UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

THE TYPE OF URBAN PROPERTY INVESTMENT THAT OFFERS THE GREATEST POTENTIAL OF WEALTH CREATION FOR THE PRIVATE INVESTOR IN SOUTH AFRICA.

By: Tim Jaques

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

14th November 2007

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Acknowledgements

I acknowledge the role of Mike Holland as a supervisor for this research project. His assistance and advice was valuable and instrumental in the completion of this research.

I would also like to thank the companies and individuals that rewarded me with their time in discussing my questions and responding to my survey regarding property investment.

Abstract

There are several different investment opportunities for the private investor in South Africa in the asset class of immovable property. The purpose of this study is to identify the category of investment within this asset class that produces the most wealth creation.

Four broad property investment categories exist. There are speculative investments involving short-term high profit returns. There are also long term income producing investment options. Property development is another category although there are often limitations in terms of financial accessibility for private investors. Finally there is the category of investing in listed property through property shares or unit trusts. Each category can be further segmented into property types such as residential, commercial, industrial, or undeveloped land. Each property type produces different returns and levels of profitability but is also affected by specific risks and externalities.

Recent growth in the South African property market has caused a flood of private investors to enter the property market. Many of these investors lack knowledge of their asset purchase. This may be in terms of the potential financial return of their particular asset choice, or the variables and risks involved. Many potential investors feel that property investment is inaccessible to them and that it is reserved exclusively for the wealthy.

This study undertakes to evaluate the category and type of property investment that offers the greatest potential for wealth creation for the private investor through research and calculation. It also serves to establish the profile and perceptions of potential private investors with respect to the different property investment options available to them.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

Tim Jaques

14th November 2007

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION TO THE RESEARCH PROBLEM

1.1 INTRODUCTION

Property as an asset class has been an increasingly popular investment option in the past decade in South Africa. Investors looking to maximise returns have many investment opportunities available to them, one of which is property. “Property should be considered as a component of any properly balanced portfolio.” (Staffer, 2007). It is said that many seasoned investors have significant portions of their asset investments allocated to property, as this is seen to be one of the more stable asset classes.

Recently, with average property price growth being over 300% in the past 5 years, the market has become flooded with private investors looking for the opportunity to create wealth and benefit from the property growth cycle. Many investors have shown returns on their investment of several hundred percent over very short periods of time, making property an exciting choice of investment for South Africans.

However with recent macroeconomic changes such as significant interest rate hikes, the introduction of the National Credit Act, and a general worldwide turnaround in the property growth cycle, there are contradicting viewpoints as to whether property investment really creates that much wealth in the long run after all. Certain investors claim to have recently shown negative returns, such as have not been seen for several years in the property market in South Africa. There has been widespread media coverage of the so-called property price bubble being about to burst, and many pessimistic viewpoints with regards to future of the property market in South Africa. Others argue that the market has recently shown consistent and realistic signs of normalisation of growth levels as opposed to actual property price deflation.

And yet in spite of present-day, less favourable economic conditions, many investors still manage to show above-average returns on their property investments. This relates in particular to those who have invested in the more profitable property categories that are dealt with later. In fact unfavourable macroeconomic conditions and weaker markets actually offer qualified buyers and seasoned investors the ideal opportunity to expand their portfolios, by buying at the lower end of a growth cycle. As these investors indicate, buying into the right property type in the right way at the right time is crucial to the optimisation of wealth creation. Investors, and in particular new investors, often lose money simply due to a lack of knowledge relating to the different investment categories and types of properties that are available.

Many investors insist that property itself as an investment option is not necessarily a lesser creator of wealth during less bullish economic conditions. Rather the investment category is what is crucial in property investment as well as the type of property purchased since each different type has its own growth cycle and reacts differently to the different stages of the economic cycle of a country, as well as differently to different macro-economic changes. The purpose of this research is to establish trends and knowledge considerations of potential private investors, and then to consider the wealth creation possibilities of the different property investment categories and types available to these private investors, taking into account the relevant macro-economic variables and applicable externalities.

1.2 DEFINITIONS

1.2.1 The private investor

The private investor is the ‘man in the street’ investor, operating either alone, in partnership or within the structure of a small self-owned investment company. Large investment corporations are not considered within the scope of this definition as the variables affecting these enterprises within the context of property investment differ drastically from those affecting the private investor.

1.2.2 The potential investor

South Africans in middle to high income groups fall within the scope of this definition since this is the category of South Africans that is able to invest in property from a financial perspective. Although one must not neglect the fact that certain low income earners would have access to the possibility of purchasing small quantities of non-held property through listed shares. In addition to this it is possible for several income earners to create investment partnerships allowing for more people to qualify for the purchasing of immovable property and be included in the potential investor population.

1.2.3 Property investment

It is the purchasing of either held or listed property with the intention of creating wealth for the future, either in the short or long term. For the purpose of this study, it is limited to urban property, as rural property is affected by different externalities, variables and criteria that fall out of the scope of this research.

1.3 THE RELEVANCE OF THE TOPIC IN SOUTH AFRICA

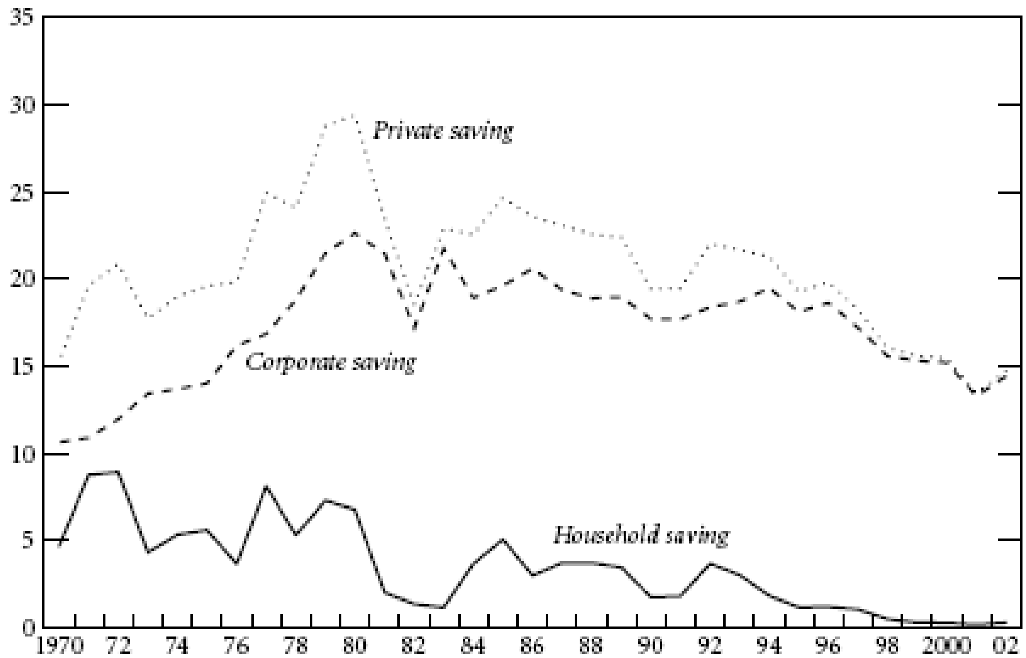
"*Nine out of ten people in South Africa do not have sufficient income when they retire*." (Cameron, 2005)

More than ever, South Africans need to increase their savings levels through solid, profitable investments. The absence of an adequate state funded pension, job security questionability and widespread early retrenchments contribute to the need for South Africans to make the best investment choices possible in order to either simply sustain reasonable living conditions or else prosper financially.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

Figure 1: Private, Corporate and Household Savings

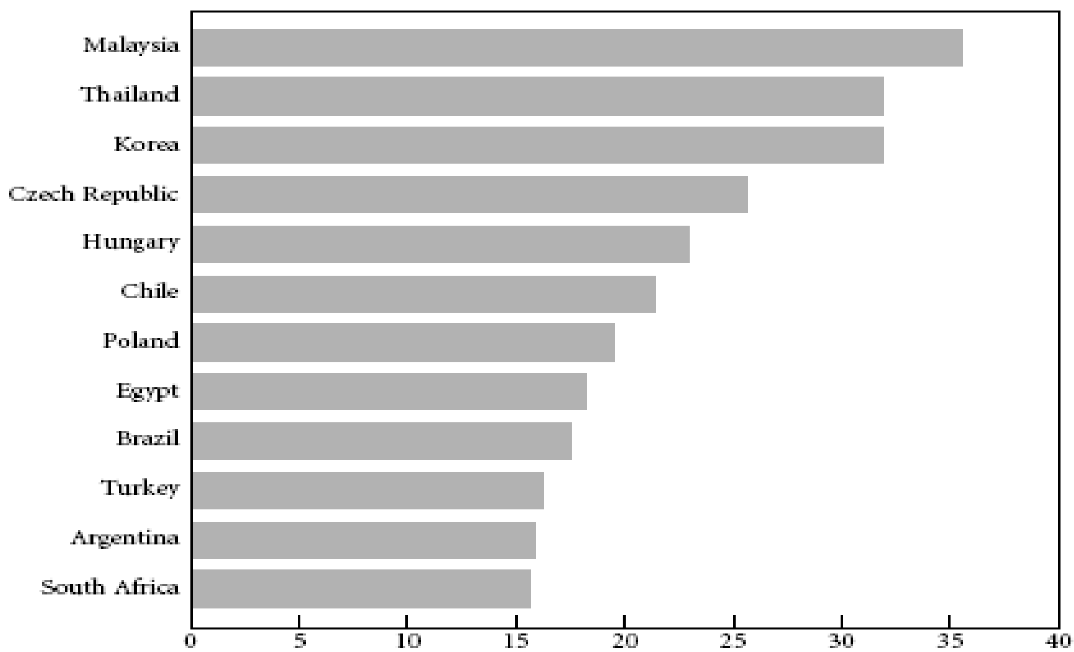
(As a % of gross national disposable income)



Source: South African Reserve Bank.

Figure 2: Gross National Savings in Selected Emerging Market countries

(Averaged over 1994 – 2002, In % of GDP)



Source: IMF, *International Financial Statistics*.

As can be seen in figures 1 and 2 low savings levels characterise South African society, in particular since 1994. It is crucial that individuals become knowledgeable about investment possibilities, and correctly align their investment resources with the more favorable investment options. They also need to become proactive in their financial planning as opposed to reactive whereby investment is not made purely for the purpose of savings of allocated earnings but rather as a method to generate future wealth and future earnings.

Of the many asset classes that South African investors are able to choose from in terms of investment, property is just one of them. The question of which category and type of property investment offers the greatest return is of particular relevance in South Africa today for two main reasons:

Firstly property has shown very strong growth in recent years which has encouraged investors to invest in this asset class. Today however with the recent downturn in macroeconomic variables which have contributed to a slowing down in property price growth, the average South African tends to be wary about the property asset class as an investment option. Some less experienced investors have actually lost money, whilst others have, to the surprise of many, continued to gain wealth in spite of the changes of variables. There is a perception that successful property investment is for a select, wealthy few and is too risky or inaccessible for the average private investor.

The second reason that this study pertains to the present South African context is the lack of knowledge that potential investors actually have regarding the possible high returns that property investment offer. Not only a lack of knowledge regarding property being a potentially lucrative asset class, but also pertaining to the different property types that are available and how to access them as investments. Moreover, many potential investors are unaware of the fact that they are actually able to invest in property, and that they qualify for levels of financing adequate for them to enter the property investment market.

1.4 THE FOUR PROPERTY INVESTMENT CATEGORIES

1.4.1 Speculative, short-term property investments (Buy to sell)

Speculative investments involving short-term, high profit returns have been a popular category of investment in South Africa since the beginning of the property growth cycle in 2001. This investment category is commonly known in the generally, internationally utilised jargon of the marketplace as property 'flipping'. It usually involves investors purchasing physical property and selling it shortly afterwards, often immediately after transfer of ownership has taken place. It may or may not involve different degrees of renovations in order to create an accelerated increase to the value of the asset, but either way investors more or less rely entirely on property inflation and speculation as a profit source.

Successful investors have been able to master their financing options in order to, depending on certain conditions, make a profit without actually investing any of their own money at all, with the financing institution covering the entire cost of the operation and the investor reaping the benefits.

Short-term investments usually include properties purchased with the intention of selling within anything from immediately after transfer to six months or even a year later, although the general intention is to sell as close as possible to the time of the actual transfer. Since property inflation and speculated price increase is the sole intended profit generator, investors in this category are usually reluctant to hold on to the asset for lengthy periods of time to avoid having to become involved with leasing and renting the property. “The secret of success in property is to get in early and to get out early.” (Lee, 2005)

1.4.2 Long-term, income producing investments (Buy to let)

This category involves the purchasing of property with the intention of maintaining ownership for a period of time, usually several years at least. The investor’s intended profit comes not only from property inflation and capital growth as is the case with the speculative investor, but also from income generation in the form of rental income with the investor aiming towards a positive cash flow.

Investment intentions may vary in this category, affecting holding periods. Investors may purchase property with the aim of securing a secondary revenue stream, a useful option particularly for investors thinking about financial security during retirement. The advantage of this is that revenue streams are generated and maintained with limited investor involvement in terms of time and effort. More ambitious profit seekers are able to create several of these revenue streams without investing excessive amounts of time or energy on each project. This way they can either reap the benefits of a good regular income stream or expand their portfolios.

Alternatively, there is an investment solution whereby investors have speculative intentions but will rent out a property medium-term periods such as two to three years before selling and reaping the benefits of the capital growth. Investors may over this period carry out improvements on the property ranging from bettering tenant profiles and placing higher leases, to physical improvements on the property, depending on the amount of time and additional money the investor intends on spending on the asset.

1.4.3 Property shares or unit trusts

This category is the most easily accessible for the “man on the street” investor. Investors in this category acquire real estate-owning companies or stakes in such companies, rather than invest in actual held property. Property loan stocks and property unit trusts are presently structures in South Africa through which investors are able to access listed property.

1.4.4 Property development

Property development is the practice of purchasing land or property and conducting significant improvements in order to add value. This ranges from improving bare, un-serviced land, to buying existing buildings and conducting major renovations. Developers may sell upon completion whereby the project is purely speculative. Alternatively they may hold the property for income generating purposes in order to build a portfolio or benefit from the revenue stream. Property development involves significantly more knowledge and skills with respect to the property market and construction industry as well as much time and energy. It is only accessible to a small handful of private investors because of the large amounts of financing required and the capital outlay involved. It also requires significantly more time in managing the investment.

1.5 PROPERTY TYPES

1.5.1 Residential property

This is property which is officially zoned for residential use. Although it is possible to obtain business rights in areas that are zoned as residential, the nature of the improvements remains to be houses (including townhouses, apartments and clusters) initially built for the purpose of living. Residential property is zoned for single family homes, townhouses, multifamily apartments or condominiums. It is either owner or tenant occupied property. Residential property falls under different zoning and taxation regulations than does other property types.

1.5.2 Commercial property

This type of real estate includes income-producing property, such as office buildings, retail space, restaurants, shopping centres and hotels. Commercial property is zoned for business purposes. It is possible to invest in commercial property directly, or through Real Estate Investment Trusts or Real Estate Limited Partnerships. Investors receive income from rents and capital appreciation if the property is sold at a profit.

1.5.3 Industrial property

This is property used for industrial purposes. Types of industrial property include factory-office multi-use property; factory-warehouse multi-use property; heavy manufacturing buildings; industrial parks; light manufacturing buildings; and research and development parks. This type of property is very use-specific but is generally characterised by long lease periods when rented.

1.5.4 Vacant land

From an investor perspective, vacant land is land which is purchased either with a purpose of conducting full improvements (development), partial improvements (servicing or zoning) or no improvements at all. There are generally municipal regulations as to the use of the land that need to be considered.

CHAPTER 2: LITERATURE REVIEW

2.1 THE PROPERTY MARKET: PAST, PRESENT AND FUTURE GROWTH

2.1.1 Past performance of property in South Africa

The South African property market has boomed since 2001 according the Rode's report (2005**).** The surge in property value follows a virtually static growth period that took place during the late apartheid years, predominantly the eighty's. In South Africa, this recent property value growth has been ranked as one the highest in the world (Jenvey, 2006). In fact, according to research carried out by IPD (2007), South Africa had the highest growth over all the property types at the end of 2006 (with an over 20% year on year average), out of twenty developed countries surveyed. ResourceWorldwide.com (2004) provides additional statistical evidence of these findings in the worldwide house price indices as indicated in the below table 1, which focuses on the residential market. South Africa shows a record 22.7% year on year growth in March 2004.

Table 1: WORLDWIDE HOUSE PRICE INDICES - PERFORMANCE RANKING

RANKING		% CHANGE ON A YEAR AGO	LATEST DATA
1	South Africa	22.7	2004 - March
2	Australia	18.9	2003 - Q4
3	United Kingdom	16.7	2004 - March
4	Spain	15.6	2003 - Q4
5	New Zealand	15.5	2004 - February
6	Ireland	13.3	2004 - February
7	Hong Kong	12.9	2004 - February
8	France	11.4	2003 - Q4
9	Italy	10.6	2003 - Q4
10	Sweden	10.4	2003 - Q4
11	Finland	7.4	2003 - Q4
12	Canada	6.3	2003 - Q4
13	United States	5.7	2004 - February
14	Belgium	4.2	2003 - Q4
15	Norway	4.1	2003 - Q4
16	Netherlands	3.4	2003 - Q4
17	Germany	-1.7	2003 - Q4
18	Singapore	-2	2003 - Q4
19	Israel	-3.6	2003 - Q4
20	Japan	-5.7	2003 - Q4

Source: ResearchWorldwide.com - Benchmarks and Indices

The 22.7% year on year price increase in residential prices represents nominal increases, therefore excluding the effects of inflation.

The increase in demand for property which has driven the market is primarily domestic. As stated on Research.com (2004) "Low interest rates, the emergence of a rapidly growing black middle class and the longest period of uninterrupted economic growth in half a century, have contributed to the current housing boom in South Africa."

Including inflation, the average growth figure per annum in 2005 was 30% for all property types compared with 23.4% in 2004. The below table 4 indicates the total returns on the different property categories annualised over the past three, five and ten years.

Table 2: Total nominal returns, annualised over specific periods.

Total returns – percent per year Annualised over:	All property	Retail	Office	Industr
Three years	15.9	18.0	10.1	16.8
Five years	13.8	15.4	10.1	12.9
Ten years	13.4	16.0	9.9	12.2

Source: SAPOA (2005, p. 1)

As indicated in a study by Ramabodu, Kotzee and Verster (2007), the returns indicated in table 4 are countrywide averages. This means that all values are taken into account, including the declining CBD growth (which has only recently begun to improve with new developments and building renovations). One can deduce that in more stable areas, such as non CBD regions, growth figures are significantly higher than the country average.

2.1.2 Present and future predicted performance

Today the market is rampant with investors looking for much the same type of investment asset (Cameron, 2005). There is some degree of saturation in the rental market and yields (CAP rates) have dropped considerably. In Nthite's (2005) article, "Don't buy to let" economist Erwin Rode shares his view on why he feels it is better to actually rent your primary residence than to buy at certain times in the property cycle. His analysis however is based solely on a single aspect, being that of asset growth and rent costs vs. debt repayment costs. He disregards the many economic issues that pertain to property investment such as evoked by Allen (2004) who explains the population growth phenomena and other economic variables that indicate that at any time in the property cycle it is actually nearly always better to buy. Issues such as inflation and its "positive" effect on debt, externalities such as the emerging middle class and increased demand for property in the entry level segment of the market play a major role in future property prices in South Africa (Roberts, 2004).

Harris, Marlys, Flich and Asa (2007) who argue in favour of property investment emphasise how correct leveraging multiplies the return on investment at any stage of the property cycle, According to Downing (2007), speaking in relation to South Africa's present property investment environment, "Despite successive interest rate hikes, and the prospect of more to come, property remains an attractive investment option, particularly if it is leveraged correctly"

Liquidity aspects and liquidity costs also need to be taken into account when calculating the return of property and the viability of the property sector as an investment class (Weber, 2002).

The property market is currently stable and growth rates are estimated to be around 10-15% on average in 2007, according to the Lightstone National House Price Index (2007), however varying depending on which price segment and geographical segment is considered. This favours long term investments rather than speculations which absorb the effect of fluctuations and unstable property cycles.

In any country in the world, there are external factors that need to be taken into account when it comes to property, these include tax policies, noise, crime and other macro-economic variables, each of which affect the property market. (Vandall, 2007). De Roos et al (2006) emphasise that population growth in particular mechanically affects the demand for residential property and GDP growth fuels the demand for commercial and industrial property. According to this theory, South Africa’s future in the property market looks very bright with not only positive GDP growth and population growth, but with the size of the emerging black market.

In 2005, many respondents living in South Africa's townships expressed the desire eventually move to the suburbs. The number of black families that have moved to the suburbs in metropolitan areas has grown from 23% to 47% in the past 15 months. (Viruly, 2007)

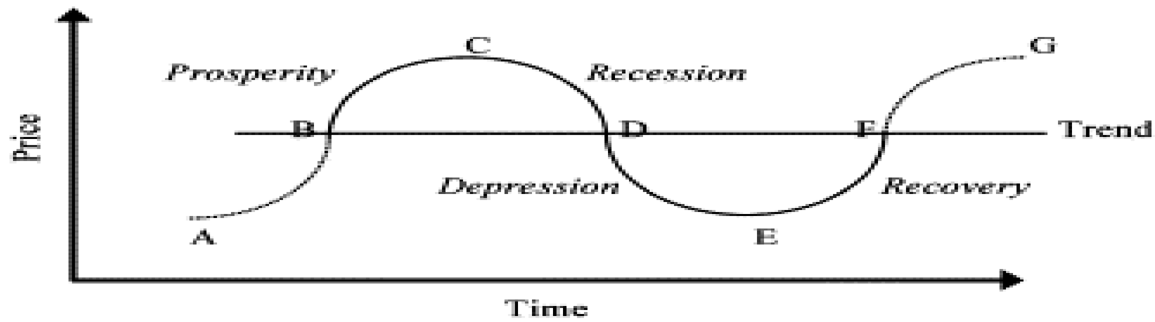
2.3 INVESTMENT CATEGORY PERFORMANCE

2.3.1 Speculative, short term property investment performance (Buy to sell)

This type of property investment derives its profits solely from capital growth. “The drive behind speculation is to secure capital gains simply by buying cheap, holding and then selling properties at a higher price later.” (Pornchokchai and Perera, 2005). Their article entitled: *Housing speculation in Bangkok, lessons learned from emerging economies,* is a writing that is particularly relevant for South Africa due to Bangkok’s surprising similarities with much of the South African property market. The authors explain that although speculative property investment does in fact create wealth for the private investor if properties are purchased at the right point of the property price cycle, there is an argument around whether it is actually beneficial to the economy of the country as a whole, as it is seen by some as being an unproductive practice. Pornchokchai and Perera (2005) remind us however of the contradicting opinion which is that property transactions stimulate other economic players that benefit from this type of business, such as legal practices, real estate practitioners and the banking sector as a whole.

Figure 3 suggests the cyclical process in property price evolution. It is important to note however that in South Africa, as is demonstrated in the secondary research section of this study, there has at no point been actual property price deflation and the trend curve has actually been fairly consistently upward. This curve would however more accurately demonstrate price growth as opposed to actual price. Figure 3 indicates the cyclical process in a generalised model.

Figure 3: The cycle of property price speculation:



Source: University of South Australia, 2003

This study discusses the 4 main reasons for rapid price increases in property:

1. The market recovery after a bust period.

2. The improvement of infrastructure and services in a particular area which will make it a preferred area among house buyers.

3. The improvement of the economy which also creates higher affordability and opportunities for people

4. The availability of properties at distressed prices which are attractive to buy for profiteering.

The information that we are able to draw from this in the context of speculative short term investments is that there is certainly profit to be made for the private investor. The general degree of profitability depends on the point in time in the price cycle when the purchase is made and the point at which it is sold. This will vary in accordance with externalities such as infrastructural development in areas for example. In his book, Lee (2005) suggests that speculative property investing can be done at all stages of the property cycle, however during a down-cycle it is necessary to spend more time and energy conducting improvements in order to sell at a higher price.

An aspect often neglected concerns the increased potential of profitability by utilising the correct financing method. According to Harris et al. (2007), during boom times, or during periods of the property up cycle, attractive returns of 20% or more are easily obtainable on capital values. This type of return is not only seen in emerging markets as is fairly common, but also in developed economies such as the USA. However during more 'normal' periods of the property cycle, 10% growth per annum is barely achievable, which is perceived as being hardly worth considering as a prime investment. It would mean a profit of only R10 000 for a property worth R100 000 over a year period. However, the key is in the leveraging and understanding the notion of return on investment rather than on property value. For example, it is quite possible to invest R10 000 as a down payment for a property that is worth R100 000 and sell it a short while later for R110 000. The profit of R10 000 on a R10 000 investment is actually 100% although the market environment growth was at 10%. De Roos, Eldred and Oakes (2006) support this theory and investment model, challenging anyone to prove that this return is not the best in its asset class.

Liquidity is a particularly important consideration in this type of investment. According to Tsolacos, McGough and Thompson (2005) liquidity affects higher valued property types such as commercial and industrial. Quick profits from property speculation can be quickly eroded by difficulty in re-selling at the optimal time, and incurred interest cost implications that come about as a result. Therefore, speculative buying and selling is somewhat limited to the residential property type and some commercial.

2.3.2 Long term income producing property investments (Buy to Let)

More commonly known as the "buying to let" in the marketplace, long term, income producing investments have been a popular investment solution in South Africa.

"The latest Standard Bank figures show that close to 12% (nearly one in every eight) of all residential property sales recorded at the Deeds Office are going to buyers who already own at least one property. That ratio has tripled over the past five years, up from 4% in 2000, and would typically include buy-to-let properties or holiday homes." (Muller, 2006)

This recently however has caused an over-supply of rental properties which has led to a decrease in property CAP rates and a decrease in return on investment. According to surveys conducted by Rode & Associates, flat, townhouse, and house rentals generally grew at a compounded rate of about 4 to 8% over the past three years compared with a compounded national house-price growth rate of 19,3% per year over the same period of time.

Weber (2002) argues however that with any property type when it comes to holding and renting property, the physical maintenance of the investment is costly as well as there being a certain amount of time and energy consumption that needs to be spent on the property on a regular basis. This needs to be taken into account when comparing performance between property types and also property investments categories. Harris *et al.* (2007) conducted comparative research regarding the performance of property returns compared with that of other investment types and conclude that property investment is more stable and returns are on average higher. However, several academic viewpoints argue that diversification is necessary in property investment (Ghyoot, 2006). Diversification includes not only property type variety, but also geographical diversification and tenant profile.

Wolmarans (2001) studies the differences in viewpoints of this type between academic research and what is actually being done successfully by property investment practitioners. She underlines the fact that most academic research focuses on the returns of the asset and tends to disregard the financial benefits that leveraging has on the private investor. Returns on investments are especially high when one considers the size of the initial investment and the gains that are the result of even mediocre growth. According to Harris, *et al* (2007), unlike property shares where the return is directly related to the amount of capital invested, even a fairly low return on a direct property purchase is considerably higher when considering the initial investment made if leveraging has been done optimally. This leveraging factor depends on the lender's conditions, and down payments usually range from ten to thirty percent of the purchase value depending on the property type, although residential property financing is often granted at 100% of the value. Downing (2007) supports the fact that correct leveraging is crucial for investors to optimise their returns and reminds us that there are methods and opportunities available to potential investors to finance new purchases through leverage. "…dramatic increase in property prices, which has pushed up capital values of real estate investments over time, has created large surplus value in many property investments and that this can be leveraged to finance 100% of the purchase price of any new additional properties."

The asset's strongest advantage is leverage and the use of debt to amplify the return on cash. For instance, if one were to consider a 20% down payment on a R500 000 asset. Should growth after one year be 10% and the value of the asset therefore become R550 000, the return on the down payment is in reality 50%. (Harris *et al*, 2007)

One needs however to take into consideration the high costs of liquidity. (Weber, 2002)

Foreign property investment is also becoming a popular subject in the media. Although this subject falls outside of the scope of this research, it merits to be mentioned that for South Africans considering property investments abroad, Sirmans and Worzala (2003) conclude that it is very dangerous due to the phenomena of the "unknown" and potential hidden costs such as taxation.

2.3.3 Listed Property Performance

According to Wingate-Pearse (2006), the South African listed property index provided a return of 50,04% in 2005 (41.2% in 2004), making it the best performing asset class of the year. Investec Listed Property Investments predicted returns of at least 17.5% for 2006 which were justified.

However one needs to remain cautious when it comes to listed property as with all types of property investment, as there are certain signs of peaking taking place. "Two of South Africa's biggest asset managers have sharply reduced their exposure to the listed property market." (Nthite, 2006). Property growth in 2007 has returned to "normal" levels, following recent the interest rate hikes and a certain degree of over-supply in the market. However, buying shares in property investment / managing companies is a safe and easy way in which to enter the property investment arena (Jakira, year unspecified). Ultimately buying shares allows for investors that do not qualify for direct, held property purchases, the opportunity to invest. There are also taxation benefits to investment in property shares (Harvard law review, 1994)

There appears to be little doubt as to the stability of listed property. And it is considered to be an essential part of an investment portfolio. “Listed property forms an important part of all balanced investment portfolios with the percentage of investment differing depending on personal circumstances and economic cycles. Most pension funds allocate between 5% and 15% of their investment to property, with a few investing as high as 25%” (Stadler, 2007)

For the past 5 years, returns as reported by the SA Listed Property Index have been above 40% per year. (Association of Property Unit Trusts, 2007) However, many believe that this is not sustainable. “returns seen over the past 5 years could largely have been driven by capital re-pricing after the stocks were grossly undervalued previously.”

The Rode’s report (2004) summarises the two main advantages and reasons for investing in listed property: The first is the liquidity advantage and the second is the diversification characteristics that listed property holds.

2.3.4 Development property investment performance

Property development is considered to be the riskiest of property investment types. According to Charney (2005) who discusses the examples of property development in Canada, when it comes to this category of property investment external factors are of major consideration. In developing property, special care needs to be taken regarding the geographical region and the actual situation of the development. Charney (2005) emphasises the social responsibility aspect of property development and its impact on the surroundings. In terms of wealth creation there is considerably higher risk in property development (Lewis, 1986) because of the increased number of stakeholders and the larger amounts of capital involved. Many large established property developers, not excluding Donald Trump have nearly been ruined financially because of unpredicted outcomes with development ranging from ecological issues to raw materials supply and movements in the rental market. (Forbes, 2005)

2.4 CONCLUSION OF THE LITERATURE REVIEW

It is interesting to note that there is a limitation of South African academic literature pertaining to return on investment of property investment types and categories. (This in itself emphasises the need for this type of research to be done in South Africa.) Much of the literature therefore has been sourced from other countries however care was taken to avoid the over utilisation of American literature of which there is abundance, but also to include literature coming from other developing countries which are closer to South Africa in terms of economic and property market similarity.

What is shown from the literature is that the return on investment that can be expected from property as an asset class depends largely on the understanding of property cycles but also the concept of financial leverage. The categories of short term speculative investment as well as long term property investments are both affected by much the same externalities in terms of actual property value and in both cases, correct leveraging which can multiply the return on investment.

Non-held property is much more accessible to the man on the street since the initial entry investment can be relatively low unlike held property where an investor has to have a reasonably steady source of income to quality for financing. Property shares are also considerably more liquid than held property meaning that the risk factor is lessened by a large degree.

Property development falls largely outside the scope of the potential private investor because of the large capital outlays involved. Most private investors within the framework of the definition of the private investor provided for the purpose of this study are unable to access the financing and do not have at their disposal the required equity necessary to conduct development. Property development is potentially a very profitable investment solution however it requires considerable time and energy as well as knowledge and skills to be successful in this investment category. It is also the riskiest of the investment categories.

The study therefore shows that held property has the advantage of good capital returns with reasonable levels of liquidity depending on the property type. Property shares not only have the highest liquidity, but are the most accessible and the safest. However, because there is no possibility of financial leverage, this option offers by far the lowest return of the investment categories. This is demonstrated by the way in which leveraging can multiply return on investment considerably.

CHAPTER 3: THE RESEARCH

3.1 THE RESEARCH QUESTIONS

3.1.1 Question 1

What is the current situation of potential private investors regarding their involvement in property investment as well as their perceived knowledge of the property market? This puts the entire research project into perspective and is based on the assumption that many people are unaware of the potential financial benefits of property investments, as well as the simple fact that they think they do not qualify to enter the property market. It will also serve to determine how pro-active South Africans are regarding this type of asset class investment.

3.1.2 Question 2

From the viewpoint of property specialists and property financing specialists, what is the current and future condition of the South African property market? What is the better investment category and type, and since it has been established that leveraging is fundamental, what financing is available to the private investor in South Africa?

3.1.3 Question 3

What is the actual return on investment for each of the proposed property investment solutions? This should taking into account different financing options and optimal capital structures. Although the literature researched provides some insight into average returns it does not provide any real indication of the type of average returns for the categories of investment available for the private investor in South Africa. Also it does not include the different effects that finance structures have on that actual return such as leveraging. What externalities should be taken into account for each of the investment categories and types such as risk, liquidity, growth forecast as well as barriers to entry?

3.2 RESEARCH PROPOSITIONS

3.2.1 Proposition 1

Generally, within the population of potential investors knowledge about the property asset class is considered to be fairly limited, particularly in terms of information about the different categories and types of investments that are available to them for investment. This lack of knowledge includes a lack of insight into financing options as well as possibilities of actually entering the market. This would include investors who have been active either within one category of property or several although these investors would claim to have a certain level of knowledge. Seasoned investors exist however who would be experts. These are generally the investors who have shown the highest returns on investment over past years.

3.2.2 Proposition 2

The property market is healthy and there is still an opportunity to create much wealth in the future. However one needs to carefully evaluate the better investment category and property type.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 INTRODUCTION

The research was carried out in 3 phases:

The first phase consisted of primary research whereby a questionnaire survey was developed with the purpose of gathering information about the potential private investor population in relation to property investment.

The second phase also consisted of primary research and involved gathering information from the property specialist population about the present and future property market in South Africa and about the different categories and types of investment as well as financing options.

The third phase was to conduct secondary research in order to obtain fundamental statistics about the South African economy pertaining to the property market most directly, as well as statistical historical evidence of property type performance.

This information was brought together and along with information recorded in the literature review, a conclusion was drawn in order to establish which kind of property investment offers the greatest creation of wealth, taking into account the externalities that affect them.

4.2 POTENTIAL INVESTOR RESEARCH

4.2.1 Potential property investor population

The total population of South Africans with either the cash means, or access to adequate credit facilities that would allow them to purchase property of whatever kind, constitutes the total population of potential property investors in South Africa. With the introduction of the New Credit Act in 2007, the major criterion for the granting of credit for the purpose of purchasing held property is affordability. With the exception of individuals having abnormal or extravagant spending patterns; most of the four major bank groups are willing to grant credit for which monthly repayments correspond to approximately 33% of an individual's gross income. (Information source: SA Homeloans).

An attempt to determine the exact number of potential investors would be virtually impossible for the following reasons:

- Listed property shares or unit trusts are accessible to almost anyone who earns or has earned an income.
- Held property can be purchased in partnership or even investment groups (commonly known as investment clubs) based on 2 or more income streams.
- Holders of investment property may have acquired it by means other than purchase, such as inheritance. This means that one would be a potential investor also if one is in a position to potentially acquire a property through alternative means.

It would however be reasonable to assume that the potential investor population consists of all middle to upper income earners in South Africa.

4.2.2 The sample

In order to gather primary data, a convenience sample of the population of potential investors was selected to be questioned by means of an email survey. Although a random sample would have been ideal, there was no realistic manner in which to conduct the survey on a completely random sample.

In total there were 153 respondents out of the estimated total of 500 surveys that were emailed. An initial 400 emails were sent out to the sample across a demographically diverse (race, geography, age and income) convenience sample of the population. The total number is unsure since a snowball sample method was used and respondents were asked to send the survey on to friends and family. Many of the respondents did in fact do so as they put me in copy of their forwarded emails.

The sample initially consisted of persons that I personally knew or had business dealings with in the past. The respondents were asked to send the questionnaire onwards to friends and family.

4.2.3 The research instrument and data collection method

The survey (See appendix 1) was designed in order to determine the investment situation and perceptions of potential investors in South Africa including the actual investment levels of investors and their viewpoints on certain key issues pertaining to their investments. It also served to establish the perceived knowledge level of the target population in the area of the property market.

The questionnaire consisted of 14 questions, of which only 7 were for people who had never invested in property.

Its main purpose is to determine what exactly the target population is doing regarding property investment as a possible asset class investment.

The survey was designed in the form of an internet survey on the following website: www.theresearchhub.co.za/property.

4.2.4 Limitations of the research

The survey itself aimed to determine broad characteristics of the target population, and was deliberately kept short in order to increase response rates, respondent fatigue and other factors. Although questions regarding the investment categories were asked, no detail was requested about investment type since more reliable secondary data was intentionally to be used for this.

Although the sample consisted of a diverse group of people in terms of demographics and income, there are indications that there was a tendency towards many members of the population that did not invest in property not actually responding to the survey. This is demonstrated by the fact that 40% of the total number of respondents claimed to own investment property other than their primary residence. It is reasonable to assume that 40% of the total population of potential private investors as defined for the scope of this research is not an owner of investment property. It is assumed that although the survey mentioned that it was in fact to be answered by all, many non-investors in property may have not completed the survey due to the fact that they were not investors.

4.2 PROPERTY MARKET SPECIALIST RESEARCH

4.2.1 The population of property specialists

This total population consists of all market specialist players in the property market ranging from property brokers, more commonly known as real estate agents, to property financing providers. There are officially close to 10 000 official Real Estate agencies operating in South Africa at present (source: Estate Agency Affairs Board). These, as well as a number of similar entities that facilitate property transactions are considered to be the property specialists within the scope of this study.

4.2.2 The sample

In order to gather primary data, a convenience sample of the population of property specialists was established. It consisted of the most reputable and established of these property brokers. The convenience sample choice was because of limitations in availability of respondents in view of the type of survey to be carried out; the size of the sample was limited to ten individuals representing major real estate organisations and mainstream financing institutions. The type of respondent was senior executives of the companies represented so as to maximise the quality of information obtained. 4 out of the 10 persons in the sample did not wish to conduct the interview.

4.2.3 The research instrument and data collection method.

The instrument was a basic questionnaire (see appendix 2) which was used as a basis for in-depth interviews. The interviews were conducted telephonically and respondents were asked open ended questions about the relevant aspects of the property market and property investment. This was done in order to gather professional viewpoints with regards to the future of property investment in South Africa, the different financing options available to private investors and the qualification criteria for these financing solutions, as well as viewpoints regarding the better investment categories and types as defined earlier in this study.

4.2.4 Limitations of the research

The main problematic encountered was the availability of respondents. Senior executives from the mainstream property companies and financing institutions were chosen in order to acquire the highest quality of information; however availability of this type of person was limited and not all of them agreed to take part in the interview.

4.3 THE SECONDARY RESEARCH

Secondary research was carried out in order to obtain statistical information about the actual reality of the property market in South Africa. It was suggested in the literature review that a country's GDP and population growth has a substantial effect on the future prices of property and on the activity in the property market. Research regarding these economic indicators was therefore conducted. Secondary data relating to the performance of each of the property types was also gathered in order to provide statistical evidence of trends to assist with determining the better property types.

CHAPTER 5: RESEARCH RESULTS

5.1 THE PRIVATE INVESTOR RESEARCH:

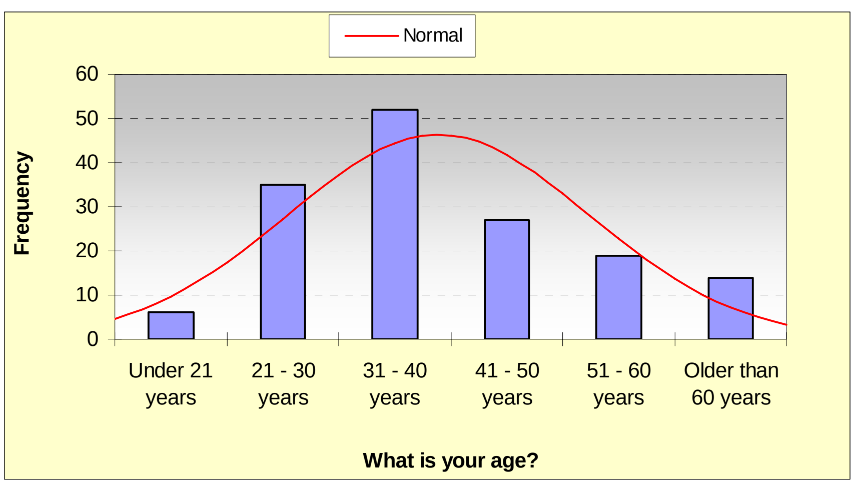
5.1.1 The results of the survey

<u>SECTION A - RESULTS OF THE TOTAL SAMPLE</u>

A – 1: AGE

Figure 4

What is your age?	**Frequency**	**Percent**	**Cumulative Percent**
Under 21 years	6	3.92	3.92
21 - 30 years	35	22.88	26.80
31 - 40 years	52	33.99	60.78
41 - 50 years	27	17.65	78.43
51 - 60 years	19	12.42	90.85
Older than 60 years	14	9.15	100.00

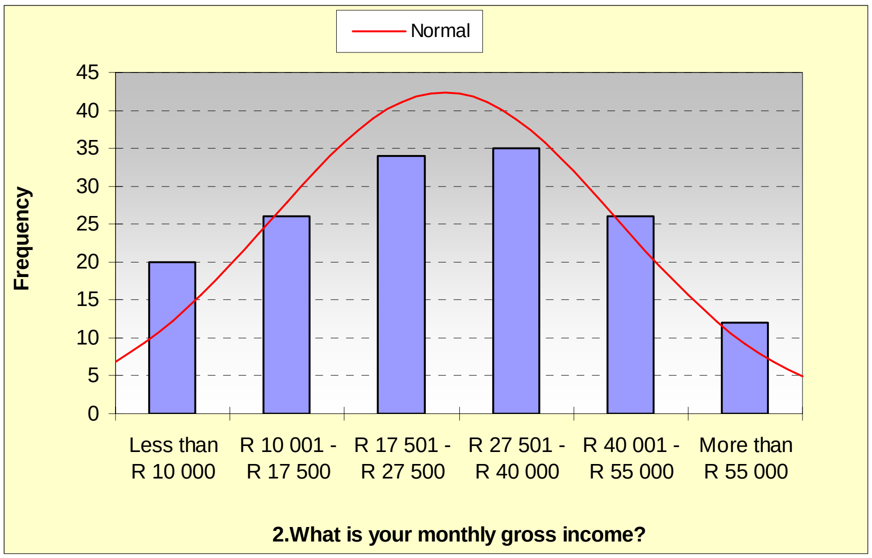


The age category with the highest response rate was the 31-40 year old category with 34% of the total number of responses, followed by the 21-30 year old category (23% or responses)

A – 2: GROSS MONTHLY INCOME

Figure 5

Gross monthly income	Frequency	Percent	Cumulative Percent
Less than R 10 000	20	13.07	13.07
R 10 001 - R 17 500	26	16.99	30.07
R 17 501 - R 27 500	34	22.22	52.29
R 27 501 - R 40 000	35	22.88	75.16
R 40 001 - R 55 000	26	16.99	92.16
More than R 55 000	12	7.84	100.00

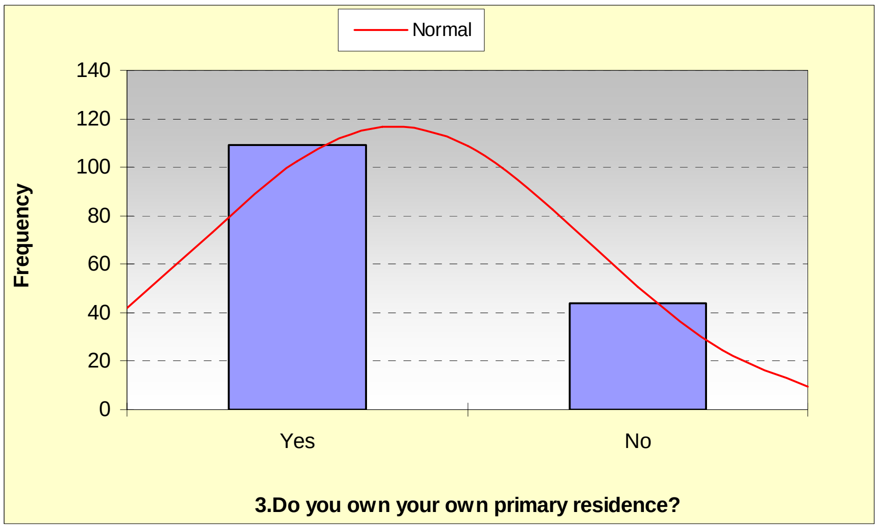


The highest number of respondents was in the R17500 to the R40000 salary brackets which constitutes nearly half of the sample.

A – 3: PRIMARY RESIDENCE OWNERS.

Figure 6

Ownrship of primary property	Frequency	Percent	Cumulative Percent
Yes	109	71.24	71.24
No	44	28.76	100.00

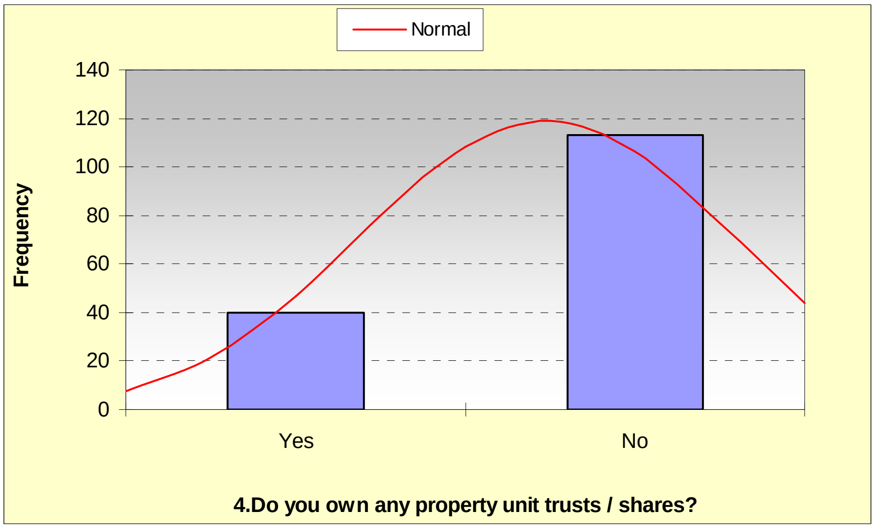


The majority of the sample (71%) indicated that they owned their primary residence.

A- 4: OWNERSHIP OF PROPERTY SHARES

Figure 7

Property unit trusts/ shares	Frequency	Percent	Cumulative Percent
Yes	40	26.14	26.14
No	113	73.86	100.00

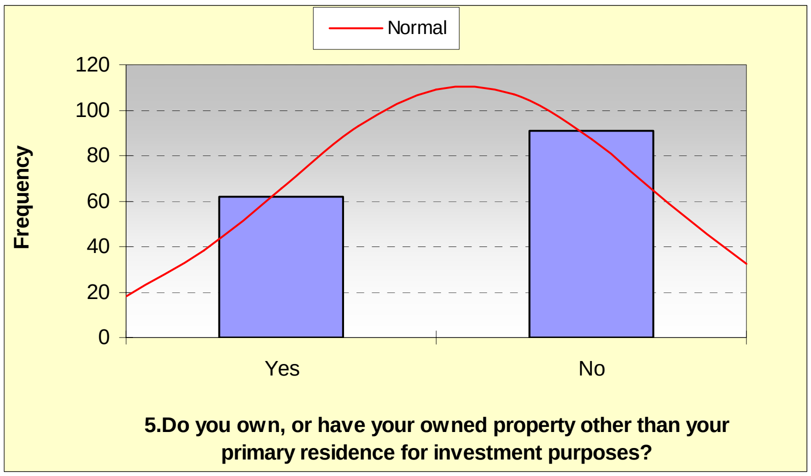


26% of the sample indicated that they owned property unit trusts or shares.

A - 5: OWNERSHIP OF A SECOND PROPERTY FOR INVESTMENT PURPOSES

Figure 8

Secondary Property	**Frequency**	**Percent**	**Cumulative Percent**
Yes	62	40.52	40.52
No	91	59.48	100.00

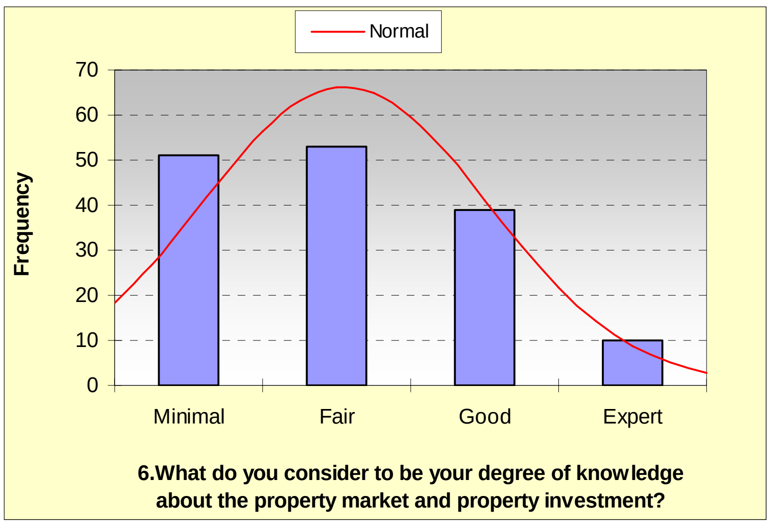


41% of the sample indicated that they owned a secondary property purchased for investment purposes.

A – 6: *DEGREE OF KNOWLEDGE ABOUT THE PROPERTY MARKET AND PROPERTY INVESTMENT*

Figure 9

Degree of knowledge	Frequency	Percent	Cumulative Percent
Minimal	51	33.33	33.33
Fair	53	34.64	67.97
Good	39	25.49	93.46
Expert	10	6.54	100.00



The majority (60%) of the sample rates their knowledge of the property market and property investment as fair to good. A third of respondents admitted that their knowledge of property and property investment was minimal.

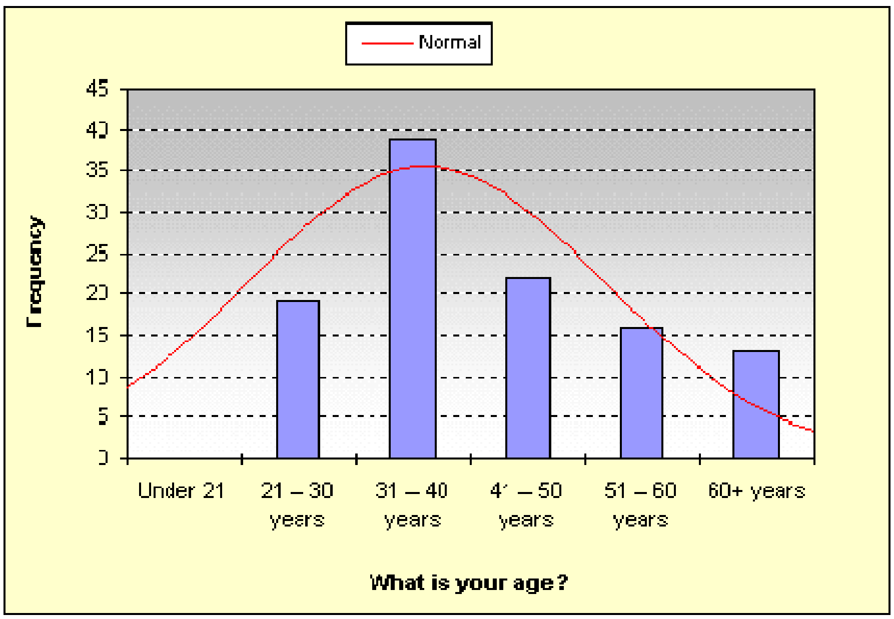
SECTION B: RESULTS WITHIN THE CATEGORY OF PRIMARY PROPERTY OWNERS

71% (109 of 153) of the total sample indicated that they owned their primary residence.

B – 1: AGE

Figure 10

What is your age?	Frequency	Percent	Cumulative Percent
Under 21	0	0.00	0.00
21 – 30 years	19	17.43	17.43
31 – 40 years	39	35.78	53.21
41 – 50 years	22	20.18	73.39
51 – 60 years	16	14.68	88.07
60+ years	13	11.93	100.00



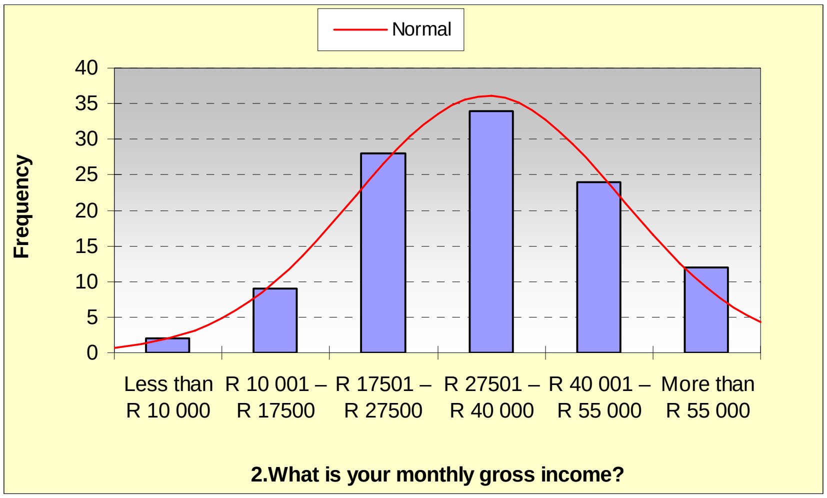
The majority (73%) of primary residence owners in this sample were younger than 50 years of age.

Older than 60 years	8.50	71.25
21 – 30 years	12.42	12.42
31 – 40 years	25.49	37.91
41 – 50 years	14.38	52.29
51 – 60 years	10.46	62.75

B – 2: GROSS MONTHLY INCOME

Figure 11

Gross monthly income	Frequency	Percent	Cumulative Percent
Less than R 10 000	2	1.83	1.83
R 10 001 – R 17500	9	8.26	10.09
R 17501 – R 27500	28	25.69	35.78
R 27501 – R 40 000	34	31.19	66.97
R 40 001 – R 55 000	24	22.02	88.99
More than R 55 000	12	11.01	100.00



The gross monthly income of primary residence owners ranges between R17501 to R 55000.

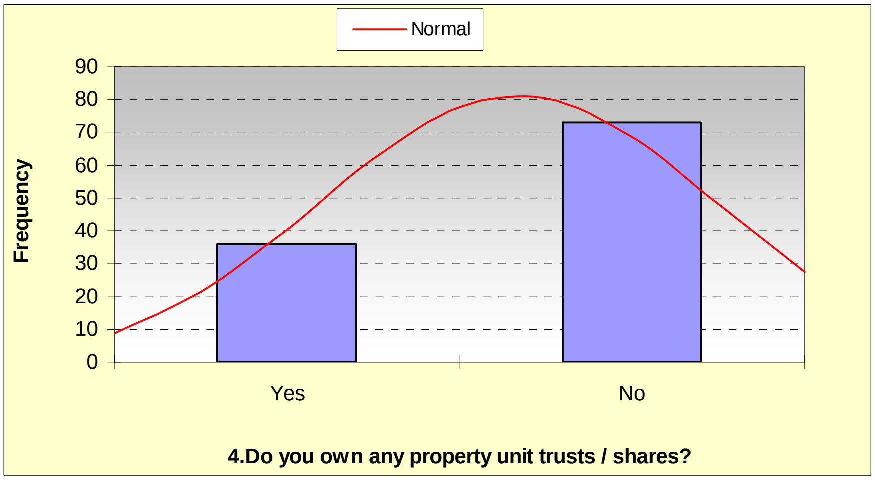
As a % of the total sample:

Gross Monthly Income	%	Cumulative %
Less than R 10 000	1.31	1.31
R 10 001 – R 17 500	5.88	7.19
R 17 501 – R 27 500	18.30	25.49
R 27 501 – R 40 000	22.22	47.71
R 40 001 – R 55 000	15.69	63.4
More than R 55 000	7.84	71.25

B – 3: OWNERSHIP OF PROPERTY UNIT TRUSTS OR SHARES

Figure 12

Property unit trusts / shares	Frequency	Percent	Cumulative Percent
Yes	36	33.03	33.03
No	73	66.97	100.00



67% of the sample of primary property owners indicated that they did not own property unit trusts or shares.

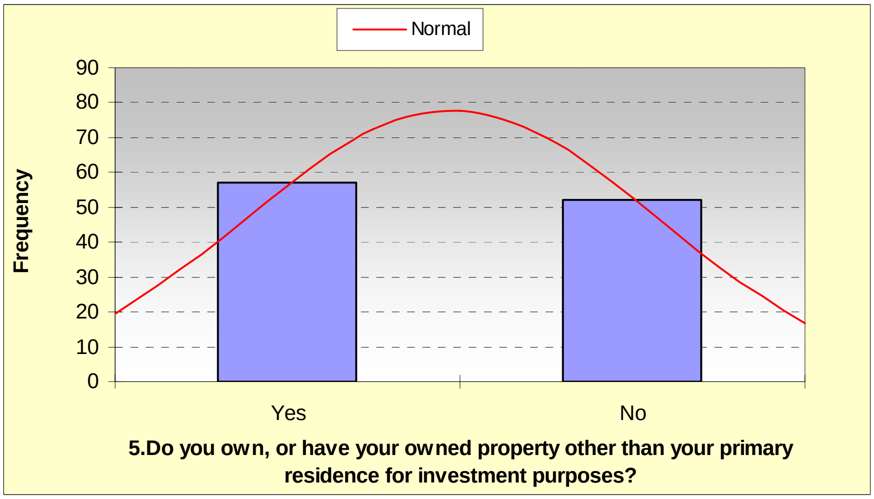
As a % of the total sample

Ownership of property unit trusts/shares	%	Cumulative %
Yes	23.53	23.53
No	47.71	71.25

B – 4: OWNERSHIP OF A SECONDARY PROPERTY

Figure 13

	Frequency	Percent	Cumulative Percent
Secondary Property Ownership			
Yes	57	52.29	52.29
No	52	47.71	100.00



52% of the sample of primary residence owners indicated that they also owned a secondary property for investment purposes.

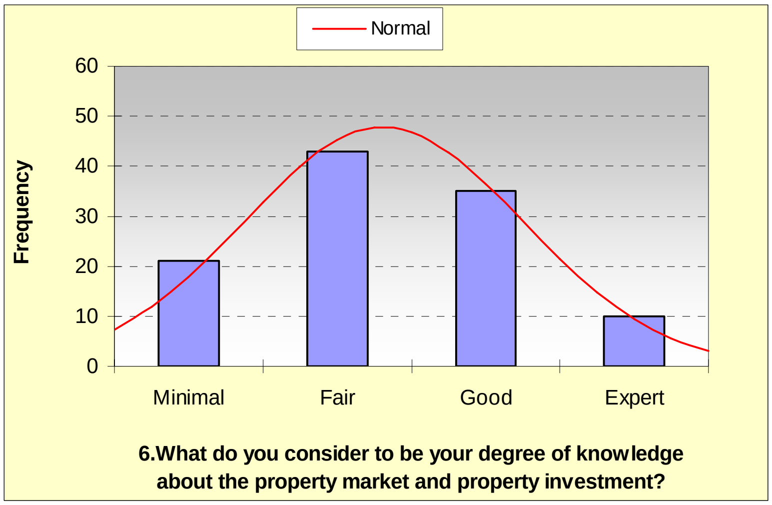
As a % of the total sample

Ownership of secondary property	%	Cumulative %
Yes	37.25	37.25
No	33.99	71.25

B – 5: DEGREE OF KNOWLEDGE OF THE PROPERTY MARKET AND PROPERTY INVESTMENT

Figure 14

Degree of knowledge	Frequency	Percent	Cumulative Percent
Minimal	21	19.27	19.27
Fair	43	39.45	58.72
Good	35	32.11	90.83
Expert	10	9.17	100.00



The majority (62%) of the subgroup rates their degree of knowledge as fair to good.

As a % of the total sample

Degree of knowledge	%	Cumulative %
Minimal	13.73	13.73
Fair	28.11	41.84
Good	22.88	64.72
Expert	6.54	71.25

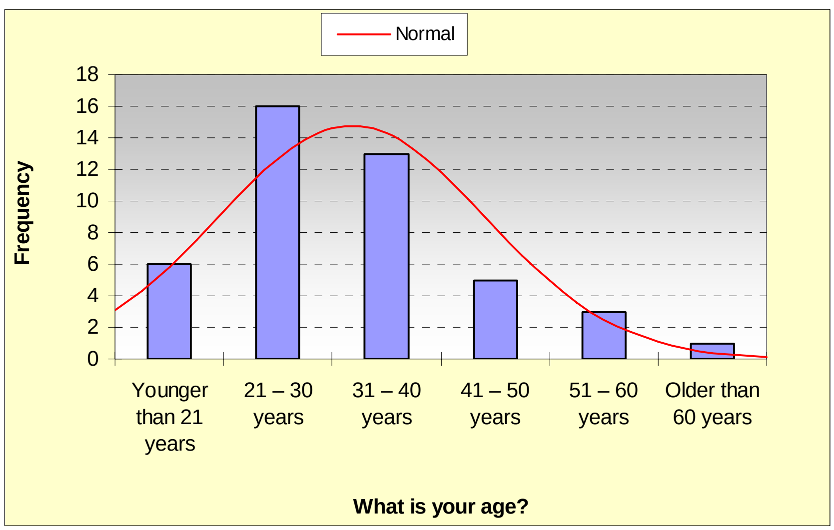
SECTION C: CATEGORY THAT DOES NOT OWN ITS PRIMARY RESIDENCE

28.75% (44 of 153) of the total sample indicated that they did not own their primary residence.

C – 3: AGE

Figure 15

Age	Frequency	Percent	Cumulative Percent
Younger than 21 years	6	13.64	13.64
21 – 30 years	16	36.36	50.00
31 – 40 years	13	29.55	79.55
41 – 50 years	5	11.36	90.91
51 – 60 years	3	6.82	97.73
Older than 60 years	1	2.27	100.00



Nearly 80% of the sample of non-primary residence owners was below the age of 40 years.

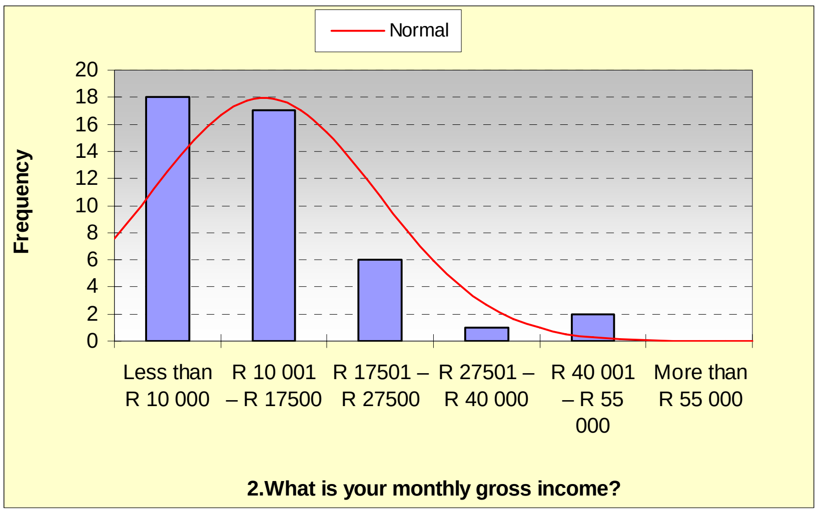
As a % of the total sample

31 – 40 years	8.50	18.96
41 – 50 years	4.58	23.54
51 – 60 years	3.27	26.81
Older than 60 years	1.96	28.75

C – 2: GROSS MONTHLY INCOME

Figure 16

Gross monthly income	Frequency	Percent	Cumulative Percent
Less than R 10 000	18	40.91	40.91
R 10 001 – R 17500	17	38.64	79.55
R 17501 – R 27500	6	13.64	93.18
R 27501 – R 40 000	1	2.27	95.45
R 40 001 – R 55 000	2	4.55	100.00
More than R 55 000	0	0.00	100.00



The gross monthly income of the vast majority of respondents (80%) who do not own their primary residence is below R 17 500.

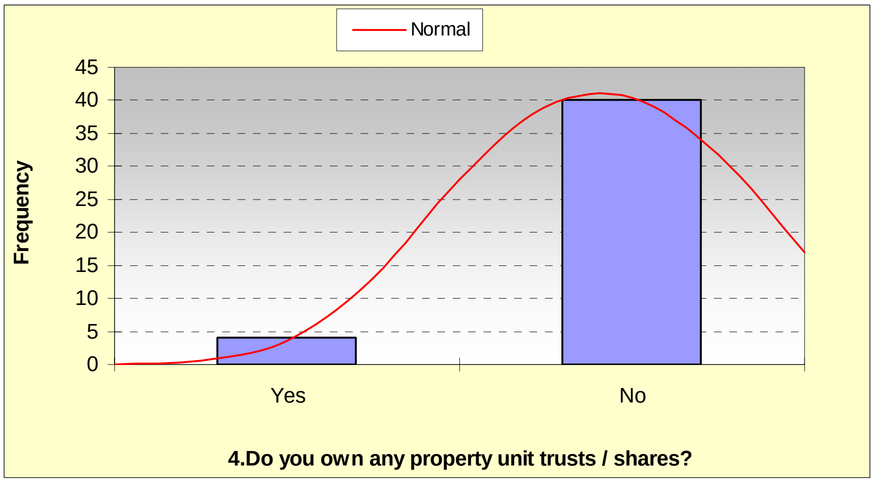
As a % of the total sample

Gross Monthly Income	%	Cumulative %
Less than R 10 000	11.76	11.76
R 10 001 – R 17 500	11.11	22.87
R 17 501 – R 27 500	3.92	26.29
R 27 501 – R 40 000	0.65	26.94
R 40 001 – R 55 000	1.31	28.74
More than R 55 000	0	28.74

C – 3: OWNERSHIP OF PROPERTY UNIT TRUSTS OR SHARES

Figure 17

Property unit trust/ shares	Frequency	Percent	Cumulative Percent
Yes	4	9.09	9.09
No	40	90.91	100.00



9% of this sample indicated they owned property unit trusts or shares.

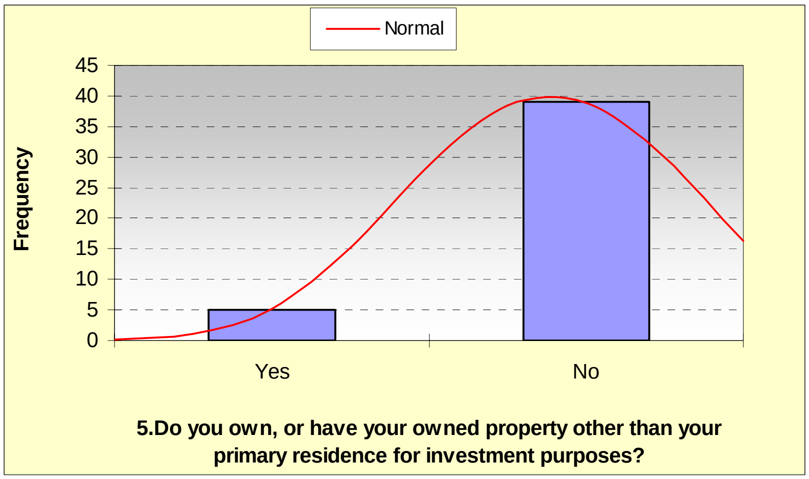
As a % of the total sample

Ownership of property unit trusts/ shares	%	Cumulative %
Yes	2.61	2.61
No	26.14	28.75

C - 4 OWNERSHIP OF INVESTMENT PROPERTY

Figure 18

Investment Property	Frequency	Percent	Cumulative Percent
Yes	5	11.36	11.36
No	39	88.64	100.00



11% of the sample that did not own their primary residence indicated that they did own a secondary residence for investment purposes.

- The reasons that motivated the purchase of an investment property for this subgroup was:
  - For resale purposes for a profit
  - For income from rental
- The number of properties owned for all in this subgroup is 1
- The value of each of the properties is below R 1 million.
- The purchases came about as a result of:
  - Advice from a friend
  - Information obtained from press releases.

- The return on investment is considered to be below average to fair.
- 100% of debt was used to finance the purchase of the investment property.
- All of these respondents rated their knowledge of the property market as minimal.

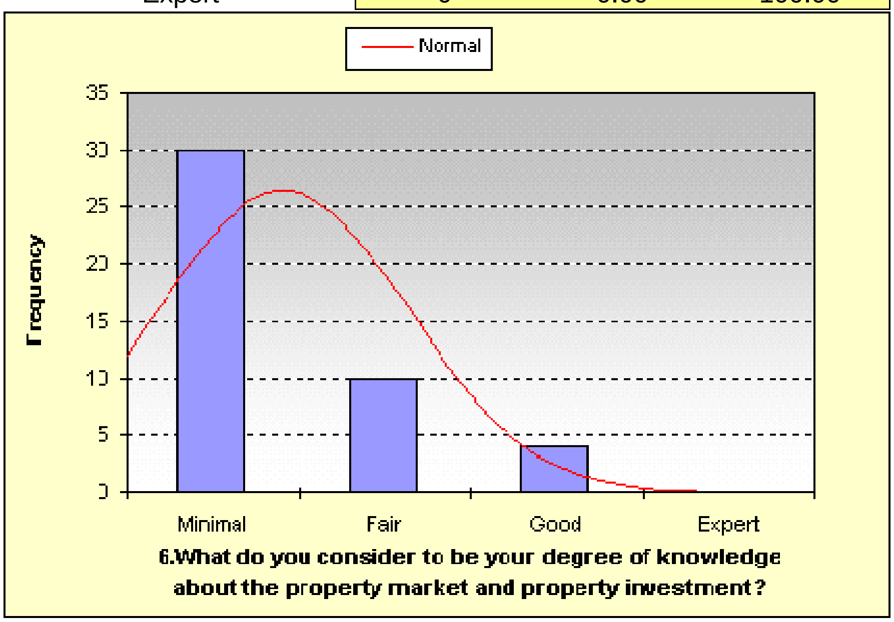
As a % of the total sample

Ownership of investment property	**%**	**Cumulative %**
Yes	3.27	3.27
No	25.49	28.75

C – 4: PERCEPTION OF KNOWLEDGE ABOUT THE PROPERTY MARKET

Figure 19

Degree of knowledge	**Frequency**	**Percent**	**Cumulative Percent**
Minimal	30	68.18	68.18
Fair	10	22.73	90.91
Good	4	9.09	100.00
Expert	0	0.00	100.00



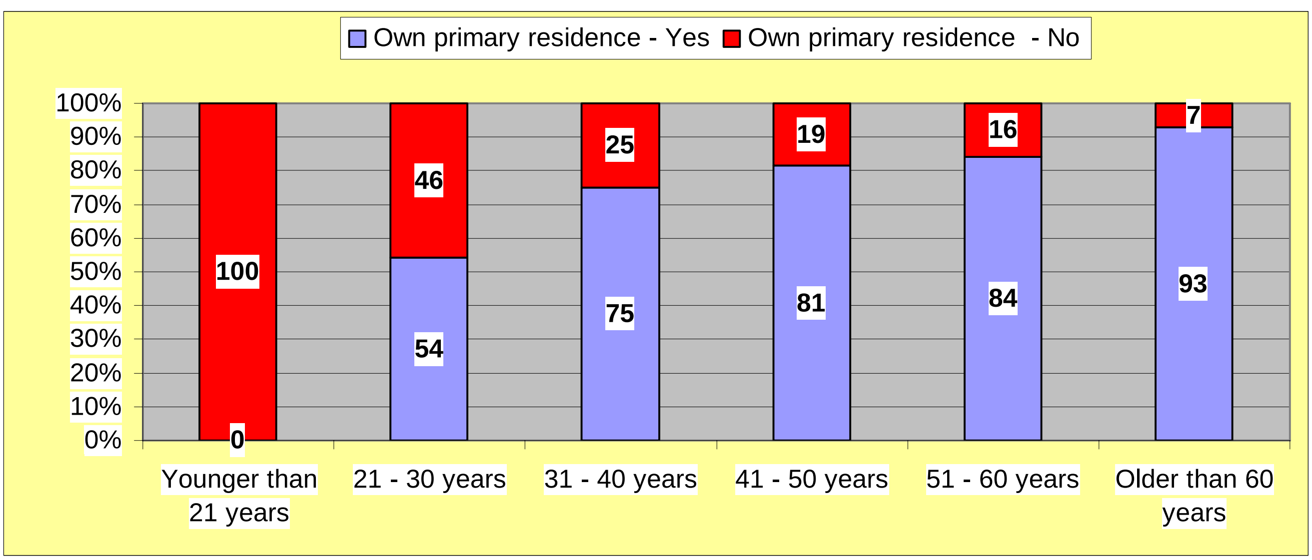
Most of the respondents within this subgroup consider their knowledge about the property market to be minimal.

<u>A COMPARISON BETWEEN SECTION B AND C: OWNERS AND NON OWNERS OF THEIR PRIMARY RESIDENCE</u>

COMPARISON SECTION B AND C: AGE

Figure 20

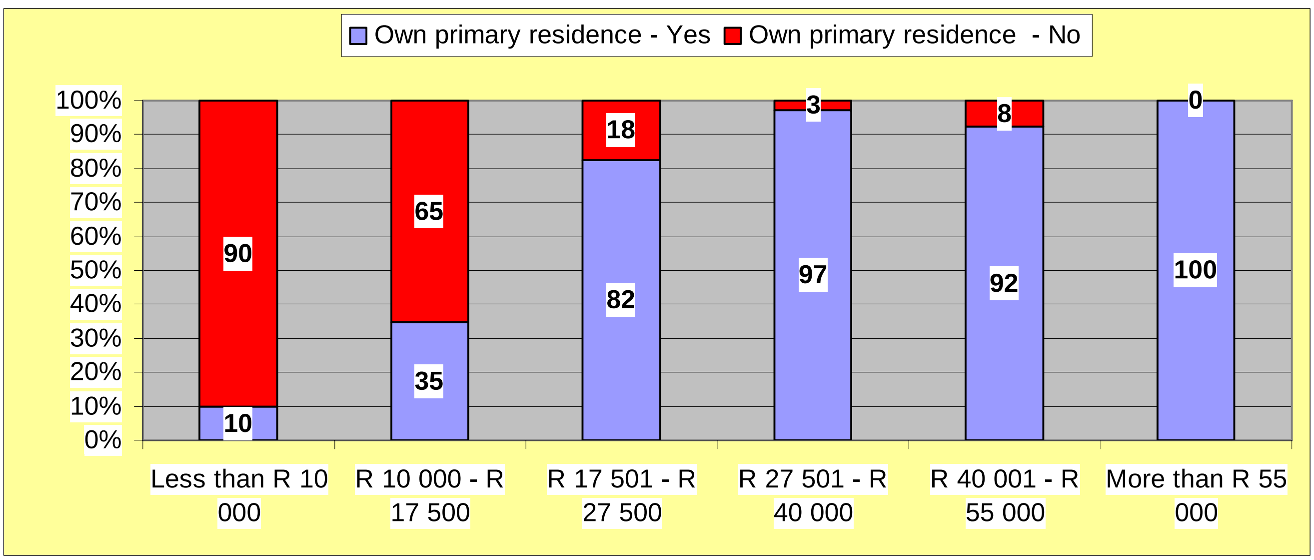
	Younger than 21 years	21 - 30 years	31 - 40 years	41 - 50 years	51 - 60 years	Older than 60 years	*Sums*
Own primary residence - Yes							
Frequency	0	19	39	22	16	13	109
Row percent	0	17.43	35.78	20.18	14.68	11.93	
Column percent	0	54.29	75.00	81.48	84.21	92.86	
Total percent	0	12.42	25.49	14.38	10.46	8.50	
Own primary residence - No							
Frequency	6	16	13	5	3	1	44
Row percent	13.64	36.36	29.55	11.36	6.82	2.27	
Column percent	100.00	45.71	25.00	18.52	15.79	7.14	
Total percent	3.92	10.46	8.50	3.27	1.96	0.65	
Sums	6	35	52	27	19	14	153



The older individuals become, the more likely they are to purchase their primary residence.

Figure 21

	Less than R 10 000	R 10 000 - R 17 500	R 17 501 - R 27 500	R 27 501 - R 40 000	R 40 001 - R 55 000	More than R 55 000	*Sums*
Own primary residence - Yes							
Frequency	2	9	28	34	24	12	109
Row percent	1.834862	8.256881	25.68807	31.19266	22.01835	11.00917	
Column percent	10	34.61538	82.35294	97.14286	92.30769	100	
Total percent	1.30719	5.882353	18.30065	22.22222	15.68627	7.843137	
Own primary residence - No							
Frequency	18	17	6	1	2	0	44
Row percent	40.90909	38.63636	13.63636	2.272727	4.545455	0	
Column percent	90	65.38462	17.64706	2.857143	7.692308	0	
Total percent	11.76471	11.11111	3.921569	0.653595	1.30719	0	
Sums	20	26	34	35	26	12	153

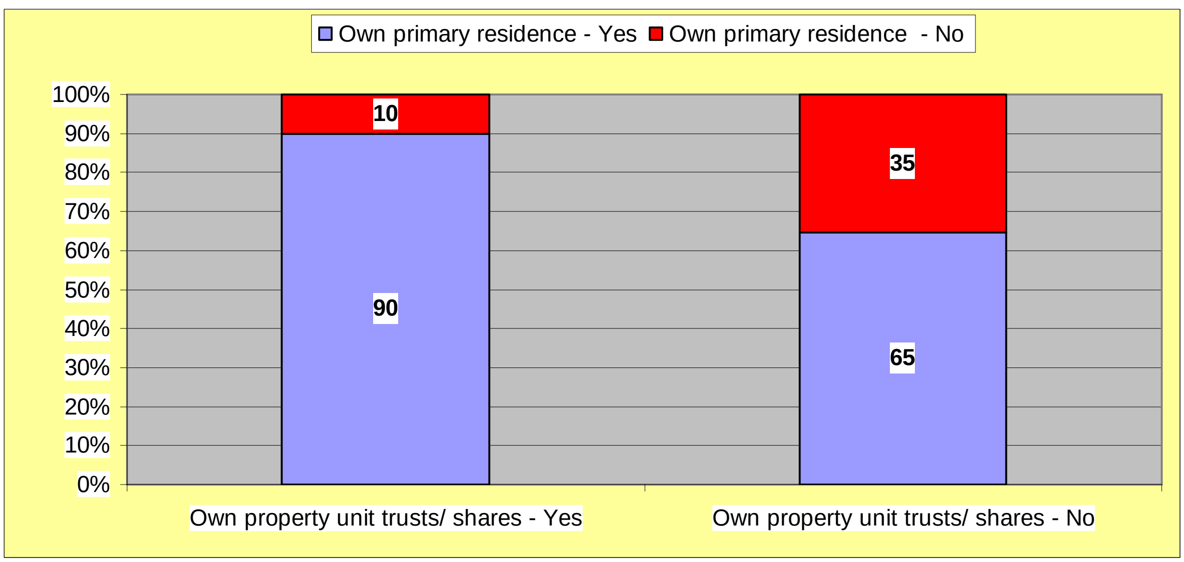


The more income that individuals earn, the more likely they are to purchase their primary residence.

COMPARISION SECTION B AND C: PROPERTY SHARES / UNIT TRUST OWNERSHIP

Figure 22

	Own property unit trusts/ shares - Yes	Own property unit trusts/ shares - No	*Sums*
Own primary residence - Yes			
Frequency	36	73	109
Row percent	33.03	66.97	
Column percent	90.00	64.60	
Total percent	23.53	47.71	
Own primary residence - No			
Frequency	4	40	44
Row percent	9.09	90.91	
Column percent	10.00	35.40	
Total percent	2.61	26.14	
Sums	40	113	153



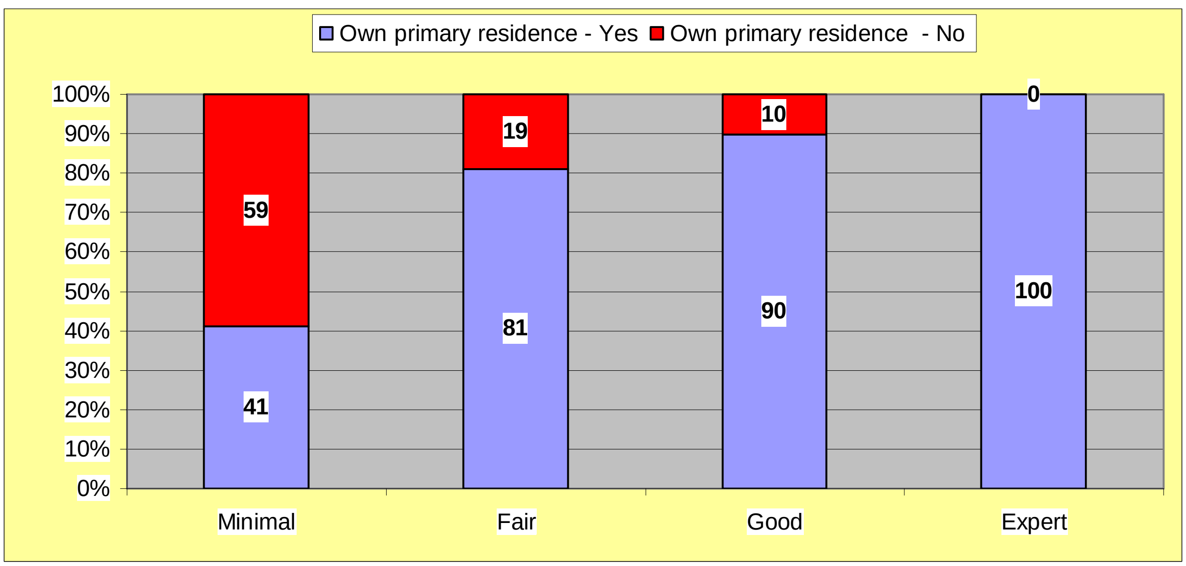
The vast majority of owners of property shares or unit trusts also own their primary residence.

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

COMPARISON SECTION B AND C: PERCEIVED KNOWLEDGE OF THE PROPERTY MARKET

Figure 23

	Minimal	Fair	Good	Expert	*Sums*
Own primary residence - Yes					
Frequency	21	43	35	10	109
Row percent	19.26606	39.44954	32.11009	9.174312	
Column percent	41.17647	81.13208	89.74359	100	
Total percent	13.72549	28.10458	22.87582	6.535948	
Own primary residence - No					
Frequency	30	10	4	0	44
Row percent	68.18182	22.72727	9.090909	0	
Column percent	58.82353	18.86792	10.25641	0	
Total percent	19.60784	6.535948	2.614379	0	
Sums	51	53	39	10	153



Owners of their primary residence perceive themselves to be generally more knowledgeable about the property market than non owners.

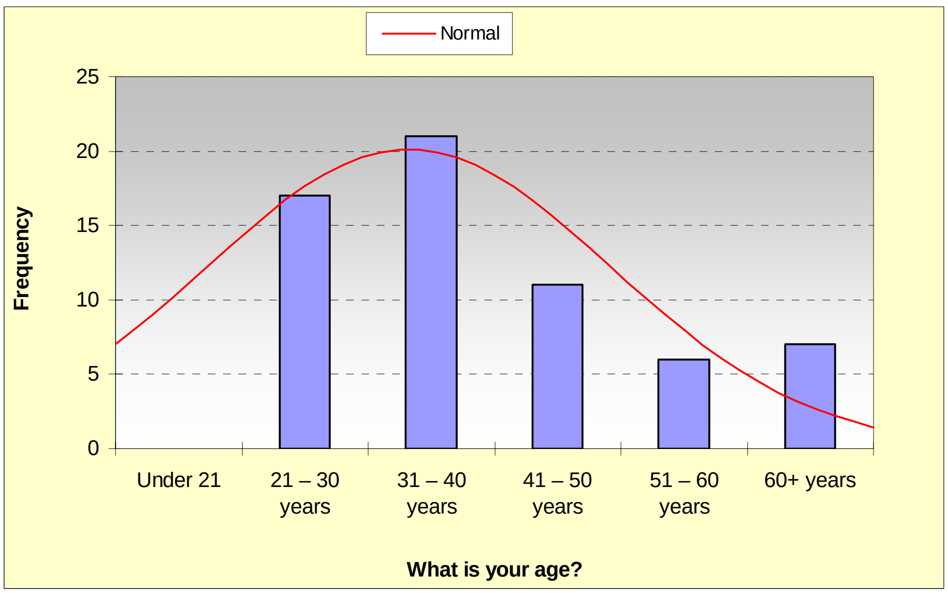
SECTION D: OWNERS OF INVESTMENT PROPERTY

40.52% of the total indicated that they owned an investment property.

D – 1: AGE

Figure 24

What is your age?	Frequency	Percent	Cumulative Percent
Under 21	0	0.00	0.00
21 – 30 years	17	27.42	27.42
31 – 40 years	21	33.87	61.29
41 – 50 years	11	17.74	79.03
51 – 60 years	6	9.68	88.71
60+ years	7	11.29	100.00



The majority (61%) of investment property owners are aged between 21 and 40 years.

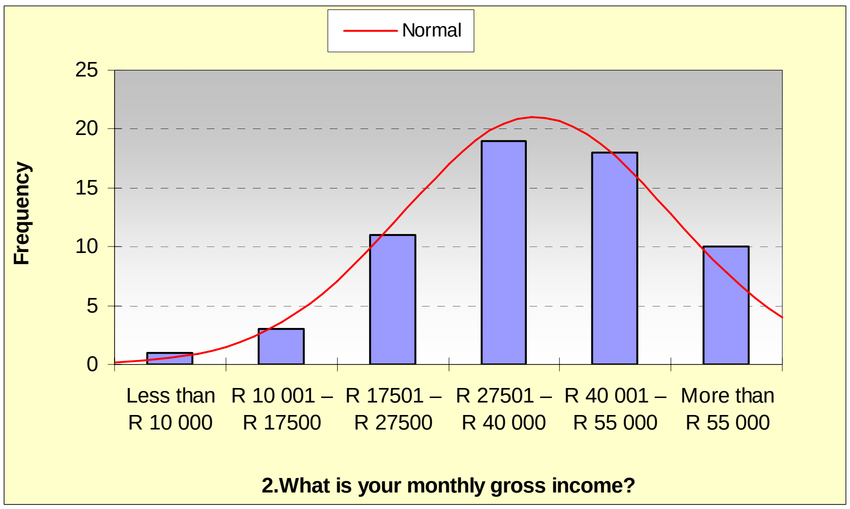
As a percentage of the total sample

Age:	%	Cumulative %
21 – 30 years	11.11	11.11
31 – 40 years	13.73	24.84
41 – 50 years	7.19	32.03
51 – 60 years	3.92	35.95
Older than 60 years	4.58	40.52

D – 2: GROSS MONTHLY INCOME

Figure 25

Gross monthly income	Frequency	Percent	Cumulative Percent
Less than R 10 000	1	1.61	1.61
R 10 001 – R 17500	3	4.84	6.45
R 17501 – R 27500	11	17.74	24.19
R 27501 – R 40 000	19	30.65	54.84
R 40 001 – R 55 000	18	29.03	83.87
More than R 55 000	10	16.13	100.00



The majority of respondents in this category earned income above R27500.

As a % of the total sample

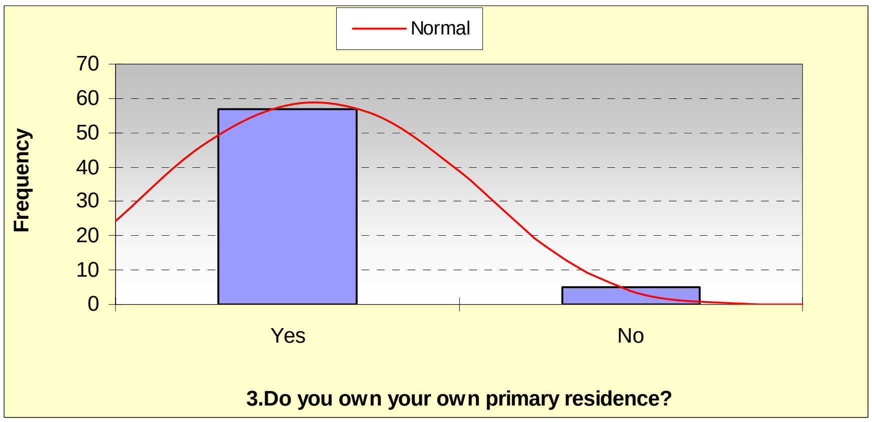
Gross Monthly Income	%	Cumulative %
Less than R 10 000	0.65	0.65
R 10 001 – R 17 500	1.96	2.61
R 17 501 – R 27 500	7.19	9.80
R 27 501 – R 40 000	12.42	22.22
R 40 001 – R 55 000	11.76	33.98
More than R 55 000	6.54	40.52

D – 3: OWNERS OF PRIMARY RESIDENCE

92% of this subgroup also owns their primary residence.

Figure 26

Ownership of primary residence	Frequency	Percent	Cumulative Percent
Yes	57	91.94	91.94
No	5	8.06	100.00



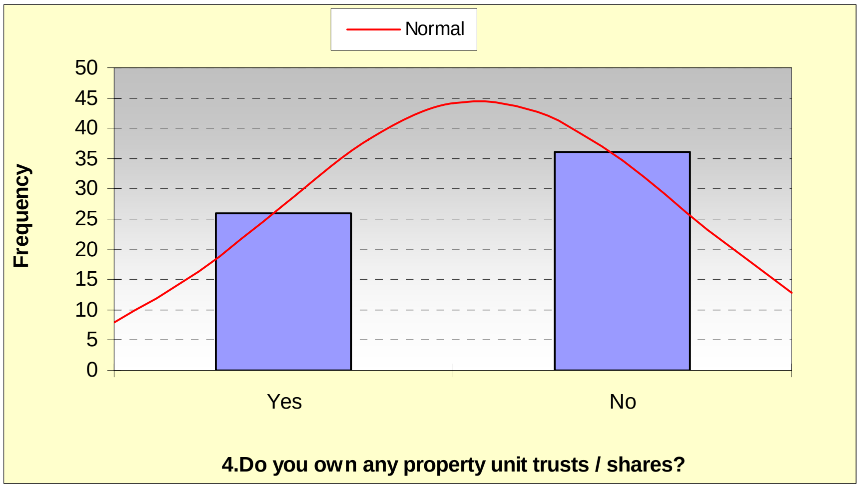
As a % of the total sample

Ownership of primary residence	%	Cumulative %
Yes	37.25	37.25
No	3.27	40.52

D – 4: OWNERSHIP OF PROPERTY UNIT TRUSTS / SHARES

Figure 27

Property unit trusts/ shares	Frequency	Percent	Cumulative Percent
Yes	26	41.94	41.94
No	36	58.06	100.00



42% indicated that they also owned property unit trusts or shares.

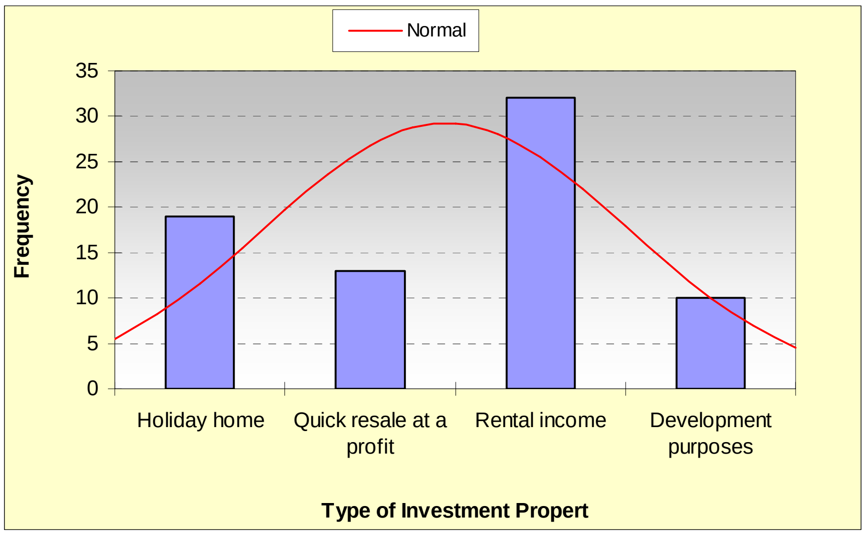
As a % of the total sample

Ownership of property unit trusts/ shares	%	Cumulative %
Yes	17.00	17.00
No	23.52	40.52

D – 5: TYPE OF INVESTMENT PROPERTY

Figure 28

Type of Investment Property	Frequency	Percent	Cumulative Percent
Holiday home	19	25.68	25.68
Quick resale at a profit	13	17.57	43.24
Rental income	32	43.24	86.49
Development purposes	10	13.51	100.00



There were multiple responses (more than one option)

43% of the sample indicated that they had purchased the investment property for rental income.

As a % of the total sample

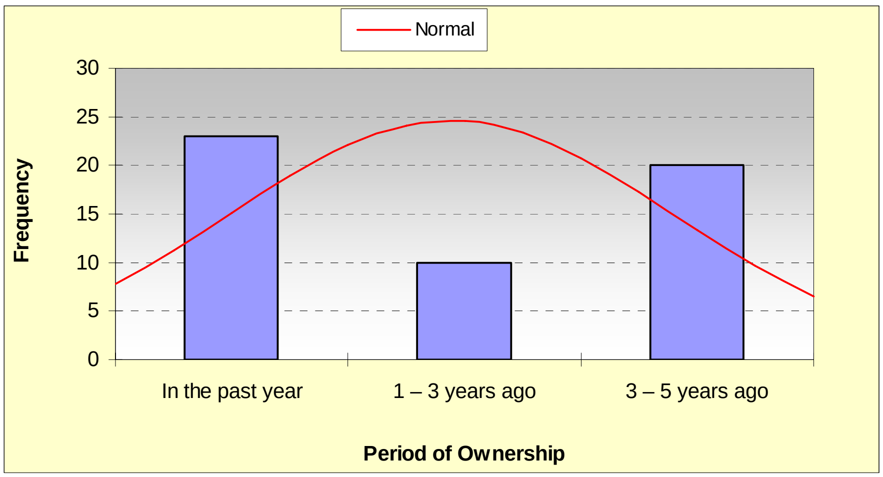
Type of investment property	%	Cumulative %
Holiday home	12.42	12.42
Quick resale for a profit	8.50	20.92
Rental income	20.92	41.84
Development purposes	6.54	48.38

D – 6: WHEN WAS THE INVESTMENT PURCHASE MADE

***9 of the 62 respondents in this subgroup did not answer this question**

Figure 29

When purchase was made	Frequency	Percent	Cumulative Percent
In the past year	23	43.40	43.40
1 – 3 years ago	10	18.87	62.26
3 – 5 years ago	20	37.74	100.00



The purchase of the property was either done recently (less than a year) for 43% or 3 to 5 years ago for 38% of the sample.

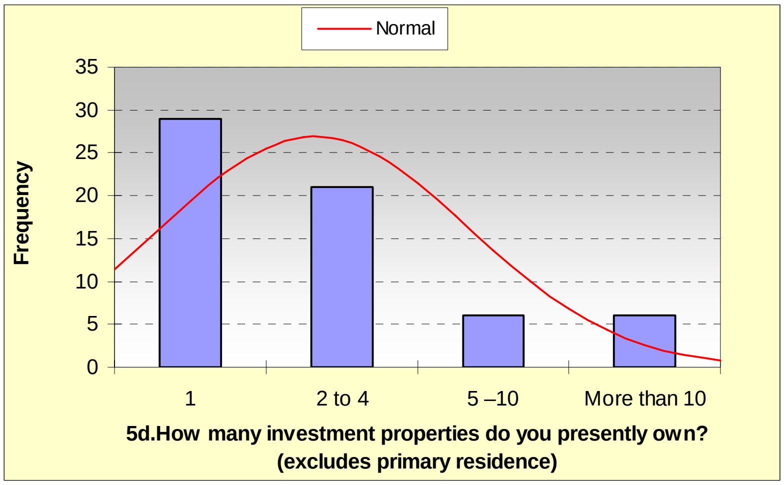
As a % of the total sample

When purchase was made	%	Cumulative %
In the past year	15.03	15.03
1 – 3 years ago	6.54	21.57
3 – 5 years ago	13.07	34.64

D - 7 NUMBER OF INVESTMENT PROPERTIES

Figure 30

Number of investment properties	Frequency	Percent	Cumulative Percent
1	29	46.77	46.77
2 to 4	21	33.87	80.65
5 –10	6	9.68	90.32
More than 10	6	9.68	100.00



The majority of respondents (47%) of the subgroup of investment property owners indicated that they had only one single investment property

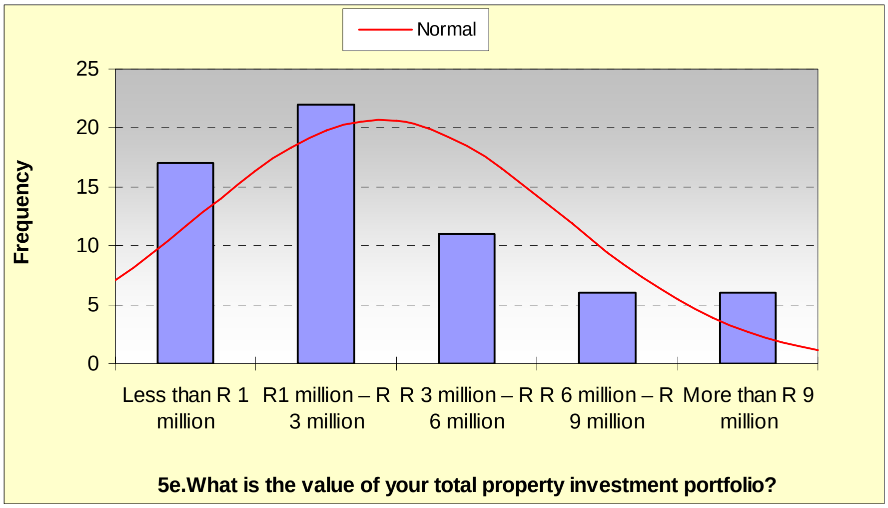
As a % of the total sample

Number of investment properties	%	Cumulative %
1	18.95	18.95
2 to 4	13.73	32.68
5 to 10	3.92	36.60
More than 10	3.92	40.52

D - 8 VALUE OF INVESTMENT PROPERTY PORTFOLIO

Figure 31

Value of investment property portfolio	Frequency	Percent	Cumulative Percent
Less than R 1 million	17	27.42	27.42
R1 million – R 3 million	22	35.48	62.90
R 3 million – R 6 million	11	17.74	80.65
R 6 million – R 9 million	6	9.68	90.32
More than R 9 million	6	9.68	100.00



The value of the investment property portfolio for the majority is between R 1 million and R 3 million.

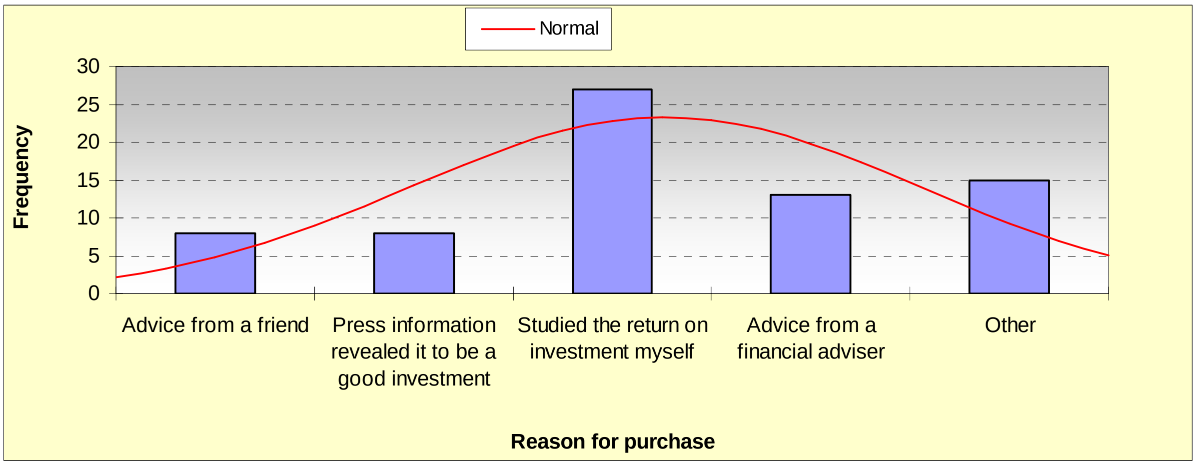
As a % of the total population

Value of investment property portfolio	%	Cumulative %
Less than R 1 million	11.11	11.11
R 1 million – R 3 million	14.38	25.49
R 3 million – R 6 million	7.19	32.68
R 6 million – R 9 million	3.92	36.60
More than R 9 million	3.93	40.52

D – 9 REASON FOR INVESTMENT CHOICE

Figure 32

Reason for purchase	Frequency	Percent	Cumulative Percent
Advice from a friend	8	11.27	11.27
Press information revealed it to be a good investment	8	11.27	22.54
Studied the return on investment myself	27	38.03	60.56
Advice from a financial adviser	13	18.31	78.87
Other	15	21.13	100.00



Multiple responses (more than one option) were made

38%of the subgroup indicated that they had studied the return on investment themselves before making the purchase.

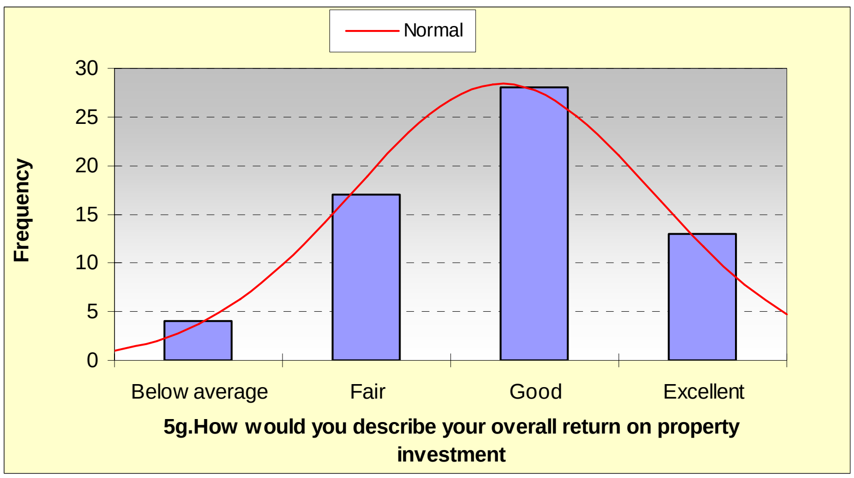
As a % of the total sample

Reason for purchase	%	Cumulative %
Advice from a friend	5.23	5.23
Press information – good investment	5.23	10.46
Studied ROI myself	17.65	28.11
Advice from financial advisor	8.50	36.61
Other	9.80	46.41

D – 10: DESCRIPTION OF OVERALL RETURN ON INVESTMENT ON PROPERTY PORTFOLIO

Figure 33

Description of overall ROI	**Frequency**	**Percent**	**Cumulative Percent**
Below average	4	6.45	6.45
Fair	17	27.42	33.87
Good	28	45.16	79.03
Excellent	13	20.97	100.00



45% described the overall return on investment of their property investment portfolio as **Good.** Overall the description is positive as the majority rated the ROI as **Good** to **Excellent (66%).**

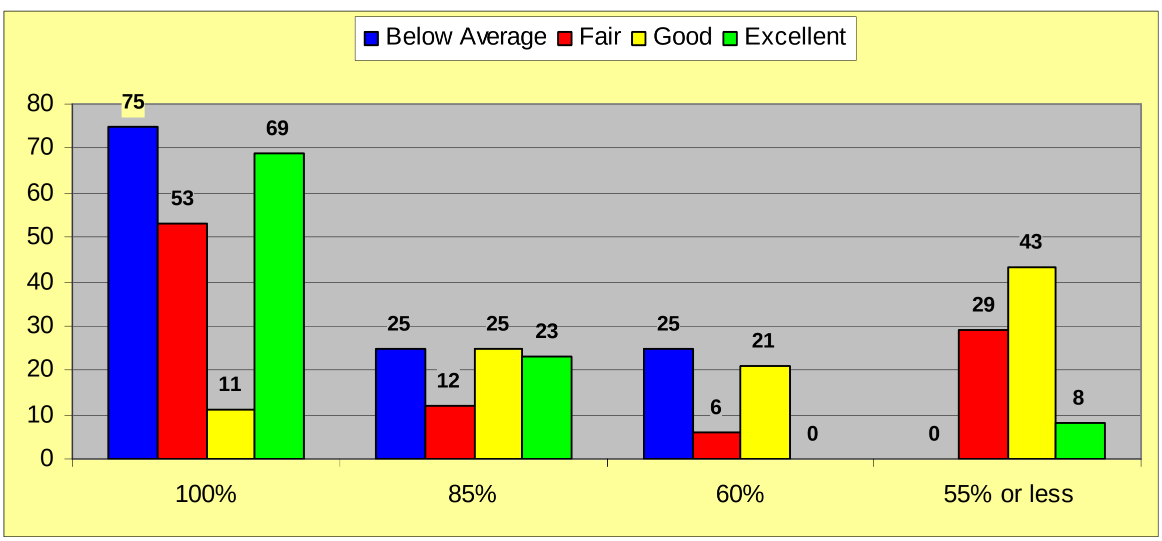
As a % of the total sample

Overall ROI	**%**	**Cumulative %**
Below average	2.61	2.61
Fair	11.11	13.72
Good	18.30	32.02
Excellent	8.50	40.52

D – 11: RETURN ON INVESTMENT IN RELATION TO % OF DEBT USED TO PURCHASE PROPERTY

Figure 34

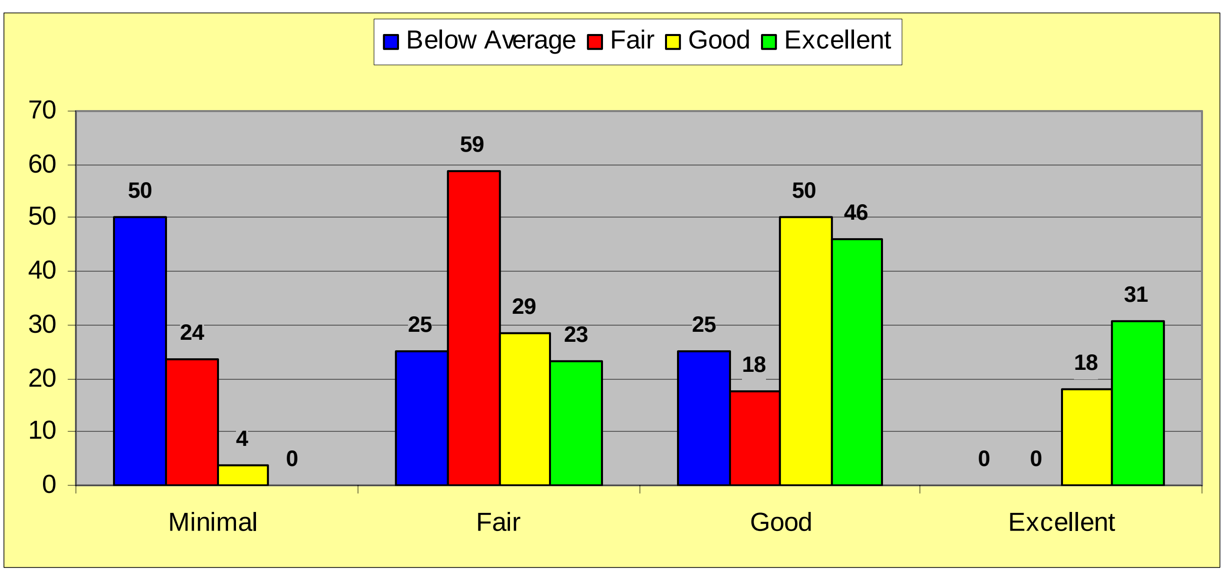
	100%	**85%**	**60%**	**55% or less**	*Sums*
Below Average					
Frequency	3.00	1.00	0.00	0.00	4
Row percent	75.00	25.00	0.00	0.00	
Column percent	12.50	7.69	0.00	0.00	
Total percent	4.84	1.61	0.00	0.00	
Fair					
Frequency	9.00	2.00	1.00	5.00	17
Row percent	52.94	11.76	5.88	29.41	
Column percent	37.50	15.38	14.29	27.78	
Total percent	14.52	3.23	1.61	8.06	
Good					
Frequency	3.00	7.00	6.00	12.00	28
Row percent	10.71	25.00	21.43	42.86	
Column percent	12.50	53.85	85.71	66.67	
Total percent	4.84	11.29	9.68	19.35	
Excellent					
Frequency	9.00	3.00	0.00	1.00	13
Row percent	69.23	23.08	0.00	7.69	
Column percent	37.50	23.08	0.00	5.56	
Total percent	14.52	4.84	0.00	1.61	
Sums	24	13	7	18	62



D – 12: RETURN ON INVESTMENT IN RELATION TO DEGREE OF KNOWLEDGE

Figure 35

	Minimal	Fair	Good	Excellent	*Sums*
Below Average					
Frequency	2	1	1	0	4
Row percent	50.00	25.00	25.00	0.00	
Column percent	28.57	4.55	4.17	0.00	
Total percent	3.23	1.61	1.61	0.00	
Fair					
Frequency	4.00	10.00	3.00	0.00	17
Row percent	23.53	58.82	17.65	0.00	
Column percent	57.14	45.45	12.50	0.00	
Total percent	6.45	16.13	4.84	0.00	
Good					
Frequency	1.00	8.00	14.00	5.00	28
Row percent	3.57	28.57	50.00	17.86	
Column percent	14.29	36.36	58.33	55.56	
Total percent	1.61	12.90	22.58	8.06	
Excellent					
Frequency	0.00	3.00	6.00	4.00	13
Row percent	0.00	23.08	46.15	30.77	
Column percent	0.00	13.64	25.00	44.44	
Total percent	0.00	4.84	9.68	6.45	
Sums	7	22	24	9	62

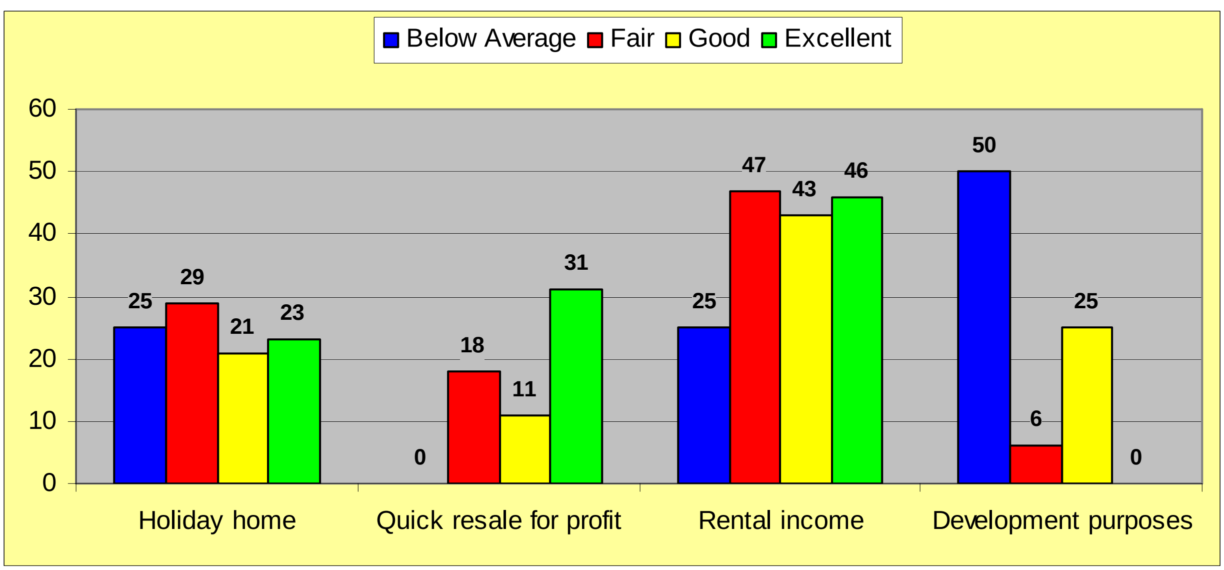


D – 13: RETURN ON INVESTMENT IN RELATION TO PROPERTY

INVESTMENT CATEGORY

Figure 36

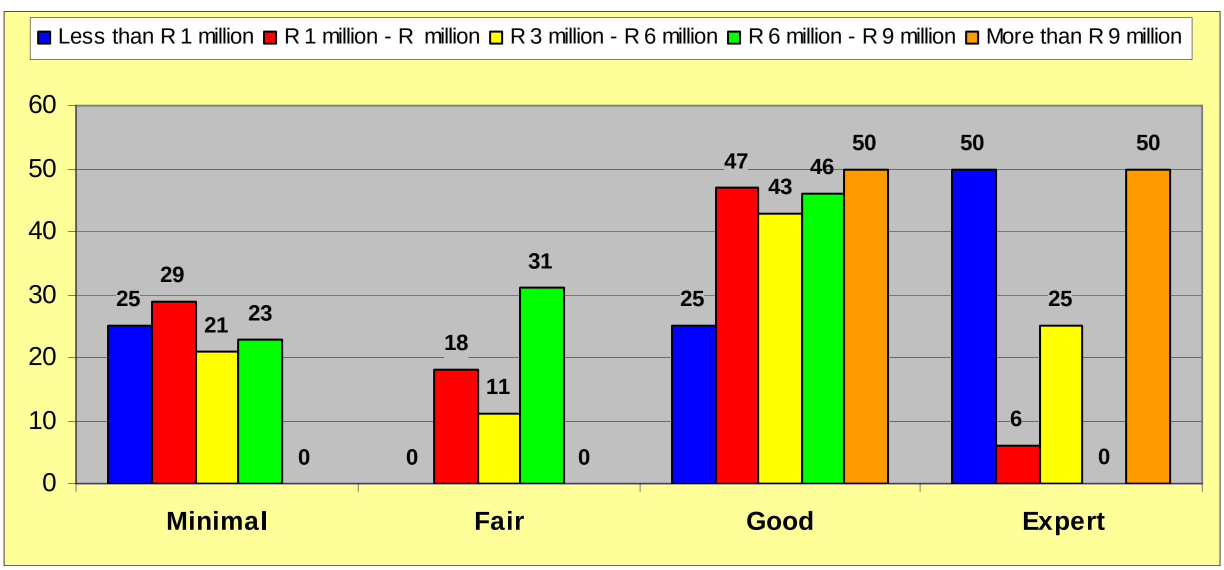
	Holiday Home	Quick resale for profit	Rental Income	Development Purposes	*Sums*
Below Average					
Frequency	1.00	0.00	1.00	2.00	4
Row percent	25.00	0.00	25.00	50.00	
Column percent	6.67	0.00	3.70	20.00	
Total percent	1.61	0.00	1.61	3.23	
Fair					
Frequency	5.00	3.00	8.00	1.00	17
Row percent	29.41	17.65	47.06	5.88	
Column percent	33.33	30.00	29.63	10.00	
Total percent	8.06	4.84	12.90	1.61	
Good					
Frequency	6.00	3.00	12.00	7.00	28
Row percent	21.43	10.71	42.86	25.00	
Column percent	40.00	30.00	44.44	70.00	
Total percent	9.68	4.84	19.35	11.29	
Excellent					
Frequency	3.00	4.00	6.00	0.00	13
Row percent	23.08	30.77	46.15	0.00	
Column percent	20.00	40.00	22.22	0.00	
Total percent	4.84	6.45	9.68	0.00	
Sums	15	10	27	10	62



D – 14: DEGREE OF KNOWLEDGE IN RELATION TO PROPERTY VALUE SCALES

Figure 37

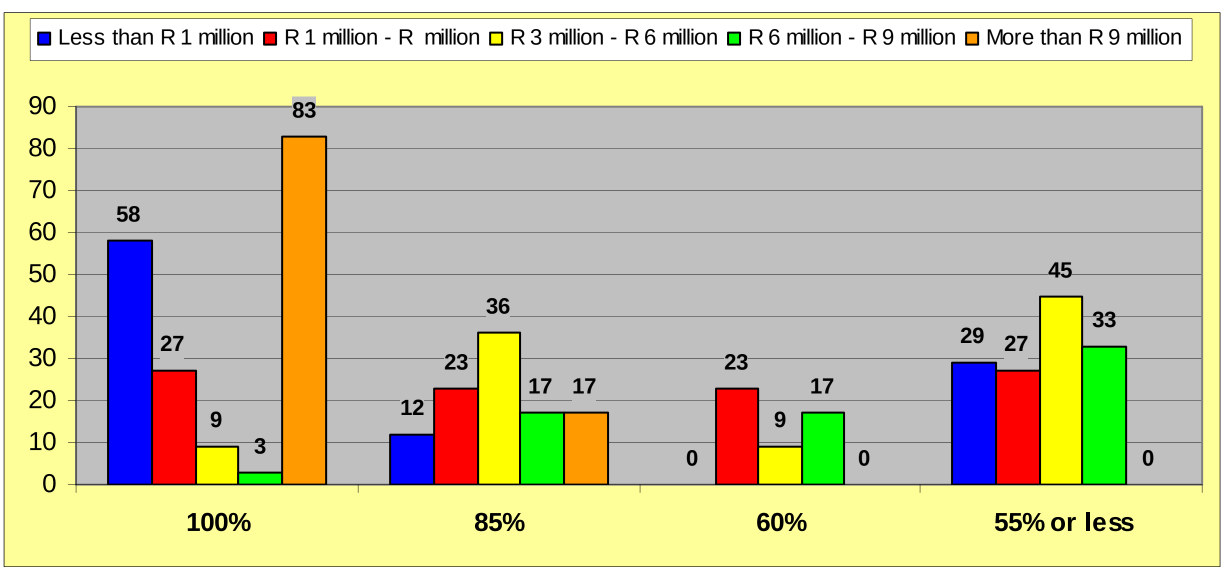
	Minimal	Fair	Good	Expert	*Sums*
Less than R 1 million					
Frequency	5	7	5	0	17
Row percent	29.41176	41.17647	29.41176	0	
Total percent	8.064516	11.29032	8.064516	0	
R 1 milion - R 3 million					
Frequency	2	9	8	3	22
Row percent	9.090909	40.90909	36.36364	13.63636	
Total percent	3.225806	14.51613	12.90323	4.83871	
R 3 million - R 6 million					
Frequency	0	5	5	1	11
Row percent	0	45.45455	45.45455	9.090909	
Total percent	0	8.064516	8.064516	1.612903	
R 6 million - R 9 milion					
Frequency	0	1	3	2	6
Row percent	0	16.66667	50	33.33333	
Total percent	0	1.612903	4.83871	3.225806	
More than R 9 million					
Frequency	0	0	3	3	6
Row percent	0	0	50	50	
Total percent	0	0	4.83871	4.83871	
Sums	7	22	24	9	62



D – 15: PERCENTAGE OF DEBT USED TO PURCHASE PROPERTY IN RELATION TO PORTFOLIO VALUE

Figure 38

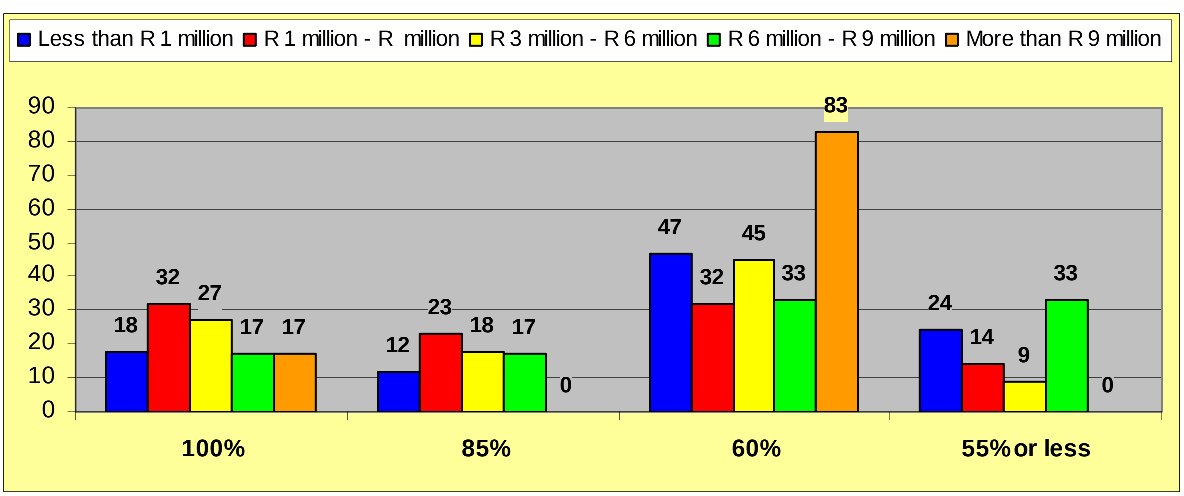
	100%	85%	60%	55% or less	*Sums*
Less than R 1 million					
Frequency	10	2	0	5	17
Row percent	58.82353	11.76471	0	29.41176	
Total percent	16.12903	3.225806	0	8.064516	
R 1 million - R 3 million					
Frequency	6	5	5	6	22
Row percent	27.27273	22.72727	22.72727	27.27273	
Total percent	9.677419	8.064516	8.064516	9.677419	
R 3 million - R 6 million					
Frequency	1	4	1	5	11
Row percent	9.090909	36.36364	9.090909	45.45455	
Total percent	1.612903	6.451613	1.612903	8.064516	
R 6 million - R 9 million					
Frequency	2	1	1	2	6
Row percent	33.33333	16.66667	16.66667	33.33333	
Total percent	3.225806	1.612903	1.612903	3.225806	
More than R 9 million					
Frequency	5	1	0	0	6
Row percent	83.33333	16.66667	0	0	
Total percent	8.064516	1.612903	0	0	
Sums	24	13	7	18	62



D – 16: INVESTMENT PROPERTY CATEGORY IN RELATION TO VALUE OF PROPERTY PORTFOLIO

Figure 39

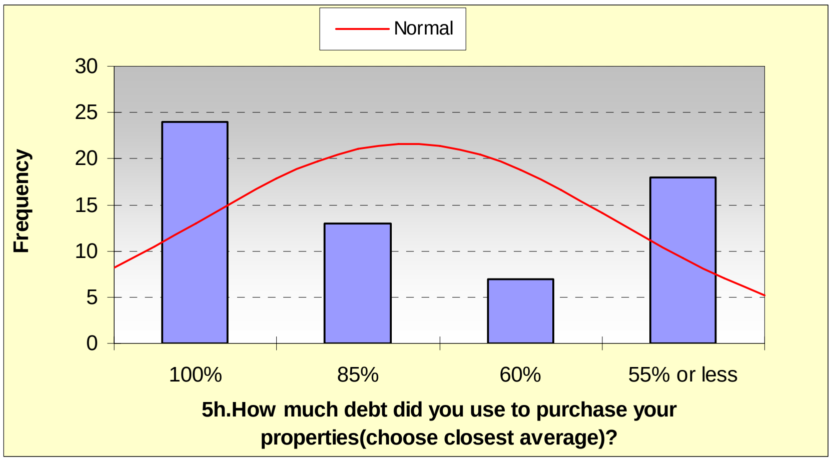
	Holiday Home	Quick resale for profit	Rental Income	Development Purposes	*Sums*
Less than R 1 million					
Frequency	3.00	2.00	8.00	4.00	17
Row percent	17.65	11.76	47.06	23.53	
Column percent	20.00	20.00	29.63	40.00	
Total percent	4.84	3.23	12.90	6.45	
R 1 million - R 3 million					
Frequency	7.00	5.00	7.00	3.00	22
Row percent	31.82	22.73	31.82	13.64	
Column percent	46.67	50.00	25.93	30.00	
Total percent	11.29	8.06	11.29	4.84	
R 3 miilion - R 6 million					
Frequency	3.00	2.00	5.00	1.00	11
Row percent	27.27	18.18	45.45	9.09	
Column percent	20.00	20.00	18.52	10.00	
Total percent	4.84	3.23	8.06	1.61	
R 6 million - R 9 million					
Frequency	1.00	1.00	2.00	2.00	6
Row percent	16.67	16.67	33.33	33.33	
Column percent	6.67	10.00	7.41	20.00	
Total percent	1.61	1.61	3.23	3.23	
More than R 9 million					
Frequency	1.00	0.00	5.00	0.00	6
Row percent	16.67	0.00	83.33	0.00	
Column percent	6.67	0.00	18.52	0.00	
Total percent	1.61	0.00	8.06	0.00	
Sums	15	10	27	10	62



D – 17: PERCENTAGE OF DEBT USED TO PURCHASE PROPERTY

Figure 40

% of debt used to purchase property	Frequency	Percent	Cumulative Percent
100%	24	38.71	38.71
85%	13	20.97	59.68
60%	7	11.29	70.97
55% or less	18	29.03	100.00



60% of the subgroup used between 85% and 100% debt to purchase their property.

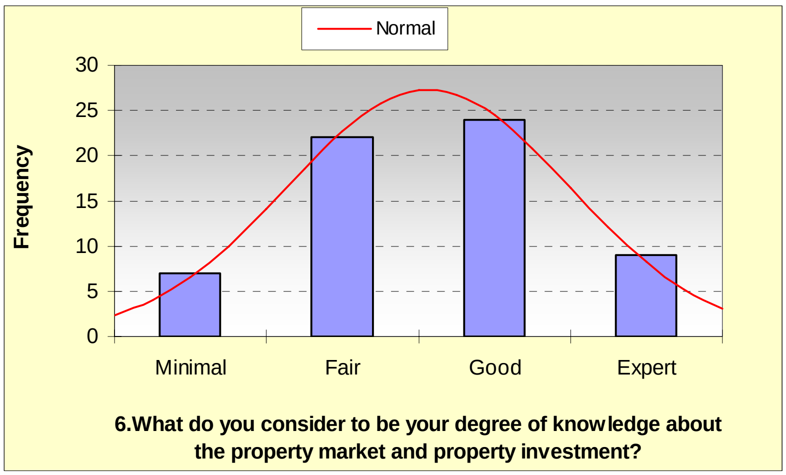
As a % of the total sample

% of debt to purchase property	%	Cumulative %
100%	15.69	15.69
85%	8.50	24.19
60%	4.58	28.77
55% or less	11.76	40.52

D – 18: DEGREE OF KNOWLEDGE OF THE PROPERTY MARKET AND PROPERTY INVESTMENT

Figure 41

Degree of knowledge	Frequency	Percent	Cumulative Percent
Minimal	7	11.29	11.29
Fair	22	35.48	46.77
Good	24	38.71	85.48
Expert	9	14.52	100.00



The majority (74%) of the sample rates their knowledge as fair to good.

As a % of the total sample

Degree of knowledge	%	Cumulative %
Minimal	4.58	4.58
Fair	14.38	18.96
Good	15.69	34.65
Fair	5.88	40.52

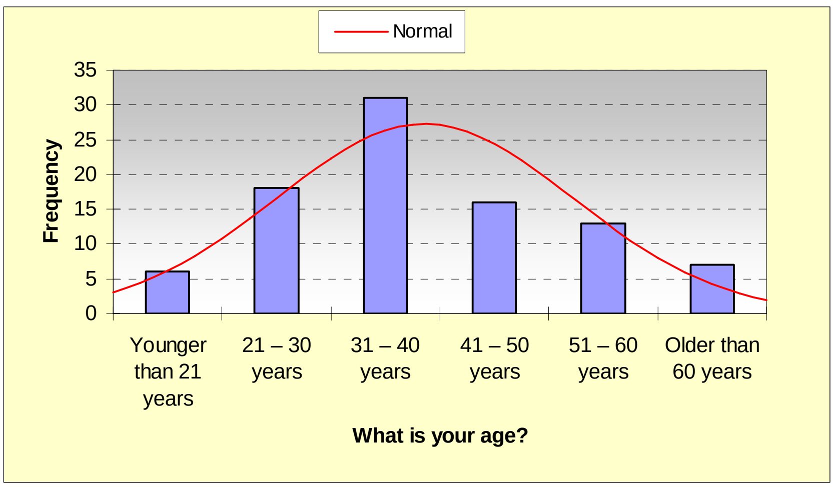
SECTION E – THE CATEGORY NOT OWNING INVESTMENT PROPERTY

59.48% of the sample did not own investment property.

E – 1: AGE

Figure 42

What is your age?	Frequency	Percent	Cumulative Percent
Younger than 21 years	6	6.59	6.59
21 – 30 years	18	19.78	26.37
31 – 40 years	31	34.07	60.44
41 – 50 years	16	17.58	78.02
51 – 60 years	13	14.29	92.31
Older than 60 years	7	7.69	100.00



37% of the sample was aged between 31 and 40 years.

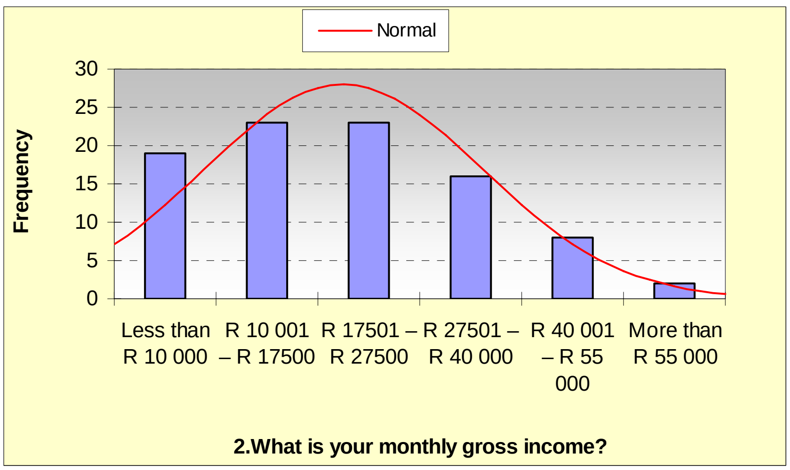
As a % of the total sample

Age:	%	Cumulative %
Younger than 21 years	3.92	3.92
21 – 30 years	11.76	15.68
31 – 40 years	20.26	35.94
41 – 50 years	10.46	46.40
51 – 60 years	8.50	54.90
Older than 60 years	4.58	59.48

E – 2: GROSS MONTHLY INCOME.

Figure 43

Gross monthly income	Frequency	Percent	Cumulative Percent
Less than R 10 000	19	20.88	20.88
R 10 001 – R 17500	23	25.27	46.15
R 17501 – R 27500	23	25.27	71.43
R 27501 – R 40 000	16	17.58	89.01
R 40 001 – R 55 000	8	8.79	97.80
More than R 55 000	2	2.20	100.00



71% of this subgroup earned a gross monthly income of below R 27 501.

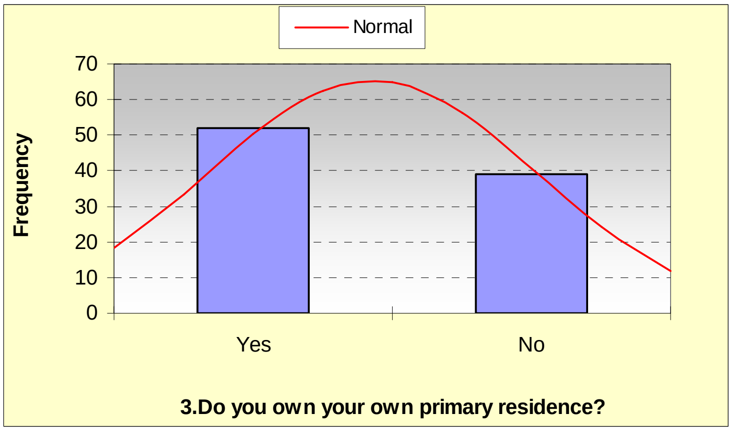
As a % of the total sample

Gross Monthly Income	%	Cumulative %
Less than R 10 000	12.42	12.42
R 10 001 – R 17 500	15.03	27.45
R 17 501 – R 27 500	15.03	42.48
R 27 501 – R 40 000	10.48	52.96
R 40 001 – R 55 000	5.23	58.19
More than R 55 000	1.31	59.48

E – 3: OWNERSHIP OF PRIMARY RESIDENCE

Figure 44

Primary residence	Frequency	Percent	Cumulative Percent
Yes	52	57.14	57.14
No	39	42.86	100.00



57% of this subgroup indicated that they owned their primary residence

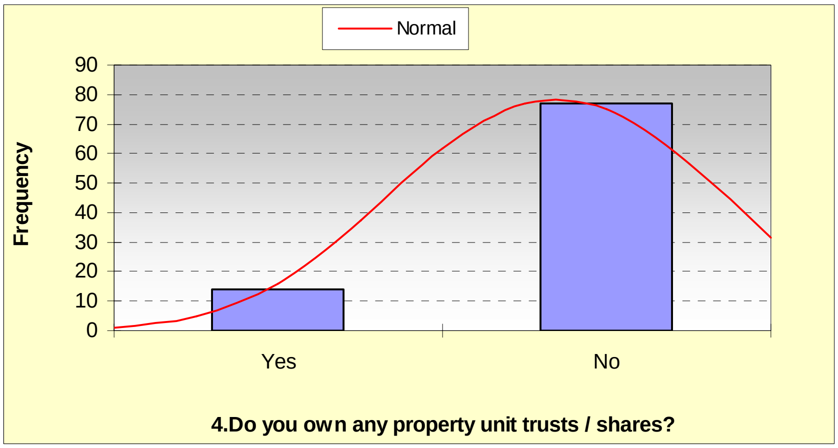
As a % of the total sample

Ownership of primary residence	%	Cumulative %
Yes	33.99	33.99
No	25.49	59.48

E – 4: OWNERSHIP OF PROPERTY UNIT TRUSTS / SHARES

Figure 45

Property unit trusts/shares	Frequency	Percent	Cumulative Percent
Yes	14	15.38	15.38
No	77	84.62	100.00



The majority (85%) of this subgroup does not own property unit trusts or shares.

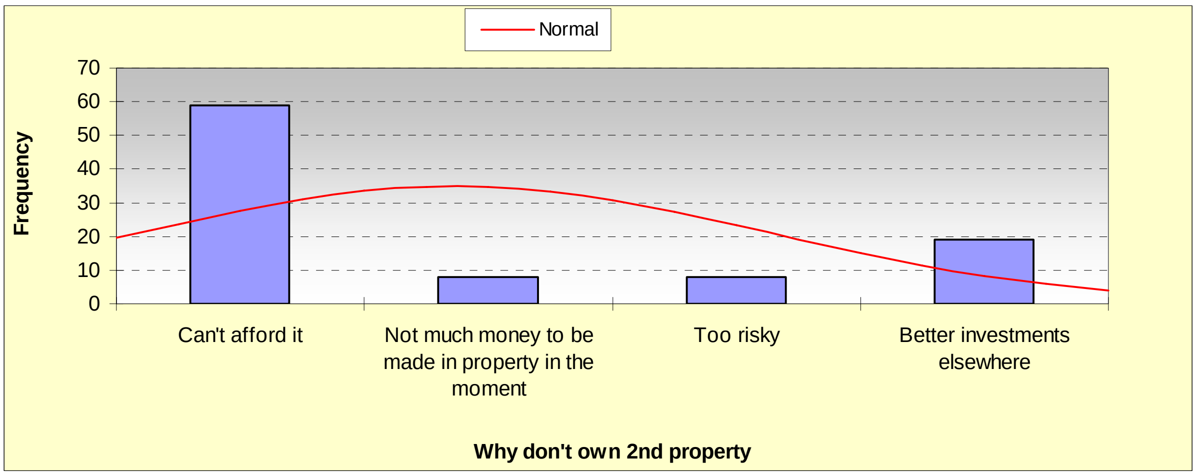
As a % of the total sample

Ownership of property unit trusts/ shares	%	Cumulative %
Yes	9.15	9.15
No	50.33	59.48

E – 5: REASONS FOR NOT INVESTING IN PROPERTY

Figure 46

Reason for not investing in property	**Frequency**	**Percent**	**Cumulative Percent**
Can't afford it	59	62.77	62.77
Not much money to be made in property in the moment	8	8.51	71.28
Too risky	8	8.51	79.79
Better investments elsewhere	19	20.21	100.00

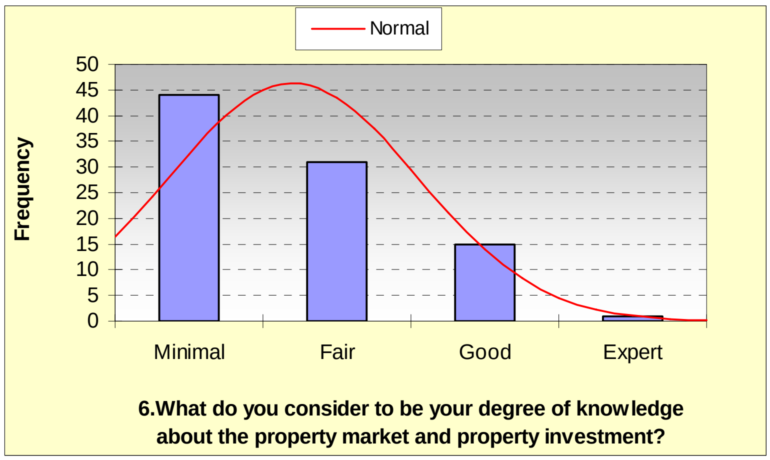


The vast majority (63%) indicated that they did not own a second property because they could not afford it.

E - 6: DEGREE OF KNOWLEDGE OF THE PROPERTY MARKET AND PROPERTY INVESTMENT

Figure 47

Degree of knowledge	Frequency	Percent	Cumulative Percent
Minimal	44	48.35	48.35
Fair	31	34.07	82.42
Good	15	16.48	98.90
Expert	1	1.10	100.00



The majority (48%) of this subgroup considers their knowledge about the property market and property investment as **Minimal.**

As a % of the total sample

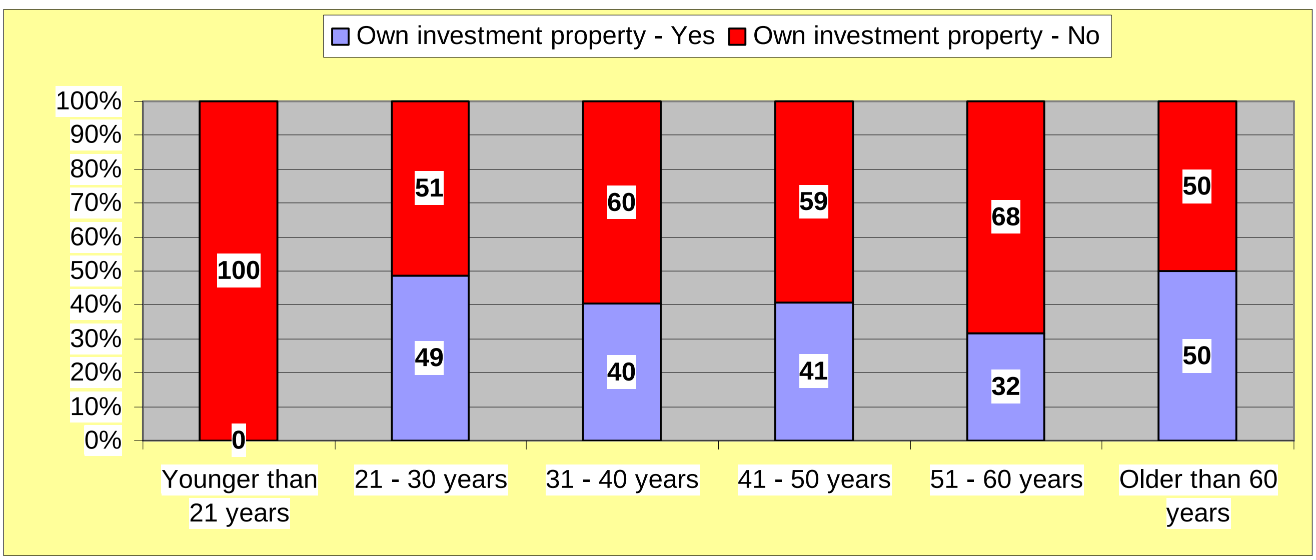
Degree of knowledge	%	Cumulative %
Minimal	28.76	28.76
Fair	20.26	49.02
Good	9.80	58.83
Excellent	0.65	59.48

<u>*COMPARISON BETWEEN SECTION D AND E: OWNERS AND NON OWNERS OF PROPERTY INVESTMENT:*</u>

Figure 48

COMPARSION BETWEEN D AND E: AGE

	Younger than 21 years	21 - 30 years	31 - 40 years	41 - 50 years	51 - 60 years	Older than 60 years	*Sums*
Own investment property - Yes							
Frequency	0	17	21	11	6	7	62
Row percent	0	27.42	33.87	17.74	9.68	11.29	
Column percent	0	48.57	40.38	40.74	31.58	50.00	
Total percent	0	11.11	13.73	7.19	3.92	4.58	
Own investment property - No							
Frequency	6	18	31	16	13	7	91
Row percent	6.59	19.78	34.07	17.58	14.29	7.69	
Column percent	100.00	51.43	59.62	59.26	68.42	50.00	
Total percent	3.92	11.76	20.26	10.46	8.50	4.58	
Sums	6	35	52	27	19	14	153

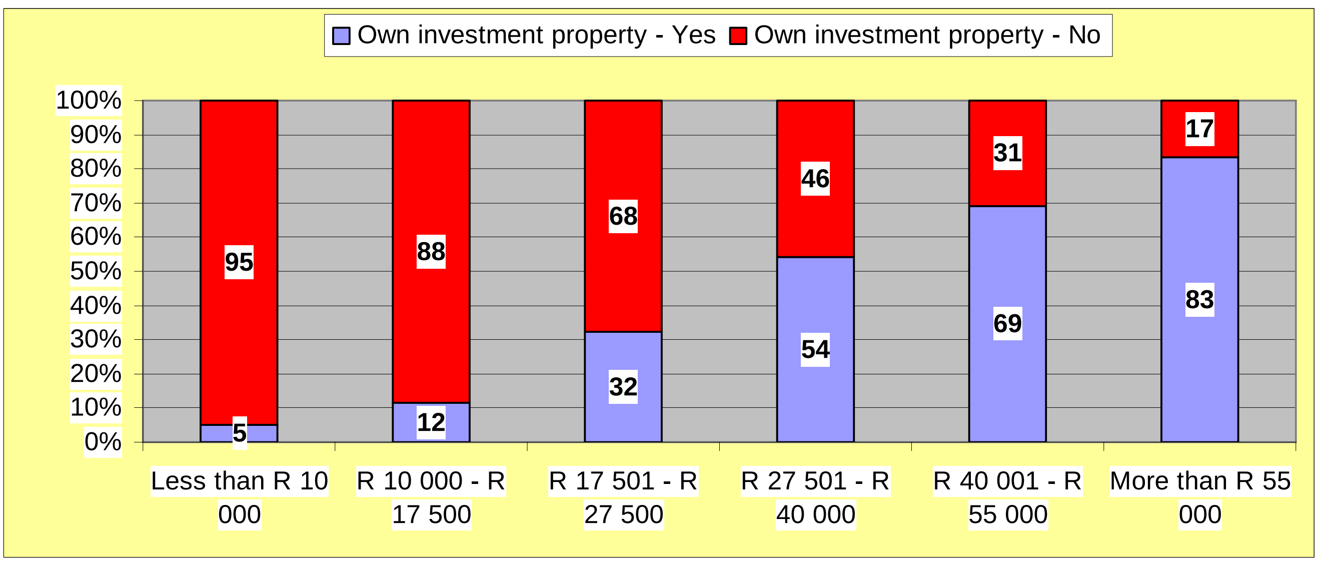


With the exception of the under 21 year old category, age does not appear to be a major determinant in the choice of investing in property.

COMPARSION BETWEEN D AND E: INCOME

Figure 49

	Less than R 10 000	R 10 000 - R 17 500	R 17 501 - R 27 500	R 27 501 - R 40 000	R 40 001 - R 55 000	More than R 55 000	*Sums*
Own investment property - Yes							
Frequency	1	3	11	19	18	10	62
Row percent	1.612903	4.83871	17.74194	30.64516	29.03226	16.12903	
Column percent	5	11.53846	32.35294	54.28571	69.23077	83.33333	
Total percent	0.653595	1.960784	7.189542	12.4183	11.76471	6.535948	
Own investment property - No							
Frequency	19	23	23	16	8	2	91
Row percent	20.87912	25.27473	25.27473	17.58242	8.791209	2.197802	
Column percent	95	88.46154	67.64706	45.71429	30.76923	16.66667	
Total percent	12.4183	15.03268	15.03268	10.45752	5.228758	1.30719	
Sums	20	26	34	35	26	12	153

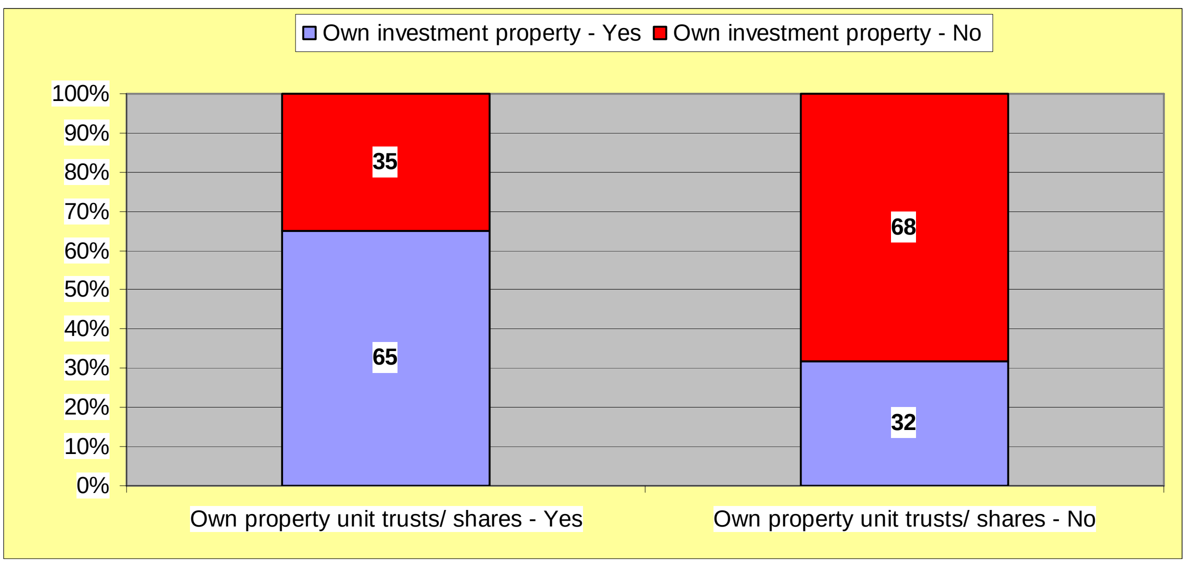


It is evident that income plays a major role in the choice of investment in property, where a significantly higher percentage of earners in the higher income brackets own investment property.

COMPARISON BETWEEN D AND E: OWNERSHIP OF INVESTMENT PROPERTY

Figure 50

	Own property unit trusts/ shares - Yes	Own property unit trusts/ shares - No	*Sums*
Own investment property - Yes			
Frequency	26	36	62
Row percent	41.94	58.06	
Column percent	65.00	31.86	
Total percent	16.99	23.53	
Own investment property - No			
Frequency	14	77	91
Row percent	15.38	84.62	
Column percent	35.00	68.14	
Total percent	9.15	50.33	
Sums	40	113	153

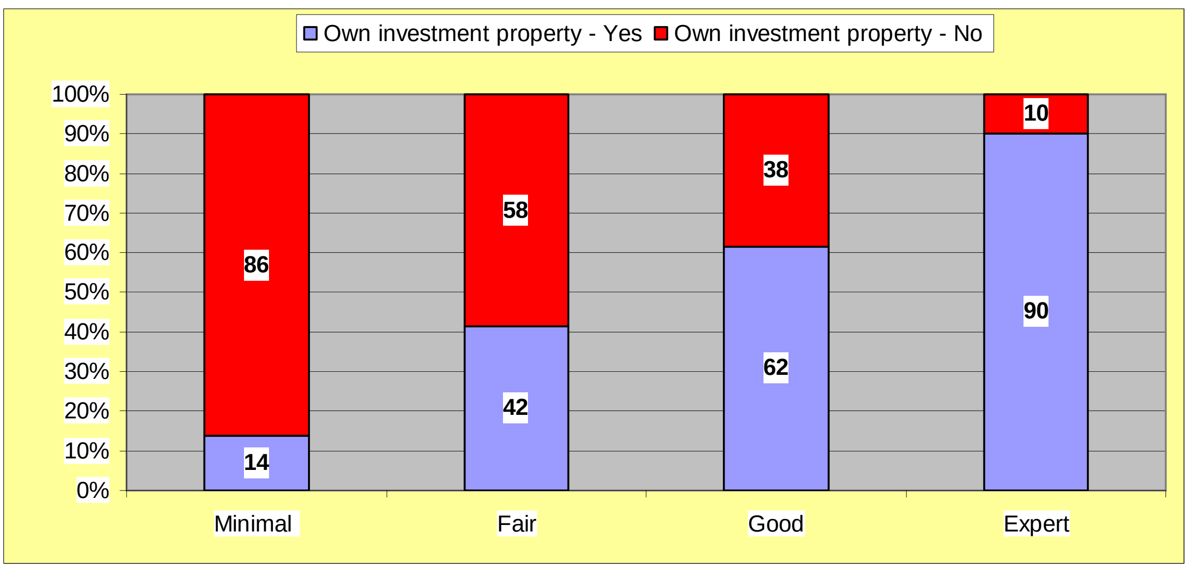


There is s significantly larger portion of respondents who claim to own property units trusts and shares that are owners of held investment property than those who do not own held investment property.

COMPARISON BETWEEN D AND E: KNOWLEDGE OF THE PROPERTY MARKET:

Figure 51

	Minimal	Fair	Good	Expert
Own investment property - Yes				
Frequency	7	22	24	9
Row percent	11.29	35.48	38.71	14.52
Column percent	13.73	41.51	61.54	90.00
Total percent	4.58	14.38	15.69	5.88
Own investment property - No				
Frequency	44	31	15	1
Row percent	48.35	34.07	16.48	1.10
Column percent	86.27	58.49	38.46	10.00
Total percent	28.76	20.26	9.80	0.65
Sums	51	53	39	10



The higher the perceived knowledge of the property market, the more property investors there are.

5.2 THE PROPERTY SPECIALISTS RESEARCH

5.2.1 The property specialist sample

- Johalna Minnaar – Regional franchise Director: Realnet Properties
- Justin Clark – CEO: Private Property
- Carl Bezuidenhout – Managing Director: Pam Golding Properties

5.2.2 The results of the property specialist research

Results were recorded as accurately as possible in accordance with what was actually said by the respondent.

<u>1.) Johalna Minnaar:</u>

1.) <u>What is the current situation of the property market.</u>

- Growth has slowed down to “normal rates” that being around 10% year on year. Growth levels are now considered to be realistic.
- Although certain price segments (upper: above R2M) have experienced slight price decreases (although not in all areas), generally prices have remained stable and realistic.
- NCA and interest rate hikes have slowed down sales activity, and has had the effect of people moving downward in price segment purchases by an estimated 20%.
- Less investors in the client (purchaser) mix: dropped by more than half

2.) What is the future of the property market in RSA:

- Good. In 30 years of working in the industry I have seen no actual price drops occur, only fluctuations in growth rates.
- It is likely that growth rates will mechanically increase once rates begin to drop which is expected to be sometime next year.
- Sound economic environment in RSA.
- Black diamonds are beginning to enter the property market meaning demand will again increase.

3.) Comment on each of the property investment categories:

SPECULATIVE SHORT TERM:

- Money can be made generally especially if renovations are made to properties.
- Not a good option at the moment whilst growth rates are low.

BUY T LET:

- Good long term investment since there is much rent demand in all property types and still market growth.

DEVELOPMENT:

- There are zoning problems (delays) and less and less accessible land (close to place of work).
- Affordable housing development can be profitable if location is correct.
- There is presently a shortage of well located development land.

PROPERTY SHARES

- No comment because not enough knowledge.

4.) Comment on the most favourable property type to invest in.

- Currently commercial and retail property is in a boom phase so presently it offers the most value. However each property type has cyclical growth, as was visible with residential property before 2007.

5.) What is the biggest creator of value considering the different property investment categories:

- The biggest value creator is the buy to rent strategy in residential property because of liquidity, lower risk, stable and growing rental demand and a stable growing market and economy.

2.) Justin Clark

1.) What is the current situation of the property market.

- Property is still the best place to invest money and offers the best returns.
- There has recently been a dramatic correction in property values with property prices recently reaching more levels closer to international prices.
- NCA and interest rates have slowed the growth rate down, but growth still continues and it is just a point in the growth cycle.
- Property offers control (self manageable, improvable, etc) over one's investment contrary to other types of investments.

- Property having such a good yield and one can borrow off the equity and invest further.
- The majority of buyers are in the R300 000 ranges for which supply is somewhat limited.

2.) <u>What is the future of the property market in RSA:</u>

- There is sustainable and quite strong economic growth (around 5%) which is the driver for commercial, retail and industrial property. The future therefore looks good for these property types.
- Residential property is fuelled by population growth which is significantly positive in South Africa. The growth of the black diamond population is also having a very positive effect on the residential property market with increased demand in buying as well as renting in the entry to middle price segments. Growth therefore remains strong in these entry level price segments (around R500 000)
- There is however pressure on the residential market in the above R2 million price segments. We are even seeing some deflation in this segment but only in certain areas (for example in coastal area this is not the case at the moment)

3.) <u>Comment on the most favourable property type to invest in</u>

SPECULATIVE SHORT TERM:

- Can offer high returns but it is not necessarily sustainable.
- Only really works as a profitable investment in the up side of the growth cycle.

- Only really can be done easily in the residential market because of liquidity factors.

LONG TERM BUY TO RENT

- A good option since investors benefit from capital growth as well as rental income.
- Demographics in RSA show that there will always be a tenant population.

PROPERTY SHARES

- Show good return however there is no owner management possible
- More accessible to many investors
- No leveraging possible meaning returns on actual investment limited and total investment needs to be cash.
- The only advantage over other types of shares is the stable property market

DEVELOPMENT

- The ultimate casino gamble
- There is a shortage of supply of raw materials as well as skills not only in the industry, but also the municipality (for land servicing, etc) making it very difficult to actually get things done therefore succeed.
- Risk profile extremely high with zoning unsure as well as licensing.
- City power problems exist everywhere which means that unfinished developments can take years to complete.

4.) <u>Comment on the property types to invest in.</u>

LAND:

- Limited supply but 100% speculative

- Illegal occupation problems as well as municipal and zoning
- Purchase in the right area can be extremely profitable on resale especially if rezoned.
- Land difficult to purchase.
- High density zoning preferable but very difficult to achieve with regulations.

COMMERIAL:

- Problem: Minimum 20% deposit needed plus strong leases to get bank financing
- Less accessible for the private investor
- Growth escalates at same pace of rentals (Generally)
- Investor more vulnerable due to lower liquidity than residential.
- More fundamental rent with longer generally more stable leases
- Less capital growth but yield better on residential.
- This type of property is at the mercy of market
- Prime retail space owned by institutions. What is left for private investors tends to be less profitable and more risky

INDUSTRIAL:

- Very much sought after
- Good investment because supply is limited and demand high
- Toughest market: low liquidity, very specialised, performance directly related to economic activity

5.) What is the biggest creator of value considering the different property investment options:

- Buy to rent in the residential market initially – some diversification into commercial or industrial later once established investor.
- This is due to leveraging advantages, equity availability and asset management possibilities.

3.) Carl Bezuidenhoud

1.) What is the current situation of the property market.

- First and foremost, with a long term perspective, you cannot go wrong with property.
- The market has recently undergone good steady growth however it was not a bubble.
- The market growth has brought property in South Africa closer to international prices.
- Recent interest rate hikes in particular have affected property investment and market activity. One must remember that there have been a massive 7 interest rate hikes in the past year and in spite of this prices have not actually gone down except in the luxury segments which is a temporary situation.
- Property is an asset that by its nature has a limited supply which makes it an excellent investment.

2.) <u>What is the future of the property market in RSA.</u>

- South African property prices have come closer to but not yet reached international levels. There is no reason why there should be such a large gap as there has been until recently.
- Population growth and economic growth always contribute to property price growth due to pressure on supply as a result. This pushes price upwards.

3.) <u>Comment on each of the property investment categories:</u>

SPECULATIVE SHORT TERM:

- Speculative buy to sell investment can be very profitable however it is usually necessary to hold the property for more than a few months – perhaps even 2 to 3 years, generating some rent revenue during the "waiting period".
- Quick buy to sell is profitable in the right part of the growth cycle but not as profitable as a long term investment of several years.

LONG TERM BUY TO RENT/ HOLD

- The best option for the private investor.
- The investment is solid and produces substantial and sustainable profit.
- Naturally, one still needs to be careful where one buys property and be aware of economic externalities which can negatively (or positively for that matter) affect the price of the property

PROPERTY SHARES

- Property shares perform very well. There is much profit to be generated from this type of investment.

- It produces all the returns of held property (with the exception of the leveraging advantage that held property has) but is obviously managed by professionals and their portfolios are diversified so often returns are greater.

DEVELOPMENT

- It can be extremely profitable.
- The risk is higher but there are many different levels at which profit can be made which make it very attractive.
- It is not for the beginner in property.

4.) <u>Comment on the property types to invest in.</u>

RESIDENTIAL:

- Residential property is presently at the top of a growth cycle but is generally a good safe option in the longer term.
- Fairly easily manageable for the private investor.

COMMERIAL AND RETAIL:

- Commercial property is in a growth phase which is likely to continue for the next 2 to 3 years.
- A good solid investment option since in spite of a major increase in supply, demand is still very high.
- Prices here are determined by demand and price that consumers (tenants) are willing to pay.

INDUSTRIAL:

- There is much demand and because of limitations in land supply (which is the nature of land), and industrial property having high land coverage generally, there will always be demand.

5.) <u>What is the biggest creator of value considering the different property investment options:</u>

- A long term property investment perspective is the most profitable. Be it ownership through development or starting out in residential, holding property with a long term view is best.

5.3 THE PROPERTY FINANCING SPECIALISTS

(The results of financing specialist part of the property specialist sample were recorded separately as they demonstrate slightly different viewpoints to those of the other sample. The conclusions are however discussed together)

5.3.1 The sample of property financing specialists

The respondents within the sample were:

- Ryan Rhodes – Property Finance specialist: Rand Merchant Bank
- Reineke Emile – Commercial Property Finance Specialist: First National Bank
- Adele Naude – Property lending manager – BOE

5.3.2 The results of the property financing specialists research interviews

<u>1.) Ryan Rhodes</u>

<u>1.) Current and future state of RSA property market</u>:

- Interest rates affect the market massively.
- Black diamonds and other growth factors mean property prices will continue to increase in a stable manner.
- The market fully priced at the moment, particularly in the residential property type.
- Rentals will begin to increase since affordability has decreased with the NCA and interest rates.

<u>2.) Viewpoint on investment categories:</u>

BUY TO SELL:

- Transaction costs (transfer duties, bond registration if debt) are too high ; unless growth is very strong it is difficult to show significant profits
- Market fully priced at the moment, so presently not good option (only works in up cycle) unless an “exceptional deal” comes by.
- Revenue tax (40%) to be paid on profit.

BUY TO RENT:

- Safe investment but not necessarily good at all times (such as at the moment because of low CAP rates)

- Discourages some investors due to "soft reasons" such as the necessity to source tenants, risk of tenant defaulting, energy to be spent doing maintenance etc.

PROPERTY SHARES:

- Good option because it is highly liquid
- Good option because of portfolio diversity possibility
- Less energy spent due to the absence of the need to source tenants, carry out maintenance etc.

DEVELOPMENT:

- Very profitable but requires much skill
- Much risk for private investor because of potential capital being tied up for possibly years.
- Developers themselves need to put in considerable capital as down payment (either total land value or cash)

<u>3.) Comments on each property type:</u>

RESIDENTIAL

- Much past growth. Major future growth unlikely but some growth nonetheless due to economic situation.

COMMERCIAL

- Economic growth directly supports commercial property
- Massive growth in worldwide economy which boosts retail therefore property prices.

- More disposable income in RSA therefore there is more consumer spending, meaning retail property is in higher demand.

INDUSTRIAL:

- Value completely determined by rental income and CAP rates. (no sentimental issues as with residential)
- Therefore completely dependent on economic state.

<u>4.) What do you think is the better private investment solution?</u>

- Development but only if capital and skills are available
- Property shares offer a safer, more balanced portfolio (in terms of property type) solution.
- Buy to rent is good if the investor is not concerned with soft issues.

<u>5.) What financing solutions exist for private investors:</u>

- Possibility of full financing for residential property
- Commercial property financing requires a 20% deposit
- Structured facilities can be put in place for larger portfolios (debt consolidation)

<u>2.) Reineke Emile</u>

<u>1.) Current and future state of RSA property market</u>:

- Economy stable and strong which fuels the property market
- Grown from a low base which is why it was so high in recent years but there is no bubble.

- Consumer increased available money: certain income tax relief, optimism about outcome of South Africa which has positively affected the property market and is expected to continue to do so.
- Generally more investment spending in South Africa

<u>2.) Viewpoint on investment categories:</u>

BUY TO SELL:

- Can be profitable but investor needs to be in the right place at the right time
- Not sustainable because of dependence on the growth levels.
- Leveraging possible but largely impacted by financing fees if leveraging is used.

BUY TO RENT:

- Very good long term option
- Does not require large capital outlays
- Good future prospects for rentals and capital growth (black diamonds, population growth, economic growth increases demand)
- Decline in investment activity in this arena at the moment

SHARES:

- Option allows diversity in terms of investment type
- Less physical energy involved
- Less risk (liquidity, professionally managed, etc)
- No leveraging possible

DEVELOPMENT:

- A lot of skill and experience needed to be successful
- Not very accessible to the private investor

- During slow market periods, private and smaller developers tend to disappear. Therefore sustainability for the private investor is a problem.

<u>3.) Comment on the different property types:</u>

RESIDENTIAL:

- Much demand for this property type because buyers consist of persons purchasing accommodation as well as investors (this is unlike commercial and industrial property where it is very much more investors)
- Presently growth flat due to macroeconomic variables but will grow further in the future.
- Growth reacts very mechanically to macroeconomic factors. (interest rates, etc)

COMMERCIAL:

- Presently in a growth phase which will continue for the next 2-3 years
- More dependent on rental prices.
- More difficult to get financing (80% loans and leases need to be in place)

INDUSTRIAL:

- In growth phase and there is a shortage of supply.
- More difficult to get financing.

<u>4.) What is the best property category and type:</u>

- Buy to rent, preferably commercial (however much capital required)
- If capital is a restraining factor, start with residential and expand portfolio to commercial and industrial (diversification optimal)

5.) What are the financial solutions you offer to investors?

- Good "credit rating" clients can get 100% financing plus costs for residential.
- Commercial and industrial is generally 80%
- Rent income is considered at 50% to make up for vacancy risk.

2.) Adele Naude

1.) Current and future state of RSA property market:

- Currently the market is a bit flat.
- Still commercial growth but it is becoming a bubble because of over buying by investors that have moved away from the residential market.

2.) Viewpoint on investment categories:

BUY TO SELL:

- There is opportunity if significant renovations are carried out on properties at the moment due to the current growth cycle in all property types.

BUY TO RENT:

- Always the better option although investors need to have correct gearing.
- Very active rental market

SHARES:

- Only better for liquidity reasons
- Past high growth is not sustainable

DEVELOPMENT:

- Profitable if carried out successfully,
- Difficulty in finding good development land
- Difficulty in obtaining financing.

3.) Comment on the different property types:

Generally speaking the residential market is flat and should begin to show growth in about 18 months. The commercial and industrial cycles are following the same trend as residential but with more or less a 2 year lag. They will too flatten out shortly and could show signs of deflation or significantly reduced growth when it happens.

4.) What is the best property category and type?

- Long term investment. Therefore buy to rent.
- Shares are good options but returns are lower because of no leveraging possibilities.

5.) What are the financial solutions you offer to investors?

- A customised service where each individual is assessed according to his/her specific portfolio.
- It boils down to whether the investor can service the debt with all income including rent income. (less limited than other banks on rent recognition)

UNIVERSITEIT VAN PRETORIA
UNIVERSITY OF PRETORIA
YUNIBESITHI YA PRETORIA

5.4 SECONDARY MARKET RESEARCH

5.4.1 Macro-economic and demographic research

Table 3: GDP growth and forecasts

FACTS AND FORECASTS OF KEY ECONOMIC VARIABLES
October 2007

								Forecasts		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Growth (real % change)										
Gdp	4.2	2.7	3.7	3.1	4.8	5.1	5.0	4.7	4.4	5.4
Gde	3.3	2.2	4.9	5.2	7.9	5.9	8.7	5.8	6.2	7.2
Pce	4.1	3.5	3.2	3.5	6.7	6.6	7.3	6.6	4.2	5.4
GdfI	4.3	3.5	3.7	9.1	8.9	9.6	12.7	16.0	13.7	12.8
Exports	8.3	2.4	1.0	0.1	2.9	8.0	5.5	8.2	4.8	9.0
Imports	5.3	0.2	5.3	8.1	14.5	10.7	18.4	11.1	10.1	13.2
Balance of payments (Rbn)										
Exports	222.1	265.8	333.3	291.4	310.5	352.1	434.0	584.9	710.4	877.5
Imports	189.4	221.2	283.0	264.8	311.8	359.8	476.5	624.3	747.2	924.6
Trade balance	32.7	44.6	50.2	26.7	-1.2	-7.7	-42.5	-39.4	-36.8	-47.1
Net services	-33.8	-41.7	-40.6	-40.3	-43.4	-54.6	-69.8	-90.0	-101.8	-108.2
Current account	-1.2	2.9	9.7	-13.7	-44.6	-62.3	-112.4	-129.4	-138.6	-155.4
Capital account	6.6	-15.1	6.4	8.8	82.2	96.6	142.2	142.0	256.0	277.4
Change net reserves	5.4	-12.2	16.1	-4.9	37.5	34.3	29.8	12.6	117.4	122.0
Gross Reserves (eop)	57.0	90.6	66.0	52.9	82.8	130.5	178.3	196.9	316.4	451.9
Current account as a % of gdp	-0.1	0.3	0.8	-1.1		-4.0	-6.5	-6.7	-6.5	-6.6
Gold price (average per ounce										
$	278.8	271.0	310.1	363.5	410.4	445.7	605.1	681.2	729.7	738.2
Rand	1939	2334	3268	2757	2652	2844	4103	4846	5168	5413
Exchange rates (average										
$-R	6.96	8.61	10.54	7.58	6.46	6.38	6.78	7.11	7.08	7.33
Euro-$	0.92	0.90	0.94	1.13	1.24	1.24	1.26	1.36	1.41	1.44
$-YEN	107.8	121.5	125.3	116.0	108.2	110.2	116.3	118.4	114.2	114.5
GPB-$	1.51	1.44	1.50	1.63	1.83	1.82	1.84	1.99	2.03	2.02
Euro-R	6.41	7.71	9.93	8.56	8.03	7.93	8.51	9.69	10.01	10.54
R-YEN	15.5	14.1	11.9	15.3	16.7	17.3	17.2	16.6	16.1	15.6
GBP-R	10.52	12.41	15.81	12.39	11.83	11.60	12.48	14.18	14.39	14.78
Interest rates (end of period)										
Three-month JIBAR	10.53	9.78	13.49	7.73	7.47	7.05	9.18	10.01	8.89	8.91
Prime	14.50	13.00	17.00	11.50	11.00	10.50	12.50	13.50	12.50	12.50
Long bond	12.73	11.54	10.55	9.21	8.15	7.43	7.76	8.11	8.25	8.89
Inflation (cpi, average)										
Headline	5.3	5.7	9.2	5.9	1.4	3.4	4.6	6.7	5.5	4.7
CPIX (metro and other urban)	7.7	6.6	9.3	6.8	4.3	3.9	4.6	6.2	5.6	5.2

Source: Nedbank Group

Table 4: Population growth in South Africa

Historical populations		
Census	**Pop.**	**%±**
1900	5,014,000	—
1910	5,842,000	16.50%
1920	6,953,000	19.00%
1930	8,580,000	23.40%
1940	10,341,000	20.50%
1950	13,310,000	28.70%
1960	16,385,000	23.10%
1970	21,794,000	33.00%
1980	24,261,000	11.30%
1990	37,944,000	56.40%
2000	43,686,000	15.10%
Est. 2007	48,000,000	9.90%
Source: http://populstat.info/Africa/safricag.htm (accessed 12/11/2007)		

Table 5: South Africa's emerging middle class

Annual claimed buying power	Last quarter 2005 estimate	First quarter 2007 estimate
Whites	R230bn	R235bn
Blacks: total	R300bn	R335bn
Black diamonds	R130bn	R180bn

Source: Unilever: Black Diamond 2007: On the Move

5.4.2 Actual property performance

Figure 52: Residential property price inflation

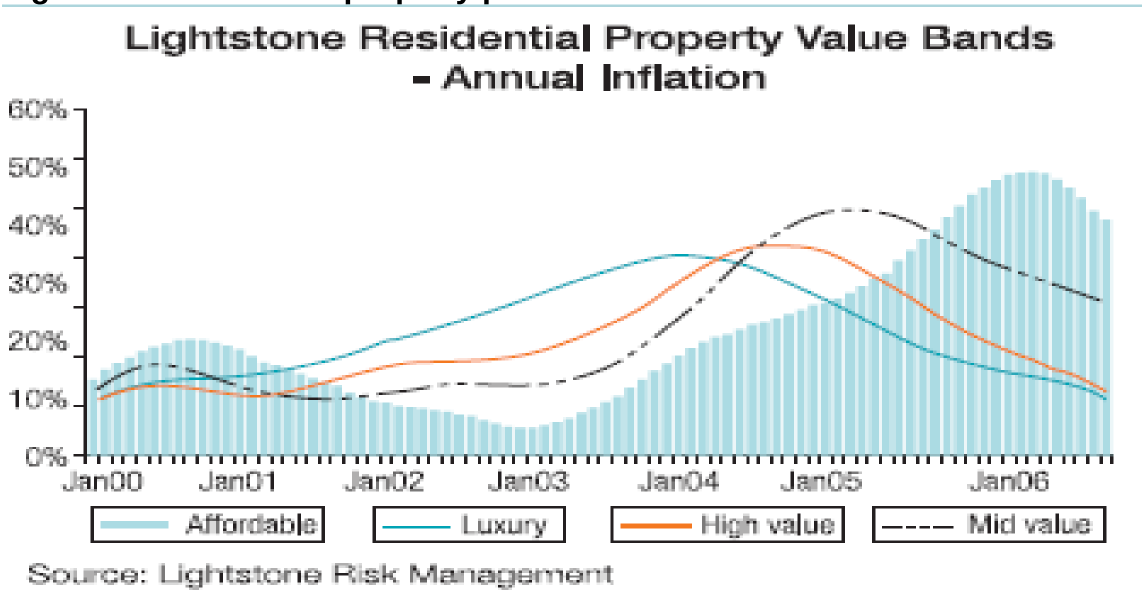
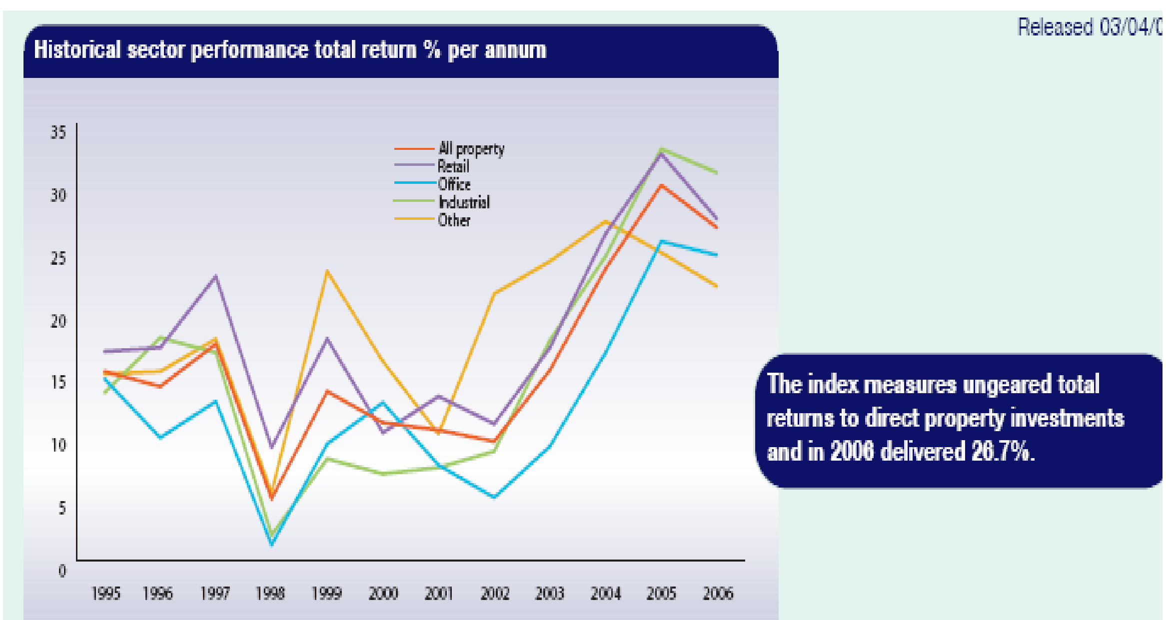


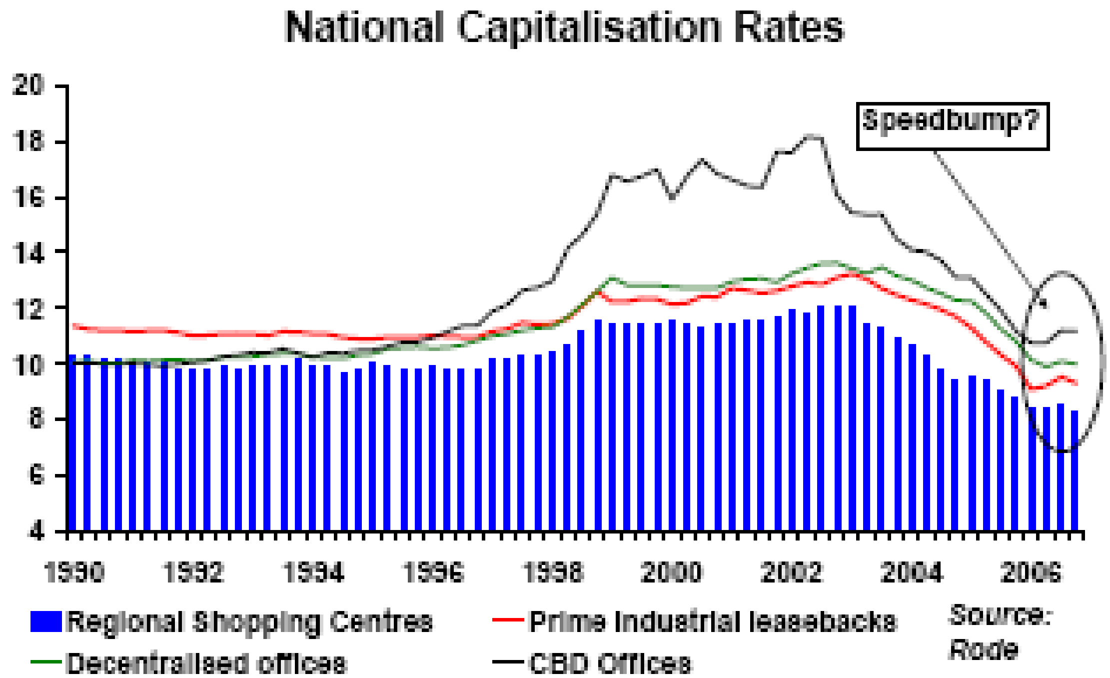
Figure 53 : Commercial and industrial property price inflation



Source : FNB

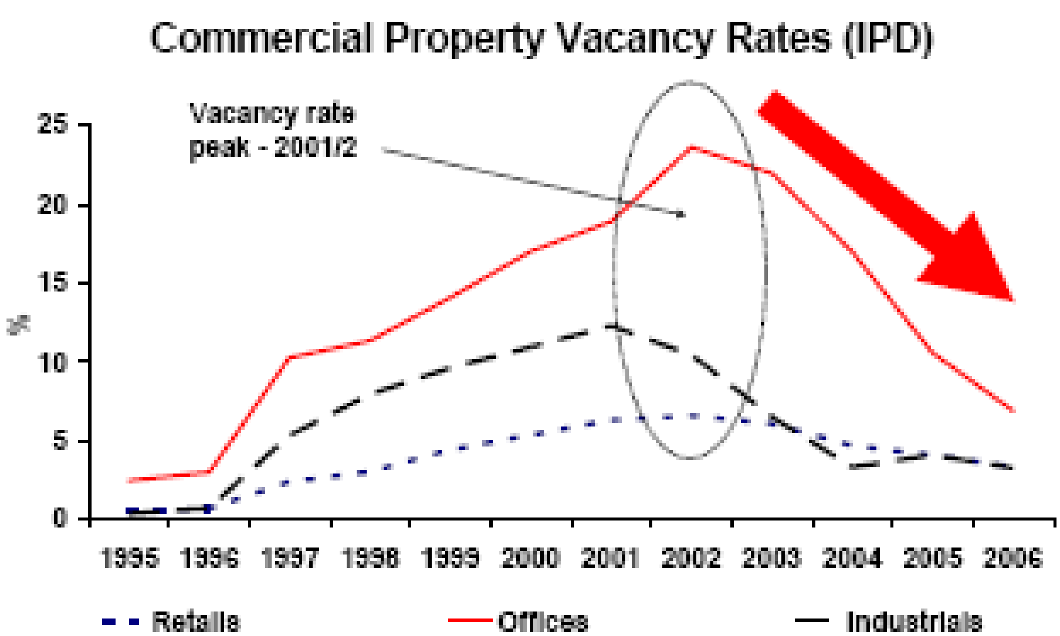
5.4.3 CAP rates and vacancy rates

Figure 54 : National CAP rates



Source: Rode

Figure 55 : Commercial property vacancy rates



Source: FNB

CHAPTER 6: DISCUSSION OF RESULTS

6.1. THE PRIVATE INVESTOR:

6.1.1 The results of the survey

<u>SECTION A: Results and constitution of the total sample</u>

There is a fairly low number of respondents in the under 21 year old category as well as the under R10 000 per month income categories. This would be explained in the reasons provided in the sections dealing with the shortfalls of the sample.

What is interesting to note in the responses is the following:

- 70% of the sample own their own primary residence
- 40% own investment property
- 26% own property shares or property unit trusts

This indicates that there is a significant interest and active participation of some kind in the property market within the target population.

However, in spite of these large investment levels, only 33% of the sample considers their knowledge of the property market to be good or expert.

This underlines the need for this research.

<u>SECTION B: Results within the category of primary residence owners</u>

There are 2 key factors that are noticeable from the results within this category:

The first is the small proportion of property owners in the under R17500 income earning category. Since the number of respondents from each income earning category was different, it is more relevant to discuss percentages of owners in each category as has been done in the below section.

The second interesting factor is that more than half (53%) own a secondary residence purchased for investment purposes. As indicated in the literature reviewed, this is partly explained by the fact that following the purchase of one's primary residence, one understands the dynamics of the market a little better and is less intimidated by a second purchase. Naturally there is also an income phenomenon which is discussed further on in this study.

SECTION C: Results within the category of non primary residence owners

Contrary to the results obtained for the owners of primary residences, the majority of non-owners are in the younger categories and in the lower income brackets.

What is interesting to note is that a small number of non-primary residence owners actually own their own investment property (More than 10%). This may seem surprising however can easily be explained with reasons. These could range from couples who previously each owned their own residence moving in together and renting out the other property, to young adults still living with their parents but still taking a step into property investment. It is later shown that none of the investors in this category own more than 1 property.

A COMPARISON BETWEEN SECTION B AND C:

The comparisons between primary residence owners and non-primary residence owners are very similar in the age and the income brackets. The older respondents become, just like the more they earn, and increases their likelihood to purchase their primary residence. The ownership of other property investments, unit trusts or shares as well as held property investments are also significantly higher in the primary residence ownership category than the non primary residence category (above 90%). The perception of knowledge about the property market is also significantly higher amongst primary residence owners than their counterparts.

SECTION D:

What is most interesting about the investor subgroup is that there is a direct correlation between income categories and investment levels. This clearly shows us that South Africans invest as a result of earning extra available money as opposed to investing proactively in order to generate further income. It can be assumed that this trend is identical throughout all of the investment possibilities in South Africa, not only property.

One out of four investment types had been a holiday home and there could be some question as to whether this is in fact truly an investment or a leisure expense. However the question in the survey regarding the holiday home investment was only opened to the respondent if the respondent had answered positively to whether or not they had invested in property (i.e. were property investors). One can therefore assume that the intention of the holiday home purchase was not only leisure but had investment purposes.

The majority of respondents replied that they had invested in property for rental income purposes.

What is interesting is that the purpose of this research is highlighted by the fact that even amongst the actual investor population, over ten percent of respondents admitted to having minimal knowledge about the property market. Moreover, nearly 25% revealed the reason why they purchased investment property was because they had listened to either advice from a friend or in the press. This certainly emphasises a lack in educated knowledge regarding the property market even amongst investors.

What is of particular interest are the results of the comparative analysis in table D12 which shows that the respondents with the minimum amount of property market knowledge were the ones who perceived their investment to have had below average returns. Most respondents claiming to have had good or excellent knowledge about the market claimed to have had good to excellent returns. Also the respondents with the largest property portfolios claim to have the most knowledge which indicates that knowledge and success are linked. All of the respondents with perceived minimal returns had minimal knowledge about the market. This simply implies that although property may be a good investment, one still needs to be knowledgeable about the market in order to optimise that investment.

It is also interesting to note that in table D13, the investment category containing the highest number of investors, there are generally more respondents that are satisfied with their returns. It is also clear from this table that development is risky since half of the respondents claiming below-average returns are developers, none of which have claimed to have excellent returns either.

What can be noted from table D15 which relates to the leveraging issues evoked in the literature review that investors with the largest portfolios have used the most debt to purchase their properties? Whereas leveraging levels are varied within the smaller portfolio sizes one can conclude that the more successful investors that also claimed to have the highest returns use leveraging to their advantage.

Table D16 shows that all of the large property investment portfolio holders have used the investment category of buying to rent. (The only exception is the mention of a holiday home, but this is where 2 responses were received.) What is surprising is that developers, usually expected to have the largest portfolios are all situated in the under R6 million portfolio size category. This could be explained by the fact that there is probably a majority of this type of investor that develops and sells immediately and then moves profits that are made into other investment types.

SECTION E: NON INVESTOR CATEGORY

The most relevant finding within this subgroup are that the majority of non-investors are in the lower salary brackets, have the perception that they cant afford to invest in property, and also admit to having a minimum of knowledge about the property market. This again emphasises the need for research regarding property investment.

6.1.2 Conclusions of the survey

The results of the survey reveal that there is a general perception that property investment is only for the rich. Investment patterns reveal that the more income people earn, the more likely they are to invest in property. This is a reactive mentality of simply investing excess earnings as opposed to a proactive (entrepreneurial) mentality of investing in order to improve income.

As is indicated in the literature review we are able see that investors with the largest portfolios have all largely made use of leveraging. This is likely to be the reason for their ability to own such large portfolios particularly since not all of the owners of very large portfolios earn within the highest income brackets.

There is also a perception that property is not the best investment option (at least at the moment) but results show that this goes hand in hand with perceptions being largely formed by not only "other people's opinions" but also by perceptions portrayed by the press.

6.2 THE PROPERTY MARKET AND FINANCE SPECIALISTS

6.2.1 The results of the interviews:

This is a consolidation of the key points raised by the 2 samples interviewed:

<u>1.) THE PRESENT SITUATION OF THE PROPERTY MARKET:</u>

- o There has recently been a dramatic correction (increase) in property values in South Africa with property prices approaching international prices. It is however <u>not</u> a bubble as in popular talk in the media.
- o NCA, interest rates and other macro-economic variables have slowed the growth rate down, but growth still continues at around 10% which is more realistic.
- o Macroeconomic variables have affected buyers whereby there is some moving down in price brackets and a slowdown in number of sales.
- o Only certain price segments such as the high end residential market have experienced a slight price decrease but only in certain areas (eg: not coastal)
- o There are presently less investors in the residential buyer mix due to cycle stage which has affected property sales turnover.

2.) THE FUTURE OF THE PROPERTY MARKET:

- There is sustainable and fairly strong economic growth (around 5%) which is the driver for growth in all property types.
- Population growth, which is significantly positive in South Africa, fuels the property market. The growth of the black diamond population is also having a very positive effect on the residential property market with increased demand in buying as well as renting particularly in entry level segments.
- There have been no actual price drops in the past 30 years in South Africa which is a good indication of the future.
- In spite of a massive 7 interest rate hikes in a period of a few months, the market price growth has only slowed, not decreased which is evidence of a healthy asset class.
- Growth rates will again increase when interest rates decrease which has been the mechanical reaction by the market for many years in RSA.
- There is a sound economic environment in South Africa which is a good indicator of property market stability for the future.
- There is no reason why South African property prices should not continue to reach international levels.

3.) INVESTMENT CATEGORIES

SPECULATIVE SHORT TERM:

- Profitable during up-cycle but not necessarily sustainable due to market cycle changes.

- Only really can be done successfully in the residential market because of liquidity factors.
- It is more profitable if the property is held at least for a medium term period of around 2 to 3 years but not as profitable as longer term investments
- Revenue tax must be paid on profits.

LONG TERM BUY TO RENT

- Good option since investors benefit from capital growth as well as rental income.
- Demographics in RSA show that there will always be a high rental demand for all types.
- One can borrow off the equity of income producing property to expand portfolio
- The best option for the private investor.

DEVELOPMENT

- Zoning and licensing problems (delays/no guarantee of obtaining))
- Can be very profitable depending on factors such as location, municipal issues, etc.
- There is presently a shortage of well located development land
- There is a shortage of supply of raw materials as well as skills not only in the industry, but also the municipality (for land servicing) making it very difficult to actually succeed.
- City power problems exist everywhere which means that unfinished developments can take years to complete.

- High risk is higher but there are many different levels at which profit can be made which make it very attractive.
- It is not for the beginner in property because of the need for skills, market knowledge and capital.

4.) INVESTMENT TYPES

PROPERTY SHARES

- Show good profitable return
- No owner management possible.
- More accessible and more liquid than held property
- No leveraging possible meaning returns on actual investment limited and total investment needs to be cash.
- It produces all the gross returns of held property (with the exception of the leveraging advantage that held property has) but is obviously managed by professionals with generally diversified portfolios.

RESIDENTIAL

- Residential property is presently at the top of a growth cycle but is in the long run a good safe option
- Easily manageable for the private investor.
- Easily assessable financially

LAND

- Limited supply but 100% speculative

- illegal occupation problems as well as municipal and zoning
- Purchase in the right area can be extremely profitable on resale.
- Difficult to obtain financing
- High density zoning preferable but very difficult to achieve
- Not income producing

COMMERIAL / RETAIL

- A minimum of 20% deposit plus transfer costs is needed as well as strong leases and tenant profiles, therefore less accessible for many private investors
- Growth escalates at same pace rentals due to the fact that the majority of buyers are investors.
- Vulnerable due to lower liquidity
- More fundamental rent with longer generally more stable leases
- Less capital growth but rent yield better
- Prime retail space owned by institutions. What is left for private investors tends to be less profitable and more risky
- Presently it is in the up-cycle part of the growth phase but all property types undergo the cyclical effect.
- Demand is high in spite of recent increases in supply.
- Prices here are determined by demand and price that consumers (tenants) are willing to pay.

INDUSTRIAL

- High demand and limited supply

- Difficult market due to : low liquidity, specialisation of usage, dependence on economic activity

5.) THE BIGGEST CREATOR OF VALUE

- Buy to let: in residential property because of liquidity (lower risk), high rental demand and a stable growing market and economy.
- Investors could later diversify property type once established in residential investment.
- This is due to leveraging advantages, equity availability and asset management possibilities.
- A long term property investment perspective is the most profitable. Be it ownership through development or starting out in residential, holding property with a long term view.

6.) THE FINANCING OPTIONS (Questions only asked to financing specialists)

In terms of the financing made available to investors it appeared that there were basic rules that were implemented by most of the financial institutions corresponding to approximately a third of an individuals income and some (but not complete) consideration for rent income. However as an investors portfolio grows, he/she is entitles to more specialised and structured lending by the financial institutions.

6.2.2 Conclusion of the interviews

With little exception, the viewpoints of the property specialists were that property is a good solid and stable investment in South Africa and in spite of a present day slowdown in growth, there is a lot of future potential due to macroeconomic and demographic factors.

In terms of property investment category, the general viewpoint was that long term property investment was the better option – be it buy to rent, develop to hold and rent, or even purchase property shares with the intention of holding for long periods of time. It was recognised however that profit can be generated by short term investments, but that a long term viewpoint was safer and more profitable.

In terms of property type, although the notion of a diverse portfolio was encouraged, it was stated that residential property was a good option particularly for the private or smaller investor due to liquidity, accessibility and manageability. The other categories presented a higher risk and although profitability could be higher; the risk factor was a deterrent. Property shares were thought to perform better for various reasons however the non-possibility of financial leveraging meant significantly lower returns.

Although there was a mention of financial leveraging it did not come across as strongly as was evident in the literature review.

6.3 SECONDARY RESEARCH

6.3.1 The results of the secondary research

The literature review and the primary research both indicated that GDP growth and population growth were key variables in determining growth in the property market. Table 3 indicates that there has been reasonably good GDP growth in South Africa and forecasts are conservative but demonstrate nonetheless good growth.

Table 4 indicates that there is very high population growth. With the gini coefficient in South Africa, this growth does not necessarily indicate growth in the portion of the population that is able to purchase property. This is why it is important to consider table 5 which demonstrates the incredibly strong growth of the emerging black middle class

Therefore the 2 main economic ingredients for strong growth in the property market in the coming years are positive.

Figure 52 and 53 show the cyclical nature of all property types and demonstrates that generally speaking, all types have undergone much the same levels of growth over the past few years; each of which reached peak levels at different times. It would therefore be reasonable to conclude that the actual capital growth on property types is more or less equal, or varies by no more than 1 or 2 percent per year.

Therefore one needs to consider the other variable's of the different investment types:

- o The primary one being the average CAP rates of each type which is the fundamental measure of an investment's cash flow profitability. (De Roos, et al, 2006) Figure 54 shows us that CAP rates have decreased significantly since property prices have increased. Residential CAP rates are said to be around 2% below those of commercial and industrial. (Loos, 2007) The fact the office rentals have a higher Cap rate is explained by the slightly lower price inflation of office property value.

- Although CAP rates have decreased, vacancy rates have decreased significantly showing higher demand as is seen in figure 55. According to the primary research carried out, vacancy rates for residential property are also at record lows. This increased demand is a good indication that CAP rates will improve and therefore price forecasts can be considered stable.

6.3.2 The conclusions of the secondary research

The secondary research broadly confirm what was stated in the literature review as well as what was revealed in the primary research interviews in terms of the fact that the property market's successful past performance was sustainable and that the future is positive based on economic variables and influencing factors within the property marketplace. It also indicated that growth on property type was more or less similar in the long run although each type was dependent on its own growth cycle. One can conclude that factors influencing profitability and wealth creation regarding property type related to softer issues such as management capabilities of the property, CAP rates and vacancy levels, and liquidity.

CHAPTER 7: CONCLUSION

7.1 GENERAL CONCLUSION

Property is certainly an asset class worth investing in. The past years have shown good performance, presently in spite of macro-economic conditions such as interest rate hikes and factors such as the NCA, property prices remain stable and still show positive growth. Largely due to demographic reasons the future looks particularly bright. Naturally growth rates of above 30% per annum as has been experienced in recent years is unlikely, however solid, sustainable growth is expected to take place.

However in spite of the fact that South Africans have particularly low savings levels and the need to invest properly is extremely important, there appears to be a lack of perceived knowledge about investment, particularly in the property market – one of the more lucrative and stable asset classes. Even South Africans who qualify to invest are either unaware of the fact that they do qualify, or their poor knowledge about the property market leads them to believe that it is not a good asset class to invest in.

What comes across clearly in the literature review is the fact that a long term view, leveraging and liquidity were key aspects of determination of which property investment category had the better potential of wealth creation. While the literature provides arguments for and against each of the different property categories, based on these fundamental determinants, there is a tendency towards a preference for either the buy to let category or the property shares category. The reason for this is confirmed by the primary research whereby the property specialists underline the fact that speculative, short term investments lacks sustainability and is generally only profitable on the up-side of the property cycles. Naturally some investors are still able to show substantial profits but a far higher degree of involvement and capital is required (i.e. for renovations).

It was established early in the study that development investment is limited in terms of accessibility for the private investors mainly due to skills required and the capital outlay needed from the investor. It was also seen to be very risky with many variables involves (zoning regulations, ecological regulations, municipal delays, etc), any one of which could shift profitability levels considerably. This was confirmed by not only the property specialist's viewpoint but also the developers who responded to the survey and indicated that profitability was certainly not considered excellent. Even with a long term view, it would be safe to conclude that development is not the better investment option.

7.2 FINAL COMPARITIVE CONCLUSION

As a result of the research carried out, it would be accurate to state that the long term investment viewpoint is the most profitable when taking into account external factors. This would mean that a comparison between the buy to let investment category and the property shares category would finalise the research carried out.

7.2.1 The comparisons

	HELD PROPERTY	LISTED PROPERTY
LIQUIDITY	Fairly liquid in residential and some commercial	Very liquid
CAPITAL GROWTH	Generally good, however limitations to diversification and management professionalism could mean return can be negatively affected slightly. However owner managed property can be more profitable due to personalised approach.	Very good diversification possibilities and professional management.
LEVERAGE	Possible	Not possible

<u>LIQUIDITY:</u>

In terms of the liquidity aspect, there is no doubt that listed property is the better options. Held property involves significant transfer costs as well as certain unavoidable delays.

<u>CAPITAL GROWTH:</u>

Although there may be differing opinions as to whether it is better that a property portfolio is managed by a large professional corporation as opposed to individuals with a more personal approach, one cannot argue with the fact that diversification is an advantage that listed property has over held property.

LEVERAGE:

In order to evaluate the difference in leveraging, a mathematical calculation needs to take place:

Return on investment for listed property (no leveraging):

Annual year on year growth = 20%

Investment amount: R100 000

Period = 10 years

(for the purpose of the simplicity for this calculation, transaction costs are excluded)

Table 6: listed property share growth

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Investment value	100000	120000	144000	172800	207360	248832	298598	358318	429982	515978	619174

Total return on investment over the 10 year period is 619%

Return on investment for held property (leveraged)

Annual year on year growth = 20%

Investment amount: R100 000

Period = 10 years

- o Additional costs needing to be considered are transfer fees and bond transaction fees which have been calculated at R25 000 in accordance with the value of the property used for this illustration.
- o The debt portion is R425 000 – therefore leverage is at 80%

Table 7: Held property growth

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Property value	500000	600000	720000	864000	1036800	1244160	1492992	1791590	2149908	2579890	3095868
								less estimated remaining debt			200000
								NET VALUE			2895868

Total return on investment over the 10 year period is 2896%

Naturally, in the case of held property some additional investment may or may not have to be injected. For example low CAP rates during high interest rate times would mean that rent would not cover debt servicing costs, therefore small amounts of additional capital is needed. However with average rent year on year price increases of around 10% (Rode, 2007) this scenario would only affect properties that are highly leveraged for a short period of time such as two to three years.

For the sake of simplicity of the illustration, a property growth rate of 20% was used for both comparisons. Even is there should be a slightly higher return for listed property, leveraging still offers returns many times higher than that of listed property.

One must not ignore the fact that this type of investment also provides positive cash flow (particularly after a few years when debt is partially paid and rent has undergone several increases). This means that a portfolio can be created and expanded very easily.

7.3 THE CATEGORY OFFERING THE BEST VALUE CREATION

Although listed property has liquidity and diversification advantages over held property, the leveraging advantages of held property offer returns multiple times higher than what is achievable with listed property. When evaluated through calculation, and although certain variables may affect positively or negatively the returns on each property category, long term buy to rent, held property is unquestionable the category that offers the greatest wealth creation possibilities to South Africans. In addition, finance can be accessed for property purchase with virtually no down payment, i.e. 100% leveraging meaning that returns can be unlimited.

South Africans need to learn about property and the type of wealth that can be created from investing correctly and take on a proactive approach to investment as opposed to simply using it as a savings mechanism.

REFERENCES

Allen, R. (2004) *Nothing Down for the 2000s: Dynamic New Wealth Strategies in Real Estate*. USA: Simon and Schuster Inc.

Cameron, J. (2005) *Should you invested in commercial property,* South Africa: Moneyweb's Personal finance.

Charney, I. (2005) Property developers and the robust downtown: The case of four major Canadian downtowns. *The Canadian Geographer*. 49(3), 301-312

De Roos, D. Eldred, G. Oakes, C. (2006) *Bubble-Proof Real Estate Investing*, New York: Trump University

Downing, J. (2007) *Leverage Your Property Investments Correctly:* BOE Private Clients. Available at http://www.eprop.co.za/news/article.aspx?idArticle=9494 (accessed 10/07/2007)

Forbes, E. (2005) A real estate titan for a new century is revolutionizing the risky business of erecting skyscrapers, *Forbes magazine.* February 28. USA

Ghyoot, V. (2006) Diversification in investment property performance reporting in South Africa: theory versus practice. *Southern African Business review.* 10(20), 111-129

Harris, Marlys, Fitch and Asa. (2007) *Real Estate vs. Stocks*, US: Money Vol. 36, Issue 5

Harvard Law review (1994) Managing the real estate investment trust: an alternative to the independent contractor requirement, *Harvard law review.* 107(1117), 1117-1139

IPD. (2007) IPD Annual Total Return indices to December 2006 http://www.ipd.com/OurProducts/Indices/tabid/400/Default.aspx (accessed: 13/11/2007)

Jakira A. (Date unspecified) Invest in companies that own or manage real estate. *ABA Journal – The lawyer's magazine.* p88

Jenvey N. (2006) *Local Property market emerges as champion in global stakes*, South Africa: Business Day. Available from: http://0-www.samedia.uovs.ac.za.innopac.up.ac.za/cgi-bin/getpdf?id=3330875 (accessed 25/02/2007)

Lewis D. (1986) Creative financing, techniques in Real Estate. *ABA Journal: The lawyers magazine.* 72, 60-62

Loos, J (2007) Property Markets: Commercial Property Market Q3 update, FNB. 6 September 2007

Muller, J. (2006) SA property barons on the rise. *Fin24.co.za*

Nthite C. (2006) Tread carefully on the property market, *Moneyweb's Personal finance.* July edition. 3-4

Nthite, C. (2005) Don't buy to let. *Moneyweb's Personal finance.* January edition, 6-7

Pornchokchai, S. Perera, R. (2005) Housing speculation in Bangkok: lessons for emerging economies*. Habitat International,* 29(3), 439-452

Ramabodu, M. Kotzee, B. Verster, J. (2007) Diversity and Value in Africa's real estate: Challenges facing property development in South Africa. *Journal of Property Investment and Finance,* 25(1), 7-22.

Research.com (2004) South Africa Tops Worldwide House Price Increases: Published 19/04/204. http://www.researchworldwide.com/page.jsp?table=media&id=2 (accessed 29/08/2007)

Roberts, S. (2004) Investment in South Africa – a comment on recent contributions: *Development Southern Africa,* London, 21 (4)

Rode's Report. (2005) State of the Property Market. Available from: http://www.rode.co.za/publications/demos/RR_2005_4_-_01_-_State_of_t.pdf (Accessed 27/08/2007)

Rode's Report. (2004) Listed property on a roll. Available from: http://www.cput.ac.za/library/rodes/04_4/listed_property/listed_property_frameset.htm (Accessed 27/08/2007)

Stadler (2007) *Long term income creation,* Property loan stock association. Available at http://www.propertyloanstock.co.za (accessed 01/11/2007)

Staffer. (2007) Property provides a stable asset. *Business Day*. Available from http://www.netassets.co.za/personalfinance/personalfinance.asp?websitecontentitemID=68655&Link=1 (accessed 11/11/2007)

Sirmans, C. Worzala, E. (2003) International Direct Real Estate Investment: A review of the literature. *Urban studies,* 40(5-6), 1081-1114

Tsolacos, S. McGough, T. Thompson, B. (2006) Affordability and performance in the industrial property market. *Journal of Property investment and Finance*, 23(4) 311-328

Vandall, K. (2007) Expanding the academic discipline of real estate valuation: A historical perspective with implications for the future. University of California, *Journal of Property Investment and Finance, 25 (5) 247-443*

Viruly, F. (2007) Social drivers affect SA property, *Viruly Consulting.* 20th September.

Weber R. (2002) *Extracting value from the city: Neoliberalism and Urban redevelopment*, Chicago, Blackwell publishers. Antipode p519 – 540.

Wingate-Pearse, G. (2006) *Listed property – a top performer,* South Africa: Personal Finance Newsletter, Issue 305. Available from: www.journals.co.za.innopac.up.ac.za/WebZ/images/ejour/monpf/monpf_n305_a3.pdf (accessed 25/02/2007)

Wolmarans H. (2001) Investment management education: Is there a gap between the perceptions of academics and of practitioners? *Meditary Accountancy Research.* 9, 351-366

APPENDICES

Appendix 1: Survey Questionnaire

(*Please select the option which is most applicable)*

1.) What is your age?
Under 21
21-30
31-40
41-50
51-60
Above 60

2.) What is your monthly gross income?
< 10000
10001-17500
17501-27500
27501-40000
40001-55000
Above 55000

3.) Do you own your own primary residence?
Yes
No

4.) Do you own any property unit trusts / shares?
Yes
No

5.) Do you own, or have your owned property other than your primary residence for investment purposes?
Yes
No

***5a.If no, why?**
Cant afford it
Not much money to be made in property at the moment
Too risky
Better investments elsewhere

***5b.What type of property investment?**
Purchased as a secondary residence (holiday home, etc)
Purchased for quick resale at a profit
Purchased to hold (for rental income)
Purchased for development purposes

***5c.When did you purchase your first investment property?**
In the past year
1-3 years ago
3-5 years ago
Over 5 years ago

***5d.How many investment properties do you presently own? (excludes primary residence)**
1
2 to 4
5 to 10
More than 10

***5e.What is the value of your total property investment portfolio?**
Below R1 Million
Between R1 Million and R3 Million
R3 Million to R6 Million
R6 Million to R9 Million
Above R9 Million

***5f.Why did you invest in property?**
Advice from a friend
Because press information revealed it to be a good investment
I studied the return on investment myself
Advice from a financial adviser
Other

***5g.How would you describe your overall return on property investment**
Below Average
Fair
Good
Excellent

***5h.How much debt did you use to purchase your properties (choose closest average)?**
100%
85%
60%
55% or below

6.What do you consider to be your degree of knowledge about the property market and property investment?
Minimal
Fair
Good
Expert

APPENDIX 2: THE PROPERTY SPECIALIST INTERVIEWS

1.) THE PRESENT SITUATION OF THE PROPERTY MARKET?

2.) THE FUTURE OF THE PROPERTY MARKET?

3.) INVESTMENT CATEGORIES ?

SPECULATIVE SHORT TERM:

LONG TERM BUY TO RENT

DEVELOPMENT

PROPERTY SHARES

4.) COMMENTS ON PROPERTY TYPES ?

5.) THE BIGGEST CREATOR OF VALUE ?

APPENDIX 3: DATA FROM POTENTIAL PRIVATE INVESTOR SURVEY

id	What is	2 What	3 Do yo	4 Do yo	5 Do yo	5a If no	5a If no	5a If no	5a If no	5b Wha	5b Wha	5b Wha	5b Wha	5c Whe	5c Whe	5c Whe	5c Whe	5d How	5e Wha	5f Why	5f Why	5f Why	5f Why	5f Why	5g How	5h How	6 What	you consider to be your degree of knowledge about the property market and p
4	4	2	2	2	2				1																		1	
6	3	5	2	1	2				1	1						1											2	
17	3	3	2	2	2				1			1					1										1	
18	2	1	2	2	2	1																					3	
22	3	4	1	2	2	1																					2	
25	3	3	1	2	2				1																		2	
27	2	1	2	2	2	1																					3	
28	3	4	1	1	2			1																			1	
32	3	1	2	2	2	1																					3	
33	4	4	1	2	2				1																		3	
34	3	3	1	2	2	1																					3	
35	3	5	1	2	2	1																					1	
36	4	4	1	2	2	1																					1	
37	4	3	2	2	2	1																					1	
38	5	4	1	2	2	1																					1	
41	1	2	2	2	2	1																					1	
42	2	1	2	1	2	1																					2	
46	2	4	1	1	2		1		1																		3	
48	4	6	1	1	2				1																		3	
51	1	1	2	2	2	1																					1	
54	3	4	1	2	2		1																				1	
55	2	3	2	2	2			1																			1	
56	5	4	1	2	2				1																		2	
58	2	2	2	2	2	1																					1	
59	1	1	2	2	2		1																				1	
60	3	3	1	1	2			1																			1	
61	2	2	1	2	2				1																		1	
63	4	4	2	2	2			1																			2	
64	1	1	2	2	2	1																					1	
65	2	2	2	2	2	1																					3	
66	3	3	2	2	2		1																				2	
68	3	3	1	2	2			1																			2	
69	3	3	1	1	2			1	1																		1	
70	1	1	2	2	2	1																					2	
72	6	2	1	2	2	1																					2	
75	3	4	1	1	2		1																				1	
76	4	3	1	2	2		1																				1	
78	2	4	1	1	2			1																			2	
80	5	3	1	2	2	1																					1	
81	5	5	1	2	2				1																		2	
82	4	2	2	2	2	1																					1	
85	3	2	2	1	2				1																		2	
87	3	3	1	2	2	1																					2	
88	3	5	1	1	2				1																		2	
89	2	2	2	2	2	1																					1	
95	3	2	2	2	2	1																					1	
96	2	2	2	2	2	1																					1	
97	5	4	1	1	2	1																					1	
98	6	4	1	2	2	1																					1	
99	6	3	1	2	2	1																					1	
100	2	1	2	2	2	1																					1	
101	2	2	2	2	2	1																					1	
102	3	2	1	2	2	1																					2	
103	3	4	1	2	2	1																					2	
104	5	3	1	2	2	1																					3	
106	2	2	2	2	2	1																					2	
109	2	1	2	2	2	1																					1	
110	3	2	2	2	2		1																				1	
111	4	2	1	2	2	1																					2	
112	4	3	1	2	2				1																		3	
113	3	3	1	2	2	1																					2	
114	4	3	1	2	2	1																					2	
115	5	3	1	1	2			1																			2	
116	1	1	2	2	2	1																					1	
117	6	3	1	2	2				1																		1	
118	5	5	1	2	2		1																				3	
121	3	2	1	2	2	1																					2	
123	3	4	1	2	2	1																					2	
126	4	3	1	2	2	1																					2	
127	4	2	2	2	2	1																					1	
128	4	2	1	2	2	1																					1	
129	5	1	2	2	2	1																					1	
130	2	1	2	2	2	1																					1	
131	2	1	2	2	2	1																					2	
132	2	2	2	2	2	1																					1	
133	3	1	2	2	2	1																					1	
134	6	1	2	2	2	1																					1	
135	6	5	1	1	2				1																		3	
136	3	3	1	2	2	1																					2	
137	3	2	1	2	2	1																					1	
138	3	3	1	2	2	1																					2	
139	5	1	2	2	2	1																					1	
140	5	4	1	2	2	1																					2	
141	4	5	1	2	2				1																		3	
142	4	2	1	2	2	1																					2	
145	5	3	1	2	2	1																					3	
146	5	2	2	2	2	1																					2	
147	3	1	2	2	2	1																					1	
148	6	1	1	2	2	1																					1	
150	3	5	1	2	2	1																					3	
151	3	6	1	2	2				1																		4	