

**UNIVERSITY OF KWA-ZULU NATAL**

**FACTORS AFFECTING PROPERTY ACQUISITION IN THE CURRENT  
ECONOMIC MELTDOWN**

**By  
Avisha Ramlall  
9300381**

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

**Graduate School of Business  
Faculty of Management Studies**

**Supervisor: Prof. WD Geach**

**2009**

## DECLARATION

I Avisha Ramlall declare that:

- (i) The research reported in this dissertation/thesis, except where otherwise indicated, is my original research.
- (ii) This dissertation/thesis has not been submitted for any degree or examination at any other university.
- (iii) This dissertation/thesis does not contain other persons' data, pictures, graphs or other information, unless specifically acknowledged as being sourced from other persons.
- (iv) This dissertation/thesis does not contain other persons' writing, unless specifically acknowledged as being sourced from other researchers.

Where other written sources have been quoted, then:

- a) their words have been re-written but the general information attributed to them has been referenced:
  - b) where their exact words have been used, their writing has been placed inside quotation marks, and referenced.
- (v) This dissertation/thesis does not contain text, graphics or tables copied and pasted from the Internet, unless specifically acknowledged, and the source being detailed in the dissertation/thesis and in the References sections.

Signature

---

## **Acknowledgements**

I wish to express my sincere appreciation and gratitude to the following:

- To my Lord Krishna, without whose spiritual knowledge and guidance, this study would not have been possible.
- To my handsome son, Vyal Joshil. There were times when this felt like a 'never ending journey' however you made my long nights and difficult days seem brighter and possible. You are the apple of my eye and these efforts are solely for your benefit.
- To my parents, Jeff and Beena Harishanker, thank you for motivating and always believing in me.
- Thank you to Prof. WD Geach for his supervision.

## **Abstract**

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

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

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

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

The study finds that the stage one is in in the family life cycle has an influence and is significant when deciding whether to buy or to rent, recommending that

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

## **Acronyms and Definitions**

SARS: South African Revenue Service

KZN: KwaZulu-Natal

VAT: Value Added Tax

CGT: Capital Gains Tax

NCA: National Credit Act

ITA: Income Tax Act

JSE: Johannesburg Stock Exchange

FNB: First National Bank

CEO: Chief Executive Officer

WHT: Withholding Tax

FICA: Financial Intelligence Centre Act

## Table of Contents

<b>Description</b>	<b>Page</b>
Title Page	i
Declaration	ii
Acknowledgements	iii
Abstract	iv
Acronyms and Definitions	vi
Table of Contents	vii
List of Figures	xii
List of Tables	xiii
Bibliography	xiv

## **CHAPTER ONE – INTRODUCTION AND RESEARCH SCOPE**

1.1	Introduction and background of the Research	1
1.2	Motivation for the Research	2
1.3	Value of the Project	3
1.4	Problem Statement	4
1.5	Aim and Objectives of the Study	4
	1.5.1 Aim	4
	1.5.2 Objectives	4
1.6	Research Methodology	4
1.7	Limitations of the Project	5
1.8	Structure of the Study	5
	1.8.1 Chapter one – Introduction	5
	1.8.2 Chapter two – Literature Review	5
	1.8.3 Chapter three – Research Methodology	6
	1.8.4 Chapter four – Results	6
	1.8.5 Chapter five – Recommendations and Conclusion	6
1.9	Conclusion	6

## CHAPTER TWO - LITERATURE REVIEW

2.1	Introduction	7
2.2	Home-Ownership	8
	2.2.1 Advantages and Disadvantages of Owning a Home	10
2.3	The Mortgage Bond	14
2.4	The Rent Option	16
2.5	The Tax Consequences of Owning Property	19
	2.5.1 Capital Gains Tax	20
	2.5.2 Non-Residents withholding tax	21
	2.5.3 Tax implications should a loss occur	23
2.6	Property as an Investment	24
2.7	The Buy-to-Let Option	25
	2.7.1 What is Buy-to-Let	25
	2.7.2 Rental Tax Deductions	28
2.8	Consumer Behaviour when purchasing a home	31
2.9	Stages in the Family Life Cycle	35
	2.9.1 Personal influence	37
	2.9.2 Reference Group influence	38
	2.9.3 The Influence of the Family	38
2.10	Family Life Cycle with regards to ownership capabilities	41
	2.10.1 Single and starting out	41
	2.10.2 Single and established	42
	2.10.3 Married and family life	42
	2.10.4 The empty nest stage	42
2.11	Senior Citizens	42

2.12	Conclusion	43
------	------------	----

### **CHAPTER THREE - RESEARCH METHODOLOGY**

3.1	Introduction	44
3.2	Aim and Objectives of the Study	45
3.3	Sampling Technique and Description of the Sample	46
3.4	The Realism Paradigm	47
3.5	Sampling Technique and Description of the sample	47
3.6	The Research Instrument	49
3.6.1	Description and Purpose of the Research Instrument	49
3.6.2	Construction of the Interview Questionnaire	50
3.6.3	Ethical Clearance	52
3.6.4	Trialling of the Interview Questions	52
3.6.5	Validity and Reliability	53
3.6.6	Administration of the Interview Questionnaire	54
3.6.7	Analysis of the Data	55
3.7	Conclusion	55

### **CHAPTER FOUR - PRESENTATION OF RESULTS**

4.1	Introduction	57
4.2	A Summary of the Results	57
4.3	A Financial Case Study of Purchasing and Renting Property	65
4.4	Example when deliberating on the decision	66
4.5	Conclusion	68

## **CHAPTER FIVE - DISCUSSION AND RECOMMENDATIONS**

5.1	Introduction	69
5.2	Recommendations Based on Research Findings	73
5.3	Limitations of the Study	74
5.4	Discussion and Recommendations	75
5.6	Conclusion	77

## **List of Figures**

<b>No.</b>	<b>Description</b>	<b>Page</b>
2.1	Basic Consumer Decision making process	31
2.2	Extent of consumer involvement and characteristics Purchase decision	34
2.3	Different Stages in family Life Cycle	41
4.1	Hypothetical illustration of the Rent vs Buy scenario	67

## **List of Tables**

<b>No.</b>	<b>Description</b>	<b>Page</b>
2.1	Advantages and disadvantages of owning a home	13
2.2	Advantages and disadvantages of renting	16
2.3	Withholding tax rates	22
4.1	Response to interviews	58
4.2	Financial costs involved when renting and buying a home	65

## Bibliography

Abisaid, J.L. 2006. The Engagement Model of Opinion Leadership: Testing Validity within a European Context. *Nisbet Int J Public Opin Res*, Vol. 18, pp 3-30.

ABSA Residential Property Market. [Online]. Available WWW: [www.finforum.co.za/absa/publications/property/Property%20perspective%20property%20market.pdf](http://www.finforum.co.za/absa/publications/property/Property%20perspective%20property%20market.pdf) (Accessed 12 May 2009).

Advantages of Owning your own Home. 2009. [Online]. Available WWW: <http://homeloans-southafrica.co.za/property/advantages-owning-own-home.htm> (Accessed 29 July 2009).

Arnould, E.J., price, L. & Zinkhan, G 2002. *Consumers*. New York: McGraw-Hill.

Babbie, E. & Mouton, J. 2001. *The Practise of Social Research*. Cape Town: Oxford University Press.

Bargain-Hunting at new levels, 2009. [Online]. Available WWW: <http://www.fastmoving.co.za/news-archive/sa-economy/bargain-hunting-at-new-levels> (Accessed 17 September 2009).

Bearden, W.O. & Etzel, M.J. 198.: ' Reference Group Influence on Product and Brand Purchase Decisions,' *Journal of Consumer Research* 9, September, pp. 184-185.

Behind the Demand for Housing, an update on the Household sector's financial health.2008 [Online]. Available WWW: [www.fnb.co.za](http://www.fnb.co.za) (Accessed 29 June 2009).

Berent, J. 1954. Social mobility and marriage. In Glass, D.V. (ed.) *Social Mobility in Britain*, Routledge, London, pp. 321-338.

Botha; J. 2009. House price growth slipped into red in 2008. *Standard Bank Research Economics Residential Property Gauge*, [Online]. Available WWW: [www.standardbank.co.za](http://www.standardbank.co.za) (Accessed 29 June 2009).

Brown, J.J, Reingern, P.H. 1987. Social ties and Word-of-Mouth Referral Behaviour, *Journal of Consumer Research*, Vol.14, No. 3 pp. 350-362.

Bryman, A., Bell, E., 2007. *Business Research Methods*. 2<sup>nd</sup> ed. University press, New York.

Budget Speech 2009. [Online]. Available WWW: [www.sars.gov.za/home.asp?pid=292](http://www.sars.gov.za/home.asp?pid=292) (Accessed 29 June 2009).

Business Report-Oversupply causes property market decay.1 June 2009. Available WWW:  
<http://www.busrep.co.za/index.php?fSectionId=561&fArticleId=5009436>  
(Accessed 29 June 2009).

Buy-to-Let. 2009. [Online]. Available WWW: <http://homeloans-southafrica.co.za/property/buy-to-let.htm> 9Accessed 29 July 2009).

Capital Gains Tax. 2009. [Online]. Available WWW: [www.sars.gov.za/home.asp?pid=5241](http://www.sars.gov.za/home.asp?pid=5241) (Accessed 29 June 2009).

Cathy, N., Pascale, Q. and Del H. 2005. *Consumer Behaviour: Implications for Marketing strategy*. 4<sup>th</sup> Edition. McGraw-Hill.

Cheaper to rent or buy? 2008. [Online]. Available WWW: [http://property.iafrica.com/renting\\_letting/461651.htm](http://property.iafrica.com/renting_letting/461651.htm). (Accessed 29 July 2009).

Clark, W.A.V.; Deurloo, M.C. and Dieleman, F.M. 1994. Tenure changes in the context of micro level family and macro level economic shifts. *Urban Studies*, pp. 137-154.

Collis, J. & Hussey, R. 2003. *Business Research: A Practical guide for undergraduate and postgraduate students*. 2ed. Palgrave MacMillan, New York.

Cooper, R.D. & Schindler. 2001. *Business research Methods*. 7<sup>th</sup> ed. Singapore: McGraw-Hill Irwin.

Davis, D. 2001. *What you must know about Capital Gains Tax*. Siberlnk, Cape Town.

Davis, D. 2005. *Business Research*, 6ed. Thompson Brookes, Canada.

Dieleman, F.M. and Everaers, P.C.J. 1994. From Renting to owning: Life course and housing market circumstances. *Housing Studies*, pp. 1-25.

Dooley, D. 1995. *Social Research*. New Jersey, Prentice-hall.

Easterlin, R.A. 1980 *Birth and Fortune: the Impact of Numbers on Personal Welfare*. Basic Books, New York.

Ellis, L. & Andrews, D. 2001. *City Sizes, housing costs, and wealth*, Research discussion paper, Economic Research Department – reserve bank of Australia, October.

First-Time Home Buyers Face Market Setbacks. 2007. [Online]. Available WWW: [www.ieasa.co.za](http://www.ieasa.co.za) (Accessed 29 July 2009).

FNB Rental Property Barometer- A second quarter lull is recorded, but levels remain strong. First National Bank Home Loans Division. [Online]. Available WWW: [www.fnb.co.za](http://www.fnb.co.za) (Accessed 29 June 2009).

Forrest, R.; Murie, A. and Williams, P. 1990. *Home Ownership: Differentiation and Fragmentation*. Unwin Hyman, London.

Green, R.K., White, M.J. 1997. Measuring the Benefits of Homeowning: Effects on Children. *Journal of Urban Economics*, Vol. 41, No. UE962010, pp 441 – 461. Academic Press, Michigan.

Gillham, B. 2000. *The Research interview*. Paston PrePress Ltd, London.

Gilly, M.C. & Enis, B.M. (1982). Recycling the family life cycle: a proposal for redefinition. *Advances in Consumer Research*, 7 (September), pp. 214-217.

Hadebe, T.P. 2006. 'The Role of Skills Development in Employees work-performance'. Masters Dissertation, University of KwaZulu-Natal.

Hamnett, C. 1991 A nation of inheritors? Housing inheritance, wealth and inequality in Britain. *Journal of social Policy*, Vol. 20, pp. 509-536.

Hawkins, D.I., Best, R.J. & Coney, K. A. 2001. *Consumer Behaviour*. Boston, USA:Irwin McGraw-Hill.

Heikkila, E.J. 2000. *The economics of planning*, Centre for Urban Policy Research, New Jersey.

Henretta, J.C. 1984. Parental status and child home-ownership. *American Sociological Review*, Vol. 49, pp. 131-140.

Homeowners Can say Goodbye to the seven Boom years. 2009. [Online]. Available WWW: [www.sarental.co.za/news/news\\_article.asp?nid=152](http://www.sarental.co.za/news/news_article.asp?nid=152) (Accessed 29 July 2009).

Hout, M. 1982. The association between husbands and wives occupations in two-earner families. *American Journal of Sociology*, Vol. 88, pp. 397-409.

Huxham, K., & Haupt, Notes on South African Income Tax, 2008 ed., South Africa

Irani, S., Ramanathan, D. 1998. The Problem of renting versus Buying. Department of Information and Computer Science, University of California.

Is affordable housing facing a sub-prime crisis? 2009. [Online]. Available WWW: [www.rode.co.za](http://www.rode.co.za) (Accessed 29 June 2009).

Ivancevich J.M. and Matteson M.T (1999). *Organisational Behaviour and Management*. Fifth Edition, Boston: McGraw Hill.

Kotler, P. 2000. *Marketing Management* (The Millenium Edition). New York: Prentice-Hall.

Kalmijn, M. 1991 Status homogamy in the United States, *American Journal of Sociology*, Vol. 97, pp. 496-523.

Kotler, P., Armstrong, G., and Cunningham (2006), P.H, *Principles of Marketing*. The Canadian Edition. Pearson Education, Canada.

Lowest mortgage advances growth since mid-2000. 2009. [Online]. Available WWW.: [www.absa.co.za](http://www.absa.co.za) (Accessed 29 August 2009).

March Building Stats, First National Bank Home Loans Division.2009 [Online]. Available WWW: [www.fnb.co.za](http://www.fnb.co.za) (Accessed 29 June 2009).

Mayer, K.U. 1973 Dimensions of mobility space: some subjective aspects of career mobility. *Social Stratification and career mobility*. Mouton, Paris, pp. 88-115.

Miller, A., 2008. Measuring residential performance, *Financial Mail*, July 2008, pp 46. Avusa Publishing Media Services.

Mouton, J. 1996. *Understanding Social Research*. Pretoria: Van Schaik

Mudd, W., Tesfaghiorghis, H. & Bray, J.R. 1999, 'Some issues in home ownership', pp. 5-26 in *Australia's housing choices* edited by J. Yates & M. Wulff, The University of Qld. Press, Brisbane.

Mulder, C.H. and Wagner, M. (1998) First time home-ownership in the family life course: a West German-Dutch Comparison. *Urban Studies*, Vol. 35, pp687-713.

Narayana, C.L. and Markin, R.J. (1975) Consumer Behaviour and Product Performance: An Alternative Conceptualisation. *Journal of Marketing*, Vol. 39, No. 4, pp. 1-6

No fireworks for buy-to-let investors. 2009. [Online]. Available WWW: [www.moneyweek.co.za](http://www.moneyweek.co.za) (Accessed 29 July 2009).

Parker, M. 2007. Uncertainty with new ruling on gains. *Business Law & Tax Review*, September 2007, pp 1. Business Day, Johannesburg.

Prices Tumble in Dubai. 2009. [Online]. WWW: [www.moneyweek.co.za](http://www.moneyweek.co.za) (Accessed 29 17 September 2009).

Property Renting vs.Buying. 2008. [Online]. Available WWW: <http://press.property24.com/article/339/renting-vs-buying> (Accessed 29 July 2009).

Reed, R., Greenhalgh, E. 2002. The changing nature of the rent vs. buy decision and implications for the housing market. *AsRES/AREUEA Joint International Conference*, Seoul, Korea 4-6 July 2002.

Rental property will boom now. 2008. [Online]. Available WWW: [www.thepropertymag.co.za](http://www.thepropertymag.co.za) (Accessed 29 July 2009).

Renting Vs. Buying a Home: The Debate Rages On. 2009. [Online]. Available WWW: [www. articlesgarage.com/renting-vs-buying-a-home-the-debate-rages-on/](http://www.articlesgarage.com/renting-vs-buying-a-home-the-debate-rages-on/) (Accessed 27 July 2009).

Renting vs buying: 4 property myths. 2008. [Online]. Available WWW: [www.realestateweb.co.za](http://www.realestateweb.co.za) (Accessed 29 July 2009).

Rent vs Buy-There's Pros and Cons to both. First National bank Home Loans Division; [Online]. Available WWW: [www.fnb.co.za](http://www.fnb.co.za) (Accessed 29 June 2009).

Revenue vs. Capital. 2006. [Online]. Available WWW: [www.ghostdigest.co.za](http://www.ghostdigest.co.za) (Accessed 29 July 2009).

Ryan, D. 2002, 'Why X is the unknown for a generation' in *The Age*, pp. 26-27, 16 February.

Sandefur, G.D. and Scott, W.J. 1981 A dynamic analysis of migration: an assessment of the effects of age, family and career variables. *Demography*, Vol. 18, pp. 355-368.

Saunders, M. Lewis, P. & Thornhill, A. 2003. *Research Methods for Business Students*. 3<sup>rd</sup> ed. Prentice-Hall Financial Times, England.

Savage, M. 1988 The Missing link? The relationship between spatial mobility and social mobility. *British Journal of Sociology*, Vol. 39, pp. 554-577.

Schaninger, C.M. & Danko, W.D. 1993. A conceptual and empirical comparison of alternative household life cycle models. *Journal of Consumer Research*, Vol.19, pp. 580-594.

Schiffman, L.G. & Kanuk, L.L (1997). *Consumer Behaviour* (6<sup>th</sup> ed.). New Jersey: Simon and Schuster Company.

Senior Citizens: Should you Buy or Rent a Home After Retirement?. 2007. [Online]. Available: WWW: [www.associatedcontent.com/article/402038/senior\\_citizens\\_should\\_you\\_buy\\_or\\_rent.html?cat=54](http://www.associatedcontent.com/article/402038/senior_citizens_should_you_buy_or_rent.html?cat=54) (Accessed 29 July 2009).

Shelton, J.P. 1968. The Cost of Renting Versus Owning a Home. *Journal of Land Economics*, Vol. 44, No. 1, pp 59-72. Published by University of Wisconsin Press. Available WWW: [www.jstor.org/pss/3159610](http://www.jstor.org/pss/3159610) (Accessed 29 June 2009).

South Africans are finally beginning to concede that a recession may just be on the cards. 2008. [Online]. Available WWW: <http://www.itinews.co.za/news.aspx?categoryid=8&subcategoryid=1018&itemid=01aadcf-f2bd-4bd4-8085-f57681abfacc>. (Accessed 29 June 2009).

Statistics South Africa, 1995. *Income and Expenditure Survey: Questionnaire*. Pretoria: Statistics South Africa.

Student Rentals a Safe Investment. 2009. [Online]. Available WWW: [http://www.sahometraders.co.za/news/news\\_article.asp?nid=282](http://www.sahometraders.co.za/news/news_article.asp?nid=282). (Accessed 21 September 2009).

Sullivan, M. 2005. *Fundamentals of Statistics*, Pearson Prentice Hall, New Jersey.

The difference between VAT and Transfer Duty. 2009. [Online]. WWW: [www.bondcredit.co.za/property-tax](http://www.bondcredit.co.za/property-tax) (Accessed 16 September 2009).

The Five Big Challenges Facing the Market. 2009 [Online]. Available WWW: <http://www.sahometraders.co.za/news/default.asp>. (Accessed 29 July 2009).

Third Quarter 2009 Housing Review. 2009. [Online]. Available WWW.: [www.absa.co.za](http://www.absa.co.za) (Accessed 17 September 2009).

Trafalgar Rental Index points to uncertain market. 2009. [Online]. Available WWW: [www.eprop.co.za/news/article.aspx?idArticle=11035](http://www.eprop.co.za/news/article.aspx?idArticle=11035) (Accessed 29 July 2009).

Unemployment rate increases slightly at 23.6%. 2009. [Online]. Available WWW: <http://www.skillsportal.co.za/asgisa/090728-jobs-unemployment-statistics-labour-force.htm>. (Accessed 17 September 2009).

Wagner, J. and Hanna, S. 1983 The Effectiveness of Family Life Cycle Variables in Consumer expenditure research. *Journal of Consumer Research*, Vol. 10, No. 3 pp. 281-291

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

What SARS looks at when deciding how to treat your losses from property sales. 2008. [Online]. Available WWW: [www.bondadvisor.co.za](http://www.bondadvisor.co.za) (Accessed 29 June 2008).

Why buy-to-let is not best. 2005. [Online]. Available WWW: [www.sahometraders.co.za](http://www.sahometraders.co.za) (Accessed 29 July 2009).

Why renting rules. 2008. [Online]. Available WWW: <http://iafrica2.iac.iafrica.com> (Accessed 29 July 2009).

Williams, W., 2001. *Capital gains tax: A Practitioners Manual*. Juta Law, Cape Town.

**Appendix 1: Interview Schedule**

Interviewer: Avisha Ramlall

Date: \_\_\_\_\_

Name of Agency:

\_\_\_\_\_

Location:

\_\_\_\_\_

How long have you been in the property business?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

How has sales of houses been over this time?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

What are the determinant factors that purchasers are using when deciding on whether to purchase or rent during this time?

\_\_\_\_\_  
\_\_\_\_\_

---

---

What price range of houses is being sought after?

---

---

---

---

What type of buyer remains buoyant in these times?

---

---

---

---

---

---

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

---

---

---

---

---

---

---

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

Are the current rate cuts affecting the property market positively?

---

---

---

Is it viable to buy to let in these times?

---

---

---

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

---

---

---

Are there any other comments/suggestions?

---

---

---