

**Girles-kate Maletswa & Douw Boshoff**

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## **An analysis of the quality of property-management principles in the South African public sector – A focus on residential property**

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### **Abstract**

The aim of this paper is to investigate the applicability of public-sector residential property management as implemented by the Department of Public Works (DPW) at national level to current leasing management practices. The article investigates current best practice in leasing of residential property and evaluates the applicability of these practices to the DPW, as the landlord, when letting out surplus residential properties. The findings indicate that the DPW residential leasing management is not in line with best practices, together with inadequate capacity in terms of the size of the portfolio and the requisite expertise to adopt and implement effective lease management of surplus state-owned residential property. Thus the DPW property-leasing function should be subjected to a review and re-engineering of the current status quo with guidance from an independent property-management advisory committee or reference group.

**Keywords:** Property leasing, public sector, surplus residential property

### **Abstrak**

Die doel van hierdie artikel is om die toepaslikheid van openbare sektor residensiële eiendomsbestuur op nasionale vlak, soos geïmplementeer deur die Departement van Openbare Werke (DOW), se huidige verhuurpraktjke te ondersoek. Die artikel ondersoek huidige beste praktjke in die verhuur van residensiële eiendom en evalueer die toepaslikheid van hierdie praktjke wanneer die DOW surplus residensiële eiendomme verhuur. Die bevindings dui daarop dat die DOW se residensiële verhuuringsbestuur nie op standard is met aanvaarde praktjke nie en tesame met onvoldoende kapasiteit in terme van die grootte van die portefeulje asook die nodige kundigheid, kan hulle nie effektiewe huurkontrakbestuur van surplus staatsbeheerde residensiële eiendom implementeer nie. Die DOW eiendomsverhuuringsfunksie moet dus onderwerp word aan 'n hersiening en verandering van die huidige *status quo* onder die leiding van 'n onafhanklike eiendomsbestuur raadgevende komitee of verwysingsgroep.

**Slutelwoorde:** Eiendomsverhuur, openbare sektor, surplus residensiële eiendom

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Ms Girles-kate (J.) Maletswa, MSc (Real Estate), University of Pretoria, Pretoria, South Africa.

Dr Douw (G.B.) Boshoff, Senior Lecturer, University of Pretoria, Pretoria, South Africa. Phone: +27 12 420 3781, email: <douw.boshoff@up.ac.za>

## **1. Introduction**

### **1.1 Background**

Public assets are assets owned by the nation or state and form a large portion of public wealth (Zimmermann, 2008: online). These state-owned assets, in the form of real estate such as improved or unimproved land, are acquired to support service delivery programmes within the government such as, among others, health services, social security, education, and justice.

The public sector includes government departments, all publicly controlled or public-funded agencies, enterprises and other entities. In the Republic of South Africa, the public sector exists in three tiers of state: national, provincial and local government, and public entities, including agencies. These departments include the Department of Public Works (DPW) in both the national and provincial spheres of government.

At national level, the DPW consists of a national office and 11 regional offices, whereas the provincial structure consists of 9 provinces across the country. The Department, as an organ of the state, spends large sums of tax revenue to acquire and manage real estate, based on its mandate to act as the asset manager for, and on behalf of the state (DPW, 2015). The property acquired or managed is used to support service delivery with minimal focus on the physical well-being of the property (Abdullah, Razak, Hanafi & Pakir, 2012: 1), when quoting Avis (1990). In South Africa, the DPW at national level is mandated to be the main custodian of state-owned immovable property, which includes functional specialized accommodation, land parcels, office accommodation, and residential accommodation (Boshoff & Chidi, 2013: 3234).

Within this property portfolio, the focus of the study is residential accommodation. Essential services departments (referred to as user departments) require this type of accommodation for their employees. A memorandum of agreement is signed between the parties, thus allowing that user department to allocate and manage such residential properties. The other requirement is that, once they are no longer required, these properties must be returned to the DPW. These properties are then classified as surplus state-owned residential properties in the DPW's portfolio.

## **1.2 Problem statement**

When the properties managed by the DPW are not required for service delivery, at any time, they are surplus properties to the government. Once residential properties are in surplus, they are rented out by the DPW to its tenants who are categorised as rental debtors. The latter include private individuals and/or private entities. Under such circumstances, the possibility of realising future economic benefit from properties is to let these out to private individuals and/or entities in order to curb vandalism, illegal occupation of state property, and so on.

The Auditor General-South Africa, audit processes of 2011/2012 financial year conducted within the DPW, identified several weaknesses in the management of state-owned assets. These included incomplete assets register; inappropriate steps to collect rental payable to the state; lack of maintenance of state properties; state properties not let out at market value; incorrect billing, and lack of lease-management policy guidelines. These weaknesses have led to the historical negative audit outcomes of the Department.

## **1.3 Purpose of the study**

The study proposed to investigate how the DPW can improve the leasing management of surplus state-owned residential properties to rental debtors; recommend solutions for increasing efficacy and long-term profitability; sustainability of public sector property leasing, and value for money when leasing residential properties.

This study will contribute towards enhancing effective and efficient public-sector property management by the DPW as well as add to the academic discourse and body of knowledge on public-sector residential property-management practices.

## **1.4 Research methodology**

For the purposes of this study, a mixed-method research approach was adopted. The combination of the qualitative and quantitative techniques is mainly to generate and triangulate data and information in order to fully answer the research questions. The descriptive design approach was adopted for this study. Both quantitative and qualitative methods were employed to gather data and information. The data was collected through questionnaires completed by property managers and tenants based on the key leasing themes identified from the review of literature.

This research study seeks to understand the management of state-owned residential property and to investigate how the leasing of state-owned residential properties can be improved.

## **2. Lease management best practice**

The literature review synthesises the available information on practices relating to property leasing and management systems. Literature on specific themes of property leasing were identified and discussed. These included marketing and advertising, selection of tenants, lease agreements, security deposit, rental negotiations, inspection and maintenance.

### **2.1 Marketing and advertising**

The leasing process commences with the marketing of the available property by the property owner, in order to attract a large pool of potential tenants for leasing residential properties. Floyd & Allen (2008: 240) are of the opinion that "rental space must be marketed continually as leases are perishable; tenants move in and out of rented space".

### **2.2 Tenant selection**

Tenant selection involves choosing the most suitable tenant from the pool of tenants who would have indicated their interest in the advertised property. This is achieved by obtaining personal information from prospective tenant/(s) and to evaluate the information based on the methods accessible to the landlord. Cloete (2002: 8) is of the opinion that tenant screening is beneficial to the landlord who would prefer his/her building occupied by desirable tenants.

### **2.3 Lease agreement**

A lease agreement is concluded with a tenant who has the legal capacity to enter into a contract (Mohamed, 2010: 27). A lease agreement, most preferably in writing, is concluded with the intention to create lease 'obligations' between the tenant and the landlord, so as to minimize contractual disputes at any stage of the contract (Garner & Frith, 2010: 42; Van der Merwe, Van Huyssteen, Reinecke & Lubbe, 2012: 7).

## **2.4 Security deposit**

A security deposit is an amount of money that the residential tenant pays at the beginning of the lease; this is separate from the rental of the first month. The collected security deposit is held by the landlord as a contingency payment against non-payment of rental or damages caused by the tenant or those under his/her care (Allen, Buttimer & Waller, 1995: 47). The landlord should invest the collected security deposit in an independent interest-bearing account; written proof of accrued interest can be provided to the tenant on request (Rental Housing Act, 1999).

## **2.5 Rental negotiations**

Residential rental negotiations include an agreement on the amount payable, the frequency of payments, and the manner of payment by the tenant of rental due to the landlord. Cloete (2001: 93) argues that the “determination of rental should not be under absolute control of the landlord or tenant”. Rental negotiations will also provide information on remedial steps to be followed in case of non-payment of rental (Scott, Baqwa, Eiselen, Humby, Kelly-Louw, Konyn, Kopel, Mukheibir, Schoeman, Scott, Smit, Sutherland & Van Der Bijl, 2009: 221). The landlord is required to provide details of all the paid and unpaid rentals to the tenant, by issuing a receipt and providing regular statements of rental payments.

## **2.6 Inspections**

When properties are being leased, the landlord and the tenant conduct an inspection prior to occupation by the tenant and prior to termination of the lease in order to determine the condition of the property. Prior to occupying the vacant leased residential property, the landlord and the tenant jointly assess the condition of the property. The inspection is achieved by documenting the condition of the property, including all defects or damages, for the responsibility of the landlord (Mohammed, 2010: 43). In addition, photographs may be taken, when necessary, to confirm the condition of the property. The completed inspection report is used as a benchmark of the condition of the property at any inspection of the property during the lease duration.

## **2.7 Property maintenance**

Maintenance of property is vital when leasing out property, as it improves the condition and preserves the value of the leased property. Mabooe (2011: 32) and the Institute of Real Estate

Management (2000: 139) agree that regular cleaning and repairs to leased residential properties are an added advantage to the landlord, as it keeps the tenant comfortable. Springer & Waller (1994: 89) "highlighted that in the short run property maintenance increases operating expenses and lower profitability. In the long run, maintaining a property stabilizes the quality of the structure by reducing the rate of economic depreciation thus supporting future rental levels".

### **3. Research approach**

The study followed an opinion-based study with a descriptive design approach based on property managers employed by the DPW as well as tenants of residential properties leased from the DPW. The structured survey questionnaire invitations were sent via e-mail due to ease of distribution and electronic feedback media, while some face-to-face interviews were also conducted to expedite data collection.

#### **3.1 Sampling method**

The study used a convenience non-probability sampling method. The method was found to be appropriate, as the majority of the respondents were reluctant to participate in the research. The respondents based their response on their "availability and readiness".

A questionnaire was designed for each target group and distributed for self-completion. Two sets of questionnaires were designed for the landlord and the tenants. Each questionnaire was divided into two major sections. Section A collected demographic information of the respondents and Section B collected information on specific themes of property-leasing management. The responses to the questions were guided by a Likert scale ranging from 1 = Strongly Agree, 2 = Agree, 3 = Unsure to 4 = Disagree and 5 = Strongly Disagree. The questionnaires also consisted of open-ended questions where respondents were provided space for voluntary comments, where necessary. The data gathered from the questionnaire survey was processed and analysed in MS Excel. Descriptive statistics were generated in response to the research objectives.

#### **3.2 Sample size**

The sample for the study consisted of 28 property managers and 32 tenants from various regions within the DPW who are renting state-owned residential properties.

The study targeted property managers from national and regional offices of the DPW, which included senior property managers, supervisors and employees. Tenants from various regional locations formed part of the study.

### 3.3 Response rate

Questionnaires were sent to senior property managers with the request to forward these to other staff who are responsible for the management of residential properties. Forty questionnaires were distributed to both property managers and tenants each. There is thus a 70% response rate for property managers and 80% for tenants.

## 4. Research findings

### 4.1 Tenants' background

The study sample included 32 tenants. The majority (44%) of the tenants are in the 31-40-year age range and 31% are in the 41-50-year age range. Of the tenants, 44% have rented the property at which they reside for not more than five years, and 31% have rented property from the Department for over 10 years. The findings show that the majority (87%) of the tenants have up to two people in the household earning an income, and 28% of the tenants earn annual gross incomes of between R150,001-R200,000. Table 1 indicates the findings from the tenants.

Table 1: Results from tenants

Lease themes	Response (%) (N=32)					Total	Average mean score	Ranking
	1 Strongly agree							
	5 Strongly disagree							
	1	2	3	4	5			
Selection of tenants						32 (100%)	2.00	1
I completed a tenant application form to lease the property	18 (56%)	8 (25%)	0	0	6 (19%)			
Contracting						32 (100%)	2.23	2

Lease themes	Response (%) (N=32)					Total	Average mean score	Ranking
	1 Strongly agree 5 Strongly disagree							
	1	2	3	4	5			
I completed a lease agreement with an official of the department prior to occupying the vacant property	23 (72%)	1 (3%)	1 (3%)	1 (3%)	6 (19%)			
Lease agreement made me aware of my responsibilities	11 (34%)	8 (25%)	3 (9%)	5 (16%)	5 (16%)			
Rental payable						32 (100%)	2.36	3
I am aware of the rental amount payable each month and the due date	18 (56%)	14 (44%)	0	0	0			
Rental payable is affordable	8 (25%)	3 (9%)	0	14 (44%)	7 (22%)			
Security deposit						32 (100%)	3.63	4
I paid a determinable security deposit prior occupation	0	15 (47%)	0	0	17 (53%)			
I am aware that the security deposit will be paid in an independent interest-bearing account	0	8 (25%)	7 (22%)	5 (16%)	12 (37%)			
Inspection						32 (100%)	3.84	5/6



Lease themes	Response (%) (N=32)					Total	Average mean score	Ranking
	1 Strongly agree 5 Strongly disagree							
	1	2	3	4	5			
An inspection form was completed with an official from the department after an inspection was done prior to occupation	0	9 (28%)	4 (13%)	2 (6%)	17 (53%)			
Maintenance						32 (100%)	3.84	5/6
I am satisfied with the maintenance standard of the property I am leasing	0	10 (31%)	0	7 (22%)	15 (47%)			
Marketing and advertising						32 (100%)	4.28	7
I became aware of the property I am renting through an advertisement	3 (9%)	1 (3%)	2 (6%)	4 (13%)	22 (69%)			

#### 4.2 Property managers' background

The sample of 28 property managers consisted of 8 senior managers, 10 supervisors and 10 employees. The majority (12) of the property managers have been in the public sector for between 6 and 10 years, while ten (10) have served for between 11 and 15 years. Only two (2) have served in the public sector for over 16 years and 4 have served for less than 5 years. The respondents have also been in the DPW for similar periods of time.

Over half (17) of the respondents have between 6 and 10 years' experience in property or facilities management, while six (6) have between 11 and 15 years' experience. Only five (5) of the respondents have less than 5 years' experience in property or facilities management. Nearly half (12) of the property managers have been in their current positions for between 6 and 10 years. Only two (2) have been in their current positions for between 11 and 15 years, while fourteen (14) have been in their current positions for less than 5 years. It is, therefore, expected that the responses acquired

from these respondents are more likely to be credible, given their experience and duration of service.

Table 2: Property managers' responses

Lease themes	Response (%) (N=32)					Total	Average mean score	Ranking
	1 Strongly agree 5 Strongly disagree							
	1	2	3	4	5			
Contracting							1.5	1
Our organisation has a formal lease agreement for concluding leases	14 (50%)	14 (50%)	0	0	0	28 (100%)		
Selection of tenants							1.68	2
I am aware that tenants are required to complete an application to be screened based on departmental screening method prior to occupation of a property	15 (54%)	10 (36%)	0	3 (10%)	0	28 (100%)		
Inspections							2.18	3
Vacant properties are inspected with tenants prior to occupation and periodically	8 (29%)	13 (46%)	4 (14%)	0	3 (11%)	28 (100%)		
Security deposit							2.34	4
I am aware that tenants pay a security deposit that is deposited in an interest-bearing account at the beginning of the lease	7 (25%)	8 (29%)	6 (21%)	4 (14%)	3 (11%)	28 (100%)		
Security deposit is used to set off damages and unpaid rentals	8 (29%)	9 (32%)	11 (39%)	0	0	28 (100%)		
Rentals							2.39	5
Our organisation has a standard method of determining rentals	9 (32%)	11 (39%)	3 (11%)	5 (18%)	0	28 (100%)		

Lease themes	Response (%) (N=32)					Total	Average mean score	Ranking
	1 Strongly agree 5 Strongly disagree							
	1	2	3	4	5			
Our organisation has a standard method of collecting rentals from tenants	6 (21%)	11 (39%)	3 (11%)	3 (11%)	5 (18%)	28 (100%)		
Maintenance							3.5	6
Our organisation has a maintenance programme for all properties	3 (11%)	6 (21%)	2 (7%)	8 (29%)	9 (32%)	28 (100%)		
Marketing and advertising							3.86	7
Vacant properties belonging to our organisation are advertised	2 (7%)	4 (14%)	1 (4%)	10 (36%)	11 (39%)	28 (100%)		

From the results in Tables 1 and 2, there is a fair consensus between property managers and tenants, with 86% agreement on the rank of the different themes. Both property managers and tenants indicated that marketing by way of formal advertising is not being used and that awareness of available space is not created in this manner. As a result, marketing and advertising received the lowest rank by both. Maintenance received the second lowest rank by both, indicating that tenants are dissatisfied with maintenance conducted, while property managers indicated that there is no formal maintenance programme in place.

The two highest ranks by both is selection of tenants and contracting, but in different order. Tenants indicated that they had to complete an application form to be screened before contracting, but they indicated a formal contract in the second rank to this. Property managers, on the other hand, indicated that a formal contract is in place for signing leases with tenants and ranked this as the highest. This slightly contradicts the second rank by tenants, indicating that there might be evidence of not adhering to policy. Although tenant selection is ranked highest by tenants, not all property managers were aware of this requirement and ranked the item second.

On the three items in the middle, property managers and tenants reversed the order. Performing an inspection prior to occupation was ranked third by property managers, but fifth by tenants. Property

managers indicated that an inspection of the property is performed prior to occupation of a tenant, but that not all tenants are aware of this and the inspection is not performed in the presence of the tenant. Yet the majority of the property managers confirmed that the use of security deposits to rectify damages applies, but that there is no agreement on the original condition of the premises. This might result in a biased situation and cause disputes later. The payment of security deposits is ranked fourth by property managers and tenants who agree that the collection of a security deposit is not applied consistently. In terms of rental payable, although tenants indicated this in third rank and that they are aware of the rental payable each month, property managers indicated this in fifth rank and there is no agreement that it is determined uniformly.

From the above, it is evident that the answers by tenants and property managers confirm the answers of one another and that there are some shortcomings in the best practice of lease management. Further discussion of this follows in the next section.

### **4.3 Analysis of leasing responses by property managers and tenants**

#### **4.3.1 Marketing and advertising**

The majority (82%) of the tenants indicated that they were not aware of renting the property through an advertisement. Only 12% agreed that the properties were advertised, and 6% were unsure. On the open-ended questionnaire, the tenants mentioned that the properties were not in a habitable condition, as they were vandalized while guarded by a security guard. It was only through an enquiry from the security that the property belonged to the state. Those who mentioned that the properties were advertised indicated that they became aware of this, as they are employed by the Department, and through their colleagues (not employed by the DPW) who vacated the property. Of the property managers, 75% disagreed that state properties were advertised; they indicated that these properties were left vacant and non-utilized and that no action has been taken by the Department. This agrees with the tenants' responses. The main challenge is properties that were inherited from the previous dispensation and lack of compliance with the DPW's policies by the client department. These departments are responsible to inform the DPW when they no longer require the properties; nonetheless, this is not practised. Twenty-one per cent agreed that properties were advertised, as they indicated that there are tender processes; office notice boards, however, did not specify

if vacant state-owned residential properties are advertised. Only 4% were unsure of the advertisement of vacant properties.

From the above, it is clear that vacant residential properties are not advertised by the DPW, as indicated by both property managers and tenants. Even though the property managers indicated that there are tender processes and internal notice boards for advertising, there is no clarity or collaboration by property managers within the same organization that the properties are advertised. Therefore, it is not clear whether all property managers are aware or knowledgeable of organizational processes or procedures. Potential tenants visiting the property use public enquiry as an advertisement. This places a limitation on the potential pool of clients that the vacant property may attract through advertising. Advertising pulls in a large pool of potential tenants to ensure that properties do not remain vacant and subject to vandalism. This is the current practice within the DPW; however, this is not in line with best practices.

#### **4.3.2 Selection of tenants**

Tenants and property managers agreed regarding the selection of tenants. Of the tenants, 81% agreed to have completed a tenant application form for screening at the start of the lease. Of the property managers, 90% also agreed that the form was completed to check the credit worthiness of the tenants. Of the property managers who disagreed, 10% indicated that the form is available. However, they do not understand its purpose, as not all tenants completed the form. Tenants continue to default on their rental payments. There is no uniformity of tenant screening across the regions. The other concern raised by property managers is that the current method is outdated and not aligned with industry practices. Only 19% of the tenants disagreed that the form was not completed. The form was only completed after being in the state property for over five years and only when they expressed the interest to purchase the property from the Department.

The findings indicate that there is lack of uniform application of tenant screening methods, as not all tenants are screened. Indeed, the tenants and property managers agreed with the existence of the form to select tenants; the relevance of the process remains a cause for concern. The property managers are not confident of the selection process either, as they do not understand the purpose of screening due to tenant defaults.

Property managers are unsure as to whether the personnel who handle tenant screening are adequately skilled to appropriately

screen the tenants in order to mitigate against rental defaults. The process of selecting tenants is to ensure that 'desirable' tenants occupy the landlord's property. Lack of implementing the selection process will not provide the landlord with reasonable assurance that 'desirable' tenants occupy his/her property. It is also worth noting that the selection of tenants is based on interest shown by the tenants, based on the advertised property. The concern of the current practice of public enquiry within the DPW places a limitation on applying the selection method. The implication is that, as the interested person/(s) might be offered to occupy the property based on enquiry, there is no adequate selection of tenants.

#### **4.3.3 Security deposit**

The security deposit practices within the DPW lack the appropriate process currently practised within the leasing industry. The majority of the tenants confirmed that they do not pay a determinable security deposit, based on 53% of the responses received, and only 47% stated that they had paid the deposit. Of the property managers, 54% agreed that tenants do pay a determinable security deposit. This was not practised in the past, as the majority of lease agreements were completed before the policy applied. However, this is a requirement for all new lease agreements. Even if the tenants are required to pay the security deposit, the managers indicated that the DPW does not have the mechanism of an interest-bearing account, thereby raising negative audit outcomes. The tenants who claimed to have paid the deposit indicated that they deposited the amount in the same account as the rental payments. Of the property managers, 71% indicated that they are aware of the fact that the security deposit payable by tenants is used to set off unpaid rentals at the end of the lease, although this is not practised in the Department.

The current practice is that the Department has implemented a policy to collect security deposits. This was not the practice in the past. The current practice thus aligns with best leasing practices. This deposit is not deposited in an interest-bearing account, as there is no such mechanism in the Department. Furthermore, the deposit is not used as a contingency fund to set off unpaid rentals and damages caused by the tenant at the end of the lease period. This is based on the findings that the security deposit is deposited in the same account as the rental payments.

#### **4.3.4 Contracting**

The Department has an existing formal written standard lease agreement, according to 75% of the tenants, whereas only 25% did not complete lease agreements. The tenants, who do not agree that they completed the lease agreement, indicated that the agreement was signed only after 2, 3 or 16 years of occupying the state property, thus not in line with best practices. Of the tenants, 59% agreed that the lease agreement made them aware of their responsibilities; 32% of the tenants did not agree, and 9% of them were unsure. The tenants indicated that the responsibilities are not clear. For example, some properties are not in a habitable condition prior to occupation and the tenants do not know to what extent they can improve the house, as they are not the property owners. Of the property managers, 100% agreed that the organization has a formal lease agreement for concluding leases. The concern raised is that the contract is outdated; causes rental defaults, and lacks recovery of debt strategy. The lease agreement is concluded in order to agree on the obligations of the contracting parties so as to minimize disputes at any stage of the contract.

The findings indicate that a departmental lease agreement is not up to date and lacks property clarity among tenants. Yet again, not all tenants completed the form.

The lack of uniform completion of a lease agreement at the beginning of the lease by all tenants will result in contractual disputes that could have been addressed at the inception of the leasing. It is worth noting that one of the gaps mentioned by the property managers is "lack of debt-recovery strategies". This is cause for concern, as the property managers indicated that tenants default on their rentals, even though they were screened. Best leasing practices require that rental agreements be concluded to highlight and agree on the obligations of the parties in order to minimize disagreements during the lease. The tenants agreed that the lease agreement made them aware of their responsibilities. However, this is not clear specifically as regards improvements, and this could lead to potential disputes between tenant and landlord.

#### **4.3.5 Rentals**

Of the property managers, 71% agreed that the Department has a standard method of determining rentals; nonetheless, the Department takes too long to determine these; 18% disagreed that there is a method of determining rentals, and only 11% were unsure. Property managers commented that not all rentals are market related due to

the conditions of the buildings that are below standard because of lack of maintenance. On the contrary, 66% of the tenants indicated that rental payable is not affordable and too high, and only 34% were not sure as to whether the rentals are affordable.

They are also required to pay escalated rentals that are determined yearly by the departmental valuation service office. Of the property managers, 60% agreed that the organization has a standard method of collecting rentals; 29% strongly disagreed or agreed, and only 11% were not sure. They indicated that tenants have various methods of paying rentals and that the Department has contractors who collect outstanding rentals.

Other property managers mentioned that there are no guidelines for collecting rentals and that arrear rentals are too high. Tenants are paying as they deem fit; there is no proper debt-collection method. However, the majority (100%) of the tenants are aware of the rental payable each month and of the due date. The tenants indicated that rental paid is unaffordable, as they pay rentals and maintain state property at their own cost. Therefore, they cannot be up to date with their monthly rental payments.

The findings indicate that rentals are a grey area, based on responses provided by both property managers and tenants. Property managers indicated that determined rentals are adjusted to the condition of the property. Nonetheless, tenants still find the rentals unaffordable and too high, as they are required to pay yearly escalations and property maintenance. Property managers have different opinions concerning the collection of the outstanding rentals; therefore, not in line with best practices. Best practices require that rental determination should not be "under the control of one party". Furthermore, "rental negotiation will also provide information on remedial steps to be followed in case of non-payment" (Scott *et al.*, 2009: 221).

#### **4.3.6 Inspections**

Of the tenants, 59% disagreed that inspections are conducted with an official from the Department prior to occupying state property. Tenants indicated that they are allowed to rent the state property; however, properties are not in a habitable condition and no inspection could be conducted. Of the tenants, 28% agreed that the property is inspected, and 6% were not sure. Nevertheless, 75% of property managers indicated that it is a requirement that inspections be conducted at the beginning of the lease; 14% were unsure, and 11% strongly disagreed.



The challenge is the capacity and resource constraints within the Department, as some properties are far from the departmental office. Again, the inspections are not done. Should this be the case, the condition could have been recorded in the assets register. Inspections of state-owned properties are not prioritized within the Department.

Inspection of state-owned properties is a challenge due to resource constraints, tenants vacating properties without notifying the Department, and the DPW not prioritising such inspections. Conducting inspections at the beginning of the lease ensures that the condition of the property is documented and set as a benchmark at any stage of the lease. The lack of inspection does not provide the Department with the condition of the property, which can be used as a benchmark during inspection at any stage of the lease. Although property managers agreed that inspections are a requirement, this is not practised within the Department, as tenants indicated that inspections were not done at the beginning of the lease; therefore, this is not in line with best practices.

#### **4.3.7 Maintenance**

Of the property managers, 61% did not agree that there are maintenance programmes for all properties; 32% agreed, and only 7% were unsure. The property managers indicated that the Department does not have a budget for the maintenance of leased properties, as mostly all state-owned facilities are neglected beyond repair. Maintenance budget/programmes are priorities where clients' departments occupied state property. Property managers also indicated that tenants are allowed to report structural maintenance requirements; however, there is no response from the Department and this is thus neither enforced nor monitored at all.

Of the tenants, 69% were not satisfied with the maintenance standard of the property they are renting from the Department, and only 31% were satisfied. Currently leased surplus state-owned properties have become a burden to DPW tenants, as they carry voluntary maintenance expenses where necessary. The tenants also indicated that they are allowed to report maintenance requirements in writing or through the departmental call center. However, no responses have been received from the Department.

The findings indicate that maintenance is a challenge within the Department, as indicated by both property managers' and tenants' inconsistencies of maintenance aspects within the Department, as property managers seem to be divided on the subject matter and

the Department neglects their own properties, as surplus residential properties are not prioritized. "Maintaining a property stabilizes the quality of the structure by reducing the rate of economic depreciation thus supporting future rental levels" (Springer & Waller, 1994: 89). Therefore, the maintenance of state properties is not in line with best practices.

#### **4.4 Summary of research findings**

Both property managers and tenants agree that vacant state-owned residential properties are not advertised in line with an appropriate strategy. The best leasing practices requires that vacant properties be "advertised continually, as tenants move in and out of the rented property" (Floyd & Allen, 2008: 240). Therefore, it is important to advertise vacant state-owned residential properties in order to minimize vacant properties that lead to deterioration and destruction of state properties, and to minimize security services payments, as security guards are posted at the properties.

The Department has a method for selecting tenants. However, the selection of tenants is not uniformly practised throughout the Department. Screening is an important component of leasing, as the landlord does not know the tenant. Lack of screening does not provide the landlord with reasonable assurance that his/her property will be preserved and regular rental payments be made by the tenant occupying his/her property.

The security deposit practices within the DPW lack the appropriate process currently practised within the leasing industry. Nonetheless, not all tenants pay the security deposit due to the condition of the property. Again, the collected security deposit is not deposited in an interest-bearing account, neither is the deposit collected as a contingency towards non-payment or damages to property by the tenant in line with best leasing practices (Allen, Buttimer & Waller, 1995: 47; Rental Housing Act, 1999).

Even though state-owned properties are not maintained at market level, tenants are still required to pay market rentals, which 62% of the tenants have said are too high and thus unaffordable. Furthermore, property managers indicated that the Department does not have a process to follow in case of non-payment of rental, and that monthly statements are not regularly sent to tenants. Best leasing practices requires that rental payments be determined by both parties who also agreed on the frequency and method of payment. In addition, remedial steps are available in case of rental default (Scott *et al.*, 2009: 221).

Inspections are not prioritised within the Department, due to the condition of the property at the beginning of the lease period. Periodic inspections are a challenge within the Department, due to capacity and resource constraints, as some properties are far from departmental offices. Inspections at the end of the lease are a challenge; tenants fail to notify the DPW when they vacate the property. Conducting inspections is a good leasing practice to ensure that the condition of the property is documented and set as a benchmark for inspection at any stage of the lease.

Property managers agreed that there is a backlog of maintenance within the Department. The tenants are not satisfied with the maintenance standard of the leased property. Furthermore, there are no maintenance plans, programmes or systems specifically for this type of property. The Department does not prioritise maintenance of state-owned residential properties. Maintaining leased properties is a best leasing practice that improves the condition of the property and preserves the values of the leased property.

## **5. Conclusions and recommendations**

### **5.1 Conclusions**

The primary purpose of the study was to explore whether the current residential property leasing in the public sector, with the focus on the DPW, is in line with good property-leasing practices. This was achieved by identifying themes of best leasing practices, namely marketing and advertising, selection of tenants, security deposit, rental payments, contracting, inspection, and maintenance.

The identified leasing themes were used to evaluate current residential property leasing. Based on the research findings and related literature, the following conclusions are reached. Vacant properties within the Department are not marketed and advertised in line with good leasing practices. Therefore, state properties are left vacant and subject to vandalism or illegal occupation.

The Department's method of selecting tenants is not uniformly applied throughout the regions of the DPW. Therefore, the landlord has no reasonable assurance that a tenant who occupies his/her property will preserve his/her property and make regular rental payments.

Security deposit practices in the Department are not uniformly practised. The security deposit is not deposited into an independent interest-bearing account. The security deposit is not collected as a

contingency fund against non-payment of rental or damages to property by the tenant or those under his/her care.

The Department has a lease agreement. However, the property managers indicated that the contract is outdated and not aligned with current practices. This is not in line with good leasing practices that require that the lease agreement should include obligations to minimize rental disputes (Garner & Frith, 2010: 42; Van Der Merwe *et al.*, 2012: 7).

Tenants do not make regular payment. The Department has no remedial actions in case of non-payment. Therefore, the arrear rental is a challenge in the Department, as this was identified as a weakness in the audit process of the Auditor-General. Therefore, rental negotiations are not in line with best leasing practices.

Inspections are not prioritized within the Department. The reasons provided were the distant location of the state properties from the departmental office, and no adequate resources within the Department to conduct inspections. Inspections of leased property are important at the beginning of the lease, as they serve as benchmark for other inspections to be conducted at any stage of the lease. Therefore, inspections of state-owned residential property is not in line with best leasing practices.

Maintenance of state-owned properties is not prioritized, due to budget constraints and lack of maintenance programmes. Maintenance of leased property improves the property and preserves its value. Therefore, maintenance of state-owned properties is not in line with best leasing practices

Based on the above findings, the following specific conclusions were also reached: vacant leased properties are not advertised; state properties are left to be vandalised; selection of tenants is not consistent; no inspections are done; poor or lack of maintenance of properties; lease agreement is outdated; rentals are below market rates, and increased arrear rentals and security deposits are not invested in an independent interest-bearing account.

## **5.2 Recommendations**

Based on the research findings and conclusion reached, the following recommendations are made in order to enhance the efficacy of leasing state-owned properties based on the challenges identified by the respondents:

- The Department should consider advertising vacant state-owned properties 'continually' in order to minimize vacancies, as leases are perishable. The Department should regularly request user departments to provide a report on the properties that are not required for employees. Non-compliance should be notified to high authorities and introduce consequential management for client departments' non-compliance with the DPW's departmental policy.
- Revision and monitoring of the current tenant selection methods to align with current industry practice and ensure uniform implementation across the DPW.
- Revise and monitor the implementation of collection security deposit to mitigate against current inconsistencies of collection of security deposit to ensure that contingency funds are available for any damages or non-payment of rental by tenants or those under their care.
- Revision of the lease agreement to include obligations of contracting parties, to minimize rental disputes at any stage of the lease.
- Comprehensive inspection of existing state-owned residential properties in order to determine the appropriate maintenance requirements per property. The Department should consider disposing of properties whose condition has deteriorated after considering the cost of repairs versus the benefit of rental revenue. In addition, update the assets register regularly on the existence and physical condition of the property.
- Review rental payment methods to ensure tenants' regular payments of rental. Ensure existence of remedial steps to collect revenue in case of non-payment. Regular review and monitoring of arrear rentals by issuing statements and reminder letters to tenants in order to mitigate against non-payment of rental.
- The leasing of state-owned residential properties should be professionally and independently managed within the Department. An independent decentralized organizational structure should be designed to identify the roles and responsibilities of leasing in line with the identified components of best leasing practices.
- The Department should consider conducting a comprehensive skills audit to determine the skills gap in order to develop a funded training plan.

- An independent advisory committee or reference group should be formed to monitor the leasing of state-owned property; the leasing function should be kept in line with industry standards and norms to ensure sustainability of leasing of function. The committee should include interested functionaries such as Estate Agency Affairs Board; the South African Property Owners Association; the National Treasury, and the State Law Advisor.

It is evident that there is a dire need for improved management of the public residential property portfolio. Further research is required to determine how private-sector residential property-management strategies and practices can be contextualized for the public sector in order to improve both performance and sustainability. Further research should also focus on specific operational aspects such as collecting relevant data and information to improve property management as well as concrete ways of changing perceptions of property administrators so that they utilize evidence-based models to implement public-sector property management.

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