

PROPERTY SIGNPOST NEWSLETTER

Email: berry@propertysignpost.co.za

Web Site: www.everitt.co.za

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**Chas
Everitt**



**Berry
Everitt**



**Barry
Davies**

Your Area Specialist:

Chas Everitt International sales agents have all the latest market information regarding local property values at their fingertips – and are committed to the highest standards of personal service when it comes to selling your home. In addition, the Chas Everitt International property group offers you, the homeowner, the best possible exposure for your property in both national and international markets. So if you are thinking of selling your home, call your nearest Chas Everitt International office today for the name of your local area specialist - or visit www.everitt.co.za

Every month the **Property Signpost Newsletter** will be issued to all our subscribers, filled with real estate information to help you make an informed decision, whether you are buying or selling a property.

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1. Welcome By Publisher

As the inland schools break up this week, many of our upcountry readers will no doubt be heading for a midyear break to escape the Highveld cold – or just the pressures of their busy schedules.

For many, we know, this period is often also seen as a good time to scout for holiday or investment properties, especially at the coast – and increasingly, away from the traditional tourist “hotspots” of the Western Cape and KwaZulu-Natal.

Indeed, the current focus of attention for such buyers seems to be the Eastern Cape, which offers warm seas and great beaches, fabulous scenery and plenty of malaria-free game viewing – as well as competitive property pricing that creates plenty of margin for profit as values rise. And rise we have no doubt they will, as Coega and other infrastructure projects in the region take off, industry increases and clever marketing by the local tourism authorities draws more and more locals and foreigners to discover this “hidden gem”.

In fact, so strong is our confidence in property in this region that we have just opened major new franchises in Port Elizabeth and East London to boost our existing Eastern Cape network. Why not pay them a visit this holiday and let them help you get an early foothold in this market?

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2. The Rand and Property

The hottest debates in property circles right now are all centred on the value of the rand – and whether the market would benefit most from it going up or down.

On the one hand, there are those who argue that a weaker rand will boost inflation, lead to higher interest rates and put a damper on home purchasing.

And they are right. A weaker rand means that imports – especially oil – will cost the South African consumer more. Combined with the current increased demand for credit, this is likely to push up the inflation rate and encourage the Reserve Bank to raise interest rates in an effort to curb consumer spending.

This will, in turn, raise home loan repayments and make it more difficult for new buyers to qualify for home finance.

But there are also powerful arguments in favour of a rand that is substantially weaker even than it is now. Chief among these is the need to boost exports – and profits – in the labour-intensive mining and manufacturing sectors.

A strong rand mitigates against exports because it makes SA goods more expensive for international buyers. This can easily result, as we have seen recently, in massive job losses when exporting companies have to scale down production or close altogether.

And from a property perspective, rising unemployment is of course a much more fearsome prospect than a rise in interest rates. Consequently, anyone with any interest in property should, we think, be siding now with the economists that are calling for a further depreciation of the rand.

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3. The Problems With Fee-Based Service...

In all the fuss recently over estate agents' commissions, several comments were made about the possibility of agents switching from the commission system to a fee-based system in which they charge specific amounts for specific tasks.

It was pointed out that fee-based agency service is already quite common in the US and suggested that it could prove useful in SA as a way of familiarizing emerging buyers and sellers with all the different services that agents provide.

And in fact, agents in SA are in no way bound to the commission system and are quite free to operate on a fee basis if they or their clients should prefer this.

However, there are two possible pitfalls in such an arrangement, the first being that an inexperienced seller may not be fully aware of what it takes to market a home, and fail or refuse to select some vital items from the "menu" of services on offer.

The likelihood of the property failing to sell in such circumstances is high, whereas the commission agent, working entirely on risk, is incentivised to do everything necessary to ensure that the property is sold.

Secondly, problems can easily arise when the client agrees to a fee-based service but does not establish, in advance, exactly which services will be provided and at what cost.

This is a recipe for dispute when the agent's bill arrives – especially if the property has not been sold. Clients who award mandates to commission agents, on the other hand, know in advance what the service cost is – and that they will pay nothing at all if the agent does not succeed in selling their property.

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4. Not one, but two Lions in our camp...

As the Nedbank PA Group Property Professional awards for 2005 were presented recently, we were very proud to watch two members of the Chas Everitt International family collect Young Lions accolades.

These independent awards are made to recognise meaningful contributions made to the industry by its younger members, and to acknowledge their leadership potential.

At 25, Rali Mampuele, the Chas Everitt International franchisee in Midrand, was this year's youngest Lion. He was recognised for his vision in setting up a foundation to assist members of historically disadvantaged groups to pursue careers in real estate - and at the same time illustrating how profitable the field can be by leading his own franchise to a R100-million plus turnover in its first year of operation.

The second Lion went to Chas Everitt International Franchising CEO Barry Davies, who was honoured (for the second year running) for his inimitable role in the growth of this group and the concomitant promotion of real estate as a "serious business". Under his steerage we have opened 50 offices in the past two years and have 15 more in the pipeline – many of them owned by top executives and professionals who have deliberately quit other fields to join the group.

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5. No free lunch for speculators

As demand dictated the proliferation of new estates and sectional title developments over the past few years, many people were seen to be making “easy” money as they snapped up stands or units off-plan – often paying just a small holding deposit – and resold these at a handsome profit just a short while later.

But, says Paul Nelson, director of Johannesburg-based auditing firm Nelson Financial (www.nelsonfinancial.co.za), nothing is that “easy” and such gains are subject to tax.

“The effective rate of tax to be paid depends on whether the intention of the individual was to acquire and sell the property to make a profit (income), or to acquire and employ the asset – by renting it out, for example - to earn revenue (capital).

“And a lower rate does apply to transactions which are capital in nature. It is therefore not surprising that most of these transactions will probably be disclosed as having being capital in nature.”

However, he points out, there have been key decisions in the courts that provide objective tests to determine the intention of the individual. These include the frequency of similar transactions, the length of time for which the property was held, documentary evidence and under what circumstances the asset was realised.

“And SARS will apply these tests when considering the representation of the individual to determine which rate of tax should be applied.”

If it applies the higher rate and you don't agree with its decision, you will have 30 days from receipt of an assessment to lodge an objection but, Nelson notes, the onus of proof that the transaction was not entered into in a scheme for profit-making will then lie with you.

“Considering this, if you bought three stands at an up-market golf estate and resold all three shortly after taking transfer, making a tidy sum in the process, you should consider consulting a reputable tax consultant or accountant before simply deciding to declare the proceeds as being capital in nature.”

* For more information on this topic, Paul Nelson can be contacted on (011) 325-4452 or at nelsonfinancial@telkomsa.net

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