

# Resource Report 7:

## Research into Successful Landlords

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

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**Submitted by:**

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**in Association with CSIR Built Environment**

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**This research into Housing Entrepreneurs has been undertaken by Shisaka Development Management Services (Pty) Ltd in association with CSIR Built Environment**

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## **Reports produced as part of the Housing Entrepreneurs Research Project:**

### **Final Reports:**

**Research Report:** Consolidated analysis of research into Small Scale Landlords and Home Based Entrepreneurs (April 2006)

**Small Scale Landlords:** Research Findings and Recommendations (3 May 2006)

**Home Based Entrepreneurs:** Research Findings and Recommendations (to be released in July 2006)

### **Resource Reports**

#### **Literature Review**

**Resource Report 1:** Literature review of Small Scale Landlords (6 February 2006)

**Resource Report 2:** Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks. (6 February 2006)

**Resource Report 3:** Literature review on entrepreneurship, housing and housing finance (6 February 2006)

**Resource Report 4:** Literature review on Home Based Entrepreneurs (6 February 2006)

#### **Small Scale Landlords**

**Resource Report 5:** Research into Landlords in Inner Cities (6 February 2006)

**Resource Report 6:** Research into Landlords in Townships (6 February 2006)

**Resource Report 7:** Research into Successful Landlords (6 February 2006)

**Resource Report 8:** Research into Service Providers in respect of Small Scale Landlords (6 February 2006)

**Resource Report 9:** Research into Public Sector Stock (6 February 2006)

#### **Home Based Entrepreneurs**

**Resource Report 10:** Research into Home Based Entrepreneurs (6 February 2006)

**Resource Report 11:** Research into Successful Entrepreneurs (6 February 2006)

**Resource Report 12:** Research into Service Providers in respect of Entrepreneurs (6 February 2006)

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# 1 Introduction

Finmark Trust, the Social Housing Foundation, Nedbank and the Gauteng Department of Housing have appointed Shisaka Development Management Services in association with the CSIR to undertake research into 'Housing Entrepreneurs'. Housing Entrepreneurs are defined as small scale landlords and entrepreneurs who operate or use their house as part of their business activities.

The purpose of the research is to understand how **housing and housing finance can be used as a tool to promote the emergence and growth of entrepreneurs and small scale landlords**. Specifically the study aims at:

- **Identifying the housing finance interventions** necessary to build an entrepreneurial and small scale landlord sector in low income areas.
- Developing **appropriate information products and tools** to assist emerging entrepreneurs and landlords in their efforts at becoming housing entrepreneurs.
- Focusing on the potential for small scale entrepreneur landlords to be the model for dealing with **difficult to transfer state owned stock**.
- Understanding the key issues which would support **a productive relationship between the landlord and the tenant** in the small scale sector in the mutual interests of both parties.
- Inform policy and strategy directions so as to facilitate **better access to housing investment opportunities for either entrepreneurs or small scale landlords**, such as are already being realised in the middle and upper income sector of South Africa.

This report forms part of Phase 1 of the research and comprises research into **Successful Landlords**. This report comprises an analysis of the detailed research findings which are set out in Annexure A attached as a separate report.

This research comprises one component of the overall research being undertaken which includes:

- Research into Landlords operating in two Township areas
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- Research into Landlords in two Inner City areas
- Research into Home Entrepreneurs

This report includes:

- Purpose of the research
  - Methodology
  - Key findings
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## 2 Purpose of the research

This research aims to compliment primary research undertaken of Landlords in 2 inner city areas, as well as qualitative research in 2 township areas (see Resource Reports 5 and 6). This research focuses on studying the mechanisms and dynamics of small-scale landlordism.

This research comprises qualitative in-depth interviews with 20 Landlords that are perceived as being “successful”. The findings of the primary research of Landlords (as set out in Resource Reports 5 and 6) will be compared with the findings of established successful small-scale Landlords.

For the purpose of the study the following definitions were assumed:

- A Landlord is a person who has rights to a property and rents it to another person for regular payments, which may be in cash or kind (comprising either food or services).
  - A small-scale landlord is defined as one who rents out between 1 and 200 units or up to 3 buildings.
  - A successful small-scale landlord is an individual/enterprise that displays one or more of the following characteristics:
    - The scale of operation is large whereby more than 10 units or 1 building are being offered for rental.
    - The enterprise consistently shows high turnover and margins (over 5% profit increase pa)
    - The quality of the rental stock provided is within minimum standards and is maintained on an ongoing basis.
    - The relationship with tenants is generally good.
    - The landlord is recognized by his/her peers or tenants as being successful
    - The enterprise/landlord has the ability to adapt to changing demand or market conditions.
    - The enterprise/landlord is able to deal with external environmental factors.
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### 3 Methodology

The following methodology was applied in undertaking the research:

- An in-depth interview schedule was developed focusing on the motivation for becoming a landlord, management mechanisms, applying of sanction and key success factors.
- Landlords were identified through the primary research (see 2.0 above), as well as references from agencies involved with Landlords or the rental industry such as the banks and TUHF. A range of Landlord types were selected including Landlords with backyard rental, small scale Landlords and large Landlords.
- A trained facilitator conducted the interview in the preferred language of the Landlord. The principles of the Free Attitude Interview, developed by Dr. Ineke Meulenberg-Buskens<sup>1</sup> were used. This technique allows for data to be obtained in an unbiased manner and assists respondents to discuss freely their knowledge, ideas, experiences and values related to the subject under discussion.
- A summary of the data obtained is provided for each interview, with regards to the themes set out in the objectives of the research. These themes were explored and links made with other themes. Each issue was exhausted in terms of the content of the interviews. The summarised interviews are contained as a separate report in Annexure A.

#### 3.1 *Principals for Sustainable Lending to SLEs*

Rogerson summarises Webster and Fidler's principals for sustainable lending to SLEs into the following 10 points:

- offer short term loans with frequent repayment periods;
- offer small initial loans;

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<sup>1</sup> Ineke Meulenberg Buskens (1993) Qualitative Research Reader. Pretoria: Human Sciences Research Council & Vrolijk, A.; Dijkema, M.F.; Timmerman, G. (1980) Gespreksmodellen (Translated in English to: "Discussion Models"). Alphen a.d. Rijn. The Netherlands.

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- concentrate on provision of working capital to enterprises with a proven track record;
- specialise in financial services and diversify loan portfolios;
- simplify services by making the credit programme a customer friendly process;
- localise services and focus on scale;
- shorten turnaround times between loan application and disbursement;
- motivate repayment via group solidarity and joint liability;

## 4 Key findings

### 4.1 Type and number of rental units

The 20 Landlords interviewed are categorised into the following types:

- **Township Landlord:** A Township Landlord is defined as a landlord who provides rental accommodation in the Townships<sup>2</sup> on the property on which s/he lives in the form of backyard units.
- **Unit Landlord:** A Unit Landlord is defined as a landlord who has legal title to residential units that s/he rents out and generally has a direct relationship with the tenants. S/he does not stay in the same unit.
- **Building Landlord:** A Building Landlord is defined as a landlord who has legal title to as building with residential units that s/he rents out to tenants. S/he has a direct relationship with tenants.
- **Building plus Landlord:** A Building plus Landlord is defined as landlords who has legal title to more than one building with residential units that s/he rents out to tenants. S/he does not have a direct relationship with tenants.

Landlord type	No	%
Township Landlord	7	35
Unit Landlord	8	40
Building Landlord	1	5
Building plus Landlord	4	20
Total	20	100

**The areas in which the different Landlords operate include** the West Rand, Hillbrow, Lorentzville, Tladi Soweto, Bloemfontein, Bryanston, Sandton, Westdeen, Randburg, Windsor, Berea, Orlando East Soweto, Katlehong, Pretoria and the Jhb CBD. The Landlords are providing rental accommodation for approximately 600 tenants.

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<sup>2</sup> This is a working definition and is used to denote areas previously set aside for occupation by Africans in urban areas

## ***4.2 Reason for starting the business***

The main reason for starting the business for the Landlords interviewed was either ‘investment in property’ (10 respondents) or to ‘earn a living’ (10). Other reasons given included ‘security on my property’ (1) and ‘to give accommodation to people who did not have’ (1).

## ***4.3 Acquisition of the property***

- Of the Landlords interviewed the most common method of acquiring the property for all Landlords, other than the Township Landlords and some of the smaller Unit Landlords, was to purchase the property using a bond from a commercial bank (11). In this instance the following would apply:
  - Equity of between 20 to 30% was paid either in cash or through insurance/pensions
  - A mortgage bond was provided on the property itself
  - In some cases other properties like the family home were provided as collateral (2) or other commercial properties were provided.
  - Two of the Landlords obtained finance from a specialist lender (TUHF)
  - The problems identified include the following:
    - It is hard to get a municipal clearance certificate (2)
    - Delays in the acquisition/transfer process (4)
    - VAT clearance from the previous owner was difficult to obtain (1)
    - Seller was not cooperative (1)
    - 30% equity was hard to raise (1)
    - High transfer costs (3)
  - With respect to the Township Landlords and the smaller Unit Landlords the method of acquiring the property included:
    - Inheriting the rooms (1)
    - Buying the property using savings, pension or insurance payouts (3)
    - Building rooms using savings and income from rentals of other rooms (3)
    - Bought on rent to buy basis from a friend (1)
  - The problems of these Landlords differed from the Landlords above and include:

- Access to services (1)
- Difficult to buy properties as the bank perceives it to be a high risk and not finance was available (3)
- Some of the Landlords (3) interviewed were positive about Financial Institutions. The remainder of the Landlords interviewed were very negative and distrustful of Financial Institutions and this was especially so in respect of the Township Landlords. The perceptions of the Landlords interviewed in respect of financial institutions were as follows:
  - The Financial Institution was very helpful (3 of the Building Plus Landlords)
  - Lots of red tape (1)
  - Qualification criteria are a problem including:
    - The Financial Institution discriminates against age – very difficult to get a loan over 60 (1)
    - Banks don't lend to people like Landlords (4)
    - Banks not set up to provide the loans there is a need for a specialist service provider 4)
    - The bank interest is too high (8)
    - Banks are very difficult to deal with, they are hostile and difficult to understand and do not look after clients. (5)
    - Banks not known in the townships (1)

#### ***4.4 Operational procedures***

##### **4.4.1 Maintenance arrangements**

The Landlords interviewed predominantly undertaken maintenance by either doing it themselves (10) or employing contractors on a part time basis (11). Other arrangement sin respect of maintenance includes Managing Agents (1), in house maintenance staff (2) and the Body Corporate does it in respect of outside areas (1).

Generally the Township Landlords and smaller Unit Landlords will undertake the maintenance themselves and the larger Unit Landlords and Building Landlords will outsource it to contractors. If there is in-house maintenance staffs it is in respect of the Building Plus Landlords.

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#### **4.4.2 Collection of rental**

Rental is paid either directly into the Landlord's bank account (9) or paid directly in cash to the landlord (8). The latter is usually the case in respect of Township Landlords. Some Landlords use a managing agent who is paid the rental (3).

#### **4.4.3 Legal arrangements**

Most Landlords apply a written lease agreement (13). However some of the Township Landlords and smaller Unit Landlords only have a verbal agreement (7) with their Tenants. Three of the Landlords who rents out backyard shacks in Soweto however indicated that they did have verbal agreements but are now starting to use written agreements as tenants used to abscond without paying rent.

Most Landlords have written house rules (11) which are often incorporated into the lease agreement. Township Landlords and some of the smaller Unit Landlords will have verbal rules (8)

#### **4.4.4 Applying of sanction**

Most Landlords (11) will undertake eviction in cases of non payment. In this regard the legal procedures of writing a letter to the tenant etc are applied. In some cases other methods are used including for example suspending electricity services (2) and lock out (1). Township Landlords appear to take a more personal approach including for example talking to the tenants nicely (4) and two indicated that they never had to take steps against their tenants, as they understand each other.

Most Landlords did not identify any problems with the eviction process. However three indicated that the legislation is not supportive of Landlords and reference was made to PIE. One Landlord cited tenant resistance to eviction as a problem.

#### **4.4.5 Key problem areas**

Problem areas identified with respect to operational procedures included the following:

- Problems relating to the environment in which the property is located such as noise (2), the area not being kept clean (2) and crime (1).

- Problems relating to the Municipality such as Municipal bills are inconsistent (1), Municipality takes a long time to respond
- Payment of rents (3)
- Tenant behaviour including destroying or messing the property (1), overcrowding (2)

#### ***4.5 Key success factors***

The most fundamental key success factor cited by the Landlords interviewed was having personal contact with tenants (7). Other key success factors included:

- Attitude and commitment of the Landlord (2)
- Choosing a good area (1)
- Good management (4)
- Setting clear goals/focus (2)
- Begin small learn from mistakes (1)
- Be strict but fair with tenants (3)
- Live in the area and have a constant presence on the property

#### ***4.6 Expansion***

Most Landlords interviewed would like to expand (13). Some however indicated that they do not want to expand (7). Reasons for this were old age (3), limitations on the size of the stand (1) and comfort with the size of the business (2). One Landlord indicated that he would rather want to improve the quality of his existing stock (1)

The most overriding problem identified in respect of expansion is obtaining access to finance (13). Other problems identified included finding good stock (5) and difficulties of the transfer process (2)

#### ***4.7 Role of the house***

Of the Landlords interviewed only two had used their house as collateral to obtain a bond for purchasing the rental units (2). The Township Landlords had used their properties to build rooms

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for rent (6). One Landlord sold his house to get money and bought a new property that had rental rooms on it. Two Landlords indicated that having a house had improved their credit rating with the bank (2). Two Landlords use their access bond (2) to finance rental stock.

Two of the Township Landlords expressed the view that the family house cannot be bonded in case it is lost (2).

#### **4.8 Advice**

Advice that the Landlords interviewed give to the South African Government is as follows:

- Provide legal support to Landlords especially in respect of evicting tenants (2) Change the rental act to be fairer to Landlords.
- Educate tenants about lease agreements (1)
- Get rid of the negative influences in neighbourhoods including urban decay and crime (5)
- Provide land for development (4)
- Help landlords with finance (4)

Advice that the Landlords interviewed give to Financial institutions is as follows:

- Be more user friendly (4)
- Help with more financing (6)
- Help people who are self employed (1)
- Lower interest rates (4)
- Look at innovative packages for Landlords (1)

Advice that the Landlords interviewed give to other Landlords is as follows:

- Interact with the tenants /good relationship (9)
  - Keep the place clean and repair and maintain (3)
  - Choose the right area (2)
  - Undertake hands on management (2)
  - Do not be too oppressive (3)
  - Be strict with the tenants (3)
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#### ***4.9 A ladder of development***

There was some evidence among the Landlords interviewed of a ladder of development for example:

- *One of the Landlords in Soweto explained that she started with a normal garage which she converted into rooms. Using the money she earned from the rooms she built more and more.*
- *One of the Landlords who owns townhouses advises that Landlords should start with 1 property and when successful start buying more.*
- *One of the Landlords in Katlehong explained that his sister needed a place to stay so he built the backyard shack – then when she moved out people asked to stay in it so he started renting. It taught him how to earn money.*
- *One of the larger Landlords started by buying one townhouse – then started to buy flats and now owns 32*
- *A landlord with houses in Berea indicated that he bought one house with a bond, sold it and made a profit and then bought another and has now continued buying. He currently has 8 houses.*
- *Landlord in Berea started by buying flats and now has 40.*

While the above examples do not show a clear progression up a ladder, they do show that some Landlords start with one unit and then slowly as they gain experience and more income over time purchase additional units.

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## 5 Conclusions

This research comprised qualitative in-depth interviews with 20 'Successful' Landlords to complement primary research undertaken into Small Scale Landlords.

The 20 Landlords interviewed were categorised into the following types:

- Township Landlords
- Unit Landlords
- Building Landlords
- Building plus Landlords

The findings of the research shows a high degree of similarity with the primary research undertaken into Landlords in Inner City Areas and Townships.

The research shows that the above types of Landlords operate differently and need different levels of support:

- **Township Landlord:** These Landlords use their own finance. Generally they are not able to access financial support from Financial Institutions. The quality of their stock is problematic in some instances. They manage and maintain the stock by themselves. They have strong personal relationships with their tenants. They operate their businesses on an informal basis with very limited formal agreements. These Landlords require financial support to expand and improve the quality of the stock. In addition there is a strong need for business support to improve the basis on which they manage their business.
  - **Small Unit Landlords:** These Landlords generally have a limited number of units (less than 50). They manage the stock themselves. Maintenance is outsourced to a private contractor. They will have personal relationships with their tenants. The Business is operated on a very informal basis with limited use of formal agreements. Access to finance is better than in respect of the Township Landlords but is limited to personal loans. Such Landlords are not able to access business loans. Thus they will only be able to access loan finance to the extent that their personal collateral and income will allow. These Landlords need assistance to increase the amount of finance that they can access. They also need business support to improve the basis on which they are managing their stock.
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- **Larger Unit Landlords, Building Landlords and Building plus Landlords:** These Landlords operate their businesses on a formal basis with written agreements and clear management procedures. Their ability to access finance is better than other Landlords.