 1999.

<sup>28</sup> Department of Housing (2004): Breaking New Ground: a Comprehensive Plan for the Development of Sustainable Human Settlements.

<sup>29</sup> A few endeavours have kept displacements of tenants of record close to nil by building additional housing on site. There have also been successful attempts, most notably at Alexandria and SJ Smith hostel (Durban) to make the units accessible to singles, either by building very small bachelor flats or

The new Informal Settlement Upgrading Programme (ISUP) was also approved by Cabinet last year as a priority human settlements initiative. This programme is supported by the Cities Alliance-sponsored National Upgrading Support Programme (NUSP). This programme involves the identification and implementation of a number of informal settlement upgrading projects around the country. While this is a welcome new policy initiative which makes good on BNG's original promise to 'engage with informal', it does not directly address the small-scale rental sector. But, where small-scale rental exists within identified informal settlements, this can be dealt with through the upgrading process. As is the case with planning new settlements (see section 7.1), the regularisation process can consider options for similarly regularising informal rental in such areas, given availability of space and resources. Certainly, where informal rental exists and can be maintained as a housing component in upgraded areas, the tenure regularisation and access to basic services will be of major benefit to owners and renters alike.

A Presidential announcement was made for support to promote the densification of residential areas on well located land where public transport and appropriate employment are accessible, and to create compact, integrated, high-quality and affordable housing (presentation to Parliamentary Portfolio Committee by the Department of Housing in 2008?). However the only mechanisms to achieve this are listed as the medium-density housing approach, and the Presidential Job Summit Pilot Projects which both currently only deliver fully-subsidised units. The substantial potential of small-scale rental to achieve these objectives has been overlooked in the subsequent production of a National Rental Policy.

Huchzermeyer (2009) quotes the following phrase from BNG: *“from conflict or neglect, to... integration and co-operation”*. This quote, when seen in the context of the re-naming of the Department of Housing to the Department of Human Settlements, indicates the need for the role of small-scale rental to be considered and included in a holistic South African human settlements policy. There are indications of a changing approach to small-scale rental within the Department of Human Settlements and the provincial departments.

### **5.3. Sustainable Human Settlements Policy**

The UNCHS states that “sustainable human settlement development ensures economic development, employment opportunities and social progress, in harmony with the environment”. The sustainability of human settlements includes a balanced and appropriate geographical distribution and the promotion of economic and social development (Sustainability Institute, 2009). South Africa's national policy framework defines sustainable development as “the integration of social, economic and environmental factors into planning, implementation and decision making human health and education, (DEAT, 2008),

Core sustainable development challenges for South Africa over the next decade that are listed in the National Strategy for Sustainable Development (NSSD) include improved access to sanitation and addressing the effects of increased urbanisation

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facilitating sharing arrangements of larger flats. Both models, particularly the latter, helps keep rents very low.

and shrinking household sizes (Enviropedia, 2009). Syn Consult, quoted in The Sustainability Institute (2009) defines sustainable housing practise as “balanc[ing] the technical aspects of constructing housing with the critical need for appropriate, decent and affordable shelter within broad communities and metropolitan areas” and “is delivered in a co-evolutionary process between empowered participants engaging with government, understanding and utilising appropriate technologies and moving away from the conventional ‘one size fits all’ approach to housing delivery. All of these policy statements clearly point to the need for a settlements policy that considers the role of small-scale rental in overall human settlement development processes.

With the shift in name and focus of the Department of Housing from housing to human settlements<sup>30</sup>, government must open the door to reconsider current housing strategy delivery systems in order to improve the outcomes of human settlement policy. From the perspective of sustainable human settlements, small-scale rental is provided on existing, formally recognised properties and is therefore premised on access to land with secure tenure by the provider. Renters/occupants almost exclusively have access to core services on-site if these are available, including water, sanitation and electrification. By virtue of this association, small-scale rental utilises existing public and private investments in land and services, densifies existing low-density settlements and results in local economic transactions between landlord and tenant. All of these are desirable outcomes in terms of South Africa’s Breaking New Ground and Sustainable Human Settlements policies.

#### **5.4. National Rental Housing Strategy**

A national rental strategy was presented to Cabinet In 2008 by the Department of Human Settlements (DoHS). Core elements of this strategy include social housing delivery and community rental unit conversions (from existing hostel stock). Small-scale rental is mentioned as a consideration, but no firm proposals are yet in place on how to engage with this rental sub-sector.

Current rental housing legislation and regulations relate to this sector, but do not provide sufficient structure for the small-scale rental sub-sector. These include the Rental Housing Act, 1999 (as amended); the Social Housing Act, 16 of 2008 and the Housing Code and Guidelines (specifically relating to the Social Housing Programme and the Community Rental Unit Programme).

The proposed DoHS rental strategy (2008) outlines an initial target of 100 000 units over the five-year period from 2007/08 to 2011/12. This comprises 75 000 units of social housing and 25 000 Community Rental Units (essentially converted hostel accommodation and upgraded municipal housing). This delivery target equates to less than 5% of the current backlog (assuming this to be around two million households), and just over 3% of the backlog, plus projected new family formation over this five-year period. In all likelihood, this will worsen the ownership / rental tenure mix in the affordable housing market, rather than improve it.

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<sup>30</sup> For example, the changing of name of the Departments of Housing to Human Settlements at a national level and within certain provinces in 2009.

Recognising and supporting the small-scale rental sub-sector as a contributor to the provision of rental that is affordable to people earning below R3 500 per month has the potential to increase this target by five or ten times. This therefore provides ample motivation to consider how such a strategy could be built into a national rental housing strategy.

Indications are that a new rental strategy may be compiled for the new Minister of Human Settlements, which will consider all possible approaches to improving the rate, scale and affordability of rental accommodation production in South Africa.

#### **5.5. Provincial Housing & Human Settlement Policy**

At a provincial level the Western Cape's attempt to develop a 'backyard rental' policy and Gauteng's pilot backyard rental programme in Orlando East indicate a desire to engage with small-scale rental. The Gauteng pilot programme was premised on improvement of conditions of 'backyard shacks'. As a result, the focus was not on increasing housing stock, but rather on improving standards of existing stock. While a substantial number of units (over 800) have already been delivered through this scheme, key issues faced included problems with double subsidies, the displacement of individuals through de-densification and the inability of certain households to afford the rentals asked for upgraded units. While both of these programmes have recognised shortcomings, they do indicate a desire to find acceptable approaches to harnessing the small-scale rental sector as a catalyst in human settlements development.

#### **5.6. Metro and Municipal Programmes**

At a local level, other initiatives which explore relationships to small-scale rental have commenced. Johannesburg Metro's 2008 housing strategy drafted by Dan Smit and Kecia Rust includes specific recommendations for engaging with small-scale rental in the metro. Ekurhuleni's 'Upgrading for Growth' initiative (a greenfields housing development) includes the development of formal backyard rental units on BNG-subsidised properties (Kihato, 2009). Also, the LANDFirst campaign, an Urban LandMark and Afesis Corplan initiative, aims to deliver planned, secure land with basic services as a first step towards a longer-term housing and settlement upgrading process. The potential flexibility built into this approach with respect to the construction of accommodation units, and the availability of services on-site, provide unique opportunities for the production of multiple dwelling units (including small-scale rental units) within such settlements.

### **6. STRATEGICALLY ENGAGING WITH SMALL-SCALE RENTAL**

South Africa's human settlement policy must focus on opportunities for the rapid creation of additional, new human settlement accommodation opportunities, and small-scale rental offers the highest potential of all settlement sub-sectors for this. To date, the only overt strategy statements about this sub-market (beyond vague principles of human settlement form) relate to 'eradication of informal settlements and slums'. This creates a very fragile platform for the stability and growth of the potential of the sector.

#### **6.1. Policy Recognition for Small-Scale Rental**

Small-scale rental must be considered as a key element of the revised National Rental Housing Strategy to be produced during 2009. In addition, a new, specific and

comprehensive strategy recognising and dealing with small-scale rental should be drafted and included in South Africa's human settlements strategy, policy and regulations. A comprehensive motivation for small-scale rental can be built on the principles enshrined in *Breaking New Ground*<sup>31</sup>, yet BNG falls short of including any specific policy in respect to small-scale rental in its overall programme. SHF (2009) refers to the following objectives of the BNG strategy: accelerating housing delivery as a key strategy of poverty alleviation; using the provision of housing as a job creation strategy and as an asset for wealth creation and empowerment; leveraging growth in the economy; promoting social cohesion and improving the quality of life of the poor; supporting the functioning of the entire residential property market to reduce duality within the sector; and using housing as an instrument for the development of sustainable human settlements in support of spatial restructuring.

While certain settlement-related strategies and policy positions can be interpreted to support the notion of small-scale rental (see section 5), no existing policy or programme of South Africa's national human settlements policy adequately deals with the small-scale rental sub-sector (or in fact, deals with it directly at all). Therefore, attempting to link small-scale rental policy into one or other of the current policy frameworks or programmes is likely to either not adequately cover the needs of the sector, or result in unintended negative consequences, thus doing a disservice to its potential benefits or continuing to sideline small-scale rental within South Africa's human settlement policy framework.

## **6.2. Clarifying Small-Scale Rental Strategy Outcomes**

The overriding objectives of any strategy aimed at the small-scale rental sub-sector must be clear. UN-Habitat states the need for "*clear and consistent policies for urban planning and management, as well as for low-income housing development*".

A two-pronged strategy is proposed. Firstly, recognition and acceptance of, and support for, the small-scale rental sector as an important component of South Africa's total human settlement system that houses a large number of households at little or no cost to the state. This framework must first and foremost set out a proactive supportive stance in relation to existing small-scale rental stock, recognising that any direct intervention to improve conditions will result in displacement of low-income households into more vulnerable accommodation circumstances. Secondly, acknowledgement of the potential of the small-scale rental sector to contribute to meeting future accommodation needs through the production of new, intermediate, well-located and affordable accommodation in South Africa's existing settlements. This should strive to create a policy framework that supports and facilitates the production of more and better human settlement opportunities, not one that attempts to meddle in the existing market.

Core objectives of such a programme would include the stimulation of the provision of affordable rental accommodation, engaging private actors, reducing the per-unit cost of housing provision to the state, and gaining additional settlement benefits from existing expenditure on housing and urban infrastructure.

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<sup>31</sup> Department of Housing (2004): *Breaking New Ground: A Comprehensive Plan for the Development of Sustainable Human Settlements*.

A small-scale rental sub-sector strategy or intervention should therefore be premised on mechanisms that stimulate the supply of additional, acceptable quality small-scale rental units. It is only through the production of additional accommodation that adverse conditions in this and other sub-sectors will be improved over time. Given that the small-scale rental sector is market-driven, any eradication or improvement strategy will displace current occupants to similar or worse conditions.

### **6.3. Link to Other Human Settlement Programmes**

Given that, by definition, small-scale rental evolves within existing human settlement areas, it is imperative that a new small-scale rental strategy links closely with the key primary housing delivery programmes in the Housing Code, specifically the BNG (subsidised) Housing programme and the Informal Settlements Upgrading Programme. In addition, it is critical that a new strategy proposes how small-scale rental programmes can be rolled out in existing RDP / BNG areas, as well as in other existing urban zones.

### **6.4. Minimum Accommodation Standards**

A more rational approach to the determination of minimum accommodation standards in South Africa is needed. Current standards were developed over fifteen years ago, in a different socio-political era. Reviewing these standards will require acknowledgement of the prevalence of smaller household structures within South Africa's housing need, and as a result support for the need for a finer-grained approach to meeting such households' accommodation needs.

Extensive analyses have been undertaken on the intended and unintended consequences of South Africa's subsidised housing programme over the last fifteen years. It is important to acknowledge that houses of specified minimum standards and size do not necessarily create sustainable settlements. Sustainability revolves around diversity of unit sizes, spatial standards and tenure. National norms and standards for accommodation must therefore be considered in the light of basic per-person requirements in respect of space, services, light, health and safety, rather than as requirements for an 'average' 4.6-member household as is currently the case. This will make them more appropriate to the approximately 66% of households in informal settlement and small-scale rental that comprise one or two members only. The longer current minimum standards are maintained, the more out of alignment subsidised stock delivered will be with the demographics of households requiring accommodation. A review should be based on UNCHS<sup>32</sup> and other international human settlement standards, in order to find the appropriate definitions to be used in South Africa.

Such a review of minimum accommodation standards may require review of South Africa's National Building Regulations, norms and standards (e.g. the *Red Book*), as well as a review of provincial and local building codes and Town Planning Schemes.

While it may seem politically untenable to support a small-scale rental policy because it legitimises incidences of officially 'inadequate' or 'slum-like' conditions in the sub-market, this would be no different from other state settlement strategies. Informal settlements strategy and policy recognise the existence of informal

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<sup>32</sup> United Nations Centre for Human Settlements

settlement and the role this plays in commencing a settlement development process, and sets out a policy for dealing with this sub-sector in an incremental way. Similarly, policies directed at inner-city housing recognise poor and slum-like conditions in inner cities and propose strategies to dealing with these. A small-scale rental strategy and policy would recognise not only that this sector exists (and current accommodation outcomes, both good and bad), but more importantly the potential of the delivery system and the need to provide a framework through which this sub-sector can contribute better to national settlement building.

A small-scale rental strategy should not deal directly with de-densifying, improving or gentrifying standards in existing areas, as this will shift the focus from stimulating new, appropriate accommodation production through this delivery system to rather interfering in the fragile existing small-scale rental sub-sector. The likely outcome from such a strategy would be to upset the intricate supply and demand patterns, leading in turn to (at best) displacement of the poorest and most vulnerable households into poorer conditions, and at worst, loss of accommodation opportunities, however meagre these may initially appear. This, from a political, strategic and indeed constitutional / human rights standpoint, would be untenable, and would place the onus on the state to provide alternative accommodation for such displaced households.

#### **6.5. Levelling the Policy Playing Fields**

Attention should be focused on reviewing certain areas of current settlement policy and regulation that directly and indirectly impinge on the rights of small-scale rental occupants, and their ability to be integrated into the overall housing market. Specifically, with respect to eligibility for subsidised housing, it is an advantage to be in informal settlements (which are more likely to be targeted for upgrading or as beneficiaries of new development) over being in private rental units (inferred from Smit Table 7:68)<sup>33</sup>. This can have the unintended consequences of creating an unnatural movement of people out of (relatively better) backyard accommodation in favour of informal housing, in the hope that this will lead to a subsidised house.

Single people also often do not qualify for RDP housing, and such households comprise up to one-third of all households in small-scale rental. Facilitating small-scale rental as a supplier of intermediate options will also assist to overcome this housing policy anomaly. Also, many people who live away from their families for employment purposes need small-scale rental. And many of them would prefer to use their housing subsidy entitlement back in their home area.

#### **6.6. Regulatory Support**

Policy, planning and regulatory processes that actively encourage and support small-scale rental will create an investment climate and support framework that will progressively overcome the perceived negative outcomes in this sub-market. By virtue of the state's inability to meet the accommodation needs of all households in South Africa (irrespective of nationality, legality, household size and structure and affordability), a proportion of informal rental will always be 'undesirable' to policymakers. However, the longer an accepting and supportive policy framework is

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<sup>33</sup> The policy of prioritising informal settlement residents for RDP houses, which helps encourage people to move from backyard shacks to informal settlements (Smit, 2009:73)

in place, the more opportunity exists for small-scale rental conditions to improve over time.

## **7. FACILITATIVE MECHANISMS**

A range of policy, planning and regulatory mechanisms exist that must be used to facilitate the growth of the small-scale rental sector.

### **7.1. Settlement Planning & Design**

Human settlement design has an important influence on whether, and to what extent small-scale rental will take root in specific communities. The location of settlements within urban areas is paramount. As with other housing and land markets, small-scale rental will be in higher demand in well-located areas. This can then add a further justification to the costs of accessing well-located land for subsidised housing, if small-scale rental is considered from the initial planning of the settlement.

The requirements for the stimulation of small-scale rental must also be considered from the initial stages of settlement planning and urban design. This will require a more multidisciplinary approach to planning, including close liaison between planners, urban designers and engineers. Zoning must be carefully considered. Options include granting general rights for densification under conventional planning systems (e.g. Residential 2-zonings), or providing blanket approval for second (and subsequent) dwelling units.

This includes thought to bulk and link infrastructure capacity to cater for envisaged densification. Additional upfront infrastructure capacity may increase capital costs to developments, but this must be weighed up against the per-capita or per-household costs of infrastructure provision, as well as other economic benefits related to densification.

The location and design of the primary and small-scale rental units on-site is also critical to ensure that sufficient space exists for the construction of small-scale rental units, while still maintaining boundaries between private, semi-private and public space on-site. For instance, generally, the placement of BNG houses in the middle of sites reduces the amenity for owners who would like to add small-scale rental units on their property due to the need to 'crowd' such units behind the main house. Better initial layout planning can create more appropriate layouts that better manage the utilisation of yard space by the primary and secondary households.

### **7.2. Settlement Development Methodology**

The approach to the development of the original township or suburb has important implications for the growth of small-scale rental. A serviced land investment approach (either as a serviced site scheme, as a phased development or as an in-situ upgrading programme) provides more opportunity to engage in debate over the location and design of the original dwelling. Also, where formal houses are built later, often the initial dwelling (such as a shack in an upgraded informal settlement) is used for occupancy by the primary household initially, but when the formal house is constructed, this shack or room then enters the rental market.

For example, Gauteng Province's previous Mayibuye programme (phased development of RDP houses in three phases: land first, then services installation,

then house construction) had the unintended positive outcome that almost every beneficiary initially invested in a basic structure, and once the RDP house was built, this resulted in a large number of rental opportunities in the initial structure, potentially doubling the number of households accommodated in the area.

### **7.3. Access to On-site Services**

The ability to access key services outside of the main dwelling has an important influence on the growth of small-scale rental. In many old apartheid townships and some older RDP developments, the provision of services accessible from outside the house itself facilitates the sharing of services by a secondary dwelling unit. Minimal investments in external access to key services (toilet, water, electrification) can be an important incentive to small-scale rental.

### **7.4. Infrastructure Capacity**

A common criticism levelled at small-scale rental is the ability of neighbourhood infrastructure networks to cope with the additional pressures imposed by these additional households. While there are neighbourhoods where this is the case (especially some older settlements with high small-scale rental densities) others do have excess capacity. This problem is generally over-stated, based on the extreme cases of backyard development such as Alexandra and Orlando East in Soweto where densities of up to 17 rooms per stand are recorded. For example, if 50% of stands were to have one additional small-scale rental unit, and considering that average occupancy in these units is about one-third that of houses generally (average occupancy of two versus six), the total water and sewer infrastructure capacity increases would be modest, at around 17%.

The variable costs of increasing infrastructure capacity do not proportionately increase capital costs, due to the high ratio of fixed costs of infrastructure installations. This issue can also be circumvented by engaging in better up-front settlement planning to provide for densification opportunities (see section 7.1). Therefore, on the level of a total settlement, accommodating additional households in small-scale rental would offer much lower per-household (and even per-capita) infrastructure costs than housing them in stand-alone accommodation.

From the perspective of national treasury, small-scale rental offers significant potential fiscal advantages in addition to lower average infrastructure investment requirements. Because small-scale rental utilises existing serviced properties, this reduces total investment required in additional, new serviced land. Being more efficient utilisers of space per capita, lighting and heating costs are proportionately lower (considering sound construction). Finally, wider urban development objectives discussed in section 4.7 above imply lower per capita transport subsidy requirements and lower overall environmental impact.

### **7.5. State Investment**

In the face of such conclusive housing, enterprise development and human settlements benefits, it is necessary to consider how best the state can facilitate the growth of the small-scale rental sector. Various facilitative (not subsidy) approaches are discussed later. The key question is whether the state should directly or indirectly financially contribute to (subsidise) the development of the small-scale rental sub-sector.

There is a potential ethical dilemma with subsidising households who may have already received subsidies for housing through any of the RDP or BNG subsidy programmes. However, there are many households who could benefit from such a programme that have not yet benefited from state housing subsidies, and may not benefit directly in the future. These include households in private housing, in rural homesteads, and those in aging ex-council accommodation produced in the 1960s, 70s and 80s which can be considered to have amortised their useful life, many having transferred to new households or occupants.

South African government intervention within and across social and economic sectors also has little regard for multiple subsidisation. Within the housing sector, an individual who has benefited from social housing is able to later access a lump sum subsidy. Within households, every person over 18 years old is eligible for housing subsidies, and some households can and do obtain multiple subsidised houses. There is also little co-ordination of cross-sectoral subsidisation between housing, social welfare, enterprise development and transport sectors. Social welfare entitlements (childcare, pensions, medical support) are provided with no referral to other state benefits received. Within the trade and industry sphere, there is little control over whether Small to Medium Enterprise Development Programme grants, Tourism Enterprise Grants, EPWP benefits, youth development grants and other incentive schemes benefit individuals who have received other state financial assistance from other sectors.

There is a strong case for the state to financially facilitate households to produce small-scale rental units as an enterprise development initiative with a housing and human settlements development outcome, rather than as a housing subsidy programme specifically. There is only one main motivation for producing and managing small-scale rental units by households, and that is to generate revenue<sup>34</sup>. Therefore, any programme that facilitates the entry into the market of such landlords is an enterprise creation strategy.

There can be no more effective grassroots enterprise development strategy than small-scale rental. Household enterprises being assisted to procure an on-site, long-term appreciating capital asset that instantly generates an ongoing source of revenue, is readily understood and can be easily managed by that household as a primary or secondary source of income<sup>35</sup>. In addition to this, there would be no more worthy candidates for enterprise support. New enterprise owners would be generally low-income households (many, but not all, would have qualified for a housing subsidy), with generally high rates of unemployment<sup>36</sup> and many are marginalised

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<sup>34</sup> During the 1990s and early 2000s, a proportion of small-scale rental landlords indicated an 'ubuntu' motivation for allowing rental units to be built on their land (that is, providing accommodation opportunities to those unable to gain urban access). However, most of these landlords still collected rentals at the going rate! Since 1994, this motivation has mostly given way to the economic imperative.

<sup>35</sup> Nurcha (2004) showed that generally in the small-scale rental market landlords have lower incomes than tenants. Also, many landlords are marginalised members of society, such as the unemployed or under-employed and the aged. Furthermore, women-headed households predominate.

<sup>36</sup> Nurcha (2004) showed that in four areas (Orlando East, Kathorus, Cato Manor and Alexandra) small-scale rental landlords have lower average incomes than tenants by virtue of the fact that tenants are required to pay regular rents..

members of society such as the unemployed, under-employed or the aged, and a majority are women-headed households.

By means of an example, a welfare or basic income grant is a perpetual commitment (say, of R1000 per month, adjusted annually). Facilitating the development of a small-scale rental unit tied to an identified beneficiary (who may or may not have previously received a housing subsidy) as an income-generating / microenterprise development strategy would be a once-off capital commitment to the state, generating an escalating source of revenue for that household. Taking the situation of a conventionally constructed small-scale rental room in Ivory Park, Midrand as an example (with an assumed rental of R500 per month), a capital investment of say R25 000 (two years' worth of grant) would provide an asset that generates the same monthly benefit, escalating over time, in line with overall property market dynamics.

The question is then, how could households be financially incentivised or facilitated to produce greater numbers of, and better quality, small-scale rental accommodation? Should direct subsidisation be considered, supply-side supports for the growth of this market would be the preferred approach as the small-scale rental market is a demand-driven market. This would also be consistent with the principles of the current National Housing Subsidy Scheme. Full subsidisation of additional small-scale rental units on existing properties is an option, but has two inherent risks. Politically, this could be seen as unfair double-subsidisation where such households live in already-subsidised housing. From a housing market perspective, this is also very likely to seriously damage the delicate supply and demand dynamics inherent in the small-scale rental sub-sector. Providing good-quality, fully-subsidised units could debase or under-cut the market-related rentals of units that have been built using private investments by households themselves. As with the National Housing Subsidy Scheme (NHSS), this would quickly destroy the incentive to produce small-scale rental units using private resources, as households join the queue to wait for subsidies to produce units.

A preferable option would be the piloting of a small-scale rental incentive subsidy scheme. This could take the form of a fixed-cost contribution to the creation of preconditions necessary for the small-scale rental units to be constructed. The unit itself would still be constructed using privately procured sources of capital (savings or finance). A key constraint in the small-scale rental market is that, for well-constructed basic units, market rentals may not cover the amortisation costs of finance required to build well-constructed units. This means that landlords have to rely on savings, incremental building and the erection of basic, informal units to make the investment returns necessary. By covering certain basic underlying costs associated with constructing a small-scale rental unit, such an incentive scheme could then ensure certain stipulated service and structure standards are met, without necessarily manipulating the lower (informal, fully private) sector of the market which affordably accommodates the most vulnerable households. Contributions to basic (hidden) costs by government would be used as an incentive to private landlords to procure (and be able to pay back) the necessary funding to construct small-scale rental units out of rentals received. Landlords would be required to raise private capital or loan finance for the construction of the unit itself (see section 7.8 Housing Microfinance below). This would then provide the preconditions for a rapid ramping up of small-scale rental production.

This incentive should be made available in designated zones or pilot project areas where densification is desired and infrastructure capacity is deemed adequate. Households would apply for assistance, and successful applicants would be approved for a small-scale rental / Densification Incentive Grant (DIG). This grant could be used either to facilitate the development of an on-site small-scale rental unit or units, or to cover the costs of sub-division and servicing of existing sites for on-selling to private individuals.

This grant would cover the same elements as are currently covered by local governments in the production of BNG houses using the NHSS, that is everything relating to land identification, regularisation, survey, titling, and service installation. Specifically it could cover the following elements: site survey and location of small-scale rental structure/s on-site; production of standard building plans and bills of quantities; municipal plan approval and inspection; and internal infrastructure installation and connection to mains supplies (i.e. sewer connection, water connection with prepaid meter (if Basic Infrastructure Grants are not implemented in these areas) electricity connection and prepaid electricity meter).

Preconditions of grant approval would be that the household has proof of secured financing (savings, mortgage or small loan) to cover the full costs of construction of (one or two) small-scale rental unit/s, either with or without cession of rental to repay the loan. Construction could be undertaken by an accredited contractor.

#### **7.6. Municipal Controls**

At the municipal level, Town Planning Schemes and by-laws can be used as facilitative instruments for small-scale rental. Blanket zoning / rights regarding subsequent dwellings and/or subdivision of properties, corridor and densification zone development incentives (such as are included in most metropolitan development plans, following on from the National Spatial Development Strategy) can all assist to promote small-scale rental development. The City of Johannesburg's new commune by-law, which controls the number of communes in an area, and controls occupancy of communes, is an example of the sort of controls that could be used to ensure acceptable urban development outcomes when engaging with small-scale rental.

#### **7.7. Small-Scale Rental Supply Chain Management**

Understanding and supporting the input requirements into the production of small-scale rental accommodation will assist in the production of new small-scale rental and in the incremental improvement of existing units. This implies facilitating the basic, invisible processes required for formal accommodation production such as rezonings, building plan production and costings, plan approvals and municipal inspections, as well as the processes required to properly connect small-scale rental units to infrastructure supply.

Facilitating access to contractors and/or to building material suppliers can have a stimulating effect on private small-scale rental investments. Gardner (2009)<sup>37</sup> describes various programmes in South Africa linked to microfinance that facilitate

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<sup>37</sup> Gardner, D (2009) Housing Microfinance in South Africa.

the purchase of materials and their delivery on-site, as well as relationships with building contractors.

#### **7.8. Housing Microfinance (HMF)**

The potential of Housing Microfinance (HMF) to stimulate the production of small-scale rental units in existing areas is increasingly recognised (Gardner, 2009, Rust, 2009). A workshop convened by FinMark Trust and the Rural Housing Loan Fund in July 2009 formally commenced the process of considering alternatives and piloting approaches to tackling this. The interim report from this workshop concludes that major opportunities exist for mobilising microfinance as a tool in ramping up housing production, and specifically references the opportunities in the small-scale rental sector (Kihato, 2009)<sup>38</sup>. Kihato also describes an initiative by the Johannesburg Property Company and Regiments Capital to establish a microfinance institution that will provide credit, financial services and other pro-poor products (health care, housing) to the city's poor micro-entrepreneurs.

#### **7.9. Housing Support**

Building support capacity within areas targeted for small-scale rental development will provide potential landlords with tools that will facilitate the implementation of new stock. Such supports could include blanket planning approvals, standardised and customised plans, cost-benefit analyses of different small-scale rental options, landlord and tenant rights and responsibilities training, access to financial institutions interested in lending for this type of activity, building materials procurement approaches and access to a network of approved contractors.

#### **7.10. Pilot Programme Engagement**

It is proposed that a pilot programme be conceptualised for testing the propagation of small-scale rental. Such a programme would need to be driven by national and provincial government, in order that innovative approaches can be adapted to issues otherwise potentially in conflict with national and provincial policy such as housing code standards. Priority areas for small-scale rental densification would be identified on the basis of predetermined criteria (such as location, suitability, etc), and then blanket supports would be implemented to facilitate the growth of small-scale rental in these areas. This would include upfront pilot area identification and assessment, infrastructure capacity assessment and improvement initiatives (if required) to cater for increased densities, resources for the revision of local government town planning controls and regulations / by-laws, building local government awareness and capacity building of local officers, establishment of support centre capacity, rollout of marketing initiatives, engaging with and identifying financiers to offer small loans, finance or mortgages to households for this type of use, development and rollout of standardised plans and bills of quantities, pre-and post-programme assessments and reviews, and identification of contractors operating in the community. Furthermore, landlord and tenant training could also be undertaken.

A range of alternative pilot areas should be considered. These should at least include well-located existing 'old township' areas; existing, new RDP/BNG areas; middle to upper-income areas; in-situ upgrading areas (ISUP programme); as well as

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<sup>38</sup> Record of Workshop on Options for Scaling Up Housing Microfinance in South Africa. Rural Housing Loan Fund & FinMark Trust

housing projects still in their planning stages, in order that design can take into account from the outset the potentials of small-scale rental.

## **8. CONCLUSION**

Small-scale rental is a significant provider of affordable, acceptable intermediate rental accommodation in South Africa. It offers an opportunity to policymakers to harness and facilitate this delivery system in order to rapidly increase the rate and scale at which affordable rental accommodation is provided. In addition to providing a housing benefit, small-scale rental simultaneously meets a wide range of urban development objectives including densification, utilisation of existing human settlement investments, encouraging private sector activities and enhancing the growth of capital in housing areas.

However, in order to harness this sub-sector, certain new approaches to accommodation policy and standards will be required. This will require lateral thought in order to redefine key aspects of housing policy and strategy in a way that can facilitate the growth of the small-scale rental sector. In order to mainstream this sub-sector, a range of interventions will be required by central, provincial and local governments, culminating in the identification and implementation of pilot small-scale rental facilitation projects across a range of existing and new settlement types in South Africa. In addition, the success of such a strategy will depend on the full participation of landlords and tenants, as well as private sector actors such as financial institutions and contractors.

Any new rental sector strategy for South Africa must indicate the importance of, and mechanisms for enhancing small-scale rental as a core component of South Africa's future housing strategy.

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