

Faces of the City Seminar Series
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Small-scale rental housing: Moving from the low to the high road

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Small-scale rental housing

Moving from the low to
the high road

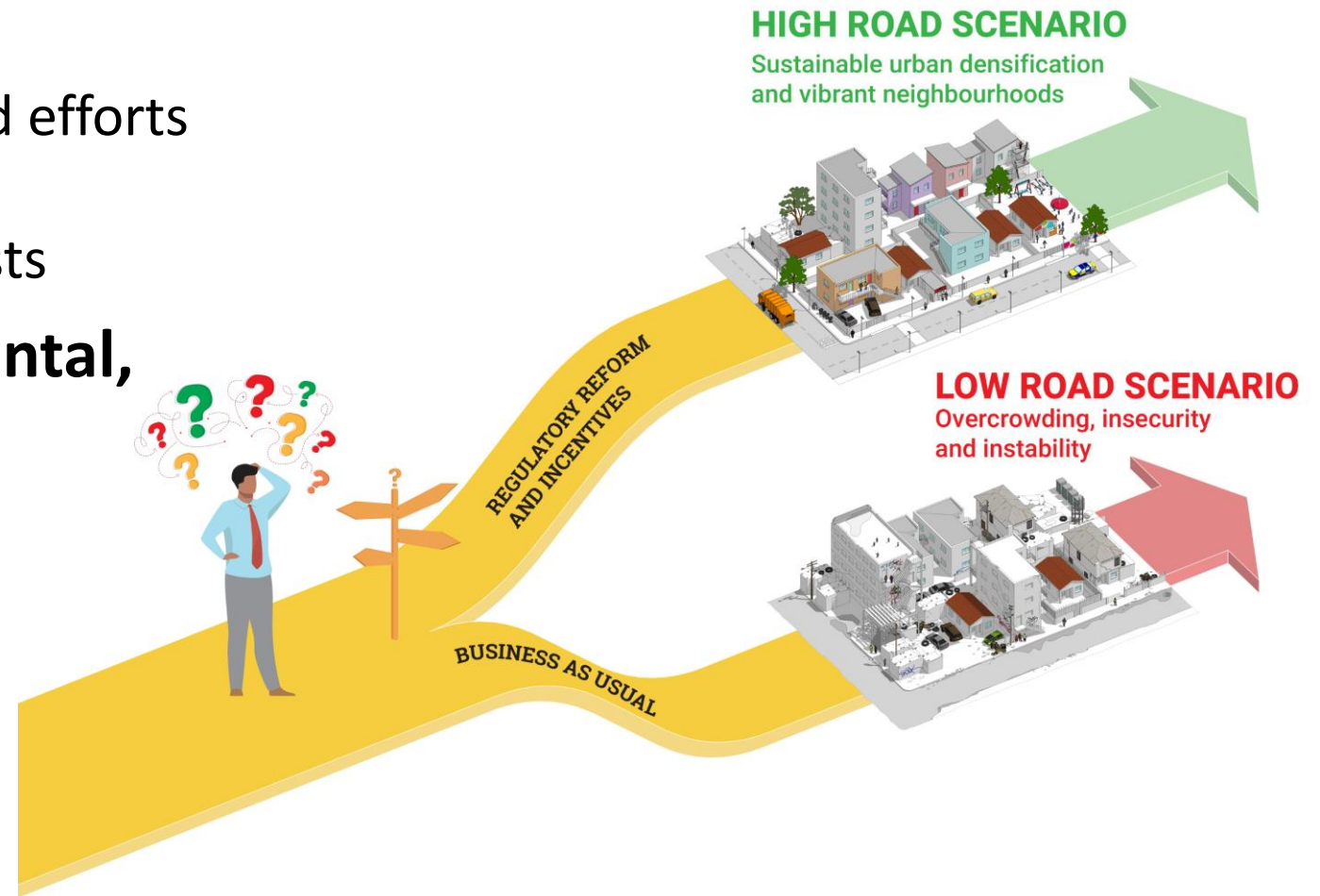


Today's talk draws on

- Past research on backyard rental housing
- Recently completed research report produced with Development Action Group “Small-scale rental housing: Moving from the low to the high road”
- Ongoing engagements in Cities Support Programmes on small-scale rental and township economic development (especially Cape Town)

Backyard / small-scale rental housing is at a crossroads

- Pivotal moment in history
 - Public recognition of impacts (positive and negative) of the sector
 - Unprecedented policy interest in and efforts to regularise/formalise investments
 - Web of actors, processes and interests
- **Low or high-road of small-scale rental, or somewhere in between?**



Background context

Transformation from backyard rental...

Lower quality, largely informal, dwellings made of corrugated iron/zinc and/or wooden materials

Communal service access

Vital source of accommodation (tenants) and of income (landlord)

Lower segment of backyard rental sector





Small-scale rental housing



- Higher-quality, more formal, brick and mortar dwellings
- Improved services (individual), security, internet, tv, etc
- Larger investments, economic impacts and transformation potential
- Densification of neighbourhoods



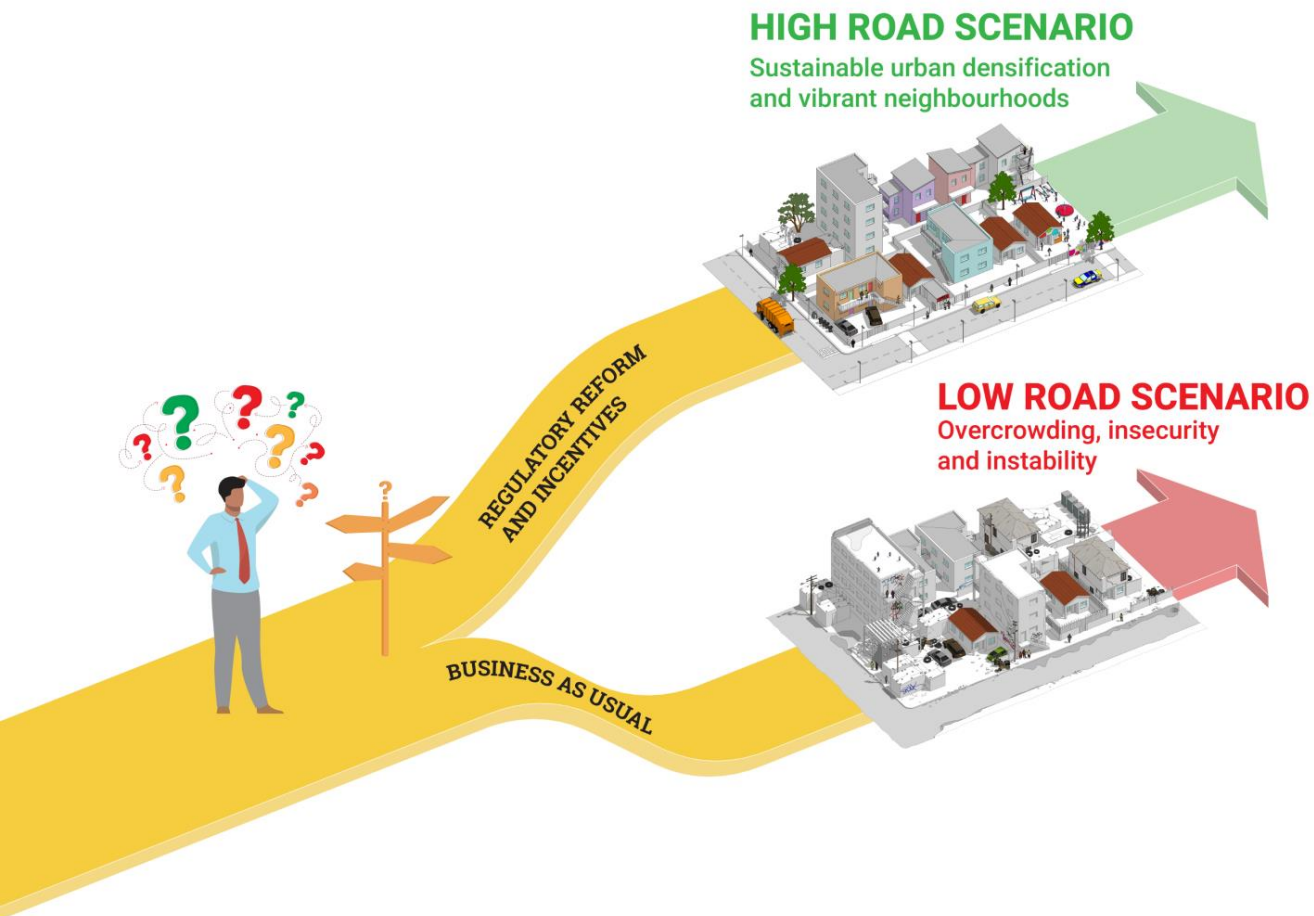
Key challenges of unmanaged, informal densification:



- Health and safety risks – fire, flooding, dampness, building instability
- Pressure on infrastructure and service delivery (encroachments)
- Overcrowded spaces can exacerbate social tensions; lack of public spaces
- Risk of unfairness & exploitation of tenants
- No rates and taxes are collected from incomes generated
- Cumulative stresses can lead to ‘low road’ trajectory

Research and policy challenge

What actions are required to shift trajectories from low road to high road scenarios?



How does the current 'regulatory regime' foster informality and dampen investment in small-scale rental housing?

What policy actions, incentives and support measures are required to regularize/formalize small-scale rental housing?

What are the potential impacts and unintended consequences of such actions?

How does the current 'regulatory regime' foster informality and dampen investment in small-scale rental housing?















Subsistence Homeowners

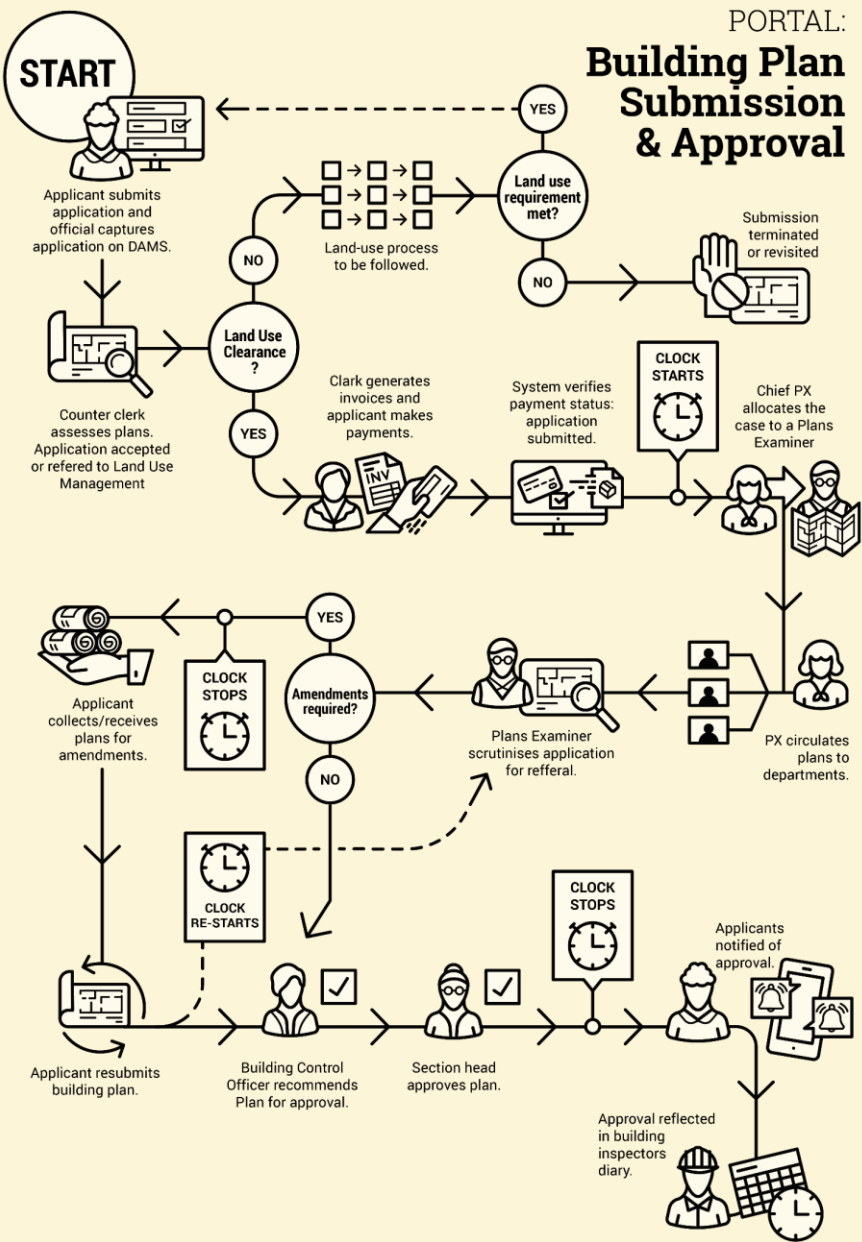
Incremental Homeowner Developers

Debt-finance Homeowner Developers

Micro-developers

FACTORS	Personal factors	Social and/or economic objectives Necessity driven Primary Property	Social and/or economic objectives Primary Property	Economic objectives, Primary or additional property	Economic objectives, Additional property
	Financial considerations	Incremental, intuitive 	Incremental, intuitive 	Calculative Project-based 	Calculative Strategic, (portfolio) 
	Economic ecosystem	Personal networks 	Personal networks 	Professional networks 	Professional networks 
	Type of development	Makeshift structures (shacks, wendy houses) 	Flats (single or double storey) 	Flats (single or double storey) 	Apartment blocks 

TYPOLGY



“No. I did not submit, because I did not know about building plans”

“The municipality is very slow and this gets people angry. People then decide to go ahead and build anyway and submit building applications later”

“Currently, you only know that it’s not allowed when you are getting a fine. Everyone wants to build a flat, but doesn’t know the procedure. You only know the procedure when someone is asked to demolish, because he built over the boundary lines”

“the zoning does not allow the densities that make a project feasible for small scale development”

“I'm not saying they must accept lesser quality or anything but just be a little more flexible about what is feasible and acceptable at the same time.”

“But a lot of it is also just around mindset...I mean, you could go from one planning office to another and could have completely different outcomes”

Planning and building regs (MPBL, DMS, NBR)

regulatory regime

Administrative procedures and costs

Mindset & practices

Capacity & resources

Incentives structures

“another struggle that we had was applying for the plans to be approved by the city. So that took a year, slightly more than a year. So that delayed us quite significantly, it caused quite a bit of frustration”

“There's always something. And if you don't push it, it will get stuck on that person's desk for a week, two weeks, three weeks, until you push it ... For someone who doesn't have a contact, who does not go there, it takes much longer”

“So basically, people are being left on their own. Only if you go to the municipality, then you get in touch. Otherwise, they are not really present”

“I think this is where we are really not getting it right. I think there's a lot of work still to be done with how we get messages out to the public”

Restrictive regulatory regime results in non-compliance or partial compliance

Planning approvals

- Limited land use rights
- Costly and time-consuming application
- Upfront development contributions

National Building Regulations

- Inappropriate norms & standards
- Very slow process
- Expertise required

Title deeds

- First step to formalise
- Backlog
- Informal sales
- Deceased estates, etc

Municipal administrative systems

- Inaccessible
- Complex
- Time-consuming
- Inadequate staff capacity
- Mindsets of front-line staff

Governance

- Public mistrust
- Disconnection
- Limited capacity of local architects, etc

Indicative costs & benefits of compliance: 3 scenarios for a block of 6 rental units

Limited compliance	Partial compliance	Full compliance
Uses draftsman	Uses architectural technician	Full architecture service
Uses 'bakkie'/informal builder	Employs an engineer for structural integrity – building approval	Pays rezoning fee
Cheaper building materials	Avoids rezoning or development charges	Pays development charges
Cuts corners on building structure	Site registered with NHBRC +...	Pays other administrative fees
Ad hoc, short-term funding	2 nd connection - Eskom	Approved building materials etc
	Average quality finishes	Quality finishes
	Loan from micro-finance institution	Long-term funding
Development cost = R600,000	DC = c.R1 million	DC = c.R1.5 million
Monthly rent = R1700-2000	Rent = R2500-3200	Rent = R3000-3600

Rentals vs returns per unit (over 20 year period)

- Shows it doesn't make financial sense to comply
- But with inducements it becomes worthwhile

	Limited compliance (low quality)	Partial compliance (medium Q)	Full compliance (high quality)	Full compliance (with inducements)
Rental per unit	R2000	R3000	R3600	R3600
Monthly profit for all 6 units	R6230	R8400	R7500	R11,600
Internal rate of return on investment	4.6%	3.5%	1.1%	5%

What policy actions, incentives and support measures are required to encourage formalization?

Proposed incentives/support measures

Planning approvals

- Incremental expansion of an overlay zone
- Removal of fees and D/C for individuals
- USDG to fund infrastructure
- Cost recovery from property rates

Building Regulations

- Adjust NBR norms and standards
- Category 1 exception
- Develop city own building by-law
- Proto-type building plans
- Design guidelines, remove fees

Title deeds

- Case-by-case approach
- Systemic interventions (Operation Vulindlela)
- Delink title deeds from other approvals

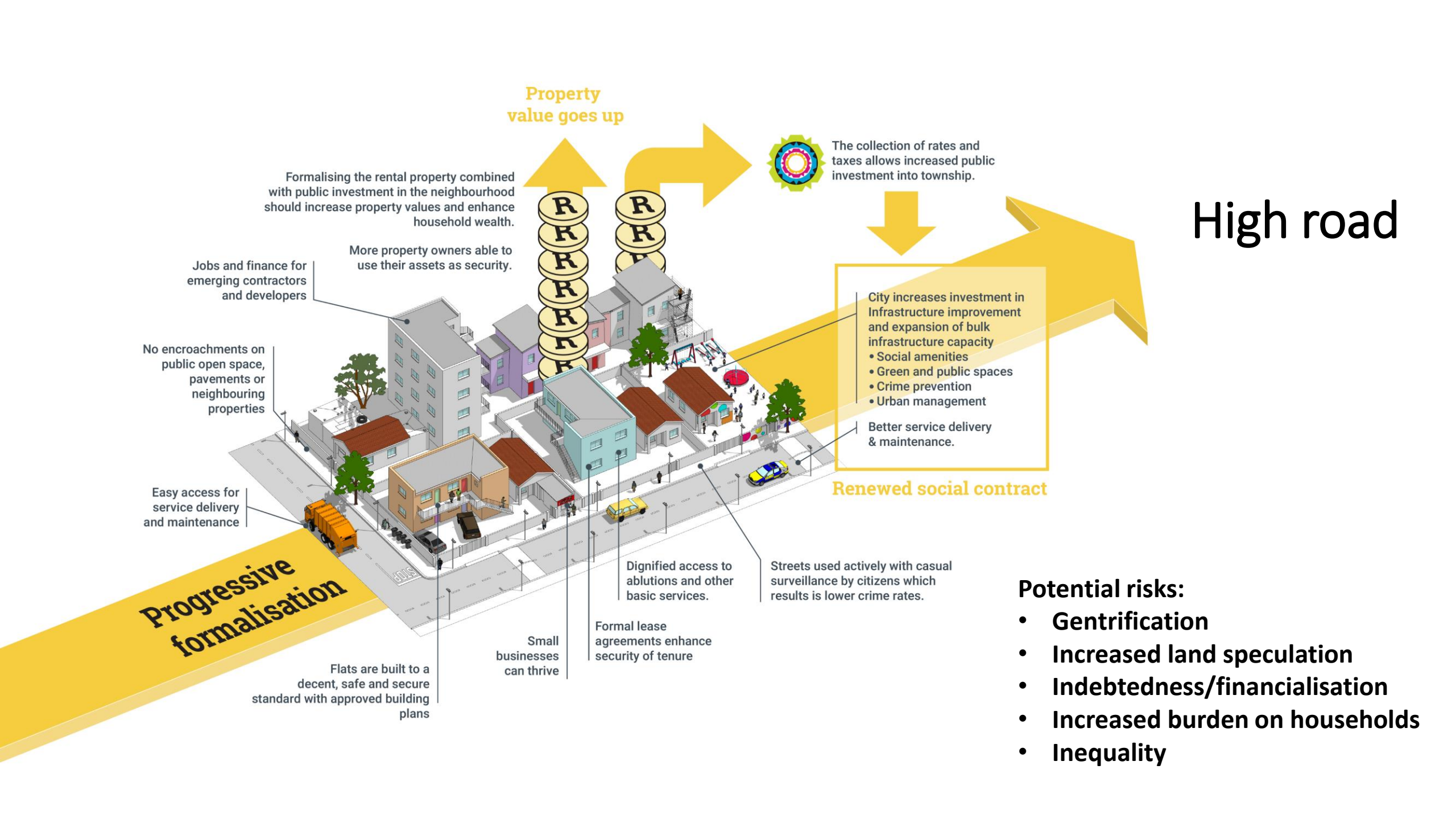
Administrative systems

- Streamline municipal approval processes
- One-touch unit
- Technology
- Local housing support centres

Governance

- Fundamental change in governance
- Experimentation, Shared learning
- New social contract
- Capacity development of the sector

What are the potential impacts and unintended consequences of such actions?



Two-pronged approach

- **Gradual regularization** = progressive improvements for backyard and single-storey small-scale rental housing, allow for informality, education, awareness raising, local support
- **Formalisation** = full compliance for multi-storey rental accommodation, reg. reforms, incentives, enforcement
- **Positive cycle – improved quality housing, more sustainable neighbourhoods and increased municipal income, which should support vulnerable groups and investments in public infrastructure**

Thank you

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