

Resource Report 9: Research into Public Sector Stock

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



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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 covers the research undertaken into Public Sector Stock. This research comprises one component of the overall research being undertaken which includes:

- Research into Landlords operating in Inner Cities and Townships
 - Research into Home Entrepreneurs
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The purpose of this component of the research was to obtain an understanding of issues pertaining to Public Sector owned stock to determine the feasibility of applying an approach whereby such stock is transferred to Small Scale Landlords. This report includes:

- Methodology
- Background to State Owned Stock in South Africa
- Scooping of two case studies so as to obtain a detailed understanding of the challenges and opportunities that this stock provides in respect of Small Scale Landlords.
- Key findings

2 Methodology

The methodology applied in undertaking this research was as follows:

- Documentation pertaining to State Owned Stock was reviewed.
- Two case studies were selected. Documentation pertaining to the case studies was reviewed and meetings held with relevant Officials to understand the key issues pertaining to the housing stock.

3 Background¹

Public Sector Stock was developed by Government in terms of the National Housing Fund. The type of stock developed included:

- Detached housing units
- Row or other forms of attached houses
- Flats or multi storey dwellings, and
- Hostel accommodation.

The housing stock was initially funded through subsidised loans provided by the National Housing Fund. Such loans are no longer available. Ongoing operational costs are funded through operational budgets of the managing sphere of Government.

In 1977 the National Housing Act gave authority to the Minister of Housing to institute a phase out programme of this stock comprising a phase out of all pre 1994 subsidised public housing stock and phase in market related rentals over a period of five years for all remaining stock.

The existing stock is being disposed of through the Sale and Transfer of Housing Stock policy with subsidisation provided through the Discount Benefit Scheme. The purpose of the Discount Benefit Scheme is to assist tenants to acquire state provided rental housing. The Scheme comprises a discount on the selling price or balance owing by the beneficiary on the house which they currently occupy and applies only to state financed property which was first occupied before the 1 July 1993. The discount benefit is for an amount not exceeding R7 500, with household income not taken into consideration. The Scheme originally [when first announced in November 1992] only included detached units. In 1993 it was extended to include all state financed rental stock including flats. [An overview of the Discount Benefit Scheme can be seen in the box overleaf].

¹ This section was adapted from New housing Supply, Transfer of Public Housing Stock, Mike Morkel, 2005 and documentation provided by the Social Housing Foundation.

As at June 2005 it is estimated that a total of 600 000 units have been transferred. It is difficult to determine precisely the number of units still to be transferred. The best estimate is that there are approximately 200 000 units still to be transferred of which:

- 90 000 to 100 000 units is stock managed by Provincial Housing Departments
- 80 000 to 100 000 units is stock managed by Municipalities and Local Government bodies
- 5 000 to 10 000 units is stock managed by Parastatal or state corporate bodies.

Of this stock however it is estimated that a high proportion will be difficult to transfer as a result of the following reasons:

- It is in poor physical condition
- It is in a poor location
- There are multiple claims for ownership
- The units are attached and require joint management of shared areas.

In December 2005 the National Department of Housing approved a new policy framework and implementation guidelines for the Enhanced Extended Discount Benefit Scheme [EEDBS]². The EEDBS replaces all other policies and implementation guidelines relating to the Discount Benefit Scheme and the phasing out programme for public sector stock.

² Policy Framework and implementation guidelines for the Enhanced, Extended Discount Benefit Scheme [not dated] provided by the Social Housing Foundation

Discount Benefit Scheme

The key components of this Scheme are as follows:

- The scheme is for long term tenants who were in occupation of state financed rental stock prior to 15 March 1994. The Scheme applies to all State financed units regardless of the particular source of state finance used to build the unit and its date of provision.
- Tenants of such stock receive a maximum discount of up to R7 500 on the historic cost of the services, site and the top structure. Household income is not taken into consideration and all tenants are eligible
- If there is an outstanding balance on the historic cost of the property, the tenant has to finance it from his or her own resources, by means of either a cash contribution or a mortgage loan.
- Municipalities should use their best endeavours to assist beneficiaries to obtain mortgage loans from financial institutions, employers or other sources¹.
- The tenant must receive registered title to the unit concerned in the form of ownership, leasehold or deed of grant.
- The property is transferred voetstoots. Where properties are structurally unsound and dangerous it may not be appropriate to transfer such properties. In such cases municipalities are advised to formulate proposals and make representations for project financing from other sources.
- Tenants who elect not to purchase the rented properties with the discount benefit may remain in occupation in terms of rental agreements, subject to the public sector lessor's right to increase rentals and other conditions in terms of such contracts.
- Care should be taken to establish the identity and entitlement of a person claiming the discount benefit. If there appears to be any doubt or dispute, thorough and transparent enquiry procedures including community involvement where appropriate must be instituted.
- In order to take transfer tenants are not required to obtain a clearance certificate in respect of municipal service charges and rates, but remains personally liable to the municipality for the payment of these service charges and rates.
- In addition exemption has been granted from certain provisions of the Electricity Installation Regulations and tenants are not required to obtain a certificate of compliance prior to taking transfer, as long as they remain in the unit and continue to bear responsibility for the payment of electrical connections and services.
- The Provincial government will subsidize transfer costs to a maximum of R150 per transaction. The balance of the transfer costs [if any] must be negotiated between the relevant Municipality, the conveyancer and the beneficiary.
- Where a township register has not been opened in the Deed Office this must be undertaken. Until such time as this has been completed, transfer may be given in the form of leasehold with automatic conversion to full ownership as soon as the township register has been opened.

The aim of the EEDBS is to stimulate and facilitate the transfer of public housing stock to qualifying occupants, by using subsidization up to the full prevailing individual housing subsidy amount. The key components of the EEDBS are as follows:

- **Qualifying criteria:** A beneficiary must be a natural person who:
 - Has a direct housing arrangement with the State
 - Has benefited from specified housing subsidies, programmes or schemes
 - Has an outstanding debt with a Municipality or Province
 - Is considered competent to contract
 - Has a legally binding contract with the relevant authority
 - Is a de factor tenant or is occupying the housing unit
 - **Applicable housing stock:** Housing stock applicable includes the following:
 - State finance housing units constructed or contracted on or before the 15 March 1994
 - Post 1994 occupants of units will be considered in specific circumstances or at the discretion of the relevant housing authorities.
 - **Calculation of sales price:** The calculation of the sales price includes:
 - The balance of the capital still to be paid, based on the listed selling price or historic cost of the property, plus improvements.
 - Other arrears that have accrued to the occupant
 - In respect of multiple units, the real cost of maintenance, repair and administration of multiple unit blocks must be taken into account.
 - **Payment for the stock:** The following applies:
 - The full prevailing individual housing subsidy amount will be applied to the sales price for qualifying beneficiaries in terms of the income category allocation applicable to the beneficiary. Persons who earn R7000 per month will receive R7 500.
 - In instances where the selling price is greater than the EEDBS, any balance remaining must be financed, by using the beneficiaries own resources which may include mortgage loans.
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- Transfer costs to a maximum of R450.00 will be paid for by the Public Sector owner. Should these fees exceed this amount then the balance must be negotiated between the public sector owner, the conveyancer and the beneficiary.
 - Should there be debts accrued in respect of the property these should be written off by the Public Sector owner in terms of the relevant legislation i.e. Public Finance Management Act, 1999, read with Treasury Regulation 11 in respect of Provincial Government and The Municipal System Act, 2000 in respect of Municipal Government.
 - **Multiple units:** In respect of Multiple Units [flats, cluster homes and row houses] the following applies:
 - Public sector owners must be realistic about the possibility of any block being suitable for making a sectional title offer and must be in line with the Sectional Title Act.
 - If the housing stock is not suitable the tenants should be told why they cannot receive the EEDBS.
 - If the stock is suitable for conversion, and the relevant authority has decided and approved the suitability of the project, then an offer should be prepared, in consultation with the tenants and in compliance with applicable statutory requirements. The offer should be open for a limited time with the proviso that the project is viable and consultation has taken place with the relevant authority and role players.
 - **Rental arrears and debt recovery:** In respect of rental arrears and debt recovery by Municipalities the following will apply:
 - In cases where households are in arrears but can afford to pay back the rental arrear amounts over a period of time, they are required to sign an ‘acknowledgement of debt’ with the Municipality that specifies the amount to be paid back and the conditions under which it can be paid. The arrear amount is ‘parked’ i.e. held over and is paid off over a five year period at 0% interest.
 - In cases where households are in arrears but cannot pay back the rental amount, the household can remain in the property but cannot sell it until the arrear amount is settled.
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- **Municipal service, utilities, rates and taxes:** Municipal service, utilities and rates and taxes should be separated from the cost of the housing unit and should be paid by occupants. In cases where occupants are not able to make these payments Municipalities are encouraged to develop and apply an indigent policy.
- **Process to be applied:** The following process will be applied:
 - **Normalisation:** Identifying the relevant housing stock and its condition: This component comprises identifying the stock, the number of housing units, the condition of the stock, and determining any arrears accruing.
 - **Regularisation:** This component comprises determining the entitlement of the occupants and other persons to a housing unit and the EEDBS. In this regard tenure rights must be considered, as well as a thorough and transparent enquiry procedures including community involvement where appropriate.
 - **Relocation:** It is noted that where households have a legal claim to the housing unit in which they live but are unsuitable [due to non-affordability or other reasons] or do not qualify as occupants of the housing unit the relevant authority is required to assist the occupants to find alternative accommodation.
 - **Individuals who do not wish to participate:** Existing contracts with individuals who do not wish to participate, whether rental or sales agreements must be honored.
 - **Rectification:** Once the stock has been normalized and regularized a decision need to be taken on whether the housing stock should be repaired to the point where it is safe and habitable.

The EEDBS focuses predominantly on the transfer of stock to individual beneficiaries. While rental stock in the form of clusters, row houses and flats are considered it is in the context of sectional title transferred to individuals in respect of one unit, rather than to private sector Landlords.

4 Case Study Analysis

Two case studies are scoped namely Provincial Flats in Alexandra Far East Bank and Sonof Flats in Emfuleni. The case studies were selected because they provide two extreme examples, with the one (Provincial Flats, Alexandra) facing considerable challenges, as opposed to Sonof Flats which is operating relatively effectively.

In selecting the case studies the focus was on housing stock currently owned by a Public Sector Body, that would be appropriate for Small Scale Landlords. Whether or not the stock qualified in terms of the transfer of housing scheme was not a priority and it is noted that the Provincial Flats in Alexandra Far East Bank fall outside of the criteria having been built after 1994. It is likely that the Alexandra Flats would qualify for the EEDBS.

4.1 *Provincial Flats: Alexandra Far East Bank*

4.1.1 *Background*

Approximately five years ago the Department of Housing funded and facilitated the construction of 151 flats (rental units) on the East Bank. However, after the construction of certain of the units and the partial construction of the remainder, all units were illegally invaded.

Today the units are still occupied without authorization. While certain of the units were finished and have operational services, many other are only partially completed and have inadequate or non-functioning services. The flats are not under any form of official management (i.e. via the Province, a local authority or a housing association), no rentals are being collected, no maintenance is being undertaken and generally there is a high level of overcrowding.

The Province and ARP Office, which has been delegated the responsibility to normalize the use of the buildings, do not have any documentation, records or building plans for either the units / buildings or the occupants. Given the above, immediate access to the units for technical surveys in order to establish extent of completion of units, repairs required, unit configuration and sizes is prohibitive. This prevents a detailed pre-feasibility being undertaken until such time as the units are vacant.

In order to clear or evict the existing occupants from the buildings, the City as owner, would need to take the necessary steps that would result in the successful eviction of existing households – this means both identification of households and offering alternative housing opportunities.

4.1.2 Location and Anticipated Market Demand

The flats are located on some 7 to 11 sites in the local vicinity just southwest of the Lombard Road and Far East Bank Road intersection in Alexandra Far East Bank. The flats are in 4 to 5 “clusters” comprising some 11 separate 2 and 3-storey blocks.

They are well located within existing formal residential areas of Alexandra. The houses surrounding these blocks are previously developer-built housing packages for individual ownership. Close by are the detached units of Tsutsumi Village that were originally intended for instalment sale or rental under management of Semag.

These units have been made available at substantially “discounted” prices (purchase or rental) as the original development was heavily subsidized. Despite this collection of rental and instalments by the Social Housing Institutions, administering the units has been extremely ineffective.

Large arrears exist and the NHFC long-term loan has not been serviced. In essence, the pricing of previous formal housing and rental development do not reflect the comparatively good location and associated market demand of Alexandra.

Recent market surveys also indicate the following:

- Informal (backyard) rental is not a common phenomenon and backyard rentals are rarely charged by occupants / deemed owners of formal structures on the sites.
- Prevailing high unemployment rates with over 50% of the residents (households) of Alexandra earning less than R1 500 per month.

In summary, effective demand for rental units is limited unless rentals are restructured to meet affordability limitations, viz rentals should not exceed R500 per month, obviously subject to unit type and size.

4.1.3 Cadastral Information and Ownership

General Plans for the area have been prepared although erven have not yet been proclaimed. The area is zoned for medium to high density residential and surrounding sites often comprise 2 dwellings, although mostly single storey but with some double storey buildings.

The properties are reportedly owned by the Gauteng Provincial Government, which has delegated the Alexandra Renewal Project the responsibility of normalizing the state and future use of the buildings.

4.1.4 Condition of Buildings and Units

The units reportedly comprise a mix of 1 to 3-bedroom units – building plans could not be found so an in-situ inspection and measurement of units would be required. From a windshield survey, all are occupied. In 4 blocks, the top floor and roofs are incomplete and walls and roofing clad with corrugated iron sheeting, plastic, etc. The structural integrity of these blocks would need to be tested. Illegal water and electricity connections prevail and no proper sewer connections exist. In some instances, sewerage collects on open space between blocks and in others sewer has been diverted through shallow trenches onto the roads. It is likely that, given the incomplete state of the superstructures, internal finishes and fittings are either incomplete or non-existent.

4.1.5 Property Assembly and Refurbishment Requirements

The requirements for the assembly of the properties and buildings for disposal and refurbishment are:

- Clearing all buildings and units of existing illegal occupants.
 - Completion of all outstanding proclamation activities so that buildings / sites are registerable and transferable.
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- Completing the buildings, installation of fittings, connections, etc, so that individual units are habitable and occupiable.

Based on available information, high order cost estimates for property assembly, building refurbishment and completion are given below in table 1.

Table 1: High order cost estimates

	Per Unit	Total
Property Assembly:		
▪ Social administration (registration of occupants, subsidy applications, co-ordination of relocations)	R650	R98 150
▪ Physical household relocations to alternative accommodation	R1 250	R188 750
▪ Townplanning / legal attendance for property registration	R500	R75 500
▪ Security provision (during period where property vacant, building operations) allowed R66 000 pm for 8 months)	R3 487	R528 000
▪ Overall co-ordination / project management	R250	R37 750
	R6 147	R928 150
Building Work and Refurbishment:		
▪ Bathroom fittings incl. geyser	R3 900	R588 900
▪ Kitchen fittings	R2 250	R339 750
▪ Walling (plaster, paint)	R6 500	R981 500
▪ Flooring (screed, tiles in kitchen and bathroom)	R2 500	R377 500
▪ Internal electrical reticulation and fittings	R3 500	R528 500
▪ Internal doors, handles, curtail rails	R1 200	R181 200
▪ External repairs and parking (R15 000 per building)	R1 093	R165 000
▪ Roofing (4 buildings)	R530	R80 000
▪ Windows (5 buildings)	R83	R12 500
▪ Services connections (R5 000 per building)	R364	R55 000
▪ Boundary fencing	R182	R27 500
▪ Rubble removal and clearing (R3 000 per building)	R218	R33 000
▪ Contingency (R15 000 per building)	R1 093	R165 000
▪ Overall project management	R1 000	R151 000
	R25 613	R3 867 550
Overall Contingency	R1 740	R262 740
Estimated Total Costs	R33 500	R5 058 500
VAT (14%)	R4 690	R708 190
TOTAL	R38 190	R5 766 690

If rentals of R500 per unit are applied and operating costs (rates, maintenance, rentroll) of the entrepreneurs are about R300 per unit per month, in the first year of operation, only about R20 000 per unit debt can be serviced (over 20-year period). This totals about R3,0 million overall in debt, ie about 60% of estimated total capital requirements. It is therefore likely that, in addition to the property value, the Province / City of Joburg will have to make a capital contribution (forego full capital cost recovery) of anywhere between R1,0 and R2,0 million.

4.1.6 Conclusions : Alexandra Flats, Far East Bank

The prevailing circumstances of the flats, being incomplete, illegally occupied and with dysfunctional services and management are compelling reasons to refurbish and complete the buildings with proper management arrangements.

The assembly of the property would require the active participation and support by the authorities (ARP Office). Specifically, it would be required to take all necessary steps to ensure that the buildings are disposed of without occupants, but in a functional state such that buildings can be tenanted. The estimated capital cost for this is about R5,76 million including VAT.

For sustainability, and to meet effective market demand, starting rental limitations of around R500 per unit are likely to be required, ie buildings would have to be disposed of with such rental conditions. The disposal destination of the buildings could be to 1 or more Small Scale Landlords that have both the investment and management capacity

4.2 Sonof Flats, Vereeniging (Emfuleni)

4.2.1 Background

The Emfuleni Local Municipality is the registered owner of a block of flats (Sonof) in Duncanville, Vereeniging. The total monthly rentals amount to some R29 306. The unit rentals range between R371,56 and 426,21 for 2-bedroom units and R426,21 and R442,86 for 3-bedroom units.

As at end of July 2004, total arrears amounted to R402 381, which is extremely high equating to 1 373% of total monthly rental (the norm is 5% of total monthly rental). Tenants are of all racial groups, primarily pensioners and possibly indigent households. They all indicate that rentals are too high.

While still in a reasonable state of repair, the consequences of inadequate rental income has been neglect in the maintenance of the stock. The building now does, for example, not comply with fire safety regulations.

4.2.2 Cadastral Information, Location and Anticipated Market Demand

Sonof Flats are located on Erf 3, Springbok Avenue, Duncanville, an existing lower-middle-income suburb of Vereeniging. Some 4km to the south is the Central Business District, but between it is an industrial strip of land (extension of Peacehaven industrial area. The Emfuleni Local Municipality is the registered owner of the property. No extraordinary restrictive conditions of title exist.

A brief scan of the current market has been undertaken. Typically, for sectional title units, 2-bedroom flats in the vicinity of the Central Business District have asking prices around R85 000, but very few are available at any one time. Only one, of four estate agents canvassed, had a unit available in the CBD for rental, being a 2-bedroom unit and asking rental of R870 per month.

4.2.3 Condition of Building and Units

Sonof Flats comprises of 78 units, of which 18 are 3-bedroom and 60 2-bedroom units. The flats are in a building comprising 3 storeys (walk-ups, no lift). Of the 78 units, formal leases for 73 units have been concluded, although all units appear to be lived in.

The building is in a reasonable state of repair, although the following key items require short-term maintenance and repairs:

- electrical facilities to common areas and staircases;

- fire extinguishers and hose reels – the building is currently unsafe and does not comply with fire safety regulations;
- Bathroom and kitchen fittings in units, as well as many geysers.

Interviews with Councillors and Officials confirmed that due to the general neglect of the building, its state has deteriorated over the last 5 years. It was felt that the urgent repairs should be prioritized.

4.2.4 Property Assembly and Refurbishment Requirements

For the effective future disposal of the building, the Emfuleni Municipality would be required to:

- Notify all tenants that the building is to be sold.
- In terms of existing lease agreements, notify tenants that rentals will be incrementally increased over a 12-month period in order for future sustainable operation of the building for rental accommodation.
- Tenants who are not able to afford increased rentals will be required, during this period, to seek alternative accommodation.
- Write-off all rental and service charges arrears.
- Provide access to potential purchasers to units for inspection / costing purposes.

The refurbishment requirements are:

- Physical inspection of all units, quantification of repairs required and estimated costings.
- Undertake repairs to ensure building complies with safety regulations and to any minimum standards / specifications that may be imposed by the Emfuleni Municipality.

Activities required for property assembly can reasonably be undertaken by the Emfuleni Municipality during its normal ongoing property management functions.

Estimated high order refurbishment costs are detailed in Table 2 below:

Table 2: Estimated high order refurbishment costs are:

Item	Per Unit	Total
▪ Structural assessment and certification	R500	R39 000
▪ Geysers and replacement of some bathroom units	R2 000	R156 000
▪ Replacement of some kitchen units	R2 500	R195 000
▪ Fire fighting and safety equipment for building	R750	R58 500
▪ Electrical facilities to common areas and staircases	R250	R19 500
▪ Individual water meters to units	R450	R35 100
▪ Overall project co-ordination and management	R1 000	R78 000
	R7 450	R581 100
Contingency (15%)	R1 118	R87 204
Total	R8 568	R668 304
Vat 14%	R1 200	R93 563
TOTAL	R9 768	R761 867

4.2.5 Conclusions: Sonof Flats

The demonstrated inadequate management of the stock by the Municipality manifests in high arrears – despite sub-economical rentals being charged – with consequential lack of maintenance and a deteriorating state of the building. These are compelling reasons to dispose of and place the stock under management of proper entity / entrepreneurs, which could be a Small Scale Landlord. Existing evidence suggests that market related rentals can be applied for ongoing sustainability. In order for the stock to be disposed to an entrepreneur like a Small Scale Landlord it would be necessary for the Municipality to undertake the refurbishment of the building. As the current rentals are not sustainable rentals will need to be increased.

In addition the Municipality would need to address the following key issues:

- Loss of rights of Tenants as the building could qualify as a EEDBS building
- Finding alternative accommodation for those Tenants not able to afford the increased rentals.

5 Key findings

The purpose of this component of the research was to obtain an understanding of issues pertaining to Public Sector owned stock to determine the feasibility of applying an approach whereby such stock is transferred to Small Scale Landlords.

This report provides background to State Owned Stock in South Africa and then outlines a detailed scoping of two case studies so as to obtain an understanding of the challenges and opportunities that this stock provides in respect of Small Scale Landlords. This section then sets out key conclusions.

The two case studies scoped are the Provincial Flats in Alexandra Far East Bank and Sonof Flats in Emfuleni. The case studies were selected because they provide two extreme examples, with the one (Provincial Flats, Alexandra) facing considerable challenges, as opposed to Sonof Flats which is operating relatively effectively.

In selecting the case studies the focus was on housing stock currently owned by a Public Sector Body, that would be appropriate for Small Scale Landlords. Whether or not the stock qualified in terms of the transfer of housing scheme was not a priority and it is noted that the Provincial Flats in Alexandra Far East Bank fall outside of the criteria having been built after 1994. It is likely that the Alexandra Flats would qualify for the EEDBS.

Background

Public Sector rental housing stock was developed by Government to provide subsidized housing to low income households. The type of housing provided was detached housing units, row or other forms of attached houses, flats or multi-storey dwellings and Hostel accommodation.

The housing stock was initially funded through subsidised loans provided by the National Housing Fund. Such loans are no longer available. Ongoing operational costs are funded through operational budgets of the managing sphere of Government.

Generally no new stock is being developed. Existing stock is being disposed of through the Sale and Transfer of Housing Stock policy promulgated as part of the National Housing Act. Subsidisation is provided to facilitate this process through the Discount Benefit Scheme. This process has been underway for more than a decade.

In December 2006 the National Department of Housing approved a new policy framework and implementation guidelines for the Enhanced Extended Discount Benefit Scheme [EEDBS]. The EEDBS replaces all other policies and implementation guidelines relating to the Discount Benefit Scheme and the phasing out programme for public sector stock. The aim of the EEDBS is to stimulate and facilitate the transfer of public housing stock to qualifying occupants, by using subsidization up to the full prevailing individual housing subsidy amount [for details see box].

The EEDBS focuses predominantly on the transfer of stock to individual beneficiaries. While rental stock in the form of clusters, row houses and flats are considered, it is in the context of sectional title transferred to individuals in respect of one unit, rather than to private sector Landlords.

Enhanced Extended Discount Benefit Scheme [EEDBS]: Key components

- Qualifying criteria: A beneficiary must be a natural person who:
 - Has a direct housing arrangement with the State
 - Has benefited from specified housing subsidies, programmes or schemes
 - Has an outstanding debt with a Municipality or Province
 - Is considered competent to contract
 - Has a legally binding contract with the relevant authority
 - Is a de factor tenant or is occupying the housing unit
- Applicable housing stock: Housing stock applicable includes State finance housing units constructed or contracted on or before the 15 March 1994. Post 1994 occupants of units will be considered in specific circumstances or at the discretion of the relevant housing authorities.
- Calculation of sales price: The calculation of the sales price includes the balance of the capital still be paid based on the listed selling price or historic cost of the property plus improvements and other arrears that have accrued to the occupant. In respect of multiple units, the real cost of maintenance, repair and administration of multiple unit blocks must be taken into account.
- Payment for the stock: The full prevailing individual housing subsidy amount will be applied to the sales price for qualifying beneficiaries in terms of the income category allocation applicable to the beneficiary. Persons who earn R7000 per month will receive R7 500. In instances where the selling price is greater than the EEDBS, any balance remaining must be financed, by using the beneficiaries own resources which may include mortgage loans.
- Multiple units: In respect of Multiple Units [flats, cluster homes and row houses] Public sector owners must be realistic about the possibility of any block being suitable for making a sectional title offer and must be in line with the Sectional Title Act. If the housing stock is not suitable the tenants should be told why they cannot receive the EEDBS. If the stock is suitable for conversion, and the relevant authority has decided and approved the suitability of the project, then an offer should be prepared, in consultation with the tenants and in compliance with applicable statutory requirements. The offer should be open for a limited time with the proviso that the project is viable and consultation has taken place with the relevant authority and role players.
- Process to be applied: The following process will be applied:
 - Normalisation: Identifying the relevant housing stock and its condition: This component comprises identifying the stock, the number of housing units, the condition of the stock, and determining any arrears accruing.
 - Regularisation: This component comprises determining the entitlement of the occupants and other persons to a housing unit and the EEDBS. In this regard tenure rights must be considered, as well as a thorough and transparent enquiry procedures including community involvement where appropriate.
 - Relocation: It is noted that where households have a legal claim to the housing unit in which they live but are unsuitable [due to non-affordability or other reasons] or do not qualify as occupants of the housing unit the relevant authority is required to assist the occupants to find alternative accommodation.

As at June 2005 it is estimated that a total of 600 000 units have been transferred as part of the transfer of stock process. It is difficult to determine precisely the number of units still to be transferred. The best estimate is that there are approximately 200 000 units still to be transferred of which:

- 90 000 to 100 000 units is stock managed by Provincial Housing Departments
- 80 000 to 100 000 units is stock managed by Municipalities and Local Government bodies
- 5 000 to 10 000 units is stock managed by Parastatal or state corporate bodies.

Of this stock however it is estimated that a high proportion will be difficult to transfer as a result of the following reasons:

- It is in poor physical condition
- It is in a poor location
- There are multiple claims for ownership
- The units are attached and require joint management of shared areas.

Case Studies

Two case studies are scoped namely Provincial Flats in Alexandra Far East Bank and Sonof Flats in Emfuleni. A summary of the findings is shown in Table 3 below.

Table 3: Case Studies Scoped

Case Study	Overview	Key findings
Provincial Flats: Alexandra Far East Bank	<ul style="list-style-type: none"> - 151 flats - Funded by DOH - Units illegally invaded - Units only partially completed and have inadequate services - Not under any form of management - High levels of overcrowding 	<ul style="list-style-type: none"> - Flats well located - Effective demand for the units is limited unless rentals are restructured to meet affordability limitations - The flats are in a very poor condition and pose a health hazard to the occupants - Extensive refurbishment will be required- estimated cost R5,8 million - Assembly of property would require active participation of authorities – as occupants will need to be relocated - At current rentals the COJ will have to make a capital contribution of between R1 to R2 million
Sonof Flats, Vereeniging, Emfuleni	<ul style="list-style-type: none"> - 78 units – 3 storey walk up - Emfuleni Municipality registered owner - Arrears on rentals high - Tenants primarily pensioners and indigent - Building in reasonable state of repair but not maintenance being undertaken 	<ul style="list-style-type: none"> - Building in reasonable state of repair- needs some short term maintenance - To dispose of building all tenants need to be informed and those who cannot afford higher rentals relocated. - Estimated assembly cost is R0,77 million. - Building could be easily transferred to a Small Scale Landlords with relatively minimal cost to the Municipality

Appropriateness for Small Scale Landlords

On the basis of the review of the current status of Public Sector stock and of two case studies it is concluded that Public Sector stock could only be appropriate for Small Scale Landlords if the properties are sold to such Landlords who then operate them on free market principles. For this to occur a number of issues must be resolved:

- The rights of the tenants living in the building to take transfer of their units.
- The political will and ability of the Public Body owning the stock to relocate those tenants who cannot afford increased rentals.
- The state of the physical structure which in many cases is in poor condition and needs substantial upgrading.

Some Public Sector Stock will not be suitable for sale due to poor location or the lack of a market willing to pay sustainable rentals.

Generally it can be concluded that Small Scale Landlords are unlikely to be a key mechanism for addressing hard to sell State Owned Stock without considerable investment by the State. There may be some stock [for example Sonof Flats] that is appropriate for Small Scale Landlords. The key criteria for this would be:

- Good location
 - The building is in reasonable physical state and/or the relevant Government authority is willing to provide the capital to upgrade the stock into a reasonable state
 - Most of the tenants in the building can afford increased rentals and are willing to remain tenants rather than become owners in a sectional title scheme as envisaged by the EEDBS
 - The relevant Government authority is willing to relocate those tenants who cannot afford increased rentals.
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