

Rental is right model

Tighter money supply and reluctance by banks to provide mortgage finance, especially to middle-market households in SA, makes rental an attractive alternative. Yet South Africans are holding onto old-fashioned home-ownership notions — probably

created by those trying to perpetuate the old American dream of leafy suburbs and white picket fences. The notion that home ownership is always the best option is outdated and shown to be a dangerous model, as we have seen with the worldwide housing crash-led recession. Proponents of home ownership argue with convincing evidence that higher home ownership promotes children finishing high school; lower rates of teen problems and pregnancy; higher political activity, like voting; homeowners are happier; and property values in a neighbourhood improve.

Policy makers in countries like the US and Mexico clearly agree as they allow home owners to deduct interest payments on their homes from their taxes, thus encouraging home ownership over rental. This interest rate tax relief is considered to be regressive by many as it rewards people who can afford to take out bigger mortgages by giving them bigger tax breaks. Countries compete for home ownership rates and boast their prowess in this regard — the US being one of the highest and Germany one of the lowest as its tax code rewards the rental option.

SA is somewhere in between, depending on which numbers you use.

Given SA's huge housing backlog and the lack of delivery to meet demand, we have long missed the opportunity to employ both types of housing tenure: home ownership and rental. We cannot afford to rely only on home ownership to solve the backlog; we do our fellow citizens a disservice if we do so.

There is an estimated affordable housing (incomes of R3 500-R9 000/month) shortage of 650 000 units but only 25 000-27 000 houses are being built for this target group each year.

Affordable rental units in safe areas and developments are also in short supply.

Based on the report, *Supply and Demand of Rental Accommodation in SA*, by Eighty20 for the Social Housing Foundation in July 2008, the estimated demand for affordable rental (incomes of R3 500-R9 000/month) is about 600 000 units but supply is only about 400 000 units.

Historically, government has focused on delivering homes for low-income families to own, first under the RDP programme and, more recently, under a similar programme renamed "Breaking new ground". By many measures this programme has been successful. When one looks at it from a volume perspective, figures show more than 2m houses have been built as "give away" homes, which is impressive.

But neither the public nor the private sector has focused sufficiently on making affordable rental housing available. The demand for rental is huge, not only for lower-income earners, but also among students, migrants and temporary workers.

Though property ownership remains one of the best ways for people to accumulate wealth, people still need homes to live in, even if they cannot afford to buy a home which, despite the lull in the market, is onerous. Depending on where someone is in their life cycle, rental might be a much better option.

This "life stage" theory is based on the view that in the early stages of adult life, students, young professionals who want to be career-mobile and people with little or unreliable income find it better to rent than to buy.

Those who cannot afford down payments or payment shocks (a new geyser, a rate increase) should also rent until they can afford to buy, even if their income covers the interest cost of a mortgage bond. ■

Proxenos is managing partner of International Housing Solutions



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