Housing Co-operatives: Lessons Emerging

Afesis-corplan has been working with the East London Housing Management Co-operative (ELHMC) to develop the Amalinda co-operative settlement project, as one of the first housing co-operative demonstration projects in South Africa. In this article Ronald Eglin begins to unpack some of the lessons that are emerging from the experience (May 2007).

A co-operative is a jointly owned and democratically controlled organisation that addresses the common needs of its members. There are broadly two types of housing co-operatives:

- Housing (Development) Co-operatives – H(D)C's – where a group of homeless people come together to arrange for the development of housing for themselves;
  and

- Housing (Property Owning) Co-operatives – H(PO)C's – where neighbours come together to own property together and to manage what happens on this property.

It is also very possible to combine these two forms of co-operatives into a housing (development and property owning) co-operative. In such a case the members first work towards developing houses for themselves, and once the houses are built they own the houses collectively.

In the 216 unit Amalinda co-operative settlement project, both forms of housing co-operatives have been demonstrated. The ELHMC is a H(D)C (and actually should be called the East London Housing Development Co-operative), while the nine housing co-operatives (such as Kanya Gardens Housing Co-operative and Balindlela Housing Co-operative) are H(PO)C's.

There are other forms of housing co-operatives like Housing (Property Management) Co-operatives and Housing (Common Space Owning) Co-operatives, but these are not discussed in this article.

Housing co-operatives have traditionally been seen to fall within the Social Housing sector in South Africa, but this is only true of H(PO)C's . H(PO)C's make use of the government's Institutional Subsidy mechanism. H(D)C are more appropriately placed within the People's Housing Process sector, and can either use Project Linked Subsidies, if the houses are to be owned individually, or Institutional Subsidies if the houses are to be owned by a H(PO)C.

To avoid any confusion, in any discussion on housing co-operatives, it is important to know which type of housing co-operative is being discussed.

When discussing H(D)C's you need to compare how H(D)C's compare to other forms of housing delivery. Examples of housing delivery options include:

1. 'Developer' driven housing: A 'developer', be it a for-profit developer (e.g. a construction company), a non-profit developer (e.g. a housing association), or a government structure (e.g. a municipality) organises to build houses for other people. The 'developer' decides on the type of housing to be built. The beneficiaries may or may not be consulted.

2. H(D)C driven housing: A group of people form a H(D)C negotiates for land, finances and technical support (e.g. engineers) to help them build houses. The group makes decisions on the type of houses to be built. The beneficiaries are consulted as they are the group members.

3. Individual driven housing: Individuals households decide to purchase a house or work through a financial institutions to buy or build housing for themselves. The individual decides on the type of houses to be built.

When discussing H(PO)C's they need to be compared to other forms of tenure arrangement. Examples of tenure options include:

1. Individual ownership: The name of the person who has the right to use the land is registered on the title deeds in the deeds office. The title deeds link a person to a specific erf. The person is able to sell her/ his property on the open market. Sectional title is a variant on individual ownership, where the individual owns a portion of land in the same way as described above, but also owns a portion of common property collectively with other households through a body corporate.

2. Co-operative ownership: The title deeds are in the name of the Housing (Property Owning) Co-operative. The person's membership to the co-operative, as outlined in the use agreement signed between the member and the co-operative, entitles the person to occupy a specific unit for as long as they pay their fees and abide by the rules of the co-operative. There are three types of co-operative ownership, namely:

- Full equity: When a person leaves the co-operative they can transfer their share (and associated rights) to anyone at market rates. This is similar to individual ownership except that the share in the co-operative and not the title deeds changes hands on transfer.
- Restricted equity: When a person leaves the co-operative they can only transfer their share to someone that is on some form of waiting list and at a price that is determined through a formula that is outlined in the statutes (constitution) of the co-operative. This could be, for example, at a price that takes into account what the original member contributed, plus the value of improvements made by the outgoing person, plus a percentage for inflation over the period, less any depreciation or administration transfer fees or other fees. This is the form of tenure ownership found in the H(PO)Cs in the Amalinda co-operative settlement project.
- No equity: When a person leaves the co-operative they do not get any money back from the co-operative (except perhaps a nominal share). This is similar to rental tenure, except that the person rents from the cooperative that they own and not from a separate landlord.

3. Rental: The tenant who occupies the unit enters into a lease agreement with the landlord who owns the building. The tenant needs to get permission from the landlord if they want to make any changes to the property. If the tenant leaves the unit, they do not get any money back. Within rental tenure there are three types of rental:

- Rent to rent: The person pays rent every month for as long as they stay in the unit. The rent is used by the landlord to cover all expenses of managing the property plus any profit.
- Rent to buy: The person rents the unit as described in rent to rent above for a agreed time frame. At the end of this time frame the person has the right to purchase the unit.
- Rent to own; A proportion of the rental each month goes towards purchasing the property. Once the tenant has paid off an agreed amount, the property is transferred to the individual who then takes individual ownership of the unit.

People need to carefully unpack the advantages and disadvantages of the two main housing co-operative types before they decide to use a H(D)C or H(PO)C. The following is a summary of some of these advantages and disadvantages.

1. Housing (Development) Co-operative

Group: Homeless

Need: land, services and houses

Functions of co-operative:

- Find land and subsidies.
- Train members in housing development.
- Arrange for members savings.
- Employ developers.
- Do allocation of members to houses.

Advantages:

- Can negotiate with the municipality to get land and subsidies cheaply.
- Establishes an organisation through which people can save and add funds to government subsidy.
- Enables people to take responsibility for their own development.
- People can gain skills through training, experience and exposure.

Disadvantages:

- Requires certain levels of skills to manage.
- Requires some capacity building for the leadership and members and this costs money to arrange.
- The process of getting a house can be long and complicated leading to frustrations from members.
- Can have 'bad' elements in the community who disrupt the process.
- If the group is not properly organised group dynamics can lead to tensions and conflicts.

2. Housing (Property Owning) Co-operative

Group: people living in block

Need: Secure and well managed neighbourhood

Functions of co-operative:

- Maintain property.
- Keep property clean.
- Give approvals for people to make improvements to their houses.
- Collect fees from members for rates services, maintenance etc.
- Deal with defaulters.
- Make house rules of what can happen on the property.
- Manage transfer of shares from old members to new members.

Advantages:

- People work together to create better living environments (e.g. planting trees, building crèches etc on their property).
- Share common facilities (braai areas, etc.)
- Rates payment can be less when averaged across all the members.

- The co-operative has total control of who can come onto the co-operatives property.
- Co-operative can set rules for what happens on its property, including deciding what activities can take place (e.g. stop people setting up shebeens).
- Co-op can set design rules like having all houses painted a certain colour, or outlawing fencing that blocks views.
- The co-operative can have a say in who can take over a house if a space becomes available.\
- If a person leaves the co-operative (that was built using housing subsidy money) they can get another subsidy somewhere else.
- The price that the incoming person must pay can be restricted making it cheaper for incoming people to get a house.
- Group can start to address other issues like child play areas, common braai areas, and security.

Disadvantages:

- Members do not qualify for indigent discounts on rates and services from municipality if they are poor as they are not the property owners.
- People understand and generally seem to like title deeds rather than ownership of shares as proof of 'ownership'.
- Collection of rates and services from members can take up time and resources.
- The co-operative has to spend time and resources to get defaulters to pay.
- If some people don't pay their rates and services contribution then the municipality can take the whole co-operative to court and everyone could loose their property.
- If a person leaves the property (that was built using housing subsidy money), the incoming person has to satisfy government subsidy criteria. This creates problems for inheritance of units by people who don't qualify for subsidies (e.g. younger than 21).
- The price that the outgoing person gets may be less then what they could get if they sold the property on the open market.

Consideration should also be given to other forms of organisation and not just co-operatives. Other forms of organisation also provide opportunities for people to work together. For example, a group of people who want to work together to arrange to build houses may decide to set up a voluntary association that subscribes to most of the co-operative principles. Another example would be a group of people who live together decide they will establish a home owners association (a form of voluntary association) to take ownership of the common property between the houses and own their own houses individually.

The following preliminary conclusions can be drawn from existing experiences with co-operative housing:

- Housing (Development) Co-operatives have huge potential to contribute towards addressing the housing challenges of South Africa. Many people are in need of housing and they would benefit from working with each to develop individually owned or group owned houses.
- Housing (Property Owning) Co-operatives have potential to address specific needs in certain unique contexts. The people involved in the project need to fully understand the unique characteristics and implications of this form of group ownership.
- Voluntary associations that subscribe to the co-operative principles (rather than fully fledged registered co-operatives) may be more appropriate for many people in many instances than H(D)C's or H(PO)C's. This is particularly true in the early stages of setting up an organisation. In future, if people want to they can formally register as a co-operative.
- Awareness raising is very important before any group embarks on any housing co-operative venture. People need to understand the different types of housing co-operative, they need to understand how housing co-operatives are different to other forms of delivery and tenure; and they need to unpack for their own unique circumstances what the advantages and disadvantages are of the two main types of housing co-operatives.