Applying the shared value approach to the South African rental economy

By Gil Sperling

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Can an online platform counter gentrification, deliver a double-sided business proposition that leverages shared value for the improvement of an entire segment of the economy, while simultaneously solving for one of humankind's essential needs?

Gil Sperling, CEO and co-founder, Flow

When we set about building Flow, we were hoping to find a smart way to match tenants and landlords – but as we built it, we saw the potential it had to have a major impact in the South African social space, and beyond.

Essentially, the platform matches highly-profiled renters with the right properties and gives landlords the tools to retain good tenants. It rewards tenants for good rental behaviour – looking after their properties, paying rent on time – with benefits and special offers from an array of partners. On the other side of the equation, it helps landlords market their unlet inventory to the right people, in the right place, at the right time – and then develop relationships with those tenants to retain them.

Leveraging resources, innovation of private sector

The model takes its cue from the shared value approach co-created by Michael Porter and Mark R. Kramer in a 2011 *Harvard Business Review* article. Their theory was that the approach could solve social issues profitably by leveraging the resources and innovation of the private sector to create new solutions to some of society's most pressing issues. In doing so, it creates a more prosperous environment in which to operate, making business more sustainable and resilient.

Aside from the basic human need for shelter, the problem we applied this approach to was helping fight gentrification in South African cities. Gentrification can be a powerful force for economic change, but it is often accompanied by extreme cultural displacement. While it can increase the value of properties in areas that may have suffered from disinvestment, it sends rent soaring and reduces the supply of affordable housing for the people who make up the community.

Woodstock gentrification

The immediate South African examples that come to mind are inner-city Johannesburg and Woodstock, the oldest suburb in Cape Town. Having largely escaped the effects of the Group Areas Act, Woodstock became home to many people who were forcibly removed from District Six in the 1980s. By the time 2010 rolled around, those residents were facing the threat of having to leave their homes again – not on the back of discriminatory legislation, but because of the way investment in the area by developers and middle-class families was siphoning up available housing and driving up the price of properties.

In light of rising property values, rental rates rocketed, forcing long-time residents to either bite the bullet and find ways to pay increased costs, or move away to the fringes of the city. This also entrenched the inherent power difference between landlords and tenants and saw an unregulated free market situation take hold, in which landlords had little incentive to work with tenants to maintain both properties and relationships.

Rental rate set for growth

In South Africa, the current rental rate is 55% within the developed economy and is set to grow immensely in the next decade – though the financial crisis brought about by the economic knock-on effects of Covid-19 will most likely hasten that switch as people focus on affordability and flexibility. The country's 2 million formal rental properties already generate in excess of R168bn per year, making rental property the most valuable asset class in South Africa.

A platform that helps make renting cheaper by putting more money into tenants' hands and simultaneously offers value to landlords who are prepared to sacrifice a small percentage of their rental income to secure good, long-term tenants is an example of the shared value approach in action. It's the future of renting in a post-Covid world and will improve affordability, fight gentrification and grow the rental economy exponentially.

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