THE VEXATIOUS QUESTION OF RENTAL HOUSING

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The issue of rental housing is a vexed one in the context of housing policy in South Africa. In essence, the housing strategy which emerged from the National Housing Forum (NHF) negotiations is a market-based, state-facilitated housing process. It envisaged a three-pronged approach to tackling the housing problem:

- To promote an effective and efficient (primary and secondary) housing market without public sector financial assistance;
- To promote an effective and efficient (primary and secondary) housing market which delivers housing on the basis of state subsidies with or without additional finance from the non-government sector or individuals;
- To promote subsidised public rental housing stock (Rust and Rubenstein 1996:99)

Quite what was meant by the promotion of subsidised public rental housing stock, however, was never entirely clear. The main (indeed, the almost exclusive) thrust of housing policy has been project-based housing with individual title as its objective. The NHF and the Joint Technical Committee on housing subsidies debated quite vigorously the merits of social and collective ownership by housing co-operatives, NGOs and local authorities versus ownership of conventional rental accommodation by private landlords, but a cohesive policy approach was slow to emerge.

In November 1995 an institutional subsidy was approved. This subsidy is available to any institution in the public, NGO or private sector which provides rental accommodation to those beneficiaries eligible for a subsidy: that is, the maximum subsidy per household is a capital grant of R15 000. This figure has subsequently been increased to R17 250. The general policy for qualification and for the level of subsidy is the same as the subsidy scheme for ownership. The major difference is that the subsidy is paid out as a capital contribution to the accommodation that the institution provides and it remains in force as long as the institution continues to provide rental accommodation to eligible beneficiaries. If this condition changes, the subsidy must be repaid.

The main problem with the system is that the ownership subsidy was pitched at a level to enable beneficiaries to gain access to a serviced site and a starter unit. In the case of rental accommodation it is necessary to provide a completed unit. Few institutions have been able to fund the difference and consequently very little rental accommodation is being provided.

This paper puts forward a case for promoting two different forms of rental accommodation via national housing policy.

THE NEED

That there is a considerable need for rental accommodation is beyond doubt. On the one hand, there are large numbers of households unable to afford the costs associated with home ownership. On the other, there are indications of large numbers of urban dwellers who do not wish to take up home ownership in the towns and cities. The extent of this must be seen in the context of the phenomenon of circulatory migration.

Numerous surveys have indicated that circulatory migration between rural and urban areas is extensive and deeply entrenched (Mabin 1990; Dewar *et al.*, 1991; Gaffane 1990; Royston 1991). Large majorities of labour migrants stress the importance of rural values and connections and visualise retirement in the rural areas, while minorities express a desire to live with their entire families at their place of work (Smit *et al.* 1983; Gilliomee and Schlemmer 1985). Some household heads maintain two complete households, one in the rural areas and one in the urban areas. Time cycles of migration, too, vary from very short-term to generational intervals. Although most circulatory migration occurs amongst Africans, there are indications that it is by no means confined to this race group.

The question of the duration of this phenomenon of large-scale circulatory migration obviously has important policy implications. Obviously the future cannot be predicted with any certainty, but evidence from elsewhere in Africa indicates that it has persisted for several decades (Ferguson 1990).

The conclusion that must be drawn from this is that very large numbers of lower-income households have two different sets of housing needs: permanent and temporary. Since the country clearly cannot afford to subsidise both sets of needs (nor would this be equitable), it can be anticipated that a significant number of these households would prefer to take up ownership and more permanent housing policy benefits in the rural areas, while making do in the towns and cities, primarily through renting.

Similarly, rental accommodation is a vital ingredient in tackling the problem of hostels. There are a large number of hostels which by virtue of their location and form, cannot be successfully integrated into the urban physical and social fabric and which are likely to continue to be breeding grounds for violence and other antisocial behaviour (Cooke 1996); the only long-term solution to these is to demolish them. This is not an option, however, unless cheap alternative forms of rental accommodation can be offered to residents.

THE POLICY ISSUE

Given that there is a demand, the central policy question is whether the demand should be met through the public, NGO or private sectors. There is a long history of low-income public rental housing in South Africa and its record provides an overwhelming case for not repeating the policy in a 'new' South Africa.

i. The provision of some rental accommodation by politically accountable institutions is likely to generate a huge level of demand which would prove politically hard to resist but too expensive to sustain, given that a rental option requires completed (and thus more expensive) accommodation. This, in turn, could significantly derail other policy instruments aimed at promoting ownership. For example, at current prices rental accommodation would, in effect, require a capital subsidy in the order of R40 000 per household, as opposed to the maximum of R15 000 currently available on ownership schemes. To illustrate the impact of this, the government's stated intention of building one million units over five years (or 200 000 units a year) can be used. If it is assumed that 30 per cent of this was rental accommodation, the annual cost of the rented portion would be R2,4 billion, compared with the R2,2 billion total budgetary allocation for 1994.

   Additionally, by positioning rental housing within a politically controlled system the probability of housing being used as a political weapon – and thus the probability of non-payment – is increased: its risk exposure is greatest under this scenario.
ii. The pressure for rents to be politically determined (as opposed to economically determined) around some notional interpretation of 'affordability' would increase. However, the application of bureaucratically defined means tests as criteria for access have proved internationally to be impossible to administer fairly: they promote a climate of corruption – downward-raiding is a common outcome in these situations (Dewar and Watson 1982). The practice also acts as a direct disincentive to ownership and contributes to maintaining an ongoing climate of dependence.
iii. Rates of obsolescence of building stock would be very high, since tenants would have little or no interest in maintaining the stock; again, rents would, in all probability, be insufficient to cover the costs of maintenance by public agencies.

iv. Costs of administration and rent collection would be excessive: in a study of the old rental system in Cape Town it was found that administrative costs accounted for more than 60 per cent of the total rent charge (Dewar and Watson 1982), due to the bureaucratic nature of the necessary procedures.

v. In practice, the supply of stock over time would increasingly not match demand, and allocation procedures would become increasingly politicised: the tendency for housing to be used as an instrument of political patronage would be intensified.

vi. There would be a strong tendency for a household gaining access to cheap rental accommodation to hold on to it, regardless of changes in the household's demographic and economic circumstances: over time, there would be an increasing mismatch between the characteristics of the housing stock and the characteristics of the occupying households.

It therefore appears that rental housing options should be sought in the private and NGO sectors. Two non-mutually exclusive forms with particular potential are suggested by international experience.

A PRIVATE SECTOR ALTERNATIVE

Hints about an alternative way of viewing the issue can be found by reviewing the housing experience in countries such as Zimbabwe and Kenya. A feature of the urban housing system in Zimbabwe, for example, is the tangible display of energy contained within it. Even in 1992-1993 when, for a variety of complex reasons, building societies were not lending at all, there were very high construction levels in low-income residential areas: at any time, building materials lined almost every street and owners of almost every unit seemed to be adding on (Dewar 1994). In this scenario the financial motor behind this energy is the lodging system. The common practice is for new households entering the housing market to live in one room while renting out another. Profits are then ploughed back into the construction of other rooms for rent, and so on. Over a longer period the household has the choice of occupying the (larger), completed unit itself or continuing to rent out rooms in order to finance other household expenses or to save. The extent of this activity is such that it is building society policy when assessing bond applications, to add on $100 a month to assessed household income as a matter of course, on the assumption that the unit will be yielding rent.

Similarly, Jorgensen (1971) when analysing a number of self-help schemes in Nairobi, found that low-income households were repaying twenty-year mortgages, at market-related interest rates, on average in seven years, because of the lodging system.

The power of lodging as an income-generating system and as a means of increasing choice in the housing market is by no means limited to Africa, as recent work by Gilbert (1993, 1994) on lodging systems in Latin America so ably demonstrates.

There are a number of major advantages that flow from this system, over that of the public rental option.

i. Finance invested in housing (via rentals) automatically flows back into the increasing of effective formal housing stock: urban capital investment is continually increased.
ii. The beneficiaries of rents paid are themselves lower-income households: the system promotes economic empowerment.
iii. The system is potentially equitable. To ensure this, qualifying households who do not wish to take up ownership benefits in either the urban or rural areas should still qualify for the R15 000 one-off subsidy, which could be invested to contribute to rental. At a notional rate of 10 per cent per annum, this would yield a monthly rental contribution of R104 per household – an amount which would inject considerable energy into the private housing sector.
iv. The system encourages entrepreneural initiative: it recognises that some people wish to own and to use housing as an economic asset while others do not.
v. Public capital outlays are very much lower.
vi. Housing stock is far better maintained since there is much closer control on the ground.
vii. There are no administrative overheads and no bureacratic control.
viii. The system would contribute, over time, to a spontaneous compaction of towns and cities, with considerable secondary advantages in terms of efficiency.

The central policy issue is how to unleash this level of energy into the South African low-income housing market.

There are two major blocks which, on a policy front, need to be overcome. One is the initial capital barrier to entry: it may be difficult for households newly entering the housing market to find the capital to build the first additional room. To overcome this, part of the national housing policy package should be, in addition to the one-off capital subsidy, a 'soft' (low interest or no interest) room loan, to be repaid over a period of three years, to cover the cost of the first rental room (at today's prices, this loan should be in the order of R3 000). In real terms the only cost to the state is the opportunity cost of forgone interest: at a notional rate of 10 per cent, this is equivalent to some R300 a year over three years for participating households.

The second is creating a widespread awareness of the possibilities of such an approach. In places like Zimbabwe and Kenya there is a long tradition of ownership and of using housing as an income-generating asset in low-income communities (Jorgensen 1971). It is not quite the same case in South Africa, where the possibility of ownership for African households is a relatively new phenomenon. Although there is already considerable evidence of households using land for revenue-generating purposes (particularly through the less desirable form of backyard shacks), it cannot be assumed that its income-generating possibilities are self-evident. This is borne out by a recent study of levels of satisfaction amongst recipients of housing policy benefits, which found that many people did not have full knowledge of the policy options open to them or of the costs associated with ownership (Tomlinson 1996). An important part of housing policy, therefore, should be an aggressive campaign to market these possibilities.

A NGO ALTERNATIVE

A second potentially positive way of promoting rental accommodation for low-income households is through the stimulation of a network of housing associations. This has been the primary institutional mechanism for tackling the low-income housing problem in a number of European countries, of which Holland is probably the best known example: the majority of the housing stock in Holland is owned by, or has been developed by, housing associations, both large and small. The larger of these associations administer up to 20 000 to 30 000 units (Staal 1996).

Housing associations in Europe had their origins in concerns to increase public health levels. Initially, associations took the form of a number of households pooling their limited savings and gearing these by using the total amount to raise loans to enable formal accommodation to be built. In this sequence, each household took its turn in receiving benefits and each was committed to remaining in the association until the needs of all members had been equitably met.

In their more institutionalised forms, however, the success of these associations can be attributed to a number of factors.

- They are non-governmental non-profit organisations dedicated to housing, and operate on a partnership basis with the state: their management structures are lean and flexible.
- They are responsible for the development, administration (including rent collection) and maintenance of housing; they are capable of delivering for both ownership and rental purposes and they develop a comprehensive range of skills in housing management and delivery. Significantly, therefore, they are long-term institutions, rather than short-term in-and-out developers.

- The management is effectively answerable to the members. In the case of rental housing, tenants have a major say in their own affairs.
- They facilitate the provision of total living environments (including social facilities and economic and commercial opportunities), not just housing, and this creates possibilities for cross-subsidisation.
- Housing stock is amortised over a long period (in the case of Holland, fifty years): time, therefore, is the major factor in reducing rents. Rents are thus a combination of interest on capital, capital redemption sufficient to pay off the unit over fifty years, and an administrative and maintenance charge. After fifty years, the units become net income generators and contribute to building up capital which is used to bridge new developments. In most cases, interest rates are subsidised to an extent by the government. In the case of Holland, after a period of approximately a hundred years, housing associations have built up reserves to an extent that government assistance is no longer required.

From a policy perspective, the state can facilitate the emergence of a network of housing associations in two main ways: by promoting the intensive training of management teams, and by providing long-term low interest loans to associations via the new National Housing Finance Corporation.

However, there is also a strong case to be made for stimulating partnerships between the local state and housing associations. Many local authorities control large amounts of historically funded rental accommodation. The authorities are often not geared to administer these: non-payment of rent is rife; non-maintenance is endemic, leading to high obsolescence rates; and administrative overheads, frequently absorbed in a non-accountable way within the bureaucracy, are high. It would be sensible for local authorities to cede at least part of that stock to housing associations: certainly it makes more sense to do this than to virtually give away historical public assets to existing tenants, as is the case at present.

A number of advantages would result from this:

- Existing tenants would become more directly involved in their environments by interfacing directly with the association: this would lead to improved maintenance, to an upgrading of environments, including public spaces, and to higher levels of satisfaction.
- It would remove housing from the political arena and this would facilitate the restoration of rental payments.
- It would provide associations with an immediate source of ongoing revenue, encouraging simultaneous involvement in upgrading and new housing.
- It would promote the emergence of more mixed-use environments and encourage a better utiisation of land.

The critical issue, however, is the provision of subsidised long-term loans to associations. The arguments most frequently used against the use of soft interest loans are, on the one hand, administative inconvenience and, on the other, inequity: it is argued that tenants receive higher levels of subsidy.

However, it is not clear that these arguments hold. In terms of administration, the state would not be dealing with large numbers of individual households but with a limited number of associations which are responsible for a relatively large number of units.

In terms of equity, it is important to recognise that private ownership and rental accommodation are two entirely different housing products. In the case of the former, the asset resides in the hands of the individual: by providing a subsidy, the state is granting a direct benefit to the individual. In the case of the latter, the subsidy, regardless of the amount, is contributing to a growing public asset which can be used to the benefit of many generations and which, in the longer term, contributes to public income. It is therefore entirely sensible to differentiate the size of the amount.

The relative proportion of state assistance given to promoting ownership or rental is a political issue: there is no 'right' or 'wrong' level. The important point, however, is that policy is contributing to increasing choice – this is the key.

Housing is not a 'problem' which can be 'solved' in the short term. Rather, housing policy should be about stimulating widespread, long-term, energies in both the private and public arenas and about promoting increased choice. By definition, this requires a range of policy instruments: housing policy will continue to be ineffective as long as single instruments are applied to complex (and different) housing issues.

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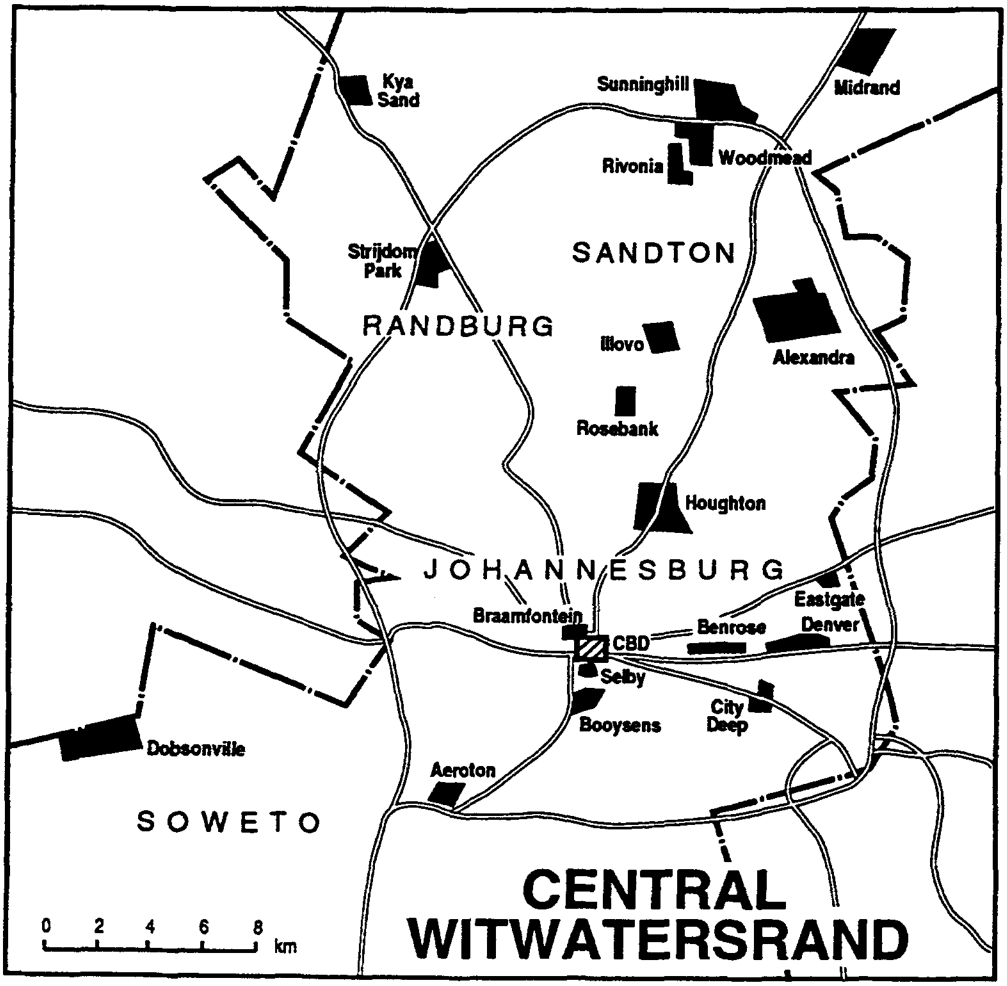
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