

POLICY BRIEF

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Unlocking the potential of small-scale rental housing: A framework for engagement

HSRC and National Treasury's Cities Support Programme

Executive summary

The growth of small-scale rental housing (SSRH), especially in South Africa's larger cities, offers enormous economic and social opportunities, despite its informal and, in many cases, unauthorised character. A growing network of city officials, practitioners, civil society organisations and researchers have made great strides to document the dynamics of SSRH, strengthen stakeholder capacity, and identify areas requiring policy reform. This policy brief presents a framework for engaging with the SSRH sector to co-develop a more appropriate regulatory environment and an action plan to mitigate risks while leveraging the public benefits of the sector. The insights and proposals are informed by our extensive work in this field, recent collaborative research under the National Treasury's Cities Support Programme, and lively discussions with stakeholders during a National Symposium on Small-Scale Affordable Rental Housing held in May 2023.

Introduction

Small-scale rental housing (SSRH) performs at least three valuable functions in South African cities: it provides affordable accommodation, promotes economic development, and fosters social transformation. SSRH is accommodation for rental that includes a single room, a full dwelling or two- to three-storey walk-ups provided on an existing dwelling by individual owners or small enterprises. SSRH is an unusually vibrant township activity driven by people's own enterprise, ingenuity and investment.

The sector generates vital income for poor homeowners, micro-developers and black entrepreneurs involved in property development, construction, property services and related industries. In the process, it sustains tens of thousands of jobs and livelihoods for township residents.

Until recently, the government has tended to neglect the phenomenon because of its informal and unauthorised nature. Rapid growth of SSRH has led to haphazard densification in many townships, which can place immense strain on basic infrastructure, community facilities, and social cohesion. The hands-off approach represents a missed opportunity to shape developments on the ground in a sustainable manner. It could lead entire neighbourhoods down a dangerous path of overcrowding, congestion, insecurity, public health problems, and social instability.

By following a more supportive approach, the government can help to guide and regularise the sector, attract more private investment, and enhance its contribution to economic recovery, housing delivery and township resilience. A growing network of city officials, practitioners, civil society organisations and researchers have made great strides in recent years to document the dynamics of SSRH, strengthen stakeholder capacity, and identify areas requiring policy reform.

Their experience and insights provide a solid foundation for devising a more appropriate regulatory environment and an action plan for the future.

This policy brief presents a framework for engaging with the SSRH sector. It outlines critical governance components and issues needing reform, and offers recommendations for immediate action.

The benefits and costs of haphazard densification

SSRH encompasses a variety of housing types and landlord-tenant arrangements (Isandla Institute, 2021a). In contrast to lower-quality backyard dwellings, which are impermanent structures made of timber and iron/zinc sheets, SSRH typically refers to more adequate single and double-storey brick and mortar units.

They are usually found on private properties, although they can also be located on publicly-owned properties. While most backyard dwellings and small-scale rental units are provided by homeowners, many of whom received government-subsidised housing in the past, there has been a noticeable increase in micro-entrepreneurs who buy, build and manage rental properties on multiple sites (DAG, 2021; Scheba and Turok, 2020).

SSRH is the fastest growing housing segment in the country. It is most prevalent in metropolitan areas and larger secondary cities, where it meets a strong demand for affordable rental accommodation that neither the public sector nor the conventional private sector can adequately address (Gordon and Gardner, 2021; Brueckner et al., 2019). The construction and management of these rental properties creates important income streams for residents and offers opportunities across the value chain for local businesses, artisans, and low-skilled labour in townships. The sector holds significant potential for socio-economic transformation by enabling emerging contractors and property developers to expand their portfolios, enhance their skills and capabilities, and access higher-value urban residential markets (Turok et al., 2023).

Yet, the unregulated growth of SSRH has also led to public health concerns and urban development risks in certain areas (Scheba et al., 2022; HSRC, 2019). While most units are of decent quality, some pose structural or other safety hazards, which endanger the well-being of residents and neighbours. Certain buildings encroach upon property boundaries, road reserves and public servitudes, which can obstruct municipal access to maintain and upgrade the infrastructure. Higher population densities also exacerbate the pressure on public infrastructure and services, increasing the risk of overload and breakdown, particularly in sanitation, water, and electricity systems. Furthermore, limited solid waste removal contributes to excessive litter, refuse accumulation, unsightly public spaces, and degraded recreational areas, which create demeaning and hazardous living environments (Lategan et al., 2020).

The causes and consequences of informality

Almost all small-scale rental buildings fail to comply with existing land-use planning and building regulations. This is mainly because the existing norms and standards are founded in historical approaches that are unmanageable, unaffordable and inappropriate, and the application procedures are burdensome, costly and slow (Scheba et al., 2022). Moreover, many property owners lack formal title deeds because of informal transfers or incomplete township establishment procedures. This prevents them from applying for planning and building approvals. Local authorities are unable to enforce the current regulatory framework, so they have little influence over building practices and the ways in which these neighbourhoods develop.

Persistent informality has several consequences. First, many owners and micro-developers fail to realise the full value of their investments when they come to sell, and may struggle to transfer properties to new owners due to a lack of title deeds and unapproved developments on site. Second, they encounter difficulties in accessing long-term finance and obtaining building insurance because of non-compliance. Third, the unauthorised and informal nature of such housing means that municipalities miss out on potential revenue streams because they cannot collect administrative fees, development contributions, and property rates that normally accompany higher property values.

Addressing these challenges is crucial for the growth of the SSRH sector to be sustainable. Revising the existing rules and regulations to align with current practices, and streamlining the application procedures, could encourage compliance and foster responsible behaviour by developers. Furthermore, providing title deeds to property owners, as well as assistance to formalise informal transfers would enable them to gain formal recognition and security for their assets. By implementing more suitable rules and procedures and collecting the revenues due to them, municipalities could harness the economic benefits of such development, and provide essential support services and infrastructure in return.

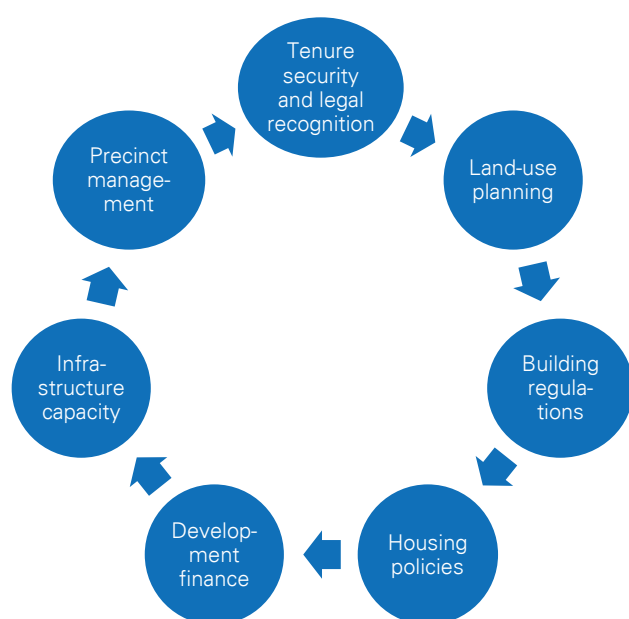
A framework for engagement

There has been a noticeable shift in national, provincial and local governments to a more supportive stance towards SSRH in recent years. The detailed specification of the reforms required to create an appropriate regulatory and financial environment are uncertain, although the essential elements are becoming clearer. Ideally, the diverse challenges identified earlier require a wide-ranging and coordinated response from all spheres of government. A series of systemic changes would help to embed and institutionalise lasting solutions to the problems faced. This is inevitably a long-term undertaking because of the complicated statutory procedures involved in such reforms.

In the meantime, it is also important to work closely with local stakeholders on a variety of interim arrangements and solutions, especially at city and neighbourhood levels, to address the immediate challenges faced. The focus should be on practical actions that can make a difference to conditions on the ground, using the existing discretion and resources available to municipalities, along with the valuable capacities of other organisations. Many positive outcomes can be generated here and now by step-by-step improvements, gradual upgrading, incremental regularisation and actively preparing for future densification. This would include confronting the current compliance-driven attitudes of many frontline officials and encouraging a more facilitative approach that guides and supports homeowners and micro-developers, while safeguarding the rights of tenants. It is crucial to challenge the bureaucratic practices that perpetuate informality by embracing the dynamism and responsiveness of SSRH developers.

The framework outlined here identifies the main components of a new policy and regulatory approach to SSRH. It highlights important roles for the government, civil society organisations, private sector and local communities to help grow and transform the sector. A synchronised approach is optimal, with seven spheres of action required to create suitable conditions for growth. These encompass regulatory reforms, capacity building, community participation, financial mechanisms, monitoring and evaluation, and partnerships. By fostering collaboration and joint-working, the framework implies a broad-based strategy for the sector's development, leveraging collective efforts to drive lasting progress and unlock the activity's true potential.

Figure 1 Main components of a new policy and regulatory approach to SSRH



The individual components of the framework are as follows:

- i. **Tenure security and legal recognition:** Tenure security is vital for property owners to protect their investments and enable them to apply for development rights and building approval. Those without legal title should be given some interim form of recognition, pending the granting of full title deeds when all the formal procedures have been followed to unravel earlier shortcuts and rectify informal transfers and deceased estates.
- ii. **Land-use planning:** Local planning schemes and bylaws should recognise small-scale rental housing by allowing more, and larger, rental units to be built on each plot. The rules about maintaining open space between buildings should be relaxed, as long as this does not compromise the underground public infrastructure. Regulations should also encourage mixed-use development in suitable locations to improve vibrancy and street activity.
- iii. **Building regulations:** National building regulations and approval procedures should be revised so that they are more appropriate and affordable for small-scale housing, focusing on health and safety above all. Delegating the authority for amending building regulations to metro municipalities would help to speed up reforms. Municipalities should also introduce awareness campaigns and training programmes for emerging developers to encourage compliance.
- iv. **Housing policies:** Human settlements policies need to recognise the valuable contribution of the sector to the delivery of decent accommodation and adapt housing frameworks accordingly. Makeshift backyard dwellings built by poor homeowners require some public funding to upgrade their quality and improve their access to basic services. Municipalities should make better use of their infrastructure funds to provide additional connections to backyard units, which protect vulnerable tenants and enable eligible households to access free basic services.
- v. **Development finance:** Accessing long-term finance is a real headache for most homeowners and emerging developers, leading to the use of costly short-term options. The government could facilitate the involvement of independent financial institutions and impact investors by mitigating the risks and uncertainties they currently face. Creativity is also necessary to align financial support with the adoption of green technologies and alternative building practices that improve energy efficiency, reduce resource consumption and smooth the transition to a low-carbon urban future.
- vi. **Infrastructure capacity:** The bulk and internal infrastructure of townships needs to be enhanced to accommodate the higher population densities associated with small-scale rental housing. Engineering

ingenuity and innovation are vital to ensure that this is both technically feasible and affordable. New methods of financing infrastructure are also important given the current constraints on public funding, including green financing for off-grid solutions, state loan guarantees, municipal bonds and developer contributions under the 'user pays' principle.

- vii. **Precinct management:** A more visible and coordinated approach to managing township precincts is necessary, fostering a new social contract between municipalities, developers and the community to help build mutual trust and social stability. Improvements to specific public services and reduced red tape could be offered as part of this 'new deal', in return for developers and citizens accepting some responsibility for protecting public facilities and paying rates and service charges.

There are several additional measures required that cut across these spheres of action.

- First, the organisational capacity of homeowners and micro-developers needs to be strengthened to enable them to work together, learn from each other, and engage more effectively with public authorities and other stakeholders. This could be done by supporting the creation of local forums in each township and city to represent their collective interests.
- Second, recent initiatives by selected metro municipalities, including the City of Cape Town and the City of Johannesburg, to simplify the regulatory framework and provide practical support for small-scale rental housing deserve greater encouragement. They showcase the potential for positive change and should serve as examples for others to follow. This could help to rebalance the current hierarchical system of decision-making with a more interactive and adaptive approach, characterised by more experimentation and mutual learning from the bottom-up.
- Third, a stronger evidence base is necessary to fill gaps in current knowledge and to inform the detailed improvements required in policy and practice. This includes better information on the dynamics of demand and supply in the sector, coupled with its environmental and socio-economic impacts. Research could help to identify good practice, evaluate the impact and effectiveness of current policy reforms and assess the potential for future changes.

The way forward

The policy agenda outlined here calls for a paradigm shift in the government's response to SSRH, moving from an ambivalent position to a proactive and enabling approach. This requires all levels of government to change the way they engage with the sector, including guidance and practical support to homeowners and emerging developers. By adopting a facilitative and collaborative approach, government entities can foster partnerships and

cooperation to mitigate risks while leveraging the public benefits of the sector.

The proposed framework outlines seven spheres of action necessary to create favourable conditions for SSRH developers and for the growth and regularisation of the sector. It also identifies areas for policy and regulatory reform, emphasising the need for experimentation, evidence and research to devise practical solutions to wicked problems. Government support should encourage pilot projects that test new ideas and approaches, and feed directly into reform processes.

To advance these efforts, it is recommended that a technical team be established through the Cities Support Programme to oversee, develop and implement specific proposals for regulatory, financial, and capacity-strengthening reforms at the national level. In addition, a community of practice should be formed, bringing together stakeholders involved in policy formulation, regulation, development, support and financing of SSRH. This network could facilitate peer-to-peer learning, information sharing, progress monitoring, and act as a sounding board for national reforms.

Through these collaborative measures, a more inclusive and supportive regulatory and financial environment could be cultivated, which would be of immense benefit to individuals within the sector and to the broader urban community.

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