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NEW MODEL NEEDED FOR SA RENTAL MARKET

SOUTH African businesses and financial institutions need to seriously explore an alternative funding mechanism that could turn rental housing into some form of equity buildup for middle-income earners who do not qualify for bonds or government housing subsidies, says Tongaat Hulett CEO Peter Staude.

President Jacob Zuma, in his state of the nation address last February, acknowledged the gap market where people have been struggling to get housing loans while they do not qualify for free government houses in the low-income bracket.

As a result, there has been a lot of public interest in the design of the "new housing state guarantees or subsidy" that Mr Zuma has announced as a possible aide to cater for this group. It was meant to encourage financial institutions to cater for this market, but the policy has not yet been finalised.

Mr Staude says the contradictions of rental and bond structure in the housing market need interrogation as the system has not evolved for decades. There is space for other funding models for the middle-income group, which has been condemned to rental accommodation without the hope of buying houses.

"The renting is based on a third party owning the house, and we must reach a stage where the renting individual builds up equity such that he eventually affords to buy and own a house," Mr Staude says. Businesses wanting to assist their staff to own property should participate in a national debate with financial institutions to find alternative models, he says.

This could push South Africa towards introducing new housing financing models for middle-income groups such as co-ownership or rent-to-own options. The traditional 20% deposit to get a bond widened the gap while property prices escalated.

"We need an approach that offers low interest rates instead of inflation-linked interest rates for housing at least for this income group," Mr Staude says.

FNB housing finance CEO Marius Marais has described the "gap" market as "a very tough business space to be in" characterised by people that earn R3,500-R10,000 targeting houses that generally retail for about R300,000.

He estimates that between 600,000 and 1-million units are needed to meet demand nationally. An immediate solution would be to offer rental to customers in the gap market but "that is not what housing finance's objective is: we would generally prefer that families become owners of their houses", says Mr Marais.

The rent-to-buy option has some legal complexities, such as the future date and the price at which the tenant will be able to make an offer on the property.

"I am not convinced that we will find the solution to the gap market only in some new funding model," says Mr Marais.

Standard Bank South Africa head of affordable housing Nicholas Nkosi says long-term affordability is a key issue in financing end users in the property market. Responsible lenders should continuously look for ways to ensure long-term affordability for customers.

For example, the bank plans to implement the Finance Linked Individual Subsidy Programme this year with the government.

Standard Bank is also exploring alternative financing methods with key developers.