



## MANAGEMENT OF RENTAL HOUSING PROJECTS?

"FORMAL RENTAL HOUSING IN SUB-SAHARAN AFRICA" - PLENARY SESSION 5

Malcolm McCarthy – 15 Oct 2014

# How does it look?

2



# How does it look?

3





# How does it look?



4



# How does it look?

5



# Background



6

- Govt assisted formal rental
  - ▣ Social Housing Programme (SH)
  - ▣ Community Residential Units (CRU)
  
- The elements - A Comparison



# Background



7

SH	SOCIAL HOUSING	CRU
<b>Target</b>	Households monthly income R1,500 – R7,500	Households monthly income R800 – R3,500
<b>Location</b>	Well located in restructuring Zone	Not necessarily in restructuring zone though location is factor in prioritising
<b>Ownership</b>	Land “ownership” passed to SHI either as freehold or leasehold.	Must be owned by and remain in ownership of municipality or province.
<b>Financing</b>	Mainly through mixing of restructuring grant and institutional subsidy fixed amount dependent on mix of household incomes. Covers only part of development cost rest financed through loan.	CRU Subsidy – quantum varies as per nature of development. Attempts to cover total development costs within grant.
<b>Rentals</b>	Based on ECR with both loan repayment and return on investment element included	Based on ECR without loan repayment or return element i.e. only management and administration costs
<b>Management</b>	Managed by SHI.	Can be managed by municipality, SHI or management agent.

# SHI Function – Stock Development



8

- Facilitate the development of appropriate stock
  - ▣ Right product for market
  - ▣ Within cost constraints
  - ▣ Life cycle design
    - Long term maintenance costs knocking against budget limitations
    - Impact long term affordable rentals
  
- Variety of approaches
  - ▣ Self development
  - ▣ Development through group of professionals
  - ▣ Turn key
  
- Management entity must be involved from early design stage



# SHI Function – Management



9

- Effective, efficient and responsive service
  - ▣ Covers full range of functions
  - ▣ Choices:
    - In-house or outsourced by function
    - Centralized or decentralised by function
  
- Key management functions
  - ▣ Tenant screening and take on
  - ▣ Rent collection and arrears management
  - ▣ Maintenance
    - Planned
    - Reactive
  - ▣ Caretaking, cleaning gardening
  - ▣ Security
  - ▣ Tenant matters
  - ▣ Tenant communication and engagement

# SHI - Other Functions



10

- Community and Neighbourhood Development
- Not part of legal landlord – tenant relationship but can help to strengthen this
- Stabilises neighbourhoods and improves socio economic opportunities for tenants
- Types of activities e.g.'s:
  - Neighbourhood 'crime and grime'
  - Education
  - Recreation
  - Employment support
  - Greening e.g. food gardens
- Financing not from rental but other sources

# SHI – Other functions



11

- Special Needs Provision
  - Can use SH to provide housing opportunities for people with special needs
- Form:
  - Units in SH development for independent special needs
  - Cluster homes within development eg. Children's home
  - Stand alone facility e.g. Shelter for Abused Women
- Functions:
  - Property Management (SHI)
  - Care provision (usually another organisation)
- Financing a challenge



# Financing it...



12

## CAPITAL DEVELOPMENT

- Grant
  
- Loan Finance
  
- Equity
  - ▣ Finance
  - ▣ Kind e.g. land



# Financing it...

13

AVG SH UNIT 2013

	2013	
<b>Avg Cost of Unit</b>	<b>340 000</b>	<b>%</b>
<b>Financing</b>		
RCG	125 615	37%
Institutional	112 000	33%
Loan/Equity	102 385	30%

# Financing it...



14

- Rentals pay for it
  - ▣ Economic Cost Recovery rentals (ECR)
  
- Components of rentals
  - Return on investment
  - Management
    - Maintenance
    - Rates
    - Communal utilities
    - Building insurance
    - Caretaking/cleaning and gardening
  - Administration
    - Staff
    - Office
    - Transport etc
    - Legal



# Challenges



15

## AVERAGE RENTALS AVG UNIT NEW PROJECTS - 2013

	<b>2008</b> <b>(R)</b>	<b>2013</b> <b>(R)</b>
Capital Repayment Loan	62 000	103 000
Avg Monthly Loan Repayment	675	1 122
Management and Administration	500	720
<b>Avg. Economic Cost Recovery Rental</b>	<b>1 175</b>	<b>1 842</b>

# Challenges



16

- ▣ Poor location – no or inadequate market
- ▣ Financing, particularly loan financing
- ▣ Affordability against real costs
- ▣ Right product – life cycle financing
- ▣ Rental payments - non payment of rentals

# Challenges



17

- Bureaucratic and slow legal resolution on tenant – landlord disputes
- Spiraling cost of utility prices
- ‘Political’ expectations and interference
- Managing of rental return over life of project
  - Initial 3-5 years cash flow shortages
  - After 7 years – major planned maintenance expenditure kicks in



# Capacity and responsibilities



18

STAKEHOLDER	JOB	CAPACITY
<b>Managing Agency - Landlord</b>	<ul style="list-style-type: none"> <li>• Facilitate development</li> <li>• Provide efficient, effective and responsive management service</li> <li>• Equity investment</li> </ul>	<ul style="list-style-type: none"> <li>• Risk management Systems</li> <li>• Communication</li> <li>• Building maintenance and development management</li> <li>• Financing</li> <li>• Contract management</li> <li>• Financial management and credit control.</li> </ul>
<b>Tenant</b>	<ul style="list-style-type: none"> <li>• Pay the rent</li> <li>• Enjoy the accommodation</li> <li>• Protect their legal rights</li> </ul>	<ul style="list-style-type: none"> <li>• Know own need and the market</li> <li>• Responsibilities of tenant and landlord</li> <li>• Effective use of the property</li> </ul>
<b>Government</b>	<ul style="list-style-type: none"> <li>• Enabling framework for rental</li> <li>• Where possible grant financing to tackle market dysfunctionalities</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of demand</li> <li>• Understanding of the way in which rental market is working.</li> <li>• Policy, strategy and institutional development</li> <li>• Programme management</li> <li>• Some regulation building quality, tenant landlord relation, financing rules.</li> </ul>

# Capacity and responsibilities



19

STAKEHOLDER	JOB	CAPACITY
<b>Financier</b>	<ul style="list-style-type: none"> <li>Provision of grant, loan and equity financing of capital developments</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of market</li> <li>Knowledge of the sector financing capital</li> <li>Managing of risk</li> <li>Contractual control and M &amp; E of performance</li> </ul>
<b>Developer</b>	<ul style="list-style-type: none"> <li>Undertake the appropriate development of the appropriate product for the financing available.</li> </ul>	<ul style="list-style-type: none"> <li>Building life cycle planning</li> <li>Linkage of capital cost and affordability</li> <li>Construction contract management</li> <li>Innovative residential design</li> </ul>
<b>Construction</b>	<ul style="list-style-type: none"> <li>Building, renovation and maintenance of stock.</li> </ul>	<ul style="list-style-type: none"> <li>Construction building</li> </ul>
<b>Legal</b>	<ul style="list-style-type: none"> <li>Setting and running legal 'system' that provides a fair, speedy and inexpensive way to manage tenant – landlord relationship.</li> </ul>	<ul style="list-style-type: none"> <li>Legislation</li> <li>System for implementing legislation</li> <li>Mediation and Arbitration</li> </ul>

# How does it look?

20



# How does it look?

21





# How does it look?

22



# How does it look?

23







24

Thanks