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THE INFLUENCE OF THE MANDATE SYSTEM AND THE POLITICAL IDEOLOGICAL PERSUASION ON THE PERFORMANCE OF SOUTH AFRICA'S REAL ESTATE INDUSTRY

By

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DECLARATION BY CANDIDATE

I declare that THE INFLUENCE OF THE MANDATE SYSTEM AND THE POLITICAL IDEOLOGICAL PERSUASION ON THE PERFORMANCE OF SOUTH AFRICA'S REAL ESTATE INDUSTRY is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of references and that this work has not been submitted for any other qualification at any other institution.

Freddy Marilahimbilu Mgiba

15/09/2016
Date

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Abstract

Purpose: The impact of the mandate type used and real estate agents' ideological outlook on conflict of interests and compromising of principals' interests together with their effect on the ultimate outcomes has largely been ignored in the South African real estate industry. The purpose of this study was to investigate the effects of dual mandate system and ideology on the outcomes to buyers and sellers of properties. This was achieved by investigating their influence on the conflict of interests and compromising the interests of the principals and how these in turn lead to suboptimal outcomes for the industry.

Method: Stratified random sampling was used for information gathering. Data were collected using face-to-face filling in of the survey instrument and 204 participants agreed to take part in the study. Confirmatory factor analysis (CFA) was employed to assess the reliability and validity of the results.

Findings: The results reveal that the dual mandate system and ideological persuasion of actors in the real estate industry does positively impact on conflict of interests and also compromises the interests of the principals. Conflict of interests and compromising principals interests have also been found to negatively affect the resultant outcomes for the principals.

Practical implications: The dual mandate system should be reconsidered with the view of revising or changing it altogether. Also, practices of real estate agents should be closely monitored by relevant authorities to ensure that they do not disadvantage other consumers. Insights gained from this study provide the basis for future policy-making by government and for academic activity on training of new real estate agents. The findings of this study are expected to assist the Estate Agency Affairs Board (EAAB) as the custodians of licensing of real estate agents.

Research limitations: The participants were all from Gauteng Province which might limit generalizability prospects to other provinces. Also, some respondents might have given biased responses by attempting to prove that they were not ignorant of how the industry operates.

Key concepts: Dual mandate system, Ideological outlook, Conflict of interests, compromising of principals and Outcomes.

Table of Contents

CHAPTER 1 1
OVERVIEW OF THE STUDY 1
1.1: INTRODUCTION 1
1.2: STATEMENT OF THE PROBLEM 2
1.3: WHAT IS KNOWN IN THE FIELD 8
1.4: PURPOSE OF STUDY 9
1.4.1: Theoretical objectives 9
1.4.2: Primary Empirical Objectives 10
1.4.3: Secondary Empirical Objectives 11
1.4.4: Contribution of the Study 11
1.4.5: Industry operation framework 14
1.5: RESEARCH QUESTIONS 14
1.5.1: Primary Research Questions: 15
1.5.2: Secondary Research Questions 15
1.6: PROPOSED CONCEPTUAL MODEL AND HYPOTHESES STATEMENTS 16
1.6.1: Proposed Conceptual model 16
1.6.2: Hypotheses statements 16
1.7: PROCESS OVERVIEW 17
1.7.1: Process overview 17
1.7.2: Programme organisation 17
1.8: CHAPTER 1 SUMMARY 18
CHAPTER 2 20
AN OVERVIEW OF THE REAL ESTATE INDUSTRY IN SOUTH AFRICA 20
2.1: INTRODUCTION 20
2.2: CHAPTER OBJECTIVES 20
2.3: SA GOVERNMENT DEPARTMENTS AND THEIR ROLE IN THE REAL ESTATE INDUSTRY 23
2.3.1: Department of Human Settlements (DHS) 23
2.3.2: National Treasury (NT) 23
2.3.3: Department of Justice and Constitutional Development (DJCD) 24
2.3.4: Department of Rural Development and Land reform (DRDLR) 24

2.3.5: Department of Trade and Industry (DTI) 24
2.4: HOW REGULATORY BODIES INFLUENCE THE REAL ESTATE INDUSTRY 24
2.4.1: The Estate Agency Affairs Board (EAAB) 25
2.4.2: The South African Reserve Bank (SARB) 25
2.4.3: Financial services board (FSB) 28
2.4.4: Financial Intelligence Act (FICA) 29
2.4.5: National Credit Regulator (NCR) 30
2.4.6: South African Revenue Services (SARS) 33
2.4.7: Lawyers/Conveyancers 34
2.4.8: Deeds Office (DO) 35
2.5: THE PRIVATE SECTOR AND THE CONSUMER 35
2.5.1: Banks and other real estate financiers 36
2.5.2: Real estate firms and real estate agents 37
2.5.2.1: The marketing role of the firms and agents and how that affects the 39
2.5.3: Sellers and buyers of real estate 41
2.5.5: Registration process flows and organogram of property transaction 46
2.6: CHAPTER 2 SUMMARY 49
CHAPTER 3 50
LITERATURE REVIEW 50
3.1: INTRODUCTION 50
3.2: RELEVANT ECONOMIC THEORY TO THE REAL ESTATE INDUSTRY: THE AGENCY THEORY (AT) 51
3.2.1: Definitions 51
3.2.2: Legal context of the agency theory and Principal-Agent (PA) relationship 52
3.2.3: Elements of the Agency theory and the principal agent relationships 54
3.2.4: Assumptions in the agency theory 54
3.2.5: Duties of agents in a PA relationship 55
3.3: REAL ESTATE INDUSTRY ISSUES INHERENT IN THE PRINCIPAL-AGENT RELATIONSHIPS 56
3.3.1: Trust: the glue that holds the principal-agent relationship 56
3.3.2: Information asymmetry (IA) in the principal-agent relationship 59
3.4: PRINCIPAL-AGENT RELATIONSHIP IN THE SA REAL ESTATE INDUSTRY 63
3.4.1: Dual mandate system (DMS) in general 63
3.4.2: Dual mandate system application to the SA real estate industry 64
3.5: IDEOLOGICAL OUTLOOK (IO) OF MAJOR ACTORS 66

3.5.1: Ideology: General 66
3.5.2: Applicability of ideological outlook to practices in the SA real estate industry 67
3.6: MAJOR ROLES PLAYED BY REAL ESTATE AGENTS IN THE SOUTH AFRICAN REAL ESTATE INDUSTRY 67
3.6.1: Valuation and pricing role of real estate agents in the South African real estate industry 68
3.6.2: The Marketing role of real estate agents 73
3.7: POSSIBLE IMPACT OF THE DUAL MANDATE SYSTEM AND IDEOLOGY 78
3.7.1: Conflict of interests (COI) in the principal-agent (PA) relationship 78
3.7.2: Compromising of the principal's interests (CP) 82
3.7: OUTCOMES 83
3.8: GAPS IN THE LITERATURE 84
3.9: CHAPTER 3 SUMMARY 85
CHAPTER 4 87
CONCEPTUAL MODEL AND HYPOTHESES DEVELOPMENT 87
4.1: INTRODUCTION: 87
4.2: CLASSIFICATION OF VARIABLES 88
4.3: DUAL MANDATE SYSTEM AND CONFLICT OF INTERESTS IN THE SOUTH AFRICAN REAL ESTATE INDUSTRY 89
4.3.1: The importance of the relationship between the dual mandate system and conflict of interests 90
4.3.2: Examples to illustrate the dangers of dual mandate system and conflict of interests 91
4.3.3: Hypothesis development 92
4.4: DUAL MANDATE SYSTEM AND COMPROMISING ONE PRINCIPAL TO BENEFIT THE OTHER 95
4.4.1: The importance of the relationship between the dual mandate system and compromising of principals 95
4.4.2: Examples to illustrate how the dual mandate system can compromise either of the principals 96
4.4.3: Hypothesis development 96
4.5: IDEOLOGICAL OUTLOOK OF REAs AND CONFLICT OF INTERESTS 98
4.5.1: The importance of the ideological outlook and conflict of interests 98
4.5.2: Examples illustrating the relationship between ideological outlook and conflict of interests 99
4.5.3: Hypothesis development 100
4.6: IDEOLOGY OF REA AND COMPROMISED PRINCIPAL 102

4.6.1: Why this relationship matters 103
4.6.2: Examples to illustrate the importance of the relationship 103
4.6.3: Hypothesis development 103
4.7: CONFLICT OF INTERESTS AND SUBOPTIMAL OUTCOMES 105
4.7.1: Why the relationship between conflict of interests and suboptimal outcomes matters 105
4.7.2: Hypothesis development 106
4.8: COMPROMISED PRINCIPAL AND SUBOPTIMAL OUTCOMES 107
4.8.1: Why the relationship matters 107
4.8.2: Hypothesis development 108
4.9: HYPOTHESES SUMMARY 109
4.10: CHAPTER 4 SUMMARY 109
CHAPTER 5 110
RESEARCH PHILOSOPHY AND DESIGN 110
5.1: INTRODUCTION 110
5.2: RESEARCH PHILOSOPHY 111
5.2.1: Quantitative approach 112
5.2.2: Qualitative approach 113
5.2.3: Rationale for choosing Quantitative over Qualitative approach 114
5.3: RESEARCH DESIGN (RD) 115
5.3.1: Research method for the study 117
5.3.2: Sampling design 118
5.3.3: Data collection approach and methods 122
5.3.4: Characteristics of the data collection instrument 125
5.3.5: Measuring reliability 126
5.3.6: Measuring validity 127
5.3.7: Development of the data collection instrument 128
5.3.8: Ethical issues relating to sampling and data collection 131
5.4: DATA ANALYSIS APPROACH 132
5.4.1: Structural Equation Modelling (SEM) defined 133
5.4.2: SEM advantages 133
5.4.3: Application to the study 135
5.4.4: Confirmatory factor analysis (CFA): model fitness, reliability and validity 135
5.4.5: Path Modelling (PM): model fitness and Hypothesis testing 136

5.4.6: Ethical issues related to data analysis 137
5.5: CHAPTER 5 SUMMARY 138
CHAPTER 6 139
DATA MEASUREMENT RESULTS 139
6.1: INTRODUCTION 139
6.2: METHOD 139
6.2.1: Sample location 139
6.2.2: Scale development 140
6.2.3: Sampling and data collection method 140
6.3: RESPONDENTS' ANALYSIS 141
6.3.1: General classification of participants 141
6.4: RESPONSES ANALYSIS 145
6.4.1: Recorded outcomes 145
6.5: ACCURACY ANALYSIS 158
6.5.1: Reliability 158
6.5.2: Validity 161
6.5.3: Model fit assessment 165
6.6: HYPOTHESIS TESTING 166
6.6.1 Hypotheses test results 166
6.6.2: Discussion of hypotheses results 168
6.6: CHAPTER 6 SUMMARY 169
CHAPTER 7 170
FINDINGS, CONCLUSIONS, RECOMMENDATIONS, IMPLICATIONS AND LIMITATIONS 170
7.1: INTRODUCTION 170
7.2: FINDINGS 170
7.2.1: *There is a positive relationship between dual mandate system and conflict of interests in the South African real estate industry* 170
7.2.2: *There is a positive relationship between dual mandate system and compromised principal in the South African real estate industry* 171
7.2.3: *There is a positive relationship between the ideological outlook and conflict of interests in the South African real estate industry* 171
7.2.4: *There is a positive relationship between the ideological outlook and compromised principal in the South African real estate industry* 172
7.2.5: *There is a positive relationship between a compromised principal and the sub-optimal outcomes in the South African real estate industry* 172

7.2.6: *There is a positive relationship between conflict of interests and sub-optimal outcomes in the South African real estate industry* 173
7.3: CONCLUSIONS 173
7.4: RECOMMENDATIONS 174
7.4.1: Dual mandate system and conflict of interests 174
7.4.2: Dual mandate system and compromising of principals' interests 174
7.4.3: Ideological outlook and conflict of interests 175
7.4.4: Ideological outlook and compromising of principals 175
7.4.5: Conflict of interests and sub-optimal outcomes 176
7.4.6: Compromising of principal and sub-optimal outcomes 177
7.5: IMPLICATIONS OF THE STUDY 177
7.6: LIMITATIONS OF THE STUDY AND FUTURE RESEARCH SUGGESTIONS 179
7.7: CONCLUDING REMARKS 179
7.9: REFERENCES 180

LIST OF TABLES		
Table	**Table contents**	**Page**
2.1	Gross debtor's book-credit type	31
2.2	Gross debtor's book-mortgages	32
2.3	Number of applications received and rejected	32
2.4	Mortgages granted-gross monthly income of individuals	33
2.5	Mortgages granted-size of agreements	33
6.1	Role of Participants	142
6.2	Racial classifications	144
6.3	Age classifications of participants	144
6.4	Responses of participants	147
6.5	Variables, measurement factors, factor loadings and responses	148
6.6	Cronbach Alpha test results	160
6.7	Composite reliability test results	160
6.8	Average variance extracted values	161
6.9	Inter-construct correlation matrix	164
6.10	Results of Structural analysis	166

LIST OF FIGURES

Figure	Contents	Page (s)
1.1	Real estate industry players in South Africa	9
1.2	Major stakeholders in the real estate industry	13
1.3	Research framework	14
1.4	Research model	16
2.1	Government department and their roles	21
2.2	Demographics of property buyers in SA	22
2.3	Banks in SA	28
2.4	Composition of gross loans	28
2.5	SA green bar-coded ID	29
2.6	Provincial distribution of credit granted in 2014	31
2.7	Real estate firms	38
2.8	Interconnections between role players	46
2.9	Property transaction organogram	48
3.1	Triangular relationship	52
4.1	Conceptual model	87
5.1	Main research concepts	111
5.2	Qualitative research methods	114
5.3	Important Sampling issues	118
5.4	Advantages and disadvantages: data capturing	124
5.5	Variable indicators and sources	128-130
5.6	Statistical analysis procedure	136
6.1	Role of participants	142
6.2	Aspects classifications	146
6.3	Reliability test results	159
6.4	CFA	162
6.5	Original measurement model	163
6.6	Final measurement model	164
6.7	Model fitness test results	165
6.8	Hypotheses test results	168

LIST OF ABBREVIATIONS	
ANC	African national congress
COI	Conflict of interests
CP	Compromising of principal
DA	Dual agency
DHS	Department of human settlement
DJCD	Department of justice and constitutional development
DMS	Dual mandate system
DRDLR	Department of rural development and land reform
DTI	Department of trade and industry
EAAB	Estate agency affairs board
FFC	Fidelity fund certificate
FICA	Financial intelligence Act
GDP	Gross domestic production
IO	Ideological outlook
LEAD	Legal education and development
MLS	Multilisting services
NCR	National credit regulator
NT	National treasury
OECD	Organization of economic cooperation and development
OT	Outcomes
PA	Principal-agent
RBSA	Reserve bank of South Africa
REA	Real estate agent
REF	Real estate firm
REI	Real estate industry
RREI	Residential real estate industry
SARS	South African receiver of revenue
TMT	The marketing time
TOM	Time on market
TUS	Time until sale

LIST OF ANNEXURES	
Number	**Content**
A	Participant information sheet
B	Research consent form
C	Questionnaire cover letter
D	Ethical clearance certificate
E	Research instrument
F	Editor’s note

CHAPTER 1

OVERVIEW OF THE STUDY

1.1: INTRODUCTION

A home is usually the most expensive product in the budgets of most families and individuals (Zahiron-Herbert & Chatterjee, 2011; Quigley & Raphael, 2004). A large amount of individual wealth is imbedded in houses (Das & Gupta, 2009). In addition, a small percentage change in the housing prices will have large impacts on non-housing consumption and household well-being. It is axiomatic that information is needed to support real estate purchase decision making and equally true that this information has become progressively easy to obtain (Changha & Gallimore, 2010). When home owners choose to sell their homes, they first need to determine the asking price for their property (Baracha & Seile, 2014). Determining the asking price include many subjective elements, which create challenges. Most sellers contract with an agent who helps with valuation and to set an asking/listing price and then merely negotiate on the ultimate sale price (Herrin, Knight & Sirmans, 2004).

According to Arnold (1999), asking prices play two important roles. They influence the rate at which offers arise and serve as the initial offer in the bargaining game. A higher asking price leads to longer time on market (TOM), other things equal (Anglin, Rutherford & Springer, 2003). This would be of concern to any seller to whom time is of essence. Housing sale transactions are further complicated by the fact that houses are heterogeneous products with overly varying characteristics and relatively, they trade infrequently. Generally, individuals (both buyers and sellers) transact infrequently in the housing markets and will have imperfect pre-search information (Macklennan & O'Sullivan, 2012). It is widely believed that the seller of a heterogeneous product (houses are heterogeneous) faces a trade-off between sale price and expected time until sale (Orr, Dunse & Martin, 2003). They face a trade-off between two conflicting requirements which are to maximize the sale price while minimising the time until sale (Orr, et al., 2003).Time until sale (TUS) or the marketing

time (TMT) of house measures the duration from the listing date until the time the house is sold (Hanrin, 1998). Herrin, Knight and Sirmans (2004) state that a sale requires matching sellers with buyers and the process requires time. The starting point for both seller and buyer is generally an unknown selling price and marketing time. The present study focuses on the South African (SA) residential real estate industry (REI) and the areas of interest are the mandate system in the light of the principal-agent (PA) relationships (which give rise to the valuation and marketing role of the real estate agent (REA)) and the role of the REA's normative political ideology in residential real estate industry (RREI) in SA.

The topic of the study is: '*The influence of the mandate system and the political ideological persuasion on the performance of South Africa's real estate industry'*. The project concentrates on the role that agents/brokers play and how it affects all consumers, namely; buyers, sellers, financers, investors, construction companies and insurers. The study critically examines the Valuation and Marketing roles of the REA. It also delves into how the REA's normative political ideology impacts the SA real estate industry (REI), the economy and the SA transformation agenda. Moreover, their particular impact on the settlement pattern in SA will get a special attention. Therefore, the project is done in two sections. One section examines the most visible actions of REAs in their role of valuations and marketing of properties. In contrast, the other section concentrates on the less visible side, which is how their political ideologies influence their work. The present assumptions are stated in hypotheses below.

1.2: STATEMENT OF THE PROBLEM

The problem addressed in the present study can be stated as: The dual mandate system (DMS) and ideological outlook (IO)'s of role players in the SA REI seem to exert an influence on conflict of interests (COI) and compromising of principal's interests (CP) and these influences result in suboptimal outcomes (OT) for their principals. The real estate business incorporates virtually every other business: engineering, design, construction, and all planning activities imaginable (Wafford, Troilo & Dorchester, 2010). It forms a huge chunk of the SA economy as following statistics reveal:

- It has been estimated that the REI contributed 8.3% toward the gross domestic product (GDP) in 2009 (SAPOA, 2012);
- In 2012, the RE industry contributed about R191.4 billion to the GDP (Tau-Sekati, 2014);
- Of that figure (R191,4 billion), R80.9billion came from commercial and non-residential properties;
- Residential portion accounted for about R110.1 billion which is the main focus of this study (Anderson , 2014);
- The present size of the SA REI was estimated to be worth about R4.9 trillion in 2012 (Tau-Sekati, 2012); and
- The residential part was worth R3.9 trillion, which was about two thirds of the total worth of the industry (Tau-Sekati, 2012).

What happens in this industry is likely to have serious repercussions in other areas of the economy. Like any other industry, there are issues that deserve close scrutiny by academics. The issues of interest in the present studies are the dual mandate (DM) system (which derives from dual agency (DA) and the principal-agency (PA) relationship), the specific roles of the REAs and how that is influenced by their personal Ideological persuasion. The DM system is imbedded in the DA and the PA systems as in the SA context, a REA represents the two transacting parties, the buyer and the seller in the same deal.

The roots of agency theory are in economics (Friedman, 1995). An agent is someone with special skills necessary for the fulfilment of the principal's goals (Friedman, 1995). The principal-agent relationship arises when a principal contracts with an agent to perform some tasks on behalf of the principal (Petersen, 1993). When hiring an agent, the firm or individual is buying knowledge and expertise and the relationship creates an information asymmetry (IA) (McAllister, Hughes & Gallimore, 2008). To describe issues of IA, Arrow (1985) introduces two concepts, namely; hidden action and hidden information concepts. Hidden action entails the situation where the principal is not observing the action but only the outcome and the agent observing both. Conversely, in hidden information, the principal observes actions but not the factors influencing them and the agent observes random factors influencing the outcome before choosing the action (Petersen, 1993). In executing the tasks, the agent chooses an action which has an/the outcome(s) which affect(s) the welfare of both the principal and agent

(Petersen, 1993). Both the principal and agent can observe the outcomes but only the agent observes both action and type. These describe the setting under which the interactions between principal and agent take place. It is against this background that the study has been initiated. There are both advantages and disadvantages of the PA relationships for both the sellers and buyers in the REI, but for a buyer the disadvantages seem to be more. For purposes of this study, buyers are defined as those who desire, are able and normally motivated to buy while sellers are those desiring, able and normally motivated to sell with adequate marketing (Petersen, 1993).

In the SA REI, both the buyer and seller contract with the same agent to represent them due to general practice in the industry, information advantage that REAs are perceived to possess and the cost of acquiring that information independently (Wiley & Waller, 2013). The agent becomes a dual agent as he/she represents both parties. Under ideal circumstances, dual agency creates opportunity for efficiency gain by reducing search costs (Wiley & Waller, 2013). On the other hand, the listing REA can be informed of both buyer and seller's reservation price along with other proprietary information like urgency, motivation and constraints. This clearly brings about IA in the relationship. This information asymmetry may lead to agency problems due to misaligned incentives as the transacting parties' interests are not exclusively represented by the REA (Wiley & Waller, 2013). Considering the property selling price only, the transaction can be viewed as a zero sum game in which the interests of the seller and buyer directly conflict (Brastow & Waller, 2013). Listing agent's incentives may be compatible with those of seller or the buyer but rarely both (Brastow & Waller, 2013). According to Wiley and Waller (2013), for the buyer, the problem arises as he/she is usually unrepresented when the selling agent is initially contacted. Also, the REA's commission incentive is a function of the selling price, introducing a possibility of the REA inflating the price. Key information on market activity may also be concealed from buyers unless they buy expertise from elsewhere. The REA is trying to get the seller the highest and best offer as quickly as possible but the interest of the buyer is completely different (Neher, 1996). Equally, possibilities for the agent to pursue their own interest at the expense of the seller also abound. The commission structure and information advantage of agents may lead to homeowners being poorly served by, for instance, advising them to sell too quickly and too low (McAllister,

Hughes & Gallimore, 2008). In other countries, REAs are prevented from representing both buyers and sellers in the absence of an informed consent from both parties as the conflict of interests may arise (Clauretie & Daneshuary, 2008).

In the SA situation, REA can have a binding exclusive mandate to be agents not only of a single property; they can actually have it for the whole community, especially in complexes and gated communities and this has recently been sanctioned by the Real Estate Agency Affairs Board (EAAB) (The Star, 2014). For instance, it has been shown that in a DA situation, sales are more likely to occur at the beginning or end of listing contract (Brastow & Waller, 2013). How the DMS affects both the parties can further be illustrated by the REAs major roles, which are *valuation* and *marketing* roles.

REAs are routinely required to determine prices willing buyers would pay to buy properties from willing sellers in a free market (Clark & Stark, 2013; Weinberger, 2010). In addition, Weinberger (2010) argues that market value does not have to be based on the property's highest and best use in every instance. It has to be emphasised that values must always be qualified as in liquidation value, investment value et cetera (Clark & Stark, 2013). Valuation is a public interest profession, and mistrust in the national valuation profession is a barrier to international monetary flow and direct investment (Artemenkov, 2010). It is suggested that when doing property valuation, the REA should consider property productivity, transaction area, and it should be carried out after a thorough demand and supply analysis (Rattermann, 2009; Dell, 2013). But appraisers frequently deal with incomplete information and use judgmental samples based on personal judgment and thoughts (Del, 2013). The valuation stage is a very sensitive one for all major players in the industry. In fact, in the United States (US) property market, sales and valuation are succinctly separate functions and agents are typically not trained or experienced in valuation (Matthew & Hansz, 2003). Furthermore, there is (in the US) a prescribed appraisal model in the valuation process (Diaz, Gallimore & Levy, 2002). In the US, United Kingdom (UK) and New Zealand (NZ) valuers are educated to bachelor's degree level (Matthew & Hansz, 2003). On the contrary, in SA, valuation is normally performed by the REA without any specialised training. Problems may arise when market participants consider different property features in arriving at market prices either due to under-assessment or over-assessment (Matthew & Hansz, 2003).

As mentioned above, the REA is involved right from the initial valuation to set the list price and determine subsequent marketing activities. This creates an opportunity to engage in actions that serve the agent's interests at the expense of either of the two principals or both. The promotion and viewing patterns can be manipulated to achieve what the agent desires. Possibilities of adding unwritten mandate instructions also exist in order to serve a specific ideological persuasion of the REA, buyers and sellers. Elsewhere in the world, it has been shown that REAs do engage in activities that can be said to be aimed at influencing settlement patterns and thus serving a discriminatory agenda (Crockett & Wallendorf, 2004; Baressi, 1968). Dual agency or mandate arrangement may distort both the distribution of buyers who are shown a given property and the distribution of the houses that are shown to the agent's internal buyers (Brastow & Waller, 2013). Other potential buyers 'may only be considered when property fails to sell quickly to avoid increasing opportunity and reputational costs'. Near the end of the listing contract, the incentives of sellers and agents may be in conflict (Brastow & Waller, 2013). Clearly, from this argument, the marketing activities of the REA can adversely affect both principals. The question is: Is such behaviour also prevalent in SA and if so, what form does it take? Does political ideology have anything to do with this practice and if so, what should be done about it? The above discussion reveals that there is a vast untapped area of research worth pursuing. However, there seems to be a dearth of technical and theoretically-based approach to understanding how and why real estate business is done the way it is. The material upon which one depends when engaging with the industry is mostly based on the advertisements and statements from different Real Estate Firms (REFs) and banks punting their latest service offers. In order to gain more insight, one needs to use literature developed elsewhere in the world and that can be problematic for policy makers in the SA context. This will be due to issues like which country's model to adopt and which one not to use.

Financial institutions, investors, buyers and sellers rely on REAs to make financing decisions. However, their expectations are not the same. This further emphasises the role of REAs' objectives, especially valuation mandate. In addition, there is a suspicion that the average REA is not properly qualified and objective when serving different sections (such as buyers or sellers) of the SA society due to the level of training, the dual roles they fulfil and their ideological outlook. Twenty one (21) years after the

advent of democracy, a measure of concern still lingers with regard to how REAs use their position to favour one group against the other, especially with regards to their main functions, namely; valuation role and marketing actions. Valuation for rates collection purposes is another contentious issue in the City of Johannesburg. Government is heavily reliant on property values as they use them to charge property taxes (Hoon, Kim & Shilling, 2012). Furthermore, government's role is not only restricted to valuation for tax collection purposes, they also play a policy-making and regulatory roles for the residential property market (RPM) as well. An example would be the setting of rules that restrict how much money home buyers can borrow for the purchase of housing (Hoon, *et al*., 2012). Therefore, property valuation needs to be approached with great caution as it has been a cause of many disagreements between different consumers and government departments. Key role players in the valuation industry should be individuals in whom all stakeholders can have confidence. In the SA context, the issue is highlighted by the complaints on property valuations used by municipalities. There is also a general lack of vigorous academic debate in the REI, which is evidenced by non-availability of academic literature in the field. Whenever a debate happens, it is normally driven by the major property marketing firms and mortgage financers as mentioned above. Professional and academic involvement is generally thin compared to other countries. On the whole, it is accepted that the industry relies heavily on the real estate agents (REAs).

As highlighted before, REAs' political ideological persuasion seems to play a role in the way they do their work. This also brings into focus the principal-agent (PA) relationships between REAs on one hand and sellers and buyers on the other. The PA relationship has a direct bearing on the types of mandates used in SA and the general operation of the industry. The pertinent question is whose interest are the agents serving; that of the industry (and by implication the SA economy) or some political ideological interest? It must be mentioned that the two roles are not necessarily mutually exclusive. For both the sellers and buyers, the presence of PA information asymmetry (IA) complicates their positions because this places them entirely at the mercy of the agents. In the light of the above background information, the problem addressed in the present study can be stated as: *The dual mandate system (DMS) and ideological outlook (IO)'s of role players in the SA REI seem to exert an influence on conflict of interests (COI) and compromising of principal's*

interests (CP) and these influences result in suboptimal outcomes (OT) for their principals. This study seeks to highlight such issues as the role of the REA in property valuation and how this and their other roles are informed by socio-political ideological persuasion. It also seeks to investigate the value that different stakeholders obtain from the valuation reports and the reliability thereof. The study will delve deep into the objectivity of the Market values (MVs) supplied by REAs in the light of both their PA position and ideological persuasion. It further seeks to bridge the gap between the expectations of the different stakeholders (Lorenz, 2008). It is expected to serve as a guideline for future academic studies on how the REI operates in SA. It is envisaged that ground-breaking work for the training of future real estate practitioners will be another off-shoot of this study. REAs' licensing policies by EAAB stand to benefit from this particular project. This study fills some of the gaps in the literature with three envisaged contributions, namely; assisting the concerned government department (Human Settlement) on policy-formulation regarding how deals are done in the industry, initiating academic debates on this crucial area of the economy, assisting the Estate Agency Affairs Board (EAAB) in creating policies that are beneficial to the REI. It will also help in the preparations of future REI practitioners. Many new entrants in the industry as REAs have only the old incumbents to teach them the ropes and that also creates other self-reinforcing concerns. The impression created is that present practices will be continued until something different comes about.

1.3: WHAT IS KNOWN IN THE FIELD

Housing markets are highly illiquid as it takes time and effort for buyers to find suitable homes and vice versa (Genesove & Han, 2012). The Department of Human Settlement is directly tasked with policy-making role for the REI. The Estate Agency Affairs Board (EAAB) is the body that is tasked with issues of REAs' licensing and regulations. Property valuations are done on daily basis by estate agents and their reports can precipitate outcomes with far-reaching consequences; for example, in a sale for a divorce settlement. Both government departments and financiers are also consumers of the valuation reports. The major players in the industry and their roles are briefly summarised in Figure 1.1 below and their roles will be further be expanded on in Chapter 2 of this dissertation.

Player	Roles
Department of Human Settlement	Real estate policy-making
Reserve Bank of SA	Regulating banks and determining Interest rates
Banks and Private bond companies	Financing of real estate assets
Real estate firms	Employ real estate agents
Real estate agents	Valuation and marketing of properties
Lawyers	Property and bond registration
Deeds offices	Deeds registration and transaction records
EAAB	Licensing and control of real estate agents' activities
Buyers and sellers	Transacting parties in real estate sale
Construction companies	Building of houses
Investors	Buy, sell and rent out properties

Figure1.1: Real estate industry role players

Foreign property investors also take an interest in a well-run REI with clear guidelines on property ownership. For such target market, it would be fair to expect them not to be interested in countries where the academic/theoretical backing to policies is not strong. Leishman (2003) states that investment in RE is associated with considerable uncertainty. According to Yang (2000), greater uncertainty exists in RE investment than in other areas.

1.4: PURPOSE OF STUDY

The purpose of the current study is to investigate the influence of the mandate system and the political ideology outlook on conflict of interest, compromised principals and sub-optimal outcomes in South Africa's real estate industry (REI). The objectives can be further subdivided into theoretical objectives and empirical ones.

1.4.1: Theoretical objectives

The objective of this study was also to review literature on the possible influence of the mandate types and REAs' ideological outlook on the operation of the REI in SA. To that end, literature was reviewed on: the dual representation mandate type which is used in SA REI (with the view of exposing potential dangers and testing whether

there would be any acceptance of the changes to the present SA one), the impact of ideology on the work of agents (whether the agent's socio-political ideological inclination play a role in how SA REAs do their business) and how residential real estate business is conducted in other countries (countries from which SA can learn). The rationale for the choice is given below:

Literature shows that there are serious issues with contract type in a principal-agent relationship (Geltner, Kluger & Miller, 1991; Nanda & Pancak, 2010), dual representation by agents give rise to numerous problems (Clauritie, Daneshuary, 2008; Elder, Zumpano & Barlya, 2000; Kadiyali, Prince & Simon, 2014) and that other countries do not allow dual representation (Black & Nourse, 1995). It has been shown in other contexts that agents' ideologies influence the way they do business (Galster & Godfrey, 2005; Ondrich, Stricker & Yinger 1998; Kwate, Goodman, Jackson & Harris, 2013). Extensive studies have also been done internationally on the operations of the industry on areas such as: marketing activities by REAs (Zheng, Deng, Gabriel & Nishimura, 2008; Gardiner, Heisler, Kalberg & Liu, 2007; Zhao 2004), evaluation activities by agents (Green, & Vandel, 1995; Yavas & Yang, 1995; Arnold, 1992; Knight, Sirmans, & Turnbull, 1998). These and other studies have exposed possible dangers to the functioning of the SA REI if checks and balances are not put in place.

1.4.2: Primary Empirical Objectives

The primary empirical objectives with specific reference to the SA REI can be listed as follows:

- To investigate whether DMS positively/negatively influence COI;
- To investigate whether DMS positively/negatively influence CP;
- To investigate whether IO positively/negatively influence COI;
- To investigate whether IO positively/negatively influence CP;
- To investigate whether COI positively/negatively influence OT; and
- To investigate whether CP positively/negatively influence OT.

1.4.3: Secondary Empirical Objectives

The City of Johannesburg in Gauteng Province was used as the main source of information and data gathering. In summary, the secondary objectives of the study are listed as follows:

- To extract information on when REAs do property valuation and who gets to see the report. Questions will also be asked as to how this information is used by the agents;
- The study also seeks to investigate the PA relationships between the two principals and the REA. It will also attempt to find out whose interests are more important to the agent when confronted with opportunities of sacrificing one of them. This will ascertain an existence of or lack of conflict of interest in the way the relationship functions in the REI; and
- It also aims to investigate whether political ideology has an impact on the day-to-day activities of agents in general, especially when it comes to where buyer principals, be it business or individuals locate. This will go a long way toward identifying how agents aid or retard transformation through their actions.

1.4.4: Contribution of the Study

The mandate type generally used by REAs in SA is broadly embedded in the Agency theory (AT). The AT is based on certain assumptions (Kerr, 2006; Walking & Long, 1984; Kurland, 1991). The assumptions are in turn anchored on self-interests of people and the divergence of interests between contracting parties (Hill & Jones, 1992; Ross, Anderson & Weitz, 1997), agency costs due to dissimilarity of goals between contracting parties (Walking, & Long, 1984) and that agents are capable of acting opportunistically by exploiting IA to their advantage (Van Slyker, 2006). The principal-agent (PA) relationship resulting from REA contracting with his/her principal is fiduciary in nature (Marsh & Zumpana, 1988; Havenga, Havenga, Hurter, Kelbrick, Manamela, Manamela, Schulze & Stoop, 2007; Gibson, 1991; Barker, 2007). A review of literature suggests that, issues of trust and IA between the principals and the REA are crucial (see among others Cullen, Johnson & Sakano, 2000; Freybote & Gibler, 2011; Lohtia, Bello & Porter, 2009; Scott & Lizieri, 2012). In the South African REI, the REA serves

two competing interests which are those of buyers and those of sellers (Salvador, 2011). This is what is referred to as the Dual Mandate system (DMS) (Clauritie & Daneshuary, 2008). Many South African writers have shown the advantages that this mandate type gives to the consumer (Goslett, 2013; Spies, 2013; Erasmus, 2006). Given the importance of the DMS and the risks of COI and CP, conceptual and empirical studies of these issues are essential. Although there have been a plethora of debates about the PA relationships elsewhere (see among others Kerr, 2006; Jensen & Meckling; Kurland, 1991), to the author's knowledge, no attempt has been made in the South African context to investigate how the DMS may lead to COI and to principals' interests being compromised (CP) and how these two may in turn lead to suboptimal outcomes OT for the two principals.

Also, REAs are people with their own values and ideological outlook (IO) (Roseberg, 1956; Layman, 1997, Barnea & Swartz, 1998), who prefer certain states of affairs and most probably often attempt to promote their interests at the expense of others (Hofstede, 1980; Van Dijk, 1998). For instance, it has been shown that dissimilarities of goals between agents and their principals can be associated with conflict of interests and one party getting compromised in other contexts (Dombalagian, 2011; Ross, Anderson & Weitz, 1997). The impact of the IO on COI and CP in the SA REI has not received attention in the empirical literature and therefore warrants special academic attention. Therefore, this study also attempts to investigate the relationship that IO has with COI, CP and how these ultimately impact on OT. The variables of interests can be given as per the table below:

Predictor variables	Mediating variables	Outcome variables
Dual mandate system (DMS)	Conflict of interest (COI)	Suboptimal outcomes (OT)
Ideological outlook (IO)	Compromising of principals (CP)	

Figure 1.2: Major variables of the study

The study is an attempt to develop a theoretical framework for understanding the functioning of the SA REI for both academics and policy-makers. It is hoped that it will

ignite an active interest among academics to undertake research on the direction the REI should take after the results of this dissertation will have been made public. It will both sensitise the SA population about practices in the industry and assist stakeholders to rationally do business and maximise benefits not only for themselves, but for the whole SA economy. This by extension will also assist the Department of Human Settlement to institute policies that are backed up by properly researched guidelines. It is hoped that the study will contribute to academic knowledge on this area that is not well researched. It is also expected to aid economic growth as foreign investment in the REI will be simplified. It is further expected to aid the EAAB and the REAs when they do business to be aware of those issues that are important to REA property industry. The study will also assist financers when making financing decisions for the safety of the industry and the economy at large.

Knowledge on property valuations in SA will be advanced as the project will also stimulate academic debates about this role for which as is the general practice at the moment, REAs are not trained to do appraisals. It is envisaged that one of the off-shoots of the study will be a clear demarcation between REAs and professional appraisers and therefore mitigating conflict of interests for these players. Aspiring entrants into the industry will be aided in terms of their formal training in academic institutions and thus firmly grounding their practice on sound theoretical basis. The study might also give direction on the curriculum requirements for marketing of real estate in academic institutions. The following framework represents the practical and graphical operation of the industry.

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1.4.5: Industry operation framework

The framework given in Figure 1.2 will be further clarified in Chapter 2 of the dissertation.

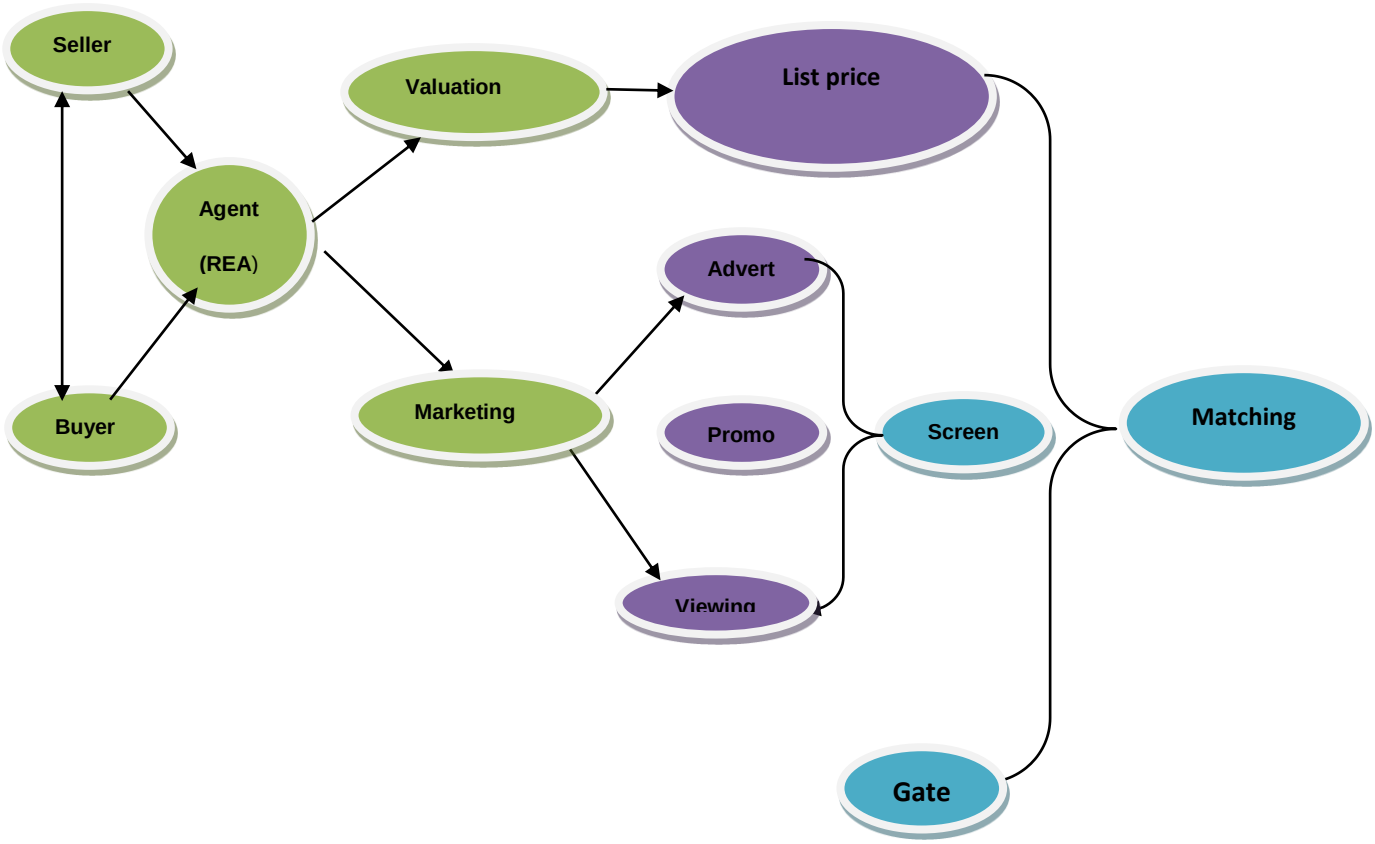

Figure 1.3: Research framework (Own sources)

1.5: RESEARCH QUESTIONS

The questions will subdivided into primary research questions and the secondary ones.

1.5.1: Primary Research Questions:

This study will seek to tackle the primary questions listed below.

- Is DMS positively or negatively related to COI in the South African REI?
- Is DMS positively or negatively related to CP in the SA REI?
- Is IO positively or negatively related to COI in the SA REI?
- Is IO positively or negatively related to CP in the SA REI?
- Is COI positively or negatively related to OT in the SA REI?
- Is CP positively or negatively related to OT in the SA REI?

In order to attempt to answer these questions the following model in Figure 1.1 and hypotheses are proposed.

1.5.2: Secondary Research Questions

In getting answers to the questions posed above, light will be shed on the secondary questions listed below.

- Does SA mandate system give more power to the agent than sellers and buyers?
- Does Dual mandate system compromise one of the principals and if yes, who stands to benefit more, the seller or the buyer in any given transaction?
- Is the REA's ideological outlook positively correlated with conflict of interest and does that also relate to the agent compromising one of the principals?
- Are there positive relationships between compromising the principal and the suboptimal outcomes and the societal divisions?
- Does it also lead to conflict of interest and compromised service to either of the principals?

1.6: PROPOSED CONCEPTUAL MODEL AND HYPOTHESES STATEMENTS

The proposed model is given below together with the hypotheses that were tested.

1.6.1: Proposed Conceptual model

The development of the model given in Figure 1.3 is shown in Chapter 4 (Conceptual model and hypotheses development) of the dissertation.

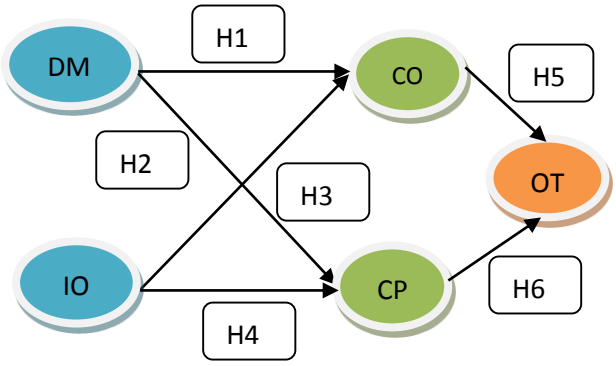

Figure 1.4: Research model

1.6.2: Hypotheses statements

Drawings from the conceptual model for the SA REI, the following hypotheses are posited:

- There is a positive relationship between dual mandate system and conflict of interests in the SA real estate industry (REI) (**H1**);
- There is a positive relationship between dual mandate system and compromised principal in the SA REI (**H2**);
- There is a positive relationship between the ideological outlook of role players and conflict of interests in the SA REI (**H3**);
- There is a positive relationship between real estate agents' ideological outlook and compromised principals in the SA REI (**H4**);
- There is a positive relationship between conflict of interests and sub-optimal outcomes in the SA REI (**H5**); and

- ❖ There is a positive relationship between compromised principal and sub-optimal outcomes in the SA REI (**H6**)

1.7: PROCESS OVERVIEW

Below is the research process description.

1.7.1: Process overview

A scientific research approach adopted in this study involved a step-by-step logical, organised and rigorous sequence of identifying problems, gathering data, analysing the data and drawing valid conclusions (Chinomona, 2010). The motivation for the research and the main purpose of the study is supplied above. Before doing related literature review, a chapter on the operation of the SA REI will be given in order to position the project in a proper perspective. Thereafter, related literatures on the problem of research interest will be reviewed. The fourth chapter will draw from the reviewed theoretical and empirical literatures to build a conceptual framework, research model and develop research hypotheses. Following hypotheses development, the fifth chapter explains the measure of methodology undertaken prior to data collection. Thereafter, the conceptualized model and posited hypotheses will be empirically tested using data collected and the results will then be interpreted. Finally, in the last section, findings, conclusions, recommendations, implications of the study and concluding remarks will be provided. Also to be included in this chapter will be theoretical and practical implications of the thesis and suggestions for future research. In summary, the final chapters will be as per the structure given in the programme organisation below.

1.7.2: Programme organisation

Chapter 2: Real Estate Business in South Africa: This will include all the steps and parties involved from mandate to the conclusion of the transaction. It will cover the different stakeholders in the industry and their respective roles. In particular, the roles

of: the Reserve Bank, the EAAB, the banking industry, lawyers, deeds office, REIs, REAs and transaction flows will also be provided.

Chapter 3: Literature review: The chapter will concentrate on economic theories that have a bearing on the REI in general. The major emphasis will be on basic economics as applied to REI, Dual agency, PA relationships, IA, valuation and marketing of properties. The project will be looking at how these concepts interact in the SA REI and also how they relate to the variables of interest which are DMS, IO, COI, CP and OT. The development of the above proposed conceptual model will be highlighted in this chapter.

Chapter 4: Conceptual Model and Hypotheses Development: This chapter will deal with the proposed model that will be empirically tested. The section will also contain the frameworks on how the SA REI works and the steps from mandate to deeds office registration.

Chapter 5: Research methods: The chapter will include: Research design, Participants, Instrumentation Research procedure, data analysis, Assumptions and limitations. Latest approaches to the above tested concepts will be employed.

Chapter 6: Data measurement results: It will include data analysis and presentation. Tables and graphs will be used and interpretation of results will be discussed. Descriptive statistics will be used in order to come to academically sound conclusions.

Chapter 7: Findings, conclusions, recommendations, study limitations and conclusion: This chapter will discuss results summary, state major conclusions, give recommendations and suggests pointers for future studies.

1.8: CHAPTER 1 SUMMARY

The chapter can briefly be summarised as follows: The first part is the introduction of the major issues in the REI followed by a brief background of the study with the introduction of the topic. This is followed by the problem statement and discussion of the identified gaps. The section also deals with those issues that are of concern to the present study with a brief description of how they relate to each other. Following this

section is a subsection that gives those issues that are generally known in the industry and the major role players. This is followed by an operation framework of the industry. Thereafter, the purpose of the study is formally introduced and what it aims to achieve. Research questions, proposed research model and hypotheses follow this stage. The subsequent operation framework aims to give a picture of the present operation of the REI and how each role player influences the industry. It includes other actors not directly dealt with in the present study.

CHAPTER 2

AN OVERVIEW OF THE REAL ESTATE INDUSTRY IN SOUTH AFRICA

2.1: INTRODUCTION

This chapter aims to supply information on the present state of the real estate industry (REI) in SA. It concentrates on government departments that affect the industry and relevant acts that govern the activities in the industry, implementation organisations taking their mandates from these departments, private sector players and their role in the industry and finally the consumers and how all these other players impact on them. The last part of the chapter will be a brief discussion on the real estate firms (REFs), real estate agents (REAs) and the consumers of all the services. Chapter objectives are summarised below.

2.2: CHAPTER OBJECTIVES

The preamble to the Housing Act 107 (South Africa, 1998) defines Housing as an adequate shelter that fulfils basic human needs which is a vital part of integrated development planning. It goes on to describe housing as a key part of the national economy, a vital component for socio-economic well-being of the nation. From the government side, the real estate industry (REI) is clearly a very important part of the overall economic development whose operation needs to be understood. The African National Congress (ANC) election manifesto (ANC, 2014) also brings into sharp focus the ambitious plans that the governing party has brought into the public domain. Targets by the ANC election manifesto for human settlements are twofold: ensuring that all SA have access to adequate human settlements and quality living conditions; and to provide one million housing opportunities for qualifying households over the next five years. The fulfilment of those plans rest with a well-coordinated REI. The main objective of this chapter can be given as to give an intense discussion on how the REI in SA operates and how the different parts of the industry interact with each other. In this chapter, a list of some government departments whose role impacts the REI directly/indirectly will be given and a brief description of the acts governing their

involvement. Major constitutional organizations getting their mandate from those government departments will also be given together with a brief discussion on how these influence the industry. The role of the private sector in the industry will also be highlighted in the SA REI. Towards the end of the chapter, the interaction of all the different stakeholders will be shown.

A real estate transaction organogram from one of the conveyancing attorneys' firm is also supplied in this chapter. A summary list of government departments that impact the REI is given below and brief discussion follows thereafter.

Government department	Mandating Act	Leadership	REI responsibilities
I. Human Settlement	Housing Act 107 of 1997 Home loan and Mortgage disclosure Act 63 of 2000	Sisulu L.N. (Minister) and Zulu T. (DG)	Housing policies Home loans Housing consumers protection
II. National Treasury	Chapter 2 of the constitution of PFMA	Gordhan, P. (Minister) Fuzile L. (Director)	Banking regulator SARB SARS
III. Justice and Constitutional development	Attorney's Act 53 of 1995, Constitution of the RSA 108 of 1996 and Companies Act Immovable property Act 94 0f 1965	Masutha T.M. (Minister) Sindane N. (DG)	Deeds endorsement Conveyancing
IV. Rural development and Land reform	Deeds registration Act of 1937 and Section 24, 25 and 27 of the Constitution	Nkwiti G.E. (Minister) Shobane P.M. (Director)	Property valuation and registration
V. Trade and industry	National credit Act 34 of 2005	Davies R. (Minister) October L. (DG)	Credit regulation via NCR

Figure 2.1: Government departments

NB: The leadership and responsibilities shown for the different departments are those that pertain to the REI which may change if there is, for instance, a cabinet reshuffle.

Here are some statistics worth taking note of as the discussion continues.



WHO IS BUYING PROPERTY IN GAUTENG?

	October 2007	March 2009
Black males	44%	53%
White males	26%	21%
Black females	13%	11%
White females	8%	6%
Indian males	7%	8%
Indian females	2%	1%
Total	**100%**	**100%**

Graphic: FIONA KRISCH Source: REDCON PROPERTY DEVELOPMENTS

Figure 2.2: Change in demographics of property buyers in Gauteng

Generally, foreign interest in SA property market remains strong (Peacock, 2014). According to Peacock's (2014) Business times article of the 28/09/2014:

- Gauteng is the leading province in the whole of SA in terms of the number of properties bought and sold to foreigners;
- Sales by foreigners outnumbered purchases by the same group;
- In the past 12 months, 8530 of the 280395 properties sold in SA were bought by foreigners and Gauteng had 4000 share of that figure;
- Big attraction for Gauteng seems to be access it gives to business to the rest of Africa;
- Rand depreciation made SA properties tempting for people using Dollars, Euros and Pounds; and
- Total purchases for the 12 months were worth R9.68 billion and the average price was R1.2 million. For the same period total sales raked in R11.28 billion.

2.3: SA GOVERNMENT DEPARTMENTS AND THEIR ROLE IN THE REAL ESTATE INDUSTRY

The above departments will be discussed in the following order: Department of Human Settlements, National Treasury, Department of Justice and Constitutional Development, Rural Development and Land Reform and the Department of Trade and Industry.

2.3.1: Department of Human Settlements (DHS)

The department derives its mandate from Housing Act 107 (South Africa, 1998) and Home loan and Mortgage disclosure Act 63 (South Africa, 2000). The responsible Minister is Sisulu L.N. and Zulu T. is the Director General as shown in the table above (dhs.gov.za, accessed on 2/11/2015). The department has a responsibility for home loans and housing consumers' protection. The department is also responsible for the regulation of the REI via the Estate Agent Affairs Board (EAAB), which is the organisation that has a direct influence on the present study.

2.3.2: National Treasury (NT)

This government department derives its mandate from Chapter 2 of the Constitution. Gordhan P. is the current Cabinet Minister and Fuzile L is the Director General at the time of the compilation of this report. The major tasks related to the REI are performed via the South African Reserve Bank (SARB) which in turn exercises the banking sector regulatory functions. The department is also tasked with the administration of the Public Finance Management Act (PFMA), Municipal Finance Management Act (MFMA) and the South African Revenue Services (SARS).

2.3.3: Department of Justice and Constitutional Development (DJCD)

The department derives its mandate from the Attorney's Act 53 (South Africa, 1995), Section 108 of the Constitution of the RSA (South Africa, 1996) and Companies Act, Immovable Property Act 94 (South Africa, 1965). Conveyancers' operations are governed by this department.

2.3.4: Department of Rural Development and Land reform (DRDLR)

This government department derives its mandate from the Deeds Registration Act (South Africa, 1937) and Section 24, 25 and 27 of the Constitution of the Republic of South Africa. Nkwinti G.E. is the current Minister and Shobane P.M. is the Director General. The department is responsible for the property valuation and registration via the deeds offices. The deeds offices employ examiners and registrars who together with conveyancers complete the property transfer registration.

2.3.5: Department of Trade and Industry (DTI)

The department derives its mandate from the National Credit Act 34 (South Africa, 2005) and National Credit Amendment Act 19 (South Africa, 2014). The present Cabinet Minister is Davies R. and the Director General is October L. The department's role it is to control how much credit can legally be advanced to any individual. It controls the credit market via an organisation called the National Credit Regulation (NCR) which is discussed separately in this chapter. The attention now turns to the constitutional and regulatory organisations in the REI.

2.4: HOW REGULATORY BODIES INFLUENCE THE REAL ESTATE INDUSTRY

It has already been shown that government departments influence the REI via some constitutionally created organisations. The constitutional organizations of interest are the EAAB, the South African the Reserve Bank (SARB), the Financial Services Board (FSB), Financial Intelligence Act (FICA), South African Revenue Services (SARS),

Lawyers/Conveyancers, the Deeds Office (DO) and the National Credit Regulator (NCR).

The subsequent discussion will also show how these organisations relate to the relevant department and the acts governing their operations and existence.

2.4.1: The Estate Agency Affairs Board (EAAB)

The EAAB is the body created to regulate the affairs of REFs and REAs in SA. It came about from the Estate Agency Affairs Act 112 of 1976 which mandated the establishment of this body and Estates Fidelity Fund for the control of certain activities of agents in the public interest. The EAAB initially reported to the Department of Trade and Industry since 1976 and was transferred to DHS on the 17/05/2012 by proclamation of the President of the RSA. The current CEO is Brian Chaplog. It is the official quality authority for the estate agency industry in SA. The EAAB oversees the compulsory qualifications of estate agents and agency principals and ensures the compliance of agents to the Estate agent's code of conduct by obliging them to register and obtain a new Fidelity Fund Certificate (FFC) every year. One of the mandates of the board is to ensure the national imperative of the transformation of the Estate Agency sector so that it more fully aligns with the demographic realities of a democratic SA (Agent, 2014). It ensures management of the registration process of all applications pertaining to FFC, which is the licence to practice as an estate agent in South Africa. This organization is also tasked with registration of change of ownership of REFs, registration of change of trading names applications of REFs, processing of new principal applications, processing of new interns applications, full agent status applications processing, handling of annual renewals applications, attending to submission of audit reports and trust accounts; and to deal with any consumer complaints against agents or an agency (Strategic objectives, 2015).

2.4.2: The South African Reserve Bank (SARB)

The SARB serves similar purpose to central banks elsewhere in the world, which is to promote financial stability (Gabilondo, 2012). This central bank was created in 1921 after the First World War. The SARB operates under the National Treasury

Department. It is mandated by the SARB Act of 1989 which in turn is derived from sections 223 to 225 of the Constitution of RSA of 1996. It operates through regular consultation with National Treasury Department Minister and it is therefore ultimately accountable to Parliament. This is the major bank that regulates the activities of other banks via the control of interest rates that banks charge customers. Another responsibility that will be discussed separately under foreigner ownership of properties in SA is the levying of Capital Gains Tax. The interest rates can be seen as a price which equilibrates the desire for saving and investment demand (Ansga, 2013). Decrease in interest rates result in lower financing costs and that may unleash an increase in residential property market prices and thus stimulating recourse to mortgage credit (Ansga, 2013). Low interest rate leads to a higher number of loans. One of the reasons is that lower rates might lead to households preferring buying instead of renting. Also, low borrowing costs make real estate investment more attractive than financial investment (Stinglhamber, Van Nieuwenhuyze & Zachary, 2011). Low interest regime encourages borrowers to get large sum with monthly payment unchanged as they have a leeway to diminish their down payment and/or purchase a more expensive property. More accessible loans imply availability to less wealthy borrowers for buying properties which do not necessarily mean large loans and resultant reduction in average amount borrowed (Ansga, 2013).The mandate for the SARB as gleaned from the banks' publications can broadly be summarised as follows:

- Provide an enabling framework for the operation of banks;
- Formulating and implementation of monetary policies;
- Influence the quantity of money by use of interest rates with the view of achieving stable prices;
- Levying of cash reserves on banks against eligible collateral-assets that qualify as liquid assets, make, issue and destroy banknotes and coins; and
- Manage liquidity in the financial market, achieve and maintain price stability by inflation targeting and to be a lender of last resort to commercial banks.

Here are some statistics of interest from some reports from the RBSA.



Number of banks in South Africa	
Registered banks	17
Mutual banks	3
Co-operative banks	2
Local branches of foreign banks	14
Foreign banks with approved local representative offices	43

Figure 2.3: Banks in SA

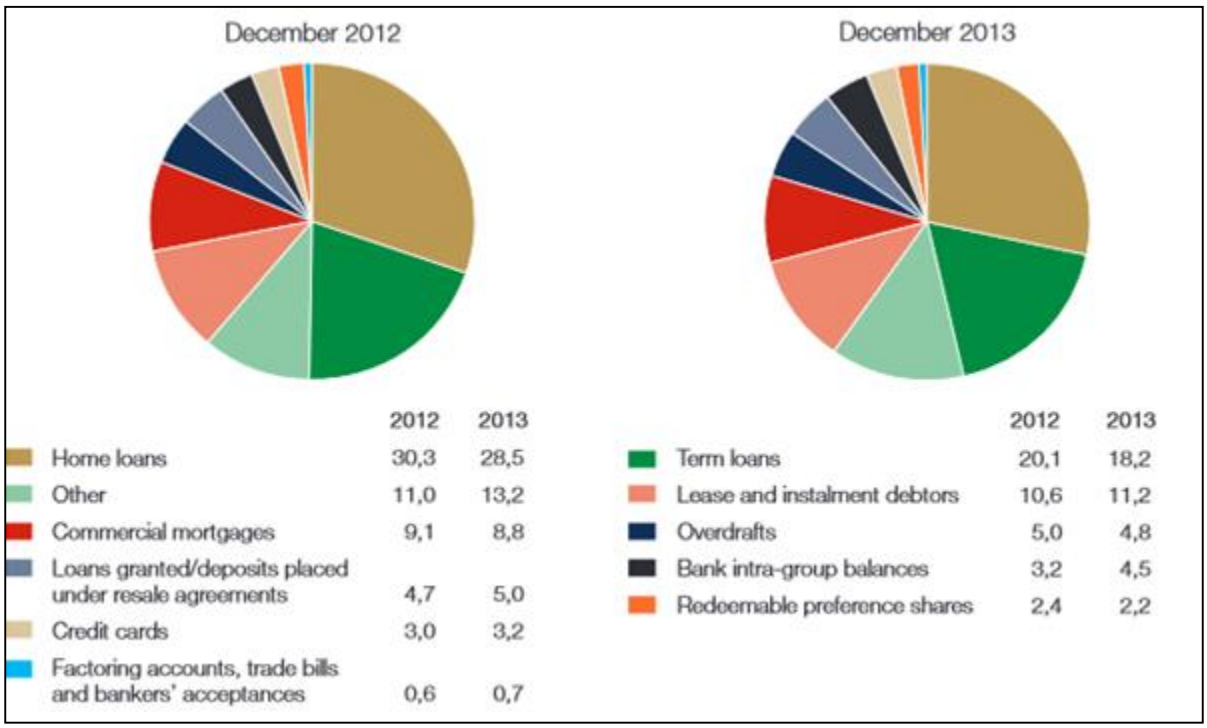

Figure 2.4: Composition of gross loans and advances %

NB: The above information has been sourced from cited journal articles and the SARB website.

2.4.3: Financial services board (FSB)

As previously mentioned, a huge amount of housing transactions are bond financed and the financial services providers are also regulated by this organisation. The Financial Services Board Act (Act 97 of 1990) mandates the Financial Services Board (FSB) to:

> *"promote programmes and initiatives by financial institutions and bodies representing the financial services industry to inform and educate users and potential users of financial products and services."*

This organisation's strategy is geared toward delivering on a long-term vision of "All South Africans managing their personal and family financial affairs soundly; and irresponsible financial service providers not being supported and getting reported to law enforcement agencies''.
This would be achieved by consumers taking responsibility for their financial future and decisions, acquiring information, making considered decisions and knowing how to act when things go wrong and Financial Service Providers being committed to fair treatment, providing appropriate information and acting professionally.

A consequence of this would be a more efficient and effective regulation, stable and efficient financial markets, and a higher consumer and Financial Service Provider awareness of the regulatory environment. *The success of the project will be indicated in a macro-economic sense by* a greater savings culture in South Africa (reduced household debt ratio); reduced household debt; lower personal insolvency rates; lower bad debt levels; increased penetration of formal financial products into the population; less consumer complaints illustrating ignorance of responsibilities or unscrupulous operators; and an increased investment and planning for retirement (National Treasury, FSB). Another organisation whose functions are closely related to the FSB is the NCR (South Africa, 1990).

2.4.4: Financial Intelligence Act (FICA)

REAs also have responsibilities with regard to prevention of unlawful activities in the REI (as shown under the EAAB responsibilities). It is actually a responsibility enforced by law. The National Credit Act (2005) that brought about the NCR also imposes strict requirements to REAs via the Financial Intelligence Act which was passed by Parliament in December 2001 and is being promulgated in a phased approach. In terms of FICA, the Money Laundering Advisory Council and Financial Intelligence Centre were established.



Figure 2.5: SA green bar-coded ID

All accountable institutions, including REAs, are called upon to prevent money laundering. Money laundering is the process of manipulating the proceeds of crime in order to conceal the nature of its true source. Money that started out dirty will end up clean and any act in connection with any proceeds of crime, whether it is in the form of money or property or any other form can constitute a laundering offence. Therefore, REAs are required to be always aware of these possibilities. In any transaction, the first issue that they would normally take care of would be the FICA documents that have to be submitted to transferring, bond registration lawyers and the REA.

FICA imposes the duties of establishing and verifying the identity of clients, commonly referred to as the "know-your-client-requirement" on REAs. An estate agent may not establish a business relationship with a client unless the former (estate agent) has taken the prescribed steps to establish and verify the identity of the client. The client will be the person who has given an estate agent a mandate. It is important to get as much information as possible at the mandate stage and to inform the client as to what documentation is required. The client's identity must then be verified before the mandate is performed. FICA also imposes the duty to report suspicious transactions. An automatic reporting duty relating to cash transactions and electronic transfers of money to or from the Republic in excess of the prescribed amount (not yet implemented). This means the business believes it has received or is about to receive

the proceeds of unlawful activities. REAs are tasked with reporting of evasion or attempted evasion of a duty to pay a tax, duty or levy imposed by SARS and reporting that a business has been or is about to be used in any way for money laundering purposes. There is a big gap between the public and the private sectors. The public sector is generally assumed to act in the interest of the public and the private sector to have a profit motive. FICA effectively establishes a partnership between the private and the public sector to assist in the identification of proceeds of unlawful activities thereby combating money laundering activities.

2.4.5: National Credit Regulator (NCR)

The other player that regulates the affairs of the banks is the NCR. It was established as the regulator under the National Credit Act 34 (South Africa, 2005). The responsible department under which the NCR falls is the Department of Trade and Industry. Davies R. is the present minister and October L. the Director General (Motshegare, 2005).

As a constitutionally created organization, the NCR has a number of responsibilities which impact on the REI. It is an organization that has to promote and develop a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and industry. The NCR also has the duty to monitor credit availability, prices and market conditions, access to consumer credit (which according to DTI includes products such as housing loans and mortgages) by small business. The duty of monitoring levels of indebtedness and social effects of indebtedness and of registering credit providers, credit bureaux's and debt counsellors is another responsibility of this organization. The NCR is supposed to increase knowledge of the SA public about the nature and dynamics of the credit market and industry and to promote public awareness of consumer credit matters (South Africa, 2005). It is also the body that enforces compliance with the Act (South Africa, 2005). Here are some statistics of interest gleaned from the NCR report. They are given in the diagrams below (Fig 2.4-2.9) with some short comments on what they tell us.

The first diagram shows how much of credit Gauteng gets from all credit suppliers which are almost 50% of the total. The subsequent two tables show how mortgage loans have been growing by about 4.37%. The next table shows what is happening to the applications and the rejection rates. This one is also growing and the trend can

also be felt in the REI by REFs and REAs. When one considers those mortgage loans granted, it is clear that those individuals on the high earning side and the bigger size loans have a high success rate and on a year-on-year basis they are actually growing. With the history of SA being what it is, the figures might trigger some concerns.

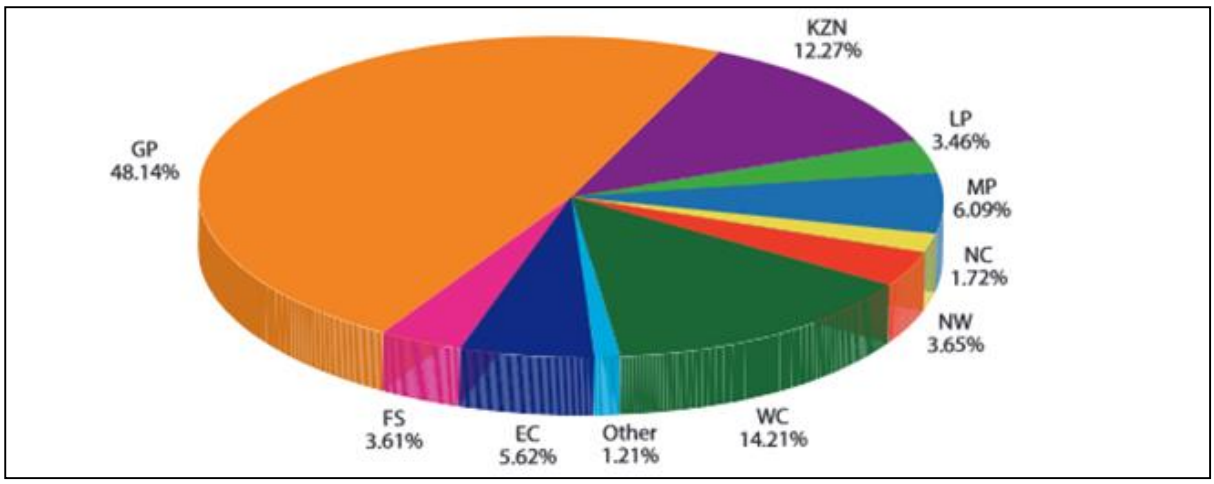

Figure 2.6: Provincial distribution of credit granted-2014

Agreements	2013-Q2 R000	2013-Q3 R000	2013-Q4 R000	2014-Q1 R000	2014-Q2 R000	2014-Q2 % Distribution	% Change (Q2/Q1)	% Change (Y/Y)
Mortgages	799,410,683	809,892,603	818,063,679	823,326,674	834,367,186	53.18%	1.34%	4.37%
Secured credit	300,931,964	311,369,161	323,107,724	331,716,498	340,355,910	21.69%	2.60%	13.10%
Credit facilities	175,901,220	179,902,744	185,366,895	190,586,512	195,260,046	12.44%	2.45%	11.01%
Unsecured credit	168,061,177	167,405,316	170,750,012	172,970,632	172,200,625	10.98%	-0.45%	2.46%
Short-term credit	870,714	817,406	791,291	707,343	704,986	0.04%	-0.33%	-19.03%
Developmental Credit	21,709,071	23,960,372	21,951,795	31,669,722	26,103,039	1.66%	-17.58%	20.24%
Total	1,466,884,829	1,493,347,602	1,520,031,397	1,550,977,380	1,568,991,792	100.00%	1.16%	6.96%

Table 2.1: Gross debtor's book-credit type

Agreements	2013-Q2	2013-Q3	2013-Q4	2014-Q1	2014-Q2	% Change (Q2/Q1)	% Change (Y/Y)
Gross debtors book (R000)	799,410,683	809,892,603	818,063,679	823,326,674	834,367,186	1.34%	4.37%
Number of accounts	1,824,563	1,827,731	1,841,015	1,835,451	1,840,681	0.28%	0.88%

Table 2.2: Gross debtor's book-mortgages

Agreements	2013-Q2 000	2013-Q3 000	2013-Q4 000	2014-Q1 000	2014-Q2 000	% Change (Q2/Q1)	% Change (Y/Y)
Number of applications received	10,350	10,222	10 748	9,671	10,368	7.21%	0.17%
Number of applications rejected	5,811	5,850	6 166	5,701	6,042	5.98%	3.99%
% of applications rejected	**56.14%**	**57.23%**	**57.37%**	**58.95%**	**58.28%**		

Table 2.3: Number of applications received and rejected

Level of income	2013-Q2	2013-Q3	2013-Q4	2014-Q1	2014-Q2
≤R10K	1,000	1,072	1,038	858	836
% share of credit granted	2.56%	2.45%	2.37%	2.27%	2.13%
R10.1K-R15K	3,523	3,738	3,523	2,804	2,686
% share of credit granted	9.03%	8.55%	8.05%	7.41%	6.85%
>R15K	34,488	38,928	39,219	34,186	35,675
% share of credit granted	88.41%	89.00%	89.58%	90.32%	91.01%
Total number of mortgages	**39,011**	**43,738**	**43,780**	**37,848**	**39,197**

Table 2.4: Mortgages granted-gross monthly income of individuals (no. of agreements)

Agreements	2013-Q2 R000	2013-Q3 R000	2013-Q4 R000	2014-Q1 R000	2014-Q2 R000	2014-Q2% Distribution	% Change (Q2/Q1)	% Change (Y/Y)
R0-R50K	36,621	33,008	38,750	35,205	29,459	0.09%	-16.32%	-19.56%
R51K-R100K	179,555	174,358	165,330	153,152	135,190	0.41%	-11.73%	-24.71%
R101K-R150K	238,051	241,926	226,155	201,529	178,015	0.54%	-11.67%	-25.22%
R151K-R350K	1,823,065	1,972,058	1,905,584	1,628,985	1,601,153	4.83%	-1.71%	-12.17%
R351K-R700K	6,374,716	7,450,421	7,598,281	6,347,428	6,669,387	20.10%	5.07%	4.62%
≥R700K	21,447,209	24,650,164	24,783,248	22,472,752	24,569,957	74.04%	9.33%	14.56%
Total	**30,099,218**	**34,521,936**	**34,717,349**	**30,839,052**	**33,183,161**	**100.00%**	**7.60%**	**10.25%**

Table 2.5: Mortgages granted-size of agreements

As they say: It is not over until the fat lady sings; no formally recognised property transaction until the tax man gets his share. The attention will briefly be focused on how the REI is affected by the receiver of revenue.

2.4.6: South African Revenue Services (SARS)

This government entity derives its mandate from the different acts of Parliament. Two examples are the: Customs and Excise Act 91 of 1964 and SARS Act 1997 and Income Tax Act 58 of 1962. The organisation collects tax revenue on behalf of the state. The applicable taxes that directly impact the REI are Transfer Duty Tax and the Capital Gains Tax. Transfer Duty Tax applies to taxes levied on the value of any property acquired by any person by way of transaction or any other way and this include residential properties. The property buyer pays that tax through the conveyancer handling the transaction and the money is supposed to be paid over to SARS within six months from the date of acquisition. For that reason, conveyancers are also required to register with SARS. The other relevant tax is the Capital Gains Tax which applies to both SA residents and to non-SA residents. This is the tax responsibility that arises when one disposes of an asset on or after October 2001 for proceeds that exceed their base cost. It is mandated by schedule eight of Income Tax Act 58 of 1962. A buyer of any immovable property of more than R2m from a non-resident has to withhold and pay over to SARS a 5% share and that share acts as an advanced payment toward the seller's tax liability. For a SA resident, the Act applies to all assets located both in and outside of SA borders.

2.4.7: Lawyers/Conveyancers

Lawyers' activities are regulated by the Law Society of SA (LSSA) which has offices in different regions and they operate under the auspices of the Department of Justice and Constitutional Development. The relevant Act governing their practice is the Attorneys Act 53 of 1979 and section 3 of the Deeds Registration Act 47 of 1937. The other related legislation is the Constitution of the RSA Act 108 of 1996 and the Immovable Property Act 94 of 1965. Attorneys are bound by a strict professional code of practice contained in Act 28 of 2014 and they fall under the regulatory jurisdiction of the provincial law society where they are registered. Any property registration has to go through at least one law firm/lawyer as any real estate participant would know. There should be qualified conveyancing lawyers who deal with lodging and registration at the deeds offices and bond registration lawyers who normally take their mandates from banks to register bonds (Klinkenberg, 2014). It can happen that a single firm gets both conveyancing and bond registration mandates. Their fees are recommended by the Law societies but they are still negotiable. The conveyancers usually get their mandate to register a matter from the seller and or the REA. Their registration gets completed at the deeds offices.

Conveyancing means the process whereby a person, company or a close-corporation or trust becomes the registered and legal owner of immovable property and ensures that this ownership cannot be challenged. A conveyancer can be defined as an admitted attorney who has passed a specialised conveyancing examination and has been admitted as conveyancers of the court of SA (Aghdasi, 2011). A conveyancer's status is obtained through an additional qualification that attorneys can obtain in order to be able to engage in drafting of deeds and property registration. The course that they complete deals with the practices and procedures of conveyancing and notarial practice. The institution responsible for this qualification is the Legal Education and Development (LEAD). Conveyancers must first pass the National Conveyancing examination (Aghdasi, 2011).

2.4.8: Deeds Office (DO)

This is the government registry of all fixed property and rights in them. The Deeds Office operates under the Department of Rural Development and Land Reform Act and has offices all over the country. There is a deeds registration office in all nine provinces. This body derives its mandate from sections 24 to 25 and 27 (Property clause) which establish the framework for the implementation of land reform. The other relevant Act governing the operations is the Deeds Registration Act no.47 of 1937. There is also a Property Valuation Bill enacted from the same department with the view of employing a Valuer General (VG). The VG will assist the state with regard to acquisition of land/property to redress the effects of the past. There are deeds offices all over the country. Most importantly, property transfer is only completed legally when Deeds Office registration has been completed. There are examiners in these offices who scrutinise property transaction documents to ensure that they comply with relevant legislation and regulations. When they are satisfied that the documentations comply, they inform the conveyancers that the transaction is ready for registration and thereupon, in the presence of the conveyancers and the registrar of deeds the property is registered in the name of the purchaser. The bond is registered simultaneously with the property registration. The purchaser becomes the lawful owner of the property and his/her title cannot be upset by any person. The deeds office will thereafter release the title deed which will be handed over to the purchaser through the conveyancer or to the bondholder (Klinkenberg, 2014). A list of provincial deeds offices and contact details are supplied in the deeds office website. The gap between the private sector and the public is bridged by the constitutional organisations discussed above and how that takes place will be shown below.

2.5: THE PRIVATE SECTOR AND THE CONSUMER

Many private firms and individuals are involved in the REI and huge amounts of money exchange hands in this industry. Banks and other real estate financiers are involved in bond grants for property financing. REAs are normally called upon to do property valuations and therefore have an influence on the money spent when properties are bought. They are also responsible for marketing of houses and that also has an impact on the industry. All the activities of the banks and REAs are meant to serve buyers

and sellers. These stakeholders will therefore get special attention. The roles of these different stakeholders are discussed hereunder.

2.5.1: Banks and other real estate financiers

Banks are the institutions that lend money to buyers at a cost which is aligned to the interest rates and this is to a large extent determined by the SARB and the buyer's credit situation. As it has been shown above, the credit market is also regulated by the NCR. Banks provide the necessary finance to eligible buyers. It is estimated that about 80% of all properties bought in the suburbs is bond financed. There are other institutions that are not banks but are also involved in the property financing. Examples would be Eskom, SA Home Loans, Sanlam, et cetera. Banks play a very important part as shown by the percentage given above. Also, the property industry is a highly credit dependent (The Agent, 2013). In financing property transactions, the banks operate under the Home Loans Act (Act 63 of 2000). In many cases, banks depend heavily on central bank funding (Belke, 2012). Banks can also interlink closely with all economic and political actors and they are increasingly regarded as important contributors to financial and economic stability (DuFays, 2012). The original functions of the banks are financing the economy and this has a direct impact on the wealth of people, on company and consumer behaviour (DuFays, 2012). Different banks have different approaches to interest charges with some charging higher rates to similar customers than the others. The rates are also inflation linked. Recent mortgage financing trends are given below. When banks issue a bond, it is based on the underlying premise that mortgage property is a fairly liquid, marketable investment that will generally increase in value over time; real property is an appreciating investment that can be bought and sold at will (Yen, 2012). In general, the borrowers' suitability standards focus on debt-to-income ratios and ability to make contractual required loan repayment (Yen, 2012). The trend for the banking industry is to do social banking - provision of bank and financial service that systematically pursues a positive contribution to the potential of all human beings to develop today and in the future. Social banking is meant to satisfy existing needs in the economy and in society while simultaneously taking into account clients' social, cultural ecological and economic sustainability (Yen, 2012). This is closely related to what Yen (2012) calls ethical

banking which describes activity of banks committed to promoting environment, social projects and real economy. In addition to dealing with the well-being of employees, customer satisfaction, benefits, wages, and gender balance, they will look at the impact their banking practices have on the society and the environment.

2.5.2: Real estate firms and real estate agents

REFs and REAs are regulated by the EAAB as mentioned earlier. There are a good number of REAs working for REFs in different suburbs and others who operate as one man business from their homes. The requirements for anyone who does business as an agent are the same. They have to be licensed by the EAAB. An agent can go on to become a principal if certain requirements are met. The general route presently for an agent is: one becomes an Intern REA for a year and thereafter applies to be a fully-fledged REA. For one to go on to become a principal, further requirements are that they must have a registered company with a tax number, a known auditing firm and they have to get audited annually. There are about 30 REFs in the areas of interest and there is no fixed number of the agents as it is a fluid industry. Only an estimate can be given at any given time. The list of some of the major REFs is supplied on below in Figure 2.6.



Figure 2.7: Real estate firms

There are no college qualifications that one needs to complete in order to be an agent. However, there is Professional Designation Examination (PDE) courses that one needs to do and these are offered by private institutions and agents can get exempted from them under certain circumstances. REAs also have responsibilities with regard to prevention of unlawful activities in the REI as shown above under FICA. Valuations and Marketing are among other responsibilities that REFs and REAs carry out on behalf of their customers.

2.5.2.1: The marketing role of the firms and agents and how that affects the industry

The marketing responsibilities are generally carried out by use of both print and electronic media and road shows. REAs sometimes stage show houses over weekends to showcase their stock. However, the trend seems to be the electronic route. The major electronic property advertisement companies are Private Property, Gumtree, IOL and Property24. There are other companies also doing business but the given ones are the biggest in terms of number of ads and affiliation by the big REFs in SA. The print media are generally dominated by local property magazine advertisement companies, namely; Saturday Star and Sunday Times property sections. Examples of popular property magazines in the areas used in the present study are: Property Portfolio, Western Homefinder, Property Junction and many REFs sponsored magazines. Both the print and electronic space is usually dominated by the big REFs and REAs.

The usual starting point for advertisement is that the REA obtains a sole mandate from the seller and go on to do valuation and subsequently list and market the property. To further simplify marketing, some companies and individual REAs join forces through Multiple Listing Services (MLS). This allows other firms and agents to also market the property for which a sole mandate has been signed. The MLS is a worldwide arrangement which started in the USA which assists the marketing of properties. MLS are said to increase a property's exposure and the pool of potential buyers, facilitate orderly correlation and dissemination of listing information to better serve brokers' clients, customers and the public, helps to facilitate cooperation with other brokers, assists REAs to earn commission from sale of properties listed by others and from

properties they help sell as buyer representative (Siddons, [s.a]) and help subscribers to search on MLS and retrieve information about all houses for sale by all participating brokers (Multi Listing Service, 2005).

The system also has the following disadvantages:

- ❖ It brings about unintended consequences like uncontrolled movements and possibilities of criminals gaining entry to the property;
- ❖ MLS does not work directly with sellers and buyers, the agents are not committed to market that one property and mandated agents will often sit back and wait for buyers to come in from other agencies for which they generally get a 50/50 commission split;
- ❖ There is little incentive to actively market the property if it is not the agent's sole responsibility;
- ❖ Many for sale signs and electronic adverts may be indicating discounted or distressed sale in the eyes of the buyers which has a capacity to significantly alter the perception of value; and lastly
- ❖ REAs may actively push for lower prices in order to get a quick sale (Geffen, 2008).

The sole dual mandate is one of the major variables for the present study, which is further described in Chapter 3. The listing data stored in a MLS database is the proprietary information of the broker who obtained a listing agreement with the property seller. The information is used by REAs who agree to share their listing agreements with one another to locate willing and able buyers for properties more quickly than they could on their own.

2.5.2.2: Desk-top valuation organizations and their influence on the industry

In their valuation role, REAs are aided by desk-top valuation programmes which are linked to the deeds offices all over the country. The three major companies are Windeed, PropIQ (Day, 2014) and Lightstone (Watt, 2014). Windeed was founded in 2002 by Day and Parker (Day, 2014). It is part of Korbitec, the company that owns Prop 24 (Day, 2014). By use of software, it offers electronic interface to the registration offices including the deeds. Other services include Bureaus, Experian Credit, CIPC, Transunion, such services as estimate property values. It gives maps, comparable

sales, deeds office property description, street address, suburb trends, owner information, bonds, surrounding amenities, municipal values, property history, et cetera (Day, 2014).

Lightstone was formed in 2005 and its managing director is Andrew Watt (Watt, 2014). Lightstone prides itself in providing information on property reports, residential property information, property values; reduce exposure risk, doing automated property valuation and property validation (Watt, 2014). Why these companies are important to the present study is that many REAs use them on a daily basis for valuation report purposes. The valuation role of the REAs will be further elaborated on in the subsequent chapters. Again, there are questions with regards to how REAs do their valuation and how the ultimate principal and consumer benefit from the reports. The missing part to conclude the cycle in the property transaction is the sellers and consumers, who are the main focus of the study.

2.5.3: Sellers and buyers of real estate

Sellers are the people who want to sell at a price and voluntarily engage in the market. Different reasons have been documented on why people sell their properties. Conversely, there are many reasons as to why people buy properties. Some people buy for wealth accumulation. Housing is an asset and vehicle for wealth accumulation (McKee, 2012). Some people might sell or buy properties for health reasons as there are human ecology-factors that influence people's health. As an illustration, some people are sensitive to chemicals and environmental factors (Peek & Wallace, 2014; Kang, Lyon & Kramp 2012). The other incentive for people who buy properties can be due to upgrading and change in social status. Neighbourhoods are significant markers in denoting social status through meanings and messages generated by where and how we live. Particular neighbourhoods confer status and distinction by virtue of being seen as exclusive (Cheshire & Wickes, 2012). Still others would buy in order to move into a socially homogeneous residential space and similar minded people (Cheshire & Wickes, 2012).

Another unintended consequence of divorce is that it inevitably forces people to sell or buy properties. When people separate, chances are that the property they share

may be sold or one partner can sell his/her share as there is a strong association between local ties and moving after separation (Mulder & Wagner, 2010). People who are close to the end of their working life or whose economic conditions changes may downsize and this also brings them into the market either as buyers or sellers. When an individual's economic position changes for the better or worse, they can experience housing induced burden and poverty as their ability to purchase other basic needs decreases (Cheshire & Wickes, 2012). Threshold for housing cost to income is assumed to be about 30% (Cheshire & Wickes, 2012). Other individuals are forced into the industry either as sellers or buyers due to financial distress via some foreclosure instances and forced sales. It has been said that people live in a global village. People also sell due to emigration in search of greener pastures.

Some of the examples of reasons on why people sell can equally apply to why people buy properties in specific neighbourhoods. Buyers are the ones paying for the house and are also major players. Without buyers, there is no property market. Sellers allow their properties to be sold to people who want to buy and have the financial means to do so. These two groups can act as principals to REAs as has been shown in Chapter 1 and this will subsequently be expanded on in the next chapter. Their positions are directly/indirectly affected by all the players discussed above. For instance, buyers can purchase property as their economic positions improve, in order to accumulate wealth, their status upgrade, after a divorce and et cetera. Sellers and buyers can also be subdivided into SA residents and non-residents. The non-residents warrant a special attention as their activities are governed by additional requirements and regulations. Before a brief discussion on these customers, a mechanism of how the different stakeholders discussed above affect the end-user is given.

A government department, for instance, will not directly influence a transaction, but can do so via a statutory organisation. Given below is a diagram that shows how one part is connected to another and how they all impact the consumer in the industry. An example to illustrate the symbiotic relationship between the different parts will do. The DJCD governs the operations of lawyers who deal with bond registrations and final property transfer. The DHS is the government arm that is concerned with the housing policy in the RSA and EAAB falls directly under it. This is the organisation that regulates the affairs of REAs. The DRDLA is responsible for all property registration

via the deeds offices. National Treasury can be said to be the department that pulls the purse strings and ultimately determine bond payments and money availability in the economy. The DTI is responsible for the credit market via the NCR. Its activities will definitely affect the REI as it has a direct influence on how credit is extended to individuals in the country. All the players serve the ultimate consumer who is either the buyer or the seller.

2.5.3.1: Non-resident buyer or seller of property in SA

Any person or entity can buy properties in SA. The only difference is some additional conditions do apply to non-resident buyers or sellers. The SARB plays a big role in regulating this special class of consumers. In some recent reports, foreign home buyers from countries such as Cameroon, Nigeria, Zimbabwe, Angola and Mozambique was in the increase to 19.5%. For instance, in Cape Town, 1497 sales were recorded for a value of R2.3 billion, in Eastern Cape 260 sales of total value R230 million (Weekend Argus, 2014). Foreign property ownership in SA is estimated at between 3 to 7% depending on who supplies the statistics (Golding, 2014). Clearly, then the REI contributes a good amount of foreign direct investment (FDI). Some reasons for foreigners buying properties in SA are: to use them as second homes and for letting out purposes (Les Calvert, 2013). However, there are concerns from some quarters that foreign interest in the industry will lead to property price explosion as foreigners can afford to pay higher prices and thus make it unaffordable to SA residents (Ertner & Laubli, 2014). The general view is that SA is competing for FDI with other countries where investors can invest their money. Therefore, SA needs to play the game according to some rules. Indeed Golding (2014) states that the future success of the SA property market is closely connected to the performance of the country's national economy and ability to attract FDI. In the same article, he argues that SA should follow the organization of economic cooperation and development (OECD)'s incentive investment guidelines policies of 2003 which are as follows: promotion of SA as an investment location; having a predictable and non-discriminatory regulatory investment; safeguarding of public sector transparency and having an impartial system of courts and law enforcements; and ensuring that rules and their implementations rest on the principle of non-discrimination between foreign

and domestic enterprises and are in accordance with international law and removing obstacles to international trade.

One of the biggest difficulties with SA REI is the country's history. The 1913 Land Act is said to have allocated only 7% of SA land to blacks. It is estimated that to date whites still control 87% of commercial land (Timeslive, 2014). Presently, property ownership is still problematic for the government and the willing buyer-willing seller is part of the scheme. The DRDLA has appointed a Land Valuer General to assist with determination of compensation in cases of land expropriation in accordance with the Expropriation Act. This office is tasked with setting guidelines, norms, and standards to validate the integrity of valuation data and to prevent corruption and faulty land pricing (Groenewald, 2011). For purposes of this dissertation, the above ownership information will suffice. The attention now turns to the differences between a local and a non-resident buying and selling of properties. The salient features of property purchase by non-residents as given by Groenewald (2011) and Hunter (2013) are outlined below.

The SA exchange control regulations determine the extent to which non-residents can borrow money locally to fund the purchase. However, a non-resident not working in SA is not allowed to borrow more than 50% of the purchase price and the balance of the sale amount has to be paid up in cash. Non-residents on a temporary work permit may borrow more than 50% of purchase price depending on the bank's lending criteria on condition that the purchaser reduces the bond to less than 50% of the registered amount before they return abroad. Foreigners who work in SA on the strength of their work permit are not regarded as foreigners by the SARB. They are residents for the duration of their work permit and as such are not restricted to the 50% rule stated above. If the non-resident decides to sell, their net profit is subject to Capital Gains Tax of 25%, as opposed to the SA seller whose proceeds only attract tax at R1.5 million. If the property value for a non-resident seller is R2 million or more, 5% of the purchase amount is retained via the conveyancers to be paid over to the SARS (Smith & Boyes, 2014). The actual processes involved in the buying of property in SA are similar except for the differences shown in this subsection.

The above discussion has shown how different government departments, the constitutional bodies and the private sector are jointed and coordinated to deliver a

final property transfer from seller to new owner. That interconnection can best be summarised diagrammatically as per Figure 2.8 below.

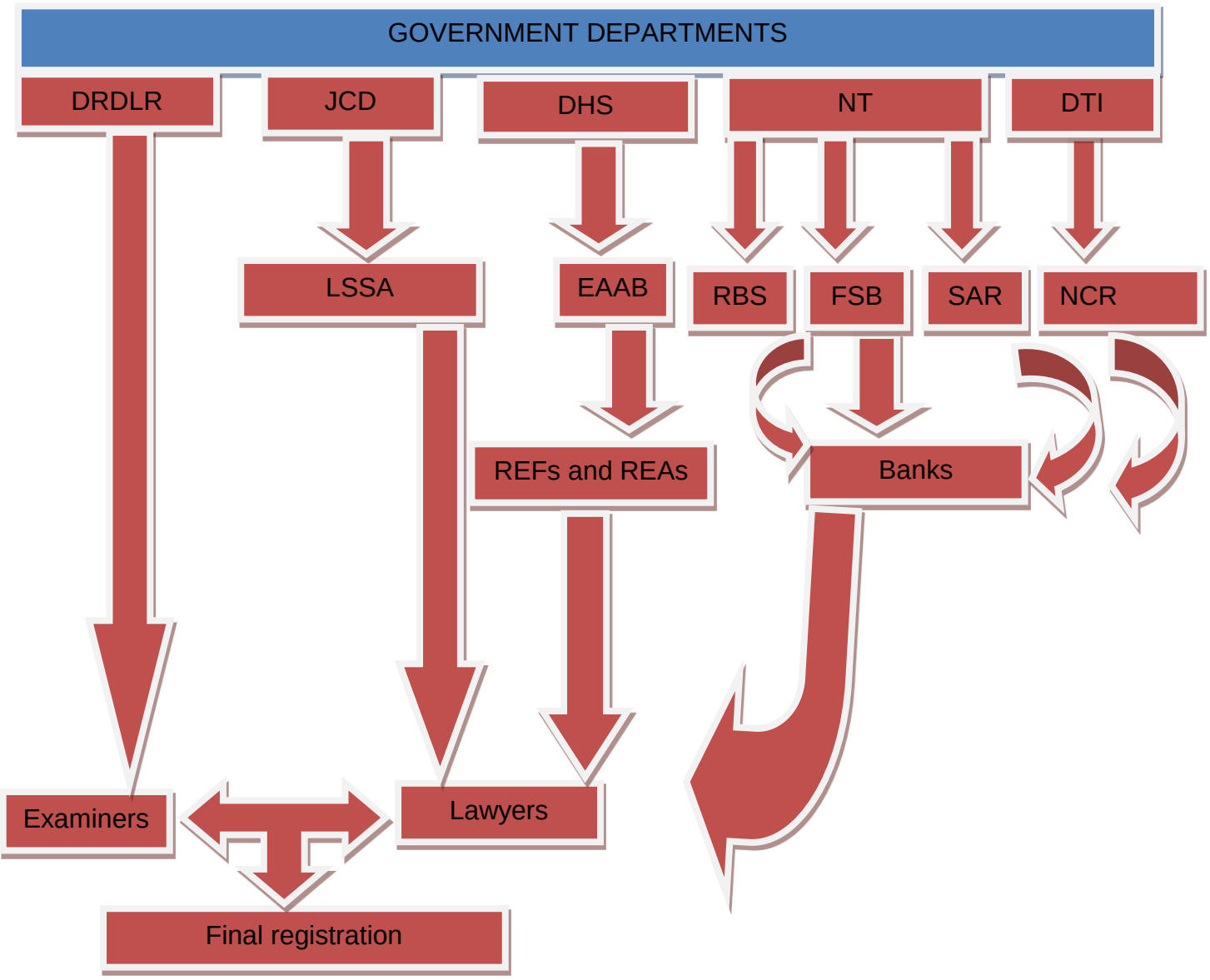

Figure 2.8: Interconnections between role players

2.5.5: Registration process flows and organogram of property transaction

This section will show how the actual deal gets taken from the agreement of sale to the conclusion of the transaction. The first part will be the process flow description and thereafter the organogram of the process will be given. The organogram is given in Figure 2.8.

2.5.5.1. Process flow of registration of Transfer

Before a sale can be concluded, the Agreement of Sale has to be drawn and signed, after which it is sent to the appointed conveyancer. The purchaser thereafter applies for a bond loan (if applicable) and the bank appoints its conveyancer to simultaneously, with transfer, register the bond. The transfer attorney requests the title deed and cancellation figures from seller's bond bank to cancel any and all existing bonds. The bank also appoints a conveyancer to cancel its bonds. Thereafter, the transferring attorneys, bond and cancellation attorneys liaise over guarantees to secure the purchase price and payment of existing loans. After that stage, FICA documents are called from the transacting parties and transfer documents drafted. The drafted documents have to be signed by both the seller and the buyer. They are signed before a matter is registered. The certificates that have to be in place before transfer documents can be lodged at the Deeds Office are Municipal Rates and/or Body Corporate Levy Certificates; Transfer Duty Receipt from SARS; Electrical Compliance Certificate and Home Owners Association Certificate if applicable. In each instance, applications have to be made for settlement figures and payments have to be made before certificates can be issued. Thereafter, all role players lodge simultaneously (essential) at Deeds Office and the matters come up on "Preparation" within 7 to 12 working days of lodgement. Registration usually takes place between one or two days after preparation. Final accounts are only drawn and payments made to various parties. That is the stage when the seller gets paid and the REA get his/her commission. The above described process can be diagrammatically shown as in Figure 2.8 below.

2.5.5.2: Organogram of property transactions

The organogram has been taken from Otto Krause and is similar for other conveyancing firms.

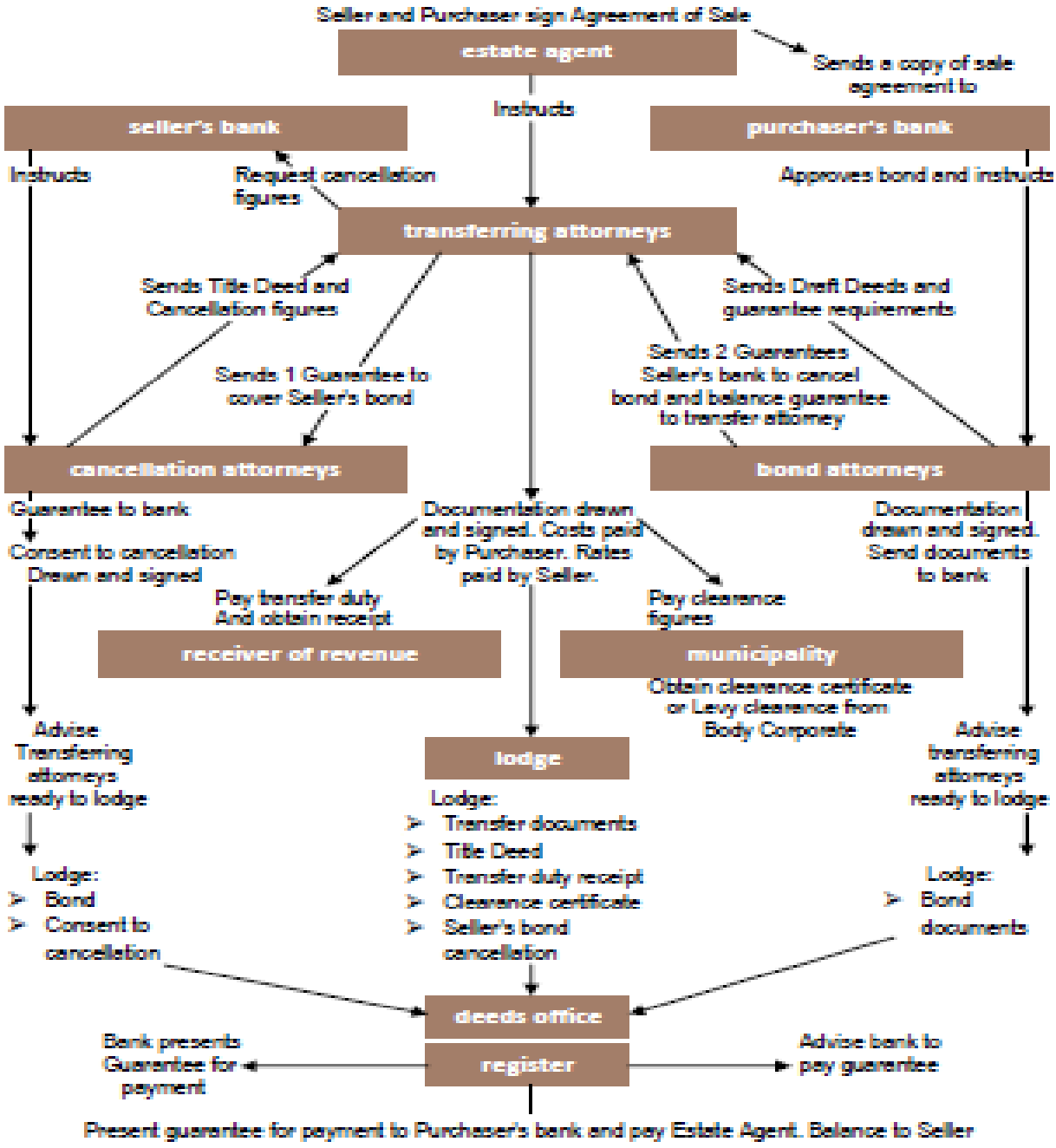

Figure 2.9: Property transaction organogram (Otto Krause attorneys, 2014)

2.6: CHAPTER 2 SUMMARY

The introductory part of chapter and the subsequent list of objectives set the stage for discussing the REI in SA by looking at the government departments, relevant acts of Parliament governing the industry, constitutional organisations that regulate the industry, the role of the private sector and ultimately the consumers. This section gives a general summary of what has in fact been covered. It can be summarised as follows: The first part has been the introduction and objectives of the chapter which also introduced the relevant government departments. The subsequent discussion has been on the five departments that govern the operation of the industry. They have been discussed in the order: DHS, NT, DJCD, DRDLA, and DTI. The discussion then gave an overview of the role of the organisations that the departments use to directly regulate the industry and they have been discussed in the order: EAAB, SARB, lawyers, deeds offices and NCR. The end of that part set the stage for discussion on the private sector involvement in the industry. Under this subsection, the role of financiers, the REFs and REAs was discussed. The emphasis of the REFs and REAs was on their marketing role by using print and electronic media and the desk-top valuation by making use of Lightstone and Windeed. The ultimate consumer was only discussed at the tail-end of the chapter. Briefly, the chapter gave some reasons on how people sell/buy properties before putting an interconnection diagram to show how all the parts are connected to each other, followed by a normal flow chart for a property transaction. That was followed by a summary of the chapter.

CHAPTER 3

LITERATURE REVIEW

3.1: INTRODUCTION

In order to properly position this study, this chapter will deal with an in-depth review of available literature of interest for the present study. The major themes to be dealt with are: General economic theories that have a bearing on the REI, namely; the Agency theory (AT) and Principal agent (PA) relationships, Information asymmetry (IA), Conflict of interest (COI), Ideology, and REAs' responsibilities in the light of the PA relationships. The REA's roles entail valuation, marketing, giving information, sourcing finance and assisting in the conclusion of the deal. These issues will be handled in relation to the outcomes they produce to both principals in RE transactions. The agency theory will be discussed in the order definitions, legal context of the AT, Principal-Agent (PA) relationships, elements of AT and PA relationships, assumptions in AT, duties of agents in a PA relationship, Inherent REI issues in the PA relationship, trust issues in the PA relationship; and information asymmetry (IA) in the PA relationship. The DMS is the PA relationship that arises whenever a REA contracts with their principals. It will accordingly be further subdivided into DMS in general and application of DMS to the SA REI. Another variable of interest is the ideology of participants in a housing transaction. This also will be subdivided into: General discussion and possible impact of IO to practices in the REI. DMS and IO impact the real estate industry via the roles that REAs play in the majority of housing deals. These will be discussed under valuation; pricing and marketing. Possible links to COI and compromising of principals (CP) will be highlighted. Conflict of interest (COI) which is one of the mediator variables will in turn be discussed in the light of DMS, IO and the roles of REAs. The second mediator variable is compromising of principals' interests (CP). It will also be discussed in the light of DMS, IO and the roles of REAs and finally, the outcomes variable (OT) will be discussed as the possible outcomes of COI and CP in SA REI.

3.2: RELEVANT ECONOMIC THEORY TO THE REAL ESTATE INDUSTRY: THE AGENCY THEORY (AT)

The relationships between housing market and macro-economic activity have drawn special attention because housing investment is considered to be an important indicator of economic activity (Smith & Tesarek, 1991; Wheeler & Chowdhury, 1993). Moreover, housing investment is a substantial part of the total investment and housing market activity is important to the economy of the country (Ramazan, Bradley & Bahadir, 2007). In addition, Wheeler and Chowdhury (1993) suggest that the value of REI is a leading economic indicator. In order to appreciate the importance of the REI, one needs to first consider some theoretical notions that apply to the concept of market forces in the housing industry (Boelhouwer, 2005). The major theory that warrants special attention for purposes of this study is the Agency theory (AT) and the Principal-Agent (PA) relationship in the REI. The subsequent discussion will use these concepts as the basis.

3.2.1: Definitions

Agency theory is undeniably among the dominant theories of economic organization (Bosse & Phillips, 2016; SALTAJI, 2013). Before going on to explain how the PA relationship finds expression in the REI, one needs to briefly discuss the legal basis for the AT. Agency relationship is generally organised around the objective of efficiency and attempts to make the goals of the principal and the agent congruent (Kurland, 1991). The word agent is most commonly used on a person whose activities are concerned with the formation, variation or termination of contractual obligations (Kerr, 2006). Silke (1981) defines an agent as a person who acts on behalf of another and whose authority covers the creation of contractual obligations between the principal and the third party. Gibson (1991) defines agency as a contract whereby one person is authorised and is usually required by another to contract or negotiate a contract on the latter's behalf with a third party, and the parties also agree on the scope of that authority and on the commission. Therefore, an agent concludes a juristic act for or on behalf of another (principal) with the result that a legal tie arises between the principal and the third party (Havenga, Havenga, Hurter, Kelbrick, Manamela,

Manamela, Schulze & Stoop, 2011). Therefore, agency is a triangular relationship between principal, agent and the third party (Markesinis & Munday, 1986). The resultant arrangement between the seller, REA and the buyer can thus be represented as per Figure 3.1 below.

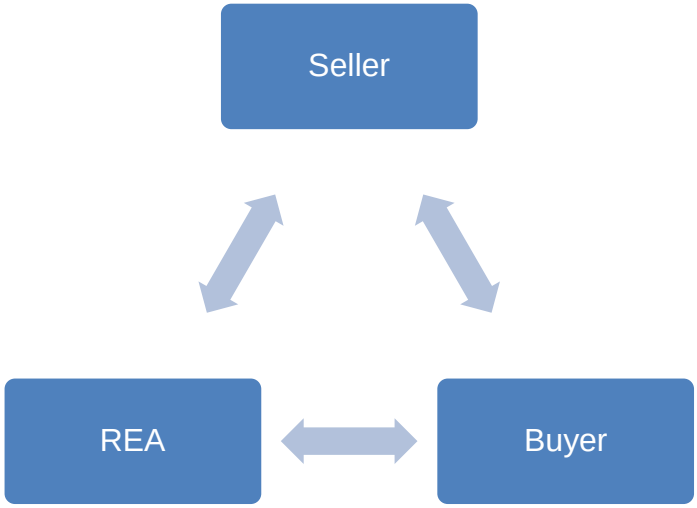

Figure 3.1: Triangular relationship between the REA, the seller and the buyer (Markesinis & Munday, 1986)

NB: The usual starting point to this triangular link is the seller approaching the REA to agree and sign a sole mandate agreement. The REA can also initiate this relationship. Sometimes the buyer can contact the seller directly who would in turn refer the buyer to the REA.

3.2.2: Legal context of the agency theory and Principal-Agent (PA) relationship

The AT is a very broad theory that forms the basis for many economic activities ranging from financial services, company governance and many other areas of economic activities (Eisenhardt, 1989). It also forms the basis for the operation of the REI. The first part of this discussion concentrates on its background, definitions, its elements, the authority of the agents, assumptions in the AT, duties of agents in terms of the PA relationship and lastly, trust in a PA environment. One of the justifications for the inclusion of the AT is that the duty of the REA to his/her clients is fiduciary in nature

(Marsh & Zumpana, 1988). The task of finding, evaluating and acquiring property assets for investment is complex. The existing lack of a central trading system, the heterogeneous nature of assets and markets (De Wit & Van der Klaauw, 2012) and the extensive range of information that has to be gathered and assessed present a challenge to individuals and organisations (MacAllister, Hughes & Gallimore, 2008). For that reason, unsophisticated vendors and purchasers of residential properties rely heavily on the expertise of REAs in matters of market intelligence; searching for properties and buyers; data appraisal and pricing; financing advice; purchase terms and transaction management services; advice on conditions and habitability of the real estate in question despite the fact that conflicting loyalties and objectives commonly exist between the agents and their clients (Kroll, 2010 ; McAllister, *et al*., 2008). REAs can add value by transforming one set of data into more meaningful or usable information (Dombalagian, 2011). In addition, Dombalagian (2011) maintains that the transformational stage is heavily dependent on the discretion of the agent and that creates the potential for abuse. The aim of the appointment of an agent by the principal is the performance of a service for the latter (principal) (Kerr, 2006).

An agency contract requires consensus and capacity on the part of both parties for delegation of object (Silke, 1981). For the rules of agency to come into play, one person must intend to act on behalf of another and the representation of one person by another must be meant to affect the principal's legal position (Markesinis & Munday, 1986). When a principal is contracted to an agent, a relationship of power and dependency is created based on a set of rules to ensure that those with power are accountable to those that depend on its appropriate use (Callison, 2012). The principal and agent are engaged in a cooperative behaviour but have partly differing goals and attitudes towards risk (Eisenhardt, 1989). The usual costs of contracting with an agent are incentives and the costs of monitoring their behaviour (Kaplan, 2012). PA relationships necessitate monitoring of activities of REAs by their principals (Waterman & Meier, 1998).

3.2.3: Elements of the Agency theory and the principal agent relationships

The law of agency gives rise to contract of mandate which can be defined as an agreement whereby one person entrusts a commission to execute something to another (Gibson, 1991). Furthermore, Havenga *et al*. (2011) state that a contract of mandate arises when one party conclude a contract with another in terms of which the mandatary undertakes to perform a mandate (commission of a task) for the mandatory. The mandatary authority will frequently be agreed upon on the contract of mandate or may be inferred from it. Representation is implicit in the definition of an agent and agency is a combination of the principles of mandate and representation. Other authors also emphasise the same notion that agency combines the principles of mandate and representation (Havenga, *et al*., 2001; Gibson, 1991). An auctioneer is also regarded as an agent for purposes of this discussion. Generally, the principal gives and the agent accepts a prior authorisation or instruction to do the act or series of acts (Silke, 1981). Agent's authorisation can be done by express agreement or can be implied by the nature of the business (Kerr, 2006). In the REI, one generally deals with what Kerr (2006) describes as an unempowered agent whose service contribute to bringing about an opportunity for the principal to enter into, vary or terminate a contract or contractual obligations but who does not himself do it on the principals' behalf (Kerr, 2006).

3.2.4: Assumptions in the agency theory

The cornerstone of agency theory is the assumption that the interests of principals and agents diverge (Hill & Jones, 1992). The best interests of the agent differ from the best interests of principals and resolution of these differences may generate agency costs (Walking & Long, 1984; Jensen & Meckling, 1976). According to Kurland (1991), this is due to the basic assumptions underlying the theory which are that people are self-interested, rational and risk-averse. Dissimilarity of goals can be associated with conflict (Ross, Anderson & Weitz, 1997). Another central assumption of agency theory is that the agent will act opportunistically and exploit information asymmetry at the expense of the principal (Van Slyker, 2006; Greenberg, Greenberg, Lederer & Antonucci, 2008; Williamson, 1975). There is a power differential-condition of unequal dependence between the two parties (Principal and agent) to an exchange (Emerson,

1962; Pfeffer 1981; Hill & Jones, 1992). PA contracts are used to align interests and monitor performance (Scott & Lizieri, 2012). Extensive work has been done in AT to examine the trade-offs necessary to reach the efficient solution between the cost of monitoring behaviour and the optimal output under conditions of information asymmetry (IA) (Kurland, 1991). It can also be said that higher level of monitoring leads to higher transaction costs and reduces the costs savings of outsourcing (Vosselman & Van Der Meer-Kooistra, 2006; Greenberg, *et al*., 2012). The incentive scheme for both principal and agent has to be positively correlated in order for the PA arrangement to function properly.

3.2.5: Duties of agents in a PA relationship

It is estimated that about 86% properties are sold by licensed brokers in the US (Barker, 2007). The agent owes the principal the following duties: fully and faithfully performance on the mandate; honesty in the performance; utmost good faith in the performance; not to make any secret profits out of the mandated transaction; and absence of conflict of interest (COI) and non-disclosure of information to third parties. In summary, the agent has to protect the interests of the principal. Also, implicit in the contract as well is that privity of contract does not arise even where delegation is permissible. According to Markesinis, *et al*. (1986), Gibson (1991) and Havenga, *et al*. (2011), agent's duties can succinctly be listed as follows:

- Act in terms of the agreed terms of the contract or perform his/her contractual undertakings (carry out mandate) personally;
- Act with due care and in good faith, perform with skill and diligence, perform fiduciary responsibilities;
- Not delegate unless where it is usual practice;
- Not put himself in a situation where his duties to the principal conflict with his interests, not acquire benefits for himself; and
- Not exceed delegated terms, not intentionally cause harm or injury and account to the principal.

The nature of the PA relationship gives rise to trust issues between principals and agents. In the absence of trust, the PA relationship would be rendered almost non-functional and very conflictual. Agency costs are incurred by principals in monitoring

agency behaviour because of lack of trust in the good faith of agents (Kaplan, 2012). When agents are hired they are meant to reduce information and transactional costs (French & Leyshon, 2004; Palazzo & Rethel, 2008).

3.3: REAL ESTATE INDUSTRY ISSUES INHERENT IN THE PRINCIPAL-AGENT RELATIONSHIPS

The major relevant issues coming out of the PA relationships are trust, conflict of interests and information asymmetry and these will be discussed before showing the relevance of the concepts to the SA REI.

3.3.1: Trust: the glue that holds the principal-agent relationship

As stated above, when an agent is appointed he/she assumes fiduciary relationship. Fiduciary relationship is in turn based on the concept of trust and truth (Mitnick, 1973; Yaari, 2007). Some authors identify two types of trusts, namely; calculative trust which can be relied upon to the extent to which it believes opportunistic behaviour will damage future returns (Gainey & Klaas, 2005); and relational trust which exists when the two parties develop deep personal ties, loyalty and concern for welfare for each other. Both parties have established normal clear expectations and understanding (Freybote & Gibler, 2011).

Before showing the impact of trust on the REI, a brief discussion on these important concepts follows. Trust is the first major component of relationship capital and is based on beliefs about how an alliance partner will behave in the relationship (Cullen, Johnson & Sakano, 2000). It is regarded as a key ingredient for the development of long-term business and has been recognised as a highly significant tool for enhancing relationships (Berry, 1995; Ruyter, Moorman & Lemmink, 2001). Furthermore, trust has been widely recognised and reported as the main condition of exchange in the social exchange literature. According to Blau (1964), social exchange tends to engender feelings of personal obligation, gratitude, and *trust*; purely economic exchange as such does not. Social exchange is embedded in trust which in turn is essential for stable social relations. It is regarded as a critical factor underpinning

social exchanges in that the act of initiating social exchange relationships requires the originator to trust that the recipient will respond in kind (Blau, 1964; Aryee, Budhwar & Chen, 2002). Trust is generally based upon norms which are rules or guides to behaviour which determine what appropriate performance level is. The other basis for trust is ethical standards which are a level of effort that is considered appropriate behaviour and lastly, it is also based on altruism.

Altruism is when the principal's well-being correlates positively with the agent's utility function (Cadesus-Masanell, 2004). In this kind of relationships, a major source of disagreement is the failure to carry out one's role and obligations which is in turn a function of personnel competence (Ross, Anderson & Wietz, 1997). Trust has been conceptualised as a belief or confidence in another's reliability, integrity, credibility, honesty and truthful benevolence (Doney & Cannon, 1997; Ganesan, 1994; Geyskens, Steenkamp, Scheer & Kumar, 1996; Kumar, Scheer & Steenkamp, 1995; Morgan & Hunt, 1994), faith that another will meet obligations (Gundlach & Murphy, 1993); and the expectation that another will act in accordance with an individual's beliefs (Sirdeshmukh, Singh & Sabol, 2002). Essentially, trust is confidence in another's goodwill and integrity as well as the belief in another's ability and credibility, and is associated with such qualities as being honest, faithful and truthful (Lohtia, Bello & Porter, 2009). In addition, Geyskens, Steenkamp and Kumar (1998) pointed out that most studies in marketing build on interpersonal research define trust as 'the extent to which a firm believes that its exchange partner is honest and/or benevolent' or some variant thereof. Moorman and Loewenstein (1992) define it as 'a willingness to rely on an exchange partner in whom one has confidence. An important aspect of their definition is the concept of trust as a belief, feeling or expectation about an exchange partner which can be judged from the partner's expertise, reliability and intentions. Moorman, Zaltman and Deshpande's (1992) definition, similar to those of Doney and Cannon (1997) and Morgan and Hunt (1994), reflects two components of trust, namely; credibility and benevolence. In the PA relationship, credibility would reflect a principal's belief that the agent has sufficient expertise to perform the job effectively and reliably and benevolence as the extent of the principal's belief that the agent's intentions and motives are beneficial to the principal even when new conditions arise about which a commitment was not made (Ganesan, 1994; Kumar, *et al*., 1995).

Trust is difficult to build and easy to destroy (Ross, *et al*., 1997). It is a fundamental ingredient and lubricant and an unavoidable dimension of social interaction (Ke & Wei,

2008), has received a great deal of attention from scholars in disciplines of social psychology, sociology (Lewis & Weigert, 1985), economics (Williamson, 1991), management (Gulati, 1995), marketing (Anderson & Weitz, 1989; Dwyer, Schurr and Oh, 1987; Moorman, *et al*., 1992), and information systems (Hart & Saunders, 1998; Jarvenpaa & Leidner, 1999; Jarvenpaa & Leidner, 2004). It is developed by the continuous exchange of information between partners, which helps to reduce anxiety and uncertainty. In this way, trust can help influence the future working relations and reduce the likelihood that the other party will act opportunistically (Brandach & Eccles, 1989; Ganesan, 1994; Morgan & Hunt, 1994). Furthermore, trust reduces transaction costs since there is no such a need to set up control mechanisms within the relationship (Jap & Ganesan, 2000). As a consequence, these lower costs make it more likely that the relationship will continue in the future (Van Bruggen, Kacker & Nieuwlaat, 2005).

In relationship literature, trust is one of the most widely examined and accepted relational dimensions. It is postulated as the main control mechanism for network governance (Elg, 2002) and the cornerstone of the strategic partnership (Spekman, 1988). Schumacher (2006) suggests that well-performing relationships can be differentiated from low-performers on the basis of trust. Trust levels are a good predictor of successful alliance relationship (Kauser & Shaw, 2004). Trust can increase loyalty and can result in a mutually profitable relationship (Wimmer & Mandjak, 2002). When the parties have trust in one another, there will be ways by which the two parties can work out difficulties (Johnson & Cullen, 2002). The presents/absence of trust in the PA relationship can bring about devastating consequences as it will be shown below due to the presence of information asymmetry. The REAs possess huge informational advantage over both the seller and buyer principals. These are the people who delegate responsibilities to the REA to perform on their behalf. Moreover, issues of IA, conflict of interests (COI) and opportunistic agent behaviour are universal concerns in any delegation situation even if specific manifestation may take many forms (Wiseman, Cuevas & Gomez-Mejia, 2012). Trust has been discussed as the glue that holds any PA relationship that also enhances opportunities for future business. However, there are other elements inherent in the relationship that has a potential to strain or strengthen it. The two

examples are IA and COI. Before delving into these concepts, it would be proper to look at how PA relationships work in the REI in SA.

3.3.2: Information asymmetry (IA) in the principal-agent relationship

Buying a house is one of the most important financial decisions faced by any household or individual during their lifetime. House purchases are infrequent and the time between them is measured in years or decades (Levitt & Syverson, 2008). Real estate markets are prone to IA and incomplete contracts (Vosselman & Van Der Meer-Kooistra, 2006; Greenberg, *et al*., 2008). Furthermore, Levitt and Syverson (2008) demonstrate that it is hard to gain experience and expertise in these transactions. Both buyers and sellers are infrequent market participants and they are not informed of the demand and supply conditions in the housing market (Arnold, 1992); they make housing choices with relatively little experience since they make the choices so infrequently (Scott & Lizieri, 2012). Housing information is likely to be provided by REAs which also give rise to a potentially serious PA problem (Levitt & Syverson, 2008; Scott & Lizieri, 2011). When principals seek out agents for expert knowledge, the principals are usually one-shooters and agents repeat players. Sometimes principals are unexpectedly foisted into a new role with no time or life experience to formulate preferences, let alone a contract or monitoring strategy (Heimer & Staffen, 1998; Shapiro, 2005). For instance, the seller generally has less information than the agent and is therefore disadvantaged in price-setting, contract negotiations and faces imperfect information about market values and the location of potential buyers (Rutherford, Springer & Yavas, 2005). On the other hand, REAs are generally experienced and cognisant of the market forces involved (Gonzalez-Navarzo & Quintana-Domeque, 2009). They are assumed to have superior search technology to locate prospective buyers, superior knowledge of market conditions and in setting optimal asking price (Rutherford, *et al*., 2005). If the agent's objectives differ from those of the principal (as assumed in the AT), the agent may take advantage of the situation to pursue his own ends (Molho, 1997). Therefore, IA favours the agent (Shapiro, 2005). The principals may try and bridge IA by installing information system and monitoring-outcome oriented contract (Levit & Syverson, 2005). As an illustration, it has been found in other studies that agents selling their own houses behave

differently (Levit & Syverson, 2005). Rutherford, *et al*. (2005) found that agent's properties sold for 4.5% higher price than houses owned by clients.

The usual starting point in the path for property sale in SA is to use the REAs to set the asking price. In that case the seller is the principal and the broker an agent. The agent is supposed to act as the principal would as he/she shared the agent's superior information and expertise (Sappington, 1991). But the buyers also rely greatly on the advice and transactional expertise of the same REAs. The REA has privileged access to information and that has a potential to impair the efficiency of information markets as REAs might withhold it from other participants (Dombalagian, 2011). As shown above, the REA or broker has two roles, namely; a seller's agent and a buyer's agent. The agent knows the extent to which he is more productive of the two tasks (buyer's or seller's agent) and by what degree while the principals do not have that information. This creates IA which can be deployed over other participants in transactions. Extensive research in economics suggests that people maximise their payoffs (Hamman, Loewenstein & Weber, 2010). Hill and Jones (1992) argue that interests of principals and agents differ because these groups have different utility functions. For transactions to be fair, the REA has to be able to see the value of the property through the eyes of both the buyer and seller at the same time. Sellers tend to value their possessions comparatively higher than buyers (Knetsch & Thaler, 2007). There is clearly an IA as to the optimal level on the property value(s) for both the seller and the buyer. Also, sellers and buyers are heterogeneous in their patience and bargaining abilities (Hendel, Nevo & Ortalo-Magne, 2007).

Other authors state that IA results in hidden characteristics, hidden knowledge, hidden actions and hidden information (Eckardt, 2002; Palazzo & Rethel, 2008). In addition, IA would have negative consequences for any PA relationship and lead to principals being poorly served (Ross, Anderson & Barton, 1997; Levit & Syverson, 2005). In the REI, IA favours the agent (Gibb & Pryce, 2012). Examples of this have been shown by different authors. Gatner, *et al.* (1991), Anglin and Arnott (1991) and Micelli (1991) argue that the agent will expend less than efficient level of effort for the benefit of the seller. The high cost of asymmetry of information brings about inefficiency in housing markets (Knight, Sirmans & Turnbul, 1998). Agency theory suggests that when the principal has more information to verify agent's behaviour, the agent is more likely to behave in the interest of the principal (Eisenhardt, 1989). For the general public, it can

be argued that the buyer and seller principals do not possess this kind of expertise. This leads to asymmetry of power to further shift from the principal to the agent. Therefore, it follows that REAs have huge informational advantages over all other players (Hiischer & Sisli-Ciamarra, 2013).

McAllister, *et al*. (2008) give us some problems associated with the PA relationships arising out of IA and classify them as moral hazard problem when the agent puts in as little effort as possible on behalf of the principal. The chances of this occurring increase as the autonomy given to the agent increases; the more information the agent possess and the greater the specialised knowledge required to perform (Holmstron, 1979). Adverse selection occurs when the information that the agent possess is not being used in the principal's best interest. As a counter to the above discussion, Macleod (2003) states that long-term business and social relationships may also be a restraint upon opportunistic behaviour by the agent. Walter (2003) argues that the degree of IA and competitive conditions is insufficient for COI to be exploited. Also, REAs too do have competing interests and the existence of multiple principals and agents increases IA and the difficulty of monitoring them but also helps to correct the imbalance of information such as when competing agents leak information to principals in an effort to gain upper hand over other agents (Waterman & Meier, 1998). The assumption that principals specify preferences, create incentives and making contracts that agents must follow is also problematic (Heimer & Staffen, 1998; Sharma, 1997). It has been suggested as well that PA relationship should analyse the contractual challenges that confront sellers/buyers and REAs under conditions of IA (Steinle, Schiele, & Ernst, 2014). One of the reasons is that IA presents opportunities for opportunistic behaviour from anyone who is advantaged thereby. In literature, some authors have defined opportunism as self-interest with guile (Williamson, 1979). In addition, opportunism also erodes the benefits of trust in a PA relationship (Eisenhardt, 1989; Williamson, 1979). Some actors in a business relationship have been known to exhibit purely selfish behaviour and ignoring the consequences for other actors (Lacet, *et al*., 2005). This is most probably due to personal preferences and benefit maximisation (Steinle, *et al*., 2014). Possible ways of exploiting IA would be through cheating, breach of contract, distortion of data, dishonesty, false threats and promises, misrepresentation and withholding of information (Wathne & Heide, 2000).

However, IA does not only advantage the agent in a property transaction. When a contract is negotiated, the buyer, for instance, is less informed about the seller expectations and intentions as they are generally kept apart at the early stages (Wilkie, Mela & Gundlach, 1998). It has been said that this separation between the buyer and seller creates IA in favour of the seller due to goal incongruence between these two (Pavlou, Liang & Xue, 2007). Pavlou, *et al*. (2007) further argue that principals and agents are self-interested parties with incongruent goals. Other issues from IA arise out of consumer gullibility. Sometimes the behaviour of REAs leads buyers to believe that they are acting as their representatives (Hopper, 1992). For instance, brokers can place their individual concerns above those of their principal (Murray, 1987). Clearly, then both REAs and potential buyers need direction in understanding the precise nature of REAs' duties in any transaction (Hopper, 1992). The above concepts give the context in which the SA REI operates. The major variables that will be covered are DMS, IO, CP, COI and OT.

3.4: PRINCIPAL-AGENT RELATIONSHIP IN THE SA REAL ESTATE INDUSTRY

As it is normally the practice in many business transactions, when a seller decides to put his/her property in the market, they first consider their options. In the majority of cases, they contract with a REA by entering into a mandate agreement. In the US, for instance, sellers use REAs in about 86% of their housing transactions (Barker, 2007). A discussion on the way this mandate system works in SA will be further presented under DMS in general and DMS as applied to REI in SA below.

3.4.1: Dual mandate system (DMS) in general

The PA relationship finds application in the SA REI via the sole mandate system. The REA is usually called upon to be the middleman between the seller and the buyer. He/she plays a dual role (Salvador, 2011). As mentioned earlier, the agent signs a mandate with the seller and helps with initial valuations and marketing of the property. The mandate contract can be structured differently to suit the contracting parties' interests. Parties can use either the open mandate (OM), exclusive agency mandate (EA) or the sole mandate (exclusive right to sell) mandate (SM). Under the OM, the seller can list the property with multiple brokers and is liable to pay commission only to the broker that procures the sale and does not pay the broker if he finds the buyer himself (Rutherford, *et al*., 2001). In the exclusive agency (EA) or sole mandate (SM) arrangement, the seller and broker agree that the contracting broker shall be the only broker that will be entitled to a commission and that no other brokers will have direct contractual relationship with the seller. Other authors refer to this as an exclusive right to sell (Marsh & Zumpana, 1988). The exclusivity and signing part of the agreement is of utmost importance as evidenced by the way major players in the SA REI describe this form of an agreement. For instance, it is defined differently by different authors.

Davis [s.a] defines it as a written agreement between the seller of a property and a REA to exclusively market the seller's property under certain defined terms and conditions. Rademeyer (2014) sees it as a contract between an estate agent and a principal (seller) whereby the principal agrees, firstly, to appoint that specific estate agent to sell his property and, secondly, not to appoint another estate agent to sell his

property until the period for which the SM has been given has expired. In addition, SM forms normally used by REAs invariably stipulate that the sole mandate is irrevocable for a certain period. Goslett (2013) defines it as a contract that allows the REA to market the seller's house in order to procure the right buyer for the property. This has to be reduced to writing (Goslett, 2013; Rademeyer, 2014). It is given to only one agent and should specify the price, conditions of the mandate and the commission payable upon the successful conclusion of the sale (Spies, 2013; Reynolds, 2011). Under the contract type, the seller shall not be permitted to sell the property through his/her activities or activities of any other agent (Reynolds, 2011; Spies, 2013; Rademeyer, 2014). This is the darling of the REI in SA.

3.4.2: Dual mandate system application to the SA real estate industry

As shown above, the type of the mandate favoured and mostly used in the SA context is the SM or exclusive right to sell type (Brown & Yingling, 2007; Kadiyali, *et al*., 2014). In the SM situation, once an agent is appointed by the seller, he/she determines who gets to see the property and gets involved in the setting of the listing/asking price. Some writers have said that the SM gives the marketer the exclusivity and exactness of the asking price (Erasmus, 2006; Spies, 2013). REAs have understandably a bias towards the sole mandate due to the advantages it confers on them. Under this mandate, only one agent or firm controls all incoming offers. Some of the advantages of this mandate have been given are that a SM links a property to one brand, avoids over-exposure of the property and helps avoid double commission (Reynolds, 2011; Davis, [s.a]).

On the contrary, in the OM type, there is no necessity for any signing of contractual papers and the seller retains the right to sell the property privately. The commission structure can lead to the property being marketed at different prices (Spies, 2013). Spies (2013) further say that when this type of mandate is given, it is more likely to send mixed messages as the same property will be advertised at different prices. The other major variable is the ideology of the REA.

The problem with the SM system in the SA context is that the REA serves two principals, namely; the seller and the buyer. These two principals' interests are at odds with each other. This is referred to as the DMS in the present study. This presents possibilities of conflict between the interests of all the role players (Salvador, 2011). The REA finds himself/herself in a dual agency situation. REAs have their own interests, information, perspectives and they also have access to both principals. When looking for potential purchasers, the REA works as a salesperson. One of the duties of a salesperson is to earn the prospect's trust. A natural result is that the relationship could take an appearance and often the actuality of REA appearing to be looking out for buyer's interests (Lindeman, 2004). The buyer often assumes that the REAs is in fact working for him as he/she gives them advice and counsel which also violates their agency loyalty to the seller (Lindeman, 2004). In one study, it has been shown that about 72% of the buyers believed that the REA was representing them and not the sellers (Isakson & Spencer, 2000). Under this arrangement, questions such as: Whose interests are to be prioritized? Can the agent perform an ethical business transaction; and Can the confidentiality of the principals be protected? may arise (Doebring, 2009). It is generally known that there are difficulties in reconciling and balancing these divergent interests (McGovem & Tenel, 2005). According to Palma, Ferreira, Vilana and Assis (2014), it is impossible to serve two masters. Dual mandate can create COI (Pancak & Sirmans, 2004). Possibilities of COI on the part of the agent and those of multiple principals is a real possibility (De Mott, 2007). In other contexts, DMS has been shown to present problems. The seller principal who usually has a signed agreement with the REA has difficulty in monitoring and verifying that the agent is adhering to proper business practice (James, 2002). Like many other people, REAs are self-interested rationalist and utility maximisers (McGovem & Temel, 2005). The REA's access to both the seller and the buyer creates IA, the situation which favours the agent who can opportunistically exploit the principals' trust (James, 2002). Therefore, IA is an antecedent of opportunism (Wilkie, *et al*., 1998). It must also be mentioned that people can perform optimally (making unbiased judgment) even when playing dual roles that require different perspectives, but only when it is in their interest to do so (Moore, Tanlu & Bazerman, 2010).

3.5: IDEOLOGICAL OUTLOOK (IO) OF MAJOR ACTORS

Discussion on the ideology of main actors in the REI will be done in the sub-section below.

3.5.1: Ideology: General

Ideology has been defined by many authors in slightly different ways. For instance, it has been defined as a system of beliefs (Daniela, 2014), general mental representations shared by the members of a social group (Van Dijk, 2009) and as ideas which arise from a given set of material interests (Daniela, 2014). Still others have defined it as one's philosophy about economic, social and political issues (such as free-market system, capability of government institution, virtues of monopolies, the value of competition, meaning and importance of property rights, merit et cetera (Marina, 2014). It has also been defined as a basis of a social representations shared by members of a group that allows members of the group to organise a multitude of social beliefs about what is the case, what is good or bad, what is right and what is wrong for them and to act accordingly (Van Dijk, 1998). Ideology is never an isolated belief, but is always a network of beliefs. Ideological belief will always be a part of a wider view of things (Shelby, 2003). One's ideology reflects one belief about the proper goals for society and how to achieve them (Chin, Donald, Hambrick, Linda & Treviño, 2013; Jost, 2006; Tedin, 1987). Furthermore, Jost (2006) argues that one's ideology is a relative stable and enduring personal attribute. Schlenker (2008) defines it as an integrated system of beliefs, values, standards, and self-images that define the individual's orientation toward matters of right and wrong which provides moral schemas and scripts for assessing events and behaving in them, and a moral identity that describes one's ethical character. Ideology helps to explain why people do what they do. It is in the light of the position REAs and how much influence they have over any RE transaction in SA that their ideological outlook becomes crucial. People's ideology reflects their values (Roseberg, 1956; Layman, 1997; Barnea & Swartz, 1998, Gore, Frederico & Kittilson, 2009). Values are in turn defined as a broad tendency to prefer certain states of affairs over others (Hofstede, 1980). Feldman (2003) contends that values are the major source of structure for political attributes. In order to fully appreciate the role that these major predictor variables play in the industry, the

discussion now turns to major roles played by REAs in the industry. From the above discussion, it appears that ideology is one area that would be difficult if not impossible to change if one observes it in another person. The big issue with ideology for purposes of this study is how that affects the REI in SA.

3.5.2: Applicability of ideological outlook to practices in the SA real estate industry

Ideologies are self-serving and a function of the material and symbiotic interests of a group (Van Dijk, 1998). Among these interests is power over other groups or resistance against domination by other groups (Van Dijk, 1998). People who hold strong ideological viewpoints tend to endorse policies and practices that give advantages to members of their own groups and exclude others (Unger, 2002). They tend to pursue practices that maintain their group's hegemony (for example; racism and meritocracy) (Unger, 2002). For instance, Shelby (2003) indicates that racism is an ideology. The other problem arising out of ideology is that it can become omnipresent and for that very reason goes unrecognised (Miles, 1995). Other authors have described ideology as a menacing force that is capable of having an enormous impact on social relations and the prospects of progressive change (Shelby, 2003). Ideology can find its way into practices in the REI and hence the special attention in the dissertation.

3.6: MAJOR ROLES PLAYED BY REAL ESTATE AGENTS IN THE SOUTH AFRICAN REAL ESTATE INDUSTRY

As mentioned above, the major roles that REAs play in the industry are to do valuation for initial asking price setting and marketing the property. Their activities have been discussed in Chapter 2 of this dissertation. This subsection takes a critical look at these responsibilities in the light of the PA relationships between the REA and the consumer. It is subdivided into major roles which have been broadly classified as valuation for pricing and their marketing roles.

3.6.1: Valuation and pricing role of real estate agents in the South African real estate industry

In the present study, valuation will be assumed to lead to pricing decisions for purposes of selling properties. The valuers that get special attention are the REAs who are mostly the first people the public turn to when valuation issues arise.
Valuation of properties in SA is governed by Property Valuers' Profession Act 47 of 2000 (Channing, 2014). Valuation is done for different reasons by the different role-players because of the nature of the RE transactions. It can be done for financing purposes, for sale/purchasing purposes and can also be for investment motives (Millington, 1994).

3.6.1.1: Valuation defined

Wyatt (2007) defines valuation as the process of forming an opinion of value in exchange under certain assumptions. The word valuation carries an accepted aura of uncertainty (Crosby, 2000). Appraisal/valuation gives an estimate of the property value which is supposed to be the best estimate of the transaction price (Schulz, 2003 and Maliene, Daveikis, Kirsten & Malys, 2010). Some writers state that valuation provides a reliable proxy for prices (Bowles, McAllister & Tarbert, 2001). Millington (1994) and Yang (2000) state that MVs are a result of demand and supply interaction in the market and should capture the dynamics of the property market.

3.6.1.2: Why, how and differing views on property valuation

The most important off-shoot of the valuation exercise is arriving at a sale price for a house. The outcome of any valuation exercise should accord with market evidence as market values (MVs) have an influence on the operations of the market and play an important role in the REI industry to ensure economic stability (Isaac, 2002; Yang 2000; Sayce, 2003). In line with this argument, whatever price that is agreed upon when a property is purchased is what a particular purchaser agrees to pay and a particular seller agrees to accept under conditions of free market environment (Brown & Matysiak, 1999). In virtually every aspect of the REI, market values (MVs) considerations are of vital importance (Millington, 1994). Moreover, MVs inform market

price which in turn has an influence on the initial asking and reservation price. Valuers play an important role in the REI market as assessors and advisors on the MVs at any given time (Myers, 2012). MVs play an important role in this industry to ensure economic stability (Yang, 2000). Municipalities also hire valuers to appraise and determine the MV of all properties as at the date of valuation (Channing, 2010). For purposes of this study, valuations will be assumed to be for selling of property and will therefore be linked to setting the listing price and getting the ultimate selling price. Valuation is done to get a snapshot estimate of exchange price at a particular point in time (Maliene, *et al*. 2010; Wyatt, 2007).

The above information only gives one neat side of valuation. The problem is that the arguments assume that in a property transaction you are dealing with a rational man, with perfect information and also having profit maximisation in view (Wyman, Seldin & Worzala, 2010). Another underlying assumption is that the REA (Valuer) is competent to do valuation, serves the best interests of all the principals and that the REI operates in a purely free-market environment. The other side paints a different one. There is a counter-argument to this approach as it will be shown below. Firstly, competence required for compliance with the legislative framework is known to be scarce (Channing, 2013).

Even municipalities outsource the preparations and maintenance of the valuation rolls for rates purposes to external valuation services providers. It is suggested from certain quarters that the 2007 economic meltdown that was triggered by the American property market downturn can be attributed to the valuation industry (Delisle & Grissom, 2011). Other professional appraisers/valuers have come to different conclusions on how MV and prices relate to each other. Ellenberger (1982) argues that a realized price might not represent a MV. However, MVs do not necessarily equal market prices (Brow, *et al*., 2000). Others have gone as far as declaring that “Valuation is a matter of opinion” (Isaac, 2002). Valuers do not seem to process information in identical ways (Bowles, McAllister, & Tarbert, 2001). The methods they normally use are inadequate (Sayce, 2003). Also, properties are not static entities. They are bought and sold, developed, subdivided and consolidated and all these changes have to be tracked and captured. Put an untrained and anti-transformation REA in all this and the situation becomes even murkier. Inaccurate valuation can lead to unwarranted value

judgement and unsound investment practices to the detriment of the industry as a whole (Barret, 1979). The value of some attributes may be difficult to assess as they may have to be experienced to be valued (Maclennan & O'Sullivan, 2012). A good example is what the neighbours are like. Expected length of stay of the buyer has a big effect on how much some of those uncertainties matter for the searching process and also lead to more uncertainties (Scott & Lizieri, 2013).

Isaac and Steeley (2010) point out that value is based on an economic concept of utility and this certainly differs from one individual to another. For valuations/appraisals to be credible, they are supposed to be transparent and objective (Crockett, 2008). Baum and Cosby (2008) emphasise that MVs should be accurate and be a close predictor of selling price. When supply and demand is in equilibrium, valuation should on average be the same as the sale price (Brown, *et al*. 2000). Accuracy in valuation is also important in relation to bank lending, the lowering of financial risks and rates collections by municipalities (Bardouis & Mendez, 1996; Channing, 2013). When discussing accuracy issues in valuation, it has to be borne in mind that properties are atypical products. Asset atypicality measures the difference between a given house and appropriately defined typical home as a driving force in explaining the variation in the marketing times of housing (Angling & Arnot, 1999). For instance, no two houses can share the same exact location (Leishman, 2003). Because of their nature, property prices are further influenced by the individual characteristics of the house such as structural features, nature and composition of the neighbourhood, location and the environmental component (Van Ham & Manley, 2011).

3.6.1.3: From valuation to Pricing

The demand for housing is a function of demographic factors, income, interest rates and the housing supply is a function of the price of land, building costs and credit conditions (Chen, 1998). Those are some of the factors to be considered when deciding on the sale price for any property. According to Giovanni and Flavia (2009), real estate investment tends to share three characteristics listed below. Once investment is taken, it is partially or completely irreversible (it entails sunk costs). The investment decision can be postponed (it is possible to wait for new information to

arrive that might affect the desirability or the timing of the expenditure and there is great deal of uncertainty (the effects of the decision are uncertain).

The mutual interactions of these issues imply the failure of the net present value (NPV) rule for investment decisions in the property industry (Giovanni & Flavia, 2009). As mentioned above, valuation is done with the view of setting a listing price and ultimately obtaining an optimum sale price for the principal. The general view is that prices are an important determinant of housing market activity (Ramazan, Erwing & Bahadir, 1993). Price determines the economic sacrifice a buyer makes to acquire the product. The buyer compares the sacrifice with the product's perceived value and price and value are the cornerstones of every transaction (Simmon, 1994). According to Cahill (1995), the only truly important question to ask is what will the customer pay? Home prices have a huge impact on the country's GDP (Schatz & Sebastian, 2009). Therefore, it follows that determining MVs for pricing purposes have to be approached with great caution.

Theoretically, prices are developed within a neo-classical economic structure in which the core concepts are supply, demand, market forces and equilibrium prices (Boelhouwer, 2005). The variation in housing prices is the result of the disequilibrium between demand and supply. Free market economy also assumes that in any property transaction, price is set by fully informed and knowledgeable participants acting under no duress and that it can be used to estimate MVs (Delisle & Grissom, 2011). But anyone who has followed the SA REI development from 1994 might come to different conclusion on this one. One of the factors that might undermine part of the argument above is the PA relationship which leads to the use of dual mandate system for agents in SA REI (as shown above). The assumption that principals specify preferences, create incentives and making contracts that agents must follow is also problematic and the pricing responsibility will illustrate that (Heimer & Staffen 1998; Sharma, 1997). As mentioned earlier, the REA is involved in setting the listing price when a property is put up for sale and knows what the reservation price of the seller is. Listing price influences the arrival of offers which ultimately determine the timing of the sale (Merlo & Ortalo-Magne, 2002). Asking price for a residential RE is often viewed as a starting point for negotiations by the buyer (Baracha & Seile, 2014). It has been observed that buyers in residential markets are typically only sporadic players in the market and are

frequently unsophisticated in their decision behaviour (Kinnard, 1968). Due to limited capacity, buyers often use the asking prices on houses as a shortcut to estimate the property MV. Therefore, establishing a listing price that is expected to yield an optimum settlement price without prolonging the property's TOM is vitally important to both the buyer and the seller. On the other hand, making higher value sales results in higher commission for the REA (Scott & Lizieri, 2012).

Setting listing prices can lead to the following possible scenarios: *The REA can persuade the seller to put a high asking price on the property.* This in turn can signal some unobserved properties of the house or the seller (Albrecht, Gauntier & Vroman, 2012). Deng, *et al*. (2009) show that less informed sellers can set a high asking price and a higher list price might lead to more likelihood of reducing it and selling at a lower price. A higher listing price might lead to an increase in the TOM. Several researchers posit that there is a positive relationship between TOM and the ultimate low selling price (Haurin, 1988; Lippman & McCall 1996; Miller 1978; Yavas, 1992). In addition, list price reductions have been descriptively evidenced by researchers such as Knight (2002) and Merlo and Ortalo-Magne (2004). High listing price might lead to a higher sale price (Merlo & Ortalo-Magne, 2004) or it may lead to price reduction and subsequently to low transaction price (Lazear, 1986). This has been shown to be costly to the seller as well. A high list price also determines the rate of viewing by potential buyers (De Wit & Van der Klaauw, 2013; Merlo, *et al*., 2002). Also, when the TOM is long, it might lead to the seller becoming impatient. The other problem is that the probability of sales decreases with the increase in TOM (Anglin, *et al*., 2003; De Wit, 2010; Huay & Pamquist, 2001; Pryce & Gibb, 2006; Zuehlke, 1987). Prolonged time on market could be interpreted by the buyers as a signal of poor quality (Gibb & Pryce, 2012). Conversely, the counter argument is that longer TOM can also increase the probability of finding a buyer (Herrin, Knight & Sirmans, 2004).

The other scenario would be for the REA persuading the seller to put a low listing price. That would have a different set of outcomes. This might give rise to many people coming to view the property. An increase in a number of bidders can have influence on the probability of receiving lucrative offers much quicker (Levin & Pryce, 2007). This might lead to a faster sale and the REA gaining a more timely commission. In another study, it has been shown that REAs sell their own properties at about 4.5% premium compared to their customers (Rutherford, *et al*., 2005). The REAs serve in two

capacities. To the buyer, the advantages and disadvantages are possibly brought about by the initial valuation which is only shown to the seller and the reservation price is also unknown to the buyer. The presence of asking price information determines the ultimate valuation to the potential buyer (Scott & Lizieri, 2012). This creates serious issues of price manipulations to suit the agent. Given the IA, REAs have significant power to control the information given to home-buyers (Scott & Lizieri, 2012). For instance, the seller can be persuaded to put down a much higher price offer for the property than the seller's reservation price. Making sales for a higher value result in higher commission (Scott & Lizieri, 2012). The dual mandate system seems to imply that one principal/all of them would most probably be disadvantaged, which is one of the most important issues in the present study. In the case of the REA-owner properties, the buyer is likely to pay a high premium for the transaction.

3.6.2: The Marketing role of real estate agents

The marketing function in the REI is a creative activity involving the planning and execution of the conception, pricing, promotion and distribution of ideas, properties and services to satisfy customers' present and future needs and to anticipate and create their future needs at a profit (Rassmann, 2000). It further involves analysing, shaping and forming the market and maintaining its attractiveness in order to bring about an exchange process to satisfy individuals' goals (Von & Knirsch, 2000). Furthermore, Rassmann (2000) posits that real estate marketing is a long process as one is dealing with a durable product. Some of the marketing activities done by REAs (as shown in Chapter 2) are pricing, organising viewings by customers, having showhouses, advertising, organizing road-shows, attending open hours, bond arrangements, assisting with choices for conveyancers and giving transaction updates to their principals. The REA's role in valuation and negotiation processes indicates that the REA occupies a position of power and control (Baressi, 1968). This role can further be exploited to the disadvantage of either one or both principals. The subsequent discussion will attempt to show how these activities can bring about favourable/unfavourable consequences to principals. The discussion will be simplified by highlighting such issues as the effect of ideological persuasion of REAs and IA,

asymmetric benefits of REA's marketing activities, COI in the marketing role of REAs and the outcomes to the two principals.

After the mandate to sell has been agreed upon, REAs decide how to go about marketing the property either to new potentials or their existing potentials. Therefore, the REAs have access to both sides of the potential participants in the transactions, access to available housing units either in their books or through MLS and they can decide which units to show to existing potential customers (Ondrich, Ross & Yinger, 2002). The choice of media for advertisements is also determined by them. It has also been shown that possibilities of COI are rampant in the PA relationships. One way of handling the DMS situation would be for REA to see themselves as the agent for the seller and treat the buyer as a customer (Isakson & Spencer, 2000).

Sellers and REAs possess more information about the property than the buyer as properties possess experience attributes (Nelson, 1970). The value of some attributes may be difficult to assess as they may have to be experienced to be valued (Gibb & Pryce, 2012). Also, buyers might have the inability to evaluate quality accurately prior to purchase which in turn represents exposure to two different forms of opportunism: misrepresentation of the characteristics and quality cheating (Mishra, Heide & Gort, 1998). Elsewhere, it has been shown that brokers can also determine how and where specific people buy properties, rendering location choices to be not completely a volitional process (Baressi, 1968). There is compelling evidence about many factors that influence buying and settlement patterns. Those factors were found to be personal, and socio-economic in nature. REAs also limited and determined the areas into which one may or may not locate and thus in turn contributed to the establishment of community attitudes and values regarding residential location. Therefore, it was concluded that the REAs role in the housing market places them in a position not only to interpret those attitudes and values but also to substantially contribute to their establishment and perpetuation (Baressi, 1968). These considerations would neatly fall under the non-financial conflict of interests (NFCOI) as shown above.

In the same study, it was further established that REAs acted as gatekeepers who channel and control the activities of individuals who sell and buy houses (Baressi, 1968). They exercised control function in the selection of clients, selection of housing

to be shown to prospective buyers, prices at which properties are offered for sale prices at which they are sold, and the source and type of mortgage loan the buyer secures. Various types of techniques were used in exercising control in the attempt to match social class level of the buyer and the social level of the area. They justified their practices on the basis of social pressure exerted by neighbourhood residents, other brokers and mortgage financers (Baressi, 1968). This renders their practices to look discriminatory. One of the methods REAs were found to use is steering behaviour that differentially direct clients toward particular neighbourhoods and away from others on the basis of race and ethnicity (Galster & Godfrey, 2005).This was found to distort spatial patterns of housing demands by whites and minority home buyers in such a way that racial segregation was perpetuated and stable integration discouraged (Galster & Godfrey, 2005). Forms of steering were information, segregation, class and editorialising. Steering was used when doing house inspection and when recommending properties. Editorialising seemed to be the most prevalent sort of white/black steering mechanism (Galster & Godfrey, 2005).

There are other ways that exclusion in property markets manifested in other countries. Some identified methods are differential treatment which occurs when people are treated unequally because of their race. The second form is disparate impact which occurs when individuals are treated equally according to a given set of rules and procedures which favour members of one group over the other (Pager & Shepherd, 2008). Another prevalent practice in the Johannesburg suburbs (which is suspected to be ideological in origin) is the use of gated communities. Stated objectives for this neighbourhood arrangements have been found to generally be lifestyle (leisure and amenities), elite communities (gates symbolises distinction and prestige to protect and secure on the social ladder-enclaves for the rich and famous), physical security and social security are enhanced by both sameness and controlled access), security zones informed by fear of crime and outsiders (is the motivation for defensive fortifications) and social values. Other reasons for gated communities have been homogeneity of members and stability of property values (Carrasquillo, 2011). It is suspected that exclusionary intentions might take a marketing angle and be seen as another way of targeting specific submarket with an inclusion of a significant recreational feature like a golf course, tennis court or a lake (Pager & Shepherd, 2008; Strahilevitz, 2006). The chosen club goods were meant to deter members of undesirable groups from joining

the community in question without violating anti-discriminatory laws. Another form of exclusion in the study was barring any potential buyers from making use of bank finance to buy in the particular community. SA has many gated communities and the question that can be asked is: Is their formation also informed by similar concerns?

The other question that directly ties in with the present study is the possibility of the political ideology of the REAs, whether that also plays a role in the settlement patterns of the new buyers. In one study conducted in the USA, it was found that political ideology matters in consumer behaviour (Crockett & Wallendorf, 2004). Indeed, some authors have shown that agents discriminate because of their own prejudice and in order to protect their potential business (Becker, 1971). In other areas, REAs are known to have discriminated against some potential clients by treating people in different groups differently because they believe that it is profitable to base treatment on some unobserved characteristics (Ondrich, *et al.*, 2002). It is proper to test this in the SA REI context and the areas of interest are the mandate type, possible use of valuation information to advantage one principal at the expense of the other and use of the marketing activities of REAs to determine who can join which neighbourhood. The study also investigated whether the ideological concerns of REAs do have an impact on the composition of households in suburbs. The project would like to check whether these concerns are founded or not in order to either put to rest the lingering suspicion or confirm them so that something can be initiated to address the issues.

3.6.2.3: Information asymmetry and the marketing role of real estate agents

The marketing function of the REA involves feedback sessions with either of their principals. As shown above, the SA context is such that the REA acts as both the seller's and buyer's agent. Also, buyers might have the inability to evaluate quality accurately prior to purchase which in turn represent exposure to two different forms of opportunism, namely; misrepresentation of the characteristics and quality cheating (Mishra, *et al*., 1998). As buyers are imperfectly informed about current and future neighbourhood attributes and dynamics, they are more likely to make suboptimal location choices and less likely to make choices that accurately reflect their preferences (Gibb & Pryce, 2012). Also, due to limited capacity, buyers often use the

asking prices on houses as a shortcut to estimate the property MV, which further exposes them to possible abuse by unscrupulous REAs. Prices also have a direct impact on the marketing approaches used by the REAs. They might negotiate higher/lower prices and favourable/unfavourable terms to desirable/undesirable principals depending on whom they are dealing with in order to give effect to their prejudiced outlook. The question is: Are such practices prevalent in the SA REI? If so, how prevalent are those practices, especially in the light of the mushrooming of gated communities? The issues that run through this discussion on who stands to benefit are informational, pricing, locational, outcomes and time on market (TOM). On informational grounds, the seller and REA seem to have an upper hand. The same can also be assumed on the pricing of properties. Commission levels seem to favour the REA more than all the principals as he/she can decide whether the low sales price can bring more desirable outcome. The TOM is one that suggests that the seller principal stand to lose. This present study is about how the mandate type and REAs' ideological standpoint affect the ultimate outcome in any property transaction. Both these issues have an influence on the valuation, pricing and marketing activities of REAs.

3.6.1.1: Information asymmetry, trust and conflict of interests issues in real estate agents' valuation responsibility

Property market is imperfect with a high degree of heterogeneity (Mcgreal & Talta vuls de la Paz, 2012). Also, issues of IA come to the fore when valuation has to be done. The value of some attributes may be difficult to assess as they may have to be experienced to be valued (Bardouis & Mendez, 1996; Nelson, 1970). But properties are atypical products. For instance, no two houses can share the same exact location (Leishman, 2003). Because of this nature, property prices are further influenced by the individual characteristics of the house such as structural features, nature and composition of the neighbourhood, location and the environmental component (Ham, 2011:4). Asset atypicality measures the difference between a given houses and appropriately defined typical home as a driving force in explaining the variation in the marketing times of housing (Angling, 1999). Municipalities have a responsibility to deliver accurate MVs within their valuation rolls but there is a growing tendency to undervalue properties by as much as 70% in Johannesburg (Channing, 2013).

REAs' involvement in the initial valuation stage can lead to asking and reservation prices that have an effect both on the seller and the agent. The presence of asking price information determines the ultimate valuation by buyers (Scott & Lizieri, 2012). Given the IA, REAs have significant power to control the information given to home-buyers. To avoid COI, the municipal valuers are supposed to disclose any personal, or private business interest that they or any spouse, parent child partner or business associate of theirs may have in any property in the municipality. Also, they may not use their position as valuers for private gain to improperly benefit any person (Channing, 2012). In Spain, valuations are undertaken by relevant companies which are bound by legislation and are not allowed to have any agency involvement (Bardouis & Mendez, 1996). Also, valuation is made using three different methods with the least estimate value selected (Mcgreal, *et al*., 2012). REAs do property valuations daily in SA REI and seemingly there is nothing in place that governs their role in this part of their work.

3.7: POSSIBLE IMPACT OF THE DUAL MANDATE SYSTEM AND IDEOLOGY

The preceding sections in this chapter have dwelt on AT, PA relationships, the DMS, IO and the duties of REAs in the REI. The remainder of the chapter will concentrate on possible explanation as to how all these concepts are related to COI and CP. Towards the end, a relationship between COI and OT and CP and OT will be proposed.

3.7.1: Conflict of interests (COI) in the principal-agent (PA) relationship

Conflict of interests (COI) is one of mediator variables for this study. The section will first look at how different people define and describe it.

3.7.1.1: Definitions and description of conflict of interests

Different authors give different definitions of COI. Precisely, COI is a clash between public interest and the private pecuniary beneficial interest of the individual concerned and occurs when a duty of a fiduciary to a client is compromised by a commitment to another client (Luebke, 1986). Similarly, COI is a situation in which a personal or institutional interest interferes with the ability of an individual or institution to act in the interest of another party when the individual or institution has an ethical or legal obligation to act in that other party's interests (Palazzo & Rethel, 2008). In addition, COI occurs when circumstances create a risk that a person's professional judgement or actions regarding a primary interest will unduly be influenced by a secondary interest (Callif, 2013). Furthermore, COI happens when an individual's objectivity is potentially compromised by a desire for financial gain, prominence, professional advancement or a successful outcome (Authorship and conflict of interest statement, 2013).

Gleaning from the above definitions, one can further attempt to simplify what it means by stating that COI is a situation in which a party's responsibility to a second party limits its ability to discharge its responsibility to a third party; a situation with a potential to undermine the impartiality of a person because of the possibility of a clash between the person's self-interest and professional interests of public interests. This includes when an individual's personal interests or concerns are inconsistent with the best interests for the customer. It can also be defined as a situation in which a person has a duty to more than one person or organisation but cannot do justice to the actual or potentially adverse interest of both parties. When COI is present, it might lead to biased advice, lowered effort to act or protect the principal's interests and other results contrary to the purpose of the relationship (Luebke, 1986). Also, efficiency (important goal of delegation) and fairness suffer as it might create incentives to act in such a way as to misuse or conceal information (Yusuf, 2011). COI causes problems and losses to the parties involved (Varian, 1989). COI is one of the major variables of this study and will further be elaborated on in the following chapter.

The above discussion reveal that the possibilities of COI exist even in the REI, which is in turn compounded by the fact that REAs in SA serve more than one principal.

Possible results of any COI are numerous. The duty of care and loyalties are compromised for personal benefits. Moreover, COI might lead to unethical activities to take place. Unfair costs can be incurred by the principals when the REA is conflicted. The situation can also lead to personal gains by agents. On the downside, future business opportunities for REAs can be compromised (Esser, 2010).

In order to mitigate COI, PA contracts are used by specifying expectations, incentive systems, monitoring plans and sanctions. The incentive scheme for both principal and agent has to be positively correlated in order for the PA arrangement to function properly. However, contracts are imperfect (Greenberg, Greenberg, Lederer & Antonucci, 2008) and perceived dissimilarity of goals can be associated with conflict (Ross, *et al*., 1997). For a REA, making sales for higher value leads to higher commission (Scott & Lizieri, 2012). The other side has to be mentioned as well to also demonstrate counter-arguments to the assumptions of opportunistic behaviour of agents. In addition to agents' wealth maximisation, others are known to be concerned with values of trust in relationships, stability of long-term business relationship, and issues of morality (Callison, 2012). In the light of the above discussion on how the PA relationship functions, attention is now turned to how the agents perform and or are supposed to function. Their major roles are the valuation role and the marketing role. How the PA relationships manifests in the REI (DMS), the REAs' approach to life (IO), how the principals are treated (CP) the conflict the differing interests (COI) and the ultimate outcomes (OT) are the subject of this study.

3.7.1.2: Conflict of interests as applied to the real estate industry in general

The most critical issue in today's real estate transaction is the inherent possibilities of COI created by dual representation by the real estate broker (Kroll, 2010). COI continues to be a significant, a widespread issue and a major challenge despite legislation and extensive institutional policies (De Gara & Rennick, 2013). It is always a possibility between principals and agents because these parties may hold contrasting views about desired objectives and means-end relations, potentially leading to actions on the part of the agent that are inconsistent with the principal's desires (Mitnick, 1975). REAs are called upon to what some scholars call playing dual

roles that require different perspectives (Moore, *et al*., 2010). These differing roles demand that they pursue conflicting objectives (Moore, *et al*., 2010). Brokers have been alleged to be influenced by incentives which are capable of generating COI (Maynard & McAuliffe, 2008; Yusuf, 2011). One of the central contentions of the AT is that if left unmonitored, agents are likely to pursue private objectives that deviate and even conflict with the goals of the principal (Wiseman, *et al*., 2012). The AT postulates that people are self-interested and they will have COI over at least some issues at any time they engage in some cooperative endeavour (Varian, 1989). Another strong assumption of the AT is that agents are self-interested individuals who seek to maximize personal economic wealth while minimising personal effort (Bruce, Buck & Main, 2005; Lubatkin, Lane, Collin & Very, 2007; Davis, Schoorman & Donaldson, 1997). Clearly, from the above comments, COI is not only limited to the conflicting interests of principals. Both client conflicts and own interest conflict can arise (Davis & Lead, 1982). It should also be mentioned that COI does not equal bias but may promotes it (De Gara, Rennick & Hanson, 2013). Also, COI does not have to involve money. According to Callif (2013), there are financial conflict of interests (FCOI) which is the one in which monetary or material benefits induce/ influence (or are perceived to have) the actions of the agent. The other type is the non-financial conflict of interest (NFCOI).

3.7.1.3: How conflict of interests can influence the real estate industry

REAs can influence the industry by making use of the DMS, which is hypothesised to be closely linked to COI in many different ways. DMS might lead REAs Inflating property prices to advantage the seller principal and gain more commission. In one study in France, REAs were shown to inflate property prices by about 1.3% (Violand & Simon, 2007). Possibilities are there for the agent to assist the buyer to get the best price out of the seller (Lindeman, 2004); convey privileged information to either of the parties to a deal (Lindeman, 2004); misrepresent information in order to facilitate a deal (Villanova, 1987) and generally exploit the informational advantage over either of the parties. It is precisely for these possibilities that in other countries, agents are prohibited from acting for both buyers and sellers of the same asset where

negotiations are required on price and other key terms of the contract (Davis & Snead, 1982).

3.7.2: Compromising of the principal's interests (CP)

From the above discussion on DMS which is treated as a subset of the PA relationship and the IO of the main actors in the REI, opportunities abound for either of the principals' interests to be compromised. This can come about as a result of IA, and the roles of the REA. Some examples are given below as to how the principal's interests can be compromised: The interests can be compromised in many ways. Information asymmetry (IA) can give rise to non-disclosure of useful information to the buyer, like the minimum acceptable price to the seller in order to get higher commission (Scott & Lizzieri, 2012); disclosure of information to either of the principal in breach of fiduciary responsibilities (Lindeman, 2004); misrepresentation of the property features to prospective purchasers (Villanova, 1987); limiting of prospective buyers to only those who come through the listing agent.

Compromising of the interests of either of the principal can arise from the REA's marketing activities when the agent either manipulates viewing patterns in order to prolong the property's TOM so that the price can be lowered (Lee, 2012) or through the agent's manipulation of viewing patterns in order to exclude other people due to ideological persuasion of the REA (Hendel, Nevo & Ortalo-Magne, 2007). The REA can for instance, steer potential purchasers to certain properties which have only been listed by the agent (Galster & Godfrey, 2005), reserve the property for certain type of prospects or friends and by advertising of the property in channels that are only accessible to some and not to others.

In their valuation role, REAs can undermine the interests of their principals by: undervaluing of properties to speed up the sale (Garmaise, Moskowitz, Palmon & Sopranzetti, 2008), non-disclosure of valuation prices to prospects to advantage the seller due to goals incompatibility (Izzo, 2000), reluctance to present offers lower than what the agent wants to maximize commission because of the difference in goals of REAs and their seller principals (Garmaise & Moskowitz, 2004); and by presenting

wrong valuation figures to facilitate a quick sale at the expense of the seller (Lee, 2002). The above examples serve to illustrate possibilities of how the principals can be disadvantaged by COI from the REAs. Whatever way and reasons for COI and CP, they lead to some kind of outcomes. It is proposed in this study that both COI and CP lead to sub-optimal outcomes. The development of the model for this study is presented in Chapter 4.

3.7: OUTCOMES

Under ideal conditions both the seller and buyer need to obtain optimal outcomes out of a property deal. A good price, short TOM and quick turnaround in transaction administration stage is the best outcome for the seller. The buyer needs to get a property at bargain in the appropriate time with no hassles during the transaction process by everybody involved. The REA wants to get the highest commission in the shortest possible time (Garmaise & Moskowitz, 2004). In order to make a reasonable judgment about how the industry practices are viewed, one therefore needs to check the perceptions of customers and REAs on the outcomes.

Neves (2015) argues that performance can be measured by assessing whether the service provider rendered an acceptable level of service quality or not. Acceptable outcomes might mean customer satisfaction, loyalty to the service supplier and the quality of the service rendered (Wisniewski & Donnelly, 1996). Many other scholars from various fields have suggested different ways to measure outcomes. For some, service outcomes are represented by effectiveness and efficiency of creation and delivery of the service (Handler, Koebel, Relis & Schratzeustallers, 2004). Others emphasise that one can only judge the outcomes by looking at the inputs and the process (MIHAIU, 2015). A broad measurement which states that measuring outcomes should consider both financial and non-financial issues has also been advanced (Martin & Patterson 2009; McAdam & Saulters, 2000; Ross, Anderson & Weitz, 1997). Still others have added timelines as another important factor. MIHAU (2015) suggests that outcomes should be measured in terms of efficiency, effectiveness and the cost of service. Some people view outcomes in terms of the quality of the service, the efficiency of the process and the results (Koopman,

Bernnard, Hildebrandt & Van der Beek, 2014). In addition, Marita (2015) believes that output should be measured in terms of satisfaction it gives to the consumer. The one that appears to be more appropriate for the REI is the method proposed by Stank, Keller and Closs (2002) which points out that the outcomes should be judged on how it synchronises capabilities of all participants to all who render the final service package. This is more relevant as the overall consumer experience in a housing transaction is not only affected by the actions of the REA. There are other people involved in taking the deal from marketing to final registration. The general themes going through output measurement are the following: quality of service or asset; financial costs and benefits; perception of service quality; loyalty and possibilities of repeat business and satisfaction with how the service was delivered. Consequently, the research instrument used in this study combined all these aspects in order to find out how all the participants in a housing transaction evaluate the service rendered. REAs are rendering a service to sellers and buyers because most of the time they do not own the properties they valuate and market.

3.8: GAPS IN THE LITERATURE

The fact that REAs represent two principals presents opportunities for abuse. Some possible questions that should be asked are: Whose interests come first, the buyer principal, the seller principal or the REA's? Both IO and COI might lead to a situation in which personal interests of REAs interfere with their ability to act in the interest of sellers/buyers when they have an ethical or legal obligation to do so (Palazzo & Rethel, 2008). COI does not equal bias but may promote it (De Gara, Rennick & Hanson *et al*., 2013). Furthermore, in the light of the information advantage that agents generally possess, are there grounds to suspect that the DMS leads to one principal's interests getting compromised in favour of the REA and/the other principal? IA is an antecedent of opportunism (Wilkie, et *al.*, 1998). Considering the outcomes of transactions one can also ask whether they are optimal outcomes for the principals. Opportunities exist for the REA to use blockbusting (Van Hoffman, 1998), to steer potential buyers to other houses (Galster & Godfrey, 2005), to selectively use information to maximize their utility and to manipulate the marketing mix in order to favour one side of the deal. Property buyers are generally unrepresented at the time that the selling agent is

initially contacted and are therefore disadvantaged in their starting point for price negotiations (Wiley, *et al*., 2013; Baracha & Seile, 2014).

In the light of the inherent IA and COI possibilities in the PA relationships, it would appear that what one party gains in the PA relationship might lead to someone else losing out as opposed to a win-win situation in a real estate transaction. Also, when anyone looks for information on the REI in SA, there is a huge information gap. There has not been an interest in researching the operation of this important part of the SA economy especially with regards to how the DMS, the ideology of major players and their impact on the performance of the industry. Looking at the roles played by the REAs at onset of the contract with seller principals leads one to ask: are they competent to do valuations for clients? The above issues will get further attention in Chapter 4 where the research model for this study will be developed. The chapter will also show how the different issues in this chapter lead to the proposed hypotheses. Therefore, this study has identified a gap and set out to fill it. Firstly, the DMS and the IO of REAs have been shown to have a potential to disrupt the working of the industry. For instance, REAs are known to be self-interested individuals (Varian, 1989), who can manipulate the marketing mix for possible gains (see Villanova, 1987; Lindeman, 2004; Lee, 2012). The present study attempted to investigate how the mandate system and the ideology of agents influence the final outcomes for sellers and buyers in the SA residential real estate. The link between the DMS the IO with COI and CP and how COI and CP influence the final outcomes have not been investigated in South Africa and elsewhere in the world. A model for the industry that can be the framework for future studies of the real estate business is also proposed.

3.9: CHAPTER 3 SUMMARY

The introduction to Chapter 3 set up to discuss pertinent issues to this study, especially the general theoretical basis to the REI in SA. The important concepts are the following: PA relationships, Pricing of properties, IA, COI and how these concepts relate to the DMS and to major roles of REAs which are valuations and marketing responsibilities. The interconnections have been highlighted together with the gap(s) for the present study. In order to lay a firm foundation for Chapter 4, possible impacts of DMS and IO to the SA REI were highlighted in the light of the valuation and

marketing responsibilities placed on the shoulders of REAs. The following chapter will dwell on developing the research model as given in the first chapter. Specific attention will be focused on the interactions between the variables: DMS, REA's ideological persuasion, COI, CP and the type of results that come out of a real estate deal. Specifically, proposals will be made on how the DMS and the REA's ideological persuasion independent variables) influence the ultimate outcomes (dependent variable) via COI and compromising (intermediary variables) one of the parties to the transaction.

CHAPTER 4

CONCEPTUAL MODEL AND HYPOTHESES DEVELOPMENT

4.1: INTRODUCTION:

A model can be defined as a statement about a relationship between variables (Gois & Ehrlich, 2014). Literature review on the principal-agent (PA) relationships and on the ideological outlook of parties involved in any business transaction highlighted important issues of information asymmetry (IA) and trust. It also highlighted opportunities of abuse that a PA relationship presents. Different ways by which PA relationships can be undermined by COI and by sacrificing principals' interests were also hinted. The present chapter aims to show possible ways by which this can happen in the SA REI in particular. This will be done by proposing some hypotheses that relate our predictor, mediator and outcomes variables. This will be achieved by showing how the research model shown in Chapter 1 was developed. The model that summarises the overall relationships networks in the present study is given in Figure 4.1 below.

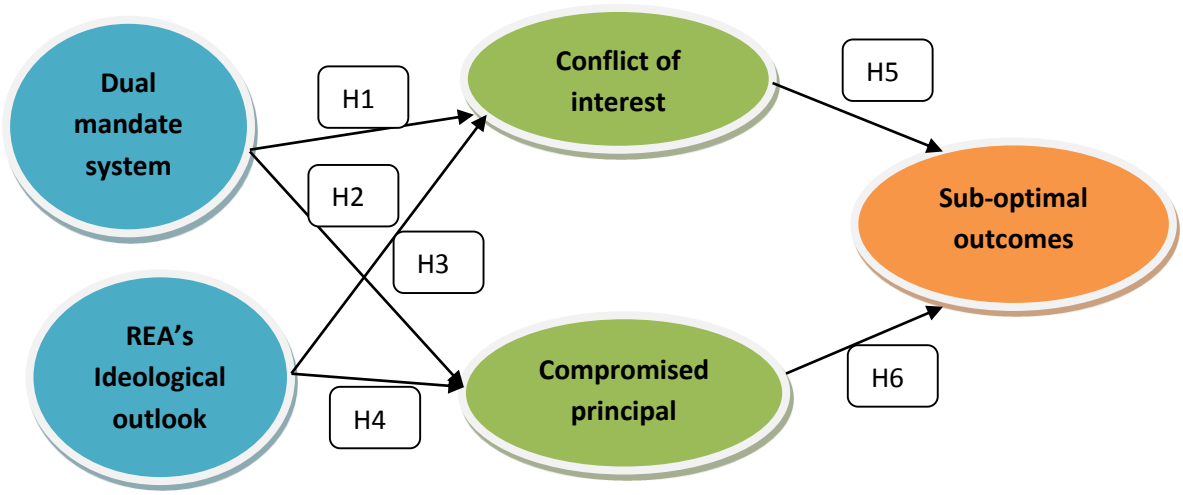

Figure 4.1: The conceptual model

The development of the hypotheses and the conceptual model will be done under variables and their classifications and linkages between the variables.

Each of these linkages (except the last two) will be discussed under the following sub-headlines: the importance of the relationship; examples to illustrate the importance of the relationship; hypothesis development; and the hypothesis statement.

4.2: CLASSIFICATION OF VARIABLES

Taking from the model, the major variables can be classified under predictor variables, mediator variables and outcome variables. A detailed discussion on each of them has been given in Chapter 3 of this study. A brief description of each is given followed by a proposal on how they relate to each other.

Predictor variables

From the discussion in earlier chapters, it has been shown that our predictor variables are the dual mandate system (DMS) and IO. The DMS is the type of a mandate in a property transaction wherein both the buyer and the seller are represented by the same REA. It is usually a sole mandate (SM) and the one favoured and mostly used in the SA context (Brown & Yingling, 2007; Kadiyali, *et al*., 2014).

Ideological outlook (IO) can be defined as a system of beliefs and ideas which arise from a given set of material interests (Daniela, 2014); a general mental representations shared by the members of a social group (Van Dijk, 2009); one's philosophy about economic, social and political issues (such as free-market system, capability of government institution, virtues of monopolies, the value of competition, meaning and importance of property rights, merit et cetera) (Marina, 2014).

Mediator variables are

Two mediator variables were shown to be COI and CP.
Conflict of interests (COI) occurs when an individual's personal interests diverge from their professional and moral responsibility to others (Cain, Loewenstein & More, 2010), and if those for whom an individual is to act in a fiduciary capacity have conflicting interest in the asset or project to which the fiduciary duties attach (Clark & Van Buren, 2013).

A principal's interests are compromised when somebody other than the principal wins any value due to that principal (CP). He/she is compromised when the benefits which should have accrued to that principal are obtained by the other party to a transaction. This may result out of lack of understanding of processes involved (for example, of property valuation figures) (Stelling, 2014), lack of information when making decisions (Kinnard, 1968) and when that principal is not represented at the initial stages of selling/buying of the property (Wiley & Zumpano, 2013).

Outcome variable

Only one outcome will be studied in the present project. Outcomes can be judged on financial performance (Bell & Simon, 2008), the requirements of the original instructions and on key types of performance/outcomes measures associated with results (competitiveness, quality, flexibility, resource use and innovation) (Fitzgerald, Johnston, Brignall, Silverstro & Vos, 1991). The relationships as depicted in the model are explored in the following order, namely; DMS and COI in the SA REI, DMS and CP, IO and COI, IO and CP, COI and sub-OT and lastly, CP and sub-OT.

4.3: DUAL MANDATE SYSTEM AND CONFLICT OF INTERESTS IN THE SOUTH AFRICAN REAL ESTATE INDUSTRY

The responsibilities that a REA assume when a dual mandate is signed are mainly valuation and marketing roles. The valuation role informs the initial listing price for the property. In order to start the valuation and marketing functions, the seller and the REA normally have an agreement/mandate signed which can be structured differently to suit the contracting parties' interests. Hendel, Nevo and Ortalo-Magne (2007) summarise the duties of a REA as helping with setting listing price; preparing the house; checking potential buyers' qualifications to purchase; showing the house; bargaining the terms of the deal; and handling the paperwork. The benefits that the seller need to get from a broker are shorter expected time on the market; a higher probability that house will be sold; a higher selling price; advertising and showing the house to possible buyers; and assistance with financial and legal arrangements (Carol,

1989). Also, the REA has to represent the buyer in showing them available properties, assist the buyer with making reasonable offers, assisting with taking offers to the buyers, assist the buyer with mortgage applications and the general administration of the deal. Therefore, the REA gets a mandate from the seller and from the buyer. This is the reason why it is called a dual mandate system. Clearly, with this arrangement, the interests of the parties are bound to collide somewhat in some areas. The differing and conflicting interests have special implications for the REI and warrants special academic attention. The creation of agency relationship by the mandate contract places fiduciary responsibilities on the agent to act in the interest of the principals and to reduce the risks endemic to the PA relationships (Clark & Van Buren, 2013). Bryant and Epley (1992) emphasise that the agency relationship requires undivided loyalty to the principal. COI is at the heart of many of the scandals that have shaken the US economy (Rousy, 2014).

4.3.1: The importance of the relationship between the dual mandate system and conflict of interests

The mandate that is entered into with the principal can be structured differently to suit the contracting parties. The most used mandate in the SA context is the SM type (Brown & Yingling, 2007; Kadiyali, *et al*., 2014). The REA represents a significant obligation to care for the interests of the seller without gaining any material benefits except with the consent of that seller (Boatright, 2001). However, as shown above, in the SA REI, the REA represents two opposing sides whose interests are directly in conflict with each other. The REA serves two principals, the seller and the buyer. What is excellent service to the seller principal might be the worst possible outcomes to the buyer principal as it will be shown below. Also, the REA faces a clear COI situation due to the zero-sum nature of price negotiation.

4.3.2: Examples to illustrate the dangers of dual mandate system and conflict of interests

COI also find expression in the business world when mergers and acquisitions deals are negotiated and concluded. Massa and Simonov (2008) and Matvos and Ostrovsky (2008) give example of COI in mergers and acquisitions when institutional investors hold shares in both bidding and target companies (Masulis & Nahata, 2011:396). These situations have an effect on profitability of such deals as the venture capitalists (VCs) have dual objectives due to their positions (Masulis & Nahata, 2011). In addition, Boatright (2009) suggests that giving one-sided view due to the presence of conflicting loyalties and resultant abdication of fiduciary duties is inherent in the proxy advisory services as well. Dual agency and COI situations are also found everywhere in the USA where medicine is practiced (Carr, 2005). Doctors are faced with whether to prescribe the medicine best for the patient, insurance or as requested by the patient (Carr, 2005). In legal circles, COI also find expression especially in matters when lawyers represent their clients. In order to mitigate COI, lawyers owe their clients the following duties, namely; duty to avoid COI and duty of commitment to the client's and duty of candour (Rousy, 2014). For instance, in Canada under the Bright line rule, a lawyer or a law firm cannot legally act in a matter that is directly adverse to the immediate legal (not commercial or strategic) interests of their other client. Otherwise, only when there is no substantial risk of harm or impaired representation (Rousy, 2014).

In 1984, the State of Hawaii legislature enacted a law making it compulsory for REAs engaged in dual agency or mandate relationship to disclose the fact to both parties in writing. The legislation specifically prohibits REAs to act as undisclosed dual agents (Gardiner, Heisler, Kalberg & Liu, 2007). The second example is the California case law. This law has held that a broker who does not properly disclose a DM may be deprived of her commission even if the transaction is consummated. The REA may be exposed to liability for damages if a party repudiates a transaction based on an undisclosed dual agency relationship (Mersel, 1996). The REA has to disclose all the facts which would reasonably affect the judgment of each party in permitting dual representation. Disclosure also involves explaining to the parties that a broker acting as a DA owes fiduciary duties to both parties and that the broker might not be able to

disclose information received from one side to the other. The broker becomes more of a facilitator to the transaction than an advocate for one side. In the USA, New York dual agency with disclosure is the preferred approach (Kadiyali, *et al*., 2014), Colorado and Maryland allow for within office and within agency but not DA. In Florida, it is not allowed for buyer and seller agents to be from the same agency but allows a separate entity, a transaction brokerage (Kadiyali, *et al*., 2014).

4.3.3: Hypothesis development

Marcoux (2003) states that a fiduciary has a COI if those to whom he is to act in a fiduciary capacity have conflicting interest in the asset or project to which the fiduciary duties attach (Clark & Stark, 2013). Real estate transactions provide an unusually attractive setting to test the impact of information distortion by experts and therefore COI (Levitt & Syverson, 2008). Conflicting interests of principals give rise to COI to the agent (Walter, 2003). In the interest of home sellers, the performance of REA is typically assessed by two interrelated measures, namely; TOM and selling price. Best performing REAs will sell properties faster and at a higher price (Rutherford, Springer and Yavas, 2005) as TOM is largely dependent on the performance of the REA (McGreal, Adair, Brown & Webb, 2009). Their valuation role leads to setting of the list price (Green & Vandel, 1995; Yavas & Yang 1995; Arnold 1999). This one usually happens between the seller and the REA and the buyer is unrepresented. Their marketing role can lead to other consequences. In one study, it has been shown that DM transactions exhibit lower selling price and is associated with significant reduction in marketing time (Wiley, Walter & Bradshaw, 2013). This can be a very good outcome for the REA as minimum resources will have been used. In the SA context, the REA answers to two principals and the two have significantly contrasting goals (Carr, 2005). Both principals' interests may be damaged by the actions of the REA (Izzo, Scott & Vitell, 2003).

The REA has an influence on many aspects of any housing transaction. They can determine the contract structure (Geltner, Kluger & Miller, 1991; Micelli, 1991). It has been shown that arrangement than in SM arrangement. Studies have shown that SMs result in longer marketing times and that open mandates to produce more effort from

REAs and that houses sell faster but at a marginally lower price in an open mandate (Rutherford, Springer & Yavas, 2005). In addition, REAs can determine the terms of listing contract (Micelli, 1989). REAs have been known to behave differently when the contract period is either long or short.

Most mandate contracts have standard listing contract duration which is treated as a given to seller principals. The usual contract period in the industry is three or six months. Geltner, *et al*. (1991) examined broker effort and found that the duration of listing contract motivates broker-effort.

Studies in other countries have found that the presence of buyer brokers in the transaction (Black & Nourse, 1995; Yavas & Colwell, 1999; Elder, Zampano & Barlya, 2000) reduces TOM relative to for sale by owner cases (Evans, & Kolbe, 2005). In the SA REI, there are no buyer agents. The SA situation is further complicated by the market segment in which REAs operate and this has different motivational values. REAs operating in lower priced market segments in the USA were found not to be motivated towards getting the best price for the seller (Geltner, *et al*., 1991). Sellers of high priced properties pay larger commission and thereby elicit more services from their brokers (Carol, 1989). Furthermore, Carol (1989) points out that those differences in commissions can give REAs incentives to allocate different levels of selling effort to different clients.

The main issues that come out of DMS are on IA, zero-sum conditions of DMS, personal interests, insider information, the motivation of the agent and possibilities of REAs over-representing a property or underrepresenting it. Moreover, IA results from REAs' equal access to both seller and buyer principals. It has been observed that buyers in residential markets are typically only sporadic players in the market and are frequently unsophisticated in their decision behaviour (Kinnard, 1968). The zero sum conditions under which REAs function can manifest when they determine the best price during negotiations. The REA may pressure or lean on either the seller (to accept a lower price) or the buyer (to accept a higher price) to hasten the sale (Kadiyali, *et al*., 2014). This may result from dissimilarity of goals which again can be associated with COI (Ross, *et al*., 1997).

REAs are human who also like to maximise utility. A REA can speed up and earn their commission sooner and reduce time, effort to be spent on researching, marketing and showing the house to clients.

As a dual representative of the two opposite sides, a REA has access to inside information. The REAs can exploit this inside knowledge about pricing of the property to yield higher sale price and/or faster sale. According to Clauritie and Daneshvary (2008), REA obtaining contracts may subject them to PA conflicts in two separate dimensions, namely; possibility of the agent extending less than the seller's optimal level of effort in searching for buyers and the possibility to encourage the seller to lower his/her reservation price so as to effect a quick sale due to goal-differences between the seller and the agent (Clauritie & Daneshvary, 2008).

With the access to both sides, REAs are ideally positioned to disclose confidential information of their clients or helping them in either the search or negotiation phase of the purchase process. Anglin (1997) contends that the listing agent can be informed of both the buyers and sellers reservation price and other proprietary information such as urgency, motivation and constraints. Having the above issues in it appears that there is a real possibility of REAs under/over representing the value of the house in order for the principal to adopt a reservation price that is too low/high, depending on the commission structure. That might lead to suboptimal outcome for the seller. It can either bring in low prices or lead to a very long TOM. The REA's motivation can be decisive in determining who will be advantaged or disadvantaged.

The above discussion reveals the following scenarios in the DMS and COI: REAs get mandates from two principals; the REA has all the information on pricing; reservation prices and motivation to contract; the interests of the two principals are usually in conflict; the REA has his own utility function and interests; the REA normally has information advantage and price negotiations are usually a zero-sum game in which what one party loses is gain to the other. Drawing from the above, the following hypothesis with respects to the SA REI can be posited:

H1: ***There is a positive relationship between dual mandate system and conflict of interests in the South African real estate industry***

4.4: DUAL MANDATE SYSTEM AND COMPROMISING ONE PRINCIPAL TO BENEFIT THE OTHER

The discussion on the relationship of DMS and COI has also shown real possibilities of the REA's interests also conflicting with those of their principals. It can be extended to also imply that when a DMS is used, one party will necessarily be disadvantaged. These possibilities also deserve special attention in this study.

4.4.1: The importance of the relationship between the dual mandate system and compromising of principals

It has been shown that IA is inherent in all real estate transactions and that REA enjoys huge information advantage compared to any of their principals in Chapter 3. As far as the two principals are concerned, IA brings about issues of hidden actions, hidden knowledge and hidden information (Palazzo & Rethel, 2008). All else equal, faster sales benefit both buyer and seller. Therefore, establishing a listing price that is expected to yield an optimum settlement price without prolonging the property's TOM is vitally important to both the buyer and the seller. However, lower equilibrium sale price is not in the seller's interests and similarly faster time to sale might not benefit buyers (despite lower prices) if their preferences are compromised to hasten sale. REAs are involved in the valuation and setting the listing price, have access to both principals and determine how marketing activities unfold. In the interest of fairness and openness, valuation figures are supposed to be understood and checked by everyone (Stelling, 2014). One of the basic features of the DMS is that buyers must generally be unrepresented at the time that the selling agent is initially contacted (Wiley, *et al*., 2013). Due to buyers' limited capacity and knowledge, asking prices for a residential real estate are often viewed as a starting point for negotiations (Baracha & Seile, 2014). Due to the huge information advantage REAs enjoy, buyers are exposed to many different practices that may not necessarily be ethical. Examples of situations that have arisen elsewhere are given below.

4.4.2: Examples to illustrate how the dual mandate system can compromise either of the principals

Literature is replete with examples of situations wherein service providers may not actually act in the best interest of their customers. Examples can be found in financial services (Dejong, Forsythe & Lundholm, 1985), franchising (Brickley & Dark, 1987) and in healthcare services (Swedlow, Johnson & Milstein, 1992). In the REI, here are some of the examples of how it has been done elsewhere in the world.

Agents have used Blockbusting (BB). This situation arose when white homeowners were persuaded to sell their properties faster and usually at below market price under the impression that minority were moving into the area and as a result, their property would soon lose value (Van Hoffman, 1982). The same properties would soon be resold to minorities at inflated prices. They would hire blacks to take a walk in white neighbourhoods in order to terrify their residents (Van Hoffman, 1982). Blockbusting then generally leads to all principals losing out. The REA is the only winner. REAs have also been known to steer potential buyers to other properties and away from others. According to Galster and Godfrey (2005), wherever steering is practiced, whites were found to be likely to learn about more available houses and inspect them, receiving more favourable financial assistance and terms, being directed to white-neighbourhoods, inspect and get different recommendations and editorialising about properties. Another tool that REAs can deploy can be selective use of information to maximise the REA's utility. REAs are generally cognisant of the market forces involved in the REI (Gonzalez-Navarzo & Quintana-Domeque, 2009). As experts of marketing properties, REAs can also manipulate the marketing mix in order to favour one side of the deal.

4.4.3: Hypothesis development

The agent is generally involved in the determination of the initial pricing (Green & Vandel, 1995; Yavas & Yang 1995; Arnold 1999). Knights, Sirmans and Turnbul (1998) state that the listing price is in effect a target price that is normally in excess of the vendors 'real reserve price'. Possibilities of overpricing and the buyer paying more

than what the property is worth are present. On the other hand, initially overpriced houses are most likely to change their asking price (Henrin, Knight & Sirmans, 2004). This would result in the seller losing potential income. Disclosure of information to one of the principals is another possibility. The actions of the REAs can give rise to situations benefiting the buyer at the expense of the seller or vice versa. Here are examples of actions that might result in those outcomes: The agent can ignore his fiduciary responsibility to the seller by telling potential buyers to make low offer on a real estate parcel by mentioning that the seller (principal) is motivated to sell due to a pending bankruptcy. He/she can offer reduced effort levels by matching buyers and sellers at a lower price and in a shorter time frame than otherwise (Gardiner, *et al*., 2007). REAs properties were found to sell for 4.5% more (Gardiner, *et al*., 2007). Micelli (1989) has shown that brokers will increase effort to sell the house if the length of the listing period is reduced.

As shown above, REAs can steer customers for different reasons. They can, for instance, steer sellers to their own buyers rather than steering them to those giving the best offers. For example, it has been shown that in the USA, minorities have access to fewer units than whites, blacks are shown 30% fewer houses than whites and this is an important quantitative measure of home seekers access to housing (Zhao, 2004). Due to the nature of the real estate business, incentives exist for REAs to get involved in creating a sub-optimal match between buyers and sellers by restricting the pool of buyers. This has negative effects as the sellers' optimal asking price would decrease when potential buyers bidding heterogeneity decreases (Zheng, Deng, Gabriel & Nishimura, 2008). The REA's involvement in the valuation of the property may lead to the setting of the asking price. Due to limited capacity, buyers often use the asking prices on houses as a shortcut to estimate the property MV. Asking price for a residential housing is often viewed as a starting point for negotiations by the buyer (Baracha & Seile, 2014). It would appear that REAs do not reveal the valuation figures to the potential buyers. Information asymmetry (IA) exists between this principal and the agent. The salient points contained in the discussion above can be summarised as follows: The REA determines the listing prices of the properties; the marketing effort of the property is determined by the REA; the REA knows the motivation of the potential purchaser to buy and the seller's; the REA has access to relevant suburb and industry information; the REA can use the information at his/her

disposal to lean on either of the parties to the transaction to effect sale terms favourable to himself or herself; and REAs enjoy information advantage over buyers and sellers. Information asymmetry arises as buyers and sellers acquiring REA services are often required to divulge personal and sometimes sensitive information such as income, divorce and even bankruptcy about themselves as they often have less knowledge of the exchange process than does the agent/sales person (Staelin, 1986). The valuation role of REAs leads to listing price which can be used to disadvantage either of the principals. Drawing from literature review above, it is hypothesised for the SA REI that:

H2: ***There is a positive relationship between dual mandate system and compromised principal in the South African real estate industry***

4.5: IDEOLOGICAL OUTLOOK OF REAs AND CONFLICT OF INTERESTS

The relationship between IO and COI will follow the same pattern as those already covered above. The importance of this relationship will be explored first followed by examples that illustrate outcomes that are likely to occur if indeed the relationship is shown to hold. The final sub-headings will be hypothesis development and statement.

4.5.1: The importance of the ideological outlook and conflict of interests

It can be argued that people normally act out their ideology as people's ideological outlook will enter their actions (Barnard 1938; Selznick, 1957; Andrew, 1971); people in control of organisations inject them with their personal ideology (Jensen & Meckling, 1976; Eisenhardt, 1989) and this is likely to happen both consciously and unconsciously (Chin, Hambrick & Trevino, 2013). Ideological outlook (IO) can enter REAs' actions through two conduits, namely; direct entry, wherein they have direct influence on choices after weighing available alternatives, facts, possibilities and eventualities and then choose a cause of action that suits his/her values. The second conduit would be by what England (1967) calls "Perceptual filtering" which happens when he/she selectively searches information that suits his/her values and then perceives and interpret the information in value-congruent way. This is also called

"motivated cognition" (Higgin & Molden, 2002). In other words, the REA sees what he/she wants to see and hears what he/she wants to hear. Long-tenure REAs seem to see great instrumental merit in the status quo of the industry (Hambrick, Geletkanycz & Frederickson, 1993). They like the status quo of the profession and the industry. This can be translated into the way they serve in their professions. REAs are involved in one of the key industries in the SA economy.

4.5.2: Examples illustrating the relationship between ideological outlook and conflict of interests

In society like SA which is characterised by unequal relations of power, ideology can be a means by which the dominant group maintains and legitimate their power over other groups (Paek & Shah, 2003). Gated communities (GCs) present an ideal environment for REAs' ideological persuasion to bring about COI between REAs' responsibilities to their profession and to their principals. They (GCs) come about for different reasons like homogeneity of members and stability of property values (Carrasquillo, 2011). Other stated objectives are given as lifestyle (leisure and amenities), elite communities (gates symbolises distinction and prestige to protect and secure on the social ladder-enclaves for the rich and famous), physical security and social security are enhanced by both sameness and controlled access), security zones informed by fear of crime and outsiders (is the motivation for defensive fortifications) and social values. It is also said that GCs should be seen as a way of targeting a specific submarket. This is normally done with an inclusion of a significant recreational feature like a golf course, tennis court or a lake (Pager, *et al*., 2008; Strahilevitz, 2006). But the chosen club goods seem to be meant to deter members of undesirable groups from joining the community in question without violating anti-discriminatory laws. As shown below, it can also be argued that their formation and marketing by REAs might have ideological basis to determine settlement patterns. In the USA, it has been shown that brokers can determine how and where specific people buy properties (Baressi, 1968). REAs are usually members of the communities they serve and are exposed to all IO in those communities. They do not only interpret those attitudes and values but also substantially contribute to their establishment and perpetuation (Baressi, 1968). It has also been shown that REAs have strong opinions concerning their duties to protect neighbourhoods by placing buyers in environments based on racial and

ethnical characteristics (Baressi, 1968). GCs are also prevalent in Johannesburg suburbs (which are suspected to be ideological in origin). Another form of exclusion in the same study by Baressi (1968) was barring any potential buyers from making use of bank finance to buy in the particular community.

Other anecdotal evidence has led to suspicions that REA's socio-political ideology becomes another factor in real estate transactions, especially in determining where new entrants can/cannot buy. A typical example is the Bassonia case (Mkhondo, 2013) in the Star newspaper. On the 22/03/2013, the country woke up to newspaper article reporting on how in an estate in Bassonia, South of JHB a seller refused to sell to a customer of a specific race. It was established that it was an official standpoint of the estate management (Mkhondo, 2013). In the USA context, Ondrich, Stricker and Yinger (1998) state that REAs believe that minority customers, for instance, prefer housing in integrated or largely minority neighbourhoods which may be based on inaccurate stereotypes which maybe ideological in origin.

4.5.3: Hypothesis development

Segregation can be seen as another form of an ideology (Gotham, 2000). Real estate elites promulgated a segregationist ideology that identified the residential presence of blacks with neighbourhoods' instability and declining property values (Gotham, 2000). Gotham (2000) further states that perceived connection between race, place and behaviour became an important impetus and justification for maintaining the residential separation of races, disinvestments in racially mixed and non-white areas and directing investment resources into racially homogeneous all white neighbourhoods. Consequently, maintenance of racial homogeneity was meant to protect property values. This was found to distort spatial patterns of housing demands by whites and minority home buyers in such a way that racial segregation was perpetuated and stable integration discouraged (Galster & Erin, 2005). In other studies, it was found that REAs actually used other means to perpetuate settlement patterns in suburbs. One of the methods REAs were found to use is steering behaviour that differentially directed clients toward particular neighbourhoods and away from others on the basis of race and ethnicity (Galster & Erin, 2005). Forms of steering were

information, segregation, class and editorialising. Steering was used when doing house inspection and when recommending properties. Editorialising seemed to be the most prevalent sort of white/black steering mechanism (Galster & Erin, 2005).

There are other ways that exclusion in property markets manifested in other countries. Some identified methods are differential treatment which occurs when people are treated unequally because of their race and disparate impact which occurs when individuals are treated equally according to a given set of rules and procedures which favour members of one group over the other (Pager & Shepherd, 2008). Individual's ethical ideology influences their ethical judgements (Davis, Andersen & Curtis, 2001). Also, ideology has ability to link attitude with action (Goll & Zeitz, 1991). Measuring ideological orientation is critical for numerous theoretical propositions in the study of behaviour (Davis, *et al*., 2001). Therefore, the presence of any ideological outlook on the REA will be ascertained from their actions. Therefore, the research instrument will be based on those behaviours that more likely represent this variable.

Ideological outlook (IO) of any individual find expression in different forms like communications with potential buyers, targeting customers for different areas and the service levels to these potentials. Discrimination can also be expressed in language and tone of the e-mails when communicating with different potential clients (Hanson, Hawley & Tylor, 2011; Daniela, 2014). Also, Baressi (1968) states that REAs exercise control function in the selection of clients, selection of housing to be shown to prospective buyers, prices at which properties are offered for sale, prices at which they are sold, and the source and type of mortgage loan the buyer secures. Their service level was found to be correlated to the buyer's socio-economic status.

REAs have also been known to use target stereotyping which reduces customers to a few, simple, essential characteristics which are represented as fixed by nature (Paek & Shah, 2003). This would probably lead to COI as the REA might not like selling properties to other groups of people. As a practical example, upper market properties are normally not advertised in the townships in SA. This clearly conflicts with the best interests of the sellers and the potential buyers.

From the above discussion, the following points can be gleaned:

- REAs have their own ideological outlook which enters their actions;

- REAs help with pricing;
- REAs decide on the marketing media and who can view which properties;
- Different languages can be used to market properties;
- There are possibilities of differential treatment, disparate impact, ethical judgements and editorialising; and
- Some practices can lead to actions that are in conflict with REAs' professional conduct.

Drawing from this discussion, the following hypothesis for the SA REI is posited:

H3: ***There is a positive relationship between ideological outlook and conflict of interests in the South African real estate industry***

4.6: IDEOLOGY OF REA AND COMPROMISED PRINCIPAL

The ideology that one holds might lead to certain behaviours, desirable to some and undesirable to others. In the process of linking sellers and prospective buyers, REAs bring about specialised knowledge which they can structure and use to direct and determine the nature and pace of search by potential buyers (Palm, 1985). Anecdotal evidence in the USA suggests that REAs do not always strictly adhere to fair housing laws (Toy, 2007).

4.6.1: Why this relationship matters

In one study conducted in the USA, it was found that political ideology matters in consumer behaviour (Crockett & Wallendorf, 2004). REAs may even decide on the people who get to view the property in the market. This would result in a property being in the market for a long time. Also, it might lead to delayed deracialization of the SA society. In another study, it has been established that REAs sometimes act as gatekeepers who channel and control the activities of individuals who sell and buy houses (Baressi, 1968). They justified their practices on the basis of social pressure exerted by neighbourhood residents, other brokers and mortgage financers (Baressi, 1968). This was found to distort spatial patterns of housing demands by whites and minority home buyers in such a way that racial segregation was perpetuated and stable integration discouraged (Galster & Godfrey, 2005). This renders their practices to look discriminatory.

4.6.2: Examples to illustrate the importance of the relationship

Evidence exists to prove that blacks pay more for housing than whites in America (Wilson, 1979; Palm, 1985). Possibilities exist that brokers may for instance show different number of units to potential based upon the client's race or ethnicity. REAs may even decide on the people who get to view the property in the market. This can lead to longer TMT or TOM. Longer TOM might lower the degree of optimism on the REA's side as he or she revises his/her assessment of core output (Giat, Hackman & Subramanian, 2010). Also, the practices of some REAs can result in eligible black SAs settling in less than ideal housing units and neighbourhoods. Clearly, the interests of the buyers and sellers are compromised due to the ideological stance of their REAs.

4.6.3: Hypothesis development

As it has been shown above, the IO of the REA can lead to many forms of practices. It can for instance lead to white and black customers being shown properties in different neighbourhoods to maintain racial segregation (Galster & Godfrey, 2005). The ideology of the agent can also lead to information being withheld about availability

of units from other races but not from the other groups (Ondrich, *et al*., 1998). REAs can make gratuitous comments about neighbours in a manner that dissuades or encourages home-seekers (Kwate, Goodman, Jackson & Harris, 2013). In anticipation of discriminatory treatment, black REAs have been known to concentrate on a niche market of black clientele in segregated contexts (Silverman & Patterson, 2011). The major problem areas arising out of the REA's ideological persuasion can thus be summarised as follows:

REAs can decide to not show some customers available properties and thus limiting the number of potential buyers (Galster & Godfrey, 2005). Sellers' optimal asking price would decrease when potential buyers bidding heterogeneity decreases (Zheng, Deng, Gabriel & Nishimura, 2008). This can also reduce the pool of REAs as black REAs choose to work in black neighbourhoods (Silverman & Patterson, 2011). Information about certain properties in the market can be withheld. This may lead to uninformed decision by buyers and loss of opportunity to sell by owners (Ondrich, *et al*., 1998). The valuation role of REAs can also lead to unintended consequences like increasing the TOM of properties by setting high listing prices. As the arrival rate of potential buyers decreases, the probability of a listing price reduction increases (Merlo & Ortalo-Magne, 2002). Clearly, from the above discussion, it can be seen that REAs determine the listing price; the listing price can determine the arrival rate of potential buyers; the listing price can also determine the pool of potential buyers; the pool of potential buyers can lead to revised asking price; TOM can also be influenced by the price and choice of language; and comments and the REAs ideology can influence all of the above.

In the light of the above discussion, the following hypothesis for the SA REI can be posited:

H4: ***There is a positive relationship between ideological outlook and compromised principal in the South African real estate industry***

4.7: CONFLICT OF INTERESTS AND SUBOPTIMAL OUTCOMES

When a seller and a buyer contracts with a REA, they expect certain performance standards and outcomes. However, the possibilities of the presence of COI distort the link between the contractual expectations and the outcomes. Possible difficulties that might arise because of the link between COI and outcomes are given to illustrate the importance of this relationship.

4.7.1: Why the relationship between conflict of interests and suboptimal outcomes matters

Psychologists tell us that when professional responsibilities clash with self-interests, self-interest exert a more automatic influence than do professional responsibilities, which are more likely to be involved through controlled processing (Moore & Loewenstein, 2004). In addition, Moore, and Loewenstein (2004) conclude that in COI situations, self-interest often prevails. Also, extensive research in economics suggests that people maximise their payoffs (Hamman, Loewenstein & Weber, 2010). In the REI, only one principal (seller principal) pays the commission (Gardiner, *et al*., 2007). This suggests that the buyer principal will generally get less than optimal outcomes. It has also been observed that REAs are more willing than owners to accept lower price offers in order to reduce TOM (Levit & Syverson, 2008; Rutherford, *et al*. 2005, Hendel, *et al.* 2008; Zorn & Larsen, 1986). Other studies show that sellers lower their reservation price in order to reduce the COI in the effort dimension (Patron & Roskelly, 2008). Seller principals would end up losing potential income (Patron & Roskelly, 2008). Similarly, the REA can directly affect the property's TOM by steering behaviour, by exerting less than optimal performance because of hidden action, hidden knowledge and motivation. Lastly, the involvement of the REA in the valuation and pricing can produce different consequences. It might bring in lower prices which would make a loss for the seller. It could also push the price higher resulting in the buyer paying premium price for lower valued property. The scenarios given above show the importance of any relationship between COI and suboptimal outcomes to both principals.

4.7.2: Hypothesis development

As shown above, COI occurs when an individual's personal interests diverge from their professional and moral responsibility to others (Cain, et *al*., 2010). When COI is present, it can be argued that it is likely to lead to suboptimal outcomes for one of the participants. Based on the discussion on DMS and IO and their influence on COI, the following issues can be identified:

Professional responsibilities are likely to be sacrificed when COI is present. Pricing of properties would also be guided by the interests of the REA. Information asymmetry (IA) is a big factor and is likely to be perceived by those against whom it is used. Information about the progress of both the marketing and registration process will not be equally shared between the REA and principals. That is also likely to lead to a feeling being unfairly treated when the deal is concluded. Due to both DMS and the ideology of the REA, the treatment meted out to the principals will sometimes be biased in favour of one party to the deal and the quality of service to one of the principals would be compromised. Service quality can be defined as adjustment according to the specifications of the customer, how well the service meets and exceeds the customer's expectations on reliability, responsiveness, assurance, empathy, and tangibles (Crosby, 1979; McDaniel & Louagand, 1994). Providing customers with excellent levels of service quality is on the minds of those in Real Estate Brokerage Industry (Seiler & Reisenwitz, 2010).

The level of perceived service quality rendered would lead to negative post-sale feelings. According to McDaniel and Louagand (1994), customers look at service process (professionalism and guidance), service outcomes (quick sale of a house), quality of service and customer satisfaction evaluation. In the present study, COI will be assessed by looking at the presence of dual representations and the interests of the two principals (Palma, *et al*., 2014), information disclosure to principals (Palma, Ferreira, Vilaca & Assis, 2014), convergence of the interests of the REA, buyer and seller principals and TOM (Rutherford, Anaza & Phillips, 2012). Outcomes from the agency mandate can be judged on the requirements of the original instructions. For the seller principal, income can be used as a measure of sales success/performance (Hunt & Chonko, 1984; Coolsby & Hunt, 1992). Service outcomes can be measured in both financial and non-financial outcomes and that financial ones are influenced by

non-financial outcomes (Bell & Simon, 2008). According to Fitzgerald, Johnston, Brignall, Silverstro and Vos (1991), there are two key types of performance/outcomes measures which are those associated with results (competitiveness and financial performance) and those associated with determinants of results (quality, flexibility, resource use and innovation). Recommended outcomes measures for purposes of this study are TOM, transaction lead times, costs of service, conveyancing services delivery, and conformance to requirements (Hult, Ketchen, Cavusgil & Calantonel, 2006; Narasimhan & Das, 2001).

As mentioned earlier, the main activities for the REA can broadly be given as valuations and marketing properties. On the valuation role, known problems include REAs who are generally not trained to do valuations and that valuations would yield different results for long-term investors from short-term ones (Edelstein & Qian, 2011). Ideal outcomes of a transaction to the REA are faster sale and high revenue, satisfied principal, shortest possible TOM (less costly on their marketing budgets), repeat business possibilities and a good market reputation.

In the light of the discussion on the relationship between COI and outcomes, the following hypothesis for the SA REI is posited:

H5: There is a positive relationship between conflict of interests and sub-optimal outcomes in the South African real estate industry

4.8: COMPROMISED PRINCIPAL AND SUBOPTIMAL OUTCOMES

The relationships between all the combinations discussed so far have actually implied this one. As a result, the present relationship will be much briefer compared to all the others. However, the discussion will follow similar format as before.

4.8.1: Why the relationship matters

Whenever any party to a deal has been compromised, the outcomes are more likely to be unfavourable to that party. Whenever a buyer principal's interests are compromised, it might involve a loss of huge amounts of money as he is likely to be

saddled with a huge bond for many years. He would be disadvantaged on potential savings if the REA's valuation and setting of list price results in overpricing. Also, he may end up staying for the rest of his life in a suburb not very suitable to his conditions. In the case of a compromised seller principal, they might end up with a transaction price lower than what the property is worth and thus lose out on potential income. Suboptimal outcomes are not only limited to the buyer principal.

To fully appreciate the role of the REA and how it affects the industry, it is imperative to revisit how PA relationships affect each principal's interests. The REA has basically three main responsibilities to the seller, namely; valuation role, marketing role and concluding the transaction. To the buyer, the responsibilities are to assist with finding available properties in the market at the best price, assisting with price negotiations, mortgage applications and concluding the deal. He/she plays a central role in the real estate market both as an agent providing the principals (seller or buyer) with information about the prevailing market conditions and as a middleman matching the sellers with buyers. Challenges come about as a result of the different expectations and approaches of buyers and sellers to the transaction. Generally, both buyers and sellers are infrequent market participants and they are not informed of the demand and supply conditions in the housing market (Arnold, 1992). Therefore, ample opportunities exist for practices that might lead to suboptimal outcomes for all the principals in a property deal.

4.8.2: Hypothesis development

It is generally accepted that REI is a repeat contract and referral industry. A customer coming back as a seller is very important and the buyer is more likely to be the repeat customer and sellers often leave the area (Seiler & Reisenwitz, 2010). Satisfied customers give referrals and repeat business. Residential buyer is a part of the agent's community.

H6: ***There is a positive relationship between compromised principal and suboptimal outcomes***

The above hypotheses can be summarised as shown below.

4.9: HYPOTHESES SUMMARY

The hypotheses developed above for the SA REI can be summarised as follows:

- **H1**: There is a positive relationship between dual mandate system and conflict of interests in the South African real estate industry;
- **H2**: There is a positive relationship between dual mandate system and compromised principal in the South African real estate industry;
- **H3**: There is a positive relationship between ideological outlook and conflict of interests in the South African real estate industry;
- **H4:** There is a positive relationship between ideological outlook and compromised principal in the South African real estate industry;
- **H5**: There is a positive relationship between conflict of interests and sub-optimal outcomes in the South African real estate industry; and
- **H6:** There is a positive relationship between compromised principal and suboptimal outcomes.

4.10: CHAPTER 4 SUMMARY

In this chapter, model development was achieved by first dividing the variables into predictor, mediator and outcome variables and briefly discussing them. After the discussion, the linkages and pathways for the different proposed relationships were also suggested. The chapter closed with a summary of all the hypotheses proposed in the study. The above model would need to be checked and tested using rigorous scientific procedures in order to make informed conclusions and suggestions to stakeholders in the property industry. It is also very important for possible curriculum development for future participants in the industry. The next chapter will concentrate on the methodology of the research to be followed to test the hypotheses given in this chapter.

CHAPTER 5

RESEARCH PHILOSOPHY AND DESIGN

5.1: INTRODUCTION

At this stage of the study, it would be prudent to restate the main objectives of the dissertation. They are as follows:

- To investigate whether DMS positively/negatively influence COI
- To investigate whether DMS positively/negatively influence CP,
- To investigate whether IO positively/negatively influence COI,
- To investigate whether IO positively/negatively influence CP,
- To investigate whether COI positively/negatively influence OT and finally
- To investigate whether CP positively/negatively influence OT.

Leedy and Omrod (2005) describe research as the systematic process of collecting and analysing information to increase our understanding of the phenomenon being studied. Knowledge of research methodology is essential for both conducting research as well as determining the sound value of the findings from published studies (Turner, Balmer & Coverdale, 2013). The direct link between the objectives and the research methodology will be highlighted in this chapter. The chapter also includes highlighting the differences between the two main philosophies of research and developing a research design. Research design (RD) is described as a master plan specifying the methods and procedures for collecting and analysing the needed information (Zikmund, 1997). The main issues to be covered in this subsection can be summarised as per the diagram below in Figure 5.1.

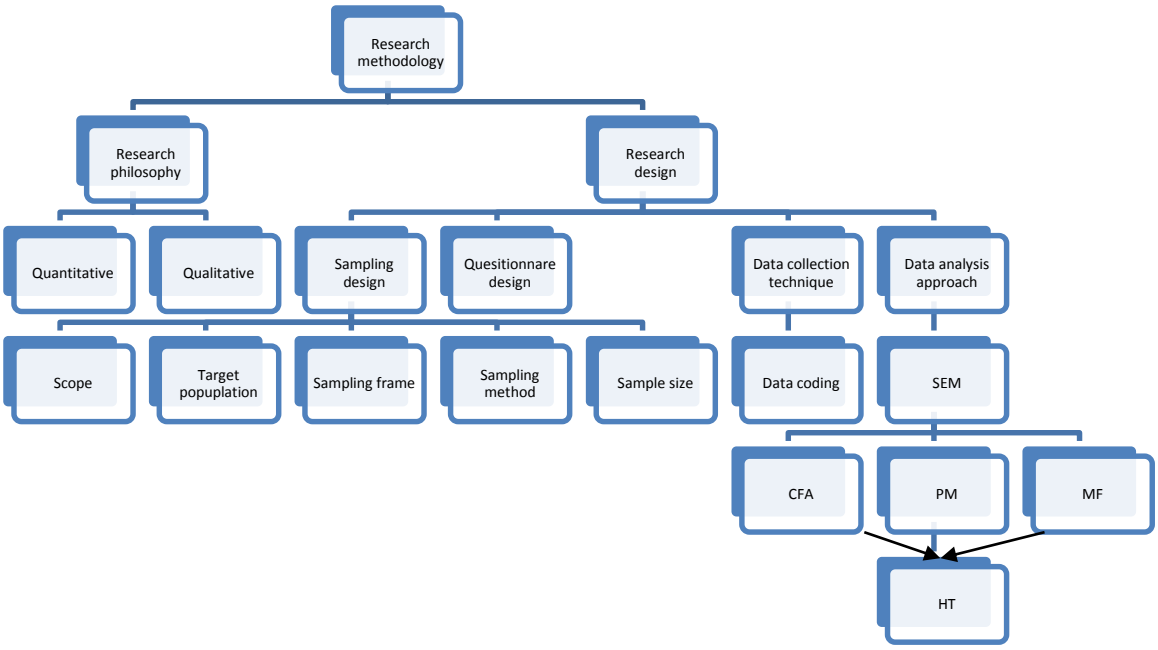

Figure 5.1: Main concepts in research (Own sources)

The discussion on the main concepts will be followed by the application of these concepts to the present study. This is aimed at clarifying exactly how the research proceeded from this chapter. Properly following a research method should ensure that the research findings are correct or the probability of the findings being incorrect is sufficiently low (Venable & Boskerville, 2012).

5.2: RESEARCH PHILOSOPHY

Research philosophy is sometimes referred to as research paradigm (Shah & Gorley, 2006). All research methods are designed to create new and truthful knowledge but they may differ in their fitness for purpose (Venkatesh, Brown & Bala, 2013). Decisions on which one to follow should be based on the research question, purpose of the study and the context of the study (Ventakesh, *et al*., 2013). The maxim of a pragmatic theoretical perspective is that the methodology and methods should be selected based on their ability to answer the research questions and fulfil the aims of the study (Johnson & Onwuegbuzie, 2004; Cornish & Gillepsie, 2009). There are two major philosophies of research approaches, namely; qualitative and quantitative approaches

(Bauma, Ling & Wilkinson 2012:105). These two philosophies have two distinct epistemologies, namely; positivism and interpretative. In order to give the rationale of the choice of approach, a brief description of each is given below.

5.2.1: Quantitative approach

Quantitative research falls within the philosophical underpinning of positivism (Easterly-Smith, 1997). Positivist researchers have as a goal the identification of regularities which have law-like causal effects on the actions of individuals (Fischer, 1990). Positivists adopt a clear quantitative approach to investigating phenomena (Easterly-Smith, 1997). A positivist holds that human action is determined by the situation in which people find themselves (Donaldson, 1997). Their methods focus on measuring a limited set of objective variables and changes across time (Donaldson, 1997). They believe in concepts of objective reality (Jirojwong, Johnson & Welch, 2014), the possibility to focus on objective reality within the world (Burns, 2014; Sharp, McDonald, Sim, Knamiller, Sefton & Wong, 2011). Furthermore, in a positivist approach, a scientific explanation is expressed in formal propositions so that the rules of formal logic can be applied (Lee, 1991). Quantitative research attempts to establish statistically significant relationships, addresses questions by measuring and describing, is based on objective measurements and observation, is concerned with correlations and causations (Hamer & Collinson, 2014). This approach is based on the use of numbers and uses surveys and other numeric data and is a means for testing objective theories by examining the relationships among variables (Simpson, Dickson & Greenblatt, 2005; Polit & Hungler, 2013; Moxham, 2012). In addition, Gay, Mills and Airasian (2006) emphasise that quantitative research uses methods to collect numerical data in order to explain, predict or test statistical hypotheses. Under this approach, quantitative and measurable data are obtained through methods like survey, observation, experiment and simulations. Measurement and scaling are the two main concepts used in defining and analysing the data (Luigi, Oana, Mihai & Simona, 2012). Quantitative research involves the collection and quantification of data (Babbie, 1998; Burns & Grove 2009; De Villiers & Van der Walt 2009); and cause and effect in relationships can be identified using this approach (Bell, 2003). The researcher decides in advance what factors (variables) might cause certain results

and then carries out a test to either support or reject the null hypothesis (Bell, 2003). A variable is a factor that can be changed or controlled in an experiment (Wong, 2014). A dependent variable is a variable which is hypothesised to depend on or be caused by another. A hypothesis is a statement or a predicted relationship between variables under study (Polit & Hungler, 2013). Null hypothesis predict no relationship between the variables (White & Miller, 2014, Wright-St Clair, *et al*., 2014). In the present study, all the hypotheses will be tested using this approach.

5.2.2: Qualitative approach

Qualitative research approach is underpinned by the following theoretical perspective, namely; the constructivist-interpretive perspective. Researchers who fall under this general classification rely on participants' views to understand human's world experience (hermeneutics) (Liamputtong, 2013). Qualitative researchers use the critical approach to issues. Those who operate under this paradigm see themselves as agents of change interested in social construction of experiences (Borbasi & Jackson, 2012). In addition, qualitative researchers operate in what is usually referred to as Post-structural/Postmodern paradigm. This paradigm came about as a reaction to the radical objectives of the quantitative type. A researcher seeks to understand people through their lived experiences and is concerned with issues like culture, gender, power and oppression (Borbasi, *et al*., 2012). Qualitative research also concerns itself with issues of feminism which is interest in women issues. Qualitative research can be said to fall within five main designs, namely; phenomenology, ethnography, grounded theory, historical methods and case study (Ingham-Broomsfield, 2014). Leedy (1993) describes this approach as the one that is field-focused. Hoffman and Bennett (2013) describe it as being based on people's experiences and is not oversimplified and subsumed into a number or statistic. The basis of qualitative research is inductive reasoning wherein a researcher moves from specific to general to end up with general conclusions or theories (Jirojwong, Johnson & Welch, 2011; Burns & Grove, 2009). Open-ended questions can be used if the researcher is not certain on how the respondents will answer questions. Participative observation tends to be the mainstay of this method (Bell, 2003). A qualitative researcher may use self-reporting tools and observations (Polit & Hungler, 2013).

Qualitative research data is unstructured data collected through methods and techniques like focus groups interviews, in-depth interviews and projective techniques (Luigi, Oana, Mihai & Simona, 2012). In addition, Gay, *et al*. (2006) state that qualitative research is the collection, analysis and interpretation of narrative data in order to gain insight into a particular phenomenon of interest. It is mostly used to verify and validate assumptions (Leedy & Ormrod, 2005). A typical product of a qualitative research is rich description (Turner, Balmer & Coverdale, 2013). Given below are some research methods used under qualitative research.

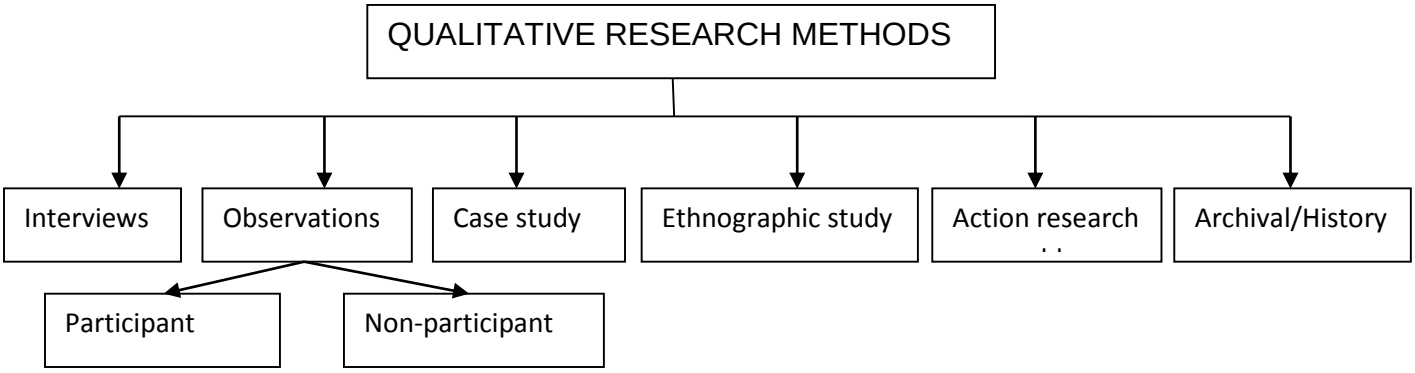

Figure 5.2: Methods used by qualitative researchers (Ingham-Broomsfield, 2014).

Justifications for choosing quantitative over qualitative approach for the present study follow.

5.2.3: Rationale for choosing Quantitative over Qualitative approach

Bell (2003) argues that the two methods can complement each other. In some instances, one can do an exploratory study when the study is expected to yield a continual evolution of the methodology as and when issues arise to necessitate a new study (Bell, 2003). However, certain considerations were taken into account to come to a decision to use a quantitative approach. Fischer (1990) states that positivist inquiry has considerably more to offer than interpretive inquiry when regularities occur which are unintended consequences of human action or inaction. This study is aimed at supporting policy-making in government and academic institutions through predicting practices within the industry (Sharp, McDonald, Sim, Knamiller, Sefton &

Wong, 2011). It is hoped that scientific knowledge boundaries in the REI will be extended as a result of this study (Easterly-Smith, 1997). Another consideration is that causal relationships between variables identified can be verified or disputed (Easterly-Smith, 1997). Due to limited resources and time, only the quantitative approach is deemed feasible. The outcomes will lead to a report that can be statistically analysed objectively. Also, quantitative research can be used to discover the cause and effect relationships; it is a value-free research, allows situation/performance to reveal itself and the researcher remain objective (De Villiers & Van der Walt, 2009). Qualitative research is also time consuming and less scientific when compared with its quantitative counterpart (Mukhopadhyay & Gupta, 2014).

5.3: RESEARCH DESIGN (RD)

Research is characterised by a systematic approach to information gathering to answer questions which is contrary to those approaches which employ intuition, expert advice or follow tradition. As highlighted in Figure 5.1, RD forms an integral part of any research. Clarity in the RD allows the reader to determine the methodological soundness (Bordage, 2001). Different authors have defined research design in different ways, which helps enriching our understanding of this concept.

Van Wyk (2012) refers to research design as the overall plan for connecting the conceptual research problems to the pertinent (and achievable) empirical research. He further states that the research design articulates what data are required, what methods are going to be used to collect and analyse this data, and how all of this is going to answer the research question. In addition, Macnee and McCabe (2008:195) define research design as being the overall plan for acquiring new knowledge or confirming existing knowledge. Kerlinger (1996) describes RD as a plan and structure of investigating so conceived to get answers to research questions. Hoffman and Bennett (2005) define RD as the master plan for the research study. Gall and Borg (1999) have defined research design as the details showing how the research will be conducted. Pellissier (2010) describes RD as referring to different frameworks such as experiments, survey, cohort studies, case studies or comparative studies designed to collect and analyse the data. Polit and Beck (2012:58) and Burns and Grove

(2011:251) describe research design as the overall plan for obtaining answers to the research question, and a blueprint for conducting a study.

RD also takes care of such issues as sampling design, questionnaire design, data collection techniques and data analysis approaches. The sampling design stage is concerned with what the target population will be the sampling frame, the scope of the research, sample sizes and the sampling methods (De Vos, 2002:137). RD will be composed of sampling design, questionnaire design, data collection techniques and data analysis approach as discussed below. Also, survey method of research was used in the study. According to De Vos (2011), Burns and Grove (2009), De Villiers and Van der Walt (2009), the approach offers a number of advantages.

Quantitative research approach helps researchers to get complete and accurate information about a phenomenon through observation, description and classification. It also provides a picture of situations as they naturally happen as the designs examine variables in a natural environment. However, this approach does not include researcher-designed treatments and interventions. It may also be used to identify problems with current practice and level of the problem, justify current practice, make judgments or determine what others in similar situations are doing. It is easier and less expensive to conduct; and offers short testing period and minimal drop out possibilities.

Under the quantitative approach, decisions are made with the coldness of a steel ruler. The researcher decides in advance what factors (variables) might cause certain results and then carries out a test to either support or reject the null hypothesis (Bell, 2003). Bell (2003) further emphasises the same fact that cause and effect relationship can be identified using this approach. Creswell (2013) indicates that the inquirer also decides on a type of study within quantitative selected approach that provides specific direction for procedures in a research design. Creswell (2013) further states that survey research includes cross-sectional and longitudinal studies using questionnaires or interviews for data collection. Structured questionnaires were used in this study.

5.3.1: Research method for the study

Research method refers to design techniques, and it includes survey, experiment, observation and secondary data study. Zikmund (1997) indicates that the objectives of the study, the available data sources, the urgency of the decision and cost of obtaining the data will determine design technique to be used. Zikmund (1997) further states that the most common method of generating primary data is through surveys. Therefore, survey technique was used for this research.

The information required was gathered from a sample of people by use of questionnaires. Zikmund (1997) further states that determining the list of questions, and designing the exact format of written questionnaire is crucial in this regard. A researcher could choose to contact respondents by telephone, mail, or contact them in person. All but one of the respondents in the study was contacted personally. Turner, *et al*. (2013) contend that the quality of any survey research is dependent on the quality of the survey instrument, representativeness of the sample and the response rate. The respondents were selected as per sampling approach given below. Like any human construct, the survey method has advantages and disadvantages. So, a researcher's task is to find the most appropriate way to collect the information needed.

5.3.2: Sampling design

Figure 5.3 below summarizes the relationship between population and sampling and also gives important issues in sampling.

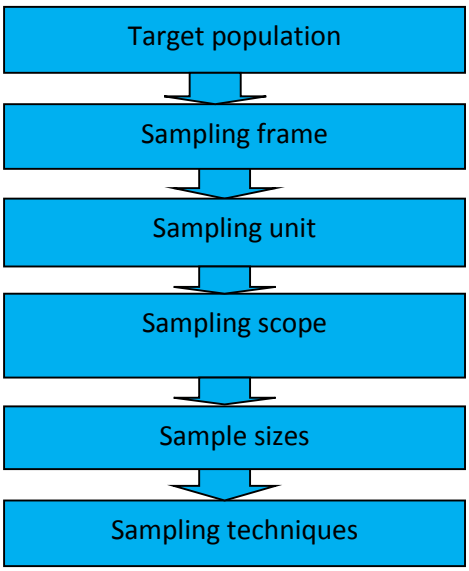

Figure 5.3: Important sampling issues (Levit & Rubin; Creswell, 2011; Kenkel, 1996).

Before discussing sampling, it is proper to introduce the superset which is the population. Population can be defined as all the individuals who possess the information one needs and who make responses meaningful (Alreck, 1985); source from which the data are to be collected (Zikmund, 1997); all items that have been chosen for a study (Levin & Rubin, 1991); the entire group of persons or objects that is of interest to the researcher or meets the criteria that the researcher is studying (Brink, 1996) and as a set or collection of all possible observations of some specific characteristic (Kenkel, 1996).

Sampling is concerned with selecting individuals (from the population) who are available and can be studied (Creswell, 2011; Mathew & Ross, 2010). Therefore, a sample can be seen as a portion of a population (Kenkel, 1996); a subset of the population selected so as to be representative of the entire population in order to reduce costs, time and manpower required when conducting a study (Achaya, Prakash, Jaxena & Nigam, 2013). In addition, a sample refers to the number of

elements to be included in the study that meets the criteria of representativeness and adequacy (Singh, 1998). A sample also refers to the fewer cases that will best enable the researcher to explore the research questions and theoretical ideas (Creswell, 2011). It has to be mentioned as well that by using samples, the precision of the measurement is decreased (Galanis, 2012) and that a sample 'representativeness' depends on the sampling method, sample size and the response rate (Achaya, *et al*., 2013).

Sampling defined/described

According to Zikmund (1997:414), sampling is done to enable researchers to estimate some unknown characteristics of the population. In addition, Kadame (2012) suggests that sampling permits the concentration of resources on a few items and doing a more adequate job of examining those items. When doing sampling, one has to consider what is sampled, where is it located, how are the cases are selected and why they are selected (Uprichard, 2013). Sampling has been defined in many different ways. It has been defined as the technique of examining a few items from a large group of items with the purpose of inferring something about the group (Kadame, 2012). Furthermore, sampling also defined as the systematic approach of selecting a few elements from an entire collection of data in order to make some inferences about the total collection and a portion chosen from the population (Levin, *et al*., 1991). Similarly, it is the process of using a small number of items or parts of a larger population to make conclusions about the whole population (Zikmund, 1997: 413), a selection of some cases, a subset or some part (sample) from a larger group of potential cases (population-finite or universe infinite) (Ross & Mathew, 2010) and as a selection of the elements of the population so that the researcher can draw conclusions about that population (Berndt & Petzer, 2011). Grafstrom (2010) gives further information on how a sample should be. It should be efficient, easy to implement and have large entropy to be generalisable. The main issues under sampling are sampling approaches, sampling strategy, sampling frame, sample size and sample error in survey research (Bryman, 2009; Gilbert, 2008; Seale, 2004).

Sampling frame

Sampling frame (also called working population) is concerned with the list of all possible units to be sampled which is in turn influenced by what is known (or not known) about them (Uprichard, 2013). It is the list of elements from which the sample may be drawn, the subjects of study and the research environment (Zikmund, 1997; Pedhazur & Schmelkin, 1991; Young, Wang & SU 2006). In addition, Kadame (2013) defines it as the population to be sampled from and that about which inferences are to be drawn. For the present study, the sampling frame was all the REAs, buyers and sellers of the properties that have been registered at the deeds offices in the City of Johannesburg.

Sample size for the study

The sample size is the number of subjects from whom data will be collected and drawn from the population (Kumar, 2005). It is all the elements that will be included in the study. When deciding on sample size, trade-offs have to be made on such concerns as cost of time and finance, the potential for sample bias and analytical objectives (DiGaetano & Waksberg, 2002). The sample size influences the accuracy of estimation and a large sample can help minimise sampling errors and improve generalisability of research findings (Young, Wang & SU, 2006). Because conclusions for the research will be extrapolated from the sample results, it is important to ensure that the sample size is representative of the population (Galpin, 2013). According to Kumar, Aaker and Day (2002), four factors determine the sample size: the number of groups within the sample, the value of the information and the accuracy required of the results, the cost of the sample, and the variability of the population. Having considered Kumar, et al.'s (2002) suggestions, this study randomly selected a sample for the study made up of 75 REAs from at least 20 REFs, 75 buyers and 75 sellers. This can be justified by the number of companies actively advertising in the targeted areas. There are about 30 major REFs and few smaller ones. It estimated that the major firms employ about 20 REAs. Therefore, the sample size caters for about 65% of the population.

Sampling technique

There are different approaches to sampling. For purposes of this study, a brief discussion for the different approaches will be given before the researcher's choice is given and justified. Sampling techniques are further subdivided into two categories. They are probability and non-probability sampling (Blaxter, Hughes & Tight, 2008; Zikmund 1997). In both techniques, some knowledge of the population is required from the onset and these approaches do not differ in where they commence but on where they end (Uprichard, 2013). One of the major differences between these techniques is that in probability sampling, knowledge of the sample can be used to extend the knowledge about the population and in the non-probability sampling cases are sampled not necessarily to know more about the population, but to extend and deepen existing knowledge about the sample itself (Uprichard, 2013). Probability sampling as developed by Neyman (1934) has a very specific framework for making inferences about a population (Brick, 2011). It assumes that a frame of all units in the population can be constructed and that every unit in the frame has a positive probability of being selected into the sample (Brick, 2011). Zikmund (1997) indicates that under probability sampling, every member of the population has a non-zero probability of being selected for a study. Probability sampling can further be subdivided into differing categories which are as follows:

- Simple random sampling in which all elements have an equal probability of being selected (Levin, *et al*., 1991; Galanis, 2012); and
- Systematic sampling in wherein elements are selected from a population at a uniform interval that can be measured in time, order, space et cetera (Levin, *et al*., 1991). Minimal knowledge of the population is required and normally result in high costs, sampling errors, internal and external validity (Achaya, *et al*., 2013);
- Stratified sampling wherein the population is divided into relative homogeneous subgroups (each group has a small variations within the strata and wide variation between them) called strata (Levin, *et al*., 1991). Strata are supposed to have different heterogeneity (Kadame, 2013); and
- Cluster sampling wherein the population is divided into groups called clusters and the sample selection is done randomly from each clusters (Levin, *et al*.,

1991). Examples of clusters would be geography, wards and blocks (Achaya, *et al*., 2013).

In non-probability sampling, the chances of any particular member of the population to be chosen are unknown and depend on the personal judgment of the researcher (Zikmund, 1997). This can be based on the experience of the researcher or the purpose of the study. For this study, a stratified random sampling, which is a subset of probability sampling, was used for the following reasons and rationale is provided below. The study sought to gain insight into three distinct groups when a property transaction is completed. It also sought to check how the two predictor variables affect buyers and sellers and how the outcomes of the intervening variables influence the perception of buyers, sellers and REAs. The final results needed to be analysed having those clusters in mind. The questionnaires had to be filled in at respondents' offices, homes, shopping malls, restaurants and at car washes. In order to minimise selection bias, every person approached, who was willing to participate, was invited.

5.3.3: Data collection approach and methods

In research, data should be seen as pieces to a jigsaw puzzle and the resultant data analysis as the strategy to putting the pieces together (Salkind, 1997). Data collection refers to the collection of useful information to answer the pertinent question and where to find it. In order to effectively select the data, one needs to appreciate the fact that the data exist within a population. The variables that are measured are the determining factors for the choice of measurement methodology (Kumar, *et al*., 2002). Data collection and the integrity of the data were treated as non-negotiable. This was done to restrict the findings to those who meet the standard (Fink, 2013). Data collection techniques are to a large extent determined by the research philosophy adopted for a study. Examples of techniques for a qualitative study as given by Allen-Meares and Lane (1990) are interviews, direct structured observations, direct non-structured observations, routine records, field notes, ecological descriptions, et cetera. All these techniques have advantages and disadvantages. In the present study, the quantitative approach was followed. Allen-Meares and Lane (1990) further give the

following as examples of techniques that can be used. Their advantages and disadvantages are also given in Table 5.1 below.

Under observations, the data collector operationally defines and categorises critical variables in person-environment relationships. Use of observation codes and checklist and rating scales to check presence/absence of certain variables can be used. One can also make use of performance records when using observation data collection techniques. A researcher can also use the questionnaire method. Under broad category, the data collector can also use check-lists, rating scales and can also use open-ended questions and respondents can provide variety of information about personal feelings attitudes and interests.

Another research instrument is by use of tests. Under this technique, a formal test is used to obtain systematic standardised data related to intelligence, achievements, personality, interests and values. Researchers are also allowed to make use of routine records. Under this approach, written material that is made regularly to describe specific aspects of on-going operations is used as a source of information. Systematic quantitative data can thus be obtained from these records by using content analysis.

Given in Table 5.3 are the advantages and disadvantages of the different data collection techniques as given by Allan-Meares and Lane (1990), followed by the justification for the choice taken for the present study.

Data collection technique	Advantages	Disadvantages
Observation	• Identifies conduct that can otherwise be overlooked • Yields authentic data through direct cognition	• Loss of perspective by the researcher may result due to too much involvement • Limitation of data due to predefined categories in order to understand the environment understudy
Questionnaires	• Can be administered quickly and without difficulty • Facilitates the simple acquisition of data from a large number of respondents in geographically dissimilar locations	• May have vague and poorly worded questions which may be problematic; • Return rates can be low, thus having negative effects on the representativeness of the sample.
Tests	• Can be conducted online and cheaply. Results are easy to compare between different respondents	• Only ideal for people who can follow instructions to generate responses. • Can easily miss other valuable information about respondents
Routine records	• It is an objective way of data gathering. Information is easily available	• Records can be falsified • It can also be difficult to gain access to certain sensitive information

Figure 5.4: Advantages and disadvantages of different data capturing approaches

As mentioned earlier, the technique that was used to collect data in this study was the questionnaire. The reasons for the choice are ease of administration, low cost associated with the approach, easy access and availability of statistical packages for data analysis after data have been captured in the questionnaire format and record keeping after the data have been captured and analysed. The questionnaire was

composed of mostly original questions based on the variables identified in studies that deal with constructs used in the research model.

5.3.4: Characteristics of the data collection instrument

Almost all researchers use some form of questionnaires as a data collection mechanism. Planning of a questionnaire is perhaps the most important stage in a survey development (Edwards, 2010; Webb, 2000). Initial consideration when designing the questionnaire are the type of information required, the nature of respondents who are to be surveyed, the type of method by which the survey is to be administered and the questionnaire must fully answer all the data requirements that has been stipulated in the research objectives (Webb, 1998). Questionnaire design induces the process of translating the broad objectives of the survey into questions that can obtain the required information (Morisky, Ang & Krousel-wood, 2008; Morisky, Green & Levine, 1986). According to Miller and Read (1998), a good questionnaire should meet research objectives, obtain valid and reliable data from the respondents, facilitate the interviewing task and subsequent data processing and achieve and maintain the involvement of respondents (Webb, 2000: 198). Zikmund (1997) states that relevance (information to resolve the research problem) and accuracy (information is reliable and valid) of questionnaire is critical for research objectives to be achieved. Therefore, attention was given to validity and reliability of the instrument.

Both reliability and validity relate to the logic and accuracy of a test (Wilckens, 2010). In particular, reliability refers to the extent to which an instrument or procedure produces similar results under constant conditions (Bell, 2003). It is the degree to which instrument measures are free from error. This also emphasises the issue of repeatability (Bell, 2003). A questionnaire is reliable when it provides consistent measures in all comparable situations and over time and it achieves validity when it is capable of measuring what it purports to observe or measure (Remenyi, Williams, Money, & Swartz, 1998). Reliability requires better comparable experiments, while validity asks the question as to whether the instrument is tailored to appropriately answer the questions being asked; that is, if the experiment is valid in logical terms (Wilckens, 2010).

Validity refers to whether the instrument measures what it is supposed to measure and it includes convergent correlation with other measures, agreement with other researchers, and the degree to which the measure confirms a network of hypotheses (Zikmund, 1997). The reliable and valid measurement of a construct is the main goal of measurement model development (Krizman, 2011). This is to ensure that the study is on a sound scientific basis. Bauma, Ling and Wilkinson (2012) define external validity as to how closely the variables produce scores or observations that are consistent with what is observed in real life. As per Brassington and Pettitt (2005)'s recommendations, the following issues shown below were taken considered. Questions were simplified due to the assumed education level of respondents; questions were in line with the research method and objectives; research questions were phrased as to aid analysis and minimize errors; and lastly the number and wording of the questions were geared to encourage accurate and full responses.

5.3.5: Measuring reliability

Three methods of measuring reliability were used in this study, namely; Cronbach's Alpha test (Cronbach α), Composite Reliability test (CR) and Average Value Extracted (AVE) test. Composite reliability measures internal coherence of all indicators related to the construct (Krizman, 2011). The cut-off point for the Cronbach's Alpha will be 0.7 (Bagozzi & Yi, 1988; Nunnally & Bernstein, 1994). All values from 0.7 upwards will have proven reliability. The internal reliability of each construct was evaluated using the Composite Reliability (CR) index test. Composite Reliability index value that is greater than 0.7 depicts an adequate internal consistency of the construct (Nunnally, 1978; Hair & Clarke, 2006). The overall amount of variances in the indicators is supposed to be accounted for by the latent construct (Fraering & Minor, 2006). The following formulae were used to calculate reliability values:

$CR\eta = (\Sigma\lambda yi)2/[(\Sigma\lambda yi)2+(\Sigma\varepsilon i)]$(square of the summation of the factor loadings)/{(square of the summation of the factor loadings)+(summation of error variances)} the resultant coefficient is similar to that of Cronbach's α.

5.3.6: Measuring validity

If there are validity issues, it implies that the variables do not correlate well with each other within their parent factor. Therefore, the latent factor is not well explained by its observed variables. If there is no discriminate validity, it means that variables correlate more highly with variables outside of the parent factor than with variables within their parent factors. That implies that the latent factor is better explained by some other variables. Two types of validity, namely; the convergent and discriminant validity were ensured. Convergent validity is the extent to which the scale correlates with other measures in the same construct (Krizman, 2011). Convergent validity was assessed by checking if individual item loadings for each corresponding research construct was above the recommended value of 0.5 (Anderson & Gerbing, 1988). On the contrary, the evaluation of whether the correlations among latent constructs are less than 1.0 was conducted to check on the discriminant validity of the research constructs. The recommended cut-off point is 0.7 (Bagozzi & Yi, 1988; Nunnally & Bernstein, 1994). This can also be confirmed by checking if the AVE value was greater than the highest shared variance (S.V.) value (Fornell & Larcker 1981). The third method that will be used to confirm the existence of discriminant validity is the Chi-square difference in all two-factor (that is, any paired latent constructs). CFA tests which restricted the factor inter-correlations to unity were also used (Anderson & Gerbing, 1988). In addition, SPSS 21.0 and AMOS 21.0 software were utilised as our analytic tools. The following formulae will be used to calculate for validity: **$V\eta=\Sigma\lambda yi2/(\Sigma\lambda yi2+\Sigma\varepsilon i)$** {(summation of the squared of factor loadings)/{(summation of the squared of factor loadings) + (summation of error variances)}.

5.3.7: Development of the data collection instrument

In the present study, a new research instrument based on the variables studied by other researchers and where applicable, an existing instrument was modified and additional questions to answer industry specific issues were included. The scale of choice will be a seven point Likert scale. The structure of the questionnaires was as per Annexure E. All items in the questionnaire were original and the framing thereof was done in accordance with the main concepts associated with the variables under study in literature. Those concepts and their sources are also given in Table 5.2 below.

Source	Concept	Variable	Item	Questions/Statement
		1.Dual mandate system		
Pam Goldings Rawson properties Chas Everitt	Sole mandate,	Written sole mandate (SM) Views on sole mandate	**DMS1** **DMS2**	Instruction to market the property was given to one real estate agent Giving instruction to one agent is the best way to sell a property
	Exclusivity, Representation	Involvement of REAs in initial valuations	**DMS3**	Initial valuation of the property was done by the agent/agent's firm
	Multilisting service	Check on whether others were involved in the deal	**DMS4**	More than one real estate agent was used to sell in this transaction
	Industry practices One agent is the go-between	Exclusive representation of the buyer	**DMS5**	The instructed agent/firm acted for the buyer in the present transaction
		Exclusive representation for both parties	**DMS6**	Offers for the sale of this property were presented by the listing agent
	Lack of outside assistance Commission sharing/lack	Confirmation question for DMS	**DMS7**	None of the transacting parties received any other assistance for this sale
			DMS8	Only the instructed agent received commission for the deal
		2.Ideological outlook		
Marina, 2014;Goll & Zeitz, 1992 Carrero, Negri, Castelli & Pastore, 2014 Chin, Hambrinck & Trevino, 2013	Sense of responsibility Convictions, beliefs and values, . Actions	Sense of responsibility Association of people with certain features Ideology is related to actions	**IO1** **IO2**	It is important for the agent to fulfil his/her responsibility to the principal The agent who sold this property can accurately predict a client 's preferences in a housing deal

Daniela, 2014. Jost, 2006;Roseberg, 1956 Chin et al, 2013 Daniela, 2014 Marina, 2014	Source of ideology Manifestation Unmoveability Commitment Economic system choice	Ideology reflected in values Strong values reflects ideology Persistence of commitment Ideology reflected in values Economic model choice can be motivated by ideology	**IO3** **IO4** **IO5** **IO6** **IO7** **IO8**	This agent can determine where people choose to sell/purchase properties I was flexible when negotiating this housing transaction I hold very strong personal values My principles will not be compromised regardless of possible gain Personal values should influence the way I do business Free-market economy is the best economic system
		3. Conflict of interest		
Wiseman, RM, Cuevas-Rodriguez & Gomez-Mejia, 2012 Walking & Long, 1984 Wiseman, RM, Cuevas-Rodriguez & Gomez-Mejia, 2012 Moore & Loewenstein, 2004.	Involvement with one party Pricing Interests of the buyer and seller Interests of REA, buyer and sellers Self-interest versus professional responsibilities Information asymmetry Use of minimum effort and resources	Differing interests between principals Differences in knowledge Differences of interests between principals Differing interests between principals and REA Directions of benefits for longer TOM Conflicting expectations between principals and REAs Giving one side advantage to conclude the deal Effort level and resources deployment	**CO1** **CO2** **CO3** **CO4** **CO5** **CO6** **CO7** **CO8**	The real estate agent was involved in setting the initial asking price The lowest possible transaction price was disclosed The interests of both buyer and seller are similar in a property transaction The interests of the buyer, seller and the real estate agent are similar in a property transaction It is beneficial to me when the property is in the market for a long time I wanted to get the highest price for this property transaction Other parties to the transaction assisted me in achieving my target price Huge amount of marketing effort and other resources were used to do this deal
		4. Compromising principal		
Wiseman, RM, Cuevas-Rodriguez &	Principals interests	Contrast in interests between parties Information asymmetry	**CP1** **CP2**	Reasons for the sale/buying the property were disclosed for purposes of this deal

Gomez-Mejia, 2012				I knew how to do property valuation before this transaction
Henrin, Knight & Sirmans, 2004; Mishra, Heide & Gort, 1998.	Contrast in interests between parties	Contrast in interests between parties on TOM	**CP3**	There were no winners or losers in this transaction
Wiseman, RM, Cuevas-Rodriguez & Gomez-Mejia, 2012	Contrast between parties Transaction experience	Contrast in interests between parties Information asymmetry	**CP4**	I am satisfied with the time on market (TOM) of the property
		Who benefits/loses	**CP5**	The duration of the transaction process was too long
Wiseman, RM, Cuevas-Rodriguez & Gomez-Mejia, 2012	Prior valuation knowledge	Information asymmetry	**CP6**	Valuation and pricing information was disclosed to me
	Price experience	Who benefits/loses	**CP7**	I received maximum benefit with regards to pricing
	Principals' knowledge	Information asymmetry	**CP8**	My knowledge of property transactions is close to the level of the other parties in this deal
		5. Outcomes		
Hannachi, 2015	Customer satisfaction	After sale evaluation of both product and service	**OT1**	I bought a property in an ideal neighbourhood
Hannachi, 2015; Carol, 1989	Financial performance	Satisfaction with price charged/paid	**OT2**	With the benefit of hindsight, I should have transacted for a lower price
Lee & Lee, 2013	Customer satisfaction	Perception of fairness	**OT3**	I received a fair treatment from all parties involved in this transaction
McDaniel & Louargand, 1994	Customer loyalty	Possibilities of repeat business	**OT4**	I would use the same REA for my next property deal if I decide to buy/sell in the same suburb
Milost, 2013 Hannachi, 2015	Non-financial measures	Trust in the service provider	**OT5**	I have confidence in the REA who handled the present transaction
Milost, 2013	Service quality	Possibilities of repeat business	**OT6**	I will continue buying/selling my property (ies) through this REA
	Financial and non-financial outcomes	Client satisfaction	**OT7**	The quality of service I got for this in this transaction was excellent
	Relationship management	Client satisfaction	**OT8**	After this transaction, I am very satisfied with the relationship with this REA

Figure 5.5: Research variables, concepts, questionnaire items and sources

Key: DMS-Dual mandate system, IO-Ideological outlook, CO-Conflict of interests, CP-Compromised principal, OT-Outcomes

The instrument that was used is given as an attachment in addendum Annexure E.

5.3.8: Ethical issues relating to sampling and data collection

As Bell (1999) says, the respondents who took part in this study were doing the researcher a favour. Therefore, the respondents deserve to be treated with the utmost respect. Just because consumers are willing to provide data does not mean that its use is free from privacy implications (Boyd, 2011). At the data collections stage, care was taken not to interfere with the institutional programmes (Walls, Parahoo, Fleming & McCaughan 2010: 27). The privacy of the respondents was respected at all times (Walls et al, 2010). Before recording respondents' information, an informed consent was obtained by first explaining the purpose of the project (Hegney & Wai Chan, 2010). Moreover, protecting the integrity of the university was also of paramount importance (Bell, 1999). Anonymity of respondents via coding of responses, informing the participants of their right to refuse to answer certain questions and to break off the interview at any stage was also communicated to them in advance. The consent for the use of the responses was only signed for at the end of the data capturing exercise (Nunan & DiDomenico, 2013). Also, all respondents were assured that the information was not going to be used for political purposes (Zikmund, 1997). Lastly, respondents' human rights which included rights to protection; right to self-determination (voluntary participation including people with diminished autonomy); right to privacy, confidentiality and right to a fair treatment were upheld and respected (Brink, Van der Walt & Van Rensburg, 2006).

Approach to address ethical concerns

The following steps were taken to address some of these concerns:
The purpose of the study was honestly communicated to the respondents in order to allay any concerns they might have (Bell 1999: 46; Nunan & DiDomenico, 2013; Zikmund, 1997). Participants' information sheet was discussed with them. The respondents were assured of the strict ethical issues that the university and this researcher have to adhere to (Bell, 1999). Questions such as: who stands to benefit and who can be harmed by the research were given attention and adequately addressed. Moreover, the respondents were assured that the researcher would ensure that there would be an honest analysis of the data and there would not be

dissemination of faulty conclusions for ulterior motives (Zikmund, 1997). Therefore, protection of respondents' privacy was prioritised at all times.

5.4: DATA ANALYSIS APPROACH

The core of decision making is information which is mainly the result of data analysis and data interpretation (Luigi, Oana, Mihai & Simona, 2012). Luigi, *et al.* (2012) further state that data analysis is adding value out of gathered raw data. Before conducting data analysis, the researcher needs to generate operational definitions of the exposure variables, outcome variables and cofounding variable (Cheng & Phillips, 2014). Following data collection, the data screening process suggested by Malhotra (1999) and Churchill (1999) were implemented to ensure data are cleaned before performing further statistical analysis. Screening the data was the first step towards obtaining some insights into the characteristics of the data. It is important to ensure the accuracy of data entry and assessment of outliers before proceeding to analyse summary statistics for the survey responses. The major analytical tasks in the data screening process include questionnaire checking, editing, coding, and tabulation. Also, data analysis was aided by the choice of instrument, scales and coding of the responses. The statistics to be reported will be in the following order:

- Descriptive statistics which numerically describe the results of the research in terms of how many, how much and how often (percentages);
- Measures of central tendency (an attempt to describe the research result as a single number which tells the researcher how close the data are grouped towards the mean.) which included the mean, modes and median for the scores together with measure of central tendency; and
- Measure of variability-SD to show how far from the mean each score is from the mean and lastly it will be Inferential statistics-so that the information can be used to infer meaning and use of a significance (Simpson, Dick & Greenblatt , 2005).

Data analysis was accordingly done in the following stages:

- Stage 1: Descriptive-describing the nominal data by use of frequency tables, graphs and box plots.

- ❖ Stage 2: Exploratory stage-analysis of correlation patterns, exploratory factor analysis. SEM techniques were employed for this stage.
- ❖ Stage 3: Hypothesis testing phase-non-parametric tests, Spearman rank correlation, Mann-Whitney U tests.
- ❖ Stage 4: Output (Srnka & Koeszegi, 2007).

Before giving the specifics of how the stages were performed, a brief description of SEM will be given as it forms the backbone of the analysis that was used.

5.4.1: Structural Equation Modelling (SEM) defined

Structural Equation Modelling (SEM) has been heralded as a unified model that joins methods from Econometrics, Psychometrics, Sociometrics and Multivatriate statistics (Bentler, 1994). It is a general approach to analyse multivariate data for theory testing (Bagozi, 1980). Other authors have described SEM as a collection of statistical techniques that allow a set of relationships between one or more independent variables and one or more dependent variables to be examined (Ullman, 2006). Gois and Ehrich, 2014) argue that SEM is used to evaluate the extent to which the hypothesised causal structure was able to explain the observed association between variables and to estimate magnitude of the postulated effects. The purpose of SEM is to determine if the causal inferences of the researcher are consistent with the data collected (Grace & Pugesek, 1998). This statistical technique is also referred to as Causal modelling, Causal analysis, Simultaneous equation modelling, Analysis of covariance structures et cetera (Ullman, 2006).

5.4.2: SEM advantages

Many statistical techniques can be considered as special cases of SEM as it includes regression analysis, canonical correlation analysis, Confirmatory factor analysis (CFA) and path analysis (PM) (Bagozi, Farnell & Larcker, 1981; Bentler, 1992; Joreskog & Sorbom, 1989). A central issue addressed by SEM is how to assess the fit between observed data and the hypothesised model (Mueller & Hancock, 2007). Researchers use SEM for finding the relationship among variables and for quantification (Vinodh & Joy, 2012). In addition, SEM lends itself well to using empirical data for testing

theoretical models (Crowley & Fan, 1997). It describes relationships between variables which can either be observed and latent variables (Bacon, 2011). SEM links regression analysis to factor analysis (Byrne, 2012). SEM also offers researchers many possibilities for model fit testing.

The techniques allows for causality tests using path analysis. The purpose of SEM is to determine if the causal inferences of a researcher are consistent with the data and if the path model does not fit the data, one or more of the model assumptions are in error (Grace & Pugesek, 1998). A central issue addressed by SEM is how to assess the fit between observed data and the hypothetical model (Mueller & Hannock, 2007). Actually, path analysis is the causal modelling and forms the structural model part in SEM. It can provide evidence of causality among variables (Violato & Hecker, 2007). If the path model is consistent with the data, it shows that our assumptions are not contradicted by the data and may be valid but it does not prove causation (Grace & Pugesek, 1998). In order to prove causation, three conditions for causality must be present, namely; there must be observed and measured relationship between variable x and y (should be correlated: association), variable x should precede y in time (temporal order: direction of influence), and variable x and y should have a non-spurious relationship (the observed, measured and temporal relationship will not disappear when other variables on this relationship are controlled (isolation). Furthermore, the measurement model relates observed variables to latent variables and observed variables are called indicators and latent variables are called factors (Mornecke & Leish, 2012). In accordance with the two-step procedure suggested by Anderson and Gerbing (1988), prior to testing the hypotheses, confirmatory factor analysis (CFA) was performed to examine scale accuracy (including reliability, convergent validity, and discriminant validity) of the multiple-item construct measures using AMOS 7. SEM also makes use of fit indices to evaluate the overall acceptability of the model (Grace, & Pugesek, 1998). There are two sets of fit indices. They are the absolute fit indices and relative fit indices. Absolute fit indices indicate how well the priori model fits or reproduces the data. Acceptable model fit will be indicated by Chi-square value over degree of freedom (χ^2/df) of value between 1 and 3, the values of Goodness-of-Fit Index (GFI), Comparative Fit Index (CFI), Incremental Fit Index (IFI), and Tucker-Lewis Index (TLI) equal to or greater than 0.90, and the Root Mean Square Error of Approximation (RMSEA) value to be equal to or less than 0.08. Once an

acceptable CFA measurement model fit is obtained, the study will proceed to hypothesis testing stage using SEM with AMOS 7 software programme (Larwin & Harvey, 2012).

5.4.3: Application to the study

Model specifications involve formulating statements about a set of variables and forming a pictorial representation of the model (Violato & Hecker, 2007). The pictorial model is transformed into a set of equations, which are simultaneously solved to test model fit. Assessing whether a specified model fits the data is one of the most important steps in SEM (Yuan, 2005). In addition, model fit is how the model that best represents the data reflects underlying theory (Hooper, Coughlan & Mullen, 2008). Most importantly, model selection should be guided by principles of parsimony which states that if several models fit the data, the simplest should be selected (Violato & Hecker, 2007). Absolute fit indices measure how well the model fits in comparison to no model at all (Joreskog & Sorbom, 1993). Model fit indicators such as Chi-square/degrees of freedom, Goodness of Fit Index (GFI), Augmented Goodness of Fit Index (AGFI), Normed Fit Index (NFI), Incremental Fit Index (IFI), Tucker-Lewis Index (TLI), Composite Fit Index (CFI) and RMSEA were used to assess the model fit. RMSEA 0-1, smaller values indicate better model fit. The cut-off value of 0.06 or less is generally accepted. RMSEA demonstrates optimal fit with a value below 0.05 and reasonable fit with a value below 0.08. CFI indicates a good fit with p-values greater that 0.95 (Larwin & Harvey, 2012).

5.4.4: Confirmatory factor analysis (CFA): model fitness, reliability and validity

Confirmatory factor analysis is an analytical tool that allows the investigator to explore hypotheses about what constructs the test in question is measuring and provides an empirical basis for clinical interpretation (Bradley, Ryan, Axelrod, Schellenberger & Richards, 2003). It involves the separation of a large number of variables into a smaller number of factors within which all variables are related to each other. The purpose of factor analysis is to investigate the underlying variance structure of a set of correlation

coefficients. A confirmatory factor analysis (CFA) was performed to obtain the standard regression weights.

5.4.5: Path Modelling (PM): model fitness and Hypothesis testing

Once the model fit has been assessed using confirmatory factor analysis, the researcher proceeded to perform Path Modelling using AMOS 21.0 software package. Path modelling describes the relationships between observed or measured variables and theoretical constructs (Roche, Duffield & White, 2003) and tests the structural paths of the conceptualised research model. SEM technique demonstrates and tests the theoretical underpinnings of a proposed study and the significance of the relationships between models constructs. SEM stipulates a technique where separate relationships are allowed for each set of dependent variables and provides an estimation technique for a series of separate multi-regression equations to be estimated concurrently. It further contains two mechanisms, namely; the structural model, which is the path where independent, and dependent variables are being linked and the measurement model enables this study to use several indicators for a single independent variable. In this study, several attributes were identified as having an effect on performance. The multi-item scales for each construct were developed. This was done by assessing each relationship simultaneously rather than separate by incorporating all the multi scale items to account for measurement errors with each scale. The University of the Witwatersrand Statistics Department assisted in the analysis of the results and the interpretation outcomes was done thereafter.

The steps mentioned in the discussion above can best be represented by Figure 5.6 below.

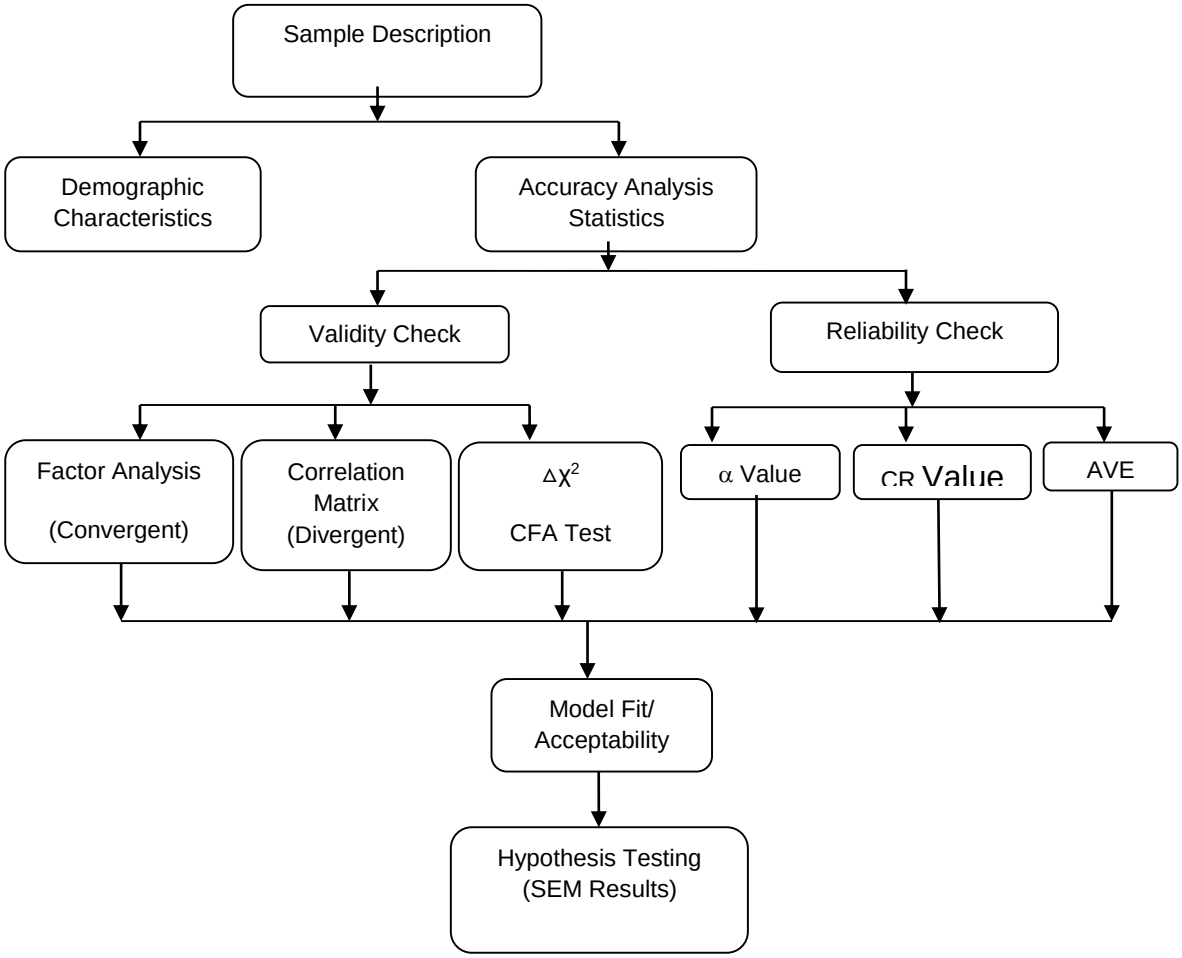

Figure5.6: Statistical analysis procedures used (Chinomona, 2011)

5.4.6: Ethical issues related to data analysis

Improper data analysis is an ethical issue because it can result in publishing false or misleading conclusions (Wasserman, 2013). The principles that were followed as suggested in Psychology literature are integrity which involves accuracy, honesty and truthfulness; fidelity and responsibility as one is in a position of trust and have professional responsibility to their community; principle of beneficence and non-malfeasance-striving to benefit those with whom they work and undertaking to do no

harm; and lastly discovering and disseminating truth (Simmons, Nelson & Simonsohn, 2011).

5.5: CHAPTER 5 SUMMARY

Van Wyk (2012) refers research design to be the overall plan for connecting the conceptual research problems to the pertinent (and achievable) empirical research. He further states that the research design articulates what data are required, what methods are going to be used to collect and analyse these data, and how all of this is going to answer the research question. In the present chapter, the stated objectives as shown in Figure 5.1 were to discuss research philosophy, design and methods, sampling, data collection and data analysis. This has effectively been done under the subheadings for these concepts in this chapter.

CHAPTER 6

DATA MEASUREMENT RESULTS

6.1: INTRODUCTION

The preceding chapters have given information on the overview of the study, how the real estate industry (REI) operates in SA, literature review, conceptual model development and research methodology. The present chapter deals with fieldwork report based on the guidelines gleaned from some of the theories discussed. The chapter will accordingly, give a brief description of the sample and how sampling was done to collect the data for this study, give a brief description of scale development, scale type and questionnaire design, give the characteristics of the sample, give descriptive statistical results and show how data analysis was performed. Data analysis will in turn be done in the order Goodness of fit of the model; reliability of the scale; validity of the scale; and hypothesis testing.
This will then be followed by findings summary.

6.2: METHOD

Under this broad classification, the report on sample location, scale development, sampling and data collection will be reported and discussed.

6.2.1: Sample location

The study was conducted in the following areas: Roodepoort and Mogale City and included the following suburbs: Ruimsig, Roodekrans, Florida, Helderkruin, Weltevredenpark, Randparkridge, Floracliffe, Northcliff, Wilgeheuwel, Krugersdorp, Witpoortjie, Lindhaven and other neighbouring suburbs. Real estate agents (REAs) firms which are active in these areas and people who have either bought or sold properties in the areas formed the population for this study. Some of the real estate firms (REFs) that participated in the study are Chas Everitt, Pam Golding, Rawson properties, Fine and Country, Silver trees, Reimax, Property finder, Seeff, Sothebys

and Geffen, Reality concepts, Huizenmark, Harcourts, Xenan properties, Jawitz, Knights properties, Property.co.za and Tapp properties. Real estate agents (REAs) and franchisees from these firms were sampled together with the consumers who are buyers and sellers.

6.2.2: Scale development

As shown under research model development, the following variables were shown to be crucial for the present study. They are: dual mandate system (DMS), ideological outlook (IO), conflict of interests (COI), compromised principal (CP) and sub-optimal outcomes (OT). All research scale items were scored on a 7-point Likert scale ranging from 1 to 7, with 1=strongly disagree, 2=disagree, 3=somewhat disagree, 4=no comment, 5=somewhat agree. 6=agree and 7=strongly agree. The factors assessed on each of the variables are shown in the research instrument attached herewith in Annexure E. The questionnaire was composed of mostly original questions compiled after a thorough literature search on the variables identified. On DMS, the questions were taken from mandate forms of Rawson properties, Chas Everitt and Pam Golding. On IO, questions were framed based on different authors who describe people who hold strong ideological positions. Figure 5.4 gives the sources of the items.

6.2.3: Sampling and data collection method

Stratified random sampling was used for information gathering. The purpose of the study was explained to any potential participant before the responses were captured. The participants were all offered a participant information pamphlet, a copy of which is also supplied herewith in Annexure A. Responses were recorded in the questionnaires in the presence of the participants. All participants were requested to sign a research consent form which also gave contact details of the researcher only after the interview. The participants were requested to put their contact details in the consent form in case a need for a follow-up arises. A copy of the research's consent form is also attached herewith under Annexure B. Almost all the REAs who participated were interviewed in their offices. Buyers and sellers were interviewed either at their places of residence, offices, restaurants or when waiting for their cars to

be washed. All responses were recorded in the presence of the participants and they were only asked to fill in the research consent forms after the interview. Response rate can only be estimated by way of estimating the rejection to participate rate. Close to 20% of the people approached did not want to take part in the study, including one gated community where the researcher was only allowed to interview only one resident. The results from the fieldwork will be discussed under respondents' analysis and responses analysis.

6.3: RESPONDENTS' ANALYSIS

Sample description will be done under general classification of the participants.

6.3.1: General classification of participants

The participants were broadly classified in terms of their roles, age, positions in their organizations, gender and their racial classification. The outcomes are shown in the Tables 6.1 and the discussion of the results follows thereafter.

		Participants	% of total
Role	Seller	58	28.4
	Buyer	88	43.1
	REA	58	28.4
Total		204	100.0
Age	18 - 24 Years Age Group	1	.5
	25 - 34 Years Age Group	32	15.7
	35 - 39 Years Age Group	36	17.6
	40 - 44 Years Age Group	29	14.2
	45 - 49 Years Age Group	25	12.3
	Above 49 Years Age Group	81	39.7
Total		204	100.0
Position	Owner/Franchisee	10	4.9
	Manager	2	1.0
	Fieldwork	191	93.6
	Admin & Support	1	.5
Total		204	100.0
Experience	Less than 1 Year Work Experience	4	2.0
	1 to 4 Years Work Experience	104	51.0
	5 to 8 Years Work Experience	59	28.9
	9 to 12 Years Work Experience	12	5.9
	Above13 Years Work Experience	25	12.3
Total		204	100.0
Gender	Male	110	53.9
	Female	94	46.1
Total		204	100
Race	African	79	38.7
	White	108	52.9
	Asian	14	6.9
	Coloured	3	1.5
Total		204	100.0

Table 6.1: Classification of participants

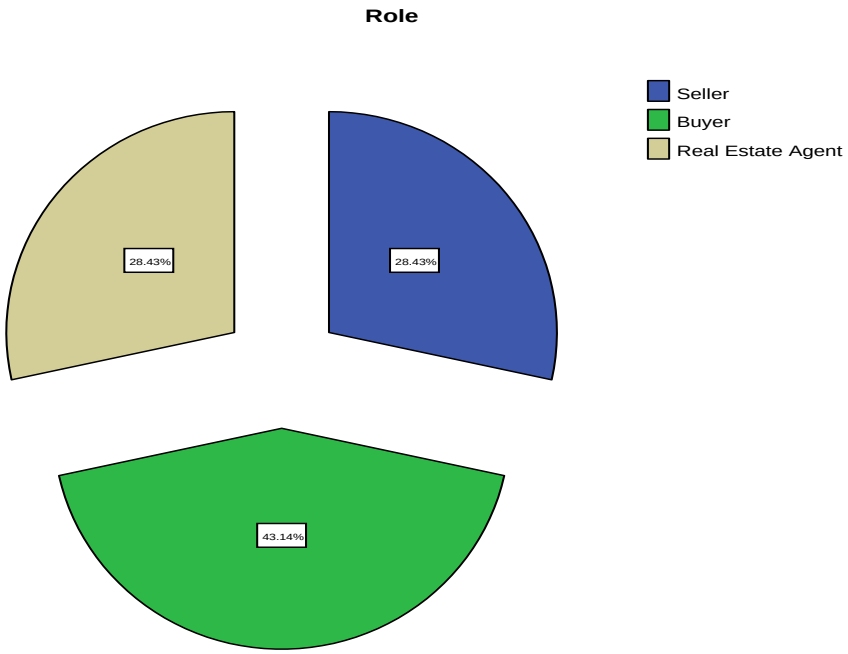

Figure 6.1: Role of Participants

The general classification will be briefly discussed in the same order as they appear in the table above. From Table 6.1 and Figure 6.1 above, it is clear that buyers represent the largest group as indicated by 43.1% (88 out of 204) of the total sample. Sellers and REAs are the same size both being 28.4% (58 out of 204). This can be explained by the ease of access by the researcher to buyers in their own homes as compared to finding someone who has sold a house.

The table also gives us the distribution of respondents' ages. For ease of comparisons the age groups for REAs, buyers and sellers have further been classified as those from 40 years old upwards and those below 40 years. This is demonstrated in Table 6.3 below. Using that classification, it is clear that the participants were mostly the elderly. About 66% of all the participants were aged 40 years and above. From the REAs participants, most of them were fieldworkers (REAs who actively go out to look for business and interact with clients directly) as indicated by 93.6% share of the total number of REAs and they were followed by owners/franchisees, managers and lastly, administration employees and support staff. This information is significant as it shows that the people contacted are those who are active in the business and directly interact to all other players in the industry.

In terms of the experience of participants, the questions were framed in such a way as to include all major stakeholders and to find out whether they have participated in other housing transactions before or not. From the table, participants with 1 to 4 years work experience represent the largest group. They are followed by 5 to 8 years work experience group, above 13 years work experience group, 9 to 12 years work experience group and finally, less than 1 year work experience group. The age rankings were found to be 1-4 years=51% years, 5-8 years=29%, above 13 years=12%, 9-12 years=5.9% and less than 1 year=2%. This information also indicates how skewed property ownership in the SA REI is. People seemed to wait until they are very old to enter the industry. Gender distribution also reveals an interesting trend. In addition, 53.9% of the participants were male and 46.1% were female. The industry is clearly male-dominated. Of particular interest are the race classifications of our participants. This is due to the sensitive nature of the issue and the present transformation agenda in SA. The results shown in the table also indicate that white participants represented the largest racial group as evidenced by 53% (108

out of 204) of the total sample. The second largest racial group is that of Africans with 39% (79 out of 204) share and together these two groups accounted for more than 90% of the total sample. These figures are an anomaly when one compares the demographic information on the ratio of white/black population groups in SA. In order to gain further insight, the two groups were classified according to their roles, percentage representation in the roles sample and their age groups in the roles sample. The results are shown in Tables 6.2 and 6.3 below.

Role	Black participants %	White participants %
REAs	14	83
Sellers	26	50
Buyers	58	28

Table 6.2: Racial classification of participants

Table 6.2 gives a clearer picture in terms of the racial classifications of our sample. Race is an idea with remarkable social force and material effect (Anderson, 1987). The REAs sampled were overwhelmingly white with 83% share of the total and only 14% were black. Also, the majority of sellers are white with a 50% share of all the deals covered in the study. This should be compared to the share of black sellers which is 26% of the total. On the other hand, more than half of the buyers were black. One explanation for the majority of buyers being black can be the move of the black middle-class citizens to Johannesburg suburbs after the demise of the apartheid system in SA. As they moved into these suburbs, they were served by majority white REAs. This situation is fraught with all sorts of potential abuse due to the DMS and the IO of REAs as will be shown after the predictor variables results in the responses analysis stage below. Another issue worth taking note of is the age distribution of all the respondents who participated in the study. The classification is shown in Figure 6.3 below.

Role	Age classification of participants	
	Below 40 years old %	40 years and above %
REAs	21	79
Sellers	38	62
Buyers	50	50

Table 6.3: Age classification of participants

The information from Table 6.3 gives a clearer picture of the fact that the majority of our REAs are elderly people. Read together with information from Table 6.2, it is clear that the industry is being served by majority aged white REAs. Also, the people selling their properties are mostly from the elderly white population group. Possible explanation for that would be that the aging white middle-class are downsizing or moving to better areas. Again from the tables, there appears to be a 50-50 split between the 40 years and above buyers and the younger ones. As shown above, the majority of this group is made up of blacks in SA REI. Clearly then, among the black population, it is not only the young people who are moving into previously white areas. One possible explanation is that many black people are using the opportunity to buy properties in areas from which they were previously excluded.

6.4: RESPONSES ANALYSIS

This section analyses the responses of participants to questions directly addressing the variables in this study. The analysis will be given under two sections which are recorded outcomes followed by accuracy checks.

6.4.1: Recorded outcomes

There were eight factors for each of the variables as shown in Figure 6.2, page 129 and on Annexure E. The survey outcomes are summarised in Table 6.3 below. Some factors have been highlighted in order to differentiate them from the rest. The reason for doing that is that these measurement factors had more significant loadings on our variables of interest and thus determined the final model for the study (Figure 6.3). Only those highlighted factors will form the basis for the discussion that follows.

Variable	Item number	Aspect measured
DMS		
	1	Whether mandate was given to one REA or not
	2	Whether sole mandate is the best way or not
	3	Who did the initial valuation for the property
	4	Involvement of any other REA in the deal
	5	Who presented the offer to the seller
	6	Whether the REA also acted for the buyer
	7	Whether any outside assistance received or not
	8	Whether commission was shared or not
IO	1	Feeling about a sense of responsibility
	2	Influence over settlement patterns
	3	Influence on purchase/sale decisions
	4	Flexibility when involved in a transaction
	5	Strong sense of value or lack thereof
	6	Possibilities of compromising one's values
	7	Influence of personal values on business practices
	8	Preference of economic system type
COI	1	Whether REA assisted the seller with valuation or not
	2	Reservation price information disclosure
	3	Convergence of interests between principals
	4	Convergence of interests of all the parties
	5	Who benefits from long TOM
	6	Who benefits when the transaction price is high
	7	Who benefits the transaction price is low
	8	View on marketing and amount of resources used
CP	1	Whether information was disclosed or not
	2	Checking valuation knowledge by participants
	3	Whether the transaction led to a win-win
	4	Satisfaction or lack thereof about time on market
	5	Satisfaction or lack thereof on transaction process
	6	Checking for disclosure of valuation information
	7	Feeling about price benefits beneficiary
	8	Level of knowledge of property transactions
OT	1	Satisfaction with location of property
	2	Price satisfaction after transaction conclusion
	3	Fairness of treatment received
	4	Confidence in the REA who assisted
	5	Use of the same REA for future property deals
	6	Possibility of repeat business
	7	Quality of service
	8	Service satisfaction

Figure 6.2: Aspects measured in variable items

Variables	Item number	Responses in %						
		SD	D	SOD	NT	SMA	A	SAG
DMS	1	14.7	5.9	.98	5.4	2.5	12.8	57.8
	2	21.6	14.7	4.9	4.9	4.9	10.3	37.7
	3	1.5	1.5	2.5	13.2	3.4	10.8	67.2
	4	44.3	23.7	5.4	8.9	2.9	0.9	13.8
	5	0.9	0.9	1.5	0.5	7.4	21.6	67.2
	6	2.5	0.9	3.9	5.9	7.8	28.4	50.5
	7	3.4	5.4	1.9	0.5	4.9	14.7	69.1
	8	2.9	1.9	0.0	6.4	1.5	16.7	70.6
IO	1	1.5	7.8	3.4	6.4	4.4	28.9	47.6
	2	1.9	7.8	7.4	13.2	12.3	34.8	22.6
	3	5.9	12.3	8.8	13.7	13.2	21.6	24.5
	4	3.4	8.3	3.4	1.5	9.3	25.5	48.5
	5	1.5	2.5	2.5	4.4	2.9	32.4	53.9
	6	1.9	1.9	7.8	2.5	4.9	10.3	70.6
	7	1.9	4.4	2.5	0.9	4.9	13.7	71.6
	8	0.9	7.4	3.9	14.2	8.8	11.3	53.4
COI	1	2.5	12.3	5.9	3.9	3.4	10.8	61.3
	2	60.8	18.6	4.9	7.4	0.5	1.9	5.9
	3	33.3	25.5	11.8	6.4	9.3	6.4	7.4
	4	44.6	21.1	7.4	4.4	7.8	6.9	7.8
	5	42.2	20.1	3.4	3.4	2.9	13.7	13.7
	6	28.9	11.8	2.9	2.5	0.5	7.4	46.1
	7	31.9	14.2	4.4	7.8	4.4	10.3	26.9
	8	25.9	23.0	10.8	9.8	4.4	12.8	13.2
CP	1	18.8	5.4	2.9	8.3	4.4	24.5	42.6
	2	22.6	15.2	6.4	1.5	9.3	9.8	35.3
	3	10.8	19.6	10.3	2.5	8.3	16.2	32.4
	4	1.5	10.8	8.8	14.2	9.8	27.5	27.5
	5	21.3	30.2	5.5	5.5	6.4	7.9	23.3
	6	25.5	12.3	1.5	1.9	2.5	5.4	50.9
	7	8.8	14.7	15.7	5.4	7.4	13.2	34.8
	8	56.3	19.6	4.4	4.9	2.9	4.9	6.9
OT	1	3.4	5.4	4.9	8.8	9.3	22.1	46.1
	2	46.1	25.0	4.4	1.9	2.9	8.3	11.3
	3	7.4	10.1	4.9	3.43	11.3	31.9	30.4
	4	10.8	9.8	6.9	1.9	6.9	15.7	48.0
	5	14.2	12.8	3.4	4.4	2.9	19.1	43.1
	6	13.2	11.8	3.9	4.4	3.9	21.6	41.2
	7	8.8	2.9	3.4	12.3	11.8	30.4	30.4
	8	14.2	5.9	4.4	5.4	4.9	16.7	48.5

Key: SD-Strongly disagree, D-Disagree, SOD-Somewhat disagree, NT-Neutral, SMA-Somewhat agree, A-Agree and SAG-Strongly agree

Table 6.4: Responses table with significant variables results highlighted

NB: *Percentages in Table 6.3 were calculated from the total number of participants and subsequent tables for the different variables and role players were calculated from REAs, sellers and buyers' responses separately.*

This subsection will briefly interpret the results before the analysis is done. Table 6.4 below has been derived from table 6.3 and from the originally recorded respondents' classifications and roles. The percentages given are only for those indicator variables that have a significant impact on each of the variables of interest which are DMS, IO, COI, CP and OT. They have been calculated as a percentage of the total number of REAs, sellers and buyers separately by using the number of responses on each measurement item. The factor loadings are taken from the final model in Figure 6.3. From here on, only these factors shown in the tables and their impact on the hypotheses will be discussed. The results will be discussed using information from these two tables.

Variable	Measurement item	Factor loadings	REAs responses %	Sellers response %	Buyer responses %
DMS					
	1	0.512	86	71	63
	2	0.801	97	36	35
	3	0.683	97	86	67
	5	0.519	97	95	98
IO					
	1	0.893	100	71	77
	2	0.903	91	55	61
	3	0.809	78	50	48
COI					
	1	0.647	91	91	49
	3	0.801	40	22	10
	4	0.823	41	19	10
	6	0.666	93	81	2
CP					
	2	0.717	72	52	37
	3	0.842	66	55	50
	6	0.740	78	76	40
	7	0.680	60	52	45
OT					
	3	0.825	79	55	65
	4	0.956	72	50	57
	5	0.950	71	47	50
	6	0.954	71	47	51
	7	0.746	69	64	67
	8	0.943	71	55	53

Table 6.5: Variables, measurement factors, factor loadings and responses

6.4.1.1: Dual mandate system

Only items 1, 2, 3 and 5 were used for this variable as explained above.

Instruction to market the property

As observed in Table 6.3 above, most of the respondents said that only one REA was given permission to market the property. This is indicated by 57.8% of the total sample who strongly agreed with statement. Upon further classification of the factors (as shown in table 6.4), one also finds out that REAs are in the majority for those who affirmed that only one agent was mandated. In total, 86% of the 58 REAs were on the agree side of the continuum. As to be expected, they were followed by sellers at 71% of the 58 sellers who participated in the survey. The buyer is generally unrepresented at the mandate giving stage (Green & Vandel, 1995; Arnold, 1999; Yavas & Yang, 1995). This is in line with the general practice in the SA REI (Spies, 2013).

Sole mandate best form of mandate

Figure 6.3 also gives responses to the statement “Giving instruction to one agent is the best way to sell a property”. The largest group of participants were those that strongly agreed with the statement indicated by 38.73% of the total. A total of 54% believe that giving instruction to one agent is the best way to sell a property as compared to 41% who believe the opposite. Further break-down of responses as shown in Table 6.4 also reveal that 97% of REAs accept that sole mandate is the best way to do a property deal as compared to less than 40% of both sellers and buyers. This is again in line with sole mandate system being deeply entrenched as a normal practice in the industry among REAs in SA (Rademeyer, 2014; Reynolds, 2011).

Initial valuation of the property

About 81% of the respondents once again say that the initial valuation was done by the mandated agent. On this factor, there was a bigger number (13.24%) who were neutral. This should be expected as buyers, for instance, might not know whether the agent who assisted them also did the initial valuation for pricing purposes. The rest of

the participants are on the disagree side of the scale and they only make up about 5.4% of 204 participants. Again, further analysis of REAs, sellers and buyers' responses gives a clearer picture that more than 67% of participants were aware that the REA was involved in the initial valuation before the sale was concluded. This is in line with normal practice in the SA REI as the agent is normally contacted to do valuation before the buyer comes into the picture.

Presentation of offers for the sale of the property

More than 95% stated that the offers to purchase were presented by the mandated agent. The agent who was mandated by the seller also acted for the buyer. This is another sign of DMS as one agent acted for both the seller and buyer. About 98% of buyers knew that the REA presented their offers and they did not seem to have had a problem with that. It has been shown in other studies that buyers mistakenly believe that the broker represents them in the negotiation process (Johnson, Zhenguo & Jia, 2015). It has been mentioned that brokers do not owe any duty to the buyer (Wolf & Jennings, 1991). The above discussion on DMS confirms what is known from other industries and in other countries where this issue has been investigated. REAs believe that DMS is the best way to do a housing deal and they both do the initial valuation and presentation of offers to the seller.

6.4.1.2: Ideological outlook of participants

Only three indicator variables 1, 2 and 3 are shown in Table 6.4.

Feeling of having a sense of responsibility

The largest group of participants strongly agreed with the statement that wanted to establish how responsible the REA who handled the deal was as indicated by 47.55% of the total sample. In contrast, the smallest group of participants were those that strongly disagreed with this statement as indicated by 1.47% of the total sample. The majority seemed to strongly feel that agents responsibly did what they were employed to do. When respondents were further divided into those who were on the agree side

and on the disagree sides, it was again revealed that all REAs believe that they did their work responsibly. Other participants had other impressions. This has a strong resemblance to people who hold strong views about issues as literature has shown above.

Having the ability to predict what buyers and sellers need

Responses to the statement "The agent who sold this property can accurately predict a client's preferences in a housing deal" revealed that 69.6% of the participants believe the REA can actually do that. Again, more than 90% of REAs believe that they can accurately predict what clients' requirements are upon meeting them for the first time. In contrast, only between 51% and 61% of buyers and sellers believe that. This is consistent with the idea that strongly ideological people believe that they can determine where people chose to stay. Strong ideologically inclination is a predictor of residential integration or segregation (Bobo, 1996).

The attitude towards clients

When asked whether the REA can decide where people chooses to sell/purchase properties, the largest group of participants was those that strongly agreed with this as indicated by the 24.51% of the total sample. The total percentage of those who agreed was about 59.3%. Some interviewees actually stated that this question bring some racial issues into the picture. Dividing the responses into those different role players who agreed and those who disagreed, it was revealed that 78% of REAs believe that they can determine settlement patterns in the areas sampled. From the other group of participants, only about 50% believed that REAs can actually determine where people buy properties. With the majority of REA being white and buyers being black, this item is a cause for concern.

These factors, when considered together, give us the thinking among REAs, sellers and buyers. It appears to the researcher that REAs believe that they do their work very responsibly, they can accurately determine clients' needs and that they can also determine where people choose to sell/buy properties. Firstly, this shows how ideologically inclined REAs are and the influence they have on the workings of the

whole industry. As will be shown below, this has serious implications for the performance of the REI in general. Strong IO has been shown to influence both COI and CP which in turn have huge impact on the results for other participants. It is well known that inter-ethnic attitudes play a part in residential segregation (Violand & Simon, 2007).

6.4.1.3: Conflict of interests

The results will also be discussed as they appear in Table 6.3 with the aspects being measured as the headline. Important responses by different participants to the COI section of the questionnaire are also summarised in Table 6.4 above.

Whether the particular agent helped in setting the price

Table 6.3 also summarises responses to the statement "The real estate agent was involved in setting the initial asking price". The largest group of participants was those that strongly agreed with this statement indicated by 61.27% of the total sample. The total number of those who knew that the REA was involved in setting the asking price is about 75%. In addition, 91% REAs and sellers affirmed that the REA did the initial valuation and price setting right from the onset of the deal. In contrast, only 49% of buyers knew that information. Again, REAs were shown to know more than their buyer principals. Information asymmetry (IA) seems to be a factor in this case. This result is in line with findings from other studies on IA (Johnson, Zhenguo, Jia, 2013).

How the respondents see their interests and those of other participants

Responses to the statement "The interests of both buyer and seller are similar in a property transaction" were meant to check whether the participants genuinely believed that they were having similar interests to those of the other transacting parties. Most of the participants stated that they strongly disagreed with the statement and were represented by 33.33% of the total sample. In total, about 71% disagreed with the statement. This shows that the interests of buyers and sellers are different, which in turn suggests that there is a conflict of interests between the two principals. On the

other hand, there is about 25% who believe there are no conflicting interests. When the respondents are further divided into REAs, sellers and buyers, it can be seen that about 40% of REAs believe that the interests of buyers and sellers are similar. Only 22% of sellers and 10% buyers believe that. Again, this shows how the interests of the different players conflict. Again this is supported by findings from other studies (Brastow, Springer & Walker, 2013).

How the respondents see their interests and those of other participants

This item served as a follow-up to the last question, but also included the interests of the REA involved in deal. A pattern also emerged as shown in the responses to the statement "The interests of the buyer, seller and the real estate agent are similar in a property transaction". The pattern coming out of the responses is very similar to that for the interests of buyers and sellers. Even on this one, the majority of those who believe that the interests of all the participants are congruent come from REAs. It is known that even brokers' interests are not necessarily aligned with those of their seller principals (Kacker & Niewlaat 2005; Tanata & Sanette, 2014). While possibly in the best interests of brokers, brokers' interests are not in the consumer's interest (Nanda & Pancak, 2010).

Who benefits when the price is high

Responses to "I want to get the highest price for this property transaction" were meant to identify who benefits from any given sale price. The agreed side was made of about 54% of the total number and those who disagreed were about 44%. The results of disintegrating responses into those from different role players give us a clearer picture. An overwhelming 93% of REAs said that they benefit from high sale price. This was followed by 81% of all sellers and buyers came last with only 2%. This shows that the interests of the sampled participants are not the same. The ranking of the responses suggests that the interests of REAs and sellers are much more closely aligned than those of REAs and their buyer principals. However, it is known the interests of the agent and the seller principal are not necessarily aligned and hence the difference (Brastow, Springer & Walker, 2013).

The combined effects of REAs doing valuations for pricing and different participants pursuing different and sometimes conflicting interests give rise to COI in many housing transactions with devastating consequences for consumers.

6.4.1.4: Compromising principals' interests

Discussion of the results on CP will follow the same pattern as done for the other variables. The information used is the same as the one appearing in Tables 6.3 and 6.4 above. Only four measurement items 2,3,6 and 7 are shown in Table 6.4.

To check for the presence/absence of information asymmetry

The item checked whether the participants had knowledge of property appraisal before the deal was concluded. The largest group of participants was those that agreed that they had knowledge of property valuation before the deal was done as indicated by 54.4% of the total sample. On the other hand, there were 44% of respondents who did not know how to do appraisals which is a significant number. Responses by REAs show that 72% stated that they knew how to do property appraisals. In addition, 52% of all sellers knew how to do the same and only 37% of buyers confirmed knowing how to value a property. PA relationships are fraught with problems of cheating and limited information (Perrow, 1986). Again, IA appears to be prevalent and the people who are disadvantaged are buyers.

The feeling of the participants on whether there were winners and losers

This factor evaluated responses to the statement "The treatment received in this transaction lead to a win-win outcome for us". In total, 56% of our sample believes that there was no winner or loser in the transaction. About 41% of all the respondents believed that someone did gain the benefits and someone lost out. Comparing REAs and other role players, one gets a much clearer picture. For instance, 66% of REAs believe that the transaction led to a win-win outcome to everybody involved. Furthermore, 55% of sellers believe that everybody won and only 50% of buyers

believe the same. Clearly, many sellers and buyers believe that someone's interests have been compromised in the transaction.

Checking how information asymmetry gets used

On whether valuation information was disclosed to all, about 59% stated that they were either given or knew that information. This figure should be read together with about 39% who stated that they neither knew nor were they told the valuation price of the properties under consideration. For comparison purposes, 78% of REAs stated that valuation information was disclosed to other parties. About 76% of all sellers believed the same as compared to only 40% buyers who said that the information was not disclosed to them. Information asymmetry (IA) seems to be a huge factor in this case as well. This clearly has a bearing on how different participants felt about the price benefits and whom they accrued to as shown by their responses in point below. Buyers are normally not represented when the contract is initiated (Green & Vandel, 1995).

Checking how the participants feel about the price

On how participants felt about having obtained/not having obtained maximum benefits in terms of price, responses to "I received maximum benefit with regards to pricing" show that about 56% felt that they did and 39% felt that they did not. On this one as well, REAs felt differently from the other participants with 60% who felt that they received all they wanted from the deal under consideration. It is understandable when one takes into consideration the fact that REAs have an effect on the price of properties (Zietz & Newsome, 2002). This was followed by 52% of sellers and buyers again came last with 45%. Buyers seem to bear the most brunt in the majority of instances on property prices. This can be explained by the way the contract is done. Only the seller principal is involved at the beginning of the contract negotiations. High prices mean that buyers will be paying an expensive bond for many years. Clearly, the patterns in all the factors considered under CP indicate that both sellers and buyers' interests are compromised in many transactions.

6.4.1.5: Outcomes

Table 6.4 above also gives different loadings for all the indicator variables under OT which will be used in the discussion. They are 3, 4, 5, 6, 7 and 8.
Outcomes are about what all the participants want to get out of the deal. They will be briefly shown in the same pattern that the other variables were given. Outcomes were generally measured on location satisfaction, feeling about the price after the transaction was concluded and about the whole transaction chain experience.

Checking the fairness of the service rendered

The results in the table shows that participants' responses pattern to the statement "I received a fair treatment from all parties involved in this transaction" are worth noting. About 73% stated that they received a fair treatment from all parties to the transaction as compared to about 23% who stated that they did not. Breaking the results down into responses from different role-players reveals a much neater picture. REAs led at 79% on judging the treatment received as having been fair. Things look slightly different on this issue because it is buyers who follow after REAs on 65% positive feeling about the fairness of the treatment received. This may be due to the majority of them not knowing any other treatment as new entrants into the industry. REAs believe that the service they give their principals is fair. But helping two principals may create COI (Nanda & Pancak, 2010).

Checking confidence in the REA

The outcomes show that many people do have confidence in the REAs who handled their deals. About 74% of all respondents have shown their confidence through their responses. In contrast, 22% of the respondents stated that they did not have confidence in the agents who handled their deal. When the results are split, again most REAs believed that all other role players did in fact have confidence in them. This is evidenced by 72% of REAs giving a final positive appraisal of the whole service chain. This is clearly different from 50% from sellers and 57% from buyers.

Possibilities of repeat business

Confidence in REAs should most probably lead to opportunities for repeat business. This item was therefore aimed at finding out whether prospects of future business were enhanced or not after the deal was concluded. This was ascertained by checking responses to “I would use the same real estate agent for my next property deal if I decide to buy/sell in the same suburb”. Again, the results showed that close to 71% of all REAs believe their chances of repeat business were enhanced. This should be contrasted with 47% of sellers who felt the same and 50% of buyers.

Checking satisfaction level

The inclusion of this item was meant to find out whether the principals were satisfied with the outcomes in such a way that they were definitely going to give their REAs repeat business as opposed to the last item which only gave possibilities. The results are very close to the last item with 71% REAs believing that their clients were going to come back to them with repeat business. Again, they were followed by buyers with 51% and sellers were last with 47%. The picture emerging is that buyers, the majority of whom are black, are not as demanding on service levels from REAs when compared to sellers, the majority of whom are white. The following factor emphasizes the same point. It was meant to check on all participants’ perceptions on the quality of service rendered in the whole transaction.

Checking the service level perception

Under this item, respondents were required to respond to the statement “The quality of service I got for this transaction was excellent” in order to measure their perceptions on the quality of service they received. On rating the overall purchase/sale experience, about 73% of the respondents stated that the quality of service was excellent as compared to 15% who said that the quality of service was not good. Looking at all the role players, REAs gave 69% positive responses, buyers gave 67% and sellers gave 64%. Quality level perceptions seem to be on par for all the role players.

Principals' satisfaction with the relationship with the real estate agent

This item was meant to evaluate the nature of the relationship between the principals and the REA(s). On this one, the percentage of those who were very satisfied with their relationship with the agents was 69% and those who were not were about 26%. About 71% REAs thought that their relationship was satisfactory as opposed to 55% of sellers and 53% of buyers.

6.5: ACCURACY ANALYSIS

Under this broad classification, the following checks were performed: validity and reliability checks. Validity and reliability in quantitative research relate to data quality and has vast ethical implication (UNISA: 2015).

6.5.1: Reliability

All the latent variables and their corresponding indicator variables consisted of multi-item questions. As reported by Gliem and Gliem (2003), a single item question is not reliable to draw conclusions as compared to summated multi-item questions. Three methods, that is, Cronbach's Alpha test (Cronbach α), Composite Reliability test (CR) and Average Value Extracted (AVE) test were used in this thesis to check on the reliability of the research measures. Table 6.12 below shows the results of all these three tests used to check the research measure reliability. The specific values of interest are further discussed below.

Research constructs		Descriptive statistics*		Cronbach's test		C.R.	AVE	Measurement Item Loadings
		Mean	SD	Item-total	α Value			
Dual Mandate System (DMS)	DMS1	6.11	0.821	0.723	0.737	0.861	0.500	0.512
	DMS2			0.749				0.801
	DMS3			0.872				0.683
	DMS5			0.962				0.519
Ideological Outlook (IO)	IO1	6.60	0.696	0.789	0.841	0.908	0.712	0.883
	IO2			0.761				0.903
	IO3			0.759				0.809
Conflict of Interest (CO)	CO1	6.32	0.681	0.837	0.717	0.717	0.643	0.647
	CO3			0.756				0.801
	CO4			0.778				0.823
	CO6			0.785				0.666
Compromised Principal (CP)	CP2	6.54	0.697	0.824	0.736	0.920	0.743	0.717
	CP3			0.775				0.842
	CP6			0.919				0.740
	CP7			0.837				0.680
Sub-Optimal Outcomes (OT)	OT3	6.27	0.812	0.918	0.951	0.866	0.685	0.825
	OT4			0.758				0.956
	OT5			0.807				0.950
	OT6			0.799				0.954
	OT7			0.732				0.746
	OT8			0.821				0.943

** Scores: 1 – Strongly disagree; 4 – Neutral: 7– Strongly agree.*

C.R.: Composite reliability; AVE: Average variance extracted.

Measurement model fits: χ^2/df =2.841; GFI=0.911; CFI=0.907; IFI=0.927; RFI=0.915; NFI=0.936; NNFI=0.957 and RMSEA=0.078.

[a] significance level $p<0.05$; [b] significance level $p<0.01$; [c] significance level $p<0.001$

Figure 6.3: Reliability test results

From the above table the following information can be extracted:

Variable	Cronbach's Alpha
CO	0.717
CP	0.736
DMS	0.737
IO	0.841
OT	0.951

Table 6.6: Cronbach's Alpha Test

According to Nunnally and Bernstein (1994), the Cronbach's Alpha value must be equal to or greater than 0.7. As it can be seen in Table 12, all the Cronbach's Alpha values range from 0.717 to 0.951 with exceeds the recommended threshold 0.7 by (Nunnally & Bernstein, 1994).

Variable	Composite Reliability
CO	0.826
CP	0.834
DMS	0.728
IO	0.903
OT	0.962

Table 6.7: Composite Reliability

According to Fornell and Larcker (1981) and Yang and Lai (2010), in reliability analysis, an acceptable CR value must exceed 0.7. The internal reliability of each construct was also evaluated using the Composite Reliability (CR) index test. It is calculated using the following formula: As can be seen in Table 14 above, the CR values range from 0.728 to 0.962 with is above the recommended threshold of 0.6.

(CR): CRη = (Σλyi) 2/ [(Σλyi) 2+ (Σεi)]

Composite Reliability = (square of the summation of the factor loadings)/ {(square of the summation of the factor loadings) + (summation of error variances)}.

Variable	Average Variance Extracted
CO	0.546
CP	0.558
DMS	0.500
IO	0.756
OT	0.809

Table 6.8: Average Variance Extracted

The average variance extracted estimate reveals the overall amount of variance in the indicators accounted for by the latent construct (Fraering & Minor, 2006). In addition, higher values for the variance extracted estimate (greater than 0.50) reveal that the indicators well represent the latent construct (Fraering & Minor, 2006). As it can be seen in Table 14 above, the AVE values ranged from 0.546 to 0.809 with is above the recommended threshold of 0.5.

The formula below is used to calculate Average Variance Extracted (AVE):

$V\eta = \Sigma\lambda yi2 / (\Sigma\lambda yi2 + \Sigma\varepsilon i)$

AVE **=** {(summation of the squared of factor loadings)/{(summation of the squared of factor loadings) + (summation of error variances)}

6.5.2: Validity

Validity checks on research scales were based on confirmatory factor analysis (CFA) of all the scale items. After analysis, the two types of validity were tested differently. See Figure 6.1 below for path modeling results.

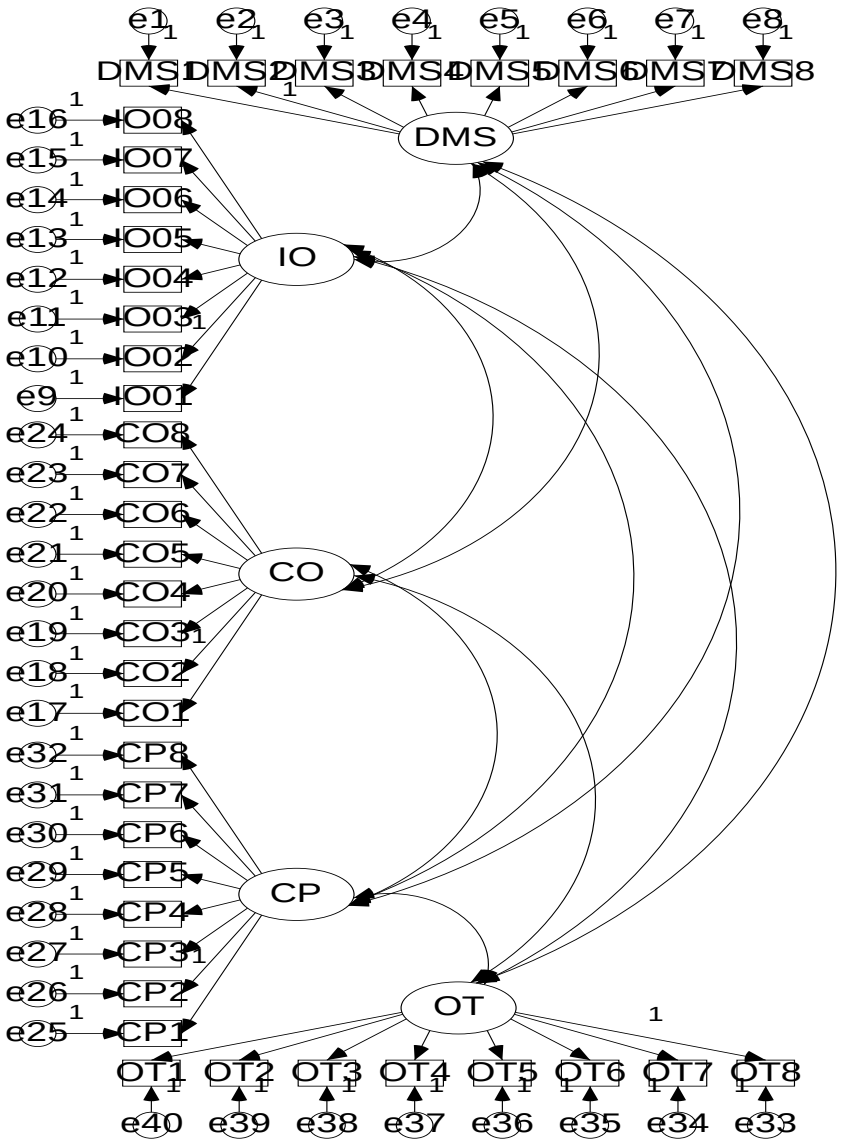

Figure 6.4: Confirmatory factor analysis

6.5.2.1: Convergent validity

Convergent validity ensures that concepts that should be related are indeed related (Zikmund, Babin, Carr & Griffin, 2010). Therefore, the convergent validity of the measures was tested by evaluating the extent to which each indicator variable represented its respective latent variable. Use was made of coefficients that measure the extent to which the indicator variables define their respective latent variables. Using the original data, loadings of each scale item to the latent construct were examined and that resulted in other items being removed as shown in the original and

final model shown below. Those items removed had non-significant loadings to the latent constructs. The remaining ones are those whose loadings are greater than 0.5 and thus proved that they converge on a common construct and provided evidence of convergent validity. Therefore, the result supported convergence of the research scales (Chin-Hung Wang, Ming-Sung Cheng, Purwanto & Erimurti, 2011). Also, Composite Reliability was above the recommended threshold of 0.6, and therefore further confirming the existence of covergent validity.

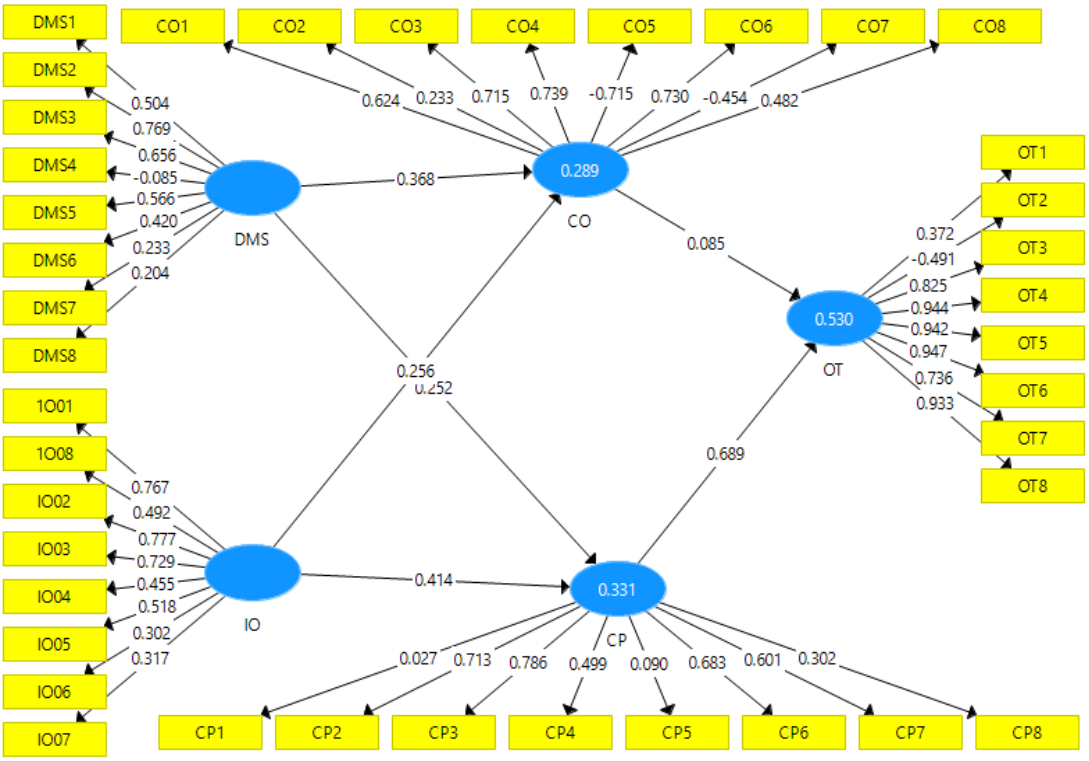

Figure 6.5: Originally measurement model results

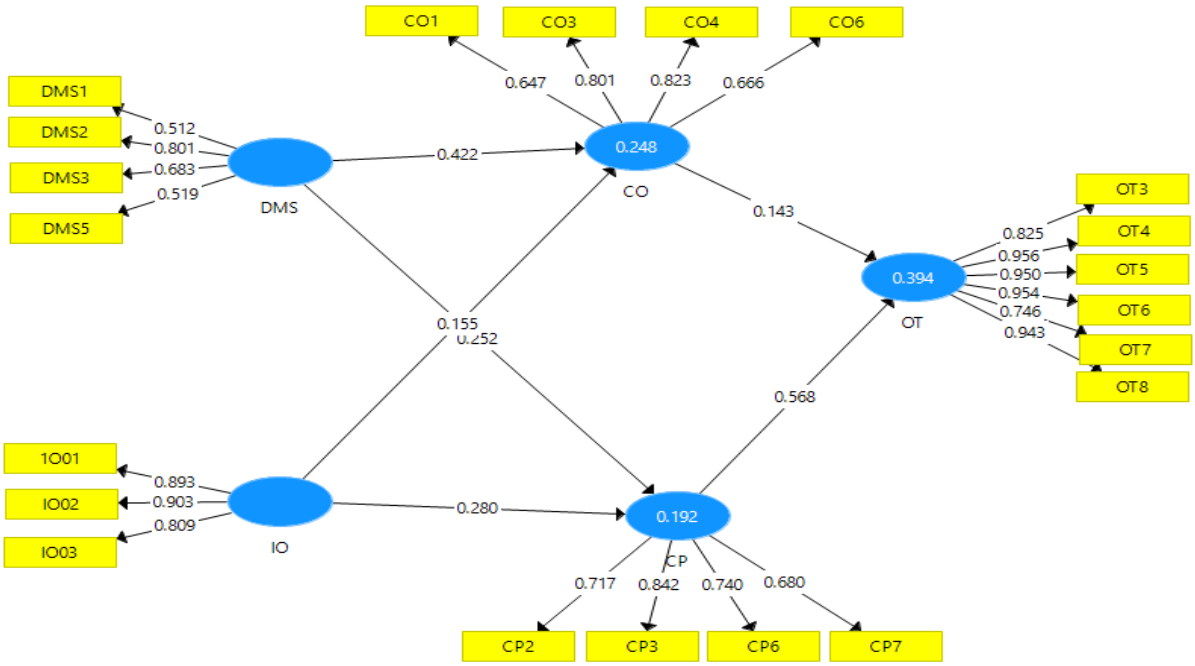

Figure 6.6: Final model

6.5.2.2: Discriminant validity

The inter-construct correlation matrix was utilised to check discriminant validity of the research constructs. Correlations among latent constructs were evaluated in order to observe if they were lower than 1.0. As indicated in Table 3 below, the inter-correlation values for all paired latent variables are less than 1.0, indicating the existence of discriminant validity (Chinomona, Lin, Wang & Cheng, 2010). Nunnally and Bernstein (1994) recommended correlation values between constructs to be less than 0.7 in confirming the existence of discriminant validity.

	CO	CP	DMS	IO	OT
CO	1.000				
CP	0.314	1.000			
DMS	0.477	0.350	1.000		
IO	0.304	0.369	0.352	1.000	
OT	0.321	0.613	0.436	0.663	1.000

Table 6.9: Inter-Construct Correlation Matrix

6.5.3: Model fit assessment

In accordance with the two-step procedure suggested by Anderson and Gerbing (1988), prior to testing the hypotheses, confirmatory factor analysis (CFA) was mainly performed to examine scale accuracy (including reliability, convergent validity, and discriminant validity) of the multiple-item construct measures using AMOS 7. Initial specification search led to the deletion of some of the items in the construct scales in order to provide acceptable fit and the resultant scale accuracy. Acceptable model fit was indicated by Chi-square value over degree of freedom (χ^2/df) of value between 1 and 3, the values of Goodness-of-Fit Index (GFI), Comparative Fit Index (CFI), Incremental Fit Index (IFI), Normed Fit Index (NFI), Nominal Normed Fit Index (NNFI) equal to or greater than 0.90, and the Root Mean Square Error of Approximation (RMSEA) value to be equal to or less than 0.08. Given below is a table showing the standard criteria and study specific values for model fitness assessment decisions.

Measure	Scholarly recommended value	Study specific value	Decision
χ^2/df	1-3	2.841	Acceptable
GFI	≥0.9	0.911	Acceptable
CFI	≥0.9	0.907	Acceptable
IFI	≥0.9	0.927	Acceptable
NFI	≥0.9	0.936	Acceptable
NNFI	≥0.9	0.957	Acceptable
RFI	≥0.9	0.915	Acceptable
RMSEA	0.08≥	0.078	Acceptable

Figure 6.7: Model fit assessment results

Clearly from the table, recommended statistics for the final overall-model assessment showed acceptable fit of the measurement model to the data as all the indices were above levels recommended in the literature. This suggests that the model converged well and could be a plausible representation of the underlying data structure. Since an acceptable CFA measurement model fit was obtained, the study proceeded to hypothesis testing stage using SEM with AMOS 7 software programme.

6.6: HYPOTHESIS TESTING

Before a discussion on the testing of hypotheses, one needs to show the results of SEM analysis. Table 4 below gives a summary of the relevant information.

Path	Hypothesis	Path coefficients (β)
Dual Mandate System **(DMS)** →Conflict of Interest **(CO)**	**H1**	0.422[a]
Dual Mandate System **(DMS)** →Compromised Principal **(CP)**	**H2**	0.252[a]
REA Ideological Outlook **(IO)** → Conflict of Interest **(CO)**	**H3**	0.155[a]
REA Ideological Outlook **(IO)** → Compromised Principal **(CP)**	**H4**	0.280[a]
Conflict of Interest **(CO)** →Sub-Optimal Outcome **(OT)**	**H5**	0.143[a]
Compromised Principal **(CP)** → Sub-Optimal Outcome **(OT)**	**H6**	0.568[a]

** Scores: 1 – Strongly disagree; 4 – Neutral: 7 – Strongly agree.*
C.R.: Composite reliability; AVE: Average variance extracted.
Measurement model fits: χ^2/df =2.631; GFI=0.901; CFI=0.900; IFI=0.912 RFI=0.911; NFI=0.916; NNFI=0.907 and RMSEA=0.080.

Table 6.10: Results of structural equation analysis

6.6.1 Hypotheses test results

The hypotheses test results will be discussed as they appear in the table. This will be followed by the discussion of the results.

H1: **DMS** is positively related to **COI** with a path coefficient 0.422. This relationship is supported; therefore, we fail to reject the hypothesis posited. This implies that the DMS has a positive and direct influence on COI. This also implies that the more the DMS is utilised, the higher the likelihood of a COI becomes.

H2: DMS is positively related to **CP** and the relationship has a path coefficient 0.252. We therefore fail to reject the hypothesis. This implies that the DMS has a positive and direct influence on a compromised principal's interests. When the DMS is used, the interests of other participants are more likely to suffer.

H3: **IO** is positively related to **COI** with a path coefficient 0.155. Again, the proposed relationship is supported and we therefore fail to reject the hypothesis proposed. Therefore, IO has a positive and direct influence on COI. This implies that chances of COI are increased when important parties to a transaction hold strong IO to life.

H4: **IO** is positively related to **CP** with a path coefficient 0.280. The proposed relationship is therefore supported and we consequently fail to reject the proposed hypothesis in this study. Therefore, IO has a positive and direct influence on a CP. This implies that when important participants to a housing deal hold strong IO to life, chances of one or more of the other participants' interests getting compromised are increased.

H5: **COI** is positively related to sub-**OT** with a path coefficient 0.143. This proposed relationship between COI and OT is supported and we therefore once again fail to reject the hypothesis. COI has a positive and direct influence on sub-OT. COI leads to an increased likelihood of sub-OT for other participants.

H6: **CP** is positively related to sub-**OT** with a path coefficient 0.568. The proposed relationship is supported and we therefore fail to reject the hypothesis. Therefore, CP has a positive and direct influence on OT. If there the interests of one of the participants are compromised, the ultimate outcomes for that participants are more likely to be sub-OT. Given below is a table giving the hypotheses findings.

#	Hypotheses	Findings
H1	There is a positive relationship between DM system and conflict of interest	Supported
H2	There is a positive relationship between DM system and compromised principal in REI	Supported
H3	There is a positive relationship between ideological outlook and conflict of interest	Supported
H4	There is a positive relationship between Ideological outlook and compromised principal in REI.	Supported
H5	There is a positive relationship between conflict of interest and suboptimal outcomes for both principals and settlement patterns in REI.	Supported
H6	There is a positive relationship between compromised principal and suboptimal outcomes for both principals and settlement patterns in REI.	Supported

Figure 6.8: Hypotheses results

6.6.2: Discussion of hypotheses results

The results lend support to all the hypotheses proposed. However, they also reveal some differences on the strength of the relationships between the variables as evidenced by the individual hypothesis coefficients. As an example, DMS has a stronger influence on COI than it does on CP (coefficients are DMS and COI=0.42 and the DMS and CP=0.252). This indicates that DMS brings more COI than it compromises the interests of any one party to the transaction. Also when compared with the effect of IO, DMS has a much higher positive influence on COI. Therefore, the DMS leads to more opportunities for REAs to be conflicted. As shown before, COI has many negative consequences such as cheating and concealment of information from other interested parties (Callif, 2013; Luebke, 1986). Indeed, it is known that when an agent represents two or more people in one deal, there is a good chance that at least one client will not receive full representation (Shaulys, 1983). This has serious implications for managerial decisions should a situation arise as to which of the predictor variables to prioritise when dealing with the SA REI. Another significant

observation is that IO has much stronger influence on CP than DMS (coefficients are DMS and CP=0.252 and for IO and CP=0.28) in the SA REI. This again suggests that whenever people hold strong IO, they are more likely to compromise the interests of other parties. Also, the interests of principals are more likely to be compromised when REAs hold strong IO than under a dual mandate agreement. This has serious implication in the operation of the REI in SA. The racial classification of the participants shows that the majority of buyers are black and the majority of REAs are white.

Compared to dual mandate, the influence of IO on COI is not big as the coefficient relating the two is only 0.155. The last comparison would be between the influences of COI and CP on the final outcomes. Again, the results reveal that CP has a much stronger influence on OT than COI does. This clearly shows that given a choice between influencing the outcomes for the industry, CP should be given more priority. Deals should be structured in such a way that the interests of the public are protected and no one should be compromised.

6.6: CHAPTER 6 SUMMARY

The data from the field for this project were collected and recorded from REAs, sellers and buyers by use of questionnaires. This chapter set out to give the results of the fieldwork and the analysis thereof. This has been accomplished by giving results on sample location, scale development, sampling and data collection, respondents' analysis, responses analysis, determining the accuracy of the research scales and by discussing the hypotheses originally proposed. When the results in this chapter are compared to the conceptual framework discussed in Chapter 1 and 4, the concepts indicated in the conceptual framework have been confirmed. The next chapter synthesises and analyses the results of this study, gives conclusions, recommendations and managerial implications, limitations of the study and finally concluding remarks of the whole study.

CHAPTER 7

FINDINGS, CONCLUSIONS, RECOMMENDATIONS, IMPLICATIONS AND LIMITATIONS

7.1: INTRODUCTION

Chapter 7 provides detailed discussion on the research results in light of the theoretical foundations presented in the literature review section and the survey outcomes as given on Chapter 6. This chapter also presents the conclusions, recommendations and limitations of the study on the basis of the objectives and the empirical findings. Discussion will be done in the following order: findings, conclusions, recommendations, managerial and future research implications, limitations of the study and concluding remarks.

7.2: FINDINGS

The findings and supportive discourse of this study will be done under the proposed hypotheses.

7.2.1: *There is a positive relationship between dual mandate system and conflict of interests in the South African real estate industry*

The study has empirically shown that when the DMS is practiced, it is likely to create a COI situation in the SA REI. This finding confirms a string of other findings. In a dual agency relationship, the interests of agents and their principals are not aligned (Deutsch, Keil & Laamanen, 2010) and opposing interests create problems and conflicts (Evans & Kolbe, 2015). Kaplan (2004) also confirmed that one person cannot dance at two weddings at the same time. Also, Kadiyali, *et al* (2014) point out that the interests of both the buyer and seller may be compromised. Furthermore, in the DMS, conflicting expectations create tension within an individual and leads to prima facie conflicts between two demanding roles (Robertson & Garry, 2008). Shaulys (1983) also confirmed that dual representation is virtually always improper because of the

very high probability of COI. These findings seem to contradict other writings from SA REI players (among others Spies, 2013; Reynolds, 2011; Goslett, 2011; Rademeyer, 2014). They actually do not; they just give the other side which is generally neglected by major players in the REI in SA.

7.2.2: *There is a positive relationship between dual mandate system and compromised principal in the South African real estate industry*

Our results show that if DMS is in operation, it is likely to result in one or both principal's interests getting compromised in SA. This again is in line with other studies. Gardiner and Heisler (2007) also state that in a property transaction, dual agency is damaging to one party in terms of sale price and marketing time. This may result from IA which brings about hidden actions, hidden knowledge and hidden information (Palazzo & Rethel, 2008; Nanda & Pancak, 2010). It has been shown that in a property transaction in SA, there is a huge amount of IA. People normally use their superior information to exploit their principals (Miller & Sardais, 2011). However, the study does not indicate who benefits between the seller and the buyer (Evans & Kolbe, 2005). Trust, which has been shown to be the glue for stable business dealings and future business prospects, appears to be misused (Wimmer & Mandjak, 2002; Kauser & Shaw, 2004; Elg, 2002; Van Bruggen, *et al*., 2005). Both parties who contract with the REA have reasonable expectations that their interests are going to be protected and not be compromised.

7.2.3: *There is a positive relationship between the ideological outlook and conflict of interests in the South African real estate industry*

The present study has confirmed that the presence of IO in the SA REI and the industry should alarm people to the possibilities of COI with all its difficulties. When people have a particular IO, it will most likely create COI in their business dealings. This study confirms that ideology finds expression in the way REAs do their work (as also shown by among others: Baressi, 1968; Palm, 1985; Chin, *et al*., 2013; Roseberg, 1956). Some scholars have defined ideology as a tool of distortion and exploitation (Marx & Engel, 1976). Ideology facilitates taking a stance on particular issues as ideologues

have a clear value commitment and mutually supporting value commitments (Martin, 2015).

7.2.4: *There is a positive relationship between the ideological outlook and compromised principal in the South African real estate industry*

The findings from the hypothesis posited on the relationship between ideology and compromising one party in a property transaction has shown that when an agent has strong IO, it is likely to be followed by sacrificing one party to the deal. Where people deal with others in property transactions, their ideological outlook are likely to bring about a situation wherein one principal gets compromised (Soborski, 2015). Ideology reflects values and may influence their decisions. Other studies also confirmed the same thing (Rosenberg, 1956; England, 1967). Ideology matters in consumer behaviour (Crockett & Wallendorf, 2004). As an individual representative and intermediary between sellers, potential buyers and actual buyers in the real estate markets, whose vested interests are in maximising the probability of profitable outcomes for him/her, he/she will side with the better off between the two principals.

7.2.5: *There is a positive relationship between a compromised principal and the sub-optimal outcomes in the South African real estate industry*

When the interests of one party in a deal are compromised, it is more likely that the final outcomes will not be favourable to that party. The present findings also prove that when a principal's interests are compromised, there is a big possibility of him/her getting sub-optimal results. The outcomes that may be suboptimal may be those associated with perceptions of fairness in transactions, confidence in the REA, perception of quality of service and possibilities of future business. The REA may disclose sensitive information to one party or may pressure either the seller (to accept a lower price) or the buyer (to accept a higher price) to hasten the sale (Kadiyali, *et al*. (2014; Izzo, *et al*., 2003). The study has shown that brokers have an impact on property price and that buyers lose out (Zietz & Newsome, 2002). For instance, in the present study, it has been observed that buyers were more likely to be dissatisfied with property prices.

7.2.6: *There is a positive relationship between conflict of interests and sub-optimal outcomes in the South African real estate industry*

Conflict of interests (COI) is evident in the behaviour of people experiencing it. This study has shown that when COI is present, it is likely to result in one principal or all the principals getting the short end of the stick. As is generally the practice, in the SA REI, only one principal (seller principal) pays the commission (Gardiner, et al., 2007). The findings of this study suggest that the buyer principal will generally get less than optimal outcomes. Conflicting interests of principals give rise to COI to the agent (Walter, 2003). This study has also shown that even the seller can also get sub-optimal results from a deal if for instance the REA stands to gain from a quick sale. Both principals' interests may be damaged by the actions of the REA (Izzo, *et al*., 2003).

7.3: CONCLUSIONS

Given the history of SA, the DMS and IO are a reality in the REI. Nevertheless, the untransformed nature of the industry has limited opportunities to study and to understand what impact these have on COI and CP and ultimately on the outcomes for sellers and buyers. This study attempted to find out whether there were any relationships between these concepts and the final outcomes for principals. The research model predicted that DMS and IO are likely to lead to COI and CP which in turn bring about suboptimal outcomes (OT) to either one or both principals in a housing transaction. The present study has shown that these issues are actually very important and has confirmed all the proposed hypotheses. The DMS in operation in SA leads to many unfortunate situations. REAs get seriously conflicted due to the mandate contract type and their own IO to life. The interests of the agent can be in conflict with their buyers and also with those of the sellers, which has serious implications for the operation of the industry. Also, the industry is dominated by one race group and as the study has shown, people's ideological persuasion does have an influence over day-to-day dealings with their customers. The ultimate outcomes also show that dissatisfaction is not only limited to buyers of properties, sellers do also have issues with how they are served. The findings of this study represent a pioneering work on how DMS and IO influence the outcomes in the SA REI. As the licensing body for REAs, the EAAB should take a serious look at how REAs are trained (especially with

regards to their valuation role) and how consumers experience their service. The DMS is one area in which to start as the study has shown that when the latter (DMS) is used, it most probably leads to COI and consumers' interests getting compromised. This has serious implications for the whole residential REI. Also on the IO, something needs to be done to take the industry forward. From the profile of the participants, it is clear that the possibilities of having both sellers and buyers agents in any property deal should be investigated.

7.4: RECOMMENDATIONS

The following recommendations are made based on the results of this study.

7.4.1: Dual mandate system and conflict of interests

The study has revealed that DMS is likely to create COI and CP. Some form of intervention to improve the operation of the industry is therefore suggested for the health of the industry. This may take a form of disallowing agents from representing two opposing interests as this may create COI (Nanda & Pancak, 2010). This would be in line with practices in other countries Like New Zealand and the UK (Gardiner, Heisler, Kalberg & Liu, 2007; Mersel, 1996; Kadiyali, *et al*., 2014). Another possible remedy would be to insist that all parties to a transaction sign an informed consent form whenever a deal is to be concluded under the DMS. This can be facilitated by the EAAB introducing compulsory informed consent form wherein consequences are clearly stated when a REA represents both principals in a single transaction. The rationale is that a party to a real estate transaction has a right to full representation (Shaulys, 1983).

7.4.2: Dual mandate system and compromising of principals' interests

This study has established that the DMS may lead to consumers' interests getting compromised. The study has also revealed that REAs have information advantage over consumers, which they can exploit to the detriment of other parties to a deal. In addition, IA is inherent in a DMS. Whenever people's interests are represented by

somebody else, their interests are likely to be compromised (De Jong, Forsythe & Lundholm, 1985). In order to limit the opportunities for misuse of IA, pre-sale and pre-purchase counselling can be introduced to sensitise the public on the implications of property transactions through REAs. This can be done to protect consumers against their own inexperience, IA and incomplete contracts (Vosselman & Van Der Meer-Kooistra, 2006; Greenberg, *et al*., 2008; Levitt & Syverson, 2008; Scott & Lizieri, 2012).

7.4.3: Ideological outlook and conflict of interests

The IO of REAs has been shown in the present study to influence COI which ultimately affect what consumers get out of a transaction. Indeed, other studies have shown that people's ideologies are self-serving, have an adverse effect over other people with an enormous impact on social relations (Shelby, 2003; Unger, 2002; Van Dijk, 1998). Therefore, it is recommended that REAs be given ideological transformation training before they are licensed to practice. The curriculum for REAs training can be structured in a way that includes training on ideological change. It has been shown in some studies that people's ideologies and personality are malleable and can change (Levy, 1998; Pratto, Tatar, Conway & Lanz, 1999). Alternatively, a way should be found and used to limit the possibilities of adverse effects of the ideological persuasion of REAs the majority of whom are white in the SA REI. This can take a form of legally enforceable signing of consent forms by all the participants which can guarantee minimal service levels that REAs need to render to their principals. It is suggested that can go a long way toward mitigating the effects of IO on the COI which also have a bearing on the ultimate outcomes.

7.4.4: Ideological outlook and compromising of principals

The study has found that IO has significant impact on compromising the interests of principals. REAs are mainly tasked with doing the initial valuation and the marketing of properties. This is in line with practices from other countries as "REAs are always called upon to do initial valuations before asking prices are set" (Green & Vandel, 1995; Yavas & Young, 1995). However, in SA, the general practice is that REAs do not do any formal training on property valuations. This study has also shown that

whatever valuation results they get are not communicated to buyer principals. In order to limit the damage that can arise, legislators and industry regulators can either insist that REAs be barred from engaging in valuations of properties all together (Bowles, McAllister & Tarbert, 2001; Diaz, Gallimore & Levy, 2002) or REAs undergo compulsory property valuations training. A good example is the situation in New Zealand, USA and UK where all property valuers have to obtain a junior degree to qualify as property appraisers (Matthew & Hansz, 2003).

7.4.5: Conflict of interests and sub-optimal outcomes

The study has established that whenever COI takes place, it is likely to give rise to one of the parties getting less than OT. Therefore, it is recommended that if a REA represents two competing interests, there should be a formal disclosure like it is done elsewhere (see Yavas & Yang, 1995; Arnold, 1999; Green & Vandel, 1995). Whenever two parties are represented by one agent, one client is usually the direct primary client who pays the commission (Shaulis, 1983). This is actually the case in the SA REI as the buyer principal only comes into the picture after contractual agreements have been reached between the REA and the seller principal. Therefore, it is recommended that a requirement for minimum mandatory service level to buyer principals be introduced (Nanda, Pancak, 2010). Another recommendation is that there should be a separation of functions between buyer agent and seller agent.

7.4.6: Compromising of principal and sub-optimal outcomes

The study has also shown that CP has a huge impact on OT. The people who have been shown to get a raw deal are once again the buyers, the majority of whom are the black population in the City of Johannesburg. Therefore, it is recommended that a pre-purchase counselling be made compulsory before any deal is concluded. At the conclusion of a transaction, a customer satisfaction form should be filled in by all buyers and that information should be made available to all prospective property buyers and sellers working through REAs. The other issue would be a disclosure to principals of all possible issues that may lead to less than optimal outcomes for principals (Green & Vandel, 1995).

7.5: IMPLICATIONS OF THE STUDY

The present research project has succeeded in bringing to the surface issues inherent in IO of REAs and dual agency relationships in SA REI and how those issues affect the interests of sellers and buyers of properties. This has been achieved by bridging the gap between DMS and COI, DMS and CP, IO and COI, IO and CP, COI and OT and CP and OT. This research therefore makes an important conceptual contribution to the understanding of the operation of the real estate industry in SA. Both these conceptual and empirical results of the study have important theoretical, managerial and policy implications.

Firstly, a need to reorganize the industry and to install properly organised programmes for training of REAs and educating the public has been identified. Possibilities of starting some form of “Property Social workers” programme to render counselling services to especially first time sellers and buyers is strongly recommended. This will ensure that they are better informed of what they are getting themselves into under the present operation of the industry. It is expected that even the banking industry as major financiers of real estate will benefit from this project. It is a general practice that banks only send their valuers after contracts have been signed, for instance. The DHS as the custodians of policy-formulation in the industry should be in the forefront in spearheading policy reforms in the industry. For instance, they can begin with the minimum requirements for REAs’ licensing.

Secondly, the study suggests that REAs should be trained for property valuations or a different body be created to deal with that area. The training of REAs should not be left to different REFs as is presently the case. REAs are generally the first people called upon to do the initial valuation before a property is marketed. There should be a neutral body not affiliated to any firm to do that task. It is hoped that after the results of this study will have been made widely available, it will not be business as usual in the REI. In situations of limited resources, in order to limit opportunities for new entrants (as buyers and as sellers) getting the short end of the stick, this study suggests that influencing the ideology of participants should be the starting point. The study has shown that IO influences CP more than DMS does. Also CP has more impact on the results of any transaction. If resources are not a limiting issue, both DMS and IO need urgent attention for the overall health of the industry.

Lastly, a number of future directions for academics have opened up based on the current study findings. The first area would be to expand the current study by doing a comparative analysis with other metros in SA using the framework used in the present study. The current research may be replicated in SA cities and township environments. It can, for instance, be carried out in Cape Town, Durban or in some of the big townships in SA. The study can further be extended to all metro centres in other African states after careful considerations and suitability checks of the model. Another area of possible future research would be to investigate whether there is any direct relationship between COI and CP and if there is, how strong is that relationship. This would further clarify factors impacting the ultimate outcomes in the industry as these two have a huge impact on the performance outcomes. Additional possibility for academic pursuit would be to investigate what material to be included in the curriculum for training of future REAs and for educating consumers. A research project can also be undertaken to find out whether IO of REAs are race-based or not. This would be deemed merited on the basis of the findings on this study that the majority of REAs are white and their majority buying public are black. These suggestions would go a long way toward addressing some of the concerns raised by this study. Such comparative research would go a long way in supporting/refuting the results put forward in this research.

7.6: LIMITATIONS OF THE STUDY AND FUTURE RESEARCH SUGGESTIONS

The current research was based on a robust literature review and empirical analysis. However, some research limitations remain that provide opportunities for future work. When data were collected, the researcher had to do house-to-house visits which were both costly and limiting on the number of respondents. It was both expensive and intrusive. It is further acknowledged that this research is biased towards large cities in SA and therefore cannot be generalised across the entire country without further replications. Data were only collected from Johannesburg areas and the opinions of the respondents might not be representative of the whole SA public. Due to these limitations, prudence must be exercised when generalizing the findings.

7.7: CONCLUDING REMARKS

This research was set to assess the influence that the DMS and the IO have on the operations of the SA REI. This was achieved by looking at the relationship between DMS and COI, DMS and CP, IO and COI, IO and COI, COI and OT and lastly, CP and OT. All the hypotheses posited have been validated. The REI is one area of economic activity that generates huge amounts of money and impacts many in a big way. Therefore, a serious relook of the industry is suggested. Academics should be in the forefront in order to generate knowledge in the industry for public use. The EAAB would be the best organisation to initiate serious reforms on what agents can do and what they cannot do. Many deals are done daily and they involve big amounts of money which people have to pay over a very long time. The banks as major financiers of property transactions can also be influential in the implementation of the suggested reforms.

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PARTICIPANT INFORMATION SHEET

Dear sir/madam,

I, Freddy Marilahimbilu Mgiba am doing a research towards a PhD degree at the University of the Witwatersrand in the department of Marketing. Prof Richard Chinomona (Head of Marketing Department) is the supervisor. This is a self-funded project undertaken purely for academic purposes. We are inviting you to participate in a study entitled: ***The influence of the mandate system and the political ideological persuasion on the performance of South Africa's real estate industry***.

The aim of the study is to investigate the mandate system in operation and the ideological outlook of all participants in the real estate industry in South Africa. Their influence and effect on the participants' interests and the ultimate outcomes in any property transaction will be explored. You have been selected to be part of this study because as a recent participant in the industry you have fresh experience on how it operates. The benefits of this study are that the outcomes from the study will assist institutions of higher learning to better understand the industry and thus facilitate better training of prospective players in the industry. The study will also create a debate as to how best the operation of the industry can be improved. All participants in the study are assured of strict confidentiality and protection of their privacy both in the data collection and analysis stages. All responses will be coded upon receipt of the completed questionnaires. The information obtained will be statistically analysed in order to draft a comprehensive report that will be made available to all interested stakeholders and participating firms and individuals after the university has assessed it. Your early response will ensure that a representative range of voices are taken into account before any conclusions are made. Your assistance will be highly appreciated.

Yours faithfully

---------- ----------

Freddy Mgiba (0799765162) Prof R Chinomona

Annexure A: Participant information sheet

RESEARCH CONSENT FORM
(Participant)

1: Project title:

The influence of the mandate system and the political ideological persuasion on the performance of South Africa's real estate industry.

2: Declaration

Freddy Mgiba from the Department of Marketing of the University of the Witwatersrand has requested my permission to participate in the above-mentioned research project. The nature and the purpose of the research project and of this consent declaration have been explained to me.

I have also read the information presented in the information letter about the study and had the opportunity to ask any questions related to this study. I received satisfactory answers to my questions. I am aware and can confirm that:

- The University of the Witwatersrand has given ethical clearance certificate to this study and I may request to see it.
- My participation is voluntary and should I at any stage wish to withdraw my participation I may do so without any penalty by advising the researcher.
- The researcher intends to publish the research results in the form of a dissertation.
- The confidentiality and anonymity of records will be maintained and that my name or identity will not be revealed to anyone who has not been involved in the conduct of the research.
- I can obtain feedback of the research results and that
- I will be furnished with a copy of this consent.

With full knowledge of all foregoing, I agree, of my own free will, to participate in this study.

Name: ---------- Researcher: ----------

Signature: ---------- Signature: ----------

Date: ---------- Date: ----------

Annexure B: Research consent form

QUESTIONNAIRE COVER LETTER

Dear sir/madam

The real estate industry forms a crucial part of the South African economy. Some estimate its contribution to the country's GDP to be about 8.3%. Real estate agents and firms as well as consumers play a crucial role in this industry. Whenever anything untoward happens and comes into the public domain in the industry, it does not have any coherent and formal way to respond to the shock. In order to gain understanding and guide policy making from academic institutions, government department and the private sector the present personally funded research project was conceived.

Before any conclusions can be reached and solutions suggested, the researcher requests your assistance by filling in the questionnaire attached herewith which will take a maximum of 10 minutes of your time. Responses will be treated with great care and your confidentiality protected. The Real estate industry will benefit from this study as: academic institutions will be able to tailor training programs to the industry needs; government departments will gain insight on the operations of the industry and its challenges, real estate firms and agents will benefit from well-trained new entrants and real estate firms will also standardize their internal training programs. The greatest value of your response can be derived if it is received by or before the 15/07/2015. If you wish to see the results of this survey, please do not hesitate to contact the researcher about 60 days from the due date for the responses. The outcome of the survey will be submitted to the university in a form of a dissertation. Strong adherence to the university's ethical conduct of research will be observed.

Yours faithfully

Researcher: Freddy Mgiba
freddymgiba@webmail.co.za

Supervisor: Prof Richard Chinomona
Richard.Chinomona@wits.ac.za

Annexure C: Questionnaire cover letter

Research Office

HUMAN RESEARCH ETHICS COMMITTEE (NON-MEDICAL)
R14/49 Mgiba

CLEARANCE CERTIFICATE	**PROTOCOL NUMBER: H15/06/53**
PROJECT TITLE	Dual mandate system and political ideological persuasion: Their influence on conflict of interests, compromising of principals and industry performance
INVESTIGATOR(S)	Mr F Mgiba
SCHOOL/DEPARTMENT	Commerece, Law & Management/
DATE CONSIDERED	26 June 2015
DECISION OF THE COMMITTEE	Approved unconditionally
EXPIRY DATE	08 July 2018

DATE 09 July 2015 **CHAIRPERSON** _____
(Professor J Knight)

cc: Supervisor : Professor R Chinomona

DECLARATION OF INVESTIGATOR(S)

To be completed in duplicate and **ONE COPY** returned to the Secretary at Room 10005, 10th Floor, Senate House, University.

I/We fully understand the conditions under which I am/we are authorized to carry out the abovementioned research and I/we guarantee to ensure compliance with these conditions. Should any departure to be contemplated from the research procedure as approved I/we undertake to resubmit the protocol to the Committee. **I agree to completion of a yearly progress report.**

_____ _____/_____/_____
Signature **Date**

PLEASE QUOTE THE PROTOCOL NUMBER ON ALL ENQUIRIES

RESEARCH INSTRUMENT
SECTION A

1: GENERAL INFORMATION

The section is asking your background information. Please indicate your answer by ticking (✓) on the appropriate box.

A1: Please indicate whether you are a seller, buyer or a real estate agent

Seller	1
Buyer	2
REA	3

A2: Please indicate your gender

Male	1
Female	2
Other	3

A3: Please indicate your ethnic group

African	1
White	2
Asian	3
Coloured	4
Other	5

A4: Please indicate your age group

18 – 24 years old	1
25 - 34 years old	2
35 - 39 years old	3
40 – 44 years old	4
45 – 49 years old	5
Above 49 years old	6

A5: Please indicate your work experience in the real estate industry

Less than 1 year	1
1 to 4 years	2
5 to 8 years	3
9 to12 years	4
13 years and above	5

A6: Please indicate your position

Owner/Franchisee	1
Manager	2
Fieldworker	3
Admin & Support	4

SECTION B

1: Dual mandate system (DMS)

Below are statements about the mandate that was given by the seller/buyer for your latest property transaction. You can indicate the extent to which you agree or disagree with the statement by ticking the corresponding number in the 7 point scale below where:

1= Strongly Disagree **2=** Disagree **3=** Somewhat Disagree **4=** Neutral **5=** Somewhat Agree **6=** Agree **7=** Strongly Disagree

Please tick only one number for each statement

DMS1	Instruction to market the property was given to one real estate agent.	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS2	Giving instruction to one agent is the best way to sell a property	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS3	Initial valuation of the property was done by the agent/agent's firm	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS4	More than one real estate agent was used to sell in this transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS5	Offers for the sale of this property were presented by the listing agent	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS6	The instructed agent/firm acted for the buyer in the present transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS7	None of the transacting parties received any other assistance for this sale	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
DMS8	Only the instructed agent received commission for the deal	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree

2: Outlook

Below are statements about your values and life outlook. You may agree or disagree with each statement by ticking the appropriate number provided below where:
1= Strongly Disagree **2=** Disagree **3=** Somewhat Disagree **4=** Neutral **5=** Somewhat Agree **6=** Agree **7=** Strongly Disagree

Please tick only one number for each statement

IOO1	It is important for the agent to fulfil his/her responsibility to the principal	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IOO2	The agent who sold this property can accurately predict a client ‘s preferences in a housing deal	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IOO3	This agent can determine where people choose to sell/purchase properties	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IOO4	I was flexible when negotiating this housing transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IOO5	I hold very strong personal values	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IO06	My principles will not be compromised regardless of possible gain	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IO07	Personal values should influence the way I do business	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
IO08	Free-market economy is the best economic system	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree

3: Interests

Below are statements about your interests and those of the other participants in your last transaction. You are required to indicate the extent to which you agree or disagree with the statements below by ticking the appropriate number where:
1= Strongly Disagree **2=** Disagree **3=** Somewhat Disagree **4=** Neutral **5=** Somewhat Agree **6=** Agree **7=** Strongly Disagree

Please tick only one number for each statement

CO 1	The real estate agent was involved in setting the initial asking price	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 2	The lowest possible transaction price was disclosed	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 3	The interests of both buyer and seller are similar in a property transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 4	The interests of the buyer, seller and the real estate agent are similar in a property transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 5	It is beneficial to me when the property is in the market for a long time	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 6	I wanted to get the highest price for this property transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 7	Other parties to the transaction assisted me in achieving my target price	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CO 8	Huge amount of marketing effort and other resources were used to do this deal	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree

4: Principal treatment

Below are statements about the treatment you received in your last property transaction. You may agree or disagree with each statement by ticking the appropriate number provided where:

1= Strongly Disagree **2=** Disagree **3=** Somewhat Disagree **4=** Neutral **5=** Somewhat Agree **6=** Agree **7=** Strongly Disagree

Please tick only one number for each statement

CP1	Reasons for the sale/buying the property were disclosed for purposes of this deal	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP2	I knew how to do property valuation before this transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP3	There were no winners or losers in this transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP4	I am satisfied with the time on market (TOM) of the property	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP5	The duration of the transaction process was too long	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP6	Valuation and pricing information was disclosed to me	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP7	I received maximum benefit with regards to pricing	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
CP8	My knowledge of property transactions is close to the level of the other parties in this deal	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree

5: Outcomes

Below are statements about the outcomes of your latest property transaction. You may agree or disagree with each statement by ticking the appropriate number provided where:

1= Strongly Disagree **2=** Disagree **3=** Somewhat Disagree **4=** Neutral **5=** Somewhat Agree **6=** Agree **7=** Strongly Disagree

Please tick only one number for each statement

OT1	The property in located in an ideal neighbourhood	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT2	The price for this property should have been lower	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT3	I received a fair treatment from all parties involved in this transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT4	I have confidence in the real estate who handled the present transaction	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT5	I would use the same real estate agent for my next property deal if I decide to buy/sell in the same suburb	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT6	I will continue buying/selling my property (properties) through this real estate agent	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT7	The quality of service I got for this transaction was excellent	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree
OT8	In general, I am very satisfied with the relationship with this real estate agent	Strongly Disagree	1	2	3	4	5	6	7	Strongly Agree

ANNEXURE E: Research instrument

EDITING AND PROOFREADING CERTIFICATE

7542 Galangal Street

Lotus Gardens

Pretoria

0008

13 September 2016

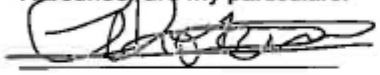
TO WHOM IT MAY CONCERN

This letter serves to confirm that I have edited and proofread Mr F.M. Mgiba's thesis entitled: **"THE INFLUENCE OF THE MANDATE SYSTEM AND THE POLITICAL IDEOLOGICAL PERSUASION ON THE PERFORMANCE OF SOUTH AFRICA'S REAL ESTATE INDUSTRY."**

I found the work easy and enjoyable to read. Much of my editing basically dealt with obstructionist technical aspects of language which could have otherwise compromised smooth reading as well as the sense of the information being conveyed. I hope that the work will be found to be of an acceptable standard. I am a member of Professional Editors Group and also a Language Editor at Bureau for Market Research at the University of South Africa.

Thank you.

Hereunder~~/ are~~ my particulars:



Jack Chokwe (Mr)

Bureau of Market **Research** (Unisa)

Contact numbers: **072 214 5489** / 012 429 3327

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Professional EDITORS Group