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Review article

Housing policy and private sector housing finance: Policy intent and market directions in South Africa

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ABSTRACT

The introduction of homeownership for black people in urban South Africa coincided with attempts to increase mortgage finance to black households and to households in former black township areas – mostly at the lower end of the market. Government attempts to use black homeownership and mortgage finance to mitigate housing inequality in South Africa have only been partially successful. This paper traces housing policy for mortgage finance and homeownership in South Africa over a period just more than 30 years (1985–2015). Much progress has been made in providing mortgage finance to the lower end of the market, but it appears that interest rate volatility and the economic recession of 2009 (following the global financial crisis) have hampered initial progress. While more recent outcomes show indications of a thriving housing market in former black townships, the percentage of low-income households accessing small mortgages is decreasing.

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1. Introduction

The move towards homeownership has become common practice in many parts of the world (McGee, 2012). In the Global North it was driven by government intent and flexible mortgage instruments (Ronald & Elsinga, 2012). Yet long periods of low interest rates and stable growth resulted in poor lending practices (Burke & Hulse, 2010). Much of the intent in the Global North has been to decrease the state's role in housing (Forrest, 2011) because the cost of the welfare state had to be curtailed. South Africa has not escaped the drive towards ownership, but here the reasons have been different. Under apartheid black South Africans could not own land in the city. They were given this right in the mid-1980s as a direct consequence of the Soweto riots (1976) and the lobbying of the private sector think-tank, the Urban Foundation (Huchzermeyer, 2001). Although the new policy did not at first do much for low-income earners, it did open up private sector housing finance to middle income black households. Since those first steps,

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several policies have been implemented and tested. The overall narrative is one of agreements, termination of agreements, a rollercoaster interest rates ride, and the years following the global financial crisis bringing new problems but also new opportunities.

Most housing research in South Africa focuses on the state subsidised programme and informal settlement upgrading for poor households (Huchzermeyer & Karam, 2006; Huchzermeyer, 2004). The few studies of the expanding housing market and private sector housing finance have been largely non-academic. Among the topics covered have been housing finance logjams at the lower end of the market (Rust, 2002a), the appropriateness of mortgage finance (Tomlinson, 1997), the conflict between housing finance institutions (Rust, 2002b), historical and current problems with extending private sector finance to lower income black households (Tomlinson, 2002, 2007), housing markets in former black townships (Shisaka Development Management Services, 2004), the impact of HIV and AIDS (Tomlinson, 2001), the problems of mortgage defaulting (Marais, Botes, Pelser, & Venter, 2005), and the performance of housing loans at the lower end of the market (Centre for Affordable Housing in Africa, 2012; 2014).

Relationships between the banks and government have largely been strained over the period of 30 years that we examine in this paper. Tomlinson (2007, p. 77), just prior to the global financial crisis, says that during the past decade ‘the commitment of South Africa's banks to the delivery of housing finance has been repeatedly questioned’ and that the outcomes have ‘not lived up to expectation’. The impact of the global financial crisis on housing finance world-wide has been illustrated (Burke & Hulse, 2010; Clarke, 2013; Forrest & Yip, 2011). Such research in South Africa is however limited (see Marais & Cloete, 2015; as exception). This paper contributes to the existing knowledge in three ways. First, the paper focuses on the housing finance trends associated with the global financial crisis. Although South Africa did not experience a subprime crisis, the country's housing sector did not escape the crisis unscathed. Second, we relate the effects of the global financial crisis to policy attempts (more specifically the Financial Sector Charter) prior to the crisis. Although some grey literature exists in this regard, academic reflections are virtually absent. Finally, all of this is done within the historical context of three decades of attempts at restoring housing rights by providing housing finance to middle-income black households.

This is a review paper. We review the existing literature over the past 30 years. We use a critical realism lens to review the literature. Within critical realism, we focus on the mechanism (usually policy), context (usually changes in the economic environment) and outcomes (changes resulting from the first two aspects). This paper therefore reviews private sector housing finance provided to middle-income black households in South Africa over the past three decades. Essentially, we argue that the policy which resulted in a large number of small mortgages probably did not have the desired long-term effects and is unlikely to continue at scale in future. Furthermore, this policy, unlike that of the Global North, has been far more geared towards mitigating the apartheid legacy than increasing ownership or reducing the state's role in housing.

A significant portion of the sources presented in this paper was originally systematically collected as part of another, larger project on homeownership (specifically state-subsidised homeownership, but also addressing the wider market as impacted by government policies). The issue of private sector housing finance touched on several of the themes that were identified in the process of addressing the multifocal nature of the research topic. Both academic and non-academic works were reviewed. It was necessary to review the grey literature and the data from the private sector because the available data from these sectors were found to be more up to date than the data available in the academic literature. Literature searches in Google Scholar focussed on what Google Scholar classified as most relevant among publications after 1994 and up to November 2013 (the search date). Sources predating 1994 were generally not digitised and could thus not be searched effectively in this manner. Using less systemised searches and referrals, we later added sources released after 2013. During the writing process in the original project, the lists for each theme were expanded as appropriate sources were identified in other themes or in the reference lists of the sources already consulted. The literature was also expanded by means of informal discussions with knowledgeable individuals in this field.

We distinguish four phases of private sector housing finance in South Africa: the mid-1980s to 1993, when a housing platform was created for an emerging black middle class during the period of South Africa's political transition; 1994–1999, with new housing policy and a new attempt to ensure private sector finance; 2000–2007, with policy maturing and regulations increasing; and 2008 to the present, the period of the global financial crisis and decreasing regulation. The following sections describe the phases in detail. The distinctions between different phases are made on the basis of the interaction between policy and the economy. The first two phases specifically trace political intent in housing policy. The last two phases, while not losing the issues of political intent, are mainly characterised by economic changes (many years of favourable economic decisions, followed by the global financial crisis).

2. Phase 1 (mid-1980s–1989): creating a housing platform for an emerging black middle class

The urbanisation of black people was seen as undesirable by the apartheid state (influx control was in place until 1985) and freehold was not available to them in the main urban areas (Crankshaw, 1997; Mabin, 1991). The 1950s to the early 1970s saw massive construction of state rental housing in many black urban townships, after which such investment tailed off (Morris, 1981). The first changes occurred in the aftermath of the 1976 Soweto riots (Huchzermeyer, 2001). By the mid-1980s freehold had become available to black people (Crankshaw, 1997; Seekings & Nattrass, 2005). Ideological support for freehold and private sector finance came via the neo-liberal policy approaches of Thatcherism (the apartheid government having had fairly good relationships with the United Kingdom in the 1980s) and the World Bank. These ideological partnerships – coupled with the fact that, in resistance to apartheid, many households in state-owned housing stopped paying their monthly rent – contributed to a process of privatisation (Mabin & Parnell, 1983). The result was the selling off of the 500 000 state-owned government houses (most of them in former black townships) by means of the Big Sale (Emdon, 1993) and, since the early 1990s, by means of the discount benefit scheme – a policy that has continued under the post-apartheid government (Marais, Sefika, Cloete, Ntema, & Venter, 2014). Further changes followed. The availability of freehold to black South Africans from the mid-1980s opened up opportunities for finance-linked housing to develop in former black townships. These mortgaged houses were directly linked to a rising black middle class as a result of the expansion of the public sector. They were also popular in mining areas – albeit with the much greater risks associated with the boom-bust cycles of mining. These first attempts at private sector finance in the mid-1980s meant that land expansions in former black townships occurred for the first time since the late 1960s.

Despite the intentions and the ideological undertones motivating these changes, however, it was not long before interest rate hikes and political pressures obliged the government to recognise the practical realities. A rise in interest rates from 13 per cent in 1987 to 20 per cent in 1989 constrained affordability in many