

CHAPTER ONE

INTRODUCTION AND SCOPE OF THE RESEARCH

1.1 Introduction and Background of the Research

With South Africa officially now in recession, conditions in the South African economy are stagnating the pace of residential demand growth despite a series of interest rate decreases having taken place (Oversupply causes property...June 2008). The property market has been severely affected by the recession resulting in many losing homes due to job losses or reduction in salary. Just a few years ago property prices in South Africa came under the spotlight. The main reason for this was the inflationary increases in house prices. In 2005, house prices increased by an average of 25% over 2004 (ABSA residential property...2006). At that peak many were involved in renovations to their homes, some were selling and derived huge profits whilst others whom had capitalised in the past by building up a sizeable property portfolio flourished as they made good returns on their investments by either renting or selling at a profit. Due to the downturn experienced since 2008, many had to reassess their portfolios as well as their priorities.

The purchase of property is an expensive acquisition and there are a number of factors that affect the decision making process. This study investigates the factors that are now affecting the individual in the decision between purchasing as opposed to renting especially in the critical economic decline where job security is uncertain.

The marked drop in accessing credit as well as the need for large deposits now being requested by financial institutions has also placed an added emphasis on the decision making process as many new entrants into the property market do not have that type of capital as reserve for a deposit. The National Credit Act (NCA) in 2007 resulted in the decline in growth of property due to the tightening procedures with regards to the lending criteria process by the major financial institutions. The reduced affordability of housing, exacerbated by higher mortgage rates, high food and fuel prices, a sharply slowing economy as well as the implementation of the NCA, led to a decline in the demand for residential property and a substantial decline in house price growth

ensued (House price growth...2009). Despite the financial factors there are other factors that are considered as well.

Everyone has the need for shelter according to Maslow's hierarchy of needs (Ivancevich and Mattesson 1999) which is however fulfilled in different ways depending on the individual's circumstances. Every person has his/her own unique requirements when deciding to purchase property (Kotler and Armstrong 2006). Some factors that potential purchasers would take into account when deciding to purchase or rent will include: price; flexibility, stability, emotional satisfaction, personalised aesthetics, issue of maintenance, independence, pride, building equity, investment, financial position and security (To Rent or...2009). These and other factors play a pivotal role when a person has to decide on buying or renting a property especially in our current economic crisis.

1.2 Motivation for the Research

Acquiring a home is normally one of the biggest decisions that a person makes in a lifetime. It would entail the consumption of a substantial amount of their disposable income towards the purchase and maintenance thereof. One would have to evaluate choices based on the amount of funds available (deposit), monthly impact on disposable spend and decide how best they wish to spend these funds to satisfy his/her needs. This would involve weighing the pros and cons as well as assessing the present and future trends. One needs to understand the rights and obligations and learn to take control of the process. Buying or renting can be one of the most stressful experiences if not properly informed. This study is going to look at the current economic plight many are facing which is going to take years to rectify and the deciding factors involved in making a decision whether to rent or buy property. This study will give one a fair understanding of the major factors involved in the decision making process when deciding on whether to rent or buy property. It is hoped that the results obtained from the study will provide a greater understanding of a persons preferences in the Durban area with regard to the issue of renting versus buying.

1.3 Value of the Project

The research findings will be valuable to the following groups; property buyers, lessees, estate agents, property developers as well as investors. By acquiring an insight to the needs and wants as well as the financial implications attached to the ultimate decision makes it fruitful for property buyers to assess and quantify the relevant criteria before engaging in the long term commitment of becoming a home owner. They are also fully educated with regards to the after purchase aspects as well as the responsibility that attaches to the decision. Too many people encounter financial difficulty and have to live with disappointments after making hasty, uninformed decisions and not taking control of their property transactions.

For the lessee it would hopefully help as well in respect of being aware of the home owner responsibility and the long term financial implications attached thereto. This will help to budget for the future should they consider buying as well as ascertain where they belong in the stages of life in acquiring such a major asset.

Estate agents will now hope to better market the property to the respective lessee or prospective purchaser as well as be informed as to the current concerns people are facing when in the decision process.

Property developers and investors will know exactly what people are looking for in these tough economic times and the information gained will help in future construction of housing. Investors will be informed as to the long term viability of engaging in this sort of investment as well as the commitments that attach thereto.

1.4 Problem Statement

To be able to provide research as to why people would buy or rent in the current situation being faced. With the global recession that many are faced with, it is important to determine what type of individuals will thrive and make opportune of the situation as opposed to the vast majority of the population. By investigating one can determine the advantages and disadvantages of buying and renting as well as the financial implications linked thereto so people can make informed decisions. The tax implications associated with buying property will be explored.

1.5 Aim and Objectives of the Study

1.5.1 Aim

To investigate the factors associated in deciding to purchase or rent property in the current economic crisis many are facing.

1.5.2 Objectives

- To investigate the option of buying property or renting and the respective factors that favour one opposed to the other in the tough times ahead.
- To investigate the viability of the once lucrative purchase to let option.
- Investigate the category of individuals that will purchase in this turbulent market.
- To ascertain the financial implications (tax implications) of purchasing as opposed to renting.

1.6 Research Methodology

This study will focus on letting and estate agencies in Durban. Estate agencies from the Durban and surrounding areas will be surveyed. The agencies are chosen demographically, mainly because of the different income groups. Interviews will be conducted with the Agents extracting crucial information from their activities and experience of the current situation affecting prospective purchasers and/or lessees. A literature search will be conducted by using the World Wide Web, Journals, Books,

Magazines, Newsletters, Periodicals and the interviewees experience and knowledge of the market for information.

1.7 Limitations of the Project

The following limitations have been identified:

- The research is confined to the Durban and surrounding areas.
- Estate Agents did not want to divulge their company statistics.
- The selection of agencies was based on accessibility and availability. Many other agencies that were approached to participate were not keen to do so.
- The nature of the study being of a qualitative perspective lacks the scientific aspect of lending actual statistics of the buying and renting market. It merely brings forth relevant factors to be considered in the process.
- The research was not able to account for the rate of purchase and renting associated with the different stages of the life cycle due to the type of methodology adopted.

1.8 Structure of the Study

The dissertation is structured and presented as follows:

1.8.1 Chapter one – Introduction

The study is introduced by focusing on its background, the need for the research, the purpose as well as the intended benefits of the study.

1.8.2 Chapter two – Literature Review

This chapter will review and present literature on the property market over the years and will present the advantages and disadvantages in respect of purchasing and renting in the current plight that many are facing especially with job insecurity, retrenchments, and difficulty of obtaining full finance. The tax implications associated when making a purchase of property can be viewed as a deterring factor especially with the tightening of lending criteria and the current global financial crisis. The study looks at the various stages in ones life and how that has an impact on the decision

process. The issue of renting versus buying is discussed in many books on consumer economics, personal or real estate and has even been the major topic of some books

1.8.3 Chapter three – Research Methodology

This chapter discusses the research methodology used in the study.

1.8.4 Chapter four – Results

An interpretation and discussion of the research findings are presented in this chapter. A case study is also presented whereby the financial implications are correlated.

1.8.5 Chapter five – Recommendations and Conclusion

The conclusions and recommendations are presented, together with areas in which further research can be undertaken in respect of the South African property market.

1.9 Conclusion

In this chapter, a brief environmental analysis is given relating to the current residential property market using that to provide the context for the study. Grounded on the foregoing, the chapter focused on the need for the study by delving into the motivation and value of the project. It then introduced the main research problem as *“the factors that a person facing the challenges of the current global crisis takes into account when deciding on whether to buy or rent property.”* Following from this main research problem, the researcher developed the main research aim and crafted four key objectives to guide the study. The chapter then proceeded to clarify the research methodology adopted in conducting the study, identifying the limitations posed by the study methodology adopted and then closed with an outline which reveals the structure of this final report.

CHAPTER TWO

LITERATURE REVIEW

THE FACTORS ASSOCIATED IN THE DECISION PROCESS

2.1 Introduction

The financial debate about renting and purchasing a house is a continuous and controversial one. For potential home-owners, the decision to purchase a home is one of the largest financial decisions to be made (Renting Vs Buying...2009). Whether one rents or purchases a house a need to understand the motivation for performing either option is required. Irrespective of the decision taken, each has a financial implication attached to it.

In South Africa there is a general belief that owning a home is better than renting one. There is a cultural pressure in our society to own land and this stems many generations whereby people tend to borrow irresponsibly in order to give themselves a sense of security and pride. However when troubled times are faced such as an increase in interest rates, rates and taxes on the increase, electricity tariffs to be amended and banks becoming more stringent with the lending criteria, the mortgage bond and maintenance costs cannot be paid neither can the property be sold or rented out at a substantial amount to break even each month.

In deciding between the option of renting or purchasing, two broad categories of factors must be considered. The first factor is the financial implications attached to the decision and the second includes personal and emotional factors. Although the personal factors are more intangible, it does play an important role in the decision-making process. In this study, a practical analysis of the current economic climate is explored in the context of purchasing and renting. The financial factors, including the initial and ongoing costs as well as the long-term advantages and disadvantages of owning a home are considered.

2.2 Home-Ownership

The transition into home-ownership is an important step in many people's lives. Through becoming home-owners people not only change their housing situation but also make what is generally the largest financial investment of their lives. Owner occupied homes account for a great share of personal wealth (Hamnett 1991). A transition into home-ownership may substantially alter a person's financial position for years to come, often for the rest of the life-course. Home-ownership is also an important status good. As shown by Mayer (1973) and Henretta (1984), home-ownership, like high income or a high level of consumption, is seen by many people as a symbol of achievement. Forrest (1990) and Hamnett (1991) argue that differences in access to home-ownership are an important source of social inequality. Particularly in countries with high transaction costs, like South Africa, investment in home-ownership tends to be made for the longer term and so places a constraint on further residential mobility. Since home-ownership entails a long-term financial commitment, the transition into home-ownership is primarily made by people in stable financial positions and in particular stable couples "settling down" to form a family.

It is obvious that the availability of financial resources such as a constant form of income or capital is of prime importance in the explanation of the transition into home-ownership. The availability of resources is not the only factor determining whether people become home-owners. The opportunities offered by the housing market as it changes through space and times are also important. So is the preference for home-ownership; which may vary; for instance, between different stages of the life cycle or financial situation in the persons life.

An individual or a family prefers home-ownership if the financial and non-financial benefits exceed the costs. There is a need to live somewhere, so the costs and benefits should be viewed in comparison with those living in rented accommodation or with parents and extended family. A preference for home-ownership is evident if the relevant opportunities such as good interest rates and a supply of homes within an appropriate price range, the necessary resources are available and the constraints can be overcome.

The price of a home and the expense of financing it are not the only costs of home-ownership. Another important cost is the risk associated with the investment in home-ownership: there is a risk not only of a decrease in property values, but also of having to sell the house when wanting to move. The risk is particularly high in South Africa where transaction costs (transfer duty, legal fees, estate agents commission) are considerably exorbitant. Hence, home-ownership restricts further mobility and is not attractive to those expecting to move home in the foreseeable future. Home-ownership is therefore rarely an option for single people but is primarily favoured by couples who have a sense of stability (or security), not only in terms of income but also in the family situation (Clark *et al.* 1994; Dieleman and Everaers 1994; Mulder and Wagner 1998).

Another relatively stable category expected to have a higher preference for home-ownership is the self-employed. Compared with salaried employees, the self-employed generally have formed attachments in the sense of relationships with their customers and business partners, and are less flexible about changing their workplace than salaried employees (Sandefur and Scott 1981; Savage 1988).

The financial costs of purchasing a home can be overcome by means of two (2) sources: income and capital. Individuals with a sufficient and stable income can obtain a mortgage to meet the costs of purchasing a home. People with capital can obtain a further bond by placing the capital as security.

A preference for home-ownership may also be the result of socialisation. The wish to become a home-owner is probably stronger for those people whose parents owned a home: children are said to desire a socioeconomic status at least equal to that of their parents (Easterlin 1980). Henretta (1984) even suggests that socialisation towards a certain standard of living is the main factor underlying the connection between the home-ownership of parents and their children.

2.2.1 The Advantages and Disadvantages of Owning a Home

During 1891, Pope Leo XIII wrote the *Rerum Novarum*, an open letter to his bishops, in which he stated that: "It is surely undeniable that, when a man engages in remunerative labour, the impelling reason and motive of his work is to obtain property, and thereafter to hold it as his very own" (Advantages of owning...2008).

The relevance of the words "I own my own home" in this study is the beneficial value attained from the asset. The critical question arises as to whether owning a home is a better option. This is one of the research questions that will be answered.

There are definitely some challenges when one embarks on becoming a home owner. Some of the expenses as explained include legal fees, duties, mortgage repayments, rates and taxes. In addition incidental costs such as maintenance costs must be budgeted for to ensure that the home is kept in good condition. The financial implications are further heightened when deciding to sell the property when Capital Gains Tax (CGT) comes into effect. According to Huxham (2008), CGT is not separate in its own right, but forms part of the income tax system.

However given the popularity of ownership today, there are advantages to owning a home which include intangible benefits (Advantages of owning...2009).

This study will take a brief look at a few factors that make owning a home a better alternative as opposed to renting being a carefree venture. The focus of this study concentrates on barriers to home-ownership and affordability levels, focussing on variables such as interest rates, borrowing constraints, taxation implications, lifecycle changes, rising real estate prices and real income.

The long-standing argument supporting home-ownership is well structured and has been promoted. Home-ownership gives one a sense of independence, privacy and security. The satisfaction of home-ownership can be a priceless feeling of achievement. A person's own home is a place to raise their family and be a part of the community. It can be passed down to provide security for children and grandchildren. Owning a home is the single greatest source of financial security and independence for many people. One can expect to build equity as the value of their home appreciates steadily over time — as a result of any improvements they make, the strength of the local economy and other factors. These are most specifically tabled below:

Table 2.1: A Summary of the Advantages and Disadvantages of Owning a Home

ADVANTAGES OF BUYING A HOME	DISADVANTAGES OF BUYING A HOME
<ul style="list-style-type: none"> • Over time the bond balance decreases which in turn means the repayments also decrease • Ability to alter residence in any manner at the discretion of the home owner. This can take many forms from painting to extensive renovations, being designed to suit the owner's circumstances and tastes without requiring the consent of others • Hedge against inflation-an investment in housing will usually keep abreast of inflation, causing a gradual but regular overall increase in the capital value of the property • Intangible sense of pride in home ownership and their investment is often promoted as a primary reason for home ownership • Owning a home also improves your likelihood to secure credit 	<ul style="list-style-type: none"> • There are variable maintenance costs and insurances attached thereto • House equity can fluctuate, it may increase or decrease or stagnate • There is a large outlay of capital when one decides to buy a house • Comparative to renting at the time of purchase the monthly bond repayments are higher than rental prices • The sense of freedom is decreased • There is a twenty to thirty year commitment made • It decreases one's flexibility especially with people who risk relocation quite frequently

<ul style="list-style-type: none"> • If one chooses a fixed-rate mortgage they can have the same mortgage payment each month • There is eventual debt-free ownership after all mortgage repayments have been paid, with the property owners acquiring perpetual freehold ownership of the property 	
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Table 2.1 Advantages and Disadvantages of Owning a Home

Adapted from Waxman, P. 2000. *Investing in Residential Property*. Wrightbooks Pty Ltd, Victoria, Australia.

These quotations are illustrative: Herbet Hoover: “A family that owns its own home takes pride in it and has a more wholesome, healthful, and happy atmosphere in which to bring up children”; Franklin D. Roosevelt: “A nation of homeowners is unconquerable”; and Lyndon B. Johnson: “Owning a home can increase responsibility and stake out a man’s place in his community.”

According to Green and White (1997), it was found that home owning benefits children as they are less likely than children of renters to drop out of school or to have children as teenagers. Further home owning should be encouraged as owners take greater responsibility for their families, their communities, and their country and provide a better environment for their children.

2.3 The Mortgage Bond

A mortgageable property allows the purchaser to apply for a home loan by using the property being purchased as security for obtaining the loan. Should one default with repayments then the bank will attach the property to recover the losses sustained. This is done by holding a sale in execution. Home loans are usually payable over a twenty (20) year period however some banks do allow the loan to be extended over thirty (30) years. Very few people are fortunate to be in a position to purchase a home for cash and majority have to borrow money from financial institutions.

According to recent statistics, many potential home-owners are struggling to obtain mortgages due to the current market conditions and the demand for rental properties seems to be on the increase within secure complexes and apartment buildings (Property Renting vs...2008). This is the plight faced by many aspirant home-owners due to the implementation of the National Credit Act (NCA) on 1 June 2007. The NCA's prime objective is to avoid reckless lending and to prevent the over-indebtedness of consumers. The NCA also establishes a framework to regulate credit bureaus, credit providers and debt counsellors. It is mandatory for banks to perform an affordability assessment before granting credit and consumers have to prove the financial standings. The other Act that one has to conform to is the Financial Intelligence Centre Act (FICA). FICA was established to prevent the financial system from being used to hide the financial proceeds of crime. FICA creates money laundering control obligations for banks, estate agents, attorneys and other financial institutions. These added screening processes that an individual is subjected to makes it more complex for individuals to qualify timeously for finance.

The owners of many second and holiday homes are opting to rent out their houses to alleviate financial strain. According to Geffen (2009), negative equity is increasing in the market as house values decline beyond the price at which they were bought. In a difficult housing market, banks are demanding higher deposits, and consumers already restricted by the National Credit Act (NCA) are finding it virtually impossible to secure a bond. Most affected by the legislation are first time home buyers who are

finding it virtually impossible to secure a deposit (South Africans are...2008)). The number of mortgage loan applications declined significantly in November and December of 2008 compared to October 2008 due to the ability of purchasers accessing and securing finance (Lowest Mortgage Advances...2009).

The statistics provided by Absa, FNB, Standard and Nedbank, revealed that the number of South African homeowners who have defaulted on their home loan repayments had increased to nearly 100 000 since June 2008 and approximately 95000 homeowners had missed repayment installments for two (2) months or more, compared to 55 000 in January 2008 (South Africans are...2008).

Consumers are now required to have a substantial deposit and sufficient security to service their mortgages. These deposits can range between R50 000 and R200 000 depending on the purchase price and the criteria of the lending institution. The property market is expected to stabilise in 2008 and price growth was forecast to increase gradually due to lower inflation and interest rates in 2009 and early 2010 (Rental market will...2008). The recourse for home-owners that will be affected by the interest rate increases is to contact the bank to arrange alternative repayments if mortgage debts cannot be serviced. This will be a significant step to avoid repossessions taking place.

These problems stem from affordability issues which were affected by the interest rate hikes, the increase in the cost of food and fuel as well as banks increasing the credit criteria (which includes the availability of 100% bonds). This has then resulted in rental property having been in greater demand as opposed to home ownership which is becoming more difficult to obtain (Debt stalks our...2008).

These binding issues at a critical point in time places stress on one wanting to commit to a home loan repayment for the next twenty (20) to thirty (30) years. As a result renting can be viewed as a noble alternative to alleviate these stressful factors. In as much as home owners are struggling with their mortgage bonds due to the interest

rate increases over the past few years, a conclusion cannot be arrived that every home-owner is in mortgage stress.

2.4 The Rent Option

According to (Why renting rules...2008) South Africans have an unhealthy fixation with owning property. It is assumed that purchasing a home is more advantageous and that people rent out of necessity, not rationality.

Many tenants also seem to be struggling with the rental escalations as property investors pass it on to them as the interest rate increases (Behind the demand...2008). However at present renting seems to be a better option for some people. With the current low yields that exist in the rental market a tenant will have lower monthly rental payments than an owner paying off a new 100% loan on the equivalent property (Rent vs. Buy...2008). The tenant does not have to carry the risk of capital losses in times of price declines and should have greater certainty over unexpected maintenance costs than the owner of the property. This would suggest that renting is a better option. Table 2.2 depicts the advantages and disadvantages of renting a home.

Table 2.2: Advantages and Disadvantages of Renting

ADVANTAGES OF RENTING	DISADVANTAGES OF RENTING
<ul style="list-style-type: none">• Minimal capital outlay- usually rent is paid on a monthly basis• Fixed rent over an agreed period offers a degree of certainty and is not subject to fluctuations in the interest rate rises etc. One has more fixed costs for the term of the rental lease	<ul style="list-style-type: none">• One never makes any capital gains on the house no matter how much it appreciates over time• Limited options to personalize the house according to requirements.

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| <ul style="list-style-type: none">• One will not gain equity capital in the house but neither will one lose any equity capital either while one rents• High level of mobility- a rental agreement can be relatively short-term and thereby offers a high degree of flexibility• No capital maintenance costs are paid by the tenant, as all such costs are incurred by the landlord• Certain ongoing expenses are paid by the landlord that would otherwise be the responsibility of a home owner, such as levies or statutory rates• One can rent in a better area than one usually would not afford to buy in• No entry and exit fees as opposed to purchasing a house where there are a myriad of fees attached. These fees include legal fees, bond registration costs, building inspection fees etc. except for a | |
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<p>deposit which is usually equivalent to a months rent which is refundable at the end of the term if the premises are maintained in a reasonable state</p>	
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Table 2.2 Advantages and Disadvantages of Renting a Home

Adapted from Shelton J.P. 1968. The Cost of Renting versus Owning a Home. *Journal of Land Economics*, Vol.44, No. 1, pp. 59-72. Published by University of Wisconsin Press. London.

Owning a home is a challenge and many factors must be considered. Maintenance costs are incurred by the owner. In comparison if one is renting maintenance costs is the responsibility and legal obligation of the landlord. These include property taxes, levies, insurance, the cost of upkeep as well as the lost opportunity costs in the form of better returns one would have received if the funds were invested in shares.

In light of affordability issues, first-time home-buyers have been excluded from the South African housing market. Therefore it makes a better option for mid-income families to live in a good area at an affordable rental and the advantage is that the deposit can be recouped at the end of the lease period provided that the property is left in an acceptable condition.

Many individuals as well as families enjoy a carefree lifestyle which allows one the ability to be mobile, take a holiday when the need arises and immigrate should the job require to do so or because of security matters. These factors make renting an advantage to these types of individuals and families. Renters have a limited responsibility towards the house they occupy. With the large retrenchment rates and the subsequent effect it has on job stability it is advantageous to rent rather than be

embroiled with the financial burden that is seen as a restricting factor in these turbulent times.

Renting affords person flexibility and with the crisis that the world is in it relieves one of added stress to worry about interest rates increases and market cycles.

According to Reed and Greenhalgh (2002), it was found that although the great Australian dream was for most people to have a freehold home, the trend has changed and it is suggested that this goal has commenced a downhill slide in importance. It was found from the research that rather than being careful and frugally saving financial resources for a house deposit and then committing to long term mortgage debt, it appeared that many households chose to remain debt-free, where renting was better than purchasing. This then freed up cash flows for other services such as holidays and motor vehicles. It was found that the new generation of households in Australia are increasingly reluctant to be obligated to a mortgage bond and preferred to be described as “free agents” who like to travel, eat out and have other commitments such as loans for new cars (Ryan, 2002). It was stated that it is a good financial decision to rather sell a home now, rent and purchase again when house prices are on the decline (Why buy-to-let...2005).

2.5 The Tax Consequences of Owning Property

When one is purchasing or selling property it is important to ensure that the person's tax matters are in order. Should there be a dispute with the tax authorities or there is an outstanding amount due to South African Revenue Service (SARS) then there can be a delay with the transfer process. The Receiver of Revenue could refuse to issue transfer duty receipts which is a requirement when transferring property. The attorneys attending to the transfer process would also require income tax numbers as well as Value Added Tax (VAT) details if that is applicable. The purpose of this is to ensure that general tax compliance is adhered to.

2.5.1 Capital Gains Tax

The property market was on an upward scale over the past few years and most people who sold their properties were concerned about whether the sale will result in Capital Gains Tax (CGT) payable on the profits made (Business Law and...2007).

South African residents are liable for the payment of Capital gains tax (CGT) on the disposal of any asset, subject to certain limited exceptions (Huxham 2008).

CGT is payable in the year in which the asset is disposed of and is calculated by adding 25% of the capital gain, or profit, to the individuals income for that year and taxing that income at the individuals marginal rate of income tax. The capital gain is calculated and disclosed in the individual's income tax return for the year in which it is sold or disposed of.

CGT became effective on 1st October 2001 and is therefore payable from its inception date. The amount of a capital gain is calculated either by deducting the value of the property as at 1 October 2001 (together with the costs acquiring and improving the property) from the proceeds on disposal of the property or by apportioning the amount of time the property was owned between the period before 1 October 2001 and the period after that date.

South African residents do not pay CGT on the first R1.5 million of profit made on the disposal of their primary residence. However, non-residents will not qualify for this exemption if their primary residence is not in South Africa. (Huxham 2008).

According to the 2009 Budget Speech the annual exclusion threshold for capital gains or losses has been increased from R16 000 to R17 500 (Budget Speech...2009).

It is a general rule in South Africa that a person purchasing a residential property will pay transfer duty on a sliding scale to the Receiver of Revenue (Capital Gains Tax...2009).

If however the Seller is registered for Value Added Tax (VAT), the purchase price will be inclusive of VAT, unless specifically excluded in the contract. If the property that is being purchased is of a commercial or business nature and purchaser is registered for VAT, then the purchaser will be able to claim the VAT back from the Receiver of Revenue after registration (The difference between...2009).

Sales of residential immovable property do not acquire VAT, due to the fact that the sellers are not registered for VAT. The current market conditions and increase in demand for rental property results in many investors purchasing property to let out. If a property is purchased as a buy-to-rent investment, the tax levied for the letting of residential property falls under the normal ambits of income tax.

A proposal has been included in the new Revenue Laws Amendment Bill, issued on 1st August 2008 and this calls to restructure the allowance applied to taxpayers renting out residential housing units. The proposal relates to housing units let out by a taxpayer, or that are occupied by the full-time employees of the taxpayer. Currently there is a write off of 12% for the first year and then a write off of 2% per year for the next 44 years. (What SARS looks...2009).

The proposal aims to change this to a standard rate of 5% over a 20 year period.

2.5.2 Non-Residents Withholding Tax

SARS realised that they were losing on Income Tax in the case of people who trade in property in respect of properties bought and sold by non-residents of South Africa.

The non-residents withholding tax has been debated since the announcement of its introduction by Minister Manuel in 2004. Section 35A of the Income Tax Act came into effect on September 1, 2007 because the South African Revenue Service (SARS) had difficulty collecting CGT from non-resident sellers.

By law, if a purchaser purchases a property from a non-resident where the purchase price is more than R2 million, one must withhold a percentage of the purchase price, which is paid over to SARS. This tax is called Withholding Tax (WHT).

Section 35A (1) stipulates the various percentages of the purchase price to be withheld when a purchaser buys property from a non-resident seller. This then places the onus to pay the withholding tax on the purchaser. The purchaser withholds the following rates according to the type of entity the seller is:

Table 2.3 Withholding Tax Rates

SELLER	PERCENT WITHELD
NATURAL PERSON	5%
COMPANY	7.5%
TRUST	10%

Table 2.3 Withholding Tax Rates: Adapted from Huxham, K., and Haupt. 2008. *Notes on South African Income Tax*, South Africa.

WHT is not applicable on properties with a selling price of R2 million or less. An example is whereby a non-resident seller, who is a natural person, purchased a property for R2 million and sold it for R2,5 million, an amount of R125 000 is payable as WHT. This is calculated as follows:

R2,5 million – R2 million = R 500 000

5% of R500 000 is **R125 000**.

2.5.3 Tax implications should a loss occur

The recent decline in the property market meant that one could have experienced a loss if various costs incurred are taken into account. During the purchase phase the costs include but are not restricted to transfer duty, legal fees which include transfer and bond registration costs, valuation fees, levies or rates and electrical and entomologist clearance certificates (What SARS looks...2008). The question then arises is: what can one do with the loss?

The way the owner deals with the asset or perceives it is very important and the courts decisive test is the intention of the taxpayer at the date of acquisition must be established as it could be one of the following:

- Investment or
- Speculation.

In determining whether or not the intention of the individual is speculative, the court looks at a number of factors such as: was the taxpayer carrying on a trade or scheme of profit making; and whether he changed his intention and whether the taxpayer had a mixed intention.

In determining intention, SARS as well as the courts look at a number of external factors such as the profession or business of the taxpayer, his past and present activities; the reason, method and circumstances of the acquisition and the reason, method and application of the profits after the sale (Revenue vs Capital...2006).

Ultimately the onus of proving that the asset was purchased as an investment and not for speculative purposes will always rest with the taxpayer.

If one purchased a home with the intention of making a profit on its sale and held the property for a very short term with a view to making a profit on its sale such as an off-plan purchase, then the property would probably be viewed as having been owned in order to earn an income and therefore be regarded as having been held on revenue account. If however, one purchased the property as an investment to derive income

from the rental or to hold for the long term as a holiday home then it would be viewed as having been held on capital account (What SARS looks...2008).

The distinction is important because if one makes a loss when the property is sold, the way in which the loss is treated for tax purposes will be completely different depending on whether the property had been held on capital or revenue account in order to derive the maximum tax advantage.

If one held the property on revenue account then one can deduct all the costs directly related to the property from the income and the proceeds from the sale must be included in income. One will then be able to offset the net loss against other income derived such as salary, investment income or capital gains from the sale of another property. If the property was held as an investment and the costs “base cost” exceeds the proceeds then a CGT loss will be generated (What SARS looks...2008). If the loss on the sale of the property is the only CGT event one had during the year of assessment then it will be reduced by the CGT abatement which is currently R17 500 and carried forward to the next year.

2.6 Property as an Investment

Many investors pursue the dream of overnight wealth creation through capital growth, as opposed to others who prefer income generating investments (Measuring residential performance, 2008).

The affordable housing market has been the uppermost performer over the past few years however the signs are now emerging that a price collapse is on the horizon. A recent research conducted by Lighthouse Property (2009) reflected that homes in the affordable category experienced the largest contraction. The affordable category represents houses of R250 000 and below (Is affordable housing...2009).

The following are factors that an investor must take into account when purchasing property as an investment:

- The total cost of the property inclusive of transfer fees and legal costs,
- The costs involved in repairs and refurbishment,

- The amount of cash required as deposit,
- The prevailing interest rates,
- The net income rental that the property will generate,
- The investment vehicle that will be used for the investment and
- The tax and transfer duty implications attached thereto.

2.7 The Buy-to-Let Option

2.7.1 What is Buy-to-Let

The same care that one would take when buying a home should go into the property that one wishes to purchase as an investment. This is important due to the financial implications of the property that is bought as an investment.

The purpose of purchasing a property as an investment is to rent it out (Buy-to-Let...2009). Should the purchaser not have sufficient funds for the transaction then a home loan can be obtained from the various banks or other mortgage financiers. The amount of debt that is required is called the level of gearing. The higher the level of gearing, the greater the risk of financial distress should the tenant leave or the interest rates increase. The advantage of gearing is that the interest that is paid is tax deductible and therefore makes the investment more tax efficient. However with the introduction of the NCA there are specific requirements that all major banks have developed for the specific home loan product for the purpose of buy-to-let transactions.

There is a mixed view when it relates to this form of investment. An article in the Business Day dated 9 July 2008, had called an end to the seven year growth in the property market where it stated that it would be unlikely that home-owners would experience such growth again (Homeowners can say...2008). It was further stated that statistics on the Johannesburg Stock Exchange (JSE) reflected that property investment must be carefully scrutinised, particularly in light of the fact that most people are paying too much to hold onto assets while the value decreases in these turbulent times.

The buy-to-let market has dramatically altered, following the robust activity in the rental market last year. However potential buy-to-let investors are waiting patiently for market penetration and those that are already in the market could find that rental increases will be disappointing in the months ahead. This suggests that there could be constraints before the year end (No fireworks for...2009).

It is stated that most South African residential tenants are in a favourable position as they are saving thousands of rands per year by renting instead of buying. Five years ago the rent on most properties was greater than the instalment on an 80 percent home loan and levy. However, today one can only achieve this in certain lower priced areas (Cheaper to rent...2008).

According to the Trafalgar rent index which has indicated that rental increased by approximately 13% from January to December 2008. The contributory factors to these startling figures is the stringent lending criteria in the last quarter of 2008 which urged people who were unable to obtain a home loan approved to rather opt to rent (Trafalgar rental index...2009).

The consensus across the country was a huge demand for rental properties as the conditions with the economic downturn intensified (First-Time Home...2007). There is consensus that high interest rates and current inability to afford homes or obtain home loans which are determining factors influencing the rental market today. Many property owners are opting to downsize to smaller rental accommodation and are letting out their own homes to endure through the financial crisis.

According to Absa Bank home price index, it reflects that house prices in June 2005 were 23% higher than the same month the previous year. Therefore if one considers purchasing a property presently there is a reduced chance that capital growth in the residential market will exceed inflation in the next 5-10 years.

With the price adjustment in houses as the price increased over the last decade escalated the capital value of property and the current market will be very attractive and lucrative for buy-to-let investors.

It is stated by Haupt (2008) that this is the time for astute investors to purchase properties that reach the market at a realistic price. For those who want to invest in property as an asset now is the time to purchase. The market is at a stage where purchasers can negotiate with the purchase price requested. This is necessary because it is increasingly complex for first-time buyers to enter the market due to increased interest rates. Also the major banks are withdrawing the financing of 100% bonds (Rental market will...2009).

It stands to reason that many investors who are in the position to purchase property cash will derive a positive return from their purchase in a few years as the rental increases at approximately 8 to 10% each year.

From the concept of Buy-to-Let, the literature review highlights a number of reasons for a current market penetration (Buy-to-Let...2009):

1. The stringent lending requirements brought about by the NCA and current economic conditions have made it difficult for many to qualify for a home loan. The demand for good rental properties should remain high for a long time.
2. Investors can find real bargains at the moment – many people are desperate to sell their properties during the recession and the banks have an increased number of properties in repossession.
3. The interest rate is in a downward spiral making it easier to purchase for investment.

The major crisis in Dubai at present is being blamed on speculative investors having bought property off plan from developer. This was done with the hope to sell it off quick for a profit. However those purchasers are now unable to sell as a result of credit being difficult to assess for prospective purchasers (Prices tumble in...2009). Investors must take note of these current issues when engaging in these types of investments.

In the current property market climate, investors are understandably cautious and there are many potential buyers who choose to rent while waiting for market improvement (Renting vs. buying...2008).

Another investment opportunity that is well recognised despite the economic downturn is the option of student accommodation. The demand for rental units near campuses is growing as students increase year-on-year and the universities are struggling to build additional student residences which means that students are relying on the private sector for housing (Student Rentals a...2009).

When investing in properties within close proximity to the campus attract higher rates. However, investors need to carefully select property that needs little or no maintenance.

The Monetary Policy Committee of the South African Reserve Bank decided to reduce the central bank's repo rate by 50 basis points to 7.0 percent, Governor Tito Mboweni announced on Thursday 13 August 2009. The latest drop in the interest rate by 50 basis points will allow investors who have surplus funds to invest in a good purchase of property as an investment.

2.7.2 Rental Tax Deductions

Many investors are dubious to engage in the purchasing of property as an investment to rent out as there are tax implications attached thereto with regards to the rental income derived. In light of the income tax issues it is important to consider the implications at the outset. In the process of arriving at a taxpayers taxable income one must look at the person's gross income. This includes all sources of income for the tax year except that specifically excluded in terms of legislation.

“Gross income” is defined as:

- (i) in the case of any resident, the total amount, in cash or otherwise, received by or accrued to in favour of such resident; or
- (ii) in the case of any person other than a resident, the total amount, in cash or otherwise, received by or accrued to or in favour of such person from a source within or deemed to be within the Republic, during such year or period of assessment, excluding receipts or accruals of a capital nature (Huxham 2008).

Rental income does constitute a source of gross income as it falls within the ambits of the definition. It must therefore be declared and will be added to all other types of income the taxpayer may have received in a tax-year.

Certain exemptions may be applied which can be deducted from the declared gross income example of this would be local dividend income which is totally exempt from tax.

There are no exemptions applicable to the rental arrangement. There are a number of deductions that may be available against income which can serve to reduce the income and arrive at the final amount of taxable income. The rationale is to allow all the expenses that were incurred to produce a certain type of income to be deducted. An expense or loss will be allowed as a tax deduction if it meets the requirements as set out in the Income tax Act.

Section 23(1)(a) provides that one may not deduct any costs incurred on maintaining oneself, the family or the establishment while Section 23(1)(b) specifically prohibits the deduction of any “domestic or private expenses, including the rent of or cost of repairs of or expenses in connection with any premises not occupied for the purpose of trade, or of any dwelling-house or domestic premises except in respect of such part as may be occupied for the purpose of trade” (Huxham 2008).

The expenses that one is allowed to deduct against the income earned from the rental property include:

- interest on any bond raised to finance the purchase of such rental property;
- repairs and maintenance expenses in respect of such property;
- levies paid to the body corporate of a sectional title scheme;
- rent collection fees paid to an agent;
- municipal rates and taxes.

Tax implications will also depend on whether one purchases the property in their name, or through a close corporation or trust. In the normal course of events, the sale of a second and subsequent property will attract capital gains tax. A distinction must be drawn between revenue and capital. As soon as SARS is of the opinion that the taxpayer had entered into a discernable business or trade of buying and selling property then they will be liable to pay revenue income tax as opposed to capital gains tax.

In the case of **Elandsheuwel Farming (Edms) Bpk v SIR (39 SATC 163)** which states that in order to determine the capital or revenue nature of an asset, one has to assess whether it is the realization of a capital asset (fixed asset) or the sale of an asset in the course of carrying on a business (floating capital) or in pursuance of a profit-making scheme. The former would give rise to a capital receipt whereas the latter would result in a revenue and, therefore, taxable receipt. The onus is on the taxpayer to prove that any amount is a capital receipt (Huxham 2008).

It is crucial that one takes these factors into consideration as their normal rate of income tax would generally be much higher than the rate of capital gains tax.

If the property was acquired with the intention of making a profit at a later date then the proceeds thereof would be regarded as revenue. However, if the property was acquired with the long term prospect of providing accommodation or as a financial investment then it would be regarded as capital.

2.8 Consumer Behaviour when purchasing a home

The decision of a household to own or to rent depends on four factors according to a study conducted by Carliner (1974), which are:

- The household's income
- The relative price of rental and owner-occupied housing
- The stability of the household's demand for housing and
- The type of housing desired

There is consensus amongst marketing researchers (Kotler; Armstrong and Cunningham 2006; Cathy; Pascale and Del 2005 Olshavsky and Granbois 1979) about consumer behaviour – the actions a person takes in purchasing and using products and services, including the mental and social processes that precede and follow these actions, can be modeled into 5 key phases as shown in Figure 2.1.

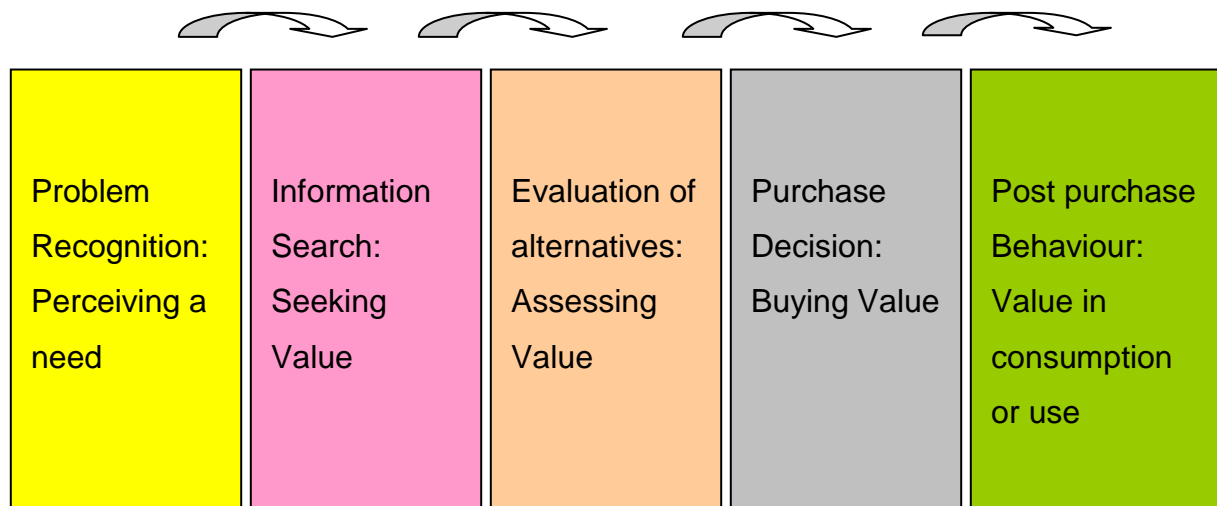


Figure 2.1: Basic consumer decision-making process

Adapted from Kotler, P., Armstrong, G., and Cunningham. 2006. P.H, *Principles of Marketing*. The Canadian edition. Pearson Education, Canada.

This aforementioned model is important for anyone making marketing decisions (in the case of this research, for persons deciding on whether to purchase or rent). The model implies that a person passes through all these stages in every purchase. However, in more routine purchases, a person may skip or reverse some of the stages. For example, a person purchasing a favourite pie would recognise the need (hunger), skip information search and evaluation and make the purchase decision. However, the model is very useful when it comes to understanding any purchase that requires some thought and deliberation like buying residential property versus renting a home – the subject of this study.

According to this model, the purchasing process starts with need recognition. At this stage, the individual recognises a problem or need (e.g. 'I/We need a new /bigger/better/affordable home'). An "aroused" person then needs to decide how much information (if any) is required. If the need is strong and there is a property that fulfils the requirements of a person, then a purchase/renting decision is likely to be made immediately. If not, then the process of information search begins again.

Information search helps clarify the options open to the consumer and may according to Cathy *et al* (2005), involve internal search as well as external search. Internal search involves scanning ones memory to recall previous experiences with something that had been implemented before. When past experience or knowledge is insufficient, like in the case of a first time home buyer, the risk of making wrong purchase decisions is high and the cost of gathering information is low.

Cathy *et al* (2005) as well as Kotler *et al* (2006), suggest an individual can obtain external information from several sources, namely:

- Personal sources: friends, family, neighbours
- Commercial sources: estate agents or letting agents
- Public sources: newspapers, radio, television, property advertising magazines
- Experiential sources: purchased a home or rented a home before

According to Kotler *et al* (2006), in the evaluation stage, the individual must choose between the choices at hand. An important determinant of the extent of evaluation is whether the individual feels “involved” in the decision/options at hand. Kotler *et al* (2006) argue that at this stage it would depend on the degree of perceived relevance and personal importance that accompanies the choice.

Where a purchase is “highly involving”, the individual is likely to carry out extensive evaluation. According to Cathy *et al* (2005), the information helps clarify the problem for the person by suggesting criteria to use for the purchase, yield issues that the individual can take into consideration to meet the criteria and develop value perception. An individual’s evaluation criterion will represent both the objective attributes (such as size of the house, contents, etc.) and subjective attributes such as location and status (such as homes in the northern suburbs of Durban which are deemed to be elite areas). It is these criteria that evoke a person’s intangible characteristic which can be considered acceptable from all options put forward within the options under consideration (Narayana and Markin, 1975).

Kotler *et al* (2006) propose the following taxonomy to provide insight to the extent of evaluation done at this stage:

- High-involvement purchases include those involving high expenditure or personal risk such as buying residential property
- Low-involvement such as engaging in a short term lease agreement, home décor or curtaining have very simple evaluation processes

According to Cathy *et al* (2005), the extent of evaluation in relation to the level of involvement can be modelled as in the Figure 2.2 below:

Characteristics of Purchase Decision	HIGH Problem solving extended	Limited Problem Solving	LOW Routine Problem Solving
Number of Options examined	Many	Several	One
Number of sellers concerned	Many	Several	Few
Number of Attributes evaluated	Many	Moderate	One
Number of external information sources used	Many	Few	None
Time spent searching	Considerable	Little	Minimal

Figure 2.2: Extent of Consumer involvement and characteristics of purchase decision: Adapted from Cathy, N., Pascale, Q. & Del, H. 2005. Consumer Behaviour: Implications for Marketing Strategy. 4th Edition. McGrawhill.

Figure 2.2 depicts high involvement items such as residential property where the time spent searching for a property is considerable (see wording in purple). Kotler *et al* (2006) as well Cathy *et al* (2005) document three possibilities that a consumer will typically consider, once the search and evaluation stage is complete. The purchase decision phase which includes:

- Whether to purchase or not. The consumer decides based on information obtained and evaluated in the previous two phases whether the item will serve the need in phase one.

- If the decision is to purchase, from whom to buy. This will typically depend on factors such as the terms of sale and past experience of purchasing
- When to buy which can be influenced by the timing pressure, interest rates, the current situation with lending criteria as stipulated by the four major banks as well as the factors such as the NCA

The implication of this is that the final consumer purchase decision is normally expected to be governed by a clearly rational and /or analytical thought process which in the case of high involvement items such as residential property purchase can be expected to be even more intense. Thereafter, according to the model, the final phase of the consumer decision-making process is reached and is referred to as the post-purchase evaluation.

2.9 Stages in the Family Life Cycle

The benefits of home ownership have been promoted by previous researchers as a natural and progressive step in a household lifecycle (Ellis & Andrews 2001; Mudd, Tesfaghiorghis & Bray 1999).

In the past, the family life cycle theory was a useful tool for segmenting markets and developing marketing strategy. The basic premise of this theory is that most families go through a progression stage, each with its own characteristics, financial situation and purchasing patterns (Hawkins, Best & Coney, 2001, p.196).

It is contended that there is no longer a single dominant cycle through which families progress, but rather a variety of cycles through which different families progress (Hawkins *et al.*, 2001, p.196).

Households are not always family based and can take the form of single households, same gender households, and cohabiter-type households, each displaying distinctly different consumption behaviours (Schaninger & Danko 1993). South Africa has a relatively lower percentage of single person households (11%) and a relatively higher percentage (76%) of family households (Statistics South Africa 1995).

Gilly and Enis (1982) identify life-changing events such as marriage and divorce, death, and the addition/departure of children. Households groups therefore typically undergo a cyclical process of birth, growth, decay and dissolution over time (Arnould, Price & Zinkhan 2002). There has been a steady increase in the number of single person households in society and divorce rates continue to increase, causing many joint households to separate into two smaller households. It would be reasonable to expect those households that have recently experienced a family breakdown to avoid entering into a long-term commitment (e.g. 20-30 year housing mortgage) and choose to rent instead, even if the smaller household has the option of purchasing or renting. Society's views of co-habitation prior to marriage appear to have altered dramatically. This has been further assisted by a lower marriage rate, with fewer couples choosing to marry. In addition there is reluctance for these types of relationships to pool resources, including financial assets in the form of a housing deposit (Reed and Greenhalgh 2002).

The authors argue that these life-changing events cause changes in household consumption needs that in turn translate into changes in consumption behaviours.

Kotler *et al* (2006) define lifestyle as a mode of living that is identified by:

- Activities – how a person spends time and resources
- Interests – what a person considers as important in the environment, and
- Opinions – what a person thinks of oneself and the world.

According to Bearden and Etzel (1982), socio-cultural influences which evolve from a consumer's formal and informal relationship with other people can have a significant impact on the person's purchasing behaviour. They argue that socio-cultural influences include:

- Personal influence
- Reference group influence
- The family influence
- Social class influence
- Culture influence
- Subculture influence

2.9.1 Personal influence: Neighbours, relatives, co-workers, and friends are all part of a person's social system and serve as potentially important sources of personal influence on purchase behaviour (Abisaid 2006). Literature essentially separates two inter-related concepts that explain the personal influence on a person's behaviour, namely, opinion leadership influence and word-of-mouth influence.

- **Opinion leadership influence.** Opinion leaders are more precisely opinion brokers who carry information across the social boundaries between groups (Brown and Reigern 1987). They are not people at the top of things so much as people at the edge of things, not leaders within groups so much as brokers between groups (Abisaid 2006; King and Summers 1970). The familiar two-step flow of communication is a compound of two very different network mechanisms: contagion by cohesion through which opinion leaders get information into a group, and contagion by equivalence which generates adoptions within the group (Burt 1999). Opinion leaders as brokers bear a striking resemblance to network entrepreneurs in social capital research (Burt, 1999). The complementary content of diffusion and social capital research makes the analogy productive according to Gatingnon and Robertson (1985). Diffusion research describes how opinion leaders play their role of brokering information between groups, and social capital research describes the benefits that accrue to brokers.
- **Word-of-mouth influence.** One of the most widely used theories of communication is the diffusion theory which focuses on inter-personal communication within social systems (Brown and Reingern 1987). Also referred to as word-of-mouth, it is accepted in a persons purchasing behaviour literature as an important determinant of a persons attitudes (Kotler et al, 2006). Research findings reveal that word-of-mouth was found to be the most important source of influence in the purchase of food products and household goods and it was seven times as effective as newspapers and magazines, four times as effective as personal selling, and twice as effective as radio

advertising in influencing consumers to switch brands (Brown and Reigen 1987).

2.9.2 Reference group influence. Engel *et al*, (1990) divide reference groups into three distinct categories, namely, primary and secondary; aspiration and disassociate; as well as formal versus informal, arguing that there are three ways in which reference groups exert influence on a persons purchasing behaviour, namely:

- Normative influence-pressure for compliance with group norms
- Value-expressive influence- acceptance of a group's norms, values and behaviour because of desire for association with the group.
- Informational influence- the tendency for people to be influenced by someone who they perceive as an expert (also see Bearden and Etzel 1982).

2.9.3 The Influence of the Family. The evolution of a typical family has been modelled through what has been referred to as the family life cycle (Kotler *et al* 2006, Engel *et al* 1990; Wagner and Hanna 1983). Wagner and Hanna (1983) define a family life cycle as a construct signifying a set of composite variables combining trends in income and family composition with changes in demands placed on income. Kotler *et al* (1990) posit that the life cycle of a family involves the following six phases:

2.9.3.1 Unmarried: Financial commitments and family responsibility tend to be low with disposable income being high. These young unmarried people tend to be leisure-orientated and more fashion-conscious. This segment thus comprises a very important market for many new and innovative products.

2.9.3.2 Young newly married couples – no children: This group focuses its expenditure on those items considered necessary for setting up home.

2.9.3.3 Young married couples with children: Outlay here is children-orientated and there is little surplus cash for luxury items. Although

they are receptive to new product ideas, this group sees economy as being the over-riding factor when making big decisions in purchasing.

2.9.3.4 Older married couples still with children at home: Disposable income will probably have increased, often with both parents working and children being relatively independent. In some cases, children may be working and the parents are able to engage increasingly in leisure activities often in the form of more than the 'standard' annual holiday. Consumer durables, including major items of furniture, are often replaced at this stage. Such purchases are often made with different motivations to the original motivation of strict functionality and economy that was necessary at an earlier life cycle stage.

2.9.3.5 Older married couples with no children living in the home: Here, disposable income can be quite high. However, tastes are likely to be firmly-rooted reflected in changing purchasing patterns. The couple most likely will consider moving into a smaller house or unit in a complex.

2.9.3.6 Older retired couples and single people: At this stage, most consumer durables have been purchased although occasionally, replacements will be required. Purchasing is low and patterns of purchasing are conservative and predictable. Such people tend to be less reliant solely on the 'state pension', many having subscribed to occupational pensions from former employers, which increases the state pension.

The implications according to consumer behaviour experts (Kotler *et al* 2006, Engel *et al*, 1990; Wagner and Hanna, 1983), is that the family life cycle phase in which a family is, will have a profound effect on the needs of that family and its ability to satisfy those needs. Family life cycle therefore, will be expected to have a profound

effect on the nature, type and value of residential property buyers in those families will purchase. It takes into account changes in family structure and behaviour accompanying progression from birth to death. At each stage, the person plays a different social role and purchaser's symbols of that particular role at the time. For example, the purchasing pattern with little children is to purchase toys.

In the past the family life cycle theory was a useful tool for segmenting markets and developing marketing strategy. The basic premise of this theory is that most families go through a progression of stages, each with its own characteristics, financial situation and purchasing patterns (Hawkins, Best & Coney 2001).

The following is an overview which is adapted from Old Mutual Financial Planning 2009, the principles having been adapted and related to the issue of buying and renting according to the different stages in the family life cycle.

2.10 Family Life Cycle with regards to Ownership capabilities

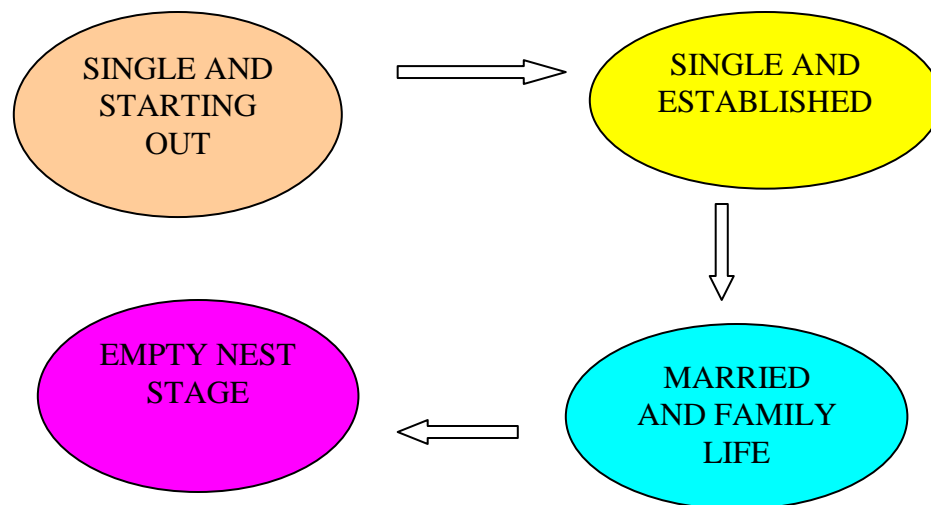


Figure 2.3 Different Stages in family life cycle, Adapted from Old Mutual Financial Planning. [Online]. Available WWW: www.oldmutual.co.za. (Accessed 15 June 2009).

2.10.1 Single and Starting Out

According to Old Mutual this stage comprises a person who is still studying, or has just started the first job, and needs to consider the financial needs as an independent adult. At this stage one does not have much in the way of responsibility – no dependents and few financial commitments. At this stage one usually looks to renting or sharing a home with other cohabitants. It would allow the individual to save toward a goal which would be to own their own home some day. At this stage a person does not want to be committed as they are still enjoying their freedom and having to endure financial strains such as maintenance requirements and upkeep as well as mortgage repayments would be stressful especially on a minimal starting out salary.

2.10.2 Single and Established

Old Mutual describes this stage as one where the person is in their first or second job and has been financially independent for a couple of years. They are in a committed relationship and have purchased a car. They may be thinking about buying their first house or flat.

2.10.3 Married and Family Life

At this stage, there is a dual income and the addition of children to the family alters the financial situation dramatically. Increased responsibilities include higher medical expenses, greater need for disposable income, risk cover, requiring a larger house and planning for education.

2.10.4 The Empty Nest Stage

This stage is when the children are married off and the parents are close to retiring or have already retired. At this stage the children have left home and the mortgage is nearly paid off reducing the financial burdens considerably. Conversely, one is nearing retirement and would be more conservative, focusing more on capital preservation than growth. Usually at this stage there is a greater chance of experiencing increased medical costs.

2.11 Senior Citizens

The retired person (also known as the senior citizen) is in a unique position once they have retired from their jobs. These people have freedom than those still confined to the world of employment. The question that now arises is whether a retired person should purchase or rent a house after retirement.

The answer to this question lies largely in the examination of three different factors: age, lifestyle, and financial situation. When senior citizens decide on purchasing or renting a home after retirement, it is important to consider age and health (Senior Citizens: Should...2007). When one rents a home or flat the responsibility and legal obligation of conducting routine maintenance lies with the landlord. In flats and complexes the yard maintenance is usually included in the rent as well. Hence maintenance costs are the responsibility of the landlord. Renting is often easier on retired persons who are experiencing deteriorating health because it reduces stress and increases security in the home.

If one chooses to purchase a home after retirement the equity acquired from the mortgage repayments can be used to employ workers to take care of maintenance and repairs. This will ultimately depend on the financial status and the ability to meet financial obligations.

Most retired persons are living on a fixed income from social grants and other retirement benefits. When one has a fixed income, budgeting with that income could become difficult and a mortgage could place added stress at retirement. When one rents, this could compensate for added expenses and it would lower their monthly payments. A mortgage binds one to a specific amount each month unless they intend to sell as was discussed in the preceding paragraphs.

2.12 Conclusion

The aforementioned literature review does not in any way comment that one form is better than the other. It merely suggests and brings to light some important factors that one must consider when investing in residential property which is a decision that involves incurring large sums of debt and often implies significant cash flow risks. Property decisions are currently made more difficult due to the current financial crisis being faced together with the implementation of stricter lending procedures adopted by the major banks. The question posed to many are what options home-buyers have in these relatively troubled times. It depends largely on the individual's current financial realities as well as an appetite for financial risk.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology “refers to the overall approach to the research process, from the theoretical underpinnings to the collection and analysis of the data,” (Collis and Hussey 2003). The previous chapter examined the literature to contextualize this study in relation to the factors affecting one acquiring property or deciding to rent in the current economic climate. This chapter will outline the aims and objectives, justify the choice of methodology to be employed, discuss sampling process and detail the research instrument to be used. It will also address important methodology topics such as validity, reliability and research tools for the analysis of the data. The research paradigm will encapsulate the framework for the conducted research. The paradigm that will be utilised is realism, where the approach involves finding causes of social occurrences, with minimal consideration to the subjective nature of an individual (Collis and Hussey 2003).

Exploration, description and explanation are the three key reasons why research is undertaken as described by Babbie & Mouton (2001). Research is conducted when the subject is relatively new or there is insufficient information in a field. There are a number of articles and current newspaper clippings highlighting the issues that the research has embarked on. However, at present there are a limited number of studies in South Africa pertaining to the residential property market.

The research design creates the framework for the analysis of the variables by constructing the study in such a way that it will attain the research purpose and produce answers to specific questions. This is referred to as the basic strategy of the research, which will allow the researcher to draw valid conclusions. The research design therefore has two purposes: to provide answers to research questions, and to control the experimental, extraneous and error variance (Mouton 1996; Oppenheim 1992).

The purpose of the study is to investigate the factors affecting the buying versus renting decision posed to individuals especially in today's economic climate. The most effective way to gather information is through survey research (Cooper & Schindler 2001).

Shiffman & Kanuk, (2004) note that the design of a research study is based on the purpose of the study; if descriptive information is required then a quantitative study is likely to be undertaken; if the purpose is to generate new ideas, then a qualitative study may be in order. For the purpose of this research it was decided to utilise a qualitative approach through administering a semi-structured interview with six (6) agencies as a form of research interview which is a commonly employed method in survey research.

Qualitative research seeks out the “why” and not the “how” of the topic through the analysis of unstructured information such as interview transcripts which is the form adopted by this research. Qualitative research is also used to gain insight into people's attitudes, behaviours, value systems, concerns, motivations, aspirations, culture or lifestyles (Fishbein & Ajzen 1975). By so doing it helps to understand how people feel and why they feel the way they do which is the essence of the study which is to ascertain why a person would rent or purchase property.

3.2 Aim and Objectives of the Study

The aim of this study is to ascertain the factors that are determining the decision between buying property versus renting in the current economic climate.

The research objectives of the study are:

- To investigate the option of buying property or renting and the respective factors that favour one opposed to the other in the tough times ahead.
- To investigate the viability of the once lucrative purchase to let option.

- Investigate the category of individuals that will purchase in this turbulent market.
- To ascertain the financial implications (tax implications) of purchasing as opposed to renting.

3.3 Sampling Technique & Description of the Sample

A population is defined as “the total collection of elements upon which the researcher intends to make inferences” (Cooper & Schindler 2001).

The sample frame is based on six (6) home letting and estate agencies in the KwaZulu Natal, Durban area. The sample was restricted to Durban and surrounding areas as a result of financial and time constraints. The difficulty that arose during this stage was to get the agents to consent to providing time to answer the interview schedule and divulge important happenings and trends in the market. Although there are many agencies available it was difficult to get more agencies that were willing to participate with the research. After much persistence six (6) agencies were willing to meet and complete the interview process. This was the constraint that was faced with the collection of information.

Cooper & Schindler (2001) state that the sampling technique used depends on the requirements of the project and the objectives to be met. Although probability sampling is the generally preferred method of sampling, due to practical limitations, non-probability sampling techniques were applied.

3.4 The Realism Paradigm

The primary purpose of research is to pursue knowledge and to seek principles that have universal application (Hadebe 2006). Researchers are often concerned between the choices of a quantitative or qualitative methodology. This study employs a realist approach where in realism; the real world that requires discovering is external to the researchers mind (Thompson and Perry 2004). The realism paradigm which represents an overall conceptual framework of this study can be regarded as the “basic belief system or worldview that guides the investigator,” (Guba and Lincoln 1994).

3.5 Sampling Technique and Description of the sample

In a realist study, which is a non-probability sampling technique, a purposive sampling method was used. “A sample is made up of some of the members of a population” (Collis and Hussey, 2003) whereas a population “is a group of individuals that have one or more characteristics in common that are of interest to the researcher (Dooley, 1995). A subcategory of the purposive sampling method involved the use of snowball sampling which involved a specific group with a defined purpose in mind. A non-probability sample is a sample that has not been selected using random selection method. Essentially this implies that some units in the population are more likely to be selected than others (Bryman and Bell, 2007).

The inclusion of participants by this purposive or snowball sample introduces bias. A biased sample is one that does not represent the population from which the sample was selected. The snowball sampling method is a form of convenience sample where the agencies in the Berea area were used as the initial sample. The problem with this sampling method is that the findings may be difficult to generalise as one does not know what population this sample is representative of. The fact that these agencies are situated in close proximity to one another and conduct business in the same suburb makes them different from other agencies in general.

In the snowball sampling method one identifies initial participants who meet specific criteria and in this study included estate and letting agencies from Durban and surrounding areas. The initial sample was made up of agencies that conducted business in Berea. These agencies were then asked to recommend other participants who are also in the same business and formed part of their social networks or acquaintances. These referrals from a small sample set are used to generate additional participants and grows like a snowball. Since the technique of snowball sampling was employed, there is a degree of bias on the selection of the sample since the sample was purposely selected with a defined purpose.

Given that snowball sampling is a form of convenience sampling, the sampling technique introduced bias and reduced the likelihood of the sample being representative of the entire cross section of population. Since the sample members were not selected from a sampling frame, the snowball bias had to be reduced through several means. Firstly the respondents were selected from various different suburbs in the Berea area as well as representing different economic sectors. Secondly, the referrals from the initial participants were asked to nominate agencies who were in opposition to them. Lastly, a concerted effort was taken to ensure that the snowball chain serviced people from a wide range of social groups. For example, the initial respondents comprised of agencies from a know network list. There were also referrals to other agencies by friends and family obtained through social networking.

3.6 The Research Instrument

3.6.1 Description and Purpose of the Research Instrument

A research questionnaire was designed for the purpose of the research. Further justification of a questionnaire as a research tool is that original data known as primary data could be collected at the source (Collis and Hussey 2003). Additional benefits of using a questionnaire include having greater access to respondents through face-to-face interactions. The aim of the questionnaire was to obtain as much information as possible with the structure and style of the questions. The data was to be obtained by means of an interview with the respondents. The limitation of using the face-to-face interview method as a data collection tool is the low response rate obtained. From twenty five (25) agencies that were approached, only six (6) responded with an affirmative answer to participate in the study. This represents a response rate of 24% which is considerably low. This was due to time factors imposed and the busy schedules that many agencies have.

The interview is probably the most widely employed method in qualitative research (Bryman & Bell 2007). An interview is a conversation, usually between two people where one person – the interviewer is seeking responses for a particular purpose from the other person - the interviewee (Gillham 2000). The purpose of the research instrument is to collect data as well as to obtain information and an understanding of issues relevant to the general aims and specific questions of the research project.

The research instrument took the form of a semi-structured interview. This is a term that covers a wide range of instances. It refers to a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of questions (Bryman & Bell 2007). There are many types of interviews besides the norm whereby an interviewer stands or sits before the respondent asking the latter questions and writing down the answers. There are the group interviews or focus groups where there is more than one respondent/interviewee. There can also be more than one interviewer however this

type is very costly. A third type is the in person or telephone interview. The type implemented in this research is the face-to-face interview.

The face-to-face interview was chosen because of the small sample size, the agencies were easily accessible and a direct meeting between the interviewer and interviewee could take place whereby personal communication could take place and full and accurate data was collected. A face-to-face interview allowed the opportunity to explore in detail the views as to why people think the way they do. The advantage of this type of research instrument allows one the ability to probe and obtain details which would not be revealed in a group discussion or on paper. However in qualitative interviewing, there is much greater interest in the interviewee's point of view and "rambling" or going off at tangents is often encouraged as it gives insight into what the interviewees sees as relevant and important (Bryman & Bell 2007).

3.6.2 Construction of the Interview Questionnaire

Instrument design can be defined as the formal construction of a data collection device to obtain relevant information required to solve a research problem (Davis, 2005). Since this study was based on realism, the most appropriate research tool used to gather information was a questionnaire. The objective of the questionnaire was to solicit responses from a sample of agencies regarding the relevant factors determining the decision between renting and buying property in the current economic downturn, the purchasing of property as an investment mechanism, the category of individuals that are purchasing in the uncertain market and the extent that tax implications have on the decision. "A questionnaire is a list of carefully structured questions, chosen after considerable testing, with a view to eliciting reliable responses from a chosen sample. The aim is to find out what a selected group of participants do, think or feel," (Collis and Hussey 2003).

The objective of research design is to reduce the chances of non-sampling errors. “Non-sampling errors are errors that result from the survey process. They are due to the non-response of individuals selected to be in the survey, to inaccurate responses, to poorly worded questions, to bias in the selection of individuals to be given the survey,” (Sullivan 2005). For the generation of quality data, the research instrument must be of a high quality. Several considerations were undertaken in constructing the questionnaire. The, form, structure (sequence of questions) and wording of the questionnaire were designed according to the research questions outlined. Ultimately, the choice and type of questions and statements had to ensure that it met the requirements of the objectives of the study.

The questionnaire comprised a set of sequenced questions that were open ended. Open questions is one where the respondents are at liberty to give their own responses whereas in closed question the respondents have to choose a response from the pre-determined list of options (Sullivan 2005). The advantage of closed questionnaires is that it limits the choices of responses; it is easier to show relationships between variables, it is easier for respondents to complete and for a researcher to code, compute and analyse. However, the disadvantage is that there is less flexibility where respondents are limited to the fixed answers suggested. With closed questions all possible answers are not explored. Closed questions may also be frustrating to respondents if respondents do not find an applicable category. Despite the disadvantages of closed questions it would work well if this was a quantitative study to analyse the relationships between variables.

The questions began with a general, broad nature then delved into specific probe type questions. The questions were drawn from other studies of property research and adapted for the residential property purchaser/lessee. The purpose of asking these open ended questions is that the respondents could answer in their own terms, to allow for unusual responses to be derived and the salient issues could be explored. The vocabulary of the questionnaire is important to reduce the possibility of

misrepresentation and vagueness. The simple choice of words ensured clear understanding and interpretation of question.

3.6.3 Ethical Clearance

Once designed the questionnaire was submitted for ethical clearance by the University of KwaZulu-Natal's Ethical Committee. This ensured that all ethical principles have been adhered to.

3.6.4 Trialling of the Interview Questions

According to Gillham (2000), trialling involves trying out possible questions usually on a neutral person who is preferably in the same profession.

Trialling questions do a number of things which include:

- It gives one some sort of feel for the interviewing process
- It alerts one to the range of factors that give an interview flavour and direction
- It focuses on what it is about the questions that makes them productive and stimulating
- It highlights key questions and indicates those that are redundant and those that need rethinking (Gillham 2000).

The researcher did not embark on trials as there were not enough respondents to perform this on and time was a limiting factor. Due to financial and time constraints all six (6) agencies were visited on the same day. The negative aspect that arose out of the conduct of interviews on the same day limited the ability to assess the answers derived from the questions posed thereby prohibiting the acquiring of certain information that could have been obtained by changing the method of asking or tailoring the question to obtain the desired results. It was acknowledged that the questions should have been piloted and pre-tested. Pre-testing allows for the following:

- Identification of wording problems
- The clarity of the questions/statements
- The unambiguous interpretation and understanding of the questions
- The time required to complete the questionnaire.

3.6.5 Validity and Reliability

Validity refers to the accuracy, meaningfulness and credibility of the research, while reliability is concerned about the extent to which the researcher would draw the same conclusion in a similar research project (Leedy & Ormrod 2001). Mason (1996), for example, in her book on qualitative research, argues that reliability, validity and generalizability 'are different kinds of measures of the quality, rigour and wider potential of research, which are achieved according to certain methodological and disciplinary conventions and principles'. Thus, validity refers to whether 'you are observing, identifying, or "measuring" what you say you are' (Mason 1996).

LeCompte & Goetz (1982) and Kirk & Miller (1986) also write about reliability and validity in relation to qualitative research but invest the terms with a somewhat different meaning from Mason. These authors relate validity and reliability to external and internal.

External reliability is the degree to which a study can be replicated. This is a difficult criterion to meet in qualitative research as opposed to quantitative research whereby is easier to replicate an initial study.

Internal reliability is when there is collaboration and agreement to what the observers or members of the research team see and hear.

Internal validity is whereby a good match exists between the researchers' observation and the theoretical ideas developed.

External validity refers to the degree to which the findings can be generalised across social settings (Bryman & Bell 2007).

LeCompte and Goetz (1982) argue that, unlike internal validity, external validity represents a problem for qualitative researchers because of the tendency to employ case studies and small samples.

A small sample size as well as a case study was used to highlight the factors for the research. Internal reliability did exist as the ideas developed were associated with the data obtained.

Lincoln and Guba (1985) and Guba and Lincoln (1994) propose that it is necessary to specify terms and ways of establishing and assessing the quality of qualitative research that provide an alternative to reliability and validity. They propose trustworthiness and authenticity as the two primary criteria for assessing a qualitative study as has been embarked on. The chosen respondents are from credible and long standing agencies and have been involved in the residential purchasing and letting industry for a long time. It has been ensured that all information as delivered by the interviewees was captured in the exact words.

3.6.6 Administration of the Interview Questionnaire

The respondents were informed that participation was voluntary and no monetary benefits would be derived. In this study the interviewing of each agent took place on a personal face-to-face manner. According to Gillham (2000), face-to-face interviews are enormously time-consuming and expensive should respondents be situated in different areas. Appointments were made with the relevant agents and were consulted at a convenient time at the place of business. The nature of the study was explained to the participant prior to the consultation. Consent to participate in the study was obtained from each agency. The questions were posed to the interviewees in a sequential order and every word was noted by the interviewer. The interviews were approximately an hour long in duration with each interviewee. Due to time constraints it was not possible to extend the interview for a longer period and neither was it possible to conduct follow up interviews with the interviewees.

3.6.7 Analysis of the Data

Due to the nature of the study and the very practical approach adopted the report will focus on the main findings by the participants of the study and will try and draw a correlation between the literature review and the viewpoints of the respondents. The data will be tabled according to the information received from the six (6) agencies and will take a reporting format. The results will be discussed according to categories of terms that emanated from the interview process. According to Saunders, Lewis and Thornhill (2003), qualitative data has to first be classified into categories before the data can be meaningfully analysed. This is because of the non-standardised and complex nature of data that is collected. Strauss and Corbin (1998) suggest that there are three main sources to derive names for these categories:

- Utilise terms that emerge from the data;
- It is based on the actual terms used by the participants;
- Comes from terms used in existing theory and literature.

3.7 Conclusion

This chapter reveals the details of the research methodology that was adopted in the study.

The methodology applied was placed in context with the objectives of the study to ensure it was appropriate and adequate to fulfil the research questions.

The qualitative (semi-structured interview) approach was used to examine the research question.

An attempt was made to obtain a larger sample size however this posed as a limitation as many agencies refused to participate. The reasons for non participation included the time factor and some felt as though it was a disclosure of certain skills and knowledge that they possessed and felt as if they were imparting trade secrets and would not have anything to do with it.

The results obtained are obviously limited by the poor response rate. However the response rate does not inhibit the study as many other critical views by

knowledgeable individuals from banks and mortgage origination companies such as Ooba and Betterbond have been obtained to reflect insight to the research. So clearly, the small response rate does not restrict the inferences that can be drawn from the viewpoints on the whole.

A further limiting factor with the interviewing process was the lack of information derived with regards to the lifecycle and the effect it has on the rent versus buy process. This could have been obtained if further interviews could have been arranged to obtain the data or had trialling and pre-testing taken place.

However it was important to proceed with the research despite these setbacks as some useful insights into the property acquisition in this critical period can be gained especially to first time entrants and naïve buyers.

Chapter three highlighted the research methodology employed by this research project and described how the data was going to be reported. Chapter four will now focus on the results of the interviews held with the respondents.

CHAPTER FOUR

PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the findings of the research. The interview schedules are tabulated according to the different responses on each question per agency. An attempt was made to summarise the information sourced from the interviewees. This was then used to answer the objectives of the study.

Content analysis is about organising the substantive content of the interview: the content that is of substance. There are two essential strands to the analysis:

- Identifying those key, substantive points;
- Putting them into categories (Gillham 2000).

The relevant categories that were evident from the data collected and will be further discussed under the following headings are:

- The mortgage bond
- The interest rate
- Non-availability of cash
- Prices of homes
- Unemployment and job stability
- Transfer costs and transfer duty

A practical calculation of a renting versus buying financial implication over a ten year period is attempted. A hypothetical illustration of the renting versus buying illustration is also provided as sourced from analysts from FNB.

4.2 A Summary of the Results

Table 4.1: Response to interviews:

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
How long have you been in the property business?	10years	9years	7years	5years	10years	10years	All involved in the market for more than 5 years
How would you describe the property market over the last six to seven months?	Very unstable, fewer sales in homes, cash on hand is rare. More people opting to live with family or rent.	Market is very slow, banks lending tightened, very little cash by prospective buyers	Market dropped drastically, more people opting to rent, house sales very low to none	Uncertain, unsettled, fewer sales. Very little cash available. The requirement of deposits making it very difficult for entry level home buyers	Unstable, fewer bonds being granted. Debt levels are high. Fewer to no sales at all for some time. Only those that have money can engage in the market right now	Very depressing, little to no sales. Sales crashing at an alarming 80 to 90%. Many people being declined with bond applications. People have no cash to put down as deposits	The market has severely contracted as stated by all respondents. Sales decreased drastically. Bonds are not granted easily.
How has sales of houses been over this time?	Inconsistent, high rate of declines for bonds, consumers struggling to get together deposits as	Slow, very few bonds approved	Very slow with very few qualifying for finance	Slower as bonds are taking longer to be approved with many being over indebted and not	Banks turning away many due to credit rating and not qualifying for finance. Market is slow.	Not many bonds being granted due to over indebtedness, people losing jobs. Motor industry worst	The market has been stated to be slow and there is consensus from all that people do not

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
	required by all financial institutions.			qualifying		affected as well as people earning on a commission basis	have cash as deposits and are over indebted and thereby a huge decline in mortgage finance.
What are the determinant factors that purchasers are using when deciding on whether to purchase or rent during this time?	Affordability playing a major role, high selling prices is out of context in terms of actual market values. Sellers battling to accept the decreasing property prices. Market is in favour of letting but experiencing a shortage of stock of rental	They are using price and location. Very few people wanting to commit to a bond in a market like this. Rentals are a boom but very short on stock. Many are seeking security and an asset that will appreciate and therefore find	The prices of homes are ridiculously high. Entry level home are more that R800 000. Deposits being requested are making it difficult for people to buy. There is more demand for rental properties however there is not much available on	Some think that it is better to buy as opposed to paying towards someone else's bond. The majority however do not have deposits and cash available. The option is then to rent and people looking for rentals close to school and work to save	Many are looking for bargains but they are so few available. The homes that are really cheap are usually in not sought after areas. The only people buying are those that have cash. More are opting to have little commitments and do not have cash	The entry level home is now between R800 000 to a million rand. Many are facing retrenchment and are not able to commit to such a financial burden. The option for now for many is to weather the storm and rent. Places that are secure and a	It is clear that people do not have cash surplus available to pay for costs associated with the purchase of a home and many are opting to rent in this time until the market is more transparent and settled. Many also view owning their own

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
	properties. In as much as many opt to rent in these times many still hang on to the goal of owning their own home when the market settles.	themselves waiting until they can invest in their own home one day. One wants freedom to do what they want to their own home.	the market. People do not like paying towards another's bond and many want to have their own home in the future when the market stabilises.	on fuel. The security issue is vitally important to many and owning their own home gives them a sense of achievement.	readily available. Most individuals want to secure equity and find owning a home will give them that.	good buy for the future and is considered to build equity and pay towards ones own property rather than another's bond.	home a goal in life and are striving towards that when the market settles itself out.
What price range of houses is being sought after?	R450 000 to R800 000	R500 000 and less	R400 000 – R600 000	R400 000- R750 000	R500 000 and less	R600 000 and R800 000	It is evident that homes in demand are in the region of R500 000 and R800 000
What type of buyer remains buoyant in these times?	Those that have cash as well as investors	Investors and cash buyers	People with cash and those that have stable good paying jobs	Investors and cash buyers	Investors and people who have a cash surplus and a handsome sum of money saved or invested	Cash on hand buyers and investors	Investors and those with cash
Are	Yes, very	CGT and	Yes, very	Yes. Not	Yes as banks	Very much	There is

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
purchasers weary about the tax implications involved in their acquisition?	concerned with transfer duty and CGT issues	transfer duty main priority. Many wish to buy from developers to alleviate paying Transfer duty	much so.	many have money for deposits and costs associated with transfer such as Transfer Duty.	are not funding the 110% bonds with costs included.	so. The CGT and transfer duty plays a pivotal role in the decision process	consensus that the prospective buyers are very concerned about the associated tax implications when buying property now.
What are the main issues that you are facing in terms of concluding sales?	Mortgage Bonds being declined. Sellers not willing to negotiate purchase prices. Consumers more educated about value for money purchases. Purchasers not having deposits and	Declining of bonds by banks. People not qualifying because of over indebtedness. There are not many homes in the required price bracket. Deposits and transfer costs not available.	The banks are strict with lending criteria. Not many homes available that are realistically priced.	Many are not qualifying for mortgage bonds and they do not have cash available for deposits	Mortgage approvals is the biggest problem and cash for ancillary costs of transferring the property	The biggest hurdle is qualification to obtain finance and the availability of a home to suit a person that qualifies.	The major factors are the lending criteria which hinders upon a person obtaining finance, the availability of suitable stock in the market and the lack of cash for costs involved to transfer the property as

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
	money for transfer.						well as deposits required.
Are the current rate cuts affecting the property market positively?	No not really. People still reluctant to commit in these unstable times	Not really. Slightly for those that are in a better financial position as opposed to the rest of the population	It has affected the investor and person who has surplus cash on hand however suitable stock is the problem	No it has not as people are conservative this time around.	It really has not made a dent in the market. People wish to have little financial commitments right now	It has to certain extents only for the very wealthy that have surplus cash available.	The majority agrees that the rate reductions are not affecting the market positively or the way they would have hoped.
Is it viable to buy to let in these times?	Yes definitely especially for the investor and those that have money	Yes. The market will see a rise again.	Most definitely. That market will always be lucrative	Yes. It will definitely have a good return when the market picks up	It is good to buy now and it is an investment that will definitely appreciate depending on the purchase price being a realistic price.	This remains one of the most viable income generating investments by far. It is doing very well and the investors are grabbing the bargains available.	It is evident that this is still a viable investment opportunity and will thrive when the market reaches stability.
What other factors are	Estate agents leaving, lack	Unemployment and job	Credit being the most	The banks requirements	Not many having cash	Unemployment as well as	It is evident that the

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
having an impact on the slowdown in the property market?	of cash flows, a decrease of suitable well priced stock available	instability as well as financial issues	important factor and the banks tightening their lending criteria as well as many losing their jobs.	and the over indebtedness of many households	on hand. Not much suitably priced stock. Banks lending criteria.	retrenchment s. Banks not granting mortgage bonds readily. Household remaining cash strapped	factors most hindering the market is the qualification of finance and the unemployment rates that seem to be on the increase. Household are cash strapped and priority given to having as little debt now as possible.
Are there any other comments/ suggestions?	More training for buyers and sellers	Banks to re visit the lending criteria	Banks to be a little relaxed with lending criteria	Sellers to be realistic when asking for a price on their property	SARS must revisit the transfer duty rates applicable.	Transfer duty must be looked at as well as ensuring that individuals are fully canvassed when deciding on buying and	Majority said that SARS must look at increasing the rates of exemption of transfer duty to make purchasing more affordable.

Agencies:	Agency 1	Agency 2	Agency 3	Agency 4	Agency 5	Agency 6	Summary
Location:	Loc 1	Loc 2	Loc 3	Loc 4	Loc 5	Loc 6	
Questions:							
						the long term responsibility that attaches thereto.	The buyer and seller must also be educated on the decision and long term effects. The banks must relax the lending criteria to make it more accessible to many middle income households.

4.3 A Financial Case Study of Buying and Renting

Due to the current economic crisis as well as the downscale in the property market it is difficult to precisely determine house price projected growth due to the uncertainty in the economy.

A practical look at a calculation over a 10 year period with the assumption that one would sell after the 10 year period elapsed or alternatively vacate the premises should the lease expire.

Table 4.2: Financial Costs involved when renting and buying a Home

Costs if One Rents a Home	Costs If One Buys a Home
Monthly rental : R4 000	Purchase price: R600 000
Invested Capital: R95 000 @ 6%	Deposit Required: R60 000
Capital invested grown by R57 000 in year 10.	Other purchase costs: R35 000 Bond Interest rate: 13% per annum
	Maintenance costs: R2 400 per annum
	Property inflation/Growth rate: 6%
	Bond taken over 20 years
	Repayment every month on a Bond of R540 000 is R6 391.56

Source: Adapted from Property and its wealth creating Power in South Africa, 5ed.

Available: WWW: www.propertypower.co.za (Accessed 15 July 2009).

The aforementioned table is hereby explained and the following additional assumptions are made:

- That the same value of home is rented that one could have bought for the purpose of the calculation,
- That an investment is made at the time of renting which is equivalent to the costs that would have been outlaid for the deposit and legal costs involved when buying the property,

- The person renting will invest the R95 000 (ninety five thousand rand) into a fixed long term saving or similar account. This is to derive the best possible return on the invested capital and also to compare it to the buy option.
- The researcher has allowed for 6% growth, although with the current changes in the economic cycle this would have been affected. However for illustration purposes, 6% will be used.

A better option would be to rent a house should the relevant costs required to purchase a property not be available

However with an average escalation of 10% a year it is evident that by year 5 the rental is ahead in terms of cash payments on the bond.

At this point, with the home ownership, the interest portion is nearly paid and the future payments will be towards the decrease of capital amount.

The determining factors as to whether a person rents or purchases a house will depend on the financial situation and emotive factors which have been discussed in the literature review in Chapter 2. It would also depend on the price of rent one is paying in comparison to the property inflationary rate.

4.4 Example when deliberating on the Decision

The following is a hypothetical example :(Rent vs. Buy...2008):

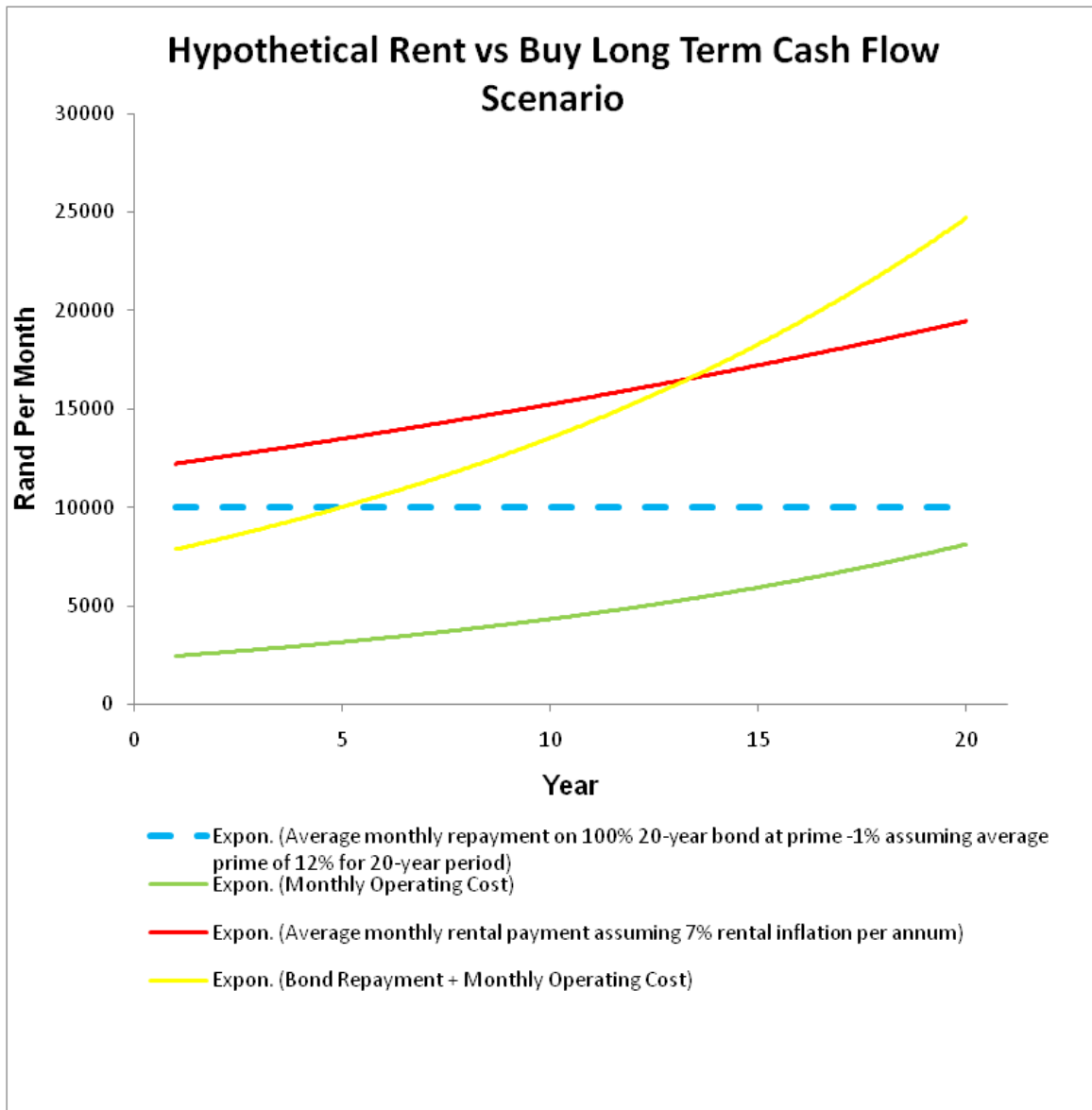


Figure 4.1: Hypothetical illustration of the Rent vs. Buy scenario, Adapted from Rent vs Buy – There's pros and Cons to both. First National bank Home Loans Division; [Online]. Available WWW: www.fnb.co.za (Accessed 29 June 2009).

- The gross income yield on the property is 8%, in other words annual rental income from the property would be 8% of the value of the house.
- Operating costs of the property would be 3% of the value.
- Prime rates average 12% for the 20-year bond period.
- The client pays prime minus 1% i.e. 11% on average.

The following assumptions are made:

- Capital value of the property rises by 7% per annum as does rental and operating costs,
- The bond repayment does not rise over time,
- The reality is that in the long term the interest rate and monthly bond payment need not necessarily fluctuate as is normally the case with regards to rentals and operating costs.

The interpretation of the graph illustrated in Figure 4.1 states that with rentals being less than the monthly bond repayment early in the 20th year period, one may be prone to opt for the rental option. It must be remembered that there is the chance that one may be paying more in the latter stage of the 20 year period when renting as the hypothetical situation depicted in the graph suggests.

The owner has to basically attend to the annual increases in operating costs. The tenant on the other hand, has to deal with rising rental costs each year. According to the graph the lessee begins to pay more than the owner's total bond and operating costs in year 13 while the lessee will also end the 20 year bond repayment period not owning the asset.

4.5 Conclusion

In this chapter, the researcher employed exploratory, descriptive and an explanatory approach to analyse the data collected and present the findings of the study.

Identification of substantive statements was taken into account in analysing the content of the data collected from the interviewees according to the relevant objectives. By doing this, the chapter creates a foundation from which chapter 5 now proceeds - seeking to place the findings into perspective, grounded in the literature review conducted in chapter 2 and clarifying the research objectives as stipulated earlier in chapter 1. Thus the study achieved and helped solve the main research question.

CHAPTER FIVE

DISCUSSION OF RESULTS AND RECOMMENDATIONS

5.1 Introduction

The results of the data have been tabled in Chapter Four. The implications of these results in relation to the wider context of the Literature review in Chapter Two will be considered in this chapter.

There are clear signs that the global economic crisis is far from being over. The reason for this is that there is an ongoing debate amongst leading economists on whether the global economy is recovering or not. According to Geffen (2009) who states that the worst may soon be over and has predicted the recovery to start towards the end of 2009. However according to Loos and Geffen (2009), economists paint a grim economic picture with a deep and protracted contraction lasting at least through the end of 2009 (Is affordable housing...2009).

The situation remains uncertain and significant risks still remain to economic and financial stability even though some sectors of the world indicate signs of stabilisation. The lack of clear and universally agreed upon signs of recovery and the fact that the recovery or lack thereof in different parts of the world has not reached the critical mass necessary to present compelling evidence that the recovery is underway, this is suggestive that the crisis might last longer than expected. Moreover, experience shows that it takes a significant amount of time for the economy to return to growth potential after such a global economic crises (The Five Big...2009).

- **Non-availability of cash and The Mortgage Bond**

Consumers world wide are under pressure because of high debt levels and relatively weak confidence. Households are continuing to reduce indebtedness and reduce consumption, which points to a continued economic recession. In South Africa, the retail sector experienced a fall of 4.5% in the second quarter of 2009 (Bargain-hunting at...2009). The high debt levels are hindering people from obtaining mortgage bonds to purchase property.

- **Prices of Homes**

The Absa housing price index highlighted that in currenly property prices in South Africa have been declining on a annual basis since January 2008. The index revealed that the average nominal price of middle-segment housing was down by 3.6 percent per year to R932 000 in May 2009, after declining by a revised 3.2 percent in April. Absa argued that the May price decline was the largest since September 1986, when it was also -3.6 percent year-on-year. In June 2009, house prices fell by 4.4% year-on-year in nominal terms. With inflation for June at 6.9%, this implies a real fall in house prices of more than 11% (The Five Big...2009). It has been stated in Chapter Two that a preference for home-ownership is evident if relevant opportunities such as good interest rates and a supply of homes within an appropriate price range, the necessary resources are available and the constraints can be overcome. These factors are not prevalent in the current situation and lend itself to a more favourable rent option to be pursued.

- **Job stability and Unemployment**

As stated in Chapter Two the large retrenchment rates and the subsequent effect it has on job stability makes it advantageous to rather rent than be committed with the financial liability that is seen as a restricting factor in these turbulent times. South Africa's unemployment rate increased to 23.5% in the first quarter of 2009 from 21.9% in the last quarter of 2008 (Unemployment rate increases...2009). Loss of employment represents a clear risk to an economic recovery, due to weak consumer spending, poor company performance and the need to compensate by making further

cuts in spending, budgets and resources. This results in instability with regards to one financial standing and will therefore contribute as a factor hindering the person from committing to a twenty year debt.

In light of the aforementioned, the literature review presented as well as the results obtained from the interviews conducted reaffirms that the South African property market has a long time to go until stability is reached. The research reveals that people want to commit less to long term constraints and therefore the option of renting in the current economic crisis is a far more realistic choice to make.

- **The Interest rate**

Due to the uncertainty in the economy and the increasing rates people are conservative with regards to engaging in long term contracts. The interest rates fluctuations came across as a deterring factor during the data analysis. Renting affords a person flexibility in this regard as there is a fixed rental payable and the annual increases can be pre-determined and budgeted for.

- **Transfer Costs**

Sales of properties are now dependent on a deposit being paid. The banks are no longer willing to provide 100% bonds. People wanting to purchase now have to have a deposit as well as fees for the transfer of the property. This again is seen as a deterring factor.

As discussed in chapter 2 of the study, individuals that can afford to engage in a purchase are doing so at an opportune time. Buying a home that one can afford can be a very rewarding feeling. The purchase of a home is a more reliable secure investment as opposed to renting. This is due to the escalating rental rates and robust competition for available rental properties in the marketplace.

It is evident from this study that the primary advantage of owning a home is the beneficial value attained from the asset however the following were prevalent factors as well::

- **The feeling of security** – People felt that this was an accomplishment in their lives and viewed it as a place they could raise their family and not be asked to move out by a landlord when asked to do so.
- **To possess Freedom and Privacy** – It allows one to add their bit of personal feel to decorate the home according to their own personal touch as well as landscape the garden and perform renovations as and when one desires.
- **Form of Building Equity** – It is a known fact that if you have the ability to pay a little more each month the faster the mortgage will be paid and the bigger the equity gained. The home will also appreciate in value. One can take further bonds on the home as security which can fund ones future retirement, children's education or just guarantee an asset that you can utilize for your future needs.

According to the literature review representing the different stages in the family life cycle the study did not reveal any information regarding the ability and choice of the various stages to engage in either renting or buying at the present time. This is due to the type of methodology adopted as well as the type of questions asked.

The study's aim was to suggest some important factors that one must consider when investing in residential property which is a decision that involves one committing to a long term choice, incurring large sums of debt and often implies significant cash flow risks. Due to property decisions made that much more difficult at present due to the increase in interest rates many people question the available options that home buyers may have in these relatively tough times (Rent vs. Buy...2008).

Should a quantitative research method been conducted with a larger sample size then a more reliant answer could be given with a percentage of persons engaging in renting and buying.

5.2 Recommendations Based on Research Findings

Objectives were as follows:

- **To investigate the option of buying property or renting and the respective factors that favour one opposed to the other in the tough times ahead.**

It was found that prospective purchasers are reluctant to bind themselves to a financial commitment that would last approximately twenty to thirty years. The better option facing many is to rent and weather the storm before being bound financially. All interviewees agreed that the property market was on a decline and this was due to the stringent requirements imposed with regards to the financial institutions lending criteria and the availability of properties within an affordable category of price.

According to the literature review whereby the issues surrounding the mortgage bond was discussed there is confirmation that people are finding it difficult to qualify for finance. The implementation of the NCA and FICA are further barriers to entry.

- **To investigate the viability of the once lucrative purchase to let option.**

The study finds that the buy-to-let option continues to be a lucrative market. Investors are enjoying the propitious economic cycle. The Trafalgar rent index indicated that rentals had increased by 13% from January to December 2008 as discussed in the literature review. This proves that the rental market remains in high demand.

- **Investigate the category of individuals that will purchase in this turbulent market.**

The study finds that individuals and investors that have cash on hand as well as those that are able to qualify for mortgage bonds due to their financial stability. This allows the investor to obtain properties that are sold in execution at reduced prices (Buy-to-Let...2009). The study did not reveal the effect of the various stages in the family life cycle on purchasing or renting of property. It is a

recommendation that further research can be conducted to ascertain this by using a mixed methodology which would include the use of quantitative analysis and research methods.

- **To ascertain the financial implications (tax implications) of purchasing as opposed to renting.**

Prospective purchases tend to take the relevant taxes that are applicable to purchasing seriously. Due to those inherent added costs individuals are prone to buy direct from developers to alleviate the transfer duty costs associated therewith. The investor will have tax implications attached to properties purchased as these will be regarded as revenue as detailed in chapter 2. The CGT implication has an effect on the purchase decision. CGT arises at the time of disposal of the property.

5.3 Limitations of the Study

- The study was based on a small sample of estate agents and home letting agents in Durban. As a result the findings cannot be generalised for South Africa as a whole. It is suggested that the study be carried out with a larger sample covering a wider area such as more estate agencies, financial institutions as well as property analysts from major Banks to avoid bias.
- Furthermore, a study could also be conducted whereby a sample of individuals who are engaged in the process of looking to rent or buy could be interviewed or a closed ended questionnaire could be prepared and a quantitative analysis conducted. This could make for interesting area of research.
- Another limitation was the lack of response rate to participate in the research by many agencies and financial advisors that were approached.
- Lastly, this study was not quantitative in nature and looked at only the factors that are being considered and play an important role when considering

whether to incur debt in this current economic downturn. However it by no means makes any suggestion that owning property is better than renting and vice-versa, as property still remains a viable investment option.

5.4 Discussion and Recommendations

The following are factors that the researcher considers to be important before one engages in purchasing a property or renting. They relate to first time home buyers as well as subsequent acquisitions. First and foremost ascertain whether one can even afford the property in these uncertain times. If the answer is yes then one must consider the following:

- Consider the type of home that suits the person, the requirements and life style best. This would include assessing whether one would need a flat, a simplex, a secure cluster home in a gated estate etc.
- Ascertain what specific features or advantages the home and neighbourhood has to offer. This would include looking at accessibility to main destinations such as close proximity to work, schools and shopping centres. One would also look at the security aspect.
- Consider what the finances are. How much mortgage finance would the individual qualify for as well as any deposits required. Ensure that sufficient funds are kept for legal costs which are for the transfer of the property and bond costs. This would include transfer duty or VAT, whichever is applicable as discussed in Chapter 2.
- One should consider the present stage in the family life cycle. If one has just completed college and has found the first job it would be best to rent a bachelor flat for a while to save cash for a deposit on a home when one enters married life, reaches job and financial stability.

- Ensure that sufficient deposit and transfer costs are saved prior to engaging in the buying process.
- If one decides to rent ensure that a proper lease agreement is in place and set goals that it would not continue to be a long term measure but a short term goal to eventually get oneself into a starter home.
- If one has sufficient surplus capital then now would be a good time to negotiate a good buy-to-let property option. A good deposit will eventually yield a good return whereby the asset will be paying for itself. Consider the various options of purchasing property as an investment as well as the CGT implications.
- Be aware of private sales. Try to negotiate with the seller however it is important to research the value of properties in the area. It is also a disadvantage when it comes to the purchase of property with a “voetstoots clause” inserted as an untrained eye can easily overlook latent defects attached to the property which can be very expensive to rectify.
- Property investors have to beware of tenants that abscond without paying rental as well as causing damage to the property and removing fixtures that belong to the owner. It is therefore important to probably use a rental or estate agent. Ensure that the credibility of the potential tenant is obtained prior to the entering of a lease agreement and the handing over of keys to the property.

If one is considering renting during these very uncertain interest rate times, one must weigh up the benefits in terms of greater cash flow certainty and often smaller monthly payments (compared to the full bond holder) when renting, against the benefits of ownership which include the ultimate possibility of fully-owning an asset which is potentially of great value once one is debt free. There also exists the possibility that a few years down the line the rental payments may exceed bond and operating cost payments. It is possible that renting can be more attractive in the short term but with longer term disadvantages relative to ownership

For the next 5 to 10 years in terms of residential property, it would be better to rent rather than buy and invest the difference between the rent and bond payments in unit trusts, bonds, shares and other suitable assets. Timing is crucial when it comes to investment decisions and it would be a good time to buy property to let at this time as it is at the bottom of the cycle.

5.5 Conclusion

In this chapter, all four objectives as determined in chapter one were restated and the results in chapter four analysed and reviewed for each objective, making significant deductions that help clarify the issues presented. By doing so, the study has contributed to new knowledge and insights that go a long way to help resolve the main research problem, that of: ***“clarifying the many issues that pose themselves to an individual when engaging in the decision of buying a property rather than renting during this turbulent economic crisis”***

The factors surrounding the decision are highlighted however the results of the study are clearly in favour of renting during this current economic climate. Clearly home ownership is not regarded as the only viable tenure option, and renting appears to be more socially acceptable and may be becoming a viable alternative. It is suggested that further research can be carried out using more respondents in various other regions to analyze the study in a more quantitative process. The additional research should determine:

- What proportion of society are choosing to rent
- What are the reasons for negating or delaying home ownership
- What are the long-term implications for society at large from an increased proportion of renters

The factors affecting the ‘rent versus buy’ decision are constantly changing and should be continually monitored and reassessed. It is critical for information to be disseminated to individuals/households where they can make informed decisions and fully comprehend the long-term implications of their tenure decision.