

# Small Scale Landlords: Research Findings and Recommendations

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

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## Final Report

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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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## Executive Summary

### *Introduction*

This research seeks to provide a deeper understanding of housing as a **productive asset** and its role in **promoting economic activity and improved affordable housing supply**, through supporting the activities of Home Based Entrepreneurs and Small Scale Landlords. The research focused on obtaining a detailed understanding of how **Small Scale Landlords** and **Home Based Entrepreneurs** operate, the key constraints that they face and the extent to which they are using their home as a productive asset. This was set within the context of a **broad understanding of entrepreneurship** and current policy and practice in unleashing and supporting entrepreneurial activity.

The research is funded by Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing. Shisaka Development Management Services in association with the CSIR were appointed to undertake the research.

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.
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### ***Methodology of the Research***

The methodology applied in undertaking this study comprises five phases. **This report provides an overview of the work undertaken in Phases 1 to 4 in respect of Small Scale Landlords.** A separate report is available in respect of Home Based Entrepreneurs.

The research comprised the following:

- **Literature reviews:** Four literature reviews focusing on both international and South African literature were undertaken
- **Research into Small Scale Landlords:** This research included; a survey of Small Scale Landlords in Inner Cities, research into Small Scale Landlords in Townships based on an existing survey undertaken by Nurcha, interviews with 20 Successful Landlords, interviews with Service Providers in respect of Small Scale Landlords and research into Public Sector Stock.
- **Research into Home Based Entrepreneurs:** This research included; a survey of Home Based Entrepreneurs in Inner Cities, a survey of Home Based Entrepreneurs in Townships, interviews with Successful Entrepreneurs and interviews with Service Providers and Lenders in respect of Entrepreneurs.

### ***Key findings of the research into Small Scale Landlords***

This section summarises the analysis of the research undertaken into Small Scale Landlords and **provides an overview of Small Scale Landlords and the context in which they operate.** The key conclusions of the analysis are as follows:

- **Importance of Small Scale Landlords:** Small Scale Landlords make a significant contribution to the South African economy. Small Scale Landlords **provide a range of accommodation types** for approximately 15% of all South African households (1,85 million households). 60% of this stock (1,1 million households) comprises Household Rental including both formal and informal units located in backyards. Generally this accommodation is well located and affordable to very poor households (earning R1 800 per month on average). Small Scale Landlords are therefore contributing significantly to the **supply and management of affordable rental housing for poor people.**
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The Small Scale Landlord sector provides a **critical opportunity to promote income generation and wealth creation for Small and Medium Enterprises (SMEs)**. It is estimated that the sector is currently generating rental income of approximately R421 million per month.

There is **potential for growth** within the sector. Demand for stock is high and most Landlords in both Inner Cities and Townships indicated that it is easy to find tenants (over 62%). Township Landlords report that vacancy is effectively zero. However this potential is **currently not being realised**. The overall rental sector saw a decrease in its percentage size within the overall Housing Sector between 1999 and 2005.

Consequently given the significant housing shortage, high levels of poverty and unemployment and the strong focus on enterprise development in South Africa, **there is significant value in supporting the growth of the Small Scale Landlord sector**.

- **Differences between Small Scale Landlords: Inner City and Township Landlords and their rental stock are different. Inner City Landlords** are generally **formally employed, well educated and male**, offering formal rental accommodation predominantly in the form of flats. **Township Landlords** are generally **poor, aged and female**, offering a mix of formal and informal rental accommodation (often of poor quality) in the form of attached and detached units.

**Inner City Landlords** can be categorized into five types:

- **Sub-letting Landlord:** A Landlord who has legal title to a unit, a portion of which is rented out where the relationship with the tenant is direct, the Landlord stays in the unit and the unit is formal.
  - **One (1) Unit Owner:** A Landlord who has legal title to one unit that s/he rents out on a basis where the relationship with the tenant is direct, the Landlord does not stay in the unit and the unit is formal.
  - **Two plus (2+) Unit Owner:** A Landlord who has legal title to two or more units (but less than a building or 200 units) on a basis where the relationship with the tenant is direct, the Landlord does not stay in the unit and the unit is formal.
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- **Building Owner:** A Landlord who has legal title to a building with residential units that s/he rents out to tenants on the basis where the relationship with tenants is direct and the units are formal. As the research focused on Small Scale Landlords this category of Landlords was restricted to Building Owners that own less than 200 units.
- **Landlord that uses a Managing Agent:** This category of Landlords uses a Managing Agent on the basis where the Landlord does not have a direct relationship with his/her tenant.

There **are differences between these categories of Inner City Landlords**, each having different characteristics in respect of how they operate and the challenges that they face.

**Township Landlords are all Unit Owners**, with a very small number being Sub-letting Landlords. Townships Landlords are further categorised in respect of the type of unit and who built the unit as follows:

- **Formal Unit Landlord:** Defined as a Landlord who has a formal unit.
- **Informal Unit Landlord:** Defined as a Landlord who has an informal unit
- **Tenant Unit Landlord:** Defined as a Landlord where the tenant erected the unit and is renting a portion of the Landlord's land

**Clear geographic differences** were shown between the different type of Township Landlords in the areas surveyed. This indicates that there are local factors that strongly influence the type and nature of the rental market that occurs in a particular area.

**Consequently, the application of policy, provision of funding and other support must occur in a manner whereby the specific differences between the different types of Landlords are understood and taken into account.**

- **Entrepreneurship: Not all Landlords are entrepreneurial. Only some Small Scale Landlords are investing and taking risk and wanting to expand their rental portfolios** (for example only 40 to 45% of Unit Owner Landlords are motivated by the investment). The data further suggests that a **ladder of growth could be occurring**, particularly in respect of Inner City Landlords, whereby as more entrepreneurial Landlords become successful in a particular category and acquire more income and experience, they move to the next category.
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Thus they move from subletting, to 1 unit, to 2+ units, to becoming a building owner<sup>1</sup>. However, given the distribution of the different types of Inner City Landlords, where Sub-Letting and 1 Unit Landlords is the most prevalent (38% and 23% respectively), it would appear that the transition to the next category is difficult. This could be the result of the lack of finance and business support available to Sub-Letting and 1 Unit Landlords.

**Consequently the prevalence of entrepreneurial Small Scale Landlords could be increased through more appropriate policy and improved access to finance and business support.**

- **Access to finance: The different categories of Landlords access finance differently and have different needs and preferences with respect to finance.** Small Scale Landlords that **operate their businesses on an informal basis have less access than those operating on a more formal basis.**

**Township Landlords, Subletting Landlords and Unit Owner Landlords** mobilise considerable **personal savings** rather than formal business loans into acquiring stock. **Access to financial products is generally poor.** Just under one third of Sub Letting and Unit Landlords and fewer than 12% of Township Landlords accessed a loan from a financial institution to purchase their unit. Between 62% and 82% used their own money. These types of Landlords have different needs and views of financial products. Generally **Township Landlords are reluctant to use the house as collateral.**

**Building Owner and Managing Agent Landlords** are able to access loan finance (both personal and business) more easily. Approximately three quarters of Building Owner Landlords accessed a mortgage backed loan and approximately half have a current or cheque account.

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<sup>1</sup> The Literature review indicates that Entrepreneurs do not move easily from one rung of the ladder to the next

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It is difficult for Small Scale Landlords in both the Inner Cities and Townships to access loan finance from either Commercial Banks or Development Institutions. Commercial Banks while offering loans are extremely risk averse. Development Finance Institutions (for example Nurcha and the NHFC) focus on Social Housing Institutions or provide finance in a manner that is inappropriate or difficult to access for Small Scale Landlords. **The most effective current source of funding is that provided by TUHF**, which has a specific focus on Small Scale Landlords. **International experience indicates that making finance available to Small Scale Landlords should occur on a ‘credit-plus’ basis where finance is coupled with business support services, which are provided on an ongoing basis.**

**Consequently there is a need for substantial increase in access to loan finance for Small Scale Landlords. Product development must be appropriate for the market circumstances of different categories of Landlords, both in terms of credit and business support.**

- **Business support: The performance and profitability of Small Scale Landlords is dependent on the formality and the quality of service they provide to their tenants.**

The competencies of and methods used by Small Scale Landlords to manage their businesses varies in terms of the different types of Landlords. Generally Township Landlords, Subletting Landlords and 1 and 2+ Unit Owner Landlords operate on an informal basis, while most Building Owners and Managing Agent Landlords operate on a formal basis.

The amount of rental charged by and profitability of Small Scale Landlords appears to be related not only to the location and quality of the stock, but also the degree of formality of the business. Thus Township Landlords charge the lowest rentals (R97 to R225), which then increases progressively from Subletting Landlords (R898), 1 Unit Landlords (R1038) and 2+ Unit Landlords (R1053), to Business Owners (R1183) and Managing Agent Landlords (R1728) who realise the highest rentals. In addition, the extent to which maintenance is undertaken appears to be related to the amount of rental that is realised.

Profits also increase progressively from Sub-letter and 1 Unit Landlords where 32% indicated that they made money, to 2+ Unit Landlords where 62% indicated they made money and Building Owner Landlords where 75% indicated they made money<sup>2</sup>

**Consequently, Small Scale Landlords will benefit significantly from appropriate business support. Such support will need to be specific and vary according to the needs of the different categories of Landlord. While such support and improvements in business practice will generally improve the quality of rental stock provided, a potential negative effect is the likely increases in rentals and loss of benefits in terms of affordability of the stock for poorer households.**

- **Type and quality of stock: The type of stock provided by Small Scale Landlords includes rooms and flats, which could be either formal or informal units. Access to services is generally good in Inner Cities, but is relatively poor in Townships. While the quality of the stock was not surveyed, anecdotal evidence indicates that a large number of Township Landlords (providing both formal and informal units) provide stock that is of a poor quality. This problem is exacerbated by the fact that limited maintenance of the stock is occurring (see 3.11.5).**

Despite the poor quality of stock (especially in Townships) most tenants (over 58%) generally **expressed satisfaction with the quality of the unit and the services** they receive. However research shows that such stock often has a serious impact on the occupant's health and well being and interventions are required that improve the quality of the stock.

In South Africa the design and construction of housing stock must comply with the relevant requirements of the National Building Regulations and Local Government Town Planning and Building Ordinances and Bylaws. These specifications are generally significantly higher than what is affordable by Township Landlords or their tenants. This results in much of the stock being provided by these Landlords not complying.

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<sup>2</sup> Information for Township Landlords and Managing Agent Landlords not available

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Consequently there is a need to review such requirements, so as to make them more applicable to this market sector. In this regard regulatory requirements should be simple, accessible and understood by all concerned. In addition the challenge is to understand how such dwellings can be effectively upgraded to ensure the health of the occupants, particularly given the resource constraints of both the Landlords and their Tenants.

- **Landlord/Tenant relationships: Small Scale Landlords generally manage their tenants on a personal basis with high levels of informality.** Generally Landlords (83-100%) believe that the **relationship with their tenants is good**. This is supported by the Tenants (67-72%) themselves (although to a lesser extent). In addition there is **a good understanding of roles and responsibilities** by both Landlords and Tenants in respect of all categories. While there appears to be no specific correlation between having written contracts and good tenant relations, the use of a written contract is good practice. Some of the Successful Landlords (particularly in Township areas) indicated that they were beginning to change to written contracts for this reason (see Resource Report 7). Consequently, while not essential, it is argued **that written contracts are preferable and Landlords should be encouraged to use such contracts.**
  
  - **Regulation: There is a range of legislation that pertains both generally and specifically to Small Scale Landlords and how they operate.** There is some legislation that is not supportive of Small Scale Landlords and/or has a negative impact on the sector including:
    - **Value Added Tax Act, 1991:** Impacts negatively on the capital cost of the provision of rental housing stock.
    - **The Income Tax Act:** Most institutions upgrading or converting existing stock cannot access tax exemptions.
    - **The legal system and Rental Act:** Ineffective in providing incentives for tenants to pay for their accommodation
    - **The Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 (PIE):** Requires that alternative accommodation is found for persons being evicted by the owner of the property.
    - **Free Basic Services:** Households who are renting are not able to access this benefit.
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**Small Scale Landlords have limited understanding of and generally do not comply with regulatory requirements in respect of;** registering their businesses and paying income tax (see 3.11.5), recent policy initiatives (e.g. UDZ tax incentive and the Rental Housing Act), limited use of the Rental Tribunal and over half of Landlords interviewed feel that the Local Government has not been helpful to their business as a Landlord. **There would be value in providing information to Landlords on the existing regulatory requirements, with particular reference as to why they are important and the opportunities they provide to Landlords to improve their businesses.**

- **Perception and support of the rental sector:** Some Government Officials and Politicians have a negative understanding and perception of the small scale rental sector. Recent Government policy as expressed in the Comprehensive Plan for the Development of Sustainable Human Development calls for the eradication of informal settlements and some Government Politicians and Officials interpret this to include the stock offered by Small Scale Landlords (especially those in Townships).

**Consequently there is value in informing Government Officials and Politicians on the important contribution that the sector makes towards housing South Africa's poorer households and how it can be supported to do this in a way whereby the quality of stock provided is progressively improved.**

- **Public Sector Stock: Public Sector rental housing stock was developed by Government to provide affordable housing to low income households.** Generally no new stock is being developed and existing stock is being disposed through the Sale and Transfer of Housing Stock Policy promulgated as part of the National Housing Act. As at June 2005 it is estimated that a total of 600 000 units have been disposed of and there are approximately 200 000 units still to be disposed. Of this stock it is estimated that a high proportion will be difficult to dispose, as a result of it being in a poor physical condition, poorly located, being subject to multiple claims of ownership and/or require a joint management arrangement. On the basis of the analysis undertaken, it is concluded that **generally Small Scale Landlords are unlikely to provide any significant opportunities for addressing hard to sell State Owned Stock, without considerable investment by the State.** There may however be some stock that is appropriate for Small Scale Landlords.
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## ***Recommendations***

- **Proposal 1: Policy implications:** The research shows that the house provides a critical platform for enterprise/business activities by enabling households to act as Small Scale Landlords. Such Landlords currently operate predominantly in the informal economy and to formalise and grow need an enabling environment, as well as access to financial and business support. Primary barriers being faced by Small Scale Landlords in respect of the policy context is their ability to comply with the regulatory framework and negative perceptions of Officials and Politicians of the sector. Accordingly there is a need for programmes to be undertaken that will recognise and support Small Scale Landlords, create an enabling environment within which they can operate and encourage the emergence of additional Small Scale Landlords. In this regard the following is noted:
  - The role of Government is that of an enabler. Government should not itself directly provide technical support but should create a legislative and regulatory environment that is conducive to Small Scale Landlords operating and growing.
  - The enabling environment should focus on using incentives, rather than regulation to encourage existing Small Sale Landlords to improve the quality of the stock that they offer.
  - Financial support should be provided in a manner that will assist Municipalities to manage and regulate the Small Scale Landlords sector, incentivise existing Small Scale Landlords to improve the quality of their stock and encourage new Small Scale Landlords to enter the sector. Any finance provided by Government should occur in a manner that encourages and supports investments made by Small Scale Landlords. Accordingly subsidisation through the National Housing Subsidy Programme is not recommended, rather finance should occur within the context of Urban Development Zones created through the Revenue Laws Amendment Act.

### **Four programmes are proposed:**

- **Recognition and support of Small Scale Landlords** so as to create a national framework whereby Small Scale Landlords are seen by Public Sector Politicians and Officials as providing affordable accommodation that contributes positively to the economy. The proposed implementer of this programme is the National Department of Housing working in partnership with the Department of Trade and Industry.
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- **Review of regulatory requirements** so as to streamline the regulatory requirements impacting on Small Scale Landlords. The proposed implementer of this programme is the Department of Housing working in partnership with the Department of Provincial and Local Government.
  - **Support to Municipalities** in managing and regulating Small Scale Landlords in a manner that creates an enabling environment. The proposed implementer of this programme is the Department of Housing in partnership with the Department of Provincial and Local Government.
  - **Incentives for Small Scale Landlords** so as to encourage the emergence of additional Small Scale Landlords and improve the quality of stock provided by both existing and new Landlords. It is proposed that these incentives are offered in selected Township areas only (Township Development Zones). The proposed implementer of this programme is the Department of Housing in partnership with the Department of Provincial and Local Government
- **Proposal 2: Financial products** : The research shows that access to financial products for Small Scale Landlords is generally poor. In addition that different categories of Landlords currently have access to different types of finance, face different financial challenges and have different financial requirements and needs. On the basis of these findings it is proposed that **three new financial products** are developed and offered to Small Scale Landlords as follows:
- **Township Accommodation Loan**, which is targeted at entrepreneurial Small Scale Landlords in Townships. The purpose of the loan is to assist such Landlords to improve their existing accommodation or build new additional accommodation. The loan is only provided where the asset [the rental accommodation] exists and comprises a non asset based personal loan that is linked to the rental income generated by the asset (accommodation).
- Where the accommodation does not yet exist, an in principle loan approval is provided, that will only be discharged when the accommodation is built. This loan commitment is designed to encourage savings and to allow individuals, who wish to build additional accommodation on their site, the ability to enhance their access to credit.
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- To enable these loans the Financial Institution will form partnerships with Loan Partner who will administer the loans and take responsibility for ensuring instalments are paid. This relationship based lending approach is seen as a key success factor for the effective risk management of these loans.
- **Inner City Section Title Unit Loans** targeted at Unit Owner Landlords in Inner Cities. The purpose of this loan is to give such Landlords greater access to capital, so that they can grow their business. The loan is made on the basis of the unit as an investment with consideration given to the rental stream that the unit will generate. In addition, consideration is given to all of the units that the applicant has. The loan is a ‘business support’ based loan with a condition being that the Borrower must appoint a business support service provider from an accredited list provided by the Financial Institution for the initial stages of the loan (between 12-36 months). Security for the loan will include a bond over the unit or portfolio of units and by securing the cash flow generated by the unit or portfolio of units that will be matched to the term of the loan.
  - **Building Investment Loan** targeted at building Owner Landlords in Inner Cities. The purpose of the loan is to provide funds to such Landlords so that they can purchase buildings in Inner Cities thereby creating or growing their property investment portfolio. The loan is designed to assist those Landlords (or prospective landlords) who cannot access traditional credit or mortgage backed loans to acquire buildings. The loan is a ‘business support’ based loan that encourages Landlords to manage their stock as a business. A condition of the loan is that the Borrower must enter into a management agreement with a Business Specialist for the duration of the loan.  
The loan products proposed are to be implemented by Financial Institutions either directly or through a Loan Partner or Specialist Lender. In this regard Financial Institutions will refine the proposed loan products in terms of their own processes and procedures. The provision of these loans will be recognised in terms of the Financial Charter and will therefore contribute towards the Financial Institutions targets in respect of the Charter in the Affordable Housing Market.
- **Proposal 3: Information products and tools** : The key stakeholders to be targeted by information products and tools within the Small Scale Landlord Sector include; Small Scale Landlords, Tenants of Small Scale Landlords, Officials and Politicians, Service Providers and funders and the general public.
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It is proposed that the following communication programmes are undertaken:

- **Information and education campaign for Small Scale Landlords and Tenants :**  
This programme is targeted at Small Scale Landlords and Tenants. The aim of the programme is to communicate roles and responsibilities, encourage the use of written lease agreements and house rules and enhance the understanding of sectional title and body corporates. The proposed implementer of this Programme is the Rental Tribunal.
  - **Communication programme for Officials, Politicians, Lenders and Practitioners:**  
This programme is targeted at Government Officials and Politicians, Lenders and SME Practitioners. The aim of the programme is to disseminate the findings of this research, particularly the economic and developmental role of the sector and promote debate. The proposed implementer of this programme is the funders of the research
  - **Information campaign to the general public:** This programme is targeted at the general public and aims to promote the ability to generate wealth through being a Small Scale Landlord. The proposed implementer of this programme is the National Department of Housing.
  - **Forums:** This programme is targeted at Small Scale Landlords and aims at facilitating information sharing among Small Scale Landlords and improving business operations and knowledge. The proposed implementers of this programme is Lenders and SME Service Providers who could establish and manage these Forums as part of the activities that they undertaken in this market sector
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- **Proposal 4: State owned stock:** The research concluded that generally Small Scale Landlords are unlikely to be a key mechanism for addressing difficult to sell State Owned Stock without considerable investment by the State. There may however be some stock that is appropriate for Small Scale Landlords. The key criteria for such stock 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.

### ***Overall conclusions***

The proposed recommendations should be implemented by Private and Public Sector stakeholders who must work together within the terms of a **National Policy Framework**. This framework should be developed by the National Department of Housing. In this regard the role of Government is that of **leader and enabler** creating the legislative and regulatory framework that supports Small Scale Landlords and uses incentives to encourage them to improve the quality of their stock and build additional stock. Financial Institutions are required to provide loans linked to business support thereby increasing Small Scale Landlords access to capital and business support service providers should encourage and support Small Scale Landlords to formalise and operate more effectively. Overall these interventions should encourage and support Small Scale Landlords to formalise and operate more effectively and support the expansion of the Small Scale Landlord Sector.

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# 1 Introduction

## 1.1 Rationale for the research

Since the formation of the Government of National Unity in 1994, there have been significant strides towards the transformation of the lives of ordinary South Africans. Set within a macroeconomic policy, which is focused on stimulating economic growth, there has been **significant delivery** in respect of the provision of housing, engineering services such as water and electricity and social services such as education, health and social safety nets for the most vulnerable.

Yet despite these efforts by Government, **poverty has increased**<sup>3</sup>. The South Africa, Human Development Report (2003)<sup>4</sup> indicates that **48,5% of the South African population (21,9million people)** fall below the national poverty line<sup>5</sup>.

**Unemployment continues to be a significant problem.** While important strides have been made in overcoming the past inequalities in the labour market, employment opportunities remain low. Unemployment is currently assessed as being 26%<sup>6</sup>. Government has set a target to reduce unemployment to below 15% and halve the poverty rate by 2010.<sup>7</sup>

Addressing poverty, unemployment and service delivery has increasingly become **a central theme and focus** of all stakeholders both within the public and private sectors. Initiatives being undertaken range from high level macroeconomic interventions to small scale community based programmes. One of the critical elements identified is that of **promoting small and medium sized enterprises (SMME's)**.

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<sup>3</sup> It is noted that there are a number of different statistics and measures on poverty and there is currently no official definition of the term. The statistics quoted in this paragraph are therefore indicative only to highlight the severity of this issue.

<sup>4</sup> South Africa, Human Development Report 2003, Published for the United Nations Development Programme, Oxford University Press, 2003

<sup>5</sup> The poverty line is R354 per month per adult

<sup>6</sup> Media briefing by Deputy President Phumzile Mlanbo-Ngcuka, 6 February 2006, Background document, A catalyst for Accelerated and shared Growth-South Africa. Note: this is considerably better than the 31,2% (in terms of the strict definition) or 41,8% (in terms of the expanded definition)<sup>6</sup> estimated in 2003, but is still extremely high.

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In his **State of the Nation Address given on the 3 February 2006, President Mbeki said:**

*“We should move faster to address the challenges of poverty, underdevelopment and marginalisation confronting those caught within the Second Economy, to ensure that the poor in our country share in our growing prosperity. ASGISA has once more confirmed the need for us to expand our small, medium and micro enterprise (SMME) sector, paying particular attention in this regard to Broad-Based Black Economic Empowerment, and the development of women and the youth”.*

This research seeks to contribute **by providing a deeper understanding of housing as a productive asset and its role in promoting economic activity and improved affordable housing supply**, through supporting the activities of **Home Based Entrepreneurs and Small Scale Landlords**.

The Labour Force Survey for 2002 indicates that 53% of households (5,63 million) in South Africa own their house. For these households their **house offers opportunities for wealth creation** in that:

- It can be **used to create capital** - the house can be used to leverage capital (currently through obtaining mortgage finance) or through selling the house and using the finance to establish or expand a business, or
- To **generate income** - by either offering accommodation for rent (Landlord) or operating a business from the property (Home Based Enterprise).

Research undertaken by Finmark into the Workings of Township Residential Property Markets in 2004, found that the estimated value of residential properties in Black Townships in South Africa was R68,3 billion. Nevertheless the **use of these properties for wealth creation and or income generation is extremely limited**.

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<sup>7</sup> Media briefing by Deputy President Phumzile Mlanbo-Ngcuka, 6 February 2006, Background document, A catalyst for Accelerated and shared Growth-South Africa

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By and large households are unable or unwilling to leverage capital using their property as an asset and are not making use of such property to generate income, either through rental or the use of the property for business purposes. Other research particularly that undertaken by Nurcha also in 2004 however **found viable rental markets, in low income areas**, where backyard rental is being used as a productive asset and providing affordable housing options to the poor.

**Accordingly, this study poses the question as to how housing finance can be used to increase the extent to which Landlords and Home Based Entrepreneurs use their housing asset productively and contribute to affordable housing supply in South Africa.**

## *1.2 Conceptual approach*

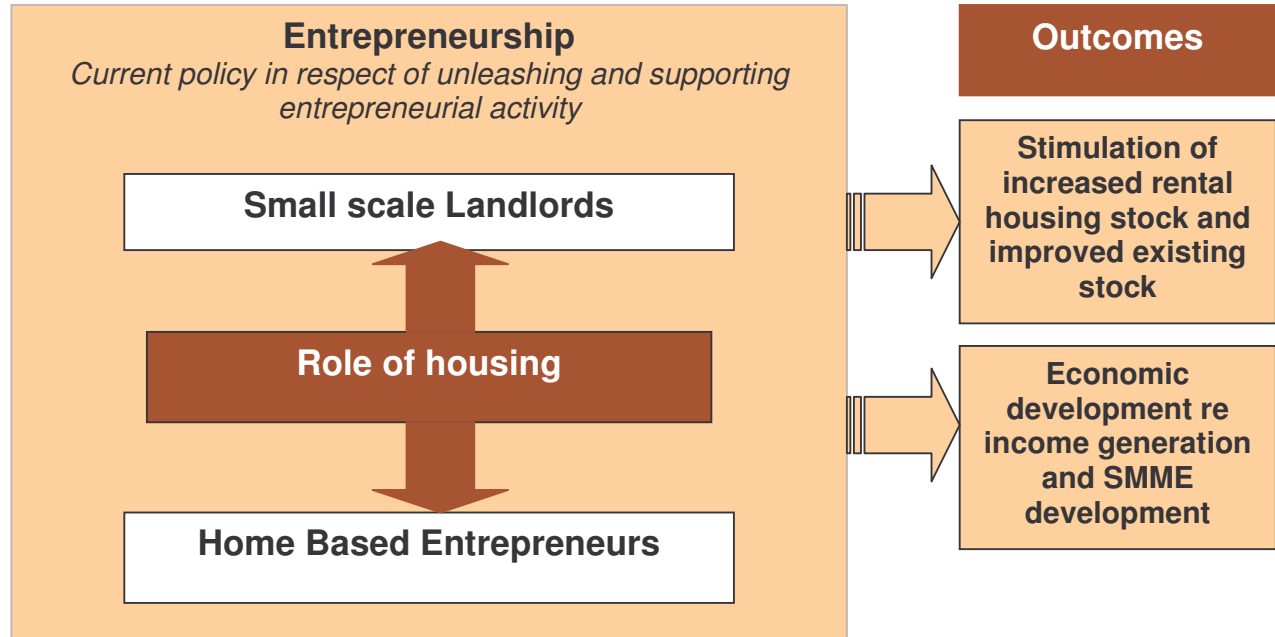
The research focused on obtaining a detailed understanding of how **Small Scale Landlords** and **Home Based Entrepreneurs** (see Section 2.2 for a definition of these terms) operate, the key constraints that they face and the extent to which they are using their home as a productive asset. This was set within the context of **a broad understanding of entrepreneurship** and current policy and practice in unleashing and supporting entrepreneurial activity.

While the research focused on addressing key research questions raised by the Funders of the research (see Section 1.3 below), it also addressed the following questions:

- How can the **rental housing sector be stimulated so as to increase the amount of rental stock available to low income households**, as well as **improve the quality of stock that is already available**?
- How can Entrepreneurs be assisted to **start new businesses or grow existing business through the use of their housing asset** thereby assisting in income generation and wealth creation and overall economic development within South Africa?

Figure 1 below provides an overview of the conceptual approach underpinning the research.



**Figure 1: Conceptual approach of the research**

### 1.3 Purpose of the research

The research is funded by Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing. Shisaka Development Management Services in association with the CSIR were appointed to undertake the research.

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.

#### *1.4 Overview of this report*

While it is recognised that Small Scale Landlords and Home Based Entrepreneurs are both undertaking entrepreneurial activity linked to the home, **they are different, operating in different markets and regulatory frameworks and using the house as a productive asset differently**. In addition, the availability of research material in respect of each of these target groupings differs. Accordingly research and the formulation of proposals with respect to each of these groupings was undertaken separately and structured differently for each group. **This report focuses specifically on Small Scale Landlords, outlining the findings of the research undertaken and recommendations**. A separate report is available - in respect of Home Based Entrepreneurs.

This report covers:

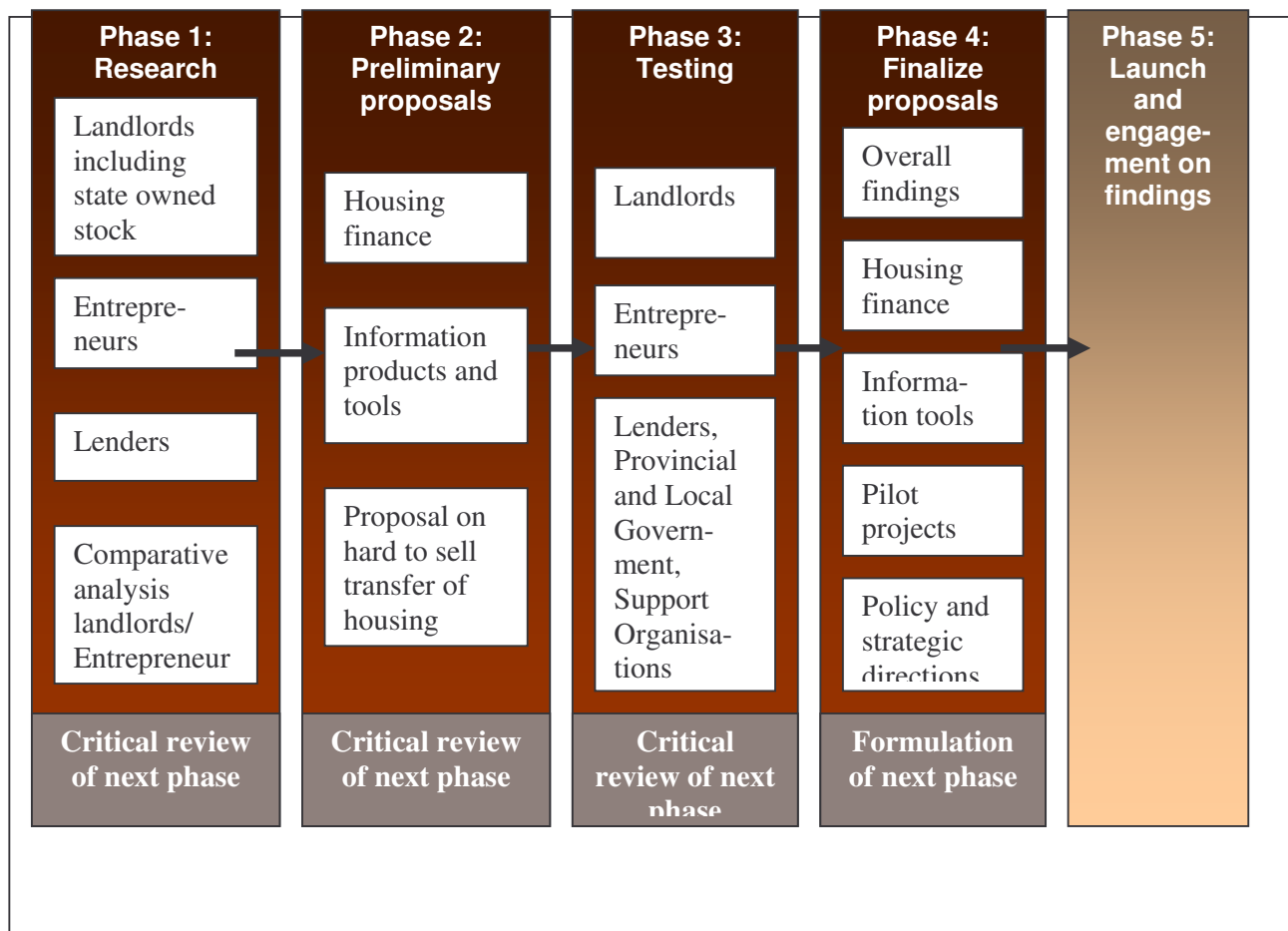
- Methodology of the research undertaken
  - Key findings of the research into Small Scale Landlords
  - Recommendations
  - Overall conclusions
-

## 2 Methodology of the Research

### 2.1 Overall Methodology

The methodology applied in undertaking this study comprises five phases as detailed in Figure 2. **This report provides an overview of the work undertaken in Phases 1 to 4 in respect of Small Scale Landlords.** A separate report is available in respect of Home Based Entrepreneurs.

**Figure 2: Overall methodology**



A brief overview of the activities undertaken in each Phase is outlined below.

## ***2.2 Phase 1: Research***

The research undertaken during Phase 1 included the following:

- **Literature reviews:** Four literature reviews focusing on both international and South African literature were undertaken in respect of the following areas
  - Small Scale Landlords
  - Financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks.
  - Entrepreneurship, housing and housing finance
  - Home Based Entrepreneurs
- **Research into Small Scale Landlords:** This research included:
  - Survey of Small Scale Landlords in Inner Cities
  - Research into Small Scale Landlords in Townships based on an existing survey undertaken by Nurcha
  - Interviews with Successful Landlords
  - Interviews with Service Providers in respect of Small Scale Landlords
  - Research into Public Sector Stock
- **Research into Home Based Entrepreneurs:** This research included the following
  - Survey of Home Based Entrepreneurs in Inner Cities
  - Survey of Home Based Entrepreneurs in Townships
  - Interviews with Successful Entrepreneurs
  - Interviews with Service Providers and Lenders in respect of Entrepreneurs

Table 1 below provides a summary of the components of the Phase 1 research. Details on each component can be seen in Annexure A. The research resulted in the development of twelve Resource Reports and a Final Phase 1 Report, all of which are listed in Annexure A and all of which are available on request from Finmark.

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**Table 1: Components of Phase 1: Research**

	<b>Small Scale Landlords</b>	<b>Entrepreneurs</b>
Literature reviews	<b>Small Scale Landlords</b>	<b>Entrepreneurship and Home Based Entrepreneurs</b>
	<b>Lending products linked to housing finance</b>	
Township	<b>Desk study using Nurcha research</b> (Katorus (400), Orlando East (400), Cato Manor (291)) <b>4 focus groups</b>	<b>Three townships</b> (Katlehong, Orlando East, Mamelodi). Households scanned to identify entrepreneurial activity. 70 interviews undertaken with entrepreneurs in each area (210)
Inner City	<b>Two inner cities</b> (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify landlords 237 interviews with Landlords 125 interviews with Tenants	<b>Two inner cities</b> (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify entrepreneurial activity 70 interviews undertaken with entrepreneurs in each area (140)
Success stories	<b>Successful Landlords</b> Scan undertaken to identify successful landlords – 20 in-depth interviews undertaken	<b>Successful Entrepreneurs</b> Scan undertaken to identify successful entrepreneurs – 20 in-depth interviews undertaken
	<b>Public Sector Stock</b> 2 case studies reviewed	

**With respect to the research into Small Scale Landlords it is noted that there was extensive research available.** Accordingly the approach adopted was to make use as much as possible of the existing research and only undertake primary research where none existed.

It is further noted that the work undertaken is **highly exploratory in nature** resulting in the defining of new terminology and concepts. Accordingly the definitions developed and applied are set out in Section 2.2.

The social survey undertaken in respect of Small Scale Landlords in Inner Cities was sampled on a basis, which ensured the statistical representivity of the areas surveyed. However during the interviewing process a number of problems were experienced which impacted on the representivity of some of the categories of Small Scale Landlords identified, particularly Landlords using Managing Agents and Building Landlords. These problems are detailed in Annexure A and the findings in respect of these categories of Landlords are shown in italics to indicate that the sample is not statistically representative.

### ***2.3 Phases 2 and 3: Preliminary Proposals and Testing***

The preliminary proposals were documented as a slide presentation. This presentation was then used during the testing process. Five workshops were held between the 27 September and the 18 November 2005 attended by a range of stakeholders (see Annexure B for details).

The slide presentation was amended after each workshop to incorporate the comments and input received during the workshop. In some cases additional analysis of the research data was undertaken as issues were identified and explored in more detail.

The final analysis, conclusions and recommendations as reflected in this report incorporate the views and insights gained from participants in the workshops.

### ***2.4 Definitions***

The following definitions were used in this study:

- *A **Small Business** is defined as ‘a separate and distinct business entity, including cooperative enterprises and non-governmental organisations, managed by one owner or more which, is predominantly carried on in any sector or sub sector of the economy’. Small businesses can be classified as micro, very small, small or medium enterprises. **Survivalist business** is generally defined as only providing income below the poverty line<sup>8</sup>.*
- *An **Entrepreneur** is a person who generates revenue through the utilisation of their own resources, as their main source of income.*
- *A **Housing Entrepreneur** is defined as an Entrepreneur who:*
  - *Generates income from his/her house by offering accommodation for rent (Landlord)*
  - *Generates income from his/her house by operating a business from the property (Home Based Enterprise).*
- ***Rental accommodation** refers to the consensual occupation of accommodation by an individual or individuals (lessee or tenant) controlled by another individual or institution (lessor or landlord) on an agreed basis, generally for an agreed payment. This agreement*

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<sup>8</sup> The National Small Business Act

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*may be written (lease agreement), or verbal and generally sets out the terms on which the accommodation is rented.*<sup>9</sup>

- 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 a Landlord who rents out between 1 and 100 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 recognised 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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<sup>9</sup> From Social Housing Handbook, Social Housing Foundation in South African Rental Sector Overview, David Gardner, 2005

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### 3 Key findings of the research into Small Scale Landlords

This section summarises the analysis of the research undertaken into Small Scale Landlords (for more details see the Final Phase 1 Report) and **provides an overview of Small Scale Landlords and the context in which they operate.** This section covers:

- The rental sector in South Africa
- Extent and contribution of Small Scale Landlords
- Types of Small Scale Landlords
- Profile of Small Scale Landlords
- Rental stock and operating procedures
- Tenant profile and Landlord Tenant relationships
- Finance and support
- Regulations
- Public Sector Stock

#### 3.1 *The rental sector in South Africa*<sup>10</sup>

**Just under one third of all South Africans (3,5 million households) live in rental accommodation. While the number of households renting accommodation has increased slightly since 1999 (by 100 000 households), the rental sector has decreased in size in respect of the overall housing sector (from 31% in 1999 to 27% in 2005).**

**The rental sector can be categorised into the Formal Sub-Sector and Household Rental Sub-Sector. The Formal Sub-Sector comprises 1,5 million households or 43% of the Rental Sector. The Household Sub-Sector comprises 1,1 million households or 31% of the Rental Sector.**

**There has been an increased focus on the role of the Rental Sector in overall housing policy in the last five years and particularly on the Household Rental Sub-Sector.**

Table 2 below provides an overview of the housing sector in South Africa as reflected in the October Household Survey (OHS) of 1999 and the Labour Force Survey (LFS) of 2005<sup>11</sup>.

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<sup>10</sup> For more details see Resource Report 1

<sup>11</sup> The OHS and LFS can be compared as both samples are designed by Stats SA to be representative of the national population, and the wording of the relevant questions is virtually identical. The income figures have been adjusted for a deflation (CPI) factor of 30% to make the 2005 figures comparable with the 1999 ones.

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**Table 2: Overview of the rental sector as a component of the overall housing sector**

Overall housing sector							
Data Source		Owned	Rented	Traditional	Informal Settlement	Other	Total
OHS 1999	No hh (mil)	5,2	3,4	1,15	1,0	0,1	10,85
	%	48	31	11	9	1	100
	Mean hh income (R pm)	3500	1600	700	1100	200	2600
LFS 2005	No hh (mil)	6,2	3,5	1,5	1,4	0,1	12,7
	%	49	27	12	11	1	100
	Mean hh income (R pm)	3900	2900	600	1200	1400	2900
		<i>3000<sup>12</sup></i>	<i>2200</i>	<i>500</i>	<i>900</i>	<i>1100</i>	<i>2200</i>

Rental housing sector rental Sector				
Census		For- ma l	House- hold	Other
OHS 1999	No hh (mil)	1,6	1,0	0,8
	%	15	9	7
	Mean hh income	3200	1500	1500
LFS 2005	No hh (mil)	1,5	1,1	0,9
	%	12	9	7
	Mean hh income	4100	1800	2200
		<i>3100</i>	<i>1400</i>	<i>1700</i>

**Definition of terms**

**Owned:** - households who have registered title over the properties in which they live.

**Rented:** - households who live in a property with consent from the owner/landlord or their agent.

**Traditional:** - households living in a traditional dwelling, hut or structure made from traditional materials

**Informal Settlement:** - households living in an informal dwelling on a piece of land without the consent of the owner.

**Other:** caravan, tent, ship etc

**Formal rental:** - includes house or brick structure on a separate stand or yard, flat in block of flats, town/cluster/semi-detached house

**Household rental:** - includes house, flat, room in back yard, informal dwelling/shack in back yard.

As detailed in the Table above:

- The **rental sector** in 2005 comprises **27% of the overall housing sector** (3,5 million households). While the sector has increased slightly in respect of the number of households living in rented accommodation from 1999 (3,4 million households), it has decreased in size in respect of the overall housing sector (from 31% in 1999 to 27% in 2005).

<sup>12</sup> Figures shown in italics are real household income figures, adjusted for inflation between 1999-2005 by a deflation factor of 1.2 i.e. assuming 30% cumulative inflation

In comparison to other components of the overall housing sector, the number of households owning a house increased over the period (significantly in respect of number of households from 5,2 million to 6,2 million (1 million households) and less so in terms of percentage size of the overall housing sector from 48% to 49%). In addition increases are seen in respect of both Traditional housing and Informal Settlements, with increases of 1,15 to 1,5 million households (350 000 households) in respect of Traditional housing and 1,0 to 1,4 million (400 000 households) in respect of Informal Settlements.

Income levels of households living in the different housing categories remain similar between 1999 and 2005 if inflation is taken into consideration, with the exception of those households living in rental accommodation, which shows higher incomes in 2005 than in 1999. This could reflect increasing costs within the rental sector.

**In respect of the Overall Housing Sector it can therefore be concluded that between the period 1999 and 2005 there has been a limited increase in the number of households living in rental accommodation. Significantly more households are living in owned accommodation. There was an increase in the number of households living in informal units including both traditional dwellings and informal settlements.**

**Incomes of households living in the different housing categories generally decreased (taking into account inflation) with the exception of the rental sector, where household incomes increased even after an adjustment for inflation. This could reflect increasing costs within this sector.**

- **The rental sector comprises two sub-sectors:**
    - **Formal sub-sector** which includes households renting a formal house or brick structure on a separate stand or yard, a flat in a block of flats and town/cluster/semi-detached houses. This sub-sector comprised 1,5 million households in 2005, making up 43% of the Rental Sector and 12% of the overall Housing Sector. This sub-sector has seen a decrease in size since 1999 (1,6 households in 1999 i.e. 100 000 households)).
    - **Household sub-sector** which includes households renting a formal house, flat or room in a backyard or an informal dwelling or shack in a back yard. This sub-sector comprised 1,1 million households in 2005, making up 31% of the Rental Sector and
-

9% of the overall Housing Sector. This sub-sector has seen a slight increase in size since 1999 (1,0 to 1,1 households i.e. 100 000 households%).

Income levels of households have remained the same in both sub-sectors if inflation is taken into account.

**Current trends in South Africa** in respect of the rental sector are as follows<sup>13</sup>:

- South Africa's rental housing sector in general can support substantial growth.
- There has been an increased focus on the role of the Rental Sector in overall housing policy in the last five years.
- While a key focus has been on Social Housing resulting in extensive subsidy, policy, institutional and facilitative support for this type of housing, more recently there is a **growing recognition of other rental housing types**.
- The development of the rental housing sector, particularly in inner cities is seen as a tool for urban stabilisation, regeneration and local economic development.
- There is a growing recognition of the role that the **informal rental sub-sector** plays.

### ***3.2 Extent and contribution of Small Scale Landlords***

**Small Scale Landlords are positive contributors to the housing sector providing accommodation to an estimated 1,85 million households earning monthly incomes of R4 100 on average. Small Scale Landlords are generating significant rental income, which can be estimated nationally to be approximately R421 million per month.**

There are **no specific statistics on the number and type of Small Scale Landlords** who provide and manage rental stock in South Africa. However applying data from the LHS of 2005 an estimation of the extent and contribution of Small Scale Landlords to the rental sector is set out in Table 3 below.

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<sup>13</sup> South African Rental Sector Overview, David Gardner, 2005

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**Table 3: Estimation of size and contribution of Small Scale Landlords to the rental sector**

Rental Sub-Sector	No of units (mil)	No managed by Small Scale Landlords		Estimated rental being paid	
		Assumption	No (mil)	Assumption	Amt per mn (R million)
Formal rental sub-sector	1,5	50%	0,75	R400 with 99% paying rent <sup>14</sup>	297
Household rental sub-sector	1,1	All	1,1	R150 with 75% paying rent <sup>15</sup>	124
Other	0,9	None	0	-	-
<b>Total</b>	<b>3,5</b>		<b>1,85</b>		<b>421</b>

### 3.3 Types and prevalence of Small Scale Landlords

Inner City Landlords are categorised into five types: Subletting Landlords, 1 Unit Landlords, 2+ Unit Landlords, Building Owners and Managing Agent Landlords. Subletting Landlords are the most prevalent and Managing Landlords are the least prevalent.

Township Landlords are either Sub-letting or Unit Landlords and can be further subdivided into Formal Landlords, Informal Landlords and Tenant Landlords. The mix of these types of Landlords within an area depends on historical, locational, planning and regulatory factors.

The Literature Review<sup>16</sup> indicated that there are a **number of ways by which Landlords can be categorised including**<sup>17</sup>:

- **The size of operation** - the terms small scale and large scale are commonly used.
- **The landlords' residency status** - resident Landlords and non resident absentee Landlords.
- **Routes by which Landlords acquired property** - purchased, inherited or built themselves.

<sup>14</sup> Labour Force Survey 2005. Medium rental is applied

<sup>15</sup> Labour Force Survey 2005. Medium rental is applied

<sup>16</sup> See Resource Report 1

<sup>17</sup> Adapted from Landlordism in Third World Urban Low Income Settlement: A case for further research, Sunil Kumar, Urban Studies, May 96

- **Economic success**<sup>18</sup> - *subsistence landlords* (rent to sustain or augment households income), *petty bourgeois landlords* (use rental income to invest in improved quality of life) and *petty capitalist landlords* (own more than one property and produce/acquire dwellings for rent to expand and reproduce capital in the form of residential property).

For the purposes of this research the criteria applied in order to categorise Inner City and Township Landlords was determined to be as follows:

- The amount of units the Landlord owns
- The relationship the Landlord has with his/her tenants.
- The type of unit (formal or informal) and who built it

Application of these criteria to Inner City Landlords and Township Landlords resulted in the following categories of Landlords being determined:

- **Inner City** : Four categories of Landlords were identified as follows:
  - **Sub-letter Landlord**: A Sub-letter Landlord is defined as a Landlord who has legal title to a unit, a portion of which is rented out. Such a Landlord has a direct relationship with their tenants. The Landlord also stays in the same unit. The unit is formal.
  - **Unit Owner**: A Unit Owner is defined as a landlord who has legal title to a unit that s/he rents out and has a direct relationship with the tenants. The Landlord does not stay in the same unit. The unit is formal. There are two types of Unit Owners:
    - 1 Unit Owner
    - 2+ Unit Owner (but less than a building or 200 units).
  - **Building Owner**: A Building Owner is a landlord with legal title to a building with residential units that he rents out to tenants. S/he has a direct relationship with tenants. The unit is formal. As the research focused on Small Scale Landlords only, this category of Landlords is restricted to Building Owners who own less than 200 units.
  - **Landlord that uses a Managing Agent**: This category is subdivided into:
    - Unit Landlord: The Landlord uses a Managing Agent to interface with the tenants. The Landlord does not stay in the same unit.

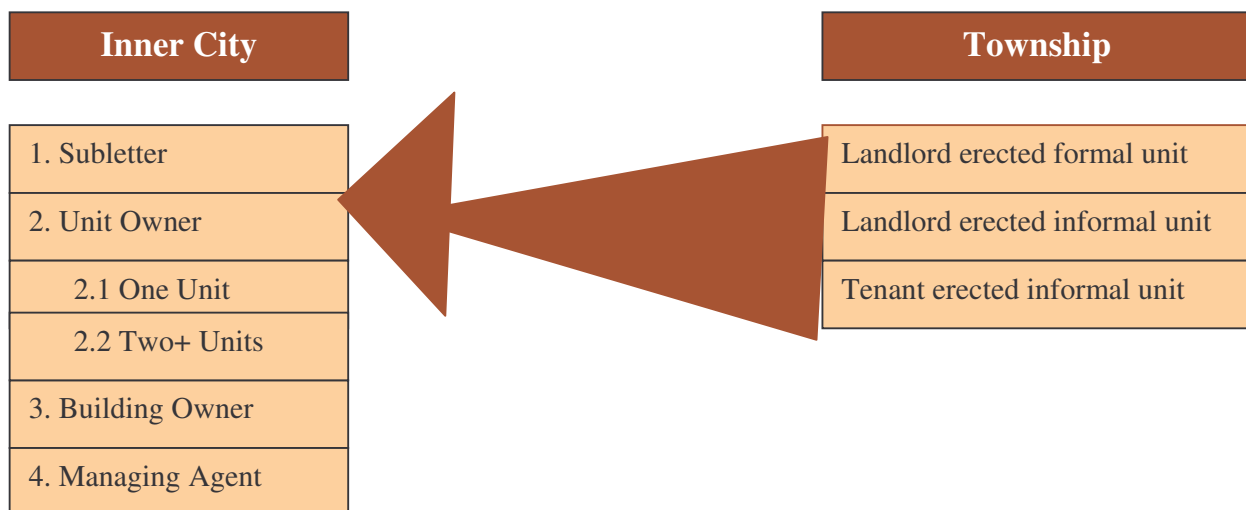
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<sup>18</sup> Rental tenure in the cities of developing countries, Carole Rakodi, Urban Studies, May 1995

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- Building landlord: The Landlord uses a Managing Agent to deal with the tenants.
- **Township Landlords: All of the Landlords in Townships are Unit Owners**, with a very small number being Sub-letter Landlords. Townships Landlords are further categorised in respect of the type of unit and who built the unit. Three categories of Landlord are identified:
  - **Formal Unit Landlords**
  - **Informal Unit Landlords**
  - **Tenant Unit Landlords**: This is where the tenant erected the unit and is renting a portion of the Landlords land

Figure 2 below shows the relationship between Inner City and Township Landlords.



**Figure 2 : Types of Landlords**

The following is noted in respect of the different types of Landlords:

- **Building Owner Landlords**: Only 4 of this type of Landlord were identified. Building Landlords who owned more than 200 units were excluded from the study because they were not considered small scale. These findings are indicative only, as they do not constitute a statistical valid sample size.
- **Managing Agent Landlords**: It was not possible to interview these Landlords directly as the Managing Agents refused to disclose contact details. All attempts to identify the Landlords by other means were unsuccessful. Accordingly information was sourced from

the Managing Agents and therefore this data is indicative only and does not represent a valid statistical sample.

A total of 2062 units were visited in the two selected Inner City areas (Tshwane in Pretoria and Hillbrow/Berea in Johannesburg). Table 4 below shows the prevalence of the Landlord categories in each of these Inner Cities areas.

**Table 4: Prevalence of Inner City Landlords by category**

Category	Definition	% of sample		
		Tshwane	Hillbrow/ Berea	Total
Sub-letting Landlord	Has legal title (ownership or lease) Portion rented out. Stays in unit Direct relationship with tenant	34	40	38
1 Unit Landlord	Has legal title to one rental unit Does not stay in unit Direct relationship with tenant	20	26	23
2+ Unit Landlord	Has legal title to more than one rental unit (up to 200) Does not stay in unit Direct relationship with tenant	17	16	17
Building Landlord	Legal title to a building with rental units Direct relationship with tenant	2	1	2
Managing Agent Landlord	As for Unit or Building Landlord above but does not have direct relationship with Tenants but uses a Managing Agent	27	17	21
Total		100	100	100

On the basis of the above table it is evident that:

- **Most Landlords are Sub-Letting (38%).**
- There are a **similar number of 1 Unit (23%), 2+ Unit (17%) and Managing Agent Landlords (21%).**
- There are **very few Building Landlords (2%).**
- The dispersion of the categories of Landlords between the two geographic areas in which the surveying was undertaken (Tshwane and Hillbrow/Berea) is similar.

Table 5 below shows the prevalence of the Landlord categories identified in Townships by geographic area.

**Table 5: Prevalence of Township Landlords by category**

Category	Definition	% of sample*		
		Katorus	Orlando East	Cato Manor
Formal Landlord	Landlord erected formal unit	41	32	13
Informal Landlord	Landlord erected informal unit	33	10	76
Tenant Landlord	Tenant erects unit/rents land	18	43	2

\* Due to the manner in which the Township Landlords were surveyed, each area must be analysed as a distinct sample and a total cannot be reflected

From the above table it is evident that the prevalence of the different categories of Landlords varies substantially across the three areas. In Katorus there are more Formal Landlords, in Orlando East more Tenant Landlords and in Cato Manor more Informal Landlords. This reflects the **situational differences** in each area as a result of historical, locational, planning and regulatory factors.

### ***3.4 Profile of Small Scale Landlords***

**Inner City and Township Landlords are different. Township Landlords are on average one of the most marginalized sectors of society (poor, aged women with minimal sources of regular income). Inner City Landlords are predominantly male, well educated, and while incomes are low for some, most are formally employed. Managing Agent Landlords are distinct from the other Inner City Landlords in that they are predominantly white or corporate entities. With the exception of Building Owners and Managing Agent Landlords, all other Landlord categories operate their business informally and have limited business experience. Not all Landlords are entrepreneurial. The data suggests a ladder of growth could be occurring.**

On the basis of the survey undertaken of Inner City Landlords and existing research into Township Landlords, Table 6 below provides an overview of the profile of the different Landlord categories in Inner Cities and Townships in terms of demographic characteristics,



business practices adopted and entrepreneurial characteristics displayed (i.e. prepared to take risk and invest). (See Resource Reports 5 and 6 for details)

**Table 6: Profile of Landlord categories**

Area	Category	Demographic	Operate as a business	Extent of entrepreneurship
Inner City	Sub-letting Landlord	<ul style="list-style-type: none"> <li>- Half are <b>male</b> (53%)</li> <li>- Average age <b>32</b></li> <li>- Majority <b>African</b></li> <li>- <b>Well educated</b> (70% matric or above)</li> <li>- <b>Low incomes</b> (76% below R3000)</li> <li>- Under half (42% ) <b>formally employed</b></li> </ul>	<p><b>Mean no of years as landlord: 4</b>  <b>Manage the property themselves</b> (100%)  <b>Operate informally</b> : 96% not registered, 96% do not keep financial record  <b>Limited profitability</b> : 32% made money</p>	<p><b>Some show characteristics of entrepreneurship :</b></p> <ul style="list-style-type: none"> <li>- 7% purchased the unit</li> <li>- 45% motivated by the investment</li> <li>- 49% motivated by monthly income</li> <li>- 69% would like to acquire additional stock</li> </ul>
	1 Unit Landlord	<ul style="list-style-type: none"> <li>- Many are <b>male</b> (60%)</li> <li>- Average age <b>36</b></li> <li>- Majority <b>African</b></li> <li>- <b>Well educated</b> (75% matric or above)</li> <li>- <b>Low incomes</b> (65% below R3000)</li> <li>- Over half (58% ) <b>formally employed</b></li> <li>- Most (73%)<b>live in neighbourhood</b></li> </ul>	<p><b>Mean no of years a landlord: 4</b>  <b>Manage the property themselves</b> (67%)  <b>Operate informally</b> : 86% not registered, 96% do not keep financial record  <b>Limited profitability</b> : 32% made money</p>	<p><b>Generally show characteristics of entrepreneurship :</b></p> <ul style="list-style-type: none"> <li>- 38% purchased the unit</li> <li>- 40% motivated by the investment</li> <li>- 56% motivated by monthly income</li> <li>- 56% would like to acquire additional stock</li> </ul>
	2+ Unit Landlord	<ul style="list-style-type: none"> <li>- Many are <b>male</b> (64%)</li> <li>- Average age <b>41</b></li> <li>- Majority <b>African</b></li> <li>- <b>Well educated</b> (62% matric or above)</li> <li>- <b>Low incomes</b> (54% below R3000)</li> <li>- Over half (54% ) <b>formally employed</b></li> <li>- Most (67%)<b>live in neighbourhood</b></li> </ul>	<p><b>Mean no of years a landlord: 5</b>  <b>Manage the property themselves</b> (62%)  <b>Operate informally</b> : 90% not registered, 97% do not keep financial record  <b>Profitable</b> : 61% made money</p>	<p><b>Show characteristics of entrepreneurship:</b></p> <ul style="list-style-type: none"> <li>- 44% purchased the unit</li> <li>- 45% motivated by the investment</li> <li>- 50% motivated by monthly income</li> <li>- 64% would like to acquire additional stock</li> </ul>
	<i>Building Owner</i> <sup>19</sup>	<ul style="list-style-type: none"> <li>- <i>Many are male</i> (75%)</li> <li>- <i>Average age</i> 58</li> <li>- <i>Well educated</i> (100% matric or above)</li> <li>- <i>Higher incomes</i> (25% below R3000)</li> <li>- <i>One quarter</i> (25% ) <i>formally employed</i></li> <li>- <i>One quarter</i> (25%)<i>live in neighbourhood</i></li> </ul>	<p><b>Mean no of years a landlord: 8,5</b>  <i>None manage the property themselves – use a caretaker</i>  <b>Operate formally</b> : 96% registered, 96% keep financial record  <b>Profitable</b> : 75% made money</p>	<p><i>Show characteristics of entrepreneurship:</i></p> <ul style="list-style-type: none"> <li>- <i>100% purchased the unit</i></li> <li>- <i>100% motivated by the investment</i></li> <li>- <i>75% would like to acquire additional stock</i></li> </ul>
	<i>Managing Agent</i> <sup>20</sup>	<ul style="list-style-type: none"> <li>- <i>Either corporate entity or male</i> (67%)</li> <li>- <i>Average age</i> 36-55</li> <li>- <i>Majority white</i></li> </ul>	<p><i>None manage the property themselves</i>  <b>Operate formally</b> : 96% registered, 96% keep financial record</p>	Unknown

<sup>19</sup> Sample not statistically valid, figures indicative only

<sup>20</sup> Sample indicative only

Area	Category	Demographic	Operate as a business	Extent of entrepreneurship
Township Landlords	Formal Landlord	<ul style="list-style-type: none"> <li>- Most are <b>female</b> (66-75%)</li> <li>- Av age <b>53/54 but 39 in Cato Manor</b></li> <li>- Majority <b>African</b></li> <li>- <b>Poor education except in Cato Manor</b></li> <li>- <b>Low incomes</b></li> <li>- <b>Unemployment high/many are retired. Cato Manor 45% employed</b></li> <li>- <b>All live in neighbourhood</b></li> <li>- <b>Income earned either sole income or supplements another income stream</b></li> </ul>	<p><b>All manage the property themselves</b>  <b>Operate informally</b>  <b>Business experience limited</b> (less so in Cato Manor)</p>	<p><b>Some show characteristics of entrepreneurship:</b></p> <ul style="list-style-type: none"> <li>- Predominantly motivated by earning income 51-94%</li> <li>- Less than 11% added new unit in last 5 years except in Cato Manor where 57% did</li> <li>- 76%+ want to keep current status quo, except Cato Manor where 46% do</li> <li>- Less than 16% want to improve or expand, except in Cato Manor where 51% do.</li> </ul>
	Informal Landlord	<ul style="list-style-type: none"> <li>- Most are <b>female</b> (68-72%)</li> <li>- Av age <b>46/42 but 39 in Cato Manor</b></li> <li>- Majority <b>African</b></li> <li>- <b>Poor education</b></li> <li>- <b>Low incomes</b></li> <li>- <b>Unemployment high/many are retired. Cato Manor 45% employed</b></li> <li>- <b>All live in neighbourhood</b></li> <li>- <b>Income earned either sole income or supplements another income stream</b></li> </ul>	<p><b>All manage the property themselves</b>  <b>Operate informally</b>  <b>Business experience limited</b> (less so in Cato Manor)</p>	<p><b>Some show characteristics of entrepreneurship:</b></p> <ul style="list-style-type: none"> <li>- Predominantly motivated by earning income 53-86%</li> <li>- Less than 17% added new unit in last 5 years except in Cato Manor where 76% did</li> <li>- 57%+ want to keep current status quo, except Cato Manor where 26% do</li> <li>- 29-38% want to improve or expand, except in Cato Manor where 69% do.</li> </ul>
	Tenant Landlord	<ul style="list-style-type: none"> <li>- Most are <b>female</b> (50-71%)</li> <li>- Av age <b>47/53 but 41 in Cato Manor</b></li> <li>- Majority <b>African</b></li> <li>- <b>Poor education</b></li> <li>- <b>Low incomes</b></li> <li>- <b>Unemployment high/many are retired. Cato Manor 45% employed</b></li> <li>- <b>All live in neighbourhood</b></li> <li>- <b>Income earned either sole income or supplements another income stream</b></li> </ul>	<p><b>All manage the property themselves</b>  <b>Operate informally</b>  <b>Business experience limited</b> (less so in Cato Manor)</p>	<p><b>Some show characteristics of entrepreneurship:</b></p> <ul style="list-style-type: none"> <li>- Predominantly motivated by earning income 50-83%</li> <li>- Less than 24% added new unit in last 5 years except in Cato Manor where 50% did</li> <li>- 52%+ want to keep current status quo, except Cato Manor where 33% do</li> <li>- 35/36% want to improve or expand, except in Cato Manor where 50% do.</li> </ul>

From the above table it is evident that:

- **Inner City Landlords and Township Landlords are different.** They have different demographic profiles and operate in different markets:
    - **Township Landlords** are on average one of the **most marginalized sectors of society** (poor, aged women with minimal sources of regular income). In most cases the income from rental stock provides a critical contribution to generally low incomes.
    - **Inner City Landlords** are **predominantly male, well educated and while incomes are low for some, most are formally employed.** Approximately half became a Landlord to supplement their income. However for approximately one quarter they became Landlords as an investment.
  
  - **Managing Agent Landlords are distinct from the other Inner City Landlords** in that they are predominantly white or corporate entities. Use of an intermediary such as Managing Agents is because they are culturally and socially different from their Tenants.
  
  - Landlords with a smaller number of units to manage (**Subletting, Township Landlords, Unit Landlords**) **manage their rental stock personally**, while Landlords with a greater number of units under management (Building Owner and Managing Agent Landlords) use **intermediaries**.
  
  - There are **strong similarities** in terms of demographic characteristics and operating practices of Landlords in the Inner City between:
    - Subletting, 1 Unit and 2+ Unit Landlords
    - Building Owners and Managing Agent Landlordsand in Townships between :
    - Formal, Informal and Tenant landlords
  
  - With the exception of Building Owners and Managing Agent Landlords all other Landlords categories **operate their businesses informally** and have **limited business experience**.
-

- **Not all Landlords are entrepreneurial.** Only some of them (in both Inner City and Townships) are investing and taking risk and want to expand their rental portfolios. With respect of Township Landlords two distinct categories were identified:
  - **Subsistence Landlords** – are generally pensioners using the rental income to supplement pensions. These Landlords do not want to expand.
  - **Entrepreneurial Landlords** – are generally younger people who invest in residential units to earn primary income or supplement existing income. They are interested in improving their existing and/or developing new stock.

This finding supports the international research (see Resource Report 1), which indicates that the motivation for Landlords to invest in rental stock varies with the type of Landlord. Landlords who have access to capital and view the residential rental property as an investment option will be concerned with rate of return on the investment. Landlords whose access to capital is limited to savings and whose investment is intermittent, are likely to consider other factors such as supplementing income.

- **The data suggests that a ladder of growth could be occurring with respect to Small Scale Landlords in Inner Cities** in that :
  - Subletting landlords are younger and have less income
  - Landlords with 1 unit are slightly older and have more income
  - Landlords with 2+ units are even older, have more income and more are profitable
  - Landlords with buildings are even older and have the greatest income and most are profitable.

This does suggest that as the more entrepreneurial Landlords become successful in a particular category and acquire more income and experience, they move to the next category thus moving from subletting, to owning 1 unit, to 2+ units, to a Building.

This finding is substantiated in respect of the interviews undertaken with Successful Landlords (see Resource Report 7) where there were examples of Landlords starting with one unit and then slowly over time (as they gain experience and more income) purchasing additional units.

However this must be interpreted with care as the international review (see Resource Report 3) clearly indicates that Entrepreneurs do not move easily from one rung of the ladder to the next. They often move backwards and forwards, may skip a rung or experience failure.

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### 3.5 *Rental stock and operating procedures of Small Scale Landlords*

The type of stock provided by Small Scale Landlords varies for different categories of Landlord between a room, a flat or a formal or informal accommodation unit. Access to services is generally good in Inner Cities but is relatively poor in Townships. While the quality of the stock provided was not surveyed, anecdotal evidence indicates that a large number of Township Landlords and some Inner City Landlords provide poor quality stock. Interventions are required to improve the quality of this rental stock.

Generally Subletting Landlords, Township Landlords, 1 Unit and 2+ Unit Landlords manage the stock themselves on an informal basis. Building Landlords and Managing Agent Landlords use agents to manage the stock on a formal basis. Landlords who manage their rental stock themselves have less problems collecting rentals. This could be the result of the more personal relationship they have with Tenants.

On the basis of the survey undertaken of Inner City Landlords and research into Township Landlords, Table 7 below provides an overview of the type of rental stock provided by and operating procedures of the different categories of Landlord in Inner Cities and Townships.<sup>21</sup>

#### 3.5.1 Type of rental stock

As shown in Table 7 below the type of rental stock being offered by Small Scale Landlords is:

- In the **Inner City**:
  - **Sub-Letters** are providing a room. The majority of this category of Landlords (82%) lease the property themselves and do not own it.
  - **All other categories of Landlords** (1 Unit, 2+ Unit, Building Landlords) provide a flat. The majority of these Landlords (1 Unit (62%), 2+ Unit (74%) and Building (100%)) own their property.
- In **Townships**, **Formal Landlords** provide a formal unit or a room in a house, **Informal Landlords** provide informal units and **Tenant Landlords** a combination of both. The majority (91-100%) of Township Landlords own their property.

Access to services is **generally good in Inner Cities**. Most rental units have bathing facilities (69%) and toilet facilities in the unit (68%) and all rental units have electricity.

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<sup>21</sup> See Resource Reports 5 and 6 for details

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Access to services in **Townships is relatively poor**. Most rental units use electricity that is taken from the main house. Very few Township Landlords provide access to hot water (less than 13%). Most stands have a flush toilet on the stand, to which tenants have access, although most share with the main house or other Informal Rental dwellers. Ceramic or fixed basins and baths are not very common (less than 15%).

Neither the Inner City nor the Township surveys assessed the quality of the accommodation provided by Small Scale Landlords. Anecdotal evidence however indicates that a **large number of Township Landlords who provide both formal and informal rental units and some of the Inner City Landlords** are providing stock that is of poor quality. Research (see Resource Report 1) shows that such poor conditions often have a **serious impact on the occupants' health and well being. Interventions are required to improve the quality of rental stock provided by Small Scale Landlords particularly in Townships**. The Literature Review (see Resource Report 1) indicates that the focus of any interventions should be on reducing indoor air pollution, overcrowding and dampness and improving access to services.

In South Africa the design and construction of housing stock (whether for ownership or rental) must comply with the requirements of the National Building Regulations; standards set by the National Home Builders Registration Council (NHBRC) and Local Government Town Planning and Building Ordinances and Bylaws. These require relatively high specifications and are generally significantly higher than what is affordable by Small Scale Landlords, particularly those providing backyard rental accommodation. This results in much of this rental stock not complying.

There is therefore a need to review such requirements to make them more applicable to and applied by the sector. Regulatory requirements should be presented in a simple, accessible manner that is understood by all concerned. The **key challenge is to understand how such dwellings can be effectively upgraded to ensure the health of the occupants, given the resource constraints** of both Small Scale Landlords and their tenants.

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**Table 7: Stock and operating procedures of Small Scale Landlords**

Characteristic	Measure	Inner City						Township		
		Sub-Letter	1 Unit	2+ Unit	Building	Agent-Unit	Agent-Bld	Formal	Informal	Tenant
Stock	Type	Room (98%)	Flat (95%)	Flat (80%)	Flat (100%)	Sectional Title (100%)	Owns bldg	Formal unit/ room in house	Informal unit	Formal/ Informal unit
	% who own property	9	62	74	100	-	-	96-99 <sup>22</sup>	91-100	91-99
	% who lease property	82	36	26	-	100	100	-	-	-
	% with electricity	100	100	100	100	-	-	-	-	-
	% with toilet in unit	74	76	72	100	-	-	-	-	-
	% with stove provided	65	58	67	100	-	-	-	-	-
	% with access to hot water tap	-	-	-	-	-	-	2-6	1-2	0-13
	% with access to a flush toilet	-	-	-	-	-	-	82-96	95-100	89-97
	% with access to a basin	-	-	-	-	-	-	0-6	0-2	6-15
	% who made changes to unit	15	23	8	76	-	-	-	-	-
Type of changes	Tiles/carpets/paint/bilt extra room					-	-	-	-	-
Operating procedures	Rental charged pm (R)	898	1038	1053	1183	1701	1755	97-143	99-109	199-225
	% who take a deposit	29	40	51	100	100	100	18-30	0-14	11-18
	% who provide written invoice	24	46	23	75	100	100	-	-	-
	% paid in cash	78	56	72	0	33	0	94-99	91-100	92-100

<sup>22</sup> Highest and lowest between the 3 areas reflected



Characteristic	Measure	Inner City						Township		
		Sub-Letter	1 Unit	2+ Unit	Building	Agent-Unit	Agent-Bld	Formal	Informal	Tenant
	% paid in bank account	21	38	26	100	67	100	-	-	-
	% who experience non payment of rental	23	27	28	100	40	30	Defaults are low – although rescheduling of rentals is common		
	Methods of addressing non payment	Talk to tenant, Eviction, Written warning				-	-	-	-	-
	% who have a written contract	15	18	21	100	100	100	Generally no written agreements		
	% who have evicted a tenant	20	18	28	100	13	55	9-21	0-20	11-23
	% who include services in rent	64	60	77	-	-	-	88-100	88-100	83-99
	% who charge services separately	29	36	8	75	-	-	-	-	-
	% who have undertaken maintenance	19	40	51	75	-	-	< 15%		
	% who believed it easy to find tenants	66	62	72	100	-	-	70-81% overall		

### 3.5.2 Operating procedures

All categories of Landlords in the Inner City **rent out their stock on a monthly basis** (over 98%). The Nurcha survey did not determine the extent to which rental is paid monthly in Townships.

The amount of rental charged **appears to vary according to location and quality of stock, as well as the degree of formality of the business**. Township Landlords charge the lowest rentals. Rentals increase progressively by the type of Landlord from Subletting, 1 Unit and 2+ Unit. Building and Managing Agent Landlords realise the highest rentals. Rentals levied are as follows:

- Township Landlords - between R97 and R225
- Subletting Landlords - R898
- 1 Unit and 2+Unit Landlords - R1038 and R1053 respectively
- Building Landlords – R1183
- Management Agent Landlords - R1728

In Townships the survey indicated inelasticity in rental levels. The market is price sensitive and rentals conform to ‘informal ceilings’ in many areas. Products delivered in this market reflect these informal rental threshold levels and it is difficult to improve quality while retaining financial viability.

Generally Subletting Landlords, Township Landlords, 1 Unit and 2+ Landlords operate on an **informal basis**, while most Building Owners and Managing Agent Landlords operate on a **formal basis**. Many Subletting, Township, 1 Unit and 2+ Unit Landlords do not take a deposit, have written contracts or provide written invoices or receipts, while these practices are applied by Building Owners and Managing Agent Landlords.

Subletting, Township and 1 Unit and 2+ Unit Landlords **manage the business themselves** and generally collect rentals in cash. In the case of Building and Managing Agent Landlords the **rental is paid into a bank account**. In respect of Township Landlords, rentals are mostly paid in cash, but can also take the form of payments in kind such as the purchasing of electricity, undertaking regular chores or preparing meals.

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Subletting, Unit and Township Landlords generally include use of services in the rent. Building and Management Agent Landlords generally charge for service consumption separately.

Subletting (27%) and Unit Landlords (1 and 2+) (23-28%) have **less problems collecting rent** than Building Landlords (100%) and Landlords using Managing Agents (30-40%). This could be the result of the **more personal relationship** which the former have with their Tenants. In Townships, levels of default are low although rescheduling of rentals is relatively common.

**The use of eviction** by Landlords appears to be limited in respect of both Township and Inner City Landlords. Of those who do use eviction most indicated that they do not experience problems effecting these measures.

**Demand for stock** appears high and most Landlords in both Inner Cities and Townships indicated that it is easy to find tenants (over 62%). Township Landlords report that generally between 6-12 enquires for a place to rent are received per month and that vacancy is effectively zero. The methods used in Inner Cities include being asked by the tenant, advertising, referral from family and friends and referable from the previous tenant.

**When selecting Tenants**, factors influencing the Tenant's ability to pay the rental are taken into account by most Landlords, in both Inner Cities and Townships. In Inner Cities the most desirable Tenants are formally employed males. In Townships factors taken into consideration include income levels, stability of income, previous references and kinship arrangements (language, culture etc).

The extent to which **maintenance** is undertaken appears to be related to the amount of rental realised. Township and Subletting Landlords undertake the least maintenance (<15% and 19% respectively), followed by 1 Unit and 2+ Unit Landlords (40% and 51% respectively) and Building Landlords (75%). In respect of Inner City Landlords the type of maintenance undertaken is generally regular painting, fixing plumbing and internal damage and addressing structural problems.

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In Inner Cities the **two greatest threats to the viability of Landlords** were identified as ineffective Body Corporates and building hijackings.

### ***3.6 Tenant profile and Landlord Tenant Relationship***

**There are strong similarities between Tenants living in Inner Cities and Townships. In both situations tenants are typically male, young and formally employed. In Inner cities many tenants view their rental accommodation as temporary. While in Townships at least a quarter believe they will live in a backyard rental forever. Inner City Tenants are split equally between long and short term. Township Tenants have been living in rental accommodation for longer.**

**Generally both Landlords and Tenants believe that they have a good relationship. Most Tenants are satisfied with the quality of the unit and the services they receive.**

**For most categories of Landlords legal arrangements with their Tenants are informal. Despite this informality, there are high levels of understanding of roles and responsibilities.**

#### **3.6.1 Tenant Profile**

On the basis of the surveys undertaken into Landlords in Inner Cities and Townships (see Resource Reports 5 and 6), Table 8 below provides an overview of the profile of Tenants. Inner City tenants are divided into two categories, namely those renting a part of a unit (room) and those renting the entire unit. In Townships, the tenant profile is differentiated in terms of the housing stock provided by the different categories of Township Landlords (Informal Unit, Formal Unit and Tenant Erected).

Table 8 below indicates strong similarities between Tenants living in Inner cities and Townships. In both circumstances tenants are typically male, young and formally employed. However Inner City tenants are better educated and earn higher incomes. Inner City Tenants have a similar profile to Subletting, 1 Unit and 2+ Unit Landlords. In Townships, the Tenants are generally better of than the Landlords, having higher education levels and a greater proportion being formally employed. Township Tenants have very small households with a third being single person households and another third two person households.

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**Table 8: Tenant Profile**

Area	Category	Demographic	Length as tenant and attitudes to accom	Rental arrangements
Inner City	Tenants renting part of a unit	<ul style="list-style-type: none"> <li>- More than half are <b>male</b> (55%)</li> <li>- Average age <b>31</b></li> <li>- <b>Well educated</b> (64% matric or above)</li> <li>- <b>Incomes medium to low</b> (37% earn above R2500)</li> <li>- Over one third (36% ) <b>formally employed</b></li> </ul>	<p><b>Mean no of years as Tenant:</b> 42% - 1 year or less, 47% - 2 to 5 years</p> <p><b>Most view rental unit as a temporary place</b> close to work (70%)</p> <p><b>Many have another home</b> (68%)</p>	<ul style="list-style-type: none"> <li>- Half feel it would be <b>difficult to be evicted</b> (49%)</li> <li>- All <b>pay rental monthly</b></li> <li>- Half <b>pay rent to Landlord/Caretaker</b> (53%) and under half into <b>Bank Account</b> (44)</li> <li>- Most have <b>services included in rent</b> (89%)</li> <li>- Half paid a <b>deposit</b> (55%)</li> <li>- Under one quarter <b>negotiate with Landlord if they cannot pay rent</b> (21%)</li> <li>- Most <b>deal with a Caretaker</b> (72%)</li> <li>- Half got the unit by being <b>referred from a friend/family</b> (40%)</li> </ul>
	Tenant renting the entire unit	<ul style="list-style-type: none"> <li>- Half are <b>male</b> (50%)</li> <li>- Average age <b>30</b></li> <li>- <b>Well educated</b> (78% matric or above)</li> <li>- <b>Incomes medium to low</b> (43% earn above R2500)</li> <li>- Under half (43%) <b>formally employed</b></li> </ul>	<p><b>Mean no of years as Tenant:</b> 58% - 1 year or less, 32% - 2 to 5 years</p> <p><b>Half view rental unit as a temporary place</b> close to work (46%)</p> <p><b>Most have another home</b> (81%)</p>	<ul style="list-style-type: none"> <li>- Most feel it would be <b>difficult to be evicted</b> (85%)</li> <li>- All <b>pay rental monthly</b></li> <li>- One third <b>pay rent to Landlord/Caretaker</b> (32%) and over half into <b>Bank Account</b> (57)</li> <li>- One third have <b>services included in rent</b> (29%)</li> <li>- Most paid a <b>deposit</b> (76%)</li> <li>- Half <b>negotiate with Landlord if they cannot pay rent</b> (52%)</li> <li>- Most <b>deal with a Caretaker</b> (64%)</li> <li>- Half got the unit by being <b>referred from a friend/family</b> (40%), one third saw an advert (32%)</li> </ul>

Area	Category	Demographic	Length as tenant and attitudes to accom	Rental arrangements
Townships	Informal Unit	<ul style="list-style-type: none"> <li>- Over half are <b>male</b> (50-57%)</li> <li>- Average age <b>30 - 36</b></li> <li>- <b>Low levels of education</b> (22-30% matric or above)</li> <li>- <b>Incomes low</b> (75% earn below R1500)</li> <li>- A third to a half <b>employed full time</b></li> </ul>	<p><b>Mean no of years as Tenant:</b> 6-8 years                      Most dominant reason for renting is they <b>have no other option</b> (12-25%)  <b>Most do not have another home</b> (81-100%)                      Approximately one quarter consider their <b>current accommodation to be short term</b> (16-27%).                      A quarter plan to <b>live in a backyard dwelling forever</b> (24%)                      Most believe it will be <b>difficult to find another unit</b> (81-86%)</p>	<ul style="list-style-type: none"> <li>- One third <b>pay rent to</b></li> <li>- Under a quarter paid a <b>deposit</b> (20-21%)</li> <li>- Unit was found predominantly by walking the area (62-64%) or by being <b>referred from a friend/family</b> (32-36%)</li> </ul>
	Formal Unit Tenant	<ul style="list-style-type: none"> <li>- Over half are <b>male</b> (46-58%)</li> <li>- Average age <b>29-34</b></li> <li>- <b>Levels of education moderate</b> (30-60% matric or above)</li> <li>- <b>Incomes low</b> (75% earn below R1500)</li> <li>- A third to a half <b>employed full time</b></li> </ul>	<p><b>Mean no of years as Tenant:</b> 6-8 years                      Most dominant reason for renting is they <b>have no other option</b> (3-20%)  <b>Most do not have another home</b> (81-100%)                      Approximately one quarter consider their <b>current accommodation to be short term</b> (16-27%).                      A quarter plan to <b>live in a backyard dwelling forever</b> (24%)                      Most believe it will be <b>difficult to find another unit</b> (60-89%)</p>	<ul style="list-style-type: none"> <li>- Under a quarter paid a <b>deposit</b> (6-12%)</li> <li>- Unit was found predominantly by walking the area (41-59%) or by being <b>referred from a friend/family</b> (41-59%)</li> </ul>
	Tenant Erected	<ul style="list-style-type: none"> <li>- Over half are <b>male</b> (33-60%)</li> <li>- Average age <b>36-39</b></li> <li>- <b>Low levels of education</b> (18-33% matric or above)</li> <li>- <b>Incomes low</b> (75% earn below R1500)</li> <li>- A third to a half <b>employed full time</b></li> </ul>	<p><b>Mean no of years as Tenant:</b> 6-8 years                      Most dominant reason for renting is they <b>have no other option</b> (5-33%)  <b>Most do not have another home</b> (81-100%)                      Approximately one quarter consider their <b>current accommodation to be short term</b> (16-27%).                      A quarter plan to <b>live in a backyard dwelling forever</b> (24%)                      Most believe it will be <b>difficult to find another unit</b> (64-85%)</p>	<ul style="list-style-type: none"> <li>- Under a quarter paid a <b>deposit</b> (0-14%)</li> <li>- Unit was found predominantly by walking the area (64-73%) or by being <b>referred from a friend/family</b> (25-33%)</li> </ul>

**In Inner Cities many tenants view their rental accommodation as temporary.** Most Tenants rent the unit because it is close to work and many have another home. In Townships most Tenants rent because they had no other option and many do not have a house elsewhere. A quarter consider their current accommodation to be short term, but another quarter plan to live in a backyard unit forever.

**Approximately half of the inner city tenants are stable and half are transitional. Township Tenants** have been living in rental accommodation for longer (between 4 to 6 years) than their Inner City counterparts (1 to 2 years). Most believe it will be very difficult to find other accommodation if they left their current accommodation. This is consistent with the low levels of vacancies being experienced by Landlords and the ease with which they are able to find new tenants (see Section 3.5.2).

As detailed in Table 8 above the Tenants interviewed indicated the following with respect to their rental arrangements.

- In Inner Cities all Tenants pay rental monthly. More than half paid a deposit. One-third to a half pay rent to the Landlord/Caretaker and approximately half into a bank account. In Townships under a quarter paid a deposit.
- In Inner Cities, Tenants renting part of a unit generally have their services included in their rental, Tenants renting the entire unit generally pay for services separately.
- In Inner Cities, most Tenants deal with the Caretaker and most will negotiate if they cannot pay their rent.
- In Inner Cities more than half of Tenants feel it would be difficult to be evicted.

There is generally a high level of congruence between these responses and those received from the Landlords interviewed (see Section 3.5.2).

### **3.6.2 Landlord Tenant Relationship**

Table 9 below sets out key views and issues pertaining to the relationship between Landlords and Tenants. This reflects the perspectives of the Landlords and Tenants as identified through the surveys undertaken into Landlords in Inner Cities and Townships (see Resource Reports 5 and 6).

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**Table 9: Landlord Tenant Relationship**

Measure	Inner City						Township						
	Landlords					Tenants		Landlords			Tenants		
	Sub-letter	1 Unit	2+ Unit	Build-ing Owner	Agent	Rent part of unit	Rent entire unit	Infor-mal Unit	Form-al Unit	Tenant	Inform-al Unit	For-mal Unit	Tenant
% Feel relationship is good	89	87	87	100	-	67	72	-	-	-	83-91	83-93	83-93
Landlord key roles	Fix plumbing, fittings, electricity, painting					Structural, fix services and damages		-	-	-	Repairs unit		
Tenant key roles	Change light bulbs					Change light bulbs		-	-	-	-	-	-
% Who fell landlord treated them fairly	-	-	-	-	-	79	69	-	-	-	-	-	-
% Who have written agreement	15	18	21	100	100	15	51	0-2			-	-	-
% Who have written house rules	5	13	8	50	100	8	19	-	-	-	46-74	34-74	17-75
% Who feel that they Landlord is meeting their needs	-	-	-	-	-	64	36	-	-	-	-	-	-
% Satisfied with quality of unit	-	-	-	-	-	-	-	-	-	-	58-64	75-84	58-84
% Satisfied with quality of services	-	-	-	-	-	-	-	-	-	-	74-91	80-89	75-100
% Who have tenant committee	12	7	0	0	-	7	18	-	-	-	-	-	-

**Landlords in Inner Cities believe that the relationship with their tenants is good. This is supported by the Tenants themselves (although to a lesser extent). In Townships most Tenants feel that they have a good relationship with their Landlord.** Many Tenants in Townships, despite the poor quality of the stock within which they live (see Section 3.1.5.1), **express moderate to high levels of satisfaction both with the quality of the unit within which they live and the services they receive.**

For Township, Subletting and Unit Landlords **legal arrangements** with their Tenants is largely informal. Many do not have an agreement with their tenants and very few have a written contract. **House rules** are rarely in writing although some have a verbal understanding. This is in contrast to the Building and Managing Agent Landlords where 100% have a written contract usually with House rules contained in the contract. There is generally very limited use of **Tenant Committees**.

Despite the limited use of written contracts, there appears to be **high levels of understanding of roles and responsibilities by both Landlords and Tenants**, both within Inner Cities and Townships. While there appears to be no specific correlation between having written

contracts and good tenant relations, the use of a written contract is good practice. Some of the Successful Landlords (particularly in Township areas) indicated that they were beginning to change to written contracts for this reason (see Resource Report 7). **Accordingly it does appear that written contract would be beneficial and Landlords should be encouraged to use such contracts.**

Thandi is a successful landlord who rents out 13 units and currently has 26 tenants. Thandi lived together with her family in Soweto. In 1996 Thandi was widowed when her husband tragically passed away. Together with the tragedy of losing her husband, the family also lost their breadwinner. Thandi had two garage structures in her yard and decided to convert them into rooms for rent. They were easy to let due to the shortage of accommodation in Soweto, and a steady stream of migrants moving into the city. The garage conversion went well and the tenants paid their rent regularly to Thandi, who kept close eye on her tenants.

The success of the garage rooms, gave her the confidence to build extra rooms on an empty stand that she owned. Again she built on her success with these rooms, which gave her the confidence and money to invest in more rooms.

Thandi did not attempt to obtain a loan, because she could not provide proof of a formal salary, and she thought that bank interest is too high. She thus built in stages when she could afford it and expanded only when she had enough money, reinvesting tenant's money when she could.

*"I respect my tenants and they respect me, so I have never experienced a situation where I had to take steps to get my rent. My only regret is that I did not have enough faith in the business from the beginning. We could have been far. I want to expand because there are a lot of people looking for a place to stay."*

### ***3.7 Finance and support***

**Access to financial products for Small Scale Landlords is poor. Those Landlords operating their businesses on an informal basis have less access to financial products than those operating on a more formal basis. Most Township Landlords, who built units, used their own savings to finance it. In addition, there is reluctance amongst Township Landlords to use the house as collateral.**

**The lack of loan finance for Small Scale Landlords is due to the fact that commercial Banks remain extremely risk averse and other Development finance institutions focus either on Social Housing Institutions or provide finance in a manner that is inappropriate or is difficult to access for Small Scale Landlords.**

**The most effective source of funding is that provided by TUHF, which has a specific focus on Small Scale Landlords. International experience indicates that making finance available to Small Scale Landlords should occur on a ‘credit-plus’ basis where finance is coupled with business support services, which are provided on an ongoing basis.**

#### **3.7.1 Access and use of financial products**

The surveys of Inner City and Township Landlords (See Resource Reports 5 and 6), as summarised in Table 10 below provides an overview of access and use of financial products by Small Scale Landlords.

The table indicates that **access to financial products by Small Scale Landlords is poor. Those Landlords operating their businesses on an informal basis have less access** than those operating on a more formal basis. Within the Inner Cities, just under one third of 1 Unit and 2+ Unit Landlords accessed a loan from a financial institution to purchase their unit, with most using their own money. Less than one quarter of these Landlords have savings accounts with less than one fifth having current or cheque accounts. Approximately three quarters (75%) of Building Landlords accessed a loan to purchase their building. Approximately half have a current or cheque account.

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**Table 10: Financial circumstances of Small Scale Landlords**

Characteristic	Measure	Inner City						Township		
		Sub-Letter	1 Unit	2+ Unit	Building	Agent-Unit	Agent-Bld	Formal	Informal	Tenant
Personal Banking	% Savings Account	23	25	21	25	-	-	-	-	-
	% Current or cheque account	3	13	18	50	-	-	-	-	-
	% Mortgage bond	0	2	0	25	-	-	-	-	-
	% Personal loan from a bank	0	2	0	0	-	-	-	-	-
	% Blacklisted (own perception)	23	15	44	25	-	-			
Use of finance	% Who used loan from financial institution to purchase property	0	26	29	75			< 12%		
	% Who used own money	100	70	62	25	-	-	61-82%		
	% Who would finance new stock with a loan from a bank	79	58	69	50	-	-	-	-	-
	% Who believe it will be difficult to get a loan	79	58	69	50	-	-	-	-	-

Most Township Landlords who built units used **their own savings to finance it**. Other forms of finance used included retrenchment packages, stockpiling and pension/life policies. Less than 12% of all Township Landlords used a loan to build their unit. The survey of Successful Landlords (see Resource Report 7) indicates that the most common method of acquiring property for these Landlords (other than those operating in Townships) was to purchase the property using a bond from a commercial bank.

Both Landlords and Service Providers identified (in the focus group discussions and interviews) a **reluctance to use their house as collateral in Townships**. In the focus groups a number of respondents indicated that they were not prepared to use the house as security, as the house could be repossessed if they default on their payments. They are cautious given that they are generally dependent on low income tenants paying their rentals.

### **3.7.2 Funding and support for Small Scale Landlords**

The Literature Reviews (See Resource Reports 1 and 2) and the Interviews with Service Providers (see Resource Report 8) identified the following funding organisations and initiatives (set out in Table 11 below<sup>23</sup>) currently available in respect of rental housing stock.

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<sup>23</sup> Adapted from South African Rental Sector Overview, David Gardner, 2005

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**Table 11: Funding framework and support initiatives**

Category	Initiative	Details
<b>Rental Finance Initiatives</b>	<b>Commercial Finance Providers</b>	<p>Commercial Financial institutions have found providing finance to Small Scale Landlords to be risky, costly and unprofitable<sup>24</sup>. As a result the development of financial products and services to this market have been limited, in addition Financial Institutions are extremely risk averse when offering these products. Key problem areas include:</p> <ul style="list-style-type: none"> <li>- Poor understanding of both Township and Inner City rental markets by Financial Institutions.</li> <li>- Operational split in that Banks do not have an appropriate Department that will deal with Small Scale Landlords</li> <li>- Few Banks have specific products for Small Scale Landlords</li> <li>- In specific areas (for example Townships), most will only provide finance if the Borrower provides sureties or assets 'outside of the project area'</li> <li>- Finance is provided to purchase the unit only and not refurbish it.</li> </ul> <p>The type of financial products available include micro loans and end user finance using different types of securitisation including for example pension fund surpluses, payroll deduction, mortgage over a property etc.</p> <p>The Financial Sector Charter aims to bring private financial institutions into the low income housing sector and may result in more finance being made available.</p>
	<b>NHFC Alternative Tenure Division</b>	<p>The National Housing Finance Corporation (NHFC) is a public company wholly owned by Government to increase the number and type of institutions that provide housing credit to low income earners. The NHFC provides wholesale financing to TUHF and other small loan institutions for on-lending to Landlords. In addition NHFC lends directly to rental entrepreneurs (both private and social housing institutions) for the purchasing, refurbishment and development of rental stock. NHFC is interested in growing its private rental lending portfolio across the country.</p> <p>Some Landlords have indicated that access to NHFC loans is difficult due to the loans being unaffordable and inflexible.<sup>25</sup></p>

<sup>24</sup> Resource Report 2

<sup>25</sup> K Rust, Investigation into constraints on the delivery of rental housing in South Africa, 2001

Category	Initiative	Details
	<b>NURCHA</b>	The National Urban Reconstruction and Housing Agency (Nurcha) is a non profit Section 21 Company aimed at facilitating low cost housing development. Nurcha provides wholesale finance to TUHF (see below) and also has a rental lending programme where it directly provides finance to entrepreneurs for rental housing projects for refurbishments, conversions and new development. Nurcha is interested in expanding its rental lending portfolio in the inner cities of South Africa's major urban areas, as well as providing loans to backyard Landlords in Townships.
	<b>Trust for Urban Housing Finance (TUHF)</b>	The Trust for Urban Housing Finance (TUHF) is a Not for Profit development finance company aimed at providing short and medium term loans to existing and future property entrepreneurs to finance the purchase of or improvement to buildings for residential rental. Although a primary goal is to contribute cost-effective and cost-efficient solutions to the regeneration challenge facing these areas, the organisation will only finance projects that are viable as sustainable business ventures. TUHF provides finance to small private owners, small private residential landlords, institutional housing developers and Social Housing Institutions. TUHF provides both bridging finance and long term loans. This is the only funder that provides finance specifically for Small Scale Landlords. (For more details on the products offered see box)
	<b>Gauteng Partnership Fund</b>	The Gauteng Partnership Fund is a trust established by the Gauteng Department of Housing, with the purpose of enabling social housing associations in Gauteng to obtain financing at the most favourable terms. It offers a range of finance products to Social Housing Institutions. It is currently developing a product focused on Small Scale Landlords offering backyard accommodation.
<b>Support services</b>	<b>Support services focused on Bodies Corporate</b>	<p>The following support services are available to Bodies Corporate that are experiencing problems:</p> <p><b>Bailing out Ailing Bodies Corporate:</b> A service provider engages with dysfunctional Sectional Title schemes, with the aim of getting them to operate again.</p> <p><b>Body Corporate Takeovers:</b> Clauses in Sectional Title bonds allow Banks to take up the vote on behalf of financed units at any stage. They then appoint a Service Provider to provide assistance to the Bodies Corporate.</p> <p><b>Judicial Administration:</b> Ian and Neville Schaffer have developed an approach to "turning around" ailing Bodies Corporate. 11 buildings are under their administration at present.</p>



Category	Initiative	Details
	<b>YDL Property Wealth Education</b>	YDL is an independent property investment training entity that provides a range of education/information programmes aimed at generating interest from emerging entrepreneurs in rental property. All programmes combine theory and practical elements with inputs from industry experts.
<b>Grant funding</b>	<b>The Institutional Subsidy</b>	<p>This subsidy was introduced as part of the Governments national housing subsidy scheme in 1996. The subsidy is made available to institutions who undertake approved projects, that offer rental or instalment sale housing units to beneficiaries.</p> <p>The Institution needs to be established as a legal entity and need to identify a housing project to be undertaken. Such a project can either be a new development or the upgrading of existing housing stock. The stock is provided in such a manner that the stock can be converted from rental to ownership after a 4 year period.</p> <p>The subsidy will be amended in terms of the Comprehensive Plan for the Development of Sustainable Human Settlements. In this regard a new subsidy mechanism is to be introduced to facilitate the availability and accessibility of affordable housing finance products/instruments to medium income households earning between R3,500 to R7,00 per month by providing a mechanism to overcome the down payment barrier. In addition the 3 subsidy bands currently in place are to be collapsed to enable households earning below R3500 to access a uniform subsidy amount.</p>
	<b>Overseas grants in aid</b>	A number of overseas donor agencies provided grants or loans to Social housing Institutions.
<b>Rental Guarantee Initiatives</b>	<b>Gauteng Rental Guarantee Fund</b>	The Gauteng Rental Guarantee Fund is administered by Nurcha to underwrite finance provided to rental institutions. It operates as a credit enhancement tool to leverage long term development finance for rental housing projects.
	<b>Home Loan Guarantee Company Guarantees</b>	<p>The HLG offers two guarantees:</p> <ul style="list-style-type: none"> <li>- A bond guarantee</li> <li>- A guarantee that covers the cost of lost income due to tenants of rental institutions meeting with unforeseeable economic hardship.</li> </ul>

Interviews with Service Providers operating in the rental sector (see Resource Report 8) identified the following key challenges:

- An insufficient number of entrepreneurs
- Limited availability of stock as a result of increasing costs
- Limited availability of finance and most finance is not tailored to the need of the specific type of business operated by Small Scale Landlords (the only financier who provides tailored finance is TUHF (see box))
- Entrepreneurs do not have sufficient equity.
- Many entrepreneurs lack management expertise which affects their viability (for example collections, tenant origination and checking, default management, evictions and security)
- Non performance by Body Corporates which undermines any investment made in the building.

Key factors where the current performance of Government increases the risks within the sector including:

- Local Government capacity problems resulting in the breakdown in administrative payments in respect of rates payments and clearance certificates
- The Prevention of Illegal Eviction and Unlawful Occupation of Land Act, (1998) (PIE) has not been amended
- Flat hijackers in the Inner City, which are not effectively addressed by the South African Police Services.

The findings of the international research (see Resource Report 2) emphasises that when **making finance available to Small Scale Landlords** ‘credit-plus’ lending strategies are important. Such strategies **couple together the provision of finance with business support services. With the exception of TUHF** there are no examples of local lenders using ‘credit plus’ strategies.

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**Financial services provided by TUHF**

**Loans to Rental Entrepreneurs:** TUHF provides area-based financial support in the form of loan finance to emerging and existing landlords within Region 9 in Johannesburg. The loans are provided predominantly to smaller-scale rental entrepreneurs for building refinancing, building purchase, building refurbishment, building conversion or greenfields construction. TUHF makes loans available of below R10-million (recently raised from R5-million maximum), right down to financing needs for 3-plex or 4-plex structures. The largest loan made to date is R8,2-million and the smallest R150 000. In providing these loans TUHF assists entrepreneurs to develop business cases and to manage the finance granted.

TUHF remains committed to its Johannesburg Inner City focus area (essentially Region 9), but will consider applications that fall close to this boundary. Currently, TUHF is assessing the prospects offered by the Pretoria, Durban and Port Elizabeth inner-city areas TUHF has recently raised almost R300-million from various funders (including Nurcha and the NHFC), which they believe they will be able to lend out relatively quickly.

**Direct Support: Equity Facility:** TUHF has recently set up an Equity Facility with the Gauteng Partnership Fund that enables it to make equity placements (through subordinated loans) in certain projects of up to R200 000 per project up to a maximum of 20% of total project cost.. Currently one project is in place and one is nearly concluded.

**Other Support:** TUHF has a very thorough loan origination and monitoring approach based on “understanding your market”. Their geographic focus implies that they are well aware of market conditions in the areas they operate. Types of support include technical information, access control information, building design input and financial advice. TUHF does not do direct capacity building / support except in the process of originating loans.

A number of international case studies were reviewed (for details see Annexure C). On the basis of these the following common factors were identified in respect of best practice when lending to Small Scale Landlords:

- Lending should only occur where there are **profitable and viable markets**.
  - Entrepreneurs should have the **necessary skills to undertake the work and the entrepreneurial drive**.
  - **Engagement with other producers** in the sector should be encouraged.
  - **Key constraints in the economic chain** should be identified and removed
-

- **Client education and counselling** should be an integral part of the loan process providing **appropriate and affordable business development and support services**. Support should be provided by skilled staff who specialise and are **knowledgeable of the sector** in which the entrepreneur operates. Entrepreneurs should be assisted in sharing market information, technical know how and information.
- Loans should be **tailored to meet the cash flow needs** of the borrower.
- Loans should not be made on the basis of the applicants ability to repay the loan from salary, rather the primary focus in approving the loan should rest on **expected cash flow and the character of the applicant**.
- In order to ensure that the loan is repaid timeously it is important that the Lender **‘knows the customer’**. Accordingly an operating office should be located amongst the client base and should have continuous contact with the Borrower. The Lender should have an **understanding of the goals of the borrower and the market in which s/he is operating and be focused on assisting the borrower to succeed**.
- **Community organisations** can be used as a platform to sell and market the loan products.
- Borrowers should provide **upfront collateral**.
- For Landlords and Entrepreneurs who are expanding their assets progressively, large **traditional loans are not well suited to their more incremental** needs. A mix of finance from various sources such as savings, loans from family and friends and small loans are being used to overcome problems associated with longer term formal finance.

Given the above it can be concluded that:

- Despite a number of **policy and funding initiatives currently being implemented** there is a **lack of loan finance**, particularly for Small Scale Landlords in the low income rental sector. The reason for this is as follows:
  - Commercial Banks remain extremely risk adverse.
  - Other Development Finance Institutions focus either on Social Housing Institutions or provide finance in a manner that is inappropriate or is difficult to access<sup>26</sup>

The most effective source of funding is that provided by TUHF, which **has a specific focus on providing finance for small scale private sector Landlords** (see box).

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<sup>26</sup> K Rust, Investigation into the constraints on the delivery of rental housing in South Africa, 2001

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- International experience indicated that making finance available to Small Scale Landlords should occur on a **‘credit-plus’ basis** where finance is coupled with business support services, which are provided on an ongoing basis.
- Loan products that have been developed rely on traditional forms of security and lending procedures. In addition there is a lack of specific loan products designed for Small Scale landlords. This means that such Landlords wishing to access finance do so **by combining various sources of capital such as savings, borrowings from friends and family, small unsecured micro loans and formal loans.**
- The **Financial Sector Charter could benefit Small Scale Landlords** and provide funding for the purchasing of rental stock.

### ***3.8 Regulatory and policy environment***

**There is a range of legislation and regulation applicable both generally and specifically to Small Scale landlords. The survey undertaken into Inner City Landlords found that such Landlords are generally unaware of the regulatory requirements to which they should comply. This issue was not surveyed in respect of Township Landlords but anecdotal evidence indicates that there is a similar lack of awareness.**

#### **3.8.1 Regulatory and policy environment**

There is a range of legislation pertaining to the rental sector in South Africa impacting on:

- The establishment of a legal operating structure
- Governance of the structure
- Method of operating
- Taxation

An overview of this legislation can be seen in Annexure D attached. Table 12 below highlights some of the legislation that has a significant bearing on rental housing as provided by Small Scale Landlords in South Africa.

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**Table 12: Legislation that impacts on small scale Landlords in South Africa<sup>27</sup>**

Legislation	Details
Residential Landlord Tenant Act, 1997 (Gauteng)	This Act deals primarily with landlord tenant relationships and was enacted in Gauteng to deal with the instability in the rental housing market in the inner cities and particularly in Johannesburg city centre. The Act essentially provided for dispute resolution mechanisms and for regulations relating to so-called unfair practise.
The Rental Housing Act, 1999	<p>The Rental Housing Act was introduced to provide a national framework for rental housing. Many of its provisions correspond with the provisions of the Gauteng legislation referred to above. The Act, however was also aimed at creating a more general legislative framework within which rental housing could be stabilised and facilitated. The Act envisages rental housing legislation at the provincial level, failing which the back up provisions of the Act would apply unless replaced. Key provisions of the Act are as follows:</p> <ul style="list-style-type: none"> <li>- Government must provide a stable and growing market that progressively meets the latent demand for affordable rental housing among persons historically disadvantaged.</li> <li>- Government must facilitate the provision of rental housing in partnership with the private sector.</li> <li>- The Act allows for the establishment of a Rental Tribunal to rule on disputes between landlords and tenants.</li> </ul>
Urban Renewal Tax Incentive, 2005	<p>The Urban Renewal Tax Incentive took effect on the 6 June 2005 and is published in the government gazette no 27656. The incentive is available for 16 municipalities in terms of the Revenue Laws Amendment Act, no 45 of 2003.</p> <p>As of June 2005, 13 municipalities have been approved to participate including Polokwane, Nelson Mandela, Ekurhuleni, eThekweni, Tshwane, Buffalo City, Mbombela, Mangaung, Sol Plaatje, Emfuleni, Johannesburg and Cape Town. The Municipalities have been declared Urban Development Zones (UDZ) and the tax incentive is offered to stimulate investment in the inner city areas of these zones. An accelerated depreciation allowance is provided aimed at promoting refurbishment and new construction. For the refurbishment of existing buildings, investors are eligible to receive a 20% tax deduction in the first year of earning income, plus an annual depreciation of 20% over a four year period. For new developments, this incentive offers a tax deduction of 20% in the first year, plus an annual depreciation of 5% for the next 16 years.</p>

<sup>27</sup> Sigodi Marah Martin and Matthew Nell and Associates Joint Venture, Resource File, 2002

Legislation	Details
<p>A comprehensive plan for the development of sustainable human settlements: Breaking New Ground</p>	<p>This plan was approved by Cabinet on the 2 September 2004 and provides the overall strategic framework for housing programmes in South Africa for the next five years. The plan aims at ‘promoting the achievement of a non-racial, integrated society through the development of sustainable human settlements and quality housing’ through supporting the entire residential property markets. The key components of this plan include the following:</p> <ul style="list-style-type: none"> <li>- Informal settlements will be integrated into the boarder urban fabric to overcome spatial, social and economic exclusion. The DOH will accordingly introduce a new informal settlement upgrading instrument to support the focused eradication of these settlements.</li> <li>- Previously excluded groups will be integrated into the cities and more integrated, functional and environmentally sustainable settlements will be ensured through a densification policy, residential development permits (which will require developers to either set aside units within residential developments for lower income groups or develop lower income residential accommodation in adjacent areas) and fiscal incentives.</li> <li>- Enhancing spatial planning through greater coordination and alignment of various planning instruments and economic policies.</li> <li>- Enhancing the location of new housing projects through accessing well located state owned and parastatal land, acquisition of well located private land for housing development, providing funding for land acquisition and fiscal incentives.</li> <li>- Supporting urban renewal and inner city regeneration through encouraging social medium density housing and increasing effective demand by providing finance to households earning between R3 500 and R7 500. As part of this programme backyard rental accommodation is recognised as an important component of the overall private sector and an appropriate policy needs to be developed for this form of rental accommodation.</li> <li>- Developing social and economic infrastructure by providing funding for the construction of social and economic infrastructure to be developed by Municipalities.</li> <li>- Enhancing the housing product through improving settlement and house design and improving the quality of housing (built and still to be developed).</li> </ul> <p>The detailed strategies of the plan have been developed into 7 Business Plans each addressing a different area.</p>

In addition to the above legislation, there are a number of initiatives that are being implemented aimed at facilitating rental housing in South Africa. These include:

- **Top Twenty Township Programme:** This Programme is being implemented by the Gauteng Department of Housing and is aimed at rehabilitating townships that are under resourced with social and economic amenities.
- **Backyard Rental Policy:** This policy developed by the Gauteng Department of Housing aimed at upgrading the existing backyard rental housing stock in Gauteng. The policy is still in draft.
- **Provincial and Metropolitan Housing Departments:** A number of Departments are undertaking research into the rental sector. Some are actively including this sector in strategy documents.
- **Rental Lobbying Bodies and research organisations:** The Social Housing Foundation, the National Association of Social Housing Associations and research related organisations like the Finmark Trust are undertaking research focused on the rental sector.

Legislation that has a negative impact on the rental sector or is not supportive includes:

- **Value Added Tax Act, 1991:** The provision of residential accommodation is neither vatable nor is a claim of input VAT. This results in a funding and cash flow cost which impacts negatively on the capital cost of providing rental housing stock.
- **Income Tax Act:** Institutions upgrading or converting existing stock cannot obtain tax exempt status.
- **Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 (PIE):** PIE requires Landlords/owners to find alternative accommodation for non paying occupants of buildings (including invaders and defaulting tenants) where they have been in the building for more than six months.
- **Free Basic Services:** Government provides free basic services as follows:
  - All households are provided with a basic supply of approximately 6000 litres of water per month free of charge (the amount may vary between Municipalities). Water that is used over and above the free supply must be paid for at normal municipal tariffs.
  - Free electricity is provided on a grid based system to an amount of 50kWh per monthly per households. Any electricity used over and above this amount must be paid for at normal tariffs.

The free basic services benefit is meant to be applied per household. However it is currently applied on the basis of a property, regardless of the number of households that reside there. Consequently Small Scale Landlords are not able to access this benefit for low income tenants residing on their property.

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Government attitude towards rental tenure especially in respect of Small Scale Landlords is mixed. While there is an increasing recognition of the value of this form of housing provision within the policy itself, this is not necessarily reinforced in terms of the attitudes of leading officials and politicians. For example MEC Nomvula Mokonyane is reported in the Star in July 2005 as saying that *'the government builds houses for people to live in, not to rent or erect shacks in their yards'*. This was as a result to a visit to Kagiso on the East Rand where she determined that some residents were renting out their RDP houses, while others had erected more than one shack in their backyards to let to tenants.

Given the above it can be concluded that :

- The legislation adopted to date has focused on the **stabilisation of inner cities and landlord tenant relations** as opposed to the **facilitation of the development of rental stock**.
  - The legal system and the Rental Act undermine the **incentives for tenants to pay for their accommodation and the application of sanction in cases of non payment**. The Rental Tribunal has insufficient capacity to carry out its own recommendations. PIE further exacerbates this problem. This results in some landlords by-passing the legal system altogether.
  - The impact of the Urban Renewal Tax Incentive in the Urban Development Zones **does offer opportunities** for Landlords who are upgrading or building rental buildings in the designated areas.
  - The Comprehensive plan for the development of sustainable human settlements could **provide opportunities for Small Scale Landlords in terms of encouraging mixed used areas and medium density housing programmes**.
  - Household rental and support to Landlords providing this form of accommodation is beginning to be recognised in policy terms. The Backyard Rental Policy being formulated by the Gauteng Department of Housing is an **opportunity to recognise and support** Small Scale Landlords who provide and manage this form of rental stock.
  - Initiatives such as Gauteng's **Top Twenty Townships Programme are an opportunity** in that they focus on upgrading the urban form of townships and increasing their attractiveness as areas for rental accommodation. Such initiatives could also result in improving the quality of rental accommodation. This could have both positive and negative consequences.
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- The treatment of the **Value Added Tax Act**, in respect of the development of rental housing presents impediments to implementing rental housing projects
- Exemptions permitted in terms of the **Income Tax Act** do not provide for landlords who upgrade or convert existing stock.
- **Free Basic Services are not being implemented in a manner that supports the use of a property for rental** to one or more households, in that such households are not able to access this benefit.
- **Government attitudes** towards the rental sector especially Small Scale Landlords offering backyard rental accommodation is ambiguous.

### **3.8.2 Knowledge of and compliance with Regulation**

On the basis of the survey of Inner City Landlords (See Resource Reports 5), Table 13 below provides an overview of the extent to which Small Scale Landlords comply with existing legislation and regulation. This issue was not surveyed in respect of Township Landlords but anecdotal evidence suggests that the findings would be similar.

**Table 13: Issue pertaining to the regulatory and policy environment: Inner City Landlords**

Characteristic	Measure	1 Unit	2+ Unit	Sub-letting	Building	Managing Agent	
						Unit	Building
<b>Compliance</b>	% who's business is not registered as a business	86	90	96	0	-	-
	% who's business is registered as a sole proprietor/private company	2	5	2	50	-	-
	% who do not pay income tax	91	97	98	0	-	-
<b>Knowledge of policy initiatives</b>	% who have heard of UDZ tax incentives	13	3	3	0	-	-
	% who have not heard of the Rental Housing Act	93	87	96	50	-	-
<b>Rental Tribunal</b>	% who have been to the tribunal	6	3	6	25	-	-
	% who felt they were treated fairly	100	100	100	100	-	-
<b>Role of Local Govt</b>	% who have not found Local Govt to be helpful to their business as a Landlord	69	54	66	50	-	-
	Ways in which Local Govt helps or constrains the business as a Landlord (in order of priority)	Not sure/don't know Fails to keep place clean Don't want to give us a chance to make money No support in terms of loans				-	-

As indicated in the above table there are low levels of knowledge and compliance of existing legislation:

- **Compliance:** Most Subletting and Unit Landlords are not compliant. Most (above 86%) are not registered as a business and most (more than 91%) do not pay income tax. This is less the case with the Building Landlords where 50% are registered and all pay income tax.

- **Knowledge of policy initiatives:** Most Landlords are not aware of recent regulatory initiatives. Less than 13% of Subletting and Unit Landlords have heard of either the UDZ tax incentive and the Rental Housing Act. Half of Building Landlords had heard of the Act.
- **Rental Tribunal:** Use of the Rental Tribunal is limited (less than 6% in respect of Subletting and Unit Landlords). However of the few that went to the Rental Tribunal all felt that they were treated fairly.
- **Local Government role:** Over half of Landlords feel that the Local Government has not been helpful to their business as a Landlord. Many though did not know how the Local Government could help them.

### ***3.9 Successful Small Scale Landlords***

Qualitative in-depth interviews were undertaken with 20 ‘Successful’ Landlords with a view to complementing the primary research undertaken into Small Scale Landlords (see Resource Report 7). The 20 Landlords interviewed were categorised into the following types:

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

The interviews show a high degree of similarity with the primary research undertaken into Landlords in Inner City and Township areas. In addition the research shows that the different 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. In many instances the quality of their stock is problematic. They manage and maintain the stock 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 that they own and manage. In addition there is a strong need for business support to improve the basis on which they manage their rental 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 private
-

contractors. They have personal relationships with their tenants. The Business is operated on an informal basis, with limited use of formal agreements. Access to finance is better than for the Township Landlords but is still limited. Such Landlords are not able to access business loans. They are only able to access loan finance to the extent that their personal collateral (including property) 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 their management of their rental business.

- **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. While their ability to access business and property finance is better than other Landlords, there are still specific limitations (such as the level of loan cover applied).

### *3.10 Public Sector Stock*

**On the basis of a review of the current status of Public Sector stock and two case studies it is determined that Small Scale Landlords are unlikely to be a key mechanism for overcoming limitations to selling “difficult to transfer” public sector stock without considerable investment by the State.**

**This component reviews issues pertaining to Public Sector owned stock and assesses the feasibility and desirability of transferring such stock to Small Scale Landlords.**

Background to State Owned Stock in South Africa is set out and two case studies are scoped in detail so as to obtain an understanding of the challenges and opportunities that this stock provides in respect of Small Scale Landlords.

The two case studies scoped are the Provincial Flats in Alexandra Far East Bank, Johannesburg and Sonof Council Flats in Emfuleni. The case studies were selected because they provide two extreme examples, with the one (Provincial Flats, Alexandra) facing

considerable challenges in respect of the current occupation and condition of the units, as opposed to Sonof Flats, which is of reasonable quality and operating relatively effectively<sup>28</sup>.

### **3.10.1 Background**

Public Sector rental housing stock was developed by Government to provide affordable housing to low income households. The type of housing provided 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 (normally Local Government).

Generally no new government rental stock is being developed. Existing stock is being disposed of through the Sale and Transfer of Housing Stock policy promulgated in terms 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 on the transfer of stock to individual beneficiaries. The transfer of clusters, row houses and flats are considered in the context of sectional title of existing units being transferred to individuals, rather than to private sector Landlords.

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<sup>28</sup> 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.

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As at June 2005 it is estimated that some 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 a high proportion will be difficult to transfer for the following reasons:

- Poor physical condition
  - Poor location
  - Competing ownership claims
  - The nature of developments require joint management of shared areas.
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**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.
  - **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.



### 3.10.2 Case Studies

Two case studies are scoped namely Provincial Flats in Alexandra Far East Bank, Johannesburg and Sonof Flats owned by the Emfuleni Council. A summary of the findings is shown in Table 14 below.

**Table 14: Case Studies Scoped**

Case Study	Overview	Key findings
Provincial Flats: Alexandra Far East Bank	<ul style="list-style-type: none"> <li>- 151 flats</li> <li>- Funded by DOH</li> <li>- Units illegally invaded</li> <li>- Units only partially completed and have inadequate services</li> <li>- Not under any form of management</li> <li>- High levels of overcrowding</li> </ul>	<ul style="list-style-type: none"> <li>- Flats well located</li> <li>- Effective demand for the units is limited unless rentals are restructured to meet affordability limitations</li> <li>- The flats are in a very poor condition and pose a health hazard to the occupants</li> <li>- Extensive refurbishment will be required- estimated cost R5,8 million</li> <li>- Assembly of property would require active participation of authorities – as occupants will need to be relocated</li> <li>- At current rentals the COJ will have to make a capital contribution of between R1 to R2 million</li> </ul>
Sonof Flats, Vereeniging, Emfuleni	<ul style="list-style-type: none"> <li>- 78 units – 3 storey walk up</li> <li>- Emfuleni Municipality registered owner</li> <li>- Arrears on rentals high</li> <li>- Tenants primarily pensioners and indigent</li> <li>- Building in reasonable state of repair but no maintenance being undertaken</li> </ul>	<ul style="list-style-type: none"> <li>- Building in reasonable state of repair- needs some short term maintenance</li> <li>- To dispose of building all tenants need to be informed and those who cannot afford higher rentals relocated.</li> <li>- Estimated assembly cost is R0,77 million.</li> <li>- Building could be easily transferred to a Small Scale Landlords with relatively minimal cost to the Municipality</li> </ul>

### 3.10.3 Appropriateness for Small Scale Landlords

The review of the current status of Public Sector stock and the two case studies concluded that Public Sector stock could only be appropriate for Small Scale Landlords if the properties are sold to such Landlords to operate them on free market principles. To achieve this the following 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.

In addition a substantial proportion of the remaining Public Sector Stock will not be suitable for sale due to poor location.

Generally it can be concluded that Small Scale Landlords are unlikely to be a significant mechanism for addressing hard to sell State Owned Stock without considerable investment by the State. There may however 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 condition and/or the relevant Government authority is willing to provide the capital to upgrade the stock
- 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 market related rentals.

## 3.11 Conclusions

The conclusions based on the foregoing analysis are as follows:

### 3.11.1 Importance of Small Scale Landlords:

Small Scale Landlords make a significant contribution to the South African economy. Small Scale Landlords **provide a range of accommodation types** for approximately 15% of all South African households (1,85 million households). 60% of this stock (1,1

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million households) comprises Household Rental including both formal and informal units located in backyards. Generally this accommodation is well located and affordable to very poor households (earning R1 800 per month on average). Small Scale Landlords are therefore contributing significantly to the **supply and management of affordable rental housing for poor people.**

The Small Scale Landlord sector provides a **critical opportunity to promote income generation and wealth creation for Small and Medium Enterprises (SMEs).** It is estimated that the sector is currently generating rental income of approximately R421 million per month.

Vincent worked in an old building in Johannesburg inner city as a cleaner since the Eighties, and lived in a rooftop room provided for domestic workers and cleaners of the building. He loved his work and built a trust relationship over many years with the occupants of the building. One such occupant moved out of the building just before the democratic elections of 1994, and appointed Vincent as caretaker for his 2 units. After another few years, the landlord decided to immigrate, and offered Vincent the 2 units. Vincent paid for the units partly with cash and partly by paying the landlord the remainder over a period of time. Vincent stayed on in his rooftop room and rented out the units to help him pay off his loan. Today Vincent is the proud owner of 2 units, paid in full, and is on the lookout for more units.

*“Becoming a landlord has changed my life. Now I have something permanent and stable and I know I can provide for my children and when I am gone, I can leave them with an investment. It makes me proud.”*

There is **potential for growth** within the sector. Demand for stock is high and most Landlords in both Inner Cities and Townships indicated that it is easy to find tenants (over 62%). Township Landlords report that vacancy is effectively zero. However this potential is **currently not being realised.** The overall rental sector saw a decrease in its percentage size within the overall Housing Sector between 1999 and 2005.

Consequently given the significant housing shortage, high levels of poverty and unemployment and the strong focus on enterprise development in South Africa, **there is significant value in supporting the growth of the Small Scale Landlord sector.**

### 3.11.2 Differences between Small Scale Landlords:

**Inner City and Township Landlords and their rental stock are different. Inner City Landlords are generally formally employed, well educated and male,** offering formal

rental accommodation predominantly in the form of flats. **Township Landlords** are generally **poor, aged and female**, offering a mix of formal and informal rental accommodation (often of poor quality) in the form of attached and detached units.

Inner City Landlords can be categorized into five types:

- **Sub-letting Landlord:** A Landlord who has legal title to a unit, a portion of which is rented out where the relationship with the tenant is direct, the Landlord stays in the unit and the unit is formal.
- **One (1) Unit Owner:** A Landlord who has legal title to one unit that s/he rents out on a basis where the relationship with the tenant is direct, the Landlord does not stay in the unit and the unit is formal.
- **Two plus (2+) Unit Owner:** A Landlord who has legal title to two or more units (but less than a building or 200 units) on a basis where the relationship with the tenant is direct, the Landlord does not stay in the unit and the unit is formal.
- **Building Owner:** A Landlord who has legal title to a building with residential units that s/he rents out to tenants on the basis where the relationship with tenants is direct and the units are formal. As the research focused on Small Scale Landlords this category of Landlords was restricted to Building Owners that own less than 200 units.
- **Landlord that uses a Managing Agent:** This category of Landlords uses a Managing Agent on the basis where the Landlord does not have a direct relationship with his/her tenant.

There **are differences between these categories of Inner City Landlords**, each having different characteristics in respect of how they operate and the challenges that they face.

**Township Landlords are all Unit Owners**, with a very small number being Sub-letting Landlords. Townships Landlords are further categorised in respect of the type of unit and who built the unit as follows:

- **Formal Unit Landlord:** Defined as a Landlord who has a formal unit.
  - **Informal Unit Landlord:** Defined as a Landlord who has an informal unit
  - **Tenant Unit Landlord:** Defined as a Landlord where the tenant erected the unit and is renting a portion of the Landlord's land
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**Clear geographic differences** were shown between the different type of Township Landlords in the areas surveyed. This indicates that there are local factors that strongly influence the type and nature of the rental market that occurs in a particular area.

**Consequently, the application of policy, provision of funding and other support must occur in a manner whereby the specific differences between the different types of Landlords are understood and taken into account.**

### 3.11.3 Entrepreneurship:

**Not all Landlords are entrepreneurial. Only some Small Scale Landlords are investing and taking risk and wanting to expand their rental portfolios** (for example only 40 to 45% of Unit Owner Landlords are motivated by the investment). This is particularly evident with respect to Township Landlords where there is a clear distinction between **subsistence Landlords**, who are generally pensioners using the rental income to augment pensions and **entrepreneurial Landlords**, who are generally younger people wanting to pursue landlordism as a means of earning primary income or augmenting existing income.

The data further suggests that a **ladder of growth could be occurring**, particularly in respect of Inner City Landlords, whereby as more entrepreneurial Landlords become successful in a particular category and acquire more income and experience, they move to the next category. Thus they move from subletting, to 1 unit, to 2+ units, to becoming a building owner<sup>29</sup>. However, given the distribution of the different types of Inner City Landlords, where Sub-Letting and 1 Unit Landlords is the most prevalent (38% and 23% respectively), it would appear that the transition to the next category is difficult. This could be the result of the lack of finance and business support available to Sub-Letting and 1 Unit Landlords (see 3.11.4).

**Consequently the prevalence of entrepreneurial Small Scale Landlords could be increased through more appropriate policy and improved access to finance and business support.**

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<sup>29</sup> The Literature review indicates that Entrepreneurs do not move easily from one rung of the ladder to the next and often move backwards and forwards, or may skip a rung or experience failure

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#### **3.11.4 Access to finance:**

**The different categories of Landlords (see 3.11.3) access finance differently and have different needs and preferences with respect to finance.** Small Scale Landlords that **operate their businesses on an informal basis (see 3.11.5) have less access than those operating on a more formal basis.**

**Township Landlords, Subletting Landlords and Unit Owner Landlords** mobilise considerable **personal savings** rather than formal business loans into acquiring stock. **Access to financial products is generally poor.** Just under one third of Sub Letting and Unit Landlords and fewer than 12% of Township Landlords accessed a loan from a financial institution to purchase their unit. Between 62% and 82% used their own money. These types of Landlords have different needs and views of financial products. Generally **Township Landlords are reluctant to use the house as collateral.**

**Building Owner and Managing Agent Landlords** are **able to access loan finance** (both personal and business) more easily. Approximately three quarters of Building Owner Landlords accessed a mortgage backed loan and approximately half have a current or cheque account.

It is difficult for Small Scale Landlords in both the Inner Cities and Townships to access loan finance from either Commercial Banks or Development Institutions. Commercial Banks while offering loans are extremely risk averse. Development Finance Institutions (for example Nurcha and the NHFC) focus on Social Housing Institutions or provide finance in a manner that is inappropriate or difficult to access for Small Scale Landlords. **The most effective current source of funding is that provided by TUHF**, which has a specific focus on Small Scale Landlords.

International experience indicates that making finance available to Small Scale Landlords should occur on a **'credit-plus' basis where finance is coupled with business support services**, which are provided on an ongoing basis.

**Consequently there is a need for substantial increase in access to loan finance for Small Scale Landlords. Product development must be appropriate for the market**

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**circumstances of different categories of Landlords, both in terms of credit and business support.**

### **3.11.5 Business support:**

**The performance and profitability of Small Scale Landlords is dependent on the formality and the quality of service they provide to their tenants.**

The competencies of and methods used by Small Scale Landlords to manage their businesses varies in terms of the different types of Landlords. Generally Township Landlords, Subletting Landlords and 1 and 2+ Unit Owner Landlords operate on an informal basis, while most Building Owners and Managing Agent Landlords operate on a formal basis.

The amount of rental charged by and profitability of Small Scale Landlords appears to be related not only to the location and quality of the stock, but also the degree of formality of the business. Thus Township Landlords charge the lowest rentals (R97 to R225), which then increases progressively from Subletting Landlords (R898), 1 Unit Landlords (R1038) and 2+ Unit Landlords (R1053), to Business Owners (R1183) and Managing Agent Landlords (R1728) who realise the highest rentals. In addition, the extent to which maintenance is undertaken appears to be related to the amount of rental that is realised.

Profits also increase progressively from Sub-letter and 1 Unit Landlords where 32% indicated that they made money, to 2+ Unit Landlords where 62% indicated they made money and Building Owner Landlords where 75% indicated they made money<sup>30</sup>

**Landlords face a range of different** operational problems, which is often unique to their markets. For example a particular problem faced by Unit and Managing Agent Landlords is the efficiency of the sectional title Body Corporates that manage the building in which they own units. Building Owner Landlords are susceptible to building highjackers. Township Landlords face problems relating to Local Government service delivery in their area.

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<sup>30</sup> Information for Township Landlords and Managing Agent Landlords not available

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**Consequently, Small Scale Landlords will benefit significantly from appropriate business support. Such support will need to be specific and vary according to the needs of the different categories of Landlord. While such support and improvements in business practice will generally improve the quality of rental stock provided, a potential negative effect is the likely increases in rentals and loss of benefits in terms of affordability of the stock for poorer households.**

### **3.11.6 Type and quality of stock:**

**The type of stock provided by Small Scale Landlords includes rooms and flats, which could be either formal or informal units. Access to services is generally good in Inner Cities, but is relatively poor in Townships. While the quality of the stock was not surveyed, anecdotal evidence indicates that a large number of Township Landlords (providing both formal and informal units) provide stock that is of a poor quality. This problem is exacerbated by the fact that limited maintenance of the stock is occurring (see 3.11.5).**

Despite the poor quality of stock (especially in Townships) most tenants (over 58%) generally **expressed satisfaction with the quality of the unit and the services** they receive. However research shows that such stock often has a serious impact on the occupant's health and well being and interventions are required that improve the quality of the stock.

In South Africa the design and construction of housing stock must comply with the relevant requirements of the National Building Regulations and Local Government Town Planning and Building Ordinances and Bylaws. These specifications are generally significantly higher than what is affordable by Township Landlords or their tenants. This results in much of the stock being provided by these Landlords not complying.

**Consequently there is a need to review such requirements, so as to make them more applicable to this market sector. In this regard regulatory requirements should be simple, accessible and understood by all concerned. In addition the challenge is to understand how such dwellings can be effectively upgraded to ensure the health of the occupants, particularly given the resource constraints of both the Landlords and their Tenants.**

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### 3.11.7 Landlord/Tenant relationships:

**Small Scale Landlords generally manage their tenants on a personal basis with high levels of informality.** Generally Landlords (83-100%) believe that the **relationship with their tenants is good.** This is supported by the Tenants (67-72%) themselves (although to a lesser extent). In addition there is **a good understanding of roles and responsibilities** by both Landlords and Tenants in respect of all categories.

While there appears to be no specific correlation between having written contracts and good tenant relations, the use of a written contract is good practice. Some of the Successful Landlords (particularly in Township areas) indicated that they were beginning to change to written contracts for this reason (see Resource Report 7). Consequently, while not essential, it is argued **that written contracts are preferable and Landlords should be encouraged to use such contracts.**

### 3.11.8 Regulation:

**There is a range of legislation that pertains both generally and specifically to Small Scale Landlords and how they operate.** There is some legislation that is not supportive of Small Scale Landlords and/or has a negative impact on the sector including:

- **Value Added Tax Act, 1991:** Impacts negatively on the capital cost of the provision of rental housing stock.
  - **The Income Tax Act:** Most institutions upgrading or converting existing stock cannot access tax exemptions.
  - **The legal system and Rental Act:** Ineffective in providing incentives for tenants to pay for their accommodation
  - **The Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 (PIE):** Requires that alternative accommodation is found for persons being evicted by the owner of the property.
  - **Free Basic Services:** Households who are renting are not able to access this benefit.
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**Small Scale Landlords have limited understanding of and generally do not comply with regulatory requirements in respect of;** registering their businesses and paying income tax (see 3.11.5), recent policy initiatives (e.g. UDZ tax incentive and the Rental Housing Act), limited use of the Rental Tribunal and over half of Landlords interviewed feel that the Local Government has not been helpful to their business as a Landlord.

**There would be value in providing information to Landlords on the existing regulatory requirements, with particular reference as to why they are important and the opportunities they provide to Landlords to improve their businesses.**

### **3.11.9 Perception and support of the rental sector:**

Some Government Officials and Politicians have a negative understanding and negative perception of the small scale rental sector. Recent Government policy as expressed in the Comprehensive Plan for the Development of Sustainable Human Development calls for the eradication of informal settlements and some Government Politicians and Officials interpret this to include the stock offered by Small Scale Landlords (especially those in Townships).

**Consequently there is value in informing Government Officials and Politicians on the important contribution that the sector makes towards housing South Africa's poorer households and how it can be supported to do this in a way whereby the quality of stock provided is progressively improved.**

### **3.11.10 Public Sector Stock:**

**Public Sector rental housing stock was developed by Government to provide affordable housing to low income households.** Generally no new stock is being developed and existing stock is being disposed through the Sale and Transfer of Housing Stock Policy promulgated as part of the National Housing Act. As at June 2005 it is estimated that a total of 600 000 units have been disposed of and there are approximately 200 000 units still to be disposed. Of this stock it is estimated that a high proportion will be difficult to dispose, as a result of it being in a poor physical condition, poorly located, being subject to multiple claims of ownership and/or require a joint management arrangement.

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On the basis of the analysis undertaken, it is concluded that **generally Small Scale Landlords are unlikely to provide any significant opportunities for addressing hard to sell State Owned Stock, without considerable investment by the State.** There may however be some stock that is appropriate for Small Scale Landlords.

## 4 Recommendations

### *4.1 Terms of reference for the recommendations*

As detailed in Section 1.3 the purpose of the research is to **understand how a range of identified interventions** can be used as a tool to **promote the emergence and growth of Small Scale Landlords**. Specifically the study aims at:

- Informing policy and strategy to **better access housing investment opportunities for Small Scale Landlords**
- Supporting **productive relationships** between Landlords and Tenants
- **Identifying the housing finance interventions** necessary to build a Small Scale Landlord sector in low income areas.
- Developing **appropriate information products and tools** for Small Scale Landlords
- Developing a basis for **Small Scale Landlords to deal with difficult to transfer state owned stock**.

Accordingly this section sets out proposals in respect of:

- Policy implications
- Financial products
- Information products and tools
- State owned stock

Supporting a productive relationship between Landlords and Tenants is addressed through the proposals on information products and tools.

### *4.2 Proposal 1: Policy implications*

#### **4.2.1 Key considerations**

The current policy context of South Africa shows a strong recognition of and support for the growth and development of private enterprise and particularly those enterprises that are small and informal. This is evidenced for example from the following remarks by Finance Minister Trevor Manuel at the G20 Seminar on Economic Growth in August 2005 where he said the following;

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*“Since 1994 there have been two main pillars in respect of South Africa’s growth and empowerment strategy – the need to create an enabling environment for productive investment by enterprises, and the need to invest in skills and human capabilities..... Currently in South Africa, two economies live side by side, one a modern first world economy and the other a poverty stricken and informal economy.*

*Thus, in addition to the need to create an enterprise economy, we have to also recognise that South Africa is a developmental state where government has to take active steps to close the gap between the two economies”.*

The research into Small Scale Landlords as detailed in Section 3 above shows that the house provides a critical platform for enterprise/business activities by enabling households to act as Small Scale Landlords, who are subject to the conventional concerns of SME’s. Small Scale Landlords currently operate predominantly in the informal economy and to formalise and grow need an enabling environment, as well as access to financial and business support. The research shows that:

- Small Scale Landlords enhance the conditions of poor people by contributing significantly to the supply and management of affordable rental housing (which is itself a growth sector), while at the same time providing a critical opportunity to promote income generation and wealth creation.
  - Small Scale Landlords mobilise considerable personal savings into acquiring stock and are able to operate their stock effectively.
  - Small Scale Landlords generally have good relationships with their Tenants. They do not experience high levels of non payment of rents and do not rely on eviction extensively.
  - While the quality of some of the Housing Stock provided by Small Scale Landlords is poor (particularly in Townships), generally Tenants expressed satisfaction with the product.
  - Generally Small Scale Landlords operate informally with leases, invoices and receipts often being verbal. They **generally do not understand or comply with regulatory requirements**, which are not currently being policed by the authorities and are generally not applicable to this market sector. In addition there is Legislation that is not supportive or has a negative impact on the sector.
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Primary barriers being faced by Small Scale Landlords in the policy context relate to their ability to comply with the regulatory frameworks and negative perceptions by Officials and Politicians of Small Scale Landlords. In respect of the latter, this is despite the fact that policy initiatives such as the National Department of Housing's 'Breaking New Ground' policy and the Gauteng Provincial Government's Backyard Rental Policy recognise the importance of private sector rental and particularly 'Backyard' accommodation.

Given high levels of poverty and unemployment (particularly in low income neighbourhoods) and the above policy context there is significant argument to mobilise economic activity around Small Scale Landlords, so as to enhance the socio-economic sustainability of households, local neighbourhoods and settlements. Accordingly there is a need to undertake programmes that will recognise and support Small Scale Landlords, create an enabling environment within which they can operate and grow and encourage the emergence of additional Small Scale Landlords.

In undertaking these programmes the following principles are noted:

- **The role of Government is that of an enabler.** Government should not itself directly provide technical support to Small Scale Landlords, but should create a legislative and regulatory environment that is conducive to Small Scale Landlords operating and growing as a sector.
  - **The enabling environment** created should rather focus (particularly in Townships) on **using incentives, rather than regulation**, to encourage existing Small Scale Landlords to improve the quality of the stock they offer. This should occur through the setting of minimum standards and then the offering of incentives to Small Scale Landlords to apply these standards. The minimum standards set must balance ensuring that the accommodation provided is conducive to the health of the tenants, with the need to remain affordable given the low incomes of the Landlords and their Tenants.
  - **Financial support** should be provided in a manner that will:
    - Assist Municipalities to manage and regulate Small Scale Landlords
    - Incentivise existing Small Scale Landlords to improve the quality of their stock, and
    - Encourage new Small Scale Landlords to enter the sector, on the basis that the new stock they provide meets minimum standards.
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In providing financial support it should be recognised that **Small Scale Landlords operate in the private sector** and while they provide affordable rental stock they do so on the basis of **earning income and profit**. Accordingly any funding provided by Government should occur in a manner that **encourages and supports investments** made by Small Scale Landlords in either creating new stock (that meets minimum standards) or improves the quality of existing stock. Government funding support should be **more closely aligned to the tax incentives** provided in the Urban Development Zones as created through the Revenue Laws Amendment Act, no 45 of 2003, rather than subsidisation through the National Housing Subsidy Programme. Subsidisation in the form of the existing Housing Subsidy Programme is not recommended as this has the potential to undermine existing market forces and raises key issues of equity, especially as to whether the Landlords or the Tenants are receiving the benefit.

#### **4.2.2 Proposed programmes**

Given the key considerations detailed above it is proposed that the following programmes are undertaken :

- Recognition and support of Small Scale Landlords
- Review of regulatory requirements
- Support to Municipalities in managing and regulating Small Scale Landlords
- Incentives for Small Scale Landlords

Details on each of these programmes are outlined below.

##### **4.2.2.1 Recognition and support of Small Scale Landlord**

**Aim** : The aim of this programme is create a national framework whereby Small Scale Landlords are seen by Public Sector Politicians and Officials as providing affordable accommodation with flexible and good relationships with tenants, that increase densities in urban areas and therefore improve city effectiveness and have positive LED and BEE outcomes in respect of income and wealth creation and asset ownership.

**Activities/projects to be undertaken** : The activities/projects to be undertaken in respect of this programme include the following:

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- A **national policy framework** should be drafted for supporting and promoting Small Scale Landlords.
- **Approval for the policy framework should be secured** from the Minister of Housing, Provincial Housing MEC's, the Departments of Trade and Industry, Treasury and Provincial and Local Government.
- A **public launch** should be undertaken of the policy framework in each Province and the top ten Municipalities.

**Implementing agent:** This programme should be implemented by the National Department of Housing in partnership with the Department of Trade and Industry.

#### 4.2.2.2 Review of regulatory requirements

**Aim:** The aim of this programme is to review and streamline the regulatory requirements impacting on Small Scale Landlords.

**Activities/projects to be undertaken:** The following activities/projects are proposed:

- **Regulatory Impact Assessment:** A Regulatory Impact Assessment should be undertaken in respect of the legislation and regulations pertaining to Small Scale Landlords. As detailed in the Literature Review this method of reviewing regulations has been adopted by National Government and includes extensive consultation with stakeholders both within the public and private sectors. The regulations to be reviewed should include:
  - **Business regulations as they pertain to Small Scale Landlords** (registration, reporting and tax). In respect of these regulations there should be a particular focus on those regulations that are currently impacting negatively on the sector namely the VAT Act, the Income Tax Act, PIE, the Rental Act and the basis on which Landlords can evict non paying tenants.
  - **Land use and building regulations.** These regulations need to be revised to make them more applicable to the Small Scale Landlord sector. In this regard regulatory requirements should be simple, accessible and understood by all concerned. The challenge is how to set the standards pertaining to the stock provided by Small Scale Landlords, so as to ensure the health of the occupants, but also take into account the resource constraints of both the Landlords and their Tenants.



- **Revise and streamline regulations:** On the basis of the outcome of the Regulatory Impact Assessment, proposals for streamlined regulations should be formulated and support secured. These proposals should be in accordance with and supportive of the National Policy Framework developed (see 4.1.2.1 above).

**Implementing agent:** This programme should be undertaken by the Department of Housing in partnership with the Department of Trade and Industry.

#### 4.2.2.3 Support to Municipalities in managing and regulating Small Scale Landlords

**Aim :** The aim of this programme is to provide support to Municipalities to manage and regulate Small Scale Landlords, in a manner that creates an enabling environment.

**Activities to be undertaken:** The following activities are proposed:

- **Preparation of model policy and bylaws:** On the basis of the National Policy Framework and the revised and streamlined regulations (see 4.1.2.2 above) a document setting out recommended policies and bylaws to be implemented by Municipalities should be developed. In addition guidelines should be developed as to how the policies and bylaws should be implemented and managed over time.
  - **Workshops and briefing sessions:** Workshops and briefing sessions should be held with relevant Politicians and Officials within Municipalities to brief them on the National Framework, the recommended policies and bylaws and implementation guidelines.
  - **Support Pilot projects:** Pilot projects should be identified and financial and technical support provided to Municipalities to assist them in implementing such. These projects will differ in terms of different areas as follows:
    - In **Inner Cities** pilot projects should focus on providing support to sectional title buildings and their effective management by Body Corporates, as well as upgrading and rehabilitating buildings in poor condition (for example the Better Building Programme)
    - In **Townships** pilot projects should focus on designating Township Development Zones (see 4.1.2.4), upgrading infrastructure in these Zones (see the Infrastructure Upgrading Programme below) and providing incentives (see 4.1.2.4) to encourage Small Scale Landlords to improve the quality of existing stock and develop new stock.
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- **Funding Technical Support Programme:** A Programme should be undertaken that provides funding and technical support to Municipalities to assist them to revise their existing policies and bylaws, so as to align them with the National Framework in terms of the model policies and by laws above.
- **Infrastructure Upgrading Programme:** A Programme should be undertaken that provides funding and technical support to Municipalities to assist them in upgrading infrastructure in particular suburbs in Townships and Inner Cities, where such infrastructure is of a poor quality or insufficient to meet the demands of the increased densities in the area. Areas identified as Township Development Zones (see 4.1.2.4) should be prioritised.

**Implementing agent:** This programme should be undertaken by the Department of Housing.

#### **4.2.2.4 Incentives for Small Scale Landlords**

**Aim :** The aim of this programme is to provide incentives for Small Scale Landlords so as to encourage the emergence of additional Small Scale Landlords and improve the quality of stock provided by both existing and new Landlords.

It is proposed that the incentives are only offered in Development Zones designated in Township areas. The criteria to be applied in selecting these Township Development Zones should include:

- At least one third of the properties in the area are occupied by Small Scale Landlords who offer rental accommodation on the property.
- The area is well located and has access to services to meet the increased densities in the area resulting from the rental accommodation. The areas selected should receive priority in terms of the Infrastructure Upgrading Programme (see 4.1.2.3 above).

#### **Activities to be undertaken:**

- **Adjust Baseline Tariffs:** Free Basic Services should be offered to Small Scale Landlords operating in the Township Development Zones on the basis that if more than one household is living on the property the amount of free services provided is increased to include the additional households residing on the property. This should only be allowed on the condition that each household is living in a separate unit that meets specified minimum standards. A process will need to be established whereby households can apply
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for and be granted an extension of basic services to accommodate more than one household on the property.

- **Provide building plan preparation and approval services:** A programme should be undertaken to provide building plan preparation and approval services free of charge to Small Scale Landlords, who want to upgrade or improve their rental stock, operating in the Township Development Zones.
- **Providing investment incentives in Townships:** The Urban Renewal Tax Incentive, which is available for 16 municipalities in terms of the Revenue Laws Amendment Act, no 45 of 2003 should be extended to include Small Scale Landlords operating in Township Development Zones. Given that the Small Scale Landlords operating in these areas are predominantly informal and very few (if any) pay income tax the investment incentive applied in Inner Cities is not appropriate<sup>31</sup>. Accordingly it is proposed that the following incentive is offered:
  - Small Scale Landlords are given a 40% grant, **in the form of cash**, on the value of any funds invested in rental stock in the area, either for the upgrading of existing stock or the development of new stock.
  - The stock must be developed to minimum standards set in respect of the National Framework.
  - The grant is only provided once the rental stock has been developed.
  - A process will need to be established whereby Small Scale Landlords in the designated Urban Development Zones can apply for and receive approval for the grant. This process will need to incorporate an inspectorate that will visit the property and confirm that the investment has been made for rental stock and is in accordance with the minimum standards set. Consideration should be given to the National Home Builders Regulation Council providing this inspectorate.
  - Small Scale Landlords who receive the grant must register with the Receiver of Revenue and must commence to fulfil reporting and payment requirements in respect of taxation.

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<sup>31</sup> This incentive is that for the refurbishment of existing buildings, investors are eligible to receive a 20% tax deduction in the first year of earning income, plus an annual depreciation of 20% over a four year period. For new developments, this incentive offers a tax deduction of 20% in the first year, plus an annual depreciation of 5% for the next 16 years.

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- **Urban Renewal Tax Incentive :** Currently the Urban Renewal Tax Incentive is not being accessed by Small Scale Landlords. Accordingly a review of this incentive should be undertaken to make it more accessible to and appropriate for Small Scale Landlords.

**Implementing agent:** This programme should be undertaken by the Department of Housing and Municipalities. In addition it is recommended that Municipalities that have succeeded in securing the designation of Township Development Zones should be provided with financial and technical support to assist them in implementing the programme.

#### 4.2.3 Application and implementation of the proposals

The application of the above proposals will differ in respect of the different areas in which rental stock occurs namely Townships, Inner Cities and Suburbs. In respect of Townships and Inner Cities the application of the proposals will be on an area basis, while in Suburbs the application will be generalised. Table 15 below shows the applicability of the proposals in respect of each of these different areas.

**Table 15: Applicability of the proposals to areas**

	Township	Inner City	Suburb
Recognition and support of Small Scale Landlords	√	√	√
Review of and streamline regulatory requirements	√	√	√
Municipality support	√	√	√
Incentives	√ <i>(Development Zones only)</i>		
Focus	Area	Area	General

In order to ensure the effective implementation of the proposals consideration should be given to the establishment of a **National Support Programme for Small Scale Landlords** that is promoted in the National Department of Housing. This Programme should focus on implementing the different programmes identified (partnering with relevant other National Departments as required).

In addition support (both technical and financial) should be provided to Municipalities who are responsible for on-the-ground implementation of many of the activities and projects identified.. Funds should be sourced from both Government, as well as Donors.

### ***4.3 Proposal 2: Financial products***

#### **4.3.1 Key considerations**

The research into Small Scale Landlords as detailed in Section 3 above shows that access to financial products for Small Scale Landlords is generally poor. Conventional financial institutions perceive the market sector to be risky, costly and unprofitable and as a result provide limited financial products and services. Specialist Lenders understand the market sector, the risks and Small Scale Landlords needs and have developed more appropriate products that are linked to business support. However, the number of Specialist Lenders are extremely limited. Access to finance is seen as a key success factor both in terms of improving the quality of existing stock and building new stock.

The research determined the following :

- In Townships there is a **reluctance to use the house as collateral**.
- The provision of finance to Small Scale Landlords is **more effective when undertaken on a ‘credit-plus’ basis** where finance is provided together with business support.
- A review of **lending practices of a range of Lenders** (both international and national) found:
  - Lending should only occur in profitable and viable markets
  - Entrepreneurs must have skills to run the business and entrepreneurial drive
  - Key constraints to the economic chain must be identified and removed
  - Client education and sector specific counselling is an integral part of the loan process.
  - Loans should be tailored to meet the cash flow needs of entrepreneurs.
  - The assessment process should incorporate expected cash flow and the character of the applicant.
  - An understanding of the borrower’s vision and entrepreneurial drive is needed.
  - Borrowers should provide upfront collateral.

In addition to the above the research showed that the different categories of Landlords currently have access to different types of finance, face different financial challenges and have different financial requirements and needs. This indicates that the different categories of Landlords are likely to require different financial products.

Based on the research, the current status and requirements in respect of financial products for each of the different categories of Small Scale Landlords<sup>32</sup> is shown in Table 16 below.

**Table 16: Current status and financial requirements of Small Scale Landlords**

Type of landlord/HBE	Current status	Requirements in respect of financial products
<b>Township: Non entrepreneurial landlords</b>	<p><b>Funding mechanisms used:</b> Personal savings, loans from family and friends</p> <p><b>Investment:</b> Either inherited or built formal or informal rental units. Not looking to expand the business. Quality usually poor.</p> <p><b>Profit margin:</b> Do not realise a profit and rental income earned is marginal</p>	<p>This category of Landlord is unlikely to want to access formal finance as they are not looking to expand the business. However if such Landlords would like to access formal finance, small loans and loans in the form of building materials are appropriate. Loan products are currently available. These loans fail however to recognise rental income earned.</p> <p><b>No new financial product is required.</b></p>
<b>Township Entrepreneurial Landlords</b>	<p><b>Funding mechanisms used:</b> Own savings, loans from family and friends.</p> <p><b>Investment:</b> Do invest in the housing stock</p> <p><b>Profit margin:</b> Do realise profits from rental earned.</p>	<p>This category of Landlords has difficulty in accessing appropriate loan finance as small loans provide insufficient funds and such Landlords are unwilling to access mortgage loans, as they do not want to put the family home up as collateral.</p> <p><b>A new financial product is required that provides access to a larger amount of funds than small loans currently provide, but is not dependent on a mortgage over the property as security.</b></p>

<sup>32</sup> The research results as detailed in Section 3.1.3 identified three types of Township Landlords namely Landlords who erected a formal unit, Landlords who erected informal units and Tenant erected informal units. While these categories were useful for the analysis of the research findings, it was found that a categorisation of entrepreneurial and non entrepreneurial Landlords was more useful in respect of determining financial needs and products. Accordingly this categorisation is used in this section.

Type of landlord/HBE	Current status	Requirements in respect of financial products
<b>Inner city Sub-letter</b>	<p><b>Funding mechanisms used:</b> Own savings, loans from family and friends</p> <p><b>Investment:</b> Do not invest in the housing stock</p> <p><b>Profit margin:</b> Limited to no profit margin realised</p>	<p>This category of Landlord is unlikely to want to access formal finance. However if such a Landlords would like to access such finance, conventional mortgage and small loans are appropriate. Loan products are currently available. These loans fail however to recognise rental income earned.</p> <p><b>No new financial product is required.</b></p>
<b>Inner City: Unit Owner</b>	<p><b>Funding mechanism used:</b> Mortgage loan over the property based on personal income.</p> <p><b>Investment:</b> Purchase the unit</p> <p><b>Profit margin:</b> Profit margin realised.</p>	<p>This category of Landlords have difficulty in accessing mortgage loans over and above what can be afforded through personal income. Financial institutions do not consider the units owned as a business loan and would be reluctant to assess them on that basis. This results in a funding ceiling that limits the number of units that can be put under management.</p> <p><b>A new financial product is required that is a business loan.</b></p>
<b>Inner City : Building Owner</b>	<p><b>Funding mechanism used:</b> Mortgage loan over the property.</p> <p><b>Investment:</b> Purchase and upgrade or build the building.</p> <p><b>Profit margin:</b> Profit margin realised.</p>	<p>These Landlords have difficulty in accessing mortgage loans and structuring sustainable investments..</p> <p><b>A new financial product is required that is a business loan.</b></p>
<b>Inner City : Managing Agent</b>	<p><b>Funding mechanism used:</b> Mortgage loan over the property.</p> <p><b>Investment:</b> Purchase and upgrade or build the building.</p> <p><b>Profit margin:</b> Profit margin realised.</p>	<p>This category of Landlords generally do not have difficulty in accessing business and mortgage loans.</p> <p><b>No new financial product is required.</b></p>

On the basis of the above it is proposed that **three new financial products** are developed and offered to Small Scale Landlords:

- **Township Accommodation Loan:** focused on entrepreneurial Small Scale Landlords in Townships.
- **Inner City Sectional Title Unit Loan:** focused on Unit Owner Landlords in Inner Cities
- **Building Investment Loan:** focused on Building Owner Landlords in Inner Cities

An overview of each of these loans is provided in Section 4.2.2 that follows. In addition the need for two additional loan products was identified namely:

- **Home Mortgage Loan Plus Rental:** This comprises a mortgage loan product, which allows for a rental business loan component to be linked to a normal mortgage loan. This is not pursued in this report as it is appropriate for middle income suburbs.
- **Sectional Title Portfolio Loan:** This comprises a loan product that builds on the Inner City Sectional Title Loan (see Section 4.2.2.2 below) but looks for the pooling of benefits of a multi unit portfolio. This is not explored further at this stage.

### 4.3.2 Proposed new loan products

#### 4.3.2.1 Township Accommodation Loan

- **Loan purpose:** This loan is targeted at entrepreneurial Small Scale Landlords who own accommodation in a Township (specifically backyard units), where the accommodation is generating a rental income. The purpose of the loan is to assist such Landlords to improve their existing accommodation or build new additional accommodation.
  - **Loan description:** The loan is only provided where the asset exists and comprises a non asset based personal loan that is linked and matched, in terms of duration and affordability, to the rental income generated by the asset (accommodation). Where the accommodation does not yet exist, an in principle loan approval is provided, but will only be disbursed when the accommodation is built. Security for the loan will include a cession of cash flow generated by the unit and active management of the cash flows. This will include, ensuring a bank account is opened and that automated payments are made. The Financial Institution forms a partnership with a Loan Partner who administers the loans and takes responsibility for ensuring instalments are paid. This relationship based lending approach is seen as a key success factor for the effective risk management of these loans.
  - **Overview:** Two types of loans are proposed:
    - *Existing Accommodation Loans (Type 'A' loans):* These loans are granted to individuals who own existing accommodation, subject to the loan criteria (set out below) being met.
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- **New Accommodation Loans (Type 'B' loans):** These loans are commitments to provide loan finance, once new accommodation for rental has been built on the applicant's property and is generating a rental income. These loans are also only provided subject if the loan criteria (set out below) are met. These loans are designed to allow individuals who wish to build additional accommodation on their site, the ability to enhance their access to credit.
- **Funds provided:** The loan amount provided will be between R3 000 and R40 000 determined on the basis of the rental income generated by the accommodation. The loan amount is based on costs and rentals of typical accommodation types determined through the research. This is set out in Table 17 below.

**Table 17: Typical Accommodation Costs and Rentals in Townships**

Description of Accommodation	Size of Unit (m <sup>2</sup> )	Construction Cost (approximate)	Typical Rental (monthly estimates)
Shack	10	R3,000	R150
Backyard tenement	10	R14,500	R250
Backyard tenement with toilet	17	R24,100	R350
Prefabricated structure	10	R23,500	R200
Prefabricated structure with toilet	17	R38,000	R250

- **Loan Delivery Mechanism:**
  - Financial Institutions will provide the loan finance to a local area on the basis that a partnership will be entered into with a Loan Partner in a geographic area. The Loan Partner will receive training and will be required to provide equity (seed capital). The basis of the partnership will be as follows;
    - The Loan Partner will originate the loans and will be paid a fee in this regard (R250 once off). Part of the origination fee will be paid out at the end of the loan period on the basis that the full loan amount is repaid.
    - When originating loans the Loan Partner will undertake an assessment of the applicant in terms of the following criteria :
      - The applicant must have title to the accommodation that is verifiable (registered title or long term lease).
      - The rental income generated by the accommodation must be verified

- A credit assessment of the applicant must be undertaken and must show that the loan can be repaid.
  - The loan repayment obligations must meet a minimum rental to loan instalment ratio.
  - The accommodation must meet certain specified minimum standards and must have access to specified municipal services
  - The accommodation can be newly built or existing accommodation that may or may not have been upgraded.
  - The Financial Institution will provide management information support, including loan application progress information, individual loan performance, individuals' outstanding balances, instalments due and arrears.
  - The Loan Partners' functions will include the assessment of loan applications, verifying credit criteria, ensuring repayment of the loans and managing non- or sub-performing loans. In fulfilling this function the Loan Partner will visit each borrower monthly to collect monthly instalments and will be paid a commission in this regard (1% of loan pm).

The Loan Partner should understand the market in which the Borrower operates and should be able to provide business support in terms of the management of the business. Should the Loan Partner not feel competent to provide advice on a particular issue then s/he will refer the Borrower to an appropriate support organisation.
  - Should the Borrower default the Loan Partner will not be paid his/her commission.
  - One loan will be provided at a time, but a second loan will be provided if the first loan is repaid successfully.
  - An interest rate discount scheme can be developed where the risk of the loan is ameliorated if the borrower provides additional security. This could be in the form of a pledge on an unencumbered life policy or a pledge against savings, or if repayments are made on the basis of a debit order.
  - The loan is provided on the basis of a completed unit that meets specified standards i.e. the loan is only provided when the unit has been built. The unit can be a newly built unit or an existing unit that may or may not have been upgraded. The types of units against which loans will be provided could include:
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- 1 room
  - 2 room
  - 1 room with a toilet and basin
  - 2 room with toilet and basin
  - Any of the above with or without electrical connection
- If a Borrower is intending to build a unit an inspection of the area and services will be undertaken and a statement of intent will be provided indicating that should the unit be built the loan will be granted.
- **Loan specifications:** Loan specifications will include the following:
    - The loan term will be between 36 and 60 months.
    - Loan sizes and term will be determined by the value of the security pledged, the net income generated by the accommodation and the term of the rental agreement.
    - If additional collateral is pledged, in the form of a pledge on an unencumbered life policy or a pledge against savings, loan sizes may be increased.
    - The Borrower must have or open a bank account for the purposes of receiving the loan, depositing the rental income and paying the loan obligations, which is to be paid by way of automatic payments.
    - The Borrower must cede the rental flows to the Financial Institution to cover the monthly repayments.

#### 4.3.2.2 Inner City Sectional Title Unit Loan

- **Loan purpose:** This loan is targeted at Unit Landlords purchasing or upgrading sectional title units in Inner Cities for the purpose of earning a rental income. The purpose of this loan is to give such Landlords greater access to capital, so that they can grow their business.
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- **Loan description:** The loan allows Unit Landlords to access investment rather than personal loans and to encourage such Landlords to manage the stock as a business. The loan is a 'business support' based loan. A condition of the loan is that the Borrower must appoint a business support service provider from an accredited list provided by the Financial Institution for the initial stages of the loan (between 12-36 months). Security
-

for the loan will include a bond over the unit or portfolio of units and a cession of cash flow generated by the unit or portfolio of units.

- **Overview:** The loan is made on the basis of the unit as an investment. In addition, consideration is given to all of the units that the applicant has already acquired. The loan is considered on the basis of the rental stream that the unit will generate. The emphasis will be on encouraging the Landlord to manage the stock as a business.
- **Funds provided:** Loan sizes would be based on the net free cash flow from the unit or portfolio of units but is likely to range between R50,000 to R120,000. All costs and obligations that the Borrower has will be considered, including payments to the body corporate, rates and taxes when determining the loan size. Consideration will also be given to the net income generated by all of the units that the applicant has.

The estimated loan size is based on costs and rentals determined through the research as detailed in Table 18 below.

**Table 18: Typical Unit Costs and Rentals in the Inner City**

Description of Units	Size of Unit (m <sup>2</sup> )	Approximate Cost	Typical Rental (monthly)
Bachelor Unit	30	R52,500	R900
One bedroom unit	40	R70,000	R1,100
Two bedroom unit	48	R84,000	R1,350
Three bedroom unit	60	R105,000	R1,600

- **Loan Delivery Mechanism:**
  - Two options exist with respect to the provision of these loans:
    - Either the financial institution establishes a specialised department in house whereby trained Intermediaries originate and provide business support in respect of loans as detailed below, or
    - The Financial Institution accredits independent intermediaries (Investment Enablers) who originate and provide business support.

While either option could be applied the latter is outlined in more detail below. This could be adapted in respect of the in-house option with minor amendments.

- Financial institutions will provide the loans. A partnership will be entered into with an Intermediary in a geographic area. The Intermediary will receive training and may be required to provide equity (seed capital). The basis of the partnership will be as follows;

- The Intermediary will originate the loans and will be paid a fee in this regard. The origination fee will be paid out after three instalments have been paid by the Borrower.
- When originating loans the Intermediary will undertake an assessment of the applicant in terms of the following criteria:
  - Extent of debt of the Borrower
  - Number of units in the Borrower's portfolio
  - An assessment of the status of the building
  - A rating of the effectiveness of the Body Corporate
  - Potential rentals to be earned from the unit
  - The unit must meet certain specified standards.
  - A sectional title register must be open.
  - The Borrower has unencumbered title to the unit.
  - The loan repayment obligations meet a minimum rental to loan instalment ratio.
  - Borrower loan history
- The loan finance will be provided by the Financial Institution
- A condition of the loan is that the borrower must appoint a Business Support Service Provider from an accredited list provided by the Financial Institution for the first three years of the loan.

The Business Support Service Provider could be the Intermediary who originated the loan, but does not necessarily have to be so. The basis by which the Business Support Service Provider will operate is as follows:

- The Business Support Service Provider will meet with the Borrower initially monthly, but over time quarterly, to review the performance of the portfolio and provide advice and assistance on improving its performance.
  - The focus of this business support will be to assist the Landlord in treating the unit as an investment and to manage it from a business point of view. The Business Support Service Provider must have a good knowledge of the Inner City rental market and should assist the Landlords in respect of
-

business operations, accounting/bookkeeping support, legal support services and regulatory compliance advice.

- The Business Support Service Provider will be paid a monthly amount in this regard by the Financial Institution on condition that the borrower pays monthly instalments and authorises such payment to the service provider. The fee will be taken out of the loan to the Borrower.

- **Loan specifications:** Loan specifications will include the following:
  - The loan term will be between 60 and 120 months.
  - Loan sizes will be determined by the net income generated by the unit or portfolio of units (see above).
  - If additional collateral is pledged, in the form of a pledge on an unencumbered life policy or a pledge against savings, loan sizes may be increased.
  - The lender must have or open a bank account for the purposes of receiving the loan, depositing the rental income and paying the loan obligations by way of a debit order.

#### 4.3.2.3 Building Investment loan

- **Loan purpose** This loan is targeted at Building Owner Landlords and comprises a mortgage loan for the purchasing and renovating, conversion or upgrading of residential buildings in Inner Cities. The purpose of the loan is to provide funds to such Landlords so that they can purchase buildings in Inner Cities thereby creating or growing their property investment portfolio. The loan is designed to assist those Landlords (or prospective landlords) who cannot access traditional credit or mortgage backed loans to acquire buildings.
  - **Loan description:** The loan is a 'business support' based loan that encourages Landlords to manage their stock as a business. A condition of the loan is that the Borrower must enter into a management agreement with a Business Specialist for the duration of the loan.
  - **Overview:** The loan is secured with a mortgage bond over the property. The Borrower would be required to provide own resources. Security for the loan include a cession of the cash flow generated by the building.
  - **Funds provided:** Loan sizes would be based on the net free cash flow from the building. All costs and obligations that the Borrower has would be considered, including payments
-

to the body corporate, rates and taxes when determining the loan size. Consideration will be given to the net income generated by all of the units in the building and any other buildings the Borrower may have.

▪ **Loan delivery mechanism:**

- This loan should be provided by a Specialist Lender, which is a Financial Institution that understands and has intimate knowledge of the Inner City property market. The Specialist Lender's services will include property valuations, investment viability studies, business operation services, accounting/bookkeeping support, legal support services, regulatory compliance advice, operational and facilities management support.
  - The Specialist Lenders can itself raise capital to on-lend to Landlords or could operate on behalf of or be a division in a Financial Institution. In respect of the latter two options, in addition to the support services provided to the Borrower (Landlord), the Specialist Lender will also be responsible for the management and repayments of the loan by the Borrower to the Financial Institution.
  - The Specialist Lender will earn a monthly fee from the Borrower for services rendered, interest on the loan and, to the extent that it acts as a agent on behalf of a Financial Institution, a collection commission for the successful collection of instalments due on the loan.
  - When originating loans the Specialist Lender will undertake an assessment of the applicant in terms of the following criteria:
    - Extent of investor's debt obligations.
    - Number of units in the building.
    - An assessment of the building and the state of the body corporate of the building.
    - Costs to be incurred by the investor for repairs, maintenance and/or refurbishment.
    - Potential rentals earned from the building.
    - The building must meet certain specified standards.
    - The investor can be given unencumbered title to the building.
    - The rental income generated by the accommodation must be verified.
    - The loan repayment obligations must meet a minimum rental to loan instalment ratio.
-

- **Loan specifications:** Loan specifications will include the following:
  - The loan term will be between 120 and 240 months.
  - Additional collateral can be pledged, in the form of a pledge on an unencumbered life policy or a pledge against savings.
  - The lender must have or open a bank account for the purposes of receiving the loan, depositing the rental income and paying the loan obligations.

#### **4.3.2.4 Summary**

Table 19 below provides a summary of the loan products proposed.



**Table 19 : Summary of loan products proposed**

	<b>Township Accommodation Loans</b>	<b>Inner City Sectional Title Unit Loan</b>	<b>Building Investment Loan</b>
<b>Description of loan</b>	<p><b>Existing Accommodation Loans (Type A)</b> A loan that is extended to owners of existing units in Townships, subject to certain criteria, where the unit is utilised as rental accommodation</p> <p><b>New Accommodation Loans (Type B)</b> A commitment to provide a loan once new accommodation for rental has been built on the applicants property and is generating a rental income</p>	<p>Loan to acquire sectional title units in Inner Cities. The loan is a business support based loan with a condition that the borrower must appoint a business support Service Provider to provide business support for the initial stages of the loan.</p>	<p>Loan for the acquisition of inner city buildings. Linked to Business Support</p>
<b>Capital Required</b>	<p>R3,000-R40,000 Loan amount will be determined on the basis of the rental income generated by the accommodation.</p>	<p>R50,000-120,000 Loan amount will be based on the net free cash flow from the unit based on income generation and costs to be incurred.</p>	<p>Building specific. May incorporate a mix of debt and equity.</p>
<b>Loan Delivery Mechanism</b>	<p>Relationship based Loan Partner (Individual or Civil Society) who operates in a specific geographic area. Loan Partner participates in the risk. Loan Partner originates loan, ensures repayment of the loans, manages non-performing loans and provides business support. Financial Institution provides loan finance and management information support.</p>	<p>Intermediary originates the loan, which is provided by the Financial Institution. A condition of the loan is that the Borrower must appoint a Business Support Service Provider (who may or may not be the Intermediary) Business Support Service Provider provides business support and ensures repayment of the loan for an initial period</p>	<p>Specialist Lenders (either operating as Lender or as an agent for the Lender). Responsible for the management and repayment of the loan and the provision of business support to the Borrower.</p>
<b>Credit Criteria</b>	<p>Ownership of dwelling or security of tenure Rental unit must be built and meet minimum standards Good physical location and access to services Cash flow must service loan Loan history Cession of rental flows Credit assessment of the applicant</p>	<p>Extent of debt of Borrower Number of units in Borrowers portfolio Status of building Rating of Body Corporate Rentals to be earned Unencumbered title to the unit Cash flow must service loan Borrower loan history Clearance Certificate on services</p>	<p>Building assessment Viability study Due diligence Borrower reputation</p>
<b>Costs to be Considered</b>	<p>Costs of loan to lender (deposit, interest rate, fees) Administration Fee/origination fee Lender life insurance (if any) Return required by loan provider Administrative costs Operational costs</p>	<p>Costs of loan to lender (deposit, interest rate, fees, transfer costs) Cost of initial feasibility studies Cost of support services, risk management and operational costs</p>	<p>Costs of loan to lender (equity, interest rate, fees, transfer costs) Costs of due diligence, on-going risk management and business advice services. Operational costs and facilities management</p>
<b>Term of Loan</b>	<p>Short (36-60 months)</p>	<p>Medium (60-120 months)</p>	<p>Longer (120to 240 months)</p>

### **4.3.3 Implementation of the proposals**

The loan products proposed are to be implemented by Financial Institutions either directly or through a Loan Partner or Specialist Lender. In this regard Financial Institutions will refine the proposed loan products in terms of their own processes and procedures.

The provision of these loans will be recognised in terms of the Financial Charter and will therefore contribute towards the Financial Institutions targets in respect of the Charter in the Affordable Housing Market.

In respect of the Township Accommodation Loans these should be offered predominantly in the proposed Township Development Zones (see section 4.1.2.4) and in support of the activities undertaken by Government in these areas.

It is noted that the provision of these loan products is likely to result in better quality accommodation and as a result increased rentals. (The research shows that rentals are linked to better quality products, although in the Townships a price ceiling was evident). This should be monitored closely by National Government as it could result in increased demand for housing in informal settlements unless subsidised housing is offered to households displaced by the increased rentals.

## ***4.4 Proposal 3: Information products and tools***

### **4.4.1 Key considerations**

The key stakeholders to be targeted by information products and tools within the Small Scale Landlord Sector includes:

- Small Scale Landlords
- Officials and Politicians
- Service Providers and funders
- General public

Table 20 below sets out key findings of the research into Small Scale Landlords as detailed in Section 3 above, for each of these target audiences and the implications of these findings for the need for information for each grouping.

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**Table 20: Findings of the research by target audience**

Stakeholder	Findings	Implications for Information needs
<b>Small Scale Landlords</b>	<ul style="list-style-type: none"> <li>- Most Small Scale Landlords operate on an informal basis and have limited understanding of and generally do not comply with regulatory requirements</li> <li>- Most Landlords have not heard of recent policy initiatives and use of the Rental Tribunal is limited.</li> <li>- Over half of Landlords interviewed feel that the Local Government has not been helpful to their business</li> <li>- Landlords have limited understanding of Sectional Title and the Body Corporate</li> </ul>	There is a need to for information (on a sector specific basis) in respect of business operations, regulations and policy opportunities
<b>Officials and Politicians</b>	<ul style="list-style-type: none"> <li>- Mixed views on the benefits of Small Scale Landlords among Government Officials and Politicians</li> <li>- There is limited knowledge and recognition of Small Scale Landlords economic and developmental role</li> <li>- There is value in informing government Officials and Politicians on the important contribution that the Sector makes towards South Africa's poorer households and how it can be supported.</li> </ul>	Study findings should be disseminated and promoted. Economic and developmental role should be promoted.
<b>Service Providers and Funders</b>	<ul style="list-style-type: none"> <li>- Currently they offer a range of products and services but limited support provided directly to Small Scale Landlords</li> <li>- Service Providers and funders do not recognise the potential of this sector</li> </ul>	Need to be informed on the economic and developmental role of Small Scale Landlords. Should be encouraged to adapt existing programmes and products and offer new products and services specifically to support the growth of the sector
<b>General public</b>	<ul style="list-style-type: none"> <li>- 48% of households in South Africa own a house but the use of the house to generate income and create capital is limited</li> <li>- Small Scale Landlordism provides a critical opportunity to promote income generation and wealth creation (the sector is currently estimated to be generating rental income of R421 million per month and there is potential for growth within the sector)</li> </ul>	The use of the house to generate income and create capital by offering rental accommodation as a Small Scale Landlord should be promoted

Given the above it is proposed that the following communication programmes are undertaken:

- Information and education campaign for Small Scale Landlords

- Communication programme for Officials, Politicians, Lenders and Practitioners
- Information campaign to the general public
- Forums

These programmes are outlined in Section 4.3.2 below.

#### **4.4.2 Proposed programmes**

##### **4.4.2.1 Information and education campaign for Small Scale Landlords and Tenants**

**Aim:** This programme is targeted at Small Scale Landlords. The aim of the programme is to communicate roles and responsibilities, encourage the use of written lease agreements and house rules and enhance the understanding of sectional title and body corporates.

**Activities:** The following activities are proposed:

- **Development of information resources:** The following information resources should be developed:
  - *Standard lease agreements and house rules.* These should be developed in a manner that is easy to understand and simple to apply. In addition care should be taken that these documents clearly set out the roles and responsibilities of both Landlords and Tenants and protect the rights of both parties.
  - *Information booklet on sectional title and Body Corporates:* This booklet should be easy to understand and should set out the roles and obligations of owners of sectional title units, their participation on the Body Corporate and the roles and responsibilities of Body Corporates.
- **Dissemination:** The above information resources should be made available free of charge on the Internet through key sites (Government, Financial Institutions etc), in Local Government offices, in newspapers and at main bookstores and supermarkets.
- **Communication campaign:** A radio and TV campaign should be undertaken to promote the message and inform the target audience about the information resources and where they can be accessed.

**Implementer:** The implementer of this Programme should be the National Department of Housing.

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#### 4.4.2.2 Communication programme for Officials, Politicians, Lenders and Practioners

**Aim:** This programme is targeted at Government Officials and Politicians, Lenders and SME Practioners. The aim of the programme is to disseminate the findings of this research, particularly the economic and developmental role of the sector and promote debate.

**Activities:** The following activities are proposed:

- **High level meetings:** High level meetings should be held with Ministers in the Departments of Housing, Trade and Industry, Treasury and Public Works, as well as the MEC's of the nine Provinces. The meetings should provide an overview of the findings of the research and the recommendations.
- **Workshops:** Workshops which provide an overview of the research and the proposed recommendations should be held as follows:
  - With relevant Officials and Politicians at National and Provincial Government and Municipalities. In this regard the 20 largest Municipalities should be targeted. Officials in the Departments of Housing, Township Planning, Economic Development and Public Works should be targeted.
  - With Lenders including the four largest Financial Institutions, as well as specialist Lenders that provide products within the housing sector.
  - Practioners including SME service providers in the 20 largest Municipalities.

These workshops should be held separately with each grouping and should provide both a general overview of the research undertaken, as well as focus specifically on the recommendations relevant to each grouping. The aim of the workshops should be to inform and stimulate debate around the findings and recommendations.

- **Publications:** Articles should be written on the research findings and recommendations and published in Government publications, publications of the key Lenders and other in specialist media.

**Implementer:** The implementer of this programme should be the funders of the research (Finmark Trust, the Social Housing Foundation, Nedbank, the Gauteng Department of Housing and the National Department of Housing).

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#### 4.4.2.3 Information campaign to the general public

**Aim:** This programme is targeted at the general public and aims to promote the ability to generate wealth through being a Small Scale Landlord.

**Activities:** The following activities are proposed:

- *National information campaign:* A national information campaign that provides information on how a house can be used to generate income through providing rental accommodation should be undertaken. This campaign should be sector specific in that it should provide different information on being a Small Scale Landlords in the Inner City as opposed to being a Small Scale Landlord in the Townships. The campaign should provide relevant and simple information that shows how wealth can be created and what are the opportunities and constraints. In addition it should provide information as to where assistance can be found. The information should be included in life skills training programmes.
- *Success stories:* Success stories of Small Scale Landlords who are operating in both Townships and Inner Cities should be published in relevant media.

**Implementer:** The implementer of this programme should be the National Department of Housing in partnership with the Department of Trade and Industry.

#### 4.4.2.4 Forums

**Aim:** This programme is targeted at Small Scale Landlords and aims at facilitating information sharing among Small Scale Landlords and improving business operations and knowledge

**Activities:** This programme comprises establishing and operating Forums of Small Scale Landlords that are market and area specific. Such markets could include Inner Cities and Township and could for example be for a specific Development Zone. The purpose of the Forum:

- Is to allow Small Scale Landlords operating in that area and market to share information and ideas.
  - To provide information to Small Scale Landlords on how to improve business operations
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- To provide information on policy initiatives and regulatory requirements.

**Implementer:** The implementers of this programme should be Lenders and SME Service Providers who could establish and manage these Forums as part of the activities that they undertaken in this market sector (for example a Lender could establish a Forum for all Small Scale Landlords that it funds in a specific area).

## ***4.5 Proposal 4: State owned stock***

### **4.5.1 Key considerations**

The research into Small Scale Landlords as detailed in Section 3 above concluded that generally Small Scale Landlords are unlikely to be a key mechanism for addressing difficult to sell State Owned Stock without considerable investment by the State. There may however be some stock that is appropriate for Small Scale Landlords. The key criteria for such stock 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.

Should such stock be identified the broad process by which the stock could be released to Small Scale Landlords is set out in Section 4.4.2 below.

### **4.5.2 Proposed process to release State Owned Stock to Small Scale Landlords**

The process by which State Owned Stock meeting the criteria set out in Section 4.4.1 above could be released to Small Scale Landlords is as follows:

- **Stage 1: Pre-Feasibility:** This stage comprises identifying difficult to transfer housing stock that could be considered for alienation to Small Scale Landlords. A high order preliminary feasibility of the stock should be undertaken to determine the extent to which the stock meets the criteria detailed in Section 4.4.1 above. A terms of reference should be developed as to why the stock should be disposed of and setting out the best way that this should occur, if Small Scale Landlords are to be used. The type of stock to be developed should be proposed and the implications of this identified, both in terms of capital requirements to upgrade the stock, relocation of tenants and the basis by which the stock will be transferred to Small Scale Landlords.

On the basis of this terms of reference political approval from the Municipality or Province (depending on who owns the stock) should be obtained.

- **Stage 2: Feasibility:** This component comprises undertaking a detailed feasibility study that addresses:
  - Market demand.
  - A land legal and cadastral audit.
  - Geotechnical and topographical considerations and serviceability.
  - Impact on social services in the areas.
  - Detailed plans, designs and costing of the development including deemed and accepted approved value of the existing property.
  - A social review to determine tenants that will remain in the stock and those that need to be relocated.
  - The development of the basis by which the stock will be released to Small Scale Landlords including the identification of a Lender to provide finance and a Service Provider to provide business support. The Service Provider to provide business support should be an organisation that has expertise in the management of rental accommodation in the market sector.

A detailed business plan should be developed and approved by the relevant Municipality and/or Province for the alienation of the property to Small Scale Landlords and the costs thereof.

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- ***Property assembly:*** This component comprises getting the property ready so that it can be transferred to a Small Scale Landlord. In some cases it may comprise relocation or eviction of the current tenants and/or upgrading the property. The following options were identified:

- Disposed of with tenants - no renovation
- Disposed of without tenants – no renovation
- Disposed of with tenants – renovation
- Disposed of without tenants – renovation

The option selected would vary between the different types of stock and is dependent on the circumstances of the stock.

- ***Call for proposals:*** Once the property has been assembled, this component comprises putting out a proposal call using a competitive bidding process. Applicants must indicate how they are going to undertake the work and how much they offer for the building. In some instances it might be necessary for the Municipality or Province to make a contribution rather than the applicant paying for the building or the building being sold for R1. Where relevant the availability of a Lender and Service Provider for finance and business support should be specified, as well as the basis by which this support will be provided.
  - ***Evaluation and selection:*** This component comprises selecting the preferred applicant in terms of normal preferential procurement procedures.
  - ***Enter into agreements:*** Agreements are entered into between the parties.
  - ***Compliance and transfer:*** Compliance requirements are fulfilled by the parties and the property is transferred. Compliance would vary from situation to situation but could include for example the Landlord raising the finance or the Municipality undertaking the upgrading of the building.
  - ***Implementation:*** The project is implemented as agreed.
  - ***Monitoring:*** If there are any clawbacks or requirements to be met in terms of implementing the project this is monitored. If it is an unconditional sale no monitoring is undertaken.
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## 5 Overall conclusions

This report sets out research into **Small Scale Landlords**. The research clearly shows that such Landlords are making a **significant contribution to the South African economy** firstly through the provision of **a range of accommodation types that is generally well located and affordable to very poor households** and secondly through contributing to **income generation and wealth creation**, at a level that is estimated to be R421 million per month.

In addition the research found that there is **potential for growth** within the Small Scale Landlord sector. However this potential is **currently not being realised**. Given the challenges faced by South Africa with a significant housing shortage, high levels of poverty and unemployment and a strong focus on enterprise development it is evident that there is a **need for and value in supporting the growth of the Small Scale Landlord sector**.

In this regard a range of recommendations are made focusing on policy implications, financial products, information products and tools and state owned stock. These recommendations were structured so as to directly respond to the terms of reference for the research.

The proposed recommendations should be implemented by Private and Public Sector stakeholders who must work together within the terms of a **National Policy Framework**. This framework should be **developed by the National Department of Housing**. In this regard the role of Government is that of **leader and enabler** creating the legislative and regulatory framework that supports Small Scale Landlords and uses incentives to encourage them to improve the quality of their stock and build additional stock. Financial Institutions are required to provide loans linked to business support thereby increasing Small Scale Landlords access to capital and business support service providers should encourage and support Small Scale Landlords to formalise and operate more effectively.

Overall these interventions should encourage and support Small Scale Landlords to formalise and operate more effectively and support the expansion of the Small Scale Landlord Sector.

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## **Annexure A: Detailed overview of the methodology applied during Phase 1**

Phase 1 comprised undertaking research into the following focus areas:

- Small Scale Landlords
- Home Based Entrepreneurs

The research undertaken included the following:

- **Literature reviews:** Four literature reviews were undertaken in respect of the following areas:
  - Small Scale Landlords
  - Financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks.
  - Entrepreneurship, housing and housing finance
  - Home Based Entrepreneurs

International and national literature was reviewed through an Internet search, as well as documentation already assembled by the Team.

- **Research into Small Scale Landlords:** This research included the following:
  - **Survey of Small Scale Landlords in Inner Cities:** This research comprised primary research into Landlords operating in two inner city areas (Hillbrow/Berea in Johannesburg and Sunnyside/Tshwane Central in Pretoria). A total of:
    - 237 Landlords were interviewed of which 91 Landlords were interviewed in Tshwane and 146 in Johannesburg, and
    - 125 Tenants were interviewed of which 50 were in Tshwane and 75 in Johannesburg.
  - **Research into Small Scale Landlords in Townships:** Due to the fact that Nurcha had undertaken extensive research into Landlords in Townships in 2003, it was decided to make use of the research that already exists rather than undertake primary research. The research undertaken by Nurcha focused on three areas namely **Orlando East** in Soweto, Gauteng, **Katorus** in South East of Johannesburg, Gauteng and **Cato Manor**

in Durban, KwaZulu Natal<sup>33</sup>. The size of the sample researched was **400 landlords** each in Orlando East and Katorus and **291** in Cato Manor.

The review and detailed analysis of the Nurcha data was complemented by four focus groups, two of tenants and two of Landlords, undertaken as part of the study, to test some of the key issues pertaining to the study and not covered in the Nurcha data.

- **Interviews with Successful Landlords:** This research comprised qualitative in-depth interviews with 20 Landlords perceived as being ‘successful’.
- **Interviews with Service Providers in respect of Small Scale Landlords:** This research comprised qualitative in-depth interviews with Service Providers (including Lenders) providing services to Small Scale Landlords. A total of 7 individuals were interviewed.
- **Research into Public Sector Stock:** This research comprised a review of the current status and availability of Public Sector stock and the issues pertaining to the transfer of such stock to determine the feasibility of applying an approach whereby such stock is transferred to Small Scale Landlords. As part of this research two case studies were reviewed.
- **Research into Home Based Entrepreneurs:** This research included the following
  - **Survey of Home Based Entrepreneurs in Inner Cities:** This research comprised primary research into Home Based Entrepreneurs operating in two inner city areas. The two inner city areas selected were the same as for the research into Small Scale Landlords namely (Hillbrow/Berea in Johannesburg and Sunnyside/Tshwane Central in Pretoria). A total of 140 Home Based Entrepreneurs were interviewed (70 in each area).
  - **Survey of Home Based Entrepreneurs in Townships:** This research comprised primary research into Home Based Entrepreneurs operating in three township areas. The three township areas selected were Orlando East, Mamelodi and Katlehong. A total number of 210 Entrepreneurs were interviewed (70 in each area).
  - **Interviews with Successful Entrepreneurs:** This research comprised qualitative in-depth interviews with 20 Entrepreneurs perceived as being ‘successful’.

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<sup>33</sup> Despite the fact that all of the primary research undertaken in terms of the research into Small Scale Landlords was Gauteng based, Cato Manor was included as it formed part of the Nurcha research.

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- **Interviews with Service Providers and Lenders in respect of Entrepreneurs:** This research comprised qualitative in-depth interviews with Service Providers and Lenders providing services to Entrepreneurs. A total of 5 individuals were interviewed.

The Table below provides a summary of the components of the Phase 1 research. Details on the methodology applied in respect of each component of the research are set out in separate Resource Reports that have been developed in respect of each component (as detailed below).

**Table 21: Components of Phase 1: Research**

	<b>Small Scale Landlords</b>	<b>Entrepreneurs</b>
Literature reviews	<b>Small Scale Landlords</b>	<b>Entrepreneurship; Home Based Entrepreneurs</b>
	<b>Lending products linked to housing finance</b>	
Township	<b>Desk study using Nurcha research</b> (Katorus (400), Orlando East (400), Cato Manor (291)) <b>4 focus groups</b>	<b>Three townships</b> (Katlhong, Orlando East, Mamelodi). Households scanned to identify entrepreneurial activity. 70 interviews undertaken with entrepreneurs in each area (210)
Inner City	<b>Two inner cities</b> (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify landlords 237 interviews with Landlords 125 interviews with Tenants	<b>Two inner cities</b> (Hillbrow/Berea, Sunnyside /Pretoria Central) Scan of tenants undertaken to identify entrepreneurial activity 70 interviews undertaken with entrepreneurs in each area (140)
Success stories	<b>Successful Landlords</b> Scan undertaken to identify successful landlords – 20 in-depth interviews undertaken	<b>Successful Entrepreneurs</b> Scan undertaken to identify successful entrepreneurs – 20 in-depth interviews undertaken
	<b>Public Sector Stock</b> 2 case studies reviewed	

The social survey undertaken was sampled on a basis which ensured the statistical representivity of the areas surveyed. A number of problems were experienced in undertaking the research. The most significant of these were as follows:

- The scan of tenants in Sunnyside resulted in insufficient landlords and entrepreneurs being identified, as many tenants are students or Government employees. Accordingly the sample was expanded to include Pretoria Central.

- Of the landlords identified in the inner cities, 21% were landlords that do not interact directly with tenants but use a Managing Agent or other means to interface with the tenants. Managing Agents contacted to request details of the Landlords so that they could be interviewed, however refused to disclose this information on the basis that it transgressed their Ethical Code. Deeds searches were then used to attempt to identify the Landlords but did not provide a sufficient number of Landlords. Accordingly interviews were held with the Managing Agents to obtain a broad understanding of this category of Landlord.

The research has been documented in twelve Resource Reports. These Resource Reports contain the detailed data (in respect of the primary research) and the analysis undertaken. The Resource Reports are available on request. A consolidated analysis of all the Reports is detailed in the **Final Phase 1 Report**. The Resource Reports include the following:

- **Resource Report 1:** Literature review of Small Scale Landlords
  - **Resource Report 2:** Literature review on the financial needs and products available to Small Scale Landlords and Entrepreneurs from Commercial Banks.
  - **Resource Report 3:** Literature review on entrepreneurship, housing and housing finance
  - **Resource Report 4:** Literature review on Home Based Entrepreneurs
  - **Resource Report 5:** Research into Landlords in Inner Cities
  - **Resource Report 6:** Research into Landlords in Townships
  - **Resource Report 7:** Research into Successful Landlords
  - **Resource Report 8:** Research into Service Providers in respect of Small Scale Landlords
  - **Resource Report 9:** Research into Public Sector Stock
  - **Resource Report 10:** Research into Home Based Entrepreneurs
  - **Resource Report 11:** Research into Successful Entrepreneurs
  - **Resource Report 12:** Research into Service Providers in respect of Entrepreneurs
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## Annexure B: Schedule of attendants to workshops

<b>Date of workshop</b>	<b>Name of participants</b>	<b>Organisation</b>
27 Sept 2005	R Polkinghome	Sharewise Consulting
	M Rubin	SHF
	G Mandelowitz	JPC (BBP)
	A Schaefer	Trafalgar
	W Plit	Afhco Group Holdings
	D Herron	Badiri Housing Association
	R Gallocher	NDOH ( SPSH)
	A Raiz	Raizcorp
	T Adler	JHC
29 Sept 2005 (Advisory Committee)	M Napier	Finmark Trust
	T Ngonyama	Finmark Trust
	S Arjun	NDOH
	P Jackson	TUHF
	A de Leeuw	YDL
	T Duko	NDOH
	J Strelitz	Nurcha
	D Jackson	Nedbank
	M Motlana	Sizwe
	K Rust	Finmark Trust
30 Sept 2005	A Gouws	City of Tshwane
	Y Horowitz	JDA
	D Bauwas	ECT Africa
	M Mokgohloa	Ekurhuleni Metro
	M Pitjeng	JPC
	T Matsho	Massel Matsho
15 November 2005	Representatives of the Social Housing Foundation (5)	
18 November 2005	T Masimini	Natinal Dept of Housing
	X Mkhali	GDOH
	T Duko	National Dept of Housing
	T Ngonyama	Finmark Trust
	M Napier	Finmark Trust
	K Rust	Finmark Trust
	W Odendaal	GDOH
	E Stroebel	Gauteng Partnership Fund
	E Raboroko	GDOH
	Steyn Van Blerk	GDOH

## **Annexure C: Schedule of case studies reviewed**

**The Bangladesh Rural Advancement Committee** which provides credit and business development services within a few productive market sectors.

**Shore Bank Corporation** which provides finance to entrepreneurs to rehabilitate apartment buildings.

**Global Financial Innovations Partnership** which is a mode for leveraging capital and technical assistance resources to ‘slum dwellers’.

**Domenia Credit (Romania)** which was one of the first specialised mortgage institutions established in Romania after the collapse of socialist rule in the country.

**Alpha Bank (Greece)** which provides mortgage finance in Romania

**Romanian – American Enterprise Fund** which provides assistance to young Romanian entrepreneurs so as to create small to medium enterprises.

**Community Investment Corporation** which provides loans to encourage affordable housing and neighbourhood revitalization in Chicago, USA.

**City Bank of D.C** which offers banking services specifically for lower to middle income earners in Washington D.C, USA.

**State of Maryland Community Development Agency (USA)** which provides both wholesale and retail finance to achieve equal housing opportunities.

**Manna Mortgage Corporation (USA)** which sources funds from the federal government and donor agencies to address housing shortages for low to middle income earners.

**Shorebank Corporation:** Provides loan funding and support to assist small scale landlords in purchasing, rehabilitating and managing buildings for rental in downgraded areas.

**Small landlords in Australia:** Small landlords in Australia have prospered due to a taxation regime which encourages this form of ownership. All expenses associated with the rental property, including mortgage financing costs, can be deducted against the landlords total income for income taxation purposes providing individual investors with a flexible, controllable, and accessible avenue of investment.

**National Landlords Association:** The National Landlords Association (NLA) is an association of Landlords to protect and promote the interests of residential landlords operating in the private rented sector in the United Kingdom. The NLA lobbies central government and local authorities and provides a range of benefits and services to individual members including a telephone advice line, journals and more.

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**Transformations in Israel:** This comprises a multi-sectoral programme focusing on low quality neighbourhoods, whereby loans were provided to owners and landlords of properties living in medium rise flat accommodation to upgrade and expand their units. A local facilitator (Project Renewal local officer) is used to assist and encourage participants into the programme.

## Annexure D: Legislation pertaining to private sector rental stock in South Africa

<i>Regarding legal entities</i>	
Companies Act (section 21 companies and private companies) no. 61 of 1973 and relevant amendments	For the registration of the legal entity. Set criteria to which the legal entity must adhere and report on (see governance)
<i>Regarding governance</i>	
King 2 report on corporate governance	Sets out corporate governance requirements for public and private companies.
Promotion of access to information Act 2 of 2000	Disclosure of information on request to ensure transparency and accountability
<i>Regarding operations</i>	
Constitution, Act 108 of 1996	Right to access housing Eviction only possible through an order of court i.e. security of tenure
Housing Development Act 107 of 1997	Principles for the development of housing Framework for operating in subsidy market Defining roles of the key players in the sector
Rental Act 50 of 1999	Details government responsibility in the rental housing sector Lease agreement requirements Landlord tenant relationships through the establishment of tribunals Treatment of deposits and limitations on rent increases
National Housing Code	Details of using the various subsidy instruments available under the capital subsidy programme
Provincial housing legislation and policies	Captures provincial enhancements to the housing subsidy scheme and policy to be adaptive to the context in the province
Local authority policies and bylaws	Captures local area specific requirements that residential property owners have to adhere to and maintain. Linked to the town planning and zoning
PIE – Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998	Significantly affects the ability to evict defaulting residents, as the process is long and costly.
Basic conditions of employment, Labour relations and employment equity legislation	This legislation affects the recruitment, selection, development, performance review and administration of staff
Financial Charter	Proposed to bring private financial institutions into the low income housing sector. Small scale Landlords could benefit from funding from these organisations to diversify their funding sources and spread risk
<i>Regarding development and land</i>	
Development Facilitation Act 67 of 1995	Comes in to play when accessing land for the development of rental housing. The principles in Chapter 1 are applicable in all provinces.

Town planning legislation – provincial ordinances	Comes in to play when accessing land for the development of rental housing and zoning land for rental housing development
Municipal housing plans and integrated development plans and provincial development plans	Defines nodal areas targeted for development, details public funding available for the areas identified. Assists in planning the location of housing developments
NHBRC/Consumer Protection Measures Act 95 of 1998	This applies during the development stage of a project and will affect the Landlord if they act as developers of the project. The additional levy added for NHBRC cover adds to the cost of construction of the product and in the case of rental units adds a third level of insurance to the development, whereas in the case of instalment sale does not necessary benefit the prospective homeowner as transfer occurs after year 4
<i>Regarding Tenure</i>	
Sectional titles Act 95 of 1986	Applies to sectional title developments
<i>Regarding taxation</i>	
VAT Act	Zero-rating of subsidies for VAT not applicable to rental housing development.
Income tax legislation	Income tax exemption for units under R1800
Property Rates Act	Regulating the property rates regime

Source: Social Housing Policy for South Africa: Towards an enabling environment for social housing development: Draft 2005