A public rental housing programme is needed to bridge the gap between the demand for and supply of affordable rental accommodation in South Africa’s higher density urban centres. No formal rental options exist in either the social or private rental sector that accommodate the majority of poorer urban households’ needs for rental accommodation. The up-front capital costs, ongoing operating expenditure, availability of building stock and management model are four aspects of the proposed programme addressed in this policy brief.
In SERI’s Policy Briefs we advocate for policy change, new policy formulation and improvements to the implementation of existing policy. We focus on our thematic areas of work: Securing a Home, Making a Living and Expanding Political Space. SERI’s policy briefs are informed by the experiences of our clients in different contexts in South Africa, the implications of our research findings and our litigation experiences.
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The gap between demand and supply of affordable rental accommodation in South Africa

Nearly all of the state’s efforts to develop or facilitate affordable rental housing have served households with income between R3 500 and R15 000 per month. As a result, households with incomes of less than R3 500 per month are hard pressed to secure rental housing that is both safe and affordable. The private sector has delivered very little to this segment of the population. Currently the state’s ownership subsidy programme is directed at households that earn less than R3 500 per month. However, this subsidy programme does not meet the scale of need. Nor does it address the existing needs for rental tenure accommodation. As a result, most households earning less than R3 500 per month occupy accommodation informally in dilapidated inner city buildings or in shared or sub-let rooms or rent in backyards in townships, suburbs and informal settlements. Many face evictions by private developers or municipalities in processes of regeneration or gentrification that are underway in parts of our inner city areas. Where alternative accommodation is provided, households face displacement to shelters on a temporary basis. No long term solution currently exists for affordable rental accommodation. As a result, temporary alternative accommodation tends to become long term, evictions continue to threaten households in inner city accommodation, and informal arrangements continue to grow. This kind of delivery is in neither the interests of government, nor developers, nor the people who are forced to make these arrangements.
In Johannesburg’s inner city, 2011 Census data suggests that 42,500 households (105,000 people), which makes up more than half of the households in the inner city, earn less than R3,200 per month (in 2011 Rands). Many of the breadwinners residing in these households are employed as car guards, domestic workers, taxi drivers, and other trades where the minimum wage ranges from R1,750 to R3,300 per month. Where employers disregard minimum wages, or where they are non-existent in the informal sector, economic stability is extremely tenuous. Nevertheless, the inner city is an advantageous location with access to employment opportunities, such as piecework, and access to transport. For those who make a living in the inner city, savings on transportation costs are a significant benefit.

A common metric of affordability, and the one we utilize here, is that housing expenditure on monthly rental, inclusive of water, electricity and refuse removal charges, should be no more than 25% of household income. This means that, for the 18% of inner city households earning between R1,600 and R3,200 per month, affordability ranges between R400 and R800 rental per month. The remaining 32% of inner city households earning less than R1,600 per month can afford a monthly rental of less than R400.

The lack of affordable rental accommodation for these households forces people to seek accommodation in so called “bad” buildings, which are mismanaged, unsafe, and lack basic services.

The City of Johannesburg acknowledges that for many households living in the inner city “affordability, particularly of rental accommodation, [is] a notch below the social housing rental market” at a rental range of between R300 and R600 per month, and that “the need for such a rental sector is urgent”.1 The City’s 2013 Inner City Transformation Roadmap reiterates the need for rental housing for households with the affordability range of between R300 and R600 per month.2 More recently, the City’s new inner city housing implementation strategy identifies the need for a “municipal rooms for rent programme”, but this affordability target is higher, at R750 per month, and excludes service charges.3

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1 Dladla and the Further Residents of Ekuthuleni Shelter v City of Johannesburg and Another (Dladla), City of Johannesburg answering affidavit, para. 29.
**Existing supply**

The government’s most significant effort is the “RDP” or “BNG” subsidy programme, which grants title to qualifying beneficiaries for housing units developed on unoccupied tracts of “green field” land. These developments are generally situated on the periphery of towns and cities, where employment is scarce and the cost of transport to work in the city centre presents a significant burden on low income households. Moreover, the number of houses built each year is decreasing amidst a crushing backlog of qualified applicants.

Similarly, “social housing” refers to subsidised rental housing managed by social housing institutions (“SHIs”) targeted at households earning between R3 500 and R7 500 per month; however in reality the programme caters only to those households at the upper end of this spectrum. Were the social housing sector to deliver “deeper down market” it might expand its reach, but it is unlikely to be able to deliver to the affordability levels of the majority of existing inner city households. Nor does the social housing sector deliver at the scale required.

The private sector has been unable to provide a viable solution to this housing crisis. First, private sector rentals are simply too expensive for many poor households seeking accommodation in inner city areas. Second, private rentals often require a deposit of one to three months’ rent and poor people do not have the cash on hand to pay. Third, municipal services are often excluded from the rent payable and form a significant cost to the tenant, sometimes more than the rent itself.

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5 Ibid. pp. 57-58.
An affordable rental programme in context

A multi-pronged approach to affordable supply is required, which includes, but is not limited to, the proposed public rental programme. Delivery across a range of existing options should be improved. Nationally, a combination of strategies is required to address the housing needs of households earning below R3 200 per month who are currently resident in informal circumstances in our inner cities. The proposed public rental housing programme is one of these strategies. RDP housing delivery, private rental and temporary alternative accommodation for voluntary relocation are others. If the combination is to work however, then:

- The RDP programme needs to scale up to deliver to more households in better located areas.
- Government should play an improved facilitation role in private rental delivery by, for example, providing and maintaining adequate infrastructure to cope with increased population densities and by improving access to rental tribunals to ensure tenure security.
- Cities should develop temporary alternative accommodation programmes for voluntary relocations. The Emergency Housing Programme is a national funding instrument that should be used to finance these programmes.

The public rental programme should be the cornerstone of affordable, formal housing delivery for households currently resident in inner cities.
Principles shaping the public rental programme

Four primary principles should inform the proposed new programme:

1. **Affordable Rental Charges:** Affordability to households earning below R3 200 per month is the starting principle of the proposed programme. Rental amounts, including service charges, should be targeted at 25% of household income, in the range of R400 to R800 per household per month. For households earning less than R1 600 per month, monthly rental, to be affordable, should be less than R400 per month. However, in order for managing entities to recover operational costs, they require a minimum income of R900 per month. Affordability to tenants earning below R3 200 per month therefore demands a new response. Innovative options, developed in partnership with tenants, are required to bring down the monthly charges, including tenant in-kind contributions, which we address below.

2. **Rental Tenure:** Rental tenure is a flexible form of tenure which is well suited to many inner city households for whom mobility is an important livelihood strategy. Many inner city households are renting already, albeit informally and often in insecure and overcrowded conditions. Subsidised ownership housing for households earning less than R3 500 per month should remain a cornerstone of the state human settlements programme, and efforts to deliver better located “RDP” or “BNG” ownership housing in and around our inner city suburbs should be pursued. However, a specific focus on affordable rental should be a significant component of inner city housing supply.
**Range of Accommodation Typologies:** Accommodation units should be developed to accommodate a range of household structures including single people, couples with children, single parents with children and relatives sharing accommodation in family groups. In some cases, rooms for rent with shared cooking and bathroom facilities are suitable, especially for single people or couples sharing. In others, especially where children are living with adults, privacy should be ensured. Partitioning is required in family rooms, for example. Dormitory-style accommodation is not a feasible solution as it does not afford adults sufficient privacy to maintain a standard of human dignity. Nor are gender-segregated living arrangements, as they do not provide the protections to women and children that are envisaged, often making them more vulnerable to strangers. They also separate family members from one another, affecting both well-being and dignity.

**Public Ownership of Housing Stock:** The rental stock should be publically owned. Given the extent of subsidisation that is required to deliver in the income brackets below R3 200, the stock should continue to be held publically to ensure affordable stock in the programme for the long term and for successive households. It should not be privatised by transferring it to private entities or to individual households at some point in the future through, for example, rent-to-buy schemes. Potential owning institutions include government at provincial or municipal level or municipally owned entities like the Johannesburg Social Housing Company. The principal of public ownership is underpinned by an objective which is distinct from other government housing programmes that seek to transfer, through ownership subsidies, capital assets to poor households. Instead, the emphasis is to invest in, and maintain, public rental stock as a state asset. The objectives should be to expand state capacity to respond to the needs of the poor and to strengthen state infrastructure and resources.
Key elements of the public rental programme

Financing the capital costs through the CRU or a customised national funding instrument

The Community Residential Unit (CRU) programme was enacted in 2006 to provide capital funding to municipalities to develop public rental housing for households earning R800 to R3 500 per month. The CRU programme is flexible and can be used explicitly to redevelop or develop “existing dysfunctional, abandoned or distressed buildings in inner cities or township areas that have been taken over by a municipality”, as well as new public rental housing assets.6 Housing stock must be owned by either a provincial housing department or municipality and must remain in public ownership. Municipalities or provincial housing departments can choose to manage the housing, or outsource management to an accredited SHI, private company or municipal entity.

On paper at least, the CRU is an ideal funding instrument for the public rental housing programme. However, the CRU assigns the grant management and regulation mandate to provinces, which “do not have the capacity or skills to undertake such management, and the development role to municipalities who also have the same problems, and interests that are not necessarily aligned to the policy prescripts.”7 Further, the CRU programme lacks a regulatory framework, and in practice, housing delivery under CRU has suffered because of land and building shortage, delays in the installation of bulk services, poor performance by contractors and political interference.8 Were these shortcomings to be overcome, then the CRU would be the most appropriate capital funding instrument for the development or refurbishment of building stock for the public rental programme. Alternatively, a customised national funding instrument should be developed.

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8 Delivery has been extremely poor. The 2012/2013 target was 1 682 CRU units; however only 799 units were delivered.
Affordable rentals through operating subsidies and tenant contributions

A number of possibilities exist to bring rental charges into the affordable range, which should be used in combination with each other.

- **Free basic services and discounted rates:** To begin with, the constraints associated with passing on the benefits of free basic services and discounted rates to public housing tenants need to be overcome. These benefits have been developed with owners and free standing houses in mind and they need to apply to the context of rental tenure and high or medium density built form. For example, free basic services, from which the targeted beneficiaries of the proposed public rental programme should benefit, should be allocated directly to housing units (flats or rooms), instead of the building as a whole. Further, the fact that municipally owned property is not rated should contribute to a reduction in rent in the public rental housing programme.

- **Municipal operating subsidies:** The City of Johannesburg already subsidises rentals in the buildings that have been made available as alternative accommodation in court ordered relocations in terms of the Prevention of Illegal Evictions from and Unlawful Occupation of Land Act (“PIE”) and section 26 of the Constitution. \(^9\) While not a programme *per se*, this existing practice should be regularised and expanded to assist beneficiaries of the public rental housing programme. However, the building management function needs to be improved. \(^10\)

- **A new national operating subsidy instrument:** A demand side subsidy should be explored to make the operational costs of the rental programme more affordable. This kind of subsidy can be directed to the managing entity or passed directly to the beneficiary as a housing benefit. Some of these mechanisms have been tried and tested in other parts of the world such as the voucher system in New York, which is a demand side subsidy passed directly to beneficiaries as part of a programme of housing relief.

- **Tenant contributions:** Alternative methods to reduce the operating costs of rental housing need to be developed. Tenant contributions to supply direct labour to the security, cleaning and maintenance, or to some of these three functions, can reduce the costs of management to ensure that rental costs are kept at more affordable levels. Tenant contributions should be complementary to the operating subsidies identified previously.

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\(^9\) See for example Johannes Shimane Maite and Others v Chestnut Hill Investments (Pty) Ltd and Others (Chestnut Hill) and Occupiers of 51 Olivia Road, Berea Township and 197 Main Street, Johannesburg v City of Johannesburg and Others (Olivia Road). See also SERI’s Community Practice Notes: Johannesburg Inner City Alternative Accommodation Series. Available at www.seri-sa.org.

A number of different management models should be explored, including NGO not-for-profit management of municipally owned stock, or municipal entity management (such as the Johannesburg Social Housing Company) of municipally held buildings. In either of these examples however, management should be undertaken in terms of a clear municipal mandate to act on behalf of, or as agent to, the municipality and in accordance with the objectives of the public rental housing programme. Although direct municipal management of the public rental properties is possible through municipal human settlements departments, and indeed this is an historical practice in South Africa’s cities, municipal capacity is often raised as a key concern. Municipalities are neither inevitably nor intrinsically incapable of managing public rental accommodation. However, both political prioritisation and technical capability need to be built if the negative mind set about municipal management is to be overcome.
The use of expropriation
to increase the supply of building stock

The availability of buildings to supply the proposed programme with stock is a pre-requisite for the programme to work. Expropriation is a viable means of acquiring public ownership of inner city buildings. The Constitution, the Housing Act and the Expropriation Act provide the legal framework for the state to acquire ownership over inner city buildings with a view to utilise them for public housing. Section 25 of the Constitution allows for expropriation subject to compensation and where it is in the public interest. It defines public interest as including “the nation’s commitment to land reform, and to reforms to bring about equitable access to all South Africa’s natural resources.” This broad power to expropriate is especially applicable in the housing context as the Housing Act, the main statute regulating housing, empowers a municipality to expropriate in terms of a national housing programme. Therefore, where a municipality is unable to purchase land on reasonable terms through negotiation, it may expropriate land where it has obtained permission from the MEC and has published notice of expropriation in the Gazette setting out the details of the property, the date of expropriation, the amount of compensation, the duties of the owner and the basis upon which compensation is determined. This action places the property under public ownership and makes it an asset to be used in the fulfilment of the national housing programme.
Conclusion

A public rental housing programme is required to supply to households that currently live informally in our inner cities. Key characteristics of the programme include affordability, rental tenure, public ownership of stock and a range of accommodation typologies. An appropriate funding instrument, operating subsidies, tenants’ access to benefits like free basic services and in-kind tenant contributions are options for making the stock more affordable to targeted households. Different management models are possible, including direct municipal management. Expropriation is an option for acquiring building stock.

Without affordable public rental supply, we will see more informal settlements, more overcrowding and more people living in “bad” buildings, none of which are in the interests of government, developers and the people who have to live there.