UNIVERSITY OF KWAZULU-NATAL

THE PARADOXICAL EFFECT OF THE NATIONAL CREDIT ACT ON THE RESIDENTIAL PROPERTY MARKET IN SOUTH AFRICA

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A dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration

Graduate School of Business
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2009

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I , Samantha Pillay declare that ;

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Acknowledgments

This study would not have been possible if not, for the strength and guidance granted to me through the God Almighty and the help and support of a number of people to whom I am eternally grateful.

To my supervisor Prof Walter Geach, for his advice, support and encouragement, thank you!

To my colleagues at the Graduate School of Business – "Group 5", Absa Corporate and Business Bank for their words of encouragement and support.

To my parents and my siblings, for their understanding and support, thank you!

And to Pregan for his unconditional support and love and believing in me!

Abstract

Property around the world is regarded as a pillar of wealth creation. South Africa is no exception, being a capitalist society with residential property by large forming a base of individual wealth, as an investment class.

A new set of legislation which was promulgated in June 2007 and which promotes and advances the social and economic welfare of South Africans, by advocating a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market industry thereby ultimately protecting the consumer. This new legislation, the National Credit Act 34 of 2005 replaced the Usury Act 73 of 1968 and the Credit Agreements Act 75 of 1980.

The effects of this legislation ricocheted into the South African economy generating conflicting outcomes. The purpose of this research investigated the paradoxical effect of the National Credit Act on the South Africa Residential Property Market.

The dissertation first carried out a thorough review of the literature of the South African Legislation pertaining to the property market post and prior to the promulgation of the National Credit Act, South African Residential Property Market, South African Residential Rental Market and South African Building and Construction Industry.

The study sought to validate the paradoxical effect of the legislation by analysing secondary data to investigate the contribution and correlation of mortgage loan advances, residential rental market growth and residential construction activity.

The analyses revealed a strong direct correlation between the implementation of the National Credit Act and mortgage loan advances; residential rental growth and the performance of the residential construction industry, respectively. The data analysis from the questionnaires carried out on six residential property developers further reiterated the strong correlation as illustrated by the secondary data analyses.

The main findings of this study revealed that the implementation of this legislation resulted in a paradoxical effect on the South African property market. Home ownership

decreased, while rentals sky-rocketed, forcing households to accede to higher rentals which are not governed by the Act. Furthermore, confidence as well as job creation in the residential construction industry slumped to an all time low, resulting in job losses and fewer homes being built.

The research therefore concluded that the decline in the home ownership market and the consequential growth in the residential rental market is a result of the implementation of the National Credit Act and substantiates the paradoxical effect of the Act.

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Chapter One

Introduction

1.1 Introduction

This chapter provides the background study which embraces the current residential property market in KwaZulu Natal, Gauteng and Cape Province and the conflicting effects of the National Credit Act on the residential property market. It covers the motivation for the research and the value of the project, before defining the problem statement and specifying the objectives of the study. The research methodology, theory, information collection methods and analytical techniques are also discussed. There are some limitations of the research study and these factors are recorded with the aim of informing the reader of the limits of the research framework (Guidelines for Dissertation 2004).

1.2 Background to the Study

In March 2009, Jacques du Toit, Senior Property Analyst, Absa Home Loans, stated that "The sharp slowdown in specifically the residential property market has largely contributed to mortgage advances growth decline to its lowest level since May 2003. These developments came on the back of adverse inflation and interest rate trends impacting household finances over the past two years, as well as the effect of the National Credit Act and the tightening of lending criteria by banks"(du Toit, 2009). The decline in the property market is a result of a combination of factors such as the world-wide recession, high interest rates, inflation and also, as a result of the enactment of the National Credit Act 34 of 2005 (herein referred to as "the NCA") The NCA came into effect in June 2007 and the general consensus is that the Act did have a negative impact on the property market. However the impact of the Act should not be seen in isolation as all the combined factors mentioned above, have caused severe pressure on many households and not just low-income families.

The NCA replaced both the Usury Act 73 of 1968 and Credit Agreements Act 75 of 1980. There is no doubt that it is now more difficult to get a home loan approved by banks than in the past. South Africa's largest bond originator OOBA, (formerly MortgageSA) which generates approximately 75% of all residential bond applications, reported on the Realestateweb article “New house price index: prices falling fast”, 06 August 2008, that the average home loan decline ratio increased from 39,9% (July 2007) to 51,1% (July 2008). First time home buyers were particularly hard hit when banks implemented the National Credit Act. OOBA reported in the aforementioned article, that the average price of a property purchased by first time buyers has reduced by 9,1% from R548 784 (July 2007) to R498 570 (July 2008) thereby reflecting that first time home buyers have opted for smaller more affordable homes.

The NCA is primarily introduced, as detailed in the preamble to the Act, to protect the consumer’s rights and prevent borrowers from over-indebtedness. Most South Africans cannot survive without credit. South Africa's debt-to-disposable income ratio rose from 49.8 percent in 2002 to 73.8 percent in 2006 (Mafu, 2007). Credit is not a bad thing in itself; the problem lies in the high number of borrowers who cannot repay or even service the amount of debt that they have accumulated. The NCA is government’s response to assist South Africans to be able to manage their overall indebtedness and to create a fair, clear, controlled, non-discriminatory, competent, accessible and responsible credit market place.(Mafu, 2007)

The steady decline in the number of residential developments with the parallel implementation of the NCA has had a paradoxical effect on the residential property market. The data released by Stats SA on residential buildings completed, reflect that there has been a slowdown in the number of residential developments completed over the period 2007 to 2008. This trend has been further attested by an article in the Business Day, “Hard Times for Home Projects” 10 June 2009, wherein reporter Thabang Mokopanele stated that “The downturn, high interest rates and the National Credit Act together have caused a record number of casualties. Throughout SA, wherever one looks, one comes across buildings, half-completed developments and vacant land up for sale or auction and, regrettably, these very often do not find a buyer” (Mokopanele, 2009).

The NCA has had a negative impact on the supply and delivery of housing, which is compounded by the substantial housing backlog in South Africa. Minister of Human Settlements, Tokyo Sexwale in his meeting on the 25 May 2009 with housing MECs from all nine provinces, indicated that South Africa has a housing backlog of 2,2 million houses (Ndwonde, 2009).

1.3 Motivation for the Study

The declining trend within the residential property market as a direct result of the implementation of the National Credit Act has negatively affected first time home ownership and the subsequent reduction in job creation in the construction sector for the informal labour market. The consequence of this is that there has been a shift away from home ownership and a creation of opportunities in sectors that offer an alternative to home ownership.

The research study accordingly examines the effect that the National Credit Act has had on the residential construction industry, and ascertains the current levels of building activity specific to residential developments by focusing on the sales tempo being achieved within these developments. A further study of this data attempts to assess both the positive and negative effects that the National Credit Act has had in the residential property market.

1.4 Value of the Project

The study provides detailed information on the nature and extent of the effect of the National Credit Act on the residential property market at a national level. It also identifies and analyses the various contradicting effects, opportunities and threats, as well as customer needs and desires.

The study further identifies the positive effect the National Credit Act has had on property rentals and highlights how the rental sector is benefiting from the effects of the Act.

The study therefore has immense value for estate agencies, financial intuitions and mortgage lenders as well as the National Credit Regulation Board on possibly re-addressing the aspects of the Act that is the basis of the slow demise of first time residential property ownership in South Africa.

1.5 Problem Statement

The critical research question is the following:
To what extent is the National Credit Act adversely affecting residential home ownership in South Africa and to what extent is the Act positively stimulating the rental market?

In order to answer this question it is pertinent to gain a thorough understanding of residential property market and the relevant sections of the NCA specific to consumer finance. An examination of the rental market sector over the 2007-2008 time period, will illustrate the extent of the positive effect that the NCA has had.

1.6 Objectives of the study

The objectives of the study are as follows.

- To evaluate the residential property market at a provincial level i.e. KwaZulu Natal, Cape Province and Gauteng.
- To determine the negative effect that the National Credit Act has had on home ownership since its implementation.
- To determine the positive effect of the National Credit Act on the residential rental market.
- To gain a better understanding as to how the National Credit Act facilitates the creation of a fair, balanced and transparent market by its directive on credit providers.

1.7 Research Methodology

The literature survey which is covered in chapter 2, assisted in the evaluation and analyses, which were used to determine the paradoxical effects of the National Credit Act on the residential property market.

The overall methodological approach was a quantitative data analysis specific to bi-variate analysis by addressing the critical research questions in 1.5.

Secondary data was collected from a number of sources and primary data was generated by way questionnaires sent out to six (6) residential property developers wherein twelve questions were structured into the questionnaires.

1.8 Limitations of the study

The current economic climate and the worldwide recession have created a negative climate in so far as home ownership is concerned and therefore to some extent obscures the actual negative impact of the National Credit Act on property ownership. The period of research study is restricted to an eighteen month period pre and post the implementation of the National Credit Act, due to the prevailing World Financial meltdown being the pinnacle of every failing industry globally.

1.9 Structure of the Study

The basic structure of the study is as follows.
Chapter two: (The Literature Review) briefly covers some of the research theory and the theories, models and techniques which are available to assist in determining the effect of the National Credit Act on the residential property market.

Chapter Three: (Methodology and Data Collection) describes the quantitative analysis of secondary data used in assisting in resolving the research problem. A combination of different techniques was used as different techniques were found to suit varying aspects and the evaluation of different opportunities of possible strategies. The techniques include structured questionnaire, secondary data, review of journal articles, newspaper articles and observation.

Chapter four: (Research results) presents the results obtained from the research methodology described in chapter three. It analyses the information gathered during interviews and provides tables showing the results of these surveys. It also highlights market trends that were identified by the review of the related journal and newspaper articles and observations.

Chapter five: (Evaluation/Discussion/Conclusion) discusses and evaluates all the information gathered and identifies both the positive and negative aspects of the implementation of the Act. It further concludes the study and provides recommendations for possible future consideration.

1.10 Summary

The basic structure of this study ensures a thorough evaluation of the current market conditions and the effect of the National Credit Act on the residential property market. The literature review which follows in Chapter 2 is essential in developing a thorough and academic approach to the study.

Chapter Two

Literature Review

2.1 Introduction

This chapter outlines the area of study through a review on literature of the South African residential property market and the legislations applicable to this industry. It begins with a review of the National Credit Act post and prior its promulgation. An overview of the South African residential property market follows, which then conceives the way for a view of the South African residential rental market. The next aspect of the literature review is the South African building and construction industry which precedes the conclusion of the chapter setting the stage for the next chapter wherein the research methodology of the project is presented.

2.2 The National Credit Act

2.2.1 Introduction

South Africa's financial system was governed by the Usury Act and The Credit Agreements Act until June 2007. The National Credit Act (NCA) replaced both the Usury Act and the Credit Agreements Act. The NCA has a far wider field of application than the combination of these previous Acts and governs all types of credit transactions, from micro loans, home loans, overdrafts to furniture finance and clothing accounts, with the primary aim to ensure responsible lending to South Africans and to small and medium businesses (turnover and asset base < R 1 million) that are governed by this Act. It attempts to prevent consumers from over-indebtness and assist those consumers who are likely to default. The NCA "undoubtedly facilitates the creation of a fair, balanced and transparent credit market. Besides protecting the consumer from unscrupulous moneylenders, it endeavours to help the consumer to be more responsible about using credit" (Goodwin-Groen, 2006).

In the context of the residential property market, the NCA has placed a greater responsibility on lenders to make sure that borrowers can afford a home loan in light of existing credit obligations. This has had the effect of reducing the number and the size of home loans granted. The residential property markets have since June 2007 cooled due to tighter economic conditions, energy supply problems and higher interest rates. Commercial banks have been restricted from freely granting mortgage bonds, making it more difficult for buyers to purchase. Higher interest rates, translates into higher monthly bond repayments, thus creating additional burdens on the consumer and increasing the barriers to home ownership. Minister of Human settlements, Tokyo Sexwale, said that "the business sector can play a vital role in removing the 2.2 million housing backlog,"(Professor Ndawonde, 2009). South Africa does have a large backlog in its housing requirements whilst a large number of active income producing households cannot afford property ownership, due to the stringent regulations imposed by the National Credit Act.

2.2.2 What is the National Credit Act

In 2006, Usury Act 73 of 1968 and the Credit Agreements Act 75 of 1980 were replaced by the National Credit Act 34 of 2005.

Main components of the National Credit Act and Regulations

The National Credit Act consists of 173 sections grouped under nine chapters.

Chapter 1: Interpretation, Purpose and Application of the Act;

Chapter 2: Consumer Credit Institutions;

Chapter 3: Consumer Credit Industry and Regulation;

Chapter 4: Consumer Credit Policy;

Chapter 5: Consumer Credit Agreements;

Chapter 6: Collection, Repayment, Surrender and Debt Enforcement;

Chapter 7: Dispute Settlement Other than Debt Enforcement;

Chapter 8: Enforcement of the Act;

Chapter 9: General Provisions;

Source Goodwin-Groen, RP 2006, *The National Credit Act and its regulations in the context of access to finance in South Africa,* FinMark Trust, South Africa.

The Act dictates a number of basic rights that the consumer has with regard to the credit market.

The National Credit Act has been promulgated to ensure the following.

• the consumer has a right to all information on credit prior to accessing it and thereafter receiving, *(sec 62 of the Act)*

• the consumer is not discriminated against when applying for credit; *(sec 60 of the Act)*

• the consumer understands all the terms and conditions of the credit agreements; *(sec 63,64,65 of the Act)*

• the consumer is provided with clear information on interest rates, other charges, required repayments instalments and any other details that may be required; *(sec 92 of the Act read with regulations 28 & 29)*

• credit is granted to the consumer in a responsible and empowering manner;

• the consumer receives a competitive interest rate within the development credit providers; *(sec 101 of the Act and Regulations 36,39,40,41,42,48)*

• the consumer may apply to a debt counsellor for a debt review if difficulties are experienced with repayments; *(sec 86 of the Act and Regulations 24,26)*

• the consumer can decide whether or not they want to be informed about products or services by credit providers. *(Chapter 4, Part C of the Act).*

2.2.3 Purpose of the Act

In terms of the preamble of the NCA *(Chapter 1 of the Act)* , "the purpose of this Act is to promote and advance the social and economic welfare of South Africans, promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry, and to protect consumers" (Otto, 2006).

Many consumers especially the illiterate were exploited by credit providers in the past due to the complex nature of credit agreements that they entered into. This exploitation often resulted in consumers being defenceless, as they entered into credit agreements with large businesses, with these consumers having no recourse and often found themselves in an unequal bargaining position. The South African population consists predominately of low income earners (18,272,851 people (38%) with a salary range from R 1,500 or less to R 5,000) (Finscope, 2004). These low income earners have not had access to channels of credit granting other than micro-financiers. This constraint resulted in the micro-financiers exploiting this defenceless market by over-pricing debt, which in turn earned them a negative reputation within the market. The capitalisation by micro-financiers resulted in a large number over indebted consumers who were unable to service their monthly debt repayments.

Some of the principle objectives of the Act are: *(Section 3 of the Act)*

- "To promote a fair and non-discriminatory marketplace for access to consumer credit and for that purpose to provide for the general regulation of consumer credit and improved standards of consumer information. *(Sec 3 (a))*
- To promote a fair and non-discriminating marketplace for the access of credit. *(Sec 3 (d))*
- To prohibit unfair practices. *(Sec 3c (i)(ii) and Sec 3e(i)(ii)(iii))*
- To promote responsible credit-granting practices by credit providers.
- To prohibit reckless credit-granting. *(Sec 3c (i)(ii))*
- To provide for the general regulation of consumer credit and improved standards of consumer information. *(Sec 3 (f))*
- To promote black economic empowerment and ownership within the consumer credit industry. *(Sec 3 (a) and (b))*
- To provide for debt restructuring in cases of over-indebtedness. *(Sec 3(i))*
- To establish national norms and standards relating to consumer credit.
- To establish the National Credit Regulator and *(Chapter 11)*
- To establish the National Consumer Tribunal. *(Chapter 11)*"

Source: (Goodwin-Groen, 2006)

2.2.4 Implementation of the Act

The Act was to be phased into operation under 3 separate phases. Some of the provisions regulating the establishment of the National Credit Regulator and other administrative matters came into effect on 01 June 2006. The final phase for the implementation of the Act became effective as of 01 June 2007 and included those sections of the Act conferring certain rights on the consumer, sections relating to credit marketing practices *(Chapter 4 Part C)*, over-indebtedness, reckless credit lending and rearrangement of debt *(Chapter 4 Part D)*. Other sections include the regulation of unlawful agreements *(Chapter 5 Part A Sec 89(2))*, pre-agreements *(Sec 92 and 93 read with Regulations 28-31)*, certain duties of the consumer, settlement of accounts *(Chapter 7)*, surrender of goods *(chapter 7)*, debt enforcement procedures and collection practices *(Chapter 7)*. All employees and agents of the credit provider had undergone full training on or before 01 June 2007.

2.2.5 Definition of a credit agreement

The National Credit Regulator (NCR, 2009), defines a credit agreement as “an agreement where some deferral of repayment or a payment or a prepayment exists and a fee, interest or charge, are charged with respect to the deferred payment or a discount is given when pre-payment is received.”

There are essentially three (3) categories of credit agreements. These agreements are:

2.2.5.1 Credit Facility

A credit facility is when a credit provider provides the consumer with goods or services (or pays an amount or amounts to the consumer) and defers the consumer’s obligation to pay or charges the consumer periodically. A fee or interest is payable by the consumer for the deferment of payment. The consumer is charged for any amount deferred or when the invoiced amount is not paid within the stipulated time as per agreement. *(Sec 8 of the Act)*

2.2.5.2 Credit Transaction

A credit transaction is an agreement irrespective of its form which comprises:

2.2.5.2.1 A pawn transaction or discount transaction.

This is defined as an agreement in terms of which the consumer is to be provided with goods and services over a period of time whereby more than one price is quoted. This effectively means the lower or lowest price applies if payment is made on or before the stipulated date else the higher price is applicable if payment is made after that date or recurrently during the term of the agreement. *(Sec 8 of the Act)*

2.2.5.2.2 An incidental credit agreement.

Any agreement in terms of which a fee is levied as an additional charge should an invoice not be paid by the stipulated date OR where two quotes are given to a consumer and the lesser is applicable to payment on or before a specific date and the higher is applicable for payment after such date – resulting in an extra charge for late payment. *(Sec 8 of the Act)*

2.2.5.2.3 An instalment agreement.

Sale of movable property, in terms of which:

- whole or part of the amount is deferred which is to be paid periodically;
- possession and use of the property is transferred to the consumer;
- when the agreement is fully complied with, ownership is passed onto the consumer however in the event of the consumer failing to satisfy the obligations under the agreement, the credit provider has the right to repossess the property.
- the consumer is obligated to pay interest, fees or other charges to the credit provider. *(Sec 8 of the Act)*

2.2.5.2.4 A mortgage agreement or a secure loan.

A credit agreement wherein the immovable is pledged as security, whereby the mortgage bond is registered over immovable property. *(Sec 8 of the Act)*

2.2.5.2.5 A lease or any other agreement where payment of an amount is deferred and any fee charged is payable in respect of the agreement or on the amount that has been deferred. *(Sec 8 of the Act)*

In a lease agreement the possession of the movable property is released temporarily to the consumer. Periodic payments are to be made by consumer on acquiring temporary possession of the movable property. The amount deferred can be paid in whole or part with interest, fees or other charges, to the credit provider; and at the end of the term of the agreement or upon satisfaction of certain conditions set out in the agreement, ownership of the movable property passes to the consumer.

2.2.5.3 Credit Guarantee

A credit guarantee is an agreement irrespective of its form if a person undertakes or promises to fulfil the obligations of another consumer in terms of a credit facility or a credit transaction, for example, a surety agreement or any combination of these transactions e.g.: instalment sale of goods where payments occur by credit card over a period of time. *(Sec 8 of the Act)*

The National Credit Act differentiates *(Section 4)* between small, intermediate and large agreements depending on monetary thresholds as stipulated in the National Credit Regulations. Different regulations are categorically applied, such as the requirements regarding:

- the contents of the agreement,
- protection of juristic persons and
- settlement of a debt by advance payment.

- A small agreement is one in which the credit limit is R15 000 or less *(Sec 4)*
- An intermediate agreement is a credit facility (as defined) of which the credit limit falls above R15 000 or a credit transaction (as defined) of which the credit limit falls above R15 000 but is less than R250 000; *(Sec 4)* and
- A large agreement is any mortgage agreement or a credit transaction of which the principal debt exceeds R250 000. *(Sec 4)*

The Act requires that all Credit Agreements to be in writing.*(Sec 93 of the Act)*

2.2.6 The role of the National Credit Regulator

The National Credit Regulator is the official supervisory body of the National Credit Act. The National Credit Regulator registers and monitors the conduct of the all credit providers, credit bureaus and debt counsellors, as well as it educates and creates an awareness of the protection which the Act affords consumers.
The National Credit Regulator researches the credit markets and scrutinizes the access and cost of credit enabling them to identify factors that may undermine access to credit, competitiveness and affordability of consumer protection.
The National Credit Regulator functions as advisory to government on policy and legislation and also functions as an authoritative body which receives and investigates complaints, ensures that consumer rights are protected, enforces the Act and to take action against any contravening institutions.

Consumers can now approach the National Credit Regulator for advice or assistance on any transaction falling under the jurisdiction of the National Credit Act, or under the old Usury Act, Credit Agreements Act or Usury Act Exemption Notice. The National Credit Regulator can also assist consumers on issues relating to credit bureau or credit information.

2.2.7 Consumer rights and duties

The new rights and measures that the Act introduces for the consumers enables consumers to make informed decisions prior to purchasing buying goods and services on credit.

The National Credit Act further encompasses the following consumer rights *(Chapter 2 of the Act)*:

- “the right to apply for credit, free of discrimination against the borrower;
- the right to be protected against discrimination on the granting of credit ;

- the right to plain and understandable language being used in the credit agreements;
- the right to receive a copy of the credit agreement and a replacement copy when one is requested;
- the right to privacy regarding your personal information;
- the right to redress;
- the right to a free Credit Bureaux record once a year;
- the right to assistance by a debt counsellor to assist over-indebted consumers with restructuring debts to prevent unnecessary forfeiture of assets ;
- the right to reasons why the credit application may have been refused."

It is further enforced in the Act that a pre-agreement is provided to the consumer, prior to any credit transaction. This pre-agreement must contain certain prescribed information inclusive of the interest rate charged, the instalment repayment period and the monthly repayment amount.

Provisions of the Act and common law predominately determine the consumers' duties.

2.2.8. **Issues that led to the National Credit Act in South Africa**

The review by the South African Law Reform Commission's 1994 of the now repealed Usury Act 73 of 1968 had prompted the need to reassess the consumer credit legislation. The weaknesses of the consumer credit legislation have been commented in the following reports: Strauss Report on Rural Finance; the National Small Business Regulatory Review by Ntsika Enterprises Promotion Agency in 1999, and the Policy Board for Financial Services and Regulation's report on SME's Access to Finance in South Africa in 2001(Goodwin-Groen R.P., 2006).

The Usury Act, the Credit Agreements Act 74 of 1980 and the Exemption Notices 1992 and 1999, are principally the acts that comprised South African consumer credit legislation. The consumer credit market has metamorphosised due to the influence from a sequence of political, social and economic changes from 1968 as well as encompassing major technological advances. The dysfunctional credit market was riddled with problems and condemned due to the following problem areas:

- fragmented and outdated legislation;
- ineffective consumer protection, particularly in relation to the 85% of the population in low-income groups;
- high cost of credit and for some areas lack of access to credit;
- rising levels of over-indebtness; and
- reckless behaviour by credit providers and exploitation of consumers by microlenders, intermediaries, debt collectors and debt administrators.

(Department of Trade and Industry, South Africa 2004, *Credit Law Introduction,* pp.2)

In 2002 credit markets and its accompanying legislation came under scrutiny raising concerns specifically:

- "increasing concerns by consumer representatives about the effectiveness of consumer protection, particularly of low-income consumers;
- access to finance (i.e. credit) remained a problem. This affected small micro businesses and hindered progress in important parts of the national economic transformation and development strategy;
- increasing concern about the level of indebtness;
- mounting evidence of reckless behaviour by credit providers, and exploitation of consumers by microlenders, intermediaries, debt administrators and debt collectors; at the same time banks and other credit providers were finding that inappropriate legislation curtailed innovation and prevented them from serving the housing and Small Medium Enterprises (SME) market, as well as the low-income personal finance market and;
- the collapse of large mcirolenders such as Unibank and Saambou highlighted underlying problems in the market and indicated the some regulatory problems may even introduce systemic risk" (DTI 2003 p.4).

The inappropriate legislation, contributed to an unacceptable state of the credit market together with the escalating use of credit by low-income consumers necessitated a closer examination of the credit legislation.

The FinMark Trust report, *"the National Credit Act and its regulations on the context of access to finance in South Africa"*, (Goodwin-Groen, 2006) detailed the weaknesses of the Credit Market which were identified by the 2004 Credit Law committee as follows:

- "inadequate rules on disclosing the cost of credit. This means that through the inclusion of a variety of fees and charges (including excessive credit life insurance), the cost of credit is regularly inflated above the disclosed interest rate. This undermines the consumer's ability to make informed choices, whether between cash and credit purchases or between different credit providers. It results in reduced consumer pressure on credit providers to reduce interest rates;
- an unrealistically low Usury Act cap causes low-income and high-risk clients to be marginalised;
- Weak and incomplete credit bureaux information results in bad client selection, ineffectual credit risk management and high bad debts, hugely increasing the cost of credit;
- Inappropriate debt collection and personal insolvency legislation creates an incentive for reckless credit provision, and prevents effective rehabilitation of over-indebted consumers;
- Excesses predatory behaviour leads to high levels of debt for certain consumers and unmanageable risk to all credit providers;
- Inconsistencies in legislation related to mortgages and property transfers undermine consumers' ability to offer security and locks them into high-cost, unsecured credit;
- Aspects of the Banks Act 94 of 1990 and National Payment System Act 78 of 1998 rules undermine competition in the consumer credit markets (while creating inequitable preferences for certain credit providers); and
- Regulatory uncertainty leading to credit behaviour orientated towards short-term profit taking, and a resistance among credit providers to provide longer-term finance (including housing and SME finance).

The Department of the Trade and Industry initiated the comprehensive review of credit legislation which ultimately resulted in the promulgation of the National credit Act 34 of 2005 (published in the Government Gazette 28619 of 15 March 2006) and the National Credit Regulations (published in Government Gazette 28864 of 31 May 2006, Regulation Gazette No 8477, R489) in 2006, all with the purpose of solving the consumer credit problems.

2.2.9 How does the National Credit Act benefit the consumer?

The National Credit Act empowers consumers with the necessary knowledge to enabling them to manage their debt effectively and repay it without difficulty by ensuring that they fully understand all the repercussions of their credit agreements prior to getting into them. It further ensures that all related transactions are transparent, fair, and easy to understand and gives the right to seek any clarifications that may be needed.

2.2.10 Conclusion

The South African financial sector is complex, comprising both a highly developed formal sector and informal financial markets serving about 85% of the population.
(Credit Law Review, DTI 2003).

The promulgation of the National Credit Act 34 of 2005 and the National Credit Regulations (2006) is primarily aimed at solving consumer credit problems. The implementation of these acts have resulted in the aggressive combating of voracious lending, consumer abuses, obsolete piecemeal and ineffective legislation on consumer credit.

The introduction of the National Credit Act brings South Africa's credit legislation on par with similar legislation in developed countries and is likely to reduce undesirable credit practices significantly.

With consumer protection lying at the heart of the Act, it attempts to prevent consumer debt and assist individuals who are likely to default. South Africans' can now look forward to one single Credit Act, which aims to regulate the entire credit market which has a far wider field of application than the combination of these previous Acts.

2.3 The South African residential property market

2.3.1 Introduction

Property around the world is regarded as a pillar of wealth creation. “Property is traditionally a long-term investment and you should focus on building your wealth over decades, rather than months or years,” said Andrew Schaefer, MD of property management company, Trafalgar (Wingate-Pearse, G.,2007). South Africa is no exception, being a capitalist society with residential property by large forming a base of individual wealth as an investment class. Many South Africans have embarked on the wealth ladder by some type of ownership of residential property. Property ownership is classified into two categories namely owner occupied and the other being investment. Investment properties are generally second homes, holiday homes or apartments and rental homes, all which provide various rates of returns. The South African residential property market comprises of luxury homes to villas, golf-estates, cluster housing, apartments, retirement complexes, security complexes, sectional title units, affordable housing and low income houses.

Property often remains one of the few investments that most people have a vested interest in. For most working people in South Africa (and probably in most developed countries worldwide), their house and retirement provision, account for the bulk of the wealth they have accumulated throughout their working lives. The considerable extent of homeownership among South Africa’s working population means that changes in residential property prices may be of particular interest and concern because of the wealth effects that could emanate from fluctuations in property values.

Shelter, is one of the basic human needs that has a direct influence on social, health, welfare and economic productivity of the individual.

2.3.2 General overview of the South African Property Market

2.3.2.1 Overview of the South African provinces

South Africa is an emerging economy with the vast population being middle-income earners and which is underpinned by a unique, highly developed first world economic infrastructure. The 14 years of democracy has led to macroeconomic stability, in sharp contrast to the turbulent apartheid years. The democracy in South Africa has created opportunities for real increases in expenditure on social services, and reduced the costs and risks for all investors, in this way laying the foundation for increased investment and growth. An emerging middle black class has been the source of South Africa's robust growth post 1994.

South Africa covers an area of 1.2 million km^2. The country comprises nine provinces, four of which have coastlines. South Africa has eleven official languages. The home language of 55% of the population is isiZulu, isiXhosa, or Afrikaans. The *lingua franca* in most urban areas is English. (southafrica.info, 2009)

South Africa has a modern infrastructure supporting an efficient distribution of goods to major urban centres throughout the entire region, boasting a thriving economy equipped with well-developed financial, legal, communications, energy and transport sectors.

The heart of business activity and superior development are localised around four main cities namely Johannesburg/Pretoria, Cape Town, Durban and Port Elizabeth.

i) Administrative and Social

The nine fully integrated provinces are divided into 52 districts, six metropolitan and 46 district municipalities. The 46 district municipalities are further subdivided into 231 local municipalities (CDIB, 2009). South Africa's high rates of income inequality and a dual economy classifies it, as a developing country. Unemployment has improved due to continual economic growth over the years however economic and social problems still lingers. Other significant and daunting problems experienced in South Africa include crime, increasing corruption, HIV/Aids and significant skills shortages due and in part, to an ongoing “brain drain” of skilled persons.

ii) Economic

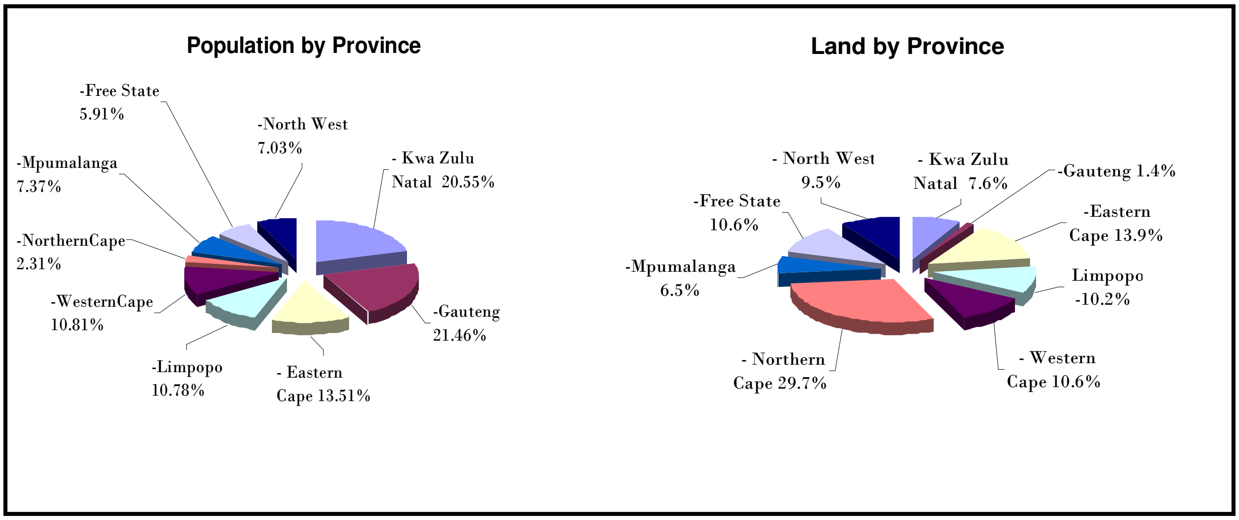
Regarded as an emerging market currency the South African Rand (ZAR) is the most actively traded in the world, however the precarious nature of this currency has affected economic activity, falling sharply during 2001 but it has since recovered and is currently trading at around 8.05 ZAR to the US dollar (28^{th} July 2009) (Exchangerate.com, 2009)
Germany, Japan, Switzerland, the United Kingdom and the United States of America are the main international trading partners to South Africa in addition to other African countries (CIDB, 2009)
Corn, diamonds, fruits, gold, metals, minerals, sugar and wool comprise South Africa’s principal exports with machinery and transportation equipment making up more than one-third of the value of the imports. Other imports include chemicals, manufactured goods and petroleum.

2.3.2.2 Demographics of South Africa

South Africa's largest provincial population is in Gauteng with 10,447,100 people (21.46% of the total population of 48,68-million), according to mid-2009 estimates by Statistics South Africa.(Stats-SA, 2009) This province is the most densely populated of the nine provinces, with 21.46% of the total population occupying just 1.4% of the country’s land area. The Northern Cape is the most sparsely populated area, with just over 1.1-million people (2.3% of the population), which comprises of 29.7% of the country's land area (southafrica.info, 2009) as illustrated in Figure 2.3.1.

Figure 2.3.1

Population and Land by Province



Source: Stats-SA, 2009.

The mid-2009 population estimates for all nine provinces are:

- Eastern Cape - 6.5-million (13.5%)
- Free State - 2.9-million (5.91%)
- Gauteng – 10.4-million (21.4%)
- KwaZulu-Natal – 10.1-million (20.55%)
- Limpopo - 5.2-million (10.78%)
- Mpumalanga - 3.5-million (7.37%)
- Northern Cape - 1.1-million (2.3%)
- North West - 3.4-million (7.03%)
- Western Cape – 5.2-million (10.81%)

The residential property market in South Africa comprises more than 9 million formal dwellings as per data in Table 2.3.1. The government has succeeded in building nearly 2.8 million low-cost housing units during the period 1994 to 2008, providing shelter to more than 13.5 million people (Ntuli, 2009).

Table 2.3.1

Constituents of the total housing market in South Africa

	2007		2008	
	Number	% of the total	Number	% of the total
Formal	9,541,000 [1]	71.94	9,040,330 [1]	68.68
Informal	2,021,000 [2]	15.24	1,867,062 [2]	14.18
Traditional	1,340,000 [3]	10.10	1,649,787 [3]	12.53
Other	359,000 [4]	2.72	604,792 [4]	4.61
Total Housing	13,261,000	100	13,161,971	100

[1] A house, flat townhouse or unit in retirement village [2] Shacks. [3] Ethnic Huts [4] Caravans, tents etc.

Sources: Local Government in South African Official year Book 2007-2008.

"Over the past 14 years, [the] government has spent over R100-billion in providing serviced land and a top structure," Housing director-general Itumeleng Kotsoane said (Ntuli, 2009). "This is the biggest economic investment in the residential construction sector, and more than 2.7-million families [now] have houses and land they call their own." (Ntuli, 2009)

The severe financial pressure on the back of rising inflation and interest rates in the housing market was clearly seen in the decline in the percentage of the formal housing sector in 2008 in Table 2.3.1

2.3.2.3 Investment in Residential Property

A well–diversified portfolio principally comprises property, cash, bonds and equity. However, the problem with direct property investment is that properties are different in character and nature therefore rarely comparable in terms of value, while the value can be significantly influenced by the location and developments in the immediate vicinity of a specific property.

"Many people choose not to buy property, because they feel that it is too complicated – so instead they take out endowment policies, because they see this as easy.

What a misconception!" says Coert Coeztee, author of " Let there be light on Wealth Creation," (2007). Owning tangible fixed assets offers more security to investors than "paper assets" and gearing that may be attained with a property investment cash can also be attractive to some investors.

As per chief economist of Absa Group Limited Christo Luus, presented a report (2005) on "The Absa residential property market database for South Africa- key data trends and implications", in which he detailed that apart from the potential returns, a number of factors that must be considered when investment is made directly in real estate:

- "Risk: The volatility of the return or underlying price can easily be measured for financial assets, but there are other unquantifiable risks involved in direct property investments, such as the risk of not finding suitable tenants.

- Homogeneity: Two property investments are hardly ever directly comparable, and using national or regional price data will only approximate actual historical returns achieved on a specific investment. The same applies to investment (rental) income.

- Liquidity: How soon and with what ease can an investment be liquidated. It is well accepted that direct property investments are fairly illiquid.

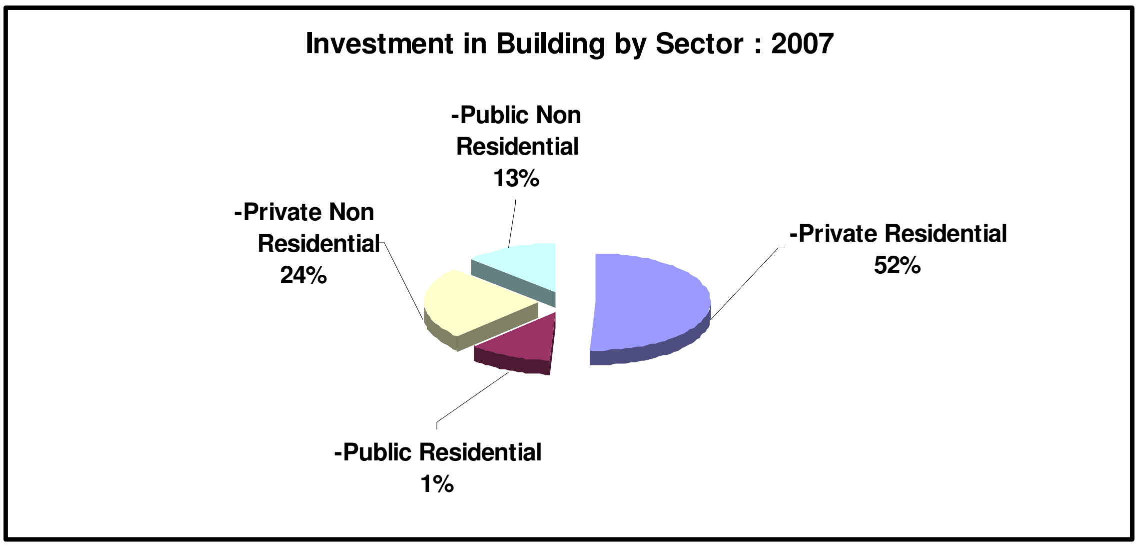
- Tax implications: In South Africa, dividends are not taxed, but rental and interest income are, as are capital gains.

- Costs: These are nearly always a factor with all types of investments. They can be substantial in the case of property. Such costs include transfer duties, bond registration fees and agent's commission. Maintenance and repair costs should also to be considered, but are normally deductible for tax purposes.
- Gearing: As mentioned before, this aspect could make property investments quite attractive, but sharp increases in interest rates could affect the return on the

investment. In South Africa, fixed-rate mortgages are not available for terms exceeding two or three years." (Luus, 2005)

Investment in the building and civil engineering sectors in 2007 amounted to about R277 billion p.a. excluding unrecorded additions and alterations. Unrecorded additions and alterations amounted to about another R30 billion (CIDB, 2007). A more detailed breakdown of investment in residential and non-residential buildings is given in the following Figure 2.3.2 and Table 2.3.2.

Figure 2.3.2.



Source: SARB (2007).

Table 2.3.2
Investment in Building Sector 2007

Sector	Rm	%
Private Residential	**R 57,061**	**51%**
Public Residential	**R 12,896**	**11%**
Private Non-Residential	**R 27,403**	**24%**
Public Non Residential	**R 14,787**	**13%**

Source: SARB (2007).

The dominant forms of residential housing in South Africa are:

• free-standing, single or double-storey housing units, which are typically constructed from clay or cement bricks with cement tile roofs – prevalent to the middle to upper income groups ;

• higher-density single or double-storey townhouses, typically constructed from clay or cement bricks with cement tile roofs are predominantly owned by middle income groups;

• multi-storey units (flats), typically reinforced concrete with clay or masonry brick infill are principally common in the low to middle income groups ;

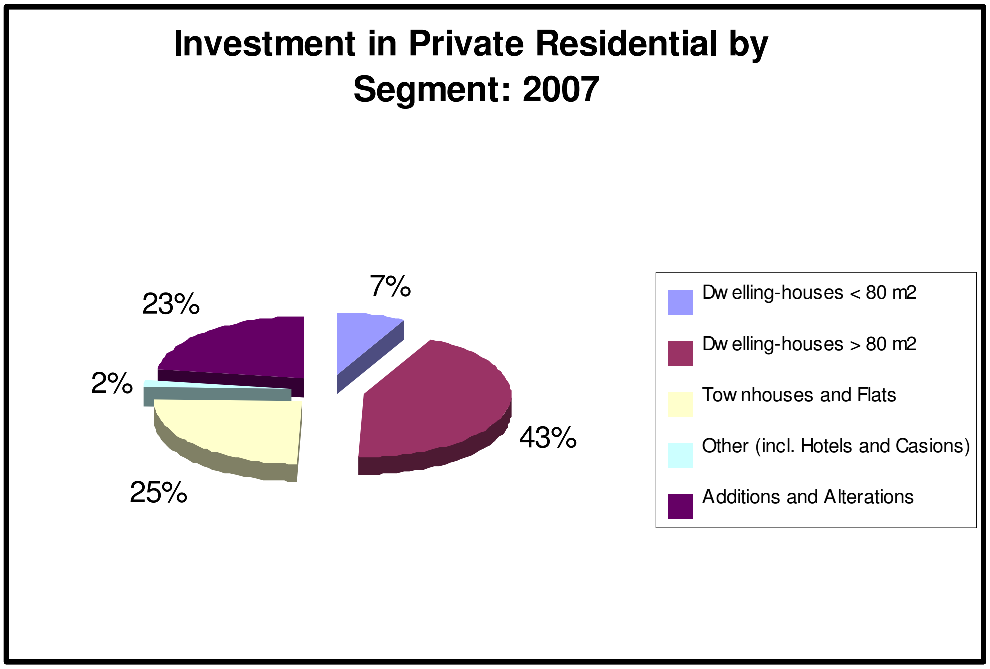
• single-storey housing units (less than $80m^2$), typically constructed from clay or cement bricks with corrugated iron roofs (and without ceilings) are characterised of the low income group

• informal housing units, typically corrugated iron with limited or no services; and

• rural and traditional housing, often constructed from earth and with limited or no services. (BMI-BRSCU, 2009)

As illustrated below in Figure 2.3.3 and Table 2.3.3, a breakdown of investment in the residential sector in 2007, exhibits that the private sector is the largest investor in the residential and non-residential sectors. Approximately 45% of investment by value is in residential units greater than $80m^2$ which is prevalent to the middle and upper-income housing and approximately 30% of investment in multi-unit townhouse and flats.

Figure 2.3.3



Source: BMI-BRSCU, StatsSA 2008.

Table 2.3.3

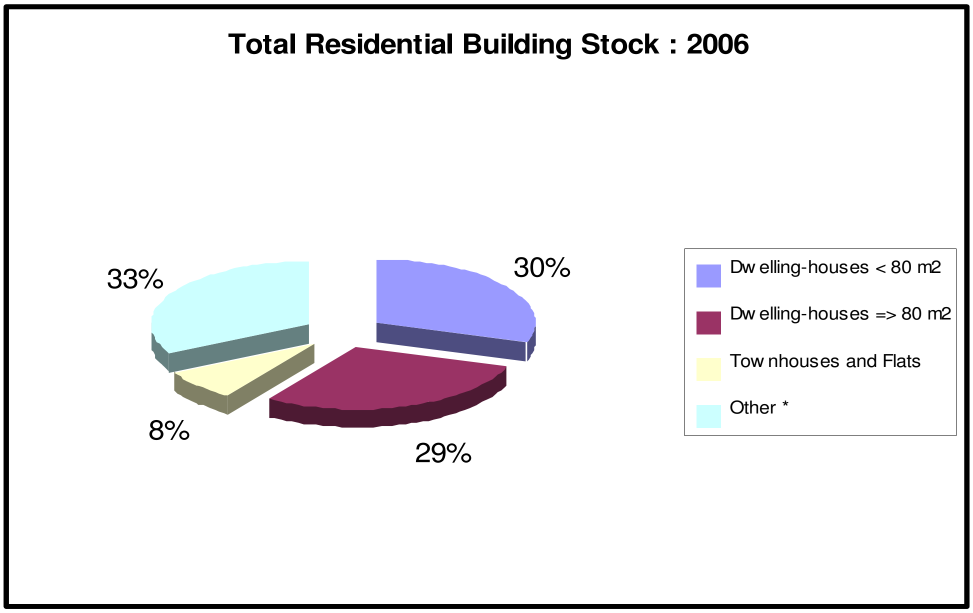
Investment in Private Residential by Segment : 2007

Segment	Rm	%
Dwelling-houses < 80 m^2	**4,232**	**7%**
Dwelling-houses > 80 m^2	**24,585**	**43%**
Townhouses and Flats	**14,265**	**25%**
Other (incl. Hotels and Casinos)	**914**	**2%**
Additions and Alterations	**13,065**	**23%**
	57,061	**100%**

Source : BMI-BRSCU, Stats-SA 2008.

In 2006, the total residential building stock amounted to about 12.5 million units of which about 8.5 million are formal units and about 4 million units are backyard properties, informal and squatter units, and traditional housing (Stats-SA, 2008). Historically, the house or brick structure on a separate stand or yard was preferred by homeowners as illustrated in Figure 2.3.4. and Table 2.3.4. The trend nowadays has shifted from this preference, as the benefits of living in flats, townhouses and cluster units are more appealing to homeowners.

Figure 2.3.4



Source: BMI-BRSCU, Stats-SA 2008.

Table 2.3.4

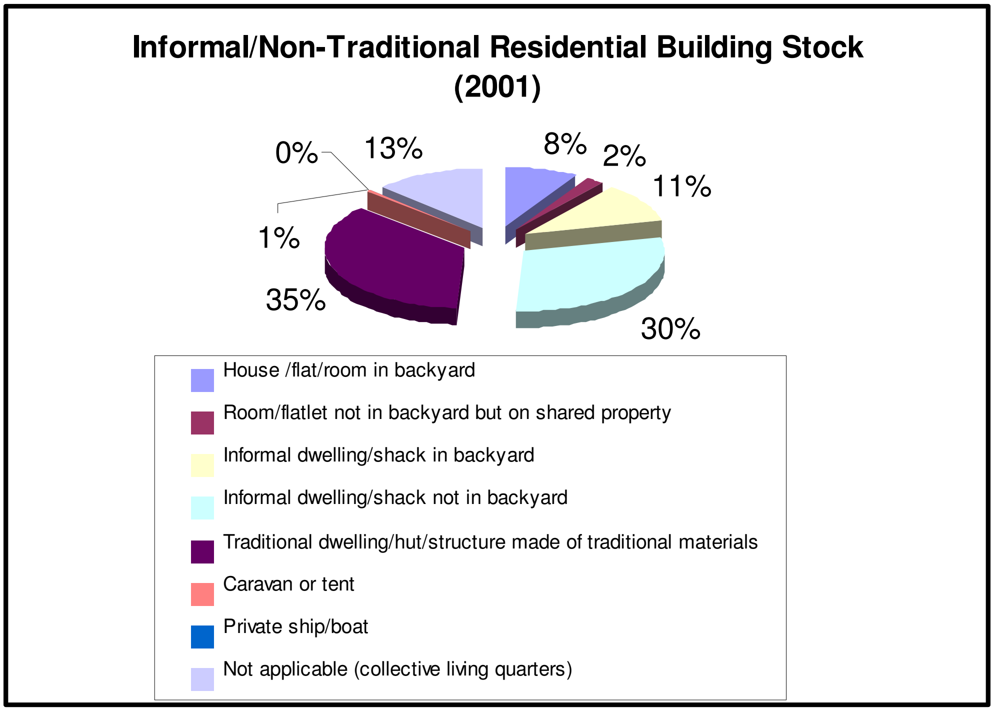
Total Residential Building Stock (2006)

Segment	**Number (millions)**	**%**
Dwelling-houses < 80 m^2	3.8	30%
Dwelling-houses => 80 m^2	3.6	29%
Townhouses and Flats	1	8%
Other *	4.1	33%
Total	12.5	100%
***** Includes backyard properties, informal and squatter units, and traditional/rural housing***		
Source : BMI-BRSCU, Stats-SA 2008.		

As per 2001, non-traditional residential building stock, as illustrated in Figure 2.3.5 and Table 2.3.5 of which 30% comprises of informal dwellings and shacks, largely in squatter settlements and an additional 10% informal dwellings and shacks in backyards.

The non-traditional residential sector became the focus of the government's housing programme.

Figure 2.3.5



Source: BMI-BRSCU, Stats-SA 2008.

Table 2.3.5

Informal/ Non-Traditional Residential Building Stock (2001)		
Segment	**Number (millions)**	**%**
House/flat/room in backyard	**0.4**	**9%**
Room/flatlet not in backyard but on shared property	**0.1**	**3%**
Informal dwelling/shack in backyard	**0.5**	**10%**
Informal dwelling/shack not in backyard	**1.4**	**30%**
Traditional dwelling/hut/structure made of traditional materials	**1.7**	**36%**
Caravan or tent	**0.03**	**1%**
Private ship/boat	**0.004**	**0%**
Not applicable (collective living quarters)	**0.6**	**12%**
Total	**4.6**	**100%**

Source : Stats-SA, 2001.

2.3.3 The operation of the mortgage finance market in South Africa

2.3.3.1 Home ownership in South Africa

In South Africa, property ownership is rated high nationally. Through the 1900s, one of the biggest debates in national politics was about land tenure. Numerous pieces of legislation regulated the ownership of land, particularly on a racial basis. One of the major tenets of apartheid was the segregation and separation of land ownership. The so-called Group Areas Act allocated separate residential areas in urban areas to the Black, Coloured, Indian, and White communities (Africanhistory, 2009).

Today home ownership for all is a major political objective and receives a lot of attention. The government has made the provision of housing a priority, in its social delivery programme and assists low-income as well as first-time homebuyers with a subsidy.

2.3.4. Economic, household sector and property market overview

The average nominal and real house prices, key variables and relevant statistics stated in the section 2.3.4.1. , 2.3.4.2. , 2.3.4.3., 2.3.4.4. , 2.3.4.5., to follow, are tabled in Appendix A, Appendix B and Appendix C

2.3.4.1 Nominal and real price trends

Increasing debt levels reached an all time high, with inflation increasing sharply and interest rates rising further in the first half of 2008 resulting in severe financial pressure on the household sector (Absa, 2009).

Growth in employment tapered off markedly, which together with high levels of inflation and deteriorating economic conditions, contributed to real household disposable income growth to decline to a 0,2% in the third quarter of 2008 (Absa, 2009).

These factors were the basis of household debt becoming less affordable, resulting in the household debt to disposable income ratio declining to 75,3% in the third quarter of 2008 compared with 76,6% in the second quarter and 78,5% in the first quarter. The cost of servicing household debt as a percentage of household disposable income was 11,7% in the third quarter (11,6% in the second quarter) after increasing markedly from a level of 7,2% in the first quarter of 2006 when the prime rate was still 10,5% and the debt ratio at a level of 68,7% (du Toit, 2009).

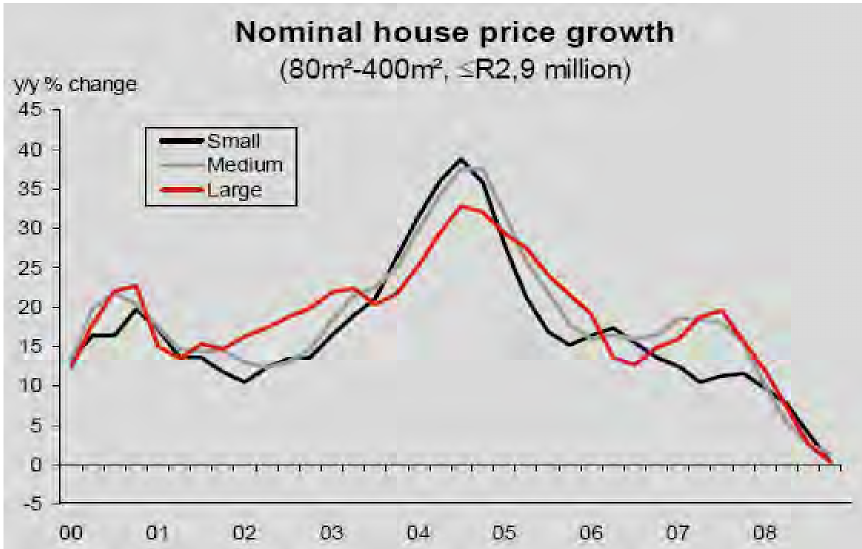
The contraction of the growth in consumption expenditure by households was 0.8% in the third quarter of 2008 on the back of higher interest rates and rising food and fuel prices, which negatively impacted consumers' spending power.

The cuts in the interest in December 2008 significantly lowered fuel prices toward the end of 2008 and early 2009 as well as indications of declining inflation easing the financial pressure on households to some extent.

"Real fixed capital formation with regard to residential buildings contracted for the fourth consecutive quarter in the third quarter last year, by 6,2% year-on-year (-5,0% year-on-year in the preceding quarter). This is regarded as a reflection of a housing market that has slowed down rapidly in the past 12 months, mainly on the back of a household sector that has experienced severe financial pressures during this period. Data published by Statistics South Africa on building plans approved for new residential buildings as well as new residential buildings completed, also indicate that the housing market has slowed down markedly." (du Toit, 2009)

The growth in mortgage advances slowed down significantly towards the end of 2008 indicating the cooling off in the housing market, which is depicted in Graph 2.3.1.

Graph: 2.3.1



Source: Absa Bank, SARB 2008.

The deteriorating economic conditions, had adversely affected the demand and supply of housing. The year on year nominal price growth in 2008, was distinctly lower in all segments of the market compared with 2007 (SARB, 2008).

House prices have declined by quite a margin in 2008, i.e. after adjustment for the effect of inflation, taking into account sharply rising inflation and declining nominal price growth during 2008 (Absa, 2008).

2.3.4.2 Affordable housing

The average price of houses in this category (houses of 40m^2 to 79m^2 and priced at R400 000 or less) in 2008, strengthened by 10,0% year-on-year (y/y) compared with a growth rate of 18,9% year-on-year (y/y) in 2007. After the adjustment for the effect of inflation and rising interest rates, the average price of affordable housing dropped by 1,4% year-on-year in 2008, compared with price growth of 11,1% in 2007 (Absa, 2008).

2.3.4.3 Middle-segment housing

In the middle segment of the residential property market (houses of 80m² to 400m² and priced at up to R2,9 million) the average price of a house increased by 3,8% year-on-year in 2008 (14,5% in 2007); the lowest nominal price growth since 1996 when it was 3,6%. After adjustment for inflation, house prices dropped by 7,0% in 2008, compared with a growth rate of 6,9% recorded in 2007 (Absa, 2008).

In the three middle-segment categories, house price growth was as follows in 2008 as stated in Housing Review Report 2009, quarter 1, (Absa, 2009):

- Small houses (80m²-140m²): a nominal 5,3% higher, but a real 5,7% down.
- Medium houses (141m²-220m²): a nominal 4,7% up, but a real 6,2% lower.
- Large houses (221m²-400m²): up by a nominal 5,3%, but down by a real 5,7%.

2.3.4.4 Luxury housing

The luxury housing segment (houses valued at above R2,9 million up to R10,7 million) boasted an increase in house prices by an average of 9,1% year-on-year in 2008. In 2007, house price growth was 8,3% year-on-year in the luxury category. After the adjustment of inflation, house prices declined by 2,2% year-on-year in 2008, whereas an improvement by 1,1% in 2007 was noted.

2.3.4.5 Regional house prices

House price growth at regional level remained positive in 2008, however prices dropped in “real terms” in all the provinces inclusive of metropolitan and coastal regions on the back of a sharply higher inflation rate. House prices performed as follows in the various provinces in 2008:

- KwaZulu-Natal: down by a nominal 3,0% (-13,1% in real terms).
- Limpopo: up by 1,6% in nominal terms (-9,0% in real terms).
- Gauteng: 2,4% higher in nominal terms (-8,3% in real terms).
- Eastern Cape: up by a nominal 3,0% (-7,7% in real terms).

• Mpumalanga: 5,0% up in nominal terms (-5,9% in real terms).
• Western Cape: 5,2% up in nominal terms (-5,8% in real terms).
• Free State: up by a nominal 5,8% (-5,2% in real terms).
• Northern Cape: 6,9% up in nominal terms (-4,2% in real terms).
• North West: up by 10,9% in nominal terms (-0,6% in real terms).
(Source: Absa, 2009).

In the major metropolitan areas, house price growth in 2008 varied widely from a decline of 1,6% to still relatively strong growth of 14,8%. After adjustment of inflation, the average price performance ranged between -11,9% and +2,9% in 2008. The performance of house prices in the metropolitan areas was as follows in 2008:

• Pretoria: down by a nominal 1,6% (-11,9% in real terms).
• Durban: up by a meagre 0,1% in nominal terms (-10,3% in real terms).
• Bloemfontein: 2,1% higher in nominal terms (-8,5% in real terms).
• Cape Town: 2,4% up in nominal terms (-8,2% in real terms).
• Greater Johannesburg: up by a nominal 3,4% (-7,3% in real terms).
• Port Elizabeth/Uitenhage: 4,4% higher in nominal terms (-6,5% in real terms).
• East London: up by 14,8% in nominal terms (up by 2,9% in real terms).
(Source : Absa, 2009)

House prices along the South African coast, increased by 4,6% in 2008, but after the adjustment of inflation the real effect was a decrease by 6,2%. House prices performed as follows in the coastal regions in 2008:
• KwaZulu-Natal: down by a nominal 1,6% (-11,8% in real terms).
• The Western Cape: up by 3,1% in nominal terms (-7,6% in real terms).
• The Eastern Cape: 8,6% higher in nominal terms (-2,6% in real terms).
(Source: Absa, 2009)

2.3.5 Mortgage finance

The prime lending rate for commercial banks was at a level of 15% at the end of 2008. (SARB, 2009) Monthly mortgage were still 32% higher at the end of 2008 compared with mid-2006 when the mortgage rate was at a level of 10,5%. Mortgage loan advances grew less than 15% in 2008, taking in account the higher monthly mortgage loan repayments in conjunction with inflation and global economic slowdown in comparison to 31% growth year-on-year in October 2006 (Appendix C).

In 2008 the growth in mortgage advances slowed down on the back of a drop in new mortgage loans approved by banks in respect of residential property up to 2008. The residential segment has the biggest share in total mortgage advances market, with a decline in 30% of new residential mortgage loans approved on a year-on-year basis for 2008 (Appendix A).

These trends are the result of a decline in the residential property market for June 2007 to December 2008, while factors such as the National Credit Act and the stringent credit policies adopted by the banks have also played a major role.

The year-on-year growth in mortgage advances has continued the declining trend into the first half of 2009, largely driven by the lagged effect of the interest rate cycle, the National Credit Act, stricter credit criteria imposed by banks, and the financial strain experienced by households during 2008 (du Toit, 2009).

2.3.6 Affordability of housing

In 2008, the ratio of house prices to household disposable income declined, which was a result of the lower nominal house price growth. The declining house price growth, stable interest rates and relatively strong growth in the nominal disposable income of households resulted in further tapering off the ratio of mortgage repayments to household disposable income in 2008 after it had peaked in 2007 (du Toit, 2009), as illustrated in Graph 2.3.2

Graph 2.3.2

Source : Absa Bank , 2008

The downward trend in affordability ratios (house prices: household income and mortgage repayments : household disposable income) entails that house prices and mortgage repayments are rising at a slower pace than household disposable income which translates into housing becoming more affordable. Fewer households are actually in a position, in view of current economic conditions, to take advantage of these developments with regard to the affordability of housing (Absa, 2008).

2.3.7 Residential building statistics

The slowdown in the housing market in 2007 is reaffirmed by residential building statistics for 2007 as reflected in Table 2.3.6 and Table 2.3.7. The value of residential buildings completed increased by only 0,4% in 2007, whereas the value of building plans approved dropped by 4,4% in 2007.

The annual increase of 12.5% in the completion of flats and townhouse contributed largely to the volume of new residential buildings completed increasing by 7.3% in 2008, however, it must be noted that the affordability of housing, which has been under further

pressure during 2008, has probably caused homebuyers to shift their focus to higher-density and more affordable housing such as flats and townhouses (du Toit, 2008).
In 2007, the growth in the number of building plans approved for new residential building units declined by 3%, with growth of 1.3% recorded in the flat and townhouse segment.

There has been a declining trend in the growth of plans approved since 2005, noting the housing market peaking in 2004. The declining trend as noted in 2007 (as per data in Table 2.3.6 and 2.3.7) in respect of plans approved has resulted in a lower level of construction activity in 2008, taking cognisance of the nature of multi-unit developments (i.e. flats and townhouses) taking a longer time to be completed (du Toit, 2008).

Table 2.3.6

Residential Building Plans approved				
Year	**Houses < $80m^2$**	**Houses > $80m^2$**	**Flats and Townhouses**	**Total**
2003	42,424	24,645	16,891	83,965
2004	36,559	32,152	24,038	92,749
2005	37,658	34,121	30,479	102,258
2006	37,147	34,846	31,932	103,925
2007	36,631	31,791	32,631	100,783
2008	28,836	20,237	28,295	77,998
Total	**219,255**	**177,792**	**164,896**	**561,678**

Source: Stats SA (2008)

Table 2.3.7

Residential Buildings completed				
Year	**Houses < $80m^2$**	**Houses > $80m^2$**	**Flats and Townhouses**	**Total**
2003	29,555	15,296	11,862	56,713
2004	38,200	17,864	14,618	70,682
2005	26,307	22,251	22,066	70,624
2006	24,029	22,118	23,858	70,005
2007	26,195	22,015	26,917	75,137
2008	21,500	18,894	24,079	64,473
Total	**165,786**	**118,438**	**123,400**	**407,634**

Source : Stats SA (2008)

2.3.8 Conclusion

Another residential property boom in South Africa? This is unlikely in the near future with residential property market to be resuscitated in probably three years time.

"The business sector could play a pivotal role in removing the 2.2 million housing backlog," said Mr Sexwale (Ndawonde, 2009). The official backlog on housing is now approximately two million units which are determined to be solved within the next three years. The resolution to the housing backlog would be embryonic and will benefit the entire economy, spin-offs particularly for increased employment with greater stability and wealth reinstated in the nation.

The perfect match of lower interest rates and relatively lower house prices translates into an extremely good time to purchase property, however all that it may be currently, the legalisation governing the qualifications for loans to purchase property has not been changed in any way. Lower interest rates, low property prices with no increases in the remunerations and ever rising food costs, will not render this so ideal, as the qualifying criteria based on disposable income will be sure to either prolong your home loan application or provide reasons as to your non qualification. With this legislation (the NCA) to stay and no anticipated amendments in the near future, it renders the current “buyers market condition” useless. However, the current flourishing market for property will be ideal for cash buyers and capitalistic purchasers and yet again the residential property market being exploited by feverishly hungry businessmen. This would see the rental market screeching ahead with no mercy to sentimentality of the first time home owners.

2.4. The Residential Rental Markets

2.4.1 Introduction

The rental market is a critical component of the housing market in general (Social Housing Foundation, 2009). Rental housing offers the access to affordability, prime location to those whom choose not to, or may not be able to, purchase a property.

The global turmoil in the credit markets and increasing interest rates impact on the willingness of lenders to finance high risk clients, which positions the rental market in a critical role within the property market, providing an alternate source to housing. Generally, rental accommodation offers more flexibility and mobility, specific to elementary occupations where job security is low and in sectors such as construction and transportation. Fractional occupation and sharing of units give the renting option the edge over ownership in terms of affordability. In addition to affordability, it provides well-located accommodations to those who chose not to or are unable to purchase property.

South Africa is regarded globally, as one of the most important industrial nations in Africa, due to its vast mineral deposits and a developed infrastructure such as ports, rail and aviation. South Africa has historically been among the world's largest producers of gold and diamonds and still continues to drive its economy by deriving one seventh of its GDP from mining and quarrying.(Stats-SA, 2009) Underpinning this country, is the political landscape and the history that politics has played in building the present South Africa. It is important to understand how politics has affected the present property market and how the current demographics of South Africa have been developed.

The current property market is a direct result of years of capital investment into infrastructure, commercial buildings, residential buildings, agricultural farmlands and holdings, public areas, markets all which have created a sustainable economy.

With 1994 marking the era of a new democracy, human rights of freedom and equality for all its people was in-scripted into the new legislation, resulting in all apartheid laws being abolished.

However, the apartheid regime has left a legacy of division, segregation and a clear divide between rich and poor. Maslow's hierarchy of needs demonstrates that the first and basic needs to be satisfied are: biological and physiological needs - air, food, drink, shelter, warmth and sleep. Housing is an important basic need that every human being would need. It stands to reason then that ownership of property is associated with dignity, stability, family and self-esteem. So whilst many South Africans seek these values from property ownership, others are not yet on the property ownership hierarchy. Issues like employment, transport and affordability govern the demand for property. In fact the abolishment of apartheid and the Group Areas Act, meant that South Africans could traverse freely however South Africa's political architects have embedded a settlement structure with various constraints. There are high rates of urbanisation which therefore warrants a concentrated housing need in urban areas. Cities are inefficient and inequitable, with suburbs segmented according to race and class. Urban sprawl and unequal levels of municipal services and access to amenities in different areas make South Africa's cities very inefficient. The dispersed nature of many rural settlements, is a further challenge that hampers access to socio-cultural amenities.

The emerging black middle class, who had been living in the townships have now migrated into the suburbs. Many researchers and statisticians remark that the migration is taking place in the search for access to services such as shopping malls, schools, health care and transport (SA Goodnews reporter, 2007).

“In the earlier Black Diamond studies conducted at the end of 2005, researchers found many respondents that lived in townships expressed the desire to move to the suburbs when they could. This prediction has proved correct, with the number of Black Diamond families living in suburbs in South Africa’s metropolitan areas growing from 23 to 47% in the past 15 months. More than 12,000 Black Diamond families - or 50,000 people - are moving from the townships into the suburbs of South Africas’ metro areas each month,” reported Higgs (SA Goodnews reporter, 2007).

The survey done by TNS Research Surveys’ was quoted in the abovementioned article, wherein Nomsa Khanyile of TNS Research Surveys, stated that, “Many Black Diamonds interviewed claimed their hearts were still in the townships, but cite pragmatic reasons for making the move to the suburbs. As well as making a sound property investment, their reasons include tighter security and better-resourced schools for their children. Some also reported feeling societal pressure to move to the suburbs as it represented a visible mark of success."

2.4.2 Market Conditions

An important aspect of this research is based on analysing the effects of the NCA on the current residential property market. Therefore a snapshot of market conditions that influence the rental markets is an essential part of this study.

Supply and demand is one of the most fundamental concepts of economics and it is the backbone of a market economy. The quantity demanded is the amount of a product people are willing to buy at a certain price whereas the quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand. The law of demand and supply was further developed and enhanced by Alfred Marshall in 1890 and published in his textbook, Principles of economics (NETMBA, 2009).

In the context of the residential property market, property price is a factor of demand and supply. Interest rate is the pricing financial institutions utilise to sell their product (money) therefore interest rates have a direct effect on the supply and demand residential property.

The low interest rate cycle began in September 2003 at a rate of 13.50% until June 2007 ending the cycle at a rate of 13% and resulted in a higher demand for residential property (refer Table 2.5.4). According to the theory of demand and supply as mentioned above, this increased demand, influenced by lower interest rates results in a shortage of supply of residential property. Opportunities were identified by developers in various metropolitan areas thus creating stock for property investors and households.

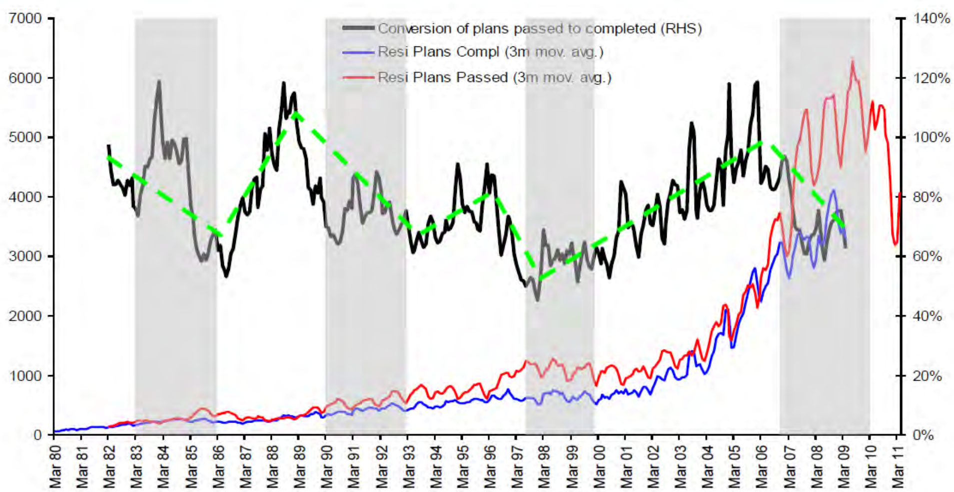
This basically led to soaring property prices and high growth and returns on capital. Lower interest rates stimulated buying rather renting even though house prices were rising.

“High interest rates are pushing up the demand for rental properties in South Africa”, according to Berry Everitt, managing director of the Chas Everitt International Property Group (Propertywire, 2008). The higher interest rate cycle began in December 2007 at a rate of 14.50%, a 150 basis point to an increase from June 2007 (rate at 13%) until January 2009 ending the cycle at a rate of 15.50% (First National Bank, 2009), indicated a declining trend for first time buyers as a percentage of total buyers for the period from June 2007 to December 2008 (this period falls into the high interest cycle). However the rental market thrived on the back on high interest rates and stringent NCA qualifying criteria.

With banks continuing to pull the plug on funding new residential projects, developers are moving their attention to commercial property (Cameron, 2008). Business Report article,“Rental stocks drying up,” has drawn attention to the intensifying conditions in the current property market with the demand for rental properties in South Africa literally going through the roof. “This is becoming increasingly problematic, as the stocks are proving to be in limited supply.” Thus property stock was no longer in abundance as in preceding years to 2006 (Business Report, 2008). A clear indication of this is the number of residential plans passed as seen in Figure 2.4.1.

Figure 2.4.1.

The conversion of residential plans passed



Source: Stats-SA 2008, Absa 2008.

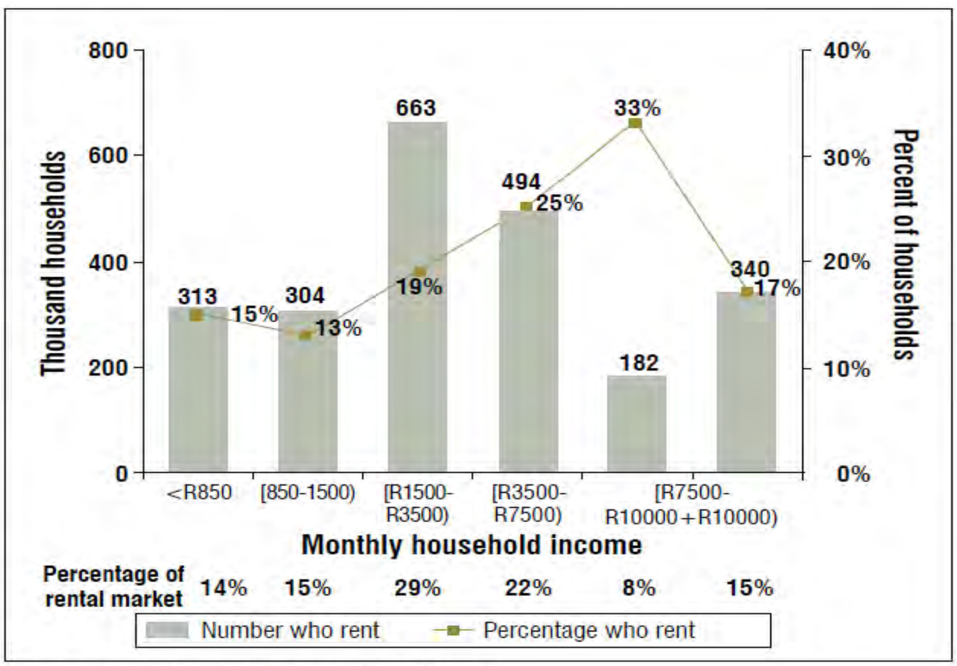
Furthermore whilst house prices were increasing at a higher rate than the general salary increases, it became increasingly difficult for first time home buyers to purchase a property. With limited stock many economically active households were now forced to rental options as opposed to ownership.

Further factors that influenced rental are changes in lifestyle patterns. Many South Africans (Y Generation) thorough liberalisation and introduction to global trends, sought a singular lifestyle and households were no longer the traditional 4.48 recorded in 1996 but rather 3.69 in 2005. Households grew from 9 million to nearly 13 million in the corresponding period as well. For instance, the number of single households that make a large proportion of tenants is now about 25% of all households, up from 12,5% in 1995 (Trafalgar, 2008). The Y generation also further chose to rent in vibrant mixed use developments and entrenched the "live, work, play" ethos. Disposable income relative to expenses is a further factor influencing the rental markets. Higher oil prices coupled with high inflation rates influence disposable income, forcing the market not to commit to long term financial obligations.

Rentals and the demand for rental property in June 2008 began to enjoy a revival as a balance in supply and demand emerged coupled with higher house prices that has made renting more attractive. The markets are favourable for buyers and many investors are taking a cautious and a selective approach when considering purchasing a property. These investors are currently driving the buy-to-let properties (Trafalgar, 2008).

Figure 2.4.2

Income distribution of renters

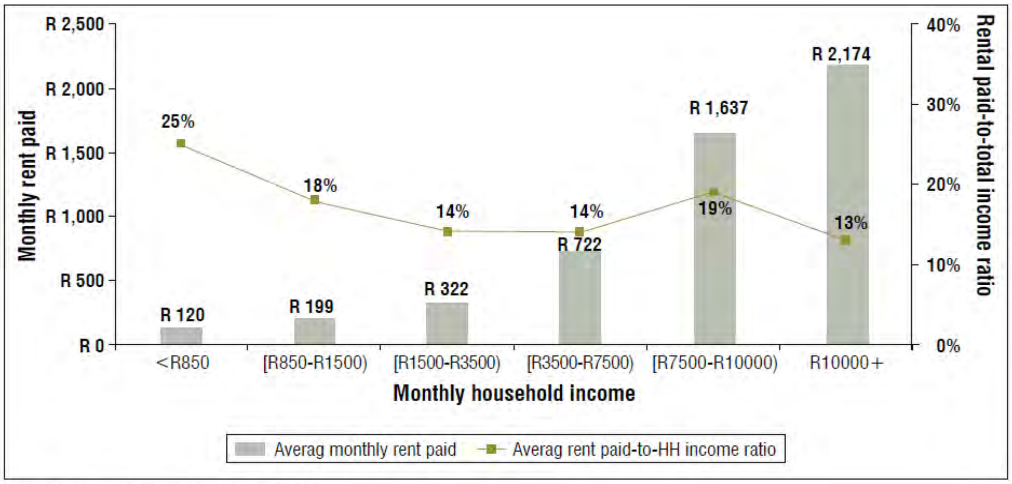


Source: Income and Expenditure Survey (2005/2006)

The data from the Income and Expenditure Survey 2005/2006, reflects that the households who rent, approximately 51% corresponding to over one million households, earn between R 1,500 and R 7,500, with 27% earn less than R1,500 per month. The market for private formal rental accommodation fits the criteria of income households earning above R 7,500 per months. The amount of rent paid varies significantly across income group and dwelling type (Trafalgar, 2008)

Figure 2.4.3

Average rentals and rent-to-income ratios by household income



Source: Income and Expenditure Survey (2005/2006)
* Exclude
unkonwn/unspecified (approximately 7% of interviewed households who rent)

The data from the Income and Expenditure Survey 2005/2006, reflects an inverse relationship between income and demand for rental accommodation – as incomes rise, proportionately less is spent on rent. The income category R 7,500 - R 10,000 indicates that the households within this income band spends a significant amount more on rentals than income groups above R 10,000. Typically these households are the target market for the affordable housing sector. The 19% rental to income ratio for this category is an atypical phenomenon contradicting the income to rental demand ratio. This phenomenon translates into access to affordability in prime location to individuals whom do not wish to purchase or cannot afford to. It further relates to individuals whom prefer the flexibility and mobility of the rental accommodation specific to their occupation and transportation modes.

Maslow's hierarchy of needs generally takes the form of a pyramid whereby the lowest levels of the hierarchy comprising the most basic needs with the more complex needs being at the top of the pyramid. The need for food, water, sleep and warmth are the basic physical requirements which sit at the bottom of the pyramid. The fulfilment of these lower level needs, results in the pursuance of the next level of needs which comprises the need for safety and security. The question of affordability becomes the burning issue in respect of fulfilling safety and security needs. Data from the Income and Expenditure

Survey (Table 2.4.1, Table 2.4.2. and Table 2.4.3) provide some indication of the relationship of between affordability, household income with household size and the ‘residual’ income after expenditure on what could be regarded to be basic necessities. Residual income is expected to vary depending on household size. The data is summarized in Table 2.4.1 to Table 2.4.3 for households comprising one, three and five individuals. The assumption that housing is lower on the household’s list of priorities than the basic items listed is clearly demonstrated in the tables.

Table 2.4.1

Average monthly income and expenditure on basic necessities for single-person households

Average monthly income and expenditure	Household monthly income					
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+
Income	R 562	R 1,151	R 2,349	R 4,951	R 8,539	R 18,661
Food and non-alcoholic beverages	R 180	R 256	R 363	R 418	R 589	R 905
Transport (excl. new/used vehicles)	R 49	R 126	R 233	R 361	R 916	R 1,190
Remittances (cash and in-kind)	R 38	R 147	R 359	R 641	R 838	R 561
Clothing and footwear	R 43	R 90	R 132	R 171	R 266	R 424
Health	R 12	R 16	R 25	R 43	R 132	R 164
Education	R 2	R 4	R 12	R 40	R 62	R 82
“Residual” income = Income less “essential” expenses	**R 239**	**R 513**	**R 1,225**	**R 3,278**	**R 5,737**	**R 15,335**
Number of households	219,899	218,018	416,139	249,521	80,899	154,286
Sample size	415	335	514	328	103	163

Source: The Rental Survey 2008.

Table 2.4.2

Average monthly income and expenditure on basic necessities for household size of three

Average monthly income and expenditure	Household monthly income					
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+
Income	R 611	R 1,138	R 2,390	R 5,274	R 8,812	R 25,668
Food and non-alcoholic beverages	R 264	R 366	R 542	R 727	R 775	R 1,329
Transport (excl. new/used vehicles)	R 50	R 90	R 211	R 449	R 871	R 1,265
Remittances (cash and in-kind)	R 7	R 45	R 85	R 211	R 322	R 352
Clothing and footwear	R 57	R 119	R 158	R 285	R 395	R 524
Health	R 11	R 19	R 31	R 70	R 122	R 236
Education	R 7	R 14	R 25	R 115	R 808	R 350
"Residual" income = Income less "essential" expenses	**R 215**	**R 484**	**R 1,337**	**R 3,418**	**R 5,519**	**R 21,611**
Number of households	83,570	160,718	307,715	219,968	82,198	337,069
Sample size	161	261	447	336	107	370

Source: The Rental Survey 2008.

Table 2.4.3

Average monthly income and expenditure on basic necessities for household size of five

Average monthly income and expenditure	Household monthly income					
	<R850	[R850-R1,500)	[R1,500-R3,500)	[R3,500-R7,500)	[R7,500-R10,000)	R10,000+
Income	R 684	R 1,205	R 2,293	R 5,015	R 8,787	R 23,597
Food and non-alcoholic beverages	R 292	R 451	R 580	R 804	R 1,062	R 1,753
Transport (excl. new/used vehicles)	R 50	R 89	R 200	R 420	R 730	R 1,581
Remittances (cash and in-kind)	R 0	R 12	R 54	R 115	R 209	R 140
Clothing and footwear	R 105	R 129	R 183	R 318	R 482	R 736
Health	R 13	R 19	R 36	R 37	R 148	R 518
Education	R 12	R 20	R 42	R 97	R 313	R 846
"Residual" income = Income less "essential" expenses	**R 210**	**R 483**	**R 1,199**	**R 3,224**	**R 5,842**	**R 18,023**
Number of households	31,361	82,158	199,325	184,099	51,516	184,997
Sample size	67	172	338	287	81	219

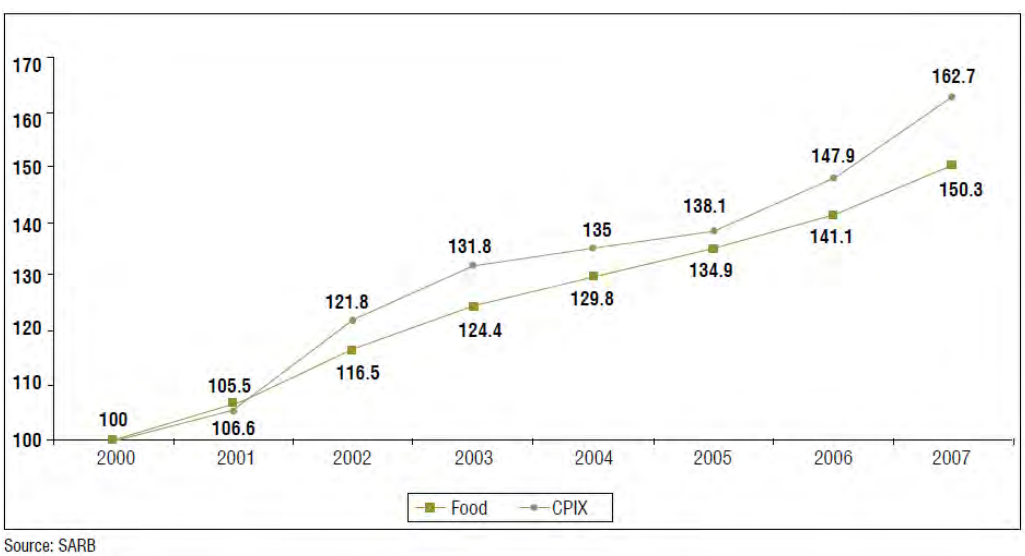
Source: The Rental Survey 2008.

As demonstrated by the data from the rental survey 2008 (Social Housing Foundation, 2009), multiple member households with earnings below R1,500 per month, it is not likely that a third of income can be allotted to housing. In comparison, single person households predictably, show the ability to allocate more to rentals. Co-habitation of rooms with shared facilities are ways in which single person households even those regarded as poor can afford rental accommodation. For instance, rentals charged by one landlord in inner city Johannesburg for $16m^2$ rooms with serviced shared facilities range between R800 and R1,000 per month while smaller roof rooms range between R500 and R700. Such accommodation is theoretically affordable to a single person household earning as little as R1,200 if shared.

Taking cognisance of the Income and Expenditure Survey conducted in 2005/6 many of the basic items which comprise a substantial share of the expenditure of the poorer households were subjected to remarkably high inflation rates resulting in the further erosion of affordability. Food, a crucial component of expenditure for poor households, increased significantly impacting the bottom line as seen in Figure 2.4.4.

Figure 2.4.4

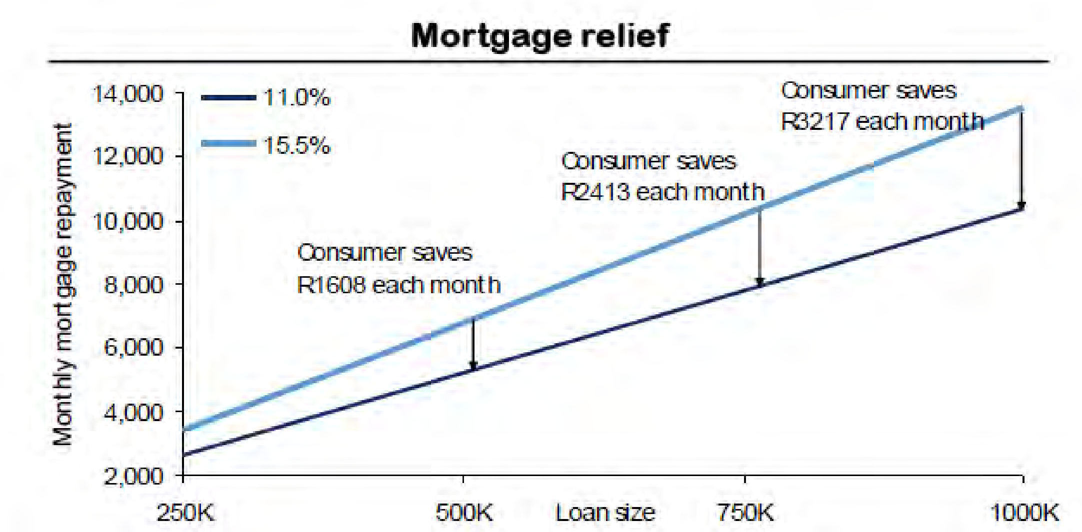
CPIX and food inflation, Metropolitan areas



Source: SARB, 2008

Since 2005 when the survey was undertaken fuel costs, a significant component of transport costs for many households, have effectively doubled which further erodes real incomes and reducing affordability of other items including housing (see Figure 2.4.5).

Figure 2.4.5



Source: StatsSA, Absa Construction Report, 2008.

The affordability of housing will remain an important factor in the role of investments into the property markets. First time and low to middle income buyers are generally affected by these affordability issues. There are fewer investors entering into the market for the first time but opportunities in the long-term rental market has strengthened significantly, relative to the past 3 years (Absa Construction Report, 2008). Rental returns are rising and entry level investment is realistic, making residential property in South Africa a plum for the picking, underpinning the right investment opportunities (Absa Construction Report, 2008).

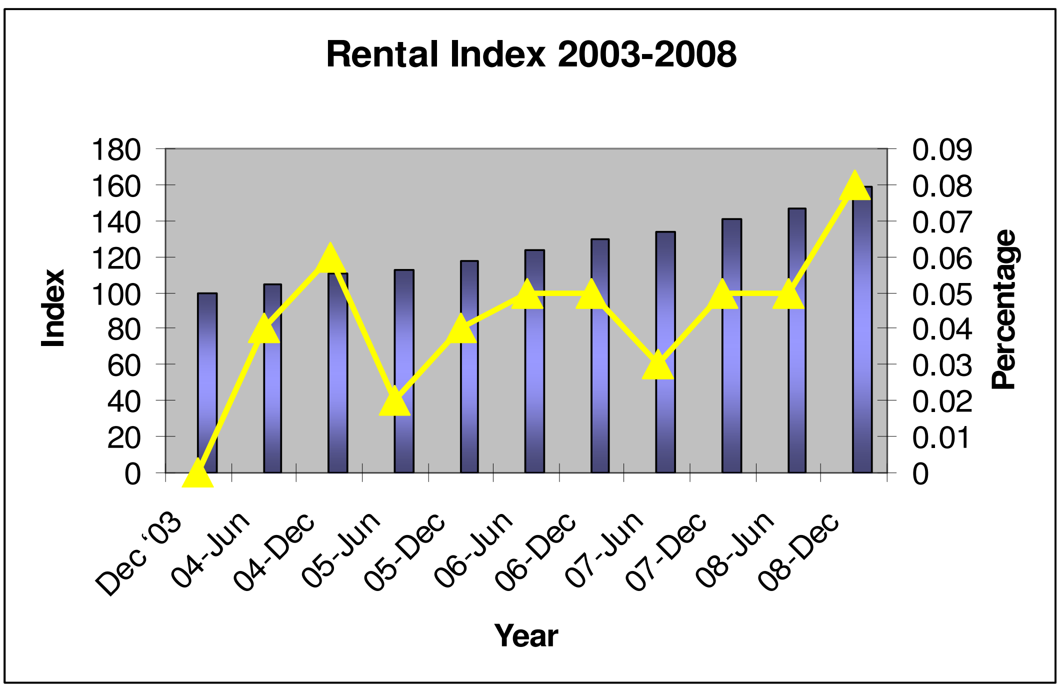
A report extracted from Business Report titled "Rental market undergoes renaissance, John Loos (2008), a property strategist at FNB "activity levels in the home buyers market hovered around a mediocre level of about five on a 10-point scale, while the rental markets' activity levels registered "a very active 8.4" on a national basis. This should not come as too much of a surprise given the current environment of rising interest rates, perhaps causing many potential buyers to delay for a while and keep on renting. The

National Credit Act affordability calculations are also making purchases more difficult for some buyers," (Loos, 2008)

First National Bank residential property rental markets barometer for March 2008 revealed that 75% of rental properties were leased out in less than a month of coming onto the market. The rental markets barometer further found that 80% of letting agents indicated that the market was stronger than six months ago.(First National Bank, 2008)

The Trafalgar rental index (Trafalgar, 2009) is an indication of rental data collected every six months for the periods December 2003 through to December 2008. The base index of 100 is used in December 2003. The National Index from December 2003 through to December 2008 is as follows in Graph 2.41.

Graph 2.4.1



Source: Trafalgar, 2009.

Table 2.4.4.

Rental Index from 2003-2008

	Dec-03	Jun-04	Dec-04	Jun-05	Dec-05	Jun-06	Dec-06	Jun-07	Dec-07	Jun-08	Dec-08
National	100.00	104.30	110.38	112.71	117.25	123.36	129.40	133.32	140.49	147.27	158.42
Percentage Increase	0	4%	6%	2%	4%	5%	5%	3%	5%	5%	8%

Source: Trafalgar, 2008

Rentals are steadily rising in South Africa driven on the back of a strong demand factor. Andrew Schaefer MD of Trafalgar Group, a leading national letting agency stated in the Trafalgar inner city 2008 report. (Trafalgar, 2008) , that rentals would continue to substantially rise over the next decade. Rents increased year on year by 6,43% from June 2005 to June 2006, 8.26% between June 2006 and June 2007and 10,46% between June 2007 and June 2008. The overall increase from June 2006 to June 2008 amounts to 19,39% over a two year period. Rental demand can be gauged using the Trafalgar three main South African cities research.

City of Johannesburg (Gauteng):

The official statistics (Trafalgar, 2005), put the inner city residential population at approximately 230,000 people. On an average week-day, there are one million people in the inner city and 800,000 people commute daily through the inner city.

In Johannesburg, Trafalgar's inner city portfolio (Trafalgar, 2007), approximately 2,500 rental units. In 2007 an average of 100 leases per month were signed, and these ramped up to 140 leases being signed monthly as indicated in Figure 2.4.6.

Typical monthly inner city rentals in Johannesburg

Bachelor 1- Bed Rental up to R1850 up to R2 100

2-Bed 3-Bed - Rental up to R2 500 up to R2 700

City of Ethekweni:

City of eThekwini metropolitan manager Michael Sutcliffe was quoted in the Trafalgar Inner City Report (Tralagar, 2005) wherein he said that estimates put the inner city population at between 80,000 and 100,000. He further comments that there is a user population of about 400,000 people daily who travel into the inner city. Since there are 126,000 jobs in the inner city, this means that about 270,000 people enter the inner city to visit government offices, access various services, or shop. Demand for residential accommodation across all income levels is strong in Durban's inner city, as it is in Johannesburg and Pretoria. The need to address urban poverty is however equally strong and Sutcliffe points out that facilities like shelters need to be carefully thought-out and micromanaged. As inner cities are being upgraded and restored, the risk of displacing not only the poor, but also low income households and even middle-income households increases proportionally. Refer Figure 2.4.6.

Typical monthly inner city rentals in downtown Durban
Bachelor 1-Bed Rental R900-R1 450 to R1 025-R1 850
2-Bed Rental R1 400-R2 000

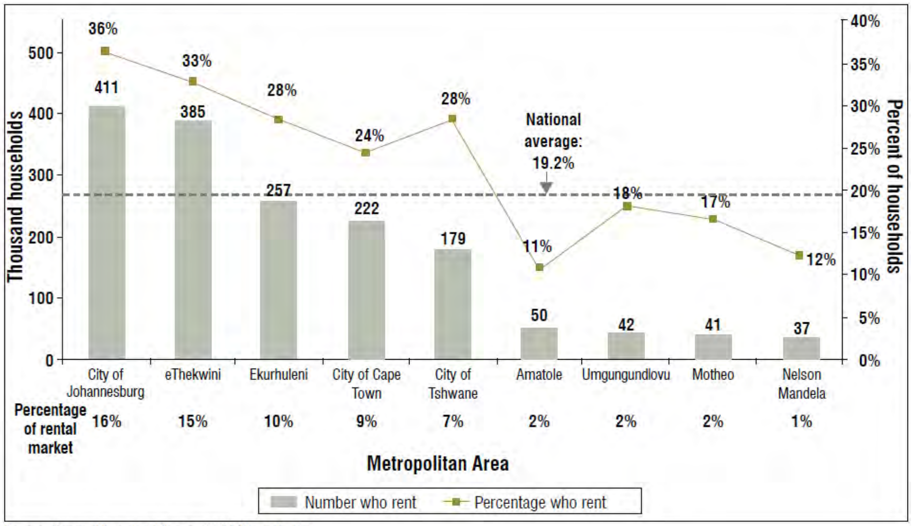
City of Tshwane :

In the Trafalgar Inner city report (Trafalgar, 2005), stated that the demand outstripped supply in Pretoria's inner city. The report further states that investors purchased property on the unwavering demand by students who come to the city to study at universities and colleges. For 2004, a total of 190 leases were signed whereas as at May 2005, (five months) 187 leases had been concluded.

With the directly proportionate relationship between employment opportunities and demand for rental accommodation, the percentage of households renting is far higher in largest five cities than for the country and that these areas are the substantial contributors to the segment of the rental markets. In particular the greater Johannesburg area is an important rental centre with the City of Johannesburg (Gauteng) and Ekurhuleni containing just over a quarter of renter households in the country (see Figure 2.4.6.).

Fig 2.4.6

Rented dwellings in metropolitan areas



Source: General Household Survey 2006 (Households)

The General Housing Survey 2006 indicates that the inner city Johannesburg as well as Pretoria, Durban, East London and Port Elizabeth indicated exceptionally high levels of demand. An indication of demand with those areas exhibiting highest increases most likely to be experiencing high demand can be assessed by pricing trends. According to the Trafalgar Index, across the cities they track, prices have risen fastest in East London followed by Johannesburg and Cape Town and have outstripped inflation (which averaged 8.6% over December 2006 to December 2007) in a number of cities.

2.4.3 Reason as to why individuals chose to rent and not own

Investment in residential property in South Africa's inner cities had been on the rise from 2005 to end 2007, but many residents preferred to rent as stated in the Trafalgar Inner City Report (Trafalgar, 2005), rather than own their own properties. The key is the circumstances of the individual and a low interest rate may not be the most important factor.

Trafalgar believes that the following six reasons are why many inner city dwellers prefer to rent their homes:

• “Renting is particularly suitable for young inner city residents, who need a high level of flexibility. If one is transient, and perhaps wanting a place to live for just a few years, renting is arguably a better option. The main reason is that transaction costs are high and when buying a property, the risk associated with the property is the buyer’s responsibility.

• Don’t rush into the commitment of a bond if there is a likeliness to travel or even move cities. *“You may feel happier paying off your own bond rather than paying rent to someone else, but you will invariably lose money if you sell in the short-term,” says Trafalgar CEO Neville Schaefer.*

• Often it’s possible to rent in an area where one can’t afford to buy. The factors that will determine one’s choice could include proximity to good schools, access to public transport, or nearby job opportunities. The inner city is accessible, offers good public transport, and is close to the CBD.

• Families are dynamic and accommodation needs can change. Although one may need four bedrooms now, one may only need two when children or relatives leave the family home. The aim should be to save on transaction costs and maximise capital gains.

• The rental market is growing globally and tenants have a wide range of choices available to them. In South Africa, there is evidence that certain nodes – mainly in the suburbs – are saturated with rental properties, which could see rental levels coming down. In the inner city, competition for rental accommodation is on the rise, which could mean rising rentals in this high-demand area.

• “The need to own a property is a South African bias,” says Schaefer. Don’t automatically assume that buying a property is the best – or only – option.”

(Source: Trafalgar, 2005)

2.4.4 Conclusion

"It seems that it is no longer "in" to be a property buyer, as renting is looking increasingly more attractive. Lanice Steward, managing director of Anne Porter Knight Frank, says her agents "come across young, upwardly mobile people who tell [them] that they prefer to rent at discount rates in a good area rather than compromise with a less attractive home in a not-so-fashionable suburb"(Cameron, 2008).

Gentrification is defined as the restoration and upgrading of deteriorated urban property by middle-class or affluent people, often resulting in displacement of lower-income group (www.dictionary.reference.com). The gentrification of the South Africa's inner cities resulted in the formalisation of the urban residential property market. The demand for rental accommodation continued to be strong and steady in 2005, for both individual and family.

The drivers for the regeneration and demand for housing are, that people increasingly want to live in the inner city; and a vibrant residential mix will help create a sustainable, active city.

With supply of rental accommodation tightening, conversion of office buildings were seen in all cities, even though some reservations were expressed from authorities. The law of supply and demand echoed in the rental markets with stock shortages and strong demands resulting in prices rising, even more rapidly than expected. The significant demand for inner city accommodation and the awareness thereof has led to fewer tenants defaulting on rents or contravening building codes of conduct.

2.5. South African Building and Construction Industry

2.5.1 Introduction

The construction industry which involves a broad range of stakeholders, is a complex sector of the economy, and has a wide range of associations with other areas of activity such as manufacturing – the use of materials, finance, energy, labour and equipment.

Construction comprises approximately 10 percent of the world economy. In the United States of America, Western Europe and Japan construction investment accounts for about 70% of the economy and about 1% in the continent of Africa. As the 20th century came to its close, the high-income countries had 506 telephone connections per 1000 people compared to 16 for sub-Saharan Africa. 91 percent of the roads in high-income countries are paved, as against about 16 percent in sub-Saharan Africa (CIDB, 2009).

Government's commitment to infrastructure investment has given momentum to the need for sustained growth of the construction industry where the achievement of economic growth and infrastructure backlog emanating from apartheid are addressed as in Table 2.5.1. The objectives of potable water, sewerage disposal, electrification, health, education, housing and productive employment are facilitated by the activities of this industry, reaching into South African community. The competence of this industry is crucial to the logistics of a growing economy i.e. the transport and communication, import and export, industrial development, increasingly supports an integrated and economically active population.

Table 2.5.1

Backlogs and progress – 2004 State of the Nation Address by President Thabo Mbeki	
Estimates in 1994	Progress by 2004
Housing – 1.4 to 3 million units	Houses built for the poor – 1.6 million
Electricity – 60% has no access	70% of households have been electrified
Clean water – 16 million with no access	Clean water – 9 million people got access
Adequate sewerage – 22 million people without access	63% of households now have sanitation
70% secondary school enrolment	85% enrolment by 2002

Source: CIDB, 2004

In view of these challenges, the construction industry was proclaimed a national asset by Government which is to be developed, maintained and transformed giving stimulus to these goals through various policies, institutional and feasible initiatives.

As stated in the report by the Construction Industry Development Board (CIDB) (CDIB, 2008), that "After more than 25 years of decline, the South African construction industry is currently experiencing significant growth - which will be sustained well after 2010. This growth in infrastructure investment is being driven by both public and private sector demand. Public sector investment (and in fact concomitant private sector investment) is being driven by the governments' Accelerated and Shared Growth Initiative for South Africa (AsgiSA). AsgiSA is a national initiative that addresses both the first and second economies, aiming to unlock binding constraints to growth. It targets an economic growth rate of 6% and aims to halve poverty and unemployment by 2014. AsgiSA hinges on growing investment in infrastructure - at a rate of growth well beyond that of the economy."

A detailed breakdown of the private sector investment in residential and non residential sectors is given in the tables 2.5.2 and 2.5.3.

Table 2.5.2

Investment in Building by Sector: 2006		
Sector	**Rm**	**%**
Private Residential	36 776	48.46%
Public Residential	2 610	3.44%
Private Non- residential	21 000	27.67%
Public Non- Residential	15 500	20.43%
Total	**75 887**	**100%**

Source: Stats-SA, 2006

Table 2.5.3

Investment in Private Residential by Segment: 2006		
Segment	**Rm**	**%**
Dwelling houses < $80m^2$	2 162	5.88%
Dwelling houses > $80m^2$	15 857	43.12%
Townhouses & Flats	10 293	27.99%
Other (incl hotels & casinos)	363	0.99%
Additions and Alterations	8 101	22.03%
Total	**36 776**	**100%**

Source : Stats-SA, 2006

The total investment in the building sector in 2006, R 75, 887 million of which R 36,776 million is accounted for by the private residential market sector. Private residential and private non-residential comprise 76% of the industry activity in the building sector, while the public sector accounts for about 24%. Of particular importance is the activity in additions and alterations, around R8,1 billion in the home-improvement market (CDIB, 2006).

2.5.2 Gross Domestic Product, Inflation and Interest rates

2.5.2.1 Gross Domestic Product

From a sector viewpoint, the robust performers were the construction and finance sectors which grew at 14.7% (2007) and 12.21% (2008) respectively. The contribution from the mining sector had a positive effect on the GDP. The real output growth weakened further due to the dismal performance of the job creating manufacturing sector (BER, 2008).

Manufacturing, mining and quarrying together with a double digit growth coming from agriculture were the key contributors to the performance of the GDP in 2008.
The underlying weakness in economic activity was as a result of declines in internal trade and electricity, coupled with moderated growth in the financial services and construction sectors (BER, 2008)

2.5.2.2 Inflation

In 2007 the food and energy inflation were the main drivers of the Consumer Price Index. Inflation was further boosted by the increase in the petrol prices in November 2007 and again December 2007. July 2008 saw further increases in the price levels as recorded by the official Consumer Price Index which rose to a year-on-year rate of 13% in July– the highest level recorded since inflation targeting was implemented in February 2000 (BER, 2008).

2.5.2.3 Interest Rate

Interest rates is the pricing that financial institutions use to market their products (monetary) in the market and have played a major deciding factor on affordability of these products especially home loans. With lower interest rates, debt interest can be serviced more comfortably. Interest rates are used as control mechanism to control the debt finance market. It must be noted there is an inverse relationship between interest rates and property prices as the law of demand and supply commands (SARB, 2009). Table 2.5.4 details fluctuations of the interest rate from 1999.

Table 2.5.4

South African Prime Interest Rates, since 4 Jan 1999

14 Aug 09	10.50%	11 Jun 07	13.00%	13 Jun 03	15.50%	14 Jul 99	17.50%
28 May 09	11.00%	11 Dec 06	12.50%	13 Sep 02	17.00%	02 Jul 99	18.00%
04 May 09	12.00%	13 Oct 06	12.00%	14 Jun 02	16.00%	03Mar 99	19.00%
24 Mar 09	13.00%	03 Aug 06	11.50%	18 Mar 02	15.00%	02 Apr 99	20.00%
06 Feb 09	14.00%	12 Jun 06	11.00%	16 Jan 02	14.00%	02 Mar 99	21.00%
12 Dec 08	15.00%	18 Apr 05	10.50%	01 Oct 01	13.00%	02 Feb 99	22.00%
13 Jun 08	15.50%	16 Aug 04	11.00%	16 Jul 01	13.50%	04 Jan 99	22.75%
11 Apr 08	15.00%	15 Dec 03	11.50%	18 Jun 01	13.75%		
07 Dec 07	14.50%	20 Oct 03	12.00%	01 Feb 00	14.50%		
15 Oct 07	14.00%	15 Sept 03	13.50%	04 Oct 99	15.50%		
20 Aug 07	13.50%	15 Aug 03	14.50%	16 Aug 99	16.50%		

Source: SARB, 2009

Sixteen (16) months of inflation targeting resulted in ten, 50 basis points increases in the repo rate. The decision by the Reserve Bank to keep interest rates unchanged in August 2008 implied that after the ten increases, the peak of the interest rate cycle had been reached. The basis of the Reserve Bank's decision was a result of a combination of factors which was directed at improved medium term inflation outlook with weaker economic conditions looming ahead (SARB, 2009). The decline in inflationary risks such as lower international oil prices combined with electricity tariff increases and the slowdown in economic activity further supported the unchanged interest rate, thereby alleviating financial pressure experienced by consumers. With the retail, motor vehicle and real estate sectors particularly feeling the brunt, resulting in household consumption remaining subdued.

2.5.3 An analysis of the factors of the South African Building and Construction Industries

In order to assess the state of the South African Building and Construction industries, we use the building confidence Index as a mechanism to determine how the industry has performed specific to 2007 and 2008.

The Building Confidence Index: "Measures the business confidence of all the major role players and suppliers involved in the building industry such as architects, quantity surveyors, contractors, sub contractors, wholesale and retail merchants and manufacturers of building materials"(Kershoff, 2000). The index is compiled quarterly from the building manufacturing retail and wholesale opinion surveys undertaken by the bureau of economic research (BER) at Stellenbosch university.

2.5.3.1 Measuring the Business Confidence

The measurement of business confidence is imperative, as it reliably indicates the current and expected state of the economy. It is widely recognised that the business community's subjective individual expectations play a key role in economic developments. The BER derives its business confidence index from the results of the quarterly business surveys. The business survey questionnaire contains questions on, amongst others, current and expected developments regarding sales, orders, employment, inventories, selling prices and constraints. All of the above obviously have an impact on business confidence (BER, 2009)

2.5.3.1.1 Interpreting the Business Confidence

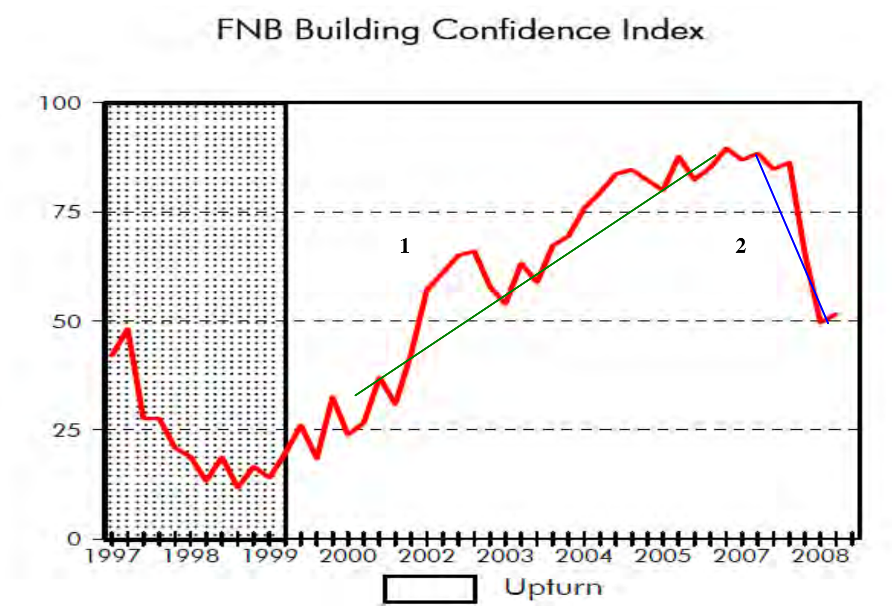
The BER measures business confidence on a scale of 0 to 100, where 0 indicates an extreme lack of confidence, 50 neutrality and 100 extreme confidence (BER, 2009).

2.5.3.1.2 Overall business confidence

In 2007 the overall business confidence slightly improved due to the net effect of a rise in the confidence levels of quantity surveyors, manufacturers and retailers of building materials, whilst the confidence levels of the architects, building sub contractors and wholesale of building materials weakened specific to the fourth quarter of 2007 with the no effect from the building contracts as the confidence levels remained unchanged. (BER, 2009)

The doubling in the confidence level of retailers of building materials and a less significant increase in the confidence of quantity surveyors resulted in a rise in the Building Confidence Index in 2008 (as indicated in Graph 2.5.1).

Graph 2.5.1



Source: Bureau for Economic Research, 2008

1) The marked increase in the confidence level of retailers has been linked to the successful discounting and selling stocks.

2) The notable decline recorded in the first quarter of 2008 were that of retailers of buildings materials (-52), manufacturers (-32), wholesalers (-27) and building contractors (-15) (BER, 2008).

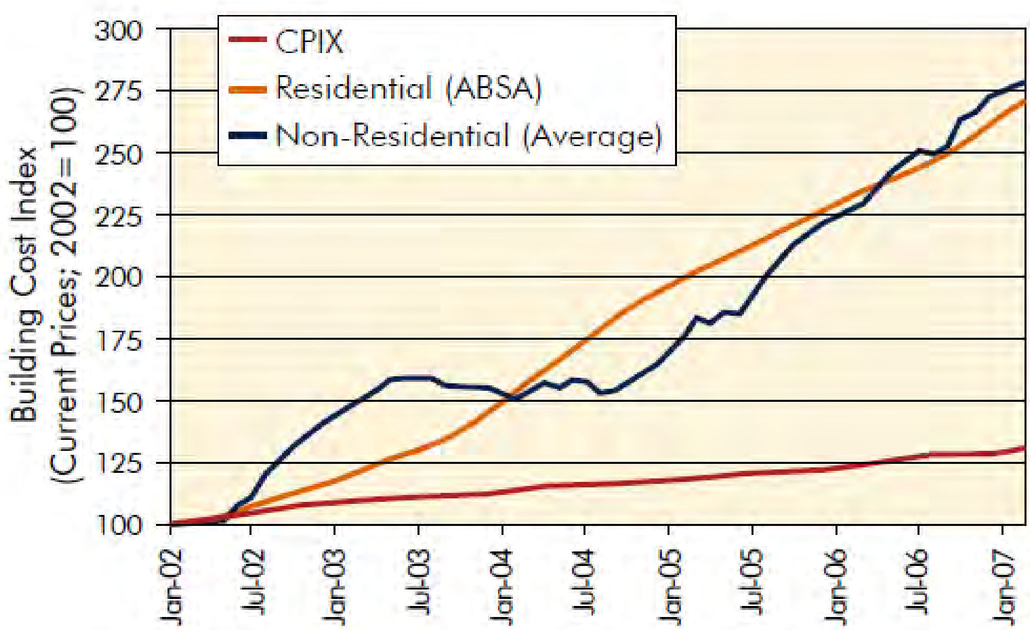
2.5.3.2 Building and construction costs

Costs of materials, labour professional fees, competition, status of the order book and profit margins are key determinants in the input and building costs.

As shown in the following Graph 2.5.2, for the period observed i.e. Jan 2002 to Jan 2007, the residential and non residential building costs have been, on overall increasing at a rate greater than CPIX.

Graph 2.5.2

Building and Construction materials costs



Source: Bureau for Economic Research, 2008

South Africa's building and construction materials industries are being thinly stretched, as supply struggles to meet the demand generated by the large number of infrastructure projects under way. These include the Gautrain rapid-rail link, airports, stadiums and other preparations for the 2010 soccer World Cup, power utility Eskom's R150-billion five-year capex plans, and road, rail and housing projects (Engineeringnews, 2009).

2.5.3.3 Residential Building Conditions

The last quarter of 2007 statistics from the BER (building and construction report 2007) reflected the business confidence of residential building contractors, Graph 2.5.3, to be stable however upon a closer scrutiny of the survey data it is depicted that the business conditions weakened notably.

Graph 2.5.3

Source: Bureau for Economic Research Report, 2008

There was a marginal increase in the index of 34 in the third quarter of 2008 from 32 in the third quarter in 2008 in business confidence. In this segment of the industry building activity was most unfavourable with no less than 87% of respondents to the survey revealed that sufficient demand for building work was a serious constraint affecting businesses (BER, 2009).

2.5.3.4 Growth in building activity

Building activity is basically flourishing for only two reasons in these current times in South Africa namely; World Cup 2010 which is being hosted by our country and the Gautrain project which are keeping this industry alive and well. However, the residential aspect of this industry declined considerably as reflected in Graph 2.5.4.

Graph 2.5.4

Source: Bureau for Economic Research Report, 2008

In 2007, although there was growth in the building activity but it was well below expectations. The weak performance as per expectations continued in 2008 with negative growth.

2.5.3.5 Competition in tendering

The severe tightening of demand prevailing in this category of the building industry has resulted in an intensification on tendering competition in 2007.

The poor demand for residential buildings has resulted in the increase of the tendering competition for new projects continued into 2008. Profit margins had to be reduced in order to remain competitive when tendering for new projects this ultimately resulted in the waning of overall profitability. (BER, 2009)

2.5.3.6 Growth in profitability

With deteriorating growth in activity for the residential aspect of this industry, ultimately affects the bottom line of any business. Graph 2.5.5 shows the extent of the declining profitability in this industry.

Graph 2.5.5

Source: Bureau for Economic Research, 2008

The reducing profit margins indicated in 2007 that the respondents were under pressure and survey data confirming the deterioration of the overall profitability of the companies.

In 2008, the intensification of the tendering competition for new projects was a result of the weak demand for residential buildings. This had a knock on effect on the contractors marginalising overall profitability in order to remain competitive.

2.5.3.7 Employment and skills

Construction is a predominantly labour-intensive industry. Historically, the South African construction industry was largely reliant on highly skilled staffs, which were generally "white" to supervise semi-skilled and unskilled workforce which were generally "black".

2.5.3.8 Growth in employment

The severe tightening of demand for residential property market commodities resulted in the lower activities in the building and construction industry specific to this sector ultimately impacting on job retention, graph 2.5.6 clearly shows the downward trend of employment.

Graph 2.5.6

Source: Bureau for Economic Research Report, 2008

The waning of building demand for residential space in 2007, resulted in lower levels of building activity, forcing survey respondents to reduce the number of people employed.

The building demand continued to be sluggish in the residential market in 2008 with the contractors indicating a further reduction in the employment at higher level than 2007.

2.5.3.9 Overall Performance of Residential Sub Contractors

A decline in the business confidence of residential sub contractors as indicated in the Bureau for Economic Research Survey for the Construction and Building Industry for 2007/2008. The deterioration is somewhat related to the fact that the profitability of businesses performed well below expectations.

2.5.4 Plans approved / passed and buildings completed

There was an increase of 3.9% year-on-year, at a real value of R 10,6 billion, in the first five months of 2007 i.e. January to May, for plans passed for new residential buildings as indicated in the statistics released by Statistics South Africa. New residential buildings completed in the same period, experienced growth of 12.9% year-on-year at a real value R 7 billion. Although the data released by Stats SA reflected a year-on- year growth, the month-on-month basis experienced declines of 1.3% for plans passed and 2.6% in buildings completed. (Appendix D)

Categorically, " the number of plans passed for houses smaller than 80m² experienced a decline of 0,9% year-on-year during January to May of 2007 with houses of 80m² and bigger dropped by 1,2% year-on-year and phenomenal growth of 17% year-on- year for flats and townhouses." (du Toit, 2007) Although a decline in plans passed were experienced, "the number of houses smaller than 80m² completed during January to May increased by 31,6% year-on-year, while the completion of houses bigger than 80m² increased by 12,7% year-on-year over the same period."(du Toit, 2007) These increases for buildings completed are reflective of plans passed prior to 2007 which culminated in the January to May 2007 period. The demand for contemporary living and affordability has resulted in the increase of 20.9% year-on-year for flats and townhouses in the planning phase and the number of flats and townhouses completed increased by 23% year-on-year (Absa, 2007).

The exceptional growth in the number of units and square meters of building plans passed and building completed in respect of flats and townhouses in contrast to decline the normal single-stand houses is reflective of the changing trend over the past couple of years towards higher density living. However the above-inflation building costs increases in addition to higher property prices has also contributed to people opting for smaller more affordable houses.

The activities in the home building sector were still under pressure as indicated by the residential building statistics released by Statistics South Africa for the period January-July 2008. The real value of building plans approved, R 12,61 billion for the period January to July 2008, which was 18.6 % year-on-year lower than the R 15,49 billion recorded in the same period in 2007.(Appendix D)

The three major segments of the residential market (houses of $<80m^2$, houses of $\geq 80m^2$ and flats and townhouses) experienced a decline activity, dropping by 19.8% year-on-year to 50,236 units for the first seven months of 2008 compared to 62,634 units for the same period in 2007 (du Toit, 2008). (Appendix D)

The effects of the rising inflation and interest rates over the past two years placed the household sector under severe financial pressure. The echoes of the financial pressure were seen in the activities with respect to alterations and additions to existing properties tapering off markedly.

The current slowdown in the housing market persisted into the first six months of 2008 which is confirmed by the residential building statistics released by Statistics South Africa. (Appendix D)

2.5.5 Conclusion

The government's commitment to infrastructure spending with an approximate backlog of 2 million houses (architectafrica, 2009), will be embryonic in injecting some vivacity back into this chronically ill industry specific to residential activity. The building and construction industry declined after June 2007, however this was not attributable to the global financial crisis as this transpired from September 2008. Steering away from the interest rate factor, which is cyclical and has the effect of stimulating and cooling off of the economy. The elimination of the global financial crisis and high interest rates as underlying factors from the declining residential property industry equation resulted in the National Credit Act as the predominant contributing factor to the deterioration experienced in the residential market from mid 2007 to late 2008.

2.6. Chapter Conclusion

The introduction of the National Credit Act brings South Africa's credit legislation on par with similar legislation in developed countries and is likely to reduce undesirable credit practices significantly.

The promulgation of the National Credit Act 34 of 2005 and the National Credit Regulations (2006) is primarily aimed at solving consumer credit problems. The implementation of these acts has resulted in the aggressive combating of voracious lending, consumer abuses, obsolete piecemeal and ineffective legislation on consumer credit.

As from its introduction in June 2007, the National Credit Act, became topical in the residential property market. There was an increased awareness with respect to the content of the Act especially with regard to over indebtedness and rights in respect of credit bureau information as well as consumer protection.

The perfect match of lower interest rates and relatively lower house prices translates into an extremely good time to purchase property, however all that it may be currently, the legalisation governing the qualifications for loans to purchase property has not been changed in any way. Lower interest rates, low property prices, no increases in the remunerations and ever rising food costs, will not render this market so ideal, as the qualifying criteria is based on disposable income thus rendering a prolonged decision on your home loan application or provide reasons as to your non qualification. The NCA being a permanent legislation within the South African legal frame work and no anticipated amendments in the near future, renders the current "buyers market" useless. However, this current flourishing market for property will be ideal for cash buyers and capitalistic purchasers which yet again renders exploitation of the residential property. This would see the rental market which is not governed by the National Credit Act, screeching ahead with no mercy to the sentimentality of the first time home owners.

With supply of rental accommodation tightening, conversion of office buildings were seen in all cities, even though some reservations were expressed from authorities. The law of supply and demand echoed in the rental markets with stock shortages and strong demands resulting in prices rising, even more rapidly than expected. The significant demand for inner city accommodation and the awareness thereof has led to fewer tenants defaulting on rents or contravening building codes of conduct.

The building and construction industry declined after June 2007, however this was not attributable to the global financial crisis which transpired from September 2008.The elimination of the global financial crisis and high interest rates as underlying factors from the declining residential property industry equation, resulted in the National Credit Act as the predominant contributing factor to the deterioration experienced in the residential market from mid 2007 to late 2008.

According to Knowledge Factory, which compiles the South African Property Transfer Guide, the cash-sale trend started last year. Dieter Deppisch, Knowledge Factory's national manager of property data research, said: "the introduction of the National Credit Act in June 2007 was a major catalyst for the decrease in the ratio of bonded sales to cash sales. As expected, the NCA and subsequent tighter lending criteria have driven cash sales upward ... and, according to the largest bond originator in South Africa, only one in two (50.5 percent) potential buyers applying for bonds are being approved," (Piliso, 2009).

Its practical yet hidden effect has left many players in the building and construction, specific to the primary and secondary industries in impasse, together with a market for capitalism in the residential property sector.

Chapter Three

Research Methodology and Design

3.1 Introduction / The Nature of the Study

The approach followed in this study to conduct research into the residential property market was investigative in nature and sets out to determine the impact, correlations and contributions of the National Credit Act on the South African residential property market. A quantitative approach of property ownership/refurbishments to mortgage loan advances was pursued. Upon attaining the correlations coefficients, the study then continued to find meaning in the findings within the South African residential property market context, as this approach was able to identify, confirm and validate the key factors leading to the shrinking of home ownership in the residential property market.

The study was a formal study in the residential property market and the research questions posed required exact answers in order to determine the contribution and correlation between the National Credit Act and the residential property market. Hence a formal research design was followed in order to fulfil the goals of this study and to answer the posed questions.

“Implemented in June last year, the NCA has made it more difficult for entry-level buyers to buy property, because many find that their disposable income simply isn’t sufficient to cover — or even qualify for — the required bond repayments. The NCA, together with rising interest rates, was “the final straw that broke the camel’s back”, said John Lottering, an economist with Rode & Associates (Rodes, 2009).

“John Lottering said that the move by banks to tighten their lending criteria had also resulted in a number of financially over-committed professionals being left out in the cold, turning them to the rental market for shelter.” (Piliso, 2008)

According to the South African Reserve Bank and Statistics South Africa, the year-on-year growth in mortgage advances declined towards the end of 2008 and continued into early 2009. This was driven by the delayed effect of the interest rate cycle as well as stricter credit criteria imposed by banks mainly on the back of the National Credit Act. The study intended to identify the degree to which the National Credit Act caused the growth South Residential Property Market to decline in the period June 2006 to June 2008. The study is classified as correlation research, meaning that it was a statistical investigation which measured the relationship between the National Credit Act and mortgage loan advances.

The researcher had no control over the property market or finance /construction variables investigated in this study and hence an ex post facto design was used.

3.2 Research Methodology

Definition of terms

3.2.1 Research Method is defined as simply a technique for collecting data, involving a specific instrument ,such as a self completion questionnaire or a structured interview schedule , or participant observation whereby the researcher listens to and watches others (Bryman and Bell, 2007).

3.2.2 Quantitative research is a formal, objective, systematic process in which numerical data are utilised to obtain information about the world (Burns and Grove cited by Cormack 1991, p. 140).

Quantitative research is inclined to be deductive. In other words it tests theory. Therefore, objectivity, deductiveness, generalization and numbers are features often associated with quantitative research.

Bi-variate analysis was used to examine the relationship between implementation of the National Credit Act and the changes residential property market with effects on home ownership and residential rentals.

3.2.3 Bi-variate analysis is concerned with the analysis of the two variables at a time in order to uncover whether or not the two variables are related. It explores the relationships between variables' means searching for evidence that the variation in the one variable coincides with the variation of another variable.

3.2.4 Correlation analysis: "Correlation measures the strength of the linear association between two variables. The word '***correlation***' is often used as a vague synonym for '***association'*** " (Jones, 2001).

The association between any two variables can be measured numerically through the use of the **Pearson Correlation Coefficient** that is represented by the symbol ***r*** which can range from ***-1.0 to +1.0***. The sign of correlation coefficient (+/-) indicates the "direction". The value is indicative of the strength. The Pearson Correlation Co-efficient measures a "linear" relationship only. (Purvis, 2006)

The correlation coefficient *r* represents:

$$r = \frac{\text{degree to which X \& Y vary together}}{\text{degree to which X \& Y vary separately}}$$

$$r = \frac{\text{covariance of X \& Y}}{\text{variance of X \& Y}}$$

Source: Purvis, 2006

Definitional Formula for Pearson *r*:

$$r = \frac{SP}{\sqrt{SS_X SS_Y}}$$

SP = "Sum of Products"

SS = Sum of Squared Deviations

$$SP = \Sigma(X-\overline{X})(Y-\overline{Y})$$

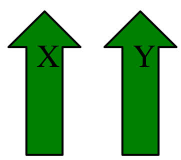
$$SS_X=\Sigma(X-\overline{X})^2$$

$$SS_y=\Sigma(Y-\overline{Y})^2$$

Source : Purvis, 2006

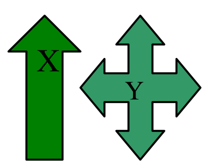
Correlation analysis involves the calculation of the correlation coefficient i.e. the quantitative measure of the relationship. The correlation coefficient (*r*) is interpreted as follows:

A correlation coefficient of +1.00 indicates that two variables move in the same direction at all times. If variable X gains in value, we would expect variable Y to gain as well (Leclair, 2007).



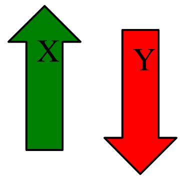
Positive Correlation (+1.00)

A correlation coefficient of 0 indicates that the movements are totally random. A gain by variable X provides no insight into the expected movement of variable Y (Leclair, 2001).



Non Correlation (0)

A correlation coefficient of -1.00 indicates that two variables move in the opposite direction at all times. If variable X gains in value, we would expect variable Y to decline in value (Leclair, 2001).



Negative Correlation (-1.00)

The value of the correlation coefficient is indicative of the **strength** of a relationship between X, Y. The closer r is to ± 1.0, stronger the relationship. The closer the value of r is to 0, the weaker the relationship. When $r = 0 \rightarrow$ X,Y relationship **<u>not</u>** defined by a straight line (Leclair, 2001).

3.2.5 Secondary data analysis is the analysis of data that have been collected by other researchers or by other organisations in the course of their business.

3.2.6 Primary data analysis is the analysis of data that has been collected for the sole purpose of this research project addressing the pertinent objectives of the project by way of a questionnaire sent to six (6) residential property developers in South Africa.

3.3 Method of Data Collection

An accurate study of the property market will require that only data specific to the residential property market are monitored; hence it was ensured that data collected for purposes of this study were reliable and credible sources. Primary data were gathered via questionnaires sent out to residential developers nationally.

Secondary data was gathered by accessing data, publications and reports of the websites of the South African Reserve Bank, Statistics South Africa, Absa Bank, Standard Bank First National Bank, Bureau for Economic Research, Construction Industry Development Board, South African Institute of Race Relations and Social Housing Foundation.

3.4 Data Collection

3.4.1 Home ownership

Data was sourced from the Absa website specific to home loans statistics for the period, pre – implementation (2006) of the National Credit Act and 2007 -2008 post the implementation of the National Credit Act. This data was in the form of reports compiled by Jacques du Toit , senior property analyst at Absa Home Loans (www.absa.co.za). Relevant data were also sourced from Standard Bank and First National Bank websites (www.standardbank.co.za) (www.fnb.co.za).

3.4.2. Residential rentals

Data was sourced from the Stats SA website, a rental survey commissioned by the Rode and Associates to measure the cost of actual rentals in the Consumer Price Index. The rental price index is referred to as the Rode index, while StatsSA own rental survey is referred to as the StatsSA index. Further data was sourced from Trafalgar Group, a leading national property letting company, whose measure of rental indices is known as the Trafalgar Rental Index. Social Housing Foundation research reports on "Supply and Demand of Rental Accommodation in South Africa" provided data on rental activity.

3.4.3 Building and construction data

Data was sourced from the Bureau for Economic Research (www.ber.co.za), the Social Housing Foundation (www.shf.org.za), General Housing Survey (www.statsa.co.za), Rode Report (www.rode.co.za), Stats SA (www.statsa.co.za)

3.4.4 Unemployment data

Data was sourced from the StatsSA website(www.statsa.co.za) as well as relevant journals and articles referenced accordingly more specific to casual/temporary/contract labourers.

3.4.5 Residential property developer activity data

A questionnaire comprising twelve (12) questions encompassing the objectives of this research project was sent to the six property developers. The sample size chosen although relatively small, reinforces the findings from the analysis of the secondary data.

A bi-variate correlation analysis was used to asses the relationships between the implementation of the National Credit Act and home ownership and residential rentals.

3.5 Sources of information for data

3.5.1 South African Reserve Bank

Information on interest rates and mortgage loan advances were obtained from the South African Reserve Bank website (www.sarb.co.za).

3.5.2 Statistics South Africa

Unemployment statistics were obtained from the labour force publications released which are released on a quarterly basis. The unemployment data selected was for the country as a whole and specific to the construction industry

General Housing Survey reports for the periods 2006, 2007 and 2008 were obtained from the statistics South Africa website (www.statsa.co.za) where information regarding the number of households in South Africa, the number of plans passed, number of buildings erected specific to residential developments and houses, were obtained.

3.5.3 Financial Institutions

Information was obtained from the Absa Home Loans (www.absa.co.za) quarterly housing review reports on interest rates, mortgage loan advances, residential building statistics specific to the number of plans passed and the number of houses built.

Mortgage loan advances data for residential properties were obtained from Research Economics reports from the Standard Bank website. (www.standardbank.co.za)

The FNB Property Barometer data were obtained from the quarterly residential reports from the First National Bank website. (www.fnb.co.za)

3.5.4 Bureau for Economic Research

Information on the number of houses built, monetary value of refurbishments, unemployment data specific to the construction industry, number of building plans passed and conversions and trends in activities with building contractors and sub- contractors were obtained from the quarterly building and construction reports (www.ber.ac.za).

3.5.5 Construction Industry Development Board

Information on the expenditure and investment in building industry from the synthesis review on the South African Construction industry and its development from the construction industry development board website (www.cidb.org.za).

3.5.6 Social Housing Foundation

Information on supply and demand of rental accommodation in South Africa were obtained from the Social Housing Foundation website (www.shf.org.za)

3.6 Data Selection

The need for accuracy of the data is the reason why secondary data is preferred to primary data. Secondary data is also preferred due to the comprehensiveness that it offers, as it is compiled by experienced researchers specific to an industry.

Primary data does not have the same comprehensiveness as secondary data, due to the lack of resources on the part of the individual collecting and compiling the data due to constraints on financial means, inappropriate authority levels to approach large corporations, capacity constraints on the collection of data in a specified time frame as well as lack of expertise when working in isolation. This makes collection of primary data at the required level of completeness and accuracy impractical. Sampling small parts of the residential property population could have led to non-representative data which would have had a negative effect on the accuracy of the results. The study focused on gaining an insight on information on the mortgage loan growth and level of activity in the South African building and construction industry specific to the residential market and based on historical data, which were accurately captured by the South African Reserve Bank, Statistics South Africa, Absa Bank Limited, Standard Bank Limited, First National Bank Limited, Bureau for Economic Research (BER), The Social Housing Foundation (SHF), General Housing Survey (GHS), South African Property Owners Association.

The banks participating within the South African financial services sector record and accumulate house price data, since they have a vested interest in these data as the money which they loan from the South African Reserve Bank is based on the securities (mortgages) held by the banks.

Primary data were sourced via questionnaires sent to property developers. The questionnaire comprised 12 questions of which focussed on the performance of the core business of the developer and the effect of the National Credit Act thereof.

3.7 Data Recording

The feedback from the residential property developers were abstracted and tabulated from the questionnaires consisting of twelve (12) questions which encompassed the objectives of this research project.

3.8 Limitations of using secondary data

The following are limitations when using secondary data:

3.8.1 The period of familiarisation can be quite substantial with large complex data sets as to get to grips with the structure and familiarisation of the data.

3.8.2 No control over the quality of data. While the quality of data should never be taken for granted, in the case of such data sets it is reasonably assured though that it is not say that the data will necessarily meet all the prospective secondary analyst's needs, since they may not have been collected on an aspect of a topic that would have been of considerable interest. More caution may be necessary in connection with assessment of data quality. This may be of a particular concern when using data that are the result of commercially commissioned research, as is the case in market research.

3.8.3 Complexity of data: Some of the best known data sets that are employed for secondary analysis, such as the General Housing Survey (GHS) are very large in a sense of having large numbers of both respondents and variables. Sometimes, the sheer volume of data can present problems with the management of information and again the period acclimatization may be required.

3.8.4 Absence of key variables: Because secondary analysis entails analysis of data collected by others for their own purposes, it may be that one or more key variables may not be present.

3.9 Conclusion

The research methodology identified and justified in this chapter forms the basis for the answering of the research questions posed in chapter one. The presentation and interpretation of results is done in the next chapter, after which conclusions will be drawn and recommendations will be made.

Chapter Four

Presentation and interpretation of the results

4.1 Introduction

This chapter presents and discusses this study.

4.2 Summary of the Literature Review

The literature review was done to fulfil the various requirements discussed in Chapter 2 and a brief summary is provided below under the same headings (see paragraphs 4.2.2 to 4.2.5)

4.2.1 Research Methods

The literature review assisted in the identification of the research method to ensure a thorough and academic approach to this study. Information was gathered for each facet of the project research.

4.2.2 The National Credit Act

The literature review provides clear evidence that the implementation of the National Credit Act has directly influenced a decline in home ownership and an increase in the residential rental industry. The following sectors were discussed:

4.2.3 The South African Residential Property Market

A nationwide view of the residential property market in South Africa and the factors that had contributed to its decline.

4.2.4 The South African Residential Rental Market

A view of the residential rental market in South Africa with an elaboration of the composition of the market and factors which had influenced its phenomenal growth.

4.2.5 The Building and Construction Industry in South Africa

A countrywide view of the building and construction industry in South African specific to residential market.

4.3 Results

4.3.1 The National Credit Act

The National Credit Act has had an impact since its promulgation in June 2007 whereby its epigrammatic existence resulted in significant changes in the residential property market.

Mortgage Advances and rentals specific to residential activity are two variables that are used to gauge and track changes in the residential property market as illustrated in Table 4.3.1.1.

Table 4.3.1.1

Comparison of mortgage advances to rentals pre and post implementation of the National Credit Act

Year	2005	2006	2007	2008
Legislation			National Credit Act implemented June 2007	
***Mortgage Advances : % (x)**	28.6	30.4	25.3	13.4
****Rentals : % (y)**	98.4	101.1	107.7	115.2
*****Correlation Coefficient *r***	1.00		-1.00	

* Absa, 2008.

** Stats-SA, 2008.

*** $r = \frac{SP}{\sqrt{SS_X SS_Y}}$ (Purvis, 2006)

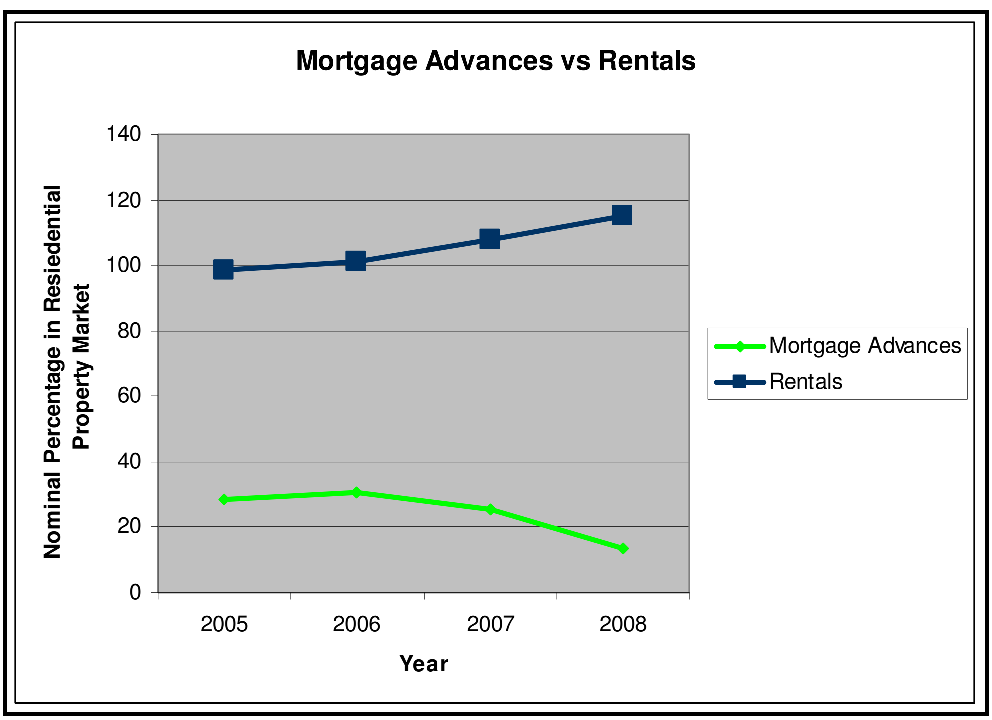
The contradictory effect is clearly evident in the Table 4.3.1.1 wherein as the drop in activity of mortgage advances the marked corresponding inverse increase in rental activity is on rise.

The correlation coefficient *r* = 1.00, for the period 2005 to 2006, which was prior to the implementation of the National Credit Act, resulted in a strong positive correlation which indicates that as mortgage advances (x) increased year-on-year so did the rentals (y) increase year-on-year.

The correlation coefficient *r* = -1.00, for the period 2007 to 2008, which was post the implementation of the National Credit Act, resulted in a strong negative correlation which indicates that as mortgage advances (x) decreased year-on-year , the rentals (y) increased year-on-year. The closer *r* is to 1.00 the stronger the relationship between the variables (x) mortgage loans and (y) rentals.

This paradoxical effect is illustrated in the latter sections below which reinforces the conflicting effect illustrated in the Graph 4.3.1.1.

Graph: 4.3.1.1



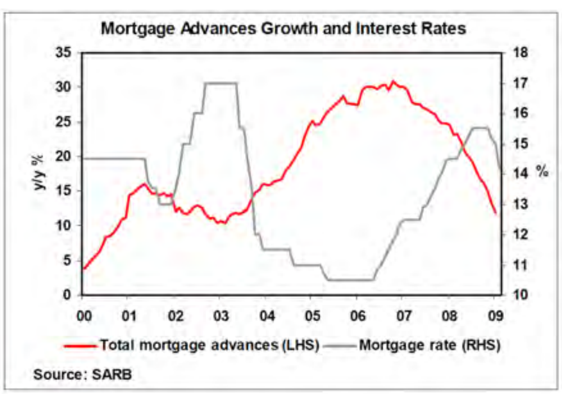
The graph clearly illustrates the effect of the National Credit Act on the residential property market, a decline in mortgage advances (home ownership) and an increase in the rental market activity.

4.3.2 The South African Residential Property Market

The results in this section are specific to home ownership which is idyllically represented by mortgage loan advances illustrating the effect of the legislation on the residential market.

Price is a reflection of supply and demand according to the laws of demand and supply. Interest rate is the price financial institutions use to sell their product (money). Mortgage advances is the product that is a characteristic of property finance. Mortgage loans and interest rates have an inverse relationship, that is, when interest rates are low, the demand for mortgage loans increase and vice versa. Graph 4.3.2.1, Graph 4.3.2.2 and Table 4.3.2.1 depicts this inverse relationship as well as illustrates the trend of mortgage loan pre and post the implementation of the NCA.

Graph : 4.3.2.1



Graph 4.3.2.2

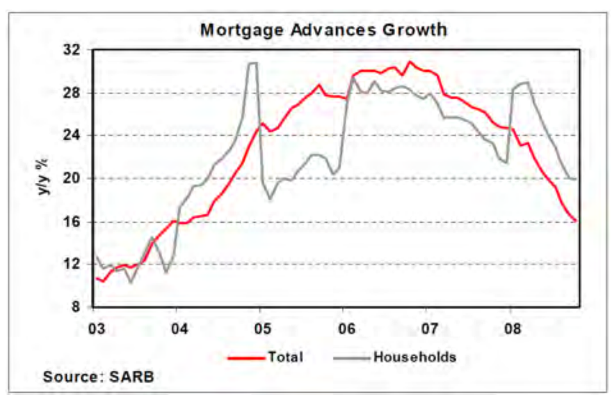


Table: 4.3.2.1

Mortgage Advances, Inflation and Interest rates				
Month	**Total Mortgage advances[1,2] R billion**	**Mortgage advances to households [2] R billion**	**CPIX Inflation %**	**Mortgage Rate % %**
Oct 07	**822.4**	**577.2**	**07.30**	**13.80**
Nov 07	**838.4**	**581.1**	**07.90**	**14.00**
Dec 07	**853.8**	**589.0**	**08.60**	**14.40**
Jan 08	**864.5**	**633.8**	**08.80**	**14.50**
Feb 08	**871.5**	**645.7**	**09.40**	**14.50**
Mar 08	**882.1**	**652.4**	**10.10**	**14.50**
Apr 08	**887.9**	**653.7**	**10.40**	**14.80**
May08	**898.3**	**659.7**	**10.90**	**15.00**
Jun 08	**908.8**	**664.8**	**11.60**	**15.30**
Jul 08	**923.5**	**672.9**	**13.00**	**15.50**
Aug08	**932.7**	**677.4**	**13.60**	**15.50**
Sept08	**941.7**	**681.2**	**13.00**	**15.50**
Oct 08	**954.8**	**692.2**	**12.40**	**15.50**

[1] ***Comprising commercial and residential mortgages (end of period)***
[2] ***Nominal values***
Source: SARB, 2008, Stats-SA, 2008

The South African residential property market experienced strong average price growth of about 20% per annum in nominal terms between 2000 and 2006. A wide range of economic, social, cyclical and structural factors contributed to the growth in this sector, all which had a positive impact on the demand for housing in South Africa over the years.

In October 2006 the total amount of mortgage loan advances in the monetary sector was R 656,4 billion, an increase of 30,9% year-on-year growth as per the data released by the South African Reserve Bank (SARB, 2009). The total credit extended to the residential market also referred to as domestic private sector increased by 27,5% year-on-year in October compared with 25,3% in September of the same year. The total amount of mortgage advances by the monetary sector came to R684,6 billion at the end of 2006.

Data released by the South African Reserve Bank (SARB, 2009), indicated that Mortgage advances by the monetary sector increased by 30% year-on-year after phenomenal growth rates of 30,9% and 30,4% which were recorded respectively in October and November 2007.

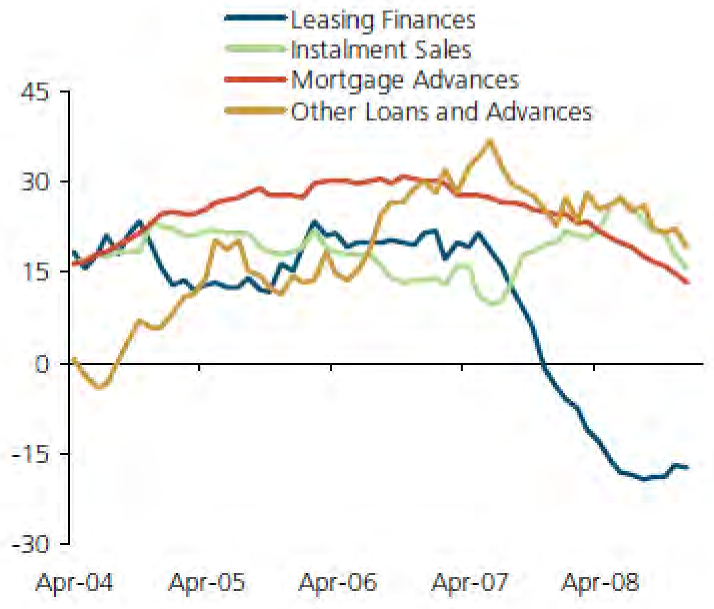
Continuous hikes in interest rates since June 2006 resulted in an increase of 200 basis points in totality which did little to curtail the strong growth in mortgage advances growth, which has been around 30% year-on-year since March 2006. Excluding the volatile components of investments and bills discounted, the total credit extended to the domestic private sector, grew by 27,6% year-on-year in December 2007(SARB, 2009).

The implementation of the National Credit Act in 01 June 2007 contributed to lower growth in mortgage advances in the second half of the year due to the stringent criteria used to assess home loan applications.

Growth in mortgage advances to the household sector was only marginally lower at 19,9% y/y from 20,0% year-on-year in September. The amount of outstanding mortgage balances in the household sector was R692,2 billion in October, having a share of 72,5% in total mortgage debt, which comprises commercial and residential mortgages. Household mortgage advances had a share of 69,4% of total credit extended to the household sector in October.
Mortgage advances growth has reached its lowest level in October 2008, since early 2004 as seen in Graph 4.3.2.3, mainly as a result of a significant slowdown in the residential property market during the preceding 12 months.

Graph 4.3.2.3

Illustration of the decrease in Mortgage Advances from 2004 to 2008



Source: I-Net Bridge, RMB FM Research

Nominal house price growth was at a 15-year low of only 1,2% y/y in October 2008, whereas prices were down by around 10% y/y in real terms in October 2008. Nominal house price growth of around 4% is expected for 2008, while prices are forecast to drop by between 6% and 7% this year. A declining trend experienced in 2008 was driven by the lagged effect of the interest rate cycle illustrated in Table 4.3.2.2, the National Credit Act, stricter criteria imposed by the banks, and financial difficulties experienced by consumers.

Table 4.3.2.2

Mortgage Advances

		Key Variables in respect of Mortgage Advances				
		2004	**2005**	**2006**	**2007**	**2008**
Mortgage Interest Rates (x)	%	11,3	10,6	11,2	13,2	15,1
Mortgage Advances (end of period) (y)	Nominal % change	24,5	28,6	30,4	25,3	13,2
Correlation coefficient *r*	$r = \frac{SP}{\sqrt{SS_X SS_Y}}$	-0.3465			-1.00	

Source: Absa, 2009 , Purvis, 2006.

Pre-implementation of the National Credit Act, the year-on-year change in mortgage advances reflects a steady growth from 24,5% (2004) increasing to 28,6% (2005) culminating to 30,4% in 2006. The correlation coefficient *r* is -0.3465 for the periods 2004 to 2006 which indicates a moderate negative relationship between mortgage advances and interest rates changes year-on-year. This means that at lower interest rates, there will be increased demand for mortgage advances, translating that at lower prices there will be increased demand for the product (the law of demand and supply).

Conversely, the year-on-year change in mortgage advances, post the implementation of the National Credit Act reflects a decrease from 30,4% (2006) to 25,3% (2007) shrinking to 13,2% (2008). The correlation coefficient *r* = -1.00 for period 2007 to 2008, indicates that a strong negative relationship exists. The characteristic of this relationship between interest rates and mortgages advances, as denoted by the negative association, however in this period the value has increased from 0.3465 to 1.00, indicating a stronger relationship between the variables.

Prior to the implementation of the National Credit Act, interest rates played a somewhat vital role in the home loan sector which is evident from the lower value of the correlation coefficient *r*. This translates into interest rates having a minimal effect on the performance of mortgage advances. However, post the implementation of the National

Credit Act, the value of *r* strengthened considerably indicating a stronger relationship between these variables. This translates into the interest rate having a significant effect on mortgage advances growth, as the criteria for lending as become more stringent with the implementation of the National Credit Act which is now based on affordability criteria after taking into consideration household expenses and living expenses.

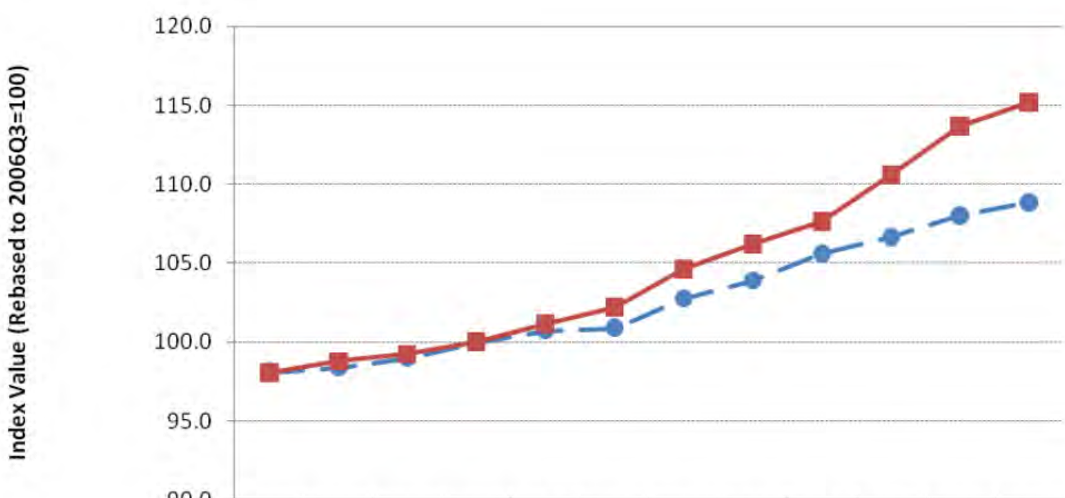
4.3.3 The South African Residential Rental Market

The results presented in this section comprise of rental activity specific to formal dwellings.

The two indices from Stats SA and Rode are presented graphically below to illustrate the trend of the residential rental nationally. Reliance was placed on the data sourced from these organisations due to their accreditation and establishment thereof. The differences in the data presented is noted as seen in the differing values of the index for the same periods however the trend of the statistics as seen in the curves are similar in nature thereby indicating a similar characteristic.

Graph 4.3.3.1

Comparison of National Trends in Rode and Stats SA Rental Data



	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2	2008 Q3
Rode Index	98.1	98.4	99.0	100.0	100.7	100.9	102.8	103.9	105.6	106.6	108.0	108.8
StatsSA Index	98.0	98.8	99.2	100.0	101.1	102.2	104.6	106.2	107.7	110.6	113.7	115.2

Rode Index StatsSA Index

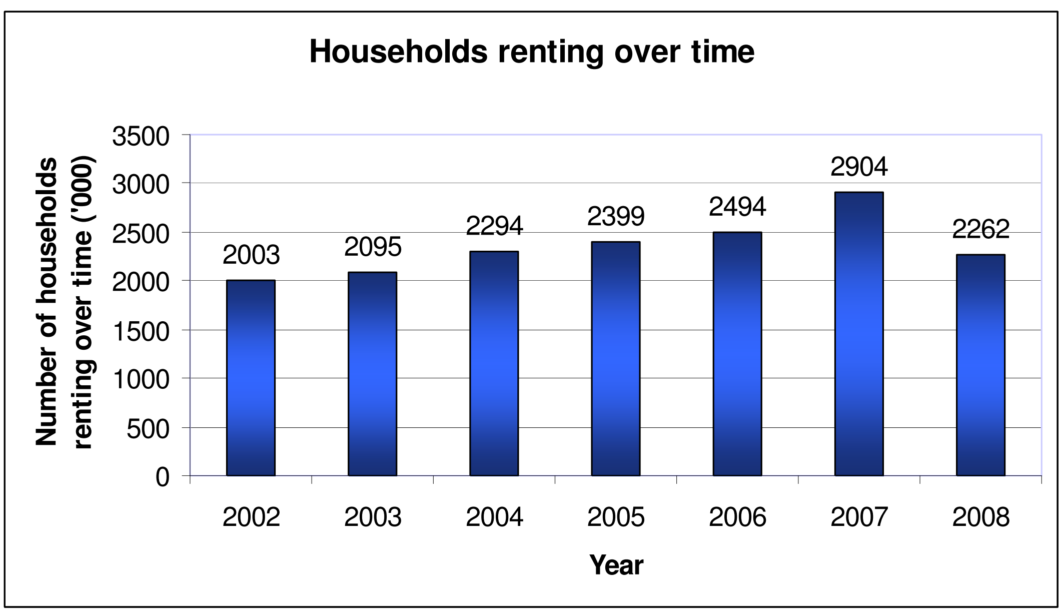
Source: Rent in the South African CPI: concepts and trends (Stats-SA, 2008)

Graph 4.3.3.1 presents a comparison of the national trends in rentals as measured by the Rode data2 (currently incorporated in the official Consumer Price Index as house, flat and townhouse rent) and Statistics South Africa's rental survey, which will be used for both owners' equivalent rent and actual rent. All provinces have data for their primary urban areas in Statistics South Africa's rental survey.

Over the period, the index based on Statistics South Africa's rental survey (referred to here as the Stats SA Index) rose more rapidly than that based on the Rode data (the Rode Index). In total, rentals as measured by the Stats SA index rose by 15.2 percent between the third quarter of 2006 and the third quarter of 2008, compared to 8.8 percent for the Rode index.

Data from the General Housing Survey as depicted in Graph 4.3.3.2 below reaffirms the trend of the StatsSA and Rodes' indices, wherein the rentals have increased phenomenally particularly between 2006 and 2007.

Graph 4.3.3.2



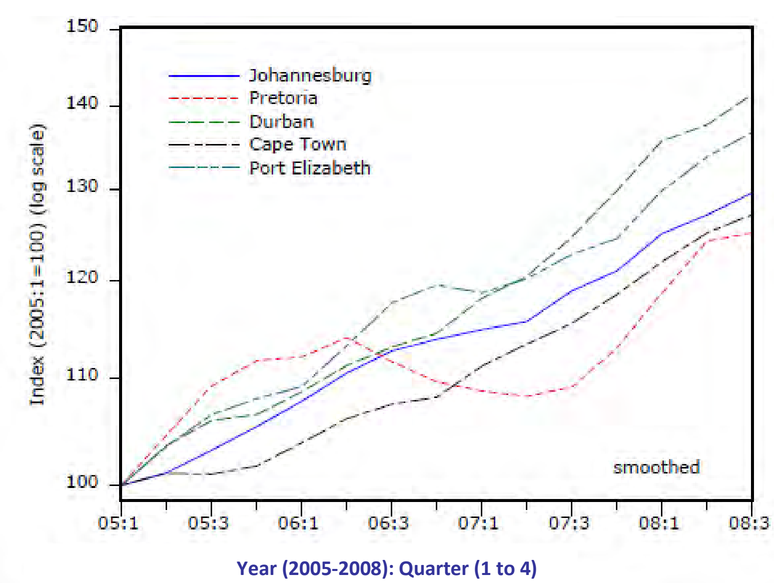
Source: General Housing Survey 2002 -2008.

In total, rentals as measured by the General Housing Survey rose by 16% between 2006 and 2007 which was the most significant increase comparatively to the prior years. The rapid growth experienced in this period in the rental market is a result of the latent effects of the NCA. The 2008 rental data reflected a substantial drop in the number of renters (-22%) from that of 2007 which is indicative of the ricocheting effects of the global financial meltdown felt in South Africa over that period and which renders the effect of the NCA as latent.

Flats and townhouses are generally higher in demand than other residential dwellings mainly due to affordability, maintenance and convenience. The rental data presented graphically (Graph 4.3.3.3) for this dwelling type coincides with the trend of the data sources from StatsSA and Rodes' indices and the General Housing Survey.

Graph 4.3.3.3

Movement in nominal flat rentals (all sizes)



Source: Stats-SA, Rode

The Johannesburg, Cape Town and Port Elizabeth metropolitan areas during 2007 to 2008 period experienced rental growth which ranged between 9% and 11%, i.e. well below inflation. Pretoria which grew of a lower based comparatively reflected the stronger rental growth. The national rental trends of the different metropolitan areas yet again illustrate the unrelenting rise in rental growth.

4.3.4 The Building and Construction Industry in South Africa

The data for residential plans passed, buildings completed and activity levels of the contractors and sub contractors are presented in this section in order to provide a complete assessment of this industry. Table 4.3.4.1 and Graph 4.3.4.1 exhibits the declining trend of residential building plans passed and buildings completed.

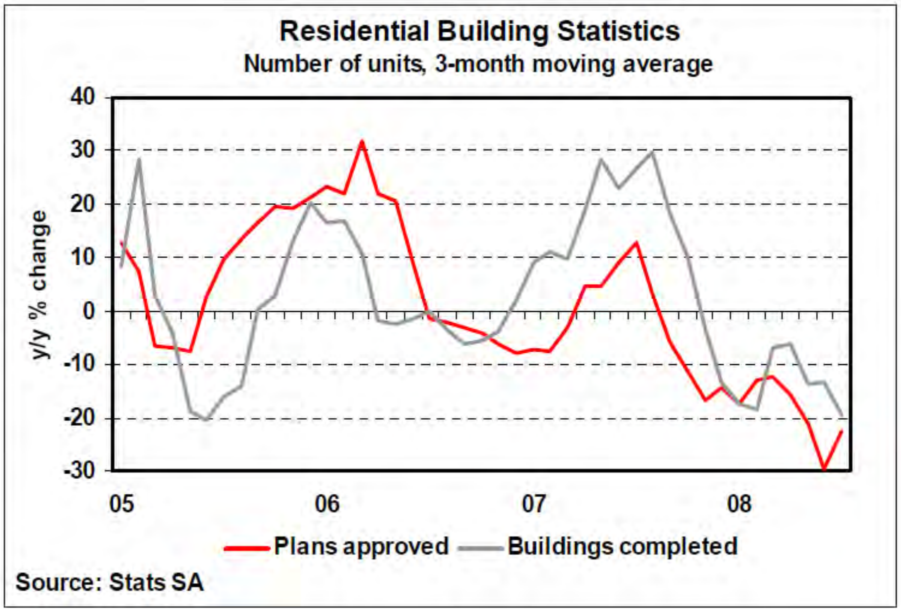
Table 4.3.4.1

Residential Building Plans passed and completed

	Residential building plans passed	**Residential buildings completed**
Jan -May 2006	40,285	24,401
Jan -May 2007	42,064	29,898
Jan-July 2007	62,634	44,294
Jan-July 2008	50,236	37,772

Source: Stats-SA, 2008.

Graph 4.3.4.1



January to May 2006: The total building plans passed as per the data from Stats SA (Stats-SA, 2009) is 40,285 units of which 60.57% of the passed plans were converted to completed buildings. This performance was a drive of the country to provide housing for the un-housed as well as creation of many affordable housing projects, therefore the conversion rate being relatively high.

January to May 2007: Residential building statistic released by StatsSA (Stats-SA, 2009). for this period depicts 42,064 units of residential building plans passed and a conversion rate of 71.07% of completed buildings (29,898 units).
The data depicted for these periods reflected that the activity in the home building sector had flourished.

For comparative purposes with 2008, the January to July 2007 data for residential building plans passed was 62,234 units as indicated in Table 4.3.41 had a conversion rate of 70.71% (44,294 units) which is more of less in line with the January to May 2007 data reflected above.

January to July 2008: The number of residential building plans passed for this period was 50,236 units with 37,772 units for completed buildings, a conversion rate of 75%, however comparatively performing worse than the January to May 2007 period with a 19,79% drop in plans passed and 14.72% drop in completed buildings.

The data released by StatsSA (Stats-SA, 2008) reflected a decline in the activity for these periods which confirms the effects of the tighter lending criteria by financial institutions.

4.3.4.1 Building Activity: Contractors/Subcontractors

The National Credit Act which was effective from June 2007 had a negative effect within the building and contracting markets. Table 4.3.4.3 below is reflective of some of the laggard effects of the National Credit Act. These laggard effects are a general indication of the actual effect which is only realised six months after the actual event i.e. these buildings are generally planned six months prior to them being actually built. The underlying data in the table which had been extracted from Bureau for Economic Research (BER, 2009), provides a clear indication of the activity experienced by residential building contractors.

Table 4.3.4.3

BUILDING CONTRACTORS: RESIDENTIAL (INDEX)				
INDICATOR TYPE	**2007 Q4**	**2008 Q1**	**2008 Q2**	**2008 Q3**
Business Confidence	76	60	32	34
Change in Business Conditions	-13	-43	-71	-70
Growth in Building Industry	-14	-39	-69	-71
Growth in Number of people employed	-12	-30	-44	-57
Growth in profitability of Business	-26	-46	-68	-69

Source: Bureau for Economic Research, 2008.

General business confidence dropped from 76 in Q4 of 2007 to 60 in Q1 (2008) and down to 32 in Q2 (2008). The decline of 58% within a six months period is a clear indication of building activity in this sector of the construction industry. The corresponding decline in business conditions which had an index of -13 (Q4 2007) to -71

(Q2 2008), shows a decline of 446% in a six months period. Building activity declined from -14 (Q4 2007) to -69 (Q2 2008), a decline of 392%. There had been a reduction of 267% of the total number of people employed within the residential construction sector within a period of six months.

The Bureau for Economic Research (BER, 2009) similarly measured confidence within Sub-Contractors to the residential development markets as illustrated in Table 4.3.4.2. The following indices were obtained from BER.

Table 4.3.4.2

BUILDING SUB-CONTRACTORS: RESIDENTIAL (INDEX)				
INDICATOR TYPE	**2007 Q4**	**2008 Q1**	**2008 Q2**	**2008 Q3**
Business Confidence	87	79	70	59
Change in Business Conditions	9	-13	-33	-32
Growth in Building Industry	6	-25	-41	-50
Growth in Number of people employed	14	0	-16	-29
Growth in profitability of Business	3	-21	-34	-54

Source: Bureau for Economic Research, 2008.

The business confidence index declined from 87 (2007 Q4) to 70 (2008 Q2) a drop of 19,5%. This reflects that even sub contractors to the residential markets experienced diminishing business confidence. Business conditions however had a material change from an index of 9 recorded in Q4 of 2007 to -33 Q2 of 2008, a significant deterioration of 267% which is similarly evidenced in the index of growth in the building industry reflecting a decrease of 583% within six months for the corresponding period. The employment that is offered by this sector comprises of 45% of unskilled labour. The index for growth in number of people employed decreased by 214%.

Overall the entire construction sector had been battered from 2007 when the NCA had been effected. Profitability of contractors and sub contractors that operated within this sector began to fall, which had a knock on effect on the growth of related industries.

Employment in the construction industry comprises residential and commercial sectors. The building data presented in Table 4.3.4.4 does not concur with the performance of the contractors and sub-contractors of the residential building industry as presented in Table 4.3.4.1 and Table 4.3.4.2. According to Table 4.3.4.4 the construction industry depicts growth.

Table 4.3.4.4

South African Employment Statistics

Year	**2005**	**2006**	**2007**	**2008**
Employed ('000)	12,503	13,237	13,237	13,655
Unemployed ('000)	3,993	3,984	4,119	4,122
Construction: employed ('000)	875	929	1,010	1,102
% of employed in Construction to total employed	7.00%	7.02%	7.63%	8.07%
% increase year on year: construction	-	6.17%	8.72%	9.11%

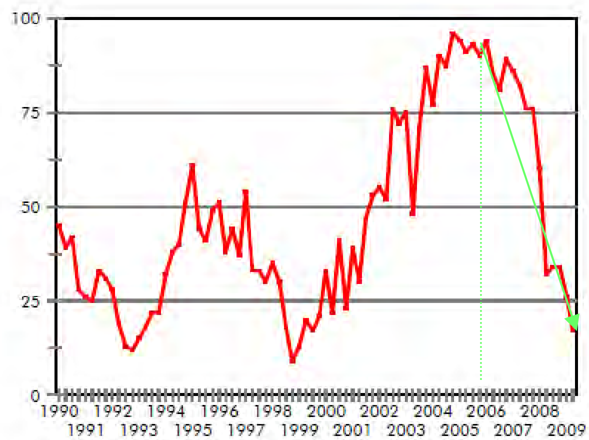
Source: Stats-SA, 2005-2008.

The growth depicted in Table 4.3.4.4 is attributable to the major projects undertaken in the South Africa relating to the 2010 Word Cup Soccer and the Gautrain Project. The percentage year-on-year change, increased by 2,55% from 2006 to 2007 and 0.39% from 2007 to 2008, this clearly is an indication of a non-performing category within the construction sector.

The study covers data analysed from 2004 to August 2008. The reasoning for this is that in September 2008, the global financial meltdown began, and its effects were felt in the South African economy.

Graph 4.3.4.2

Business Confidence Residential Contractors



Source: BER. Stellenbosch. 2008

4.3.5 Residential Property Developers

4.3.5.1 The survey results

Questionnaires went sent out to residential property developers which consisting of twelve (12) questions. Six participants out of the six residential property developers completed the questionnaires, a response rate of 100%.

4.3.5.2 Feedback and Findings

The content of the questionnaire centred around the direct effect of the National Credit Act on the performance of the participants' businesses, whose core products are residential developments and as to how and to what extent did the Act impact on their sales growth and industry activity, since the implementation of the National Credit Act in June 2007.

Unanimously, all six participants indicated that the National Credit Act had affected the sales aspect of their developments.

The participants responded that the extent of the negative impact on sales achievement varied between 10% to 70%.

The value range of the properties that were developed in the last three years ranged from R 500,000 to R 55 million, with some respondents being specific to a unit price in development and others indicating the value of the entire development. The discrepancies in responses do not have material influence on the end result of the survey.

Prior to the implementation of the National Credit Act, the respondents had a break-even sales period or generally referred to as "sales tempo" of between one (1) month to four (4) months.

Since the implementation of the National Credit Act, one respondent indicated that it took four (months) to break even where previously (prior to implementation), the break even period was one and half months (1,5). Another participant indicated that the break-even sales period was not achieved. The remainder of the participants responded that it takes a time frame of 14 to 15 months to break-even, since the implementation of the National Credit Act.

The initial qualified presales for the development that declined (post the implementation National Credit Act) ranged from 7% to 60%, due to some of these purchasers not qualifying for end user finance. This equates to a significant rand value in terms of sales which would leave developers short of meeting their financial commitments in the specified time that was designated for this project with the financial institutions.

Prior to the implementation of the National Credit Act, it was an industry norm to obtain a grant for a home loan approval within 2 to 4 working days however post the implementation of the National Credit Act, the respondents cited that the turnaround times from a financial institution to provide a decision on a home loan application ranged between 14 days to 60 days.

Of the six developers whom participated in the survey, two of the participants' did not develop units priced below R 600,000 which is the traditional market for first time home owners.

Most of the participants commenced developments in the last twelve (12) months however on a smaller scale than twenty (20) units as opposed to fifty (50) units with the positive effects of the building prices dropping by 22%. One participant did not commence any developments for the period concerned due to banks not granting bonds- this echoes the effects of the global financial meltdown.

It was gauged from the responses that a typical residential property development comprises site staff and professionals, and employs between 40 to 350 staff depending on the size of the development.

The participants have planned developments for the next 24 months which range from 1 to 3 residential development projects. However it must be noted that bank lending criteria have become more stringent with new criteria of a 120% presales requirement to be met. This leaves the developers to forecast and apply for finance with NCA approved presales from the individuals.

The question "What are your suggestions to revive the residential development markets in South Africa?" elicited various responses as follows.

Participant one:

> "Banks to review lending criteria, relax lending criteria especially for first time home purchasers. Developers need to be given more incentives for developments catering for the first time home owners and low income developers."

Participant two:

> "1. Tax relief - primary residence bonds
> 2. Abolish capital gains tax on primary residence;
> 3. NCA should be modified for primary residence;

4. VAT and transfer duty should be adjusted such that VAT is equal to transfer duty;
5. Abolish NHBRC (National Home Builder's Registration Council) for residences over R 1,5 mil or give the purchaser the option to take out NHBRC;
6. Encourage companies and government to subsidise bonds for employees. This would help to qualify bondholders and give banks more security."

Participant three:

"With the NCA in place which is not a bad thing at all, but what it does do it prohibits investors from purchasing units at say the R 500,000 range and this stops people from renting as they are unable to afford a unit themselves. What needs to happen is the building prices need to be controlled so that a normal person who earns R 8000 per month can then maybe afford a unit. With stricter controls in place and with money that the Government gives a lot more could be achieved. You must also remember that South Africa comes off a low base as it has only been 15 years since we have had a democratic society."

Participant four:

"1. Ease lending criteria for property;
2. Government backup schemes;
3. Tax breaks for developers developing: 1st time home buyer market."

Participant five:

"Banks taking on more risk by reducing equity requirement. Stable interest rates. Local Authority approvals to be sped up. Transfer duty reductions."

Participant six:

> "Reduce VAT on units below R 500,000. Tax breaks fro developers, developing units below R 600,000. Lending criteria for NCA to ease up. Subsidies from employers and Government"

4.3.6 Interpretation of the survey results

From the feedback documented above, with a 100% response rate, all participants indicated that the implementation of the National Credit Act had a negative impact on their businesses specific to sales wherein the lending criteria stipulated by the Act resulted in a drop in sales on average of 45,16%. The ricocheting effect of the Act has caused waves of controversy in this industry. The period of break-even sales, also referred to as "sales tempo" has increased by almost 250% where break-even was reached in 4 months prior implementation of the legislation. It now takes 14 months to reach break even sales, since the implementation of the Act. The frustration levels of the developers stem from the initial presales of almost 50% being lost due to the lending criteria commanded by this legislation. The time frame on decisions on home loan applications ranged from 14 days to 60 days which causes time lags in the planning and implementation of the development. Being mindful that the employ of between 40 to 350 people (depending on size of development), at any one time, reduced sales achievement and declining demand will result in laying off or lack of demand for the specific job offerings for this industry. To elucidate participants' responses on reviving residential developments, the following salient suggestions were extrapolated underpinning the negative effect of this legislation:

- **Banks to review lending criteria which is a directive of the National Credit Act;**

  This suggestion clearly indicates the stringent measures imposed by Banks leading from the National Credit Act. Banks will not be able to adopt criteria which do meet the minimum qualifying criteria of this governing legislation. However government should consider alternative criteria to regulate the "affordable housing sector," wherein there is a huge backlog against the current demand. A stimulus in this sector will alleviate many of the socio economic conditions that the South African government is faced with.

- **Relax lending criteria for first home buyers;**
- **Government schemes to assist first time home buyers.**

  This proposition certainly has its merits as one of the basic necessities for all of human kind is that of shelter. Home ownership encourages pride and a value system that is linked to growth of a household. At present first time home buyers receive a once off subsidy towards acquisition of their first home. This subsidy does not stimulate major development within the first time home buyers market. In addition to this subsidy, relaxed lending criteria that would regulate mortgages to first time home buyers would definitely provide a stimulus to this sector.

- **Granting of incentives to lower income unit developers;**

  Developer margins for lower income units are very thin thus many developers do not venture into lower income markets. By granting various incentive schemes there would be increased competition as well reduction backlog of affordable houses. A proposal would be to reduce the level of taxation on developers' profits gained from affordable housing developments.

- **Tax relief on primary residence bonds;**

  There is no merit to a suggestion of this nature as there are many subsidies in place whereas administration tax relief would prove to be difficult within the ambits of revenue collection and it would further lend to malpractices.

- **National Credit Act should be modified for primary residence;**

  This suggestion would encourage reckless lending on secondary residences should the act be relaxed for primary residences. The objectives of the National Credit Act would be defeated by implementation of this suggestion. Such a proposal would encourage capitalism as the higher income groups would benefit therefrom.

4.3.7 Conclusion

A provincial view of the residential property market and the factors that contributed to the decline in the home ownership market and a flourishing rental market were evaluated. The National Credit Act has had an impact since its promulgation in June 2007, whereby its brief existence resulted in significant changes in the residential property market.

Mortgage Advances and rentals specific to residential activity are the two variables that are used to gauge and track changes in the residential property market. The results in this section were specific to home ownership (which is idyllically represented by mortgage loan advances), illustrating the effect of the legislation on the residential market.

The South African residential property market experienced strong average price growth of about 20% per annum in nominal terms between 2000 and 2006. A wide range of economic, social, cyclical and structural factors contributed to the growth in this sector, all which had a positive impact on the demand for housing in South Africa over the years.

The implementation of the National Credit Act in 01 June 2007 contributed to lower growth in mortgage advances in the second half of the year due to the stringent criteria used to assess home loan applications.

Pre-implementation of the National Credit Act, the year-on-year change in mortgage advances reflects a steady growth from 24,5% (2004) increasing to 28,6% (2005) culminating to 30,4% in 2006 (Stats-SA, 2008).

Conversely, the year-on-year change in mortgage advances, post the implementation of the National Credit Act reflects a decrease from 30,4% (2006) to 25,3% (2007) shrinking to 13,2% (2008) (Stats-SA, 2008).

In total, rentals as measured by the General Housing Survey rose by 16% between 2006 and 2007 which was the most significant increase comparatively to the prior years. The rapid growth experienced in this period in the rental market, is as a result of the latent effects of the NCA. The 2008 rental data reflected a substantial drop in the number of renters (-22%) from that of 2007 which is indicative of the ricocheting effects of the global financial meltdown felt in South Africa over that period and which renders the effect of the NCA as latent.

Overall the entire construction sector had been battered from 2007 when the NCA had been effected. Profitability of contractors and sub contractors that operated within this sector began to fall, which had a knock on effect on the growth of related industries.

The results from the questionnaires, unanimously, indicated that the National Credit Act had affected the sales aspect of the respondents' developments. The frustration levels of the developers stem from the initial presales of almost 50% being lost, due to the lending criteria commanded by this legislation. The result of non achievement of presales renders a development unfeasible.

The National Credit Act in its brief existence is a catalyst to the decrease in mortgage advances and corresponding increase in rental sales.

Chapter Five

Conclusion and Recommendations

This chapter discusses and evaluates the results presented in chapter four, which illustrates how the National Credit Act triggered a decrease in home ownership and an increase in rentals in the residential property market and knock on effects on an ancillary property markets. The foundation of the recommendation included in this chapter, are based on stimulating the affordable housing market and related construction industries.

5.1 The holistic effects of the National Credit Act on the Residential Property Market

Leading from the past political regime, South Africans are on a back footing in comparison with developed countries specific to housing and wealth creation. The removal of an apartheid administration lead to the spur of an emerging “black” middle class and a flood of international investments, with one of the resultants thereof, being a “property boom” up until 2006, which had seen many entrants onto the “property ladder”. The primary financing instrument for property acquisition is mortgage loans, which generally accounts for the major part of household debt.

South Africans are typical of a borrowing nation with high debt service to income ratios and therefore are subject to malpractices from lenders. This high level of indebtness amongst the majority of the population is a weakness that contributes to the lower growth potential of South Africa. Socio economic factors such “slum creation” and “fat cats” are two extremes that would prove to be a dangerous equation for South Africa.

The implementation of the National Credit Act has sought to protect the consumer and promulgate fair lending practices that would under pin South Africa’s sound financial system. The residential property markets which should cater for all of South Africans, is impacted by enactment of the National Credit Act.

“The sharp slowdown in specifically the residential property market has largely contributed to mortgage advances growth declining to its lowest level since May 2003. These developments came on the back of adverse inflation and interest rate trends impacting household finances over the past two years as well as the effect of the National Credit Act and the tightening of lending criteria by banks” (du Toit, 2009)

“South Africa's property market has been negatively affected by interest rate hikes and dramatically tighter credit policies to the extent that two out of every three estate agents who were operating just over a year ago have left the industry. Hundreds of other residential property service providers, like bond originators, developers and contractors, have also seen their businesses deteriorate”(Neethling, 2009).

The slowdown in the SA residential property market compounded by the banks' reluctance to approve bonds and the government's stringent enforcement of the National Credit Act, has affected amongst others the formal real estate industry. In late 2007 the number of registered agents stood at 92 000. The Estate Agency Affair Board's figures in 2009, reports that the number of registered agents has decreased to 35 000 (Neethling, 2009).

Decrease in home ownership leads to lower wealth creation amongst middle and lower income population groups, due to the limited active population getting onto the “property ladder” which leads to socio economic problems such as “Lower Family Values” and education of an incoming younger generation being limited. The wealth creation potential within these income/ population group / sector is therefore stunted over a period resulting in accumulation of assets being attained towards the latter part of these individuals working life. The quality of lifestyle becomes questionable with these population groups having to work late into their retirement age category in order for them to pay off their mortgage debts.

Rental markets percentage increases far outstrip that of targeted inflation bands of 6-8% (Stats-SA, 2009). If one considers a rental for a two bedroom unit at average of R 2,500 in the base year, this rental would escalate to in year 5 to R 3,673 at an 8% year-on-year escalation. This leads to a capitalistic society which contradicts the essence of the objectives of the National Credit Act as well as government policy. Rich get richer and poor get poorer. Related secondary industries such as building suppliers, home improvement suppliers, furniture and fittings suppliers as well as labour markets experienced a negative growth being a knock on effect as a result of the implementation of the Act.

The decline in the number of mortgages is reflective of the stunted growth of the residential development markets. This has negative effect in the informal employment sector, especially building trades. Residential developments cannot be implemented as a direct result of the presales not materialising, due to the qualifying criteria of the National Credit Act. This non-implementation will have a knock on effect on the employment to this development as well as to all related construction industries.

The National Credit Act has therefore created additional burdens on government to provide housing to the "unhoused". This has a direct influence on taxpayers who ultimately have to fund these initiatives by government. Suggestions from the respondents to the questionnaires on reviving the residential development markets were "relax lending criteria for first home buyers and government schemes to assist first time home buyers". This proposition certainly has its merits as one of the basic necessities for all of human kind is that of shelter. Home ownership encourages pride and a value system that is linked to growth of a household. At present first time home buyers receive a once off subsidy towards acquisition of their first home. This subsidy does not stimulate major development within the first time home buyers market. In addition to this subsidy, relaxed lending criteria that would regulate mortgages to first time home buyers would definitely provide a stimulus to this sector.

Property has been one of the few asset classes that over a period of time that has shown real growth in value. Restrictive access to these asset classes prevents wealth creation and leads to decay of societal values and spending on depreciating assets. With shelter being one the basic human needs that have a profound effect on the health, welfare, social attitudes and economic productivity of an individual, the need to be "housed" is not a luxury but a necessity. Furthermore, owning home is an appreciating asset that contributes to ones' own wealth creation instead of feeding the capitalist landlord.

Buyers who do not qualify for a home loan results in them renting or staying in informal settlements, thus defeating the objective of promoting home ownership. One of the respondents suggested that Banks should review their lending criteria under the regulation of the National Credit Act. This suggestion clearly indicates that the stringent measures imposed by the Banks have an adverse effect on the property markets. Thus government should consider amending the National Credit Act, so that there is a stimulus within the affordable housing sector. This stimulus would alleviate many of the socio economic conditions that the South African government is faced with together with a huge backlog of supply of houses to this sector wherein demand has not been met for many years.

5.2 Summary and Recommendations

The compounding effect of the National Credit Act on the residential property market has somewhat saved South Africa from being one of the "Sub Prime" economies and by virtue of this Act and its earlier implementation, has safeguarded many South Africans and their financial stability. However this was not one of the intentions of the Act which has been referred to in the discussion flowing in Chapter 2. South Africa in the midst of a "world financial meltdown" has had to seek other ways to uphold its economy. The current National Credit Act has led to a downward spiral of the property markets. In fact the "laws of demand and supply" will force this market into a decline. Residential properties are far more difficult to sell with the average selling prices failing to meet with the demand factor as well as many properties taking far longer than 4 months to achieve a sale. The decline has also led many residential developers to withdraw from the residential markets and investing rather in commercial and industrial markets. A consequence of this is that many first time home owners are unable to get onto the "property ladder". Thus wealth creation and property ownership which is the corner-stone of dignity of every family is now curbed. South Africans will not get out of this situation if all legislative requirements of the National Credit Act prevail, especially for home owners. A recommendation is that government appoints a special task team to investigate fully the effects of the National Credit Act and its long term effects on society. Furthermore to encourage property ownership, which there is a dire shortfall in the South African context, government should enable certain government subsidies that will re-ignite this sector and promote first time homeownership.

A typical proposal would be to introduce affordable housing, typically residential dwellings / units priced between R400,000 to R500,000 to be financed by commercial banks under an affordable housing scheme. The scheme should be governed by a ten year fixed interest rate of say 5%, made up of 3% underwriting interest from Government plus the banks margin of 2%. These tranches of affordable housing finance should be governed by legislation which should incorporate strict qualifying criteria for first time home buyers with a minimum lock in period of 10 years. A ten year "lock in" period will assist to stabilise this market, which is highly prone to inflationary pressures as well as place these individuals onto the "property and wealth ladder". Detailed qualifying criteria for the scheme are not covered in this project, as this would be a research project on its own, considering the magnitude of this "untapped" market.

A prime example of income and expenses as well as a ten year tabular summary of amortised balances at current rates and the proposed rate of 5% is illustrated in the tables below.

Table 5.1

Tabulation of proposed Income and Expenditure for bond qualification

	240 months to repay R 500,000 at 5.00%.	**240 months to repay R 500,000 at 10.5%.**
INCOME	R 10,000.00	R 10,000.00
Tax	(R 1,800.00)	(R 1,800.00)
Groceries	(R 2,500.00)	(R 2,500.00)
Bond Repayments	(R 3,300.00)	(R 4,991.00)
Utilities	(R 1,500.00)	(R 1,500.00)
SURPLUS / DEFICIT	R 900.00	(R 791.00)

Table 5.2

Tabulation of Wealth Creation effect: Amortisation over a 10 year period

Year	Value of Property Based on initial Price of R 500,000.00 *	Property Escalation of 2% Per Annum	Amortised Balance @ 5% fixed rate	Amortised Balance @ 10.5% fixed rate
1	R 510,000.00	R 10,000.00	R 485,063.30	R 492,230.21
2	R 520,200.00	R 10,200.00	R 469,362.42	R 483,604.17
3	R 530,604.00	R 10,404.00	R 452,858.25	R 474,027.51
4	R 541,216.08	R 10,612.08	R 435,509.69	R 463,395.47
5	R 552,040.40	R 10,824.32	R 417,273.55	R 451,591.74
6	R 563,081.21	R 11,040.81	R 398,104.41	R 438,487.20
7	R 574,342.83	R 11,261.62	R 377,954.54	R 423,938.49
8	R 585,829.69	R 11,486.86	R 356,773.77	R 407,786.47
9	R 597,546.28	R 11,716.59	R 334,509.35	R 389,854.44
10	R 609,497.21	R 11,950.93	R 311,105.83	R 369,946.23

* The value of property is based on the initial price of R500,000 and includes escalation of 2% (conservative) per annum, compounded from year 1.

Clearly the benefit of this proposed scheme would allow first time home buyers to qualify as demonstrated in Table 5.2. Note that if the current rate of interest of 10,5% were applied, there would be no affordability for this finance product and hence the individual will not be able to enter the “property ladder”. Table 5.3 has been tabulated to clearly demonstrate the wealth creation effect, using a 2% growth year-on-year in residential property values. In year ten, the subject property would have a value of R 609,497. This would effectively create a wealth amount of R 298,392. A fixed rate is proposed to ensure that property related expenditure is stable, thus eliminating risks of default and possible loss of wealth. Government could also compel pension funds to invest 5% of their capital into such schemes to ensure that there is an appropriate level of capital in these markets, to fund such a scheme.

The ripple effect of stimulating the residential property sector will result in the recovery of municipal rates and utilities. Furthermore, the creation of employment opportunities from this rejuvenated residential sector will result in the formation of new households which in turn builds into a self respecting community. These families will form part of an integrated community and will over a period of time shift the wealth imbalances within South Africa. Further provision of affordable housing will reside within the private sector and will remove the burden from government. Job creation and tax incentives from South African Revenue Services would positively promote private sector investment in this product and sector.

The implementation of the National Credit Act has therefore a paradoxical effect within the residential property markets. It is apparent that the National Credit Act does not afford protection to the consumer within the rental markets. As such the rental markets are flourishing and consumers are at the mercy of landlords, which are exploiting these markets through high rentals. Correspondingly, there is less supply of residential units into the markets as a mere result of the effects of the NCA. Related industries have thus suffered with job losses and severe drops in profitability within these industries. Shelter being one the basic necessities of humankind and is a must to ensure a profound effect on the health, welfare, social attitudes and economic productivity of a society.

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Appendices

Appendix A

Key Variables and Projections

Key variables and projections
Annual averages

		2003	2004	2005	2006	2007	2008	2009	2010
$/R exchange rate	Rand per US$	7,56	6,45	6,36	6,77	7,05	8,25	10,33	9,91
CPI headline inflation rate	%	5,9	1,4	3,4	4,6	7,1	11,6	5,9	5,7
CPIX inflation rate	%	6,8	4,3	3,9	4,6	6,5	11,3	6,3	5,5
Mortgage interest rate	%	15,0	11,3	10,6	11,2	13,2	15,1	13,5	12,5
Household disposable income	Real % Δ	3,6	6,3	6,6	7,7	6,5	2,7	1,5	3,1
Final consumption by households	Real % Δ	3,5	6,7	6,9	8,3	6,6	2,6	1,2	3,3
Household saving to disposable income	%	0,8	0,4	0,1	-0,5	-0,6	-0,4	-0,1	-0,3
Household credit extension (end of period)	Nominal % Δ	13,6	26,5	22,3	24,0	19,5	12,1	5,9	13,0
Mortgage advances (end of period)	Nominal % Δ	16,5	24,5	28,6	30,4	25,3	13,4	12,9	18,1
Household debt to disposable income	%	52,4	56,6	63,3	71,2	76,9	76,3	75,2	77,5
Household debt servicing to disposable income	%	7,8	6,4	6,7	7,9	10,1	11,5	10,2	9,7
Gross domestic product	Real % Δ	3,1	4,9	5,0	5,3	5,1	3,1	0,7	3,3
House prices ($80m^2$-$400m^2$, ≤R2,9m)	Nominal % Δ	21,2	32,2	22,8	15,3	14,5	3,8	-2,5	3,5
House prices ($80m^2$-$400m^2$, ≤R2,9m)	Real % Δ	14,5	30,4	18,7	10,2	6,9	-7,0	-7,9	-2,1

Source : Absa Bank , 2009.

Appendix B

Average nominal house prices:

Average nominal house prices											
	2005	2006	2007	2008	2007	2008					
					Q4	Q1	Q2	Q3	Q4		
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	q/q % Δ	y/y % Δ
National											
Middle segment (80m²-400m², ≤R2,9m)	704 564	812 185	930 128	965 725	960 005	963 189	964 818	965 396	969 497	0,4	1,0
Small (80m²-140m², ≤R2,9m)	501 970	580 402	646 724	680 955	673 755	682 528	684 621	680 946	675 724	-0,8	0,3
Medium (141m²-220m², ≤R2,9m)	664 489	772 046	907 788	950 259	945 014	945 980	944 742	951 748	958 568	0,7	1,4
Large (221m²-400m², ≤R2,9m)	977 347	1 123 140	1 318 933	1 389 301	1 379 350	1 394 649	1 392 652	1 385 240	1 384 663	0,0	0,4
New (80m²-400m², ≤R2,9m)	742 393	828 687	938 789	1 083 785	987 347	1 052 093	1 077 804	1 091 819	1 113 423	2,0	12,8
Existing (80m²-400m², ≤R2,9m)	696 713	811 263	931 864	955 406	958 265	955 123	952 739	953 678	960 082	0,7	0,2
Affordable (40m²-79m², ≤R400 000)	188 747	216 653	257 685	283 514	272 709	278 463	282 523	285 157	289 106	1,4	6,0
Luxury (>R2,9m-R10,7m)	3 409 452	3 770 241	4 083 806	4 456 386	4 205 402	4 334 887	4 497 293	4 577 789	4 498 677	-1,7	7,0
Provinces											
Eastern Cape	643 576	749 715	849 758	875 639	871 751	855 727	865 042	890 230	909 995	2,2	4,4
Free State	491 579	570 587	686 130	726 097	739 488	734 191	714 618	723 273	730 797	1,0	-1,2
Gauteng	733 859	849 018	971 775	994 807	1 006 495	1 020 068	990 016	982 437	976 768	-0,6	-3,0
KwaZulu-Natal	684 918	818 328	883 157	856 231	884 167	855 927	825 657	855 744	886 176	3,6	0,2
Limpopo	566 950	706 806	826 424	839 615	821 992	803 444	814 112	849 551	891 354	4,9	8,4
Mpumalanga	529 088	665 366	755 631	793 560	800 674	823 442	810 896	782 074	757 830	-3,1	-5,4
North West	527 116	623 232	716 447	794 828	754 891	783 809	799 057	794 807	801 638	0,9	6,2
Northern Cape	440 086	550 045	626 674	670 102	658 902	662 369	673 113	672 719	672 205	-0,1	2,0
Western Cape	829 215	942 137	1 050 026	1 104 115	1 087 783	1 095 740	1 109 376	1 110 923	1 102 334	-0,8	1,3
Metropolitan regions											
PE/Uitenhage (Eastern Cape)	673 613	769 379	866 804	904 877	893 058	900 338	905 423	908 606	905 139	-0,4	1,4
East London (Eastern Cape)	703 176	802 252	891 637	1 023 945	910 911	957 123	1 007 586	1 047 909	1 083 160	3,4	18,9
Bloemfontein (Free State)	640 945	760 271	926 466	945 865	991 428	1 006 344	956 280	903 957	916 880	1,4	-7,5
Greater Johannesburg (Gauteng)	741 430	876 474	1 008 227	1 042 575	1 045 930	1 065 482	1 036 900	1 030 933	1 027 583	-0,3	-1,8
Johannesburg Central & South	617 636	770 976	868 805	871 341	866 997	878 317	880 805	868 683	857 556	-1,3	-1,1
Johannesburg North & West	920 958	1 074 134	1 233 365	1 273 135	1 289 057	1 305 436	1 270 207	1 255 356	1 261 540	0,5	-2,1
East Rand	639 008	754 115	870 499	913 524	904 702	932 961	912 660	900 470	908 005	0,8	0,4
Pretoria (Gauteng)	811 816	927 688	1 071 366	1 053 825	1 101 600	1 090 020	1 065 403	1 031 551	1 028 324	-0,3	-6,7
Durban/Pinetown (KwaZulu-Natal)	723 991	854 240	986 178	986 949	997 696	965 141	948 042	1 007 903	1 026 711	1,9	2,9
Cape Town (Western Cape)	847 382	968 064	1 071 764	1 097 880	1 107 075	1 108 562	1 107 084	1 097 930	1 077 944	-1,8	-2,6
Coastal regions											
South Africa	1 023 225	1 142 426	1 349 939	1 412 917	1 408 414	1 409 216	1 428 771	1 442 840	1 370 841	-5,0	-2,7
Western Cape	1 096 204	1 217 886	1 442 711	1 487 395	1 515 628	1 512 168	1 524 283	1 491 356	1 420 281	-4,8	-6,3
West Coast	933 180	1 031 175	1 190 564	1 390 627	1 277 157	1 392 807	1 444 264	1 403 464	1 321 973	-5,8	3,5
Cape Peninsula and False Bay	1 084 361	1 213 391	1 427 114	1 459 625	1 499 921	1 487 747	1 499 261	1 470 201	1 381 293	-6,0	-7,9
South Coast	1 188 194	1 292 756	1 588 859	1 629 884	1 660 135	1 660 084	1 643 804	1 618 997	1 596 653	-1,4	-3,8
Eastern Cape	797 162	923 549	1 081 497	1 174 939	1 138 272	1 131 120	1 160 907	1 206 225	1 201 502	-0,4	5,6
KwaZulu-Natal	969 837	1 191 561	1 374 207	1 352 312	1 461 077	1 403 890	1 325 778	1 347 350	1 322 760	-1,8	-9,5
South Coast	891 924	1 103 557	1 176 809	1 195 749	1 233 464	1 247 126	1 193 690	1 212 284	1 129 896	-6,8	-8,4
North Coast	1 044 089	1 291 697	1 536 619	1 469 080	1 619 717	1 560 654	1 442 456	1 416 027	1 457 181	2,9	-10,0

House prices are based on the total smoothed purchase price of houses (including all improvements) in respect of which loan applications were approved by Absa Bank.
House prices for the provinces and metropolitan regions are smoothed for all houses between 80m² and 400m², up to R2,9 million.
House prices for the coastal regions are smoothed for all houses between 80m² and 700m², up to R10,7 million.

Source: Absa Bank, 2009.

Appendix C

Monthly mortgage repayment
(rand, calculated over a period of 20 years)

Mortgage amount	Repayment at a mortgage rate of											
	10,5%	11,0%	11,5%	12,0%	12,5%	13,0%	13,5%	14,0%	14,5%	15,0%	15,5%	16,00%
100 000	998	1 032	1 066	1 101	1 136	1 172	1 207	1 244	1 280	1 317	1 354	1 391
200 000	1 997	2 064	2 133	2 202	2 272	2 343	2 415	2 487	2 560	2 634	2 708	2 783
300 000	2 995	3 097	3 199	3 303	3 408	3 515	3 622	3 731	3 840	3 950	4 062	4 174
400 000	3 994	4 129	4 266	4 404	4 545	4 686	4 829	4 974	5 120	5 267	5 416	5 565
500 000	4 992	5 161	5 332	5 505	5 681	5 858	6 037	6 218	6 400	6 584	6 769	6 956
600 000	5 990	6 193	6 399	6 607	6 817	7 029	7 244	7 461	7 680	7 901	8 123	8 348
700 000	6 989	7 225	7 465	7 708	7 953	8 201	8 452	8 705	8 960	9 218	9 477	9 739
800 000	7 987	8 258	8 531	8 809	9 089	9 373	9 659	9 948	10 240	10 534	10 831	11 130
900 000	8 985	9 290	9 598	9 910	10 225	10 544	10 866	11 192	11 520	11 851	12 185	12 521
1 000 000	9 984	10 322	10 664	11 011	11 361	11 716	12 074	12 435	12 800	13 168	13 539	13 913
1 500 000	14 976	15 483	15 996	16 516	17 042	17 574	18 111	18 653	19 200	19 752	20 308	20 869
2 000 000	19 968	20 644	21 329	22 022	22 723	23 432	24 147	24 870	25 600	26 336	27 078	27 825
2 500 000	24 959	25 805	26 661	27 527	28 404	29 289	30 184	31 088	32 000	32 920	33 847	34 781

Source: Absa Bank, 2009.

Appendix D

Building statistics for January-May 2007							
Building plans passed							
Residential					Commercial		
	Number of units	Y/Y % change	Square metres	Y/Y % change		Square metres	Y/Y % change
Houses of <80m²	14 615	-0.9	644 819	-0.8	Office and banking space	389 210	5.3
Houses of >80m²	13 242	-1.2	3 347 597	8.6	Shopping space	411 365	2.9
Flats & townhouses	14 207	17.0	10 742 689	20.9	Indus & warehouse space	874 714	2.5
Total	**42 064**	**4.4**	**14 735 105**	**16.7**	**Total**	**1 675 289**	**3.2**
Buildings completed							
Residential					Commercial		
	Number of units	Y/Y % change	Square metres	Y/Y % change		Square metres	Y/Y % change
Houses of <80m²	10 636	31.6	441 494	28.2	Office and banking space	289 073	143.5
Houses of >80m²	8 827	12.7	1 986 272	11.5	Shopping space	234 081	-19.8
Flats & townhouses	10 435	23.0	1 126 257	1.5	Indus & warehouse space	527 965	87.1
Total	**29 898**	**22.5**	**3 554 023**	**9.8**	**Total**	**1 051 119**	**51.8**
Source: Statistics South Africa							

Source: Absa Bank, 2007.

Residential building statistics (January-July 2008)								
Category of housing	Plans passed				Buildings completed			
	Units		Building area		Units		Building area	
	Number	% change	m²	% change	Number	% change	m²	% change
Houses of <80m²	16 379	-29.6	754 621	-25.5	12 406	-21.1	565 310	-14.6
Houses of >80m²	13 902	-27.3	3 544 490	-26.6	11 598	-6.6	2 614 637	-6.8
Flats & townhouses	19 955	-1.3	2 263 711	-7.1	13 718	-15.1	1 446 220	-21.0
Total	50 236	-19.8	6 562 822	-20.7	37 722	-14.8	4 626 167	-12.7
Source: Stats SA								

Source: Absa Bank, 2008.

Appendix E

Questionnaire sent to Residential Property Developers:

Dear Sir/Madam

Survey on the effect on the National Credit Act on the Residential Property Market in South Africa from a Property developer's perspective.

I am currently in the process of doing my dissertation to complete my MBA studies at the University of Kwa Zulu Natal entitled **"The paradoxical effect of the National Credit Act on the residential property market in South Africa"** My initial research indicated that the National Credit Act has had a negative growth effect on residential property market.

The plummeting trend within the residential property market as a direct result of the implementation of The National Credit Act has affected first time home ownership and the subsequent reduction in job creation for the informal labour market. The resultant thereof has been a shift in opportunities that have been created as an alternative to home ownership.

In the above regard, I need to undertake a survey , and your participation would be much appreciate. Completion of the questionnaire will only take a few minutes and it can be returned by e-mail or if you wish to remain completely anonymous, it can be returned by post to the address indicated below. Either way, your name will not be made public.

Yours Sincerely

Samantha Pillay
Phone: 031- 580 8047   - 083 792 9881   Fax 580 8108
4 Frosterley Park, Frosterley Cresecent, La Lucia Ridge Office Park
P O Box   La Lucia, 4019

University of Kwa Zulu Natal
Graduate School of Business
Faculty of Management Sciences

Voluntary questionnaire on **effect on the National Credit Act on the Residential Property Market in South Africa from a Property developer's perspective.**

Thank you for considering answering the questions below.
Your participation is voluntary and you may stop at any point you wish. Please read and sign the consent form at the end of this questionnaire if you are retuning by post.

For respondents answering this questionnaire by e-mail, your return e-mail will signal your consent to be part of the research project. Your name will not be made public.

Please answer the questions below by placing an X in the respective block or otherwise briefly stating your response closest to your position.

Q1. Has the National Credit Act affected the Sales aspect of your developments?

YES	NO

Q2. To what extent do you believe that your sales have been affected by the implementation of The National Credit Act.

State percentage (%) : ……………………….

Q3. What has been the traditional value range of properties developed by you over the past three years.

State Rand Amount Range: R…………….. to R ……………….

Q4. What has been the average time to achieve your break even presales prior to the implementation of the NCA.

State the number of weeks: ……………………

Q5. **What has been the average time to achieve your break even presales post the implementation of the NCA.**

State the number of weeks: ……………………

Q6. **What percentage of initial presales had fallen off due to purchasers not qualifying for end user finance?**

State percentage (%) : ……………………….

Q7. **What is the current turnaround time for Financial institutions to provide a decision on a Home Loan Application?**

State the number of days: ……………………

Q8. **What portion of the development has been traditionally for the first time home buyer market i.e. units below R600,000?**

State percentage (%) : ……………………….

Q9. **Have you commenced any developments within the last months.**

YES	**NO**

Q 9.1 **Please explain why?..**
……………………………………………………………………….....................
…………………………………………………………………………………
…………………………………………………………………………………

Q10. **How many staff have been generally employed for a typical development (site & professional teams)**

State number : ……………………….

Q11. **How many developments are planned for the next twenty four months.**

State number (volume) : ……………………….

Q12. What are your suggestions to revive the residential development markets in SA.

Briefly comment:

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Thank you very much for the time you have taken to complete this questionnaire. It is greatly appreciated.

Signature:……………………….. Date:……………………..

Appendix F

Tabulation of the survey responses

National Credit Act = NCA
Residential Property Deveopler = RPD

		RPD 1	RPD 2	RPD 3	RPD 4	RPD 5	RPD 6
1	Has the national credit act affected the sales aspect of your developments	Yes	Yes	Yes	Yes	Yes	Yes
2	To what extent do you believe that your sales have been affected by the implementation of the National Credit Act	50% to 60%	50%	11%	70%	10%	70%
3	What has been the traditional value range of properties developed by you over the past three years	R500k - R1,100k	R 15mil to R 25 mil	R 55mil to R 150mil	R 500k - R 1mil	R 500k- R 1mil	R 550k-R750k
4	What has been the average time to achieve your break even presales prior to the implementation of the NCA	4 weeks (1 month)	3 months	4 months	6 weeks(1,5 months)	4 weeks (1month)	4-6 weeks (1,5 months)
5	What has been the average time to achieve your break even presales post to the implementation of the NCA	not achieved	15 months	14 months	16 weeks(4 months)	8 weeks (2 months)	4-6 months
6	What percentage of initial presales had fallen off due to the purchasers not qualifying for end user finance	Prior NCA 10% , Post NCA 50%	Post NCA 40%	Post NCA 7%	Post NCA 60%	Post NCA 10%	Post NCA 50%
7	What is the current turnaround time for Financial institutions to provide a decision on a Home Loan Application	60 days to 120 days	30 to 60 days	40 days	2 weeks (14 days)	14-28 days	4 weeks (30 days)
8	What portion of the development has been traditionally for the first time home buyer market i.e. units below R 600,000	20%	nil	n/a	90%	25%	50%
9	Have you commenced any developments within the last twelve months? Why?	No, Banks not granting bonds	Yes, We have the view that we will build into a period of improvement being one of very few developers	Yes. Building prices have come down by 22%. Value engineering savings could be more without cutting any corner.It all depends on areas you are working in as it is all about demand	Yes. Smaller developments , 20 units as opposed to 50 units	No. Not confident of achieving the required presales	Yes. Had to complete phase 2 of development even though there no pre-sales
10	How many staff have been generally employed for a typical development (site & professional teams)	approx 100 to 150	40	350	approx 100	20-100 dependant on no. of units	120
11	How many developments are planned for the next twenty four months	1	3	2 = approx. 44,000 sqm	1	0	0
12	What are your suggestions to revive the residential development markets in South Africa	Banks to review lending criteria, Relax lending criteria specific to first time home purchasers. Developers need to be given more incentives fro developments catering for the first time home owners and low income developers.	1. Tax relief - primary residence bonds 2. Abolish capital gains tax on primary residence, 3. NCA should be modified for primary residence, 4. VAT and transfer duty should be adjusted such that VAT is equal to transfer duty, 5. Abolish NHBRC for residences over R 1,5 mil or give the pruchaser the option to take out NHBRC, 6. Encourage companies and government to subsidise bonds for employees. This would help to qualify bondholders and give banks more security	With the NCA in place which is not a bad thing at all, but what it does do it prohibits investors from purchasing units at say the R 500,000 range and this stops people from renting as they are unable to afford a unit themselves. What needs to happen is the building prices need to be controlled so that a normal person who earns R 8000 per month can then maybe afford a unit. With stricter controls in place and with money that the Government gives a lot more could be achieved. You must also remember that South Africa comes off a low base as it has only been 15 years since we have	1.Ease lending criteria for property, 2. Government backup schemes, 3.Tax breaks for developers developing : 1st time home buyer market	Banks taking on more risk by reducing equity requirement. Stable interest rates. Local Authority approvals to be sped up . Transfer duty reductions	Reduced VAT on units below R 500,000. Tax breaks for developers , developing units below R 600,000. Lending criteria for NCA to ease up. Subsidies from employers and Government

UNIVERSITY OF
KWAZULU-NATAL

RESEARCH OFFICE (GOBAN MBEKI CENTRE)
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28 JULY 2009

MS. ST PILLAY (931340003)
GRADUATE SCHOOL OF BUSINESS

Dear Ms. Pillay

<u>ETHICAL CLEARANCE APPROVAL NUMBER: HSS/0339/09M</u>

I wish to confirm that ethical clearance has been granted for the following project:

> **"The paradoxical effect of the National Credit Act on the residential property market in South Africa"**

PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years

Yours faithfully

PXimba
MS. PHUMELELE XIMBA
ADMINISTRATOR
HUMANITIES & SOCIAL SCIENCES ETHICS COMMITTEE

cc. Supervisor (Prof. W Geach)
cc. Mrs. C Haddon