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INVESTIGATION INTO POTENTIAL FOR SHARED OWNERSHIP
Draft Report

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Abstract

The question of ownership in the South African affordable housing sector is an increasingly debated topic as equity and asset growth, property management and investment, and finance options are explored to meet needs of a range of South African residents. Given this, the Johannesburg Housing Company has identified the need to try and match the prevailing market context with workable and practicable ownership structures for inner city, multi-unit developments.

This report sets out the findings of an investigation undertaken by Matthew Nell and Associates on behalf of the JHC and sponsored by USAID, into the potential for shared ownership in multi-unit developments in the Johannesburg Inner City. Overall, the investigation found that:

- The shared ownership model responds fairly well to the demand side challenges of tenants in the Johannesburg inner city.
- However while shared ownership overcomes the supply side challenges regarding sound management, it does not overcome the challenge of accessing debt funding by housing associations or landlords. Additional interventions will be necessary in this regard.
- Shared ownership can make a positive contribution to the challenge facing the City of Johannesburg in respect of multi-unit residential developments.

However for shared ownership to be successful in the medium term, certain critical success factors must be resolved.

As a result of these findings, the consultants recommend that a shared ownership approach be piloted on a limited basis (200-500 units, involving an overall value of R16-30 million) in Johannesburg's inner city. Principle parties to the pilot would include JHC and ABSA Bank (both of which have indicated preliminary interest). Secondary parties would include the Gauteng Provincial Department of Housing and the City of Johannesburg. On the basis of this pilot, a detailed feasibility study should be undertaken. Finally, a Johannesburg Inner City Shared Ownership Working Group should be established to develop proposals to apply the pilot at scale. The motivations for these recommendations are contained within this report.

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1 Introduction

The question of ownership in the South African affordable housing sector is an increasingly debated topic as equity and asset growth, property management and investment, and finance options are explored to meet needs of a range of South African residents. Among other benefits, it is agreed that home ownership affords residents increased security of tenure, the opportunity to grow their investment in their housing and realise equity, and to access loans with their increased ability to provide collateral. For low to moderate income households who have the necessary affordability, home ownership can be their access to personal asset growth and life style improvement.

South Africa's experience with home ownership, especially among low to moderate income households seeking accommodation in inner city, multi-unit buildings, has not been all positive. Largely as a result of inappropriate legislation, but also because of an evolving socio-economic and political context, many owners of sectional title units in inner city buildings have suffered negative equity. In their case, the issue relates to largely to inappropriate management which often leads to escalating rates and services charges arrears, and an eventual spiral of decline. The negative experience associated with this has meant that others who still aspire to own sectional title property in the inner city are unable to access the necessary finance, or if they are, the risks associated with such finance make it unaffordable. And still, landlords such as the Johannesburg Housing Company and others have noted an aspiration for ownership among their residents.

Given this, the Johannesburg Housing Company has identified the need to try and match the prevailing market context with workable and practicable ownership structures for inner city, multi-unit developments. Shared ownership has been tried elsewhere, notably in the UK and in Australia, with some success. Consequently, Matthew Nell and Associates were appointed to undertake an investigation into the potential for shared ownership in multi-unit developments or buildings in the Johannesburg inner city. Matthew Nell and Kecia Rust worked together on this assignment, with expert support from Otto Holicki and Rudolph Willemse. This report sets out the conclusions of the investigation and offers specific recommendations for going forward.

1.1 Methodology

The investigation methodology was outlined in the scope of work, included in the terms of reference issued by the client. The investigation involved three phases:

> ***Phase 1: Literature review:*** This phase involved two literature reviews. Firstly a review was undertaken of the prevailing environment in the affordable housing market in the Johannesburg inner city, with a view to understanding legislative, financial, ownership, economic and policy issues in this sector which could impact on ownership schemes. Secondly, a review was undertaken of the literature to identify various models of shared ownership in South Africa and internationally, and their application in specific housing markets.
>
> At the conclusion of this phase, the consultants held an internal meeting in which they brainstormed the potential options and their relevance in the South African context. A note for the record was produced and is attached as Annexure 1.

- ***Phase 2: Engagement:*** This phase involved a series of interviews with policy makers, financial institutions, housing practitioners and specialists in the public and private sectors, to ascertain broad market reactions to the viability of the shared ownership approach. A listing of those interviewed is included in Annexure 2. Annexure 3 provides a summary of the critical points raised in the interviews.

- ***Phase 3: Conclusions:*** This phase involved the preparation of a Strengths-Weaknesses-Opportunities-Threats matrix, aimed at assessing the relevance or appropriateness of a different shared ownership schemes for the local market. These conclusions were presented to a workshop with members of the JHC. A note for the record was produced and is attached as Annexure 4.

  On the basis of the above process, the consultants formulated this report including recommendations, risks and key success factors for the implementation of shared ownership schemes in the local market.

1.2 Research Objectives

The terms of reference for the study into shared ownership sets out the following objectives:

- To understand the prevailing affordable housing market context in South Africa, with a particular focus on ownership in multi-unit dwellings, to assess schemes that have been successful, and those that have been unsuccessful, and highlight the underlying reasons;

- To consider the successes and failures experienced in sectional title and instalment sale schemes, in the local affordable housing market;

- To examine international precedent in developing sustainable, flexible and practical schemes for the ownership of multi-dwelling units, particularly over the long term;

- To examine ways in which the financial component of such schemes could be effectively implemented in South Africa. This would include consideration of partnering with financial institutions, and the creation of a secondary market, thereby enhancing liquidity;

- To broadly assess the legislative, public sector and institutional environment in the local market, and its implications for the sector and the introduction of shared ownership schemes.

- To make recommendations on the potential for introducing the shared ownership concept in South Africa, with a particular focus on the inner city of Johannesburg.

The CEO of the Johannesburg Housing Company (JHC) captured the overall objective of the investigation as follows:

"We want to give JHC tenants an ability to enjoy the fruits of ownership (growth in capital, collateral for loans, personal security) while avoiding the problems of sectional title as they

have appeared in many inner city buildings (non payment of utilities, bonds and maintenance costs in particular).

"How do you give ownership rights and advantages [in inner city multi-unit dwellings to moderate income households] in the South African context, without allowing the disciplines of management and financial payments to lapse?"

– Taffy Adler, by email correspondence

This report seeks to answer these questions.

1.3 Outline of the Report

This report is structured in six sections:

- **Section 1: Introduction**.
- **Section 2: Problem Statement: Johannesburg's Inner City Housing Market**. This section defines the problem being considered, and sets out the current state of Johannesburg's inner city residential market.
- **Section 3: Literature Review: Shared Ownership Models**. This section explores the various models of shared ownership as are found in South Africa and internationally.
- **Section 4: Analysis: Exploration of shared ownership options for Johannesburg inner city**. This section considers the various shared ownership models in terms of their potential application in the Johannesburg inner city, given the problem statement raised in Section 2 and the options highlighted in Section 3.
- **Section 5: Recommendations:** This section offers recommendations on the basis of the analysis.
- **Section 6: Final Conclusions and Recommendations**. This section sets out the final conclusions and recommendations.

2 Problem Statement: Johannesburg's Inner City Housing Market

Since 1994, South African housing policy has sought to provide low income households with the benefits of home ownership. In the context of this country's past, such a focus has been especially important. Largely it has been well received. The majority of housing delivery has been through large green fields developments. Over a million "RDP houses", built within the confines of the subsidy, have been transferred on an ownership basis, at little or no cost, to qualifying beneficiaries.

Notwithstanding the success of the housing delivery process and the significance of over a million new home owners, policy makers and analysts increasingly recognized that the current policy was failing to meet the housing challenges in the inner cities of South Africa's metropolitan areas. While enormous new developments and communities were being created in the suburbs and on greenfields sites, very little development was occurring in the inner city areas such as the Johannesburg suburbs of Hillbrow, Joubert Park and the CBD. Much of the existing stock in these areas, formerly examples of urban densification success, fell into decay, and perceptions that the inner city was not a good investment were reinforced.

Towards the second half of the 1990's therefore, the policy emphasis of government shifted somewhat to include rental housing within its overall framework. The institutional subsidy mechanism[1], available to institutions offering housing for rent, provided some of the impetus in this regard as did the later emergence of social housing institutions. The Social Housing Foundation contends that since 1997, approximately 24 000 units have and are being delivered across the some 40 social housing institutions that have been established nation-wide. Private sector delivery has also been increasing. The majority of these units have been included within multi-unit developments, generally well located within the inner cities of South Africa.

A consequence of these developments is that housing tenure for low income households in South Africa has become geographically defined. Ownership tenure implies large scale developments of free-standing units on the urban periphery, while rental tenure implies attached units in multi-unit dwellings in the inner city and in urban infill sites, notwithstanding the availability of sectional title units.

Notwithstanding the policy shifts that have allowed for an acceptance of rental, its delivery has been constrained by a number of factors. Of significance has been the limited availability of finance for social housing and other institutions. With the NHFC's launch of its Gateway mechanism, however, the installment sale mechanism (using sectional title as the form of ownership tenure) became a way for institutions to recoup their development costs in the short term, reducing their long term funding requirements and thereby improving their access to such funding. Through this re-introduction of sectional title (but in the low-income housing market), ownership tenure was brought back into the inner city in multi-unit developments.

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[1] The institutional housing subsidy allows institutions (housing associations) to access the maximum subsidy irrespective of the income band of the particular household, and to use this to develop rental housing units for subsidy eligible households. These housing units are generally of a higher quality than RDP houses, given the need for durability in rental stock. They are offered either as free-standing units on individual plots, or as units within two- to three-storey walk-ups, high rise buildings or other, multi-dwelling structures.

However, ownership tenure for low income households under sectional title has generated significant problems and in some cases, undermined security of tenure. While some might suggest that ownership tenure in this market is inappropriate, it remains that ownership offers many benefits which might be especially significant to low income households. Also, the benefits for the institution in terms of financing are important. The problems associated with sectional title should not inhibit an exploration for appropriate ownership models in multi-unit developments in the inner city.

2.1 State of the market in inner city Johannesburg

Multi-unit developments and buildings have always been common in Johannesburg's inner city. It has been suggested that in the late 1960's, Hillbrow was seen as a model of densification internationally. Most of this was rental stock. Development appears to have slowed in the early 1970's, with Ponte Tower being among the last buildings developed.

In the twenty years between the early 1970's and the early 1990's, no new rental housing was developed in Johannesburg, neither in the lower, nor in the upper income segments of the market. Reasons cited for this under-investment are many. It was during this time that the rental housing units in inner city Johannesburg were sectionalised – in many cases as retirement investments for their owners. These units were then sub-let to new tenants at the same time as the character of the tenant population shifted. From this point onwards, the inner city rental market went into the decline with which it is now associated. Morris (1999) argues that a key function of the decline of the rental sector in Hillbrow was the inability of managers and owners to respond to the changes confronting them. He highlights the following problems:

- Overcrowding within rental units (a function of affordability) put increased pressure on the unit, leading to it falling into disrepair
- Rent boycotts: small landlords had insufficient capital resources with which to fight non-payment and enforce evictions
- Non-payment of rent led to a non-payment of municipal rates and services charges: water and electricity cut-offs and failure to maintain properties sent them into a spiral of decline.

These and other issues have together contributed towards a spiral of skepticism that has progressively undermined Johannesburg's inner city residential property market. Any housing in the inner city is considered by investors to be high risk, notwithstanding the positive track records that institutions such as the Johannesburg Housing Company are beginning to establish in the management of their rental housing stock.

2.2 Supply Side Issues

As a result, the private sector has been exceedingly slow to see the development of new rental housing units as an investment opportunity, especially if targeted at the low income market.

In 1997, Johannesburg's first newly constructed rental housing development was opened by the Johannesburg Housing Company (JHC), to operate in the low-moderate income market. The Jeppe Oval development was followed shortly thereafter by Cope Housing Association's Bertrams development, a 51 unit co-operative housing complex in the inner city suburb of Bertrams. These two developments, the first newly built rental stock in Johannesburg in over twenty years, initiated a slow but steady stream of new construction.

However, given the extent of old stock from before the 1970's and the negative equity that has contributed to a declining value among those buildings, new-build remains more expensive than the refurbishment of existing buildings. As a result, the dominant form of housing provision in Johannesburg remains in existing buildings, either with existing rental units being upgraded, or new units being converted from vacant office space. The majority of inner city housing supply is for rent.

Practitioners operating in the inner city list the following factors as undermining the supply of housing for moderate income earners, either for rent or for ownership. Broadly, they fall into two categories:

2.2.1 Finance problems

Finance problems relate largely to the **affordability** of finance, as well as its **accessibility** (the extent to which financiers are willing to lend). These two broad problems are part of a wider set of issues related to the financing of inner city housing stock:

- **Property value and impact of negative equity**: Many of the buildings being refurbished are not of a great quality, according to investors. In their minds, refurbishments, while less expensive than new-builds, are still relatively expensive for the overall property value of the neighbourhood. Value for money is not readily apparent given the current property market and rentals applicable to residential units.
- **Dysfunctionality of a secondary market**: Linked to the impact of negative equity[2], the dysfunctionality of a secondary market, in which formal sales are constrained by the inaccessibility of finance (which contributes to lower sale prices), means that investors are unable to realise their investments, even if such were to appreciate.
- **Inaccessibility of finance**: As a result of the negative perceptions associated with the inner city housing market, private sector finance is largely unavailable. JHC contends that with the amount of credit they could access, they could not afford to develop new units. To date, only JHC has accessed private sector credit (other institutions have accessed NHFC funding), and this has only been once in respect of one of its projects. Even established property managers can only get 50% bank finance for their properties.
- **Cost of finance**: Other institutions note that it is not feasible to finance rental housing units in the inner city with bank credit. At today's interest rates, this would translate into rents that were unaffordable to the low and moderate income market that seeks inner city accommodation. Those institutions that do invest, use own equity.

[2] Some practitioners indicate that the property market in the inner city of Johannesburg has in fact bottomed out, and can be expected to show real growth in value here on in.

- **Cash flow mentality**: as a result, property investors are investing not for long term prospects of appreciation but rather for monthly cash flow benefits. This means that their decisions are short-term and their vision constrained.

2.2.2 Management problems

Management problems include the following:

- **Limited capacity of managing agent**: The capacity of the managing agent to actually undertake the level of management required is constrained significantly by the low levels of affordability of the tenant base and their unwillingness to contribute greater amounts to the management levy. In addition, the low level of fees generally paid to the Managing Agent result in both the quality and intensity of management being sub-optimal.
- **Sectional title management**. Many of Johannesburg's inner city buildings have been sectionalised. In most cases, sectional title owners govern the building in absentia, renting out their unit and appointing a managing agent on their behalf. In addition to the problems generally associated with under-capacitated managing agents, sectional title buildings suffer from problems of weak bodies corporate as well as absentee landlords & sub-letting in the individual units. Recent years have seen many sectionalised buildings fall into debt traps born of non-payment, such that monies owed on rates to the local Council are greater than what the unit, or the entire building is worth. The consequence of this is that landlords are unable to sell their units. Many have then chosen to abandon them, further contributing to a spiral of decline that supports negative perceptions associated with this market.
- **Poor administration and management in local government**. Rating systems, invoicing for services, development control, and poor quality service delivery generally exacerbate the management problems experienced by individual multi-unit developments in the inner city.
- **Poor occupant behaviour**: whether it be the culture of non-payment as some call it, or a disrespect for contracts, or simply ignorance of responsibilities, occupant behaviours is one of the most significant factors militating against investment in the inner city. Another problem that might be captured under this heading is sub-letting. Whether residents sub-let and overcrowd their properties to manage affordability or whether they are responding to social pressure to accommodate friends and family, units are generally not designed to accommodate the numbers that arise.
- **Militancy of tenant base**: Respondents point to ease with which occupants are mislead by what they call "stirrers". The potential for power brokering in the inner city has often meant that property owners are at the mercy of leaders who do not rate the sustainability of the housing investment as among their priorities.

One consequence of the above is that there are few managers who are appropriately experienced and suitably interested in engaging in this market. This has a profound impact on the supply of housing in the inner city.

2.3 Demand Side Issues

In April and May 2001, Progressus Research & Development Consultancy conducted a survey in the Inner City of Johannesburg.[3] The objectives of the research were to investigate and describe housing conditions in these areas; construct a demographic profile of the resident population, and to assess resident needs in these suburbs.

Included among the research findings are specific details about residents and their housing needs, their desire for ownership, their affordability, and their specific concerns related to their housing. The research found a demand for home ownership among JHC tenants, either in the units they occupied or in houses in the suburbs. These issues, and their implication for the potential of introducing a type of "shared ownership" product, are explored below.

2.3.1 Housing needs

Generally, JHC's tenant's needs are met by the housing they occupy. The majority (78%) like living in the neighbourhood, and had they not found the accommodation they currently occupy, 61% say they would still live in the inner city.[4] Just under a third intend bringing the rest of their nuclear family to live permanently in Johannesburg or the surrounding districts and of these, over half say they plan to live in the inner city with their family. While a third would prefer living in the suburbs, over half agree that their ideal location would be located in the inner city. Striking, is that 62% of JHC residents plan to live in their neighbourhood forever.

Half of JHC residents confirm that their favoured accommodation is a flat, with the other half preferring a house.

2.3.2 Desire for ownership

Currently, all JHC residents are tenants, renting their units from the JHC. Their reasons for not owning property in the neighbourhood are varied, as set out in the following table:

Table 1. Why have you not bought a house or flat in this neighbourhood?	JHC BUILDINGS	OTHER BUILDINGS
I do not want to buy a house/flat	15.0	19.6
I cannot afford a housing loan	45.6	37.1
The bank refused to grant me a housing loan because I do not have a permanent job	0.9	3.1
The banks refused to grant housing loans in this area	0.7	1.5
Buying is not an option	25.4	27.1
Other	12.5	11.6

[3] Unless otherwise noted, all data in this section is drawn from the Progressus Inner City Survey.
[4] 25% say their second choice would have been to live in the suburbs; 11% say they would have found accommodation in the townships.

In terms of the above table, residents both in JHC and other buildings generally believe they cannot afford a housing loan. This may also be a factor in the number of respondents who said they did not want to own. While the accessibility of finance does not register as a significant problem, it is probable that a perception of inaccessibility led respondents to reply that "buying is not an option". Zack (2002) suggests that a lack of consumer education might also be a factor.

Still, the above notwithstanding, **just over half of all JHC residents, and just under half of residents in other buildings expressed a desire to buy their own place**.

Table 2. With your present income and circumstances, would you prefer to buy or rent a place?	**JHC BUILDINGS**	**OTHER BUILDINGS**
Buy your own place	51.2	47.3
Or would you prefer to rent	46.8	51.0
Don't know	2.0	1.7

This differs considerably from the prevailing perceptions of landlords in the inner city, who suggest that ownership is not desired. Most suggest that residents prefer the flexibility of renting, and the simple arrangement of monthly payments.

What is not clear from the data, however, is the aspect of ownership that appeals to residents. Do they wish to hold title simply for the purpose of saying "this is my home" (i.e. security of tenure)? Or, are they seeking some form of wealth creation (i.e. investment opportunity)? This distinction, if it is at all prevalent among residents is important, for it will define the type of "shared ownership" arrangement that might be appropriate. It is also not clear if the demand for ownership is evenly spread throughout the variety of JHC buildings, and specifically, if residents aspire to own their inner city flats. The Progressus research suggests a significant level of satisfaction in Fordsburg. Coupled with an inclination for suburban living, this suggests perhaps that the two and three-storey walkup model is conducive to a shared ownership arrangement. Further research is required in this regard.

2.3.3 Affordability

While a significant proportion (54.1%) of JHC residents claim that rentals are too high, levels of non- or late-payment are limited.[5]

Table 3. How many months have you not been able to pay your rent in full and on time in the last 6 months?	**JHC BUILDINGS**	**OTHER BUILDINGS**
Not missed payment in the last 6 months	95.5	91.0
Missed payment once in the last 6 months	3.2	3.3
Missed payments twice or more in the last 6 months	1.3	5.7

An insignificant percentage of residents would rather pay more to live in a more suitable neighbourhood.

[5] On the flip side, 42.7% of residents in JHC buildings say the rent repayment is at a suitable level. When compared with resident opinions in other buildings however (where 40.7% say rents are too high and 56.9% say they are acceptable).

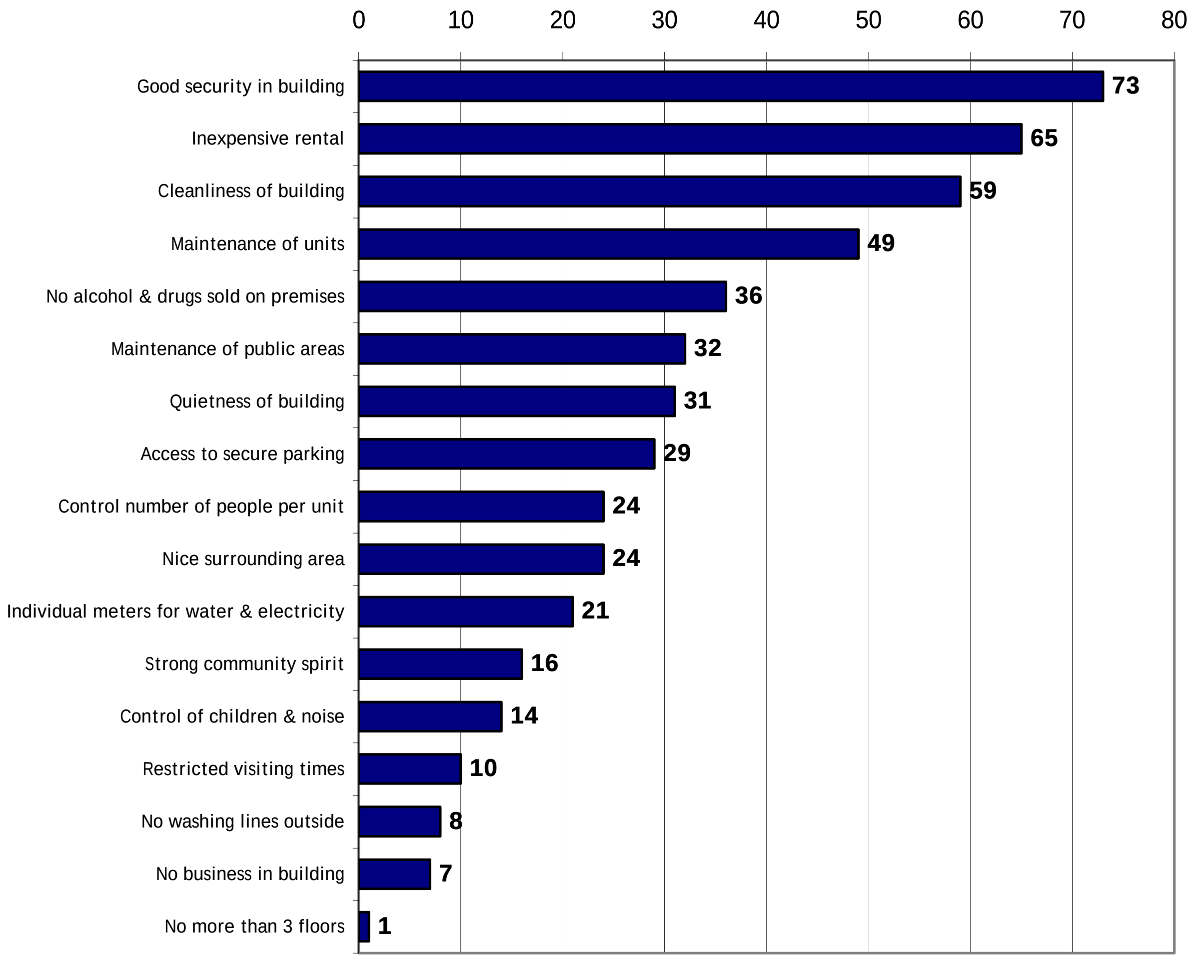
Price elasticity is limited and does not appear to be linked to a perception of value for money. Residents interviewed as part of the JHC building survey suggest on average that they are prepared to pay R608,77 per month for rent, while residents in other buildings put the average figure a little higher, at R638,55. Both of these figures are well below market-related rentals currently being charged in the inner city.

JHC has noted that among some households, there clearly is affordability. Over time, JHC has witnessed some of its residents improving their internal furnishings. Other residents have also invested in the improvement of their units (for instance, installing built in wall units), even though they have no ownership stake.

2.3.4 Specific concerns

In a recent analysis of JHC consumer surveys (Zack, 2002), maintenance, security, space and affordability were highlighted as the four top priorities in buildings. If residents were to become part or full owners of their units, these factors would presumably become even more important. In this regard, the following attributes listed as important by JHC residents should be accommodated in whatever ownership arrangement is developed (this graph was developed by Social Surveys).

Figure 1. Attributes listed as most important to JHC tenants (Source: Zack, 2002)



It is in issues of maintenance and caretaking that JHC buildings differ most strikingly from other buildings. When asked if the caretaker made sure that the building was properly maintained, 89.4% of JHC residents said yes, while only 13.6% of residents in other buildings said yes. This suggests that the JHC management formula is working – and should be continued even in an ownership scenario. Most importantly, of the top five attributes identified, four relate to building management issues and one to affordability.

From a different angle, the following table outlines the most important problems that residents raised with their buildings.

Table 4. What is the SINGLE MOST important problem with this accommodation?	**JHC BUILDINGS**	**OTHER BUILDINGS**
Nothing	23.7	23.4
Renovations needed	7.7	14.3
Security	5.8	10.0
Electricity	0.4	2.4
Noise	3.2	4.0
Threats	1.1	0.6
Environment	0.3	2.8
Lifts	3.3	6.2
Plumbing	5.1	6.9
Reported problems are not addressed	1.2	2.6
Rent too high	27.1	16.4
Small flat / No privacy	15.9	6.7
Sharing	0.2	1.0
Lack of Ownership	0.0	0.3
Parking	3.1	0.2
No Fire Extinguishers	0.0	0.2
Do not consult Tenants	0.0	0.5
Stoves	1.3	0.2
Cockroaches	0.2	1.0
Rules about visitors too strict	0.3	0.2

Significantly, the most common response to the question was that rents were too high (raised by 27.1% of respondents). This was followed by the size of the unit and a concern about privacy (raised by 15.9% here, though when asked directly if their unit was the right size, 38% said it was too small). This latter concern would presumably have a significant impact on the demand for ownership of JHC units. Consequently it could be argued that a demand for ownership will depend on the cost of installment and the nature of units in the building.

Residents were also asked if they were planning on moving – of the 38.1% who said they were planning to move, 47.5% said this was because of problems with the flat (a further 27.5% cited the neighbourhood as their reason for planning to move). When prompted for a more detailed reason, however, most respondents were unable to define exactly what was wrong with the flat or neighbourhood that would make them move.

Levels of tenant participation in decisions about the building might reflect a capacity on the part of residents to engage in ownership responsibilities and participate in a Body Corporate. Just under half of all JHC residents participate in decisions, with 20% participating always.

2.3.5 Overall assessment of demand parameters

Zack (2002) notes that there is a high sense of permanence about living in the city, and that as many wish to live in a house as in a flat. A desire for ownership and suburban living is found among about half of all JHC residents (possibly correlating with the 45.3% of inner city households who are families), but most people believe they cannot afford a housing loan. Even so, more priority was given to services and owning property in JHC buildings than in non-JHC buildings. A significant proportion of residents also highlighted the management (security, cleanliness and maintenance) of their housing as an important factor, ranking it at equally as important as inexpensive rentals. An important finding of the research was the favourability of Fordsburg as a location, and the consequent permanence residents felt in the neighbourhood. This suggested that residents in JHC's Fordsburg housing might be interested in testing some form of ownership option. Also particular to Fordsburg was an overall affordability with rentals, with only 9% indicating that rentals were too high (compared with 22% in other areas).

Of course the most important issue is that at least half of all JHC tenants suggest a desire for ownership – and it appears that not all of these associate ownership with a free-standing structure. JHC itself suggests that between 60-70% of households who leave JHC stock do so to purchase housing elsewhere.

2.4 Summary: Key Issues & Challenges

From the above analysis of the Johannesburg inner city housing market and the issues affecting both supply and demand of housing, three key challenges are identified.

1. **Accessibility to loans:** Both from a supply and a demand perspective, the availability of loan finance is a critical challenge.

2. **Affordability:** The ability and willingness of households to pay the monthly rental installment is another challenge that requires further testing. It is not clear, for instance, if the opportunity for ownership would enhance residents' willingness to accept higher rentals / installments. Affordability is also an issue on the supply side, given the recent fluctuations in finance costs.

3. **Management issues:** Irrespective of whether the units are available for rent or for ownership, a series of management issues militate against a lender or a purchaser currently choosing to enter the market. Management issues are also significant in determining resident satisfaction with their accommodation.

These are summarized in the following table.

Table 5. Key challenges facing inner city, multi-unit developments

Loan accessibility issues	Affordability issues	Management issues
• Decay leads to redlining: spiral of negative equity and limited loan availability • Black hole in housing finance means that households who could afford some loan are still unable to access the loan because of risk factors associated with the target market to which they belong.	• Rental unaffordable to demand population: leads to overcrowding • High management and maintenance costs have a negative impact on affordability • High cost of finance adds to high rental costs	• Poor payment records by tenants • Inability to evict • Tenant militancy • Rentals not prioritised by tenants – poor family financial management • Absent landlords sublet and do not pay levies, hire agents who carry out minimal duties • Sectional title management capacity less able to cope with management challenges • Building quality • Security • Overcrowding

Over and above this, **the market demand analysis demonstrates a substantial demand by households for ownership of homes in multi-unit developments in the inner city**. It is not clear however from the analysis if this demand is driven primarily by a desire for increased security or investment opportunities.

While the management issues are real, much of the reticence by investors is about perceptions. Many of the respondents were particularly anxious about the capacity of inner city residents to understand and participate effectively in a shared ownership scheme. JHC, on the other hand, appears to have had positive experiences with its tenants. This is because of the substantial management capacity it has developed, which has contributed towards positive landlord-tenant relations that are conducive to better resident behaviour.

If a shared ownership arrangement is to be of any benefit it will need to fulfill the following objectives for both tenant and landlord.

Table 6. Objectives of a shared ownership arrangement

For the tenant	For landlord

• Respond to a desire for ownership expressed in terms of a desire for:
  o security of tenure
  o equity investment
• Improve accessibility to housing finance for low to moderate income earners seeking inner city accommodation in multi-unit buildings
• Improve overall affordability for housing, or at least do not increase the monthly installments
• Manage risks associated with poorly performing neighbours
	• Improve accessibility to development finance
	• Improve affordability of finance
	• Ensure ongoing management control
	• Reduce the debt exposure per unit
	• Improve the cash flow situation in the short term

One further issue raised by most respondents[6] is that of a secondary market. The benefits associated with ownership all depend on the existence of a vibrant secondary market – if owners cannot be assured of a market for their property, there is little reason for them to make the purchase. Similarly, such a secondary market will substantially reduce the risk of investors and funders of residential developments

[6] A list of those interviewed as part of this research is attached in Annexure 2.

in the inner city. This is a particularly relevant caution in the Johannesburg inner city market were the ongoing limited availability of loans makes it extremely difficult to sell a unit.

3 Literature Review: Shared Ownership Models

Both locally and internationally, various models of what might be together called "shared ownership" exist. Broadly, the diversity can be split into two categories – models that are based on individual shared ownership, and models that are based on collective shared ownership. The variety is captured in the following table.

Table 7. Summary of share ownership options[7]

	Individual ownership *Occupants hold individual title over their own unit and shared title over the common areas*	**Collective ownership** *Occupants hold share title over all property (accommodation and common areas) with specific use rights for accommodation*
Ownership arrangement	• Condominiums (USA) o Market-related o Limited equity • Sectional title (South Africa)	• Co-operatives: (USA / Norway / Canada / South Africa) o Market-related o Limited equity o Syndicated o Co-housing • Share block (South Africa)
Ownership mechanism	• Deed of sale, or outright sale (South Africa) • Instalment sale (South Africa) • Shares (South Africa) • Shared ownership[8]: o Shared ownership (UK) o Retained equity (Wales, UK) o Split equity (Australia) • Community Land Trusts (USA)	• Exit payment mechanism used in cooperatives (South Africa) • Shares (South Africa)

A distinction has been made in the above table, between on the one hand, how one structures the ownership *arrangements* for either individual or collective ownership in multi-unit developments, and on the other, what ownership *mechanisms* are used by individuals to participate in these arrangements. Individual households may enjoy ownership through the arrangements embodied in a condominium, a sectional title development, share block scheme, or a cooperative. However, it is in the way they access that ownership (i.e. the ownership mechanism), that the question of shared or individual ownership is given effect. In terms of local and international experience, they may access their ownership arrangements through a purchase of outright title (deed of sale), or an installment sale mechanism (as in a Sectional Title development), through the purchase of shares (as in a share block scheme), or through a variety of shared equity mechanisms (as are found in the UK and Australia).

This section of the report explores the various options as set out in the table above.

[7] For a table summary of each of these models, see Annexure 5.
[8] Ensuring the availability of affordable homes for ownership by low income households is a goal of most governments, and to this extent various policies, programmes and other arrangements have been developed internationally. Bramley and Dunmore (1996) argue that the motivations driving governments to promote low-income home ownership are many-fold, ranging from economic considerations relating to subsidy sustainability through to political or ideological affinities with ownership as a tenure form.

3.1 Shared Ownership Arrangements

Four distinct shared ownership arrangements have been identified: condominium, sectional title, cooperative housing, and share block. These are explored below.

3.1.1 Condominium

Condominiums are widely popular in the United States as a model for individual ownership of units in multi-unit developments. Similar to South Africa's sectional title model, a piece of real estate is divided into multiple parts, each separately purchasable through a Master Deed. The owner of a condominium owns one of the units established by the Master Deed and owns a share of all the common property. The owner may also have exclusive use of some parts of common property (a parking space for instance). In the manner in which the model is applied in the United States, households become individual owners of their condos, and obtain a mortgage to pay for the full cost of the unit.

A condominium association (like the South African Body Corporate) provides management oversight but owns nothing. This has been a particular constraint because it has meant that since the association owns nothing, it has a difficult time borrowing for major repairs. Ongoing organisational requirements of the condo association are also problematic in that this form of decision making structure requires more time and resident commitment. Experience however suggests that operating expenses are lower because owners maintain their own property.

Traditionally for higher income earners seeking a lock-up-and-go form of housing, the model has also been applied to lower income households. In this context, the "limited equity" model, whereby a title holder's equity in the property is limited according to a predetermined formula, is popular. In the US, the creation of new co-ops is virtually nil, with most shared ownership housing units coming onto the market in condominium form. Many of the cooperatives that do exist in the United States are converting to condominiums to afford residents the individual equity benefit of this ownership arrangement.

3.1.2 Sectional title

Sectional title was introduced in South Africa in 1971. The resident owns their own "section" of a multi-unit development, and a share of the common space. In terms of the Sectional Titles Act, owners establish a Body Corporate which elects trustees to exercise the powers vested in the Body Corporate. In most cases, trustees appoint a managing agent to assist them with managing the sectional title scheme.

In order for the Body Corporate to manage common areas effectively, sectional title owners are required to pay levies. These levies cover costs of ongoing management by the managing agent, regular maintenance, incidental repairs (such as to broken lifts) and the rates that are payable to the Local Council.[9] Body Corporates determine the setting of levies and their annual increases. This poses a particular problem, especially in the low to moderate income sectional titles market, because it is in the owners' interest to keep levies to a minimum. Consequently, most Body

[9] While the Sectional Titles Act specifically provides for the separate rating of each unit, most local authorities prefer to treat the scheme as a single entity.

Corporates operate on a shoe-string budget, and this has a significant impact on the quality of management and maintenance that is achieved.

The dependency of the model on the success of the Body Corporate (and its ability to act beyond the self-interest of its individual members) is its key shortcoming. In this regard, Tertius Maree (Mkwena, 2002) has recommended that the Sectional Titles Act be amended to require developers to establish a suitable and viable Body Corporate before exiting from a project. The legislation could then require an attorney to sign a certificate of suitability which might be further verified by the office of an ombudsman.

Still, the recommendation doesn't deal with the consequences of Body Corporates failing, even when such have been appropriately established. Specific problems include:

- **Failure to set appropriate levies.** When bodies corporate fail to set appropriate levies there is insufficient funding available to ensure appropriate management, or to deal with ongoing or incidental maintenance needs. This results in the building falling into disrepair, further militating against any payment, and contributing to negative equity of the building. When the building depreciates, the area is also affected, causing a spiral of neglect.

- **Failure to pay rates** (as a result of corruption, mismanagement, or a Body Corporate that is functionally non-existent, comprised of absentee landlords) has meant that many buildings that have been sectionalized in Johannesburg's inner city are in fact worthless: rates owing to the Council are greater than the value of the building. Graham Paddock, a sectional titles expert, notes that "commercial insolvency and administrative atrophy in low-cost sectional title schemes is approaching crisis proportions on a national basis".[10]

- **Many local authorities fail to react to non-payment** allowing the schemes to fall into arrears before taking action. This exposes owners who have bought units in the interim to the body corporate's liabilities for rates and service charges that were supplied before they purchased.

- **Recent reaction by local authorities has led to buildings being repossessed.** Non-payers and payers alike are evicted. Even in cases where non-payment of rates has been as a result of corruption within the Body Corporate, residents are still liable for eviction.

Given the intensity of the problems involved, some have suggested the appointment of a "sectional title ombudsman". A very real consequence of the management problems associated with Sectional Title, especially as it is experienced in the inner city, lower income markets, is that investors are extremely reticent to extend funding. Management considerations become a key factor in how a bank evaluates an application for funding. As a result, some landlords or developers have had to play the role of financier – extending loan finance to residents purchasing sectional title units by installment sale. While this solves the short term problem of access to finance, it still fails to address the longer term issues of management.

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[10] From Property24, 'Councils fuel housing shortage' on 28 February 2002. http://www.property24.co.za/property24/news/FullArticle.asp?id=658&Archive=true on 28 November 2002.

3.1.3 Co-operative housing

Co-operative housing exists across the globe, from Scandinavia and parts of Europe to North America, throughout Southern and Eastern Africa, and in South Africa. While specific models vary, the essential premise of this tenure arrangement is that residents hold shared title over the entire development with specific use rights tied to the units they occupy. Residents collectively control the “co-operative” which holds the stock. Co-ops may be stock- or membership-based, nonprofit or for profit corporations. [11]

Generally there are two forms of cooperative. Static cooperatives are focused exclusively on the stock occupied by existing members and do not involve any plans for the development of new units. In South Africa, this is common in tenant buy-out initiatives. The literature about cooperatives in the United States also refers “syndicated” cooperatives. These are cooperatives that continuously develop new stock for expected new members. Members in the new developments then form smaller, member coops to govern static collections of units, not unlike the Cope Housing Association model in South Africa. In a syndicated coop, there is usually a start-up period of a year or so during which the developer is in charge of the coop while members are trained and while the coop attains financial sustainability. Cooperatives are known to work well in larger developments of at least 16 units.

Housing is accessed by membership in the co-operative. In the United States and Canada, membership may be market based (membership is transferred at market rates) or limited equity (membership is transferred at a rate pre-defined to allow for equity growth while maintaining affordability). When residents leave, they sell their share, and not the unit.

In the United States, cooperatives can obtain a blanket mortgage to cover property development. Another interesting financing mechanism in the United States involves syndication of limited equity cooperatives. In this case, the cooperative syndicates the property to private investors to raise capital and qualify for financing through tax credit programmes. The co-op can be the general partner of a limited partnership that owns the property and leases it to the co-op. After 15 years, the cooperative members can purchase the property from the partnership investors. Cooperative members in the US can also obtain share loans for financing their particular units. In South Africa, on the other hand, shares must be financed with savings. Because there is no real individual right, South African cooperative members are unable to access individual finance, neither to fund the purchase of their membership right to the cooperative, nor to undertake individual refurbishments of their unit.

In South Africa, co-operative housing is a relatively new tenure arrangement, based largely on international models that have been applied here with donor support. In Johannesburg’s inner city, Cope Housing Association establishes housing cooperatives both in existing buildings as well as in newly built developments. In terms of Cope’s cooperative model, households sign a “use agreement” which entitles them to specific use rights of the unit. As a member of the cooperative, the household becomes part owner of the entire development – all coop members own their housing cooperatively, or collectively.

[11] The ability to realize management participation in cooperatives in the final analysis depends on the characteristics of each development. Thus, for example, in a cooperative such as the Newtown Housing Co-operative, decision-making and management participation is undermined by the size of the development (356 units).

Recent motivations made to the Registrar of Cooperatives in South Africa have resulted in the adoption of statutes specifically designed for housing cooperatives. These define housing cooperatives as “trading cooperatives”, in terms of the legislation.

The housing cooperative model allows for limited equity appreciation which is realized through the exit payment that a resident receives when relinquishing their membership in the cooperative. To date, the mechanism for the exit payment has not yet been tested, and so it is unclear if and how individual investment in the unit might be later realised.

3.1.4 Share block

The basic purpose of a shareblock scheme is to provide participants (shareholders) with occupancy rights in a portion of a building, for so long as they remain shareholders (members) in the share block company [12]. The issued share capital is divided into “blocks” of shares, which entitle the shareholder to use a specific part of the property. The right is of a personal nature, and does not confer ownership of the relevant portion on the shareholder. There is no registrable real right, and shares are generally not acceptable security against which lending institutions would grant loans. This is a major disadvantage of this type of tenure.

Share blocks can be converted into sectional title schemes, which do involve registrable rights. Any contract for a sale of shares shall state whether or not it is intended to open a sectional title register at some stage. If a purchaser buys shares on the understanding that a sectional title register will be opened within a specific period, he or she is entitled to a guarantee to this effect. If a register is not opened, the sale may be cancelled.

Share block arrangements are regulated by the Share Blocks Control Act, 1980.

3.2 Shared Ownership Mechanisms

Four distinct shared ownership mechanisms have been identified: deed of sale, installment sale, shares, and shared ownership (of which there are three variations). These are explored below.

3.2.1 Deed of sale

This mechanism exists in South Africa, and allows for property to be bought “outright by the owner” by way of a deed of sale agreement. Through common law, the mechanism can be used to allow for shared ownership. In this regard, a sectional title unit gets registered in the name of two common law co-owners each having an undivided share. An agreement is concluded setting out various rights.

A particular risk of this mechanism is that agreement between the parties must deal with all eventualities. Rights of common decision making, right to require division, equal share of costs, rights of on-selling and so on should be addressed in the

[12] While various vehicles could be used for the operation of a share block scheme, only companies registered under the Companies Act, 1973, would fall under the ambit of the Share Blocks Control Act.

agreement up front. Perhaps the best example is where spouses share joint title on their home.

3.2.2 Installment sale

Installment sale, under the Alienation of Land Act, is a South African ownership mechanism sometimes used in multi-unit developments in conjunction with sectional title. In terms of an installment sale agreement, a resident agrees to pay installments toward the purchase price of a unit. Once an agreed threshold of payment has been achieved (usually set at 50% of the purchase price) the purchaser may elect to take transfer of the property. Such transfer, however, can only be effected, provided the outstanding balance of the purchase price has been paid. In the interim, ownership rests with the Housing Association or landlord. In subsidized housing schemes, such transfer can only happen after a minimum of four years.

Because of the inaccessibility of housing finance in the moderate income housing sector, a number of Housing Associations have been playing the role of financier in instalment sale arrangements. In this context, they are the title holder of the unit until the purchase price is paid.

3.2.3 Shares

In South Africa, share block schemes (see 3.1.4 above) involve the sale of shares to members, who on the basis of their owning those shares have specific use rights. Because the shares are not secured by an individual property, however, accessing of finance for individual purchasers, either for the purchase of shares or for improvements of the individual's unit, is limited.

3.2.4 Shared ownership

While a variety of shared ownership arrangements exist, South Africa has not developed any specific mechanisms for shared equity.[13] Given the affordability constraints (wealth and income), that plague moderate income households, "shared ownership" has become a way of packaging affordability for homeownership that is otherwise only accessible to higher income earning households.[14]

From the various options highlighted in Table 7, above, three ownership mechanisms warrant further consideration. These are collectively referred to as "shared ownership" mechanisms:

[13] The exit payment that applies to Cooperative Housing membership might fit in this category, but this has not been tested and can only be applied in collective housing arrangements.
[14] Or, in South Africa, because of its housing subsidy scheme, what is available to also the poorest households.

Table 8. Shared ownership mechanisms

A. Shared ownership (UK) Unit owned by two parties: Occupant and HA (or local authority or developer)	
Occupant portion funded with cash or individual bond (not subsidized) ***Occupant pays bond installment***	**Other portion** funded by HA who charges occupant rental (in the UK, the rental is subsidized) ***Occupant pays rental and overall levy***
B. Retained equity (Wales) Unit owned by two parties:Occupant and HA (or local authority or developer)	
Occupant portion funded with cash or individual bond (not subsidized) ***Occupant pays bond installment***	**Other portion** funded by HA on a speculative basis. HA does not charge rent, but shares in appreciation benefit to the extent of its equity share, when the unit is sold. ***Occupant pays levy and shares in appreciation***
C. Split equity (Australia) Unit owned by two parties: Occupant and private investor fund	
Occupant portion funded with cash or individual bond (not subsidized) ***Occupant pays bond installment***	**Other portion** funded equity fund that invests on a speculative basis. Fund shares in appreciation benefit to the extent of its equity share; no rent is charged. ***Occupant pays nothing but shares in appreciation***

This section considers international experience with promoting home ownership among low income households through the promotion of various shared equity arrangements.

(i) Shared ownership (UK)

Shared ownership originated in the UK during the Thatcher administration as an effort to offer public housing tenants a chance at home ownership. It became important in later years as a mechanism to address the marginal affordability (or wealth constraints) of teachers, nurses and other public sector workers.

Shared ownership is offered primarily by Housing Associations (HA) as well as Local Authorities (LA), though some developers have also entered the market. Essentially the model involves the occupant purchasing a portion of the equity of a dwelling and renting the remainder, usually from an HA. The occupant's part-share of the equity may be as low as 25% or as high as 75%. They pay a mortgage on the part they've bought, and then pay rental for the remaining part to the HA, local authority or developer who retains the equity stake. Both HA's and LA's charge a subsidized rent.

There are three main types of shared ownership:

- Mainstream or Conventional shared ownership, where an association develops new housing units and sells part shares to occupants
- Do-it-yourself shared ownership: where households buy existing units in the market in a shared ownership arrangement with an HA

- Shared ownership off the shelf (in Scotland): where an HA buys a development and on sells to occupants

In all types, occupants have a long lease from the equity holder (HA, LA, or developer) which retains freehold. Lenders may register a mortgage over the freehold. In Scotland, however, occupants have an occupancy agreement rather than a long lease. The occupant is responsible for all repairs and maintenance, while the equity holder insures the building and maintains common areas and services (particularly in flats). The lender's risk in respect of the occupant's portion is secured with a mortgage. The equity holder's risk is secured with freehold title.

An interesting feature of the model is known as staircasing, and this is entrenched in the 1980 Housing Act which governs the model. In terms of staircasing, the occupant has the right to subsequently buy additional equity slices from the other owner (the HA, the LA or the developer). With local authorities, occupiers must own 100% within 25 years. At all stages, equity shares are purchased at current market values – this is determined by an independent valuer. More recently, the John Rowntree Foundation has explored the concept of "downward staircasing" in some of its projects, where occupants are permitted to sell parts of their equity back to the HA in lieu of rent, in times when their finances are constrained.

Analysts describe shared ownership as the point at which the sale market and social housing mix. They argue, therefore, that shared ownership calls for a unique combination of developer risk taking and long term social commitment. The following SWOT analysis provides an overall evaluation of the model.[15]

[15] The points raised in the SWOT are drawn from Bramley, G. and Dunmore, K. (1996).

Table 9. Strengths, Weaknesses, Opportunities and Threats of the UK Shared Ownership model

Strengths	**Weaknesses**
• Access to home ownership: helps overcome 'wealth constraints' (by reducing the deposit required) • Affordability for households at the margins • Provides a framework for the sensible and flexible management of risk • Meets housing needs directly at lower subsidy cost than conventional social renting • Meets housing needs indirectly by releasing social rented units • Promotes tenure mix & diversity, is flexible • A way of hedging your bets in the face of uncertainty • Less vulnerable to sharp increases in interest rates than traditional ownership	• Less financially attractive than normal purchase in the long run: rental portion of housing costs tends to rise annually with inflation • HA's generally face a higher cost of borrowing than conventional mortgages: dependent on subsidy • Like index-linked or low-start mortgages, SO arrangements do not provide a cushion for the future: dependent on household improving their real wealth • Highly complex
Opportunities	**Threats**
• Allows for greater reliance on market mechanisms (important in the UK) • Extends or supports the market for new housebuilding output • Appropriate for elderly households who are downsizing and wish to minimise monthly payments • Flexible tenure: upwards and downwards staircasing • Can make subsidy repayable – apply it in the retained equity model and then require staircasing to 100% • Affordability for better quality housing increases overall affordability because less spent on maintenance	• Falling interest rates (undermines desirability of this tenure form for occupant) • Rising inflation • Negative equity • Erratic employment patterns, falling incomes • Poor consumer awareness and understanding of the tenure

(ii) Retained equity (Wales)

The retained equity model is a variation of the UK shared ownership model, and is found in Wales. Under this scheme the occupant purchases a portion of the equity of a dwelling, usually with a mortgage bond, in the same manner as under the shared ownership model above. The remaining portion is purchased (or retained, as the case may be) by the HA, as a speculative investment. When the occupant sells the property, the HA benefits in its appreciation to the proportion of the equity it held. While no interest is charged on what some call an interest-free loan, the loan is paid back in terms of the new current value: "if you buy a home for R100 000, the HA gives you R25 000 investment. In seven years, if you decide to sell your home and your home's value has risen by 6% a year, your home would be valued at R150 363. You would then be responsible for repaying your 25% investment, which would be calculated at R37 363." If the home's value decreases, then the occupant repays less than they received.

In Wales, HA's generally retain 30% equity in the property so that the occupant needs to only access a mortgage loan for 70% of the property value. At Notting Hill in the UK, the proportion is 25% retained by the HA and 75% mortgaged to the occupant. The interest-free loan is repaid when the occupant sells their home or elects to repay early.

In this model, the occupant has full title, and the HA has a “second legal charge” (second mortgage bond?) on the property. The occupant is responsible for private property; outsource management of common areas.

Like the shared ownership model in the UK, retained equity operates both in the new build and secondary housing market.

(iii) Split equity (Australia)

The split equity model has been developed in Australia in the context of rising property prices. This model works very similarly to the retained equity model, except that here, a “silent institutional partner” (a property investment fund of sorts) owns the other portion. The occupant owns all of the decision-making rights free and unencumbered, just as in traditional markets. The point at which the occupant assumes full ownership (if ever) is not specified. Upon sale of the property, the institutional partner shares in the appreciation, or depreciation of the unit, as in the retained equity model.

The model refers to the occupant household as the “Managing Partner” and to the financial institution who initially co-owns the asset as the “Limited Partner”. The partnership contract between the two leaves the Managing Partner in full control of the property, with the right to determine the time of sale, what additions to make and when, level of maintenance. The Managing Partner is responsible for maintaining the home, paying operating expenses, taxes, etc.

Housing is financed with both a mortgage (registered against the property) and an institutional investor (Limited Partner) who provides equity capital. Thereafter, no rental or installment is charged by the institutional investor. The institutional investor is intended to finance their equity participation through the development of a liquid secondary market in real estate equity: the plan envisions a ‘specialist’ buying Partnership contracts, holding them in a portfolio, and issuing bonds on the underlying baskets. Baskets could be geographically or otherwise defined. The equity stake by the Limited Partner is limited to 50% or less.

The model was developed for the Menzies Research Centre – a Liberal Party think-tank – as a proposal for overcoming housing affordability problems. The first concept paper was released in July 2002 and a final report was due late in 2002. While the scheme hasn’t been officially implemented, a variation has evolved and is being applied in the higher income property market in Sydney.

3.3 Conclusions

Across the board, in each country that has introduced some variation of the model, “shared ownership” has been about enhancing access to home ownership for households with marginal affordability. Shared ownership in the UK, Wales and Australia deals with two factors:
- Loan accessibility
- Housing affordability

In this regard, the importance of shared ownership is that it is a way for middle-to-low income households to 'get a foot on the ladder' of homeownership. Homeownership is widely popular and desired, seen as a solid means of increasing personal wealth. This perception is substantiated by the fact that property prices in the UK have tended to rise ahead of general inflation and are currently at an all time high. While this has served to enhance the desirability of ownership, it has also put full homeownership out of reach for especially young people.[16] It's not aimed at the poorest, but at the intermediate market, mostly public sector workers (teachers, nurses, firefighters, and so on). In this context, shared ownership has been successful. In London, up to 40 applications can be received for each property on offer.[17] Sydney, Australia seems to be having similar problems, with house prices rising far beyond the affordability of even middle to upper income households.

It is worth noting that in none of the international literature does the issue of management feature, notwithstanding its importance in South Africa. Similarly, the willingness of the resident to pay in terms of their specific responsibilities is not questioned. Tenant militancy is not an issue.

A third issue that is not questioned in the international literature is the viability of the secondary market. There, it is assumed that the occupant's inability to access home ownership except through a shared ownership arrangement is singularly a function of affordability. Once that is achieved through a shared ownership arrangement, his or her investment will appreciate until it comes time for the unit to be sold. South Africa does not have such secure markets, and the secondary market in Johannesburg's inner city is dysfunctional for housing units in multi-unit developments.

As noted in Section 2.4, above, the problems in South Africa span three key issues: affordability, accessibility, and management. Shared ownership internationally deals with two of these issues: affordability and accessibility. Only if the model can be manipulated to also deal with management issues as they are found in the South African context does shared ownership have the potential to become a viable home ownership mechanism in inner city multi-unit developments targeted at the low to moderate income sector.

[16] James Tickell of the National Housing Federation notes that "*Even a modest home in the London area can cost £300,000, while annual household income may be a tenth of that figure. In may parts of London and the Southeast, this is causing recruitment problems for public service workers".*

[17] Email correspondence with James Tickell, 18 November 2002.

4 Analysis: Potential for Shared Ownership for Johannesburg Inner City

By all accounts, shared ownership is both an innovative and challenging model which improves accessibility to homeownership for households on the margins of affordability. Where it is most extensively practiced, in the UK, shared ownership has been introduced primarily to respond to issues of affordability, while also providing benefits in terms of loan accessibility. It assumes a viable and relatively stable secondary housing market. In South Africa, while these are important constraints facing moderate income households seeking home ownership, they are inextricably linked to a third factor - housing management. In addition the secondary housing market is dysfunctional. Given this, is shared ownership still relevant for Johannesburg and the particular challenges being faced in the inner city?

This section considers the relevance of shared ownership in the Johannesburg inner city context and sets out the ideas of respondents to the shared ownership context.

4.1 Overall assessment of the potential for shared ownership in Johannesburg's inner city

As part of the research process, the consultants interviewed ten practitioners in the Johannesburg inner city housing market.[18] Respondents were asked to consider the potential for a shared ownership mechanism, and the three international variations were explained. Their responses can be compiled in the following SWOT analysis.

Table 10. Residents analysis of SWOT in a potential shared ownership mechanism

Strengths • Could enhance affordability • Reduces entry costs to home ownership • Could improve monthly costs (if retained equity model) • Introduces new funding, enables development • Increased accessibility for loan finance by individual means decreased financing requirements for HA	**Weaknesses** • Consumer education and awareness issues: very complicated • Introduction of an ownership right translates into a potential reduction in sanction: Risk of default remains as high and HA could lose capacity to act
Opportunities • Introduces potential for a management component into poorly or unmanaged sectional title arrangements • Could stimulate the emergence of a secondary market • Innovative way of managing risk could make it feasible for lenders to enter the market and responding to CRA requirements • Could contribute significantly to urban regeneration	**Threats** • No, or dysfunctional secondary market means that goal for equity appreciation is nullified • Clearance requirements in terms of on-selling could undermine secondary market or make first phase unaffordable • Negative equity in the inner city. This could result in a loss of value for both the housing association and the shared owner in the event of resale of the unit. • Limited management capacity: few players • Limited management accountability (if management ownership share too low) • Tax issues: capital gains, transfer duty, VAT

On the basis of practitioners' assessments, the shared ownership concept responds well to the three problems raised: loan accessibility, loan affordability, management.

[18] Persons interviewed are listed in Annexure 2.

This enthusiasm was strongly tempered by an uncertainty if it would work. Virtually every respondent had misgivings about the capacity of the target market to understand the model, and upon understanding it, to respond as expected. Others doubted an emergence of a secondary market in the short to medium term in Johannesburg's inner city and expressed reservations that the ultimate goals of the approach would ever be realized. Within this group, some doubted if the banks would ever extend loan finance to this target market. Still others doubted if housing institutions themselves would be interested in sharing equity with their tenants. And yet, at the close of every interview, respondents agreed that in principle the idea was a good one and should be tried, if only on a pilot basis.

4.2 Responsiveness to Johannesburg inner city housing challenges

Section 2 set out in detail the challenges facing the Johannesburg inner city housing market. These challenges relate to demand and supply factors, as well as to challenges for the City. Section 3 outlined a range of shared ownership arrangements and mechanisms as are found both in South Africa and internationally. Table 11, below, explores how shared ownership might begin to respond to the various challenges, and if these responses resolves the issues.

Table 11. Challenges in the Johannesburg Inner City Housing Market

Problems identified	Potential responses from shared ownership	Resolved?
	DEMAND SIDE CHALLENGES	
▪ Wealth constraint: insufficient savings for down-payment	Both shared ownership (UK) and retained equity (Wales) reduce the amount of down payment required because the occupant is only seeking a loan for a portion (and not the total) of the property value. The downpayment required is therefore considerably decreased, which may reduce the wealth constraint.	Yes
▪ Income constraint: limited affordability for housing finance	While the shared ownership (UK) model does not appear to improve affordability, the retained equity and split equity models both improve affordability because the loan size is decreased without additional rental charges.	Yes – though dependent on secure and functional secondary market
▪ Risk perceptions: loan finance is inaccessible	Shared ownership (whatever the model) spreads financial repayment risk among a wider array of players, thereby reducing the risk associated with the occupant borrower. It also improves the loan to property value ratio in respect of individual loans. This should address the inaccessibility of finance, though addressing risk perceptions may require more than just a financial model.	Partially – dependent on sentiment – do the lenders believe the inner city housing market will become functional.
▪ Desire for ownership: o tenure security o wealth	If shared ownership resolves loan affordability and accessibility issues, it could improve the household's access to homeownership. In this, it responds to the desire for tenure security. The desire for wealth creation depends however, on the functionality of the secondary market. The introduction of a shared ownership model may support the emergence of such a market, though this is not certain, especially given current market perceptions.	Partially – only if it generates a functional secondary market and supports the associated wealth creation benefits
▪ Desire for increased size	The benefit of increased affordability in shared ownership could translate into increased affordability for more size. In addition, as owners, residents would be entitled to make renovations (e.g. closed balconies) which could also impact favourably on size.	No - Indirectly
▪ Suburban aspirations	Shared ownership per se does not respond to this challenge. However, if shared ownership supports wealth creation in the inner city, it will provide a platform for trading up unto suburban housing markets.	No
▪ Protection from risk from poorly performing neighbours	If a single equity investor owns all the secondary portions of units in a single development, this clout could increase the protection of individual households against poor performance. Also, the added management oversight provided by the investor, especially if such is the HA, should also reduce the risk of having poorly performing neighbours.	Yes

Problems identified	Potential responses from shared ownership	Resolved?
	SUPPLY SIDE CHALLENGES	
▪ Finance problems o Property value and impact of negative equity o Dysfunctional secondary market o Inaccessibility of finance o Cost of finance o Cash flow mentality	The critical factor is that a shared ownership arrangement focuses risk on the management capacity and financial stake that the landlord retains in the multi-unit dwelling. Consequently access to finance will remain dependent on the management capacity and financial strength of the landlord. Still, the negative perceptions that plague the inner city housing investment environment are likely to persist. While the introduction of shared ownership might not necessary resolve this, its success would clearly have a positive output in this regard. Similarly, the dysfunctionality of a secondary market is a key risk to the successful application of the shared ownership approach. That said, shared ownership might also encourage the emergence of a functional secondary market. In addition, the shared ownership model allows for the occupant to carry some of the finance responsibilities, thereby reducing the overall amount of loan finance required by the HA. This could improve financial accessibility, as well as the cost of finance. The cash flow mentality of developers and landlords is not resolved by the shared ownership model. Only its successful application might begin to change their minds about the long term investment potential of the inner city.	Only limited – reduced level of finance required. Generally some level of risk enhancement will still be required to secure the landlords loan risk.
▪ Management problems o Poor occupant behaviour o Militancy of tenant base o Limited capacity of managing agent o Sectional title management o Poor governance & administration	The shared ownership approach offers a real opportunity in respect of management. If the second owner is a Housing Association (HA) or landlord, that has a significant equity stake themselves, then their interest in sound management, coupled with their expertise, would begin to resolve some of the problems associated with moderate-income Sectional Title in the inner city. Presumably the equity stake of the resident would also act as an incentive for good tenant behaviour and allow residents to resist the efforts of "stirrers". By sharing the ownership role with the HA, residents might also become capacitated as good members of their respective bodies corporate. Unless the shared ownership model somehow draws in the City in a way that forces sound administration in respect of rates, taxes, service delivery & regulations, shared ownership by itself will not be sufficient to develop a secondary housing market.	Yes. This is perhaps the most important benefit of applying the shared ownership model in South Africa.

Problems identified	Potential responses from shared ownership	Resolved?
CHALLENGES FROM THE PERSPECTIVE OF THE CITY		
▪ Urban regeneration and integration	If the introduction of shared ownership works and it has all the expected side effects, such as improved tenant behaviour, higher propensity to pay for services, and so on, then this would contribute towards urban regeneration and integration in the inner city.	Indirectly
▪ Payment of rates & service charges	The inclusion of the HA in the ownership arrangements of sectional title units would have a significant impact on payment levels of rates and taxes..	Yes
▪ Enhanced urban governance	It is possible that resident owners would voice their governance concerns more loudly with their increased stake. This would broaden the base of ownership concerns in the inner city. This could encourage the Council to make the necessary improvements. As with the previous points, if the introduction of shared ownership works as expected, this will also have the spin-off of better governance.	Indirectly.

On the basis of the analysis in table 11, shared ownership responds well to many of the demand side challenges, i.e. tenant-based challenges. It overcomes many of the supply side management challenges, particularly in respect of sectional title. However it does not overcome the supply-side financial challenges – additional interventions to strengthen the risk carrying capacity of housing associations / landlords will still be required. Shared ownership will have a positive impact, albeit indirectly, on challenges from the perspective of the City of Johannesburg.

4.3 Legal Parameters

An assessment of the current legal mechanisms available to accommodate a shared ownership approach is summarized in Annexure 6. The four options are set out as follows:

- **Contractual Participation Agreement:** The occupant concludes an agreement with the owner (housing association or landlord) to share in the equity growth of a dwelling.
- **Corporate Solution:** The occupant obtains a shareholding in a private company which owns the sectional title unit. The occupant authorizes the landlord/housing association to represent them on the body corporate.
- **Common Law Co-ownership:** The sectional title unit is registered in name of the occupant and the housing association / landlord. The occupant authorizes the landlord / housing association to represent them on the body corporate and to make all management decisions within its discretion.
- **Partnership:** Occupant and the housing association or landlord enter into a partnership in respect of the sectional title unit.

All of these options are unsatisfactory in that they either fail to protect the occupant sufficiently are expensive and cumbersome to manage, or lack flexibility. Of the above, the common law co-ownership option provides a possible short term solution. In will rely, however, very heavily on a well structured agreement between the occupant and the housing association / landlord to deal with all eventualities. This in itself is unsatisfactory and open to abuse.

Consequently in the longer term, regulation would need to be enacted which creates a well structured and sustainable ownership model. This would require substantial investment to develop and promote the proposed legislation and to assist in its passage through the parliamentary process. A two to three year time frame would realistically apply to secure the required legislative framework.

4.4 Critical Success Factors

Bramley and Dunmore (1996) suggest the following demand and supply side conditions necessary to make shared ownership a viable, and long-term major tenure option in the UK. These provide a useful tool for considering the critical success factors for the Johannesburg inner city context.

Table 12. UK Critical Success factors: Demand and Supply

Demand side - the shared ownership model must:	**Supply side - the success of the shared ownership model depends upon**
• Improve or sustain monthly affordability • Improve entrance affordability (wealth constraints) • Be easy to understand and straightforward in terms of what the costs and benefits are • Improve flexibility and risk • Enhance choice and quality • Provide a viable and desirable alternative to other low cost home ownership options.	• Willing providers: calls for a unique combination of development risk and long-term social commitment – a new kind of housing provider • Risk for providers: marketing it in the first instance, then again when occupants sell their portion and move on; as a result, HA's are dependent on subsidy • Government commitment: in the UK, SO is dependent on subsidy • Private finance: "it is not clear why lenders do not like SO, other than the irritation of large numbers of small transactions." Staircasing causes increased admin and complexities • Management: who will supply it and on what basis?

These issues also hold as critical success factors in the South African context. Bramley and Dunmore find that while the UK model of shared ownership meets most of the supply side conditions, the extent to which demand side conditions are met is unclear. They and other analysts express concern that the model only has benefit in some situations. This notwithstanding, substantial demand is expressed by consumers. In comparison to other models supporting various forms of low cost homeownership, however, shared ownership is relatively marginal in the UK.

Within the South African, and particularly the Johannesburg inner city context, in addition to the above, a few factors are especially important in the South African context, and require further emphasis.

For the shared ownership model to succeed, it depends upon:

- **A functioning secondary market:** If a functioning secondary market does not emerge (for currently it is currently dysfunctional), then the benefit of ownership for the occupant, and the investment security for the investor or lender does not materialise. While this is not a condition precedent, it is an essential condition for long term success.
- **An effective legal mechanism:** For shared ownership to work an effective and practical legal mechanism must be in place to regulate and protect the rights of

occupant, landlord and lenders. In the longer term this will require a new legislative model.

- **Consumer education:** Shared ownership is a complicated concept which would be difficult to understand in any context. Even in the UK, analysts highlight resident understanding as a significant issue with which suppliers must deal. In South Africa, this issue is particularly poignant given the low levels of homeownership experience among the target group. It stands to be the biggest potential barrier to the success of shared ownership.
- **Good behaviour:** A shared ownership arrangement would not survive the poor resident behaviour that is evident in some rental arrangements. It is dependent on residents paying their share of monies owing and maintaining their unit as confirmed in the various agreements. The ability to sanction payment default and misuse of the premises is critical. Consequently, a proven management track record such as the JHC has established is fundamental to the model working.
- **Improved local governance:** The shared ownership model will fail if the housing involved does not appreciate. This depends significantly on the local authority upholding its responsibilities, requiring the payment of rates and service charges, enforcing by-laws and ensuring delivery of services. It has been well documented how local government neglect contributes significantly to area-wide decline and negative equity in property.
- **Entrenching the risk and responsibilities among the parties:** It is critical that each participant is sufficiently entrenched in the investment to make an effort to make it work. This suggests that occupants and the HA should each have at least a 25% stake in the property.
- **The availability of loan finance to fund both the occupant's and the investor's portions:** Without the commitment of lenders to participate in the arrangement, shared ownership would not be viable. It depends upon the availability of finance, and that lenders would perceive the risk to be sustainable.

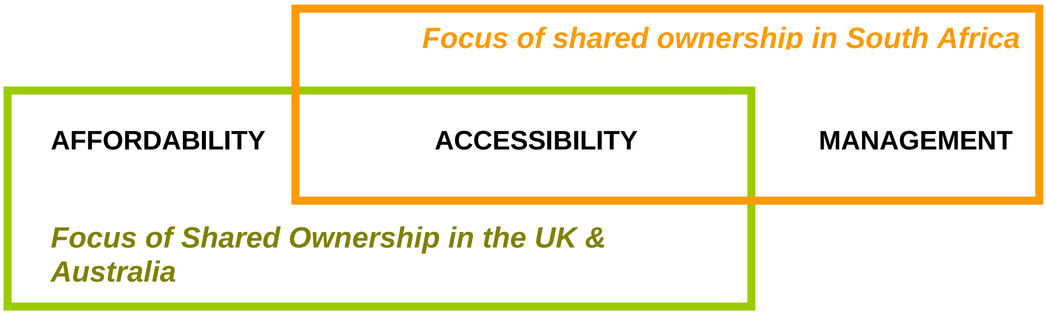
The positive impact of shared ownership will be improved if housing institutions or developers can raise funds at lower interest rates, or if project debt can be reduced. If, as is traditionally applied in property, projects are geared to a maximum, the ultimate cost to end users will not really change and there will be little impact on affordability.

5 Conclusions

Shared ownership has been successfully applied in the UK, where it has had a relatively happy history. Notwithstanding ambivalence by some analysts that other mechanisms for accessing homeownership are more attractive (given the high level of subsidization in the UK), it is a model that has been tried and tested with clear success.

Application of shared ownership in the Johannesburg inner city housing market is less straightforward, given the peculiarities of this context. These are documented in section 4 above. Figure 2 below, illustrates the point:

Figure 2. The focus of shared ownership as applied in different contexts



Where in the UK and Australia shared ownership responds to problems of affordability and accessibility, a South African rendition of the model has very real potential to respond to problems of accessibility and management. By retaining an ownership stake in a sectional title unit, the landlord or housing association retains the authority to ensure appropriate and sound management – because it is the managing agent itself. An equity investor similarly will have the clout to influence the course of management. Problems of affordability might also be addressed, but only if the investment portion on the property is made as equity and not as a loan – an approach not likely to be taken in South Africa in the short term.

In summary:

- All variations of the shared ownership model respond well to key demand side challenges (such as wealth constraints which limit the accessibility of finance, and the need for protection from the risk of poorly performing neighbours) of inner city Johannesburg tenants. Shared ownership does not resolve income constraints (affordability) unless applied using the retained or split equity models as found in Wales and Australia. .
- Similarly, shared ownership overcomes the supply side challenges regarding management – and in this it has the potential to overcome many of the shortfalls of the sectional title model. It does not, however, overcome the risk perceptions associated with the inner city, and the consequent challenge of accessing debt funding by housing associations or landlords. Additional interventions will be necessary in this regard.
- The primary benefit of applying the Shared Ownership model in South Africa is its potential to influence the course of management in sectional title developments. By so doing, the model would then also make home ownership a more viable option to inner city moderate income households.

- Benefits to the tenant owner would include:
    - Improved access to home ownership and the positive spin-offs this involves (growth in capital, collateral for loans, personal security)
    - Security in the management structures so that tenure is not at risk due to poor neighbour behaviour
    - Application of the UK “staircasing” concept (similar to the SA access bond facility) could offer tenants a shield against hard times – they could improve their asset share while they were gainfully employed, so that they would have a surplus in shares to ‘sell’ back to the housing association in lieu of their monthly payment responsibility, should they become unemployed or unable to work.
- Benefits to the landlord owner would include:
    - Improved ability to mobilize finance
    - Potential change in resident behaviour as residents become “owners” with the responsibility that implies
    - Decreased per unit debt commitment (implies a financial capacity to build more units)
    - Retention of a long term income stream from management fees
- Shared ownership has the potential to make a positive contribution to the challenge facing the City of Johannesburg in respect of multi-unit residential developments.

However for shared ownership to become a viable housing option in the medium term, certain critical success factors must be resolved. These include:

- A functioning secondary housing market in the Johannesburg inner city.
- An effective legal mechanism for shared ownership must exist.[19]
- Consumer education and understanding of shared ownership.
- Good tenant behaviour and an enhanced ability to sanction default and breach of lease agreements.
- Improved service delivery and regulation by the City of Johannesburg
- Entrenched rights and responsibilities for both occupant and landlord/ housing association on an ongoing basis
- Availability of loan finance to both the occupant and the landlord / housing association

It is not possible that these key success factors can be resolved immediately. In fact, to some extent, the potential for the shared ownership model needs to be tested and demonstrated to establish the necessary will to intervene in the environment as required.

This would indicate that in the short term, a pilot project of a limited number of dwellings needs to be established with special arrangements in respect of conditions precedent. This will establish the practical experience and justifications to establish the structural and legislative changes necessary to fulfill the conditions precedent for shared ownership to be applied successfully in the Johannesburg inner city.

[19] Irrespective of the form of ownership, i.e. rental, individual or shared, the functionality of the legal system to enable the enforcement of contractual rights in areas such as the Johannesburg inner city, needs to be enhanced. While this is more general than shared ownership, it must be considered part of the key success factors.

6 Recommendations

While there is a role for shared ownership in the inner city housing markets of South Africa's metropolitan areas, the key success factors are significant and will take time and substantial effort to achieve. Short term interventions should be put in place to achieve the key success factors at a limited scale.

It is recommended that:

1. A shared ownership approach be piloted on a limited basis in Johannesburg's inner city (say 200 to 500 units). A housing association and lender (JHC and ABSA) should become the key parties to the pilot. All evidence would suggest that the Provincial Housing Department and the City of Johannesburg (either the Housing Department or the Johannesburg Development Agency) should also participate actively in the pilot programme,
2. A detailed feasibility study should be undertaken which sets out the specific parameters for the pilot project. These parameters should include:
   - The building / developments to be piloted.
   - The selling price and ongoing pricing mechanism for the shared ownership approach.
   - The funding requirements (for both occupants and the JHC). A detailed capital budget and cash flow should be prepared. Special attention should be given to the long term cash flow implications for the JHC. Once debt has been paid off, the surplus rental stream normally attributable to debt repayment will not accrue to the JHC, but will rather be reflected in a reduced rental for the occupant to the extent that this relates to the occupant's paid-off equity portion.
   - An operating budget which demonstrates the basis on which the debt will be serviced, the JHC investment and the management and maintenance costs recovered.
   - A business model which sets out the specific application of shared ownership to be applied in the pilot projects, the institutional and funding approach to be undertaken as well as the risk management approach adopted.
   - The legal arrangements to be utilized in the short term to regulate these arrangements and how these would be "normalized" should the necessary legislative amendments be enacted.
   - This feasibility study would need to be assessed jointly by the housing association and the lender and pilot project should not proceed without the up-front commitments to the pilot.
3. A Johannesburg Inner City Shared Ownership Working Group should be established comprising representatives from Provincial and local government, as well as the housing association and lender piloting the project to assess progress and develop the proposals for the interventions necessary to apply the pilot at scale. Such interventions would include the funding, risk underwriting, institutional support and legislative aspects necessary to meet the key success factors identified in this report.

The overall characteristics of a pilot project are set out in table 13.

Table 13. Overall Characteristics of a Pilot Project

Aspect	Characteristics / Approach
1. Scale	• 200 to 500 dwelling units. This would involve an overall value of between R16 and R30 million.
2. Parties	• Principle Parties – JHC and ABSA Bank • Secondary Parties – Gauteng Provincial Housing Department and the City of Johannesburg
3. Legal Instrument	• Co-ownership registered on units in a sectional title scheme established for each multi-unit development in the pilot programme. • Occupants to authorize the JHC to represent them on the body corporate. • The JHC to have a pre-emptive right to purchase the occupants share at market value if they want to exit.
4. Individual Loans	• Occupants to purchase their principal ownership share utilizing a deposit of say 20% of the loan (10% of total value) and a 80% loan (40% of total value). This loan to be secured against a mortgage bond registered over the entire unit. • JHC to have the right to acquire the property for the outstanding loan amount in the event of the lender foreclosing on the loan.
5. JHC Funding	• JHC may use developments which are already completed and occupied or new developments. In either case JHC will need to fund its share of the equity (50% of total value). • JHC should access a guarantee either from NURCHA or Gauteng Housing Partnership Fund to improve the security of the required loan. • JHC could secure such a loan from the NHFC or a private sector financial institution.
6. Marketing	• The shared ownership option will need to be carefully packaged and marketed. Consideration should be given to differentiating it from both rental and ownership by calling it a "Housing Investment Programme" This may make it more comprehensible and easier to administer.
7. Management Accountability	• JHC should have the independent management contract to manage these shared ownership developments. JHC should also be obliged to retain a minimum 25% ownership share in each unit so that it retains management rights and obligations. • A specialist education module should be developed.
8. Normalization	• The co-ownership agreement should empower and oblige JHC to normalize the pilot arrangements within 5 years. This should enable JHC to convert the co-ownership title into a shared ownership title should legislation be enacted. If at the end of 5 years, the pilot is not able to be applied at scale, JHC should be empowered and obliged to acquire the occupants share at an agreed market value and adjust rentals accordingly.

Overall the shared ownership model has potential to make a significant and positive contribution to the housing market in the inner city of Johannesburg. However this is dependent on resolving a number of key success factors.

In the short term, there is potential within the existing environment to accommodate a pilot programme within the City of Johannesburg. Certainly, many potential stakeholders (notably ABSA, the Gauteng Housing Partnership Fund, and the Joburg 2030 Unit) expressed interest in participating in a pilot and testing its potential application for the long term. The pilot, if it proceeds, should inform and be linked to a longer term programme of establishing a sustainable publicly supported and legislatively enabled shared ownership housing model for multi unit developments.

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Annexes

Annexure 1: First workshop note for the record

SHARED OWNERSHIP PROJECT
FIRST WORKSHOP: 21 October 2002
NOTE FOR THE RECORD

Present	**Apologies**
Matthew Nell	Aeysha Reman, JHC
Kecia Rust	Rebecca Black, USAID
Rudolph Willemse	
Otto Holicki	

The purpose of the workshop was four fold:

- To review & discuss conceptual framework
- To review case studies
- To brainstorm options
- To review progress & next steps

This Note for the Record captures the discussion and ideas raised in each of these four areas. It should be read together with the amended workbook.

Conceptual framework

Comments: Background (Sectional Title) (Workbook page 4)	**Action**
The problems with sectional title are many-fold: • collapse of the management process / weak management • undisciplined provisioning • subletting and non-payment by tenants • non-payment by owners • rates and service charges arrears make mortgages functionally worthless These problems apply equally to higher and lower income sectional title developments.	KR to seek out documented SA experience on Sectional Title as it has been applied in both lower and higher income markets.
While there haven't been any foreclosures on Sectional Title developments in the affordable housing market, this is because it is still too early for problems to have reached this stage.	
Installment sale arrangements, which seek to bring in the management capacity of rental with the ownership benefits of sectional title, is only a short term arrangement – valid only for the period preceding transfer.	

Comments: Conceptual Framework (Workbook pages 5-8)	**Action**
Wealth constraints are lower for rental than for ownership: rental has lower entry costs.	
Affordability constraints (income) are in the long term higher for rental than for ownership.	
If you have a contract where substantial operating responsiblities are transferred to the occupant, then that will significantly improve (lower) your operating costs. For instance, security can be beneficially accessed on a communal basis, and would be more affordable in this way than if accessed individually	
Economies of scale are about the difference between Sectional Title economies, which are restricted to a single building or development, vs. portfolio economies, which would be based on a spread across a series of buildings and developments.	

Comments : Conceptual Framework (Workbook pages 9-10)	Action
Two dimensions frame the problem: 1.**Cost dimension**: This involves both the down payment & monthly payment – It is well known and well established that ownership is more expensive as an entry and more cost effective as an operating; rental is the opposite. So, you can optimise affordability by redefining the relationship between entry and operating costs: reduce your entry costs, and change the responsibility arrangements so that operational costs start being closer to an ownership model. 2.**Risk dimension**: Two types of risk: lenders risk & owner's risk. From the lender's point of view – if you can sell an option where the benefits of good quality, institutionalized management are coming in (rather than a body corporate) that will have benefit. Can even have a situation where the institutional manager (I.e. HA) is at risk. The HA could be a wholesale borrower and on-lending to the individual borrower (the occupant). From the point of view of the owner's risk, if the owner doesn't have this management certainty, he becomes subject to the lowest common denominator – if 25% stop paying their levy, it will become 100% very quickly, and this threatens tenure. Need a situation where both the cost and risk dimensions are optimized. For an HA to retain a portion of equity is good for the resident, because of affordability issues (cost), but also good for the HA because it retains some control in terms of how management happens (risk). **Shared ownership is a way of trying to optimize the differentials** (transaction costs, development costs, finance costs, operating costs: see workbook page 9). It is about reaching thresholds that will begin to achieve behavioural changes, leading to cost and risk benefits.	OH to compare costs relating to ownership, rental and shared ownership tenure in multi-unit buildings. (Attached as an appendix, below) The cost comparison above indicates that shared equity and ownership offer the most cost effective options in respect of total monthly costs, while rental and shared ownership, reflect similar monthly costs. Rental offers the lowest upfront cash requirement, while ownership requires the highest upfront cost component.
Why not just keep pure rental? Yes, this would deal with the risk dimension (somewhat) but it wouldn't deal with the cost dimension, because you wouldn't be able to optimize operating expenses through a sharing of responsibilities.	

Comments : Conceptual Framework (Workbook page 11)	Action
What is the most secure tenure form? Tenure security is the extent to which you are in a position to enjoy your security. It involves (1) legal security; and (2) security from management risk. In this regard, while ownership tenure is in principle more secure than rental tenure, the potential for management failure in multi-unit buildings makes ownership tenure on the whole less secure.	

Review of Case Studies

Comments : Case study: shared ownership (Workbook page 13)	Action
Shared ownership also evident in the Netherlands, and in Nordic countries.	KR / RW to investigate shared ownership experiences from the Netherlands. Follow up with Robert van der Lay, or Willie Els.
Key question: should occupants be allowed to acquire 100% ownership over time? 100% ownership would undermine the risk management component of the model (in the same way as in post-transfer installment sale units). Still, if 100% ownership is not permitted, the model would need very careful packaging and marketing to be acceptable.	
Comments : Case study: retained equity (Workbook page 14)	**Action**
What are HA's offering retained equity actually selling? Common law rights? Leasehold rights?	
In areas where neighbourhoods are dicey, opportunity for an equity intervention in values. If you've got a situation where banks are saying they're worried about the inner city… if they only had to provide credit for 50% of the units AND they had first mortgage, its entirely different risk profile. More likely to do it if its linked to better management, or where there's an HA that has a vested interest.	
Tax on this one will be very interesting – capital gains, equity. Like the former one, but the way in which the state intervenes is different. Government could be the third party, or be one of the risk sharers.	

Comments : Case study: community land trusts (Workbook page 15)	Action
Something like this model was applied by the old SA Development Trust… land was offered with a Permission to Occupy" lease.	
In terms of cost components, having the entity own the land is not entirely helpful. On the other hand, in places where inner city land markets are high (Cape Town) this might be useful. In the short term, however, not a viable option for inner city Johannesburg.	
Good land intervention in terms of the potential to interfere with urban land markets. This model is not so useful in terms of our parameters of cost and risk.	
Legally complex: Can't imagine how to split land and housing because the two comprise one entity in SA law. Setting it up as a CC won't work because the landowner would not be a natural person (as legislation requires). Pty (ltd) would be an option, but that's too expensive. So perhaps in partnership – this raises problems, because a partnership is a loose arrangement - but perhaps these could work through. Some kind of legislative intervention would be necessary in order to make this workable. Could also look at the Collective Schemes Bill – could have lots of useful interventions there.	

Comments : Case study: Singapore (Workbook page 18)	Action
The tenure arrangements do not appear to be unique. Also, lots of subsidies applied because goal was integration. The relevance of this example is rather the conversion process from rental to ownership.	KR to investigate conversions from rental to ownership.

Brainstorming options

Comments : Issues surrounding Sectional Title	Action
There is no problem with sectional title as an underlying mechanism. The issue is: who has the rights to manage? Sectional title is not a problem unless it is badly managed.	
Can you structure a body corporate under sectional title legislation that requires HA to retain management? You could have co-owners of a sectional title unit (equity partner and occupant). They could have agreement where one retains right to sit on the body corporate (the equity	RW to establish legal eviction processes in a sectional title

partner would do) to manage and to make specific decisions. In effect, this means that you're giving the occupant an equity stake but taking away their management rights. But still, if someone contravenes the house rules, can you evict them?	situation – how would this apply to co-owners?
In a co-ownership arrangement, there's an assumption that unless you register differently, the co-ownership arrangement is equal (50/50). You could have an agreement that makes the split in terms of who occupies and who manages for instance. The only problem with this is that you'd have to transfer the whole property before you can liquidate.	
Comments : Issues surrounding Shared Ownership	**Action**
There are essentially two models: (1) where the whole unit is owned but by two parties (retained equity model); (2) where part is owned and part is rented (shared ownership model).	
What if you said that the institutional subsidy of 30% would only apply if it went together with another 20% of real equity – this could have a big impact. Still, the problem remains that the subsidy caps the income of potential residents – limits affordability.	
Two components: 1. **Retail lending component**: banks or home lenders, financing the occupant's equity portion secured by mortgage, pension & provident fund or otherwise. This is essentially about the full range of home loans currently existing. In this scenario, the lenders would be providing a home loan service to these individuals requiring shared ownership. 2. **Equity participation component**: HA's etc. raising funding to make equity investment in the units. Key issue here is that equity investor must have management access. And funders to the equity investors should be able to get some form of tax deductions – need to look at tax implications – like depreciation deductions. For this part of the model, the equity investor is being asked to take a view on the performance of the property market. The equity investor could be the state – the model could argue that if the state wants to stimulate investment into inner city shared ownership schemes, the will have to put up 50% to secure capital amount, so that the investors only have to take risk on the upside.	RW to consider tax implications of equity investments in housing.

Responsiveness of Shared Ownership in terms of Costs & Affordability	**Responsiveness of Shared Ownership in terms of Risk management**
• Reduction of deposit / entry costs: provided there's a statutory intervention • Reduction of operating costs: significant cost savings by transferring of maintenance responsibility over rental. Only delegating individual – not common areas. • Reduction of installment costs, where SO equity is speculative (ie not serviced as a loan) because lower loan value means lower repayments. BUT • More costly to register something in your own name than to just sign a lease agreement. • But will occupants carry out their responsibilities? • What if occupant defaults on continued levies?	• Will this improve access to funds? Yes For the 50% to the individual, there are two options: 1. The loan goes to the individual: individual's risk profile assessed. (May be a need for specialist home lender like a Southfin). 2. The loan goes to the HA / developer who on-lends: HA's risk profile is assessed. (could by HA, LA, special home lender (PML from NHFC), or a developer) – here, relationship between risk management and lending because the HA is the middleman in the lending process. Obviously, second one makes more sense… but in principle could be either. • For the 50% equity holder: This is the one that improves the scenario. Provided the equity holder is playing a management role, where the rest comes from doesn't matter, provided they have a first mortgage on the property (note that this increases your transaction costs)

Conclusions

Comments : Conclusions	**Action**
We can conclude on the basis of the analysis that going on the basis of equity is not a proposition. Shared ownership as it is applied in the UK (first case study) is therefore not really an option. The retained equity scheme (Welsh case study) is the one we're really looking at. Split equity (Australian example) envisages going to the market to raise the money – too optimistic at this stage in South Africa. 1. Must be shared equity, not rental, else won't get real affordability benefit. 2. That means that someone has to take a speculative risk – but its too early to expect this to come from the market (Australian model) so go the Welsh model. 3. Capital component must be through an institution that has management accountability or authority over the development. 4. First line security needs to be provided to the institutions providing the individual loans to the individuals.	
This conclusion presupposes some form of sectional title arrangement but where ownership isn't 100%. Management control on the body corporate must be retained by the equity investor.	

Way forward

Comments : Way forward	**Action**
Possible interviews (brief is to undertake 5 or 6) Home lender: Southfin or Greenstart Conventional lender: Standard Bank Housing specialist: David Porteous and Brian Miller, Wayne Plitt Housing official: Rory Gallocher NHFC: whoever runs mortgage finance, or Adrienne Egbers	MN to confirm with TA who he would prefer
Workbook has been amended during the course of the workshop	KR to finalise amendments,

	and draft note for the record.
Next meeting set for Wednesday, 6 November 2002 from 2-5pm	KR to confirm attendance with all.

APPENDIX: COST COMPARISON:
Rental vs. Shared Ownership (50/50) vs. Ownership

1. Capital / Financial Cost	**Rental**	**Shared Equity**	**Ownership**	**Shared Ownership**
Unit Cost VAT	R60 000 R8 400	R60 000 -	R60 000 -	R60 000 -
Sub Total	R68 400	R60 000	R60 000	R60 000
Less End-User Subsidy	(R23 345)	(R23 345)	(R23 345)	(R23 345)
Less Downpayment	-	(R6 000)	(R6 000)	(R6 000)
Sub Total	R45 055	R30 655	R30 655	R30 655
VAT on Unit Cost less Subsidy	-	R5 132	R5 132	R5 132
Total Finance / Cost		R35 787	R35 787	R35 787
Less 50% equity	-	(R17 893)	-	-
Total Finance Cost	**R45 055**	**R17 894**	**R35 787**	**R35 787**

2. Present-Day Monthly cost to End-User	**Rental**	**Shared Equity**	**Ownership**	**Shared Ownership**
Financial Installment (16% pa over 15 years) Management & operating costs (variable) direct ops & maintenance rates & services management / debt prov.	R653 N/A R100 R150 R275	R263 - R100 R150 R225	R526 N/A R100 R150 -	R526 N/A R100 R150 R225
Management and Operating Costs	-	-	-	-
Total Monthly Costs	**R1 178**	**R738**	**R726**	**R1 001**

3. Upfront (Once-Off) Costs for End-User	**Rental**	**Shared Equity**	**Ownership**	**Shared Ownership**
Lease / Sale Agreement	R200	R4 794	R4 452	R4 794
Deposit	R2 374	R3 000	R6 000	R3 000
Total	**R2 574**	**R7 794**	**R10 452**	**R7 794**

Notes:
1) Shared ownership and shared equity is assumed to be on a 50/50 basis.
2) Co-owner for shared ownership utilises own funds on speculative basis.
3) No management / debt provision is assumed for the ownership option.
4) All subsidy revenue assumed to be apportioned equally between owners, ie not to individual only.

The cost comparison above indicates that shared equity and ownership offer the most cost effective options in respect of total monthly costs, while rental and shared ownership, reflect similar monthly costs. Rental offers the lowest upfront cash requirement, while ownership requires the highest upfront cost component.

Annexure 2: List of persons interviewed

Eleven persons were interviewed:

Financiers
- Tony Ketcher and Colin Cunningham, Standard Bank
- Pierre Venter, ABSA
- Willie Vos, Southfin
- Adrienne Egbers, National Housing Finance Corporation

Landlords
- Brian Miller, Landlord and inner city property developer
- Les Inglestone, Adprop
- Gerald Leissner

Government
- Rory Gallocher, Gauteng Department of Housing
- Lael Bethlehem and Li Pernegger, City of Johannesburg, Corporate Planning Unit

Experts
- David Porteous, FinMark Trust
- James Tickell, National Housing Federation, UK (by email correspondence)

Annexure 3: Summary of points raised in interviews

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
1. Tony Ketcher, Colin Cunningham, Standard Bank	• Seen it work in Sydney Australia, though they have a more secure property market than we do. • In principle seems to be a good idea • From a risk perspective, ownership is more powerful than rental. • All of government's interventions to date have been about minimizing loss – we need to look at enhancing affordability. •	• Standard Bank does have money to lend – just hasn't found the right opportunity. • A 50% loan to value ratio is better than say 80% but depends upon who owns the other portion and how that is (1) financed and (2) managed. • A lower instalment to income ratio also improves accessibility – currently set at 30%. If lowered, bank could afford to absorb greater risk. • Would benefit from a higher ratio of individual investment to property value – mechanisms to promote savings are important.	•	• Standard Bank would probably define this as a medium-long term commercial loan rather than as a mortgage • Loan would draw both on the property as well as the housing association for security • Could consider financing other 50% as a speculative investment – also in terms of a bulk number of properties in a defined area	• quality of property being purchased – though new and refurbished units would be acceptable • quality of managing agent – governance and operations • default risk managed with appropriate systems and the loan-to-income ratio • recovery rate: addressed by the loan-to-value ratio and the loan size • pension-provident fund backing may be more appropriate than mortgage • dysfunctionality of the secondary market undermines the incentive to speculate on the other 50% • depends on a strong property market • need to demonstrate a real return	• Standard bank is keen to develop appropriate and workable products. • Would like to participate from the initial research stage. • Would welcome a pilot project. • Need to check details with Bank's credit risk department • Package the initiative as a way to respond to the housing problem: a response to CRA. • Might be possible to make the HA a loan originator and agent for the Bank

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
2. Willie Vos, Southfin	• Generally a good idea	• Would require 25% collateral (savings, pension-provident) • Clients would have to be formally employed. • Not sure if accessibility improved because risk associated with the client is the same)	• What if occupants do not fulfill their individual management responsibilities, and what if this negatively affects other units? What if they cannot afford maintenance? • Need individual metering	• The HA owning the other 50% would have to have a track record, and sound operations management procedures.	• would face same risks as with Sectional Title • Who is the titleholder? • Client risk: clients are unfamiliar with the fundamentals of ownership – end-user behaviour is the key risk. • Education and training is essential. • Impact of building form on risks: high rise vs. 3 storey walk-ups	•
3. Rory Gallocher, Gauteng Department of Housing	• Broadly useful	• Will improve both the occupant's ability to access finance, as well as the HA's. This could halve the amount of debt than an HA would need to mobilize in developing units, if prospective residents could be relied upon to secure loans for the other portion[20] • Not sure if it enhances affordability – can't see it being cheaper if residents also have to pay a levy. The speculative model would be more affordable, if it worked.	• Giving the HA an equity interest in the stock means that the residents can't dismiss the managing agent • This could deal with current management problems in Sectional Title developments. • Adding the HA's management interest into the Body Corporate would allow for improved management	• What happens if the equity partner (i.e. the HA) goes bankrupt? How does this impact on tenure security?	• Will be very difficult to get consumers to understand the model – concerned that it is too complicated for the market concerned. • Contract must ensure that individual bond holders service their bonds – what if they don't? • How will the HA demarcate their 50%? • How would the subsidy fit in? How would you deal with the requirement that an ownership subsidy requires the Title Deed to be in the name of the beneficiary? Need to look at subsidy rules.	Could foresee the Gauteng Partnership Fund for financing the debt facility.

[20] This is a benefit over instalment sale, which requires the HA to take out the full value of the development and be reimbursed only four years later when transfer occurs.

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
4. Brian Miller, Property owner	• Conceptually the model is quite nice because you're spreading the risk – be sure not to spread it too far, else you'll lose the players' interest to participate. • Don't let the introduction of ownership' change the HA's capacity to act against poor performance. • How will you get inner city investors to think beyond monthly cash flow benefits to investment potential?	• Could solve a structural problem with Sectional Title, where Body Corporates' ability to change management annually is counter to a bank's 15 year assessment of risk.	• Would require strong, hands on management. • Need sanction for poor performance – so if occupant fails to maintain the unit, decrease in appreciation is to the account of the occupant and not the investor. • Can't assume that an owner will take better care of his property – no different than a tenant except in attitude around rights. • Limited number of managers competent to do this kind of housing – what happens to the sustainability of the stock when they leave?	•	• What happens in the event of non-payment? Even if you can evict, then the bank becomes your partner – is this desirable? Risk of default is high in inner city. • Can't allow occupant to have title until full amount is paid, because repossession is too expensive. Eviction is more affordable. • Interest rate • Militancy of tenant base in inner city • Residents haven't appropriate capacity to participate in Body Corporates, to be owners in multi-unit dwellings • Absence of a secondary market • Threshold of responsibility: need to ensure that each party has invested sufficiently so that they stand to lose if they walk away • Need to involve city to issue clearances for transfers. • Need to find a mechanism to create a market among HA's for this tenure – current players have a zero residual mindset.	

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
5. Adrienne Egbers, National Housing Finance Corporation	• In principle, good idea. • Johannesburg inner city is the right target market	• Should require own investment by occupant – some form of collateral.	•	•	• put a note on the Title Deed that it should not be duplicated (to deal with subletting) • can ownership and occupation rights be linked? Is it constitutional to restrict an owner from subletting?	NHFC would be available to participate in a pilot, funding both intermediaries to provide the 50% individual loan, as well as HA's to hold the other 50% equity in the property.
6. Gerald Leissner	• interesting idea • essentially you're delaying a portion of the equity for later • Like an escalating bond or a progressive annuity? • Not sure if there will be demand.	• Wouldn't enhance affordability because of interest rates – its currently cheaper to rent than to own. At an interest rate of 17%, loan finance is too expensive for inner city buildings – they're rather funded with equity to achieve the necessary affordability levels. This model would require loan funding. • If the model delays payments, might provide an opportunity to ride out high interest rates.	•	• Must be government because no one else would do it	• Haven't seen much capital appreciation in multi-unit dwellings for some time • People who are living in the inner city are still thinking 'monthly payment' – they rely on the flexibility of rental tenure. • Tax issues?	

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
7. David Porteous, Finmark Trust	•	•	• This is where the real potential value of the model lies.	• Would need someone who could take at least a ten year view. • If you underwrite the model by say 5%, you could encourage investment. Include a claw-back clause that says if the market appreciates by 10% you split the difference with the investor.	• Price appreciation and depreciation • What if there is no market at all in ten years time? • need to distinguish this from the institutional subsidy – you could use the subsidy as the equity portion, but if you can't achieve gearing, then its not much more than the subsidy itself. • deed of sale restricts occupant to assume ownership behaviour for a four-year term – so you need a funding mechanism to absorb the property-type risk • create a sort of derivative proeduct with the subsidy. • Probably a different sort of market in Cape Town. •	In the context of CRA this could be a popular investment opportunity. Gauteng Partnership Fund to launch next month What about Nurcha's JVDF? Ichut funding?

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
8. Lael Bethlehem, Li Pernegger, City of Johannesburg	•	• Might make it possible to deal with the black hole in housing finance – housing for low-income earners that costs more than the subsidy alone.	•	•	•	Would like to try it as a pilot in an area like Bertrams or Malvern. In Bertrams, regeneration is critically needed in advance of the World Cup Soccer 2010 bid. City's role could be in the preparation and provision of land. Include as part of a wider area-based plan.
9. Les Ingleston, Adprop	• Can't believe it will work • Tenants wouldn't be interested in investing own equity. • Sectional title doesn't work in the inner city – only rental does	• Areas are effectively redlined irrespective of individual affordability or desirability of development	• City council not enforcing own collections • In sectional title, evictions become difficult • Sectional title Act full of anomalies and grey areas	•	• Tenants unreliable, don't pay • Tenants easily manipulated by stirrers. • Consumer education • Education for managing agents • Absence of secondary market will mean that buyers will be unable to realize their equity, especially if such is locked in a share arrangement	Own equity requirement could change tenant behaviour

Respondent	Overall impression	Loan accessibility / affordability for occupant	Management of multi-unit dwellings	The other 50%	Risks / Problems	Opportunities
10. Pierre Venter, ABSA	• Believes has merit, provided that: • (1) the housing association was something like the JHC with an established track record of competence. • (2) Initial exposure on property value didn't exceed 50% • (3) proper systems put in place between bank and HA to collect the installments and deal with default • (4) multi-unit development had reasonable value	• mortgage type bond or similar instrument to apply to occupant • mortgage loan should be within a package of products (life insurance, homeowners insurance, unemployment insurance, etc.) to get cost effective pricing	• absolutely critical that the building is properly managed	• should be funded independently by the HA	• substantial problems with sectional title – only by having this arrangement that you could start overcoming these	Willing to consider a pilot project with an institution like JHC.

Annexure 4: Second workshop note for the record

SHARED OWNERSHIP PROJECT
SECOND WORKSHOP: 22 NOVEMBER 2002

NOTE FOR THE RECORD

Present
Matthew Nell
Kecia Rust
Rudolph Willemse
Otto Holicki
Ayesha Rehman, JHC
John Ndebele, JHC
Paul Jackson, JHC
Anton Gollub , JHC

Apologies
Rebecca Black, USAID

The objective of the workshop was to review research progress and to evaluate the options raised. Specifically, the meeting debated issues relating to management, financial arrangements and legal considerations.

This Note for the Record captures the discussion and ideas raised in respect of:
- the prevailing conditions in the Johannesburg inner city
- the conceptual framework
- the review of international experience
- specific considerations relating to management, financial arrangements and legal issues

It should be read in conjunction with the workbook.

Prevailing conditions

Comments: (Workbook page 5)	Action
Affordability problems relate to the monthly cost associated with housing for the occupant, whether such housing is owned or rented. In the inner city, in cases where households do get access to loan finance, banks only fund a minimum standard, which has the potential to push up the price of inner city housing considerably in comparison with a similarly sized and quality unit in the township. Affordability is not always directly linked with over-crowding. While it may be true in some cases that affordability constraints encourage households to sub-let so that they might cover their costs, the two issues are not always linked: • in some cases 'affordability' is rather about priorities: as suggested in the case of tenants with DSTV argue that rents are too high • overcrowding not only about affordability but also about past habits – social experiences and norms would tend to go for much higher densities than are anticipated and planned for. This causes management problems because units aren't designed for this type of use (JHC is currently considering the design implications of this reality). In this regard it becomes an issue about management rather than affordability. This increases the management risk parameters. This raises the issue about what are the minimum standards. Among some households, however, there clearly is affordability. Over time, JHC witnesses residents improving their internal furnishings. They may move	

in with just a bed, and later they purchase a living room wall unit, a hi-fi system and so on. Some residents are also investing in the improvement of their units (such as in built-in cupboards) even though they have no ownership stake.	
Accessibility problems are felt both by the individual and the developer or landlord. Even established property managers (such as Neville Shaeffer from Trafalgar) can only get 50% bank finance for their properties. This is because it is the value of the unit within the particular neighbourhood in which it is situated that banks assess, and not the balance sheet or track record of the property manager concerned. Availability of loan finance is an issue for the JHC, given lenders' reticence to fund the inner city. Today, JHC cannot build new stock with only subsidies and loan finance. Another source of finance is needed.	
Management: an example of tenant militancy was highlighted in the press this week. The Sectional Title model in itself isn't problematic. It is when it is applied in the Johannesburg inner city among households with extremely limited resources that problems arise. The model depends on Body Corporate members having management capacity.	KR to follow up
Demand for ownership: although JHC's turnover is not high, it is estimated that 60-70% of tenants who leave JHC stock do so to purchase housing elsewhere. Generally they move to the South of Johannesburg, and purchase units in townhouse complexes. Other questions relating to demand: • is demand for ownership evenly spread, or only existent in some buildings? Would there be demand for ownership in Tasmin Heights, or in the Landrost Hotel? Or is demand only a factor in the townhouse-type developments such as Jeppe Oval or those in Fordsburg and Newtown.	KR to access Progressus survey data as well as marketing material from T Zack
Property values: A number of buildings in the inner city are still boarded up, having been abandoned by their owners. While this stock is being sold, this process remains slow. Current property owners in the inner city are arguing that they shouldn't be required to pay rates because rates are based on property values and inner city property is worth nothing. The inner city has gone through what economists would call classic market failure - massive decline in property values - both nominal and real. As a consequence, if but for the lack of finance, you could buy a lot of house for little cost in the inner city. This creates a real opportunity to achieve value for money. At the heart of the issue is the tension between a commercial view which says that the inner city is still an undesirable investment vs. a policy view which says that investment is critically required to turn the inner city around. The policy view must be backed by commercial underpin for the commercial reality to change.	

Conceptual Framework

Comments: (Workbook page 7: international case studies)	**Action**
A shared equity mechanism in collective ownership of all dwellings would be the "exit payment" offered by co-operatives in South Africa	KR to add "exit payment" to matrix

Comments: (Workbook page 8: international variations of shared equity)	**Action**
The legal basis of "ownership" for the three international variations of shared	KR to

ownership was questioned.	resolve and incorporate the detail.
It was noted that in the UK, rentals comprise property value and management costs as separate items, making it easier to split the calculation.	
The critical differential between the various shared equity models relates to the financial methodology: In the UK, the Shared Ownership model uses a rental methodology. In Wales and Australia, the Retained Equity and Split Equity Models use a speculative methodology.	

Comments: (Workbook page 9: rationale for shared equity)	**Action**
It was noted that management issues do not come up in the debate at all in the international models.	

Comments: (Workbook page 11: benefits)	**Action**
In 1992, Deon Thompson and Craig McKenzie did work on shared equity in agriculture. A shared equity model has now become part of the Department of Land Affairs Land Redistribution policy.	KR to seek out policy on share equity.
Affordability benefits in ownership and shared ownership arise from the flexibility of maintenance. In rental, residents must pay for ongoing maintenance which is necessarily institutionalized to apply to all units in the development collectively. In the various ownership forms, residents can elect how maintenance is undertaken – whether they contract a service provider or undertake the maintenance work themselves (a form of sweat equity).	

Comments: (Workbook page 12: SWOT on international experience)	**Action**
It was noted that the international literature appears to focus entirely on the costs and benefits for the individual, or for the policy approach. The perspectives of the HA and the funder were not included.	KR to follow up with Nottinghill or with James Tickell.

Management considerations

Comments: (Workbook page 15)	**Action**
There was a long debate on the structuring of the levies: • If one occupant owns 40% of their unit and another owns 50%, are their levies the same? It was agreed that the contribution towards maintenance should be fixed. Essentially, by being in the unit the occupant was joining a maintenance scheme which applied to the exterior of their own unit as well as the common areas, irrespective to the proportion they owned. • It was critical that the HA provided a consistent management service irrespective of the ownership component. • The occupant benefits from the levy in two ways: (1) better management; and (2) better access to finance - because of the management • Agreed: levy would be a function of your unit size. BUT occupant is fully, 100% responsible for the levy, irrespective of their ownership share.	

It was critical that the HA's right to continue managing the units would be secured - this could be done by placing a restrictive condition on title deed that the property would be managed by JHC. It was noted however that the restrictive condition would also have to set out a formula for determining the price of such management service for future calculations.	

Legal considerations

Comments: (Workbook page 17)	Action
The notion of splitting ownership is foreign to South African common law. Legal structuring of the shared ownership concept would therefore require either drafting new legislation, or adapting existing legislation	
Options for structuring the arrangement: • SPV model: the HA could locate each unit in a separate company or SPV. This company would be co-owned by the resident and the HA (each would have a certain number of shares). In this model, you couldn't use a CC. Pty (Ltd.) might be an option. • The only way of splitting ownership would be through common law co-ownership, but there are limits as to how. Options included leasehold, installment sale (which creates another differentiation in rights, but is just a phased, full ownership mechanism), or long lease. • If the model was not called ownership, but rather called a "Housing Investment Scheme", this would give tenants an opportunity to invest in their unit with some promise of return. The lease agreement would provide certain rights for participation. After year x, the unit could be evaluated by an independent evaluator, and whatever appreciation was calculated would be split on the basis of the agreement. But in this model, the occupant would have difficulty getting finance for his equity – participation rights cannot be mortgaged. • Communal Property Association: Membership rights aren't mortgageable, and so this isn't really an option. • The time share option was raised. How are timeshares protected against insolvency? • Another option involved registering a blanket mortgage over the entire development. Then the HA would open a sectional title register and commit itself to the bank that it would administer the release of title on any of the units through a trustee arrangement. This was proposed to Nurcha previously, but in the end it was concluded not to be legally possible. In terms of the Deed of Sale agreement, transfer only occurs when unit is fully paid off. If the occupant leaves before that point, they are entitled to their share of the appreciation. It was noted that this option involved JHC refinancing its building and offering tenants to buy 50% shares in their units. Then JHC could on sell these loans to the NHFC as part of its Primary Market Lender programme.	RW to consider these options in more detail, especially in terms of ease of application and cost effectiveness.
It was noted that practitioners who had been interviewed had cautioned against calling the model "ownership". An option would be calling it "participation rights" or a "property savings scheme" in which a legal contract between the property owner and the occupant would be entered into. This would support the HA in having sufficient sanction to deal with non-payment. Other ways to deal with non-payment included: • installment sale was attractive in sectional title because if someone has defaulted, ownership hasn't yet passed. This means that that HA could evict the occupant rather than having to repossess. The Act is unclear however, on the occupant's rights and if they get a return on their investment even in the case of default.	

Financial considerations

Comments: (Workbook page 16)	Action
JHC has already undertaken rudimentary calculations: if you sold 50% of the unit, monthly costs would increase, not decrease. This was debated as follows: • For a R100 000 unit, rental would be, say R1000 per month, of which R500 would be for management and R500 for loan amortization. With 50% ownership, the individual loan would be for R50 000, so R250 per month. In addition, the occupant would pay the R500 per month management fee. The total cost would then be R750 per month, assuming that the HA retained its 50% ownership portion on a speculative basis. • Of course, if the HA charged rental on its 50% share, the model would be more expensive.	
On potential investors: • People who have held property in the inner city for the past twenty years, even those who have held it for the medium term, might like this option because they're sitting with negative equity. Those who are only entering the market at this stage (i.e. government) has no equity on which to benefit – why would they enter? • How does the investor realize the benefit of appreciation if the occupant doesn't want to sell? Is there a time limit on shared ownership – a point at which the investor can be sure to receive a return?	
On bank conditions for lending to occupant owners. Banks would consider • the property and its potential for appreciation • the bond holder and their relative affordability for the finance • the institution and their capacity to ensure sound management • Shared ownership affords financial institutions significant security – it could enhance their cover. The real parameter that appears to excite banks, however, is where the model would reduce the installment to income ratio.	KR & MN to meet with Pierre Venter at ABSA
On risk management and guarantees: • Given that you've got the benefits of good quality management, this should make financiers more likely to lend. Their focus, however, is not on JHC's balance sheet but rather at property value. In this instance, the unmanageable risk of negative equity is important • Need to have someone underpin the environmental risk: role for government. This could be the Gauteng Partnership Fund. If the first rank is the mortgage lender for the occupants 50% portion, the second rank would be the lender to the HA for their portion, and the third risk could be the Partnership Fund. The Fund could guarantee a 2% rate of appreciation, and if the property appreciated by more, would split the benefit with the financiers. This would give the financier a guaranteed yield plus the potential for additional returns. • Initially risk management and guarantee mechanisms will be about having to get through the pilot phase. These are short term initiatives which will become less necessary as the market normalizes and becomes familiar with the model. • At what point does the government guarantee stop? If the property appreciates beyond accessibility to the poor, a government guarantee should not be maintained. It was agreed that the guarantee would	

lapse once the property price index increased beyond a certain amount.	
Costs associated with various models: • transactions costs (bond registration, company incorporation): how can this be made more efficient? • consumer education • capital gains	

The following four points were agreed as the meeting closed:

1. **Management** is central. In this regard, two questions had to be answered:
   - how do you secure JHC's right to continue to manage these units, and
   - how do you price for it.

2. **Financing** should not be too difficult. It seems possible to mobilize the funding for both the individual's and the HA's share. An appropriate guarantee mechanism could be developed.

3. Finding a **cost effective model** will be the main challenge. It is not feasible to establish one company per unit. Rudolph Willemse will explore the various models and their cost effectiveness.

4. It is worth working towards **getting local government to increase its investment** in housing.

Annexure 5: Shared Ownership Mechanisms and Arrangements

Shared Ownership (UK)

Brief description of how it works	Household purchases a portion of the equity of a dwelling and rents the remainder, usually from an HA. Occupiers hold part-share of the equity may be as low as 25% or as high as 75%. They pay a mortgage on the part they've bought, and then pay rental for the remaining part to the HA, local authority or developer who retains the equity stake. Both HA's and LA's charge a subsidised rent. The occupier may subsequently buy additional equity slices (staircasing). With local authorities, occupiers must own 100% within 25 years. At all stages, equity shares are purchased at current market values – this is determined by an independent valuer. SO is the point at which the sale market and social housing mix. It can therefore be argued that SO calls for a unique combination of developer risk tacking and long term social commitment. Requires a new kind of organization: developers good at building but no management experience; HA's focus rather on the management.
Background & intent	Originated during Thatcher administration – to offer public housing tenants a chance at home ownership. Became important later also as a mechanism to address the marginal affordability (wealth constraints) of teachers, nurses and other public sector workers.
Development arrangements	Mainstream or Conventional SO: an association develops new housing units and sells part shares to occupiers Do-it-yourself SO: where households buy existing units in the market in an SO arrangement with an HA SO off the shelf (in Scotland): an association buys a development and on sells
Tenure arrangements	Occupiers have a long lease from equity holder (HA, local authority, developer) which retains freehold. Lenders may register a mortgage over the freehold. In Scotland, occupants have an occupancy agreement rather than a long lease.
Financing	Subsidies are applicable. In addition, mortgage loans are available to occupants in terms of the purchased component of the property.
Management Arrangements	Occupier responsible for all repairs and maintenance; HA insures the building and maintains common areas and services (particularly in flats)
Risk	Lender's risk secured with a mortgage; equity holder's risk secured with freehold title.
Unique ideas	1980 Housing Act and subsequent legislation enshrined the principle of 'staircasing' – a process where by a household buys a progressively greater share of their property in tranches, over time.

Retained equity (Wales)

Brief description of how it works	Under this scheme the buyer effectively receives an interest-free loan equivalent for a portion of the property value from an HA. The buyer also accesses a loan from a financial institution for the balance of the purchase price. In Wales, the proportion is 30% interest-free loan, 70% mortgage loan. At Notting Hill in the UK, the proportion is 25% interest-free loan and 75% mortgage. The interest-free loan is repaid when the occupant sells their home or elects to repay early. While no interest is charged, the loan is paid back in terms of the new current value: "if you buy a home for R100 000, the HA gives you R25 000. In seven years, if you decide to sell your home and your home's value has risen by 6% a year your home would be valued at R150 363. You would then be responsible for repaying your 25% loan, which would be calculated at R37 363." If the home's value decreases, then the occupant repays less than they received.
Background & intent	A variation of the shared ownership model, introduced around the same time.
Development arrangements	Operates both in new build and DIY (existing home) options. Allows for households to search for a home anywhere on the open market.
Tenure arrangements	Occupant has full title. The HA has a "second legal charge" (second mortgage bond?) on the property.
Finance arr	Normal mortgage for 70-75% of purchase price. Equity-based, interest free loan for the remainder (secured against a second mortgage?).
Management Arrangements	Individual occupants responsible for private property; outsource management of common areas.
Risk arrangements	Financial risk is secured by first mortgage; equity risk is secured by second mortgage (?). HA does not necessarily control management risk.
Unique concepts	

Split equity (Australia – still in planning stages)

Brief description of how it works	The occupant owns all of the decision-making rights free and unencumbered, just as in traditional markets. The occupant does not bear all of the financial responsibilities. Instead, a passive institutional 'partner' assumes a share of this in exchange for a portion of the ultimate sale proceeds.
Background & intent	The model was developed for the Menzies Research Centre – a Liberal Party think-tank – as a proposal for overcoming housing affordability problems. The first concept paper was released in July 2002. The final report is due this month. Scheme hasn't yet been implemented.
Development arrangements	As in the regular housing market. Households would buy new or existing housing on the open market and offer a share of the equity to a Partnership.
Tenure arrangements	Occupant household is referred to as the "Managing Partner"; the financial institution who initially co-owns the asset is referred to as the "Limited Partner". The point at which the occupant assumes full ownership (if ever) is not specified.
Finance arr	Housing is financed with both a mortgage (registered against the property) and an institutional investor (Limited Partner) who provides equity capital. Thereafter, no rental or installment is charged by the institutional investor. The institutional investor is intended to finance their equity participation through the development of a liquid secondary market in real estate equity: the plan envisions a 'specialist' buying Partnership contracts, holding them in a portfolio, and issuing bonds on the underlying baskets. Baskets could be geographically or otherwise defined. The equity stake by the Limited Partner is limited to 50% or less.
Management Arrangements	The partnership contract between the two leaves the Managing Partner in full control of the property, with the right to determine the time of sale, what additions to make and when, level of maintenance. The Managing Partner is responsible for maintaining the home, paying operating expenses, taxes, etc.
Risk arrangements	None specified
Unique	"Silent partner"

Community Land Trusts

Brief description	A non-profit organisation is created to hold land for the benefit of a community and its individuals. This Trust is controlled by members who are generally the residents. The trust brings in funds and expertise to assist households access the housing they require. CLTs have been established to serve inner-city neighbourhoods, small cities, clusters of towns and rural areas.
Background & intent	Emphasis is on retaining land affordability.
Development arrangements	CLTs can buy undeveloped land and arrange to have new homes built, or buy land and buildings together.
Tenure arrangements	Land and housing tenure is separate. Land is owned permanently by the Trust, while the house is owned by the individual household. Households enjoy a long term (99 year) renewable lease on the land their unit occupies – succession is also guaranteed. Some CLT homes are rented by the CLT. A CLT can work with various ownership structures for multi-family buildings. The CLT may itself own and manage a building, another non-profit may own it, or the residents may own it as a cooperative or as condominiums. In each case, the CLT will have provisions to ensure long term affordability. In some cases CLTs have assisted residents in purchasing their buildings and worked with them to oversee management.
Finance arr	Homeowners must give first option for their home to the CLT when they wish to sell, for an amount determined by the CLT's resale formula. Each CLT sets its own resale formula. CLTs have been known to offer homeowners loans for upgrading. (Where do CLT's get their funding from?)
Management Arrangements	The CLT is democratically controlled by members. All CLT residents are members, and other community members may also join. The members elect the Board of Directors – three kinds of directors: residents, community members, public interest.
Risk arrangements	The land lease requires that owners live in their homes as their primary residences to avoid absentee owners.
Unique idea	

Condominiums (US)

Brief description	Condominiums are widely popular in the United States as a model for individual ownership of multi-unit dwellings.
Background & intent	Traditionally for higher income earners seeking a lock-up-and-go form of housing, the model has also been applied to lower income households. In this context, the "limited equity" model, whereby a title holder's equity in the property is limited according to a formula, is popular. In the US, the creation of new co-ops is virtually nil, with most shared ownership housing units coming onto the market in condominium form.
Development arrangements	Condominiums are known to work well in small developments, with as few as 8 units.
Tenure arrangements	Type of real estate ownership established by statute. A piece of real estate is divided into multiple parts, each separately purchasable through a Master Deed. The owner of a condominium owns one of the units established by the Master Deed and owns a share of all the common property. The owner may also have exclusive use of some parts of common property (a parking space for instance)
Finance arr	Households obtain a mortgage to pay for the unit. Some additional legal and architectural costs apply to the creation of a condominium
Management Arrangements	A condominium association provides management oversight but owns nothing. This is the difficulty: since the association owns nothing, it has a difficult time borrowing for major repairs. Ongoing organisational requirements of the condo association are problematic: decision making structure requires more time and resident commitment is not guaranteed. Experience suggests that operating expenses are lower because owners maintain their own property and management is more straightforward: collections go directly to the bank with individual mortgages,
Risk arrangements	
Unique concepts	In 1983, NY State enacted the roommate law, which expanded occupancy of apartments beyond the named tenants and members of the immediate family. Conversion of co-ops to condominiums is becoming popular in the United States.

Housing Development Board (Singapore)

Brief description of how it works	The role of the Housing Development Board (HDB) is to make home ownership possible for those who cannot afford private housing. Originally, all rented housing. The "Home Ownership for the People Scheme" : (1) provision of shelter in the form of self-contained dwelling units with own kitchens and toilets – and continual upgrading (by who?); (2) financing through the Central Provident Fund savings, or by subsidised Housing Loans, (3) no owner of an HDB flat can be disposed of his ownership even if he is declared bankrupt; (4) selling prices pegged according to affordability of the applicant and the limit of government subsidy.
Background & intent	The HDB was established in 1960 as the sole public housing authority in Singapore. Initially this referred only to the low income group of the population, but in the 1970's, when property prices escalated and when middle income earners could no longer access the property market, they were also included. Today, about 85 percent of Singaporeans live in HDB flats compared with only nine percent in 1960 when HDB was first established.
Devlpmnt	Housing is developed by the HDB in new estates which form their own new towns complete with necessary amenities.
Tenure arrangements	A **joint-tenancy** is a form of ownership where all co-owners have an equal interest in the flat regardless of how much each co-owner contributed to the buying of the flat. In a joint-tenancy, there is a right of survivorship. This means that upon the death of a joint-tenant, his interest will automatically be passed to the remaining co-owner(s), regardless of whether the deceased joint-tenant has left behind a Will. A **tenancy-in-common** is a form of ownership where each co-owner holds a separate and definite share in the property. However, all the co-owners are entitled to the enjoyment of the whole flat regardless of their share in the property. There is no right of survivorship in a tenancy-in-common. The deceased's interest in the flat does not pass automatically to the remaining co-owner(s). Upon the death of a tenant-in-common, the deceased's interest can be distributed according to his Will (if any) or according to the provision of the Intestate Succession Act.
Finance arr	HDB provides housing loans to all purchasers of new and old HDB flats. Two types of loan. (1) applicants can borrow 80% of the selling price if they fulfill certain objectives. (2) applicants can borrow 90% of the selling price in other cases. The residual 10 or 20% can be paid for from the Central Provident Fund, a state established pension plan.
Management Arrangements	The HDB is responsible for administration of policy matters, administration relating to flat ownership (allocation, subletting, resale, legal services, loan provision, etc.), property maintenance and improvement (though Town Councils now deal with major repairs and replacements of mechanical and electrical installations such as lifts and water pumps), regular up keeping service, cyclical preventative maintenance, support services relating to community development. A residents committee is also formed.

Cooperatives

Brief description of how it works	Residents hold shared title over the entire development with specific use rights tied to the units they occupy. Residents collectively control the "co-operative" which holds the stock. Co-ops may be stock- or membership-based, nonprofit or for profit corporations.
Background & intent	
Development arrangements	Cooperatives can either be static, focused exclusively on the stock occupied by existing members (I.e. no new development). This is common in tenant buy-out initiatives. Or, cooperatives can be "syndicated" – that is they continuously develop new stock for expected new members. These coops form smaller, member coops to govern static collections of unit. In a syndicated coop, there is usually a start-up period of a year or so during which the developer is in charge of the coop while members are trained and the coop attains financial sustainability. Cooperatives are known to work well in larger developments of at least 16 units.
Tenure arrangements	Individual residents own a share of the stock in the cooperative or company made up of all the residents. They do not own their unit.
Finance arrangements	The corporation obtains a blanket mortgage for the initial costs of the property. In the US, members can obtain share loans for financing their particular units . In SA, shares must be financed with savings. Housing is accessed by membership in the co-operative - membership may be market based (membership is transferred at market rates) or limited equity (membership is transferred at a rate pre-defined to allow for equity growth while maintaining affordability. When residents leave, they sell their share, and not the unit. In the US, Syndication has been applied to limited equity cooperatives as a financing mechanism: The cooperative syndicates the property to private investors to raise capital and qualify for financing through tax credit programmes. The co-op can be the general partner of a limited partnership that owns the property and leases it to the co-op. After 15 years, the cooperative members can purchase the property from the partnership investors.
Management Arrangements	
Risk arrangements	Residents are not evicted unless they violate the lease.
Unique concepts	Non-speculative home ownership: refers to limited equity

Annexure 6: Legislative options associated with shared equity

By Rudolph Willemse, Hofmeyr Herbstein Ginwala

PROPOSAL 1 : CONTRACTUAL PARTICIPATION AGREEMENT

Essence of Proposal: Tenant concludes an agreement in terms of which it will share in the equity growth of a unit in respect of which a sectional title register will be opened until death or termination.

Downside: Not much in it for the tenant. Will be a difficult marketing challenge : we give you the opportunity to pay more for something that may not materialise and you do not become owner. It is a savings product with risks attached. Marketing survey essential.

Costs: Fairly inexpensive. There is a sectional title register to be opened.

Risks: Tenant exposed to owner's balance sheet and liquidation of owner.

Legal issues: Is it deposit taking for purposes of the Banks Act? Probably not – amount is not repayable with or without interest. Is it subject to Unit Trust Control Act?

Upside: Fairly easy to implement.

PROPOSAL 2 : CORPORATE SOLUTION

Essence of proposal: Tenant gets shareholding in private company owning section title unit. Tenant will sign irrevocable power of attorney authorising the JHC to represent the company at the body corporate.

Downside: This may well be costly as companies need to be registered. Bulk price may be negotiated. Ongoing company law compliance issues may be a hassle.

Costs: Company registration costs and compliance cost may be prohibitive.

Risks: Strange bedfellows.

Legal Issues: Share in company must not create use right to avoid compliance with Shareblocks Control Act.

Upside: Can easily cater for further shares to be taken up to allow "step up".

PROPOSAL 3 : COMMON LAW CO-OWNERSHIP

Essence of proposal: Section title unit gets registered in the name of tenant and JHC as common law co-owners each having undivided share and an agreement is concluded setting out various rights.

Downside: Step-up possibilities restricted. Common law rights scary. See 3.4 below. Flexibility of step-up and step-down limited.

Costs: Cheaper than 2 above.

Risks and legal issues: Agreement between parties must deal with all eventualities. Rights of common decision making, right to require division, equal share of costs, rights of on-selling etc. to be addressed. Step-up mechanism problematic.

PROPOSAL 4 : LEGISLATIVE MODEL

Essence of proposal: Introduce step-up shared equity model through legislation.

Downside: Costs and time. Political selling and buy-in required.

Costs: Substantial.

Risks: Political buy-in. Low risk to consumer because it is regulated.

Upside: Certainty. Easier consumer buy-in.

PROPOSAL 5 : PARTNERSHIP

Essence of proposal: Tenant and JHC enters into a partnership.

Downside: Partnership risks to be managed. Insolvency, representation by tenants on behalf of partnership, joint and several liability of partnership assets. Loose structure.

Costs: Not substantial. Partnership agreement required. Section title register required.

Risks: See ”downside” above. More risks for JHC.

Upside: No company or legislation required.

CONCLUSION

- Explore co-ownership further.
- How important is flexibility in terms of stepping up, stepping down for now?
- Note that the <u>property</u> cannot secure the debt of the tenant. It can only secure a joint debt unless it is given by way of a surety bond.
- “*Communio est mater rixarum*” (“co-ownership is the mother of all fights”).