UNIVERSITY OF KWAZULU-NATAL

INVESTING IN RESIDENTIAL PROPERTY TO FUND POST-RETIREMENT INCOME

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Graduate School of Business
Faculty of Management Studies

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2009
DECLARATION

I, Lialuma Dickman Ramsay, Phafuli declare that

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INVESTING IN RESIDENTIAL PROPERTY TO FUND POST-RETIREMENT INCOME

ABSTRACT

This research investigated the economic viability of a strategy of individuals’ saving for retirement. The strategy is based on acquiring rental property over the working lives of such individuals, and funding post-retirement income from the rentals.

The main aim of the study was to determine the role that professional personal financial planners can play in that determination of the economic viability, as well as the management of investment strategy implementation on behalf of their clients. The study thus approached the proposed investment strategy from the point of view of the planner. A financial planner has responsibility in terms of the law, to provide independent advice; this requirement means that such a planner needs to investigate various investment vehicles for clients to reach their objectives. Such investigation requires a thorough due diligence process on the part of the planner. This study applied techniques of traditional finance and market research, to perform such due diligence.

The initial research was exploratory; the purpose was to obtain a sense of market conditions in the townhouse market in the target area. The researcher conducted informal interviews with estate agents in the area, and observed local newspapers for asking prices on townhouses as well the rentals they demanded. Two sets of questionnaires were then administered to tenants and rental agents in the area. Participants in the surveys were selected based on purposive sampling.

The major finding of the study, is that based its net present value, the strategy is economically viable. The study also found that because investor decision-making is complex, the role of the financial planner is to support such investors within a structured framework, so that the investor’s life goals can be achieved.

The main recommendation of this study is that, the investment strategy is specialized, thus financial planners should only consider it with access to specialized knowledge of local real estate market conditions.
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CHAPTER 1: INTRODUCTION

1.1 Introduction

In his budget speech in February 2007, the Minister of Finance, Trevor Manuel referred to Member Watch, a survey conducted by retirement funds administrator, Alexander Forbes, to highlight the fact that most South Africans do not save enough during their working lives to be financially independent at retirement.

The lower than desired financial position at retirement is attributed mainly to leakages. Leakages occur when members withdraw their retirement benefits in cash, on changing jobs, and spending the cash, instead of transferring their resignation benefits to other retirement funds. A member taking out a resignation benefit as cash loses out on the effect of compound interest on the contributions already made, and the cash benefit at resignation is taxable at a sliding scale, in terms of the current income tax regime.

Research on decision making for oneself versus decision making for others by Timura (2008) determined that it appears that professionals are likely to make different strategic asset allocation decisions in investing for themselves as opposed to investing for clients under similar circumstances; professionals were also found to be more protective of their clients' interests and more thorough in decision making for their clients than if they were making decisions for themselves.

"Thus, given the strong natural preference displayed by most consumers for immediate consumption rather than deferring consumption and saving more, coupled with the fact that even investment professionals make better decisions for others than for themselves, there is clearly a very strong value-add that financial advisors can offer," (Dutkiewicz, Levin & Lukhi, 2007).

This research sought to explore financial advisors' framework for considering the economic viability of a retirement plan based on direct investment in the townhouse market in the southeast of Johannesburg to fund post-retirement income; it looked at the context in which financial advice takes place including cognitive and emotional biases that clients bring to the investment decision table. The research evaluated the economic value of expected cash flows from a portfolio of townhouse apartments as well as the risk of the proposed investment strategy.

1.2 Motivation for the study

The Financial Advisory and Intermediary Services Act37, 2002, requires financial advisors to provide independent advice, which talks to the question of professionalism. The need to present a balanced view in making recommendations requires advisors to consider alternative investment vehicles to traditional investment vehicles. Direct investment in residential real estate is one such alternative.

"Economists generally believe that people are made better off when offered more choices, as long as they can always choose what they had before. But when people do not have the knowledge to make choices that are in their own best interests, increasing the number of choices does not necessarily make them better off. In fact, it may make them more vulnerable to exploitation by opportunistic salespeople or by well intentioned but unqualified professionals," (Bodie, 2003).
George (1999) determined that on retirement funds that offer investment choice for members, retirement fund members want investment choice, but do not necessarily want to make the investment decisions themselves. A similar study in the United States of America on the link between participation of employees in employer retirement programs and the number of investment fund choices on the programs, determined that as choices increased, the complexity of the decision-making deterred members from participating in those programs (Botti & Iyengar, 2006).

An analysis of the real estate market must include demographic data on the area’s residents, by knowing as much as possible about the people who make up the market area, it is possible to predict the possible demand for various types of housing and level of rentals (Ventolo, 2005:43). “People consider different aspects in their choice and selection of a residential area; throughout surveys in South Africa, security plays a very important role, an attractive environment and location are also critical success factors,” (Prinsloo, 2004:159). This research explored market conditions in the townhouse rental market in the designated area, the southeast of Johannesburg.

The question of non-traditional retirement plans such as direct investment in real estate and tank containers has become a regular feature of advisor-client interactions. The research explored a framework for advisors to guide clients in this aspect of decision-making. This research sought to contribute to the process of personal financial planning followed by advisors by introducing the rigour of traditional finance research.

1.3 Focus of the study

The research focused on these dimensions of the personal financial planning discipline:

- The legal and technical aspects of the financial environment in which personal financial planning takes place.
- The advisor-client relationship and aspects of behavioural finance, specifically the effect of emotional factors on the relationship and implementation of financial plans.
- The market research needed to explore an investment opportunity for clients.
- Simulation of the key variables of the investment as determined by the proposed investment model based on the findings of the market research.

1.4 Problem statement

Traditional investment vehicles of saving for retirement like occupational funds (pension and provident funds); retirement annuities and endowments have received a marked increase in negative coverage in the mainstream media in the recent past. The common theme in the media coverage is that interests of the investment industry are not aligned with the interests of the saving public. According to Cameron (2008), the bad publicity surrounding retirement annuities is the result of:

- High costs on retirement annuity investments
- Life assurance companies imposing one-sided and unfair contract conditions on policyholders, which conditions often result in significant reductions in policyholders’ retirement savings, such as has been the case with the penalties imposed on retirement annuity members’ savings when they have reduced or stopped their contributions.
Rulings by the pension funds adjudicator against life insurers on the practice of imposing such penalties.

According to Ngalwana (2006), the retirement fund industry had continued to wrong the investing public, simply because the incorrect application of contract law had become established industry practice to impose unfair penalties on investors without any basis in law. In this environment it is understandable that some investors may prefer products in which they have more perceived control like direct investment in property.

Financial planners need to consider the effect of these perceptions on the implementation of investment strategies for clients, thus the need to conduct a structured enquiry into investment opportunities that clients may express interest in.

The research considered the feasibility of a strategy of investing in residential property, to build a portfolio of rental properties over one's working life, in order to generate passive income at retirement. The strategy was considered by applying the principles of traditional finance (capital budgeting). The research only considered the recurring cash flows (rentals), thus capital appreciation was not considered; the properties would be acquired and retained for life.

1.5 Research objectives

1.5.1 Primary objective

The primary objective of this research was to determine the financial viability (net present value) of using financial leverage in acquiring rental residential properties over an investor's working life, and holding the properties for life, in order to fund post-retirement income.

1.5.2 Secondary objectives

The secondary objectives of this research were:

- To conduct a market analysis of the townhouse market in a specific neighbourhood in the southeast of Johannesburg.
- To conduct an investment analysis of an existing townhouse complex

1.6 Research Questions

- Is the investment strategy economically viable?
- What risks are peculiar to an investment in residential real estate?
- How can personal finance practitioners align the practice of life-cycle financial planning with the insights of modern financial science?
- What role can financial planners play in the management of the investment strategy?

1.7 Limitations of the study

- The focus of this study limited it to the evaluation of the economic viability of an investment strategy; it is not a comparative study of expected investment performance of residential real estate relative to other asset classes.
• The investment strategy in real estate is based on debt finance; this dissertation did not consider the availability of such finance. Constraints that may be imposed by the National Credit Act were not explicitly considered.

• Access to apartment complexes is restricted, respondents were selected through a referral system, and thus responses are unlikely to be representative of participants in the market area.

• The financial planner-client relationship is complex and fluid. It covers a wide range of customised client offerings, this dissertation could only study the broad framework, and it is not an extensive study of the subject.

1.8 Conclusion

If retirement savings provided in occupational retirement funds serve as a proxy for retirement savings in South Africa, the majority of the nation's workforce is likely to have made inadequate provision to attain financial independence at retirement. Part of the cause is propensity to withdraw retirement benefits in cash on changing jobs, and this likely to be worsened by loss of confidence in institutional retirement funds due to extensive negative media coverage in the recent past. In this environment property professionals have been visible in promoting direct investment in residential real estate as alternative retirement plan. This research looked at the investor decision-making process, and how financial advisors can contribute to the process.

The focus of the dissertation was on the independent financial advisor. It considered a structured approach to guiding clients' appraisal of direct investment in townhouses in planning for their retirement. The research performed investment analyses of the townhouse market in the southeast of Johannesburg. The purpose of the research was specifically to determine the expected return and the associated risk of the investment; it did not make expected investment return comparisons between residential real estate and other asset classes or institutional portfolios. The research determined whether the expected return is a positive net present value, the probability of a negative net present value (risk) was also determined.

The research proceeded to a review of existing literature on personal financial planning and the real estate market in particular (Chapter 2), the methodology of conducting the research is discussed next (Chapter 3), the results of the research are discussed in Chapter 4, and a decision based on the outcome of the research is discussed in Chapter 5 (Conclusion).
CHAPTER 2: LITERATURE REVIEW

2.1 Retirement Planning

The goal of retirement planning is for individuals to reach a state of financial independence, when financial independence is defined as the ability and freedom to make financial decisions (Swart, 1996:578).

Financial planning for retirement can be broken down into three phases, namely:

- Setting retirement goals: Take time to define the things that the client would like to pursue in retirement; clarify a desired standard of living that they would like to maintain. Such goals are important because they give direction to your retirement planning.

- The next step is to establish the size of the nest egg they need to build in order to achieve their retirement goals; the financial planner thus needs to determine the assets (capital) that need to be accumulated in order to fund the client's objectives in retirement.

- The last phase is to formulate an investment program that will enable the client to build their required nest egg (Gitman, 1999: 713).

There are a number of different approaches and philosophies on how to go about analysing a client’s requirements and developing an investment strategy. Whichever approach is adopted, there is a minimum requirement that must be met to ensure that an investor has an investment strategy that meets their needs (Botha, 2007).

The key aspects that need to be determined, and are closely intertwined are:

- The establishment of the investor’s realistic goals and objectives
- Identifying the total level of return required to achieve those goals
- Harnessing the power of investment markets, by efficiently allocating assets across asset classes and utilising the most appropriate investment vehicles.
- Assessing the level of risk required to achieve those goals and making further trade-offs of risk, return and time necessary to ensure that the investor is comfortable with the trade-offs. The required rate of return is the minimum return an investor should accept from an investment to compensate him for deferring consumption.

The three components of an investor’s required rate of return are:

1) The time value of money during the period of the investment
2) The expected rate of inflation during the period

In general, investment risk is defined as the chance that the actual return on an investment will diverge from the expected or predicted return. More specifically, investors perceive risk to be the probability that the future returns on a single asset or a portfolio of assets will be lower than expected. This is classified as downside risk (Van Zyl, 2004: 29).

A rational investor will only invest if the expected return from the asset compensates him for the expected risk. It is generally assumed that when an investor has a choice between a risky investment and a risk-free investment, he will select the latter. This is based on the belief that most investors are risk averse, which means that they will require higher rates of return on investments,
if they perceive some uncertainty about the expected rate of return (Van Zyl, 2004).

According to Van Zyl (2004), the total risk associated with any investment can be divided into two components, and is defined as the sum of these components:

- **Systematic or market-related risk**: the variability in a security’s return due to changes in external (non-controllable or exogenous) factors such as the general macro-economy, the national security situation, etc., which affect all risky assets and, thus, cannot be eliminated.

- **Unsystematic or investment-specific risk**: arises from the fundamental nature of the return of a specific asset and is therefore independent from (uncorrelated with) the market.

The risk of a single asset may be measured by mean of the standard deviation and the coefficient of variation. In order to calculate these measures of risk, one has to calculate the expected return first (Marx, 2007: 8).

Expected return is calculated by multiplying the probabilities of occurrence by their associated outcomes.

$$\text{Expected return} = \hat{c} = \sum_{i=1}^{n} (c_i * p_i)$$

Where:

- $\hat{c}$ = the expected value or expected return
- $n$ = the number of possible states
- $c_i$ = the rate of return associated with the $i$'th possible state
- $p_i$ = the probability of the $i$'th state occurring

Thus the expected return is the weighted average of the possible outcomes, with the weights being determined by the probability of occurrence.

The standard deviation is a measure of the total risk; it measures how tightly the probability distribution is centred on the expected value. The scale of measurement for the standard deviation is exactly the same as the original data and the expected value; and for as long as talking about single securities, the standard deviation, which measures total risk, is the appropriate measure of risk (Marx, 2007).

$$\text{Standard deviation} = \sigma = [\sum_{i=1}^{n} (\hat{c} - c_i)]^{0.5}$$

2.2 Financial Planning Practice

2.2.1 The Advisor-Client Relationship

According to Ngalwana (2006), the office of the Pension Funds Adjudicator received an average of 400 complaints per month, between April 2005 and January 2006. The Financial Planning Institute (FPI)’s code of conduct referred to below, states that, in providing advice diligently, advisors must take reasonable steps to place the client in a position in which the client can comprehend financial planning recommendations as well as the basis for such recommendations. Camerer (2002) refers to “the curse of knowledge” described as: “people who know a lot find it hard to imagine how little others know”. Based on recent FAIS Ombud determinations, the onus is on the advisor to communicate at the level at which the client understands, mere disclosure and presentation is inadequate (Sanlam, 2009).
According to the Financial Planning Institute’s general code of ethics and generally accepted planning practice, in considering high-risk investments, advisors should:

- Identify those situations in which high risk investments are considered. These include secured and unsecured debentures and preference shares, participation mortgage bonds, syndicated investments and schemes involving a high degree of gearing.
- Investigate the scheme or product. Have the relevant formalities been complied with? (e.g., a prospectus, financial statements, etc.) What is the nature of the security? Who is providing the security? What is the client’s downside potential if the investment fails?
- Communicate the results of your findings and the limitations of your knowledge to the client. Never give blanket approval, but rather provide a balanced view.
- To elicit expert advice when in doubt can only enhance the adviser’s credibility, since the true test of a professional is an awareness of the bounds of his or her knowledge.
- Always spell out the risk/reward relationship of a given investment.
- Profile the investment in the correct context. First address the client’s basic needs (income, growth, liquidity, and security, etc.) from other clearly identified avenues.
- Offer alternative investment options from which the client should make the final decision.
- Keep a written record of all recommendations.

The primary impediment to an advisor building a relationship of trust with a client is the advisor’s inability to focus on the other person, and this is mostly caused by the apparently common belief that mastery of technical content is sufficient to serve clients well (Maister, 2002:138).

According to Maister (2002), building trust with clients can be defined in terms of a Trust equation:

\[
\text{Trust equation } = \frac{C+R+I}{S}
\]

Where:

- C = Credibility
- R = Reliability
- I = Intimacy
- S = Self-orientation

Maister (2002), defines these terms thus:

Credibility: It is not only content or technical expertise. It depends not only on the substantive reality of the advisor’s expertise, but also on the experience of the person (client) doing the perceiving.

Reliability: Whether clients think that an advisor is dependable and can be trusted to behave in consistent ways. It is often a function of how many times the client and the advisor have interacted.

Reliability is the one component of the trust equation, which has an explicit action orientation. It links words and deeds, intention and action. It is the action orientation that distinguishes reliability from credibility. A good advisor will find (or create) a number of opportunities to demonstrate both rational and emotional reliability, by making promises, explicit or implicit and then delivering on them.

Intimacy: The most effective as well as the most common sources of differentiation in trustworthiness come from intimacy and self-orientation. Both
of these are relatively scarce compared to reliability and credibility. The most common cause of failure in building trust is the lack of intimacy. Some professionals consider it a positive virtue to keep emotional distance from clients. Intimacy does not necessarily mean that private lives get shared; it means that things personal related to the issue at hand, get shared. It is about emotional closeness concerning the issues at hand.

Self-orientation: There is no greater source of distrust than advisors who appear to be more interested in themselves than in trying to be of service to the client. It involves more than just greed, it covers anything that keeps advisors focused on themselves rather than on their client.

### 2.2.2 Financial Planning Standards

The Financial Planning Standards Board Ltd, (FPSB) is the international body in charge of primarily professional education standards in financial planning, to that extent their mission statement reads:

“Financial Planning Standards Board Ltd. (FPSB) manages, develops and operates certification, education and related programs for financial planning organizations so that they may benefit and protect the global community by establishing, upholding and promoting worldwide professional standards in financial planning. FPSB’s commitment to excellence is represented by the marks of professional distinction-CFP, certified financial planner and CFP logo mark.”

A financial planning professional does not review tax, asset management or retirement needs in isolation when providing financial planning to a client. Similarly, a financial planning professional will incorporate at least one of the financial planner abilities from a particular financial planning function (e.g. collection) or component (e.g. risk planning) while working on a related, but separate, function or area of the client’s financial situation

The South African representative of the FPSB, and the body responsible for the management of standards and the adherence to financial planning principles among Financial Advisors is the Financial Planning Institute (FPI). Financial advisors who are members of the FPI need to abide by a code of ethics. The code provides six principles on which a financial planning practice should be based:

i. **Integrity:** An advisor will in all likelihood be placed in a position of trust and confidence. The ultimate source of such public trust is the personal and professional integrity of the advisor. In deciding what is right or wrong the adviser should rely on his integrity as the appropriate yardstick. Integrity requires consistent application of one’s stated principles. It demands honesty and candour, which must be subordinated to personal gain and advantage.

ii. **Objectivity:** Objectivity requires independence and impartiality and is an essential for any professional in order to make prudential professional judgement. In exercising prudent professional judgement, an advisor shall exercise reasonable and prudent professional judgement in providing financial services and at all times act in the interest of the client.
   • An advisor should protect the integrity of his work, maintain objectivity and avoid subordination of his judgement that would be in violation of this principle.
   • Fair and honest disclosure: An advisor shall perform professional services in a manner that is fair and reasonable to clients, principals,
partners and employers, and shall disclose conflicts of interest in providing such services.

iii. Disclosure: An advisor shall disclose to the client all information required by laws applicable to the relationship, in a manner complying with such laws, e.g. FAIS

- In rendering professional services the advisor shall disclose to the client material information relevant to the professional relationship, including, but not limited to, conflicts of interest, changes to his business affiliations, credentials, qualifications, licenses, compensation structure and any agency or broker relationships, and the scope of his authority in that capacity or relationship or any changes thereto, and the nature of services offered.

iv. Competence and Diligence: An advisor is obliged to maintain a high level of professional knowledge and skill, and to act diligently in providing professional services.

- In order to advise clients, an advisor shall at all times keep abreast of all relevant legislation from time to time, and the appropriate technical and professional standards as amended from time to time; an advisor is expected to participate in continuing education throughout his career in order to improve professional competence in all areas in which they are engaged.

- Diligence relates to the manner in which these services are rendered, that is, in a prompt and through manner. This includes, but is not limited to, proper planning and preparation for and the supervision of rendering of professional services. This would also include the investigation into investments and products that appear to be unusual or high risk in nature.

v. Confidentiality: An advisor shall not reveal, or use for own benefit, without the client’s express consent, any personal identifiable information relating to the client’s relationship or the affairs of the client, except and to the extent disclosure or its use is reasonably necessary:

- To establish a brokerage account, establish a transaction for the client, or under instruction by the client in order to fulfil the client engagement; or
- To comply with legal requirements or a legal process; or
- To defend the advisor against charges of wrongdoing; or
- In connection with a dispute between the advisor and the client.

vi. Professionalism: An advisor’s conduct in all matters shall reflect credit upon the profession

- An advisor shall show respect for other financial planning professionals, and related occupational groups, by engaging in fair and honourable competitive practices;
- An advisor who has knowledge which raises a substantial question of unprofessional, fraudulent or illegal conduct of an advisor or other financial professional, or his firm, shall promptly inform the regulatory authority and/or Disciplinary Committee of the FPI. Again this accounting principle does not require disclosure of information or reporting based on knowledge gained as a consultant or expert witness in anticipation of, or related to litigation or other dispute resolution
mechanisms. For the purpose of the code, knowledge means no substantial doubt.

2.2.3 Government

Changes in government policy, whether they are in the area of land use control, taxation or location of public facilities, can have an impact on the economic health of an area. Because real estate is immobile, is owned and used by numerous individuals, and represents a significant portion of the national wealth, it is heavily regulated by many agencies of government (Fisher, 1994: 54). Governmental impact on property is achieved through:

- Tax
- Zoning
- Environmental controls

2.2.3.1 Income Tax

The pre-retirement impact of taxation on the investment strategy can be summarised thus:

i. Rent: Rental arises from the use of an asset and it is therefore of a revenue nature (Huxham, 2008:45). The rental amount is thus included in the taxpayer’s gross income.

Section 11(a) of the Income Tax Act permits a deduction of expenditure and losses, actually incurred, during the year of assessment, in the production of income, not of a capital nature. The principle applies to expenses, not of a capital nature, incurred in the production of rental income.

Where a taxpayer borrows a specific sum of money and applies it to an identifiable purpose, the interest incurred, is deductible, under Section 24, against the revenue generated by the purpose (Huxham, 2008:442).

ii. Pensions and Retirement Annuities: Members of a pension fund who make contributions to such a fund, are granted a deduction of the contributions from their income for tax purposes, under section 11(k), subject to a limit of the greater of:

- R1750, or
- 7.5% of remuneration from retirement-funding employment.

Any disallowed excess may not be carried forward to the succeeding years of assessment. The disallowed portion is allowed as a deduction when retirement benefits are eventually received (Huxham, 2008).

In terms of section 11(n), current contributions to a Retirement Annuity Fund (RAF) are allowed as a deduction subject to a prescribed limit. The amount that may be deducted is the actual contribution limited to a maximum of the greatest of:

- R1750, or
- R3500 less any amount allowed in terms of s 11(k) for current pension fund contributions, or
- 15% of income from non-retirement funding employment sources after setting off any assessed loss and deducting admissible deductions and allowances (against such income) other than those allowed in terms of: s 17A-lessee’s expenditure on soil erosion works; s 18-medical, dental and physical disability expenses; s 18A-donations to public benefit organizations; paragraph 12(1) (c) of the First Schedule-Farming capital expenditure.
Any disallowed excess portion may be carried forward to the next year of assessment, and may be claimed as a deduction, in that year, subject to the limits (Huxham, op cit).

2.2.4 Regulatory environment

According to (International Monetary Fund, 2008), The Financial Services Board has acted to curb abuses in the contractual savings segment, and has conducted several successful misconduct cases relating to trading on the JSE Securities Exchange; and efforts should continue to increase disclosure and transparency in the markets and toward stronger market conduct regulation and supervision beyond the limited scope of the National Credit Act (NCA) and the Financial Advisory and Intermediary Services Act (FAIS).

2.2.4.1 FAIS

Legislation to protect investors from bad investment advisors was first mooted in the early 1990s. Before the implementation of the Financial Advisory and Intermediary Services Act (Act 37 of 2002) (FAIS), only investment managers—people who actually invest money on behalf of their clients had to be registered with the Financial Services Board (FSB), and gaps in legislation made it possible for virtually anybody to set up business as an advisor and begin giving advice (Absa, 2009).

Historically, there has been no formal system of regulating financial advisors and intermediaries/brokers. Aggrieved clients had very little recourse against dishonest advisors. Further, processes to protect clients such as Complaints policies and record-keeping systems were not formally regulated. The Board for Financial Services and Regulation was responsible for conceptualising and designing the basic framework, which would become FAIS (Sanlam, 2009).

FAIS is the primary piece of legislation that impacts on the giving of advice and rendering of intermediary services to clients.

In a nutshell, FAIS requires that financial service providers:

- Provide clients with trusted and appropriate solutions and advice
- Act with integrity, transparency and a culture of discipline when dealing with clients.

2.2.4.2 Collective Investment Schemes Control Act (CISCA)

The Collective Investment Schemes Control Act (CISCA) defines the following as collective investment schemes:

- **Collective investment schemes in securities (e.g. unit trusts):** pool money of many investors through an investment manager. The pool is then divided into identical units. The unit holders are the owners of the units in the fund, and are therefore entitled to the fund’s net income as distributed on payment dates.

- **Collective investment schemes in property (e.g. property unit trusts):** invest in fixed commercial and industrial property, such as factories, office blocks and shopping centres.

- **Collective investment schemes in participation bonds:** holds mortgages over property, investors in the scheme fund the mortgages. According to CISCA, investments in these schemes must be for a minimum of five years (van den Berg, 2008:198).
2.3 Economy

According to Viegi (2006), economic policy making is characterised by a constant search for the optimal framework that provides both nominal and real stability. Today the general consensus is that economic policy should be organised around stable rules. On the monetary side, maintaining price stability is the only and exclusive concern of monetary authorities. This exclusivity is guaranteed through some kind of social contract, which defines the numerical objective and protects the independence of the central bank from external influences.

On the fiscal side, fiscal authorities are increasingly constrained in the use of their instrument. Caps to public expenditure growth, reduction of taxation and different forms of balance budget rules limit the level of distortions in the allocation of resources introduced by fiscal deficit and taxation. This policy mix is a very classical one: The role of economic policy is to provide a stable monetary and fiscal environment that minimizes distortions to private sector decision-making. In doing so, monetary and fiscal stability should promote both monetary and macroeconomic stability.

The South African economic policy is modeled on similar criteria. The inflation targeting monetary framework is supported by a prudent fiscal behaviour that has produced a substantial increase in fiscal revenues, rationalisation of fiscal expenditure and an overall reduction of the fiscal burden. This combination has achieved a high degree of economic stabilisation against a volatile international economic environment (Viegi, 2006).

2.3.1 Economic factors that specifically impact on investments:

Botha (2005) identifies five economic factors that specifically impact on investments:

i. Investing and the business cycle: Investors need to examine their investment strategy in light of where the economy is in the business cycle. The recurring patterns of contraction and expansion of economic activity are referred to as the business cycle. An economy generally experiences a recurrence of periods of contraction and expansion, although the length and depth of these cycles can be irregular. The transition points across cycles are called peaks and troughs; a peak is the transition from the end of an expansion to the start of a contraction, and a trough occurs at the bottom of a recession just as the economy enters a recovery (Bodie, 2004:391).

As the economy passes through different stages of the lifecycle, the relative profitability of the different industry sectors will vary; thus one needs to consider the sensitivity of particular industries to the business cycle. Those industries with above-average sensitivity to the business cycle, are referred to as cyclical industries; these would be expected to out-perform other industries at a trough, just before the economy begins to recover from a recession (Bodie, 2004). Examples of cyclical industries are manufacturers of vehicles and washing machines.

Defensive industries on the other hand, have little sensitivity to the business cycle; these are industries that produce goods whose sales and profitability are least sensitive to the economy. Defensive industries include food producers and processors, pharmaceutical firms and public utilities.
ii. Balance of Payments: The Balance of Payments is of critical importance in a developing economy like South Africa. It has been said that in recent decades the ability of the South African economy to expand has been constrained by Balance of Payments difficulties. Any period of sustained economic growth leads to an increased demand for imports, which in turn leads to the current account of the Balance of Payments going into deficit (Botha, 2005).

According to Botha (2005), if the necessary inflow of foreign money is not forthcoming, interest rates have rise to protect the value of the Rand; the increased interest rates in turn lower the level of activity in the domestic economy; and the author further notes that:

- A positive trade balance is not necessarily a good thing.
- A deficit on the trade balance is not necessarily a bad thing.
- For political reasons South Africa was forced in the latter half of the 1980s and early part of the 1990s to run a surplus on its current account. This severely hampered the ability of the economy to grow. Indeed, it is fairly common for rapidly growing economies to have a negative trade balance. Rapid economic growth increases the demand for capital goods and therefore imports.
- It is therefore expected that rapidly growing economies will require an inflow of foreign capital to finance this demand.

An inflow of foreign capital is likely to have the following effects: increased investment, faster economic growth, a strengthening of the Rand, lower interest rates, and rising share prices.

iii. Interest rate risk: A change in market interest rate patterns affects all stock and shares. There is normally an inverse relationship between share prices and a change in interest rates. The interest rate risk arises when the market value of a share drops as a result of a rise in market interest rates. This may affect both ordinary shares as well as fixed interest-bearing securities (Du Plessis, 1997: 63).

The result of a rise in the interest rates is that a certain portion of the capital invested in shares is channelled into interest-bearing investments, because the higher income from interest with relatively less risk makes it more attractive to some investors than the risk-return relationship on ordinary shares. The ensuing drop in share prices should stabilize at the level where the accompanying increase in total yield rate compensates for the greater risk of the shares. Should interest rates drop, the share prices ought to rise, for the converse reasons (Du Plessis, 1997).

Fixed-interest-bearing stock is far more sensitive to changes in interest rates. There are elements, in particular, which will determine a change in price for such a security, namely:

- The extent of the interest rate change.
- The coupon or fixed interest rate on the security
- The term remaining to maturity date

A fixed-interest-bearing security with a relatively low coupon rate and a long term remaining to maturity will have a relatively larger price change for a given change for a given change in the in market interest rates than one with a high coupon rate and a short term remaining before maturity. This change in price occurs despite the fact that the investment merits of the issuer of the security have not changed in any way.
iv. Inflation: Inflation is the rate at which the general level of prices is rising. High rates of inflation are often associated with overheating economies, that is, economies where the demand for goods and services is outstripping the productive capacity, which leads to upward pressure on prices (Bodie, 2003:385). The price increases are not spread evenly over the whole of the economy. As a general rule, the price of labour (wages) increases faster than the average price level, while the prices of other products increase at rates lower than the average price level (Du Plessis, 1997:87). This general rule is sometimes becomes badly distorted by influences such as external price shocks like the oil price increases and the weakening of the exchange rate. Sometimes the general trend with regard to well and poorly-paid workers is distorted by economic power politics which enable a certain group or profession to force the community to accept rapidly rising fees and tariffs.

Inflation affects all investors, the impact however depends on the type of investor under consideration; it tends to have a more serious impact on the more conservative investors or those who live off the income from their investments (Botha, 2005). An investment strategy to address post-retirement income needs should thus pay particular attention to the impact of inflation on the proposed investment vehicles.

Conservative investors prefer fixed interest investments because they are not volatile. However, these investments consistently lose real value through inflation; and this impact is exacerbated by the fact that the nominal income is subject to income tax (Botha, 2005).

An investment analyst needs to have an opinion on whether inflation is expected to increase or decrease during the period under consideration, and what is the likely impact on the economy? The analyst should distinguish between the impact of anticipated and unanticipated inflation (Marx, 2007:75). The reason being that anticipated inflation is expected by most decision makers, and taken into account when financial planning is done.

Most governments walk a fine line in their economic policies. They strive to stimulate their economies enough to maintain nearly full employment, but not so much as to bring on inflationary pressures. The perceived trade-off between inflation and unemployment is at the heart of many macroeconomic policy disputes (Bodie, 2004).

2.3.2 Economic factors that specifically impact on residential property

According to Clark & Daniel (2006), the following lagged economic variables are the main drivers of the South African residential property market:

- Stock market returns,
- Gross Domestic Product
- Interest rates
- The rand/dollar exchange rate
- Transfer costs

Movements in the equity market, exchange rate and transfer costs influence the property market within a period of two quarters whilst the property market responds more quickly to changes in interest rates.
2.4 Investor Decision-making

2.4.1 Decision Theory

When people are confronted with choosing how to save for their retirement, they make choices that are inconsistent with the goal of enhancing their expected financial returns over the long run (Botti & Iyengar, 2006). The Life-Cycle Hypothesis by Franco Modigliani is an economic model that explains the consumption and savings behaviour of individuals; in terms of that model consumption depends on an individual’s lifetime income. The model showed how consumers can spread their income, and hence their consumption smoothly over a lifetime, using savings and borrowing. “Modigliani argued that through smoothing their consumption and income over a lifetime, consumers can enjoy a stable level of utility throughout their lives as opposed to experiencing periods of high utility (happy times) followed by periods of low utility (disillusioned times),” (Dutkiewicz, Levin & Dukhi, 2007).

The generally accepted life-stage model of financial planning is where consumers are net borrowers early in their careers, accumulate wealth during the mid-latter parts of their careers and then consume this wealth during their retirement years. This model is based on the smoothing of consumption, and hence utility, with reference to one’s expected lifetime income (Dutkiewicz et al, op cit).

However, according to Mankiw (2007) cited by Dutkiewicz (2007), Modigliani’s models (as well as other economic models such as Milton Friedman’s “Permanent Income Hypothesis”) are premised on a faulty assumption that consumers are always rational, and these models have not proved to be accurate reflections of the actual behaviour of consumers.

Models on individual decision theory have different goals (Van Zandt, 1999):

- To describe how economic agents, individuals in this case, do make decisions (descriptive decision theory)
- To prescribe how agents should make decisions (prescriptive theory)
- To describe how a hypothetical, infinitely intelligent being would make decisions (normative decision theory)

Normative decision theory is based on rational decision making, it is premised on the concept of a rational man, a similar concept to the notion of a reasonable man expressed in the theory of law. “The major achievement of the modern theory of decisions under risk is the derivation of the expected utility rule from simple principles of rational choice that make no reference to long run considerations,” (von Neumann & Morgenstern, 1944) cited by Van Zandt (1999).

According to Heukelom (2006), the foundations of this axiomatic approach to the theory of rational choice consist of four substantive assumptions:

i. Cancellation: the idea that choice is independent of irrelevant alternatives. This assumption has been formalized in different ways and received different names. All these formalizations and names and names cover in one-way or another the idea that if an individual prefers A to B he will not change his preference if, say, it will rain tomorrow. If A is preferred over B, then also A plus it will rain tomorrow, is preferred over B plus it will rain tomorrow.

ii. Transitivity assumption: If A is preferred to B, and B is preferred to C, then A is preferred to C.
iii. Dominance: If one option is preferred over another, then that option should be chosen.

iv. Invariance: Preference is independent of the formulation of the options

More recently behavioural economics has started incorporating psychological factors into economic theories; these allow for the fact that consumers are human beings and often make decisions that are far from rational (Heukelom, 2006).

One of the key messages of behavioural economics is that even if consumers know what is good for them, they may find it difficult to act accordingly (Dutkiewicz, 2007). Most consumers suffer from significant willpower problems. The focus of behavioural economics is to improve consumer welfare by mitigating self-control problems and procrastination.

Even consumers who are aware that they save less than desired quantities, might not be able to change their behaviour due to lack of willpower. According to Heukelom (2006), research by Thaler and Laibson, covered issues of consumer self-control and preference for immediate gratification. The research determined that:

- An asset being illiquid could play a role in helping consumers constrain their own future consumption. “If people can withdraw money immediately from their assets, as they can with simple savings or cheque accounts, they have no way to keep their temptation to over-consume under control. The researchers also argued that increased liquidity and access to savings brought about by financial innovation in products “may lead to damaging decreases in savings.”
- Increased liquidity and access to savings brought about by financial innovation in products “may lead to damaging decreases in savings.”

“Assets that are less liquid, despite their costly lack of flexibility or even lower yield, may be used as a commitment device for those consumers who at least partially understand their tendency to over-consume,” (Camerer & Loewenstein, 2002).

Investors often display a preference in selecting investment vehicles, based on an illusion of control bias. The illusion of control bias is the expectancy of a personal success probability that is inappropriately higher, than the objective probability would warrant; choice, task familiarity, competition, and active involvement can all inflate confidence and generate such illusions (Pompian, 2006).

Most investors own residential property. In 2003, the market capitalization of residential property exceeded that of the JSE Securities Exchange; this leads to most investors to regard themselves as being knowledgeable about property (Botha, 2005).

According to research by Fellner (2004) cited by Pompian (2006), investors prefer to make investments over which they believe that they can control the outcome; yet most practitioners know that investors have no control over the outcome, only the decision to invest or not to invest.

According to Pompian (2006), financial advisors can help clients control this bias by making them:

- Recognize that successful investing is a probabilistic activity.
- Recognize and avoid circumstances that trigger susceptibility to illusions of control.
- Seek contrary viewpoints
Once they have decided on an investment, to manage illusions of control, by maintaining records of all their transactions, including reminders that record the rationale for each transaction.

2.4.2 Family dynamics and the implementation of financial plans

Some financial planning clients do not implement their plan because of emotional issues arising within the client’s family that affect their attitudes and behaviour towards money. Traditional planning relies on linear thinking, e.g. \( a + b + c = d \); professions such as finance, law, and medicine are based on linear thinking: reducing things to their component parts. Systems-thinking focuses not only on individual thought and behaviour, but also considers the impact of situations, events, and stresses that are causing the symptoms. It is a more comprehensive way of looking at the human condition. This system includes the client’s family of origin, the current family, the extended families, all interrelating and connecting (Carter, 2006).

Carter (2006) refers to emotional barriers that affect investor behaviour viewed from three family systems theories, equilibrium, differentiation, and triangulation. This is based on concepts to explain the extended family as a single emotional unit.

- **Equilibrium theory:** The entities in the universe are in a constant struggle to maintain balance. When the equilibrium changes, forces act to bring entities back in line. The same is true in families; when change upsets the current balance, families try to get things back in line. Such changes include birth, death, illness, divorce and financial difficulties. This change produces anxiety. If anxiety levels get too high, the natural tendency is to return to what is familiar. Implementation of financial plans may not occur until equilibrium is restored.

- **Differentiation theory:** Differentiation of a person is the capacity of an individual to define his or her life goals and values apart from the surrounding togetherness pressures in the family. It is the capacity to maintain a relatively non-anxious presence in the midst of anxious situations.

  Differentiation of the self indicates the extent to which people can distinguish and separate intellect from emotion, and makes decisions accordingly. Joint financial decisions can be difficult, for example, if one spouse is poorly differentiated.

  The way in which an advisor acts (differentiation) affects change more than the level of technical expertise. If the advisor is anxious about his or her situation, the anxiety will spill over to clients. Advisors can be technically skilled in their field but not know how to deal with anxiety. Another cause of money anxiety is lack of financial literacy. Being non-anxious with clients is a high level of differentiation.

- **Triangulation theory:** Another basic concept of family systems theory is that of emotional triangles. The most stable unit in a family or organization is three. If any two people in a family system are uncomfortable with each other, they will engage a third person to form a triangle in an attempt to stabilize the relationship. Triangulation is described as a way to reduce anxiety in one relationship by focusing on a third party, whom we unconsciously pull into the situation to lower the emotional intensity in the original pair.
Couples get triangulated around family issues, money, household responsibilities, child-care, parenting, and so on. They argue about finances, and in seeking help from an advisor, can pull the expert into the triangle. An example of triangulation occurs when one spouse tries to manipulate or control the other. In financial matters, this can occur when one spouse thinks that the other spends too much money and has failed in attempts to address and correct the problem.

2.5 Investment Strategy

2.5.1 Investment Vehicles

According to Botha (2005), once an investment strategy has been put in place, implementation needs to take place in the most effective manner. In implementing an investment portfolio, the key question is: Which investment vehicle/s should be used?

The acquisition of any asset requires a person to find out whether it is an economically viable project; that is, whether or not the investment decision will result in a positive NPV. There are a number of different options available. It is possible for an investor to invest directly into the securities that make up the investment strategy. The other alternative is to utilise the full range of investment vehicles that are available. These various investment vehicles have been put in place by a range of different legislative structures implemented over time for a variety of different purposes. They in essence house the investment strategy and most instances create a whole range of opportunities for optimising investment returns while changing the nature of the ownership, security, flexibility and tax consequences of the investment.

In deciding on which investment vehicle to use, the investor and/or financial advisor requires specific knowledge of the different types of investment vehicles, how to assess them, and how to use them to further enhance the achievement of investment objectives. It is important to keep in mind, that investment vehicles are tools for implementing an investment strategy, not a substitute for it.

“There is no best investment. There are only appropriate and inappropriate investments, depending on the investor’s requirements. Different investments suit different purposes and needs—although some serve these purposes and needs better than others. Yet, while managed investment vehicles have advantages of scale, there is nothing magical about them. They need to be assessed firstly on the appropriateness of the vehicle itself, and secondly on the investment management. Even if the investment management is superb, the investment vehicle may detract from it, and vice versa,” (Botha, 2005).

2.5.1.1 Collective Investment Schemes

A collective investment is a scheme in which investors can invest money or other assets, in which they have a participatory interest (Van den Berg, 2008:198).

Important features of Collective Investments:

Absa (2009) highlights the following important features of collective investments:

- **Investment safety**: collective investments are highly regulated, and investors can be confident that while they are subject to investment risks, they are not likely to be victims of fraud or embezzlement.
- **Performance reporting**: historically unit trusts management companies were legally obliged to release performance statistics and details of underlying investments to the public on a quarterly basis. There is no such
requirement in the pension fund or life assurance industries, even though some life and pension companies have voluntarily released figures over the years. The Collective Investment Schemes Control Act has added additional levels of disclosure in reporting.

- **Transparency:** Unit trusts have always been more transparent than investment vehicles like endowment policies, and the level of disclosure required of managers has increased with the promulgation of the Collective Investment Schemes Control Act. The managers and their agents must disclose all the charges that may be levied by the manager, the method of calculation, and the amount (as a percent or value) of the charges, when the charges will be levied, exactly how the manager will repurchase participatory interests, particulars of the historical yield calculated as prescribed by the deed, for the last 12 months, and a statement of any facts that may influence future yields; Details of any profits that were distributed during the previous financial year, expressed as a percentage of the aggregate value of all assets held on behalf of investors in that portfolio.

- **Tax Effectiveness:** Capital gains are currently taxed in the hands of the individual investor, although this reduces the tax effectiveness of unit trusts, they will not be at a disadvantage compared to direct investment in the share market, property or other asset classes. Income from interest-bearing funds, as well as the interest portion of distribution from equity funds, remains fully taxable subject to the ruling interest exemption to natural persons. The dividend portion of distributions remains tax-free.

- **Professional management:** Not many investors in South Africa have the time, resources and aptitude necessary to monitor their own portfolios. Investors in CIS therefore entrust this task to professional fund managers employed by management companies, who generally charge between 0.5% and 2.5% of assets under management, per annum. Annual fees tend to be less for income, gilt and index funds, and relatively more for equity-based funds. Multi-manager funds tend to be the most expensive. Some CIS charge performance-based fees, the fees levied are dependent on the performance of the fund relative to specified benchmarks.

- **Competitive cost structures:** the entry costs of unit trust investments are around 6% for equity funds (less if large amounts are invested). Although this is up to three or four times the cost of buying shares through a stockbroker, it is less than the costs of other institutionalised savings options, like endowment policies and retirement annuities, where total entry costs are often as much as 12%; and the charges of unit trusts are fully disclosed. This level of transparency has not existed historically in the life assurance industry, and it is common for an investor in an endowment policy not to know exactly how much of his cash is actually being invested, and how much is going towards costs.

- **Convenience and liquidity:** collective investments are easy to buy and easy to sell. Investors have a choice of buying unit trusts on the Internet, through a broker or agent, through a bank, or directly from a unit trust management company. Debit orders can be cancelled, increased or decreased without penalty, unlike traditional assurance products.

It is easy for investors to change their asset allocation as their personal circumstances change—they can switch from equity based investments to fixed-interest investments as required, and several services make it easy to manage a small portfolio of unit trusts. Most importantly, managers or management companies are obliged to purchase participatory interests on demand, making collective investments highly liquid.
However, this flexibility and transactional ease has a dark side. It can lead to a lack of investment discipline, and may allow investors to react emotionally to volatile market conditions: selling when the market is falling, and buying when stocks are reaching new highs. Emotional reactions often result in buying high and selling low, a sure way to lose money. This behaviour can in turn drive fund managers into forced trade situations, when they have to buy into an expensive market because of large inflows, only to sell in a weak market because of large outflows investors redeeming units. So while convenience must be seen as an advantage of unit trusts, it does demand of investors that they become more knowledgeable and disciplined in their investment approach.

2.5.1.2 Unit trusts

Given that the value of each unit or participatory interest is exactly equal, and that the sum of all units in a particular interest equals the value of the portfolio, it follows that the value of one unit can easily be calculated by dividing the value of the portfolio by the number of units in issue. The net asset value (NAV) of a portfolio is the market value of the investments in the portfolio less any liabilities due by the fund (van den Berg, 2008:198).

The return of investment from unit trusts comes from two elements: capital growth and income. Certain kinds of assets, such as shares and property, are subject to changes in market value, leading to capital gains and losses. Other assets like cash only earn income. Capital growth in unit trusts refers to an increase in the price of units which occurs as the value of the underlying investments rise (they can also drop, which could lead to capital losses) The income from unit trusts comes from two main sources: dividends and interest. Shares pay dividends, and interest is earned on the cash held in the portfolio.

The yield of a unit trust is a measure of the income produced by a unit trust as a percentage of the unit price. Usually the yield is calculated by adding up the distributions per unit for the last 12 months. When it comes to unit trusts, the yield is open to misinterpretation. Unlike a fixed deposit account, where the advertised rate of interest tells the investor what the bank will pay (e.g. at the end of the month), the published yield on a unit trust is a purely historical indication—it is no guarantee of the future yield.

2.5.1.3 Total Expense Ratio (TER)

A new disclosure requirement under the Collective Investment Schemes Control Act (CISCA), the total expense ratio (TER), helps investors understand the extent of the various costs that managers recover directly from the portfolio. Total expense ratio is a globally accepted measure of portfolio expenses.

The TER is a measure of the portfolio’s assets that are relinquished as operating expenses. It is expressed as a percentage of the daily average value of the portfolio, which is calculated over a period (e.g. over a year). The CIS manager and their approved auditors verify the TER and methodology used:

TER = Total Fund Expenses/Total Fund assets

TER does not include:
- Any entry costs
- Annual service fees
- Trading costs are included by some managers but not by others.
Performance fees are included in the TER. However, to enable investors to determine the extent of the performance fees (which may vary considerably over time), the fund manager must disclose the performance fee for a period as a percentage of the fund.

Technically, the TER is the total expenses and fees expressed as a percentage of the daily average value of the portfolio calculated over a period of usually a financial year. Taxes (like VAT and stamp duty) are included in the TER.

### 2.5.1.4 Retirement Funds

- **Occupational Funds:** It is recommended that all employed individuals should contribute towards an employer founded retirement fund (Swart, 1996:586). Employers’ contributions towards such funds are a big advantage. Members of such funds are not taxed on the capital growth on such funds, although a portion of their retirement benefits will be subject to tax.

- **The Income Tax Act** distinguishes between three types of pension fund organisations, namely, pension funds, provident funds and retirement annuity (RA) funds. The Pension Funds Act and other acts administered by the Financial Services Board do not distinguish between these funds at all. They typically refer to pension funds (Hannekom, 2008:82).

#### Advantages of Pension Funds

i. Part of the contributions is tax-deductible.

ii. A portion of the retirement benefit is tax-free.

iii. Employees are forced to save.

iv. By belonging to an institutional fund, members have access to professional management of their savings, thus increasing the likelihood of employing appropriate investment strategies.

v. Self-employed investors or members of funds, who would like to supplement their retirement provisions, will be able to obtain the advantages above by contributing to a retirement annuity fund, a private pension fund. These funds operate with individual endowment type contracts but in most cases are structured on substantially the same basis as pension funds, with the exception that members are not allowed to access their funds prior to age 55. This requirement causes tremendous hardship when members suffer life crises such as when a business fails in depressed economic times (Hannekom, 2008:13).

The commission structure in respect of retirement annuity contracts was typically based on front-loaded costs including commission, and as a result early termination values were low. During 2005/6 the Pension Funds Adjudicator found in favour of a number of complainants on the basis that the rules of the funds do not make provision for the deduction of these costs from benefits (fund credits). Insurers adjusted their commission structures and formulated a basis upon which to compensate members who terminated or reduced contributions to these funds (Hannekom, op cit).

### 2.5.1.5 Endowments

According to Botha (2007), the endowments offered by life assurance companies are actually portfolio investment vehicles, very similar in concept to unit trusts, but different in terms of the legal framework and taxation treatment. Unit trusts
and endowments differ in respect of two issues: how the profits are distributed and the tax treatment.

The tax authorities provide a tax concession to encourage investors to hold on to their endowments for a period of at least five years. While endowments can be cashed in at any time before the five-year period has elapsed, the proceeds are only tax-free after five years. The earnings of endowment are taxed at 28% in the hands of the life office. This contrasts with the tax-free position of unit trusts, which distribute their income. Before any profits from endowments ever reach the investor they have been taxed. The 28% tax rate is attractive to investors for example at the top marginal rate of income tax at 40%.

Endowment policies have in some instances become a modern product, with more sophistication. However, they suffer the underlying problem of being hybrid investment vehicles operating under legal and taxation structures designed for assurance. As a result, the still lack the comparative structural simplicity of other vehicles, such as the unit trust.

2.6 Property Economics

2.6.1 Economic Characteristics of Real Estate

Prinsloo (2004) explains the dynamics of supply and demand in the property market thus:

The Supply of Land is fixed; one of the fundamental principles of real estate economics is the recognition that the total amount of land is fixed. The total land surface cannot be changed in reaction to changes in demand. However, the intensity of the land use can change, and in time will increase or decrease the supply of real estate, for example, it may not be possible to increase the total surface area of a suburb, but the number of houses per unit area can be increased.

In the short run, land use is also fixed: any change in the intensity of land use takes time. If the demand for residential houses were to increase suddenly, builders would need considerable time to acquire land and to obtain permits and financing. A fixed supply means that real estate prices fluctuate with demand, if the supply is fixed, short-run current market prices and rents will be determined by changes in demand. When the demand rises, prices and rentals rise as buyers attempt to outbid one another for a fixed supply; and when the demand decreases, prices and rentals decline because a decrease in demand creates vacancies, and owners and landlords attempt to fill vacancies by lowering prices.

An increase in the demand for real estate will generally have the following consequences; an increase in demand will reduce existing vacancies; this reduction in vacancies will be followed by an increase in rentals and prices, as more people continue to bid for the fixed supply. As demand pushes rentals and prices up, a point is reached where investors and builders, motivated by the profit potential, are drawn into the construction market; and, assuming favourable economic and governmental conditions, new construction slowly takes place, and the supply of real estate gradually increases. As this new construction overtakes the increase in demand, vacancies begin to rise. This increase in vacancies leads to a fall in rentals and prices.

Conversely, a decrease in demand will generally have the following consequences; a decrease in demand causes an increase in vacancies; the increase in vacancies will cause rentals and prices to decline. With lower prices and rentals, people can now obtain more spacious houses at no increase in costs. This may absorb the vacancies. If not, the continued vacancies will force owners to
abandon their properties, allow them to go into foreclosure, or demolish the structures.

In a perfectly competitive market, there would be no need for the services of a real estate professional or any other third party. Buyers and sellers are assumed to be knowledgeable and able to handle all transactions themselves. Because the real estate market is imperfect, the real estate professional fulfils a major task of overcoming these imperfections; they perform this role by increasing buyer and seller knowledge through providing current market information regarding prices and rentals, advising clients on investment opportunities, providing information on alternative methods of financing and helping to close the transaction, increasing the number of market participants by persuading owners to offer their properties for sale and by enticing them to acquire real estate. These efforts can increase the number of buyers and sellers and help to reduce one of the major problems with the real estate market—too few participants.

2.6.2 Dynamics of the Urban Residential Market in South Africa

A feature of the development patterns in South African cities is the role played by apartheid legislation, which led to the development of the cities in ways that would not have been in a free market economy (Prinsloo, 2004).

Developments in the supply and demand of residential property are linked to particular lifestyles and specific socio-economic circumstances, which further enhance the dynamic nature of the residential space.

2.6.2.1 Neighbourhood Cycle

"Neighbourhoods go through a continuous cycle in a manner similar to the business cycle; however, the cycle takes a longer period between troughs and peaks. It is still uncertain how long these cycle changes take, but it is estimated to be between 50 and a 100 years," (Prinsloo, 2004: 129).

Prinsloo (2004) identifies the following important components of a particular suburb:

- Density of occupation
- Socio-economic profile
- The type of housing and its condition
- Population groups and ethnic cultures of the residents

According to Fisher (1994), a typical neighbourhood life cycle consists of four stages:

- **Growth:** Once development has begun, an area experiences a period of rapid growth while the public recognizes and accepts the neighbourhood. This period is characterized by significant new construction and rising prices. The growth may at times be erratic as supply and demand move in and out of balance, but the primary trend is upward.
- **Stability:** Once a neighbourhood is fully developed, it usually experiences a period of stability. This period is characterized by rising prices, high occupancy, and few new developments. Depending on developments in the general market area and physical characteristics of the neighbourhood, the stability period can exist for significantly varying lengths. A neighbourhood comprising high-priced residential sub-divisions and commercial properties in the vicinity of major traffic arteries will probably remain in this stable
period for a long period of time. Lower-priced residential housing in the proximity of industrial facilities would probably remain in the stable phase for a much shorter period.

- Decline: Once an area has become undesirable because of physical or environmental reasons or a change in land-use demand pattern that results in gradual transition in land use, the neighbourhood enters a stage of decline. This period is characterized by decreasing property values and higher vacancy rates. The level of property maintenance declines, and the renter: owner occupancy ratio increases. If the decline is caused by a transition in land use, vacant properties may sit in disrepair until they are ultimately replaced by new construction.

- Revitalization/Crash: The final stage is typically revitalization. This period is generally characterized as a period of renewal, modernization and revitalization. Once prices have reached their lowest levels, it becomes desirable either to demolish existing structures and build new improvements or to rehabilitate existing structures. Theoretically, the pattern of revitalization is characterized first by fluctuating prices and later by increasing prices and high occupancy levels.

The future of such an area critically depends on future renewal plans, the area’s proximity to job opportunities, the type of people moving into the area and the need for housing. All this will determine whether the area undergoes a renewal or crash (Prinsloo, 2004:131).

2.6.3 Trends in the Residential Property Market

2.6.3.1 GASH

‘A notable development in housing demand and supply is the popularity of the so-called GASH Housing (Good Address Small House). The major focus of GASH housing in Greater Johannesburg was mainly in the north/northwestern sector associated with higher income areas. It is important from a spatial perspective to note the emphasis placed on a good address,’ (Prinsloo, 2004:153).

Prinsloo (2004), notes as the main reasons for the popularity of these developments:

- The value of a good address;
- The need for affordable housing;
- The heavy emphasis on a safe and secure living environment;
- Changing lifestyles among households;
- The lack of suitable and available rental stock.

An analysis of prices of GASH units displays a clear correlation between the area and suburb the property is located in and the prices that are achieved. The address of a property development thus plays a role of differentiating a development in an affluent suburb versus townhouses located in an average suburb.

2.6.4 Investment Strategy in Real Estate

There are various reasons, which make an investment in residential real estate a viable alternative to traditional asset classes (McLean, 1996:2):

Personal control: An investor is actively involved in the management of the investments through choosing the tenant market to aim for, the improvement
strategy to adopt, the amount of rent to demand, and the operating and capital expenses to incur:

- **Financial Leverage:** An investor can buy rental property with much less cash than would be required to buy assets like equities at similar acquisition cost.
- **Rental property is illiquid:** In a long term buy and hold investment strategy, lack of liquidity is a favourable constraint. As observed in the section on Investor behaviour above. Assets that are less liquid, despite their costly lack of flexibility or even lower yield, may be used as a commitment device for those consumers who at least partially understand their tendency to over-consume.
- **Rental property yields higher income** (McLean, 1996:2).

According to Clark & Daniel (2006), the South African residential market had not been subjected to uniform growth for the 25 year period to 2006; growth patterns have fluctuated widely in response to exogenous events. In the early 1980s, the boom in the residential property market was supported by negative real interest rates and a strong domestic currency in response to the escalating gold price. However, this was short lived as the property market then endured a crash in 1984 due to the depreciation and subsequent crash of the Rand, as well as political uncertainty. The prime lending rate rose from 11%, during the fourth quarter of 1980, to an average of 21.5%, during the second quarter of 1985. The depreciation of the Rand was instrumental in this interest rate hike, which, subsequently, influenced the property market negatively as loans became less affordable due to excessive mortgage repayments.

The market crash was followed by a three-year period of decline. Thereafter, real house prices stabilized until the mid 1990s when high real interest rates depressed the property market. However, since the start of the millennium, house prices experienced substantial growth. The boom in the property market was aided by low interest rates, a strong domestic currency, a growing middle-income sector and high investor confidence. In addition, low transfer duties on property and strong growth in the real disposable income of households support the property market (Clark & Daniel, 2006).

### 2.6.4.1 Development of a Portfolio Strategy

Planning a portfolio strategy is like developing a strategic business plan. Initial considerations include goals of the investment program, the investor’s mission, and what resources does the investor command (Pagliari, 1995). A well conceived strategy should include an exit strategy, exiting involves more than just selling the investment; it involves capturing value (cash flows), reducing risk, and creating future options (Longenecker, 2003:348).

Investments should have a strong grounding in real estate market cycle theory due to:

1) The lag between the growth of employment, and the response of the development pipeline providing new space;

2) The ease of entry into the pipeline, causing oversupply in response to new demand (Pagliari, 1995:984).

In general, regardless of the geographical areas selected for investment, investors should plan to diversify their investments with respect to geographical and regional economical vulnerabilities and opportunities (Pagliari, op cit).
2.7 The Purchase of Rental Property: Apartments

2.7.1 Investment process

A potential investor should compare the features of the property he intends purchasing with his personal investment objectives and needs before coming to a decision about the purchase (Swart, 1996:373). Thorough research before every property transaction is critical. It is best not to rush into the market and purchase the first property that comes along. A systematic analysis of the potential property should be performed. There must be sufficient evidence that the subject property will meet the requirements of a profitable investment (Louw, 2003:103).

The decision-making process of purchasing a rental property considers several factors, these include:

- Demand and Supply
- Selection of market segments
- Characteristics of a good apartment property
- Income Statement

2.7.1.1 Demand and Supply

Demand for apartments is based more on household growth, than economic contraction or expansion (Pagliari, 1995:460). While household growth is not immune to economic recessions, these effects are much less obvious than the reduction in demand for warehouse space, office space, and industrial space or for consumer goods.

High interest rates that often lead to recession can in fact help apartment investments; high interest rates reduce the ability of property developers to construct new competing projects, thus making it difficult or impossible for households to leave the rental market and become homeowners (Pagliari, op cit).

In South Africa the supply of housing is likely to be affected by changes in access and usage of housing finance. In an effort to meet their Financial Services Charter targets, banks have begun to identify and fund low cost housing developments in order to generate housing units that meet lending requirements and capture the resulting retail business (Meltzer, 2006:4). Banks have also cooperated on developing innovative solutions for specific market segments; ABSA, Standard Bank and Nedbank for instance, have jointly invested in a buy-to-let development in Khayelitsha (Cape Town). ‘In an unusual move for banks, rental incomes earned by owners are explicitly recognised in the assessment of borrower affordability, despite the informal nature of the rental agreements,’ (Meltzer,2006). In time it will be observed whether the increased access to finance as envisaged in the charter will translate into increased usage of the finance.

2.7.1.2 Selection of Target Markets

For investors with longer holding periods, as would be the case with individuals accumulating retirement capital, in order to protect against possible localized unfavourable demographic trends, and take advantage of favourable ones, investors should concentrate purchases of apartments in market segments where population growth is expected (Pagliari, 1995:466).
The ideal market segment is an area where population and demand are growing, but it is hard to build new units due to lack of suitably zoned land and the political climate is hostile to growth. It is also important that there be a significant gap between monthly rentals and the monthly cost of home ownership.

2.7.2 Market value and Investment value

Market value transactions assumes:

i. Buyers and sellers are typically motivated. Neither is acting under unusual time pressure.

ii. Both buyer and seller are well informed and knowledgeable about the property and the market.

iii. The market period and property promotion efforts are sufficient to reasonably inform potential buyers of the property’s availability.

iv. There are no special terms of financing, other than those typically available (McLean, 1996:99).

v. Neither seller nor buyer makes unusual sale concession

The investment value or the individual quantification refers to the value that a particular investor attributes to the subject property (Swart, op cit).

According to McLean (1999), property can be acquired at or below its market value due to:

- Owners being in distress: Sellers might have to accept offers below market value because they experience financial distress, and are desperate for cash.
- Relocation: Sellers who are relocating are more likely to be under pressure to conclude a sale without the property having adequate exposure in the market, because of time pressure.
- Life stage sellers: These are typically people whose lifestyle now conflicts with their property. They may no longer enjoy collecting rent, or dealing with tenant complaints.
- Seller ignorance: Some sellers offer their properties for sale at prices below their market values because they do not know the actual prices that similar properties have been selling for; or they may not know of some unique advantage of their property.

2.7.3 Characteristics of a Good Apartment

Pagliari (1995) recommends considering the following factors when looking for an apartment/s to invest in.

- Location: Apartments in residential areas are best, and it is preferable to be among lower density residences. An apartment in an area of single-family homes or duplexes is better, for instance, than one surrounded by other apartment buildings.

- Visibility, identification and access are important; a location on a small hard to find street is a deterrent. Conversely, a location in a noisy, busy street or in a retail or commercial area is also undesirable. That is, the best locations are in close proximity to major road arteries in residential areas.

- Ambience and Amenities: The physical attractiveness as one walks through is important. Nice landscaping, attractive architecture, and quality materials all make a property more desirable.

- Layout of the Complex: It is best that the car parking, be separate from the landscaping, and be out of view from the apartment; for instance, one would want as few living rooms as possible to be looking over the parking lot. Units are more desirable if they look out on to the landscaping.

- Parking: Ample, properly dispersed parking is very important to residents and should be carefully reviewed by the investor. Adequacy of overall
parking is not enough; spaces for residents and guests so that a sufficient number of parking spaces are within a short walk of the apartments they serve.

- **Unit size**: The required unit size depends on the rental range and the market.
- **Unit Floor Plans**: The best way to evaluate floor plans is to walk through the living room to get a feel and visualize the furniture layout. There should be enough space in the living room to seat as many people as will be occupying the unit, plus two to four guests. It is important to have enough windows to enhance lighting, dark apartments are more difficult to let and often command lower rentals.
- **Income statement**: The investor must review the property’s actual expenses and critically evaluate each line item

### 2.7.4 Valuation of the investment property

The value of any cash-flow producing asset is the present value of the expected cash flows on it. Just as discounted cash flow valuation models, such as the dividend discount model, can be used to value financial assets, they can also be used to value cash-flow producing real estate investments (Damodaran, 2002:730). Discounted cash flow analysis can be used both to estimate present value and to extract a discount rate from a sale (AIREA, 2001:569).

To use discounted cash flow (DCF) valuation to value real estate investments, it is necessary to:

- Measure the risk of real estate investments, and estimate a discount rate based on the risk.
- Estimate expected cash flows on the real estate investment for the life of the asset.

Rentals for apartments can be increased annually, by as much as the market will bear. This potential for annual rent increases means that the capitalization rate, defined as Net Annual Operating Income divided by Price is a much more reliable indication of value and/or return for apartments (Pagliari, 1995:480). This means that the investment value of an income producing property can be determined by discounting cash flows by an appropriate capitalization rate, also referred to as the yield capitalization rate in property appraisals (AIREA, 2001:553).

The application of capitalization rates that reflect an appropriate yield rate, the use of present value factors, and discounted cash flow analysis are all yield capitalization procedures.

**Investment Value** = \( \frac{\text{After-Tax Cash-Flow}}{(1+r)^n} \)

### 2.7.4.1 Selecting a yield rate for a Discounted Cash Flow (DCF) Analysis

Risk analysis in real estate can be divided into two categories, individual project risk and portfolio risk. Analysis of individual-project risk examines a single project, and implicitly assumes that the risk associated with it can be considered independently of the risk in other real estate investments. In appraisals, to select an appropriate yield, one needs to verify and interpret the attitudes and expectations of market participants, including buyers, sellers, consultants and agents. Historical yield rates derived from comparable sales may be relevant, but they reflect the past, not the future, and are not reliable indicators of current yield. The selection of yield rates for discounting cash
flows should focus on the prospective or forecast yield rates anticipated by typical buyers and sellers (AIREA, 2001:490).

The yield rate selected reflects the investment's stand-alone risk; the starting point for analysing an investment project's stand-alone risk involves determining the uncertainty inherent in its cash flow. The nature of the cash flow distributions, and their correlations with each other, determine the nature of the Net Present Value (NPV) distributions and, thus, the investment's stand-alone risk (Brigham, 2004: 427).

2.7.4.2 Techniques for assessing an appropriate discount rate

The possibility that investors make bad investment decisions because of errors in the projected cash flows is called forecasting risk or estimation risk; the result can be that we think that a project has a positive NPV when it does not. This can happen when investors are overly optimistic about the future, and, as a result, their projected cash flows do not realistically reflect the possible future cash flows (Firer, 2004:323). In order to assess how realistic the cash flow projections are, analysts apply various techniques to determine the appropriate yield rate, three common of these techniques are:

i. Sensitivity analysis
ii. Scenario analysis
iii. Monte Carlo simulation

Sensitivity analysis: Intuitively, investors know that many of the variables that determine an investment's cash flow could be different from the values used in the analysis. They also know that a change in a key input variable, rental earned, would cause the NPV to change. Sensitivity analysis is a technique that indicates how much the NPV will change in response to a given change in an input variable, other things held constant (Brigham, 2004).

In sensitivity analysis, the analysis begins with a base case situation, which is developed using expected values for each input; these expected values determine the base case NPV. Each variable is then changed by several percentage points above and below the expected values, holding all other variables constant, with each such change in a variable; a new NPV would be calculated. The set of NPVs is then plotted to show how sensitive the NPV is to changes in each variable.

Scenario analysis: It is an extension of sensitivity analysis, the analysis is generally more sensitive to some of the input variables; such sensitivities may indicate that an investment is risky. It would thus be helpful to consider the probability distributions of such variables. In addition, it would be useful to vary more than one variable at a time, so that the analyst can observe the combined effects of the changes in the variables. Scenario analysis provides these extensions to sensitivity analysis.

In a scenario analysis, an analyst would begin with the base case, or most likely values of the input variables, then they would investigate the worst-case scenario and a best-case scenario for each of the input variables. Often the best case and the worst case are set so as to have a 25 percent probability of things being that good or bad, and a 50 percent probability is assigned to the base case conditions. Obviously, conditions could actually take on other values, but parameters such as these are useful to get people focused on the central issues in risk analysis.

The scenario probabilities and NPV’s constitute a probability distribution of returns. Scenario analysis provides useful information about an investment’s
stand-alone risk; however, it is limited in that it considers only a few discrete outcomes (NPV’s), even though there are an infinite number of possibilities.

Monte Carlo Simulation: Monte Carlo simulation ties together sensitivities and probability distributions. In simulation analysis, the computer begins by picking at random, a value for each variable. It then combines those values, and determines the investment’s NPV, which it stores in its memory. Next, a second set of input values is selected at random, and a second NPV is calculated. This process is repeated perhaps a thousand times generating 1000 NPV’s. The mean and standard deviation of the set of NPV’s is determined. The mean, is used as a measure of the investment’s expected NPV, and the standard deviation or coefficient of variation is used as a measure of the risk.

2.7.4.3 Neighbourhood analysis

The character of a neighbourhood may be revealed in the reasons why occupants work or live in the area; occupants are attracted to a location by its status, physical environment, services, affordability and convenience (ARIEA, 2001). A preliminary research of the target area established time boundaries of the market area based on time-distance relationships of important aspects like place of healthcare facilities, schools, and shopping centres, thus:

<table>
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<th>Name</th>
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<th>Distance</th>
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Source: South African Property Transfer Guide 2008
An overview of the prospects of rental generation and capital growth the apartment market revealed:

**Nominal flat rental growth (%) to 2008**
*(All sizes combined)*

**Annual compound growth on smoothed data**

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<td>6.4</td>
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</tr>
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<tr>
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<td>4.8</td>
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</tr>
<tr>
<td>BER BCI</td>
<td>12.8</td>
<td>13.7</td>
<td>13.6</td>
</tr>
</tbody>
</table>

Source: Rode Report 2008:3

**Vacancies (%)**
*Average for all grades of units* *(Standard and Upmarket)*

<table>
<thead>
<tr>
<th></th>
<th>2007 Quarter 2</th>
<th>2007 Quarter 3</th>
<th>2007 Quarter 4</th>
<th>2008 Quarter 1</th>
</tr>
</thead>
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<td>1.11</td>
<td>1.17</td>
</tr>
<tr>
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<td>0.24</td>
<td>0.24</td>
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</tr>
<tr>
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<td>2.01</td>
<td>1.27</td>
<td>1.5</td>
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<td>1.97</td>
<td>N/A</td>
<td>2.16</td>
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</tbody>
</table>

Source: Rode Report 2008:3

**2.8 Hiatus in the literature**

Research into the South African residential property market is severely limited. Property analysts have limited tools at their disposal to evaluate the state of the property market. Hence, analyses are generally based on similar events in international property markets (Clark & Daniel 2006).

According to Burger & Janse van Rensburg (2008), the theory on the Law of One Price suggests that if products or geographic areas belong in the same market, their absolute prices must converge, so that their relative prices are stationary; the paper found strong evidence of convergence in large middle-segment house prices and weaker support for convergence in medium middle-segment house prices. In addition, the paper found no evidence for convergence in small middle-segment house prices. This suggests the existence of a national market for large and possibly middle-segment houses in metropolitan areas, but separate metropolitan markets for small middle-segment houses. In addition, the paper estimated the speed of convergence and found that large middle-segment house
prices converge within two to seven quarters, while the speed of convergence for medium middle-segment house prices in three of the five areas is five to eight quarters.

The purpose of this research is then to investigate the market conditions of a specific localised property market, the townhouse market in the southeast of Johannesburg.

2.9 Conclusion

Financial advisors are expected to be independent, diligent, fair, transparent, and ethical and act with integrity when dispensing financial advice; this includes recommendations on financial products. Advisors thus need grounding in not only the legal and technical aspects of the investment universe, but also aspects of investor behaviour. This helps advisors to manage investment strategies to achieve the clients’ retirement objectives.

Institutional investment vehicles provide investors with the benefit of professional management and governance. Direct investment in real estate requires intimate knowledge of prevailing market factors, and gathering this information is an onerous task because unlike listed investments that information is not publicly available. The research will proceed to conduct a research within the southeast suburbs of Johannesburg to assess the viability of investing in apartments to fund retirement.
CHAPTER 3: RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This research seeks to explore market conditions in the townhouse market in the southeast of Johannesburg. The purpose of the research is to assess the prevailing market conditions from the point of view of an investor. According to DeLisle (2000), all rigorous research must be logically coherent, but different types of research emphasize different values; two hallmarks of rigorous research are statistical and mathematical precision, and thoroughness. Rigorous research need not exhibit both hallmarks of quality at the same time.

Research can be undertaken to develop concepts and theories; pure research attempts to expand the limits of knowledge, it does not directly involve the solution to a particular, pragmatic problem. Conversely, applied research is conducted when a decision must be made about a specific real-life situation; applied research encompasses those studies undertaken to answer questions about specific problems or to make decisions about a particular course of action or policy (Zikmund, 2003:7).

Pure research and applied research have in common, the application of the scientific method. The scientific method is defined as a broad inductive-deductive method whereby researchers gather information, form generalizations (theories, principles, hypotheses) and test these out in specific situations (Misselhorn, 2005:20). This research intends to gather information from literature and personal observation to form generalizations, and then move on collect and analyse data on which to draw deductive inferences. The data and the inferences will attempt to provide proof of whether the facts support the generalizations or not.

Deduction is a form of inference that purports to be conclusive; the conclusion must necessarily follow from the reasons given. The reasons are said to imply the conclusion and to represent a proof. For a deduction to be correct, it must be both true and valid, that is, the premises (reasons) given for the conclusion must agree with the real world (be true); in addition, the premises must be arranged in a form such that the conclusion must necessarily follow from the premises (Cooper, 1995:30).

Inductive argument is radically different. There is no such strength of relationship between the reasons and conclusion in induction. To induce is to draw a conclusion from one or more particular facts or pieces of evidence (Cooper, 1995). The use of the scientific method in applied research assures objectivity in gathering facts and testing creative ideas for alternative business strategies (Zikmund, 2003).

The first phase of this study dealt with literature research. It includes the identification and analysis of key concepts in personal financial planning. Clear definitions were set for applicable concepts and the relevant critical success factors were identified. The aim of this chapter is to provide the research methodology used for the gathering and analysis of the data used for this study.

3.2. Research strategy

According to Neuman (1997) cited by Molefe (2005), research strategy is determined by the nature of the research question; research strategies are only
tools, and each strategy offers a particular unique perspective that illuminates certain aspects of reality more easily than others, and produces a type of result more suited for some applications more than others.

Because of the nature of the real estate market, the next phase of the research will be exploratory. This part of the research will involve a preliminary investigation of current market conditions in the neighbourhood of Mulbarton-Gelenvista-Bassonia in the southeast of Johannesburg. This study will be based on an observation of the asking prices and rentals as advertised in the property sections of local newspapers, as well as informal interviews with real estate professionals who operate in the area. The exploratory study will be followed by survey research.

3.2.1 Exploratory study

The purpose of exploratory research is to determine whether or not a phenomenon exists, and to gain familiarity with such a phenomenon, not to compare it with other phenomena (Welman, 2001:18). This study will be based on observation of the asking prices and rentals as advertised in the property sections of local newspapers, as well as informal interviews with real estate professionals who operate in the area.

3.2.2 Survey research

Survey research is the systematic gathering of information from respondents for the purpose of understanding and/or predicting some aspect of the behaviour of the population of interest (Tull & Hawkins, 1993:164). This part of the research will involve administration of a questionnaire to townhouse tenants to assess attributes that affect the decision to rent a particular apartment, and another questionnaire to rental agents in the target area to obtain opinions on market conditions.

Attributes of a rental apartment that were identified in the literature review as critical in the attraction of tenants will be presented in a questionnaire, and respondents will be asked to indicate which of those attributes appeal to them and/or deter them from apartments in the area. Rental agents will be asked to indicate their opinions on:

- Current and expected market rentals
- Current vacancy levels
- Expected movement in demand
- The main reasons that make people rent in this area
- The main reasons that make people leave this area

3.3 Research Design

Research design can be thought of as a roadmap for researchers; it is the means by which the investigators plan to collect data, to answer a pertinent research question (Davis, 1993:116).

According to Cooper (1995), the essentials of research design are:

i. It is a plan for selecting sources and types of information used to answer the research question.

ii. It is a framework for specifying the relationships among the study variables.

iii. It is a blueprint that outlines each procedure, from the hypothesis to the analysis of data. The design provides answers to questions such as:

- What techniques will be used to gather the data
3.4 Data Collection

Real estate investment requires specialised local information. Real estate markets differ significantly from the markets for other goods and services, in that real estate markets have never been considered to be truly efficient (AIREA, 2001:91). The research will involve personal interviews with real estate professionals with a footprint in suburbs in the South-East of Johannesburg, and a survey of tenants. The review of research in real estate market conditions indicated that a survey of market participants is generally required to determine local conditions.

3.4.1 Sampling

Purposive or judgemental sampling enables the researcher to use personal judgement to select cases that will best answer the research questions and to meet the research objectives (Saunders, 2003:175).

The data will be complimented by a survey of tenants in other units within the target area. The rental units will be selected on the basis of ease of access to respondents.

3.4.2 Primary Data Collection

Primary data are factual and numerical information obtained at first hand using some form of survey technique, the source of the information is typically a participant in the activity being surveyed or a person who would be reasonably be expected to have knowledge of the activity (Fisher, 2004:45).

The research will attempt to obtain data on current market rentals, in the two-bedroom units market, in the designated area, by conducting a survey of tenants using a questionnaire. Tenants will be asked what rentals they were currently paying for their units, the attributes of their units that influence the choice of rental units and personal attributes that affect decision-making on such rental units.

Rental agents operating in the area will be surveyed to obtain their views on the market conditions in the designated area, using a questionnaire.

3.4.3 Secondary Data Collection

According to Fisher (2004), secondary data are not gathered for a specific study at hand but are gathered by other sources and published typically on a periodic basis. The research will refer to various sources of secondary data including but not limited to:

- Statistics South Africa
- Rode report on trends in the property market
- Property market information provided by research departments of the major banks, primarily ABSA and First National Bank.
3.4.4 Data Constraints

- **Access:** The apartments that need to be investigated are located within security complexes. The researcher will approach prospective participants at social amenities like the local shopping complex to invite participation in the research. Those tenants who agree to participate in the research will be asked for their contact details so that a questionnaire can be delivered and collected. The participants will then be asked to refer the researcher to other tenants who fit the profile of the enquiry. The participants will be approached in their units only after obtaining consent over the phone.

- **Costs:** A major cost is likely to be telephone costs in approaching prospective participants to administer the questionnaires; this cost will be managed by calling at the most cost-efficient times possible. The major cellular phone networks as well as the fixed-line telephone operator in the country, offer discounts on calls made during what are termed off-peak periods, that is, outside normal business hours. The units that are subjects of the research are located within a five kilometres radius, thus the administration of the questionnaires will not involve significant travel costs.

- **Ethical considerations:** According to Denzin and Lincoln (1994) cited by Molefe (2005), a researcher has to observe the ethics and politics of research, the era of value-free inquiry is over, researchers now struggle to develop situational and trans-situational ethics that apply to any given research act. Respondents will be made aware that participation in the research is voluntary, and they will only respond to the questionnaires after their written consent is sought and obtained. The questionnaires will be reviewed by this research’s supervisor, and then submitted to the university for ethical clearance before they can be administered.

3.5 Validity of the study

Validity is concerned with the degree of confidence researchers can have in the results of a study, that is, validity is concerned with limiting research errors so that results are accurate and usable when delivered (Davis, 1993:134). Validity is defined as the ability of a measure to measure what it is supposed to measure (Zikmund, 2003); the author presents three approaches to evaluating validity:

- **Content validity:** when it appears evident to experts that the measure provides adequate coverage of the concept, a measure has content validity. It is a subjective agreement among professionals that a measurement scale logically appears to reflect accurately what it purports to measure. This research will survey market participants based on information that is generally sought in the real estate industry in the analyses of investments.

- **Criterion validity:** it answers the researcher’s question on whether the proposed measure correlates with other measures of the same construct. It may be classified as either concurrent validity or predictive validity; if the new measure is taken at the same time as the criterion measure and is shown to be valid, then it has concurrent validity. Predictive ability is established when a new measure predicts a future event.

- **Construct validity:** the degree to which a measure confirms a network of related hypotheses generated from a theory based on the concepts. From the literature review the measurement of the investment value of an asset based on the present value of its cash flow and the variability of such cash flow is accepted in investment theory.
The research will measure prevailing market factors (rentals) and model the likely outcome of the proposed investment strategy if key input variables in the strategy change.

3.5 Identification and management of errors

Careful construction of the research design can help make the results obtained be as free from errors as possible. While on the surface this goal would appear relatively simple to achieve, it is actually a very complex problem that the researcher must deal with in the conduct of any study; there are many lists of the types and sources of errors that can potentially affect the results of business research, these errors can be classified in a number of ways depending on the perspective of the writer and the focus of the article (Davis, 1993:118).

3.5.1.1 Planning Errors

These are errors that deal with the set-up of the design to collect information; these can be thought of, as all those sources of misinformation because the study is inappropriately structured when the research is undertaken.

Misspecification or ill structuring of the research problem mainly causes the errors. A strategy to reduce this type of error is the development of well thought out proposals that clearly specify the methods, cost, and value of the research undertaken. The survey research will be administered to participants directly, as the participants are within a ten kilometres radius, the cost will be managed.

3.5.1.2 Collection Errors

These are associated with the collection of information to answer the research problem; the errors are sources of misinformation due to the actual collection of the data, given that the study is generally well structured (or perhaps the compounding of errors if the study is ill structured)

The major factors that create this type of errors are:

- The measurement procedures utilized are invalid and unreliable;
- The data collected are not representative of the general population to whom we want to generalize our results
- The data collection methods result in inaccurate/misleading data

To reduce these errors, thoughtful execution of the specified research design is needed. The collection methods of informal interviews and structured questionnaires are established methods in research.

3.5.1.3 Analytical Errors

Analytical errors are those that are due to the inappropriate analysis of the data collected; these are concerned with the actual manipulation of the data. They can be due to:

- Inappropriate application of analytical techniques to the data available; or
- The analytical techniques are inappropriate, given the data collected
A primary managerial strategy to reduce these errors is justification of the analytical procedures used in manipulating and summarizing data. The analysis of the data from this research will use techniques that are in general use in real estate research in the country. Rode report is an established and widely used real estate publication; the research will refer to the report as a guide to perform statistical analysis.

### 3.5.1.4 Reporting Errors

Reporting errors are those that are due to incorrect interpretation of the results of the study. These are generally those that have to do with putting erroneous meaning into relationships and numbers identified from data analysis. The errors may be caused by:

- Inadequate researcher familiarity with the subject under study;
- The researcher does not fully grasp the relationships in the study; or
- The facts are deliberately distorted due to some vested interest or pet project.

To reduce this type of error, unbiased and knowledgeable reviewers need to examine the results of the study. Financial planners with experience in research will review the results of this study.

### 3.6 Data Analysis

The study is descriptive; the data on monthly rentals paid by respondents will be described by the most frequently used numerical summary measures such as the mean rental, the median rental and the standard deviation in the rental. The data on the attributes of the apartments that influence the decision to rent will be described by frequency, that is, the number of respondents who indicate a particular attribute as influencing their decision.

### 3.7 Conclusion

This chapter involved a review of literature on conducting research. The review formed the basis for the strategy that will be followed in this research. The justification for survey research was provided, and possible problems with conducting the research as well their management were discussed. The study then discussed the validity of the research and the intended of analysing the research data. The next step of this research will be to present the results of the research, the data, in the following chapter.
CHAPTER 4: RESEARCH RESULTS

4.1 Introduction

The research was conducted through a survey of tenants in 100 two-bedroom Townhouses in the area of Mulbarton-Glenvista-Bassonia, personal observation and interviews with estate agents.

4.1.1 Personal observation

An observation of the area was conducted with respect to specific value influences in neighbourhoods:

- Population density: The number of occupants per two-bedroom townhouse ranged from 1-4, the predominant distribution being the permutation of two adults and a young child.
- Occupant age levels: The general age level of the Townhouse population in the area is 30 years+.
- Existence or absence of crime: From scanning local community newspapers, the incidence of reported crime does not appear to be significantly different from other suburbs with similar demographics.
- Existence or absence of litter: There is in general a very low level of litter.
- Amenities: The area is serviced by three state schools, Mulbarton Primary School, Glenanda Primary School and Glenvista High School, as well as three private schools, there is ample choice of shopping facilities, open area, Mulbarton Clinic a private hospital is located in the area.
- Extent of occupant ownership: The tendency is for predominant tenant occupancy. Owners who are occupants are more likely to the elderly who have downscaled from bigger single residence houses. For the investor, the level of owner occupancy in the area should be a concern, for the long-term return of the investment; it is desirable that the majority of occupants be owners.
- Rent levels: There appears to be consistency in rent levels across the area, which may indicate limited opportunity to negotiate on rent.
- Vacancy rates: In general vacancy rates are below 5%, which is a good indicator for investment in rental property. What is not known is the level of tenant defaults in rental payments. The researcher noticed that there is an increase in the incidence of electricity authorities (City Power) disconnecting electricity supply to Townhouse complexes that are deemed to be in arrears with their utility payments; the reason for the default on utilities may or may not be related to tenant defaults on rentals, with the increase in interest rates the increased mortgage repayments put pressure on investors as the spread between rentals and mortgage repayments increased.
- Amount of development and construction: The researcher noticed that there was only one Townhouse project under way.
- Effective ages of properties: The properties were in general comparable to new developments in terms of unit area, parking, access and the maintenance of the structure.
4.1.2 Analysis of interviews with estate agents

- **Current monthly market rentals:** The range is R4000-R5500 per month
- **Current market vacancy levels:** The average vacancy period in the area is 2 months.
- **What is presently the maximum price a long-term investor should pay for a 2 bedroom unit:** R800 000
- **The minimum price that an owner in financial distress would accept for a 2 bedroom unit:** R550 000
- **What movement in demand do you expect in the next 12-24 months:** Demand for rental units is expected to increase.
- **What movement in market rentals do you expect in the next 12-24 months:** Rentals are expected to increase
- **What is the main reason people rent in this area:** The main categories are people whose properties are still under construction in the area, people who are still accumulating funds to be put as deposits toward the purchases of houses and as an interim measure by people who are searching for property to buy.
- **What is the main reason people who rent in this area, leave the area to rent similar units in other areas:** People leave the area mainly due to relocation related to job transfers as well as distressed related to life events like divorce.

4.2 Descriptive Statistics

4.2.1 Market rentals

<table>
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<th>Monthly Rentals (R)</th>
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<tbody>
<tr>
<td>Mean</td>
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<tr>
<td>Standard Error</td>
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<td>Mode</td>
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</tr>
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<td>Count</td>
</tr>
<tr>
<td>Largest (1)</td>
</tr>
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<td>Smallest (1)</td>
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<tr>
<td>Confidence Level (95.0%)</td>
</tr>
</tbody>
</table>

Based on the observed data, the amount of monthly rental most likely to be achieved in this market is R4 000 per month for a Two-bedroom Townhouse. The rental of R4000 is reflected in both the median and the mode, the mean monthly rental is also close at R4075.
4.2.2 Rental agreements

An observation of how tenants got to rent their units indicated that 78% of the respondents entered into a rental agreement through a rental agent, 20% engaged directly with the owners, and 2% entered the agreement through other people connected to their landlords.

1 = Respondents who contracted through an agent
2 = Respondents who contracted with the owner
3 = Respondents who contracted through other people related to the owner

The predominant method (78% of respondents) of rental agreements is to enter rental agreements through agents; the rental agent is thus critical to the success of the investment strategy. The agent needs to market the property such that it commands the rental that is commensurate with the benefits that it offers prospective tenants, as well as screen tenants to enhance the probability of rent collection. The selection of a capable agent is at least as important as the selection of the property itself.
4.2.3 Attributes of the apartment that influenced the decision to rent the particular apartment

- The rental demanded relative to perceived value received was the attribute that had the most influence on the decision to rent specific apartments in a given residential area.
- The ease of access from major roads, distance from major shopping centres and the residential area are attractive features of the neighbourhood not a specific apartment complex.

More than 70% of respondents indicated the role of the rental agent recommendation in the decision to rent specific apartments; the choice of agent is thus critical to the outcome of the investment strategy.
4.2.4 Which of the following features of this apartment do you like the most?

- In addition to the attributes (rent versus value, residential area, distance from major shopping centres and ease of access from major roads) that tenants regarded in the decisions to rent, the design/appearance of the townhouse complex was cited by 82% of the respondents as having influenced their choice. The appearance and styling needs to be maintained; it would thus be helpful for a prospective investor to perform due diligence on the financial history of a target body corporate in order to assess the likelihood of proper maintenance of the structure and appearance of the complex. Owners of apartments need to pay their respective levies as a contribution to the general upkeep of the common area in a townhouse complex; an unkempt appearance of a complex may be an indicator that such contributions are not forthcoming, and/or concerns with financial management of the complex in general.
4.2.5 Which of the following features of this apartment do you like the least?

The features that are least liked by respondents are:

- **Distance from employment**: 73% of the respondents listed distance from employment as the most unappealing feature of their apartments; it looks like if an apartment is located in a residential area with the status that tenants desire, provides good value for the rental paid, is close to schools and major shopping centres, and is easily accessible from major roads, then prospective tenants would still rent the apartment, distance from employment notwithstanding.

- **Mix of tenants in the complex**: The next unappealing feature of the apartments (64% of the respondents) is the mix of tenants in a complex; a prospective investor would thus do well to observe the type of complaints that the respective body corporates generally handle in a particular area with respect to the conduct of tenants. The trend in complaints provides a sense of whether an apartment would be likely to attract a particular profile of tenant.
4.2.6 If you were to move to another rental apartment in the same area, which features would most likely, influence your decision?

- It appears that tenants are most likely to move to other apartments within the same area mainly due to factors in the specific segment of the area as well as the mix of tenants. For an investor it is thus helpful to be aware of changes in the character of the immediate residential area as well as the mix of tenants in particular complexes.
4.2.7 If you were to move to another rental apartment outside your current area, which features would most likely influence your decision?

- The distance from employment appears like the most compelling reason for tenants to move out of specific residential areas to rent similar units in other areas. It is thus important that the research of investment opportunities should consider the proximity of the property to employment opportunities.
- Rent versus value is second as a reason for tenants to leave residential areas for similar units elsewhere, thus investors need to be aware of the competitive environment so that the rent demanded is justified by the value provided relative to the competition.
4.2.8 Marital Status of respondents

- The majority of tenants in two-bedroom units are married, from personal observation most complexes allocate a single parking bay per such unit; it appears that an extra parking bay per unit in a complex would enhance the desirability of rental apartments to prospective tenants.
4.2.9 Age of respondents

- If the distribution of age among respondents is representative of the distribution in the area, then a feature of this residential area is that more than 90% of the respondents are over the age of 30, and this was collaborated by personal observation. This profile of tenants is more likely to live with young children; from personal observation most of the complexes do not provide designated areas for young children to play in. The young children playing in common area like the parking bays represent a nuisance to residents, this factor reduces the desirability of townhouses in the neighbourhood in general; all else remaining the same, an apartment in a complex that provides such playing facilities that is marketed by a competent agent would be expected to command a premium on its rental.
4.3 Simulation

The proposed investment model is premised on rentals observed in the market. The acquisition price paid for each property is thus based on the rental that can be achieved; the properties are thus acquired at their investment values and not their market values. The model further proposes that the investment value can be determined by a factor of 100 to the market rental, that is, the Investment value=100*Monthly rental. The mean rental in the market was R4075; the simulation was based on monthly rental of R4,000.

The management fee is 8% of the gross rental amount, the average levy is R700 per month, and both the rental and the levy are assumed to grow at 7% per annum. The rent after deducting the levy, the management fee and the interest on the housing finance, is taxed at 40%.

Year 1: The first property would thus be bought at 100* R4,000=R400,000. The monthly rentals are assumed to grow at 10% compound interest per annum.
Year 3: Property 2 would be purchased at 100*R4,840=R4,840,000
Year 5: Property 3 would be purchased at 100* R5,856.40=R5,856,400
Year 6: Property 4 would be purchased at 100*R6,442.04=R6,442,040
Year 7: Property 5 would be purchased at 100*R7,086.24=R7,086,624
Year 8: Property 6 would be purchased at 100* R7,948.76=R7,948,760
Year 9: Properties 7&8 would be purchased at 2(100*R8,574.36)=R17,148,712
Year 10: Properties 9,10&11 would be purchased at 3(100*R9,431.79)=R28,295,372
Year 11: Properties 12,13 &14 would be purchased at 3(100*R10,374.97)=R31,124,912
Year 12: Properties 15,16,17&18 would be purchased at 4(100*R11,412.47)=R42,564,987

Simulation Model

<table>
<thead>
<tr>
<th>Current</th>
<th>Min</th>
<th>Max</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy rate (%)</td>
<td>100</td>
<td>10</td>
<td>18</td>
</tr>
<tr>
<td>Interest rate (%)</td>
<td>14</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>8</td>
<td>6</td>
<td>20</td>
</tr>
</tbody>
</table>

Simulation Results

| Ave           | 3,815,460.75 |
| SD            | 5,703,642.18 |
| Min           | -1,136,924.25 |
| Max           | 22,270,767.97 |

Probability NPV<0.274545455

The NPV of the project ranges from a minimum of −R1,136,924.25 to a maximum of R22,270,767.97.
The Expected NPV of the investment project is the Average NPV=R3,815,460.75, and a Standard Deviation of R5,703,642.18. Since the Expected NPV>0, the project is viable, that is, the investment model deserves to be considered.
The simulation results indicate that probability that NPV<0 is 27.5%, that is, 72.5% of the time the project would be expected to have a positive NPV.

In the investing world, the coefficient of variation allows an investor to determine the volatility (risk) assumed in comparison to the amount of return that can be expected from an investment. That is, the lower the ratio of standard deviation to mean return, the better the risk-return trade-off. The coefficient of variation of 1.49 indicates significant variability in outcomes.

4.4 Investment Analysis

The research proceeded to investigate the investment value of a Townhouse complex in the area (Liefde en Vrede) to explore the viability of the investment in residential property for a group of investors; the purpose was to explore the practicality of a group of investors acquiring property together to fund their retirement.

4.4.1 Property productivity

Location: Liefde en Vriede is located next to Mulbarton, it is a small residential area that is still under development. According to Wikipidea, ‘less than 10 years ago this area was just open terrain; the main attraction to Liefde en Vriede is the Lebanese Marionite Church which is the largest Catholic church in the South of Johannesburg. There are no commercial businesses or schools in Liefde en Vriede. The residents rely on the surrounding suburbs for all their commercial needs’.

Linkages: The area is within a 5km radius of two national roads (N12/N1) and numerous regional roads.

4.4.2 Competitive attributes of Subject property:

<table>
<thead>
<tr>
<th>Most popular attributes</th>
<th>Inferior</th>
<th>Typical</th>
<th>Superior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy access from major roadways</td>
<td></td>
<td></td>
<td>*</td>
</tr>
<tr>
<td>Distance from schools</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Distance from major shopping centres</td>
<td>*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential area</td>
<td></td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Rent against Value</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.3 Competitive supply

The research then compiled an inventory of existing competitive properties; these are properties under construction, planned properties for which building permits have been obtained, and proposed properties.
4.4.3.1 Existing supply

<table>
<thead>
<tr>
<th>Complex</th>
<th>Number of units</th>
<th>Occupied units</th>
<th>Occupancy rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avon 1</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Avon 2</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Avon 3</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Avon 4</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Avon 5</td>
<td>8</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Catherine-Dee</td>
<td>32</td>
<td>29</td>
<td></td>
</tr>
<tr>
<td>Logan's View</td>
<td>103</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Petula's Place</td>
<td>110</td>
<td>106</td>
<td></td>
</tr>
<tr>
<td>Sunset Forest</td>
<td>25</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td>Sunset View</td>
<td>80</td>
<td>80</td>
<td></td>
</tr>
<tr>
<td><strong>Totals/Average</strong></td>
<td><strong>404</strong></td>
<td><strong>394</strong></td>
<td><strong>0.9752</strong></td>
</tr>
<tr>
<td>K-Cee Manor</td>
<td>65</td>
<td>63</td>
<td></td>
</tr>
</tbody>
</table>

The subject property has a vacancy rate that is typical of the area; it is typical in attributes sought by tenants, it is superior in terms of access from major roadways and rent against value. It is thus highly competitive in this market.

4.4.3.2 Forecast subject property capture

From inferred demand and the fundamental demand market forecast, an estimate of the investment value of the subject property in terms of future occupancy expectations and corresponding rent, was arrived at as follows:

The complex comprises 65 units:
3* 1 Bedroom units @ R3 300/month rent each
40*2 Bedroom units @ R4 000/month rent each
15* 3 Bedroom units (Duplexes) @ R5 400/month rent each
7* 3 Bedroom units (Simplexes) @ R5 800/month rent each

Operating expenses for the year 2006 were R626 270. Assuming a nominal growth of 7% per annum, the forecast for 2009 is R767 208

Potential Gross Income = 3 498 000
Adjustment for Vacancy @ 5% = 174 900
Effective Gross Income = 3 323 100
Operating Expenses = 767 208
Net rental = 255 5892

Investment Value = Effective Gross Income/Capitalization rate
= R3 323 100/0.12
= R27 692 500

4.5 Conclusion

This chapter presented the results of the field research, and indicated market conditions within the target area. The following chapter will discuss these outcomes in relation to the literature reviewed and prior research.
CHAPTER 5: DISCUSSION

5.1 Introduction

Financial planners are expected to display diligence in recommending and implementing investment strategies for clients. In considering specialist investment strategies like investment in residential property, a financial planner is often faced with investment opportunities that are unlike retail investments, in that; they are not supported by publicly available research. The previous chapter presented the output of field research. This chapter will present an interpretation of the research findings, it will interpret and explain the findings in conjunction with readings and previous research conducted both locally and internationally. This chapter also links the research findings with the literature review.

5.2 Research findings

5.2.1 The personal financial planning environment

Traditionally financial advisors have been linked to financial institutions like banks and insurers, and their remuneration was based on products sold. Thus the advisor would be dependent on product sales for a living, this creates the perception that investment plans proposed by advisors are really a means to an end. The end, being the sale of a product. There has been in recent years the development of financial planning practices where the investor pays directly for the investment plan, from crafting to implementation and on-going monitoring. The focus in these practices, in theory at the least, is on the client’s life goals and not the investment vehicles (products).

Financial planning is the process of developing strategies to assist clients in managing their financial affairs to meet their life goals. The process of financial planning involves reviewing all relevant aspects of a client’s situation across a large breadth of financial planning activities, including inter-relationships among often-conflicting objectives.

The international benchmark for financial planners is that, regardless of whether a financial planner offers comprehensive financial planning or has chosen to limit the scope or level of services, they need to master the complete set of abilities required to competently deliver a comprehensive financial plan to a client.

These abilities are:
- Financial Management
- Asset Management
- Risk Management
- Tax Planning
- Retirement Planning
- Estate Planning

A financial planner should master each of the financial planner abilities at an appropriate level, and will likely work with other professionals in evaluating and assessing various aspects of the client’s financial situation. This means in evaluating a strategy for retirement, a financial planner needs to integrate these abilities in a coherent manner. This dissertation presented a framework for financial planners to discharge their duties in a structured manner.
The regulation of financial advice is legislated, primarily in the form of Financial Advisory and Intermediary Services Act 37, 2002 (FAIS); disputes on financial advice are ultimately considered and disposed by the office of the FAIS Ombud. The determinations by this office have the effect of a judgement in a civil case. Recent determinations indicate that the onus to communicate at an appropriate level rests with the financial planner, that is, the financial planner has a duty to ensure that the client understands the financial plan (Sanlam, 2009). This is a particularly onerous task, previous research into investment choice by members of retirement funds, determined among others, that the level of financial literacy among fund members was low (George, 1999). This is compounded by what is referred to as the curse of knowledge, that is, professional financial planners will invariably have difficulty communicating at the right level, because they are likely not to appreciate how little the average client knows about financial planning (Camerer, 2002).

The dilemma for financial planners is then the need to comply with the regulatory requirement of appropriateness in communication; detailed disclosures at the level appropriate to a particular client, when previous studies indicate that the complexity of the decision making would generally make individuals to defer implementation of retirement plans (Botti & Iyengar, 2006). Thus identifying clients’ life goals should generally not be difficult, the challenge is more likely to be implementation and management of financial plans to reach these goals.

The implementation of financial plans based on investments in residential property would require specific research of the economic feasibility of such assets to meet clients’ goals. Such research comes at a cost; the challenge is then, how does a financial planner position the research process and the cost to the average client, with the low level of financial literacy, and still maintain the required thoroughness of the advice. The investment value determined as a multiple of the mean rental was far below what in the opinion of rental agents would be acceptable to property owners in distress; that means that an investor and/or the financial planner needs intimate knowledge (or access to such knowledge) of market conditions in the area in order to identify opportunities to buy. The time and the resources required to gain such knowledge was not factored into the investment model in evaluating the economic viability.

The notion of independent advice requires a particular level of sophistication in the client, because historically financial advice has been packaged as part of product sales; intermediaries of financial institutions would provide advice on financial products as part of the sale, and similarly practitioners like estate agents would provide advice on investment properties as part of their sale. The challenge in the current financial planning environment is then, how do independent financial advisors differentiate themselves, so that clients can appreciate the advice in a proper context. By appreciating the role of advice separate from products, clients can be informed on the attributes of the various investment strategies. FAIS legislation is functional, that means that as long as the activities of the people are deemed to be financial advice and/or intermediary services then such activities are regulated by FAIS, irrespective of what the people call themselves; the people thus require authority to practice in terms of the FAIS Act. From an observation of role players in the real estate market, it appears that there is a signification number of real estate practitioners involved in the dispensing of investment advice without the proper authority while being unaware that their activities are improper.
5.2.2 Investor decision-making

A significant number of South Africans own property, the market value of residential property was estimated at R2 000 billion at the end of year 2003, almost twice the market capitalization of the JSE Securities Exchange (Botha, 2005). Thus there are a significant number of people that consider themselves knowledgeable about property. Many regard real estate as synonymous with security. Since property values are believed to rise with the value of inflation. There is a perception that tangible assets, such as land, bricks and mortar; have a real quality compared to equities or bonds, and that property owners are in greater control of their investment (Botha, 2005).

Individual investors tend to display an affinity for property investments because of what is referred to as an illusion of control bias, in considering various investment vehicles. According to Pompian (2006), this is the tendency of human beings to believe that they can control, or at least influence outcomes, when they cannot. The illusion of control can result in investor focusing their investment activities on those areas whose fate they feel some form of control. The investment portfolio would thus not be optimally diversified; whereas investors are well advised to diversify their property investments, with respect to, geographical and regional economic vulnerabilities and opportunities (Pagliari, 1995).

The investment strategy is based on the existence of a differential between mortgage loan repayments and the rental commanded by subject properties. An implicit assumption of this strategy is that property prices and rentals in the target area will continue to grow through the planning term. The agents who were interviewed who are also investors in their personal capacities seemed to share the same opinion on the expected movement in rentals and prices. A brief history of the South African residential property market indicates that the market has not experienced uniform growth over the 25-year period to year 2006 (Clark & Daniel, 2006). There is no apparent reason to expect that the next 40 years, (which is the planning term under consideration, 20 years to save for retirement, and 20 years in retirement) will be different.

Financial planners need to help their clients by identifying the likelihood of making financial decisions based on ill-conceived virtues of particular investment strategies. Property needs to be appreciated for what it is; an asset that can generate cash flows as well as capital appreciation for investors. Because property ownership commands a special place in the psyche of a lot of investors, investment decisions on property are more likely to be more emotive and sentimental relative to other asset classes. The restrictions placed by apartheid legislation meant that settlement patterns and property acquisition were artificially altered (Prinsloo, 2004). This artificial influence of settlement patterns means that forecast of property prices and rentals is further complicated by the country’s development state.

5.2.3 Availability of market information

The Generally Accepted Planning Practice as articulated in the Financial Planning Institute’s code of conduct for financial planners, requires planners to identify high-risk investments; investments based on a high level of financial gearing are considered to be high risk. In this case financial planners are expected to obtain information on the investment by conducting formalities on:

- Prospectus, financial statements, etc.
- What is the nature of the asset?
• Who is providing the asset?
• What is the client’s downside potential if the investment fails?

The financial planners should then communicate the results of their findings and the limitations of their knowledge to the client. Financial planners should never give blanket approval, but rather provide a balanced view, and elicit expert advice when in doubt. To that extent, the research sought to gain knowledge of local market conditions from real estate agents in the area.

A comparison to the investment process undertaken in commercial real estate indicated that property are generally not commissioned before agreements are reached with tenants. The grade of tenants is used to determine the viability of investment projects. The leases are long-term. Thus a regional shopping mall for instance, is accepted to become viable once agreements are reached with anchor tenants, these are usually the big retail supermarkets.

The leases in residential property are generally short-term. The investment in residential property involves market research into the profile of the most likely tenants of a proposed investment. Most of the research on individual tenants amounts to a review of how those individuals have conducted their banking accounts in the past. Thus the financial viability of the investments in residential property is more uncertain than comparative investments in commercial property.

Rigorous research needs to be thorough and mathematically precise; however the rigour need not exhibit both hallmarks of quality at the same time (DeLisle, 2000). The investigation of market conditions revealed that agents who operate in the target area are generally not keen to participate in research of this nature. A major cause of the unwillingness to participate in research is that knowledge of market conditions is considered to be marketing intelligence; to an extent that a significant number of agents who were approached, openly indicated that they did not believe the statement that the research was for academic purposes. The difficulty with obtaining information from practitioners affected the thoroughness of the research negatively, however the research was mathematically precise.

The financial planner is expected to perform their task with due diligence; according to Pagliari (1995), many users in the market often view appraisal fees as a necessary evil, and tend to equate the cost of an appraisal with other commodities that must be purchased, purchasing the most for least. This was observed among market participants in commercial property, who are on average more knowledgeable, and are involved in more trades that an average individual investor in residential property. The concern is how to impress on clients, the expertise and the time, required to perform a meaningful appraisal of an investment property. The inadequate appreciation of the value of the appraisal process brings an additional element in the determination of the risk of the investment strategy.

Since the investigation of the investment strategy was motivated by governance concerns around retail investment vehicles, the difficulty with obtaining market information should be assessed relative to such concerns. From a risk perspective, there is a need for financial planners to communicate this aspect of investment risk to clients, because the concerns about governance are in essence concerns about the risk of retail savings products. According to Cameron (2008), the governance concerns are partly due to lack of transparency in retail products. The increase in the popularity of alternative investment vehicles transfers responsibility and choice to investors, the challenge for advisors, is to frame the risk-reward trade-offs and cast financial decision making in a format that
ordinary people can understand and implement (Bodie, 2003). Financial planners thus need to compare the perceived lack of transparency in retail products to the difficulty of obtaining market information on residential property.

5.2.4 Economic viability of the proposed investment strategy

The arithmetic average of rental in the two-bedroom townhouse market in the area was R4075 per month. Investment in direct property was evaluated based on rental income only; it is not a holistic evaluation of returns from property. The research did not consider any concessions on rentals, that is, occupancy is deemed to be equivalent to payment of rental in full. The review of literature suggests that investors would do best to limit their investments to areas that they know well.

The results confirm that the proposed model has a positive net present value (NPV) 72.5% of the time and the expected NPV is R3 815 460.75. A positive Expected NPV indicates a viable project, the next consideration is how risky is the investment project. Since the model has a 27.5% probability of returning a negative NPV it is a viable, albeit a risky project.

The investment model is based on assumption of rentals increasing at a constant rate over an investor’s lifecycle. The possibility of variable rentals is addressed implicitly, by including occupancy rate as a variable in the simulation.

The proposed investment strategy is a specialist strategy, investors obtain the benefit of direct control of their assets, this addresses concerns on perceived breakdowns in governance alleged in media criticism of retail financial institutions. The trade-off is the loss of diversification across asset classes as well the loss of professional management that take place within institutional funds. Literature surveyed indicates that the perception among most investors that they have direct control over their residential property is a myth; because most people own property, they tend to exaggerate the extent of their knowledge of the property market. This bias means that clients often do not appreciate the risk associated with property, and thus do not make meaningful comparisons.

The role of the financial planner is to correctly identify the client’s biases, so that the implementation of investment strategies can be managed better. A financial planner also needs to identify their own biases and how these may affect their clients.

5.2.5 Investment Analysis of existing apartment complex

The subject property of the investment analysis is highly competitive in the market area. The occupancy rate of 97% is highly favourable, most investment analyses in real estate make a provision for a 5% vacancy rate. The lower vacancy rate provides room for an investor to offer concessions in rental when competing for tenants, without an adverse effect on economic viability.

A financial advisor investigating the feasibility of pursuing the proposed investment model for a group of similar investors can apply the principle to determine the investment value by discounting the market rentals at a determined rate. From the observation of trends in property prices in the area, a prospective investor can compare the current investment value to the likely acquisition cost incurred by the current owner. For instance, an observation of the median prices that were paid in the area for properties acquired in the last five years, can
provide a basis for negotiation in the investor’s quest to obtain the properties at close to their investment values.

The rental value method of determining the investment value of a property was applied to an existing apartment complex. The investment value of the complex was arrived at by discounting the effective gross income, that is, the gross income after making an allowance for vacancies, by the implied discount rate of 12%. The discount rate is implied by the rental value, 100*monthly rental= Investment value.

5.2.6 The role of the financial advisor in the management of the investment strategy

This dissertation was motivated by concerns around the conduct of role-players in the financial services industry, with a focus on the role of the financial planner. According to the Financial Planning Institute’s code of ethics and professional responsibility, a financial planner will in all likelihood be placed in a position of trust and confidence. The ultimate source of such public trust is the personal and professional integrity of the planner. In deciding what is right and just the planner should rely of his or her integrity as the appropriate yardstick; integrity requires consistent application of one’s stated principles. It demands honesty and candour, which must not be subordinated to personal gain and advantage.

The trust relationship is often undermined by financial planners’ inability to connect intimately with their clients. The main cause is the tendency to focus on technical expertise at the expense of appreciating the client as whole being (Maister, 2002). Thus the planner may not understand that decision-making involves not only the cognitive, but also spiritual and emotional elements of the client.

The planner needs to appreciate the investment strategy from the point of view shared by the client, and help the client to interpret media reports within the appropriate contexts. This will help clients to understand that financial products and investment schemes are not financial plans, but rather vehicles to reach clients’ life goals and objectives.

Once the trust relationship is established, the financial planner can put forth a structured appraisal of investment options. The investment value of any cash flow generating asset is the present value of the cash flows discounted at an appropriate rate (Damodaran, 2002). The more uncertain the cash flows, the higher the discount rate.

A financial advisor needs to put a risk management framework in place; this may be performed primarily through diversification and hedging of an investment portfolio. The diversification that can most easily be achieved in a portfolio of real estate assets is location. The investment strategy in residential real estate requires clients to restrict their investment activities to areas that they know well, so that they may have intimate knowledge of market conditions in their target areas (McLean, 2006). A financial planner would need to present the trade-off between the need to diversify based on location, and the need to concentrate investments within locations to obtain market intelligence. Diversification is an exercise in risk mitigation; the role of the planner is then to frame it in a manner that is appropriate to a particular client.
Traditional financial plans have a strategy for acquiring retirement capital, then a strategy for applying the capital at retirement to fund post-retirement income. This strategy of acquiring property and holding it for life means that the planning term is longer. A financial planner needs to have an opinion on whether inflation is expected to increase or decrease during the period under consideration, and what is the likely impact on the economy; the planner should distinguish between the impact of anticipated and unanticipated inflation (Marx, 2007:75). The reason being that anticipated inflation is expected by most decision makers, and taken into account when financial planning is done. The investment strategy under consideration is based on an investment horizon of at least forty years. To have a view on inflation over forty years is a difficult task for a planner, thus increasing the uncertainty of the cash flows, and hence the economic viability of the strategy. This additional element of risk may not always be apparent to clients.

Property as an asset class is unique because it is immobile and generally not as liquid as other assets, particularly in the short term. Lack of liquidity can be positive, as a commitment device for clients who are prone to discontinue and realise their savings, however over the term of 40 years, the probability of future developments having an adverse economic impact on any one residential area, is greater. This element of risk needs to be presented explicitly to clients considering this strategy.

This strategy is based on debt finance; clients need to be aware that because of systemic risk elements, the ability to meet their mortgage repayment obligations can be impaired. This possibility presents a risk that is not limited to the asset concerned, but the rather the client’s entire estate is exposed to creditors. This is contrary to the market risk in retail savings products, where the client’s potential loss of capital is limited to the contribution made.

5.3 Conclusion

The retirement plan based on investment in rental apartments within areas, which display a sufficient spread between mortgage repayments and market rentals, is economically viable. Financial planners should only consider the investment strategy with access to specialised knowledge of residential property within designated areas. Because research into South African residential property is limited, access to such specialised knowledge would also be limited. The role of the financial planner is then asking relevant question to perform an investment analysis. The strategy thus requires the investors themselves to have extensive knowledge of the market area that they are interested in. This research will proceed to making recommendations and conclusion in the next chapter.
CHAPTER 6: RECOMMENDATIONS AND CONCLUSIONS

6.1 Introduction

The study established that financial planners, who are considering an investment strategy for their clients, could consider the purchasing residential rental property in order to fund post-retirement income. This is based on the application of the traditional finance technique of capital budgeting, which indicated that the strategy is economically viable. However the study also determined that the successful implementation of the investment strategy depends on more than the probabilistic positive economic outcome; investors’ decision-making, which includes the option to stick to investment plans, is complex. Financial planners thus need to comply with legislation on financial advice, as well as, manage the implementation of investment strategies by taking into account the cognitive, social, psychological and spiritual elements of their clients, and how these affect the likelihood that financial planning recommendations can be implemented properly.

Financial planners have a duty to make their clients appreciate the level of risk attached to investments that the planners recommend. The planner thus has a responsibility to indicate likely sources of risk in an investment strategy, these sources are not always immediately apparent, or in cases where they are apparent, over time, clients may forget their likelihood of occurrence and impact. The planner thus needs to provide a framework for evaluating the investment strategy by referring to the factors that were considered at implementation stage.

6.2 Implications of this research

Financial planners, who advise clients to save for retirement, through investing in residential real estate can perform investment analyses when exploring opportunities for their clients, by including a structured approach based on finance theory. This means that financial planners can evaluate investment strategies on the basis of mathematical probability to meet the clients’ objectives. Thus planners can optimise allocation of properties to an investment portfolio, by applying an objective framework; and this objectivity, may contribute to enhancing a trust relationship with clients. Financial planners that are considering this strategy need to be aware of the lack of published research into residential property, and weigh this against investors’ governance concerns about retail investment vehicles. This trade-off needs to be explained to clients in a manner that is reasonably understandable to a particular client.

Financial planners that recommend this strategy need access to intimate knowledge of market conditions, this means that, this strategy requires active management. The need for active management increases the cost of implementing the investment strategy. The investor thus needs to be made aware of the full economic cost of the strategy.
6.3 Recommendations

Financial planning businesses need to communicate their governance processes around investment to their clients, this will help differentiate such business on the basis of the advice process rather the sales process. This means that, among other things, investment strategy reviews need to explicitly deal with issues of market noise, such as media reports, to help clients recall the context of financial planning recommendations. And conversely, investors need to identify those planners who place a structured and verifiable advice process central to their recommendations.

Investors who have a shorter time, twenty years or less to retirement, who have not accumulated the desired capital, generally need to assume more risk in their investments to reach their retirement goals. Investment in residential real estate is an appropriate strategy for exploiting market inefficiencies, to generate higher returns than retail investment products, and clients have control over their assets. Such investors need to be aware of the risk that they assume, and decide whether the risk-adjusted return of the strategy is likely to help them reach their goals.

Investors who have the knowledge and the time to execute the investment strategy themselves should not pay for advice that they do not need, and are best placed to make up the shortfalls in their retirement capitals by assuming active management of their investments.

Financial planners can research how clients need to structure their personal finances, so that, they qualify for the debt finance required to implement the investment strategy in residential real estate. Thus clients may need to look at the most appropriate business structure for owning the properties, the most efficient way to raise finance and minimise the cost of such finance, may be for the client to establish a business entity such as a close corporation or private company, in which to implement the strategy.

6.4 Limitations of this research

This research looked at an investment strategy based on buying properties and holding the properties for life. It did not look at optimising returns, by replacing under-performing assets with assets expected to enhance performance, so that clients’ savings objectives can be met. The strategy in real estate is based on funding the properties through debt finance; it did not consider the restrictions that can be imposed on the availability of such finance. The National Credit Act 34 of 2005, for instance, imposes the duty on credit grantors, to only extend credit, where it is deemed to be affordable. The constraints on debt finance may affect the feasibility of the investment strategy.

The selection of the target area was based on published literature on the characteristics of good rental apartments. The attributes that tenants seek were assumed to be of equal importance in the choice of an apartment.
6.5 Recommendations for future studies

The current study looked at the attributes that tenants consider in their decision to rent. These attributes were selected based on literature review. A research into the rental decision based on multi-criteria decision analysis would help shed light on how individuals rank the different attributes. This will contribute to a better selection of assets, and thus improve the probability of investment outcomes matching client expectations. A study of how successful investors in residential real estate, decide on replacing under-performing assets in an investment portfolio, to enhance performance; can help by making portfolio reviews that financial planners are expected undertake at the least annually, to contribute to the implementation of the investment strategy.

6.6 Conclusion

The investment strategy that was investigated is based on acquiring rental apartments to fund post-retirement income. The strategy is based on debt finance to buy property, which is then repaid over the investor’s working life. Discounting the expected cash flow over the planning term indicates that the strategy has a positive net present value, and is thus economically viable.

Decision-making on investments is influenced by a complex interaction of influences including cognition, emotion, spirit and family. The financial planner can contribute to the investment process by helping the investor to manage these influences. The financial planner achieves that, by providing a structure to the decision-making. The structure helps the client to perceive investment strategies within a holistic context of a financial plan. Clients can thus be helped by placing constraints to mitigate the tendency to deviate from financial plans due to emotional and spiritual factors.

The research addressed the problem of how clients of financial planning services are likely to perceive investment strategies proposed by financial planners. The perception is likely to be influenced by how financial planning was conducted historically, and the media reports on particular negative aspects of such planning. The study applied a framework based on finance theory, to present a structured evaluation of an investment strategy.

The study answered the question of economic viability of the strategy on a net present value basis; it also provided a risk-reward framework for financial planners to align their practice with modern financial science, by applying finance theory taking into account behavioural aspects of investor decision-making. Finally, the study addressed the question of the role of the financial planner in the management of the investment strategy, by providing a framework for the continual reviewing the investment strategy by referring to the factors that were considered at implementation stage.
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3 DECEMBER 2009

MR. L. PHAFULI (6613324400)
GRADUATE SCHOOL OF BUSINESS

Dear Mr. Phafuli

ETHICAL CLEARANCE APPROVAL NUMBER: HS3/431/09

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

"Investing in residential rental property to generate post-retirement income"

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

Yours faithfully

[Signature]

MS. PHUMELELE XIMBA

cc. Supervisor (Mr. RM Challener)
cc. Mrs. C Heddon
K-Cee Manor Body Corporate
Swempie Crescent
Liefde en Vrede
Johannesburg
2190

30 November 2008

All Residents

This serves to confirm that Mr Lialuma Phafuli has been granted permission to enter the premises to conduct a survey among tenants. The purpose of the survey is to gather market information exclusively for academic research, and the information will not be used for any other purpose. The information will be treated as confidential.

The survey is voluntary.

Kind Regards

Leon Lambert
Chairman
Dear Respondent,

**MBA Research Project**

**Researcher:** Lialuma Phafuli (082 964 7226/011 238 0458)  
**Supervisor:** Martin Challenor (031 260 8104)

I am Lialuma Phafuli a graduate student, reading MBA at the Graduate School of Business, UKZN. I am inviting you to participate in a research project to study Investment in Residential Property. Along with this letter is a survey or questionnaire that asks a variety of questions about the rental property market. I am asking you to look over the questionnaire and, if you choose to do so, complete it and give it back to me. It should take you about 20 minutes to complete.

The results of this project will be for assessing residential property as an investment to fund retirement income. Through your participation I hope to understand residential rental market. I hope that the results of the survey will be useful for personal financial planning and I hope to share my results by publishing them in a peer-reviewed journal.

I do not know of any risks to you if you decide to participate in this survey and I guarantee that your responses will not be identified with you personally. Your participation in this project is voluntary or optional. You can refuse to participate or withdraw from the project at any time with no negative consequence. I promise not to share any information that identifies you with anyone outside my research group, which consists of my supervisor Martin Challenor and me. The Graduate School of Business, UKZN, will maintain confidentiality and anonymity of records identifying you as a participant for many years.

The survey should take you about 20 minutes to complete. I hope you will take the time to complete this questionnaire or survey and return it.

If you have any questions or concerns about completing the questionnaire or about being in this study, you may contact my supervisor or myself at 082 964 7226. The Ethics Clearance Committee at The University of KwaZulu-Natal has approved this project.

**CONSENT**

I have read and understand the above information. I have received a copy of this form. I agree to participate in this study.

Participant’s signature____________________________________ Date________________

Investigator’s signature____________________________________ Date________________

Sincerely.
Voluntary questionnaire on investment in residential property

Thank you for considering answering the questions below. Your participation is voluntary. You may stop at any point you wish. Please read and sign the consent form at the end of this questionnaire. Please note that your name will not be made public.

Appendix A: Tenant questionnaire

Answer the questions below by circling the option that applies to your situation

Are you currently renting a two-bedroom townhouse?
• Yes
• No

With whom did you enter into the rental agreement?
• Owner
• Agent
• Other

Answer the questions below by providing the amount that applies to your situation

Your contractual monthly rent amount is:
• R______________

Answer the question below by circling the option that applies to your situation

Does the monthly rent amount above include the levy?
• Yes
• No
• If yes, the monthly levy is R______________

Answer the questions below by circling the option that applies to your situation

Where did you first hear about the apartment complex that you are currently renting in?
• Newspapers
• Newspaper supplement
• Agent
• Direct Mail
• Catalogue
• A friend
• Other ________________________________

When did you decide to rent that apartment?
• Before coming to the complex
• In the complex
• Not sure
Answer the question below by circling all the options that apply to your situation

Why did you rent this particular apartment?
- Ease of access from major roads
- Distance from schools
- Distance from major shopping centres
- Mix of tenants in the complex
- Residential area
- Styling/Appearance of the complex
- Styling/Appearance your unit
- Recommendations of friends/colleagues
- Recommendation of agent
- Distance from place of employment
- Rent vs. value
- Other ___________________________________

Answer the questions below by circling the option that most closely applies to your situation

Which of the following features of this apartment do you like most?
- Ease of access from major roads
- Distance from schools
- Distance from major shopping centres
- Mix of tenants in the complex
- Residential area
- Design/Appearance of the complex
- Design/appearance of your unit
- Distance from place of employment
- Rent vs. value
- Other ___________________________________

Which of the following features of this apartment do you like the least?
- Ease of access from major roads
- Distance from schools
- Distance from major shopping centres
- Mix of tenants in the complex
- Residential area
- Design/Appearance of the complex
- Design/appearance of your unit
- Distance from place of employment
- Rent vs. value
- Other ___________________________________

If you were to move to another rental apartment in the same area, which feature would most likely influence your decision?
- Ease of access from major roads
- Distance from schools
- Distance from major shopping centres
- Mix of tenants in the complex
- Residential area
- Styling/Appearance
- Distance from place of employment
- Rent vs. value
  - Other ___________________________________
If you were to move to another rental apartment outside your current area, which feature would most likely influence your decision?

- Ease of access from major roads
- Distance from schools
- Distance from major shopping centres
- Number of bedrooms
- Mix of tenants in the complex
- Styling/Appearance
- Distance from place of employment
- Rent vs. value
  - Other __________________________

**Answer the questions below by circling the option that applies to your situation**

Marital status:
- Married
- Single

Level of education: (check the highest level completed)
- Completed high school
- Completed college
- Completed graduate school
- Other __________________________

Age
- Under 20
- 20 - 24
- 25 - 29
- 30 - 39
- 40 - 49
- 50 - 59
- 60 and Over

**Answer the questions below by providing the requested details of your situation**

How many school-going children stay with you?:
- 

How many of those children attend school in your area?:
- 
  - N/A

Occupation

[Blank space]
Dear Respondent,

MBA Research Project
Researcher: Lialuma Phafuli (082 964 7226/011 238 0458)
Supervisor: Martin Challenor (031 260 8104)

I am Lialuma Phafuli a graduate student, reading MBA at the Graduate School of Business, UKZN. I am inviting you to participate in a research project to study Investment in Residential Property. Along with this letter is a survey or questionnaire that asks a variety of questions about the rental property market. I am asking you to look over the questionnaire and, if you choose to do so, complete it and give it back to me. It should take you about 20 minutes to complete.

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CONSENT

I have read and understand the above information. I have received a copy of this form. I agree to participate in this study.

Participant’s signature________________________________________ Date________________

Investigator’s signature_______________________________________ Date________________

Sincerely.
Thank you for considering answering the questions below. Your participation is voluntary. You may stop at any point you wish. Please read and sign the consent form at the end of this questionnaire. Please note that your name will not be made public.

Appendix B: Brokers questionnaire

Townhouse rentals:

Answer the questions below by providing the input that most closely represents your view

- In your opinion, what are the current monthly market rentals for new lettings of Townhouses in the following categories
  - Area
  - Unit size
  - Bassonia
  - Glenvista
  - Mulbarton
  - Liefde en Vrede
  - 2-bedroom
  - 3-bedroom

- In your opinion, what are the current market vacancy levels of Townhouses in the following categories
  - Area
  - Unit size
  - Bassonia
  - Glenvista
  - Mulbarton
  - Liefde en Vrede
  - 2-bedroom
  - 3-bedroom

- In your opinion, what is presently the maximum price a long-term investor should pay for:
  - Area
  - Unit size
  - Bassonia
  - Glenvista
  - Mulbarton
  - Liefde en Vrede
  - 2-bedroom
  - 3-bedroom
• In your opinion, in the current market conditions, what is the minimum price that an owner in financial distress would accept for:

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<tr>
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<th>Bassonia</th>
<th>Glenvista</th>
<th>Mulbarton</th>
<th>Liefde en Vrede</th>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-bedroom</td>
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</table>

• In your opinion, what movement in demand do you expect in the next 12-24 months

<table>
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<tr>
<th>Area</th>
<th>Unit size</th>
<th>Bassonia</th>
<th>Glenvista</th>
<th>Mulbarton</th>
<th>Liefde en Vrede</th>
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</thead>
<tbody>
<tr>
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<td>2-bedroom</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3-bedroom</td>
<td></td>
<td></td>
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</tbody>
</table>

• In your opinion, what movement in market rentals do you expect in the next 12-24 months

<table>
<thead>
<tr>
<th>Area</th>
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<th>Bassonia</th>
<th>Glenvista</th>
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<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>3-bedroom</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

• In your opinion, what is the main reason people rent in this area

• In your opinion, what is the main reason people who rent in this area, leave the area to rent similar units in other areas

Name:
Mortgage Analysis prepared for Property, One

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<th>Total Interest</th>
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Mortgage Analysis prepared for Property, Two

Amount of Loan: R 484,000.00
Interest Rate: 14% (Monthly Compounded)
Term: 20 Years
Instalment: R 6,018.64

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<th>Balance</th>
<th>Total Payment</th>
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## Mortgage Analysis prepared for Properties, Seven-Eight

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Mortgage Analysis prepared for Properties, Nine-Eleven

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Interest Rate | 14% (Monthly Compounded)
Term | 20 Years
Instalment | R 38,704.47

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Mortgage Analysis prepared for Properties, Fifteen to Eighteen

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<td>R 4,405,135.01</td>
<td>R 2,043,596.16</td>
<td>R 155,851.99</td>
<td>R 1,887,744.17</td>
</tr>
<tr>
<td>4</td>
<td>R 68,185.1</td>
<td>R 613,013.61</td>
<td>R 4,340,949.90</td>
<td>R 2,724,794.88</td>
<td>R 224,037.10</td>
<td>R 2,500,757.88</td>
</tr>
<tr>
<td>5</td>
<td>R 79,369.61</td>
<td>R 602,830.71</td>
<td>R 4,262,581.69</td>
<td>R 3,405,939.60</td>
<td>R 302,405.11</td>
<td>R 3,103,599.49</td>
</tr>
<tr>
<td>6</td>
<td>R 90,071.65</td>
<td>R 591,127.07</td>
<td>R 4,172,510.24</td>
<td>R 4,067,192.32</td>
<td>R 382,476.76</td>
<td>R 3,694,715.56</td>
</tr>
<tr>
<td>7</td>
<td>R 103,523.13</td>
<td>R 577,675.59</td>
<td>R 4,066,997.11</td>
<td>R 4,768,391.04</td>
<td>R 495,999.89</td>
<td>R 4,272,391.15</td>
</tr>
<tr>
<td>8</td>
<td>R 118,963.49</td>
<td>R 562,215.23</td>
<td>R 3,950,093.62</td>
<td>R 5,449,589.75</td>
<td>R 614,983.38</td>
<td>R 4,834,506.38</td>
</tr>
<tr>
<td>9</td>
<td>R 136,752.72</td>
<td>R 544,446.00</td>
<td>R 3,813,250.89</td>
<td>R 6,130,788.48</td>
<td>R 751,736.11</td>
<td>R 5,379,052.37</td>
</tr>
<tr>
<td>10</td>
<td>R 157,175.65</td>
<td>R 524,023.07</td>
<td>R 3,656,075.24</td>
<td>R 6,011,807.20</td>
<td>R 900,911.76</td>
<td>R 5,963,975.44</td>
</tr>
<tr>
<td>11</td>
<td>R 180,648.58</td>
<td>R 500,550.14</td>
<td>R 3,475,426.66</td>
<td>R 7,493,185.92</td>
<td>R 1,069,560.34</td>
<td>R 6,400,525.58</td>
</tr>
<tr>
<td>12</td>
<td>R 207,627.01</td>
<td>R 473,571.71</td>
<td>R 3,287,790.65</td>
<td>R 8,174,384.64</td>
<td>R 1,267,187.35</td>
<td>R 6,877,197.97</td>
</tr>
<tr>
<td>13</td>
<td>R 238,634.45</td>
<td>R 442,564.27</td>
<td>R 3,028,195.20</td>
<td>R 8,855,583.36</td>
<td>R 1,525,821.80</td>
<td>R 7,319,761.56</td>
</tr>
<tr>
<td>14</td>
<td>R 274,272.50</td>
<td>R 406,826.12</td>
<td>R 2,754,892.68</td>
<td>R 9,536,782.08</td>
<td>R 1,810,094.40</td>
<td>R 7,776,587.68</td>
</tr>
<tr>
<td>15</td>
<td>R 315,233.33</td>
<td>R 365,565.69</td>
<td>R 2,438,659.57</td>
<td>R 10,217,860.80</td>
<td>R 2,125,327.43</td>
<td>R 8,052,953.37</td>
</tr>
<tr>
<td>16</td>
<td>R 352,310.57</td>
<td>R 318,888.15</td>
<td>R 2,077,349.00</td>
<td>R 10,899,179.52</td>
<td>R 2,467,638.00</td>
<td>R 8,411,541.52</td>
</tr>
<tr>
<td>17</td>
<td>R 416,416.77</td>
<td>R 264,779.96</td>
<td>R 1,666,930.23</td>
<td>R 11,580,379.24</td>
<td>R 2,904,056.77</td>
<td>R 8,676,321.47</td>
</tr>
<tr>
<td>18</td>
<td>R 476,667.59</td>
<td>R 202,591.13</td>
<td>R 1,261,575.86</td>
<td>R 12,261,575.86</td>
<td>R 3,362,664.36</td>
<td>R 8,676,912.60</td>
</tr>
<tr>
<td>19</td>
<td>R 550,083.82</td>
<td>R 131,144.90</td>
<td>R 862,328.83</td>
<td>R 12,942,775.68</td>
<td>R 3,952,748.17</td>
<td>R 9,010,027.51</td>
</tr>
<tr>
<td>20</td>
<td>R 632,234.49</td>
<td>R 46,954.27</td>
<td>R 4,383</td>
<td>R 13,623,374.40</td>
<td>R 4,564,982.62</td>
<td>R 9,058,991.78</td>
</tr>
</tbody>
</table>
K-CEE MANOR BODY CORPORATE / BEHEERLIGGAAM

GENERAL INFORMATION / ALGEMENE INLIGTING

Trustees
Trustees in office during financial year 1 September 2005
to 31 August 2006.

Trustees aangestel vir die finansiële jaar 1 September 2005
tot 31 Augustus 2006.

K. Oliwenger - unit 12
J. Taylor - unit 33
L. Lambert - unit 34
S. Malhotra - unit 36
T. Lindsay - unit 41
S. Govender - unit 42
C. van Dussen - unit 58

Physical Address
Swanpie Crescent
Biedje and Frede
Johannesburg
2000

Postal Address
P.O. Box 3659
Germiston
2850

Auditor
ANS Balbo and Partners
76 Second Avenue
Alberton
1450

Fisiese Address
Swanpie Singel
Biedje en Frede
Johannesburg
2000

Pos Adres
Postbus 3659
Germiston
2858

Ouditeure
ANS Balbo en Vossebeek
76 Tweede Laan
Alberton
1450
Contents

Trustee's approval of annual financial statements 2
Report of the and/or to the trustee's 3
Annual financial statements
  Report of the trustee's 4
  Balance sheet 5
  Detailed Income Statement 6
  Notes to the financial statements 7

Inhoud

Trustees se goedkeuring van die jaarlike finansiële state
Veslag van die ondier aan die Trustees
Jaarlike finansiële state
Veslag van die Trustees
Balanskaart
Gedetailleerde Heffingskaart
Aantoeinge tot die finansiële state

Trustee's approval of annual Financial Statements

The annual financial statements set out on pages 3 to 7 were approved by the trustee's and are signed on its behalf by:

Trustee

Trustees se goedkeuring van die jaarlike Finansiële State
Die finansiële state sos aangegaan op bladery 3 tot 7 is goedkeur
deur die raad van trustees in gekies numm na hulle deur

Trustee
REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF K-CEE MANOR BODY CORPORATE

We have audited the Annual Financial Statements set out on pages 4 to 7. These financial statements are the responsibility of the trustees. Our responsibility is to report on these financial statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, as a basis for our opinion, the underlying accounts and such other information as we consider necessary in order to state our opinion. An audit provides an expression of opinion whether the financial statements are presented fairly, in all material respects, in accordance with the relevant accounting framework.

We have prepared the annual financial statements based on the information and explanations provided by the trustees and according to the accounting records which we have completed and maintained in accordance with generally accepted accounting practice.

In our opinion these financial statements fairly present the financial position of the Body Corporate as at 31 August 2006 and the result of its operations for the period then ended in conformity with generally accepted accounting practice.

AMS Botha (Pty) Ltd
AMS Botha and Partners
Chartered Accountants (SA) / Geertesieerde Rekeningeuniversiteite (SA)
Alberton
5 December 2006

VERSLAG VAN DIE ONAFHANKLIKE AUDITEURS AAN DIE LEDE VAN K-CEE MANOR BEHEERLIGGAAM

Ons het die finansiële jaarrekening van K-CEE MANOR BEHEERLIGGAAM in opdrag gevestig.

Ons het die jaarrekening van die onafhanklike auditeur van K-CEE MANOR BEHEERLIGGAAM in opdrag gevestig.

Ons het die jaarrekening van die onafhanklike auditeur van K-CEE MANOR BEHEERLIGGAAM in opdrag gevestig.

Ons het die jaarrekening van die onafhanklike auditeur van K-CEE MANOR BEHEERLIGGAAM in opdrag gevestig.
REPORT OF THE TRUSTEES/VERSLAG VAN DIE TRUSTEES
AT 31 AUGUST 2006 / OP 31 AUGUSTUS 2006

Review of Activities
The Body Corporate of K-Cee Manor is the controlling body of a
townhouse complex known as K-Cee Manor situated at,
Swampland Crescent, Longde and Trade, Johannesburg.

In terms of the Sectional Titles Act 1986, the maintenance and
management of the building and common property, as provided
for in the Act and Annexure A and B Rules, is under the control
of the Trustee(s).

Financial Results
The contributions paid by section owners during the year were
insufficient to defray expenditure and resulted in a

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>surplus/shortage for the year of</td>
<td>(106,838)</td>
<td>3,105</td>
</tr>
</tbody>
</table>

Insurance
A schedule of the present replacement values of all units in terms
of Annexure A Rule 29(1)(a) will be tabled for approval at the
forthcoming annual general meeting.

Trustee's
The Trustee's serving at the date of this report appear on page 2.
In terms of the Rules, the Trustee's will retire at the forthcoming
annual general meeting but are eligible for re-election.

Auditor
AMS Bocha and Partners, 76 Second Ave, Alberton North, 1449.

Oorsig van Aktiwiteite
Die beheerliggaam van K-Cee Manor is die beheerende liggaam
van 'n woonhuiskompleks bekend as K-Cee Manor geleë by,
Swampland Cres, Longde en Trade, Johannesburg.

In term van die "Sectional Titles Act 1986", is die
onderhoud en bestuur van die gebou en gemeenskap,
soos deur die Wet en Annexure A en B reëls, onder die
beheer van die Trusters.

Finansiële Resultate
Die bydrae betaal deur deel-eigenare gedurende die jaar was
insufficiënt om uitgawes te dek en het tot gevolg in

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>koersel/tektor vir die jaar</td>
<td>(106,838)</td>
<td>3,105</td>
</tr>
</tbody>
</table>

Verenking
In Skedule van die huidige vervangings waarder van al die ver-
hale in term van Annexure A reël 29(1)(a) sal dit tereg gene
word vir goedgekeuring met die naderende algemene jaarvergadering.

Trustees
Die trustees aan diens op die datum van hierdie verslag
verskyn op Skedule 2. In term van die Wet, sal die trustees
bedank by die naderende algemene jaarvergadering maar kan
herkies word.

Ouditeur
AMS Bocha en Vosse, 76 Tweede Laan, Alberton Noord, 1449.
## Balance Sheet

**At 31 August 2006 / Op 31 Augustus 2006**

### Assets

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006</th>
<th>2005</th>
<th>Aantalheing</th>
<th>Botes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
<td>R</td>
<td></td>
<td>Botes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Bedryfbotes</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debtors for levies and electricity</td>
<td>3</td>
<td>116,086</td>
<td>189,796</td>
<td>3</td>
</tr>
<tr>
<td>Deposit Municipal Funds</td>
<td>4</td>
<td>16,906</td>
<td>16,600</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>133,092</td>
<td>206,396</td>
<td></td>
</tr>
</tbody>
</table>

### Equities and Liabilities

<table>
<thead>
<tr>
<th>Notes</th>
<th>2006</th>
<th>2005</th>
<th>Aantalheing</th>
<th>Ekuititeit en Aanspeelikeheid</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>R</td>
<td>R</td>
<td></td>
<td>Kapitaal en Reserveres</td>
</tr>
<tr>
<td>Capital and Reserves</td>
<td>Accumulated levy surplus</td>
<td>21,390</td>
<td>134,228</td>
<td>Besone Inkomste</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>Credits and accrual</td>
<td>86,696</td>
<td>55,561</td>
<td>5</td>
</tr>
<tr>
<td>Taxation</td>
<td>92,935</td>
<td>62,791</td>
<td>2,832</td>
<td>Tredisse</td>
</tr>
</tbody>
</table>

|       |       |       |             |       |
|-------|-------|-------|             |       |
|       | 116,086 | 189,796 |             |       |
# Detailed Income Statement / Gedetaileerde Heffingstaat

**At 31 August 2006 / Op 31 Augustus 2006**

## Income

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levies received</td>
<td>412,600</td>
<td>410,455</td>
</tr>
<tr>
<td>Special levies received</td>
<td>108,131</td>
<td>99,003</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>520,731</td>
<td>509,458</td>
</tr>
</tbody>
</table>

## Expenditure

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fees</td>
<td>626,270</td>
<td>609,641</td>
</tr>
<tr>
<td>Assessment rates</td>
<td>540</td>
<td>4,800</td>
</tr>
<tr>
<td>AGM expenses</td>
<td>16,109</td>
<td>15,975</td>
</tr>
<tr>
<td>Bank charges</td>
<td>0</td>
<td>620</td>
</tr>
<tr>
<td>Electricity</td>
<td>5,754</td>
<td>5,460</td>
</tr>
<tr>
<td>Garden service (6)</td>
<td>30,210</td>
<td>31,475</td>
</tr>
<tr>
<td>Legal costs</td>
<td>47,518</td>
<td>49,337</td>
</tr>
<tr>
<td>Levy refund</td>
<td>1,370</td>
<td>0</td>
</tr>
<tr>
<td>Management fees</td>
<td>21,578</td>
<td>24,570</td>
</tr>
<tr>
<td>Refuse and Sewerage</td>
<td>2,948</td>
<td>3,921</td>
</tr>
<tr>
<td>Repairs and maintenance (7)</td>
<td>154,151</td>
<td>59,370</td>
</tr>
<tr>
<td>Security</td>
<td>81,464</td>
<td>148,771</td>
</tr>
<tr>
<td>Ship bin removal</td>
<td>34,152</td>
<td>17,331</td>
</tr>
<tr>
<td>Water</td>
<td>119,224</td>
<td>101,021</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>861,138</td>
<td>696,938</td>
</tr>
</tbody>
</table>

## Levy surplus/shortage

<table>
<thead>
<tr>
<th>Description</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levy surplus/(shortage)</td>
<td>105,533</td>
<td>8,819</td>
</tr>
<tr>
<td>Interest received</td>
<td>1,372</td>
<td>4,596</td>
</tr>
<tr>
<td>Interest on late payments/penalties</td>
<td>331</td>
<td>0</td>
</tr>
<tr>
<td><strong>Net levy surplus/(shortage)</strong></td>
<td>(103,651)</td>
<td>4,413</td>
</tr>
<tr>
<td><strong>Net levy surplus/(shortage) for the year before taxation</strong></td>
<td>3,206</td>
<td>1,007</td>
</tr>
<tr>
<td><strong>Net levy surplus/(shortage) for the year after taxation</strong></td>
<td>(48,941)</td>
<td>3,106</td>
</tr>
<tr>
<td><strong>Accumulated surplus at beginning of year</strong></td>
<td>114,128</td>
<td>131,122</td>
</tr>
<tr>
<td><strong>Accumulated surplus at end of year</strong></td>
<td>27,390</td>
<td>134,228</td>
</tr>
</tbody>
</table>
1. Accounting Policies
The financial statements are prepared on the historical cost basis and all assets are written off at expenses during the year of purchase.

2. Taxation
The Body Corporate is only taxed on interest received as the Trustee acting on behalf of the sectional owners of the body corporate may not distribute any of the interest to the sectional owners or any other person.

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation current year</td>
<td>3,208</td>
<td>1,307</td>
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<tr>
<td>Balancing huidige jaar</td>
<td></td>
<td></td>
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</tbody>
</table>

3. Debtors and Accruals

<table>
<thead>
<tr>
<th>Type</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levies</td>
<td>58,945</td>
<td>44,296</td>
</tr>
<tr>
<td>Electricity recoverable</td>
<td>14,717</td>
<td>0</td>
</tr>
</tbody>
</table>

4. Funds available

<table>
<thead>
<tr>
<th>Bank</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ned Bank - Current account</td>
<td>25,221</td>
<td>138,904</td>
</tr>
<tr>
<td>Ned Bank - Call account</td>
<td>25,221</td>
<td>138,904</td>
</tr>
<tr>
<td>Ned Bank - MM account</td>
<td>0</td>
<td>54,916</td>
</tr>
<tr>
<td>Ned Bank - MM account</td>
<td>0</td>
<td>55,412</td>
</tr>
</tbody>
</table>

5. Creditors and Accruals

<table>
<thead>
<tr>
<th>Type</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Town Council</td>
<td>82,635</td>
<td>52,134</td>
</tr>
<tr>
<td>Accruals - Audit fees</td>
<td>0</td>
<td>4,000</td>
</tr>
<tr>
<td>Domestic Hold - Members</td>
<td>20,800</td>
<td>23,800</td>
</tr>
</tbody>
</table>

6. Electricity

<table>
<thead>
<tr>
<th>Type</th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity paid</td>
<td>2,535</td>
<td>41,359</td>
</tr>
<tr>
<td>Electricity recovered</td>
<td>(136,406)</td>
<td>(187,827)</td>
</tr>
<tr>
<td></td>
<td>(134,871)</td>
<td>(135,468)</td>
</tr>
<tr>
<td>7. Repairs and maintenance</td>
<td>2006</td>
<td>2005</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>--------</td>
<td>--------</td>
</tr>
<tr>
<td>Building - Garage</td>
<td>2,790</td>
<td>0</td>
</tr>
<tr>
<td>Building - Swimming lines</td>
<td>0</td>
<td>1,730</td>
</tr>
<tr>
<td>Building - Drain Trench</td>
<td>7,380</td>
<td>0</td>
</tr>
<tr>
<td>Building - Electrical</td>
<td>6,333</td>
<td>250</td>
</tr>
<tr>
<td>Building - Electric</td>
<td>2,117</td>
<td>2,934</td>
</tr>
<tr>
<td>Building - Fire extinguishers</td>
<td>0</td>
<td>2,899</td>
</tr>
<tr>
<td>Building - General</td>
<td>1,900</td>
<td>16,848</td>
</tr>
<tr>
<td>Building - General Petty Cash</td>
<td>3,500</td>
<td>0</td>
</tr>
<tr>
<td>Building - Gate and intercom</td>
<td>18,019</td>
<td>3,678</td>
</tr>
<tr>
<td>Building - Glass/Window</td>
<td>325</td>
<td>1,362</td>
</tr>
<tr>
<td>Building - Gutters</td>
<td>79,877</td>
<td>0</td>
</tr>
<tr>
<td>Building - Gutter blankets</td>
<td>0</td>
<td>5,885</td>
</tr>
<tr>
<td>Building - New Nut</td>
<td>0</td>
<td>0,930</td>
</tr>
<tr>
<td>Building - Plumbing</td>
<td>6,241</td>
<td>6,099</td>
</tr>
<tr>
<td>Building - Parking bay poles</td>
<td>16,261</td>
<td>0</td>
</tr>
<tr>
<td>Building - Roof</td>
<td>13,972</td>
<td>0,451</td>
</tr>
<tr>
<td>Building - Building removal</td>
<td>445</td>
<td>0</td>
</tr>
<tr>
<td>Building - Signs</td>
<td>547</td>
<td>130</td>
</tr>
<tr>
<td>Building - TV Systems</td>
<td>2,235</td>
<td>0</td>
</tr>
<tr>
<td>Building - Insurance claims</td>
<td>22,160</td>
<td>0</td>
</tr>
<tr>
<td>Building - Insurance refunds</td>
<td>(22,061)</td>
<td>(2,490)</td>
</tr>
</tbody>
</table>

7. Herstelwerk en instandhouding

- Gebouw - Alfabek
- Gebouw - Warguulwyd
- Gebouw - Douin
- Gebouw - Elektriese installasies
- Gebouw - Elektriese
- Gebouw - Brand blusser
- Gebouw - Agriens
- Gebouw - Agriens korrant
- Gebouw - Hek en interkom
- Gebouw - Glass/Spies
- Gebouw - Gute
- Gebouw - Geyser lambarske
- Gebouw - Hawe Hot
- Gebouw - Leedgut
- Gebouw - Parkets area pah
- Gebouw - Dak
- Gebouw - Yulis vanwylering
- Gebouw - Kernigings borde
- Gebouw - TV Steekk
- Gebouw - Verskynings eie
- Gebouw - Verskynings eie ontmoong
8 DECEMBER 2008

MR. L. PHAFULI (901324430)
GRADUATE SCHOOL OF BUSINESS

Dear Mr. Phafuli,

ETHICAL CLEARANCE APPROVAL NUMBER: 1008/0814/08N
I wish to confirm that ethical clearance has been approved for the following project:

"Investing in residential rental property to generate post-retirement income"

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

Yours faithfully,

[Signature]

Ms. Phumelele Ximba

cc. Supervisor (Mr. R. M. Challenger)
cc. Mrs. C. R. Hadden