From Backyard Rental to Small-Scale Rental

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Presentation to the Municipal Leadership Housing Forum

20 May 2010
Study Background

• SHF – ULM study into ‘Informal rental / backyard rental / shack rental’: final phase

• Study incorporated:
  – Reference group
  – Strategic literature review & assessment
  – Landlord/tenant focus groups
  – Workshops & consults
  – Household Rental Report
  – Strategy

• Most comprehensive study into small private dwelling rental in SA history

• Opportune timing: Seeking alternatives for rapid delivery, new understanding of SA’s ‘housing reality’
Definition: Small-Scale Rental (SSR)

• Incorrect definitions lead to misrepresentation & misaligned strategy, e.g.:
  – informal / slum / shack / second dwelling / household / backyard / room / illegal

• Core elements of a universal definition: “Small Scale Private Rental”
  – Small scale, local-level production
  – Recognized, privately-held land (owned, tribal, rented but not illegal)
  – Managed by private individuals or households
  – Rented to separate individuals / households (monetary exchange)

• Excludes: informal settlement, social housing, Corporate rental
• inner-city accommodation, hostels

• Focuses strategy on potential of delivery system, not on perception of negative outcomes.
Problem Definition

• 15 years of post-apartheid human settlements strategy provides clear direction for the future:
  – Greater rate & scale of accommodation production required: RDP, Social Housing, CRU delivery & private affordable housing not enough and not meeting all needs
  – Affordability constraints still exist – in fact, are significantly worse
  – Distortions in the accommodation market above AND BELOW subsidised housing market: our ‘housing ladder’ has multiple broken rungs
  – Land & services provision challenges within local governments, along with medium-term budgetary constraints on housing subsidies
  – Insufficient accommodation options for smaller households
  – Densification still a pipe dream

• In a buoyant economy, we were not doing enough i.r.o affordable rental accomm for smaller households and are hitting the boundaries of current policy
  – Lack of primary accommodation production leads to cross-submarket pressures
  – Budgetary constraints impact on rate & scale of subsidised housing delivery

• Depressed economy affects all accommodation markets and makes situation worse.
  – But it does create opportunities to look elsewhere for solutions
Context: Taking Stock of what we have

• Massive reservoir of existing, proclaimed, (well-) serviced, low-density freehold suburbs and townships:
  – 5.8-million residential units, 2.x-million RDP units alone
  – Less than 10% have secondary accommodation units

• Large number of landowners who are potential willing landlords, many with ‘dead capital’
  – Push pressures (rates, services charges, maintenance) and pull factors (income generation)
  – Very low level of gearing:

• Massive accommodation demand from low-income households: temporary, well-located, affordable, acceptable accommodation.
  – A new demographic trend in respect of household structures & sizes: 1, 2 and 3-member households predominate

• A government desperate to deliver accommodation, densify, leverage existing capital investments, create economic opportunities, create functioning housing markets
Context: Statistics (with caution!)

- SSR accommodates approximately 10% of all SA households (850 000 + households)

- 35% of all SA households that rent are in SSR. Only delivery system creating substantial volumes of:
  - Rental affordable to households earning well below R3 500 per month
  - Accommodation for intermediate and smaller-sized households

- Average rentals (2008) are R150 (informally constructed units) and R300 (formally constructed units), but are spread across the affordability spectrum

- 53% of SSR units are formally constructed (houses, flats, cottages, rooms).

- Formally constructed SSR is fastest growing sub-sector (83% growth 2002-06). This equates to 33 500 units p.a. average

No direct state support, 100% private initiative & capital, non-supportive policy & planning environment
SSR Characteristics

- **Multiple Zones:**
  - low, mid and high income, low-med density neighbourhoods

- **Complex Continuum of Outcomes**
  - Sizes & built forms (houses, cottages, dwellings, garages, rooms, lofts, tenements)
  - Prevalence & Density: varies per area
  - Spatial Standards: small to large
  - Built Form: informal to formal

- **Tenure Security: self regulation**
  - Landlord / tenant conflict comparable to other rental markets

- **Demographics: Small household sizes**
  - 33% single people, 33% two people, 33% 3 or more people
  - in line with SA housing demand statistics

- **Meets need for intermediate, rented housing options:**
  - young households, single people, circulatory migrants, temporary needs, etc

- **Rental Payments: mostly cash but also in-kind**
Preconditions (Supply / Demand)

• Willing Landlord (Supply)
  – Recognized title & holder (secure tenure for owner or renter)
  – Access to basic services (water, sanitation, electricity)
  – Space (room or yard space for horizontal or vertical expansion)
  – Capital for Construction (mostly landlord, occasionally tenant)

• Willing Tenant (Demand)
  – Location Characteristics
  – Accommodation need
  – Suitable demographics / household structure
  – Disposable income for rental

• Official Recognition (depending on area)
  – Bulk Infrastructure Capacity
  – Supports

Large number of existing properties in lower-density areas in which these preconditions are met offer the greatest latent human settlement potential in South Africa.

Potential short-cut (time and capital) for rapid settlement development
SSR and Human Settlements Policy

- UN Habitat
- MDGs
- BNG & NHSS
- ISUP
- Social Housing & CRU Policy
- Sustainable Human Settlements
- Provincial & Metro strategies are taking the lead, but lack coherent framework

Critical need to find rapid delivery approaches, and proposed review of National Rental Strategy is an ideal opportunity to incorporate SSR into national policy framework.
Motivation for SSR Strategy as a part of SA Human Settlements Policy

• Polarised views: ‘good’ vs ‘bad’ outcomes.
  – Engagement must be based on underlying possibilities
  – SSR can provide affordable, appropriate, acceptable, adaptable and desirable accommodation

• State must engage with SSR:
  – Limitations of current settlement policies:
  – Meets need for intermediate accomm options for smaller households:
  – Meets many sustainable settlement/urban development principles
  – Significant potential benefits to state: re-defining ‘backlog’, ‘quick-win’ delivery, fiscal benefits
  – Cost 20% of RDP unit per household, potential for rapid delivery

SSR offers scope for rapid delivery of affordable, appropriate, acceptable, adaptable and desirable accommodation with significant private investment & low public investment, while meeting key human settlement principles
Towards an SSR Strategy

• No existing national policy or programme explicitly recognises or deals with SSR. Disparate Provincial, Metro & Local-level attempts.

• Multiple references to principles that support engagement with SSR in strategy:
  – BNG, Sustainable Settlements, provincial (WC & Gauteng), metro housing strategies

• Recognise unintended & undesirable implications of intervention in existing (self-regulating) market, especially in respect of displacement & gentrification:
  – housing ecosystem / housing ladder indicates displacees will be worse off

Focus on creation & delivery of new intermediate, affordable private rental stock, not on eradication or gentrification of existing stock
SSR Strategy Rationale

- National Settlement Strategy must focus on opportunities for the rapid creation of new accommodation opportunities, within prevailing budgetary limits.

- SSR offers greatest accommodation potential of all possible delivery systems
  - Comprehensive SSR strategy proposed.
  - Recognise role, fragility and potential of sector.

- Open debate on rational approach to defining minimum accommodation standards:
  - Negotiated over 15 years ago, in different socio-political climate.
  - New evidence indicates need for revised approach: household structure, affordability, budgets, preferences, settlement market dynamics, urban development imperatives

The conclusive motivation for building SSR into national settlement strategy must be to harness its potential, not to weaken its delivery ability through ad-hoc or negative interventions.
SSR Strategy Principles

- Ground SSR strategy in acknowledged human settlement principles, including:
  - Housing as instrument of development of sustainable human settlements
  - Compact city, spatial restructuring, integration, location & densification
  - Tenure (ownership & rental) & product mix
  - Leveraging & gearing existing state investments in housing and infrastructure with private sector investment
  - Reducing cost per household of accommodation provision
  - Support functioning of total property market to reduce duality, unlocking ‘dead capital’
  - Accelerated delivery for poverty alleviation
  - Housing as job / entrepreneurial creation opportunity
  - Private sector engagement in accommodation provision
  - Wealth creation & empowerment
  - Leveraging growth
  - Promoting social cohesion
  - Improving quality of life for poor

Few potential accommodation delivery systems meet so many settlement development policies
SSR Strategy: Three Thrusts

• First, dealing with national realities, norms and standards.

• Second, acceptance & support for SSR sector as NB housing sub-market.

• Third, engagement with SSR delivery system to promote & support rapid development of new, acceptable SSR accomm within existing settlements
National Densification Programme

• Premised on:
  – rapid delivery of intermediate accomm opportunities leveraging existing investments
  – Private involvement in settlement provision
  – Densification of urban areas & other urban efficiency principles
  – Economic generation potential of SPDR

• Densification support or assistance to cover ‘hidden costs’ of providing additional units
  – planning, design, approvals & assessments, infrastructure installation & connection, pre-paid meters, sub-division costs?

• Private investment to cover construction of unit (Capital, HMF)
Elements of a SSR Strategy & Policy

• **Institutional Requirements:**
  – Definition of roles: national, provincial, local
  – Allocation of responsibilities & supports
  – Extension of current policies e.g. BIG

• **Facilitative Mechanisms**
  – Settlement planning & design
  – Settlement development methodology
  – Municipal controls
  – Access to on-site services
  – Infrastructure Capacity
  – ‘Supply Chain’ Support Progs (plans, approval processes, BoQs, costings, inspections, connections, metering)
  – Housing Support
  – Access to finance

• **State Investment**
  – Direct Support? Supply-side
  – Densification Incentive Grant in identified areas?
  – Maintenance & upgrade of existing infrastructure

• **Pilot Programmes: defined zones:**
  – Existing areas (high & low density)
  – New settlements (subsidised/unsubsidised)
Issues for Municipalities

- Existing investments in procuring and regularising urban land and providing bulk & internal services infrastructure is leveraged through increasing the number of households benefiting from access to secure tenure and basic infrastructure.

- Town Planning Schemes & by-laws can be used as facilitative instruments for small-scale rental.

- 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.

- Enforcement of minimum standards.

- Broader governance and land-use to help accommodate small-scale rental to a standard.

- Dual conception lens: Addressing existing and potential SSR.
Way Forward

- SHF / ULM
- National Department of Human Settlements
- Provinces: Gauteng, Western Cape
- Metros & Local Governments
- Pilot Projects: subsidised & private markets, existing & new
- Private Sector: supports & strategies
Thank You!