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# Tenure Options & Management Models for Hostels Redevelopement

URBAN SECTOR NETWORK

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The Development Action Group (DAG) was established in 1986 and works with poor communities in urban areas of the Western Cape on housing and development issues. DAG's core activities are the facilitation of integrated development projects that promote habitable environments and sustainable livelihoods, development education to empower community organisations and other practitioners, and undertaking research, advocacy and lobbying to influence policy and practice.

The Urban Sector Network (USN) is a national network of South African NGOs involved in development and governance issues. The affiliates of the USN are: Afesis-Corplan (East London), Built Environment Support Group (Durban and Pietermaritzburg), Cope Housing Association (Johannesburg), Development Action Group (Cape Town), Foundation for Contemporary Research (Cape Town), Planact (Johannesburg) and Urban Services Group (Port Elizabeth).

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## CONTENTS

## GLOSSARY

Administration Boards: The bodies responsible for administering African townships (including hostels) up until 1983, when "Black Local Authorities" were briefly formed before being merged into the new democratic non-racial local authorities in 1995-1996.

AGM: Annual General Meeting

Communal Property Association (CPA): a communal tenure body formed in terms of the Communal Property Associations Act of 1996; similar to a co-operative.

Co-operative: an internationally used form of communal tenure body; in South Africa, co-operatives are formed in terms of the Co-operatives Act of 1981.

DAG: Development Action Group

Grey sector hostel: A hostel built by an employer on public sector land (e.g. land leased from the Administration Boards).

Hostel: An administrative term referring to hostel accommodation that is managed as an entity, ranging from a single building or complex to a number of buildings over a wide area. Hostels can range enormously in size, from less than 20 residents to more than 10 000 residents.

Hostel block: A building with hostel accommodation. Can range in size from a single storey building with a few rooms to a multi-storey building with dozens of rooms, typically with between two and six people per room.

Hostel unit: A number of rooms sharing the same ablution and cooking facilities. A hostel block can consist of more than one unit.

Hostels redevelopment grant: A capital subsidy amount, in terms of the Public Sector Hostels Redevelopment Programme, of R20 300 for converting public sector hostels to family units or R 5 075 per bed space for converting hostels for single person accommodation (2002/2003 values).

Housing Association: A term commonly used for non-profit housing institutions with a form of tenure other than communal ownership, i.e. rental, rent-to-own or instalment sale.

Institutional subsidy: A subsidy amount, in terms of the Housing Subsidy Scheme, for the provision of institutional housing - can be used for converting grey sector or private sector hostels to institutional housing (e.g. a co-operative, Communal Property Association or Housing Association).

Local Negotiating Group (LNG): A forum for participation in hostels redevelopment, consisting of representatives of hostel residents and other stakeholders, required to be set up in terms of the Public Sector Hostels Redevelopment Programme.

NGO: non governmental organisation (i.e. a non-profit development organisation).

Parastatal: A government-run or government-owned company, such as Transnet or Eskom.

Private sector hostel: A hostel built by an employer on land they own, e.g. mine hostels, hostels in harbour areas and hostels in industrial areas.

Section 21 Company: A non-profit organisation registered in terms of Section 21 of the Companies Act of 1973.

Sectional Title: A combination of individual ownership of individual units and joint ownership of communal property, as per the Sectional Titles Act of 1986.

Share Block Company: A communal tenure body formed in terms of the Share Block Control Act of 1980.

# TENURE OPTIONS AND MANAGEMENT MODELS FOR HOSTELS REDEVELOPMENT

## 1. Introduction

Hostels are the physical manifestation of the systematic racial discrimination and economic exploitation of the past. Largely invisible to the general public, hostels are home to several hundred thousand people across the country. The White Paper on Housing (1994) estimated that over 400 000 households (5% of all households in South Africa) lived in private sector, grey sector (privately owned hostels constructed on land leased from the state) and public sector hostel accommodation.

The national policy towards hostels outlined in the White Paper was aimed at the "upgrading and redevelopment of hostels in order to create sustainable humane living conditions in State and privately owned hostels countrywide and to ensure the re-integration of these hostel communities into the surrounding communities". Although progress has been made with regard to the redevelopment of public sector hostels, the redevelopment of private sector and grey sector hostels (except for the big mine hostels) has lagged behind. The reasons for this are that whereas provincial housing departments have been responsible for co-ordinating public sector hostels redevelopment, and there has been a dedicated funding stream set aside for this, there has been no overall co-ordination of grey sector and private sector hostels redevelopment, and proposed redevelopment projects have had to compete with other housing projects for funding.

This report provides an overview of tenure options and management models for hostels redevelopment, with an emphasis on grey sector and private sector hostels. The report discusses key issues arising from actual experiences in hostels redevelopment. In 1999, the Development Action Group (DAG) was involved in a survey of grey sector hostels in Cape Town, and subsequently DAG co-operated with the City of Cape Town on the redevelopment of two grey sector hostels (Bokomo in Nyanga and Martin and East in Guguletu) and became involved in the redevelopment of the private Everite Hostel. Although many of the lessons are based on involvement with the grey sector hostels in Cape Town, experiences from hostels redevelopment elsewhere have also been used.

First of all, the background to the hostels sector in South Africa is looked at, followed by a brief discussion of current conditions. Tenure options for hostels redevelopment are then reviewed, with a focus on individual ownership, communal ownership (especially co-operatives) and rental from a housing association. Management models (for property management and the participation of residents in decision making) are then briefly discussed. Lastly, the financial implications of different tenure options are looked at.

## 2. Background to hostels in South Africa

The hostels were a key feature of grand apartheid, in which Africans were not seen as being permanent residents in urban areas, but as migrant workers who were temporarily in urban areas to work while their permanent home was in rural "homelands". The hostels provided dormitory type accommodation for migrant workers at a nominal rent per bed space (in 2001 the rent per bed space was still R7 per month in Cape Town).

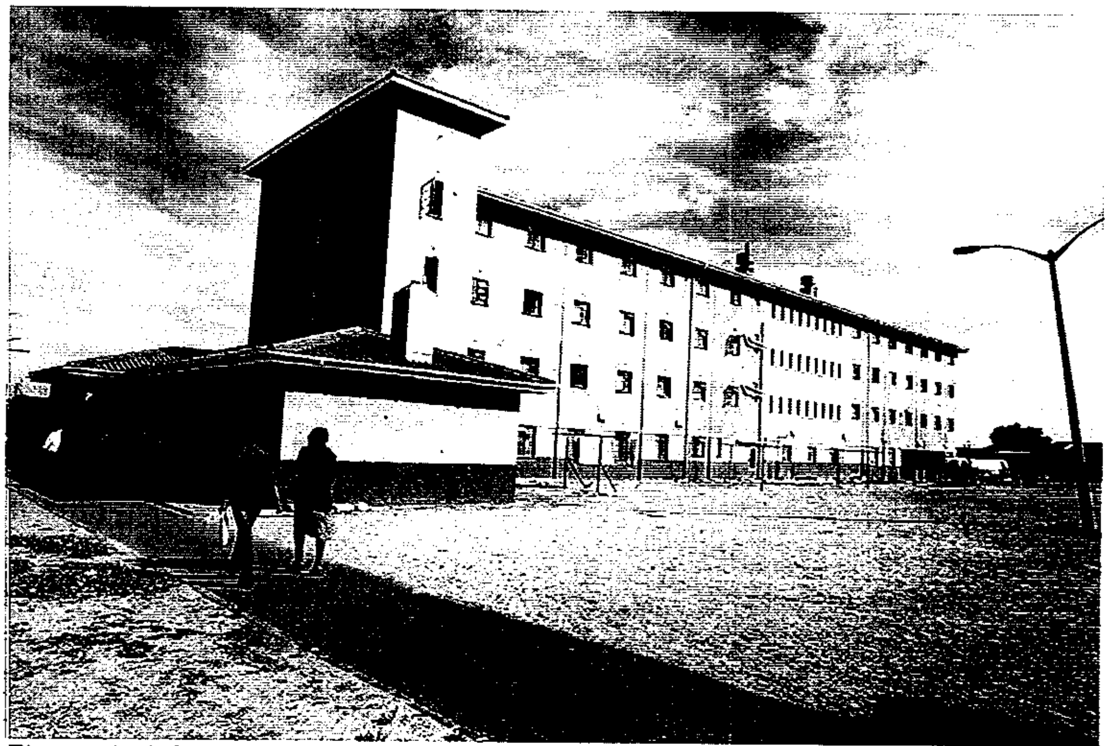

*Figure 1: A four storey public sector hostel block in Langa*

There were different types of hostels. Initially the Administration Boards, which were responsible for African township areas at the time, built public hostels in African townships. In Cape Town, the main era of building public sector hostels was between 1947 and 1966 (from1947 in Langa and from 1952 in Nyanga, and in the mid-1960s in Guguletu). After 1966 there was a shift towards employer-built hostels, where the Administration Boards leased land to companies (usually a renewable five year lease) for them to build hostels. These hostels were then managed and maintained by the company. In Cape Town this was particularly prevalent in Nyanga, which had over 200 of these hostels. When terminating the lease the employer had to return the hostel, without any occupants, to the Administration Board. During the early 1990s, many employers abandoned responsibility for these hostels, and local authorities inherited the responsibility of the former Administration Boards. These hostels were called "grey sector" hostels, because they fell into the grey area between the private and public sector in which the responsibilities of the employer and local authority were not clear (although in South African law the landowner is regarded as the owner of any buildings on their property). As companies closed down or changed ownership (e.g. being bought by an international corporation), and as the composition of hostel residents rapidly changed (so that in some cases very few residents were employed by the former owner of the hostel), the situation became even more complex.

Employers could also get permits to build accommodation for their workers on their premises in areas outside the African townships, for example, the Everite Hostel in Brackenfell, Cape Town. The largest hostels outside townships were generally the parastatal hostels, e.g. for harbour and railway workers. There is a lack of reliable figures, but it is estimated that in Cape Town in the mid-1970s there were over 10 000 bed spaces in private hostels outside township areas.

*Table 1: Public, private and grey sector hostels in Cape Town*

| Hostel type | Number of hostel blocks | Number of adult residents |
|---|---|---|
| Public hostels | 651 | 21 054 – 37 418 |
| Privately owned hostels on state land | 339 | |
| Privately owned hostels on privately owned land outside township areas | - | 12 510 |

The figures for number of hostels in townships (Langa, Nyanga, Guguletu) are from 1983 (WCHDA, 1987); the higher figure for residents is a 1976 figure from Selvan (1976), as is the estimate of the number of residents in hostels outside township areas.

*Figure 2: Women and children in a hostel room; this room is used as the living and sleeping space for two families*

As apartheid began to be dismantled from 1990 onwards, no more hostels were built. In 1991 the government announced a hostels redevelopment programme and allocated an initial amount of R325 million to the programme. The guiding principles for hostels redevelopment were set out in the Short-Term Guidelines for Hostels Initiatives. In 1992, the National Housing Forum entered into negotiations with the government around the hostels programme. These negotiations resulted in the establishment of the National Hostels Co-ordinating Committee (NHCC) in 1993. The Public Sector Hostels Redevelopment Programme was then developed and implemented. The Public Sector Hostels Redevelopment Programme is for the redevelopment of all public sector hostels, except for those that were solely for the use of their employees. The Reconstruction and Development Programme document (Section 2.5.16) provides the most comprehensive statement of policy intentions at the time:

> "Hostels must be transformed, upgraded ands integrated within a policy framework that recognises the numerous interest groups in and around hostels and provides a range of housing options, including both family units and single people. The transformation of the hostels must not deny any individuals or households access to the cities, including workers who maintain a rural base, families who desire integration into the city, and women with no security. Policies must address integration of hostels into communities, their safety and privacy (especially for women and children), and the various family living arrangements in hostels. Migrant labour, a consequence of past recruitment policies, will persist in the immediate future. Some housing types should be developed to cater for migrant workers for those who engage in circular migration between city and countryside. Privately-owned hostels must be given particular attention. Short-term repairs (including provision of basic services and a baseline healthy environment) are a first priority, but must be consistent with long-term transformation. A fundamental point of departure is affordability. The democratic government must upgrade hostels where residents cannot pay costs. Hostels programmes must put appropriate dispute resolution mechanisms in place, must be linked to programmes for the unemployed, and address the legacy of migrant labour."

The national policy towards hostels outlined in the White Paper on Housing (1994) was aimed at the "upgrading and redevelopment of hostels in order to create sustainable humane living conditions in State and privately owned hostels countrywide and to ensure the re-integration of these hostel communities into the surrounding communities".

In terms of the Public Sector Hostels Redevelopment Programme, a Local Negotiating Group (LNG), comprising the local (or provincial) authority, hostel residents, representatives of the neighbouring community and local business people was to be formed to participate in the planning and design of all hostel upgrades.

Three forms of hostels redevelopment were envisaged:

- Conversion to rental units for single people and families where there was a demand for rental in the area.
- Conversion to ownership of family units where there was not overwhelming demand for single rental accommodation in the area, where the hostel could be efficiently converted and where the redevelopment is affordable to the residents.
- Conversion to an alternative use such as a school or community facility (or even demolition) if the hostel was inconveniently located, if there was no demand for hostel-type accommodation or the hostel is so run down that redevelopment would be too expensive.

An important principle was that no redevelopment application would be accepted unless alternative acceptable accommodation would be provided to any residents that would be displaced by the redevelopment. The LNG also had to approve all redevelopment plans.

There were a variety of approaches to hostels redevelopment, ranging from upgrading with some dedensification to fullscale conversion to family units. Simultaneously, many mine hostels also began to be redeveloped, with the participation of the National Union of Mineworkers.

The City of Cape Town had one of the most comprehensive public sector hostel redevelopment programmes, aimed at converting all public sector hostels to family units. This was primarily because there were a larger proportion of families living in hostels in Cape Town than was the case in hostels in most other parts of South Africa, due to Cape Town's greater distance from the rural base of migrant workers.

The initial policy was for a space of $15m^2$ per hostel resident. The hostel upgrading subsidy was based on the normal housing subsidy (initially R15 000, increased to R16 000 in 1999 and finally to R20 300 in 2002) divided by four. The national housing department initially ran the hostel programme, but responsibility for evaluating applications and monitoring progress was subsequently transferred to the provinces.

A large amount of money was spent on fixing up the hostels and making sure that everything was working, but issues of management were not taken into account. As a result, what improvements happened did not last, because there was inadequate management (Narsoo in DAG, 2001).

The policy recommendations of both the Gauteng and Western Cape provincial housing departments in 2001 recognised that there were permanent and transitionary hostel residents and that there should be a choice of two tenure options:

- Upgrading, i.e. conversion into single units with shared facilities, i.e. for people from rural areas to come and work
- Conversion to family units

A shift in the emphasis of hostels policy was proposed in 2002. In her housing budget speech to the National Assembly 14 May 2002, the former Housing Minister, Sankie Mthembi-Mahanyele to the National Assembly, announced that:

> "The Hostel Redevelopment Programme will also become a second thrust in promoting rental housing. The programme focuses on providing choice and encouraging the development of family units for affordable rental. Transformation and redevelopment of hostels are key to the restoration of dignity to this sector of our society, the hostel dwellers."

This was indicative of a possible shift towards a focus on conversion to family units for rental, as a response to the emphasis on the upgrading of public sector hostels thus far.

A contradictory trend, however, has been the trend with local authorities towards reducing their public rental stock through transferring public rental stock to individual ownership, sectional title or co-operatives where possible. There have also been proposals for setting up separate housing associations to take over the management of public rental stock. The net implication of all of this is that monthly costs of residents will increase (except for individual ownership, the costs of which are often heavily cross-subsidized).

The phasing out of rental subsidies and shift away from public rental, is basically because local government is increasingly unable to subsidise the operational cost of public rental housing. For example, the average operational cost per unit for the City of Cape Town's rental housing was R566 per month in February 2000, and the average cost recovery from rent was R412 per month, which necessitated an average subsidy of R154 per month (R1 848 per year). This is equivalent to the real value of the maximum housing subsidy over a period of about 10 years.

*Table 2: Public sector hostels in South Africa*

| **Province** | **Number of hostels** | **Number of residents** |
|---|---|---|
| Eastern Cape | 5 | 5 755 |
| Free State | 20 | 11 293 |
| Gauteng | 45 | 157 200 |
| KwaZulu-Natal | 25 | 66 856 |
| Limpopo | 13 | 1 244 |
| Mpumalanga | 25 | 16 000 |
| Northern Cape | 0 | 0 |
| North West | 13 | 9 985 |
| Western Cape | 10 | 11 000 |
| Total | 156 | 279 333 |

Source: Department of Housing, 2001

*Table 3: Grey sector hostels in Cape Town*

| Area | Number of hostels | Number of residents |
|---|---|---|
| Langa | 9 | 1 477 |
| Guguletu | 21 | 3 890 |
| Nyanga | 72 | 4 487 |
| Total | 102 | 9 854 |

Source: DAG, 1999

## 3. Current conditions

In many ways hostels are a unique environment. Hostels are often characterized by a more traditional, more rural culture. For example, Cape Town's hostels are seen as a bastion of traditional Xhosa culture (Thurman, 2001). This has implications both for leadership in the hostels and for economic activities. Many businesses in the hostels are based on rural traditions, e.g. selling *umqombothi.* This is largely because many hostel residents are migrant or transient and have strong rural links. For example, in Gauteng, 96% of hostel residents have a family home elsewhere and only 5% of hostel residents currently have their dependents living them (although about 60% of residents said they would like to have some or all of their dependents living with them (CASE, 2001).

High levels of poverty and unemployment also make the current situation very different to the situation in the past. South Africa has been characterized by declining formal employment, For example, in the two year period from October 1997 to September 1999, the number of jobs in the formal non-agricultural sector in South Africa declined from 5.1 million to 4.8 million (Business Day, 1999). This trend has been particularly noticeable in the hostels. Whereas in the past, hostel residents were by definition formally employed, there is now high unemployment and informal employment among hostel residents (apart from still functioning private sector hostels, such as the mine hostels). In Gauteng, only 30% of residents in public sector hostels are in permanent full-time employment (CASE, 2001). In the Mangaung hostels, Bloemfontein, the unemployment rate was 51% among hostel residents, compared to the unemployment rate of 36% for the township of Mangaung as a whole (LMV, 2000). Many hostel residents use their accommodation as a base for informal economic activity – 20% of hostel residents in Gauteng engage in a small business activity in their hostel, e.g. selling food, clothes or alcohol, or repairing electrical appliances or shoes (CASE, 2001).

Hostel committees are often both hierarchical and patriarchal, and women are frequently excluded from decision making (DAG, 2001). For example, in Gauteng, only 12% of women hostel residents said they had been consulted in the hostel upgrading process compared to 32% of men hostel residents (CASE, 2001). Because hostels dwellers are frequently transient (although their period of residence may last decades), the composition of "households" can be fluid. Some migrant workers have both a family in their rural home, which they support, and a girlfriend and family in the urban area.

Some other problems in hostels include (Sekele, cited in DAG, 2001):

- Considerable overcrowding
- Unhealthy living conditions
- HIV/AIDS and other sexually transmitted diseases
- Alcohol abuse
- History of the hostels: ethnic differences

*Figure 3: Grey sector hostels in Guguletu, surrounded by shacks*

**4. Tenure options**

The form of tenure in hostels has historically been rental, but this is starting to change. In the early 1990s many private companies abandoned hostels or handed them over to hostel residents. Many local authorities are also trying to find ways to reduce their rental stock (for example, the City of Johannesburg plans to transfer all its rental stock by 2005). Increasingly, therefore, hostels redevelopment involves a change in tenure.

For public sector hostels, the redeveloped hostels generally continue to be owned and managed by the local authority as public rental housing. These rents are often highly subsidized (as the setting of rents is often a political process rather than based on cost recovery principles), so residents generally favour this option. In terms of government policy, however, rental subsidies are being phased out over the 2002-2007 period and rents will ultimately be calculated on a cost recovery basis.

The disadvantages of public rental (for the local authority) are:

- It can be expensive (in terms of the Housing Act, cost recovery rentals should be charged but this is seldom the case).

- It is often inequitable; tenants are often not those most in need, but are heavily subsidized
- Tenants usually do not have a vested interest in looking after their housing
- Large-scale public housing estates can result in social problems amongst residents
- The local authority needs to collect rent, which can (and often does) result in an adversarial relationship with tenants

Although rental from the local authority is still the most common tenure form, there is an increasing move towards handing over the ownership and management of redeveloped hostels to residents (parallel to a similar shift with public rental housing in general).

Essentially, there are five groupings of tenure options possible for hostel redevelopment:

- Maintaining the status quo of rental from local authority or employer
- Rental, "rent-to-buy" or installment sale from a housing association or housing company (usually a company established in terms of Section 21 of the Companies Act of 1973)
- Communal ownership (Co-operative, Communal Property Association, Share Block Company established in terms of the Co-operatives Act of 1981, Communal Property Associations Act of 1996 and Share Block Control Act of 1980 respectively)
- Sectional title in terms of the Sectional Title Act of 1986
- Individual ownership

It should be noted that tenure form is closely linked to physical design. If the hostel is intended to remain as rental there are no major design implications, but if it is going to be transferred to the ownership of the residents, there are major design implications:

- Conversion to communal ownership: There will need to be an office where the necessary administrative tasks are undertaken and an undercover meeting space is also required. Having some communal facilities is possible (e.g. washing lines, parking area, garden), but there will probably need to be individual water and electricity meters.
- Conversion to individual ownership: There will need to be fire walls between units up to the underside of the roof, no communal facilities are possible (all units must have sufficient outdoor space for washing line, parking, etc.) and all plots must have road access.

Which tenure options are possible depends on the source of funding (and on the design) – see Table 4. In terms of the institutional subsidy regulations, individual ownership and sectional title are possible tenure options in the longer term, but are usually not allowed within the first 4 years.

It should be noted that the formal legal framework for tenure registration and administration in South Africa is largely inappropriate for the needs of low-income people, as the registration and transfer procedures are complex and expensive. Although there is a huge range of potential institutional forms available, there is no institutional form ideal for social housing. In particular, Sectional Title and Share Block Companies are not realistic options for hostels redevelopment.

*Table 4: Suitability of tenure options depending upon funding option*

| **Tenure option** | **Public sector hostel upgrading grant** | **Institutional subsidy** | **Non-government funds (e.g. funds from employer or donor organization)** |
|---|---|---|---|
| Ongoing rental from local authority/employer (status quo) | ✓ | × | ✓ |
| Housing association/housing company: rental, rent to buy, installment sale | ✓ | ✓ | ✓ |
| Communal ownership: Co-operative, Communal Property Association, Shareblock Company | ✓ | ✓ | ✓ |
| Sectional Title | × | × | ✓ |
| Individual ownership | ✓ | × | ✓ |

*Sectional Title*

Sectional Title is a combination of individual ownership of units (e.g. flats) together with communal ownership of communal property (stairs, parking area, etc.). The Sectional Titles Act of 1986 provides for the division of land and buildings into sections and common property, and for the acquisition of separate ownership in sections together with joint ownership of the common property. Under Sectional Title, the person becomes the separate owner of a particular unit and joint owner of the common property. All the joint owners together form the Body Corporate. A Body Corporate, consisting of all owners of units, is set up for every sectional title scheme. The Body Corporate is responsible for the repair, upkeep, control, management and administration of the common property and for the payment of rates, taxes, service charges, and insurance premiums. The Body Corporate elects a Board of Trustees to be responsible for the upkeep of the common property, and to collect and manage the money that owners pay for maintenance. A Body Corporate is basically a type of voluntary association, which is a body incorporated under common law, and has a separate legal personality. Voluntary associations do not have to register and are not regulated by any legislation or public official. This lack of formality and regulation can be a disadvantage as there is no check on mismanagement, and, as a result, voluntary associations may find it difficult to get loans and so on. A Co-operative or Communal Property Association are better vehicles for communal ownership as their guidelines for functioning are clearer, and both of these alternative allow for much greater participation by residents.

*Share Block Company*

The Share Blocks Control Act, No. 59 of 1980 regulates share block schemes, i.e. where a company buys a property and the rights of persons to use sections of the property are conferred by acquiring shares in the company. A share block scheme is defined as being any scheme "in terms of which a share, in any manner whatsoever, confers a right to or an interest in the use of immovable property". The company holds the property in perpetuity. Rights to the property are acquired and transferred solely by means of shares in the company. Shares are linked to use rights: buying shares in the company gives one the right to occupy a specific unit. The Share Blocks Control Act imposes certain conditions on share block schemes.

A share block company can convert to any other form of company or to sectional title scheme upon application of 30% of members. Members appoint directors, but there is a relatively low level of participation. They are therefore not ideally suited to the communal ownership of redeveloped hostels, where a high level of participation is essential. As it is usually difficult to borrow large sums of money to purchase shares in a company (as opposed to fixed property), and because of its complexity, share block schemes are usually used only for upper income residential developments.

### 4.1 Individual ownership

Individual ownership is generally the most popular form of tenure, due to its greater degree of autonomy and security. For example, 72% of hostel residents in the Mangaung hostels preferred individual ownership as their tenure option of choice (LMV, 2000) and 62% of hostel residents in Cape Town ideally wanted to own their own housing (MOS, 1995).

Ownership is the right to alienate the property at will (i.e. to sell it or bequeath it to one's heirs). The underlying principles are that the owner cannot be deprived of his/her property and that the owner is entitled to recover the property from any person who retains possession of it without his/her consent.

It is important to note that there is no such thing as unrestricted ownership. Town planning, schemes building regulations, and so on, can restrict what one can do on one's property. Voluntary restrictions can include mortgage bonds, i.e. one cannot sell the property without the consent of the holder of the bond. There is now a pre-emptive clause that restricts the sale of subsidized housing for 8 years.

Individual ownership is the most secure form of tenure (for the individual owner), where formal transfer procedures have been followed. Section 25 of the Constitution protects the right of property owners; expropriation of property by the state can only occur if it is in the public interest and if compensation is paid for it. Individual ownership is not necessarily a secure tenure option for other members of the household as they do not necessarily have any tenure rights (although this can potentially be solved by registering ownership of the property in the name of more than one adult member of the household; other use rights, e.g. a long-term tenant, can also be registered on a title deed).

In terms of the Alienation of Land Act No 68 of 1981 contracts for the sale and purchase of land (deed of alienation) have to be in writing and signed by either parties or their agents. The following things have to be included:

- Names of the seller and buyer
- Description of the property
- Purchase price
- How the purchase price is to be paid (after the transfer has been registered).
- The date on which the buyer will take possession of the property

Once the agreement has been signed it must be taken to a conveyancer (an attorney who specialises in property transactions and who is allowed by the Supreme Court to register transfers in the Deeds Office). The ownership of land can be conveyed from one person to another only by means of a deed of transfer executed or attested by the Registrar of Deeds. The costs associated with the transfer of ownership include the conveyancer's fees.

The advantages of individual ownership are:

- Most legally secure form of tenure (for the person in whose name the property is registered)
- Can bequeath the property to one's heirs or sell the property
- Can use as collateral for loans
- Can make improvements to the property

The disadvantages of individual ownership are:

- Ownership can make one liable for paying rates
- Complex and expensive transfer procedures. As a result, properties are sold informally or handed down from parent to child without the legal processes being followed.
- Private individual ownership is a very misunderstood tenure option, and as it is a very individualised form of tenure there is usually little scope for engaging with the implications of ownership (compared with Sectional Title or communal ownership). A survey of low-income households found that only 24% of households could identify the key characteristics of ownership, compared with 67% who could identify the key characteristics of rental (Clark et al, 1997). The study found that in some serviced site projects people who were the legal owners often abandoned (or never occupied) plots that they legally owned and left the plots standing vacant or to be occupied by others.

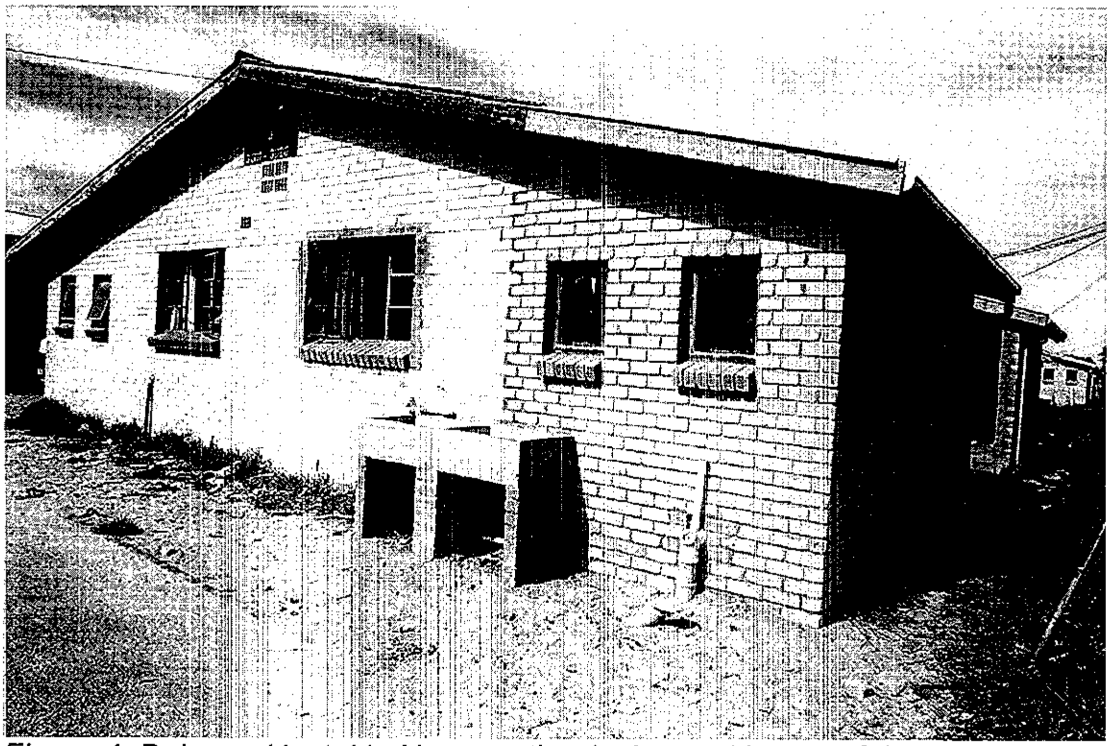

*Figure 4: Bokomo Hostel in Nyanga; the design and layout of the blocks made it possible for each block to be converted into four attached dwellings each on its own plot with road access.*

Individual ownership is only suitable in rare cases where the layout and design of the hostel allows for each unit to have its own plot with road access. Where it is possible it should be the preferred form of tenure - individual ownership is the most affordable form of secure tenure, as the owner does not have to pay any institutional operating costs. The only costs are rates and service charges, and any necessary home maintenance costs. In most larger local authorities, where hostels are generally found, there are rates rebates for properties below a certain value and free services (e.g. 6 kilolitres of water per month), which means that sometimes the only regular monthly cost will be that of prepaid electricity, which the household can self-ration if necessary. Another advantage of individual ownership is that the household will be able to extend and improve their home on an incremental basis as and when they are able to afford to.

## 4.2 Co-operatives

Co-operatives are widely used internationally as a vehicle for the communal ownership of affordable housing. They generally follow the basic principles of the International Co-operative Alliance, the most important of which is "one member, one vote".

Co-operatives are the best institutional form for collective ownership. One example of its use for the redevelopment of a grey sector hostel was with the Consol Hostel in Guguletu, where the Lukhanyo Co-operative was set up. A communal property association in terms of the Communal Property Associations Act of 1996 is a similar, alternative institutional form, although it has mainly been used in rural areas for collective ownership of land (but there have some examples of its use in urban areas, e.g. for the transfer of the Clifford Harris Hostel in Guguletu to its residents, where the Nomalungelo Communal Property Trust was set up).

*Figure 5: The Lukhanyo Co-operative (formerly the Consol Hostel, in Guguletu, Cape Town)*

In a co-operative all the residents are members/ shareholders of the co-operative (the "shares" can be nominal amounts of money) and jointly own the property. Members of the co-operative elect a Board of Directors that will manage the co-operative. Each household has one vote in the General Meetings to take major decisions about the co-operative.

Members have rights to occupy specific units based on being members of the co-operative, as defined in "use agreements". Co-operatives are more secure than rental but not as secure as individual ownership, as there is a risk of non-payment by other members or of bad management. Members may lose all rights to the property if the institution goes bankrupt. Members may be able to sell their rights, but there may be restrictions as to whom the rights may be sold to. An advantage of co-operatives is that communal ownership can greatly facilitate strong social and economic support networks.

See the boxes below for the typical key features of a Housing Co-operative Statute (based on the statute of the Lukhanyo Co-operative in Guguletu, Cape Town) and a typical use agreement (based on the use agreement used by Cope Housing Association). It should be noted that the Cope use agreement also has restrictions relating to the property only being used for residential purposes and forbids subletting; however, using units for home-based enterprises should be allowed where it does not cause an unreasonable disturbance to other residents, and the sub-letting of a room in a unit should also be allowed as long as it does not result in overcrowding.

Some key issues to be taken into account in the management of a co-operative are:

- The co-operative needs to have an office with a postal address and sufficient office equipment, e.g. telephone, fax, computer.
- The co-operative will need to get a part-time bookkeeper to look after the co-operative's financial affairs and regularly report to the Board. Specific procedures must be followed, for example, all cheques must be signed by two of the Directors.
- The co-operative has to appoint an auditor to draw up annual financial statements.
- The co-operative has to insure its property.
- The co-operative has to maintain the property, for example, cleaning the yard, hiring plumbers or electricians to fix problems.
- The co-operative has to keep the following information available for all members to inspect:

- Certificate of incorporation and copy of the statute
- Minutes of all Board meetings
- A register book to be signed by Directors attending Board meetings
- Minutes of all general meetings
- Accounting records meeting the requirements set out in the Co-operatives Act
- Register of interests of Directors as set out in the Co-operatives Act

*Box 1: Model Co-operative Statute (based on the Lukhanyo Co-operative)*

***Formation***

The co-operative must be formed by members at a meeting run by an external chairman and secretary, and the Chairperson, Vice-Chairperson and other Director(s) must be elected.

***Membership***

Each member will be a shareholder (e.g. by payment of a R5 000 contribution) in the co-operative and has a use agreement entitling them to use a specific housing unit. Each member has one vote in general meetings. The equity amount is repayable to the member (without interest) when their membership of the co-operative is terminated.

***Board of Directors***

The co-operative will be managed by a Board of 3 to 9 directors elected by members of the co-operative at an AGM. Directors are elected for 3 years. Directors are removed from office if they are more than 1 month in arrears.

At the first meeting after every AGM the Board must elect a Chairperson and Vice-Chairperson. The PHDB (or successor) has the right to appoint a director to the Board.

***Changes in membership***

Application for transfer of membership of the co-operative and the right to use a specific housing unit must be made to the Board of Directors. The new member must be approved by the Board and must pay the share amount, and the departing member will receive a payment of the share amount plus any increased value.

Members who die can bequeath membership to a relative, subject to the proposed transferee meeting Board approval and being able to pay the share amount. The Board can expel a member from the co-operative for breaking provisions of the statute or the housing user agreement, e.g. by not paying the monthly levy.

***Functioning of the co-operative***

Requirements for registration of a co-operative include:

- Having an office with a postal address and sufficient office equipment, e.g. phone, fax, computer
- To get a part-time bookkeeper to look after the co-operative's financial affairs and regularly report to the Board.
- Having an estimated monthly income and expenditure

The Co-operative must hold an AGM every year to deal with annual financial statements, elect Directors and deal with any other issues, e.g. complaints. The co-operative can also hold extraordinary general meetings – at least 2 Directors or at least 5 members can call these, and members must elect chairperson for the meeting.

The housing co-operative must appoint an auditor to draw up annual financial statements as per Sections 135-156 of the Co-operatives Act. The Board must insure all assets of the co-operative. The co-operative can only borrow money, raise money or overdraw a banking account of more than 50% of its share capital and aggregate reserve with the authority of a special resolution (i.e. if members are notified of the resolution before the general meeting and the resolution is approved by at least two thirds of members present at the general meeting).

The following must be kept at the registered office of the co-operative available for inspection by all members of the co-operative:

- Certificate of incorporation and copy of the statute
- Minutes of all Board meetings
- A register book to be signed by Directors attending Board meetings
- Minutes of all general meetings
- Accounting records as per Section 134 of the Co-operatives Act (e.g. all cheques must be signed by two of the Directors)
- Register of interests of Directors as per Section 117 of the Co-operatives Act

*Box 2: Typical use agreement (based on Cope Housing Association's use agreement) (SHF, 2000)*

***Typical clauses in a use agreement***

- Housing unit: names the unit that can be used by the member, and that they must follow the house rules.
- Membership of the co-operative: Explains that the resident will become a member of the co-operative, and describes the rules for termination of the membership
- Duration: date on which agreement starts and notice period for ending the agreement
- Monthly charges
- Equity: specifies the amount that must be paid to the co-operative when signing the agreement
- Exit payment: specifies the formula for calculating the amount to be repaid to member when their membership of the co-operative is terminated; it would generally be for a percentage of their contribution to capital costs – the percentage could vary on a sliding scale depending on the number of years they have been a member of the co-operative.
- Payment: specifies monthly charges, the monthly due date and penalties for non-payment
- Right to common areas: describes member's rights and responsibilities with regards to use of common property
- Letting of parking bays and storage rooms
- Maintenance and repairs: responsibility of co-operative and residents
- Alterations and additions to the housing unit/rehabilitation work
- Keys and locks and access to the housing unit
- Insurance: states that the co-operative is responsible for insuring the building while residents are responsible for insuring the contents of their unit
- Loss, damage or injury to persons or property
- Cession of rights: member cannot transfer their rights in this agreement to someone else
- The house rules need to be attached to the use agreement.

*Communal Property Associations*

Communal Property Associations are similar to co-operatives. The Communal Property Associations Act, No. 28 of 1996 regulates Community Property Associations (CPAs), which are legal entities set up to own and manage immovable property in common on behalf of communities in terms of written constitutions. CPAs can take a variety of institutional forms, e.g. a Section 21 company, Trust or voluntary association, but their constitutions have to follow the set of principles in the Act and have to be registered.

CPAs are intended for disadvantaged communities that have had land donated, sold or transferred to them, and can form CPAs on the approval of the Minister of Land Affairs. CPAs are basically voluntary associations, but are registered and regulated, which can be an advantage, and it may be easier to get funding for a registered and regulated body. CPAs need to have defined beneficiaries at the inception of the project.

Issues to be addressed in the constitutions of Communal Property Associations include: identity of the community, qualifications for membership, classes of membership and rights of different classes, rights of members to use of the property, whether membership is based on individuals or families, grounds and procedures for terminating membership (and what happens to that member's rights and property), whether members may sell their rights and to whom, what happens to members rights on their death, details of the committee and the general meeting and annual general meeting, disciplinary matters, and so on. The Director-General of Land Affairs has certain powers to monitor and intervene in the affairs of CPAs.

Some of the principles that are required to be followed in the constitutions of Communal Property Associations are:

- Fair and inclusive decision-making processes (membership can only be terminated on reasonable grounds after a fair hearing)
- Equality of membership (the creation of different classes of membership must be based on equitable criteria)
- Democratic process (all members must have equal rights)

CPAs were intended for use with predefined, homogenous communities in rural areas. CPAs have therefore seldom been used in urban areas. In addition, banks are reluctant to lend to CPA as membership of a CPA is sometimes perceived as being less of a real right than, say, membership of a co-operative.

### 4.3 Housing associations

Housing associations (or housing companies) are generally non-profit housing institutions set up by local government or NGOs to provide housing using institutional subsidies.

They differ from communal ownership (co-operatives and Communal Property Associations) in that Housing Associations are non-profit housing institutions in which residents do not own the property, although residents may elect some of the Directors and play a large role in the management of the institution.

In terms of the institutional subsidy regulations, the tenure form can be either:

- Rental
- Rent-to-buy (rental with option to buy after minimum of 4 years): tenants obtain individual ownership of units after a certain period of time. During the rental period tenants can accumulate savings built into their monthly charges that will be deducted from the purchase price. If a tenant leaves their unit before taking transfer, they are entitled to a repayment of any accumulated savings.
- Installment sale (payment of purchase price plus market related interest through monthly installments over a minimum of 4 years). In terms of the Alienation of Land Act of 1981, transfer of the property can only take place once the full purchase price has been paid.

Housing Associations usually take the form of Section 21 companies i.e. "Associations not for gain". Rental from a housing association can be more secure than other forms of rental as the social housing institution would usually have a fund for where tenants are temporarily unable to pay rent. As the social housing institution would either have tenant representation or be managed by tenants, they may also be more willing to be flexible. One of the advantages of housing associations is that experts in a field, e.g. lawyers and accountants, can be appointed to the board of the housing association to assist in monitoring the institution, whereas the board of, for example, a co-operative would consist entirely of residents, who may not have the necessary range of management skills.

Section 21 of the Companies Act provides for the incorporation of "Associations not for gain", i.e. non-profit organisations. A Section 21 company cannot issue shares and cannot pay dividends to members. The company must be formed for a lawful purpose, e.g. the promotion of social housing. Non-profit provisions must be in the company's Memorandum of Association. A Section 21 company is deemed to be a public company in terms of Section 19 of the Companies Act, and therefore must have at least 7 members. The liability of the company is limited by guarantee (members undertake to pay a nominal amount in the event of the company failing or going into liquidation. Members appoint directors to manage the company. Members, directors and officers are not liable for the company's debts (except in the case of fraud).

A Section 21 company must comply with certain formalities, for example, they must be registered with the Registrar of Companies and keep the Registrar informed of any changes in address, members or directors. Auditors must be appointed and annual financial statements must be lodged with the registrar. An Annual General Meeting must be held at which financial statements and a directors' report, which complies with section 299 of the Companies Act, must be presented. Minutes of Director's meetings must be kept. A Section 21 company cannot be converted into any other entity.

A Section 21 company is not an ideal social housing vehicle because it is by nature an entity set up by members for the benefit of others but not to benefit the members themselves. The Companies Act is also very complex and has strict requirements that need to be complied with.

An example of a Section 21 social housing company in South Africa is the Shayamoya Housing Association in Durban, set up by the Built Environment Support Group (BESG). The first phase of the project consists of 320 units in 3 and 4 storey walk-ups. BESG is the founder of the company. All occupants have to earn less than R2500 p.m. and meet the subsidy eligibility criteria. Other criteria include household size, proven capacity to save and employer references. The Board consists of 8 members, 4 elected residents and 4 non-residents appointed by BESG, and hires paid staff to undertake day to day management. Members meet at least once a year to approve annual budget, elect resident Directors, approve appointment of staff, and so on. One member from each household can vote. Rental is the only tenure option, with the potential for limited equity to be given to households under certain conditions.

Housing associations have also been used to take over the ownership and management of public rental housing. In the United Kingdom, since 1988 there has been a dramatic shift towards transferring local authority-owned public rental housing to newly established housing associations. By 2002, about 900 000 housing units had been transferred to newly-established housing associations, and housing associations were well on their way towards owning more housing stock than local authorities. The government is strongly promoting large scale stock transfer, but transfer only occurs if the majority of councillors and tenants in a local authority are in favour of it. The main reason behind this dramatic shift was because of poor management of rental stock by local authorities - local authority housing departments had to deal with large numbers of rental units and often became far too large, bureaucratic and remote from their tenants. In contrast, the size of the newly established housing associations is limited by policy to 12 000 housing units. The new housing associations set up to take ownership of transferred housing stock differed from traditional housing associations in that they strong representation from tenants and local authorities: typically the boards consist of equal numbers of tenant representatives, local authority representatives and independent board members. An overall assessment of the UK experience is that "regulated, subsidised, non-profit bodies so seem to offer the prospect of a socially and politically acceptable rental housing sector" (Malpass, 2002).

*Rental*

Housing associations are ideally suited to the ownership and management of non-profit rental housing. Internationally, rental is the predominant form of tenure in most Third World cities in developing countries – 69% in Cairo, 77% in Addis Ababa and 91% in Lagos (Malpezzi and Ball, 1991). Rental housing is a form of tenure especially suited to low-income households as it facilitates labour mobility, which can be an important survival strategy. On the other hand, a survey of low-income households in Durban, however, found that rental was the most disliked tenure option as it was seen as being a waste of money, insecure, unaffordable and exploitative (Clark *et al.*, 1997). There is still a strong demand for rental housing in South Africa, though. For example, 28% of the Mangaung hostel residents wanted rental as their preferred tenure option (LMV, 2000), and, although the majority of respondents wanted to one day be home owners, 87% of hostel residents in Cape Town preferred rental as the tenure option for the redeveloped hostels (MOS, 1995).

The legal term for rental is leasehold. A lease is a contract of letting and hiring and is largely governed by the common law. A lease agreement is an agreement whereby one party (the landlord) binds himself or herself to give another party (the tenant) the temporary use and enjoyment of a property (the premises) in return for the payment of rent. Legally, a lease agreement can be verbal (if for less than 10 years), and there only needs to be agreement on the property to be let and the obligation to pay rent. Duration of the lease depends on the period of payment, unless otherwise stated. For example, if the rent is paid monthly, it will be a monthly lease and reasonable notice (i.e. a month in this case) is required upon termination of the lease.

The obligations of the landlord in terms of South African common law are (Delport, 1992):
- Duty to make premises available to tenant
- Duty to allow the tenant undisturbed use and enjoyment of the property: the landlord cannot enter the leased premises without the tenant's consent, and cannot cut off the tenant's services or bar the tenant from the premises.
- Duty to maintain the property let: the landlord must maintain the premises, but the tenant must repair at his own cost damage caused by himself or those for whose acts he is responsible
- Duty to pay taxes: landlord has to pay the rates and taxes on the property

The obligations of tenant in terms of South African common law (Delport, 1992):
- Duty to pay rent
- Duty to make use of the premises in a proper manner: can only use the premises for the purpose for which they were let
- Duty to restore the property to the landlord on termination of the lease. In terms of the Trespass Act of 1959, the court can impose a fine of up to R2000 and/or up to 2 years imprisonment. In practice, the legal process is usually delayed by case overload of the legal system and sentences are usually light.

In terms of the Rental Housing Act, No. 50 of 1999, the tenant can request the lease to be in writing, the landlord must furnish receipts for all payments received, and the landlord must return any deposit plus interest to the tenant on expiration of the lease (less the cost of repairing any damages or replacing lost keys). The Rental Housing Act is intended to create a culture of adherence to standard terms, ensuring payment and creating appropriate dispute resolution mechanisms. In terms of the new act, there is provision for ensuring certain areas can be regulated if necessary, e.g. prescribing the reasons for which tenants can be evicted and limiting increases in rents to increases in actual costs.

## 5. Management models

For rental from a local authority or employer, the local authority or employer is responsible for management and maintenance, although residents should also play a role in this, e.g. through elected committees. For a communal ownership body such as a co-operative, the residents will be entirely responsible for the management of their housing.

The three main areas of management are:
- Participation of residents in decision making
- The rights and responsibilities of residents with regards to use of the property ("house rules")

- Property management

*Participation*

Section 6.2.1.5 of the National Housing Code says that an institution must ensure that occupants occupying residential properties in institutional subsidy projects are adequately represented, in order to ensure "that the wishes and desires of the occupants are taken into account, but not necessarily to afford the occupants a controlling role in the management of the institution". Requirements for an adequate representative structure are:

- All occupants of residential properties in the project must be entitled to vote on an annual basis for a residents' committee.
- The resident's committee must be consulted with regard to house rules of the institution
- The committee must elects from amongst its members, one or more representatives to serve on the Board of Directors of the institution.
- In cases where an institution has received institutional subsidies in respect of more than one project, the residents' committee in respect of each project will elect (where appropriate) representatives from amongst its members to serve on a central overseeing residents committee. This central committee will in turn elect out of its membership one or more persons to serve on the Board of Directors of the institution.

Section 10.3 of the National Housing Code says that hostel redevelopment must ensure that the capacity of the hostel residents is built so that they can participate in the planning and ongoing management of the redevelopment. The reasons for participation in ongoing management are given as:

- To avoid overcrowding after redevelopment
- To promote a sense of responsibility for the building, reduce vandalism, and facilitate maintenance
- To improve the payments of rents, and
- To provide access to opportunities such as small business loans and training.

*House rules*

Section 6.1.2.5 of the National Housing Code sees house rules as dealing with:

- amenities in the project
- the use and maintenance of common areas and the control thereof
- the conduct and manner of behaviour of occupants and any person being present or residing in the buildings.

Some of the things typically found in house rules with regards to the last point include:

- Procedures for making complaints and settling disputes
- Responsibilities of residents in keeping the complex clean and tidy
- Time limits for loud noise levels

In addition, some aspects of local authority health and safety regulations may need to be incorporated into the house rules.

*Property Management*

Management of public sector hostels by local authorities largely revolves around control of access to the hostel and collection of rentals (these two factors can be the precondition for being able to effectively maintain a hostel). For example, in terms of the Gauteng Residential Landlord and Tenant Act of 1997, the duties of hostel managers include the following (CASE, 2001):

- Responsibility for the management, control and good order of the hostel
- Promotion of the reasonable comfort and welfare of the residents
- Reporting (to the local authority) on the conditions of management and control of the hostel
- Ensuring the tidiness and cleanliness of the building and property
- Deciding on who is eligible, registering residents, issuing certificates of registration, keeping a waiting list, and evicting residents where necessary
- Encouraging and facilitating the establishment and operation of a residents committee, and consulting regularly with it
- Limiting the access of non-residents into the hostel

Similarly, the Central Operational Entity of the Ethekwini Metropolitan Municipality (Durban) formulated a hostels access policy in 1998, to put proper security systems in place, e.g. security guards at gates and access cards for residents (Mthembu, 2001). All authorised tenants were to be registered and sign a lease agreement. Illegal residents were to be regularised and also sign a lease agreement. For visitors there had to be an agreement with the residents. The residents had to report their visitor to a Councillor for that particular hostel, who in turn reported to the administration. Visitors had to contribute 50% of the rental, depending on the duration of the stay of that particular resident. No trading was allowed in sleeping rooms. The following departments controlled all registered trading operators: Informal Trade and Small Business Opportunities, the City Health Department and the Real Estate Department.

In terms of billing, the charges were broken down on the bill as follows:

- Electricity
- Water
- Refuse removal
- Sewerage
- Administration: insurance, maintenance, wages and sundries.

The debt collection policy was as follows (it is not clear to what extent this policy was carried out, as there do not seem to have been large scale evictions from these hostels):

- Rentals are payable by the $7^{th}$ of each month.

- If there is failure to pay, as specified in the agreement, a demand letter requiring payment will be sent.
- If there is no response within 7 days, a reminder notice will be sent.
- If there is further failure to pay, the issue will then be referred to the Legal Department to proceed with a summons.
- If there is no response to the summons, the Legal Department will proceed to obtain a default judgement and a Warrant of Ejectment.
- After ejectment, there will be normal allocation to another tenant.

For where a communal tenure body such as a co-operative is set up, this body will have to manage and maintain the redeveloped hostel, including the following:

- Repairs and maintenance
- Rental administration: setting rents, collecting rents and managing arrears and vacancies
- Resident participation, conflict management and dispute resolution
- Community development

The options are:

- To hire a managing agent to manage the housing – this is likely to be both expensive and disempowering
- To hire in and supervise expertise where necessary
- To build capacity of residents to undertake as many tasks as possible

Maintenance and administrative tasks (e.g. repairing broken windows, taking minutes of meetings) are best suited to being undertaken by hostel residents, but financial management should only be undertaken by hostel residents if it is impossible to find a suitable external person at an affordable cost, and if there is sufficient training and support available. Having reputable auditors and access to a reputable lawyer for legal advice are essential.

*Figure 6: A City of Cape Town maintenance man stands by his official bicycle in Zone 20, Langa*

## 6. Financial implications

### 6.1 Institutional housing

Where an institution owns and manages housing, the monthly costs are always more expensive than for individual ownership, because all residents need to contribute to the operational costs of the institution on a regular basis (whereas with individual ownership, some costs, e.g. building insurance, are often dispensed with and other costs, e.g. maintenance, can be delayed until times when money is available). The costs of running a housing institution can include:

- Part-time bookkeeper
- Annual auditing
- Insurance
- Stationery/office expenses (e.g. telephone)
- Banking charges
- Legal fees
- Maintenance
- Communal services (water, electricity)
- Establishing a reserve fund (to cope with emergencies, vacancies, non-payment, etc.)

Operating costs for institutional housing, including water and electricity but excluding loan repayments, have typically been at least R450 p.m. for high rise flats (with lifts) and R350 p.m. for low-rise flats (USN, 1999). For large scale housing institutions, however, operational costs can be relatively low, e.g. the Cape Town Community Housing Company where in 2002 the operational component of the monthly instalment for a 64 $m^2$ unit, excluding water and electricity, was only R176 per month.

In addition, institutional housing units usually cost more than the subsidy amount, which requires a monthly loan repayment component as well. Most institutional housing projects have therefore been aimed at households earning R1500 to R3500 per month, but some also include a few households with lower incomes. Hostels redevelopment often involves people with lower/irregular incomes, which means that a lower and more affordable standard of housing and services may need to be provided.

The table below shows the estimated monthly running costs for the proposed Martin and East Co-operative. The City of Cape Town also estimated very similar monthly costs with regard to the setting up co-operatives. A housing association would also have a similar minimum monthly cost per unit. It should be noted that over and above this monthly cost there would also have been a monthly loan repayment amount. If exempted from rates, the operational cost would have been R140 per unit per month.

*Estimated monthly operating costs of the Martin and East Cooperative*

| | |
|---|---|
| Part-time bookkeeper/annual auditing fees | R1000 p.m. |
| Office running costs (electricity, stationery, telephone) | R300 p.m. |
| Insurance | R500 p.m. |
| Rates (incl. refuse collection & sewerage) | R650 p.m. |
| Maintenance and repairs | R400 p.m. |
| **Total monthly costs for co-op** | **R2850 p.m.** |
| **Monthly cost per member R2850/16** | **R180 p.m.** |

Potential ways of reducing monthly costs include:

- Reducing the building costs (design and/or delivery cost) so that the loan repayments are lower
- Raising additional grant funding
- By negotiating with the local authority around rates and service charges (often institutional housing does not benefit from rates and service charges rebates because of the high total value of the properties and the high volume of services consumed)
- By negotiating with the local authority with regard to ongoing support for the housing institution
- By getting financial or other support from the Social Housing Foundation, the National Co-operatives Association of South Africa or other bodies
- By residents doing the maintenance and administrative tasks on a voluntary basis
- By grouping small hostels together into one institution so as to get economies of scale in their operation and maintenance

The size of an institution is important. Generally, the greater the number of units managed by a housing institution the greater the opportunities for optimizing services and potentially gaining from economies of scale. Although the Social Housing Foundation sees 1500 units as the minimum size for a sustainable housing institution, it is possible for smaller institutions to be viable (as long as the operational costs of the institution are affordable by the residents). The main advantages to be gained by scale relate to the quality of service that becomes affordable as one reaches a certain threshold, rather than in a significant reduction in cost per unit. For example, although the proposed operational cost for Martin and East with its 16 units and the actual operational cost of the Cape Town Community Housing Company (with more than 3 000 units) was similar (about R180 per month), Martin and East would have had to relied on being able to find a part time book keeper to spend a few days working for them, while a large institution would have little trouble in hiring the necessary support.

### 6.2 Individual ownership

The cost of individual ownership can vary considerably from local authority to local authority. For example, in Cape Town, for an individually owned property with a value of less than R50 000 and where less than 6 kilolitres of water is used per month, there would be no rates and services charges at all, just the cost of electricity (usually prepaid electricity) and the cost of maintenance of the dwelling, both of which are costs that can be fairly well controlled by the household. In some other local authorities, however, rates and service charges, even for subsidised housing, can often typically total between R100 and R200 per month.

For individual ownership, the main costs can be:

- Rates
- Water and sewerage
- Electricity
- Refuse removal

*Rates*

Rates are a tax on property that are used to cover the general costs of local authorities and the provision of services that are difficult to directly charge for, e.g. roads, libraries, sportsfields. Owners of properties below a certain value generally do not have to pay rates, for example, properties of less than R50 000 value in Cape Town. In terms of proposed legislation, all properties with a value of up to at least R15 000 will be exempted from rates.

*Water and sewerage*

Everyone has a right to a basic water supply of 25 litres of clean water per day. Some local authorities provide 6 kilolitres (6 000 litres) of free water to every household per month. This is sufficient water for a household of up to eight people, so many households do not have to pay for water. Although the cost of sewerage is sometimes charged for as a fixed cost per month, sewerage is often charged for based on the amount of water used, or a combination of both methods (which means that if a property is worth less than a certain value and if less than a certain amount of water is used per month there may be no cost for sewerage).

*Refuse*

The refuse removal charge is for the cost of collecting refuse and disposing of it at rubbish dump sites. Refuse removal is usually charged for as a fixed monthly charge. In Cape Town, owners of properties with a value of less than R50 000 do not have to pay for refuse removal.

## 7. Conclusions

These conclusions relate mainly to grey sector and private sector hostels, where redevelopment often requires the setting up of some sort of communal ownership body, e.g. a co-operative.

There is a shift away from subsidized rental accommodation to cost recoverable rents, for all types of hostels. Hostels redevelopment is accentuating this trend, especially where accommodation is upgraded from a single bed space in a shared room to self-contained family units. The trend towards local authorities (and employers) getting rid of rental stock makes this trend irreversible, as the new institutions that are set up to take control of housing are unable to subsidize the monthly costs.

There is therefore a steady rise in the monthly costs residents have to pay:

- Until recently, the rent per bed space for hostels in Cape Town was R6 per month; in 2001 it was increased to R18 per month.
- The subsidized rentals of the family units of the redeveloped public sector units in Cape Town are typically R150 to R250 per month.
- The estimated cost recoverable charge for Martin and East was estimated as R350 per month (including loan repayments over the first three years).
- Based on the Cape Town Community Housing Company experience, the cost recoverable monthly charge for a double storey semi-detached 60+ $m^2$ unit is about R800 per month (including loan repayments over the first five years).

The affordability of monthly ongoing costs is therefore the most problematic issue with regards to hostels redevelopment. Where hostels are transferred to the ownership of the tenants or an independent non-profit housing association, which is increasingly likely to be the case, residents will need to pay a cost of at least R200 per month for the operating costs of the institution. Many hostel residents are unable to afford this (it is more than 10 times the current rent of R18 per month for non-upgraded hostel accommodation in Cape Town). The implication of this is that single-room accommodation with shared cooking/ablution facilities will probably need to be continued to be provided for people who do not want permanent urban accommodation and are unable to afford any other form of accommodation. However, there needs to be greater creativity in looking at how to design for adequate accommodation with shared facilities.

It seems inevitable that most hostel accommodation is going to be transferred to housing institutions of some sort, e.g. co-operatives for communal ownership or housing associations for rental. Is the setting up of these institutions for redeveloped sustainable? It seems it can be, but only in certain situations:

- Where capital cost of the redevelopment is minimized (through affordable designs, the involvement of residents in the construction and/or obtaining grant funding over and above the housing subsidy)
- Where the institution is large enough to afford to employ or hire the necessary management skills and to achieve economies of scale (but not too large to prohibit effective participation by residents). Small hostels need to be grouped together into larger institutions.
- Where monthly charges are minimized through the involvement of residents in management and maintenance (either on a paid or unpaid basis).
- Where the necessary capacity is built among hostel residents. This requires external intervention.

There are few examples of good practice with regard to redeveloping hostels and setting up affordable and sustainable housing institutions, but these lessons need to be built upon and tested in practice, so that adequate and affordable accommodation can be provided for all hostel residents in South Africa.

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