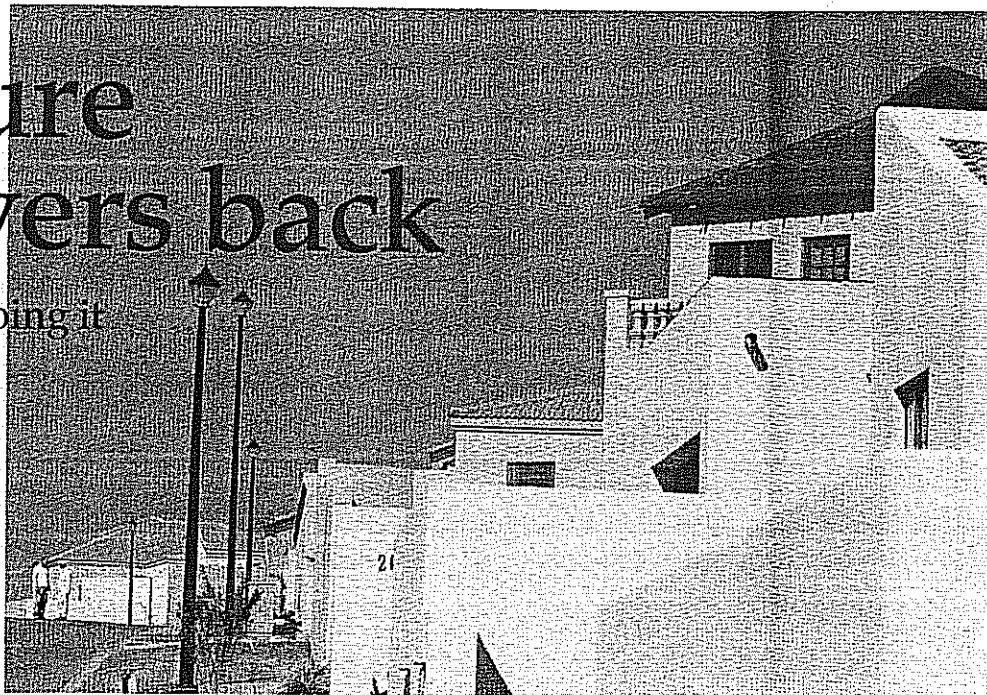


PROPERTY

# How to lure homebuyers back

Rent-to-buy one way of doing it



THE DROP OF MORE than 60% in housing sales since the residential property boom peaked in 2007 is forcing the industry to create innovative ways to lure homebuyers back into the market. Rent-to-buy – popular in the United States and Europe – has recently been introduced to South Africa’s housing market in a bid to do just that. The concept allows prospective buyers to rent a property from a seller, with the option to buy at an agreed price at a specified future date.

Cape-based lawyer and conveyancer Meyer de Waal has teamed up with Solly Molefe, an accredited debt counsellor and housing consumer educational specialist, to form Rent2Buy. De Waal says the stringent lending criteria introduced by banks on the back of the National Credit Act (NCA) in mid-2007 have left many prospective buyers out of the loop – irrespective of whether they can actually afford to own a property or not.

First-time buyers and the self-employed are particularly affected. De Waal notes almost 50% of employed mortgage applicants are currently still being declined by the major banks every month, while the decline ratio for self-employed mortgage applicants is as high as 58% (ooba figures).

The buy-to-rent concept effectively offers a lifeline to unsuccessful mortgage applicants by giving them breathing space before re-applying for another loan – either to save for a deposit or improve their creditworthiness. De Waal says the concept also offers incentives to sellers, as they are assured upfront of a selling price for the property in the future while also earning an above average monthly rental income.

That’s because the monthly rental is linked to SA’s prime interest rate so it’s roughly equal to the buyer’s future mortgage repayment. In other words, sellers going the buy-to-rent route are currently assured of a gross rental yield of around 9% to 10%/year compared with average buy-to-let yields of around 5% to 6%/year.

De Waal says prospective buyers also take over the operating responsibility of the property during the rental period, including all rates, taxes, levies and maintenance costs. This allows the buyer to become accustomed to the monthly costs that would apply if he were the homeowner.

A compulsory rental insurance policy to protect the seller against the possibility of a defaulting tenant also comes into play. The cost of the latter is shared by the seller and buyer. De Waal says the concept is proving particularly attractive to distressed investors who own multiple rental units but who can no longer afford to service their monthly mortgage repayments. The product is also aimed at developers battling to sell new stock.

De Waal says prospective buyers would typically rent for a six- to nine-month period before being required to exercise

the option to buy. A key part of the Rent-2Buy package is an education programme designed to mentor prospective mortgage applicants about the do’s and don’ts of homeownership.

“The idea is that the buyer uses the option period of the contract to prove his affordability and creditworthiness to the bank. In this way the buyer is in a far better position to secure a loan to buy the property a couple of months down the line.”

Rent2Buy’s target market is sellers and buyers in the R300 000 to R1,5m segment. The company has entered into joint ventures with a number of mortgage originators and estate agents, earning its income from shared commissions on successful sales.

Elmar Pittendrigh, national sales manager at mortgage originator BetterBond, says there’s an important place for rent-to-buy in SA’s housing market, offering huge potential to kick-start buying activity. BetterBond’s figures show mortgage lending is still more than 60% down on the levels recorded at the height of the boom. The company’s approved home loan book is currently around R2bn/month, down from about R6bn/month three years ago.

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