FACTORS AFFECTING PROPERTY ACQUISITION IN THE CURRENT ECONOMIC MELTDOWN

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Faculty of Management Studies

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DECLARATION

I Avisha Ramlall declare that:

(i) The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.

(ii) This dissertation/thesis has not been submitted for any degree or examination at any other university.

(iii) This dissertation/thesis does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.

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Signature

___________________
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- Thank you to Prof. WD Geach for his supervision.
Abstract

The price of property in South Africa has come under debate during the last few years. After a four-year boom during which prices soared, the property market is in crisis, with consumers facing a desperate struggle to obtain finance to either purchase or build homes. Towards the latter part of 2007 and early 2008 the tides began to change and so did the reversal of positions to now being a buyers market. Many who have over extended themselves in terms of mortgages are now sitting with unpaid mortgage bonds and stand the chance of their homes being repossessed as they are unable to meet the instalments. The next best alternative is to resort to renting until the crisis subsides and the economy settles itself.

Purchasing property is a crucial decision in ones lifetime and it can be an expensive one. It binds one to a long term commitment and the problem remains one of not obtaining the adequate knowledge of factors that influence the buyers or lessees as they undergo the often extensive process of searching for and deciding on whether to buy a home or rent especially in uncertain times.

This research sets out as a main aim to investigate the important factors that one needs to take cognisance of when deciding on whether to buy or rent a property in the current economic situation. It outlines four key research objectives around the following variables in consumer literature as well as the current economic situation: i.e. risk, family life stage, financial situation, tax implications and investing options.

The study adopted an exploratory and qualitative research design employing a survey (questionnaire) as its main data collection instrument administered by a face to face interview with six respondents. The sample comprised of six estate and letting agencies in the Durban and surrounding area that were willing to participate in the research. It is thereby followed by a practical case study highlighting the financial implications attached to the decision to rent or buy respectively.

The study finds that the stage one is in in the family life cycle has an influence and is significant when deciding whether to buy or to rent, recommending that
investors and estate agents should seek to understand this in order that they tailor their marketing, developments and sales efforts effectively. On the level of financing and risk, the study finds that individuals that are financially distressed would rather rent in times like these as the need to have a deposit and the tighter lending criteria is not advantageous. The study finds that most people wish to sit out the storm before engaging in a twenty to thirty year commitment. Investors are found to be investing in property as buy-to-let options and most of them are buying cash. The property option as an investment is very much alive and lucrative to those who are able to obtain financing or have surplus cash on hand. On the level of the tax implications the study finds that it is a significant factor as many do not have funds for transfer duty and legal transferring costs. The study finds that a decision to buy would preferably be from a developer directly to alleviate transfer duty costs.
Acronyms and Definitions

SARS: South African Revenue Service
KZN: KwaZulu-Natal
VAT: Value Added Tax
CGT: Capital Gains Tax
NCA: National Credit Act
ITA: Income Tax Act
JSE: Johannesburg Stock Exchange
FNB: First National Bank
CEO: Chief Executive Officer
WHT: Withholding Tax
FICA: Financial Intelligence Centre Act
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Appendix 1: Interview Schedule

Interviewer: Avisha Ramlall
Date: ____________

Name of Agency:
________________________________________________________________________

Location:
________________________________________________________________________

How long have you been in the property business?
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

How would you describe the property market over the last six to seven months?
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

How has sales of houses been over this time?
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

What are the determinant factors that purchasers are using when deciding on whether to purchase or rent during this time?
________________________________________________________________________
________________________________________________________________________
What price range of houses is being sought after?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

What type of buyer remains buoyant in these times?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

Are purchasers weary about the tax implications involved in their acquisition?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________

What are the main issues that you are facing in terms of concluding sales?

________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
________________________________________________________________________
Are the current rate cuts affecting the property market positively?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Is it viable to buy to let in these times?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

What other factors are having an impact on the slowdown in the property market?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________

Are there any other comments/suggestions?

________________________________________________________________________

________________________________________________________________________

________________________________________________________________________