

SHACK RENTALS IN SOUTH AFRICA



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Background

This document summarises and analyses recent information on the extent and nature of shack rentals in South Africa, drawing heavily on a more extensive report focusing on low income rentals prepared for the Social Housing Foundation by Eighty20 in July of 2008¹. Statistical information for this report was drawn from various sources including the 2007 Community Survey (“CS”), the 2006 General Household Survey (“GHS”) and the 2005/6 Income and Expenditure Survey (“IES”)². In some cases estimates of the number of rented shacks differ. Given that data sources differ it is not surprising that there is some variance in estimates, particularly given the nature of the subject matter. Informal dwellings might not be permanent. They may also not necessarily be visible to those drawing the survey sample or conducting the research. Data sources are therefore clearly noted and where differences are large these are highlighted. The report also makes reference to important research conducted by NURCHA in 2003 on the informal rental market³ as well as a more recent study on township landlords conducted in 2006⁴. The objective of the report is to consolidate existing research as a basis for the development of an appropriate strategy for this segment of the rental market.



¹ Supply and Demand of Rental Housing in South Africa, 2008, prepared for the Social Housing Foundation by Eighty20, available at http://ftp.shf.org.za/rental_housing_report.pdf

² This data allows us to explore the characteristics of renter households, but not their motivations and aspirations. In interpreting the data it is critical to note that survey data presents a picture of shack rental usage as opposed to demand or household preferences. In some cases household choices may be constrained by factors other than affordability. That many shack renters might prefer to live in better quality accommodation. Some may well be able to afford the associated cost but are simply unable to find alternatives because they are in short supply. Private sector landlords report exceptionally low vacancy levels in inner urban areas while rentals have increased noticeably. In the Social Housing sector institutions are often inundated with applications when projects are launched.

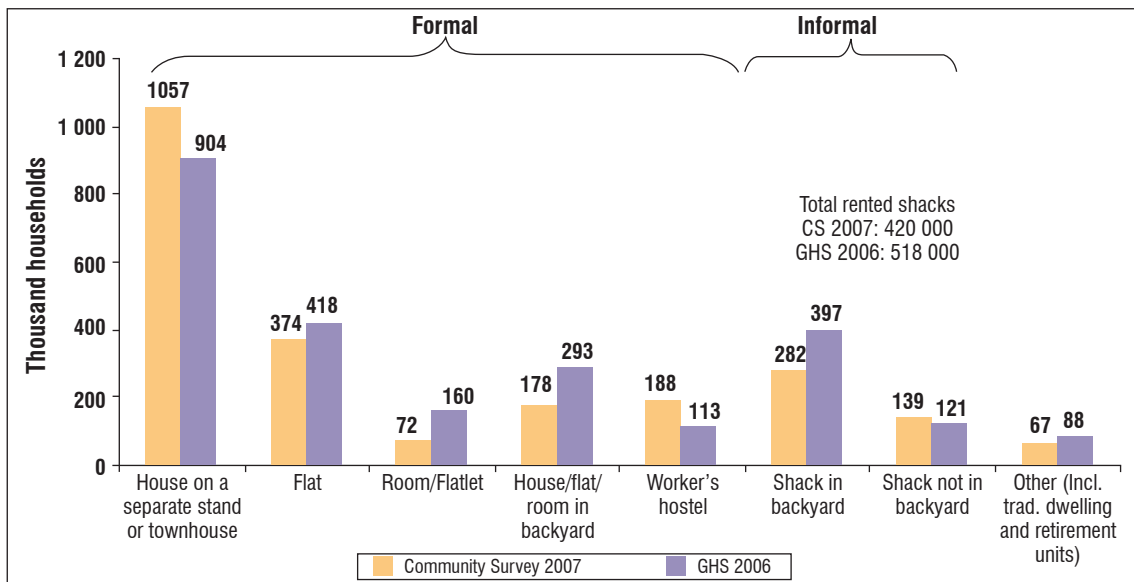
³ Primarily the work prepared by David Gardner as part of the NURCHA Informal Rental Development Programme

⁴ Research into Landlords in Townships, February 2006, sponsored by the National Department of Housing, the FinMark Trust, Nedbank and the Social Housing Foundation prepared by Shisaka Development Management Services (Pty) Ltd in association with CSIR Built Environment

Key findings

Approximately half a million households rent shacks as their primary dwelling. While data sources differ somewhat, there are firm indications across the board that shack rentals comprise a significant proportion of the rental market, even when using lower estimates. According to the 2006 General Household Survey, of the 2.4 million households who rent their primary dwellings, almost 520,000 of them (21%) live in shacks. The 2007 Community Survey estimates a total of 420,000 households who rent shacks – 18% of the total rental market.

Chart 1: The rental market: Dwelling type of rented primary dwellings



Source: General Household Survey 2006, CS 2007

The majority of rented shacks are located in the backyards of formal dwellings. While survey sources indicate that between 60%⁵ and two thirds⁶ of the country's 1.8 million shacks are in informal settlements, only between 23%⁷ and one third⁸ of *rented* shacks are located in informal settlements, while the vast majority of rented shacks are located in backyards.

It is worth noting that not all backyard shacks are, in fact, rented. According to the Community Survey 160,000 households who live in backyard shacks say they own the dwelling. It is not clear whether these households might also own the main dwelling on the property (they may be renting the main dwelling out) or whether they have purchased part of a subdivided property on which they have erected a shack.

By and large, backyard shack renters have access to better quality services than those in informal settlements. This is particularly so in the case of sanitation. Almost 70% of backyard

⁵ GHS 2006

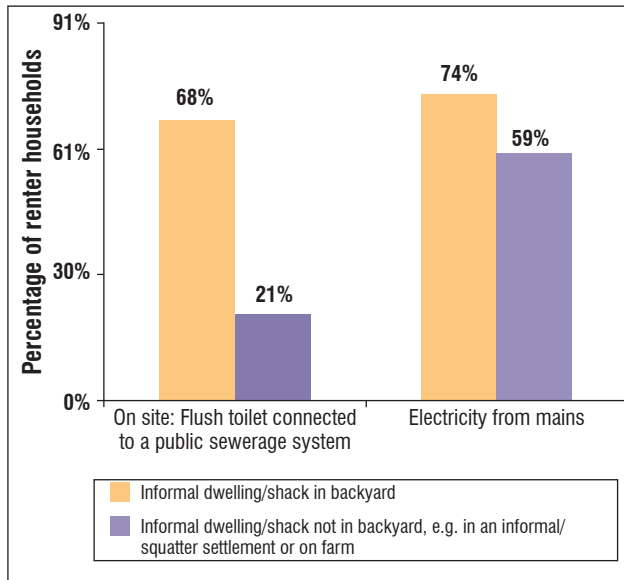
⁶ CS 2007

⁷ GHS 2006

⁸ CS 2007

shack renters have a flush toilet on site compared to around 20% of those who rent shacks in informal settlements. According to a study of informal landlords conducted by Nurcha in 2003⁹ there is typically one toilet on the property shared by the main house and renter households.

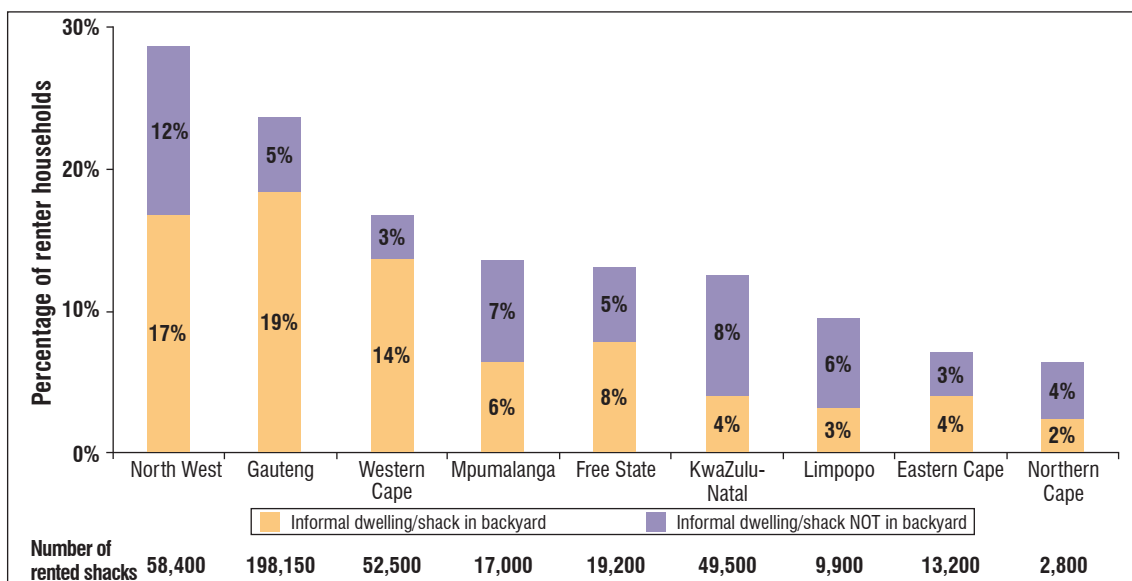
Chart 2: Access to services: Households whose primary dwellings are rented shacks



Source: GHS 2006

Data from the Community Survey indicates significant provincial variability in the extent of shack rentals. Gauteng has the largest number of rented shacks (almost 200,000) followed by the North West and the Western Cape respectively. According to that survey, almost 30% of all rented dwellings in the North West are shacks. In contrast only 6% of all rented dwellings in the Northern Cape are shacks.

Chart 3: Rented shacks as a proportion of all rented dwellings



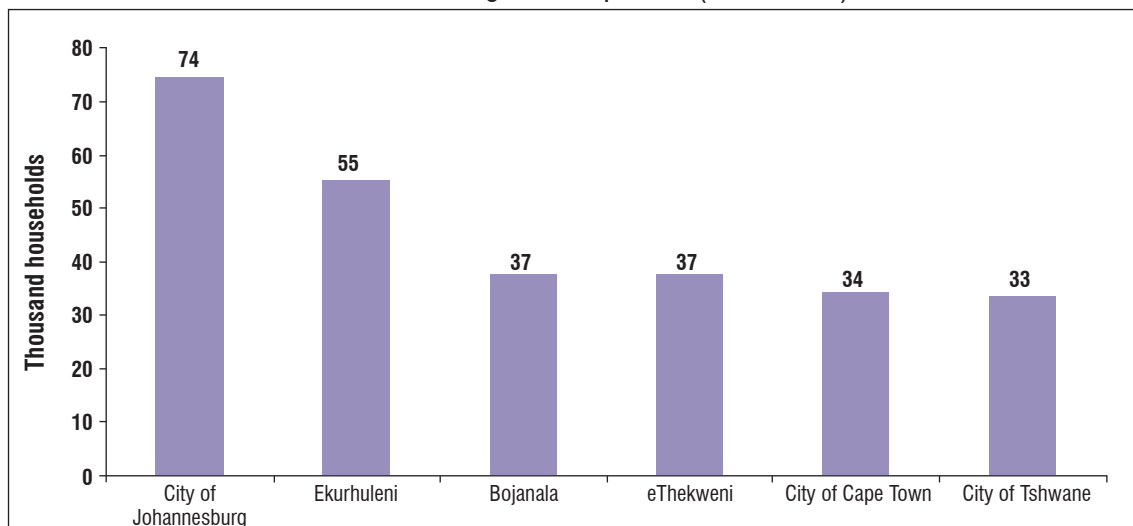
Source: Community Survey 2007 (Households)

⁹ In 2003 Nurcha interviewed 400 landlords in Orlando East in Soweto, 400 landlords in Katorus in South East of Johannesburg, and 291 landlords in Cato Manor in Durban

As noted by Gardner¹⁰, various factors might impact on the extent of shack rentals. These include location, site layout, availability of services and housing alternatives, by-laws and enforcement capacity as well as social norms.

Data from the Community Survey indicates that the Greater Johannesburg area (City of Johannesburg and Ekurhuleni) alone accounts for just over 30% of all rented shacks. Within the North West, a province highlighted in Chart 3 above, the vast majority of rented shacks are in the Bojanala Platinum District Municipality, an area which borders Gauteng and which incorporates Rustenburg, the heart of the platinum mining industry, as well as several well-know tourist destinations. In that municipality, 72% of rented shacks are in backyards. It is highly probable that many who rent shacks are employed in the mining sector. This points to potential partnerships between landlords and employers (mines in this case) in the development of better quality housing for employees who currently reside in shacks and more sustainable livelihoods for landlords who provide accommodation¹¹.

Chart 4: Number of rented shacks in large municipalities (Thousands)



Source: Community Survey 2007

The data indicates that while 18% of all households in South Africa are single person households¹², depending on the data source between 30%¹³ and 43%¹⁴ of households who rent shacks as their primary dwellings are comprised of a single individual. Again, there is some geographic variance with provinces such as the North West having a far higher proportion of single person households (44%) within the shack rental base, a finding consistent with the hypothesis that shack renting in that province is strongly related to employment opportunities in the mining sector. As with single person households in general, males dominate within the single person shack renter segment. According to the GHS 2006 there are over 180,000 single males who rent shacks compared to around 41,000 single females.

¹⁰ David Gardner, INVESTIGATION INTO ENTREPRENEURS & SMALL-SCALE LANDLORDS

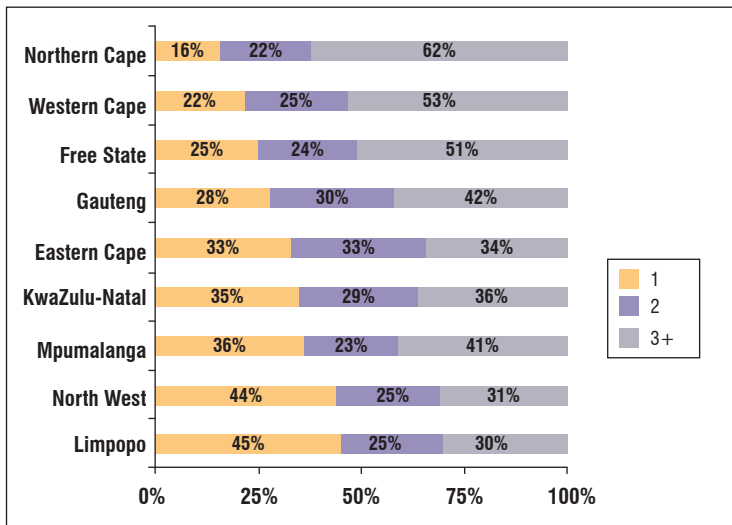
¹¹ One option is for landlords to contract directly with employers to provide accommodation for employees subject to minimum standards being met in the accommodation provided. The existence of a contractual relationship between a financially stable rent payer (the employer) and a landlord will enable the landlord to access capital and develop the asset

¹² CS 2007

¹³ CS 2007

¹⁴ GHS 2006

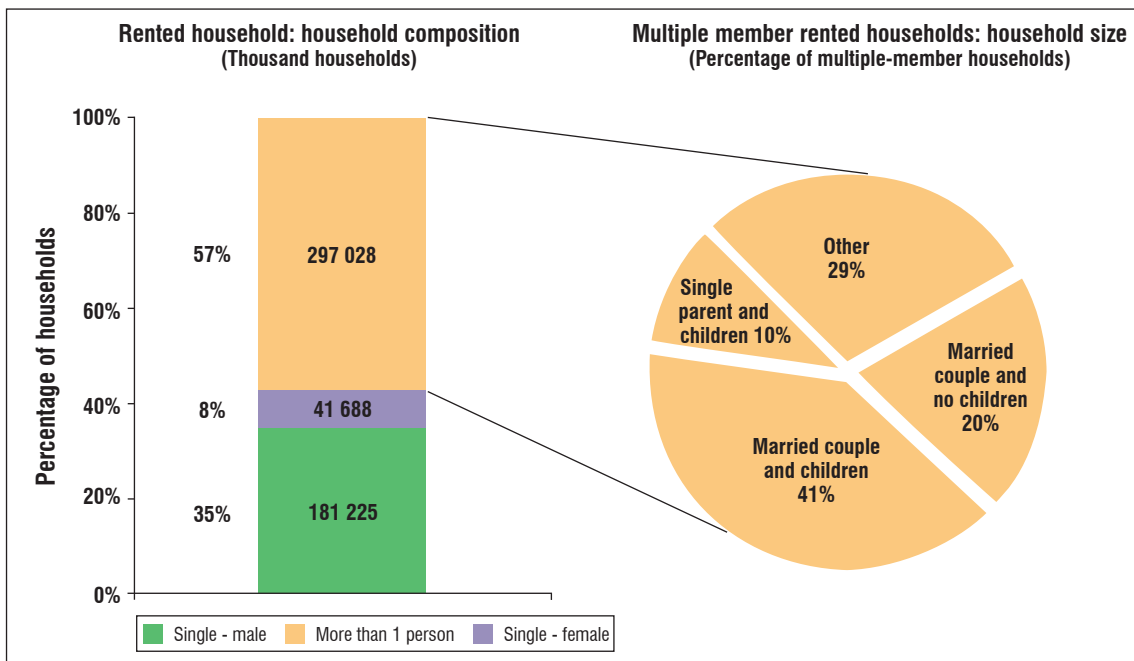
Chart 5: Household size of shack renters by province



Source: Community Survey 2007

It is of course important to recognise the critical link between the variation in household size and structure on housing availability. Some single person households may have close family members living elsewhere precisely because suitable family accommodation is not available. That said, there are many larger households that live in shacks. Data from the GHS indicates that half of multiple-member shack-renting households are parent-children households.

Chart 6: Household composition of shack renters

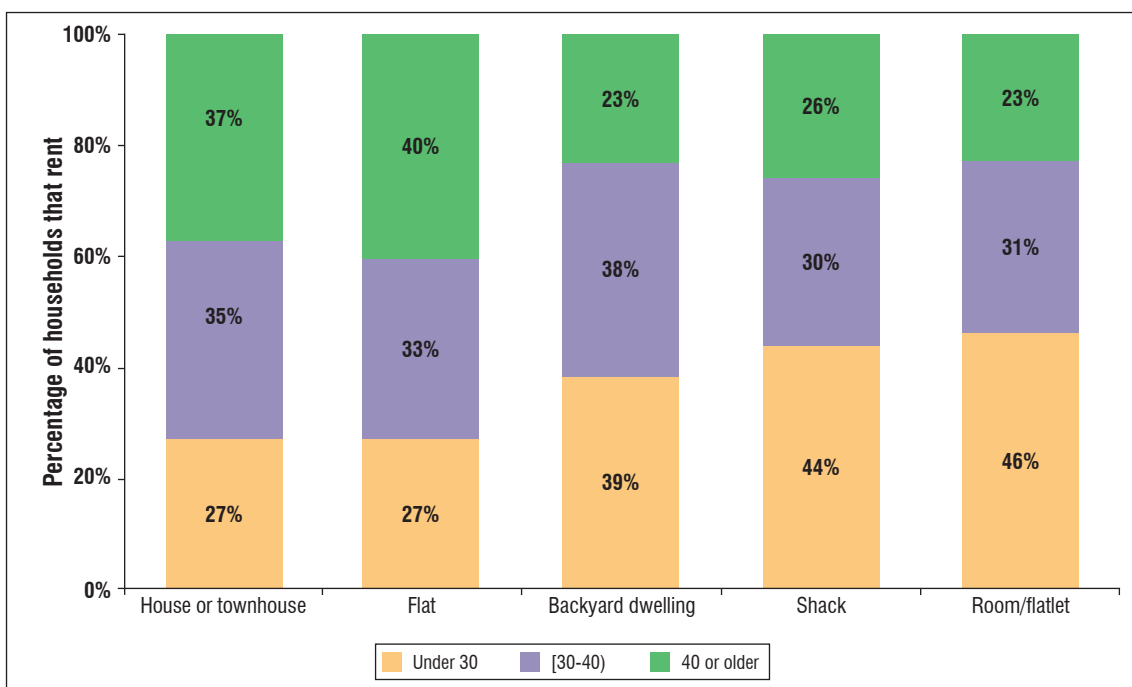


Source: GHS 2006. Analysis based on relationship to household head

The GHS explores the location of the household five years previously. It finds that around 80% of those who currently rent shacks lived in a shack five years ago¹⁵. Data from the Nurcha study of informal rentals¹⁶ found that, on average, tenants had been living in backyard dwellings for 6.2 years in Katorus, eight years in Orlando East and four years in Cato Manor.

A sizeable proportion of shack renters are newly formed households. According to the GHS 17% of these households did not exist five years ago. This is consistent with findings related to the age of the household head - 44% are under the age of 30 and a further 30% are between the ages of 30 and 40.

Chart 7: Age of the household head of shack renters



Source: General Household Survey 2006 (Households)

It is worth noting that a sizeable minority of household heads in rented shacks are 40 or older.



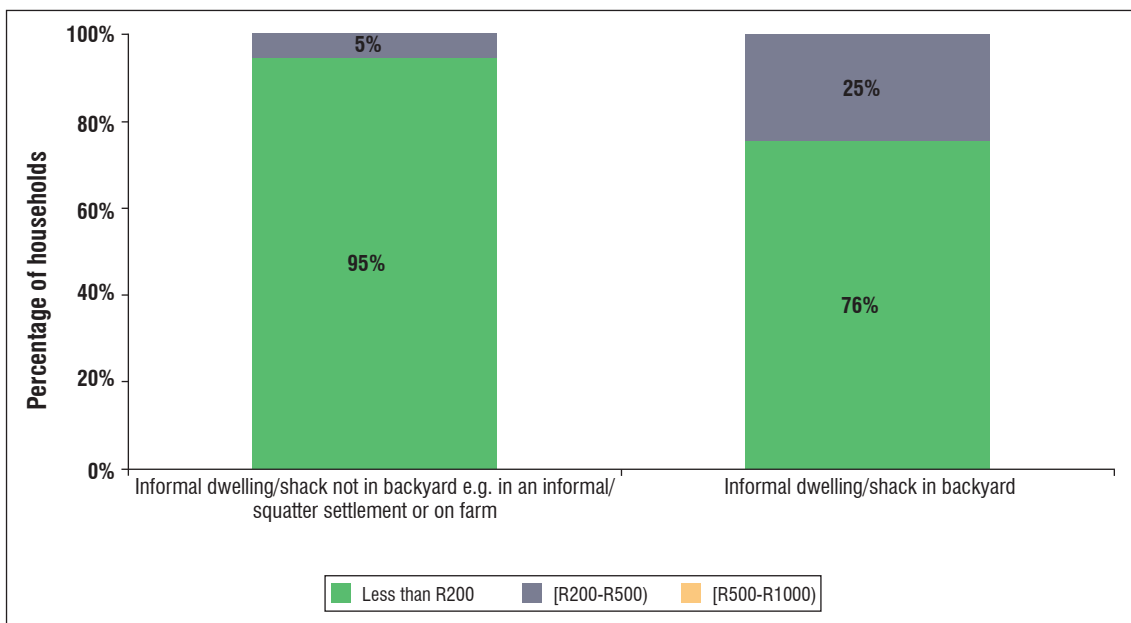
¹⁵ It is not necessarily the same shack

¹⁶ NURCHA Informal Rental Development Programme, 2003, Progressus referred to in Research Report 6, Research into Landlords in Townships as part of a study on Housing Entrepreneurs conducted by Shisaka Development Management Services (Pty) Ltd in association with CSIR Built Environment

Affordability

Data from the Income and Expenditure Survey has been used to explore the rentals paid by shack-renting households. Ninety five percent (95%) of households renting shacks in informal settlements pay less than R200 per month rent. The average monthly rent paid in that segment is R103. Around one quarter of households who rent backyard shacks pay more than R200 per month, with the average rent paid at R147.

Chart 8: Rent paid by households who rent shacks



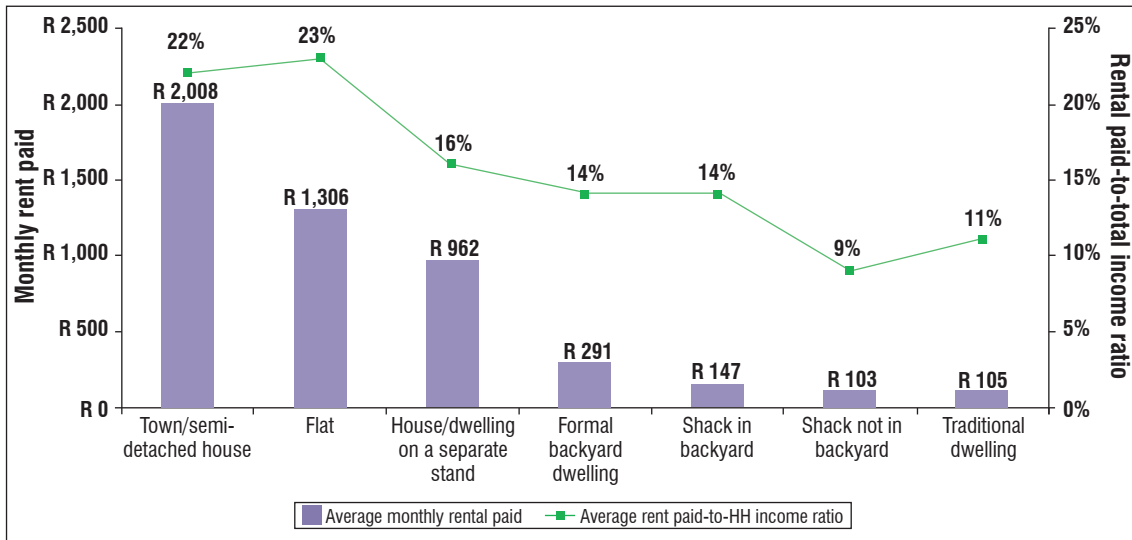
Source: Income and Expenditure Survey (2005/2006)

*Excludes households whose stated rental paid was greater than their stated income as well as those households for whom rental paid was unknown/unspecified (approximately 7% of interviewed households who rent)

Households who rent backyard shacks spend an average of 14% of their gross monthly income on rent while the corresponding percentage for those who rent shacks in informal settlements is 9%.



Chart 9: Average monthly rentals and rent to income ratios by dwelling type

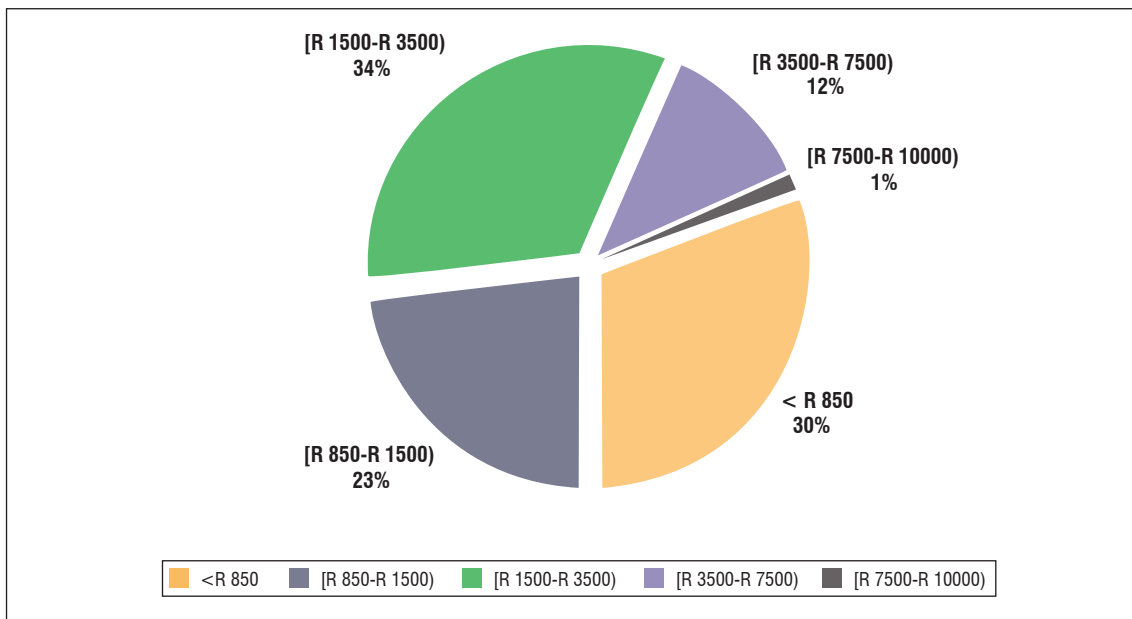


Source: Income and Expenditure Survey (2005/2006)

*Excludes households whose stated rental paid was greater than their stated income as well as those households for whom rental paid was unknown/unspecified (approximately 7% of interviewed households who rent)

There is no data in national surveys to determine whether those who rent shacks would be prepared to pay more for better quality accommodation, and indeed, how much more they would be prepared to pay. In this regard the Nurcha study found that over three quarters of tenants said they would be willing to pay more for better quality accommodation, although it is worth noting that what people say they would pay and what people actually do pay are often quite different. According to the IES over half of those who rent shacks have a monthly income of less than R1,500. Whether these households can afford to spend more on accommodation given their other needs is unclear.

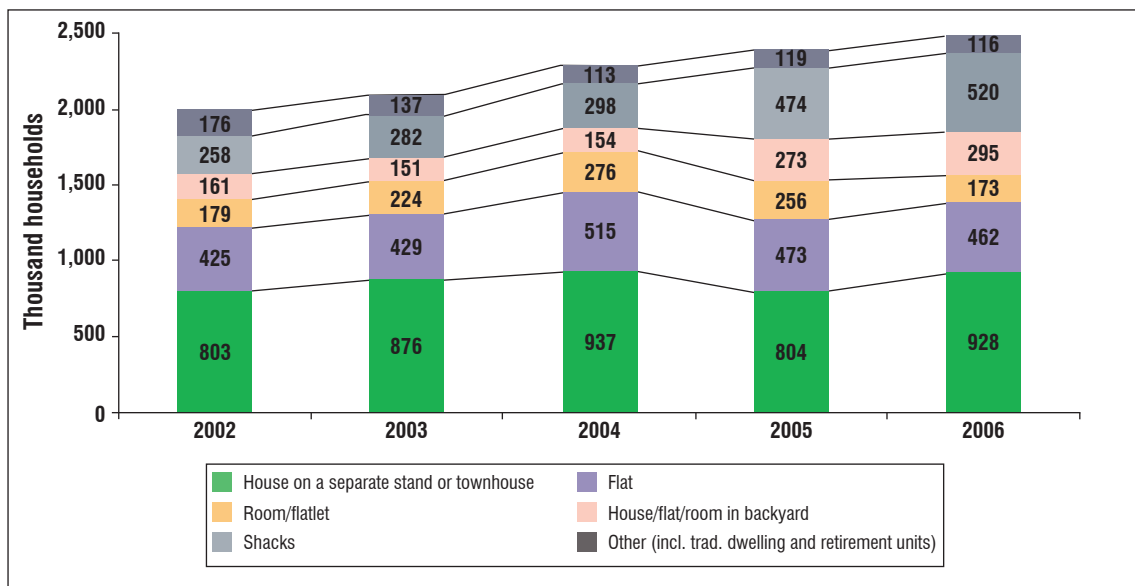
Chart 10: Household income distribution of households that rent shacks



Source: IES 2005/6

Data sources differ on the extent of growth of the shack rental market. The GHS – for which data is available from 2002 – indicates significant growth in the sector, with the number of households who rent shacks as their primary dwellings increasing from 258,000 in 2002 to 520,000 in 2006, an increase of around 20% per annum. When compared to the 2001 Census which found 385,000 households renting shacks, data from the Community Survey indicates a lower growth rate of around 3% per annum (albeit off a higher base). The discrepancy is perhaps to be expected given the informal nature of these dwellings and the difficulties in identifying them given their location in backyards. In either case the data highlights that the sector is large and growing.

Chart 11: Trend data: Rented dwellings 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 or on farm, town/cluster houses and semi-detached houses

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

Other data indicates significant demand for shack rentals. The Nurcha study found that landlords received between six to 12 enquiries per month. The same report noted that vacancy rates are effectively zero and that vacant units are filled almost immediately.



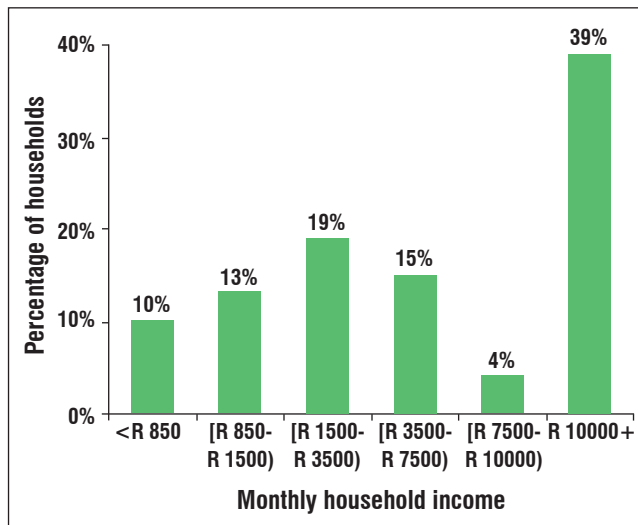
Supply

Data from the IES can be used to explore households who generate an income from the rental of fixed property. This data excludes rental income generated by bona fide businesses owned by the household. The survey finds that around 2% of households in South Africa, corresponding to a little under 200,000 households, earn rental income. It is interesting to note that rental income estimates generated by the IES significantly exceed estimates from the National Accounts produced by the Reserve Bank. According to the IES rent received amounted to R4.9 billion in 2005/6 while according to the National Accounts this item generates R0.2 billion. It is not clear how the National Accounts estimate is produced but it is highly likely that rental income generated by households is understated in surveys (and thus very understated in the National Accounts). Survey respondents who might not disclose rental income for tax purposes might be reluctant to do so during a survey (they may be concerned that information might be passed over to tax authorities).

No data is contained in the IES 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, the Nurcha research 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 IES a significant percentage of households who earn rental income are relatively poor. Almost one quarter of households who report rentals as a source of income earn less than R1,500 per month.

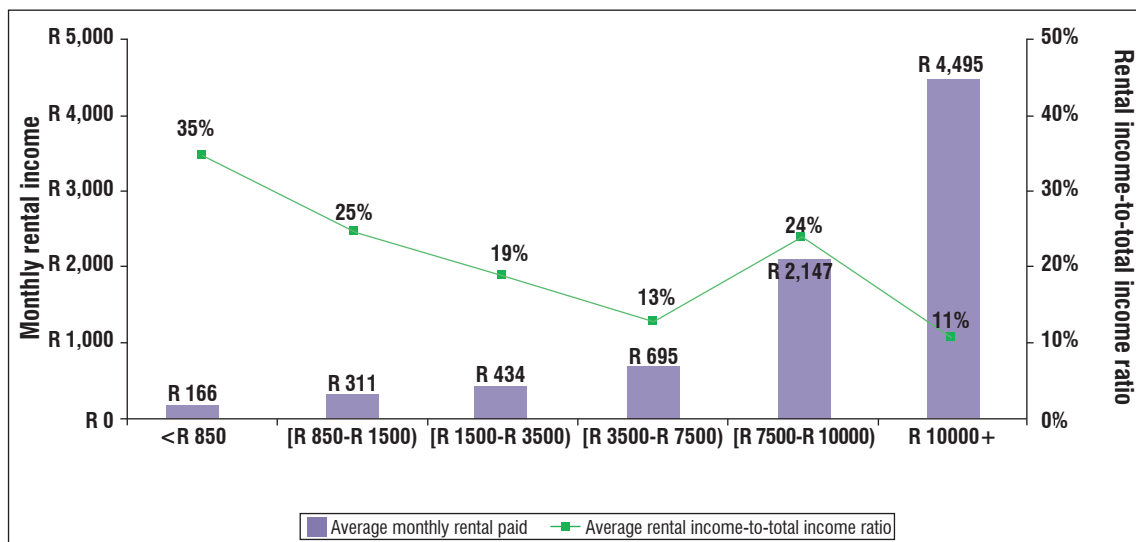
Chart 12: Household income distribution of rent-receiving households



Source: Income and Expenditure Survey (2005-2006)

Further, for poorer households rental income accounts for a significant percentage of household income. For those earning between R850 and R1,500 per month, rental income for landlord households typically comprises one quarter of total household income.

Chart 13: Rand values of rental incomes received and rental income share of total income for rental earning households



Source: Income and Expenditure Survey (2005/2006)

*Excludes households whose stated rental paid was greater than their stated income as well as those households for whom rental paid was unknown/unspecified (approximately 7% of interviewed households who rent)

The Nurcha study found relatively high rates of return for landlords. The average investment in the construction of a backyard shack was between R1,100 and R1,300 while the rent varied between R80 and R130, implying a payback period of one year. While the returns on formal structures were also high, payback periods were typically longer at three years with rentals ranging between R178 and R273 per month. Of course, in the case of a formal structure landlords would presumably also benefit from potential capital gains on the sale of their properties, providing an incentive to undertake the larger, longer term investment. The proviso, of course, is that landlords perceive this investment as an opportunity to build wealth, that they have access to other 'inputs', including capital, materials and planning permission and that the market will bear a higher rental.



Way forward

The available survey data highlights the importance of the shack rental market. However, that there are significant discrepancies between data sources on the size of the market underscores the importance of increased rigour in collecting data on the sector. Discrepancies may reflect differences in definitions. How exactly is a 'shack' defined? Does it relate to the characteristics of the dwelling (for instance the materials used to construct the floor, walls or roof), the characteristics of the settlement area (including formal proclamation, density and viability for human settlement) or basis of ownership of the rented dwelling (the landlord may not have formal title)?

Definitions relating to the nature of the rental agreement also impact on findings. In the case of backyard dwellings households may pay rent in kind rather than in cash. This type of arrangement may be more likely to occur for those who rent backyard shacks as opposed to shacks in informal settlements given the close proximity of the tenant and the landlord. Tenants may regard themselves as occupying the dwelling rent-free as opposed to renting the dwelling. According to the Community Survey 282,000 households rent backyard shacks while a further 138,000 households who live in backyard shacks say they occupy their dwellings rent free. In contrast, the 2006 GHS finds a far lower number who occupy backyard shacks rent free (less than 80,000) but a higher number who rent shacks (389,000).

Merely clarifying definitions, however, is unlikely to eradicate differences in estimates entirely. It is inherently difficult to gather data on shack renters and surveys by their nature are imprecise. Nevertheless it would be enormously helpful if the estimates that were available were based on harmonized definitions.

Aside from aligning definitions there is some scope to gather additional data relating to shack rentals specifically and other rented dwellings in general. There is currently no data in the surveys to identify households that rent space on which to build their own shacks, a phenomenon noted by Gardner¹⁷. Tenant-built structures currently fall outside the scope of existing rental market legislation (which relates to dwelling rentals), although it is noted of course that by and large the informal rental market is lies outside the legislative realm altogether.

Given the size of the segment it would be useful to gather supply-side data to determine whether households provide rental accommodation to another household which is paid for in cash or in kind. For the rental market in general data on the length of the landlord tenant relationship would be useful.

While the collection of nationally representative survey data enables the segment of the market to be sized and tracked over time, more local studies undertaken in the past provide critical nuance required to interpret quantitative data and to create insight into the motivating factors and circumstances that shape the market. Areas with high concentrations of backyard renters or those that exhibit strong growth should be targeted for door-to-door studies and in-depth interviews with landlords and tenants on an on-going basis.

Finally, it would also be useful to track developments relating to specific properties. A longitudinal study of a selected panel of properties in key areas would provide insight into the stability of the renter base and the development of the rented property itself.

¹⁷ David Gardner, INVESTIGATION INTO ENTREPRENEURS & SMALL-SCALE LANDLORDS

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