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Can Western European home ownership products bridge the South African housing gap?

Abstract

Subsidised housing often creates a segmented housing market, with some home owners falling into a gap between the subsidised and non-subsidised types. This gap particularly affects middle-income buyers, whose income may be too high to qualify for subsidy but too low to buy a non-subsidised house. Western Europe has policies and affordable products to bridge this gap. In this paper, based on a literature review and 15 interviews with South African policymakers and representatives from the financial sector, we assess whether the Western European products have potential in South Africa. We find some obstacles – differences in macro-economic context, the fact that South Africa seems to be locked into a capital subsidy policy pathway, the lack of a suitable regulatory framework, and institutional problems at the local level – but also some potential in the form of alternative tenures and innovative housing finance in the areas of mineworker housing, inner city housing and social housing.

Keywords: affordable home ownership, intermediate tenure, policy transfer, South Africa

Introduction

In Western Europe, middle-income groups are finding it increasingly difficult to buy a house. Hoekstra and Boelhouwer (2014) observe that middle-income households in the Netherlands are “falling between two stools”. This housing market problem is not specifically Dutch – it is evident in many Western European countries. In the UK, the reduced housing chances for middle-income groups came to be known as the “key worker problem”. Key workers are the “providers of essential local (usually public) services whose pay cannot be adjusted to reflect variations in the local cost of living – particularly in the cost of housing” (Monk and Whitehead 2010). In the Netherlands and the UK, but also in countries such as France and Spain, new tenure arrangements and housing finance mechanisms have recently been introduced for middle-income groups. These affordable home ownership products are designed to benefit not only the house-seeking middle classes but also housing developers in a stagnating housing market. Sometimes houses that are difficult to sell at market prices are put on the market with the help of an affordable home ownership scheme, after which they can be sold more easily.

But it is not only in Western Europe that middle-income house buyers are struggling. In South Africa there is a gap between those who can get mortgage finance easily and the lower-income buyers for whom a government capital subsidy is available. Those who fall into this gap are the households earning too much to qualify for a subsidy but too little to secure a mortgage. About 15% of South African households are thus affected (Shisaka Development and Management Services 2011) and the situation was aggravated by substantial increases in house prices between 2002 and 2008 (FNB 2014).

Over the past two decades much attention has been paid – in policy terms – to housing lower-income households. At the bottom end of the South African housing market, the South African Housing Subsidy Programme (a capital subsidy) has provided housing and ownership to roughly three million low-income households (Sexwale 2013). This subsidy is available to households with a household income below R3500 a month. In practice, the subsidy is paid to a developer or contractor who constructs a small housing unit for the household. Originally, the subsidy amounts were scaled – the bigger the income, the smaller the subsidy (Tomlinson 1998). This scaling was intended to link the smaller subsidies to mortgage finance, but it did not prove effective. Shisaka Development and Management Services (2011) found that a mere 120 000 subsidised housing units had been linked to mortgage finance in 2009. This figure

represented only 4% of the total subsidised housing opportunities created between 1994 and 2009. The scaling of the subsidy for households earning less than R3500 was therefore abandoned in the mid-2000s. The subsidy amount increased from an initial R15 000 in 1994 to about R50 000 in the early 2000s and currently stands at nearly R110 000.

The current housing gap should be seen against the backdrop of South Africa's colonial and apartheid history. Under apartheid, black South Africans were denied urban landownership, though some had owned city land before 1948 (Crankshaw 2005). When freehold for the black population became available in the mid-1980s (the late apartheid or neo-apartheid period), it was managed in two ways. First, the government attempted to transfer approximately 500 000 state-owned housing units to private ownership by means of the Big Sale and later by means of the Discount Benefit Scheme (Marais et al. 2014). The Scheme was continued under the post-apartheid government and most of the state-owned houses were transferred to individuals at no cost. Second, private-sector housing finance was extended to the black township areas (Tomlinson 2007). However, by the late 1980s and early 1990s interest rate hikes (caused largely by political instability) and job losses in the mining industry had left many black households unable to pay their mortgages. The banks reacted by redlining specific areas – most of which were former black townships.

Despite these initial problems, the drive to extend housing finance to the black middle class increased after the transition to democracy in 1994. In the process, government and the banking industry signed a number of agreements. The first of these, the Memorandum of Understanding, was signed in 1994, its overall aim being to stabilise the housing environment to increase mortgage finance (Tomlinson 2007). The second was the Financial Sector Charter in 2003, an agreement between the banks and government to extend private-sector finance to lower-middle-class households (typically part of the housing gap) (Tomlinson 2007). The outcomes of these attempts have been mixed and the South African housing gap still exists.

This paper assesses whether Western European affordable home ownership products, or elements of them, have potential for South Africa. We take into account the fact that South Africa's history, geography, economic development and culture are fundamentally different from those of Western Europe and could affect policy transfer (Hantrais 2009). Also, we acknowledge that, given differences in economic development, people who are in the middle-income group in Europe would probably be in the high-income group in South Africa. Nevertheless, middle-income groups in Europe and South Africa are facing similar housing

market problems: whereas their incomes are too high to entitle them to a subsidised dwelling, their incomes are often too low for them to acquire a house and/or a mortgage on the free market.

In the sequel, we provide a schematic overview of some important affordable home ownership products in use in Western Europe and, using data from 15 interviews with South African policy makers and representatives from the financial sector, consider their applicability in South Africa. All of the interviewees received the section on European ownership products a week prior to the interview, this enabling them to prepare for the interview. We conclude that, despite some obstacles, the potential exists for applying Western European housing finance models in the areas of mineworker housing, social housing and inner cities.

Western European affordable home ownership products: an overview

Housing problems for middle-income groups usually stem from the high entry costs of the home ownership sector. The mortgage for which a middle-income household is eligible is often insufficient to purchase the house that this household aspires to. Affordable home ownership products are designed to bridge the gap between the purchase price of the house and the financial capacity of the household. This can be done in two ways: by reducing the former or increasing the latter. Reducing the purchase price usually involves some reductions in the property rights (for example, the house has to be sold back to the provider of the affordable home ownership product). Whitehead and Yates (2010) call this option ‘intermediate tenure’. The option of increasing the household’s financial capacity is less directly related to the house. On top of the ordinary mortgage loan the household receives extra financial support that has to be paid back later, sometimes with value sharing arrangements attached to it. In principle, affordability enhancing financial products of this kind do not affect the home owner’s property rights.

Because they involve sell-back or pay-back arrangements, or both, affordable home ownership products, whether intermediate tenures or affordability enhancing financial products, generally require less subsidy than, for example, social rental housing (Whitehead and Yates 2010). Some of these products may even be provided without any subsidy, which

means they may also be attractive to the private sector. Table 1 shows some products that are in use in the Netherlands, the UK, Spain and France, and these are described below.

Table 1 Western European affordable home ownership products

	Intermediate tenures	Affordability enhancing financial products
The Netherlands	<i>KoopGarant</i>	Starters' Loan
United Kingdom	Shared ownership	Home Buy
France		<i>Prêt à taux zéro</i>
Spain	Subsidised home ownership (VPO)	

Intermediate tenures

KoopGarant in the Netherlands¹

This ‘guarantee to buyers’ is the most important of the Dutch intermediate tenures. It is designed to facilitate access to home ownership and to reduce the risk of residual debt after the sale of the house. With *KoopGarant*, housing associations put houses up for sale at a price below the market value, usually reduced by about 25%, but sometimes by as much as 50%. An owner of a *KoopGarant* house who moves house is contractually obliged to sell the house back to the housing association, and the housing association is contractually obliged to repurchase the house within three months. This enables housing associations to keep a *KoopGarant* house under their control, subsequently reselling it as a *KoopGarant* house or adding it to the social rental stock.

In a *KoopGarant* arrangement, the housing association and the home owner engage in value sharing through a legally prescribed formula. The housing association’s share is a maximum of 1.5 times the discount percentage, i.e. if the original discount on the purchase price was 25%, the housing association will take no more than 37.5% of the difference in value. This legislation, called “Fair Value Conditional Sales” was set up by the Dutch Ministry of Finance. Eligibility for tax relief on mortgage interest is dependent on compliance with this legislation. Table 2 shows two examples of how differences in value are shared. Although *KoopGarant* was initially provided only by housing associations, since 2011 has also been offered by a number of commercial project developers, who use it to sell houses that have proven hard to sell at the market price.

¹ The text in this section is based largely on Elsinga et al. (2015).

Table 2 Examples of value sharing in *KoopGarant*

Example 1: Increase in value of dwelling	Cost
Market value at purchase	€170 000
Discount 25%	€42 500
Housing association sells at	€127 500
Market value at resale +20%	€204 000
Change in market value	€34 000
Share of value difference for owner (62.5%)	€21 250
Housing association buys back at	€148 750
Example 2: Decline in value of dwelling	
Market value at purchase	€170 000
Discount 25%	€42 500
Housing association sells at	€127 500
Market value at resale -10%	€153 000
Change in market value	-€17 000
Share of value difference for owner (62.5%)	-€10 625
Housing association buys back at	€116 875

Shared home ownership in the UK

Shared ownership (part buy, part rent) schemes in the UK are provided through housing associations. They are designed particularly for households with a moderate income who have no or only limited access to the social rental sector but cannot afford home ownership on the free market. Shared ownership requires less subsidy than ordinary social rental housing because only the rental component of the house is subsidised while the home ownership component is sold at market value. The idea is that participants buy a share of the house (between 25% and 75% of the value of the house) and pay rent on the remaining share. The rents are usually in the region of 3% of the property value (Clarke 2010). The household occupies the property on a leasehold basis and the housing association owns the freehold. Owners of shared ownership houses can increase their share if they have the money to do so. The cost of this process, known as ‘staircasing’, depends on a market-based valuation of the property. An owner of a shared ownership house who wants to sell the house must first offer it to the housing association from which it was bought, as the association has first refusal even if the house belongs 100% to the owner. If the association cannot find a buyer (to take shared ownership), the owner may then sell the house on the free market after paying any money still owing to the association.

The shared home ownership scheme applies to newly built housing association houses or the resale of such houses. It is available only to first-time buyers and is subject to income limits. These limits are higher in London than in the rest of the country. Within the scheme, priority may be given to specific groups such as housing association tenants, Armed Forces personnel and people in urgent need of housing. The scheme also includes special shared home ownership arrangements for older people, disabled people and tenants in the social rental sector who want to buy a part of the house they are already living in.

VPO protected home ownership in Spain²

Spain has a longstanding policy of providing social or subsidised owner-occupancy housing, generally referred to by the abbreviation VPO (*Vivienda de Protección Oficial* – ‘officially protected housing’). The VPO subsidises private and public developers, with the specific aim of boosting the construction sector. Quite remarkably, however, in 2012 the central Spanish government decided to stop investing in social home ownership and instead to stimulate the underdeveloped rental sector (Hoekstra et al. 2014). Nevertheless, social home ownership houses still make up a substantial share (about 10%) of the Spanish owner-occupied housing stock (Hoekstra et al. 2010), and investment in new social home ownership houses continues on the regional level.

The construction of Spanish subsidised owner-occupancy houses is coordinated through a financing system in which developers can receive financial support from the government. A part of the subsidised owner-occupancy house is provided by public developers who work on a non-profit basis and are financed with public money. These developers are usually public companies tied to the municipal, provincial or regional government. Another part is provided by profit-oriented private developers, who can apply for loans (from public finance) with interest rates below the market rate when building subsidised owner-occupancy houses. As compensation for the financial support the providers receive, they have to sell the houses at regulated prices that are well below the market prices.

An important characteristic of Spanish subsidised owner-occupancy housing is the temporary nature of the subsidy. Houses developed with the help of public money are considered subsidised housing only for a given period, known as the qualification period. During this time a subsidised owner-occupancy house can be sold only at a price determined by the

² This paragraph is based largely on Hoekstra et al., 2010.

government (generally the price of a new subsidised owner-occupancy house). This is to prevent speculation. At the end of the qualification period the house loses its status as subsidised housing and is incorporated into the ‘normal’ housing stock, which implies that it can be sold at market prices. The qualification period varies from region to region in Spain – it can be anything from 20 years upwards.

The main features of the intermediate tenures in use in the Netherlands, the UK and Spain are shown in Table 3.

Table 3 Main features of three intermediate tenures used in the Netherlands, the UK and Spain

	<i>KoopGarant</i>	Shared homeownership	Spanish VPO housing
Provider of the dwelling	Housing association or commercial developer	Housing associations	Local authorities or commercial developers
Target group	Prospective home buyers with a lower or middle income	First time buyers with a lower or lower middle income	First time buyers with a lower or middle income
Income limits	Not necessary, at the discretion of the provider and/or the municipality	Yes, higher for London than for the rest of the UK	Yes, depending on the type of VPO dwelling
Type of dwellings	Both existing and newly built dwellings	Newly built dwellings or resale of former newly built dwellings	Mainly newly built dwellings
Duration	Indefinite, until the dwelling is sold	Indefinite (term of the leasehold)	Variable, depending on the region
Reduction on the market sale price	Usually between 20% and 50%	No, the homeownership part of the dwelling is sold at the market price	Depending on the region, can be as much as 50%
Price cap of the dwelling	No, in practice usually less than €300 000	Not specified, prices will depend on the region	Maximum prices for VPO dwellings differ from region to region
Free transfer of the dwelling	No	No, right of first refusal for the housing association	No, during the so-called qualification period the dwelling must be sold at a regulated price

Affordability enhancing financial products

Starterslening in the Netherlands³

The Dutch ‘Starters Loan’ for first-time buyers was introduced some decades ago by Dutch local governments. It is provided by a special fund called the SVn, financed by contributions from participating municipalities, housing associations and the central government. Households take out a loan at a commercial bank with a Starters Loan on top of that. Interest on the Starters Loan is charged at the normal market rate, with no special discounts, but no interest is charged for the first three years after buying the house. A means test may be carried out after 3, 6, 10 and 15 years, to establish whether the home owner can afford interest and repayments of the loan.

In the case of ‘normal’ income increase, the home owner begins to pay interest on the Starters Loan after three years and after another three years begins repaying the Starters Loan as well. If the income has increased considerably, the owner will start paying both interest and repayments on the Starters Loan after three years. The repayment works as a normal annuity and extra repayments of the loan are always possible. If the owner’s income does not increase at all, no interest is charged during the owner’s occupation of the house. This implies a loss for the providers of the SVn, who would have hoped for some income from the interest on the loan. However, in all circumstances the complete loan has to be fully repaid when the owner moves to another house or upon expiry of the 30-year mortgage term.

Home Buy in the UK⁴

The term ‘Home Buy’ refers to various affordable home ownership products that have been in use in the UK in the last 10 years. These products are part of a ‘help to buy’ scheme consisting of equity loans, mortgage guarantees, forms of shared ownership, and so on. This section describes only the equity loan, which can be used to buy newly built houses offered by registered house builders. With the help of this loan, a house buyer can get a government loan that covers between 10 and 20% of the purchase price of the house. The maximum purchase price with which the equity loan can be used is 600 000 GBP, and the loan must be repaid after 25 years, or earlier if the house is sold. Since it is an equity loan, the home owner must repay the same percentage of the proceeds of the sale of the house to the government agency

³ This section is almost completely based on Elsinga et al. (2015)

⁴ This section is based largely on Homes and Communities Agency (2014).

that provides the loan (Homes and Communities Agency 2014). Thus value sharing takes place. Price increases are shared, and also price decreases. The equity loan is interest free for the first five years. Voluntary repayments of the loan (staircasing) can be made at any time, provided that they cover at least 10% of the current market value of the house.

Prêt à taux zéro in France⁵

This ‘loan at zero interest’ is provided by the French central government and can be used by first-time buyers. It covers only part of the purchase price of the house. In principle, the *prêt à taux zéro* (PTZ) can be used only to buy a new house, although in particular circumstances, such as large-scale renovations or the purchase of a social rental house, it may also be used to buy an existing house. There is an income limit for access to the loan, depending on the household and the region: the bigger the household and the higher the house prices in the region, the higher the income limit. The maximum purchase price of a house for which a PTZ may be used varies according to the region and the number of people in the household. The percentage of the purchase price that is covered by the PTZ also varies from region to region and ranges from 18% to 26%. The loan repayment period depends on the buyer’s income (in relation to the household size and the region where the household is living) and ranges from 12 to 25 years.

Table 4 shows the main features of the affordability enhancing financial products in use in the Netherlands, the UK and France.

[INSERT TABLE 4]

How applicable are these products to South Africa?

This section is based on an extensive literature review and 15 interviews with South African policymakers and representatives from the financial sector.⁶ Each interviewee was given a document about the European products and asked to comment on their applicability to South Africa. We have divided the responses into pros and cons and we discuss the latter first.

⁵ This section is based largely on the French government website <http://vosdroits.service-public.fr/particuliers/F10871.xhtml>

⁶ For details of the interviewees see the list at the end of the paper.

Why the European products could struggle to get a foothold in South Africa

The interviewees mentioned four contextual differences that could hamper the application of these European products in South Africa: poorer economic performance than European countries and lower household income, the fact that South Africa seems to be locked into a capital subsidy policy pathway, the lack of a suitable regulatory framework, and institutional problems at the local level.

Economic performance and household income in South Africa

The most obvious contextual difference between South Africa and Europe is in economic performance and household income. Innovative financial products in Europe are based on assumptions of low inflation (as measured by the consumer price index – CPI), low and stable interest rates, stable household incomes and household income growth, and low unemployment. Figure 1 shows the course of these four substantial economic performance indicators in South Africa from 1985 to 2013, and they are discussed below the figure.

[INSERT FIGURE 1]

First, South Africa differs from Europe in having larger percentages of households in the lower-income bands. Approximately 63% of households earn less than R3200⁷ a month in 2011 (Stats SA 2013). Government housing policy in South Africa consequently focuses on those earning below R3500 (Department of Housing 1994, 2004). Thus, despite substantial efforts to increase mortgage finance, government is less likely to increase the support for income groups that are not desperately poor. One government interviewee said government sees the housing problem largely in terms of low-income households and believes that providing substantial amounts for better-off households might be counterproductive.

Second, South Africa's interest rates (see prime interest rate in Figure 1), much more volatile than those of the Global North, have had a seriously negative effect on housing finance

⁷ At the time of writing, January 2016, the rand was trading at 15 rand to the US dollar

(Marais and Cloete 2015). The European products discussed above assume a stable interest rate. It was precisely as a result of the volatile interest rate that an interest-rate subsidy available to first-time home owners in South Africa in the mid-1980s was discontinued by the early 1990s. One of the interviewees reminded us that South Africa had something similar to the European products in the form of this subsidy but that when interest rates increased in the late 1980s the government could no longer afford it.

Third, government policy commonly aspires to an economic growth rate of more than 4% per annum as a means of reducing unemployment. South Africa's economic growth rate is not much different from rates in Europe. However, this indicator is subject to volatility (see Figure 1). The South African recession in 2009 had a negative effect on housing finance and there is no reason to believe that the situation was any different in the early 1990s or in 1998 (Marais and Cloete 2015). The hike in interest rates in the early 1990s was related to political instability and the inability of the South African government to manage the country's finances appropriately. The 1997/1998 Asian financial crises also had negative implications for South Africa and led to substantial increases in the prime interest rate (see Figure 1).

Fourth, in South Africa the lower-income household group is generally characterised by unemployment, informal work and an inability to provide a secure monthly income. Despite the fact that six million more people were employed in 2014 than in 1994, an unemployment rate in excess of 25% was recorded in 2014, up from 22% in 1994 (Stats SA 2014). If we add to this the fact that the expanded definition⁸ suggests that unemployment stands at 35% (Stats SA 2014), then the implications for housing finance become even more ominous. These figures suggest that a large percentage of households are excluded from housing finance because of unemployment. The volatility of the unemployment rate (see Figure 1) also suggests instability. An interviewee in housing development summed up the situation by saying it is not the high level of unemployment that prevents the development of alternative housing finance products but rather the shortage of *long-term* employment, as a result of which many people move in and out of employment on a regular basis.

The capital subsidy and the South African policy pathway

South African housing policy has largely been dominated by a capital subsidy which was introduced in 1994 (Venter et al. 2015). We argue that this has hampered government's ability

⁸ The expanded definition includes those who have given up on looking for employment.

to consider other finance and tenure systems. South Africa seems to be locked into a capital subsidy programme. One interviewee was of the opinion that changing from the capital subsidy to another form of subsidy would be very difficult, because not only are the systems designed for a capital subsidy, but officials would find it difficult to imagine another subsidy system. Some of the unintended consequences of a capital subsidy programme have been well documented (Huchzermeyer 2001, 2010). These include the peripheral location of many subsidy houses, the technical nature of the development process and low levels of infrastructure access. This leaves us wondering why the South African government has not considered an alternative. The reasons are complex and multifaceted.

The first reason is that it is easy to manage capital subsidy budgetary processes. Unlike an interest-rate subsidy, a capital subsidy does not have to deal with interest-rate volatility.

The second reason, we suggest, is that it is extremely difficult to change a housing policy pathway – the policy tends to become locked in. For example, the Finance Linked Individual Subsidy Programme (FLISP), introduced in the mid-2000s to attract more private-sector housing finance to the gap in housing provision, continued mainly along the capital subsidy route. FLISP is a national government subsidy system which provides first-time home owners with an upfront capital subsidy. In practice this could be between 15% and 25% of the original cost of a housing unit. Although it reduces the initial payment, it is not directly linked to a mortgage. To qualify, a household must earn no more than R15 000 a month and the house price must not exceed R350 000. An applicant applying for the subsidy must take a means test. The subsidy is managed by a partnership between central government and the banks. All value acquired over time goes to the owner. The implementation of FLISP was slow and by 2014 this subsidy had had only marginal success in linking lower-middle-income households with mortgage finance. Bureaucratic problems in managing the subsidy and providing appropriate local planning seem to have been the main obstacles (Centre for Affordable Housing in Africa 2014). Despite some innovation, the FLISP remains largely locked into the capital subsidy.

The effects of being locked into the capital subsidy can be seen in two other examples. One is the social housing sector, which aims to provide affordable rental housing. Despite being mainstreamed in a housing policy called ‘Breaking New Ground’, the sector has been slow to get off the ground. Although there are many reasons for this, the fact of being locked into a capital subsidy for home ownership has probably been a major reason why insufficient funds

have been allocated to social housing. The other example is the proposal by the National Department of Human Settlements to develop a housing guarantee scheme, announced in 2010. It was envisaged that the scheme would entail a R1 billion state-guarantee fund to promote home ownership for households earning between R3500 and R15 000 a month and for mortgage bonds of below R300 000 (FFC 2013). A further component envisaged for the scheme was to create these loans by means of fixed interest rates. Private-property experts by and large expressed their satisfaction with the move (IOL Property 2012). It was initially envisaged that lenders would be safeguarded against non-payment. But problems arose when the National Treasury had to consider this proposal. The Treasury did not want to consider an option that would complicate budgetary processes or lead to reckless lending. It therefore took the default route of falling back on a capital subsidy and rejuvenating FLISP.

The lack of a suitable regulatory framework

The relationship between government and the banks has not always been cordial in South Africa. Government has consistently argued that more private-sector finance should be released for housing. A number of agreements and charters have attempted to facilitate large private-sector involvement. The creation of the National Housing Finance Corporation in 1996 was part of this drive. Charged with developing innovative housing finance instruments, the Corporation achieved some innovation through micro-finance, but little through the traditional mortgage instruments. Interviewees from banks cited the lack of an appropriate regulatory framework as an obstacle. One banking official said that banks could provide shared ownership immediately but were not convinced that the regulatory framework was in place to resolve possible conflicts. In general, though financial institutions in the private sector were quite willing to provide finance for some of the proposed intermediate tenure arrangements and even to consider some of the ideas for reducing the costs of a mortgage, they consistently maintained that the regulatory framework was not helpful in this regard. One example that was mentioned in interviews was the financing of a form of shared home ownership in the mid-1990s by the four large banks in South Africa. This had disastrous implications for the banks because it had been extremely difficult to deal with the complex problems that arose once a home owner defaulted on a loan.

One interviewee said the complications associated with intermediate tenure have also been seen in the rent-to-buy options associated with social housing programmes. Despite this mechanism in some cases being used to benefit the housing development process, doing so

has led to conflict and management problems. Intermediate tenure assumes a well-educated population and an appropriate regulatory framework whose rules are enforced. South Africa appears to lack both requirements.

Institutional problems at the local level

Both financial products and intermediate tenures assume well-functioning social institutions, such as local governments and social housing institutions. These institutions are much less effective in South Africa than in Europe. For example, many local governments are under great financial pressure and increasingly dependent on grants from national government (SACN 2011), and their revenue-generating ability is decreasing (Pieterse 2009). Consequently, unlike the situation in Europe, chances are slim that local governments and local government organisations in South Africa will be able to provide the funds necessary to support housing finance products. Local government credit control and financial oversight are furthermore weak: only 9% of South Africa's local governments received clean audits in 2014 (Evans 2014). Further evidence of local institutional fragility is the fact that creating and administering means tests in South Africa is notoriously difficult at the local government level. When it comes to shared ownership, a further institutional problem is that nearly 50% of the housing units provided through the Housing Subsidy Programme for poor households do not have title deeds (Shisaka Development and Management Services 2011).

Potential of European products for South Africa

It may well be that the contextual differences described above automatically rule out any application in South Africa of the European housing finance products. Nevertheless, some of our interviewees suggested that one should consider the possibilities in more nuanced ways. They suggested three opportunities for applying variants of the European products: mineworker housing, inner city housing and social housing.

Mineworker housing

Historically, mineworkers were migrant labourers, housed in high-density compounds close to the mine shafts (Crush 1989, 1992). By the mid-1980s, in line with the restoration of home ownership for black South Africans, mine companies started exploring the option of family housing, but this was achieved only on a small scale. By the mid-1990s, mining companies

were increasingly providing living-out allowances (Marais and Venter 2006). This meant that mineworkers could leave the compound, receive an allowance and provide for their housing as they saw fit. This did not improve their housing conditions and many found themselves worse off than they had been in the compound system (Marais and Venter 2006). One of the issues that was brought to the fore by the Marikana massacre in 2012 was the poor living conditions of the mineworkers at the gold and platinum mines.⁹ Marikana led the government to initiate a strategy to revitalise distressed mining towns (Tshangana 2015). The planners of the strategy, backed by the Mining Charter, believe that home ownership is the desired tenure type for housing in mining areas. The strategy includes substantial investments for housing or settlements despite the fact that most mines have a limited life – in fact, it is this distinctly transitional nature of mining that could make intermediate tenure and housing finance products appropriate. One interviewee suggested that intermediate tenure could help to share the risks associated with mine housing. Two points are important here: mineworkers' earnings are generally substantially above the cut-off limit for accessing a government subsidy, and the imminent closure of many mines means that owning a house in a location with little economic potential is risky for a mineworker. Shared ownership could reduce this risk considerably.

Some innovative systems are already in place in Khathu, in the Northern Cape (Cloete and Marais 2009). Here, in South Africa's Iron Ore Belt, mining companies – through a housing company – subsidise the land costs, sell the house and buy it back once people leave.¹⁰ Obviously this is a context-specific product and it holds its own risks, but it does suggest there is room for the application of alternative tenures to share risk in places where permanent settlement is not a given.

Inner city housing

One of the unintended outcomes of South Africa's capital subsidy housing programme was that little attention was paid to the renovation of higher density housing in many of the inner cities. Current forms of ownership of these housing units vary according to whether they are provided by local government, by the private sector or by social housing institutions. In many cases the quality of the housing is deteriorating. Some interviewees suggested that shared ownership could be used as a way of improving the quality, thus increasing the attractiveness of inner city areas. One interviewee suggested that shared ownership products could well

⁹ The police killed 34 mineworkers in a shoot-out.

¹⁰ The terms of the buy-back are not very clearly specified.

spread the risks associated with physical deterioration in many inner cities, and another was also of this opinion but warned that the inability to enforce a legal framework because of conflict in many inner cities would make these products difficult to apply. Our opinion is that the effectiveness of a shared ownership strategy to increase inner city attractiveness should at least be investigated.

Social housing

Many of the financial and intermediate tenure products in Europe are based on the principle that social housing institutions dispose of some of their housing stock in order to house middle-income groups. These products therefore assume the existence of substantial social rental housing stock. In South Africa, however, the social housing sector is underdeveloped and probably has no more than 50 000 units across the country. Furthermore, many of the housing institutions active in the sector are not financially viable. Despite this, some interviewees were of the opinion that intermediate tenures could have potential and that South Africa needs to experiment with these. Social housing institutions could well play a role here. One interviewee was adamant that intermediate tenures should be considered in Cape Town, which still has a large number of state-owned rental houses.

Conclusion

In this paper we described some alternative tenure and housing finance products in Western Europe and considered their potential for South Africa. Although in principle many of them do indeed have potential, there are many obstacles because of contextual differences between South Africa and Europe. Among these are macroeconomic differences: the European products assume long-term household income growth and stable interest rates and this assumption cannot be made in a developing country like South Africa. Other obstacles are institutional problems at the local level and the capital subsidy institutionalised since the mid-1980s, which means that alternative finance methods persistently return to this policy pathway. Experiments with intermediate tenures in South Africa have not had the results originally envisaged, and this has made both banks and local institutions wary. A further obstacle is the lack of a suitable regulatory framework.

Despite these obstacles, we argue that alternative tenures and innovative housing finance have some potential in three areas in South Africa: mineworker housing (where some innovation has already taken place), inner city housing and social housing. There is an urgent need for successful experiments and an improvement of the regulatory environment. We believe that more research should be done to assess the appropriateness of alternatives to the capital subsidy for housing. A more detailed understanding of the difficulties experienced in historical attempts at applying intermediate tenures is needed if we are to discover new ways to bridge the South African housing gap.

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Interviewees

D. Gardener – Housing finance expert (Gauteng)

C vd Bijl – Developer (Free State)

M. Mokoena – Representative from local government (Free State)

T. Stewart – Private sector housing developer (Eastern Cape)

J. Pienaar – Housing finance institution (Gauteng)

M. Pillay – Representative from local government / housing finance institution (Gauteng)

D. Swart – Estate agent (Free State)

J. Wessels – Private sector housing developer (Free State)

L. Beukes – Estate agent (Gauteng)

W. van Emenis – Housing finance institution (Gauteng)

Five representatives from commercial banks who asked not to be named (Gauteng)