



Chas Everitt



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FROM THE PUBLISHER

Since our last issue, probably the most important event for the property market has been the Budget, the effects of which are sure to benefit the sector in the long as well as the short term.

A direct benefit, of course, is the fact that property, especially at the lower end of the market, has become slightly more affordable thanks to the transfer duty changes made. But on consideration we think it is the wider picture painted by Finance Minister Trevor Manuel that is sure to stimulate the property market across the country.

His emphatic declaration that bleak 'dormitory' townships and settlements without proper infrastructure or recreational facilities are simply unacceptable is very good news and the decision to invest R3-billion of the funds that accrued to the State as a result of the exchange control amnesty to upgrade such areas will do much to create pride of ownership - a fundamental element in a thriving property industry.

Increased spending on inner city regeneration, basic services and infrastructure will also add impetus to an already buoyant property market. And we foresee that these investments will have a massive multiplier effect in the long term, as first-time homeowners start moving up the property ladder.

Meanwhile, tax relief for individual taxpayers and the one percent cut in company tax will mean more money in circulation, part of which is certain to find its way into the property - which is, of course still one of the best investment instruments for ordinary people as well as businesses.

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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.

In This Week's Newsletter:

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- **Getting the offer to purchase right**
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Market opening up again for buyers ...

The consolidation of the property market after the buying frenzy brought about by lower interest rates and generally improved confidence within the country provides a second chance for homebuyers who feel they might have missed out on the residential boom.

The return to relatively stable conditions in many of the country's hottest residential areas has, for example, created new opportunities for homeowners seeking to upgrade, because the rate of price growth is slowing down faster in the upper brackets than in the rest of the market. Thus the seller of a mid-level home will still reap the benefit of most of the price growth of the past two years but is less likely to be outbid on a higher-priced house.

Developers of entry-level homes in good areas are also pegging their prices now to put them within reach of first-time buyers - who are the biggest beneficiaries of the Reserve Bank's recent decision to keep interest rates at current levels because they have now had an opportunity to add start-of-year salary increases to their incomes in order to qualify for home loans.

The return to more realistic property price expectations may also mean that homes that did not sell during the peak demand period come back on to the market - at prices more in line with buyers' ability to pay.

The wider choice of residential property for sale that will appear as estate agents rebuild their inventory now will also give potential buyers more scope and should temper sellers' expectations.

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... And then there's rent -to-buy

Although there are many mortgage products available for first-time buyers, it has become increasingly difficult for them to qualify for a home loan due to the rapid price increases over the past few years.

But first-timers may still be able to realise their dream of homeownership if they can lease a home with an option to buy it at the end of the lease period - or even earlier, finances and landlord permitting.

The best way to create a lease with option opportunity is by searching the "homes to let" ads for a landlord who can be persuaded to give you an option to buy. And you should be prepared to lodge an option fee that will be forfeit if you do not go ahead with the purchase by the agreed date.

Like any contract, the terms of the lease-with-option will be negotiable: the length of the lease, the rent and the eventual purchase price. The seller may even agree to credit a portion of the rent each month toward the purchase.

For potential buyers, the advantages of such an arrangement are obvious - for relatively little upfront cash, they can tie up a property at an agreed price, and live in it before deciding to buy it.

There are, however, also advantages for landlords/ sellers - their tenants are likely to take much better care of the property if they intend buying it, and they will have an incentive to do so if part of the rent is going towards their "deposit". Meanwhile, the seller still has a monthly income from the property - and gets to keep the option fee and the property itself if the tenants don't take up the option.

The potential disadvantages for both parties lie in the possibility of a market change before the option to buy is taken up. To avoid the possibility of selling too low - or paying too much - sellers and potential buyers should seek the assistance of an experienced estate agent before settling on the purchase price and drawing up their lease-with-option agreement.

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Getting the offer to purchase right

Making the offer to purchase your first home is undoubtedly an important milestone, but it is just the first step in the whole process you need to go through to become a homeowner, and it must allow enough time for you to complete all the steps.

You will hopefully not have offered more for the property than you can afford, and the estate agent will usually allow a reasonable time in your offer document for you to secure a home loan. In this time the bank or independent lender should be able to run the necessary checks to ensure that you are a good credit risk, and evaluate the property to ensure that it will provide sufficient security for the loan you have requested.

However, your lender may also require that you take out additional life insurance to cover the amount of the loan, and that can take time to arrange.

You may also need additional time if you need to convert other investments to cash before you can pay a deposit or the transfer fees.

And then, you may also want to make the offer conditional on the property passing inspection by professionals to ensure that you won't face a surprise bill for re-wiring or new plumbing or pest removal just after moving in. Again, this may require additional time, which should be written into your offer.

Buyers should know that any delay in meeting deadlines laid down in the offer document could jeopardise the entire deal, and should of course respond promptly to a request from a lender for supporting evidence of earnings or investments, or from an attorney to sign transfer or bond registration documents.

However, they can save themselves a lot of stress by dealing only with reputable agents who can help them get the timing and the offer to purchase right in the first place.

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Step carefully around the TAB trap

By now everyone knows that SARS has given us three methods of determining the value of our properties as at 1 October 2001, the date from which capital gains tax is applicable.

These are the market value method, the time-apportioned base cost (TAB) method and the 20% of the proceeds rule, where 20% is applied to the proceeds after deducting any expenditure incurred after 1 October 2001 (the valuation date).

If you didn't have your property valued, it is likely that you are depending on the TAB method, but most people don't really know how this will work in practice.

Paul Nelson, director of Johannesburg-based auditing firm Nelson Financial, explains that the Income Tax Act provides for owners to claim the expenditure incurred before the valuation date, which is generally the cost of the property, and that incurred after the valuation date, such as estate agency commission on the sale of the property.

"The formula which is to be used where costs are incurred before and after the valuation date, stipulates that the proceeds received from the disposal of the property must be apportioned between these costs, based on the value of this expenditure relative to all the expenditure incurred.

"However, the Act does not take inflation into account, and this together with the recent rapid gains in values means that the commission may account for a significant portion of the cost

incurred - and attract a significant portion of the proceeds received in the TAB formula. This could result in a significantly lower base cost than expected and a higher capital gain."

What is more, Nelson notes, the Act does not give sellers the option of including or not including the post-valuation expenditure, so they will have to include all the costs incurred - and pay the higher tax that may result- or risk contravening tax legislation.

"Fortunately, most of us will qualify for the R1 -million primary residence exemption, which disregards the first R1 -million of the capital gain on the disposal of a primary residence, and so avoid the TAB trap.

"But if you did not have other properties valued before the deadline last year, and now wish to dispose of any of them, your best bet is to contact a reputable tax consultant or accountant to assist you with the TAB calculations and ensure that you comply fully with the legislation."

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