

Rental Housing

Disclaimer

This is a draft of the Quick Guide on Rental Housing. It was prepared by Dr. Koen Dewandeler.

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1. Introduction

Governments in the past four decades have actively promoted home-ownership through land-subdivision, provision of infrastructure and services and relatively easy access to housing finance. Policies on housing finance property taxation, rent control often complemented these measures. Furthermore, housing policies encouraging sites-and-services projects and slum regularisation were also enacted in many countries. This approach overlooked that many poor do not really want

homeownership: they consider rental housing as a more appropriate and affordable option.

Rental housing markets are influenced and respond to local conditions. Therefore, local authorities and policy makers should acquire an insight into the complexity of rental housing and know how to formulate policies to regulate and promote rental housing. This is the main purpose of the Quick Guide on Rental Housing. It argues that rental forms of tenure should not be viewed in isolation from owner-occupied tenure. Quite on the contrary: owners, landlords, and tenants use housing in flexible and inventive ways so as to maximise its asset value. This makes rental housing an integral part of well-functioning housing markets.

The first section reviews the major characteristics and the functioning of rental housing markets. The following two sections respectively look into demand and supply of rental and rent-free accommodation. The final section discusses policy options, regulate, and where appropriate, promote rental housing. In addition, the guide offers bibliographic and web-based resources to fine-tune these recommendations according to the local context.

2. Rental housing markets

Renting accommodation is an integral part of well-functioning housing markets. This section first shows how rental housing meshes with the overall housing market and how it can add up to a considerable proportion of the total housing stock. It then discusses the largely invisible and greatly diversified ways in which rental housing provides urban households and individuals with ‘room for manoeuvre’ to make housing into a productive asset

2.1. Tenancy as integral part of housing markets

Expansion of the urban housing stock usually requires the conversion of vacant or agricultural land into land uses that support housing development. This process requires housing producers such as state agencies, private landowners, builders and landlords *combine inputs* such as land, finance, infrastructure and materials *to satisfy the perceived demand* by homeowners and tenants both in the *formal* and *informal* segments of the housing market. The particular configuration of producers and sub-markets differs from one context to another.

Rental land markets involve land as well as housing built on leased land. *Rental housing markets* involve self-built as well as developer-built housing

Lesson: *Homeowners and tenants are producers as well to the extent that they maintain and upgrade their dwelling units and thus stretch its use value over a longer period of time and over a range of subsequent users*

2.2. Magnitude of rental housing

“About half the urban population in developing countries – hundreds of millions of people – is made up of tenants” (UNCHS, 1990: 1)

Contrary to popular thinking, affordability is but one of the determining factors in whether people buy or rent housing. For many people, rental tenure is a deliberate choice. It offers flexible arrangements that are unavailable to home-owners.

Some recur to tenancy for a transitory period. Others wish to remain mobile for job opportunities or refuse to be pinned down to one place for too long. Still others do not wish make the long-term financial commitment that it takes to acquire a home, or face the costs for maintenance and repairs that come with home-ownership.

While promotion of home-ownership generally succeeded to increase owner-occupation, levels of tenancy have been on the increase as well. As figure 1 shows, *rental housing today constitutes a large proportion of the housing stock in many countries*, including some of the world's most developed societies.

Lesson: *There is conclusive evidence that the level of economic development is not the single most determining variable when it comes to housing tenure. Tenure patterns have more complex linkages with processes of urbanisation, the form of land acquisition and the nature of state policy (UNCHS,2003).*

Figure 1 Housing tenure for selected countries and cities (%)

Countries				Cities			
	Owners	Renters	Others		Owners	Renters	Others
Africa							
Egypt	77	22	2	Johannesburg	55	42	3
South-Africa	69	31	-	Cairo	37	63	-
Asia							
India	87	11	3	Bangalore	43	55	2
Thailand	87	13	-	Bangkok	54	41	5
Latin-America							
Bolivia	60	18	22	Santa Cruz	48	27	25
Brazil	74	25	11	Sao Paolo	70	20	10
Developed Countries							
Germany	40	60	-	Berlin	11	89	-
The Netherlands	53	47	-	Rotterdam	26	49	25
United Kingdom	69	31	-	London	58	41	-
U.S.A.	66	34	-	New York	45	55	-

Sources: UNCHS,2003; Kumar, 2001

2.3. Invisibility of rental housing

Tenure arrangements are largely invisible for several reasons. First, rental housing is *difficult to discern from owner-occupied housing*. Tenancy arrangements have pervaded all sub-sections of the housing market: they occur in densely-built old city quarters, in public housing estates, in housing schemes for civil servants, in private sector housing and condominium estates, as well as in squatter- and slum settlements, in peri-urban land-subdivisions and in semi-rural commuter settlements.

Second, rental housing – with the exception of large purpose-built rental complexes – is *extremely dispersed*. As housing markets matured, commercial holding of land, and housing multiplied the possibilities for tenancy. As the variety of tenure options spread and diversified from inner-city tenements to peripheral informal settlements, the role of large, exploitative landlords in most countries became less prominent. A survey in Bangkok showed that the average landlord controlled 3.6 properties with a total of maximum 39 rental units. In Delhi, the average landlord had 2.5 tenants (Mehta, 2005:8; Kalim, 1990:189).

Third, *private landlords often resemble their tenants in many respects*. Landlords typically are petty entrepreneurs who often live on the same premises and have a limited social and economic status to their tenants. In other words poor landlords tend to rent out to poor tenants. Households and individuals who are better-off rent from better-off landlords.

Fourth, both landlords and tenants deliberately keep rental housing invisible out of *fear of government restraints*. Rental housing responds to a real need, but its efficacy is affected by repressive planning policies and processes (Kumar, 2001:3).

And finally, rental housing remains largely invisible because of *the nature of the rental agreement*: it is personal agreement whose details may not even be known to other tenants within the same rental property.

2.4. Diversity of rental housing

The diversity of rental arrangements largely derives from the nature of rental agreements i.e., a personal agreement between landlord and tenant. The landlord agrees to grant the tenant the right to accommodation for a period of time. In return, the tenant agrees to compensate the landlord at regular intervals.

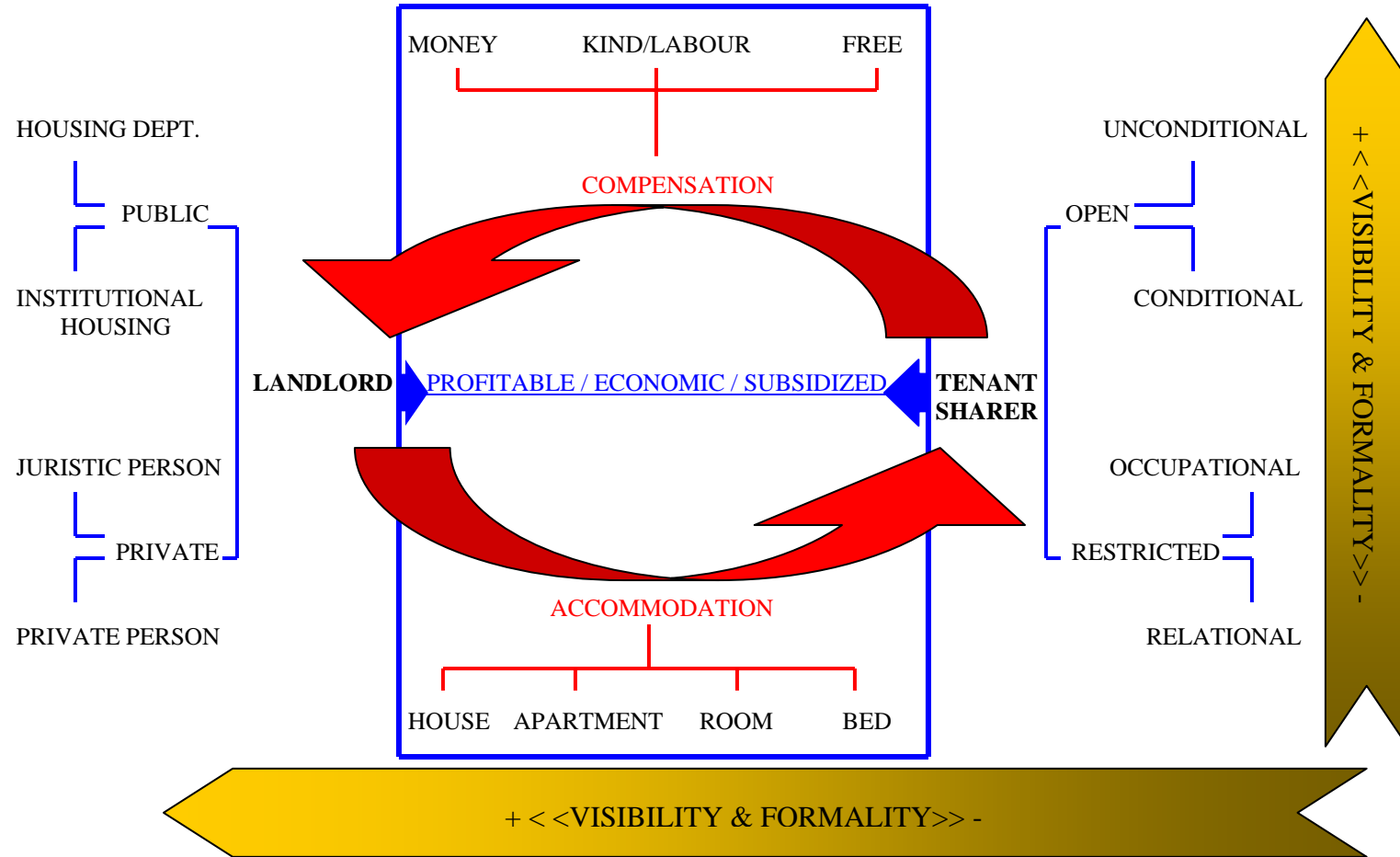
The accommodation may range from a *house*, one *floor* or *room* of a house, a *part of a room* or even simply a *bed*.

The kind of compensation depends for a large extent on the relationship between landlord and tenant. The landlord may let relatives or friends stay *free* of charge. He may also provide housing as a fringe benefit in return for *labour* by domestic staff or employees. Or he may charge *money* in exchange for the accommodation. As mentioned in Section 3.1, the amount of the compensation – or the rent level – depends on the *quality of accommodation*, but also on “*environmental qualities*” such as access to basic amenities, to public services and the neighbourhood.

Whether a **rental arrangement** is *profitable, economic* (i.e., it just covers the investment) or *subsidised* (i.e. it does not cover the investment), largely depends on the relationship between landlord and tenant.

Figure 4: Diversity of rental options

Source: De Wandeler, 2006



Landlords can either be public or private sector agents. Within the *public sector*, purpose-built housing for low-income tenants should be distinguished from institutional housing provided as a fringe benefit to civil servants. Within the *private sector*, rental agreements made with juristic persons (e.g. companies or housing cooperatives) leave less space for informal arrangements than agreements with private persons.

Modalities of access are important because they distort free market mechanisms, which often results in lower rent-levels. Within restricted rental housing markets, access often is linked to *relational status*. As the Asian context is characterised by a dominantly rural past, accelerated industrialisation and rapid urbanisation, most urbanites have rural roots and are prepared to provide temporary shelter on a rent-free basis to friends and relatives. This kind of arrangement is crucial for *seasonal migrants* who are drawn to this housing option due to the limited period of their stay or their instable employment. Alternatively, they may seek access to housing linked to occupational status by seeking an employment as *wage labourers* for whom accommodation is provided (e.g. market vendors, construction workers, etc.). *Domestic servants* staying in-house with their employers or *factory workers* boarded within the fences of a manufacturing plant (or industrial estate), generally share plain but safe accommodation. Civil servants are another category of employees that often benefit from housing that government or state agencies provide rent-free or at nominal rents.

Within open rental housing markets, access may be *conditional* i.e. linked to conditions, such as income level, gender, enrolment as a student, etc. A typical example of this category is public housing that was purpose-built for *low-income tenants*. In principle this accommodation, is accessible for all

low-income households, but often additional criteria are required to be eligible (e.g. to be slum evictee, a fire victim, etc.) In the private sector, accommodation reserved for *students* is a current practice; other examples include hostels for *women*, low-income housing built by *NGOs* or *charity organisations*.

Free rental market conditions are realised only where access is both open and unconditional. In most Asian countries, “demand” for housing is shrouded because personal comfort is put second to the interest of the extended family. Once the need (of the extended family) is met, a demand for (individual) housing may arise. That demand may trigger the transition from sharing to renting, inspire the option for a larger, better serviced rental unit or motivate moving to a safer neighbourhood with better social infrastructure. Over time, a portion of tenants may aspire to become home-owners; renting out part of their property may be one way in which they make this transitions financially viable.

A final variable to be considered is the **duration of the agreement**. A rental contract can be made for a specific period of time or in perpetuity. In most countries, lease periods are limited by law, but can be renewed once this period has expired. While short-term rental only requires some written evidence, other types of long-term rental agreements require a written and even registered contract. A *hire-purchase agreement*, for example, involves that a landlord agrees to let his property to a tenant with the promise that the tenant will acquire ownership of the property, provided that he regularly pays a exact amount within a specific period of time. This arrangement originated in the land-subdivision market, but also finds applications in public sector low-income housing schemes. Developers in the private sector often adopt a similar arrangement to bridge the period between the purchase of the project site and the start of construction works.

Lesson: *Generally speaking, the condition of rental housing reflects the state of the overall housing stock. But also, the condition of rental accommodation depends on a country's overall housing policies. If policies are remiss about tenancy, rental markets will reflect that marginality; the opposite is likely where rental arrangements are encouraged and an adequate framework is laid out for their development.*

The variety of rental and rent-free arrangements has the advantage that it suits nearly any possible requirement as to costs, rental rates, modalities and duration of contract. Figure 2 indicates that arrangements can strongly vary in visibility and formality. This flexibility stands in stark contrast with the transaction costs, procedural complexity and financial commitments required for owner-occupation.

On the other hand, this diverse, invisible and informal character entails that many rental arrangements escape government rules and regulations, and limits the possibility to work out adequate policy recommendations and interventions

Figure 2 provides an operational matrix for users of this guide to categorise rental housing arrangements. It permits to estimate the chances of successfully implementing policies geared at any of the identified categories.

3. Factors affecting demand

Well functioning rental housing provides a variety of housing options at affordable prices and within easy access of the places of employment. Besides income and location, occupation, family circumstances, life style and mobility also deeply influence tenure choice. This section examines how these critical factors affect different categories of tenants and how they mesh with issues like quality, security and flexibility.

3.1. Factors relating to quality of rental housing

“The housing economist defines housing as a ‘bundle of attributes’. Attributes here means not only the physical aspects of the house, but all the other services which one purchases or gains access to by buying (or renting) a house. The price that a buyer (or renter) is willing to pay is an indication of how much value that person places on the attributes of the house they will occupy”(Leaf, 1993:4)

Housing attributes make that two identical houses built in two different places can be sold (or let) for vastly different prices. Assessment of both rental and owner-occupied housing quality needs to consider at least three sets of attributes: (1) the quality of the accommodation, (2) the access to basic infrastructure and services, and (3) the social and economic access to public services and the neighbourhood.

- ***Quality of the accommodation***

What exactly are the standards by which one measures ‘poor’ housing conditions and how do these apply differently to rental housing than to owner-occupied housing?

First, there is the *quality and durability of the materials* used. By those standards, many tenants undeniably live in very poor housing conditions, as do many resident landlords and poor home-owners who live in the same neighbourhood.

A second variable is the *level of crowding*. The level of crowding depends on the number of persons occupying available living area. Accommodation occupied by tenants often consists of a single room. The average living area per person is nearly always lower than it is in owner-occupied housing. Rent levels are often such that poor tenants can only afford accommodation through overcrowding.

A third variable is the *level of maintenance*. The prevailing theory is that lack of proper maintenance and timely repairs makes rental housing of inferior quality to owner-occupied housing. Timely maintenance appears to depend on whether a landlord is resident and on how much direct contact he or she has with the tenants. Resident landlords tend to upkeep quality better than absentee landlords. Landlords who deal with their tenants directly keep closer control than those who work through intermediaries. Public sector estate management, for example, tends to be slower to react than tenant cooperatives or private estate managers.

Access to basic infrastructure and services

In terms of basic infrastructure, quality of housing is measured by the *ease of access to utilities* like electricity, running water and sanitation. Self-contained housing units have the easiest access; rooms with shared access score lower. Housing quality diminishes as access to utilities is further away from the accommodation or is not permanently available.

Rental accommodation is likely to score lower than owner-occupied housing when it comes to *inner-city properties* that were subdivided into tenements or when a proper *house registration is required to obtain water- and electricity supply*. In the former case, tenants are likely to share utilities and utility areas such as toilets, washing and cooking spaces. In the latter case, they may be supplied by the resident landlord or neighbouring houses at fees far above the official rates.

- ***Access to public services and the neighbourhood***

A third level of quality attributes includes proximity to places of employment or schooling, accessibility and availability of public transport facilities, and the quality of services and social infrastructure in the neighbourhood. These are usually more easily accessible in the inner city rather than in the urban periphery. Tenancy in those areas can be problematic because residential use has become subsidiary to other, commercially more viable functions.

Lesson: Reflecting on housing quality leads to the important insight that poor housing conditions may not be due to the nature of the tenure so much as to other factors that cause poor living conditions.

3.2. Factors relating to security

In order to cope with real and perceived insecurity, people tend to rely extensively on relatives, friends and acquaintance.

- ***Location***

Location implies “access to the city”, which means in the first place: access to employment and income. Precarious employment, varying sources of income and unexpected expenditures force tenants to rely extensively on familial solidarity and informal networks, while minimizing unnecessary expenses on utilities, services or transportation. Hence the importance of living near relatives or friends, within easy access to school or work place, with an adequate provision of utilities in or near home and with a sufficient level of social infrastructure in the vicinity. As mentioned above, the level of security may be less fragile in inner city areas, because of the density of social networks and the availability a wide range of housing options due to the variety of job opportunities and income levels, In peripheral informal settlements, security may be more problematic as there are less options available

- ***Income level***

The strong promotion of home-ownership in past decades has lead to the mistaken belief that rental tenure mainly results of budgetary constraints. This misconception will probably remain difficult to eradicate for many years to come, because there will always be groups that border on homelessness. They may seek no more than a place to sleep, whether in public places or at their place of work (UNCHS, 1996: 216-217). Generally speaking, however, the motivation for people to opt for rental is linked to long-term security just as much as it is for people who opt for home-ownership. The only difference is that tenants, like other poor households and individuals often lack long-term security of income, and therefore may opt to set aside their meagre resources for other long-term investments,

such as supporting the extended family or providing a n education for the next generation.

Lesson: *Changes in the nature and form of local employment may affect tenure patterns in an entire neighbourhood. Within a relatively short time, such changes can result in the upgrading of a neighbourhood to fetch higher rents, in its conversion to owner-occupied housing or in its relocation to peripheral areas.*

3.3. Factors relating to flexibility

Besides the category of temporary labourers mentioned earlier (i.e. seasonal migrants, wage labourers and factory workers) there are quite a lot of people who refuse to be pinned down to home-ownership, either because they feel the time is not right (yet) or because they wish to remain mobile.

- ***Mobility***

Moving in and out of an urban environment, has become an inherent part of life for many Asians. Whether it is to pursue higher education, seek a job to supplement the family income, negotiate an economic transaction, take administrative action, or build a professional career, one cannot avoid the city in the conduct of study, work, trade or leisure.

Freshly graduated students and other young tenants wanting to gain experience are always on the look-out for new and better-paid jobs and change jobs frequently. *Single people* may want to save enough money to return to their home province and

settle down there; others are determined to settle down in the city once they have found a stable employment.

Studies show that this indecision does not necessarily lead to frequent moves. Once tenants found a convenient and affordable location, they usually stay in the neighbourhood for many years. Tenants thus base their choice on the possibility to leave on short notice and with a minimum of formalities, rather than on the probability of having to move frequently.

- *Life-cycle*

Research indicates that renting and sharing clearly is *a feature of the earlier stages of the life cycle*. Tenants tend to be younger than owners and are often single: students, recent migrants, simple wage-workers, factory workers or single professionals. Couples who rent tend to have fewer children than owners. Sharers are very similar to renters, but they have friends, fellow employees or relatives in the city who are able to provide them with shelter, whereas many tenants have no such fall-back option (UNCHS, 2003:2)

Life-cycle arguments in favour of rental housing are, however, for more complex than that. As urban ways invade every aspect of daily life, traditional allegiances to real and fictive kin are remodelled in view of new economic necessities, demographic patterns and societal changes.

Demographic patterns and economic necessities are often closely linked. Due to lower mortality rates at birth and growing life expectancy, households span three to four generations. There are more people to take care and to be taken care of. The fact that there are more mouths to feed increases pressure on households and communities. When resources

become rare, religious or ethnic frictions may set off conflicts that lead to forced or voluntary migration. Less drastic, but not less tragic are the consequences which HIV-AIDS and growing rates of separation and divorce have on family composition and cohesion. The striking occurrence of single-(mostly female)-headed households among tenants illustrates that the availability of rental housing is also of utmost importance to handle these new societal phenomena.

Lesson : *Since so much depends on the ease with which one can integrate into city life and move about as need arises, rental housing should constitute a substantial component in the housing stock of every urban society,*

4. Factors affecting supply

Most governments in developing countries attempted, at one time or another, to house portions of the population. They usually provided rental or rent-free housing units for armed forces, police officers, civil servants or employees of government agencies.

Other public housing schemes were designed to provide rental units for low-income households: migrants, slum evictees or fire victims, etc. Since the investment cost was too high to construct sufficient housing units to satisfy the entire need for housing, there was bound to be a problem with allocation. In spite of generous subsidies, rents were still too high for the poorest. In many cases, formal selection criteria were set up that covered up for nepotism, patronage, party membership or outright corruption, and as result, excluded the most deserving. In the end, the required investment and problems in allocation and management often made governments decide to offer the units for hire-purchase or sell them off to households outside the original target group.

In Asia, the state's direct involvement in housing has been in decline since the 1980s. The private and popular sectors have come to produce the bulk of urban rental and rent-free housing.

4.1. Who are the landlords?

In developed as well as in developing countries, landlords include both rich and poor, companies as well as individuals. The discussion of land- and housing markets (Section 2) showed that private sector landlords comprised at least:

- *For the rental land markets:*
 - Land owners who rent out their land until they find a more profitable use for it;
 - Landlord investors who built on rental land and let (part of) that building
- *For rental housing markets:*
 - Owner occupants or landlord investors who built on vacant land put for sale
 - Owner occupants or landlord investors who bought a developer-built house

Similarly, popular sector landlords can either let vacant land, a house or part of a house. The only difference is that private sector landlords acquired ownership rights within the state's regulatory framework whereas popular sector landlords did not. Besides their legal status and the property market in which they operate, landlords can be distinguished according to the size of their operations (e.g. capital at their disposal, number of properties owned) and the reasons for their entrepreneurship.

Whether landlords are *men or women* greatly depends on local demographic patterns and on indigenous customs. Where women handle domestic affairs, they also tend to deal with the tenants. Many widows and separated women rent out property. Divorce settlements and lines of inheritance play a role here, but so does age: as women tend to live longer than men, they often let the property they inherited.

The most consistent factor that distinguishes landlords from the overall population is indeed their age: they *tend to be older than owners and much older than tenants*. Because of their age, they are more likely to be retired, live in larger properties than their neighbours and have lived longer in their current premises

4.2. Factors relating to rental investment and revenue

The diversity of rental accommodation reflects the **variation in landlords' business acumen as well as in their capital and property assets**. As each of these variables independently links up with broader social and economic conditions, variation is finely graded along a continuum, from 'would-be' landlords', over 'circumstantial landlords' to 'petty landlords' and 'commercial landlords'. Research shows that landlords usually evolve towards higher levels of revenue, but shifts back and forth from one status to another do occur.

'Would-be landlords' would like to an income from property, but lack either the capital or the space to build an extra room to let. While they may have plenty of space of their own, family or rent-free sharers occupy all of it. Retirement, unemployment or economic recession usually create a financial shortage that triggers the step to revenue-based landlordism.

'Circumstantial landlords' have capital or space in surplus, either because they inherited money or property or because they left their own house for employer-provided housing; or they may simply have spare rooms because their family broke apart, relatives died or children moved elsewhere. They may not be able to sell their property due to prevailing market conditions, or lack the business acumen to do so. Letting offers an alternative that stalls drastic decisions, maintains a status quo, and brings in extra cash.

'Petty landlords' are entrepreneurs who choose to use whatever capital and space they have for rental purposes, often because they know no other way to make money. Rental income either helps these landlords to pay instalments on land and/or house, or to meet the expense of repairs, maintenance or improvement

works. It may serve as a safety net against unstable employment or when moving from wage labour to self-employment. It may also serve as a substitute pension after retirement or as investment for the next generation.

'Commercial landlords' are in many ways comparable to petty landlords, but operate in a more professional way. They have a larger capital to invest, their business is often of a larger scale and they may rotate businesses to maximize their returns., they may target middle- or high-income tenants rather than low-income groups, and operate in a formal way i.e. with written contracts and following building and safety standards etc. According to the market segment in which they operate, they may use different strategies to maximize their return on investment while keeping taxable income to a minimum. They not necessarily aim to build a business empire, but want to secure the future for themselves and their offspring.

For all types of landlords, **rent levels** are amongst the most critical factors to decide whether to set up, expand or discontinue rental operations. If the rent level is set too low, it may affect the quality of the accommodation (e.g. low-maintenance, low level of amenities, repairs postponed till damaging, etc.). If it is set too high, it may lead to tenants voluntarily leaving or forcefully being evicted.

Many landlords are satisfied with low rates of revenue because they consider property as a long-term investment. Since rental fees are also linked to real income, the landlords often stand to loose the most: if income levels drop below a certain point, landlords have the choice between evicting tenants, and forsake any income at all, or keeping tenants and hope that they will be able (and willing) to pay arrears at a later time.

Lesson: *A rule of thumb for rent levels is that monthly fees should not exceed 25 % of a tenants' household income; a reasonable level of revenue amounts at about 1 % of the market sales price of a rental property. The fact that rent level is linked to property sales prices implies that rent levels can increase due to rising land values or macro-economic forces such as inflation. On the other hand, alternatives to formal ownership such as the invasion of vacant land or the availability of community-, tribal or ancestral grounds, lower the overall costs and makes rent more affordable. Authorities can lower rent levels in an artificial way by imposing rent control.*

4.2. Factors relating to landlord-tenant relations

Problems between landlords and tenants are fairly predictable. *Landlords* complain about tenants' disregard for the premises, their tardy payment of rental fees, their unruly behaviour and in general, their refusal to understand that rising costs of living affect the provision of utilities, maintenance and repairs. *Tenants* complain about poor maintenance, unfair fees for utilities, unannounced rent rises, threats of eviction and failure to return deposits. They accuse landlords of randomness and exploitation, and turning hostile when rents are in arrears.

Relations are often better when landlords live in the same premises, To prospective tenants, **resident landlords** are reassuring with regard to the level of services and social infrastructure available in the neighbourhood. But also, owner-occupied housing has the reputation of being better serviced and maintained, which gives less cause for tension. Moreover, when landlord and tenants have shared the same residential

experience for a while, they get to know one another and may develop a bond of friendship and mutual dependence

The personal nature of rental agreements and the fact that so many agreements are concluded outside the state's regulatory framework, defies the authority of any legal system. The lack of firm legal grounds makes litigation highly impractical and slows down a judicial system that in most countries already is overburdened. Wadhva (1993:85) reports that 22,000 cases were pending in the lower courts of Delhi in the late 1980s. It took between 214 days (Tamil Nadu) and 2,355 days (Calcutta) to resolve a rental case in the lowest level courts.

Lesson: *The amount of landlord-tenant litigation that has accumulated in courts creates leeway for landlords and for tenants alike to resort to court so as to stall any action by the landlord. This implies that policies should be aimed to resolve latent conflicts before they are taken to court.*

In order to avoid legal problems, landlords either accept tenants only when they were recommended by people they know, or they actively seek to attract strangers and outsiders, because they want to avoid being too close to their tenants. In this way, they hope to have added leverage when they insist that tenants respect the premises and the agreed modalities; and tenants are more likely to leave the premises when asked.

5. Policies to regulate rental housing

The major problems with rental housing arrangements can be summarized as follows:

- Housing policies often fail to take rental housing into account, which increases the risk of randomness and exploitation, especially at the lower end of the market. Due to the complexity of factors that determine tenure choice, governments hesitate to remove biases against non-owners.
- Poor housing conditions reflect the state of the overall housing stock. They are not necessarily due to the nature of rental tenure rather than other factors that cause poor living conditions and poverty in general.
- The provision of rental housing is intrinsically linked to the functioning of the overall housing market. Much depends on the general state of the housing stock, as well as on customary ways to deal with property and the social, economic and political relations it involves.
- Due to the diverse, largely invisible and informal character of rental housing, many arrangements escape government rules and regulations. This limits the possibility to draw up a simple list of policy recommendations and interventions

National governments should acknowledge these problems and adjust regulatory frameworks to on-going practices so as to tap the potential of both the formal and informal housing markets. Provided the political will exists to work out long-term neutral tenure policies, intermediate policy objectives should aim to make housing markets more competitive (and by consequence, more affordable). According to the ideological grounds for policy-making, this can be achieved in a number of ways. Policies aiming to reduce possible obstacles in the production

and input markets may aim to (a) increase rental housing supply or alternatively, (b) encourage tenants to shift to owner-occupation. Policies aiming to lift barriers on the demand side, can either (c) impose rent control, or (d) increase poor tenants' ability to pay by subsidising rental fees.

Whilst national policymakers are important to set out a framework for integrative, renter-friendly policies, *local authorities* are crucial to fine-tune that framework. Housing markets (and rental housing markets with them) are influenced by and respond to local conditions. Local authorities are in a good position to take heed of these local dynamics, the customary ways to deal with property and the social, economic and political relations it involves.

A strategic approach towards a workable neutral tenure policy should first, acknowledge *existing rental arrangements and regulate them*. *Second*, if rental arrangements importantly contribute to local livelihoods *measures should be formulated to govern and promote their further development*. The entire strategy thus comprises following six components:

a. Acknowledge existing rental housing practices

Civil servants, politicians, members of chambers of commerce, NGOs, CBOs, and civil groups, all are aware of the existence of rental housing options. Their insights are priceless to raise awareness on tenure issues among the respective organisations in which they are involved. Local organisation need to become more familiar with, and acquire more knowledge about tenure issues. This precondition is crucial for generating a balanced discussion on integration and inclusion of rental options.

One way to raise interest in the issue is by making an inventory of the local rental housing stock (Aman, 2005). This inventory should include both formal and informal arrangements as well as unoccupied units. Local organisations could contribute to establish this inventory, exchange knowledge about the ways these markets function and help to figure out whether units remain unoccupied because they are inaccessible, unaffordable or simply kept off the market for speculative motives.

The results of this inventory should be disseminated in the widest possible way so as to widen the debate on tenure issues. To keep the momentum, data should be regularly updated and changes in the housing situation should be closely monitored. In due time, this exercise would also facilitate planning and a timely adjustment of measures and incentives.

b. Get rental housing onto the policy agenda

Once local organisations have acknowledged rental tenure, they need to open up the issue to public scrutiny in order to gather information on the inner workings of rental housing.

In the process, available data about the rental housing stock should be complemented by knowledge on the *factors affecting rental supply and demand*. *Bottlenecks* as well as *successes* in achieving lasting rental agreements deserve special attention.

The information gained in this way should help identify *social and political influences* that underlie rental arrangements, so that these can be incorporated in the debate and harmonised where they are counter productive.

At this point, policy-makers can estimate how important rental housing is in the local context. While monitoring developments

in the overall housing market, they can put rental housing on the policy agenda either as an *issue that merely needs to be regulated* or as a *priority that needs to be actively promoted*.

c. Work out a practical and flexible regulatory framework

Knowing that rental and rent-free tenure is a critical part in the “coping strategies” of the urban poor, decision-makers, in cooperation with local organisations, can work out a regulatory framework to prevent randomness and exploitation.

Throughout this process, decision-makers should maintain a dialogue with a *broad spectrum of local organisations* so as to ensure that the framework fits context-specific tenure patterns. The framework should include *means and incentives* that encourage the production, exchange and consumption of “preferred” types of rental accommodation. This implies that a system of *checks and penalties* needs to be set up in order to curb mismanagement or abusive practices, and to prevent deterioration due to deficient maintenance or lack of repairs.

This framework should first of all *be practical*. Implementing it should not require setting up a specialised administrative unit. Ideally, it could be integrated into existing administrative procedures (e.g. issuance of building permits and house registration, measuring of water- and/or electricity consumption, collection of rental income taxes, etc.).

Moreover, it should be *flexible* in at least three ways i.e.:

- (1) implementation of measures and incentives can be stretched over a wide range of target groups,
- (2) adjustments to the new standards can keep to a benchmark scenario,

(3) approval of these adjustments is straightforward and requires only a minimum of procedural rules.

d. Ensure the sustainability of tenancy arrangements

To ensure that the regulatory frameworks encourage rather than limit or destroy the way that rental housing is being produced, exchanged and consumed, it should cover a number of aspects.

First, it should set minimum criteria for construction, management and maintenance of rental properties. These criteria need to take into account existing production and demand patterns, rental practices and rent levels as well as forecasts of housing needs and property appreciation.

Second, it should combine efforts to raise the quality of accommodations (including rental accommodations) with measures to improve the quality of neighbourhood services (Aman, 2005). It should outline a *phased provision of utilities* to low-income settlements. In order not to deter pre-existing rental housing provision, the costs and efforts of this intervention should be spread over *NGOs, CBOs and saving groups* where possible. To minimise sudden rises in rent levels, this provision could be combined with *temporary rent control* in beneficiary areas.

Third, it should provide follow-up measures for settlements where services have been provided. These measures could include introducing a *model of a simple rental contract* that stipulates rights and obligations of both landlord and tenant. In addition, they could establish a *housing consumer forum* to settle disputes between landlords and tenants (UNCHS, 2003). Evidently, this would also require *follow-up procedures in case consumer forums fail* to resolve conflicts.

Fourth aspect is to *enable the community to take over responsibility for upkeep and repairs*, whenever landlords or tenants fail to fulfil their contractual obligations. This mandate could be vested in a *tenants' cooperative*, an *association of settlement dwellers* or the *community committee*.

e. Mobilise financial mechanisms to raise the quality and availability of rental housing options.

In order to be effective, policy instruments need easy-to-access financial mechanisms that encourage landlords and tenants to maintain, repair and improve the quality of existing rental accommodation as well as to increase the rental housing stock.

The nature of these mechanisms greatly depends on the financial means that local authorities can dispose of or obtain through the intermediary of national agencies. If these means are substantial, local authorities could consider a *rental grant programme*, modelled after the “Household Rental Grant Programme” that is in use in South-Africa. This scheme provides a capital grant to households that are owners or have site permits and have built or renewed rental accommodation that meets minimum standards (Aman, 2005).

In case of restricted financial means, *tax measures* may be more feasible, provided that local authorities have sufficient financial autonomy to draw upon the taxes that they collect.

Possible tax measures include reducing tax rates on rental income, giving a tax relief for poor landlords who improve the quality of their rental accommodation, and granting tax deductions to housing agents who produce or renew rental housing for low-income groups.

A more comprehensive approach is to introduce a *simplified assessment of property taxes* such as the practice that emerged in the Patna Municipal Corporation in India. The Patna model presents a simplified assessment procedure based on location, construction and use. The model brings additional financial revenue to municipal governments along with equity, fairness and acceptability by people. This enables local authorities to better respond to their citizens in terms of basic services, environmental health and safety, and preventive health care.

f. encourage large-scale investment in rental housing

In parallel with measures aimed at existing rental housing, local authorities may want to look into *incentives that make large-scale investment in low-income rental housing both more attractive and more sustainable to investors* (UNCHS, 2003). Besides tax incentives to investors, these measures should include ways to increase tenants' "ownership" of a project.

A first possibility is to *widen the role of NGOs from advocacy to awareness-raising, training and organisational support* (UNCHS, 2003). NGOs should not only concentrate on tenants' rights, but also provide tenants with the knowledge and tools required to take responsibilities as to capital accumulation, estate management and maintenance. They could, for example, help tenants set up saving groups aiming to diversify tenure options, provide guidance to consumer forums or support tenants' cooperatives.

Diversification of tenure options is a second possibility. Formal housing projects do not need to stick to the classic concept of self-contained units for rent. Some projects could provide rooming houses with single rooms, shared facilities and

communal areas. Others could target tenants willing to commit to a long-term lease. An alternative is that tenants shift from one form of tenure to another in the course of their contract period: rental occupants thus could choose to hire-purchase their unit as and when they are ready for it (UNCHS, 2003).

Alternative forms of estate management offer a third possibility. While ownership of an estate could remain public, private, or a public-private partnership, the estate can be leased by a rental cooperative that then lets the units to its members. Alternatively, acquisition and/or construction of the estate and its management could be in hands of a tenants' cooperative. Cooperative management of an estate implies, of course, that tenants participate in decision-making and maintenance.

Concluding remarks

Multilateral banking institutions and international agencies are increasingly aware of the importance of rental tenure. National decision makers and housing agencies shall need to formulate neutral tenure policies. Local authorities and policy makers as well as NGOs and civil organisations will need to cooperate to work out policy instruments that secure, affordable and good quality accommodation for the poor.

This publication emphasised that local agents may well be in the best position to grasp the intricacies of non-ownership tenure in their town or city. The Quick Guide offered a wider perspective to complement their hands-on expertise of the local situation. It suggested a framework that might be of help in finding practical ways to help those who live in rental housing as well as the ones who can provide these housing options.

6. Resources

6.1. Annotated websites

Housing the Urban Poor (www.housingtheurbanpoor.net)

- > Resource Center
- > Organizations Database

International Union of Tenants (www.iut.org)

IUT is a non-government organisation founded in 1926 in Zürich, Switzerland, with the purpose of safeguarding the interests of tenants. It is a non-party political organisation working along democratic lines. The organisation issues a quarterly magazine “*The Global Tenant*” which can be consulted on the website.

As of March 2006, IUT had 54 member associations in 44 countries. The organisation is strongly represented in Europe, in the USA and Canada as well as in Australia and New Zealand. It has the firm intention to increase its membership in South America, Africa and Asia.

IUT is an active member of international organisations like UN-Habitat, UN-ECE, EHF, the Council of Europe, etc. The website details joint initiatives with each of these organisations. It also provides facts and figures as well as an overview of conferences related to rental housing.

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