Factors Influencing Johannesburg Inner City Residential Property Value

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ABSTRACT

The inner city of Johannesburg has recently gone through a period of renewal; it was just a decade ago that Johannesburg was described as "The City of Filth" (City Press, 1997; Pg: 4), owing to increased crime, decreased confidence, and fleeing tenants and landlords, which led to the "decrease in inner city residential property prices and in many cases negative equity from which many landlords just walked away" (City Press, 1997; Pg: 7). Today "crime rates are down, occupancy rates are up, investment is increasing as confidence improves and cleanliness has returned" (Turner & Townsend, 2005; Pg: 1). The Johannesburg inner city rejuvenation has attracted investors, some of whom have been successful and others not.

This research identified the many factors that affect Johannesburg's inner city residential property values and grouped the identified factors into the categories: "High Level Factors", "Low Level Factors" and "Individual Factors". Participants were then identified from three distinct groups: "Successful Investors", "Unsuccessful Investors" and "Service Providers" to those investors. Participants were asked to rate the significance of each factor and category.

The research outcomes were as follows: Successful Investors and Service Providers to the investors had similar views and ranked the Individual Factors as being most significant, followed by Low Level Factors and then High Level Factors. These results indicated that Successful Investors took responsibility for their investments, and displayed an internal locus of control, which ensured that they succeeded. Unsuccessful Investors rated High Level Factors which were outside of their control and had an external locus of control as playing a significant role in the demise of their investments while the Low Level Factors and Individual Factors were seen as not having a significant impact on the value of inner city residential property values.

What was evident from all participants was that at some time they had all felt that residential property within the inner city of Johannesburg was a good investment and that this investment would give them positive returns.

DECLARATION

I, Panayoty van de Sande, declare that this research report is my own unaided work. It is submitted in partial fulfilment of the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

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Chapter 1

1. INTRODUCTION

1.1 Context of Study

It was just a decade ago that the Johannesburg inner city was described as "The City of Filth" (City Press, 1997; Pg: 4), as a result of increased crime, decreased confidence, fleeing tenants and landlords, and capital flight to the northern suburbs. "Inner city residential property was seriously depressed as the flight of white residents (and wealth) from the inner city to the increasingly fortified northern suburbs and the concurrent influx to the city centre of both black South Africans and African immigrants" took place (Byala, 2005; Pg: 162). This led to a decrease in inner city residential property prices and in many cases negative equity from which many landlords just walked away (City Press, 1997; Pg: 4). Negative equity is when you sell your property for less than you purchased it for. The early 1990s saw the worst of the Central Business District (CBD) of Johannesburg, described as "murder capital of the world and the most dangerous city outside the war zone" (Sunday Times, 1997). This trend has finally turned, with the help of government, business, private individuals and the community.

Confidence in the inner city is starting to return. This return of confidence is attracting investors who are looking to invest in the inner city. It is the objective of this research study to determine the factors influencing the Johannesburg inner city residential property value.

> Inner-cities in South Africa are both a creation of apartheid and a phenomenon of the post-apartheid era. The combination of the abolition of legislated racial zoning and economic forces has led to the repopulation of the inner-city and a movement to the suburbs. Over the past decade, the inner-city has become a cosmopolitan area where urban residents of all races live and work.

(Parnell, 2003; Pg: 618)

The success of the rejuvenation of the inner city has much to do with the many stakeholders' vision and strategy, which in turn is driving up property prices. "The overall goal of the Inner City Regeneration Strategy is to raise and sustain private investment in the inner city, leading to a rise in property values (Inner City Focus, 2003), but most importantly the success of the inner city revival is due to the property developers" Turner & Townsend, (2005).

Investors are turning their attention to buying inner city residential property either as first time buyers or to expand their property portfolios. Successful property investment hype within the media, with articles titled 'How to play the property market and win', which advocate that the "big selling points of real estate are the ability to reduce tax, create personal wealth and possibly buy property at no cost" (Macalister, 1997; Pg: 48), has surely enticed many novices into investing in the inner city residential property market.

In recent years the South African economy is estimated to have grown by 4,9% per year in real terms. The strong economic performance in South Africa over the past few years can be attributed to a buoyant domestic demand, mainly driven by a strong rand, solid exchange rates, low inflation and the lowest interest rates in more than 20 years. There have been 15 consecutive years of positive real economic growth. However, recently we have seen the South African Reserve Bank raise interest rates by 500 basis points (5%) since June 2006. This, along with the implementation of the National Credit Act, soaring inflation and a knock in confidence in South Africa brought about by political uncertainty, problems with Eskom's electricity generation, a substantial increase in emigration, and unstable world economies, has lead to a slowing of the residential property market. According to Statistics SA, South Africa is nowhere near a recession, which is defined as two successive quarters having negative figures for Gross Domestic Product (GDP). As can be seen, our growth is still positive, albeit that consumer spending has taken a bit of a knock recently as household debts are rising.

There will always be both winners and losers within the residential property market. There are many successful investors in the Johannesburg inner city residential property market that have made money; however, not everyone has been successful and some have actually lost money. It is therefore the aim of this research to research both the investors that have been successful and those that have been unsuccessful to determine the factors which influence residential property value in the inner city of Johannesburg.

1.2 Problem Statement

The researcher investigated the factors influencing the Johannesburg inner city residential property value to ascertain which factors are deemed to be of importance in becoming a successful investor within the Johannesburg inner city residential property market.

1.3 Purpose of Study

The purpose of this study is to determine which are the significant factors that affect the Johannesburg inner city residential property values, and how these factors are viewed by “Successful Investors”, “Unsuccessful Investors” and “Service Providers” to those investors

1.4 Importance of the Study

The inner city, defined by government as region 8, is experiencing an enormous amount of reinvestment from public, private and foreign investors.

This study will enable both existing investors as well as potential new investors, interested in residential property within the inner city, to benefit from the viewpoints of the stakeholders who fairly represent Successful Investors, Unsuccessful Investors and Service Providers to those Investors, within the residential property market in the inner city of Johannesburg.

This study is significant to all those who live, work and invest in the inner city, and especially those who are considering investing in Johannesburg inner city residential property. Current owners and investors could use the outcome of this study to make a decision about whether to buy, hold or sell their residential property in the inner city. More importantly they may adopt factors which positively influence residential property value in the inner city while avoiding those factors associated with unsuccessful investors.

1.5 Delimitations

The study has been confined to the residential real estate market of the inner city of Johannesburg. This includes sectional title flats, and free standing and semi-detached houses, which offer accommodation for people living in the inner city of Johannesburg. Commercial, industrial and other classifications of property have not been included.

This research has been limited to investments made after the year 2000.

1.6 Assumptions

The following underlying assumptions have been made:

1. The identified Investors have invested in Johannesburg inner city residential property market. This was established by using the property deed search engine 'Windeed'.
2. The identified Investors fairly represent both those who have been Successful and Unsuccessful in the inner city of Johannesburg residential property market. This means that the validity of the study is upheld, and that the Investors have the necessary knowledge and expertise to give a valid opinion.
3. The techniques being used to gather data and the subsequent interpretation of the data are a reliable and a fair representation of reality.

4. The identified Service Providers to the property investors have been interviewed as they may have some valuable insights into determining why an investor was successful or unsuccessful.
5. A half-hour interview, in person or telephonically, per identified Investor is sufficient to generate enough information and knowledge without loss of validity.

1.7 Definitions

Although the term 'real estate' actually covers three areas: land and buildings, the business or industry of real estate, and the academic field of study (Kau & Sirmans, 1985), this study only looks at the developed residential property market.

The Johannesburg inner city residential property market is defined as:

Benrose	Droste park	Johannesburg Central	Selby Ext x19
Bellevue	Fairview	Judiths Paarl	Troyeville
Bellevue East	Ferreirasdorp	Lorentzville	Vrededorp
Berea	Fordsburg	Marshalltown	Westgate
Bertrams	Highlands	New Doornfontein	Wolhuter
City & Suburban	Hillbrow	Newtown	Yeoville
City West	Jeppestown	Pageview	
Doornfontein	Jeppestown South	Salisbury Claims	

Chapter 2

2. LITERATURE REVIEW

This chapter presents the literature review used to derive the propositions against which the research has been conducted. For one to understand the factors influencing Johannesburg inner city residential property value, one needs to explore the history of the Johannesburg inner city to understand what happened to the city in the past and why, where the city finds itself today and where it sees itself in the future.

There has been much media attention about the reinvestment in and rejuvenation of the inner city. This study explores the extent and nature of this reinvestment and rejuvenation within the inner city and what this means for the future of Johannesburg's inner city residential property value.

In order to review the factors which influence Johannesburg's inner city residential property values, the researcher examined many factors and categorised them into three broad categories. Firstly, "High Level Factors" are those factors affecting property on a national scale, i.e. interest rates and the property cycle. Secondly, factors specific to the inner city that affect our target market property, i.e. the actual property, supply and demand in the area and location of the property, are categorised as the "Low Level Factors". Thirdly, the decisions of the individual, i.e. motivation, knowledge, funding, and strategy, are considered in "Individual Owner Factors".

To fully understand the above factors an understanding of how a property is valued needs to be gained. As such this chapter reviews three major valuation approaches: sales comparison, income capitalisation and cost approach. Wherever possible, comparisons to international inner cities have been made, thus providing a context to Johannesburg inner city residential property value.

2.1 South African Property Market

According to Statistics SA, in recent years the South African economy is estimated to have grown by 4,9% per year in real terms right up to the second quarter of 2008. The strong economic performance in South Africa over the past few years can be attributed to buoyant domestic demand, mainly driven by a strong rand, solid exchange rates, low inflation and the lowest interest rates in more than 20 years. There have been 15 years of consecutive positive real economic growth. However, recently we have seen the South African Reserve Bank raise interest rates by 500 basis points (5%) since June 2006. This, along with the implementation of the National Credit Act (NCA), soaring inflation and other contributing factors, has led to a slowing of the residential property market.

2.1.1 South African Property Market: Overview

In 2000 most traditional asset classes were underperforming, while South African real estate seemed to be relatively cheap at the time. This caused investors to take a closer look at property as an investment. Also taking into consideration factors such as a stable political environment, a strongly growing economy, low inflation, and low interest rates between 2000 and 2005 the country saw a substantial increase in interest in residential property which led to an unprecedented sustained boom.

It is also noted that the South African real estate only saw mediocre growth from the mid-1980s up to the late 1990s. This means that property prices have probably been catching up with other asset classes since then. “Over the past five years, the South African residential property market has experienced strong price growth of about 20% per annum in nominal terms and 13,6% per annum in real terms” (Absa, 2005).

Absa Bank’s senior economist Jacque du Toit states:

> Phenomenal real rates of return on especially residential properties during the past four years or so, proved unsustainable and during the

> course of 2005 nominal price growth declined from about 31% in January last year to 14,7% in December. Albeit lower than the 32,2% of 2004, the average nominal price growth for the full 2005 came to a very acceptable 21,9% (18,0% in real terms).
> (Du Toit, 2005)

Recently we have seen that average nominal house price growth has levelled off and is in fact decreasing.

Executive director of Pam Golding Properties, Ronald Ennik, sums up the current situation in South Africa by saying: “Coming after a 10 year period of sustained growth – the likes of which has not been seen in at least 50 years, and in which home values generally quadrupled – the current down cycle is now at, or very near, its lowest point and I have no doubt that the turnaround is imminent”. “R Ennik, personal communication,” 14 July 2008

2.1.2 South African Property Market: Challenges

There are numerous challenges facing the real estate market in South Africa, most of them concern affordability and supply.

Because housing in general has become much more expensive than it was a few years ago, the issue of affordability is now an important factor in all segments of the residential market. It can be seen that house prices have increased at a faster pace than remuneration levels.

From the building statistics it can be seen that people are not building affordable houses: private delivery has increased since 2000; the delivery of ‘affordable units’ (those costing less than R200 000, and ostensibly affordable to those in the Financial Sector Charter (FSC) target market) decreased from 63% of total delivery in 2000 to 30% of total delivery in 2004 (Du Toit, 2005).

“The Banking Association reported that according to its estimates, there was a shortage of about 661 000 ‘affordable’ houses in the sub R200 000 price range, with the greatest backlog being experienced in Gauteng" (Sapa, 2006).

What follows are some statistics on the South African real estate market, according to (Rust, 2006):

- 50% of SA households own their dwellings (whether this is a tribal dwelling, a private dwelling, an ex-council unit or a subsidised housing unit).
- 35% of SA households rent their housing (whether from the local council, a social housing institution, a formal landlord, a private household landlord, or informally).
- 12% of households squat with informal tenure and in informal housing conditions.
- 90% of the population cannot afford housing of more than R190 000.
- 90% of the population earns less than R7 500 per month.
- 63% of the population is dependent on the state subsidy for meeting their housing circumstances.

Poverty has increased in South Africa despite efforts from government. Rust, (2006), indicates that 48,5% of the South African population (21,9 million) fall below the national poverty line.

The same report states that unemployment continues to be a significant problem. While important strides have been made in overcoming the past inequalities in the labour market, employment opportunities remain low, with unemployment currently assessed as being 26%.

2.1.3 South African Property Market: Future

The South African real estate market, like all other property markets globally will need to deal with the following factors: the cyclical nature of property, fluctuating interest rates, uncertain world economy, increasing oil prices, rising world inflation, unstable exchange rates, and limited access to finance (National Credit Act). However, "many factors driving the South African economy and property market are unique to the country and are expected to continue to have an impact in years to come" (Georgiev, Gupta & Kunkel, 2003). These include:

- Strong domestic demand for housing (rapidly growing middle class among previously disadvantaged communities)
- Continued foreign demand for South African property (local property is still relatively cheap compared with property in other countries)
- Increasing trend of South Africans living abroad buying residential property in South Africa (as an investment or for when they return to the country permanently at some future time)
- More stable conditions in the country compared with a couple of years back

According Statistics South Africa:

- Seasonally adjusted real value of building plans passed for residential buildings increased by 40,5% year-on-year in the third quarter of 2005.
- The total seasonally adjusted real value of new residential buildings completed in the third quarter of 2005 increased by 48,3% year-on-year.
- The number of buildings plans passed for houses of 80 m^2 and above increased by 11,3% year on-year in the first nine months of 2005, while those for flats and townhouses increased by 29,2% year-on-year during the same period.

This is still an indication that there is a greater emphasis on higher density residential developments, as seen by the scarcity of suitable rental property.

The rejuvenation of inner-city residential property has picked up momentum and already shows rapid growth in demand, new developments and prices. In the future people may want to live closer to their places of work and business. Once residential living takes off in the inner city it will attract retail shops.

However, “the ultimate success of these developments will also depend on actions to prevent crime and grime to the minimum in these areas and the future delivery of municipal services and infrastructure such as electricity, water, sewage and refuse removal” (Du Toit, 2005).

2.2 Johannesburg

2.2.1 Johannesburg: History

Johannesburg is the “most densely populated and most urbanized municipality. It is home to 3 225 810 people in 1 006 903 households and according to the 2001 census, it is now the largest metro in South Africa” (Honey, 2005; Pg: 18). After modest beginnings as a mining town, Johannesburg has become recognised as a major world city and the economic capital of both South and sub-Saharan Africa.

George Harrison discovered gold in 1886 and “Johannesburg metamorphosed from a low-rise mining town to a modern city with high-rise steel and concrete structures in a matter of decades” (Gaule, 2005; Pg: 2336). Gold appears to be the sole reason for the existence of Johannesburg today.

The history of Johannesburg will always be inextricably linked to politics: “At times, cities become direct objects for achieving the transformation of urban conditions or of wider political relations” (Robinson, 2006; Pg: 251). “The residential history of Johannesburg has never been free of racial considerations, with the very earliest allocations of land making provision for separate locations for Africans. More importantly, blacks were prevented by the Gold Law of 1885 from owning and residing on land that had been claimed for mining” (Olufemi, 1998; Pg: 16).

“Many different forces shaped the spatial organisation of the apartheid city in South Africa, but racial residential segregation has been regarded as the most significant factor” (Mccarthy, 1991, Pg: 258). Parnell (2003, Pg: 62) comments: “South Africa had perhaps the most racially repressive legislation anywhere in the world". Among the most significant legislation was the Group Areas Act which enforced strict racial residential segregation and, as Mccarthy (1991, Pg: 260) observes, created "an urban form that was more structured and quartered than anything that had preceded it in either colonial or early industrial capitalist times". Therefore "Johannesburg sought to control the racial pattern of settlement within cities by excluding Africans from the city altogether or restricting them to separate locations" (Parnell, 2003; Pg: 615).

However, the end of apartheid did not mean that Johannesburg would instantly become a desirable place in which to live and work. Rogerson (2004, Pg: 53) describes Johannesburg as having "high AIDS-related deaths, the prevalence of guns, violence and unemployment". It was this high crime rate that lead Johannesburg to be referred to as a "fearful city".

It is the view of Honey (2005; Pg: 18) that Johannesburg's economic wellbeing is vital to that of South Africa as a whole; "as the city accounts for 17% of the national economy, and roughly a quarter of all household income is earned within Johannesburg". Although initially Johannesburg was classified within the definitions of a hierarchy of world cities, after "subsequent re-examination and re-classification, however, Friedmann withdrew the world city classification. The net consequence was that no city in Africa qualified for the world city league-tables" (Rogerson, 2004; Pg: 22).

2.2.2 Johannesburg: Inner City

The Johannesburg inner city was at one stage the economic hub of Southern Africa. The inner city has suffered a long period of decline. Starting in the late 1960s, decentralisation occurred due to a number of factors such as high land values and rentals in the CBD, congestion, lack of parking, and a restructuring in the office market that saw demand for office parks grow, and the subsequent development of suburban shopping malls. The decline led to other problems such as crime and grime, unregulated street trading, and inadequate facilities for taxis. This then led to an urban decaying of the inner city, which saw vacant buildings, badly maintained buildings, squatting, illegal conversions and overcrowding and poorly serviced, maintained and managed public areas.

A number of stakeholders in government, the private sector and community organisations started regeneration projects in the inner city and are beginning to turn the inner city around.

The inner city has 217 000 residents in 37 000 dwelling units. Some 800 000 commuters enter the city every day, 300 000 to 400 000 migrant shoppers visit the city each year. The city has seven million m^2 of floor space and three million m^2 of office space. Office buildings represent a R19 billion investment, and housing a R1.2 billion capital investment (The Johannesburg News Agency, 2003).

“Johannesburg is growing economically at 4,9% per year, and employment is rising, its population growth has outstripped job creation, adding 500 000 people to the jobless ranks over the past several years” (Honey, 2005; Pg: 18).

Whilst a large proportion of Johannesburg’s population is poor, the city also has a substantial middle- and upper-middle class. “As the location for nearly three quarters of national corporate headquarter offices in South Africa, Johannesburg has become firmly established as the decision-making and financial control capital of South and Southern Africa” (Rogerson, 2004; Pg: 15).

2.2.3 Johannesburg: Inner City Decline

> The Slum is as old as civilization. Civilization implies a race to get ahead. In a race there are usually some who, for one cause or another cannot keep up, or are thrust out from among their fellows. They fall behind, and when they have been left far in the rear they lose hope and ambition, and give up. Thenceforward, if left to their own resources, they are the victims, not the masters, of their environment; and it is a bad master. They drag one another always farther down. The bad environment becomes the heredity of the next

> generation. Then, given the crowd, you have the slum ready-made.
> (Riis, 1998; Pg: 1)

Between 1982 and 1994, 17 of the 65 top 100 national public companies located in Johannesburg moved from the Central Business District (CBD) to decentralised locations Similarly, of a total of 104 top national business enterprises located in Johannesburg, in 1994, only 27% were located in the CBD. Of the top 10 retail companies in the country having their head offices in Johannesburg, only two remain in the CBD. People used a large number of excuses to get out of the inner city, including: infrastructure requirements, convenience factors, corporate restructuring and prestige factors (Tomlinson, Hunter, Jonker, Rogerson & Rogerson, 1995).

The quotes cited below demonstrate the extent and consequences of the exodus from the inner city.

> From 1995, closures and departures by major owners and tenants of once-prestigious offices gathered pace. IBM headquarters was vacant, Carlton Centre Office Tower was struggling to let space; Old Mutual and Anglo American Properties had vacated their premises and the Carlton Hotel, once one of the most high-status hotels in the centre, closed its doors and erected a palisade fence around its perimeter, preventing invasion by vagrants.
> (Gaule, 2005; Pg 2347)

> A consequence of this mass exodus to the north led to the 'mothballing' of many of the buildings in the city centre. Unable to let them, and faced with the costs of maintaining and guarding them against crime, property owners simply bricked up the doors and windows at the lower levels to prevent vagrants from entering inside.
> (Beavon, 1998; Pg: 19)

> The cycle of physical decline was accelerated by the refusal of the financial institutions to make credit available to landlords and owner-

occupiers (Crankshaw, 2000; Pg: 13).

> In South Africa's most populous city, basic municipal services seem at times and in parts to be increasingly shambolic: power breaks down regularly, water pipes are constantly bursting, broken streetlights remain unrepaired, garbage collection is erratic, billing is often late or error-ridden and the reporting lines are maddeningly inefficient. (Honey, 2005; Pg: 18)

There are numerous problems as stated by Legget (2003): "High levels of crime, particularly in regard to street crimes, theft from motor vehicles, and breaking and entry, all types of crime, including serious violent crime, remain exceptionally high."

2.2.4 Johannesburg: Inner City Renewal

The government with the support of the private sector needed a plan to rebuild the Johannesburg inner city local economy and it therefore developed an agenda for public-private partnerships that would be geared towards the reconstruction of the inner city, thereby pulling Johannesburg up "by its bootstraps".

> Bringing back people into the inner city involves decreasing all the negative cues. An area that is messy, dirty and unsafe provides a poor experience. But as soon as a place is kept clean and security is improved we are on the right track to providing a great city experience with all the positive cues.
> (Dlamini, 2007)

Urban renewal, redevelopment, revitalisation, reinvestment or regeneration in its widest sense incorporates physical development, economic renewal, social inclusion, the building and maintaining of communities, and environmental consideration. It brings up visions of block by block and house by house upgrades, all leading to a better and safer inner city.

According to Adair et al (2003), “Achieving successful sustained regeneration is complex, representing much more than property-led renewal”. However in “The Competitive Advantage of the Inner City,” Porter (1990), argues that we must stop trying to solve the problems of the inner city by increasing social spend; rather he stresses the importance of the business model for rebuilding the inner city.

When thinking about renewal one needs to consider “businesses and opportunities, housing, services, facilities, transportation and how all these factors interplay to create the environment in which the renewal will occur and that this renewal will be of benefit to all who live in the affected area” (Lowery, 1996; Pg: 64).

“Almost every major city in the world has seen some sort of inner city rejuvenation. For most urban renewal is an investment.” (Adair, Berry & McGreal, 2003; Pg: 28).

According to Lowery (1996; Pg: 49), “No generally agreed-upon definition exists for urban revitalization. But at its broadest level, urban reutilization surely means the bringing back to life, or ‘vitality’, into areas of the city or metropolis that have lost such life.” In addition, the European Commission States, “Urban regeneration can involve the rehabilitation of existing structures, redevelopment of buildings and sites or simply the reuse of urban land”

According to Adair et al (2003; pg: 1076), “methodological approaches should fully appraise the viability and outcomes from regeneration projects including indicators such as job creation and enhancement of the quality of life”.

The Johannesburg city annual report states that “the overall goal of the Inner City Regeneration Strategy is to raise and sustain private investment in the inner city, leading to a rise in property values”. The Strategy rests on five pillars: intensive urban management (high-quality services, strict enforcement of by-laws, managing taxis and informal trading); upgrading and maintenance of infrastructure in the inner city; provision of support to different economic sectors; addressing of “sinkholes”; and finally encouraging of “ripple-effect” investments. (The Johannesburg News Agency, 2003)

The overall goals of the above strategy are to promote and use investment opportunities in the inner city to: increase business opportunities for emerging small to medium enterprises; increase employment; and enhance household incomes throughout the metropolitan region.

Johannesburg’s inner city problems are not unique; The “Slum Storm Movement” in Denmark had a basic outcome which was “the people should not become unwilling victims of urban renewal” (Hansen & Andersen, 1998; Pg: 95). And that “urban renewal shall be planned at the decentralized levels, and responsibility for concrete action shall be unambiguous and rest with the local authority”.

In the Netherlands, the Urban Renewal Memorandum sketches the profile of an urban district that runs a relatively high risk of problems as having “a concentration of low-income groups, high residential mobility rates, high crime rates and strong feelings of insecurity among the residents” (Priemus, 2004; Pg: 233). The social rental sector is usually dominant in the above urban districts and social housing is now considered part of the problem, rather than part of the solution.

The Dutch national experience has been that “central urban regeneration programmes do not work well in complex urban renewal; there has had to be a learning process—a process of interaction” (Needham & Faludi, 1999; Pg: 481).

Italy does not have an explicit urban renewal policy; authorities have through trial and error over time developed of a set of tools that focus on physical renewal; however, they are often perceived by the inhabitants as “living places where we are forced to live” (Jacquier, 2002; Pg: 38).

Denmark’s approach to the improvement of substandard housing and urban areas can be divided in three phases: “removal of unhealthy dwellings and sanitation of urban areas; upgrade obsolete housing units; creation of well-functioning urban areas” (Vagnby & Jensen, 2002; Pg: 11)

Michael Porter, a well-renowned Harvard professor, sees private industry as the key to urban rebirth. He says: “Jobs, investment and businesses in our inner cities will materialize only as they have elsewhere – as a result of private, for-profit initiatives and investment based on economic self-interest and true competitive advantage” (Janoff, 1999; Pg: 22).

According to Turner & Townsend (2005; Pg: 1), “crime rates are down, occupancy rates are up, investment is increasing as confidence improves and cleanliness has returned.”

2.2.4.1 Inner City Renewal: Initiatives

Informal trade management

With the promulgation of the *Businesses Act* of 1991, which removed all legislation pertaining to the licensing, control and management of street trading, street trading increased rapidly, creating significant problems for, in particular, the inner city of Johannesburg. However, even though this was reversed in 1998, “ineffective enforcement of the restriction of street trading in Yeoville is undermining the potential success of the market and most importantly the ability of traders in the market to grow their businesses” (Leggett, 2003; Pg: 32).

The markets programme introduced in 1999 seeks to grow the economic activity of informal trading by providing proper facilities for micro businesses in markets.

Taxi management and public transport

“Taxis are the most commonly used form of transport (40%), followed by private cars (27%), buses (24%) and rail transport (9%)" (Turner & Townsend, 2005; Pg: 1).

> Problems arising from the informal taxi industry are considered the biggest problem facing South Africa's inner cities. Nowhere is this more evident than in the Johannesburg inner city where informal ranks have caused roads to become impassable, made proper sanitation impossible, increased crime and contributed to a rapid deterioration of the surrounding area.
> (Leggett, 2003; Pg: 39).

To address this problem, five taxi ranks are in the process of being developed in the inner city and will "assist the commuter by providing shortened journey times, proper facilities and a safe, secure and well-managed environment" (Leggett, 2003; Pg: 40).

Service delivery

"The City of Johannesburg has fully recovered from the financial crisis it faced in the late 1990s and has successfully reinvented itself as a viable, service driven organization." This is the assessment of Pascal Moloi, city manager of Johannesburg, who describes the city today as a leaner and meaner organisation that is "more responsive to the needs of ratepayers" (Thale, 2003).

Getting the basics right is the key to promoting investor confidence and economic growth in the inner city. It is also essential in providing a desirable quality of life for inner city residents and workers. It requires efficient service delivery, enforcement of municipal by-laws and effective security in the inner city.

> City Power, for instance, has to replace 20 of the city's 250-odd high capacity transformers, at a cost of R5m each. It has already ordered five. Meanwhile, the company is taking delivery of 15 new mini-

> substations each week to replace scores of worn out units. Cable theft, too, remains a serious problem.
> (Honey, 2005; Pg: 18).

While perceptions of the state of cleanliness have improved over the past year in terms of the findings of a recent perception survey, cleaning remains an enormous problem in much of the inner city. According to Leggett (2003), this will be addressed through:

- Increased and more effective services delivery by Pikitup
- Increased by-law enforcement against illegal dumping
- Education programmes to address littering and dumping problems

> Services will almost certainly become more stable, though incrementally so, with fewer power cuts, water bursts and traffic light failures, over the next five years. This is because the city has embarked on a capital investment plan to replace aged infrastructure – electricity substations, water networks, traffic light systems and the like – as it scrambles to spruce up ahead of the 2010 World Cup and beyond, towards the stated goal of transforming Johannesburg into a "world-class, African city" by 2030.
> (Honey, 2005; Pg: 4)

Informal health

A survey of health issues revealed that:

> [t]he region has been successful in ensuring that health concerns are a standard item on ward committee agendas, affording them the prominence that they deserve. The food services database indicates that 75% of food premises in the region were certified. Tuberculosis still represents a threat in many of the poorer communities. The region's rate of curing tuberculosis has increased to 56%, and the

> region has also been successful in dedicating great effort to the treatment of HIV/AIDS. Positive results have been achieved in the areas of sexually transmitted infections (STI) management, as well as promoting the use of condoms and voluntary HIV/AIDS counselling and testing.
> (Rogerson, 2004; Pg: 29).

Marketing

The biggest challenge is to change perceptions of the inner city. For this reason marketing and communications are essential. The success of a marketing and communications strategy will impact the success of the regeneration of the inner city.

"The aim of the marketing and communications programme will be to create an identity for the inner city as a safe, African city centre where arts, culture and entertainment meet thriving trade, business and industry" (Boraine, Crankshaw, Engelbrecht, Gotz, Mbanga, Narsoo & Parnell, 2006; Pg: 259). Image construction, "is crucial for city marketing because a good image attracts investors and domestic and foreign visitors". This "image building programme typically involves the development of a logo, slogan and promotional identity and is leveraged by a direct marketing campaign, highly publicised cultural and sporting events, and the provision of free consultancy services for potential investors". "The aim normally is to develop an image of the locality as a quality destination for both leisure and business activities" (Bennett & Koudelova, 2001; Pg: 86).

In current marketing, 'Joburg' is promoted energetically as "the world class African city", a city that is boasted to be "in the heart and minds of most South Africans" (Rogerson, 2004; Pg: 19).

Interest in the marketing of city places has grown considerably in recent years because of "severe intensification of competition for new business investment in urban areas throughout the world, greater sophistication on the part of corporate ‘purchasers’ of city locations, pressures from local taxpayers for city authorities to attract ‘big name’ companies” (Bennett & Koudelova, 2001; Pg: 11).

Tourism

It is part of the inner city regeneration strategy to encourage and support the growth of the creative industries and cultural tourism in the inner city.

> Cultural industries and tourism play a key part in urban revitalization strategies. Cultural tourism includes ‘aspects which are of interest to the visitor and can be marketed as such, including the customs of the people, their heritage, history and way of life’. (Boraine et al, 2006; Pg: 62)

Some of the more recent attractions include the development of Newtown as an Arts and Cultural hotspot, the Fashion District in which many designers are based, the Apartheid Museum, and the Constitutional Court Precinct.

Attracting investment

A number of key activities have been pursued to secure investment in the inner city, including: business retention and recruitment through the marketing of the inner city to potential investors, the development of appropriate incentives for classes of investment and the securing of development finance.

2.2.4.2 Inner City Renewal: Partner Organisations

A close working relationship in urban renewal exists with the Inner City Business Coalition, the Central Johannesburg Partnership (responsible for the establishment and management of improvement districts and the secretariat for the Inner City Business Coalition) and the Business Against Crime Surveillance Unit (responsible for CCTV). Strong working relations also exist with the Johannesburg Inner City Community Forum and the Association of

Social Housing Organisations (ASHO). In order to deal with numerous by-law contraventions the region set up an inner city task force. This task force operates in partnership with both internal and external stakeholders to include the South African Police Service, South African Defence Force, Emergency Management Services and the Johannesburg Metropolitan Police to clean up the city.

There have been many successful operations to date; however there are "future challenges, including the frequent breaking of water mains, vandalism to properties, robberies and muggings and illegal beer sales that still require attention" (Rogerson, 2004; Pg: 139).

Metropolitan Police Services

This centrally distributed function plays a key role in the inner city in pursuit of the key objective of crime reduction and by-law enforcement, especially in regard to street trading, illegal dumping, traffic violations and taxi management.

Johannesburg Development Agency (JDA)

The Johannesburg Development Agency (JDA) is charged with "implementing the City Council's development projects, with an initial focus on the inner city. It has set up an Inner City Task Force to coordinate and drive Council's services management and by-law enforcement, and manage capital investments and other programmes involving both public and private sector stakeholders". (Turner & Townsend, 2005; Pg: 48).

Better Buildings Programme (BBP)

The Better Buildings Programme is intended to stabilise inner city housing conditions by attracting the private sector to invest in inner city buildings that are dilapidated and have rates and service charge arrears. "The objectives of this programme are to ensure the orderly and long-term sustainability of Inner City buildings and precinct regeneration processes" (Turner & Townsend, 2005; Pg: 2).

The BBP has identified many “bad” buildings in the inner city and surrounds. Such buildings are characterised by:

- Owners owing large amounts of arrears
- Owners who have abandoned the buildings
- Derelict, overcrowded buildings in deplorable state
- Invasion of buildings by illegal squatters
- Use of buildings for criminal activities

The BBP adopts a process that begins with identifying and prioritising buildings for the programme. The BBP then obtains official agreement from the various revenue collection offices in the City of Johannesburg to write off old debts once an agreement has been reached with a new investor. This write off of debts is vital as a rates clearance certificate can then be issued, which facilitates the transfer of a property (Turner & Townsend, 2005; Pg: 2).

Central Johannesburg Partnership (CJP)

The Central Johannesburg Partnership (CJP) is an independent section 21 company dedicated to the revitalisation of Johannesburg’s inner city. The CJP works closely with the City of Johannesburg, local businesses and residents.

The CJP manages 11 legislated central improvement districts, six voluntary improvement districts and three special projects around the city but its main focus is the inner city.

City Improvement Districts (CIDs)

City improvement districts (CIDs) offer localised solutions to upgrading and managing areas through equitable and sustainable funding streams. Within the

CID, the majority of property owners determine and agree to fund supplementary and complementary services to those normally provided by the municipality in order to maintain and manage the public environment.

“It is the view of Anne Steffny, a director at the Central Johannesburg Partnership (CJP), that CID’s will only be successful if property owners and local government forge a closer working relationship to deal with ills like crime and grime, and so reverse urban decay” (Dlamini, 2007).

Area-based Renewal Initiatives

The Johannesburg Development Agency (JDA) is currently administrating several projects aimed at upgrading and stimulating investment in specific areas in the inner city of Johannesburg. Some of these projects include the Constitution Hill project, the Newtown Cultural Precinct, upgrading Main Street, reconstruction and renovation of the Drill Hall site and the development of the Fashion District. They also include some specific regeneration and upgrading projects in Jeppestown and Braamfontein areas.

Area-Based Initiatives (ABIs)

This is an initiative that is put in place by government or the local authorities to elicit a certain behaviour; in the case of Johannesburg Inner City an ABI called the UDZ (Urban Development Zone) was put in place to help promote the renewal of the inner city by offering tax incentives for individuals and companies that spend money to fix or upgrade property within the UDZ.

“During the past 25 years, there has been an extensive use of ABI’s to regenerate run-down areas in many countries. However, despite their increased popularity, evidence on their success in helping to turn around depressed areas remains elusive.” (Rhodes, J., Tyler, P. & Brennan, A. 2005; Pg: 1919)

Urban Development Zone (UDZ)

The introduction of the Urban Development Zone, announced by the Minister of Finance in 2004, offers tax incentives to encourage inner city regeneration. It takes the form of an accelerated depreciation allowance of investment, which allows inner city property owners to deduct the cost of refurbishments of existing property over five years (at 20% per annum) or over 17 years in the case of construction of a new building (an initial 20% in the first year and an annual 5% for the next 16 years).

Any commercial, industrial or residential building is eligible for the UDZ tax incentive.

"The UDZ is a catalyst to ensuring the inner city, worth R30 billion at current levels, realises its full economic value and in so doing lay the foundation for achieving the City Councils 'Joburg 2030 Vision'" (Turner & Townsend, 2005; Pg: 13).

Business Improvement Districts (BIDs)

Business Improvement Districts (BIDs) occur where "a geographically defined majority of property owners and/or merchants agrees to provide an extra level of public service in a specific area by imposing an added tax or fee on all of the properties and/or businesses in the area" (Mitchell, 1999; Pg: 6).

"The origin of BIDs in conceptual terms may be traced to a perception in the 1990s of the need to ensure that government became less involved in providing services and more involved in overseeing the provision of services" (Osborne & Gaebler, 1995; Pg: 15).

> BIDs originated in part because of the disparities in terms of levels of service between cities and suburbs, for instance in terms of retail uses. As users increasingly expressed a preference for the cleaner, safer environment of suburban malls, so cities began to recognize

> that action needed to be taken to upgrade their levels of service and environmental quality if they were to compete with the suburbs. (Lloyd, Mccarthy, Mcgreal & Berry, 2003; Pg: 300)

BIDs are essentially self-funded from levies imposed on property and business owners within a District's boundaries, they are managed by private sector interests to include those property owners, developers, retailers and other businesses, but with city governmental support.

BIDs may be considered bad because they may be seen as a threat to local accountability as well as strategic planning institutions, which presently seek to benefit all groups in society, not merely business interests.

However, as Lloyd et al (2003; Pg: 8) state: “The experience of BIDs in the USA has shown the potential for the fortunes of Down Town area suffering from entrenched decline to be reversed. This has also been the experience within the UK.”

Urban Regeneration Companies (URCs)

“Regeneration”, as defined by (Bennett & Koudelova, 2001; Pg: 17) is “comprehensive and integrated vision and action which leads to the resolution of urban problems and which seeks to bring about a lasting improvement in the economic, physical, social and environmental condition of an area that has been subject to change”.

A number of these URCs have been set up to promote and deliver regeneration within city centres.

It can be seen that URCs can increase the pace of regeneration by making local partnerships responsible for delivering area programmes which entitle them to raise private finance, undertake direct development and oversee work to completion.

2.3 Residential Property

To some, residential property is more than just the house you live in; it is an investment, maybe the single largest financial decision you will make. Purchasers need to take into consideration numerous factors such as location, price, financing, stage in the property cycle, property growth, interest rates, and whether to rent or buy.

In this study, these factors influencing residential property have been explored and categorised to include: (i) High Level Factors affecting property on a national scale such as economic, fiscal, legal and political factors; (ii) Low Level Factors including the actual property, physical attributes and area, supply and demand; and (iii) Individual Owner Factors such as the investor's needs, knowledge, requirements, ability to manage the property and tenants, and access to capital.

Every property is unique, and there are many different ways of valuing a property and many theories around the subject; however, essentially, for a residential property to change hands one requires a seller and a willing and able buyer, assisted by numerous service providers which enable the process.

2.3.1 Residential Property: Nature and Structure

This study concentrates on both freehold residential properties, houses and sectional title properties, which can be classified as flats, semi-detached houses, duet houses, or blocks.

Brueggeman & Fisher (2001) classify residential property as:

- Single family:
  - Detached
  - Cluster development
- Multifamily:
  - High rise
  - Low rise

- Garden apartment

It is the nature and structure of property that numerous parties are involved in a property transaction: the buyer, seller, estate agent, bank, transferring attorney, registration/bond attorney and a cancellations attorney. Thus, property attracts various costs to include, but not limited to, transfer costs, maintenance costs, insurance costs, financing costs, cost of renovation, costs of selling, advertising costs, electrical compliance certificate costs, capital gains tax (CGT) and/or income tax, bond cancellation fees, rates clearance certificate, and estate agent's commission.

According to Oakley (2007), property may be freehold or leasehold, owner occupied or rented, publicly or privately owned. Restrictions on property include common law and statuary law, guide/general plans, structure/development plans, and restriction in the title deed.

Ownership structures include: private individual, sole trader, closed corporation, company, partnership, family or trading trust, or syndicate. Each structure has its own advantages and disadvantages.

Essentially, residential property operates in a free and open market influenced by a number of factors which determine the fair selling price. The market conditions determine whether it is a "buyer's", "seller's" or "steady" market

2.3.2 Residential Property: Investment

In the past few years property has received a massive amount of coverage in the press, in magazines, on the internet and via those involved with the residential property market. It is interesting to note that Standard Bank has launched a monthly "Residential Property Gauge" and ABSA has its monthly "Property Trends" research published.

There is a difference between investment and speculation in property. Investment is the "investing of money or capital in order to gain profitable returns, as interest, income, or appreciation in value", whereas speculation is the "engagement in risky business transactions on the chance of quick or considerable profit". (http://dictionary.reference.com/browse/, 2005)

The basic theory for property investment is supply and demand. Real estate investment is basically just common sense, i.e. "an investment property should be attractive to tenants and it should be located in an area where there is a history of growth in property values. The property should be well priced at the time of purchase and it should not be expensive to maintain" Oakley (2007; Pg: 17).

Residential property investments include flats, houses and town houses; a person can invest as an individual in his private capacity or through a structure such as a closed corporation, company or trust or as part of a syndicate. Where direct real estate investment involves the acquisition and management of actual properties, indirect real estate investment involves buying shares of real estate investment companies.

According to Brueggeman & Fisher (2001), the motivation for investing in income properties is:

- Rate of return
- Price appreciation
- Diversification
- Tax benefits

It is widely acknowledged that residential real estate investment is an inflation hedge. Capital growth is just one of the many benefits that people have used property to attain on the route to wealth.

One needs to analyse an investor's investment property to make sure that the return or yield from their property stands up against the return they might have achieved had they invested in other investments such as shares in the stock market or money market in the bank. According to Brueggeman & Fisher (2001; Pg: 299), investment analysis in real estate refers to “analyzing a particular property to evaluate its investment potential”. In analysing a property one needs to ask a number of questions, such as: Should the property be purchased? In order to answer these questions several common measures should be considered:

- Price per square foot: asking price divided by the gross property area

- Capitalisation rate: ratio of first-year net operating income (NOI) to the asking price

- Equity dividend rate (divides the equity dividend in the first year by the initial equity investment)

- Debt coverage ratios: the ratio of NOI to the mortgage payment

(Brueggeman & Fisher, 2001; Pg: 299-301)

In order to measure investment performance of the real estate investment the following methods are used:

- Net present value (NPV): calculate the present value (PV) of all estimated future cash flows. Then subtract the initial cash outlay invested to acquire the investment from this present value to obtain the NPV.

- Internal rate of return (IRR): this is achieved by finding the discount rate that equates the PV of the future cash inflows with the initial cash outflow.

(Brueggeman & Fisher, 2001: 303-305)

> Property is one of the few investment opportunities that do not require money to make money. Macalister (1997; Pg: 48) suggests: "The big selling points of real estate are the ability to reduce tax, create personal wealth and possibly buy property at no cost". According to Daly, Gronow, Jenkins & Plimmer (2003; Pg: 5):
>
> People usually start by buying their own homes then purchase another property as an investment. Property can be less volatile than shares though not always and it tends to be regarded as a safe haven when other assets are declining in value. It has the potential to generate capital growth (increase in the value of your asset) as well as rental income. There are also tax advantages.

Daly et al (2003) state that "housing has historically been a good investment, however one should be wary of its cyclical nature".

Due diligence is used in the real estate investment community to describe the investigation that an investor should undertake when considering the acquisition of a property (Brueggeman & Fisher, 2001; Pg: 309).

> Property prices do however go down, as well as up, it is susceptible to changing markets and economic cycles, sometimes tenants are hard to find especially good ones who pay on time and take care of your investment. It is important to be aware of interest rates as they impact the market. (ABSA, 2005)

Property is not the only investment one can make, as referred to by Shilling (2003; Pg: 59): "other investments mostly institutional investors (e.g., pension plans, foundations, endowments, life insurance companies, investment banks and REITs)" do exist.

One does not need to purchase a property to be a property investor. One can be invested in property via other more liquid investments, such as shares of Real Estate Investment Trusts (REIT). Reiss & Peele (1988; Pg: 16) suggest that investment in REIT shares has some significant advantages over direct ownership; “Direct ownership of real estate typically requires a major commitment of both time and capital”. A REIT, by contrast, differs because “[a]s a security, it is publicly traded, thereby providing needed liquidity. Most of the income must be paid out to shareholders annually. REIT share prices have a tendency to be less volatile than other equity stocks, due in large part to being based on the value of the underlying real estate assets”.

Armonat (2004; Pg: 132) paints a rather different picture of property as an investment: “Decentralised market structures, difficult market entry and high transaction costs, illiquid markets and long-term execution of transactions, and a low level of public information characterise the imperfections of real estate markets.”

Macalister (1997; Pg: 48) states that “real estate is not directly traded on a centralized exchange like the stock market, the physical real estate market is characterized by a relative lack of liquidity, large purchase size, and high transaction costs for properties that are at a fixed location”. He then goes on conclude, “The real estate marketplace is low in transparency and has infrequent transactions, therefore an appraisal-based system is used to value it”.

Paul Duncan, Personal Finance Financial Planner, says “the South African Listed Property index reflected an annual return of about 23% between June 2003 and June 2008; however, growth started to slow down last year and prices now seem to be flat”. “P Duncan, personal communication,” 16 July 2008.

2.3.3 Residential Property: Valuation

According to Firstenberg, Ross & Zisler (1988; Pg: 22), “Most real estate assets trade infrequently, however, and valuation is more problematic.” In trying to understand value a number of things must be taken into consideration;

namely, market value and appraised value as well as a number of different valuation methods such as sales comparison, income capitalisation and cost approach. Definitions of these concepts are provided below.

- Market Value “is the price people looking at your home are willing to pay for it” (Everything Real Estate, 2008).

- Appraised Value “is basically what the bank thinks your home is worth” (Everything Real Estate, 2008).

- Sales Comparison or Market Approach relates “to value based on data provided from recent sales of properties highly comparable to the property being appraised” (Brueggeman & Fisher, 2001; Pg: 226).

- Income Capitalisation Approach “is based on the principal that the value of a property is related to its ability to produce cash flow” (Brueggeman & Fisher, 2001; Pg: 228).

- Cost Approach “involves determining the construction costs of building a given improvement, then adding the market value of the land” (Brueggeman & Fisher, 2001; Pg: 244).

However Hine (1982; Pg: 51) states that “Value is determined by demand and supply conditions”. This fits well with the idea that for a property transaction to occur there needs to be a willing and able buyer and a seller.

2.3.4 Residential Property: Risks

It is the opinion of Daly et al (2003; Pg: 26) that “Real estate isn’t a riskless investment, as some people believe. It is in fact cyclical and very volatile, the housing market can jump from bust to boom (and back again) very quickly. Booms tend to be short and sharp, while busts tend to be more mild but longer lasting.”

Hamelink & Hoesli (2004) when assessing the risk of real estate portfolios use the Model Modern Portfolio Theory (MPT), which provides the theoretical tools to estimate an asset's, and hence a portfolio's, risk. On the one hand, there are systematic sources of risk (i.e. sources of risk that influence a large number of assets), and, on the other, there is the stock's specific risk. Systematic risk originates from the behaviour of the common factor(s) influencing the returns.

There are many types of risks, according to Brueggeman & Fisher (2001), which need to be covered in the due diligence before a decision is made. Most of these risks are covered in the factors influencing residential property section, which follows this section.

- Environmental risk: the value of real estate is often affected by changes in its environment or sudden awareness that the existing environment is potentially hazardous (Brueggeman & Fisher, 2001; Pg: 309).

- Business risk: this is risk of loss due to fluctuations in economic activity that affect the variability of income produced by the property (Brueggeman & Fisher, 2001, Pg: 307).

- Financial risk: this risk increases as the amount of debt on a real estate investment is increased. The degree of financial risk also depends on the cost and structure of the debt (Brueggeman & Fisher, 2001; Pg: 307).

- Liquidity risk: this occurs when a continuous market with many buyers and sellers and frequent transactions is not available (Brueggeman & Fisher, 2001; Pg: 308).

2.4 Factors Influencing Residential Property Value

There are many factors influencing the value of residential property. By dividing them into three separate categories their influences can be better understood:

(i) High Level Factors affect all property; they seem to be country wide and outside the control of the owner/investor; they include political and macroeconomic variables such as the property cycle and business cycle and the state of the economy.
(ii) Low Level Factors are those factors that are specific to the property, i.e. location, nature and condition of the property, and local trends.
(iii) Individual Owner Factors are factors such as the owner's requirements or needs, capital appreciation, rental yields, access to capital, risk diversification, and tax implications (capital gains tax; personal income tax; estate duty; transfer duty). Costs (transfer costs; rates and taxes; maintenance; letting costs) are also dealt with under this category.

2.4.1 Factors Influencing Residential Property Value: High Level

The High Level or external factors that are outside the control of the individual/owner and tend to affect all property nationally include the factors outlined in the sub-sections below.

2.4.1.1 High Level: Government/Political

It is government and the political party in power that dictate the fiscal policy and objects, and how government spends its vast budget, whether it is focused on social housing, service delivery, education, health care or defence, has a major influence on both residential property value as well as the levels of disposable income and access to capital of an individual investor.

2.4.1.1.1 High Level: Government/Political: Fiscal policy

'Fiscal policy' refers to the overall effect of the budget outcome on economic activity; it is used by government to achieve its economic objectives of price stability, full employment and economic growth. The three possible stances of fiscal policy are neutral, expansionary and contractionary.

"The objective of fiscal policy is to promote economic and social development through an appropriate balance between government expenditure, taxation and borrowing that is consistent with sustainable growth" (http://www.finance.gov.za, 2005).

According to ABSA (2005), government in line with its fiscal policy has recently introduced the following to aid in achieving its goals:

- Personal tax relief to the amount of almost R58 billion between 2000/01 and 2005/06
- Annual reductions in transfer duties on property since 2002/03
- The abolition of stamp duty on mortgages as from 1 March 2004
- Capital gains tax exemption on a primary residence of R1,5 million

2.4.1.1.2 High Level: Government/Political: Government Spend

Executive director of Pam Golding Properties, Ronald Ennik, says: "For instance, tax collections by SARS have never been higher, so much so that current and planned expenditure by government on infrastructure – including power generation, road and rail networks, airports, housing, water storage, and 2010 Fifa World Cup-related projects – is unprecedented at R600-billion-plus". "R Ennik, personal communication," 14 July 2008. This massive government spend will have a knock on effect on the economy and will influence residential property prices.

2.4.1.1.3 High Level: Government/Political: Border Control

> This is the century of African growth and development! With the 2010 Soccer Tournament just 3 years away, it is hoped that better and more effective border and port of entry control can be achieved. But unfortunately the movement of cargo and persons, illegal crosses,

> the smuggling of Arms, vehicles and drugs, contraband and round tripping seems to be the order of the day.
> (South Africa Border Control, 2008)

Border control is coordinated through the Border Control Operational Coordinating Committee (BCOCC) to include co-operation between National, Provincial and Local Government departments and state agencies in the various provinces. The objective of border control is the management of the South African border. (South Africa Border Control, 2008) However, the BCOCC is also guided by strategic national objectives to facilitate trade, and promote tourism as important economic drivers in the region. This may be the reason why Zimbabwe to the north of South Africa, with its economy in ruins, highest inflation in the world, a massive brain drain, questionable property rights, and a leadership in turmoil, has caused a mass exodus of poor "refugees" across the border into South Africa. The BCOCC allows this and most of these people end up in the inner city of Johannesburg. The unofficial figures are that there are about one million "illegal" Zimbabweans in Johannesburg, resulting in increased competition for limited housing.

2.4.1.1.4 High Level: Government/Political: Other

There are many factors affecting the Johannesburg inner city residential property market, some of them unique to South Africa:

- Black empowerment/Black property ownership (according to Kura Chihota (2008), executive director of Leapfrog Property Group, 47% of first time buyers are black and 36% of all property registered at the Deeds Office in South Africa is to black people – an increase of 63.4% in the past 10 years).
- Government amnesty to bring capital back to SA
- Fifa World Cup Soccer 2010
- Foreign ownership
- Xenophobia
- Institutional Subsidy Scheme (rental or instalment sale housing)

2.4.1.2 High Level: Economic

There are several factors that have impacted the South African residential property market negatively recently.

- Increase in prime lending rate from 10.5% in June 2006 to 15.5% currently has reduced people's spending power.

- The National Credit Act, effected in June 2007, has placed a greater responsibility on lenders to check whether people can afford credit before it is lent to them. According to Ooba (2008), this has led to about one-third of home loan applications being declined.

- Higher CPIX inflation, which reached 13.4% in July 2008, has reduced people's disposable income.

- Electricity tariff increase of 27,5% this year, as well as an increase in petrol prices, has reduced people's disposable income.

- Policy changes at the African National Congress's national conference in Polokwane in 2007 have created political uncertainty.

- Eskom's load-shedding and subsequent power generation problems in 2008 has cause a negative effect not only on consumers confidence but also impacted negatively on their businesses due to lack of electricity supply.

- On our border, Zimbabwe's disputed elections and the subsequent abuse of power by ruling party Zanu-PF has resulted in a lack of confidence in that country and has thrown a bad light on Southern Africa.

Other negative factors have been: currency fluctuations, fewer building plans passed, and petrol prices up by as much as 50%. Oil rocketed from $80 to $150 per barrel recently; there has been an increase in bad debts and household debts are on the rise.

According to some, interest rates have peaked at 15,5% and owing to the improved outlook on the oil price and inflation front, we may see further decreases in the interest rate in and a general upturn in the economy.

2.4.1.2.1 High Level: Economic: Market Conditions

The market conditions within which the property finds itself influence the value of that property. According to Light (2000), “A ‘Sellers Market’ is when there are lots of buyers and fewer houses on the market and the seller achieves his asking price in a short period of time.” During a “hot” or “seller’s market”, properties can sell within a few days of being listed and there are often multiple offers. Sometimes homes even sell above the asking price. This usually occurs during an economic upturn and is usually aided by falling or low interest rates.

“A ‘Buyers Market’ is one which has an over supply of properties, property spends a long time on the market and the buyer offers a price that is on the lower side of the seller’s asking price” (Light, 2000). A “slow” or “buyer’s market” usually occurs during an economic downturn, may see properties sitting on the market for some time with offers few and far between, and prices may even decline temporarily. This is usually made worse by rising interest rates.

More often than not, the market is simply "steady," or in transition. “When a market is steady, no real rules apply on whether you should make an offer on the high end of your range or the low end” (Light, 2000).

2.4.1.2.2 High Level: Economic: Interest Rates and Inflation

“As most house purchases are financed by mortgage bonds this appears to be one of the major factors affecting both housing demand and construction activity as it impinges on both construction loan costs and the mortgage cost, in terms of monthly repayments, sustained by the buyer" (Dewar, 1995). According to Davidson (1973), "most people are more concerned with how much their monthly payments will be than with how much the house will cost".

A significant rise in interest rates (500 basis points or 5% since June 2006) has increased bond repayments, which has led to a large number of houses being put on the market, in this way causing prices to fall. High interest rates also affect general business confidence, which may lead businesses to focus on reducing expenses and therefore to cut jobs. Those who cannot service their mortgages will be forced to sell. There is some indication in the market that interest rates have peaked at their current rate of 15,5% and should stabilize before heading downwards in the first quarter of 2009.

The interest rate and inflation pose a real threat to residential property investors:

- Inflation risk: inflation can reduce an investor's rate of return if the income from the investment does not increase sufficiently to offset the impact of inflation, thereby reducing the real value of the investment (Brueggeman & Fisher, 2001: 308).
- Interest rate risk: real estate tends to be highly levered, and thus the rate of return earned by equity investors can be affected by changes in interest rates (Brueggeman & Fisher, 2001: 309).

A long-term residential property investor would take a strategic position on residential properties, based on current and predicted interest rates. A period of low interest rates should provide the opportunity to build up residential properties, while values continue to rise. A long-term investor should also be in a position to ride out any future increases in interest rates over the long term.

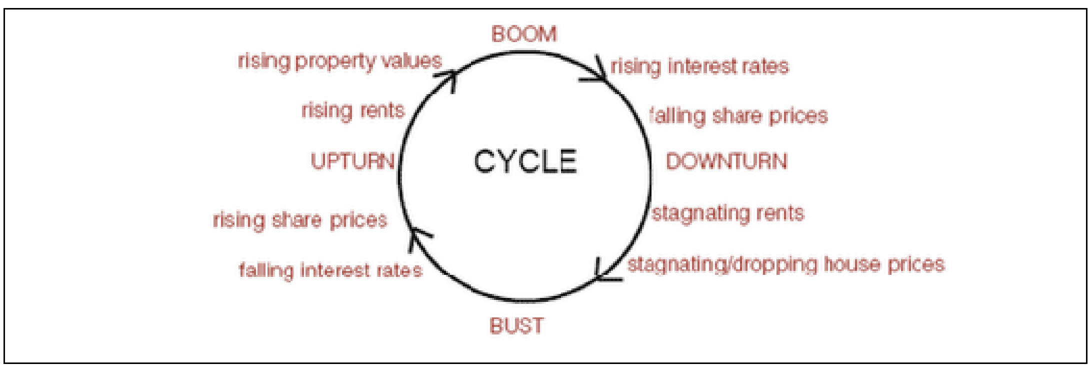
2.4.1.2.3 High Level: Economic: Property Cycle

The world economy, just like that of a country, fluctuates, depending on a number of factors such as high or low interest rates, optimism or pessimism, political stability or instability, inflation or deflation. These fluctuations affect the property market in what is called the 'property cycle'. The property cycle normally lags behind the general economic cycle and may vary, depending on the economic conditions. However, because we have been experiencing increasing interest rates as well as relatively high interest rates, residential property prices have decreased.

Property is governed by a property cycle:

> Essentially the property cycle is the measurement from a peak in property prices through a slump, then a flat period and back to a peak again. The key ingredient to successful property investment for many is to try and master the art of predicting this cycle. Looking into the past tells us that the property cycle generally lasts for about seven years with three to three and a half years of a slowdown and a flattening out of house prices, followed by three and a half years of rising prices and so on.
> (SMH, 2005)

Figure 1: The Property Cycle



When the interest rates are high and the economy has slowed down, few are actively interested in buying property, but one will find lots of sellers. At some point this will change when buyers enter the market and property prices will then rise.

According to Brueggeman & Fisher (2001), the real estate industry is a very large market which is highly competitive and ownership is highly fragmented. The demand cycle leads the supply cycle, and the occupancy rate is found to be the best indicator of the phase of the cycle. This is a result of interest rates and inflation.

Dokko, Edelstein, Lacayo & Lee (1999; Pg: 510) found that property shares common cycles with a number of economic sectors and lags behind in business cycle phases. The property market swings more severely than the economy as a whole. However, fluctuations are considered moderate in the property market relative to those in the housing market.

2.4.1.2.4 High Level: Economic: Affordability

According to du Toit (2005), “in 2005, the average price of houses in this category (houses of $40m^2$-$79m^2$ and priced at R193 000 or less) increased by 15,1% year on year in nominal terms compared with growth of 19,7% year on year in 2004. In real terms, this represents an increase of 11,4% year on year compared with price growth of 18,1% in 2004.” Affordable housing increased by 8,6% in 2005 compared to 15% the previous year.

A generally accepted method of determining the affordability of housing is to calculate the ratio between house prices and the level of remuneration. According to du Toit’s (2005) calculations, this ratio has been on a rising trend, especially since mid-1999. This implies therefore that, during this period, house prices have risen faster than remuneration, with the result that housing has in general become less affordable.

This means that the downward trend in house price growth since end of 2007 can probably be attributed to the fact that housing has in general become less affordable.

Du Toit (2005) also states: “The Financial Sector Charter (the Charter) commits the Banks to provide some R42 billion of which the vast majority will be applied to mortgageable loans for housing units, with a maximum value of R180 000 per unit (December 2003), to households in the affordable housing sector (households with a maximum income of R7500)".

2.4.1.2.5 High Level: Economic: Global Market

There are many global factors that may influence our residential property market; one of the biggest seems to be what is happening in the United States of America (USA). As it is the largest economy in the world, the USA's economic problems seem to have a ripple effect on the rest of the world, including our residential property market. The sub-prime lending problem has lead Bear Sterns one of the largest underwriters of mortgages in the USA to collapse and be sold to JP Morgan for a tenth of its value. Fannie Mae and Freddie Mac, which prop up a large part of the USA mortgage market (40% of the total value of home loans), are still showing hefty losses and are fighting to stay open.

The unprecedented rise in the price of oil recently, along with the numerous conflicts around the globe, most notably Iraq, Iran, Russia, Pakistan and South Korea, has taken it toll on the world's economic stability.

2.4.1.2.6 High Level: Economic: Other

The Filtering Model put forward by Schnidman (1983) states, in essence, that wealthy people move in new homes and thus free up existing homes for poorer people; therefore, to alleviate housing problems more new affluent houses need to be built.

Glaeser & Gyourko (2005; Pg: 28) support the filtering model by stating, "There is much truth to the filtering story since, in most places, old housing certainly is cheaper than new housing. However, a more detailed examination finds that the really important determinant of price is location, not age."

The "Ratchet" Effect is the effect that holds that when the housing market is booming, demand is high and therefore costs and house prices rise rapidly. When demand falls, costs and house prices stay level, or continue to rise, albeit slower than before. Property prices do not tend to fall below the level they have already reached; however, this may happen.

With regard to how outsiders rate the credit worthiness of the city, “Fitch Ratings upgraded the City’s national long-term credit rating from BBB+ to A-. This improves the City’s ability to source more funding and more cheaply than previously” (Boraine et al, 2006; Pg: 267).

2.4.1.3 High Level: Legal

Legislative or statutory controls are a major factor that influences residential property value; they include all legal requirements to buy, sell and bond a property and any taxes related to the above as well as use of the property, most notably capital gains tax and transfer duty.

2.4.1.3.1 High Level: Legal: Ownership

As an owner you have the right to do anything you please with your property, within the law. As the owner of a property you can improve it, maintain it as well as pay the financial obligations to the bank, council, rates taxes and service providers.

Ownership can be in your name or that of a legal entity. The entity you use: company, closed corporation, partnership, or trust, will impact your tax rate, capital gains calculation, risks and the benefits you can achieve.

If you purchase a residential property for investment with the purpose of generating income either now or in the future, you will have to pay income tax on your net rental. The amount of tax you pay will depend on the property ownership structure. One needs to consult a lawyer and accountant on the tax and structure implications.

The amount and type of property taxation depends on how you approach your real estate investment. It is important to know the difference between an investor, renovator and trader.

- Investment involves the purchase of a property for the long term, with the intention of enjoying an income via the rental stream and an eventual capital gain on its sale.
- Renovation is typically where the property is purchased and value is added, with the result as a profit on sale.
- Trading occurs when somebody buys and sells properties frequently, for the purpose of capital gain.

2.4.1.3.2 High Level: Legal: Legislation

The legal system has a major influence when considering investing in residential real estate. The introduction of a Rental Act has been ineffective in providing incentives for tenants to pay for their accommodation and in applying sanction in cases of non payment. The Rental Housing Tribunal seems to have insufficient capacity to carry out its own recommendations, while the Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 (PIE) has caused endless problems for some investors, who are unable to take occupation of their properties without obtaining an eviction order.

There is a mass of legislation that governs real estate, from how you acquire it, and what you do with it, to how you sell it, as well as how all the money involved is dealt with. This includes:

- Rental sector
- Legal operating structure
- Governance of the structure
- Method of operating
- Taxation
- National Building Regulations

- Requirements of the National Home Builders Registration Council (NHBRC)
- Local Government Town Planning and Building Ordinances and Bylaws

Not all legislation has a positive influence on residential property, according to Brueggeman & Fisher (2001; Pg: 309): “Legislative risk results from the fact that changes in regulations can adversely affect the profitability of the investment.”

According to Gardner (2005; Pg: 20-24), some of the more influential legislation includes the following:

- Transfer duty payable on property to the government has been reduced several times in recent budgets; currently no transfer duty has been payable on a property valued at R500 000 or less. This lowering of transfer duty will go some way in making home-ownership more affordable, especially for the lower-income groups.
- The Residential Landlord Tenant Act of 1997 deals primarily with landlord tenant relationships, and aids in dealing with the instability in the rental housing market in Johannesburg inner city. The Act essentially provides for dispute resolution mechanisms and for regulations relating to so-called unfair practice.
- Certain municipalities have been declared Urban Development Zones (UDZs) and a tax incentive is offered to stimulate investment in the inner city areas of these zones.
- Value Added Tax Act, 1991 states that residential accommodation is neither vatable nor can input VAT be claimed. Therefore, rental is provided to the tenant without VAT. “Landlords as Entrepreneurs net effect is that the increased costs caused by the VAT Act undermine the affordability of rental, thereby decreasing the housing options available to the low-income market” (Gardner, 2005; Pg: 23).
- “Income Tax Act Exemptions permitted in terms of Section 10(1)(c) of this Act are limited to the construction of new housing stock or stock for

households earning less than R1800 per month. This means that institutions upgrading or converting existing stock cannot access tax exemptions" (Gardner, 2005; Pg: 23).

- Previously the Prevention of Illegal Squatting Act gave extensive powers and authorities to landowners over those of the squatter whereas the Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 (PIE) is attempting to protect all parties. According to Gardner, (2005; Pg: 23), this Act "has resulted in a fiscal burden on behalf of the landowners as they have to find alternative accommodation for those they are evicting".

2.4.2 Factors Influencing Residential Property Value: Low Level

The low level factors affecting residential property value are those factors that are area specific to that individual property. Turner (2004) identifies the general and specific drivers of residential property values as being: "population growth, level of development in the node, property use, the size and condition of improvements on site and the demand and supply in the property class within the local real estate market".

2.4.2.1 Low Level: Physical Factors

The physical factors describe the site of the individual property, the suburb and the city. These factors include the quality, size, age, configuration, condition and structure of the property, and take into consideration: number of bedrooms, the shape and size of the stand, aesthetic appeal such as finishes and design, the proximity to work and shops, the house colour, security, and any home improvements such as new bathrooms or kitchen.

2.4.2.2 Low Level: Market Conditions

Supply and demand has a material influence on residential property values as this creates the market place in which transactions occur. Demand is determined by the number of people wanting to live within the inner city. Listed here are a few factors that drive residential property demand: proximity to work, transportation, schools, and availability of affordable property to rent or buy. While residential property supply includes: existing flats, houses or buildings coming available, as well as new building activity and renovation of old stock.

Understanding the residential property cycle will tell you if it is a “buyers” or “sellers” market; this will have a material effect on your decision to buy or sell and in determining your asking price.

The concepts “market” and “appraised” value were dealt with earlier, and give one an indication of what a willing and able buyer may offer for one’s property as well as how much the financial institution will lend.

Building costs help determine a market price for property, as they are used as an indication of the replacement cost of the house. “The average increase in the cost of building a new house in the middle segment of the housing market was 14,3% in 2005. This was well above the average headline CPI inflation rate of 3,4% last year, reflecting an active building and construction sector over the past twelve months” (du Toit, 2005). However, overbuilding is a risk as it can cause rents to decrease while expenses increase because of inflation, thus eroding one’s real rate of return.

The price of land is a contributing factor in determining the residential property value. “In 2005, nominal residential land prices increased by 34,2% to about R241 100 on average, compared with growth of 41,9% in 2004” (du Toit, 2005). Du Toit (2005) explains that “the scarcity of suitable and properly serviced land for residential development has been a problem for some time, especially in the rapidly growing urban areas of the country”. This increase in property value along with the scarcity of land should lead to higher asking prices.

According to Brodsky (1970; Pg: 229), “an increase in the value of residential land and an increase in residential density occurs as the main employment center of a large city is approached”.

In the business of selling a house, a seller is known as a motivated seller if one of the four D's applies: Death (if there has been a death in the family and the family is looking to sell); Debt (if the seller has debt and is looking to sell so as to reduce that debt); Departure (if the seller has either bought elsewhere or is emigrating); or Deceased (if the seller has become deceased and the estate is selling the property).

Many home owner are curious to see what their properties are worth so they put them on the market to get a value, however if a seller is motivated he is keen to sell his house.

> Seller motivation is also the major factor which affects the offer price made by the buyer. A motivated seller is one who bought his or her home in the new area. Due to family emergency also the seller complete the house sale quickly. Seller motivation also influences the value of the home property.
> (Ezine Articles, 2008)

> If the seller is not motivated, then no matter what the condition or the location of the property, you are not going to get a great deal. But if you have a motivated seller, then you have a great chance of turning a handsome profit no matter what the condition or location. (Oakley, 2007)

2.4.2.3 Low Level: Affordability

'Affordability' refers to how much a person can afford to spend on a house, whether it is an outright cash purchase or servicing a bond every month. Bond repayments are limited to a repayment rate of less than 35% of the person's gross annual remuneration. Therefore, "an individual's level of consumption is primarily determined by his income. The higher the income, the higher the level of consumption." (Schnidman, 1983)

Affordability has decreased owing to a number of factors such as rising property prices and rising interest rates. In June 2006 commercial banks' variable mortgage interest rates were at 10,5%; currently they are at 15.5%, a rise of 5% in the past three years, which has led to property being less affordable.

An October 2003 survey by Trafalgar Property & Financial Services provided statistics about Johannesburg inner-city residents:

> Not all are poor: 12% earn more than R15 000 per month, and 79% earn more than R1 500 per month. Many are well educated: 19% have university educations, and 35% have technikon diplomas, 90% have cellphones, and 44% use e-mail, 31% own their own cars, 74% use minibus taxis as their chief form of transport, and 32% use municipal buses. Reasons given for choosing the inner city included affordability (22%), proximity to work (11%) and proximity to schools (11%).
> (Trafalgar, 2008)

According to Absa (2005), "In real terms (after taking into account the effect of inflation), house prices increased by as much as 90% between 2000 and 2005." This made property more unaffordable.

2.4.2.4 Low Level: Housing

Housing is a major concern within the inner city as "[s]quatter housing remains the most common means whereby urban households in South Africa gain access to shelter. It is estimated that 13.5 per cent of all households (1.06 million) live in squatter housing". (Rogerson, 2004; Pg: 224)

There are several other housing-related problems as shown by the following quotes.

> There is also the gradual encroachment of the inner-city by the

homeless who, because of the lack of affordable housing, overcrowding, social and racial tension, and economic factors, among others, have resorted to sleeping on the streets and in any available open space, thus constituting a threat to the substantial commercial and economic activities in the inner-city.
(Turner & Townsend, 2005; Pg: 228)

The large shortage and ensuing overcrowding of black suburbs has been a recurrent theme in Johannesburg, as has been the periodic resettlement of black people.
(Olufemi, 1998; Pg: 16)

In further reading:

Many commentators are concerned that government housing policies have unwittingly exacerbated the apartheid form of the city with new-build housing often remote from the city centre and reinforcing racial segregation.
(Robinson, 2006; Pg: 254)

The actual level of crowding is probably much worse, however, because a substantial portion of the residents are squatters and undocumented migrants, both groups likely to evade official head counts. Many of the buildings, owned by absentee landlords, teeter on the edge of collapse. Their interiors range from quaintly tatty to positively post-apocalyptic.
(Leggett, 2005; Pg: 15)

The Department of Housing estimated that, in 1995, the urban housing backlog in South Africa stood at about 1,5 million units. The consequences of this backlog are physically manifested in overcrowding, squatter settlements, increasing numbers of land invasions in urban areas, homelessness and by generally poor access to services in rural areas (Olufemi, 1998).

Of the 37 000 housing units in the inner city, an estimated 10 000 units are in varying degrees of disrepair. The state of these units is shown below.

Units in a **very poor** state of repair To be included in the Better Buildings Programme	5 000
Units in **extremely poor** state of repair To be considered for demolition	2 000
Units in **poor** state of repair To be considered for improvement grants	3 000

Addressing the poor condition of this substantial amount of housing stock must be a key priority if decay is to be addressed and the desired quality of life for inner city residents is to be achieved. New stock is also required to meet the current overwhelming demand (Gardner, 2005).

Danish legislation and policy on the improvement of housing and slum areas focused on improving the condition of dwellings and their immediate environment: “Sanitation acts regulations regarding the clearance or renewal of unhealthy urban areas with certain provisions for compulsory acquisition of property; and possibility for granting of state subsidies to cover the local authorities’ expenditure on slum improvement” (Larsen, 1968; Pg: 61).

One of the USA’s main focuses when addressing the housing problem was financing the building of affordable housing within the community. Authorities have also looked at: child and elderly support, sponsoring summertime activities, forgiving debt and helping young people (Krohe, 1992; Pg: 9).

TUHF (Trust for Urban Housing Finance) aims to provide finance to increase the quality and supply of rental housing in South Africa’s inner cities through small private owners, small private residential landlords, institutional housing developers and social housing institutions. TUHF provides both bridging finance and long-term loans.

The Johannesburg Housing Company (JHC) explicitly targets a lower-middle-income tenant. It currently has a portfolio of 21 buildings, comprising about 1 800 units. This supply is clearly insufficient to meet market demand.

> Better quality housing is essential in the problem districts, along with a wider differentiation and a stronger orientation towards demand; that is to say, more owner-occupied dwellings, larger dwellings, more houses with their own garden, more attractive residential environments and substantially improved safety on the streets. (Priemus, 2004; Pg: 233).

In the Netherlands, “nearly 40 per cent of the housing stock is social housing, the Dutch government has been faced with urban renewal for many years and has tried many different approaches” (Priemus, 2004; Pg: 240).

In South Africa, “The share of social housing in the housing programme in urban regeneration fell from 73 per cent in 1991 to 46 per cent in 1996” (Altes & De Graaf, 1997; Pg: 251).

In South Africa, approximately 79% of the population is eligible for housing assistance in terms of the R3 500 per month income threshold of the national housing subsidy scheme, and 90% of the population earns less than R7 500 per month (Rust, 2006).

The National Housing Programme for Housing Assistance in Emergency Housing Circumstances was instituted in terms of the Housing Act, 1997. The amendment relates to the provision of the Constitution that everyone has the right to have access to adequate housing, and that the state must take reasonable legislative and other measures within its available resources to achieve this right. The main objective of this programme is to provide temporary housing relief to people in urban and rural areas who find themselves in emergency situations, such as when:

- Their existing shelters have been destroyed or damaged.

- Their prevailing situation poses an immediate threat to their lives, health and safety.
- They have been evicted or face the threat of eviction.

The Netherlands is described as a "decentralised unitary state". The public sector has become more interested in "enabling development" rather than in "providing development" directly, and in "stimulating development" rather than in "regulating development" (Healey, 1997; Pg:12). South Africa seems to be the opposite: "Over the last decade 'social housing' was almost synonymous with the rental sector in South Africa. Extensive subsidy, policy, institutional and facilitative support was developed to assist this category of rental housing" (Gardner, 2005; Pg: 63).

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2.4.2.5 Low Level: Crime

The level of crime has reduced significantly recently in most of the inner city. However, according to Leggett (2003; Pg: 16) "crime remains the most significant issue to be addressed in the inner city both in terms of investor confidence and in terms of providing a desirable quality of life".

Lehrer (2000; Pg: 141) believes that:

> Reducing crime pays: For people living at the bottom of the economic ladder, commercial opportunities are quite limited. For such individuals, the improvements in the consumer economy stimulated by reductions in crime tend to make an enormous difference. When crime drops, the prospects of stores large enough to attract customers who don't live within walking distance improve. Large reductions in crime also improve housing. Reducing crime enables landlords to get returns high enough to stimulate increased investment in housing.

According to Borraine et al (2006; Pg: 41), "as the major deterrent to people visiting and investing in the inner city is fear of crime, the key priority will be to improve the reality and perception of safety in the inner city by raising the visibility of policing, CCTV and CIDS and the improved crime rate in the inner city".

There are many initiatives to improve Johannesburg's inner city security. Central Improvement Districts (CIDs), where property owners take charge of security and cleaning, have seen an enormous drop in muggings. Closed circuit television or CCTV was installed in 2000 and these cameras cover crime hotspots. According to Leggett (2003; Pg: 17), "in the first year, crime in these areas dropped by 48%. A total of 240 new cameras have been installed". The involvement of the Metropolitan Police Department has also yielded positive results in reducing crime.

A poll conducted by Leggett (2003) of inner-city residents indicated the following results:

- Many are willing to permit substantial curtailment of civil rights if necessary to make the area safe.
- Over 80% of those polled said they would be open to the idea of police searching their homes once a month if this would reduce crime.
- Just under half of all the participants said they had been victims of one of the specified serious crimes in the last year in inner Johannesburg.
- 63% mentioned "foreigners" as the perpetrators of crime. This is remarkable given that nearly a quarter of the sample was foreign.
- Public opinion about the police was generally poor and they were felt to be corrupt.
- Police got top marks for visibility.

Lehrer (2000; Pg: 141) cites evidence that shows that:

> …the best way to restore communities and lessen poverty is to reduce crime itself, not the supposed root causes of crime. The best conceived and best funded programs, public or private, will do little good in a dangerous environment. Alternatively, when falling crime

> rates bring commercial strips back to life, improve housing, help residents feel safe at night, and strengthen a community's stabilizing moral forces, it becomes possible to integrate even the most troubled areas.

New York and Los Angeles are the USA's two largest cities and both have reduced crime significantly. Between 1994 and 1999, New York reduced crime by nearly 45 per cent and Los Angeles by about 41 per cent (Lehrer, 2000).

When looking at London and New York "both have economies, structures, and forces driving the local economy" that are "both striking and remarkable", i.e. each city has a small financial centre that is very rich, but abutted by multi-cultural and multi-ethnic neighbourhoods characterised by "urban blight, high unemployment and social exclusion" (Bennett & Koudelova, 2001, Pg: 28).

Rogerson (2004; Pg: 139) mentions a block by block survey in which "1 001 buildings and approximately 215 city blocks were included in an inspection. Numerous town planning contraventions were acted upon and the processes to deal with these problems were instituted".

An investigation conducted by the World Bank identified crime as the single most important deterrent to new private sector investment in the city. Second was the growing impact and weight of South Africa's HIV/AIDS epidemic, which is projected to reduce life expectancy from 68 years in 1990 to only 44 years by 2010. "Crime, HIV and unemployment collectively underline the imperative for local intervention measures to combat escalating levels of poverty within overall development planning for Africa's aspirant world city" (Rogerson, 2004; Pg: 16).

2.4.2.6 Low Level: Other

The social consideration includes the complex social context of people who make up an area, their ethnic origins, age, family composition, and where they are in their stage in the life cycle.

> Social problems hamper individual and community access to urban opportunities and the formal economy. These social problems relate to the impact and vulnerability of children living on the streets; homelessness; the lack of social cohesion in many inner city areas; drug and alcohol abuse; domestic violence; crime; high levels of poverty; and limited and inadequate public spaces and recreation facilities, service delivery problems, particularly in regard to waste management in residential areas and street and traffic light outages. (Leggett, 2003; Pg: 26)

Redevelopment, renewal, revitalisation, regeneration and reinvestment are good, but these are understood to be different from gentrification, which involves direct, conflict ridden displacement.

Gentrification is 'urban renaissance' "displacement with replacement". In secular replacement and class transformation, as gentrification intensifies, displaced renters regardless of whether they were directly forced out of gentrifying neighbourhoods or moved for other reasons, have been forced to look farther away from the cores of housing market competition to find available affordable units (Kathe & Wyly, 2006; Pg: 25).

For at least a generation, proponents of gentrification have argued that the process involves little or no displacement—and that, in any case, its benefits for cities far outweigh the costs imposed on a few unfortunate poor households (Sumka, 1980; Pg: 269).

The greatest fears inspired by gentrification, of course, are that low-income residents and low-margin retailers will be displaced by more affluent residents and more profitable businesses (Smith, 1996; Pg: 31).

Gentrification is an inner-city phenomenon, and while the term was initially reserved for the process whereby middle-class homebuyers displace vulnerable tenants in the rehabilitation sub-market (Johnston et al, 1994 Pg:

216-217), nowadays it makes no sense to try to separate it out conceptually from the broader transformation known as ‘revitalisation’. Glass (1964) first used the term ‘gentrification’ to describe the movement of the ‘gentry’ into rundown, tenanted Georgian and Victorian terraces in the West End of London, which they purchased to rehabilitate and occupy.

Urban husbandry means small-scale, incremental change brought about by individuals or small groups of well-meaning citizens. It is closely associated with the preservation of historic buildings and with the reclamation of public places for people at the expense of the automobile. An analogy is made with the garden, where plants grow at their own pace, succeeding one another and the whole evolves in a varied and cyclical manner (Gatz et al, 1998).

Glaeser & Gyourko (2005; Pg: 51) state that urban husbandry can explain why cities in decline tend to have lower levels of human capital, “since cheap housing is relatively more attractive to the poor, the tendency of declining cities to disproportionately attract the poor is particularly important if concentrations of poverty further deter growth”. If low levels of human capital then create negative externalities or result in lower levels of innovation, this becomes particularly troubling because a self-reinforcing process can result in which an initial decline causes concentrated poverty, which then pushes the city further downward.

Owing to the success of urban renewal within the inner city of Johannesburg, property prices have increased while crime and grime have decreased.

2.4.3 Factors Influencing Residential Property Value: Individual Owner Factors

Factors affecting property value have been highlighted to include: location, economic situation, supply and demand, cash flow of investment, tax, financing, property valuation, renovation, refinancing, hold or sell, property syndicates, and partnerships joint ventures.

The following sector examines individual owners' decisions, for an understanding of the importance that they have in influencing the residential property value. The best way to achieve this understanding is to compare those successful property investors with those who have not been successful. When making the comparison it is important to consider the owners' decision-making processes, motivations, knowledge, funding, management and intentions.

2.4.3.1 Individual Owner Factors: Motivation

According to NZ Invest (2008), "The primary motivation behind purchasing an investment property is to own an 'income producing asset' to replace your income when you retire. This asset should provide you with:

- An ongoing income stream in the form of rental income
- Tax deductions, and
- A significant increase in your 'net worth' as a result of capital growth."

It is important to understand the individual's motivation for purchasing a residential property, their needs, wants and requirements as well as access to finance.

Residential property investors can generally be described as either investing for cashflow (investment for positive net income from the property) or investing for capital appreciation (buy and hold or renovate and sell).

The strong demand for residential property, driven by a rapidly growing middle class, and relatively low interest rates between 2000 and 2005 caused many new investors to enter the residential real estate market to capitalise on the property boom. As a result, the buy-to-let market grew rapidly, which eventually put downward pressure on rentals. The inner city of Johannesburg saw massive amounts of renovation of existing stock to be used as rentals. Low interest rates made it easier for people to buy rather than to rent. However, this situation has already changed with the significant rise in interest rates as the property cycle turned and rentals are on the rise again.

The individual's motivation, whether to buy to rent, buy to hold, or renovate and sell, as well as his marketing strategy need to be considered.

2.4.3.2 Individual Owner Factors: Investment

From an investment point of view, the owner needs to decide whether he will be renting the property out or selling it. If he is renting, the size of his deposit will have a financial effect on his cashflow. He needs to collect rents, pay expenses and manage the tenant and property, and there are implications if he does all of this himself or outsources it to a third party.

There are numerous possible tax implications with regard to real estate such as capital gains tax; personal income tax; estate duty; transfer duty; as well as other transaction costs. Other tax considerations will depend on how he deals with: depreciation, capital and revenue expenditure and property management.

'Rental accommodation' refers to the consensual occupation of accommodation by an individual or individuals (lessee or tenant) controlled by another individual or institution (lessor or landlord) on an agreed basis, generally for an agreed payment. This agreement may be written (lease agreement), or verbal, and generally sets out the terms on which the accommodation is rented (Gardner, 2005).

The residential rental market is not efficient and information regarding rentals is difficult to gather. However, industry experts such as management companies and estate agents, as well as newspaper adverts and personal knowledge can be used to gather the required information.

Net rental yields within the property market can be viewed as being similar to dividends obtained from the stock market. They both represent cash received by the investor for the use of his funds and are treated as income by the tax system.

Just less than one quarter of the rental stock in South Africa is informal, meaning that it falls outside of currently set minimum standards. This could be the result of the materials used, or that the accommodation does not meet specified standards in terms of access to services, space, light, thermal efficiency, ventilation or fire performance. Moster (1998; Pg: 14), in the Asset Vulnerability Framework, indicates that “poor quality housing and inadequate water supplies, sanitation and solid waste disposal are all environmental hazards that often have a serious impact on the urban poor’s human capital, health and well being”.

“Landlords and tenants are engaged in a socio, economic and legal relationship with one another that is influenced by the level of rent” (Rakodi, 1995; Pg: 129). The landlord is generally responsible for the structure and exterior of the property, ensuring that the property is properly maintained and services are available and that the tenant has possession of the property. The tenant’s responsibilities are to pay rent and all bills associated with accessing services.

Landlords can be defined by the size of their operation, either in terms of small or large scale. Landlords are defined on the basis of whether they are a resident in-house landlord or a non-resident absentee landlord. Landlords are also defined on the basis of their economic success (Shisaka Development Management Services, 2006).

As a tenant, one needs the owner’s permission to change the property; one pays rent and utilities and has a lease which governs one’s stay. There is freedom from financial obligation in renting once the rent is paid, but the tenant will not benefit from any capital appreciation achieved by the property.

Sensitivity analysis, scenario modelling or safety margins provide tools to estimate a risk range for the investment. In relation to the risk amount, the individual will choose his specific discount rate. With this information, he has a set of information available that returns a present value PV for an individual property investment project (Barnes, 1990; Pg: 23).

Inflation erodes one's buying power over time; therefore, investors can estimate future real rates of return, based on their projection of inflation.

Regarding the discount rate:

> As a general rule of thumb, properties with capitalisation rates higher than their real discount rates are not expected to experience value increases as high as the expected rate of inflation. Properties with capitalisation rates lower than their real discount rates are expected to experience value increases greater than the expected rate of inflation.
> (Barnes, 1990; Pg: 23)

Income streams depend on the amount of rents and property sale values, whereas the current cost expenditure relates to the equipment, the construction and the age of the building.

The market approach to real estate investment is used as it is difficult to put a value on a residential property owing to differences in individual assumptions and estimations. Because of this, one can look at what has sold in the market to date.

In capital market theory, the return characteristics of an asset are reduced to the mean and the standard deviation of its expected return. This is more difficult to achieve in terms of real estate.

2.4.3.3 Individual Owner Factors: Risk and Insurance

According to Shilling (2003; Pg: 671), "investors seem much less risk averse when it comes to investing in real estate, at least judging from the historical spread between real estate returns and the return on fixed-income securities over the past quarter century".

Insurance is a way of minimising one's risk, and is a necessity when considering residential real estate as an investment. Depending on the characteristics of the individual owner, vast differences in opinion regarding risk and insurance exist. Some of the types of insurance available are outlined below.

Mortgage Repayment Insurance: Offered and usually insisted upon by the lender of money, this will cover the outstanding mortgage amount in the event of death.

Home and Contents Insurance: This does not cover the tenant's contents but rather the fittings such as the geyser, carpets, floor coverings, curtains and blinds, as well as other fixtures.

Rental Insurance: This can be obtained from a specialist provider, to cover a landlord for loss of income as a result of a tenant not paying rent.

It is the view of Oakley (2007) that the investor or owner as a landlord faces many risks, such as:

- Tenant risks: The landlord may not find a suitable tenant, which means that the vacancy will lead to loss of income. The tenant may damage the property to a greater value than their deposit.
- Body Corporate risks: Landlords owning units in sectional title buildings face a significant risk in respect of the body corporate. The body corporate comes into effect upon the sale of the first unit in the scheme. These bodies may become dysfunctional, as a result of the non-appointment of trustees, trustees not being aware of their duties, mistrust, or intimidation. This may result in non-payment of council rates and services charges, and the non-maintenance of common areas.
- Hijacking of buildings: The inner city of Johannesburg has seen many empty and occupied buildings being hijacked by undesirables, leading to

the buildings being unmanageable and a loss of income.

- Poor maintenance of public infrastructure: This involves the risk of council not doing its job in maintaining the public infrastructure surrounding the rental stock.

2.4.3.4 Individual Owner Factors: Funding

According to Oakley (2007), real estate investment financing can take a number of forms:

- Home Equity Financing also known as negative gearing, occurs when you re-bond your house to take advantage of the capital growth in your property.
- Equity Financing or Mortgage Finance occurs when you ask the bank for a loan/mortgage to cover the purchase.
- Cash is when you pay for the property in cash.
- Private borrowing is borrowing from family, friends, and business people.
- Syndication is when you get together and all contribute to a real estate purchase.

Mortgage Finance is the most common form of real estate financing; there are many variations and options in the type of mortgage available, i.e. fixed or variable interest rates, and different length of bond, e.g. 20 years or 30 years. In terms of interest rates:

- Fixed interest rates are rates where the bank fixes the interest rates for an agreed period.
- Variable interest rates are interest rates that may change subject to the current bank rates.

As can be seen, an increase in interest rates will diminish the demand in the housing market and lead to a devaluation of residential property. This may also lead to liquidity risk.

Funding is extremely important as can be seen during the decline of the Johannesburg inner city: landlords who lacked the financial resources to maintain buildings and who were not committed to working through difficulties with their tenants soon entered into a vicious cycle of conflict and physical decline. “The cycle of physical decline was accelerated by the refusal of the financial institutions to make credit available to landlords and owner-occupiers” (Crankshaw, 2000; Pg: 819).

A problem facing many investors is that of obtaining funding: “Attracting investment and finance into inner-city and other renewal areas poses particular difficulties and is frequently reliant on strong public-sector commitment” (Adair et al, 2003; Pg: 1065).

The individual owner factors can play an important role in obtaining funding owing to their track record, financial position, connections and network, and ability to source the funding and successfully apply for it via business plans.

2.4.3.5 Individual Owner Factors: Management

Many real estate agencies and specialist property managers offer property management services that include rent collection, sourcing and screening tenants, and evictions. The normal charge is around 8-10% of the rental income.

As an owner you can directly influence the value of your investment by how you manage your residential property. The following questions are important in this regard: is your management style hands on or hands off, do you outsource your management and rent collection, what type and number of tenants do you allow, do you do checking and maintenance on your property? Also, do you have conduct rules for the property or no rules at all, and do you conduct regular inspections of the property?

The definition of management risk is based on the capability of management and its ability to innovate, respond to competitive conditions, and operate the business activity efficiently (Brueggeman & Fisher, 2001; Pg: 308).

Some of the factors involved in the successful management of a property are:

- Sourcing reliable tenants
- Verifying the ID of the tenants
- Verifying the employment of the tenants
- Restricting the number of occupants of the property to a certain number of people, to the tenant and his direct family, to avoid overcrowding and subletting
- Ensuring that written leases are signed prior to occupation
- Conducting regular inspection of the property to ensure that it is not being damaged, sublet or overcrowded
- Ensuring that any required maintenance is carried out timeously
- Supervising any contractors closely
- Ensuring that the property is safe for the tenants to live in
- Paying the expenses of the property, be they bond expenses, levies, rates, or utilities timeously
- Ensuring that rent is paid in full and on time by the tenant

Chapter 3

3. PROPOSITIONS

Four propositions have been developed from the above literature review.

3.1 Proposition One

High Level Factors influence residential property value in the inner city of Johannesburg and include:

- Government
- Political
- Legal
- Economic
- Global Situation

3.2 Proposition Two

Low Level Factors influence residential property value in the inner city of Johannesburg and include:

- Actual Property
- Location
- Crime
- Environment
- Supply & Demand

3.3 Proposition Three

Individual Level Factors influence residential property value in the inner city of Johannesburg and include:

- Motivation
- Knowledge & Networking
- Access to finance
- Management
- Perception

3.4 Proposition Four

Successful Investors and Unsuccessful Investors will view and score the major factors that influence residential property value in the inner city of Johannesburg differently.

Chapter 4

4. RESEARCH METHODOLOGY

This chapter deals with the research methodology used to attain the validity of the propositions mentioned earlier. As Leedy (1993; Pg: 139) states, "the nature of the data dictates the methodology". The choice of an approach lies in the defining characteristics such as "the purpose of the research, nature of the research process, methods of data collection, form of reasoning used in analysis and the manner in which the findings are communicated" (Leedy & Ormrod, 2001). For this reason the methodological approach used in this study consisted of a qualitative methodology to identify and evaluate the factors that influence inner city residential property value.

The researcher was uniquely positioned, owing to having been an investor within the inner city of Johannesburg for more than five years, to identify both those who had been successful and those who had failed at investing in the inner city. The researcher was also able (through personal dealing with both these groups of investors) to conduct unbiased and honest interviews with them.

4.1 The Qualitative Study

The purpose of this qualitative study is to give internal validity to the literature review, "to answer questions about the complex nature of phenomena, often with the purpose of describing and understanding the phenomena from the participants' 'point of view'" (Leedy & Ormrod, 2001; Pg: 101). According to Gordon & Langmaid (1998), qualitative research is dynamic and subjective, but it is not undisciplined.

4.1.1 Research Population

The research population comprised all stakeholders currently exposed to the inner city of Johannesburg; they were chosen on the basis that they had a meaningful contribution to make to this study through direct investing in the inner city. Service providers to these investors were also interviewed for the researcher to get another point of view regarding what factors have led to the success or failure of the property investors. The main research population included both successful and unsuccessful investors within the inner city of Johannesburg, as well as a selection of their service providers.

4.1.2 Sample Size and Method

In accordance with Leedy & Ormrod's (2001) specifications, a sample size of 30 stakeholders was selected for in-depth interviews. When identifying the stakeholders to be interviewed, a combination of non-statistical sampling types such as judgement sampling, snowball sampling, convenience sampling and quota sampling was used to attain the information.

The nature of this sample design is such that the researcher purposefully selects participants who have the required experience to answer the research questions. Thus, the selection represents a cross-sectional sample from the industry, and represents a purposive sample (Leedy & Ormrod, 2001). Currently, there are 10 successful investors, 10 unsuccessful investors and 10 stakeholders who add value to investors such as property lawyers, conveyances and estate agents.

4.1.3 Data Collection

The nominated participants were contacted telephonically to inform them of the nature and purpose of the research and its requirements and expectations, followed by an invitation to participate in the research. All participation was voluntary. Participants were told about the selection process and the anticipated duration of the interview, and permission was obtained from each participant to utilise the gathered information.

The qualitative data was collected through semi-structured, in-depth interviews with the identified stakeholders. A number of questions were open ended. A major advantage of using this technique, according to Creswell (1994; Pg: 28), is that "the purpose of gathering responses to open-ended questions is to enable the researcher to understand and capture the points of view of other people without pre-determining the points of view through prior selection of question categories". As stated in Marshall & Rossman (1989; Pg: 82), "typically, qualitative in-depth interviews are much more like conversations than formal structured interviews".

4.1.4 Questionnaire Design

The questionnaire framework constituted a number of questions, consisting of a combination of open-ended questions. It was anticipated that the more complex diversity of this study would be attained by the open-ended questions. Those questions which required more discussion were designed to give the researcher in-depth insights into the inner city. The questionnaire was pre-tested and changed to accommodate the appraisers' viewpoints.

The questionnaire included a five point Likert Scale on which the stakeholders ranked the identified factors influencing residential property value in the inner city of Johannesburg.

4.1.5 Validity and Reliability

4.1.5.1 Validity

Research validity is determined by the internal and external validity of that research. Validity is concerned with whether the instrument "measures what it is supposed to measure" (Leedy & Ormrod, 2001; Pg: 31). The test has predictive validity if it predicts future events.

4.1.5.1.1 Internal Validity

Internal validity of a research study is defined as "the extent to which its design and the data that it yields allow the researcher to draw accurate conclusions about cause-and-effect and other relationships within the data" (Leedy & Ormrod, 2001; Pg: 103). There are various types of internal validity: construct validity, content validity, face validity and criterion-related validity (Leedy & Ormrod, 2001). For this study only construct validity is relevant as the study attempts to reduce "subjectivity by linking questions posed through data collection" (Rowley, J. 2003).

4.1.5.1.2 External Validity

External validity is defined as "the extent to which its results apply to situations beyond the study itself" (Leedy & Ormrod, 2001; Pg: 105). To ensure external validity the findings need to be generalisable (Leedy & Ormrod, 2001). The external validity of this research is enhanced by the fact that it takes place in "[a] real-life setting" (Leedy & Ormrod, 2001; Pg: 105).

4.1.5.2 Reliability

'Reliability' refers to the extent which similar research conducted in the future will result in similar outcomes (Leedy & Ormrod, 2001). Although a semi-structured interview guide was used and the researcher conducted all interviews personally, the results relied on the interpretation of the researcher and for this reason there was a possibility that bias might influence the reliability of data.

4.1.6 Data Analysis

Data analysis and interpretation form a crucial part of the research process. Data collected from the interviews was analysed in an iterative way; transcripts from the in-depth interviews were recaptured and the content was analysed. All data was organised by a coding system and analysed to identify the factors influencing Johannesburg's inner city residential property value, as well as those factors associated with successful and unsuccessful investors. The study worked on the premise that "due to the nature of the research, data analysis and interpretation will tend to take place to a certain extent during data collection" (Leedy & Ormrod, 2001; Pg; 106). During the interview the all identified respondents were asked to rank on a Likert Scale the importance of the identified factors.

4.2 Ethical Considerations

Identified participants were informed of the purpose of the study and the reason that they were chosen. Participation within the study was voluntary and participants were informed that all data gathered during the study would be publicly accessible. At all times utmost care was taken to portray the participant answers within the research without distortion.

Chapter 5

5 RESULTS AND DISCUSSION

This chapter details all the results of the raw data collected from the interview process. This data was then used to test the propositions that were put forward in Chapter 3.

5.1 Participants

Thirty semi-structured interviews were conducted. The participants were classified into three broad groups: “Successful Investors”, “Unsuccessful Investors” and “Service Providers” to those investors.

The list of 10 Successful Investors was derived from the researcher’s knowledge and dealings with investors who had made a positive return on residential property within the inner city of Johannesburg.

Interviews were also conducted with 10 Unsuccessful Investors within the inner city of Johannesburg residential property market. The list of these participants was derived from the researcher’s knowledge and dealing with investors that had not been successful with their investments: selling their properties for less than they had acquired them at and making a net financial loss.

Lastly, 10 Service Providers were interviewed: the list of these service providers was derived from the researcher’s knowledge and dealings with services providers to the inner city residential property market such as lawyers, estate agents and conveyancers.

A list of the participants is presented in Appendix A: List of Participants.

5.2 Presentation of Results

The purpose of the research was three-fold. The first aim was to identify the factors that affect residential property value within the inner city of Johannesburg by using an open-ended question. The second was to examine the three groups of participants, those being Successful Investors, Unsuccessful Investors and Service Providers, to ascertain what they felt were important factors from the research carried out in drawing up the literature review for the study. The third aim was to analyse the way in which these three groups responded to the significance of the different factors presented to them, as to what they felt was important, and to ascertain if the way in which they responded could explain the category in which they were placed. To facilitate interpretation of the results the responses of the participants were tabulated using a five point Likert Scale.

5.2.1 Open-ended Questions

An open-ended question: "What factors affect residential property values in the inner city of Johannesburg" was asked to a number of participants; their answers were numerous and the most popular answers were grouped into three categories, as detailed below.

High Level Factors

The High Level Factors or external factors that are outside the control of the individual/owner and tend to affect all property nationally include political and fiscal policy; government spend; macroeconomic variables such as the property cycle, business cycle, interest rates and inflation; the state of the economy; and border control. These factors were represented during the interviews by the categories:

- Government
- Political

- Legal
- Economic
- Global Situation

Low Level Factors

The Low Level Factors affecting residential property value are those factors that are area specific to that individual property and include physical factors, market conditions, affordability, housing and crime. These factors were represented during the interviews by the categories:

- Actual Property
- Location
- Crime
- Environment
- Supply and Demand

Individual Factors

The Individual Factors affecting residential property value are those factors that are specific to that individual owner or investor and include motivation for investment, risk and insurance, funding, and management. These factors were represented during the interviews by the categories:

- Motivation
- Knowledge and networking
- Access to finance
- Management
- Perception

The above factors and categories, which were derived from and supported by the literature review in Chapter 2, were tabled and presented to all participants for ranking their importance using a five point Likert Scale.

5.2.2 Tabulated Content Analysis

Tables 1 to 4 below present data obtained from the participants using a five point Likert Scale, which asked them to rate the important factors affecting Johannesburg inner city residential property value, by attaching a value to them: 1 = No Affect; 2 = Little Affect; 3 = Average Affect; 4 = High Affect; 5 = Significant Affect. While the tables present a comprehensive documentation of the data collected through the interview process, Figures 1 to 11 provide a user-friendly and easy-to-utilise summary of the overall data.

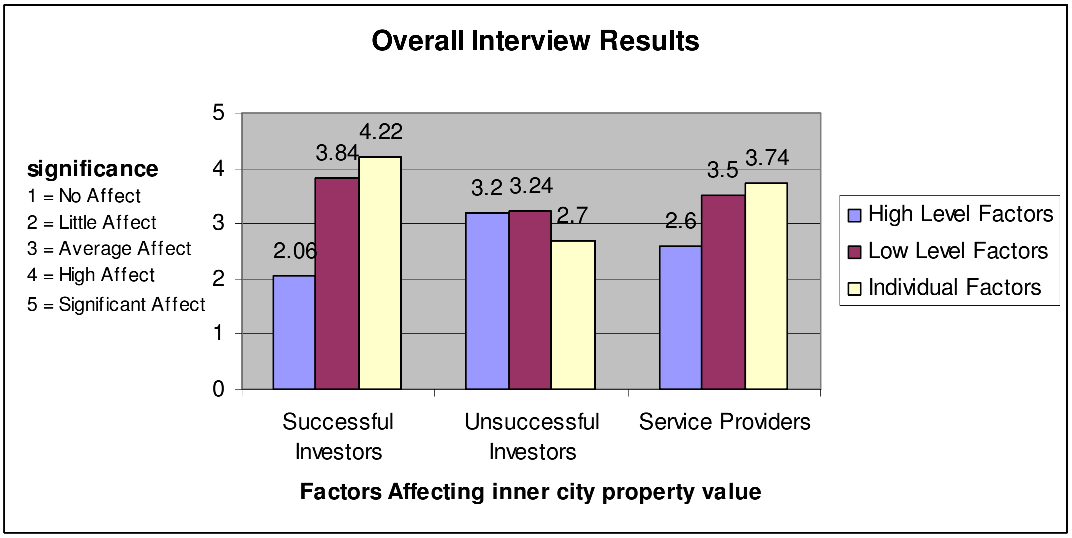
5.2.3 Overall Results and Analysis

From the overall results detailed below, each category was analysed individually.

Table 1: All Participants' Response to the Significance of the Factors Affecting Inner City Residential Property Value

	Results	High Level Factors						Low Level Factors						Individual Factors						
	Successful Investors	**Gov**	**Political**	**Legal**	**Econ**	**Global Situation**	**TOTAL**	**Actual Property**	**Location**	**Crime**	**Enviro**	**Supply & Demand**	**TOTAL**	**Motivation**	**Knowledge & Networking**	**Access finance**	**Mgmt**	**Perception**	**TOTAL**	**TOTAL**
a	Anton de Leeuw	2	1	2	3	2	**10**	4	4	3	3	5	**19**	5	5	5	5	5	**25**	**54**
b	Brian Miller	1	1	4	1	1	**8**	3	3	3	3	5	**17**	4	5	4	5	5	**23**	**48**
c	David Hepburn	2	2	5	2	2	**13**	4	4	3	3	4	**18**	3	4	5	5	5	**22**	**53**
d	Farida Khan	1	1	2	2	2	**8**	5	5	5	5	3	**23**	3	3	3	5	3	**17**	**48**
e	James Welsh	2	2	3	2	2	**11**	4	3	3	3	5	**18**	3	4	5	5	4	**21**	**50**
f	Karen van de Sande	2	3	4	3	2	**14**	5	5	4	3	5	**22**	5	4	3	5	3	**20**	**56**
g	Lindo Smith	2	2	2	2	2	**10**	4	4	4	4	5	**21**	3	3	5	4	5	**20**	**51**
h	Lynette van Rensberg	2	3	3	2	1	**11**	3	4	4	5	4	**20**	4	3	3	4	3	**17**	**48**
i	Paul Erasmus	1	1	1	1	1	**5**	3	3	3	3	3	**15**	5	5	5	5	5	**25**	**45**
j	Yvonne de Leeuw	2	2	4	3	2	**13**	4	4	3	3	5	**19**	5	3	3	5	5	**21**	**53**
	TOTAL	**17**	**18**	**30**	**21**	**17**	**103**	**39**	**39**	**35**	**35**	**44**	**192**	**40**	**39**	**41**	**48**	**43**	**211**	**506**
	Unsuccsesful Investors						**TOTAL**						**TOTAL**						**TOTAL**	**TOTAL**
k	Aubrey Levitt	5	5	5	5	5	**25**	3	3	3	3	3	**15**	2	2	2	2	2	**10**	**50**
l	Clare Azania	5	2	3	2	2	**14**	2	2	2	2	2	**10**	2	2	2	3	4	**13**	**37**
m	Dave Binda	3	3	3	3	3	**15**	4	3	3	2	4	**16**	2	4	3	3	4	**16**	**47**
n	Elias Mashala	5	5	1	1	1	**13**	5	5	5	1	1	**17**	1	1	3	2	1	**8**	**38**
o	Hymie Cohen	4	2	5	2	2	**15**	2	3	2	2	2	**11**	2	2	2	2	2	**10**	**36**
p	Leon Smit	4	4	4	4	4	**20**	3	3	3	3	3	**15**	2	2	2	2	2	**10**	**45**
q	Maggie Raphalema	3	3	5	3	3	**17**	3	2	5	5	2	**17**	2	5	5	2	2	**16**	**50**
r	Michelle Smitsdorff	3	1	2	4	5	**15**	5	5	5	5	2	**22**	1	3	5	3	5	**17**	**54**
s	Thomas Thipana	3	3	3	3	3	**15**	4	4	4	4	4	**20**	4	5	4	4	4	**21**	**56**
t	Tony Massouras	2	2	2	3	2	**11**	2	5	5	5	2	**19**	2	2	5	2	3	**14**	**44**
	TOTAL	**37**	**30**	**33**	**30**	**30**	**160**	**33**	**35**	**37**	**32**	**25**	**162**	**20**	**28**	**33**	**25**	**29**	**135**	**457**
	Service Providers						**TOTAL**						**TOTAL**						**TOTAL**	**TOTAL**
u	Charl Coetzee	2	2	5	5	2	**16**	4	3	3	3	3	**16**	3	3	5	3	3	**17**	**49**
v	Denzel van Heerden	3	5	3	3	3	**17**	3	4	5	3	3	**18**	3	3	3	5	5	**19**	**54**
w	Dube Simiso	2	2	2	5	2	**13**	3	3	3	3	5	**17**	3	3	5	4	4	**19**	**49**
x	Joan du Preez	1	1	1	2	2	**7**	4	5	5	4	5	**23**	3	3	4	3	3	**16**	**46**
y	Kobus Erasmus	1	1	1	1	1	**5**	2	5	4	2	2	**15**	5	5	5	5	5	**25**	**45**
z	Margaret Nkomo	2	2	2	2	2	**10**	3	3	3	3	3	**15**	4	4	5	4	4	**21**	**46**
aa	Margaret Lewis	3	3	5	3	3	**17**	3	3	3	3	3	**15**	3	3	3	3	3	**15**	**47**
ab	Morgan Khumalo	2	2	2	2	2	**10**	2	5	2	2	2	**13**	3	3	5	3	3	**17**	**40**
ac	Sibusiso Mnguni	4	4	4	4	4	**20**	4	4	5	5	4	**22**	1	1	5	5	5	**17**	**59**
ad	Wilna Savio	3	3	3	4	2	**15**	4	4	4	4	5	**21**	5	4	4	4	4	**21**	**57**
	TOTAL	**23**	**25**	**28**	**31**	**23**	**130**	**32**	**39**	**37**	**32**	**35**	**175**	**33**	**32**	**44**	**39**	**39**	**187**	**492**
	TOTAL	**77**	**73**	**91**	**82**	**70**	**393**	**104**	**113**	**109**	**99**	**104**	**529**	**93**	**99**	**118**	**112**	**111**	**533**	**1455**

Figure 2: Overall Interview Results



5.2.4 Successful Investors Results and Analysis

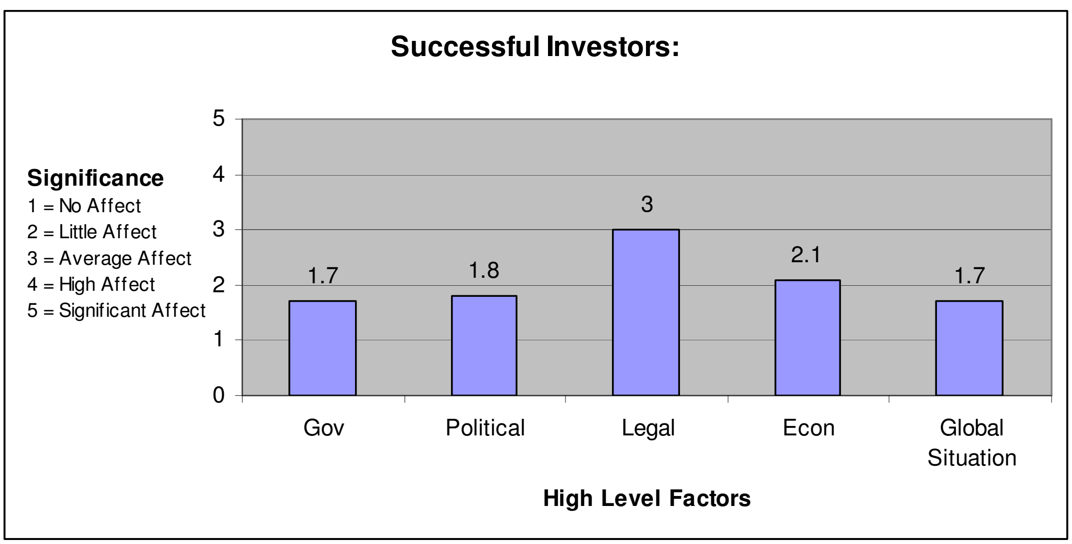
The identified Successful Investors' response to the significance of the identified factors affecting inner city residential property value is tabulated below. Included in the Successful Investors' category are 10 successful inner city property investors who were asked to attach a significance rating to three different categories of factors, each containing five factors.

Table 2: Successful Investors' Response to the Significance of the Factors Affecting Inner City Residential Property Value

Successful Investors	a	b	c	d	e	f	g	h	i	j	TOTAL
High Level Factors											
Government	2	1	2	1	2	2	2	2	1	2	**17**
Political	1	1	2	1	2	3	2	3	1	2	**18**
Legal	2	4	5	2	3	4	2	3	1	4	**30**
Economic	3	1	2	2	2	3	2	2	1	3	**21**
Global Situation	2	1	2	2	2	2	2	1	1	2	**17**
TOTAL	**10**	**8**	**13**	**8**	**11**	**14**	**10**	**11**	**5**	**13**	**103**
Low Level Factors											
Actual Property	4	3	4	5	4	5	4	3	3	4	**39**
Location	4	3	4	5	3	5	4	4	3	4	**39**
Crime	3	3	3	5	3	4	4	4	3	3	**35**
Environment	3	3	3	5	3	3	4	5	3	3	**35**
Supply & Demand	5	5	4	3	5	5	5	4	3	5	**44**
TOTAL	**19**	**17**	**18**	**23**	**18**	**22**	**21**	**20**	**15**	**19**	**192**
Individual Factors											
Motivation	5	4	3	3	3	5	3	4	5	5	**40**
Knowledge & Networking	5	5	4	3	4	4	3	3	5	3	**39**
Access finance	5	4	5	3	5	3	5	3	5	3	**41**
Management	5	5	5	5	5	5	4	4	5	5	**48**
Perception	5	5	5	3	4	3	5	3	5	5	**43**
TOTAL	**25**	**23**	**22**	**17**	**21**	**20**	**20**	**17**	**25**	**21**	**211**
TOTAL	**54**	**48**	**53**	**48**	**50**	**56**	**51**	**48**	**45**	**53**	**506**

The information presented in Table 2 was summarised into three user-friendly figures, as shown below.

Figure 3: Results: Successful Investors: High Level Factors



The average rating that Successful Investors gave to the significance level for High Level Factors was 2, which equates to “Little Affect” on Johannesburg’s inner city residential property value.

As can be seen from the above results, “Government” was seen to have little to no effect on property value within the inner city.

“Global Situation” also scored poorly, with the same result. “Politics” scored only slightly higher, but again Successful Investors agreed that it had little to no effect on property value within the inner city.

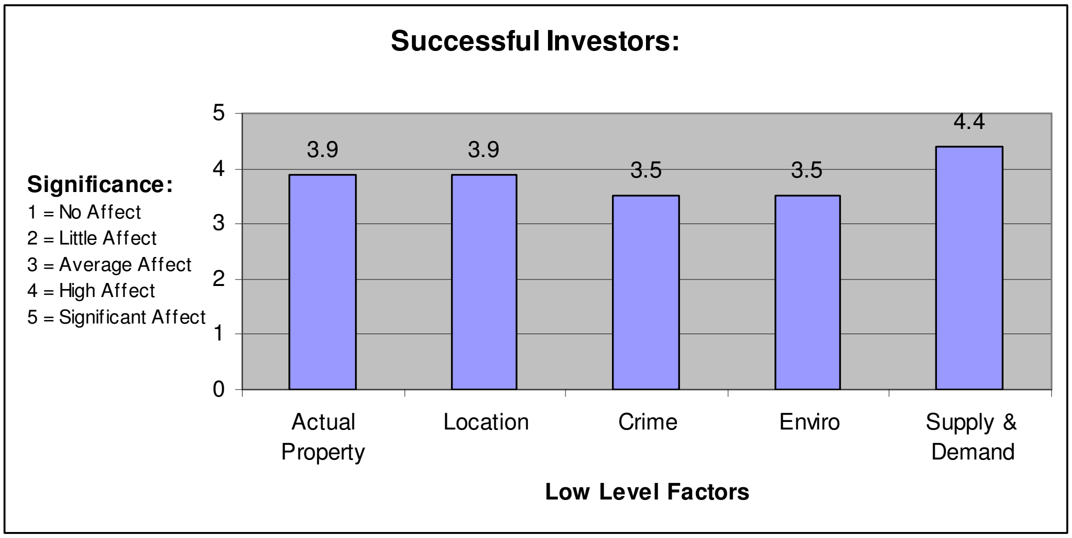
The economy was seen to have an average to little effect on inner city residential property value, mainly owing to the fact that, even though the property market is cyclical, tenants will always need a place to stay and rentals are linked to inflation.

The most important High Level Factor, which scored as having an average effect on inner city residential property values, was “Legal”. Most participants have had first hand experience with the courts in trying to evict illegal occupants from their existing properties or their new purchases and showed some frustration at the cost and time that it takes to remove unwanted occupiers; as well as having to bear the cost of damage done by these people.

David Hepburn felt that it was imperative for government to protect property ownership rights under law and assist in putting an end to building hijacking and illegal occupations.

Brian Miller felt that “legal ability to transfer properties through a functioning municipality and legal system” was of significant importance.

Figure 4: Results: Successful Investors: Low Level Factors



Successful Investors viewed Low Level Factors as having an average to high effect on inner city residential property value.

While both "Crime" and the "Environment" scored the same rating of having average to high effect, the views of the participants were stronger regarding crime.

Crime within the inner city of Johannesburg receives a lot of media attention and is perceived or portrayed by the media as a big stumbling block to investing within the inner city. Farida Khan wanted to see more street lights and felt that "if shops were safer, residents of the inner city would spend more time on the streets at night in an almost European type curb culture", while Lynette van Rensberg reported that she had seen a decease in crime and suggested that proximity to shops and police stations played a role in crime, "as one's property is situated closer to a police station or shop so there seems to be less crime".

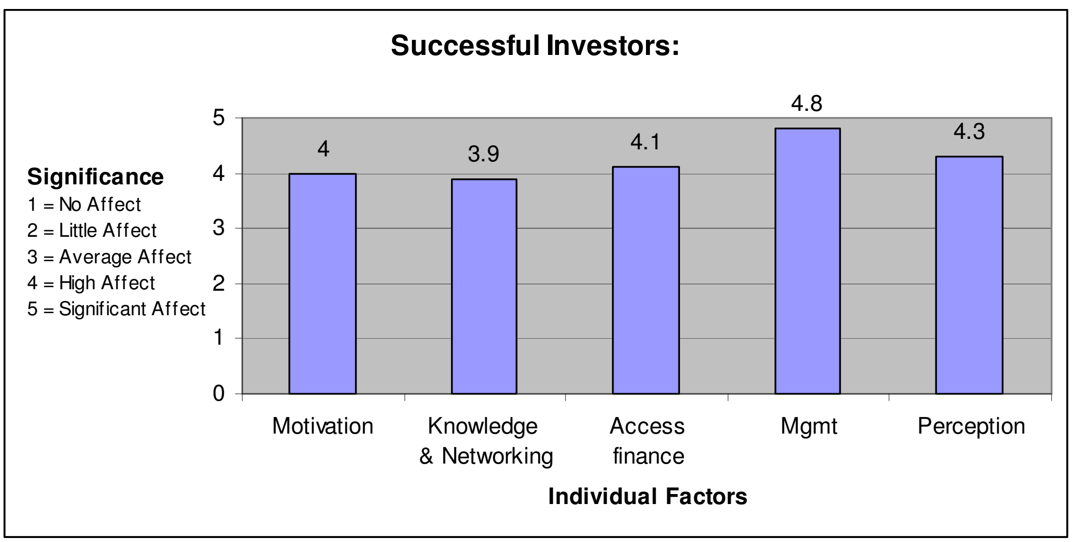
The location of the property and the actual property scored high in terms of the significance that it had on the property value. This was expected as it goes along with popular property theory.

The most important Low Level Factor for Successful Investors was that of "Supply & Demand" of the property. It was mentioned numerous times that until recently there had been high demand for inner city residential properties along with little supply and that this had resulted in property prices being high. However, with recent change in the economy, the supply of inner city residential properties had increased and demand had subsided somewhat, with more stock sitting longer on the market.

Lindo Smith suggested that "younger investors have not yet experienced a full property cycle with declining property values and when that happens there will be a number of small investors that will be forced to sell".

During the responses to open-ended questions it was noted that demand for entire buildings as opposed to single units has remained extremely strong, with very little supply and massive premium being asked.

Figure 5: Results: Successful Investors: Individual Factors



Successful Investors viewed the Individual Factors' category as the most significant, with a rating of "high" to "significant".

"Knowledge & Networking" within the inner city property fraternity was viewed as having a high effect, which in turn led to many good deals being attained. Anton de Leeuw commented: “this is the most significant factor as you make money when you buy a property that is under valued to the market price”.

Motivation of the individual investor was ranked as having a high effect on the value of the property as successful investors know and understand their motivation for buying and investing in certain building and areas. They tend to calculate their expected returns and then make a decision either to continue with the property deal or move on to the next transaction.

“Access to Finance” showed that it had a high to significant effect; most of the investors were highly leveraged and they noted that, since the introduction of the National Credit Act, credit was harder to come by, thus leading to some missed opportunities. James Welsch noted that “no deals would be possible without finance from the banks”.

All but two of the 10 Successful Investors ranked “Management” as having a significant affect; it is noted that this factor rated highest of all the factors, as management was viewed as the crucial element in the success or failure of a property portfolio. Paul Erasmus noted that “even a building in poor appearance and in a questionable area can be a good investment with the right management, whereas a good building in a good area may become a bad investment due to poor management”. Karen van de Sande stated that the investor’s ability to be involved and take control of the building by “managing the tenants, collecting rentals on time and not allowing overcrowding” were key to successful investing, while Brian Millar and Anton de Leeuw agreed that availability of a good managing agent was crucial to the success of that property.

5.2.5 Unsuccessful Investors Results and Analysis

The Unsuccessful Investors’ response to the significance of the identified factors affecting inner city residential property value is tabulated below.

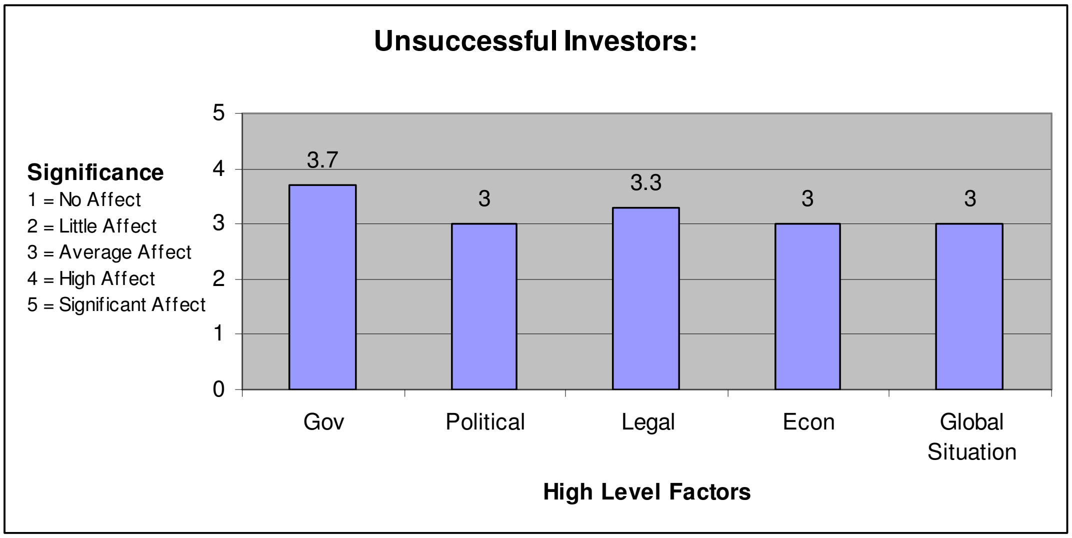
Included in the Unsuccessful Investors' category are 10 unsuccessful inner city property investors, who were asked to attach a significance rating to three different categories of factors containing five factors in each.

Table 3: Unsuccessful Investors' Response to the Significance of the Factors Affecting Inner City Residential Property Value

Unsuccessful Investors	k	l	m	n	o	p	q	r	s	t	**TOTAL**
High Level Factors											
Government	5	5	3	5	4	4	3	3	3	2	**37**
Political	5	2	3	5	2	4	3	1	3	2	**30**
Legal	5	3	3	1	5	4	5	2	3	2	**33**
Economic	5	2	3	1	2	4	3	4	3	3	**30**
Global Situation	5	2	3	1	2	4	3	5	3	2	**30**
TOTAL	**25**	**14**	**15**	**13**	**15**	**20**	**17**	**15**	**15**	**11**	**160**
Low Level Factors											
Actual Property	3	2	4	5	2	3	3	5	4	2	**33**
Location	3	2	3	5	3	3	2	5	4	5	**35**
Crime	3	2	3	5	2	3	5	5	4	5	**37**
Environment	3	2	2	1	2	3	5	5	4	5	**32**
Supply & Demand	3	2	4	1	2	3	2	2	4	2	**25**
TOTAL	**15**	**10**	**16**	**17**	**11**	**15**	**17**	**22**	**20**	**19**	**162**
Individual Factors											
Motivation	2	2	2	1	2	2	2	1	4	2	**20**
Knowledge & Networking	2	2	4	1	2	2	5	3	5	2	**28**
Access finance	2	2	3	3	2	2	5	5	4	5	**33**
Management	2	3	3	2	2	2	2	3	4	2	**25**
Perception	2	4	4	1	2	2	2	5	4	3	**29**
TOTAL	**10**	**13**	**16**	**8**	**10**	**10**	**16**	**17**	**21**	**14**	**135**
TOTAL	**50**	**37**	**47**	**38**	**36**	**45**	**50**	**54**	**56**	**44**	**457**

The information presented in Table 3 was summarised into three user-friendly figures, as shown below.

Figure 6: Results: Unsuccessful Investors: High Level Factors



Unsuccessful Investors viewed the High Level Factors category as having an average to high effect on inner city residential property values. In their view the effect that government has on their investment was high, as government is responsible for keeping law and order as well as maintaining and upgrading the area; in most cases they suggested that their investments' failure was due in large part to government's failure.

Maggie Raphalema suggested that it was government's responsibility to sort out her municipality account as council had overcharged her on her properties. Currently one of her properties is being sold by way of a sale in execution owing to non-payment of municipal bills.

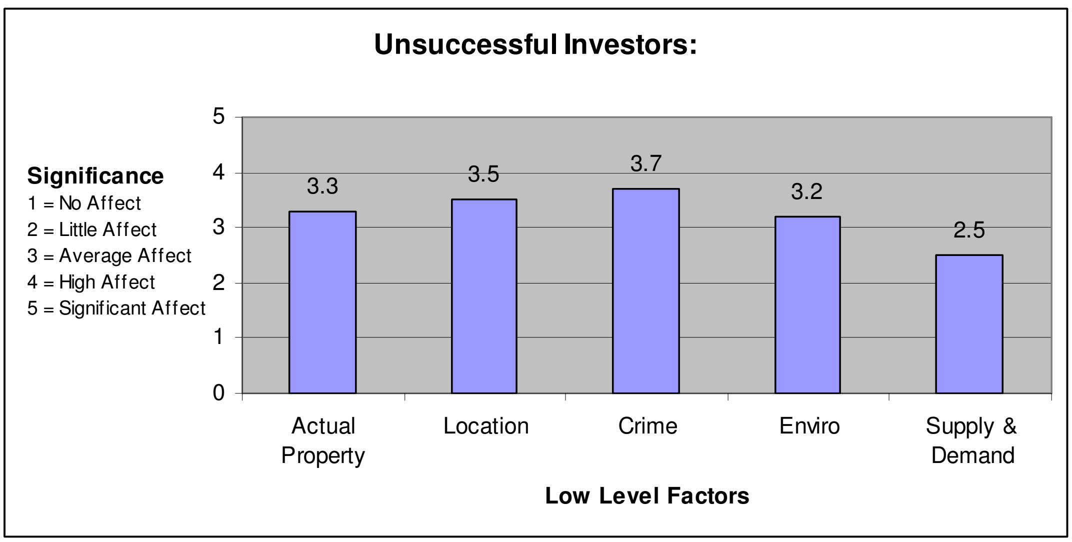
The second-highest rating in the category was for "Legal". As most of these Investors had either lost property or were about to lose their properties through being auctioned off owing to their outstanding debts not being settled, their emphasis on this factor was understandable.

It was noted that Aubrey Levitt, firstly, "tried to use the courts to remove illegal occupants and non-rent payers but to no avail" and that, secondly, when he was unable to remove the illegal occupants from his property, he approached council to terminate services (electricity and water supply) to the property, which it refused to do on the basis that this was unconstitutional.

Clare Azania had similar problems with illegal occupants and after many battles with council and the courts had emigrated and abandoned her property.

The "Political", "Economic" and "Global Situation" categories all ranked as having an average effect on inner city residential property values. The reason for this seems to be that these participants had acquired their properties before the property boom and owed little to the financial institutions; however, some were unable to collect rent and the economy or global situation, therefore, had only an average effect.

Figure 7: Results: Unsuccessful Investors: Low Level Factors



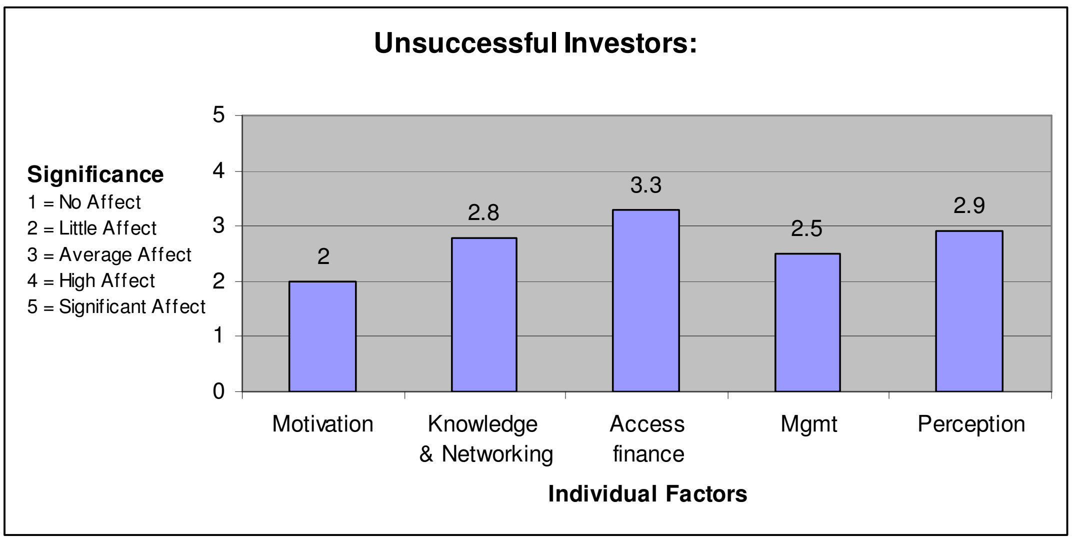
Unsuccessful Investors viewed the Low Level Factors category as having an average to high effect on inner city residential property values.

"Crime" and "Location" were both viewed as having a high effect. While most of the participants emphasised crime as being a major problem, it is noted that the majority of their property holdings were situated in reasonably safe areas and at times within the vicinity, and in some cases in the same buildings, as some of the Successful Investors' properties.

The "Actual Property" and the "Environment" around it also attained a score of having an average to high effect. It was noted that some of the participants had not been to their properties for some time and could not comment on their current state of repair.

"Supply & Demand" did not feature highly and achieved a little to average effect rating.

Figure 8: Results: Unsuccessful Investors: Individual Factors



This was the category which Unsuccessful Investors viewed as having the least effect out of the three categories, with an average rating of little to average effect on inner city residential property values.

"Access to Finance" was an important topic and was rated as having an average to high effect. It was noted that some of the participants felt that if they had access to more money they would or could have upgraded their units/building and sorted out the illegal occupiers that had moved in.

Michelle Smitsdorff stated: "as interest rates increased so did my bond costs and I was unable to afford the property and had to sell it at whatever I could get". This amount ended up being less than she owed on it and she had to pay money the conveyancer to ensure that it was transferred.

As was noted from Thomas Thipana, the lack of access to finance saw all his property-related costs increasing, and he was forced to sell because the property had already been attached by the sheriff.

Both “Knowledge & Networking” and “Perception” of the inner city rated as having little to average effect and did not feature highly in the discussions.

Surprisingly “Management” only received a little too average effect rating; however, it was the lack of management that in most cases had led to the demise of these investors’ properties.

Both Hymie Cohen and Aubrey Levitt had entrusted the building caretakers to collect rent on their behalf. The caretakers had collected the monies and not paid them to the owners, which had left the owners in a situation of having the expenses for the building but no income.

5.2.6 Service Providers Results and Analysis

The identified Service Providers’ response to the significance of the identified factors affecting inner city residential property value is tabulated below.

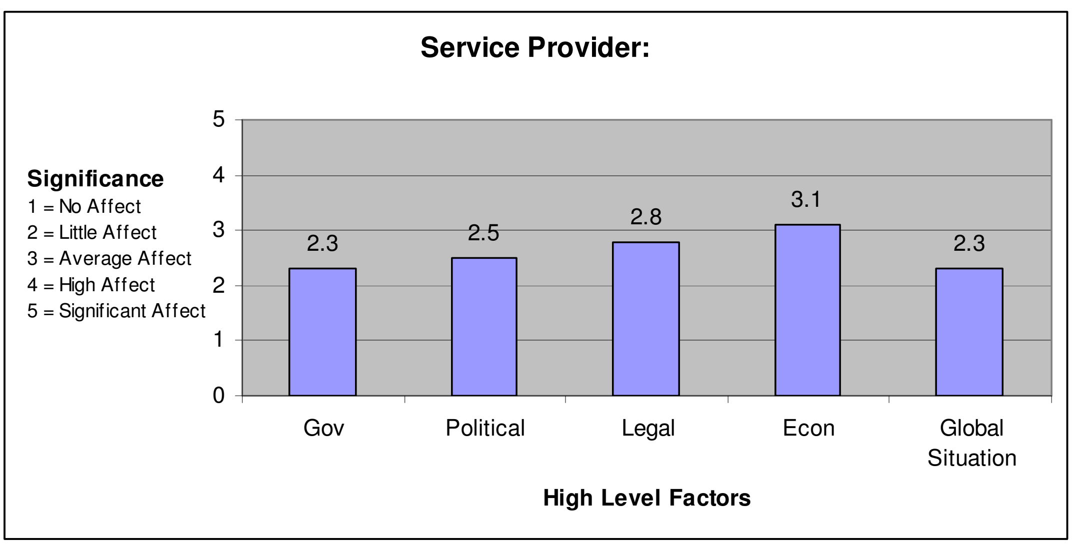
Included in the Service Providers category are 10 participants who offer professional services to investors within the inner city of Johannesburg. These Service Providers were asked to attach a significance rating to three different categories of factors, each containing five factors.

Table 4: Service Providers' Response to the Significance of the Factors Affecting Inner City Residential Property Value

Service Providers	u	v	w	x	y	z	aa	ab	ac	ad	TOTAL
High Level Factors											
Government	2	3	2	1	1	2	3	2	4	3	**23**
Political	2	5	2	1	1	2	3	2	4	3	**25**
Legal	5	3	2	1	1	2	5	2	4	3	**28**
Economic	5	3	5	2	1	2	3	2	4	4	**31**
Global Situation	2	3	2	2	1	2	3	2	4	2	**23**
TOTAL	**16**	**17**	**13**	**7**	**5**	**10**	**17**	**10**	**20**	**15**	**130**
Low Level Factors											
Actual Property	4	3	3	4	2	3	3	2	4	4	**32**
Location	3	4	3	5	5	3	3	5	4	4	**39**
Crime	3	5	3	5	4	3	3	2	5	4	**37**
Environment	3	3	3	4	2	3	3	2	5	4	**32**
Supply & Demand	3	3	5	5	2	3	3	2	4	5	**35**
TOTAL	**16**	**18**	**17**	**23**	**15**	**15**	**15**	**13**	**22**	**21**	**175**
Individual Factors											
Motivation	3	3	3	3	5	4	3	3	1	5	**33**
Knowledge & Networking	3	3	3	3	5	4	3	3	1	4	**32**
Access finance	5	3	5	4	5	5	3	5	5	4	**44**
Management	3	5	4	3	5	4	3	3	5	4	**39**
Perception	3	5	4	3	5	4	3	3	5	4	**39**
TOTAL	**17**	**19**	**19**	**16**	**25**	**21**	**15**	**17**	**17**	**21**	**187**
TOTAL	**49**	**54**	**49**	**46**	**45**	**46**	**47**	**40**	**59**	**57**	**492**

The information provided in Table 4 was summarised into three user-friendly figures, as shown below.

Figure 9: Results: Service Providers: High Level Factors



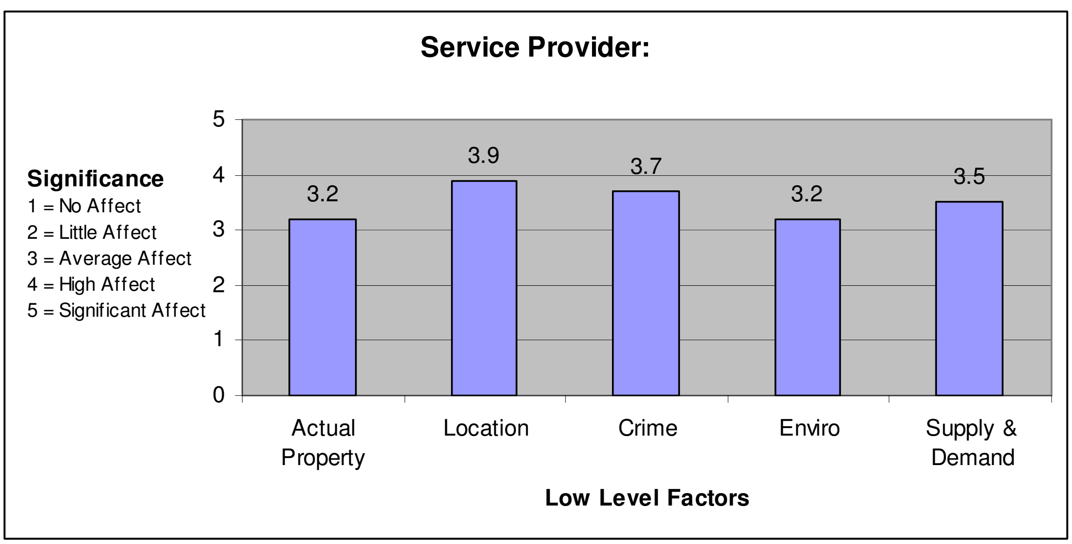
Service Providers viewed the High Level Factors category as having a little too average effect on inner city residential property values. In their view the "Economy" played the most important role; they felt that when the economy was doing well as a whole, then the value of inner city residential property values were high, as opposed to the situation we now find ourselves in where the economy has cooled and so have property values.

It was noted that conveyancers and estate agents had seen a major contraction in sales within the inner city residential property market and were having to downscale their operations to "weather the storm".

A functioning and effective legal system to protect the rights of property owners was seen as the second-most important of the High Level Factors; however, it only ranked as having little to average effect.

"Government", "Political" and the "Global Situation" were all ranked as having little to average effect on property values. These views were similar to those of the Successful Investors category. The Service Providers were of the view that success in property investment could be achieved in spite of the above High Level Factors.

Figure 10: Results: Service Providers: Low Level Factors



Service Providers viewed the Low Level Factors category as having an average to high effect on inner city residential property values.

In their view the “Location” of the property was important, and they believed that if their property was in the right location it would be safe by association with the other properties.

Service Providers also rated the affect that “Crime” has on property as high, with Denzil van Heerden commenting that the “militant behaviour of non-paying tenants was getting worse” and “if the wrong criminal element gets into your building it would be very difficult to save that building”.

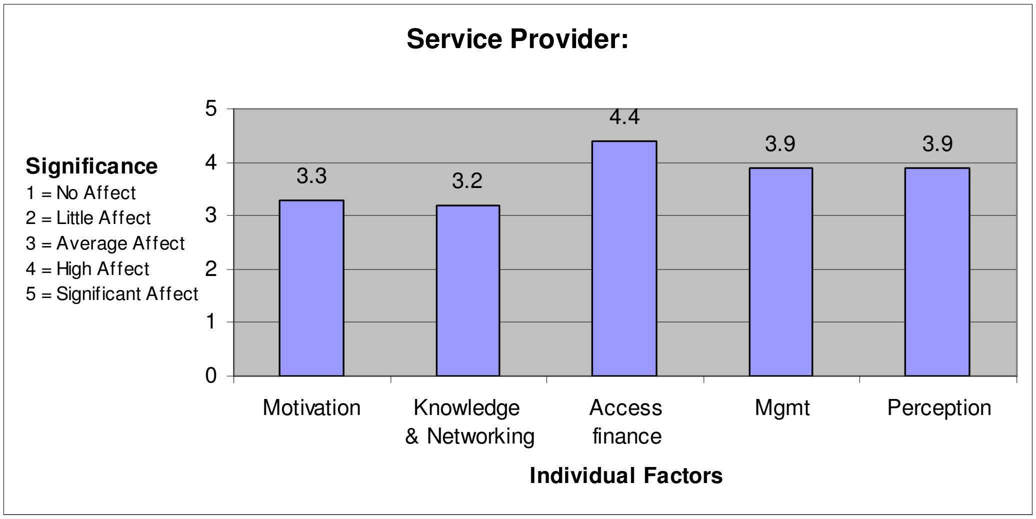
Service Providers viewed “Supply & Demand” of properties in the target area as also playing an important role; as demand increased they noted a rise in property values, with the converse also being noted.

Dube Simiso, however, noted that “if somebody has to sell, there will always be a willing buyer; however, they may not offer what the seller wants”.

The actual property and the environment scored an average effect rating; it was noted that most Service Providers felt that if one had chosen the right location the properties within that area were all of similar quality.

Two noteworthy observations were made: firstly, Margaret Lewis, an attorney and conveyancer, noted that all the factors play a part in affecting residential property value and that it is difficult trying to rate which factors are more important than others. Secondly, both Charl Coetzee and Wilma Savio mentioned proximity to place of work as being significant in inner city residential property values, and cited traffic flow, traffic congestion, availability of parking, commuting time and fuel prices as playing a significant role.

Figure 11: Results: Service Providers: Individual Factors



Service Providers viewed the Individual Factors category as having an average to high effect on inner city residential property values. In their view, "Access to Finance" was crucial, with many Service Providers stating that this was the largest single factor affecting inner city residential property.

Margaret Nkomo stated that if an investor had access to finance they could buy in the right area and building, renovate their property, and manage and maintain it.

It was also noted that there is currently a credit crunch when it comes to property finance and that as a result of the National Credit Act fewer people are qualifying for finance.

Service Providers viewed "Management" as having a high significance on inner city residential property values. Management by investors of their existing property portfolio by themselves, a managing agent or caretaker has a high effect on the property value, and it was noted that few investors who had mastered "Access to Finance" and "Management" factors correctly ever lost value on their property investments.

Kobus Erasmus stated: "even if you buy into a bad building with the right management in place you can turn the building around”.

“Perception” is another category which rated as having a high effect on the value of inner city residential property; Service Providers said that perception of Johannesburg’s inner city varied drastically among their clients. Some view the inner city in a positive light while others are extremely negative. However, during the recent positive perception stage, the inner city residential property values seem to have escalated significantly.

According to the Service Providers, “Motivation” and “Knowledge & Networking” of the investor only resulted in an average effect on the properties’ values.

5.3 Research Propositions

5.3.1 Proposition One

On the basis of the literature review, Research Proposition One stated that High Level Factors influence residential property value in the inner city of Johannesburg and include:

- Government
- Political
- Legal
- Economic
- Global Situation

The original proposition is partially accepted since the above High Level Factors do influence residential property value in the inner city of Johannesburg.

Successful Investors felt that High Level Factors had the least effect on inner city residential property value, scoring the overall category as having little effect.

It was noted that the participants indicated that "legislative and statutory controls" was a major factor influencing residential property value, and that having a fair and efficient legal system was important when it came to enforcing owners' rights and ensuring that the rule of law is upheld; this received a rating of having an average effect.

Oakley's (2007) view that "hijacking of buildings in the inner city of Johannesburg has seen many empty and occupied buildings being hijacked by undesirables, leading to the building being unmanageable and a loss of income" was supported by the participants.

In contrast to the Successful Investors, the Unsuccessful Investors felt that High Level Factors had an average effect, with some components such as "Government" scoring a high effect.

According to Gardner (2005; Pg: 21), the Prevention of Illegal Eviction and Unlawful Occupation of Land Act, 1998 (PIE) "has resulted in a fiscal burden on behalf of the landowners". This view was supported by those who have had firsthand experience of this.

Unsuccessful Investors felt that the government had let then down by not protecting their investments. A common comment was that government afforded the illegal occupants more rights than the landlord, in that, although the illegal occupants were not paying for services (electricity and water), the council refused to terminate these services to the property on the grounds that this was unconstitutional.

Some participants were in the process of having their property ownership challenged in the courts by those illegally inhabiting the premises.

Service Providers agreed with the Successful Investors that this was the least important of the three categories; however, many made mention that the state of the economy as a whole does affect property values.

After the implementation of the National Credit Act in June 2007, Ooba (2008) noted that about one-third of home loan applications were being declined. Taking into consideration Davidson's (1973) view that "most people are more concerned with how much their monthly payments will be than with how much the house will cost" and the increase in interest rates and decrease in lending, this has had a significant effect on the inner city residential property market.

5.3.2 Proposition Two

On the basis of the literature review, Research Proposition Two stated that Low Level Factors influence residential property value in the inner city of Johannesburg and include:

- Actual Property
- Location
- Crime
- Environment
- Supply & Demand

The original proposition is accepted since the above Low Level Factors do have an influence on residential property value in the inner city of Johannesburg.

For Successful Investors this was the second-most important category; they felt that while the actual property and its location had a high effect on the properties' value, it was the "Supply & Demand" of those properties which had a significant effect as this created the market place in which transactions occur. This is evidenced by Light (2000), who suggests that the market conditions within which the property finds itself will influence the value of that property.

It was noted that much had been done within the inner city to address Low

Level Factors such as crime and the environment and that these did have a positive effect on inner city residential property values. Successful Investors agree with Leggett (2003; Pg: 26) that the "level of crime has decreased significantly over the past two years" and that the high level of crime had deterred investors "as the major deterrent to people visiting and investing in the inner city is fear of crime" (Boraine et al, 2006; Pg: 63).

Unsuccessful Investors felt that this category was the most important and singled out crime and location of the property as having the most effect. For these participants, location of the property was linked to the amount of crime in the area, and, as all of these investors had made a loss on their investments, they cited crime as being one of the reasons for their loss. It was also noted that owing to the high crime rate in the location of their investments many of the Unsuccessful Investors had handed responsibility of their properties to a third party, usually a trusted caretaker living in the building.

Service Providers again agreed with the views of the Successful Investors, and rated this as their second-most important category; however, it was noted that the two factors of crime and location had a high effect on value of inner city residential property.

Most of the Service Providers do not venture into the inner city and when asked if the inner city of Johannesburg was a good investment showed some hesitation as to whether they would consider investing there themselves.

Service Providers agreed with Lehrer (2000; Pg: 141) that "reducing crime pays" and felt that as crime has reduced so property values have increased.

5.3.3 Proposition Three

On the basis of the literature review, Research Proposition Three stated that Individual Level Factors influence residential property value in the inner city of Johannesburg and include:

- Motivation
- Knowledge & Networking
- Access to finance
- Management
- Perception

The original proposition is accepted since the above Individual Level Factors do have an influence on residential property value in the inner city of Johannesburg.

Successful Investors indicated that the Individual Factors category was the most important of all the categories. Participants gave this the highest rating of all groups, with an almost 100% agreement that management of the property was significant in protecting the properties' value as well as one's investment.

For Successful Investors, making sure that their investments were managed properly, whether personally or through a company or managing agent, was crucial.

The second-highest score in the category was that of perception. Successful Investors felt that the perception of the investment community as a whole could lead to areas becoming targeted as "hotspots" or conversely being "dumped" as no go areas.

Perception of the inner city of Johannesburg has changed from "The City of Filth" (City Press, 1997; Pg: 4), and "murder capital of the world and the most dangerous city outside the war zone" (Sunday Times, 1997) to Turner & Townsend's (2005; Pg: 1) view that "crime rates are down, occupancy rates are up, investment is increasing as confidence improves and cleanliness has returned".

"Access to Finance" ranked as having a high effect on the value of residential property values within the inner city if Johannesburg. A problem facing many investors is that of obtaining funding: “Attracting investment and finance into inner-city and other renewal areas poses particular difficulties and is frequently reliant on strong public-sector commitment” (Adair et al, 2003; Pg: 14). According to Crankshaw (2000; Pg: 819), without financing “the cycle of physical decline was accelerated by the refusal of the financial institutions to make credit available to landlords and owner-occupiers”.

“Motivation” of the investor and “Knowledge & Networking” also ranked as having a high effect on the value of residential property values within the inner city of Johannesburg.

Unsuccessful Investors rated this category as only having little to average effect on residential property values. Access to finance, or rather lack of access to finance, was noted by numerous participants in this group as having played a significant role in the demise of their investment. Unsuccessful Investors felt that if they had had access to finance they could have held onto their property a little longer, until the market turned or their problems with non-paying occupants could be sorted out.

It was noted that for every distressed property for sale there are numerous buyers in the market waiting to purchase these properties at a bargain price. During the past five years, most distressed properties had been sold prior to going to a sale in execution.

Service Providers once again had similar results to those of the Successful Investors group; these participants felt, as did the Unsuccessful Investors, that “Access to Finance” was the most important category out of the stated factors and that without finance one was “dead in the water” and had little option but to sell at whatever price one was offered.

“Management” and “Perception” were also rated as having a high effect on the value of residential property values in the inner city of Johannesburg, especially when it came to bigger building situations in or around Hillbrow.

Service Providers felt that it was the fact that Successful Investors ranked the importance of the Individual Factors higher than did the Unsuccessful Investors that set them apart. It was also noted that Successful Investors had more involvement and control over their investments, and that they felt that they were ultimately responsible for what happened to their investments. This meant that they exercised more management and control of their properties. Successful Investors displayed a more distinct internal locus of control, while the Unsuccessful Investors largely felt that the ultimate success of their investment lay in the hands of High and Low Level Factors such as government interventions and crime in the area.

5.3.4 Proposition Four

On the basis of the literature review, Research Proposition Four stated that Successful Investors and Unsuccessful Investors will view and score the major factors that influence residential property value in the inner city of Johannesburg differently.

The original proposition is accepted as correct, with Successful Investors and Unsuccessful Investors viewing and scoring the major factors that influence residential property value in the inner city of Johannesburg differently. However, both sets of investors had similar views on the influence of factors in categories such as “Legal”, “Crime” and the “Environment” on inner city property values.

Chapter 6

6 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusion

It has been the renewal of the inner city of Johannesburg in recent times that has created an environment which has attracted investors in search of profit. There are numerous factors influencing Johannesburg's inner city residential property values; all these factors need to be considered as a whole when one is considering investment within the inner city. The above research looked at the numerous factors in three broad categories: High Level Factors, Low Level Factors and Individual Factors, from the point of view of three groups of participants: Successful Investors, Unsuccessful Investors and Service Providers to the investors. Although Successful Investors and their Service Providers viewed the significance of the factors in a similar way, one needs to focus on and excel in all factors to ensure that one is successful. What has emerged is that the individual himself, his contacts and network, his access to finance, his ability to either manage the property himself or source a reputable management agent and his ability to take responsibility for his investment, is what inevitably leads to success within the inner city of Johannesburg's property market.

6.2 Recommendations for Further Research

From the above research it can be seen that there are a large number of factors that affect property values and that in order to be a Successful Investor within the inner city of Johannesburg one needs to understand how all of these factors affect one's investment and to make sure that even if one does not have the necessary skills to succeed at dealing with all the factors one needs at the least to get someone who is, to help one cover all of one's bases

Further research could include:

- The impact of foreign property ownership on South African property market
- Determining the real return on investment in the inner city of Johannesburg
- An investigation and evaluation of the impact of illegal foreign immigrants on the inner city of Johannesburg
- An identification and evaluation of the property investment opportunities in the inner city of Johannesburg
- An investigation into what impact the inner city renewal has had on property investments
- An investigation into the effect of rising black property ownership on the property market

Two other avenues for research include, firstly, investigating the influx of Zimbabweans into the inner city of Johannesburg as a result of the Zimbabwean crisis. This influx has led to overcrowding and the deterioration of investors' property. It may, however, lead to increased rentals owing to increased demand. The second avenue, which relates to the first, is to investigate the effect of xenophobia on inner city residential property value.

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8. APPENDIX

Appendix A: List of Participants

No	Name	Organisation	Title
SUCCESSFUL INVESTORS			
a	Anton de Leeuw	YDL Property Investment	Director
b	Brian Miller	iTemba Property Trust	Director
c	David Hepburn	Schindlers Attorneys	Partner
d	Farida Khan	Entrepreneur / Investor	Investor
e	James Welsh	Entrepreneur / Investor	Investor
f	Karen van de Sande	Entrepreneur / Investor	Investor
g	Lindo Smith	Entrepreneur / Investor	Investor
h	Lynette van Rensberg	Entrepreneur / Investor	Investor
i	Paul Erasmus	Entrepreneur / Investor	Investor
j	Yvonne de Leeuw	Inner City Property Safari	Director
UNSUCCESSFUL INVESTORS			
k	Aubrey Levitt	Entrepreneur / Investor	Investor
l	Clare Azania	Entrepreneur / Investor	Investor
m	Dave Binda	Theta Investments	Agent
n	Elias Mashala	Entrepreneur / Investor	Investor
o	Hymie Cohen	Attorney – Estates Executor	Partner
p	Leon Smit	Property Renovator	Investor
q	Maggie Raphalema	Entrepreneur / Investor	Investor
r	Michelle Smitsdorff	Entrepreneur / Investor	Investor
s	Thomas Thipana	Entrepreneur / Investor	Investor
t	Tony Massouras	Entrepreneur / Investor	Investor
SERVICE PROVIDERS			
u	Charl Coetzee	Louw Coetzee & Malan Inc.	Partner
v	Denzel van Heerden	SPM – Property Portfolio Manager	Manager
w	Dube Simiso	Zulburg Estate cc	Agent
x	Joan du Preez	Homenet One Hundred	Agent
y	Kobus Erasmus	Sectional Title Portfolio Management	Director
z	Margaret Nkomo	Adrian Hersch Properties cc	Agent
aa	Margaret Lewis	Margaret Lewis Attorneys Inc	Owner
ab	Morgan Khumalo	Khumalo's Gates	Owner
ac	Sibusiso Mnguni	Tandem Properties	Estate Agent
ad	Wilna Savio	Pangbourne Property Brokers	Manager

Appendix B: Interview Questions

Interview Questions:

The interview consisted of semi-structured, in-depth interviews with the identified stakeholders; a number of open-ended questions were asked to encourage full coverage of the subject and aid in gathering any other relevant data not covered by the initial question.

The Question: **“**What factors affect residential property values in the inner city of Johannesburg?”

Other questions that may have been asked:

1. How many properties do you own, and where?
2. Are you an investor or a speculator?
3. What were your purchase prices and what are the properties worth today?
4. Are your properties cashflow positive or negative?
5. What factors made them ‘good’ or ‘bad’ investments?
6. Do you bond the properties, and to what extent?
7. Do you manage your properties yourself or out-source this function?
8. How do you source and check tenants?
9. How regularly do you inspect your property?
10. What is your rent collection rate?
11. How do you deal with difficult tenants or tenants that default or overcrowd?
12. Do you regularly maintain or upgrade your property?
13. Do you invest in additional security?
14. Are the above factors important?
15. Why do you think you have been successful / unsuccessful?
16. How do you define success?
17. Why do you think some have been unsuccessful / successful?
18. How do you define unsuccessful?
19. What do you think about the future of the inner city of Johannesburg?