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In the Business of Doing Good

A case study on social entrepreneurship within the small-scale rental sector in South
African townships

by

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Abstract

Housing crises have become a global phenomenon, including in South Africa. Neither the South African government nor the market have been able to sufficiently address the growing housing deficit across the nation, especially not in the affordable rental sector. Social entrepreneurship within the South African small-scale rental sector – higher-quality brick and mortar backyard rental units that are developed by township homeowners to access a new stream of income, has recently been identified as a potential solution to the lack of housing. Using the case of Bitprop, a social enterprise, and its developments in Khayelitsha, a township in Cape Town, this thesis explores the impact of social entrepreneurship within the small-scale rental sector. The qualitative investigation revealed that Bitprop's small-scale rental units create income for homeowners and enable them to grow their asset base as well as provide higher quality affordable adequate housing for tenants. The developments also contribute to the formalisation of the sector and township neighbourhoods, generating positive externalities. The findings suggest that social entrepreneurship within the small-scale rental sector can create a positive impact by providing a financially viable and scalable approach to assisting the much-needed delivery of affordable housing in South Africa while also creating wealth and formalising areas of the largely informal backyard rental sector. Further research is needed to understand the negative externalities of higher-quality builds and thus higher rental rates on displacement and gentrification.

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List of Abbreviations

BF: Bitprop founder

BNG: Breaking New Ground

HO: Homeowner

HRM: Homeowner relationship manager

HSRC: Human Sciences Research Council

OHCHR: Office of the United Nations High Commissioner for Human Rights

RDP: Reconstruction and Development Programme

SDG: Sustainable Development Goal

UN: United Nations

UR: Urban researcher

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1. Introduction

1.1 Research problem

Leaving no one behind is one of the Sustainable Development Goals' (SDGs) universal values and an integral part of the United Nations' (UN) vision of sustainable development (UN, 2023). One of the biggest challenges developing countries face is providing adequate housing. The UN estimates that one in four of the global urban population resided in slums or informal settlements in 2020, equating to more than a billion people worldwide (UN, 2022). SDG 11, Sustainable Cities and Communities, aims to target this, stating that "the world's 1 billion slum dwellers must be given the support they need to lift themselves out of poverty and live free from exclusion and inequality. Adequate and affordable housing is key to improving their living conditions." (UN, 2022, p.48). Furthermore, the Office of the United Nations High Commissioner for Human Rights' (OHCHR, 2009) recognises adequate housing as a human right. Their detailed definition of adequate housing includes criteria such as availability of services, materials, facilities, and infrastructure; habitability; and location, referring to things such as adequate sanitation and space. As informal housing often lacks safe drinking water and basic sanitation infrastructure and is overcrowded, inhabitants are exposed to major health risks daily (Zerbo, Delgado & González, 2020), clearly signifying that they do not meet the OHCHR's definition of adequate housing.

In sub-Saharan Africa, 230 million individuals and over 50 percent of all urban dwellers live in slums or informal settlements, the highest regional share globally (UN, 2022). In South Africa, over 7 million people live in informal dwellings, constituting 11.7 percent of the population (Statistics South Africa, 2022). Statistics South Africa (2022) defines an informal dwelling as a "makeshift structure not erected according to approved architectural plans, for example shacks or shanties in informal settlements or in backyards." (p.74, emphasis removed). There is a plethora of reasons as to why informal settlements exist, including rapid urbanization, unsuccessful urban planning and housing policies, lack of affordable housing, and poverty (UN, 2022). In South Africa, informal dwellings can also be traced back to urban containment policies during the apartheid era (Crankshaw, Gilbert & Morris, 2000; Lemanski, 2009).

In South Africa, much of the increase in informal dwellings over the past three decades has been in the form of backyard shacks in pre-existing townships, as opposed to entirely informal settlements, making it an uncommon case (Crankshaw, Gilbert & Morris, 2000; Lemanski, 2009; Turok & Borel-Saladin, 2016). In fact, the number of backyard dwellings is rapidly increasing and it has become the most prevalent form of informal rental accommodation (Turok & Borel-Saladin, 2016), comprising 35 percent of all rental accommodation in 2010 (Urban LandMark and the Social Housing Foundation, 2010). In the Gauteng city region, including Johannesburg, backyard rental units have increased 205 percent in the years 2001 to 2016, in contrast to a 38 percent increase in formal housing (Hamann, Mkhize & Gotz, 2018 cited in Scheba & Turok, 2020). A main reason for homeowners to rent out their backyards is to access a new stream of income, an income stream that is vital to many poor South African homeowners (Lemanski, 2009).

Recent changes to the composition of the backyard rental sector in Cape Town have been identified with the rise of higher-quality brick and mortar backyard rental units, also known as small-scale rental units (DAG, 2022; McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). The peer-review research conducted on the newly-identified type of backyard rental unit is primarily comprised of two case studies on small-scale rental units in townships around Cape Town by McGaffin, Spiropoulous, and Boyle (2019) and Scheba and Turok (2020), with both studies recognising the growing small-scale rental sector's potential to address the housing crisis and generate local economic development. McGaffin, Spiropoulous, and Boyle (2019) argue that challenges faced by small-scale rental developers must be investigated and addressed to ensure the sector's housing delivery potential is fulfilled. Scheba and Turok find that formalisation and professionalisation within in the sector are needed to mitigate risks connected to informality and "to encourage actors to invest in and enhance backyard rental structures and practices" (2020, p.130). The potential for social innovation within the backyard rental sector is mentioned in a report by the Human Sciences Research Council (HSRC, 2019) on backyard rental housing, although a viable financial model is highlighted as necessary in order to scale.

Social entrepreneurship is broadly understood to be the use of business solutions to solve social problems (Dacin, Dacin & Matear, 2010), although there no research has been found on social entrepreneurship within the housing sector in the Global South. Bitprop is a South African social entrepreneurship start-up that develops small-scale rental units in townships around Cape Town. Bitprop's business model is based on a partnership with a township homeowner, where Bitprop provides the financing and construction of the rental units on the homeowner's land

and the homeowner assumes the responsibility of the landlord (Bitprop, 2023a). Over a 10-year partnership, the rental income is shared each month with Bitprop receiving 85 percent and the homeowner receiving the remaining 15 percent (Bitprop, 2023a). After the partnership-term ends, the homeowner receives full ownership and responsibility of the small-scale rental units, including the full rental income (Bitprop, 2023a). At the same time, the cost of Bitprop's initial investment has been covered and generated a market return that is repaid to an investor (Bitprop, 2023a). Since their establishment in 2019, they have partnered with 44 homeowners and constructed over 250 units with proper sanitation facilities, hot running water, electricity, and Wi-Fi (Bitprop, 2023b).

1.2 Aim and scope

Given this backdrop, this study aims to gain a better understanding of the impact of social entrepreneurship within the South African backyard rental sector. More specifically, it will explore the small-scale rental sector. The research question guiding the study is therefore:

RQ: What is the impact of social entrepreneurship within the small-scale rental sector in South African townships?

To investigate the research question, this thesis engages in a case study of Bitprop in Khayelitsha, one of Cape Town's townships where Bitprop operates. Based on Turok and Scheba's (2020) identification of the small-scale rental sector affecting homeowners, tenants, and township neighbourhoods as a whole, the case study will consider Bitprop's impact from all three perspectives. As backyard rental accommodation is a universal phenomenon in South Africa and the recent scholarly importance placed on the small-scale rental sector, this study aims to provide insights on the impact of actors practicing social entrepreneurship within the small-scale rental sector that can be generalised to all of South Africa.

1.3 Thesis outline

The thesis is organised in the following way: next, a literature review compiles and discusses existing research to situate small-scale rental development and social entrepreneurship within

a wider housing debate. It is succeeded by a contextualisation of the case. Next, the method and data are presented, including research design, data collection, and data analysis, as well as their related limitations. Then, the study's results are presented, analysed, and discussed in relation to its theoretical scope. Finally, the paper is concluded and suggestions for further research are given.

2. Literature Review

2.1 Global urbanisation and informal housing trends

Over the past century, the world has progressively become more urbanised. In 2018, more than half of the global population, 55 percent, lived in urban areas, compared to just 30 percent in 1950 (UN DESA, 2019). Projections estimate that more than two-thirds, 68 percent, of the world's population will be urban by 2050, constituting a growth of 2.5 billion people that is driven by general population growth and migration (UN DESA, 2019). Currently, the majority of high-income countries are also highly urbanised, whereas many low-income African countries are less urbanised (UN DESA, 2019). Scholars see this as trend a result of modernisation and industrialisation, and that urbanisation is a key driver of economic growth (Becker, 2008). The regions experiencing the most rapid urbanisation are Africa and Asia, while urbanisation rates in most high-income countries are slowing (UN DESA, 2019), suggesting that challenges associated with rapid urbanisation are currently mostly relevant in developing countries (Zhang, 2016). Furthermore, the rate at which less developed regions have urbanised, excluding Northern Africa and South-Central Asia, has been more rapid than historical urbanisation rates in more developed regions (UN DESA, 2018). Most migration-related urbanisation is due to the higher prevalence of economic opportunities in cities; compared to rural areas. Agglomeration in cities creates internal and external economies of scale and reduces the cost of providing infrastructure and public services, resulting in higher levels of productivity and therefore economic growth (Becker, 2008). However, rapid and insufficiently planned urbanisation generates many negative consequences such as a lack of affordable housing, inadequate infrastructure, and pollution and environmental degradation (UN, 2022). In fact, high urbanisation rates, such as those in Africa and Asia, are one of the

key reasons for the widespread existence of informal settlements as cities are incapable of providing affordable housing and effectively managing urban development (Arimah, 2010).

Living conditions in informal settlements are squalid and pose threats to the health of slum dwellers: they lack rudimentary urban services, infrastructure, and security of tenure, and are overcrowded (Aerni, 2016; Arimah, 2010; Turok & Borel-Saladin, 2016; UN-Habitat, 2019). They are often located on illegally occupied land on the urban periphery, leading to urban sprawl and further hindering dwellers' access to income opportunities as well as increasing the cost of providing infrastructure (Arimah, 2010; Ferguson, 1996; UN-Habitat, 2019). Additionally, the lack of proper sanitation facilities and exploitation of the land have negative environmental consequences (Arimah, 2010; Ferguson, 1996). Ferguson (1996) contends that informal settlements have many negative consequences leading to large public costs the state must endure, despite providing housing to the poorest.

UN-Habitat (2019, p.3) defines affordable housing as “that which is adequate in quality and location and does not cost so much that it prohibits its occupants from meeting other basic living costs or threatens their enjoyments of the basic human rights.”. Furthermore, they identify the lack of housing worldwide as “a global housing affordability crisis” (2019, p.6), indicating that the housing issue extends beyond just informal settlements. They also argue that the formal private housing market is unable to solve the housing crisis alone, and that national and local governments must include affordable housing policies in urban development plans and take a leading role in addressing the issue. Aerni (2016, p.11, emphasis added) disagrees, arguing that the private sector “ultimately *makes* housing affordable through the development of new residential areas in all price categories of housing.”. He also maintains that it is only through employment provided by the private sector that the poor will be able to afford adequate housing, and thus address the informal housing issue. Arimah (2010) argues along similar lines, maintaining that it is through income increases of the poor that informal settlements will be reduced. Others argue that rental housing is an overlooked component of the solution to the housing crisis, as most housing policies focus on homeownership (Peppercorn & Taffin, 2013; UN-Habitat, 2003). Rental housing provides tenants with flexibility and mobility as well as shelter for those who cannot afford or are uninterested in homeownership (Peppercorn & Taffin, 2013).

2.2 Urbanisation and informal housing in South Africa

South Africa is experiencing rapid urbanisation (Gambe, Turok & Visagie, 2023). A 2020 report by the South African Cities Network (SACN) found that two-thirds of South Africa's population currently live in cities, with 24 million people spread across the country's eight largest cities, also known as metros. Informal dwellings in South African metros have increased by 55.4 percent between 1996 and 2016 (SACN, 2020). Furthermore, analysis of UN data projections finds that the urban population will increase by more than 25 percent between 2020 and 2035, to constitute roughly 75 percent of the entire South African population (Coalition for Urban Transition, 2021). Similar to global patterns, one of the main drivers of urbanisation in South Africa is the increased prevalence of economic opportunity (Turok, 2012). This is largely due to agglomeration effects, the presence of higher-value functions, and that most of the foreign direct investment made in South Africa has been in cities (Turok, 2012). This is also reflected in the statistics, as metros house just over half of all employed South Africans and contribute almost 60 percent of South Africa's total GDP, a share that has increased by approximately seven percent over the past two decades (SACN, 2020).

Much of South Africa's urban policy under the apartheid regime was aimed at restricting black urbanisation and segregating the population though forcing citizens to reside in areas categorised by race (Turok, 2012). Black people living in cities were forced to relocate to the urban periphery, which led to the creation of areas known as townships (Breetzke, 2020). This forceful removal from inner cities also meant that black workers were moved further away from economic activity, creating a "spatial mismatch between jobs and homes" (Turok, 2012, p.11). Towards the end of apartheid, the government's attempts at limiting urbanisation began to fail and migration increased drastically, resulting in the growth of informal settlements in and around the townships due to the influx of hundreds of thousands of people and mass housing shortages (Maharaj, 2020; Turok, 2012).

The post-apartheid government recognised the importance of housing and the right to adequate housing for all South Africans was written into the South African Constitution of 1996 (Strauss & Liebenberg, 2014). The new housing policy, based on homeownership and state subsidised housing, was announced in the Department of Housing's White Paper of 1994 and recognised the high demand for housing as well as the inefficient, unequal nature of South African cities (Department of Housing, 1994). The White Paper estimated the housing backlog to be 1.5

million units and provided the framework for the government's target of delivering 1 million subsidised housing units in five years as part of the Reconstruction and Development Plan (RDP) (Department of Housing, 1994). The subsidy was granted to households earning less than R3 500 per month (Cirolia, 2016). The White Paper also introduced financial instruments meant to reestablish the access to credit on the black township market (Adebayo, 2021).

In 2004, the Comprehensive Plan for the Creation of Sustainable Settlements, also known as the Breaking New Ground (BNG)¹ policy, was adopted as a refinement of the 1994 Housing White Paper, placing sustainable human settlements at the centre of the housing strategy, in contrast to the previous quantitative housing-delivery targets (Gardner, 2018). The policy document claimed that despite having delivered 1.6 million housing opportunities, the backlog had grown due to rapid urbanisation and the changing nature of demand, with 1.8 million households still in need of decent accommodation (Department of Human Settlements, 2004). Among other things, BNG amplified the idea of wealth creation and empowerment through using housing as an asset (Adebayo, 2021; Gardner, 2018). An example of this was the introduction of the Finance-Linked Individual Subsidy (FLISP), a subsidy granted to households earning up to R15 000 per month, with the goal of enabling and encouraging homeownership (Cirolia, 2016). The policy was also developed as a response to criticisms of the RDP programme, including poor quality of the housing due to quantity being prioritised and the location of the new housing on the urban periphery, and acknowledged backyard rental dwellings as an important factor in the housing market for the first time (Adebayo, 2021; Department of Human Settlements, 2004; Lemanski, 2009).

The outcome of South African housing policy since the end of apartheid is largely debated among scholars. Despite having delivered nearly 3 million houses, which can be seen as a success in its own right, (Adebayo, 2021; Savage, 2014) many criticise the slow delivery rate and inability to keep up with the increasing demand in the wake of rapid urbanisation (Centre for Affordable Housing Finance in Africa, 2022; Crankshaw, Gilbert & Morris, 2000; Gardner, 2018; Lemanski, 2009), with recent estimates placing the housing backlog at around 2.2 million units (Gardner, 2018). This is also reflected in recent statistics, as official South African data shows that 15 percent of the urban population lived in informal dwellings in 2021 (Statistics South Africa, 2022) compared to 7.5 percent in 1995 (Statistics South Africa, 2001). Adebayo (2021) argues that despite the aim of creating social, spatial, and economic inclusion to those

¹ The state subsidised housing is often known as RDP/BNG housing based the names of the subsidised housing-policies.

oppressed during apartheid, the housing policies have exacerbated the economic inequalities due to the location of most subsidised housing in peripheral urban areas away from economic opportunities and the failure of the subsidised housing to generate wealth as a result of poor location and quality. Lemanski (2009) argues that the policies have indirectly led to the proliferation of informal backyard housing by providing new locations for backyard dwellings and poor homeowners with income needed to cover the requirements of formal living.

Gunter (2012) argues that the BNG policy reflected a neoliberal shift in the approach to solving the housing crisis by encouraging market-driven, as opposed to supply-driven, housing delivery and highlights the importance placed on the private sector in assisting delivery as positive. Savage (2014) maintains that the issuing of subsidised housing has distorted the housing market and crowded out investments from the private sector. The housing subsidies are also seen to have led to the creation of the ‘gap market’, where households in a certain income band are unable to qualify for housing subsidies as their income is too high, yet too low to qualify for mortgages (Centre for Affordable Housing Finance in Africa, 2016). Attempts at stimulating demand through the FLISP subsidy were unsuccessful as it was ineffectively implemented and therefore had no significant impact on gap market households’ ability to purchase affordable housing (Centre for Affordable Housing Finance in Africa, 2016; Cirolia, 2016; Gardner, 2018). According to calculations done by the Centre for Affordable Housing Finance in Africa (2022), a teacher or a police officer, earning approximately R9 000 and R10 000 respectively, living in a major urban area could not afford even half of the cheapest, newly built two-bedroom house with a mortgage as the cheapest house is too expensive for a monthly salary of less than R18 000, even with the FLISP subsidy.

Furthermore, Gardner (2018, p.18) identifies “a discrepancy between the size, type and location of subsidised housing supply and demand patterns”, noting that households in informal settlements or backyard housing are often younger and appreciate mobility over aspiring to homeownership. This indicates that there is a demand for smaller, better located rental housing, yet there is no subsidy programme intended to aid the development of affordable and adequate rental housing (Gardner, 2018). The limited provision of affordable housing for gap market households has led to many people in the gap market renting, with more than 60 percent of households in the City of Johannesburg and 40 percent in the City of Cape Town in the gap market living in rental housing (Gardner, 2018). Although BNG acknowledged backyard rental accommodation “as an important component of the overall private rental sector and is [sic] plays a significant role in the residential property market” (Department of Human Settlements,

2004, p.28), scholars express concern over “the weak BNG policy commitment” to backyard rentals (Lemanski, 2009, p.475; Tissington, 2011).

Backyard dwellings emerged during the apartheid era as result of the state’s attempt to limit urbanisation (Crankshaw, Gilbert & Morris, 2000). The dwellings are typically shacks in the front or backyards of formal houses in townships made up of corrugated iron or zinc sheets and wooden planks (Scheba & Turok, 2020; Turok & Borel-Saladin, 2016) but are sometimes rudimentary brick structures (Crankshaw, Gilbert & Morris, 2000). Backyard dwellers either provide their own structure or rent a shack provided by the landlord, with a site for a shack costing approximately R500 in rent per month (Scheba & Turok, 2020; Turok & Borel-Saladin, 2016). They typically comprise a single room (Crankshaw, Gilbert & Morris, 2000; Turok & Borel-Saladin, 2016) and do not have running water or sanitary facilities (Govender, Barnes & Pieper, 2011). In exchange for rent, the tenant is generally allowed access to the landlord’s basic services, including electricity, water, sanitation, and refuse collection (Turok & Borel-Saladin, 2016).

Despite the significant difference of being located in a serviced housing area and having some degree of access to shared facilities, many aspects of backyard dwellings are comparable to living conditions in an informal settlement, including inadequate housing size and quality and an “unhealthy living environment” (Lemanski, 2009, p.473). The rudimentary nature of backyard dwellings and widespread use of illegal electricity connections pose severe fire, flooding, and electrocution hazards to tenants (Scheba & Turok, 2020; Turok & Borel-Saladin, 2016). Backyard dwellers also lack security of tenure as no formal lease agreements are used and are subject to the whims of homeowners, commonly given little notice when evicted (Lemanski, 2009; Scheba & Turok, 2020).

The informal nature of backyarding places it outside of the government’s sphere of concern, influence, and protection (Turok & Borel-Saladin, 2016). This means that it does not adhere to government regulations and has negative impacts on the provision of services and infrastructure, leads to unsustainable densification, and threatens the safety and health of tenants (DAG, 2022). The large increase in population density resulting from the growth of backyard shacks overburdens the infrastructure in townships as it is used by more people than it was designed to service (Govender, Barnes & Pieper, 2011). Additional external costs borne by the neighbourhood include decreased property values due to overcrowding and “unsightly structures” (Turok & Borel-Saladin, 2016, p.404). Backyard shacks also worsen the living

conditions of the landlord's household as shared sanitation facilities and strained infrastructure increases the risk of spreadable diseases (Govender, Barnes & Pieper, 2011).

The growth of backyarding is driven by factors including rapid urbanisation, lack of and difficulty accessing affordable housing, smaller household sizes, and an increased preference for rental accommodation (Lemanski, 2009; Rubin & Gardner, 2013; Scheba & Turok, 2020; Turok & Borel-Saladin, 2016). This leads to a high effective demand for backyard dwellings as backyarding is more affordable and accessible than subsidised or financed housing (Rubin & Gardner, 2013). Additionally, RDP/BNG houses provide new locations for backyard dwellings (Lemanski, 2009) closer to urban centres and economic opportunities compared to dormitory townships (Turok & Borel-Saladin, 2016). Backyard dwellings also provide improved access to basic services through shared use of the main house's facilities and are safer than informal settlements (Turok & Borel-Saladin, 2016). Furthermore, the supply of backyard accommodation has increased as it offers homeowners an additional income stream or an opportunity to accommodate members of family (Lemanski, 2009; Rubin & Gardner, 2013). For some homeowners, it is their only income stream and therefore of great importance: "Given significant poverty and unemployment in RDP housing areas, it is not surprising that residents use their sole asset as a mechanism for income-generation." (Lemanski, 2009, p.479).

Scholars argue that backyard dwellers have historically been overlooked by the state and its housing policies (Bank, 2007; Gunter, 2012; Lemanski, 2009; Scheba & Turok, 2020). Partly stemming from a view of backyarding as 'transitional' housing, it was assumed backyarders would disappear as they relocated to subsidised housing outside of townships which is also evident in the lack of basic service provision to backyard dwellers (Bank, 2007). Furthermore, backyard dwellers were statistically categorised together with informal settlements up until 1996, despite distinctive circumstances as previously discussed (Lemanski, 2009). As a result, backyard dwellings are under-researched and are suggested to be a consequence of the apartheid state's disregard of the phenomenon (Gunter, 2012). As mentioned, backyard dwellings were only first acknowledged in housing policy by BNG in 2004, with state only recently recognising that "*in situ* upgrading ... of backyard shack-dwellings in South African cities should be considered as an alternative to relocation." (Bank, 2007, p.225).

2.3 The small-scale rental sector

A few recent studies have identified a changing nature of the backyard rental sector in townships around Cape Town (DAG, 2022; HSRC, 2019; McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). An increasing demand for adequate and affordable rental accommodation driven by the growth of the black middle class, most of who belong to the gap market, has resulted in the homeowner-led development of higher quality brick and mortar backyard units, known as small-scale rental units or micro-developments (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). Small-scale rental units provide an affordable housing solution with scalable potential, something that both the private and public sector have previously failed to do (DAG, 2018; McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). Aside from case studies by McGaffin, Spiropoulous, and Boyle (2019) and Scheba and Turok (2020), both conducted in various townships around Cape Town, very little peer-reviewed research has been done on the small-scale rental sector.

The developments range from single rooms to one or two-storey block(s) of rooms built in the backyard of landlords' residential properties, to boarding houses, commonly two-storeys, built on an RDP property where pre-existing structures are demolished (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). Scheba and Turok (2020) found micro-developments to offer superior living conditions compared to shacks due to better materials and sturdier builds as well as the provision of services, leading to improved safety and privacy for tenants. See Figures 1 and 2 below for a visual comparison of small-scale rental units and backyard shacks. Facilities including showers and toilets were either shared between units or located en-suite, with water supplied through connections to the water pipe belonging to the main house on the property (Scheba & Turok, 2020). Kitchen units, sinks, and hot water were found in some of the rooms and all rooms provided electricity, typically through informal connections to the main house (Scheba & Turok, 2020). Rental rates varied from around R1 500 to R2 200, with electricity costs added through pre-paid meters, and rooms were found to be between 12 to 18 square metres (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020).

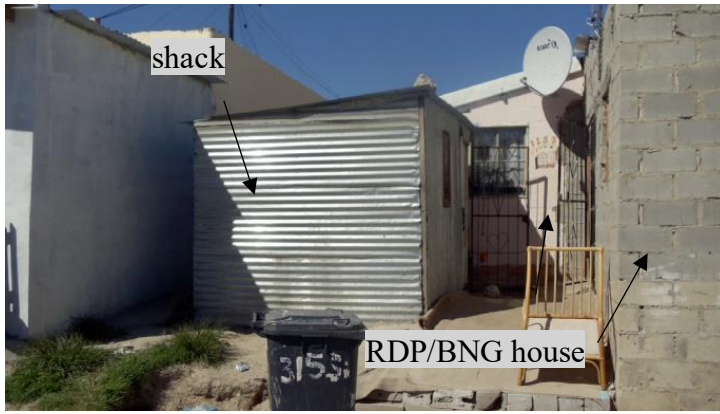


Figure 1: Typical backyard shack in Dunoon, a township in Cape Town

Source: Bodino (2022)



Figure 2: Bitprop development and incomplete neighbouring rental units in Khayelitsha, Cape Town

Source: Bitprop (2023c)

Both case studies found that the main motivation for micro-developers to build small-scale rental units was income (McGaffin, Spiropoulos & Boyle, 2019; Scheba & Turok, 2020). Most tenants were young professionals (McGaffin, Spiropoulos & Boyle, 2019; Scheba & Turok, 2020). The two studies highlighted demand for the rental units to be so high that many tenants moved in before construction was completed and units rarely being vacant (McGaffin,

Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). None of the 19 micro-developments in Scheba and Turok's (2020) study were compliant with the City of Cape Town's planning and building regulations, meaning that the quality of the developments varied significantly. This implies that negative consequences of informality such as health and safety hazards, tenant exploitation, and unsustainable densification leading to overburdened infrastructure, could become consequences of unregulated, informal small-scale rental housing² (DAG, 2022; Scheba & Turok, 2020). However, landlords and tenants were found to have a more commercialised, and thereby improved, relationship in comparison to backyard shacks, with some even using written lease agreements to increase security of tenure (Scheba & Turok, 2020), although formal rental agreements were not found to be the norm (McGaffin, Spiropoulous & Boyle, 2019).

Accessing financing was identified as the main challenge faced by developers in both studies as a lack of funds resulted in incremental building processes lasting up to several years, as the developments occurred gradually depending on when money was available (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). An example of an incomplete, incrementally developed small-scale rental unit is shown to the right in Figure 2. Improving the quality of the developments was also found to be imperative but difficult due to the use of unreliable building contractors and informal agreements (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). A lack of knowledge and complex, costly regulations hinder micro-developers from building regulatory compliant units, with most micro-developers relying "on word of mouth and informal communication to learn about property development and management. ... No one mentioned assistance from public bodies or civil society organizations." (Scheba & Turok, 2020, p.126). Furthermore, uncompliant developments prevent the access to affordable financing, and therefore a mechanism to develop wealth, as developments must be approved regulatory compliant to be formally recognised as a bankable asset (McGaffin, Spiropoulous & Boyle, 2019). McGaffin, Spiropoulous, and Boyle conclude their study by arguing that the issues faced by micro-developers "undermine the true potential of this important housing delivery mechanism" (2019, p.168).

However, beyond just providing decent affordable rental accommodation, both argue that the small-scale rental sector has the potential to create local economic development, upgrade

² The City of Cape Town defines informality as "housing expansion which has not followed formal compliance steps such as building plan submission, obtaining zoning permission, adhering to building guidelines etc." (City of Cape Town, 2021, p.7).

underinvested township environments, and contribute to sustainable urbanisation (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). For this to happen, cross-sectoral collaboration is needed, including institutional reform to “facilitate the progressive upgrading and regularization of informal backyard rental housing” (Scheba & Turok, 2020, p.130). This includes regulatory reform within areas such as the building application process; providing support to landlords within property development, construction management, and business finance; better systems to stop tenant exploitation; and access to more flexible financing (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). Furthermore, the formalisation of micro-developments will allow the City of Cape Town to document the value of the developments as well as collect taxes accordingly, which in turn would help fund the necessary infrastructure investments needed to support the current population growth and increase in rental housing (DAG, 2022; Scheba & Turok, 2020).

From a tenant and township-neighbourhood perspective, one of the main challenges facing small-scale rental developments is achieving a balance in the trade-offs between the affordability and formalisation due to regulatory compliance to mitigate negative external consequences (HSRC, 2019). Formalised construction is built to a higher standard, which risks displacing poor backyard dwellers, “either directly by demolishing informal structures or indirectly by leading to higher rentals and ‘gentrification’ over time.” (HSRC, 2019, p.13). A gradual upgrading process of the backyard rental sector is suggested as a potential solution to prevent dramatic rent escalations and displacement, although the supply of cheaper backyard housing is expected to remain abundant for now (DAG, 2022; HSRC, 2019; Scheba & Turok, 2020).

The importance of the small-scale rental sector is also recognised by the City of Cape Town, as work to support the growth and formalisation of the sector is outlined in its most recent Human Settlements Strategy (City of Cape Town, 2021). McGaffin, Spiropoulous, and Boyle (2019) conclude that the small-scale rental is an under-utilised market opportunity for small-scale entrepreneurs to provide highly sought-after affordable rental housing, but recognise it is not the “panacea” to the “massive challenge” of the South African housing crisis (McGaffin, Spiropoulous & Boyle, 2019, p.168). However, a report by Isandla Institute on backyarding in Cape Town highlights the need for various approaches, stating “There cannot be a one-size-fits-all response to diverse backyard rental markets.” (Isandla Institute, 2021, p.28). A report by the HSRC (2019) notes the recent rise of a number of limited-scope intermediary organisations that work with small-scale landlords in townships around Cape Town, but

emphasises the need for a sustainable financial model for these efforts to scale. It further argues, “There is much to be gained from social innovation in backyard rental housing” (HSRC, 2019, p.13).

2.4 A review of social entrepreneurship and the housing sector

The HSRC’s abovementioned view of social innovation’s potential within the backyard rental sector necessitates an understanding of social innovation and entrepreneurship. Dees (2001), one of the most influential and widely cited scholars within the social entrepreneurship field, considers social entrepreneurship to be critical in addressing social issues in the 21st century. Aside from the broad idea of leveraging resources to address social issues, there is a consensus among scholars that there is no single definition of social entrepreneurship (Dacin, Dacin & Matear, 2010; Dees, 2001; Helmsing, 2015; Mair & Martí, 2006, among others), but in defining the concept, many begin by examining the meaning of ‘entrepreneurship’ (e.g., Dees, 2001; Mair & Martí, 2006; Peredo & McLean, 2006; Thompson & Doherty, 2006). Unsurprisingly, there is no unanimous definition of entrepreneurship (e.g., Audretsch, 2012; Stam, 2008; Venkataraman, 1997), although Schumpeter’s (1934) description of the entrepreneur as an innovator and therefore primary driver of economic growth, often features as a key element (Audretsch, 2012; Dees, 2001; Stam, 2008, among others). Therefore, this study will assume the following definition of social entrepreneurship: “a process involving the innovative use and combination of resources to pursue opportunities to catalyse social change and/or address social needs.” (Mair & Martí, 2006, p.37) Furthermore, a social enterprise will be referred to as an organisation practicing social entrepreneurship (Mair, 2020; Mair & Martí, 2006; Peredo & McLean, 2006).

Scholars in favour of social entrepreneurship maintain that it is able to create social impact and generate wealth by addressing market (Austin, Stevenson & Wei–Skillern, 2006; Nicholls & Emerson, 2015) as well as government failures (Desa & Koch, 2014; Yunus & Weber, 2007). Compared to actors in the social sector, operating within the market ensures competitiveness that increases the quality of the goods and services delivered (Yunus & Weber, 2007), as well as more innovative and effective solutions (Austin, Stevenson & Wei–Skillern, 2006; Dees, 2001; Dees & Anderson, 2003). Social enterprises also possess a strategic advantage as they are able to respond quicker to demand (Dees & Anderson, 2003; Nicholls, 2011). Furthermore,

by providing solutions to market failures, social entrepreneurship enables scarce public resources to be redirected to areas in greater need of funding (Dees & Anderson, 2003).

The conflict between the social and financial objective is central to much of the literature on social entrepreneurship (Dacin, Dacin & Matear, 2010). Many scholars acknowledge the potential tension between the two, with the risk of sacrificing either objective by focussing too much on the other (e.g., Austin, Stevenson & Wei-Skillern, 2006; Dees & Anderson, 2003). Critics argue that civil society and the market are entirely incompatible as markets are unable to accurately convey the value of non-monetised assets (Edwards, 2008). More radical scholars maintain that, in providing market-based solutions, social entrepreneurship threatens civil society, advocacy, and government's ability to enact systemic social change, calling it a "neoliberal assault on democratic government" (Ganz, Kay & Spicer, 2018, p.60).

The difficulty in measuring social impact creation is also frequently cited as one of the main challenges within social entrepreneurship (Dees, 2001; Dees & Anderson, 2003; Mair & Martí, 2006). These difficulties stem from the nonquantifiable and multicausal nature, as well as varying perceptions of social impact (Austin, Stevenson & Wei-Skillern, 2006). Challenges in assessing performance also complicates accountability (Austin, Stevenson & Wei-Skillern, 2006; Dees & Anderson, 2003).

Research on hybridity, the combination of private, public, and third sector characteristics (Billis, 2010), within the housing sector is limited (Czischke, Gruis & Mullins, 2012; Mullins, Czischke & van Bortel, 2012), with existing literature focusing on the organisational impact of dual objectives rather than on tenant impact (Rolfe et al., 2020). In a review of Dutch and Australian rental markets, Blessing concludes that "social entrepreneurship is not a superblend, but a balancing act" (2012, p.205). An analysis of the US non-profit housing sector argues that hybridity prevents the ability to meet the Quadruple Bottom Line required by various stakeholders, i.e. financial sustainability, social and economic needs of residents, neighbourhood viability, and environmental sustainability (Bratt, 2012). However, tenants living in rental housing run by a non-profit social enterprise in Scotland were found to be relatively more satisfied with the service and quality of the property, in addition to experiencing larger improvements in health and wellbeing compared to those living in traditional social housing (Rolfe et al., 2020). Hence, it is evident that there is no scholarly consensus regarding social entrepreneurship within housing. Furthermore, Vaziri Zadeh, Moolaert, and Cameron (2021) argue that the nature of the housing market in the Global South is so different to that of

the Global North, due to many factors such as rapid urbanisation and the significant role of informal housing, that it is not possible to apply social housing approaches, and therefore findings from the literature on social entrepreneurship within the housing sector, from the Global North on the Global South. A literature review of the role of entrepreneurship in co-producing public services in informal settlements found it to include the provision of housing, yet the paper also highlighted the lack of research on how social entrepreneurship within housing can be used to upgrade low-income communities (Adewunmi et al., 2023). No literature was found on social entrepreneurship within the housing sector in the Global South.

Based on the discussion of social entrepreneurship theory above, as Bitprop addresses the government and market failure of providing enough housing, with the South African housing shortage being 2.2 million units (Gardner, 2018), it should create social impact as well as financial wealth (Austin, Stevenson & Wei-Skillern, 2006; Desa & Koch, 2014; Nicholls & Emerson, 2015; Yunus & Weber, 2007). According to previous findings on the incentives of micro-developers, the main motivation for homeowners to develop small-scale rental units is likely to be additional income (McGaffin, Spiropoulos & Boyle, 2019; Scheba & Turok, 2020). The formalization of the small-scale rental sector is expected to provide higher-quality affordable housing for tenants and generate positive externalities for township neighbourhoods (McGaffin, Spiropoulos & Boyle, 2019; Scheba & Turok, 2020).

The lack of research on the impact of social entrepreneurship within the housing sector in the Global South, combined with its ascribed potential in the South African housing shortage, highlight the importance and contribution of this study. The next section provides a background to the case explored in this study.

3 Background

3.1 Cape Town and housing trends

Cape Town is South Africa's second largest city, after Johannesburg, with a population of 4.4 million (Department of Cooperative Governance and Traditional Affairs, 2020). With a population increase of 56 percent from 1996 to 2016, Cape Town has experienced rapid urbanisation rates in past decades (City of Cape Town, 2018). Informal backyard dwellings

have increased since 1996, having accounted for 3.3 percent of housing in Cape Town, and accounting for 6.1 percent in 2016 (City of Cape Town, 2018). Out of approximately, 1 300 000 households in Cape Town, 7.3 percent resided in informal backyard dwellings/shacks, 1.5 percent lived in small-scale rental housing, and 14.4 percent in informal dwellings not located in backyards, such as informal settlements, in 2021 (Western Cape Government, 2021). Due to exclusionary apartheid policies and rapid urbanisation, urban sprawl is extensive in Cape Town, a trend that has continued in the face of an increased national focus on urban inclusion (City of Cape Town, 2018). As largely white, formalised areas with low densities continue to be well-located, while predominantly black townships experience high densities, informality, and remain peripherally located away from economic opportunities, the City views sustainable densification as crucial to its development (City of Cape Town, 2018).

The rate at which new households were formed exceeded the city's population growth between 2011 and 2016, at rates of 18.4 percent and 7 percent, respectively, which was also reflected in a decrease in average household size over the past two decades, from 3.92 to 3.17 people per household; presumably a result of the growth of the younger, working-age population (City of Cape Town, 2018). To meet the growing demand as well as eradicate the current housing backlog, the City Council's latest Human Settlements Strategy (2021) estimates that the provision of 50 000 new housing opportunities annually in the coming 8 to 10 years is required, with the nature of the demographic shift playing a key role in affecting the number and type of housing demanded (City of Cape Town, 2018). However, at present, the average annual public and private-sector supply of new formal housing is less than 20 000 units per year, indicating an annual deficit of 30 000 units for the next decade if the current supply rate remains constant (City of Cape Town, 2021).

3.2 The case: Bitprop's development of small-scale rental units in Khayelitsha

Summarising from above, the lack of housing supply and increased demand, especially for rental housing, in Cape Town can therefore be seen to stem from rapid urbanisation, insufficient state provision of housing, and a changing demography. As discussed, two studies find micro-developments to be successful in addressing the housing shortage (McGaffin, Spiropoulos & Boyle, 2019; Scheba & Turok, 2020). There are a few existing micro-finance providers that support landlords in the development process, including iBuild, uMaStandi, and Bitprop

(DAG, 2022), with most of them providing affordable loans as well as some training for homeowners. Bitprop was selected as a case due to its different, innovative operating model; it partners with landlord-aspiring homeowners to develop small-scale rental units in the homeowner's backyard and shares the rental income each month for the duration of the 10-year partnership, as opposed to the homeowner repaying a micro-finance provider for a loan. Bitprop partners with homeowners across townships in Cape Town and the developments consist of four or six rental units per property and, significantly, fully comply with council regulations (Bitprop, 2023d). Each unit varies between 16-21sqm in size and have clean running water; a kitchen; a bathroom with hot water; pre-paid Wi-Fi, water and electricity meters; and proper drainage systems (Bitprop, 2023a).

To enter a partnership with Bitprop, a homeowner submits an application that is evaluated based on several criteria including the suitability of the property and the homeowner. If approved, a 10-year partnership agreement is signed and construction begins on the homeowner's property, generally taking 10 to 12 weeks. Bitprop finances the development of the rental units and provides necessary expertise including architects, local contractors, and construction management. Upon construction completion, the homeowner assumes landlord responsibilities and is provided with insurance, maintenance, and digital rental management services by Bitprop, alongside property management training, with the aim of ensuring skills required to operate a successful micro-property business are developed. Throughout the partnership rent is paid directly to Bitprop, that retains 85 percent and then compensates the homeowner with the remaining 15 percent each month. When the partnership ends, the homeowner receives full ownership and responsibility of the small-scale rental units and Bitprop has recouped the initial development costs as well as generated a market-related return for an investor (Bitprop, 2023a).

Bitprop currently operates in a number of townships around Cape Town, including Khayelitsha. Khayelitsha is the largest township in Cape Town and has, together with nearby areas, experienced the most intense population growth in the city (Abrahams et al., 2018). It was established by the apartheid state in the mid-1980s to accommodate the influx of Black African migrants (Abrahams et al., 2018). The 2011 census found Khayelitsha's population to be 390 000, with 8 percent residing in backyard dwellings (Strategic Development Information and GIS Department, 2013). Approximately a third of all accommodation had access to piped water inside the dwelling, while just over a quarter had access to piped water inside their yard, and a quarter within 200 metres of their accommodation (Strategic Development Information

and GIS Department, 2013). 74 percent of households have a monthly income of R3 200 or less and 38 percent of the population is unemployed (Strategic Development Information and GIS Department, 2013).

4 Method and Data

4.1 Research design

The research adopts an exploratory case study approach to explore the impact of social entrepreneurship within the small-scale rental sector in South African townships through the case of Bitprop in Khayelitsha. The case study design is employed to enable an in-depth exploration of the case in and can therefore be categorised as an intrinsic case study (Punch, 2014). The research design was tightly structured as the research question was established prior to the design of the investigation (Miles, Huberman & Saldaña, 2020). The conceptual ideas that laid the foundation for the research question were developed during a previous eight-week internship at Bitprop between June and July 2022. Primary data was collected in April 2023 through interviews, field notes, and statistical data.

4.2 Data collection

The main method of data collection used was semi-structured interviews to access different stakeholders' perceptions, values, and thoughts pertaining to Bitprop's development of small-scale rental units. The literature review in Section 2 and Scheba and Turok's (2020) findings informed the selection of key stakeholders impacted by Bitprop's development of small-scale rental units, which were identified to be Bitprop homeowners and tenants, as well as the township neighbourhood.

Based on the researcher's previous experience of interacting with homeowners and tenants during the aforementioned internship, not all are as articulate or perceptive, which risks certain interviews not providing as insightful data. Hence, to ensure fruitful interviews, Goetz and LeCompte's (1984 cited in Miles, Huberman & Saldaña, 2020) strategy of reputational case

selection was used to select the sample, and homeowners and tenants were chosen based on recommendations from a Bitprop employee. Another reason the sampling method was chosen is because of “the level of mistrust extended to outside institutions” (McGaffin, Spiropoulos & Boyle, 2019, p.5), suggesting that certain participants would be difficult to access if approached by an unknown researcher. Five homeowners partnered with Bitprop and three tenants staying in Bitprop flats were invited to interviews via WhatsApp, with all initially agreeing to participate. The tenant interviews and one homeowner interview fell through, and an unsuccessful attempt was made at scheduling the four participants digitally after having been unable to schedule them for on-site interviews, resulting in limitations that will be discussed below.

To gain a more holistic view of Bitprop’s impact, the homeowner and tenant interviews were supplemented with additional stakeholder and expert interviews comprising Bitprop’s founder, Carl Fredrik Sammeli, one of Bitprop’s homeowner relationship managers, and an urban researcher, Claire du Trevou. The additional participants were invited to participate via email. Sammeli was selected to provide an insight on Bitprop’s nature as a social enterprise and du Trevou as an expert on backyard rental development. The homeowner relationship manager was chosen as they work with tenants on a daily basis, assisting them with online rental payments and comprehending their lease agreements, in addition to homeowners to whom they provide property management training. An additional expert, a land economist and town planner employed by the City of Cape Town, also initially agreed to participate but was unable to schedule an on-site or digital interview. The experts were also selected based on reputational selection and recommendations from a Bitprop employee to benefit from personal connections and increase the likelihood of the experts accepting an interview.

The interviews were conducted on-site in Cape Town, South Africa between the 17th and 24th of April 2023 (see Appendix A for the interview schedule). The homeowner interviews took place in the participants’ homes, with the exception of one homeowner interview conducted using Google Meets. Before the interviews, all participants were informed of the research rationale, participation conditions, and the data handling and anonymization, and were presented with a consent form. To ensure the anonymity of the homeowners, the study will identify them as HOs. The homeowner relationship manager will be referred to as HRM.

Two interview guides were used (see Appendix B for the interview guides). The homeowner interviews lasted between 10 and 25 minutes and were guided by a semi-structured interview

guide. They were asked open-ended questions relating to their perceptions of backyarding, their rental units, and their tenants and neighbours. Sammeli, du Trevou, and the homeowner relationship manager were also interviewed using a semi-structured interview guide (Appendix B), with the interviews lasting between 20 and 45 minutes. The second guide was more open to allow for in-depth discussion of interesting topics that arose throughout the interviews, although some structured was maintained to ensure comparability, and included open-ended questions on backyarding, Bitprop, and the small-scale rental sector. To allow the researcher to be attentive and to make the participants feel more comfortable, the interviews were audio-recorded.

Field notes were also recorded throughout the interview series to provide an additional data source and collect data uncaptured by the audio-recordings. Among other things, these included observations on participant behaviour prior to and after the interviews and observations from site-visits such as details about homeowner's properties.

Quantitative data on Bitprop homeowners and tenants as well as their properties was also used to add additional perspectives and information to the emerging findings that were difficult to access through the interviews and to allow for an evaluation of quantitative impact created. It includes statistics such as average rental rate, homeowner income prior to the partnership, and increase in property value. It also allows for comparability with quantitative findings of previous research as well as to enables triangulation and therefore increases confidence in the analytical findings. The data was sourced through access to Bitprop's internal working documents.

4.3 Data analysis

The interview-recordings have been transcribed using transcription software RaeNotes and then coded in qualitative data analysis software NVivo together with the field notes. The Miles and Huberman framework for qualitative data analysis, based on a simultaneous process of data condensation, data display, and drawing conclusions, has been used to guide the analysis (Miles, Huberman & Saldaña, 2020). Based on Saldaña (2016), the coding has been done in two stages: first First Cycle coding to briefly summarise the data and then Second Cycle pattern coding to group the summaries into categories and themes. Throughout the transcription and First Cycle coding process, thoughts and reflections about the data and research, including

emerging patterns, have been recorded in analytic memos that then helped generate the pattern codes containing the main categories and themes. From categories and themes, the main findings have been established along with the missing gaps that needing to be triangulated by quantitative data. The quantitative data has been summarised and condensed and will be presented an analysed primarily in the form of descriptive statistics.

4.4 Limitations

Bias must be considered throughout the study, therefore the possibility of certain bias in a given direction will be kept in mind when interpreting the data. Not being able to interview any tenants decreases the validity of the findings relating to the tenant perspective as secondhand accounts from homeowners and the homeowner relationship manager could be biased. However, the chosen sampling method and use of multiple data sources and types, enabling triangulation, improve the representativeness of the findings.

The sample selection method could also lead to bias as it was based on recommendations from Bitprop. There is a risk that the chosen participants were recommended due to a good relationship with Bitprop and hence more likely to be subjective. The same logic can be applied to participants agreeing to the interview because of a good relationship with Bitprop. Nonetheless, as accessing participants was challenging despite Bitprop's assistance, for example all tenant interviews falling through, and some of the recommended homeowners not being very articulate, the chosen sampling strategy was the best choice.

That the potential participant bias could paint a more positive picture of Bitprop was taken into account during the research design, and to promote objectivity during the interviews it was made clear that the study was conducted independently of Bitprop, that all of the data was to be anonymized, and the name 'Bitprop' was omitted from the interview guide. Most participants, however, highlighted challenges in connection to Bitprop, with one homeowner even asking for maintenance challenges to be conveyed to Bitprop after the interview, suggesting a lesser likelihood of bias. Furthermore, as mentioned, through using various methods to collect data, interviews, field notes, statistical data, as well as different data sources, homeowners, experts, Bitprop, the data was triangulated to enhance the validity of the findings and minimise the impact of participant bias.

Previous work experience with Bitprop may have led to researcher bias. Therefore, the study has been designed to minimise the impact of researcher bias by using several data types and sources to triangulate and enhance objectivity. Through awareness of the researcher's potential subjectivity and its implications on the study, together with active reflection throughout the process of the entire investigation, the effect was minimised. Bias could also have stemmed from the effect of the researcher on participants, yet this was mitigated by interviewing most participants in their homes (Miles, Huberman & Saldaña, 2020).

The small scope of the study, with only seven interviews, likely increases the impact of any participant bias on the findings. Expanding the scope of the study to include more participants and additional stakeholders, therefore, lays the foundation for future studies to further understand the impact of social entrepreneurship within the small-scale rental sector.

The case study nature of the research intrinsically limits the generalisability of the findings to an extent. The South African context of apartheid and backyard rental sector render it difficult to extrapolate findings to other countries, however, the findings will be applicable to social entrepreneurship within the small-scale rental sector.

5 Analysis and Discussion of the Results

The following section will analyse and discuss the qualitative and quantitative results of the study to form an empirical basis upon which the research question will be discussed using previous research. First, Bitprop's impact from the perspective of previous research on the small-scale rental sector on previously identified key stakeholders, homeowners, tenants, and township neighbourhoods, will be discussed. Then, Bitprop from the perspective of social entrepreneurship research will be considered. The section is concluded with an attempt to answer the research question.

5.1 Impact on homeowners

Income was found to be the main motivation behind partnering with Bitprop to become landlords, in line with previous research (McGaffin, Spiropoulous & Boyle, 2019; Scheba &

Turok, 2020). Homeowners were found to be overwhelmingly positive when asked about their perceptions of Bitprop, the partnership, and having small-scale rental units.

The advantage, oh the advantage is huge! It's huge. It's a dream, this is a dream already. ... it has contributed more to our pockets. It has made a huge change. A huge, huge, huge one. We thank Bitprop about that. Really. (HO2)

It's a good thing for me. Like, really, really, really. It's a good thing for me. Because, you don't understand, to take some eight years, you don't have a salary, not working. So as for me, it was a good opportunity. (HO3)

The increase in income is also demonstrated in Table 1, with homeowners receiving an average monthly rental income of R2 936, approximately \$165 USD. Based on an average household monthly income of R10 750 prior to entering the partnership, the increase in household monthly income is therefore 34 percent during the partnership and 227 percent after the partnership (Table 1). For employed homeowners, 48 percent of Bitprop's homeowners, the additional income is used to pay off debts or covering better schools' fees, while unemployed single breadwinner homeowners relied on rental income as their household's main source of livelihood.

Furthermore, many homeowners possessed the desire to develop small-scale rental units yet, similar to previous research (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020), lacked the means to do so, until partnering with Bitprop. Du Trevou, the expert interviewed, cited the unreliability of building contractors and difficulties in building compliant rental units as main issue faced by independent micro-developers, echoing previous research (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020), and viewed Bitprop as a potential solution to these constraints (UR1). The interviews showed that the main challenge homeowners encounter is related to maintenance issues of the units, with some considering Bitprop helpful while others found their response times to be too slow. The homeowners are, however, appreciative of the rental and property management training they receive from Bitprop.

"... I need to learn as much as I can about property, and understanding the maintenance side of things, understanding everything about it, so this is my learning journey with Bitprop. So I'm not doing this alone, I'm getting loads and loads of support from the Bitprop guys" (HO1).

Notably, du Trevou and a homeowner mentioned the dilemma a homeowner relying solely on rental income faces when considering to develop small-scale rental units, as no rental income is received during the construction phase (HO3, UR1).

Homeowners see the development of the small-scale rental units and the partnership with Bitprop as a long-term investment as it enables a property investment that benefits their families, provides an inheritance for their children, and increases property value. The value of an average Bitprop property increase by 215 percent after the construction of the rental units (Table 1), an increase the homeowners are “*really impressed*” (HRM1) by. Despite only receiving 15 percent of the rental income during the partnership, homeowners view the 10-year period spent in the partnership as a worthwhile investment when considering the value of the small-scale rental units. The knowledge and skills gained throughout the partnership is also considered to part of the investment. One homeowner reflects:

It's a future investment for a period of ten years and then you have 100% ownership. It's more like investing on time and then change the time to be in your currency, because if I can wait for that period, a period of ten years is nothing. Even if I can invest money for that time, I don't think, in fact, it's impossible if I can invest money that can build this kind of flats in the period of ten years. So, it's a very good thing for my family as well. (HO4)

The design and quality of Bitprop’s rental units are also emphasised, as homeowners credit them with attracting tenants and drawing attention to their properties, which became clear to evoke a sense of pride during the interviews.

Table 1: Bitprop Homeowner, Property, and Tenant Summary Statistics

| BITPROP SAMPLE | |
|---|--------|
| <i>Homeowner Variables</i> | |
| Number of homeowners | 44 |
| Employment rate | 48 |
| Average household monthly income before partnership (in R) | 10 750 |
| Average monthly rental income during partnership ¹ (in R) | 2 936 |
| Average income increase during partnership (in %) | 34 |
| Average income increase after partnership ² (in %) | 227 |
| <i>Property Variables</i> | |
| Average increase in property value (in %) | 215 |
| Shack replacement ³ vs greenfield builds (in %) | 39 |
| <i>Tenant Variables</i> | |
| Total number of units | 250 |
| Average rental rate (in R) | 3 285 |
| Occupancy rate ⁴ (in %) | 99 |

¹ The average monthly income a homeowner receives from collected rents during their partnership with Bitprop

² An estimate as no partnerships have ended as of July 2023

³ Includes all informal structures on a property that are removed prior to construction

⁴ The monthly occupancy rate in June 2023

Source: Bitprop (2023b), as of July 31st 2023 based on 44 homeowners and 250 units

5.2 Impact on tenants

In accordance with previous findings, most Bitprop tenants were found to be young professionals (McGaffin, Spiropoulous & Boyle, 2019; Scheba & Turok, 2020). The lack of housing and high demand in Khayelitsha was mentioned by most interviewees. One homeowner exemplified the demand for Bitprop's units:

Even when you advertise the same day, 50, 60 come in, they just want to see the place and then they take it just like that because of the building, the standard, everything. It's different to the places that we build on our own, totally different. (HO2)

This can also be seen to be reflected in the high occupancy rates of 99 percent across all Bitprop units, shown in Table 1.

The interviews showed that tenants in Bitprop rental units appear to be content with their living situations, as all homeowners and the homeowner relationship manager describe tenant accounts similar to the ones below:

*... all tenants, they said 'we love these flats. We **love** these flats'. (HRM1)*

They're happy because first and foremost, the flats are beautiful, big. (HO1)

... the quality on its own. And the style, the design, it's very attractive especially to the young professionals. ... you see when they occupy these flats they always, they feel good. (HO4)

Many highlight that tenants appreciate the design and quality of the flats, also including the privacy achieved from not having to share facilities with other tenants or the landlord. Others mention tenants liking the affordability of the rental units compared to rental housing nearer to the city centre, with the homeowner relationship manager providing an example: “*she said to me, 'since we rented this flat, we've managed to save money to deposit the house and now we were able to bring up the 10% to the bank so that we can get loan to buy a house'.*” (HRM1). One homeowner cites multiple of their tenants as having lived nearer the city centre previously and having paid rents of R6 000 – R7 000 per month, that were now satisfied with living in Bitprop units because of the quality and affordability despite the township location farther away from their jobs, with the average rental rate of Bitprop units being R3 285 (HO2, Table 1). The high occupancy rates of 99 percent can also be seen to indicate tenant satisfaction (Table 1).

The interviews also revealed the tenant and landlord relationship to be good, with WhatsApp used to communicate. Du Trevou focussed on the formalisation of the relationship being key, as the formal lease agreements used mean tenants have tenure security and the relationship is “mandated”, removing tension (UR1). This is in line with previous research (Scheba & Turok, 2020).

The average rental rate of Bitprop units at R3 285 (Table 1) was found to be significantly higher than the rental rates found in previous studies of small-scale rental units, R1 500 – R 2 200 (Scheba & Turok, 2020). Sammeli, Bitprop’s founder, admits that the “*upper end*” of the affordable housing sector is targeted to ensure financial viability, aware that Bitprop’s rental units will not be able to solve the entire housing crisis (BF1).

5.3 Impact on township neighbourhood

The biggest perceived impact of Bitprop’s development of small-scale rental units on the neighbourhood was found to be the upgrading of the area, which was continuously emphasised emphatically. When asked about neighbours’ opinions on their rental units, one homeowner exclaimed, “*they are so positive about it because it upgrades our townships also, because of the design of the flats, the style on its own, it's upgrading the township.*” (HO4). Upgrading by formalisation, fewer shacks, and the attractive design of are also regarded to increase neighbourhood property values, a perception confirmed by the literature (Turok & Borel-Saladin, 2016). The interviews also revealed that many homeowners discover Bitprop through their neighbours and actively try to involve new neighbours once they enter the partnership as they want to share the benefits they are experiencing with more members of the neighbourhood. This was supported by on-site observations in Khayelitsha as Bitprop rental units appeared to mushroom on some streets, with several new properties appearing after the initial property completes construction, contributing to the overall formalisation of the neighbourhood. Furthermore, as all of Bitprop’s processes and operations are fully formalised, wider benefits of formalisation within the small-scale rental sector are also likely to be benefits of Bitprop’s developments, including capturing previously uncaptured data, facilitating more accurate planning of infrastructure and service delivery, sustainable densification as well as tax collection (DAG, 2022; Scheba & Turok, 2020).

However, the risk of displacing of informal backyard tenants and gentrification identified for individually developed small-scale rental units are also likely to be present for Bitprop's developments, perhaps even more likely for Bitprop due to higher rental levels compared to previous findings (Scheba & Turok, 2020, Table 1). Moreover, as 39 percent of properties had shacks before construction began (Table 1), informal tenants have been displaced by Bitprop's developments and forced to find alternative locations of accommodation. When asked about what happens to informal backyard tenants evicted by the construction of Bitprop's rental units, no clear indications were given apart from tenants being given a two- month notice to relocate and some requesting one of the new rental units to be reserved. The homeowner relationship manager infers that those who cannot afford the new rental rates move in with family or relocate their shack to an informal settlement. When asked whether small-scale rental units are outcompeting backyard shacks, du Trevou maintains that the two are different markets, but admits that "*... the worry is, and it is kind of like a general concern of people, that every homeowner will get to a point where they want that space to develop formalized rental development.*" (UR1).

5.4 Bitprop as a social enterprise

According to Sammeli, Bitprop's main aim is "*to build proper housing in a commercially viable way*" that is scalable by using capital and competence to formalise and professionalise a pre-existing, but informal, process of housing delivery and wealth creation (BF1). Bitprop's nature as a social enterprise and therefore pursuit of both social impact and financial wealth creation risks focussing on one objective at the expense of the other (Austin, Stevenson & Wei-Skillern, 2006; Dees & Anderson, 2003). On one hand, striving to increase the affordability and maintain an adequate level of quality of the rental units could threaten financial viability. On the other hand, maintaining the quality of the rental units and attempting to improve financial performance by increasing rental rates may risk compromising the affordability or causing gentrification.

However, Sammeli argues that Bitprop's higher-quality rental units stem from its model aligning financial incentives: "*The builder, the homeowner, the landlord, and Bitprop and the investor. Everybody has aligned incentives to keep the quality high.*" (BF1), which is also supported by previous research on social entrepreneurship (Yunus & Weber, 2007). Moreover,

as a social enterprise, Bitprop is able to respond quicker and more effectively to demand than the social sector (Dees & Anderson, 2003; Nicholls, 2011). This can be seen in the lack of subsidy programme aimed at increasing the development of affordable and adequate rental housing, despite increased demand for rental accommodation as well as the housing shortage (Gardner, 2018). Ultimately, du Trevou argues that one of the most important impacts of actors like Bitprop within the affordable housing sector is enabling public resources to be shifted to sectors in more urgent need, in line with previous research on social entrepreneurship (Dees & Anderson, 2003).

For me, the more players there are in the private sector who are not just profit hungry corporations, who are willing to make slight sacrifices for the social good, like social enterprises supposedly should, then the easier it becomes for the government to be able to actually do their job... it's not a housing crisis, it's a human settlements crisis. (UR1)

5.5 Findings

There are aspects of Bitprop's small-scale rental developments that are similar to those of individually developed have backyard rental units. Benefits of small-scale rental development identified by previous research, including the vital provision of higher-quality affordable rental accommodation, given the scale of the housing crisis in Cape Town with a predicted deficit of 30 000 new housing opportunities annually in the next decade (City of Cape Town, 2021), and a new income stream for homeowner landlords, are shown to also be applicable to Bitprop's development of small-scale rental units (DAG, 2022; McGaffin, Spiropoulos & Boyle, 2019; Scheba & Turok, 2020). Moreover, Bitprop possesses key resources individual micro-developers were identified to lack, including capital, the use of formal building contractors, and construction and property management knowledge. By using them in an innovative way, Bitprop is able to develop a small-scale rental process that is formalised and therefore likely to avoid certain negative externalities associated with informally developed small-scale rental units. Builds that are compliant with building regulations ensure higher housing standards (HSRC, 2019) and allow the units to become bankable assets (McGaffin, Spiropoulos & Boyle, 2019). Tenants are less likely to be exploited due to formal lease agreements enabling security of tenure and improved relationships with landlords (Scheba & Turok, 2020, UR1). Formalisation also allows the public sector to accurately capture data in a sector with

widespread informality, facilitating sufficient infrastructure and service provision as well sustainable densification (Scheba & Turok, 2020).

The fear of small-scale rental developments leading to the displacement of tenants is also likely to be present for Bitprop's developments (Scheba & Turok, 2020). As Bitprop relies on financial viability and is driven by financial incentives, and therefore actively targets a higher end of the affordable housing market, the risk of Bitprop's units leading to displacement or gentrification may therefore be seen as higher than with individually developed rental units. However, using the Western Cape Government's data, approximately 95 000 households can be calculated to live in informal backyard housing and 19 500 households in small-scale rental units around Cape Town (Western Cape Government, 2021). With 250 rental units as of July 2023, the scale on which Bitprop currently operates appears very small in comparison (Western Cape Government, 2021). As scholars indicate that incremental upgrading of backyard housing may mitigate direct and indirect displacement of informal tenants, and that cheaper backyard housing is expected to persist on a relatively large scale for now despite the growth of the small-scale rental sector (DAG, 2022; HSRC, 2019), in addition to the need for various solutions within the backyard rental sector (Isandla Institute, 2021), it seems unlikely that social entrepreneurship within the small-scale rental sector will result in gentrification.

Nevertheless, the main findings of the study are that the impact of social entrepreneurship within the small-scale rental sector is value creation. The impact on the majority of stakeholders is shown to be positive as homeowners receive additional income, tenants are provided with highly demanded, high-quality affordable housing, the township neighbourhoods are upgraded and formalised, and Bitprop is profitable.

6 Conclusion

Against a backdrop of post-apartheid South Africa and rapid urbanisation, disputed housing policies, and an increase in informal backyard rental housing, this thesis began with the recognition of small-scale rental housing's, in addition to social entrepreneurship's, potential for value creation and addressing the housing shortage. By using the case of Bitprop, a social enterprise, and its rental developments in Khayelitsha, a township in Cape Town, this qualitative study aimed to explore the impact of social entrepreneurship within the small-scale rental sector on homeowners, tenants, and township neighbourhoods in South African townships. It has been guided by the following research question:

RQ: What are the impacts of social entrepreneurship within the small-scale rental sector in South African townships?

Bitprop was found to enable partnered homeowners access to a new income stream, increase property value, and provide a new bankable asset. The rental units offer highly demanded, affordable, high quality rental units that provide more secure accommodation for tenants, albeit are more expensive than previously found small-scale rental housing. The developments upgrade and formalise township neighbourhoods with their design as well as by capturing unrecorded data, allowing for improved infrastructure and service provision, sustainable densification, and collection of taxes. In some cases, the construction of Bitprop's units displace informal backyard tenants, and although unlikely for the time being, the developments, especially on a larger scale and at a higher price point, may risk contributing to gentrification.

As a social enterprise, Bitprop is able to address a government and market failure, the housing crisis, more rapidly and effectively than the social sector as well as allow for public sector resources to be focussed in areas of greater need. The findings therefore suggest that, by addressing government and market failures, social entrepreneurship within the small-scale rental sector can create wealth and financial inclusion for township homeowners, deliver adequate affordable rental housing, as well as contribute to the formalisation of the sector and township neighbourhoods. Therefore, despite certain issues, the impact is positive as a majority of stakeholders, including homeowners, the neighbourhood, and a large group of accommodation-seekers benefit from social entrepreneurship within the small-scale rental sector. Considering the growth of informal dwellings as a result of urbanisation across South Africa, especially within backyard rental housing, social entrepreneurship within the small-

scale rental sector can provide financially sustainable, impact-driven scalable solutions that may contribute to addressing the housing crisis across the country. However, it is worth noting that the housing crisis is a large and complex issue, with widespread poverty playing an important role, and social enterprises such as Bitprop will not solve the housing crisis alone. Social entrepreneurship by itself can therefore not be expected to solve nation-wide issues.

Increasing the scope of the study to include more participants, especially tenants, would increase the validity of the findings and minimise the impact of bias. Involving additional stakeholders including neighbours, builders, and City of Cape Town executives would allow for a broader understanding of the impacts of social entrepreneurial developments within the small-scale rental sector. As the emergence of the small-scale rental sector is relatively recent, there is little research on its long-term impacts. Consequently, further research is necessary to understand the extent of informal backyard tenant displacement and gentrification resulting from developments within the sector. Future findings can lay the foundation for cross-sectoral collaboration for innovative and efficient rental housing delivery whilst maintaining adequate standards and ensuring affordability.

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Appendix A

Interview schedule

| Participant typology | Interview date |
|------------------------------|----------------|
| BF*, UR**, HO***, HRM**** | |
| BF1 | 17 April 2023 |
| UR1 | 19 April 2023 |
| HO1 | 20 April 2023 |
| HO2 | 21 April 2023 |
| HO3 | 21 April 2023 |
| HO4 | 21 April 2023 |
| HRM1 | 24 April 2023 |

* BF: Carl Fredrik Sammeli is the founder of Bitprop

** UR: Claire du Trevou is an architect and urban researcher currently working with practical implementation work in informal settlements and backyard rental development in South Africa.

*** HO: Homeowners living in Khayelitsha, a township in Cape Town, that partner with Bitprop to build small-scale rental housing in their backyards.

**** HRM: A homeowner relationship manager, working with homeowners and tenants, employed by Bitprop

Note: The interview transcripts can be shared upon request and will be distributed if consent is given by the participant(s) when informed of their public disclosure. To ensure that participant integrity is maintained, identifying and/or sensitive information will be omitted before the transcripts are shared.

Appendix B

Homeowner interview guide

Introduction

1. Name, age, gender, family constitution, occupation.
2. Can you provide us with a brief history of your stay/living in Khayelitsha; when did you move to Khayelitsha, under what circumstances, what reasons etc?
3. How and when did you find out about backyarding?
4. Why did you decide to build a backyard rental? Multiple reasons?
5. Did you have any form of backyard rental before your current flats?
 - a. IF YES:
 - i. What kind of structure was it?
 - ii. How many tenants?
 - iii. How much did each tenant pay?
 - iv. How did the backyard rental impact you?
 - v. Where did your tenant(s) move when the structure was demolished?
 - vi. Could the tenant have afforded your current flats?
 - vii. Why did you decide to build current flats when you already had rental to let?
6. What do you think about having backyard flats? Pros and cons?
7. How do the flats impact you? Your family?
 - a. IF HAD RENTAL BEFORE: How do your current flats differ compared to your previous rental, in terms of how they affect you?
 - b. ASK FOLLOW UP/PROBING QUESTIONS BASED ON ANSWER
8. What is the rental rate for your current flats?
9. What are your neighbours' opinions of your flats? Do your flats affect them?
10. What do you think your tenants think about living in your flats? Pros and cons?
11. What do you feel are the main challenges in having backyard flats?
12. How have you resolved or tried to resolve/overcome those challenges?

Outro

Bitprop/expert interview guide

Introduction

1. Name, gender, occupation/relation to backyard rental sector.
2. Describe the backyard rental situation in Khayelitsha.
 - a. Provide us with a brief historical overview. What did it look like? Why?
 - b. What changes have occurred? When did they start? What were their implications?
3. How does the development of small-scale rental housing affect informal backyarding?
4. What impacts do the changes in the backyard rental sector have on the township as a whole in terms of infrastructure etc?
5. What are the main challenges with the development of the small-scale rental sector/Bitprop?
6. How can these challenges be resolved?

Outro