rental housing

SUPPLY AND DEMAND OF RENTAL ACCOMMODATION IN SOUTH AFRICA

Supply and Demand of Rental Housing in South Africa

The Social Housing Foundation

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Executive Summary

As noted in the Terms of Reference for this study, data reflecting supply and demand conditions and trends in the rental housing sector is critical – both in enabling policymakers to create appropriate and effective policy and in encouraging private sector participation, particularly in segments of the market that are perceived to carry high risks. This report contains a summary of available data relating to the sector, drawing out implications where possible for policy and highlighting key data gaps. It is hoped that this report provides an accessible resource that is useful for both policymakers and actual or potential investors in the sector, particularly in the lower income or affordable rental markets.

Data from various sources indicates that the rental sector is significant, accounting for roughly 20% of households in South Africa. The majority households that pay rent are poor or low-income. Roughly 55% have an income of less than R3,500 per month while a further 22% earn between R3,500 and R7,500. Data on dwelling conditions, which indicates that over 40% of renter households live in what could be characterized as slum conditions, points to significant need for affordable[1], better quality accommodation. In addition, anecdotal evidence suggests significant unmet demand for affordable accommodation in key urban centres. Both private landlords and social housing institutions report exceptionally low vacancy rates. New social housing projects released onto the market in centres such as Johannesburg, Durban, Port Elizabeth and East London are typically over-subscribed often by a factor of ten or more. Private landlords offering more affordable accommodation in inner city Johannesburg do not have to look for tenants. To quote one landlord; "tenants find you". Demand in that market is characterized by property owners as "insatiable", "a bottomless pit" and rentals have increased significantly over the past few years.

From an investor perspective, exceptionally buoyant demand conditions are likely to continue to contribute towards a positive outlook for the sector in the short to medium term. Changes to the country's credit law, the global credit crisis and increasing interest rates have reduced the ability of many households to finance home ownership. In addition, the shifting locus of economic growth towards sectors such as construction and transport is likely to increase the need for mobility among those in elementary occupations and with it flexible and affordable housing solutions. Basic demographics also favour the sector with a growing market of younger adults for whom rental tenure may be more appropriate than ownership.

However, buoyant demand conditions particularly in the "affordable"[2] segment, while helpful are not on their own sufficient to encourage required levels of investment in the sector, particularly from private investors. Market participants, including landlords, financiers and property managers, have noted several constraints that act to reduce the attractiveness of the sector as an investment destination, particularly to smaller investors who typically play an important role in rental markets globally. These constraints include a poorly

1 That is, affordable to households earning less than R7,500 per month. The question of affordability is explored further in this report. At most, households are regarded as being able to allocate a maximum of between a quarter and a third of their incomes to rent, although in reality few pay as much as this. Nevertheless, using this rule of thumb, an upper limit on the Rand value of 'affordability' rentals would correspond to between R1,875 and R2,475 per month.

2 That is, households with an income of less than R7,500 per month.

aligned combination of regulations and legal institutions that together create a lengthy and expensive process relating to evictions, inefficient and expensive municipal service delivery and delays in unlocking access to properties in inner cities that could potentially augment the stock of rental units.

On the positive side, the private sector is helped significantly by the favourable tax treatment associated with Urban Development Zones while the social housing sector is poised to grow strongly given the realignment of social housing policy. In that regard, policymakers have explicitly identified encouraging greater private sector involvement as a policy objective. Various other developments in social housing policy are noteworthy. The upper income band used to identify the subsidy target market has been increased from R3,500 to R7,500, the subsidy amount has been dramatically increased and efforts have been made to streamline the administration of the subsidy system.

That is not to say there are no risks associated with the new policy. As with all subsidies, there is the risk that the negative impact of market distortion exceeds the benefits it delivers. That the number of subsidized units is currently insignificant relative to demand does, of course, limit this risk significantly. However, it should be monitored, particularly if the policy succeeds in creating scale, as it seeks to do, within targeted restructuring zones. This is primarily the case in certain segments within the subsidy target market where the market might be able to function[3].

The policy has also shifted from income-based targeting to self-targeting, using rental levels and the characteristics of the unit to attract targeted households rather than relying on the reported income of the beneficiary household. While this is sensible in light of the difficulties in verifying incomes in South Africa, if policymaker assumptions regarding the allocation of household income toward rentals are over-stated, a possibility which the data seems to indicate is the case, units may well be occupied by households with higher incomes than anticipated.

It is also worth noting that the policy's objectives of fostering urban renewal on the one hand and creating affordable accommodation for lower income households on the other may be inconsistent. Experience in South African inner cities and elsewhere indicates that the poor are often displaced as urban centres are rejuvenated. Thus, if the policy succeeds in creating positive externalities and does, in fact, enhance the area in which social housing projects are located it may well result in a decrease in the availability of affordable accommodation in the area overall. Appropriate mechanisms for "value capture" must therefore be explored to ensure that the external benefits of investment in affordable housing can be captured and reinvested in creating additional affordable housing stock. Aside from property rates and taxes this could include the speculative purchase by organizations that invest in social housing of surrounding buildings whose values are likely to increase as the area revives.

While targeted tax incentives and subsidies can be vital mechanisms to encourage the creation of affordable rental stock they can be costly and possibly ineffective if implemented primarily to sidestep other inefficiencies within the sector. These inefficiencies increase costs and risks to providers and curtail market forces. It is therefore critical that initiatives to remedy shortcomings are implemented as soon as possible.

[3] One such segment comprises single person households, which account for almost 40% of all renter households. It appears that in that segment affordable accommodation, including rooms with shared facilities, can be sustainably delivered by the private sector without subsidy. If so, the allocation of significant subsidies to some institutions could potentially crowd out private sector investment in a housing type for which there is strong demand.

Introduction

This study has been commissioned by the Social Housing Foundation ("SHF") and seeks to begin the process of collecting, consolidating and summarising data relating to the status of rental housing in South Africa in a systematic way.

The objectives of this study are to:

- Present an overview of the rental market in South Africa including an analysis of available demand and supply side data
- Assess available data and provide recommendations in that regard
- Assess existing rental and other housing policy in light of newly analysed data
- Identify key factors that inhibit or encourage the development of rental stock

In order to meet the first objective a comprehensive analysis was undertaken of recent, nationally representative household and individual surveys. These include the 2005/6 Income and Expenditure Survey[4] ("IES") and the General Household Survey[5] ("GHS") undertaken by Statistics South Africa ("StatsSA") and the 2007 All Media and Product Survey ("AMPS"). Data from the 2007 Community Survey and 2001 Census has also been used to provide further reference points. As expected estimates generated by these data differ. The use of multiple data sources enables a triangulation of estimates, with various sources of data tested against each other to give credence to findings or to highlight areas of uncertainty where further research is required. The data is summarised and presented the next chapter in this document.

Supply side data is, in the main, not readily available and the report contains specific recommendations with respect to the collection of supply side data for the future. Providers in the social housing and municipal housing sectors were contacted and processes initiated to systematise the collection of supply side data in the future. Given the highly fragmented nature of the private sector with representative bodies existing only in some areas[6] data collected for that sector is likely to remain indicative at best.

During the course of the project discussions were held with providers, researchers and policy makers to identify key strategic blockages that inhibit the development of rental markets, particularly in lower income segments. Their input has been used to identify key issues that impact on rental markets.

The rental market is, needless to say, a critical component of the housing market in general. While housing policy has in the past tended to favour ownership, increasingly the importance of the rental sector is being acknowledged. Various researchers have noted

4 The Income and Expenditure Survey is a survey of the income and expenditure patterns of over 21,000 households.

5 The General Household Survey is an annual survey of 28,000 households exploring living conditions and access to services.

6 For instance, the Property Owners Management Association ("POMA") represents landlords in inner city Johannesburg.

the important inter-linkages between the rental and ownership components of the market - most directly through rental yields which provide a critical basis to determine housing value. Rental housing can provide access to affordable, well-located accommodation for those who choose not to, or may not be able to, purchase property. It plays a critical role for those who cannot access housing finance, a segment likely to grow in light of the global turmoil in credit markets (which impacts on the willingness of lenders to finance higher risk clients) as well as increasing interest rates in South Africa. Rental accommodation in general provides for greater flexibility and mobility, important considerations for those employed in more elementary occupations where job security is low and in sectors such as construction and transportation, both of which are expected, to grow in the coming years. It can also be more affordable than ownership[7], particularly where there is fractional occupation and sharing of units. Critically, as noted in Social Housing Policy, the creation of rental stock by both the social housing and private sectors can play a role in the economic, social and spatial restructuring of South Africa's cities.

Various studies have been conducted on the rental market in the past. However, since their publication a number of developments have occurred within the housing market, not least of which is the scale delivery of subsidized housing units[8] and the dramatic (albeit recently terminated) increase in residential property prices in both suburbs and townships. In addition, new survey data sources have become available that contain further information on the demand conditions in the market, warranting additional research. It is hoped that this report succeeds in consolidating and presenting this data in an accessible and useful manner. As noted in several studies on rental markets in South Africa, there are many gaps in available data. This report highlights these gaps and where possible outlines possible mechanisms to close them.

Perhaps more important than the preparation of a once-off research report is the development of data collection and dissemination processes that enable the provision of important market data on an ongoing basis to interested parties, including policymakers and rental providers. It goes without saying that such data is critical for the formulation of an appropriate and responsive national rental policy. In addition, such data would be tremendously useful to social housing institutions ("SHIs") who operate in this market. It is also critical to encourage greater private sector participation in the provision of rental accommodation for the low income market. The terms of reference for the study notes that "A system for updating and tracking rental housing sector data and trends needs to be developed and implemented in such a way that it (the SHF) can monitor and identify changes in the rental environment and market". In collecting and summarizing available data for this research report efforts have therefore been made to ensure that processes can be replicated on an on-going basis. In addition, a flexible, web-based reporting tool has been developed to enable available data to be interrogated by interested parties. This tool updates and presents survey data from the General Household Survey on households who rent their primary dwellings, enabling users to view data along various dimensions, including location (province and magisterial district), household characteristics (age, race and gender of the head of the household,

[7] Where landlords expect relatively high capital gains on property investments they may well accept lower rental yields. However, in the long term in the absence of differential tax treatment as the market 'prices in' these expectations, the costs of rental should trend towards the costs of ownership.

[8] The delivery of formal subsidized housing may have a significant impact on the provision of backyard rental accommodation. According to research by Nurcha as reported in 'Research into Landlords in Townships" in Cato Manor all landlords surveyed had obtained their houses through a government subsidy.

household size, household income[9]) and dwelling characteristics. It is hoped that this tool will be refined over time to meet the needs of users.

This report is structured into three key sections. An overview of demand, based on survey data is provided in Chapter 3. The chapter presents an analysis of available data, highlights limitations of available data and proposes some potential solutions to overcome these shortcomings. It is followed by an overview of the supply side data and recommendations regarding data gathering processes. Chapter 5 presents feedback from interviews with various market participants and commentators.

[9] Household income is a calculated and proxy field based on reported wages earned by household members as well as any pensions or grants earned by households members. It does not include income sources such as remittances or investment income.

Demand overview

Introductory comments

Various national surveys[10], local studies on rental market conditions in specific areas as well as discussions with social housing and private sector providers have been used to create a picture of the demand conditions for rental accommodation. The analysis of survey data which underpins the bulk of the analysis presented in this section investigates the profile of renting households, the characteristics of rented dwellings and the amounts spent on rentals.

In presenting this data it is important to highlight the distinction between need, demand and usage of rental accommodation. Typically, a housing need is identified relative to a set of criteria formulated by policymakers or researchers. That need may or may not translate into a satisfy-able demand subject to the household's ability and willingness to pay - a function of the household's budget and the prevailing cost of housing. Further, because supply of housing can take time to respond to higher demand it can be the case that available supply across the market as a whole and within tenure-based sub-segments does not, in fact, meet demand. In this case, housing usage as reflected by survey data on housing tenure and dwelling type would provide a partial picture of total demand[11]. This point is critical to the interpretation of all analysis presented below. The data relates to the characteristics of those who are current users of rental accommodation. It reflects neither the needs nor characteristics of those who wish to rent but are unable to do so. Likewise, the data cannot reveal the preferences of renters who might have chosen other forms of tenure had their choice not been constrained by available supply.

The most striking finding, based on conversations with various providers is the significant shortage of rental accommodation, if not countrywide then certainly in large urban areas. Rentals, particularly in inner cities, are escalating rapidly. Vacancy rates are at historic lows and tend, on the whole to be maintenance related. It is therefore highly likely that usage data, tracked using various survey sources summarised in this document, does not, in fact reflect demand, some of it unmet and not observable using these data sources. To rectify this, other indicators such as data on the number and profile of qualifying applications received for units in new social housing projects as well as vacancy data for at least a sample of landlords should be gathered and tracked on an on-going basis.

In the absence of data on household tenure preferences and ability to pay the picture of demand for rental accommodation based on usage data presented in the body of this report should therefore be regarded as an indicative rather than a comprehensive one.

[10] Data sources include the 2005/06 Income and Expenditure Survey, the General Household Survey (various years,) the 2007 Community Survey, the 2001 Census and the 2007 All Media and Product Survey.

[11] For example, research on township tenants in Orlando East, Katorus and Cato Manor conducted by Nurcha in 2003 found that while satisfaction levels were relatively high, tenants reported a willingness to pay more for better quality accommodation.

Key findings

According to a range of nationally representative household surveys approximately 20% of households in South Africa, corresponding to between 2.3 and 2.5 million households[12], currently rent their main dwellings[13]. All surveys ask respondents to describe their housing tenure by selecting one option from a list. Tenure options provided for each of the survey data sources reviewed in this report are summarised below. It is worth noting that categories do not align precisely.

Table 1: Tenure options provided by the different surveys

Income and Expenditure Survey 2005/2006
Question: 4.5. Is the main dwelling...
1. Owned and fully paid off
2. Owned, but not yet fully paid off
3. Rented as part of employment contract of household member
4. Rented not as part of employment contract of household member
5. Occupied rent-free as part of employment contract of household member
6. Occupied rent -free not as part of employment contract of household member
7. Occupied as boarder/lodger
8. Other
General Households Survey 2006
Question: 4.6. Is the main dwelling...
1. Owned and fully paid off
2. Owned, but not yet fully paid off
3. Rented
4. Occupied rent-free as part of employment contract of family member or yourself
5. Occupied rent-free not as part of employment contract of family member
6. Occupied as boarder
Census 2001
Question: H 2.5. What is the tenure status of the household?
1. Owned and fully paid off
2. Owned, but not yet fully paid off
3. Rented
4. Occupied rent-free
5. Other
AMPS 2007 (Households database)
Question: H 2. Is this house/flat/dwelling rented or owned?
1. Rented
2. Owned
Community Survey 2007
Question: H 11. What is the tenure status of this household?
1. Owned and fully paid off
2. Owned but not yet paid off
3. Rented
4. Occupied rent-free
5. Other

[12] Various surveys differ in their estimates of the total number of households in South Africa. The 2006 GHS reports a total of 12,97 million households while the 2007 Community Survey reports a total of 12,5 million.

[13] Note that the questions relating to tenure relate to the main dwelling occupied by the household. In some cases households may have other dwellings aside from their main dwellings. There is no data on the tenure status of these other dwellings.

While questions relating to housing tenure might seem uncontroversial and relatively straightforward, there is some scope for interpretation. Anecdotal evidence, for instance, indicates that some households who report that they live in a dwelling for free might be required to provide household services in lieu of rent to the owner of the dwelling. While such households should, strictly speaking, be regarded as renters there is insufficient data to identify such households given current survey formats. Households who occupy dwellings provided by employers comprise another somewhat ambiguous category. Even for those who do not pay rent ("Occupy the dwelling rent free as part of an employment contract of family member"), the imputed rental on the dwelling is likely to be a significant component of their remuneration. Arguably these households should be regarded as renters. However, because these units are not typically on the open market (that is, they are available to employees only) they have been excluded from the analysis of the rental market as a whole. Further, the data on tenure relates to the household's primary dwelling as assigned by the interviewee and thus does not capture any rental activity related to other dwellings that might be occupied by the household[14]. Data presented below is therefore likely to understate the extent of rental activity[15].

Survey data enables an analysis of rented dwellings by type of dwelling. As with tenure options surveys categorise dwellings in various ways, as summarised below.

Table 2: Dwelling type options provided by the different surveys

Income and Expenditure Survey 2005/2006
Question: 3.1. Indicate the type of main dwelling... that the household occupies on this piece of land.
1. Dwelling or brick structure on a separate stand or yard or on farm
2. Traditional dwelling/hut/structure made of traditional material
3. Flat or apartment in a block of flats
4. Town/cluster/semi-datached house
5. Unit in retirement village
6. Dwelling/flat/room in backyard
7. Informal dwelling/shack in backyard
8. Informal dwelling/shack in backyard
9. Room/flatlet or a larger dwelling/servants quarters/granny flat
10. Caravan/tent
11. Worker's hostel
12. Family unit (formerly worker's hostel)
13. Other
General Households Survey 2006
Question: 4.1. Indicate the type of main dwelling... that the household occupies
1. Dwelling/house or brick structure on a separate stand or yard or on farm
2. Traditional dwelling/hut/structure made of traditional materials
3. Flat or apartment in a block of flats
4. Town/cluster/semi-detached house
5. Unit in retirement village
6. Dwelling/house/flat/room in backyard
7. Informal dwelling/house/flat/room in backyard
8. Informal dwelling/shack in backyard
9. Caravan/tent
10. Other

Continued on page 10

[14] According to the 2006 GHS almost 30% of all households in South Africa have another dwelling aside from their main dwelling.

[15] Households who occupy dwellings on an instalment sale basis, admittedly a very small sub-segment, are also not identified by survey.

Census 2001
Question: H 23a. Which type of dwelling or housing unit does this household occupy?
1. House or brick structure on a separate stand or yard
2. Traditional dwelling/hut/structure made of traditional materials
3. Flat in block of flats
4. Town/cluster/semi-detached house
5. House/flat/room in backyard
6. Informal dwelling/shack in backyard
7. Informal dwelling/shack not in backyard
8. Room/flatlet not in back yard but on a shared property
9. Caravan or tent
10. Private ship/boat
11. Other
AMPS 2007 (Households database)
Question: H 1. Type of dwelling
1. House/cluster house/town house
2. Flat
3. Matchbox/improved matchbox house/ RDP house
4. Traditional hut
5. Hostel
6. Hotel/boarding house
7. Compound
8. Room in backyard
9. Squatter hut
10. Caravan
11. Other
Community Survey 2007
Question: H 1. Which of the following types best describes the main dwelling unit that this household occupies?
1. House or brick structure on a separate stand or yard
2. Traditional dwelling/hut/structure made of traditional material
3. Flat in block of flats
4. Town/cluster/semi-detached house
5. House/flat/room in backyard
6. Informal dwelling/shack in backyard
7. Informal dwelling/shack not in backyard
8. Room/flatlet not in back yard but on a shared property
9. Caravan or tent
10. Private ship/boat
11 Worker's hostel (bed/room)
12. Other

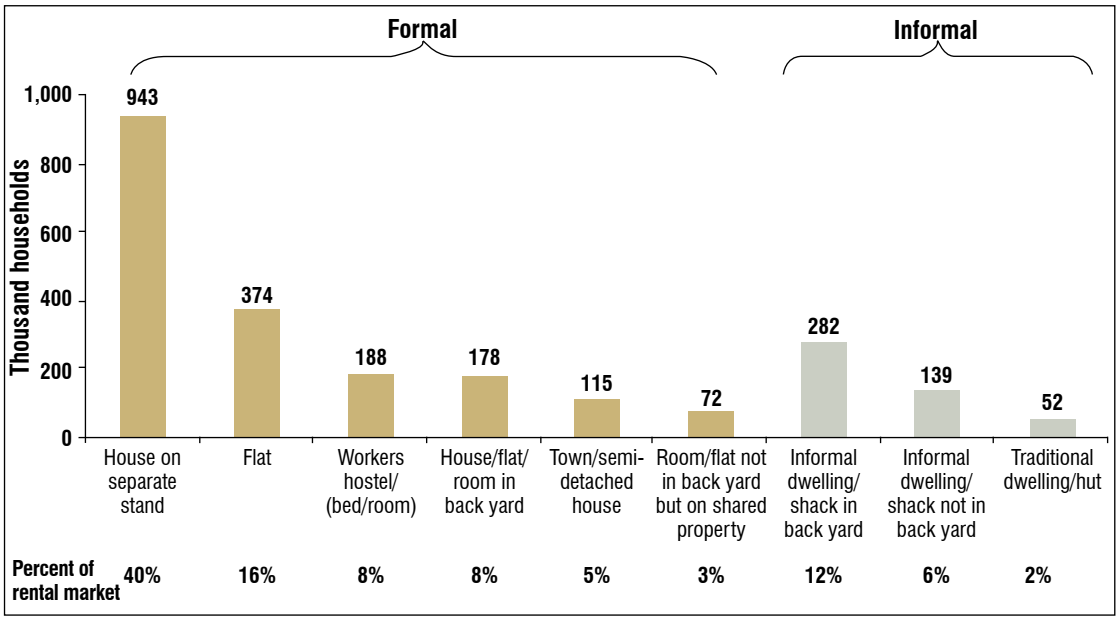
Here too there are limitations. It is not clear, for instance, whether someone renting a room in a flat would report the dwelling type as a flat or a room in a shared property. In the 2007 Community Survey and the IES worker's hostels are explicitly identified as a separate dwelling category, while in other surveys they are subsumed under other categories[16].

Data on dwelling type for households who rent from the 2007 Community Survey is summarised below. That data indicates that shacks and backyard dwellings account for over one quarter of rented main dwellings in the country. It should be noted that there is

[16] It is possible to identify households who live in hostels using other questions in the survey.

some discrepancy between the Community Survey findings and those of the 2006 GHS in this regard. The GHS reports that around half a million households in South Africa rent shacks (compared to 420,000 or so in the Community Survey) while a further 300 000 or so rent formal backyard dwellings.

Chart 1: Rented dwellings by housing type



Source: Community Survey 2007

Data from the GHS can be used to assess other characteristics of rented dwellings more generally. According to the survey around 14% of households who rent (over 340 000 households) appear to live in over-crowded conditions[17], 17% do not have access to flush toilets in the dwelling or on site, 12% do not have access to piped water supplied by a municipality[18] and 10% do not use electricity for lighting. Using any of these criteria together with shacks to define slum conditions the survey indicates that 43% of households who rent their main dwellings could be considered to be living in slum conditions[19],[20].

Using the same basis described above to identify slum conditions, based on the 2006 GHS it is

17 An over-crowded dwelling is defined as one with more than 2 people per room inhabited by the household. It is possible that this estimate is understated in the case where more than one household inhabits the same living space.

18 No data is available on the level of access to sanitation and running water. In the case of a backyard dwelling, taps and toilets are shared, in many cases, between a number of households who might occupy a stand. There is no data to assess whether washing facilities such as baths or showers are available.

19 The definition of a slum household is based on the United Nations Millennium Development Goal Indicators. That definition of a slum household is "a group of individuals living under the same roof lacking one or more of the conditions below:

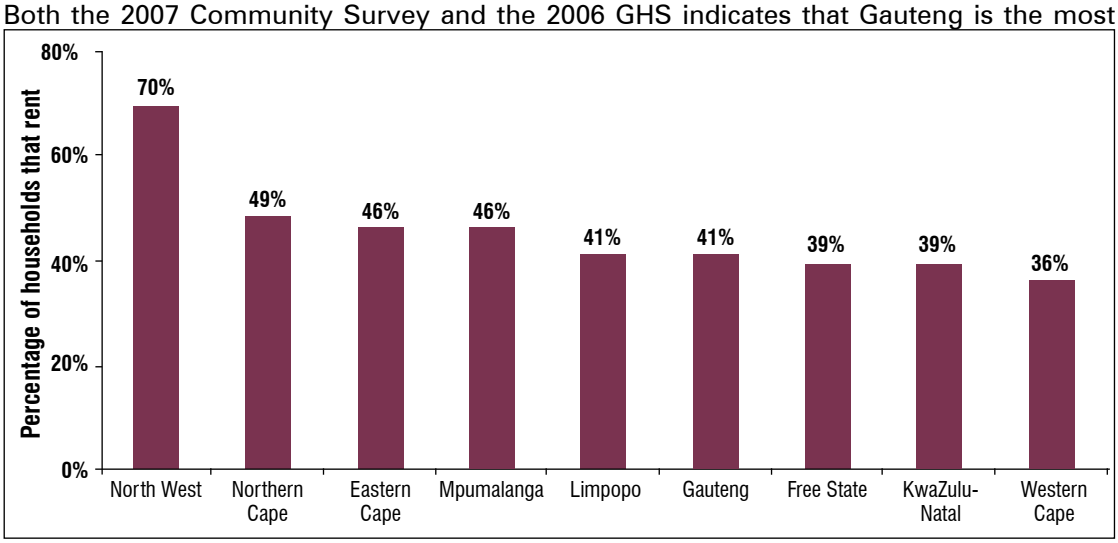
- Access to improved water
- Access to improved sanitation
- Sufficient-living area
- Durability of housing
- Security of tenure

However, since information on secure tenure is not available for most of the countries, only the first four indicators are used to define slum household, and then to estimate the proportion of urban population living in slums." See http://mdgs.un.org/unsd/mdg/Metadata.aspx?IndicatorId=0&SeriesId=710

20 This proportion is less than for all households in South Africa. According to the GHS 56% of households overall would be regarded as slum households

estimated that of the approximately 200,000 households who rent their main dwellings in the North West, 70% live in slum conditions. In the largest rental markets of Gauteng and KwaZulu-Natal the proportion or renter-households living in slum conditions is 41% and 39% respectively.

Chart 2: Proportion of households who rent living in slum conditions

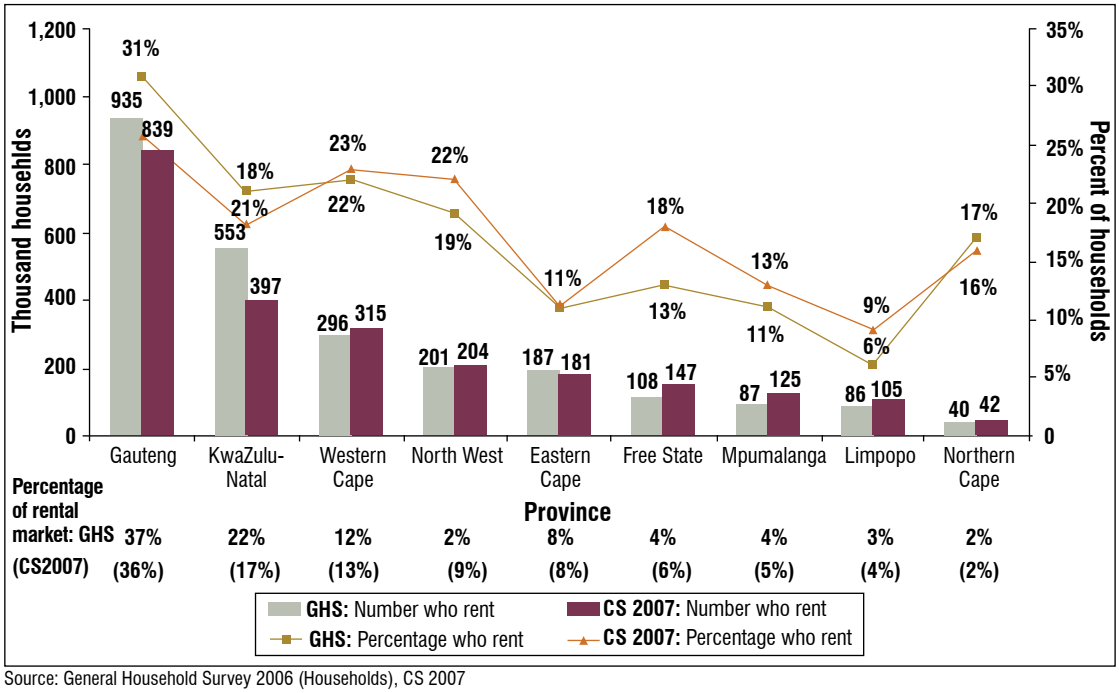


Source: General Household Survey 2006 (Households)

Both the 2007 Community Survey and the 2006 GHS indicates that Gauteng is the most active rental market. According to the GHS over 900,000 households rent their primary dwellings in that province while the 2007 Community Survey indicates that around 840,000 households rent in Gauteng (this translates into around 36% of all households who live in Gauteng). As a share of the total rental market, Gauteng accounts for between 26% and 31% of households who rent depending on which data source is used.

Chart 3: Rented dwellings by province

The profile of rented dwellings differs noticeably across provinces, with Gauteng having the

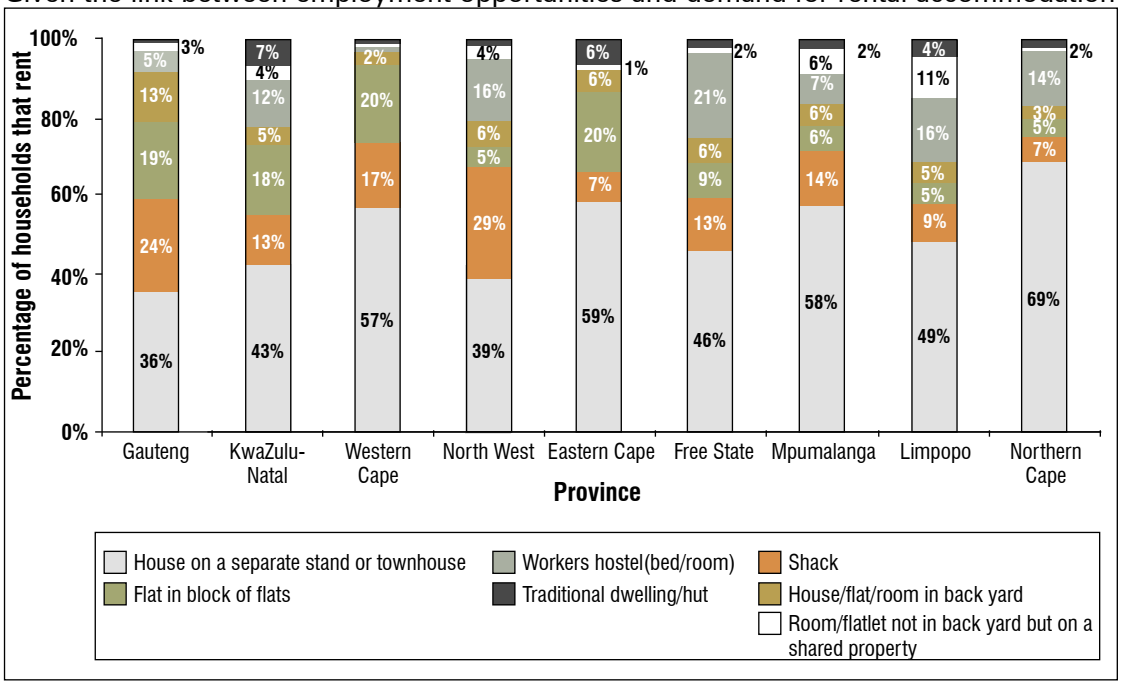


Source: General Household Survey 2006 (Households), CS 2007

highest proportion of renters living in shacks or backyard dwellings. Rentals of traditional dwellings is noticeable, albeit small, in KwaZulu-Natal and the Eastern Cape.

Chart 4: Type of dwelling for households that rent

Given the link between employment opportunities and demand for rental accommodation

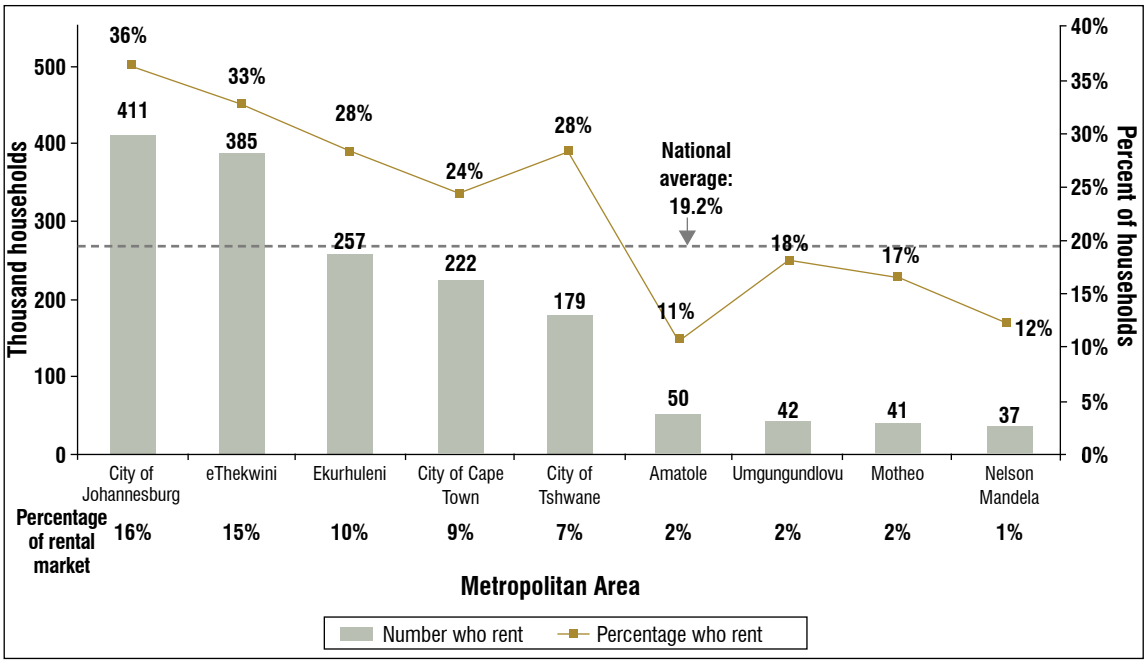


Source: Community Survey 2007

it is unsurprising that the proportion of households renting is higher in largest five metros than for the country as a whole and that these areas, in turn, account for a sizeable segment of the rental market. Greater Johannesburg in particular is an important rental centre with the City of Johannesburg and Ekurhuleni containing just over a quarter of renter households in the country[21].

[21] Together these two areas comprise 16% of households

Chart 5: Rented dwellings in metropolitan areas



Source: General Household Survey 2006 (Households)

Of course the extent of rentals in any centre (as illustrated above) may not only reflect demand but also available stock. Other indicators of demand are therefore important. While vacancy and waiting list data would be instructive, the collection of this data for the country as a whole was not feasible within the scope of this project[22]. However various formal providers operating in inner city Johannesburg as well as Pretoria, Durban, East London and Port Elizabeth indicated exceptionally high levels of demand. High levels of demand are reported by township landlords and owners of informal stock. In a recent study conducted in Orlando East, Katorus and Cato Manor[23] landlords typically receive between six and 12 enquiries by potential tenants each month.

Pricing trends also provide an indication of demand with those areas exhibiting highest increases most likely to be experiencing high demand. According to the Trafalgar Index, across the cities they track, prices have risen fastest in East London followed by Johannesburg and Cape Town and have outstripped inflation[24] (which averaged 8.6% over December 2006 to December 2007) in a number of cities.

22 Private sector providers do not, by and large, maintain waiting lists. Trafalgar, for instance, indicates that the expense associated with maintaining waiting lists is not warranted given the rate at which personal circumstances change.

23 Nurcha research conducted in 2003 cited in Research into Landlords in Townships, February 2006

24 According to the Reserve Bank, the CPIx for metropolitan and other urban areas seasonally adjusted was at 144.25 in December 2006 and 156.63 in December 2007.

Table 3: Trafalgar Rental Index: 2003 - 2007

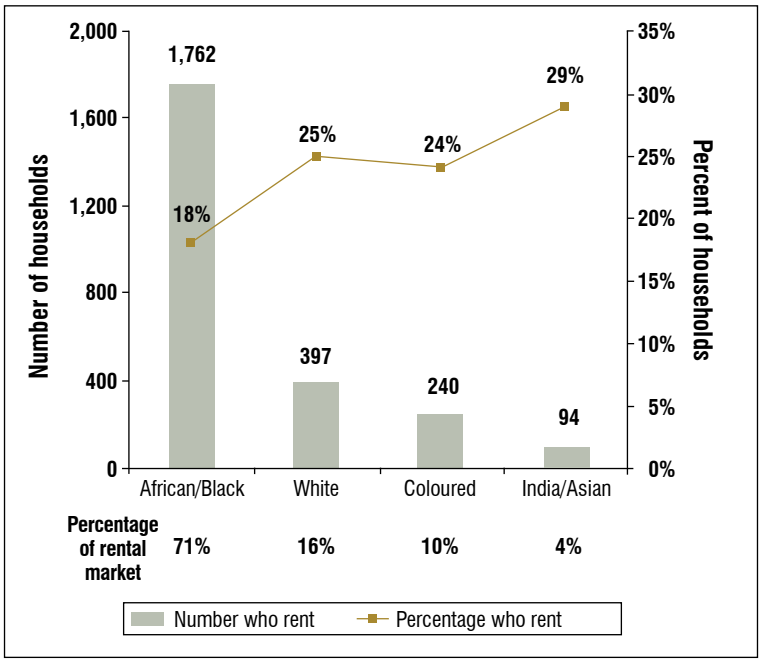
	Dec-03	Jun-04	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	Jun-07	Dec-07	Change: Dec 2006 - Dec 2007
South Africa	100	103.79	109.78	112.22	117.36	119.44	125.43	129.3	136.54	9%
Johannesburg	100	100.28	111.28	114.62	118.24	119.09	130.79	133.24	145	11%
East London	100	105.46	116.29	115.6	126.47	133.31	141.03	151.57	159.34	13%
KZN	100	100.62	110.45	115.79	118.44	124.22	131.03	133.94	143.07	9%
Pretoria	100	101.54	107.38	110.84	115.04	115.81	117.66	115.09	123.73	5%
Port Elizabeth	100	100.15	104.76	111.94	117.26	124.2	128.31	133.36	139.01	8%
Cape Town	100	105.34	110.07	111.18	111.92	118.18	122.32	126.2	132.73	9%

Anecdotally, it appears that rentals in inner city Johannesburg have increased far more rapidly than indicated by the data in the table above. According to a market participant, in 2003 a two-bedroom unit typically fetched R1,800 per month. In 2008 that same unit would typically be rented out for between R3,600 and R4,200, an increase of between 15% and 18.5% per annum.

Profile of renters

The data indicates that in line with the population as a whole, the vast majority of renter households are black[25]. However, black households are somewhat less likely to rent dwellings than their counterparts of other race groups countrywide.

Chart 6: Race group of head of households: renter households



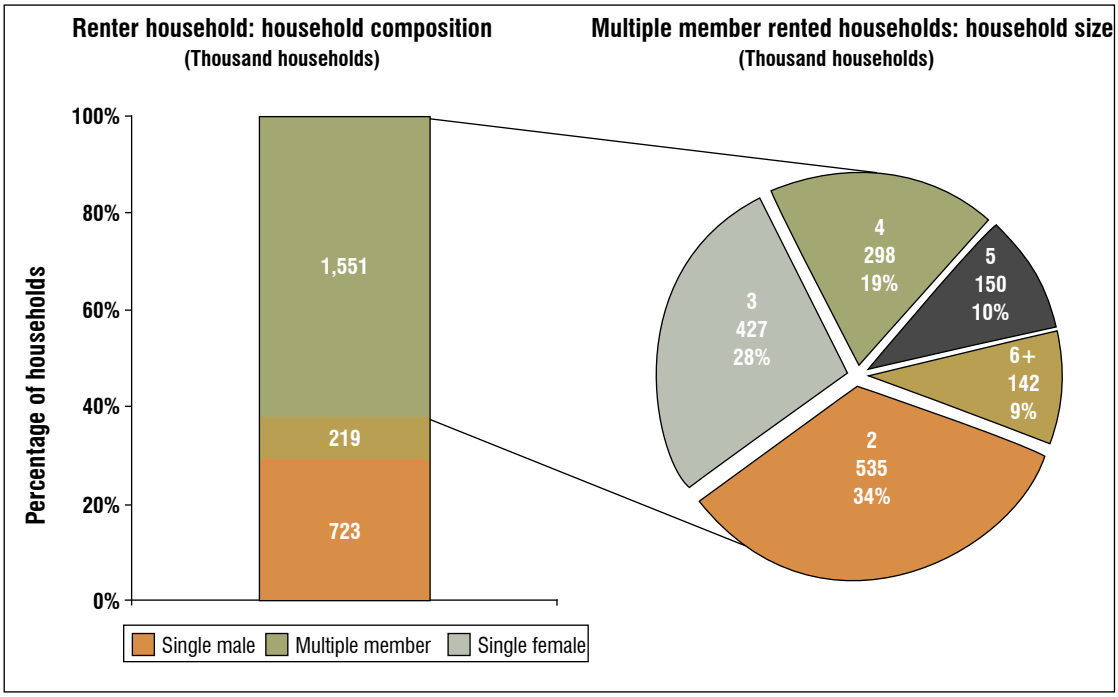
Source: General Household Survey 2006 (Households)

[25] 71% of renter households are black, 77% of all households in South Africa are black

Within key urban areas the picture is somewhat different. Researchers have pointed to the relatively high propensity of black households to rent sub-standard accommodation in urban areas as indicative of the broader housing shortage experienced in the country[26]. Data from the GHS corroborates the phenomenon. In the City of Johannesburg the survey finds that 40% of black households rent their main dwellings while in eThekwini 35% of black households rent[27].

Single person households comprise a significant share of the rental market, with 38% of rented dwellings occupied by single individuals[28]. While this might reflect the preferences of mobile workers who seek accommodation near their workplaces, it might also point to a lack of suitable and affordable family accommodation in urban centres. It may also reflect the capacity to pay prevailing rentals in households where dependency ratios are low and thus per capita incomes are relatively high[29].

Chart 7: Household composition of renter households



Source: GHS 2006

[26] See "Low-income rental housing: are South African cities different?" By Alan Gilbert, Alan Mabin, Malcolm McCarthy and Vanessa Watson, Environment and Urbanization 1997; 9; 133.

[27] In the City of Johannesburg the corresponding percentages for white, coloured and Indian households respectively are 16.2%, 42% and 22%. In eThekwini the percentages for whites and Indian households are 20% and 26% respectively (there are very few Coloured respondents).

[28] Single person households do not qualify for ownership-based housing subsidies. They also tend to have higher disposable incomes than multiple member households with the same household income. They are therefore of particular interest.

[29] In this regard it should be noted that single person households are far more likely to send remittances to dependents who live outside their households. Their calculated per capita incomes are therefore likely to be over-stated. It is not clear from the data whether the renter prefers to live alone and send remittances or whether this is a second best alternative reflecting the lack of accommodation.

The age profile of renters suggests that it is a relatively young market. While 41% of all households in South Africa are headed by individuals under the age of 40, the corresponding percentage of for renter households is 68%.

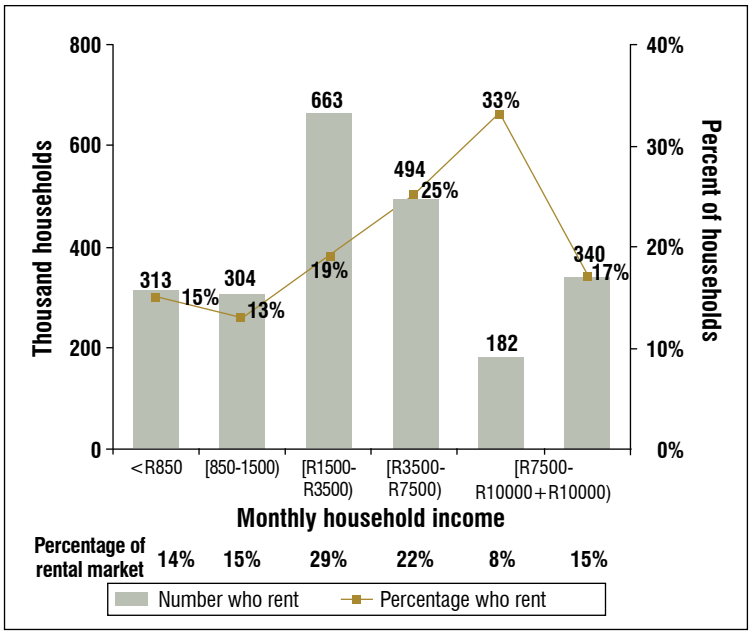
Anecdotal evidence suggests that a relatively high percentage of renters are foreign nationals[30]. According to the 2007 Community Survey there are 1.268 million people (2.68% of the population) living in South Africa who were born outside the country. This is likely to be an understatement. If so, and if foreign nationals continue to arrive in South Africa, demand for rental accommodation could be bolstered as ownership is unlikely to be a viable or preferable option for many.

Income profile of renters and affordability

Income data presented in this report is, in the main, based on the findings of the 2005/6 Income and Expenditure Survey ("IES") conducted by Stats SA. While the survey is the most comprehensive nationally representative source of data on household income, income estimates generated by the survey are lower than those estimated in the national income accounts compiled by the Reserve Bank. As noted in the Analysis of Results report prepared by Stats SA, respondents under-report income "either through forgetfulness or out of a misplaced concern that their reported data could fall into the hands of the taxation authority"[31]. No adjustments have been made to that data to correct for under-reporting. Some caution is therefore be required in interpreting the data from that survey.

Data on the household income distribution of households who rent their primary dwellings is summarised below.

Chart 8: Income distribution of renters



Source: Income and Expenditure Survey (2005/2006)

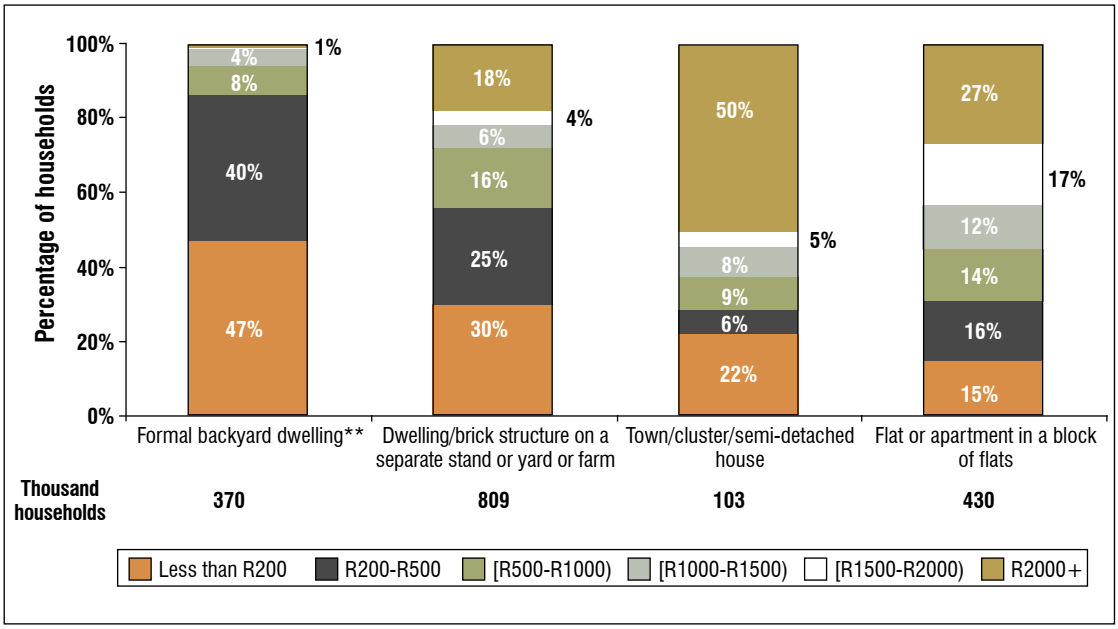
[30] Owners of inner city properties in Johannesburg believe foreign nationals to be an important segment of the market, although all providers interviewed require possession of ID documents for renters. A

[31] Income and Expenditure of Households 2005/2006: Analysis of Results, Statistics South Africa, Report No. 01-00-01, 2008

Based on this data, of those households who rent, approximately 51% corresponding to over one million households, earn between R1,500 and R7,500 – the current bands used to characterise households who fall into the social housing target market for whom some form of rental subsidy[32] is provided – while a further 27% earn less than R1,500 per month. A relatively small proportion of the market (less than one quarter) earns above R7,500 per month and would be considered from a policy perspective to be the market for private formal rental accommodation.

The amount of rent paid varies significantly across income group and dwelling type. Data from the IES indicates that around 55% of renter households living in a house on a separate stand pay less than R500 per month for while 31% of renter households living in flats pay less then R500 per month in rent. There is no data in the survey to determine whether the rented dwelling is privately owned or owned by a social housing or public institution, nor whether the rental paid by the household is market related or subsidised[33]. The data on rent paid for formal structures is summarised below.

Chart 9: Rents paid for formal structures



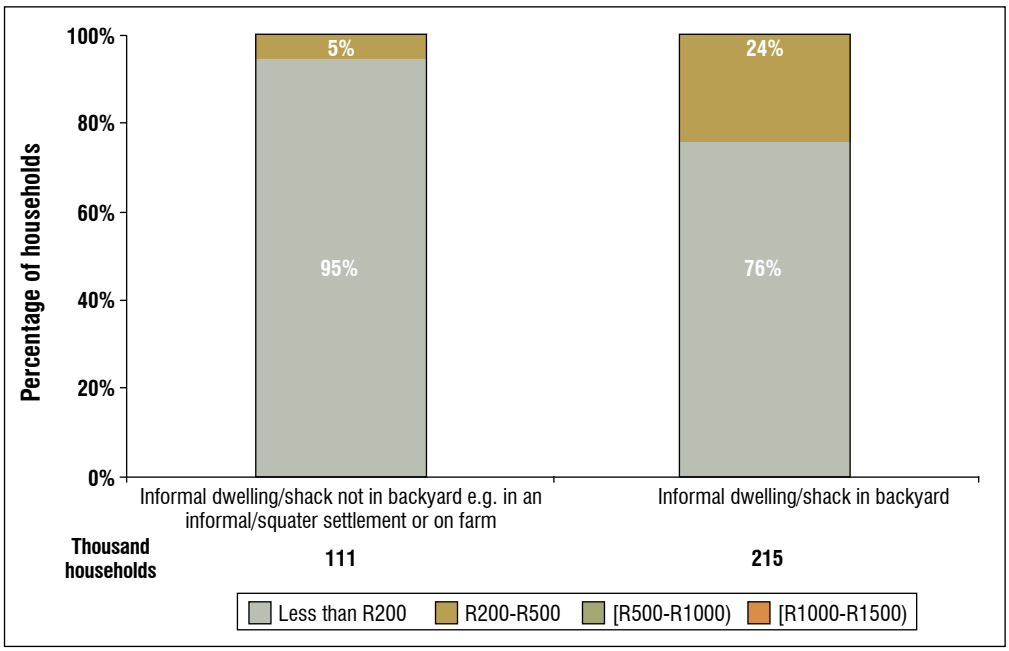
Source: Income and Expenditure Survey (2005/206)
* Exclude
unkonwn/unspecified (approximately 7% of interviewed households who rent)
** Includes servants quarters, granny flats. etc.

As one would expect, rent paid by households living in informal structures is far lower with the vast majority of shack dwellers paying less than R200 per month.

32 This includes the institutional subsidy as well as the capital grant restructuring subsidy

33 The questionnaire does have a question on demand-side subsidies received by the household. The number of households who receive rental subsidies is very small and is therefore not analysed in detail

Chart 10: Rents paid for informal structures



Source: Income and Expenditure Survey (2005/206)
* Exclude
unkonwn/unspecified (approximately 7% of interviewed households who rent)

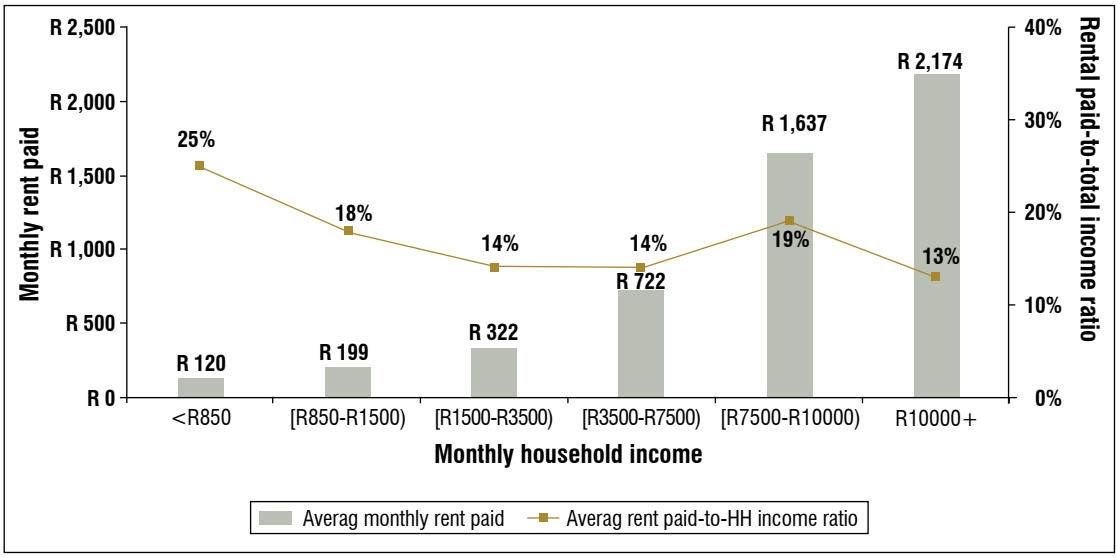
In the case of rented shacks it is not clear whether the rental covers the use of the structure as well as the land or only the use of the land. Research conducted in 2003 by Nurcha[34] found that in Orlando East 56% of the rental units were tenant-built, although in other areas surveyed this proportion was far lower (in Katorus 72% of the rental units were landlord-built and in Cato Manor 93% were landlord-built).

The data on rent paid together with household income provides an indication of affordability. Typically rental amounts that range between one quarter and one third of household income are thought by private formal landlords and social housing institutions to be affordable. Data from the IES indicates that in reality, the majority of households who rent allocate a far smaller proportion of their incomes to rent. Only in very poor households is the average rent-to-income ratio 25%. Once again, it is not clear whether the amount spent on rent reflects the true capacity to pay or whether it reflects what is simply available in the market. There is no data to assess whether households would, in fact, spend more on better quality or better located[35] housing if it was available.

[34] Referred to in "Research into Landlords in Townships" February, 2006

[35] Given that the household would incur lower transport costs if housing was better located it is highly likely that they would pay more for such housing.

Chart 11: Average rentals and rent-to-income ratios by household income



Source: Income and Expenditure Survey (2005/2006)
* Exclude
unkonwn/unspecified (approximately 7% of interviewed households who rent)

The data indicates an income inelastic demand for rental accommodation – as incomes rise, proportionately less is spent on rent. This is in line with findings from other markets. Research on housing expenditure more broadly conducted by the World Bank in the 1980's in 14 cities around the world found that

> "The percentage of income spent on housing declined systematically at relatively similar rates in each city as household income increase. In economic terms, this suggests that in the short to intermediate term demand is inelastic, meaning that spending for housing does not increase proportionately with income. In Cairo, low-income families may spend 10 percent of their incomes on housing, while more prosperous families spend n 5 or 6 percent. In the Republic of Korea, low-income families may spend 30 percent of their incomes on housing, while higher-income families spend 15 to 20 percent."[36]

The same study found that over time, however, as countries become more prosperous "households allocate systematically higher fractions of the incomes to housing …. making housing demand elastic over the longer term." This is an interesting dynamic to consider in the context of South Africa's development trajectory.

The question of affordability is also informed by other claims on household income, a function of household size. Data from the IES (Table 4, Table 5, and Table 6 below) provides some indication of the quantum of these claims and the 'residual' income after expenditure on what might be considered to be basic necessities[37]. Because it is to be expected that this will vary depending on household size, the data is summarized for households comprising

[36] Source: Mayo "Enabling Housing Markets to Work"

[37] The analysis of average income and selected "basic necessities" is for urban households. Households that had a negative "residual" income i.e. household income was less than basic necessities expenditure, were purged from the analysis. Furthermore for transport expenditure, the cost of financing new/used vehicles is not included in the total cost of transport – due to the format of the IES monthly vehicle financing costs cannot be determined

one, three and five individuals. It is worth highlighting that implicit to this approach is the assumption that housing is lower on the household's list of priorities than the basic items listed in the tables. Further research is required to test this assumption - it may well be untrue.

Table 4: Average monthly income and expenditure on basic necessities for single-person households

Average monthly income and expenditure	Household monthly income					
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+
Income	R 562	R 1,151	R 2,349	R 4,951	R 8,539	R 18,661
Food and non-alcoholic beverages	R 180	R 256	R 363	R 418	R 589	R 905
Transport (excl. new/used vehicles)	R 49	R 126	R 233	R 361	R 916	R 1,190
Remittances (cash and in-kind)	R 38	R 147	R 359	R 641	R 838	R 561
Clothing and footwear	R 43	R 90	R 132	R 171	R 266	R 424
Health	R 12	R 16	R 25	R 43	R 132	R 164
Education	R 2	R 4	R 12	R 40	R 62	R 82
"Residual" income = Income less "essential" expenses	**R 239**	**R 513**	**R 1,225**	**R 3,278**	**R 5,737**	**R 15,335**
Number of households	219,899	218,018	416,139	249,521	80,899	154,286
Sample size	415	335	514	328	103	163

Table 5: Average monthly income and expenditure on basic necessities for household size of three

Average monthly income and expenditure	Household monthly income					
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+
Income	R 611	R 1,138	R 2,390	R 5,274	R 8,812	R 25,668
Food and non-alcoholic beverages	R 264	R 366	R 542	R 727	R 775	R 1,329
Transport (excl. new/used vehicles)	R 50	R 90	R 211	R 449	R 871	R 1,265
Remittances (cash and in-kind)	R 7	R 45	R 85	R 211	R 322	R 352
Clothing and footwear	R 57	R 119	R 158	R 285	R 395	R 524
Health	R 11	R 19	R 31	R 70	R 122	R 236
Education	R 7	R 14	R 25	R 115	R 808	R 350
"Residual" income = Income less "essential" expenses	**R 215**	**R 484**	**R 1,337**	**R 3,418**	**R 5,519**	**R 21,611**
Number of households	83,570	160,718	307,715	219,968	82,198	337,069
Sample size	161	261	447	336	107	370

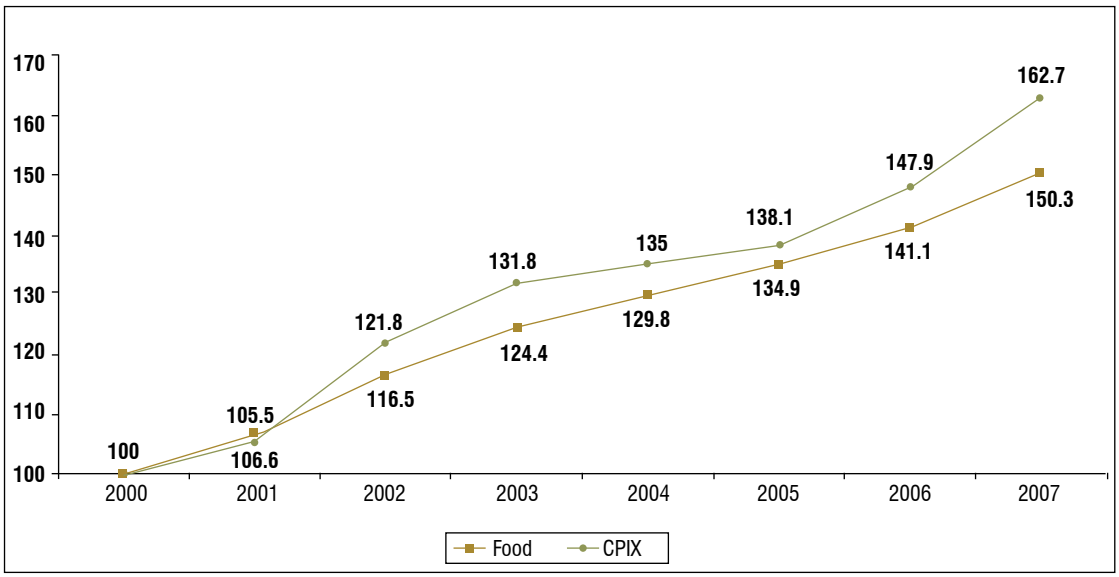
Table 6: Average monthly income and expenditure on basic necessities for household size of five

Average monthly income and expenditure	Household monthly income					
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+
Income	R 684	R 1,205	R 2,293	R 5,015	R 8,787	R 23,597
Food and non-alcoholic beverages	R 292	R 451	R 580	R 804	R 1,062	R 1,753
Transport (excl. new/used vehicles)	R 50	R 89	R 200	R 420	R 730	R 1,581
Remittances (cash and in-kind)	R 0	R 12	R 54	R 115	R 209	R 140
Clothing and footwear	R 105	R 129	R 183	R 318	R 482	R 736
Health	R 13	R 19	R 36	R 37	R 148	R 518
Education	R 12	R 20	R 42	R 97	R 313	R 846
"Residual" income = Income less "essential" expenses	**R 210**	**R 483**	**R 1,199**	**R 3,224**	**R 5,842**	**R 18,023**
Number of households	31,361	82,158	199,325	184,099	51,516	184,997
Sample size	67	172	338	287	81	219

The data indicates that in multiple member households earning below R1,500 per month, it is unlikely that as much as a third of income can be allocated to housing. In contrast, single person households, unsurprisingly, appear to be able to allocate more to rentals. Such households, even those regarded as relatively poor, may therefore be able to afford accommodation provided by private sector landlords, particularly if they are prepared to co-habit rooms with shared facilities. By way of example, rentals charged by one landlord in inner city Johannesburg for 16m^2 rooms with serviced shared facilities range between R800 and R1,000 per month while smaller roof rooms range between R500 and R700. Such accommodation is theoretically affordable to a single person household earning as little as R1,200 if shared. Given the importance of single-person renter households (see Chart 7 above), further research may well be warranted to assess the extent to which unsubsidized accommodation might be sustainable for this segment.

Of course it is worth highlighting that since the IES was conducted in 2005/6 many of the basic items which account for a significant share of the expenditure of poorer households have been subject to exceptionally high inflation rates further eroding affordability. Food, a significant component of expenditure for poor households, has increased significantly.

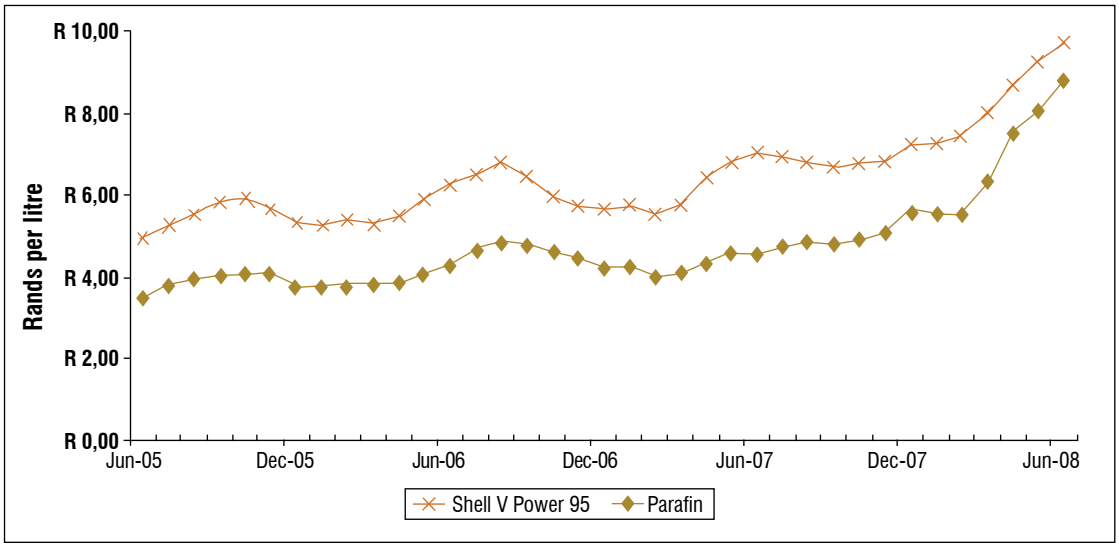
Chart 12: CPIX and food inflation, Metropolitan areas



Source: SARB

In addition fuel costs, a significant component of transport costs for many households, have effectively doubled since the survey was undertaken in 2005, further eroding real incomes and reducing affordability of other items[38] including housing.

Chart 13: Cost of fuel



Source: Income and Expenditure Survey (2005/206)
* Prices for Cape Town

That there is so little certainty on the question of affordability has important implications for social housing policy. A critical development in that regard is the shift from income-based targeting towards self-targeting. According to policy documents "rental units of different

[38] There is, of course, some scope for households adjust to changing relative prices by altering the consumption baskets. In this regard the increase in the cost of fuel is likely to make rental accommodation in well located areas close to employment and other amenities (such as inner cities) that much more desirable.

quantity/quality levels could be injected into the marketplace *at rents affordable to the income mix targeted*"[39] (italics added). The same document notes that "As a general rule the rent attaching to various unit types will be based on assumptions about the target market and more specifically in relation to a *proportion of income that can be afforded* (e.g. rents should not exceed 33.3% of monthly income)" (italics added). While the policy recommends that an income cap be applied, the assumptions relating to affordability are critical in ensuring that targeted beneficiaries are reached. If the proportion of household income allocated to rentals is, in fact, far lower than anticipated it is likely that "downward raiding" will occur and that units will not be occupied by those with higher incomes than intended.

As highlighted at various points in this report interviewees noted the erosion of affordability, particularly in inner cities, as rentals have escalated. While this in part reflects the improvement in the property market in general across the country, it also reflects concerted efforts on the part of investors and city management to rejuvenate depressed inner cities. Property prices, particularly within improvement districts have increased significantly, displacing poorer households who can no longer afford to live there. This highlights the potentially contradictory objectives of the revised social housing policy which seeks to promote urban restructuring (and presumably rejuvenation – the social housing policy notes that "Social housing has shown that it is able to significantly contribute to urban regeneration") and to create affordable rental options for the poor. If the policy succeeds in the first objective, namely if the positive externalities generated by investment in social housing result in urban regeneration as intended, increasing values of surrounding properties are likely to lead to displacement of the poor. To alleviate this, further subsidisation will be required.

It may be possible to ameliorate this to some degree by using mechanisms that enable "value capture" - a term used to describe processes "by which all or a portion of increments in land value attributed to "community interventions" rather than landowner actions are programmed in advance and recouped by the public sector"[40] – and using these surpluses for reinvestment in well-located, affordable housing. Mechanisms to facilitate this might include property rates and taxes, or even profits generated through speculative property purchase by entities that invest in social housing of surrounding buildings whose values are likely to increase as the area revives.

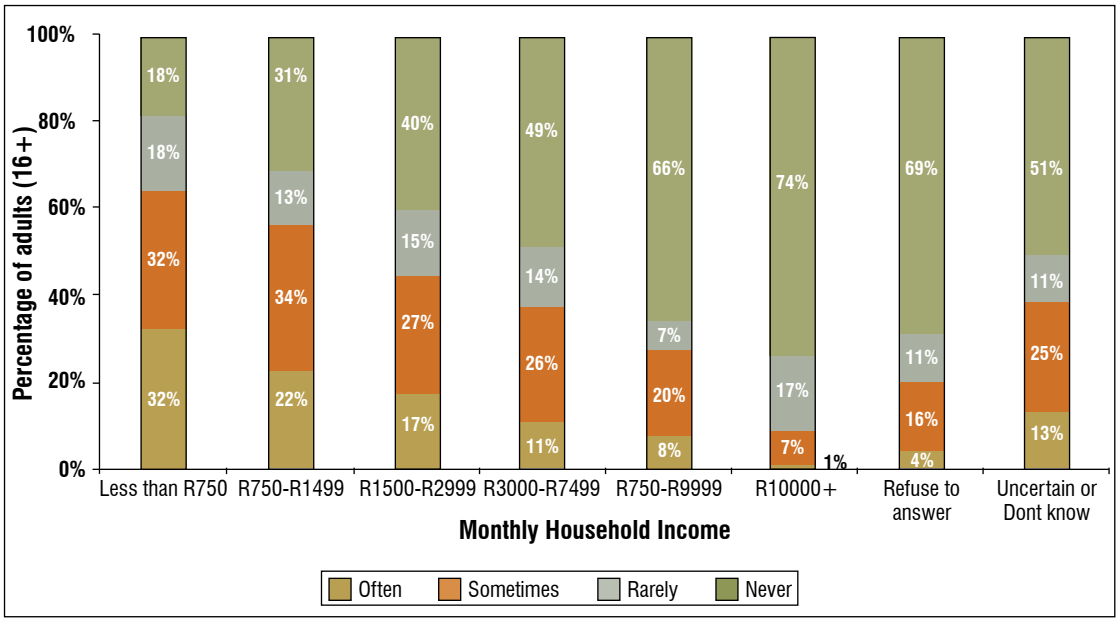
Household risk profile

Aside from income levels, the variability of income is a critical consideration. Data from the FinScope™ survey indicates that a sizeable proportion of lower income individuals go without a cash income in the household "often" or "sometimes". For these individuals, paying rent reliably is likely to be difficult.

[39] Social Housing Policy for South Africa Towards an enabling environment for social housing development, May 2005

[40] Source: Wikipedia. See http://en.wikipedia.org/wiki/Value_capture

Chart 14: Frequency of household going without cash income in the past 12 months



Source: FinScope 2007

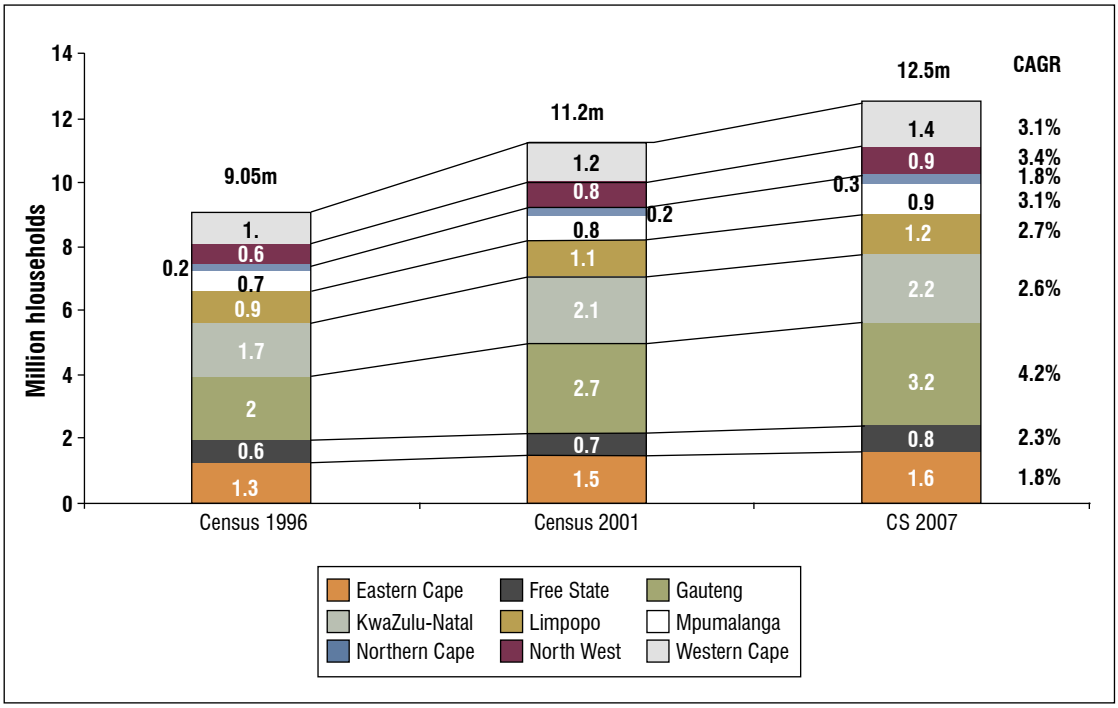
For landlords who operate in this market the sporadic income profile of renters increases risk significantly. Feedback from landlords, discussed at length in Chapter 5 of this document, highlights a mismatch between the risk profile of the market and the regulatory and institutional environment characterising the rental market.

Key demand-side trends

Population and household growth are the most important trends to consider when exploring rental markets from a demand-side perspective. Data on the number of households from the 1996 and 2001 Censuses as well as the 2007 Community Survey is summarised below. According to these data sources the number of households in South Africa grew at an average of 3% per annum between 1996 and 2007 with far more rapid growth taking place between 1996 and 2001. Growth in the number of households was driven by population growth (at an average of 1.6% per annum) as well as a decline in the average household size from 4.5 to 3.9 over the period 1996 to 2001[41].

[41] The average household size remained stable between 2001 and 2007

Chart 15: Number of households by province: 1996, 2001 and 2007



Source: Community Survey 2007 statistical release, StatsSA

The data indicates that Gauteng has experienced the most significant growth in the number of households, at over 4% per annum between 1996 and 2007. Growth has been slowest in the Eastern Cape and the Northern Cape.

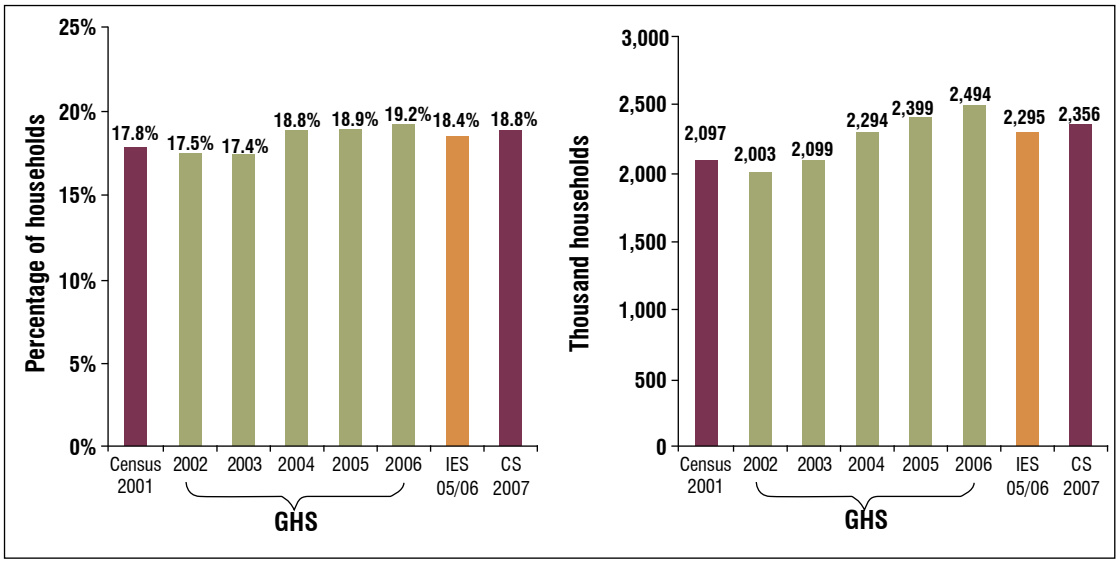
The proportion of households renting has remained relatively constant over time. According to the 2001 Census just under 18% of all households rented their main dwellings while the 2007 Community Survey indicates that 18.8% of households rent their dwellings. It should, however, be noted that in many publications[42] Census data does not include those in collective living quarters, such as worker's hostels whereas Community Survey data does include such households. Thus, with regard to Census data reported rentals may be significantly understated - according to the Community Survey over 180,000 households who rent (8% of the rental market) live in hostels.

The General Household Survey ("GHS") indicates an increase in the number of households who rent their main dwellings from 17.5% of households to 19.2% of households over the period 2002 to 2006. Over that time the number of households has grown as noted above, and with it usage of rental accommodation, by almost 500 000 households or at a rate of 5.6% per year according to the GHS[43].

[42] Published Census data on the percentage of households who rent their main dwellings does vary. In the Community Survey Statistical Release, a table summarizing findings related to tenure from the 2001 Census and the 2007 Community Survey indicates that 18.7% of households rented their primary dwellings. It may well be that in this publication renters include hostel dwellers

[43] Estimates based on the 2001 Census and the 2007 Community Survey indicate a slower growth rate at 2% per annum

Chart 16: Households who rent over time: Proportions and absolute numbers[44]



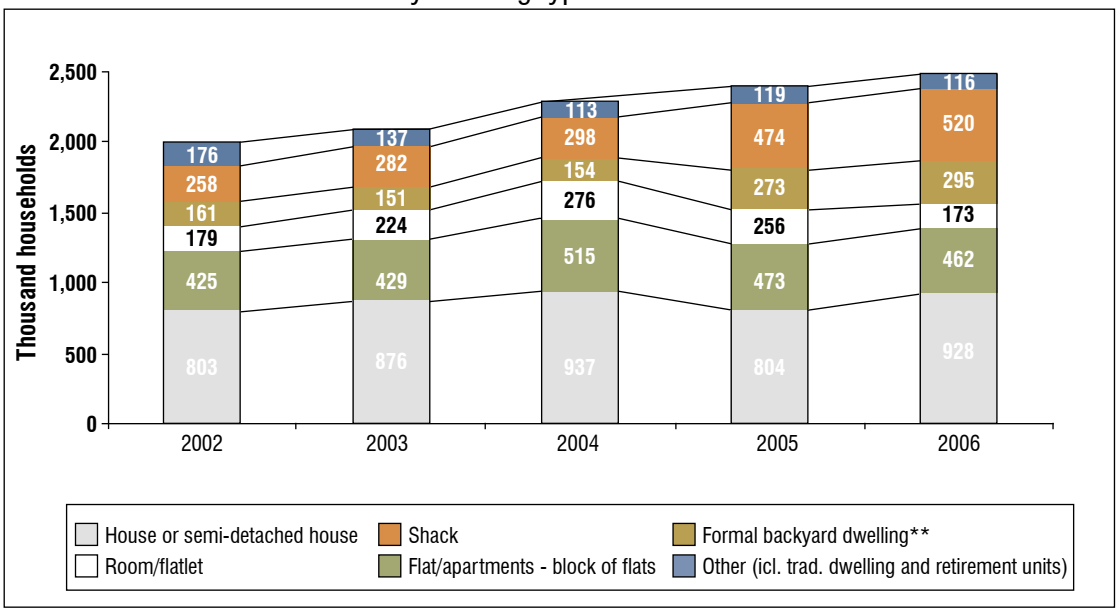
Source: Census 2001, General Household Survey 2002, 2003, 2004, 2005, 2006, IES 2005/2006, Community Survey 2007

A review of data on housing type as recorded by the GHS indicates that the bulk of the additional rental units in the market are shacks and backyard dwellings, segments in which supply is relatively elastic. According to that data the number of households renting shacks has more than doubled since 2002. The data also indicates that the absolute number of formal, rented dwellings appears to have declined slightly since 2004. This may be a function of the property price cycle and the withdrawal from the rental market of many units as owners sought to realize a capital gain on their portfolio of rental stock[45], a trend identified by various market participants interviewed in the course of this project.

[44] Data on rentals from the Census and Community Survey based on raw data. Publications indicate slightly different numbers, although the reason for the discrepancy is not given

[45] According to ABSA's national house price index, prices in the middle segment (less than R2.7 million, 40 – 80M^2) increased by 32% between 2003 and 2004 and by 23% between 2004 and 2005. In the affordable segment (less than R370,000), prices increased by 21% and 25% respectively over those years

Chart 17: Households who rent by dwelling type: 2002 - 2006



Source: General Household Survey 2002, 2003, 2004, 2005, 2006

* House or semi-detached house includes dwelling/house/brick structure located on a separate stand or yard on farm, town/cluster houses and semi-detached house

** Refers to dwelling/house/flat/room in backyard. Excludes backyard shacks

There is a notable discrepancy between GHS data and data from the Community Survey relating to the type of accommodation occupied by renters. According to the latter there were 420,622 households renting shacks 2007 while the GHS indicates a total of 519,940 households in that category. While discrepancies between surveys are to be expected (survey by their nature are never precisely accurate) such data discrepancies also reflect the transitory nature of the dwelling type and the difficulty in recording their numbers with accuracy. Nevertheless, trends based on an analysis of 2001 Census data and 2007 Community Survey data also indicate growth in the number of rented shacks, albeit at a slower rate.

Projecting rental demand

Projecting the number of households

The underlying basis for the development of rental demand projections must be the number of households that will exist. Developing sound projections of this variable itself is complex. The household is not an exogenous unit – aside from basic demographic and life stage factors, its formation is in part a response to income levels and sources[46], exposure to risks and most pertinent for this analysis, availability of housing alternatives. Projecting developments in these underlying variables as well as how individuals will respond to these changes in the process of household formation is near impossible. Projections should therefore always be treated with caution.

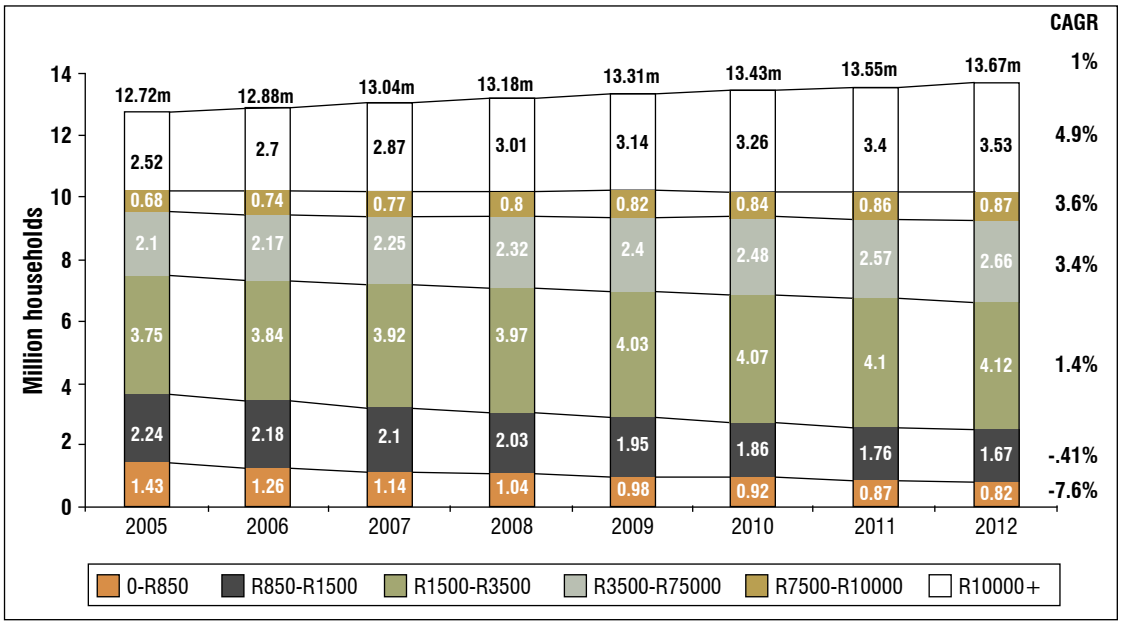
The set of projections developed for the purposes of this analysis is based on estimates supplied by Global Insight, a company specializing in econometric modelling and forecasting.

[46] Social grants for instance are thought to play a significant role in shaping households

The methodology underlying the development of these projections is provided as an appendix to this report. These projections, summarized below indicate that the number of households in South Africa will continue to grow, albeit at a slower rate than in the past and should reach almost 13.7 million by 2012.

The projections incorporate an income-based segmentation in line with the analysis presented above. At current prices (i.e. in nominal terms) it is expected that the number of households earning below R1,500 per month will decline as will the number of households with an income of between R1,500 and R7,500.

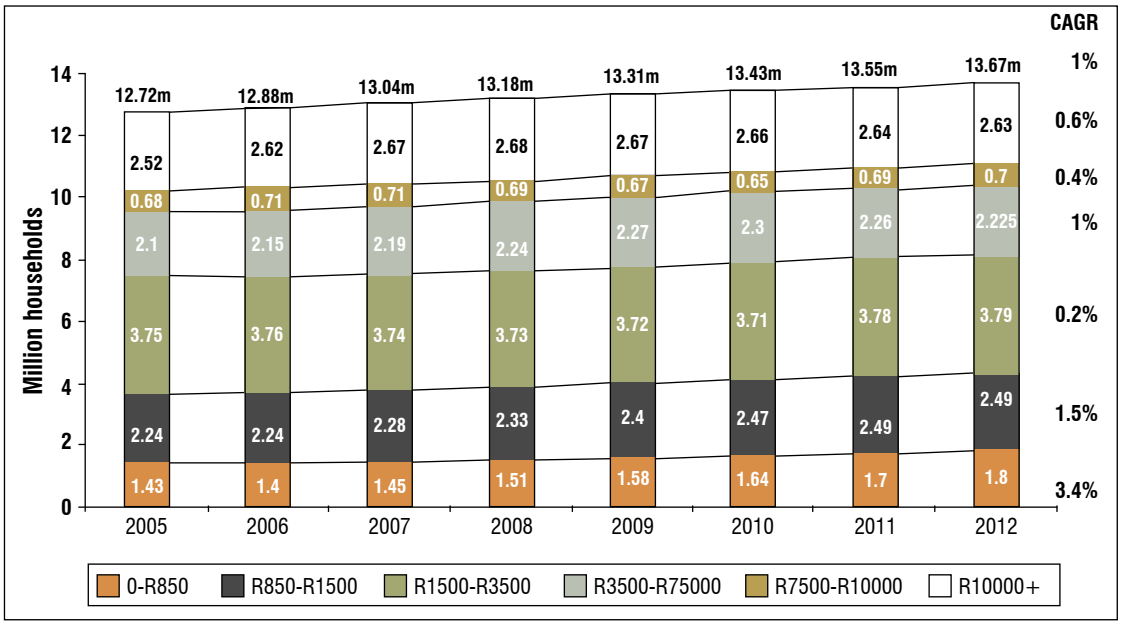
Chart 18: Projected households in South Africa by monthly household income (Current Rands)



Source: Global Insights projections

It should be noted that this decline arises primarily because of inflation. It is reasonable to assume that the cost of housing is likely to increase making an assessment of affordability based on nominal incomes less useful. Holding incomes constant in real terms yields a somewhat different picture. As shown below the number of households with incomes of R1,500 or less as measured in 2005 Rands (i.e. in real terms) is likely to increase, with very poor households the fastest growing segment. Assuming that households with an income of less than R7,500 per month in real terms will require some form of subsidy to adequately meet their housing needs, an additional 665,000 households will potentially lie in the subsidized sector by 2012.

Chart 19: Projected households in South Africa by monthly household income (2005 Rands)



Source: Global Insights projections

Projecting rentals

In developing projections of rental demand it is worth recalling the distinction between demand for rental accommodation and usage of rental accommodation noted in the introductory comments to this chapter. Where there is a significant housing shortfall and where supply of formal housing is constrained (as is the case in South Africa) the critical delimiter reflected in an analysis of rental housing usage would be supply rather than demand. While some segments of the market appear to be more elastic than others (notably informal and backyard rentals) past trends seem to indicate that formal rental is static at best and may have even declined for some housing types.

Assuming that there are no dramatic supply-side shocks which increase or decrease the stock of housing in one specific tenure segment it would appear reasonable to assume that, in line with historic trends, the percentage of households who rent remains fairly constant at around 18-20% overall, although the mix of housing type may change. We should therefore expect to see the number of households who rent their primary dwelling increase from current levels of between 2.35 and 2.49 million households to between 2.46 and 2.73 million households by 2012.

Because of their importance in the rental market, specific attention has been paid to the larger metropolitan areas. As illustrated in Chart 5 above, the data indicates significant variance in the percentage of households who rent across the large metropolitan areas with the proportion of renters in the City of Johannesburg, at 36% compared to 24% in Cape Town or just 11% in Amatole. Further, the data also indicates significant variance in rental penetration across income segments. While it would be ideal to overlay city-specific rental propensities with income-specific propensities in order to project rental usage by income segment for each city, the underlying survey data is too sparse to support such an analysis. Consequently, projections of rental demand by income segment for large metropolitan areas are based on data for all urban areas in respective provinces based on the 2005/6 Income and Expenditure Survey. The table below summarises the findings of this analysis and presents expected growth in demand over the period 2005 to 2012. It should be noted that household income bands are in real, 2005 Rands.

Table 7: Projected growth in demand for rental housing by household income: Large metropolitan areas (percentage change 2005 - 2012)

Metropolitan Area	Growth in households renting by household income bands* (2005 to 2012)						
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+	Total
City of Cape Town	55%	35%	15%	14%	0%	5%	13%
eThekwini	16%	11%	1%	2%	7%	4%	5%
Erkurhuleni	46%	31%	12%	10%	3%	3%	14%
City of Johannesburg	41%	30%	11%	12%	7%	8%	14%
Nelson Mandela Bay	16%	10%	0.4%	3%	-5%	3%	4%
City of Tshwane	42%	35%	12%	13%	4%	5%	12%
Amathole district municipality	6%	-2%	-5%	8%	8%	10%	1%
Motheo district municipality	19%	8%	-4%	1%	-5%	1%	2%
uMgungundlovu district municipality	23%	8%	-4%	1%	3%	-2%	3%

*In real terms

In order to get some sense of the number of additional units required, base numbers on households renting from the 2005/6 Income and Expenditure Survey have been used.

Table 8: Projected demand for rental housing by household income: Large metropolitan areas (thousand units, 2005 - 2012)

Metropolitan Area	Year	Growth in households renting by household income bands* (2005 to 2012)						
		<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+	Total
City of Cape Town	2005	9	16	47	54	31	62	214
	2012	14	22	53	62	32	65	243
eThekwini	2005	22	36	75	43	21	49	256
	2012	25	40	76	44	23	51	268
Erkurhuleni	2005	16	28	60	48	22	42	211
	2012	23	36	67	53	23	43	240
City of Johannesburg	2005	15	29	73	61	29	71	279
	2012	21	38	81	69	31	77	317
Nelson Mandela Bay	2005	5	7	19	14	8	16	55
	2012	5	8	19	15	8	17	57
City of Tshwane	2005	7	13	35	31	17	50	157
	2012	10	18	39	35	17	53	176
Amathole district municipality	2005	12	19	38	17	6	10	82
	2012	13	19	36	18	7	11	83
Motheo district municipality	2005	5	8	13	12	5	9	40
	2012	6	8	12	12	5	9	41
uMgungundlovu district municipality	2005	8	13	24	10	4	9	68
	2012	10	14	23	10	4	8	70

*In real terms

The estimates of households who rent based on the 2005/6 Income and Expenditure Survey differs somewhat from those generated by the GHS, which cannot facilitate an accurate analysis of household income. The table below therefore summarises the total additional demand between 2005 and 2012 based on these two surveys for the total market.

District Council/Metro	Additional households renting - 2005 to 2012*	
	GHS based estimate	IES based estimate
City of Cape Town	27,600	28,800
eThekwini	19,900	12,200
Erkurhuleni	31,300	29,200
City of Johannesburg	55,200	38,200
Nelson Mandela Bay	1,300	2,000
City of Tshwane	16,900	18,700
Amathole district municipality	500	1,100
Motheo district municipality	600	800
uMgungundlovu district municipality	1,100	1,900

*Rounded off to nearest hundred

These projections indicate that in line with growth in the number of households, demand for rental accommodation is likely to grow strongly in the City of Johannesburg, City of Cape Town, Ekurhuleni and Tshwane. Further, within these markets significant growth in demand for rental accommodation is strongest in lower income market segments. Note that the projections are in addition to existing rental backlogs.

Supply of rental accommodation

For the purposes of this analysis, rental stock is segmented into the following:

- Publicly owned stock, comprising units owned by municipalities and provincial housing departments
- Social housing stock
- Privately held stock, including that owned by institutions and households. The latter can be further segmented into owners of formal and informal stock

In the main, supply data is difficult to come by. While this is perhaps to be expected of privately owned stock which is highly fragmented, it is potentially easier to remedy with respect to publicly owned stock and social housing, given both the concentration of ownership and the ability of policymakers to encourage or compel providers to submit data.

Public providers

During the course of the analysis Eighty20 contacted representatives of the larger municipalities as well as provincial government to gather data on publicly owned housing stock. The following municipalities and housing departments were contacted:

Table 9: List of municipalities and provincial government departments contacted

Municipality contacted	Provincial DoH contacted
City of Johannesburg	Gauteng
Buffalo City	Eastern Cape
City of Cape Town	Free State
City of Tshwane	KwaZulu-Natal
Ekurhuleni	Limpopo
eThekwini	Mpumalanga
Mangaung	North West
Mogale City	Northern Cape
Msunduzi	Western Cape
Nelson Mandela	

During the course of the project some data was collected from five municipalities, namely Buffalo City, Ekurhuleni, City of Johannesburg, Mangaung and Msunduzi. While all efforts were made to ensure the completeness and accuracy of the data there is no way of assessing this. The data gathered from municipalities to date is summarised in the table below.

Table 10: Data collected for different municipalities by dwelling type

Dwelling Type	Number of rental units*				
	Buffalo City	Ekurhuleni	City of JHB	Mangaung	Msunduzi
Flats (incl. bachelor)	579	2141	2067	585	386
Hostel	812			1075	
House	136		770	659	373
Simplex/duplex/semi-detached/cluster house	4		352		
Old age home/retirement village/units		1391	214		
Unknown/other	795		482		480

*Based on information made available by the municipalities

For those areas where data was not collected it is not clear whether this is because the data does not exist or because there was limited willingness to submit the data.

In general there is typically more data available on the stock itself and relatively limited data available on the profile of renter households. Ideally data on both should be collected although it is to be expected that household data, particularly as it pertains to household income, is likely to be more difficult to obtain, verify and maintain. It may therefore not be feasible to gather this data, at least initially.

Recommendation: data from municipalities

An audit of publicly held stock is required as part of the Community Residential Unit ("CRU") policy. A provisional data template outlining a wish-list of required data fields was developed as part of this project. Fields in this template include data relating to the type of stock, as well as vacancy rates and delinquency rates for the portfolio of rental units. It also includes data that would enable a profiling of renter households including household incomes and length of tenure. This template should be used as a basis for consultation with various municipalities to assess whether it would be feasible to collect the data. At times of writing, guidelines were being developed to facilitate data collection on CRU stock, initially in the Free State. There should be firm requirements for all provinces to set up such mechanisms as a requirement for receiving funds under CRU.

During the course of data collection process it was apparent that no clear responsibility has been assigned for maintaining data on municipal stock. The data appears to reside in various departments within each municipality and consultants were referred to several individuals before data was obtained. If data maintenance is regarded as important clear responsibility must be assigned for the task within each municipality. In addition, responsibility must be assigned at a higher level (provincial and national) for collation of the data and management of the data collection process from individual municipalities. Municipalities that fail to

provide and maintain data should be held accountable.

Social Housing Institutions

The draft Social Housing Policy of May 2005 defines social housing as a "rental or co-operative housing option for low income persons at a level of scale and built form which requires institutionalised management and which is provided by accredited social housing institutions or in accredited social housing projects in designated restructuring zones". According to the Social Housing Foundation there are approximately 53,000 rental units owned by 56 social housing institutions in South Africa[47]. Given that there are upwards of two million rented dwellings in the country the sector accounts for a very small share of the market, albeit one that is poised to grow strongly with the recent revision and renewed focus of social housing policy in the country.

In order to facilitate the collection of more detailed data from these institutions on a regular basis a web-based data capture and reporting tool has been developed by Eighty20. Data fields included in this tool include the location, number and type of units in the portfolio of each institution, rental ranges for each unit type as well as vacancy rates and delinquency rates for the institution as a whole. At the time of writing the data capture application had been reviewed and tested by members of the National Association of Social Housing Organisations ("NASHO"). It is intended that all social housing institutions will make use of the application in the near future.

As with publicly held stock it is important that household data relating to the occupants of subsidised units be collected in order to assess whether intended targets for social housing are, in fact, being reached. It may be feasible to collect this data using mechanisms such as surveys of households living in social housing projects conducted intermittently.

Private institutional landlords

There is no national source of data on private institutional providers. An analysis of deeds office data can identify residential properties owned by private institutions. However that data does not accurately indicate the number and size of rental units. As already noted, a key trend identified by some interviewees is the fragmentation of the industry and the withdrawal of institutions from the market over the past few years. This is thought to be primarily a result of the significant improvement in the property market. As prices of residential property increased institutions sold much of their stock to realise capital gains.

International researchers[48] have highlighted low levels of interest in the residential sector by larger institutions in general who tend to prefer commercial or industrial property. Thus, while there are few large institutions active in the South African residential rental market - City Property for example is estimated[49] to have approximately 1,000 units in Johannesburg and 6,000 units in Pretoria with a further 1,200 units planned for Johannesburg and 600 in Pretoria during the course of 2008 while Afhco (50% owned by Old Mutual) currently has

47 Source: 2007 Annual Report of the Social Housing Foundation

48 See "The development of residential rental markets in emerging and transition economies", presentation given by Claude Taffin at a conference on Housing Finance in Emerging Markets, May 28-30, 2008, Washington D.C.

49 Estimate provided by Max Katz of City Property during a telephonic interview

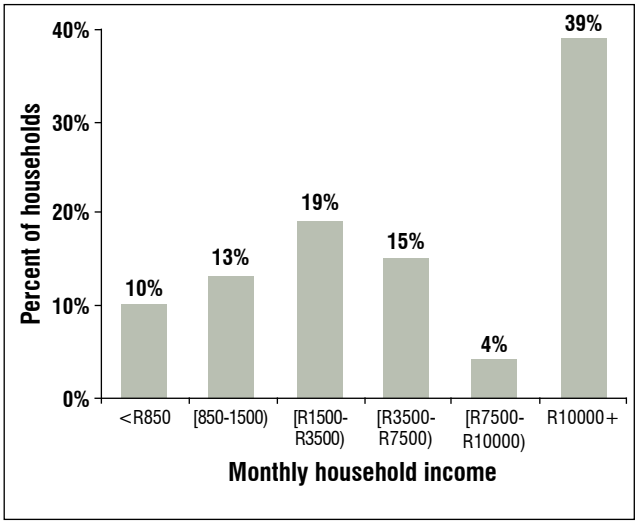
around 3,000 units in inner city Johannesburg and plans to release an additional 5,000 units in the near term - it unlikely that they will supply a significant share of residential rental stock the future, particularly for lower income households. Smaller private investors, including households (discussed below) are likely to continue supplying the bulk of residential rental stock.

Individual landlords

As with institutional landlords, data on the number of rental units owned by private individuals is not available. However, the 2005/6 Income and Expenditure Survey contains data on rental incomes received directly by households[50]. That survey found that 197,000 households in South Africa earn rental income not as part of a business. A property investor whose units are held by a separate legal entity would therefore not be included in this total. No data is contained in the survey on whether the rent received is for residential properties, the type of dwelling if indeed it is residential, and if so whether rent is received from boarders sharing a dwelling with owners or from tenants who occupy a separate unit. There is also no data to determine the number of rental units from which reported income is derived. In this regard, previous research on township backyard rentals found a high variance in the number of rental units per stand. In Orlando East for instance the number of units ranged from one to as many as 18, with the average at 4.9 units per stand while in Katorus the average was 3.3 units per stand with the maximum at 12.

According to the survey a significant percentage of households who earn rental income are relatively poor.

Chart 20: Household income distribution of rent-receiving households

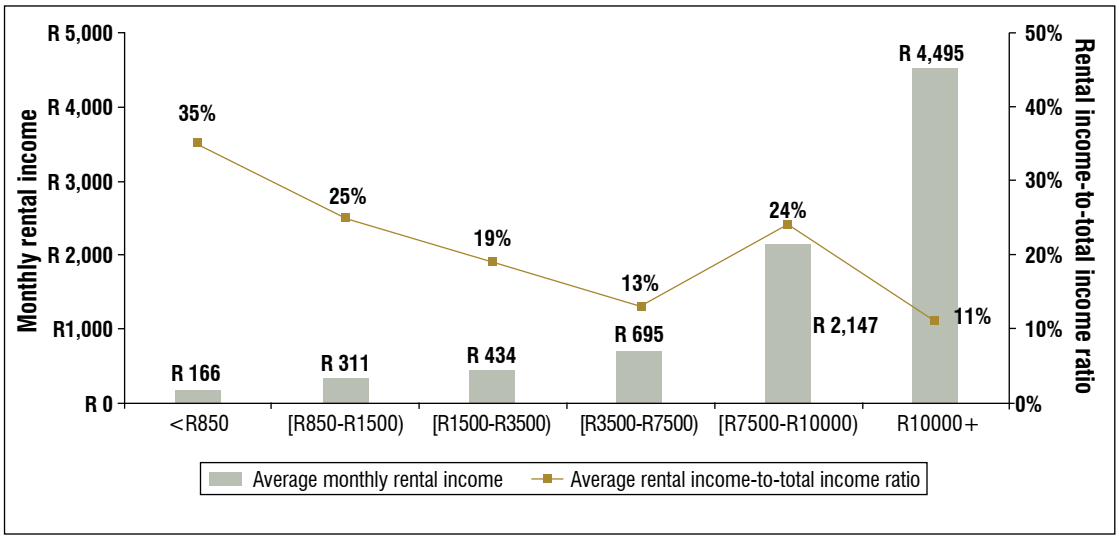


Source: Income and Expenditure Survey (2005/2006)

[50] The question relates to letting of fixed property "only if the letting of property is not a bone fide business". Such income is categorized as income from business

Further, for poorer households rental income accounts for a significant percentage of household income.

Chart 21: Rand values of rental incomes received and rental income share of total income for rental earning households



Source: Income and Expenditure Survey (2005/2006)

Using rental earners in the highest income bracket as a proxy for household providers of formal rental accommodation, it can be estimated that almost 77,000 individual households (39% of 197,000 rent receiving households) participate in this sector. If one makes the additional assumption that each of these households supplies on average 1.5 units, an assumption that appears to be plausible given an average total rental income earned of almost R4,500 per month, private households probably provide at least 120,000 formal rental units to the market. This excludes rental housing owned by smaller, non-institutional investors who hold their properties in a separate business entity.

Data from the 2005/6 Income and Expenditure Survey indicates that approximately 500,000 households pay rent in excess of R1,000 per month and live in houses, townhouses or flats. Assuming that all these households rent from private sector providers it would appear that a significant percentage of all privately provided formal rented accommodation is owned by individual households directly.

Recommendation: data from private landlords

As the market has become more fragmented, landlords in some areas, notably inner city Johannesburg, have created representative organisations. While these organisations currently do not, as a matter of course, collect data on the portfolios of their members there might be some willingness to do so in the future. Some initial discussions in this regard have taken place with the Property Owner's Management Association ("POMA") and will continue.

Even with the cooperation of representative bodies it is highly unlikely that complete data on the sector can be gathered. In the absence of mechanisms to capture data off lease documents for example it is suggested that efforts be made to gather data from larger "visible" institutions (with their cooperation) on a regular basis.

Aside from data on the number of units it is critical that data be gathered on rentals charged. This data, together with site visits will enable policymakers to develop a far more nuanced understanding of the type and quality of rental accommodation that the private sector can sustainably deliver, particularly in the "affordable" segment of the market. This is critical to ensure alignment between subsidised and non-subsidised rental housing.

Factors impacting on the development of rental markets in South Africa

Various market participants, including private sector landlords, property managers and social housing institutions as well as analysts and policymakers were interviewed in order to gather views on the key strategic issues impacting on the rental market in South Africa.

Perhaps the most frequently noted observation made by interviewees, including private sector and social housing providers, property managers and financiers on the rental market is the exceptionally strong demand at all levels. Property managers report vacancy levels at a historic low of between 1% and 2% and indicate that these are primarily maintenance related. They predict that demand is likely to continue growing strongly given reduced access to mortgages[51] and higher interest rates. Demand conditions in inner city Johannesburg in particular are typically characterised as "insatiable". To quote one interviewee "(It is a) bottomless pit. I don't see an end in sight. Rentals are rocketing… you could build another 10 000 units in the centre of Johannesburg and that would not dent demand". Providers in the social housing sector report exceptionally high levels of demand. One SHI in Johannesburg reported 2,000 applicants for a 220-unit project launched in March. In Durban, riot police were called when applications opened for units in a new project in Newlands for which 20,000 people applied.

Supply of rental accommodation by its nature tends to be relatively inelastic. Lead times to bring stock to the market are long, even when optimized. Recent research on the supply of affordable housing in South Africa more generally has highlighted the lack of suitably located, serviced and affordable land for new housing development and the significant delays and capacity constraints that exist in the housing supply chain[52]. While some of these constraints can be by-passed in the rental sector (new rental stock can be created from the conversion of commercial or industrial property) other constraints exist. Providers and other market participants noted several factors that impede the functioning of the rental market, particularly in lower income sub-segments. These manifest at several junctures within the overall rental market system, broadly defined. In line with a framework developed primarily for the assessment of market access in the financial services sector, this system can be characterized as comprising various layers described below[53]:

[51] This is a function of the National Credit Act as well as increased risk aversion on the part of lenders as a result of the sub-prime crisis

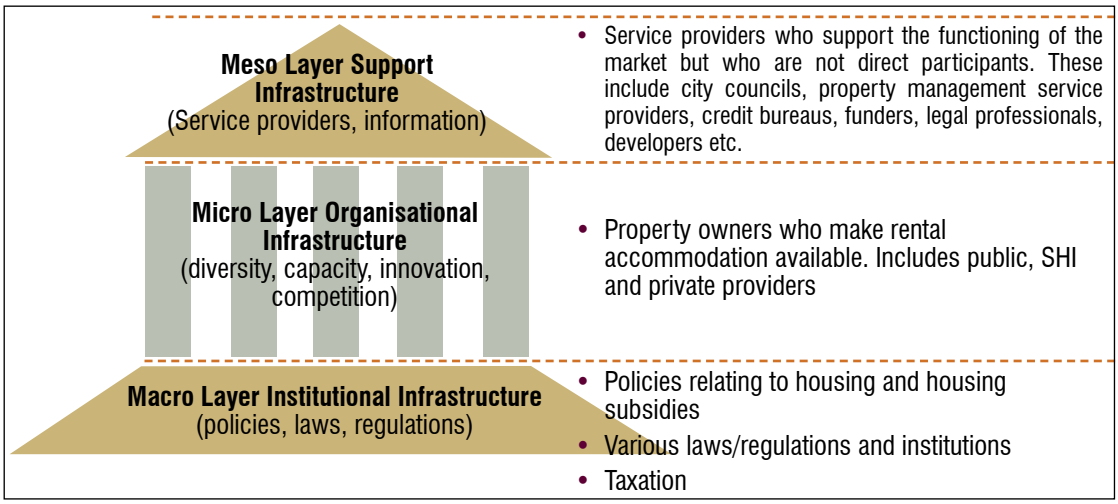
[52] Research into housing supply and functioning markets, Banking Association, 2005

[53] This is based on the Financial Inclusion Assessment Tool developed by CGAP and the FinMark Trust. The description of the framework is based on a FinMark Trust savings assessment Terms of Reference and a seminar paper describing the framework delivered by Mark Napier of the FinMark Trust at the African Finance for the 21st Century conference held in Tunis in March 2008 entitled "Designing Context-Specific Solutions: Reforms in Weak Institutional Environments"

- The macro or institutional layer: This includes the policies[54], regulations[55], laws and institutions[56] that govern the conduct of various providers of rental accommodation. This layer primarily seeks to balance the rights and duties of tenants and landlords, to encourage the creation of rental stock through various incentives and to provide mechanisms to create affordable rental stock for those unable to access accommodation at prevailing market rentals.
- The meso or support layer: This layer comprises the entities that facilitate the functioning of the market for rental accommodation and support the activities of the providers as well as players at the macro level. Participants in this layer include providers of housing finance and market information as well as entities that provide key services such as municipalities, property management companies and legal professionals.
- The micro or organisational layer: This layer includes providers of rental accommodation including private sector landlords, both formal and informal, institutional and individual, social housing institutions and municipal and provincial government. The micro/ organizational layer considers factors such as the capacity within each of these sectors to provide and manage rental stock and the impact of competition within and between each sector. The consumer: This layer includes an assessment of demand conditions, discussed in detail in Chapter 3 of this report.

The framework characterizing the rental market system is summarized in the diagram below:

Chart 22: The rental market system



* Based on the FinMark Trust House or Financial Inclusion Assessment Framework used to assess various financial markets

[54] Policies include the National Housing Policy (Breaking New Ground) as well as Social Housing Policy and Community Residential Unit Policy

[55] These include the Constitution of the Republic of South Africa, 1996, The Rental Housing Act, 1999 and the Amendment to the Act, The Prevention of Illegal Eviction from and Unlawful Occupation of Land Act, 1998

[56] These include Rental Housing Tribunals and The High Court

The macro or institutional layer

This alignment of this layer with the needs of investors is arguably the most critical determinant of market participation in the rental sector. In order to succeed in encouraging private investment in the rental sector greater emphasis must be placed on ensuring that it is attractive to smaller investors who, as noted above, play a critical role in residential rental markets in South Africa and around the world[57]. Careful attention must therefore be paid to their needs. These include the need for security – as noted by Taffin[58] "payment defaults are a statistical data for large investors but a financial disaster for small savers"[59] - and their more limited time horizons implying the "need for quick – and fair - procedures in case of problems". According to Taffin a balanced legal framework, balancing the "landlord's and tenant's rights and duties" relating to "eviction, maintenance, rent setting and rent increase, payment of taxes" is the "sine qua non condition to attract private investors". Landlord perceptions relating to these issues are discussed below.

Regulations and institutions relating to evictions

By far the most frequently (and most vigorously) cited issues raised by formal private sector landlords relate to the regulations, institutions and processes associated with managing evictions. Landlords noted that the current legal process for dealing with evictions is inefficient and expensive. The widely held perception is that the legal institutions and processes simply do not work. Further, there was very little faith that they could be made to work given the lack of capacity within (and competing claims on) the justice system. The prevailing view is that existing and proposed regulations relating to evictions, specifically those that require a high court ruling for an eviction and that seek to criminalize evictions undertaken without a court order should be amended in light of this.

While evictions are relatively uncommon costs of following prescribed processes are exceptionally high. This is particularly the case where occupants of an entire building need to be evicted either because the building has been hijacked or because a new owner wishes to refurbish. In the case of single units, while each case differs, landlords report that it typically takes between six months and one year to evict a tenant through the courts. During that time landlords receive no rent and usually have to continue paying for services used by the tenant such as electricity and water. Owners reported legal costs of recent cases range between R15,000 and R60,000 for a single unit while costs for a sheriff to carry out the eviction order range between R6,000 and R20,000 depending on the size of the unit. Typically, required maintenance after an eviction is high and in some cases security services (costing in the region of R5,000) are required to ensure that evicted tenants do not move back in. Taken together total eviction costs including the opportunity cost of foregone rentals materially impact on rental portfolio returns, particularly for smaller investors who play a critical role in this sector.

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57 These comments are based on "The development of residential rental markets in emerging and transition economies", presentation given by Claude Taffin at a conference on Housing Finance in Emerging Markets, May 28-30, 2008, Washington D.C.

58 Claude Taffin is director of Economic and Financial Studies at "l'Union Sociale pour l'Habitat", the association of French social renters

59 ibid

Because of the costs and delays, inner city landlords whose tenants who often do not know their rights typically evict tenants without going through the legal processes. While practices differ, it is not uncommon for landlords to switch off electricity if payment has not been received by the seventh of the month, lock tenants out by the 14th and to evict by the 21st of the month.

Amendments to the Rental Housing Act, effective May, 2008, criminalize such actions. However, some landlords reported that they would not change their current processes despite the threat of criminalisation. To quote one: "I will carry on exactly as I am. I have to protect our investment against people who don't pay".

In line with Section 7 of the Rental Housing Act Provincial MECs for Housing appoint Rental Housing Tribunals, institutions that exist primarily to mediate and resolve disputes between landlords and tenants[60] thereby facilitating the functioning of rental markets. Rental providers noted that where they are operational they are accessible to both landlords and tenants – although in the case of tenants access is constrained by lack of awareness. Many tenants, particularly lower income tenants do not know their rights, nor do they know about the tribunals. Landlords based in Gauteng perceive the tribunal to be a valuable institution although it is not clear whether this applies in other areas.

Two key issues with respect to tribunals were noted. Firstly, as discussed above, tribunals do not have the power to evict tenants. As a result, landlords frequently characterized tribunals as not "having teeth". Secondly there is perceived to be a lack of consistency across the country both with respect to the capacity of the tribunals as well as the rulings they make. One property management company that operates nationally noted that there is regional variation in the rulings which creates some confusion[61].

One relatively new development that might impact on evictions is that tribunals have now been given clarity with respect to issuing orders to pay rent. These orders, like other rulings of the tribunal, have the same standing as a ruling of a magistrate court and failure to comply is a criminal offence. While this might compel some tenants to pay rent it is not clear what the impact of this would be on a household that fails to pay rent because it has become destitute - it is questionable whether courts in South Africa would be willing to effectively criminalize poverty. To quote one landlord on this issue: "this still seems like impractical legislation. Evicting is illegal and not paying rent is illegal. The logical remedy is just getting the person out of your apartment….So your only legal recourse is to get the person arrested, which I cannot see happening. Even if you did get this right you might have the person's family stuck in your apartment. Seems like a solution where everyone loses…. The proposed solution is impractical! If the person is in breach of their rental contract or now this order, they are not criminals. They just cannot afford to pay. As such the simplest way of dealing with the problem is to get another paying tenant in as soon as possible and not getting (sic) dragged into either a criminal or civil procedure."

[60] According to the Western Cape RHT annual report (2006/7) the objectives of the tribunal are to "promote stability in the rental housing sector; To provide mechanisms to deal with disputes in this sector; To promote the provision of rental housing property; To facilitate, investigate, mediate and conduct hearings to resolve isputes between landlords and tenants; To inform landlords and tenants of their rights and obligations should unfair practices arise; and to make recommendations to relevant stakeholders regarding issues to be addressed in the rental housing field"

[61] A representative of the Gauteng Tribunal suggested that the rulings of the various tribunals be published as a matter of course. This would help to create a body of case law that might help to create consistency

Aside from changing the legislation, other potential solutions proposed by landlords include increasing the jurisdiction of rental housing tribunals to incorporate eviction orders. Given that the requirement for a court order prior to an eviction is stipulated in the constitution the key issue is whether a tribunal would be regarded as a court, and whether any changes required to the way it operates to become a court would negatively impact on its accessibility and its success in other areas of tenant-landlord dispute resolution.

In the absence of a supporting regulatory environment (and assuming that landlords comply with regulations), other credit risk management processes can be instituted by landlords. Aside from actively managing payments and monitoring tenants' financial status, these include increasing deposits and more rigorous tenant screening[62] – both of which are likely to reduce access to the rental market for lower income, higher risk clients.

Taxation

The tax treatment of rental income is highlighted as a key factor in encouraging private investment in the rental sector. In South Africa property is taxed in much the same way as other investment classes[63] although tax incentives are in place to encourage investment in key areas. In this regard, private sector providers noted the positive impact of the Urban Development Zone ("UDZ") tax incentive. The incentive is directed at property owners and potential investors in inner city areas that have been identified as requiring economic revitalization. The incentive is in the form of an accelerated depreciation allowance relating to investments in refurbishing existing buildings or creating new buildings. In the case of refurbishments, 20% of refurbishment costs can be deducted over five years, while in the case of new developments 20% of the costs of construction can be deducted in the first year with a further 5% each year for the subsequent 16 years. This allowance has a significant impact on project cash flows and based on conversations with various landlords appears to have played an important role in encouraging investment in rental housing in inner cities. One landlord in inner city Johannesburg recommended that similar tax incentives be made available for investors who provide affordable accommodation. The potential impact of such incentives on the supply of affordable accommodation should be investigated as should the mechanisms for implementation and monitoring to ensure that targeted households are in fact reached.

Subsidies

Support for the social housing sector in the past manifested primarily through the Institutional Subsidy mechanism to encourage the creation of social housing stock. Subsidies were available for institutions that provide accommodation for rental or on an installment sale basis to the subsidy target market comprising households with an income of less than R3,500 per month. Interviewees from various Social Housing Institutions ("SHIs") highlighted various

[62] While credit bureau data in general has been used by landlords many report that it is not particularly useful in assessing lower income tenants as most tend to have impaired credit records. They also believe that tenants are likely to prioritise rental payments over other account payments in general diminishing the usefulness of the latter as an indicator. In this regard the development of a specific tenant-related credit bureau, Tennant Profile Network ("TPN") is a noteworthy development. TPN collects rental payment data from, and provides this data to, member landlords to enable them to better screen prospective tenants.

[63] The comments on taxation in this section are made from a supply rather than demand perspective. It is worth noting with regard to the latter that imputed rentals are not taxed in South Africa. This is likely to lead tax paying households to favour home ownership

shortcomings with institutional subsidies, including the quantum of the subsidy, protracted processes required to obtain the subsidy and significant delays in receiving funds once subsidies have been approved.

The institutional subsidy value of R41,000 is widely viewed as inadequate given increases in both capital and operational costs. According to SHIs the latter, including water, rates, electricity and administration amount to between R300 and R400 per month per unit[64]. In addition, as rentals in the private sector increase the opportunity cost of the subsidy, i.e. the differential in rentals earned by private sector landlords compared to those charged by social housing institutions, increases.

In line with the recently created Social Housing Policy, a new capital restructuring grant seeks to address the shortfall of the subsidy quantum to a large extent and expands the target market to households with an income of between R1,500 and R7,500 per month. The value of the subsidy, available for projects in identified urban development zones, varies depending on the mix of units, starting at approximately R120,000 per unit.

SHIs raised some concerns about the total number of projects for which funding is available. A total amount of R196 million is budgeted for 2008/9 equating to roughly 1,600 units, a relatively low amount in the context of high demand. SHIs also highlighted that the revised subsidy does not address the needs of the very poor.

The process of applying for subsidies is thought by SHIs to be exceptionally bureaucratic with several layers of review and multiple submissions of documentation required. In addition, once subsidies have been approved there are often significant delays before funds are actually disbursed. Once again, it is hoped that with the creation of the Social Housing Regulatory Authority ("SHRA") as envisaged by the new Social Housing Act, the process will be made to be more efficient. In this regard, the establishment of Provincial Steering Committees ("PSCs") and the removal of requirements for individual assessments for institutional subsidies should have a material impact on the process, although it was noted that capacity within some PSCs is constrained.

Private sector landlords are in general unaware of developments in the social housing policy and subsidy regime. If, as stated in the social housing policy, it is the intention to encourage private sector participation in the social housing realm, a focused effort will be required to inform private sector players of the potential benefits of doing so. Perceptions of inefficiency with regard to applying for subsidies will also need to be altered. In this regard, the dialogue between the SHF and various private sector players is encouraging.

It is of course important to ensure that wherever possible market mechanisms that can work be allowed to do so. Subsidies and tax incentives, while potentially useful, can distort market signals and result in misallocation of resources. They can also be difficult to withdraw once introduced. Policymakers should avoid the temptation to use these "supra-market" mechanisms to compensate for inefficiencies brought about by poorly functioning municipalities (discussed below) and inefficient legal processes. Rather, strategies to overcome these inefficiencies should be developed and implemented.

[64] The value of the subsidy amortised over a 20-year life of a project effectively equates an amount of approximately R500 per month. This assumes a discount rate of 15% per annum. If the rate is 12% the amount falls to R440

The meso or support layer

Service delivery by municipalities

The poor quality and high cost of key services delivered by local government, particularly in inner city Johannesburg, was highlighted by many, both in the private and social housing sectors. Issues range from long delays in responding to reported problems to frequent billing errors. In the areas of refuse removal and basic cleanliness landlords often have to augment services provided by the city directly, hiring cleaners to maintain alleyways and streets around their properties. Poor by-law enforcement was also highlighted as a problem.

Rates and service charges for rented rooms

Private sector and social housing landlords highlighted that rented rooms (in situations where residents share bathroom and kitchen facilities) did not receive an allocation of free water as these were regarded as commercial rather than residential properties. Given that demand for rooms is high particularly by lower income renters who cannot afford to rent other types of accommodation, this is clearly an undesirable outcome.

Distribution of electricity

Landlords noted that they play an important role in collecting payment for electricity, yet do so at their own risk without any compensation from electricity distributors. As matters currently stand, landlords may not terminate services (including electricity) if tenants do not pay rent as this action, defined as a "constructive eviction", is now an offence under the Rental Housing Act (as amended). Where default occurs, landlords continue to be liable for expenses incurred by delinquent tenants.

Role of municipalities in releasing stock

Various providers noted that the costs of buildings suited to refurbishment or conversion have escalated significantly, particularly in inner city Johannesburg. In that city, the collapse of the Better Buildings Programme was highlighted by most providers as highly regrettable, particularly given the increasing costs of inner city buildings. While there are no published estimates, some interviewees indicated that as many as 700 to one thousand buildings were potentially 'upgradable' within the inner city but that the political will to take the matter forward was lacking. In light of exceptionally buoyant demand conditions and consequent pressure on rentals this was seen as a particular failure.

Access to finance

Access to debt funding for the purposes of creating rental stock in inner cities has improved noticeably over the past decade. Institutions providing finance include the large banks, TUHF and the NHFC. Feedback on the NHFC is mixed, with some providers regarding it as ineffective and inefficient and other interviewees characterising it as unfairly and "much maligned" although conceding that there is scope for improvement. With regard to debt funding, some property owners noted the need for further product development, including longer term loans, interest rate resets and step-up loans. In addition, they noted the relatively high cost of debt funding, which is typically set at prime plus two percentage points.

Most comments on to access to finance relate exclusively to debt funding. However one interviewee highlighted the need for a broader view of access to finance, noting that "The issue is access to the right blend of finance. There is undue emphasis on access to credit. There needs to be a balance between equity, credit and capital subsidy. Access to equity is enormously difficult and access to the subsidy is problematic."

Aside from a handful of large institutional property owners, private sector landlords by and large do not have access to equity funding. Unlike commercial and industrial property, there are no listed residential property funds in South Africa which could channel equity funding towards the sector. Given the high returns earned by landlords, particularly those operating in inner cities, it appears that the creation of such a fund may well be worthy of further investigation.

The micro layer

Capacity of Social Housing Institutions

Building the capacity of SHIs has been highlighted in various policy documents as a key issue for the sector. Based on a discussion with Dutch International Guarantees for Housing ("DIGH"), between six and seven South African SHIs out of a total of 56 are regarded as being highly capacitated. However, within these institutions often only one or two individuals are the primary custodians of key skills and provide the impetus for continued success and growth.

Aside from building the capacity of SHIs directly the sector may well benefit from outsourcing key functions to private sector players. Examples of this have already emerged. Communicare, a social housing institution based in Cape Town makes use of the services of Trafalgar, a private property management company. For many SHIs financial constraints inhibit their use of outsourced providers. The new subsidy structure may, however, facilitate the use outsourced services. This should be investigated further.

Interplay Between the Social Housing and Private Sectors

A critical issue relates to the product and affordability continuum spanning subsidized rentals and non-subsidised housing options (including rental and ownership). Ideally those in social housing units should be able to migrate to private sector units as their incomes increase, thereby making way for new households to benefit from affordable, well-located and high-quality accommodation. In reality, however, households that are fortunate enough to occupy units in social housing developments often cannot afford to, or choose not to, move into private sector units of similar or better quality even when their incomes increase. SHIs are reluctant to force those who no longer qualify to move out, fearing disruption to communities, households and livelihoods. At the same time they are unable to increase rentals beyond the limits stipulated in terms of the subsidy policy. As a result turnover is exceptionally low. By way of example, one SHI reported that over half its tenants had occupied their units for more than six years.

Provisions in the new Social Housing Policy address this through the proposed creation of stratified housing products with clearly defined target markets to mitigate the risk of downward raiding, and presumably, the risk of extended occupancy of subsidized units by upwardly mobile households. Interviewees suggested for example that facilities and services typically required by better off households (including parking facilities) be limited in

social housing projects[65], although whether this is possible given the focus on encouraging a mix of households within a given project is unknown. While the new policy suggests an upper income limit for beneficiary households, it is not clear whether a household whose income rises subsequent to occupying a subsidized unit will be required to move or whether such a household may be charged a higher rental. In the case of the latter, aside from the option of rent-to-buy arrangements with the tenant, there may be scope to explore the sale of such units with an intact, market-related rental income stream on a sectional title basis to private sector investors with the social housing institution continuing to manage the property[66]. Capital amounts raised in this way could then be reinvested in developing further social housing projects.

The provision within the new policy for CPI-related rental increases for subsidized units should also impact on pricing continuity between subsidized and private sector rentals, as well as other tenure forms. Without this, the development of a "housing ladder" for those in social housing projects would not be possible as the gap between subsidized rentals and the cost of non-subsidised alternatives would become too great over time.

Given the very small size of the subsidized sector in the context of exceptionally high demand any distorting effect on private sector players is currently imperceptible. None of the private sector providers interviewed as part of this project reported diminished demand for their units nor any resistance to market pricing as a result of the supply of subsidized units. As with all subsidies however, this risk should be monitored in the future, particularly if the sector is able to reach scale as intended. The risk is amplified somewhat by the regional focus of the new social housing policy. In some targeted restructuring zones social housing projects may well account a significant share of the market. In addition, the impact of market distortion and the risk of crowding out the private sector may impact more on some housing types. Rooms offered by private sector landlords, for which there is reportedly high demand, are particularly at risk. As noted elsewhere in this document further research is required to determine to what degree unsubsidized accommodation can meet the needs of lower income single person households who tend to have higher affordability thresholds than larger households with the same income.

65 An alternative approach taken by social housing providers in other markets such as the Netherlands includes a combined supply-side and demand-side subsidy, with the former related to the project and the latter related to the circumstances of the household. The demand-side subsidy is reduced as the household's conditions improve. However, the new policy in South Africa explicitly moves away from income-based eligibility given difficulties associated with verifying incomes

66 This would mirror the business model of Aengus Property Holdings, a company that operates in inner city Johannesburg

Concluding comments

In the process of this research a number of gaps have been identified. While they have been noted in the body of the report key points in this regard are summarised briefly for ease of reference.

Data gaps: Demand

Data on usage as reflected by surveys may not in fact represent a complete picture of demand where the market is characterised by significant stock shortages. While this is difficult to remedy using surveys – given the gap between what people say and what people do, asking people about their tenure preferences may not provide an accurate picture – it would be helpful to gather and monitor data on key indicators including vacancy rates and rental escalation rates associated with specific areas and housing types for both subsidised and unsubsidised stock.

There is also limited data with which to assess affordability and preferences relating to housing type and location. Once again data gathered through surveys that ask respondents how much they would be willing to pay for various housing options is unlikely to be helpful. Data on the number of qualifying applications received for subsidised housing units relative to supply, and the characteristics of those applicants may be more useful in providing some indications in this regard. This data should therefore be systematically gathered and monitored, if not for all social housing projects than at least for an indicative sample.

Data gaps: Supply

As noted in the report there is very little data available on the supply of rented accommodation. This is true for all sectors; publicly-owned stock, social housing stock and privately owned stock. Data gaps with respect to publicly-owned and social housing stock are theoretically easier to close. Not only is ownership concentrated but providers can be compelled to submit data on a regular basis. It is suggested that a process be put in place to assess the feasibility of gathering data on publicly-owned stock as well as the profile of occupants. With regard to social housing institutions such a process has already been initiated with NASHO members.

With regard to the private sector given the high degree of fragmentation of ownership it is unlikely that complete data can ever be gathered. However it may be possible, through representative bodies such as POMA, to gather data for a panel of providers that can be tracked over time. Aside from variables identified above relating to rentals and vacancy rates, this would include data on the size and composition of their rental portfolios. This quantitative data should be augmented by more qualitative data relating to the condition of available units, particularly those whose rentals are relatively low. In addition, it may be worth exploring the creation of a rental housing confidence index that would provide an indication of private sector sentiment about the rental sector[67].

[67] This could be in the form of a short qualitative survey similar to the BER's business confidence survey

Areas for further research

Additional research on key areas is required;

- From a policy perspective more insight is required to assess the extent to which the market can sustainably provide rental accommodation to low income households. This relates both to the current environment, constrained as it is by inefficiencies at various levels as well as in an "ideal" scenario where key legal and local government institutions function efficiently. This will provide a more robust fact base to determine where "supra-market" interventions such as subsidies and additional tax allowances are required to stimulate private sector participation and how these relate to innate market limitations as opposed to non-market factors, arguably better addressed through other mechanisms (such as improving the capacity of municipalities and legal institutions). Such an analysis would help to inform a broader rental market strategy and prioritise required interventions. It might also enable a better assessment of where subsidies and / or allowances are likely to generate unacceptably high levels of market distortion.
- Given the importance of regulations relating to evictions it is critical to identify mechanisms that might enable improved alignment between the regulatory environment in that regard and the institutional infrastructure tasked with enforcing these laws. Possibilities might include changes to the law and/or changes to the institutions and their jurisdiction, including enhancing the scope and enforcement capacity of Rental Housing Tribunals.
- The report notes the potential risk of social housing policy becoming a "victim of its own success" in two key senses:
    - Households living in accommodation provided by social housing institutions can be expected to experience improvements in their economic conditions, in large part because they are able to live close to economic opportunities in stable communities. While it is hoped that there are alternatives that facilitate their migration up the housing ladder and that they do so willingly, various interventions may well be required to facilitate and encourage this. This includes options relating to the quality of accommodation itself as well as options relating to changes in rental levels and ownership of the unit (including rent-to-buy arrangements and the sale of units with incumbent tenants whose rentals have gradually been increased as their livelihoods have improved to private investors). These and other alternatives should be explored more fully and assessed relative to stipulations governing the subsidy regime.
    - Urban regeneration in targeted restructuring zones at least in part as a result of investment in social housing is likely to result in displacement of the poor who can no longer afford to live there. To minimise this, mechanisms should be identified that enable the "value capture" of external benefits created by social housing investment enjoyed other investors and the reinvestment of this surplus directly in subsidised housing. Research to identify these mechanisms and how they might be implemented is critical (for example, where property rates are the mechanism, who levies these rates and how would funds be channelled back into social housing?).
- Various estimates were provided by interviewees of the number of buildings in inner city Johannesburg that could be converted or refurbished to create or improve rental stock. It would be useful to determine this number and to estimate the number of rental units these might contain. Similar research should be undertaken in other degenerated urban centres. This would be the first step in reviving or creating specific city strategies to release this stock in order to facilitate the growth of the rental sector in the short to medium term.

Interviewees

Social Housing Providers

- Renier Erasmus (NASHO)
- Taffy Adler (JHC)
- Heather Maxwell (SOHCO)

Private Sector Providers

- Ryan Jordan
- Brian Miller (POMA, iThemba)
- Gavin Meskin (Aengus)
- Max Katz (City Properties)

Other

- Andrew Schaefer (Trafalgar)
- Paul Jackson (TUHF)
- Kecia Rust (Researcher)
- Malcolm McCarthy (Consultant)
- Trevor Bailey (Gauteng Rental Housing Tribunal)
- Bernard Loonen (DIGH)
- Michael Wall (property manager, inner city JHB)
- Michelle Dickens (TPN)

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in Association with CSIR Built Environment, February 2006

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General Household Survey (various years), Statistics South Africa

Income and Expenditure Survey 2005/6, Statistics South Africa

All Media and Products Survey 2007, SAARF

FinScope™

Appendix: Global insight projections

Eighty20 Income distribution projections – Methodology Overview

Step 1: Base distribution

- The Income distribution from the IES 2005/6 is used as point of departure, with a population group dimension, as well as a slightly more detailed income category breakdown inline with the final required dataset.
- For lower income categories, the "total consumption" (including in-kind consumption) is a more accurate reflection of the "income" than the actual stated income. The assumption is made that for income higher than R3000 per month (a generally used poverty line), the variable measured from the income side provides a more precise figure.
- For the lowest income category, this has significant implications. The number of households in this category differs substantially: 1.98 million (using income) and 1.08 million (using the highest of income and consumption). All figures are based on the raw IES data.
- Income is typically understated, and substantially more so in the upper income categories. Comparing this data against the National Accounts does indeed show a significant under-reporting (the national accounts comparison in the IES document was not used for this purpose).
- The income distribution is adjusted to allow for the "high walled communities" across all races, but most importantly for the "upcoming black diamonds", as was shown by the UCT/Unilever institute (using AMPS data).
- The figures are then benchmarked against the Global Insight demographic model – the number of households etc. The biggest differences: more white households (300,000) than the IES 2005/6, less Black households (-300,000) and less Coloureds: (-50,000). Year used: 2005 (midpoint), whereas the IES2005/6 in fact reflects a slightly later point in time. (See Appendix A for more detail on the demographic model, and the differences in the total number of households.)
- The last adjustment made, was to the in-equality across population groups. The Total Personal Income for Blacks was too low compared to the other Population Groups (based on other income and expenditure datasets, and studies), and had to be adjusted upwards. However, no population group dimension was presented in the final data. It was used in the underlying model as the dynamics of the population groups are very different.

- The final base income distribution is therefore:
  - Adjusted for general under reporting;
  - Based on a more accurate demographic model, correcting for a racial-skewed universe;
  - Tallies with external data, and other studies (on for example the upcoming Black Diamonds);
  - Is more consistent with the national accounts framework; and
  - Makes assumptions on the more affluent individuals and households which are often not clearly represented in income and expenditure surveys.

The difference in the final adjusted distribution vs. the original IES distribution therefore renders a slightly lower number of households on the bottom end of the income spectrum (less than R1500 per month), and more households in the higher income categories.

HH monthly income	Eighty20 IES	GI estimates
<R850	2,087	1,397
[850-1500)	2,338	2,245
[R1500-R3500)	3,489	3,763
[R3500-R7500)	1,976	2,146
[R7500-R10000)	552	710
R10000+	2,000	2,624

Step 2: Regional Breakdown

- Based on the Global Insight Regional eXplorer (ReX) product. This is an Econometric Model of the South African economy, broken down to local municipal level.
- The source / base information comes from the various Population Censuses, and is projected forward using regional growth rates, changing national income distributions, demographic movements of people either migrating to or from a municipality.
- The income-distribution for the population censuses is adjusted (as per step 1), to fit the national income distribution pattern.
- The ReX model is based on different (more detailed) income brackets. The figures were adjusted to the required income categories.
- The Results from the IES 2005/6 were not incorporated into the ReX model when this project commenced, and had to be adjusted to fit the adjusted IES 2005 income distribution as per Step 1.
- The country was divided into the following areas:
  - WC - City of Cape Town Metropolitan Municipality
  - KZN - eThekwini Metropolitan Municipality

- GP - Ekurhuleni Metropolitan Municipality
- GP - City of Johannesburg Metropolitan Municipality
- EC - Nelson Mandela Bay Metropolitan Municipality
- GP - City of Tshwane Metropolitan Municipality
- EC - DC12 Amathole District Municipality
- FS - DC17 Motheo District Municipality
- KZN - DC22 uMgungundlovu District Municipality
- Rest of ZA

- The final dataset was verified against the Population Census 2001 data, as well as the Community Survey 2007 data set. The Population Census 2001 data showed a fair correlation, whilst the Community Survey showed less favourable results.

Step 3: Projections for subsequent years

Steps 1 and 2 established a base year for 2005. For each subsequent year, the following pieces of information were used to arrive at a figure for the next year.

- **Demographic movements** – deaths, births, marriages, migration, urbanisation, changing household characteristics, etc. This provides the "total" benchmark figure for each area, for each year, and comes from the Global Insight Demographic Model/Projections.
- **Economic Growth** – the economy in each area has grown / is growing at a different rate. When an area is booming, there are typically more jobs, and also more money. The Economic Growth assumptions comes from the Global Insight Macro-economic model, and is broken down into different sectors/industries, which provides a mechanism to calculate differential growth rates for each area based on the industry breakdown.
- **Total Personal Income** – also a Macro-economic variable from the Global Insight Macro-economic model that was used as a national benchmark figure. This measures the sum of all incomes across all households, in current prices.
- **Inflation and changing income distributions** – R100 in 2005 is different compared to R100 in 2008. The effects of inflation affect the entire spectrum of the income distribution, although some may be affected more than others. With high food and transport prices, the bottom income categories are typically affected the most, as the inflation for non-durable goods are substantially higher than the inflation on durable goods for the period under review.
- **Social grants and BEE** – two explicit assumptions were made for the African population group. Social Grants does impact on the bottom end, reducing the number of people in poverty, whilst the effects of BEE and Affirmative Action has the biggest impact on the higher income brackets. The assumption is made that the impact of social grants and BEE has reached its peak, and that the effects will diminish in future.

Constant prices

Finally, the figures were deflated as follows.

- Calculate a differential inflation rate per income bracket, based on its expenditure composition of non-durable, semi-durable, durable, services and taxes expenditure categories. These inflation rates were extrapolated to 2012, based on the historical trends since 2000. (Source: SARB.)
- The expenditure composition, as measured in the IES 2005/6, is kept constant.
- The inflation rates were then differentiated between metropolitan areas (typically slightly lower) and other areas.
- Adjust the constant 2005 income brackets using these inflation rates, and re-adjust the income brackets back to the original categories by assuming that all households are distributed equally across each income bracket.

Appendix A: Global insight demographic model

The GI Demographic model is a cohort-component model, and is based on the BMR model as described in the BMR report 364: Population and Household projections for South Africa by Province and Population Group, 2001-2021 by CJ van Aardt.

Global Insight has extended this demographic model, to increase the regional coverage, and refine the inter-regional migration movements. This added dimension, as well as other minor changes to some of the demographic parameters, resulted in minor differences between the BMR and Global Insight models.

When forecasting the number households, Global Insight's model projects a slightly higher population growth rate compared to the BMR report, and is of the view that the average household size will decline, but not at the rate used in the BMR report. The net result is a smaller number of households by 2012 compared to the BMR report (Global Insight: 13.7 million vs. BMR: 14.4 million).

Comparative Table – 2005 total population and number of households

Source:	Total Population	Households
Global Insight Model	47,198,746	12,723,075
BMR report 364	47,240,698	12,676,972
StatsSA		
• Mid Year Estimates 2005	46,888,200	
• IES 2005/6		12,457,581
• GHS 2005	46,912,798	12,726,270
• LFS 2005-03	46,755,146	12,627,938
• LFS 2005-09	46,971,478	12,726,154

From the different StatsSA reports, the IES 2005/6 reports the smallest number of households. In theory, all the StatsSA surveys (GHS, IES and LFS) are based on the same master sample, and should therefore result in more or less the same number of households – based on the actual time of the survey. The Global Insight and BMR models results are very close to the LFS and GHS surveys, while the IES figures are much lower when compared.

When using a demographic model, the annual increase in households between 2004 and 2007 was approx 250,000.

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