

AN ASSESSMENT OF THE IMPACT OF INVESTOR DECISIONS ON THE SPATIAL CHARACTERISTICS OF THE SA COMMERCIAL PROPERTY MARKET

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The Aim of this Research

- To understand the decisions made by market players in SA cities in the post 1994 era.
 - What is motivating these decisions
- To understand the nexus between urban structural change, policy making and market trends.
- Based on an understanding that the structure of property markets as well as legal and policy frameworks influence urban change.
- To assess the market trends seen in three major cities in South Africa
 - In particular to explain the performance of the office market in these markets
- To assess whether IPD/ MSCI and SAPOA data could be useful in determining urban trends - using the data beyond its normal portfolio uses .



Background

- South African cities started decentralising in the late 1970s early 1980s
- The causes have been attributed to anything from a decline in available parking, to crime and grime.
- The pace of decentralisation accelerated in the 1990s. It was initiated by the retail sector, but followed by the office sector.
- Urban policies have attempted to regenerate areas and stop the decentralisation trend, but with limited success.



Background (continued)

- This has included the development of CIDs (BIDs)
- The structure of market players altered in the 1990s with REITs largely taking over from larger financial institutional investors.
- New players have also entered SA CBDs; offering new opportunities.
- This has also included the development of mega-developments outside CBDs



The Literature

- The importance of the apartheid in influencing the spatial structure of SA cities (Turok & Watson, 2001)
- Decentralisation from the inner city in the mid 1970s (Visser 2002, Winkler 2012)
- There have been a number of interventions to improve the built environment and overcome the impact of decentralisation (Lemanski, 2007)
- Where decentralisation has occurred looked at by (Todes, 2012)
- The scenario is not altering and the status quo is largely being maintained (Turok, 2001)
- The importance of understanding the property market and the behaviour players is highlighted by D'Arcy and Keogh (1997) and (Turok, 2015).



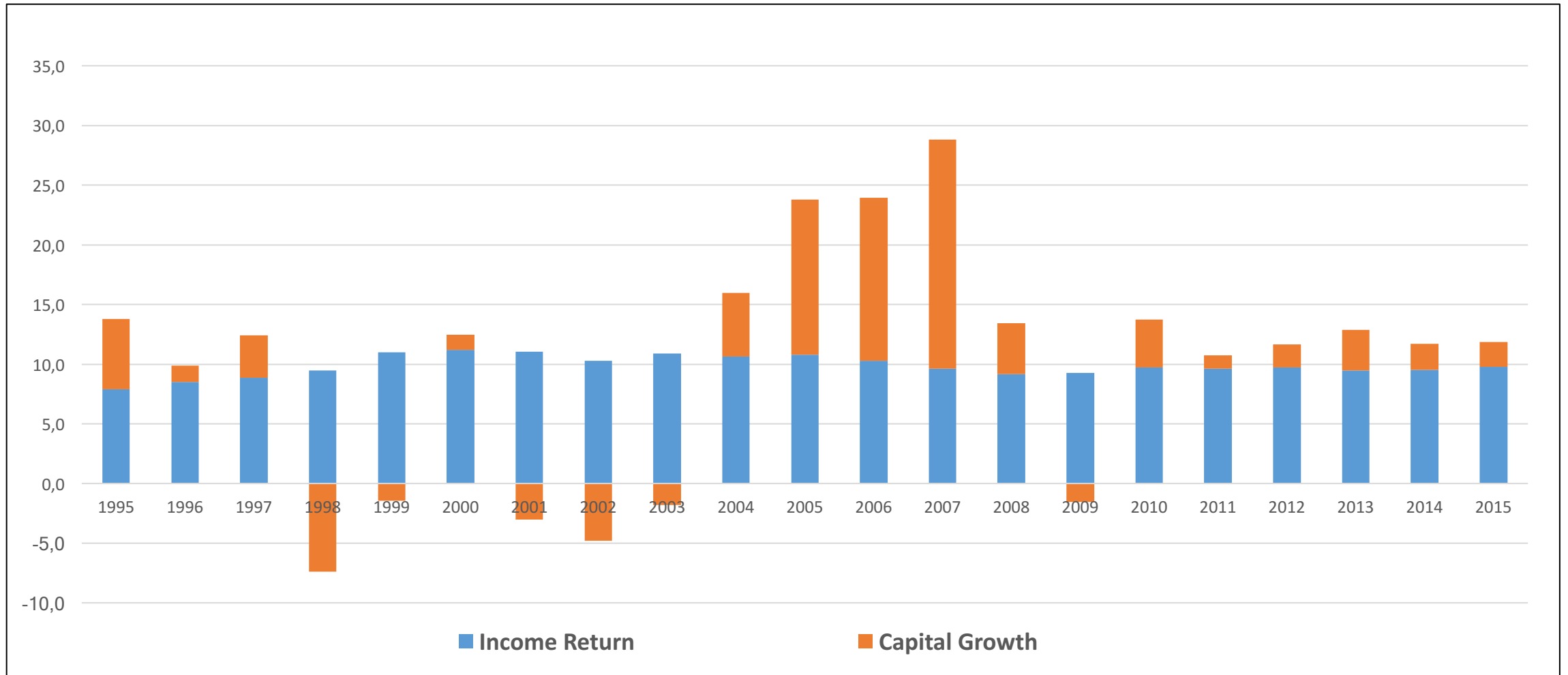
The Data

Sources of Data

- The South African Property Owners Association (SAPOA)
 - Data used since 1994
 - Provides data on rentals, vacancy rates, and stock
- IPD/MSCI; available from 1994. It covers a limited number of nodes and is not as wide ranging as the IPD/MSCI data.
- The data was limited to the office sector ('A' & 'B' grade properties)
- The sample covered the period 1994-2015Jhb , Cpt , Durban .Pretoria.

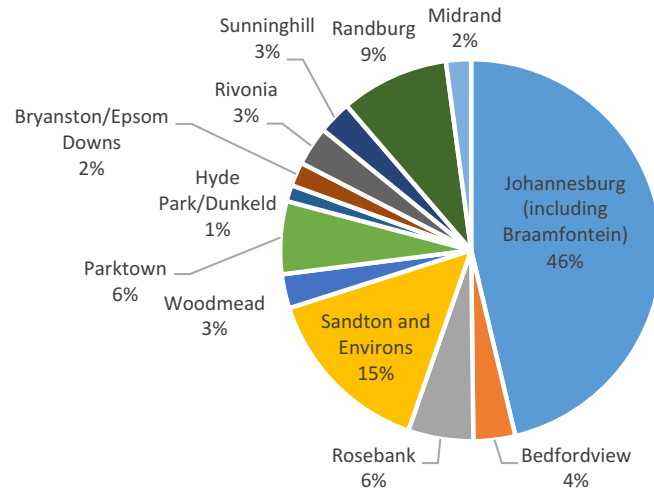


South Africa Returns

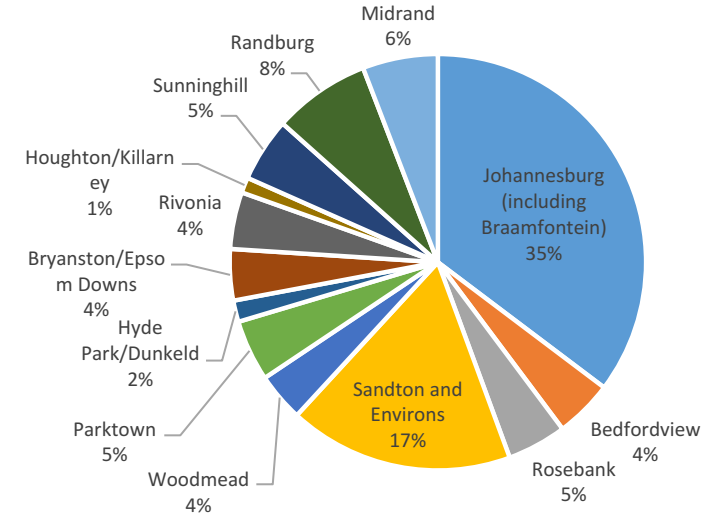


Total Stock Johannesburg Source : SAPOA

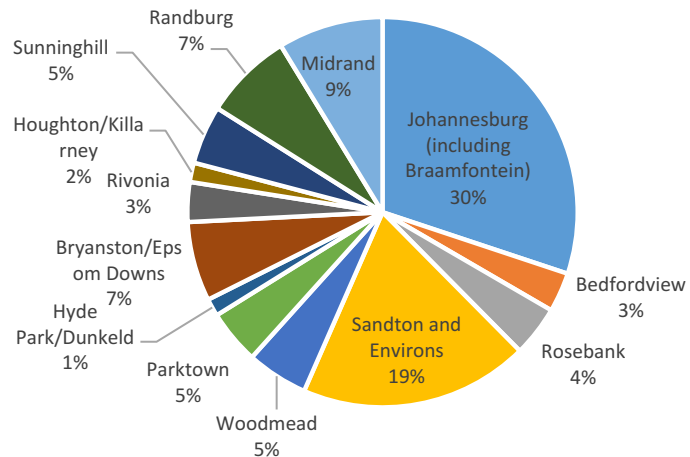
JHB 1995



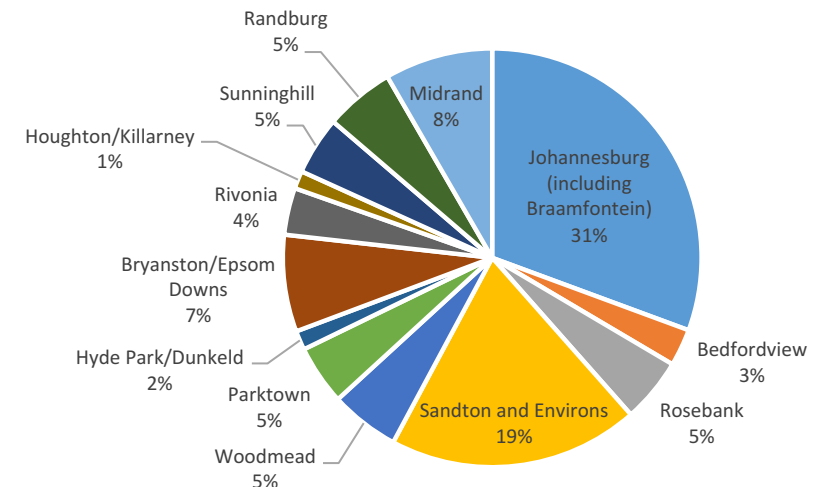
JHB 2001



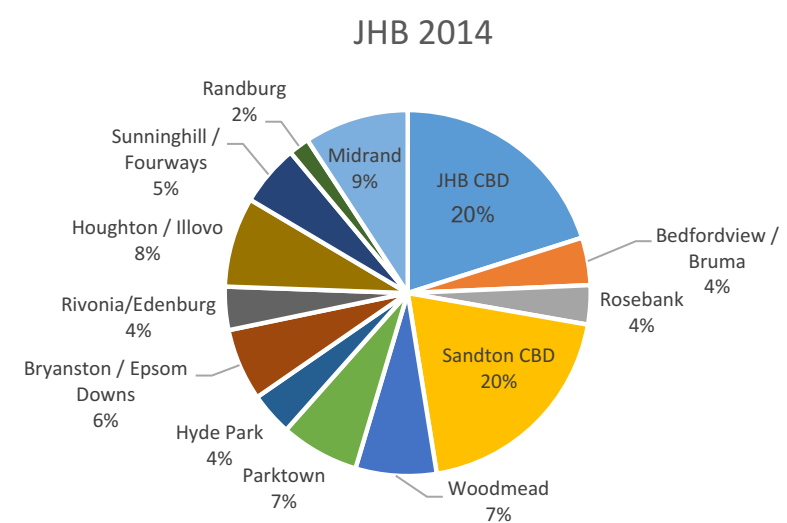
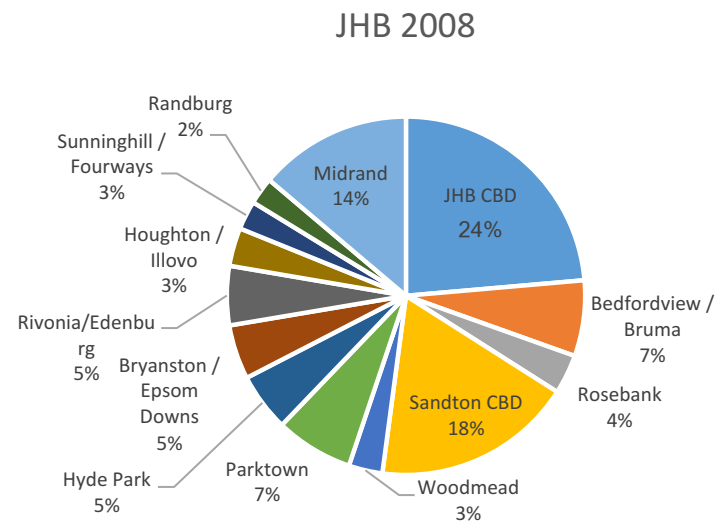
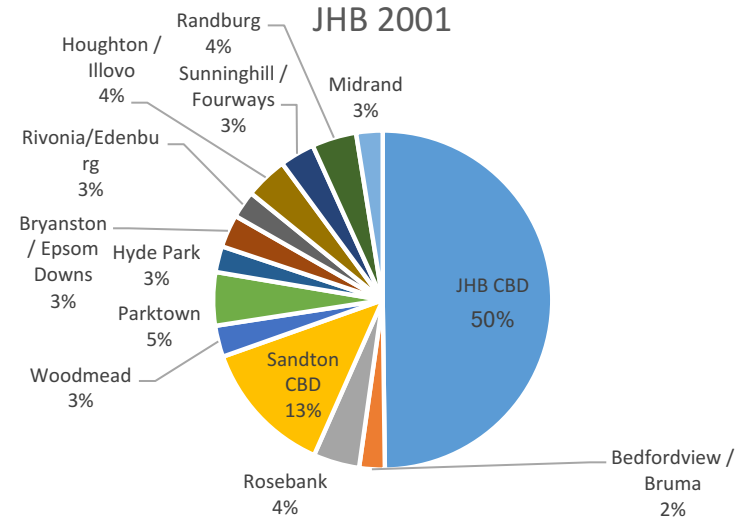
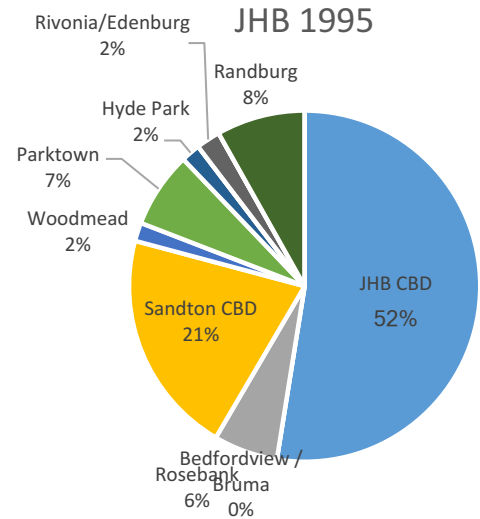
JHB 2008



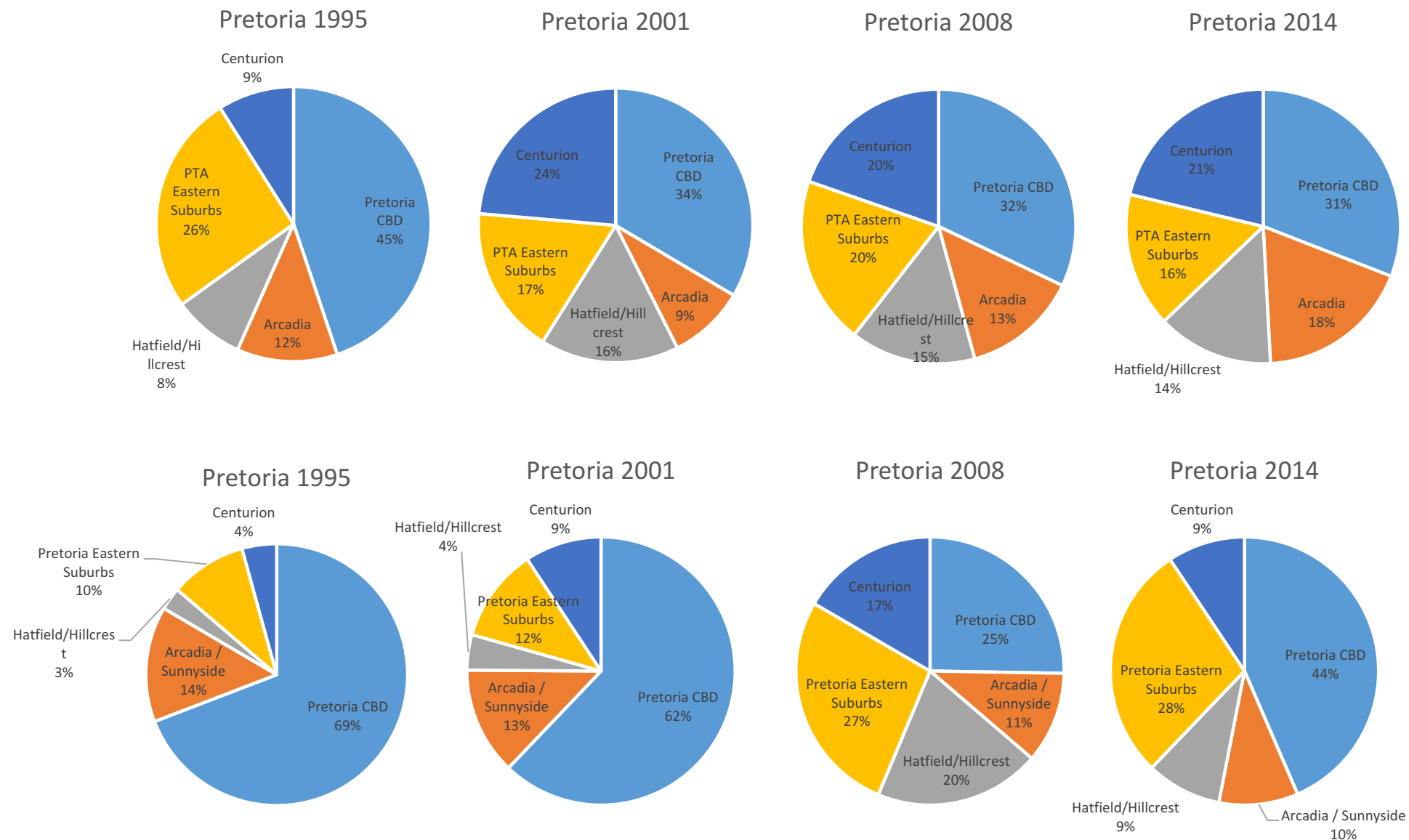
JHB 2014



Gross Rentable Area Johannesburg IPD

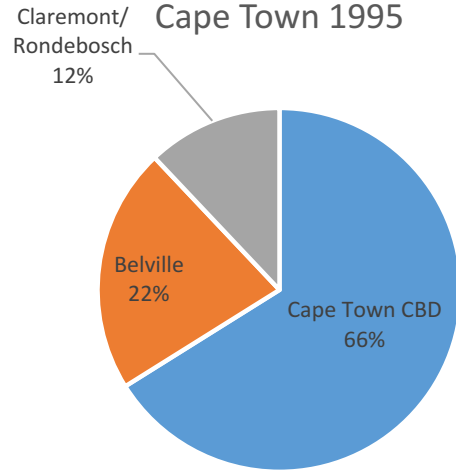


Total Stock (SAPOA) vs Gross Rentable area Pretoria (IPD SMCI)

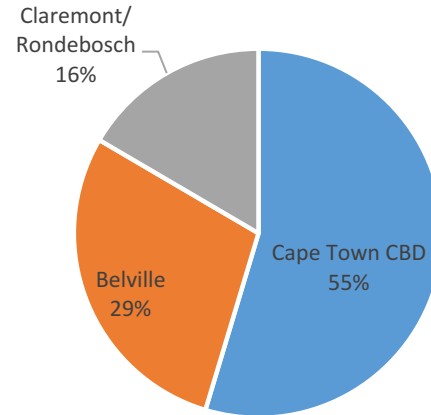


Total Stock vs Gross Rentable area Cape Town

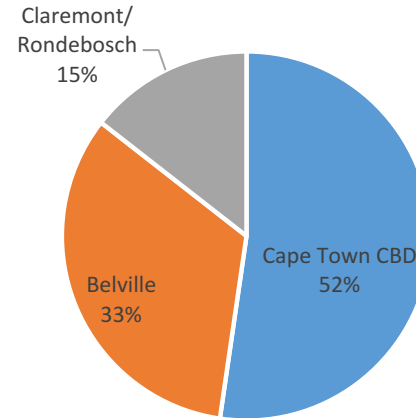
Cape Town 1995



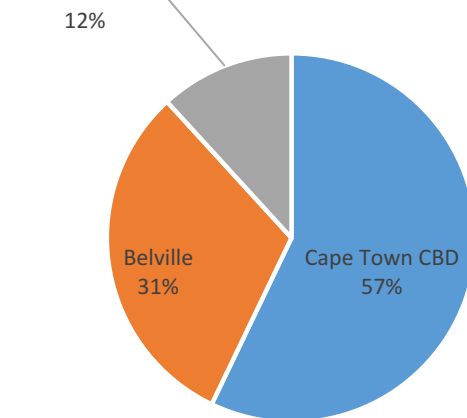
Cape Town 2001



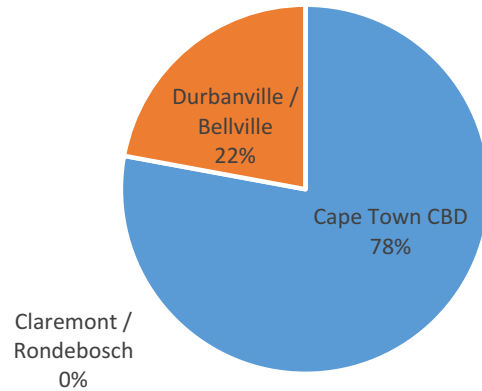
Cape Town 2008



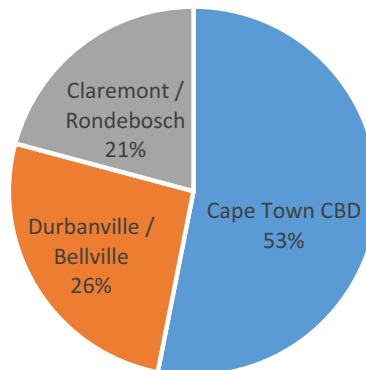
Cape Town 2014



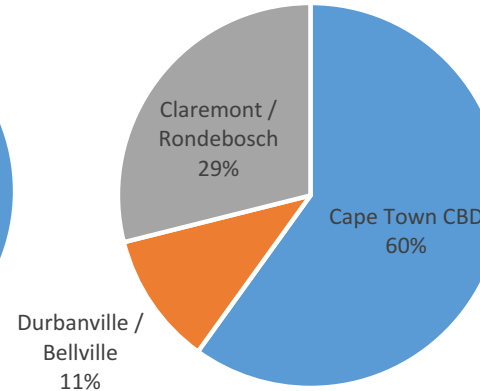
Cape Town 1994



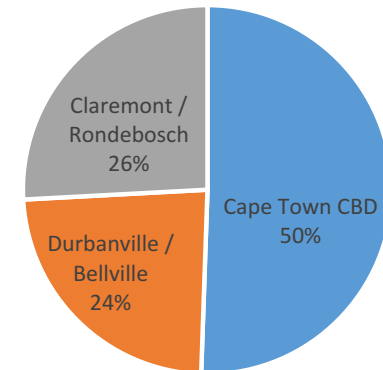
Cape Town 2001



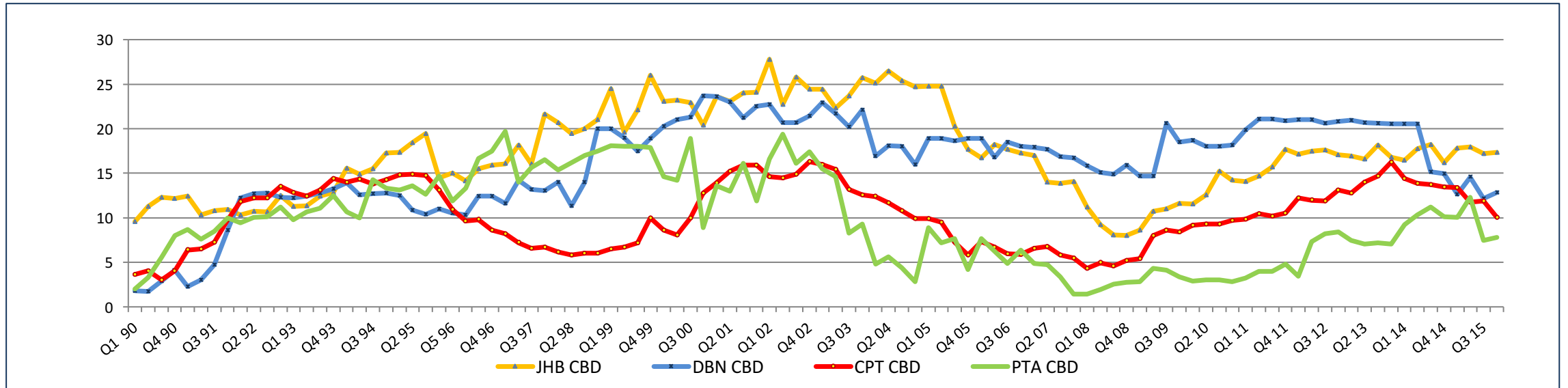
Cape Town 2008



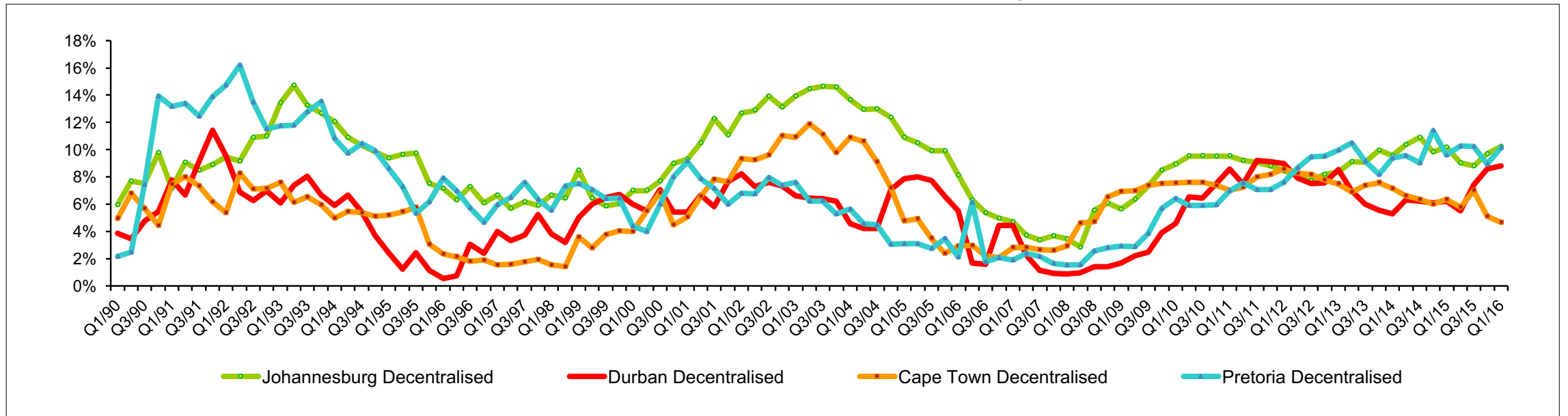
Cape Town 2014



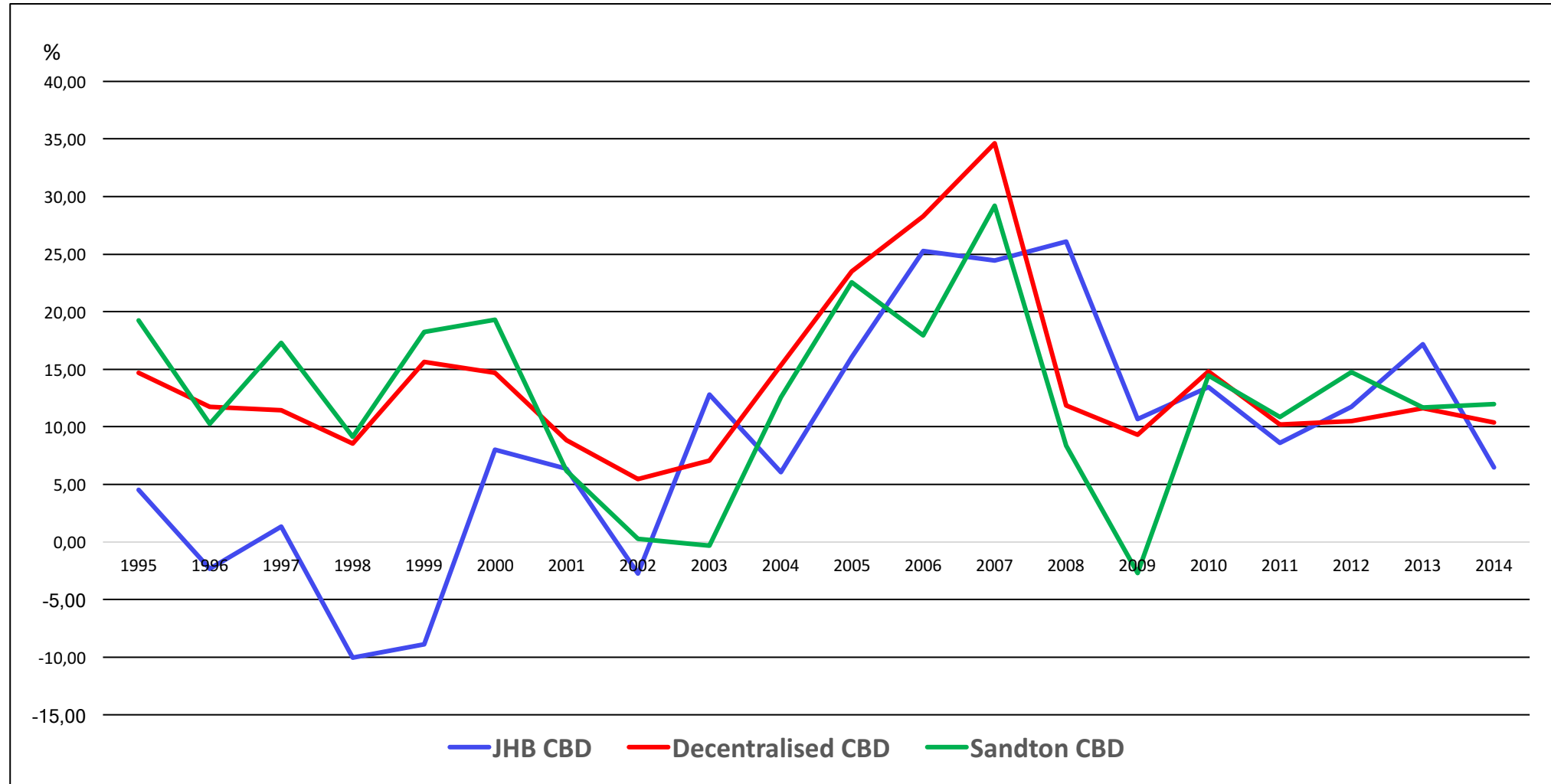
CBD Office Vacancy Rates

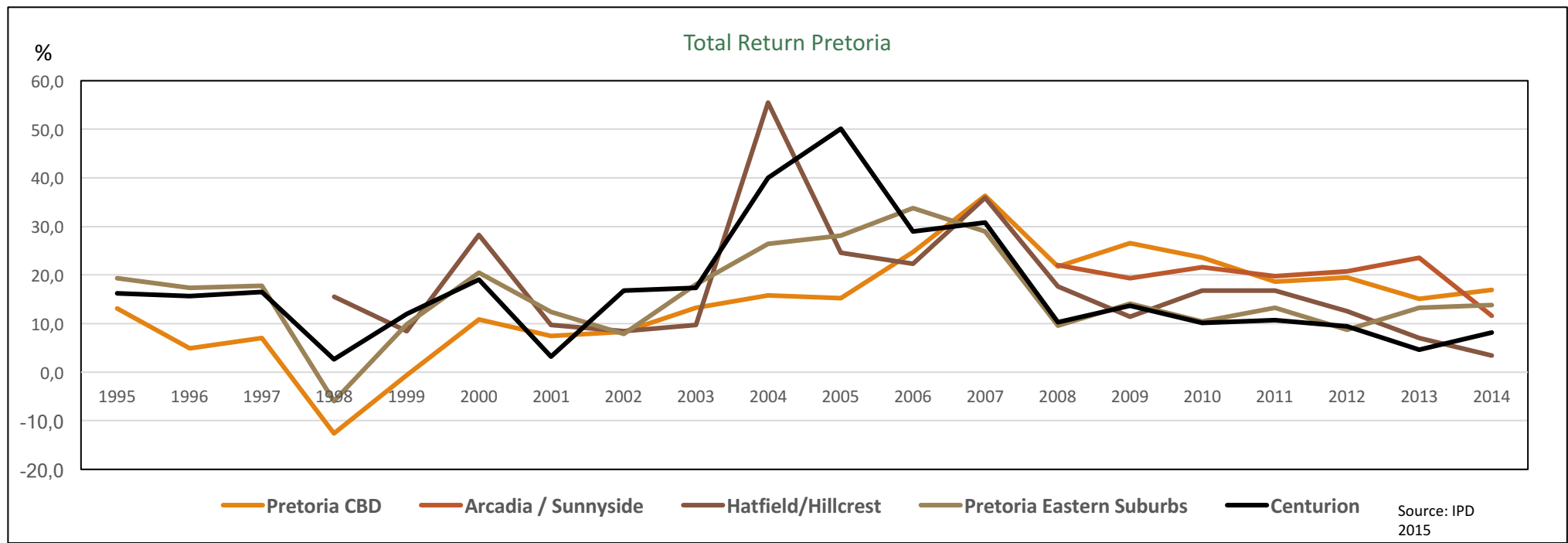
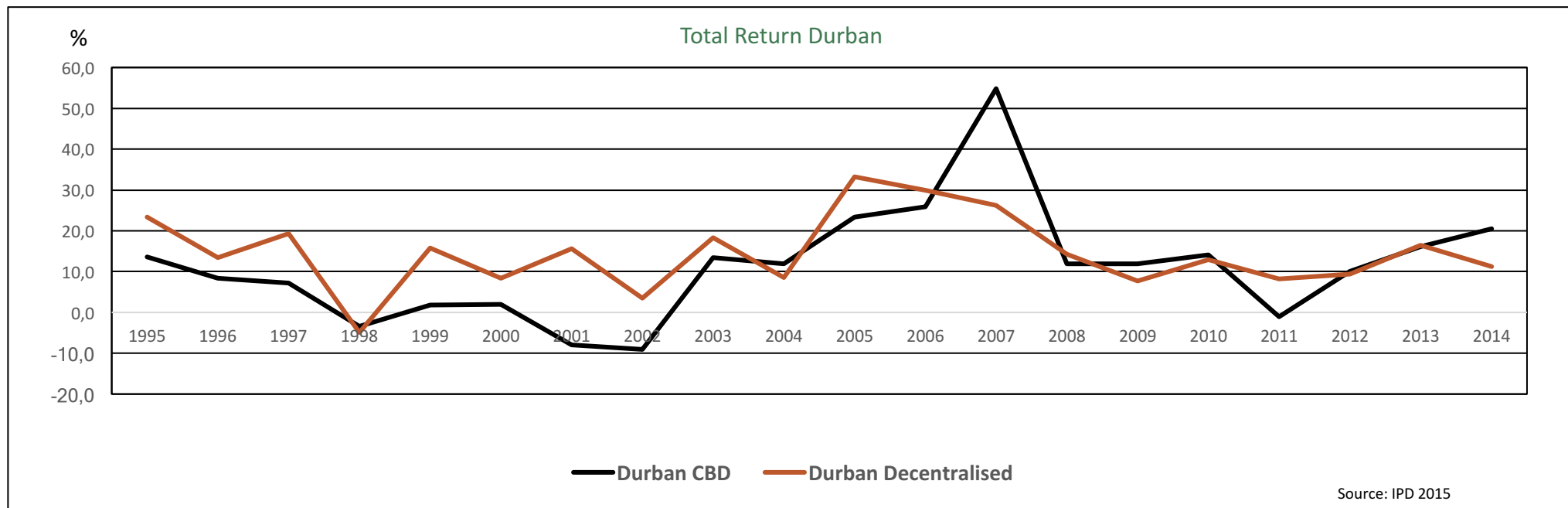


Decentralised Office Vacancy Rates



Total Returns Johannesburg



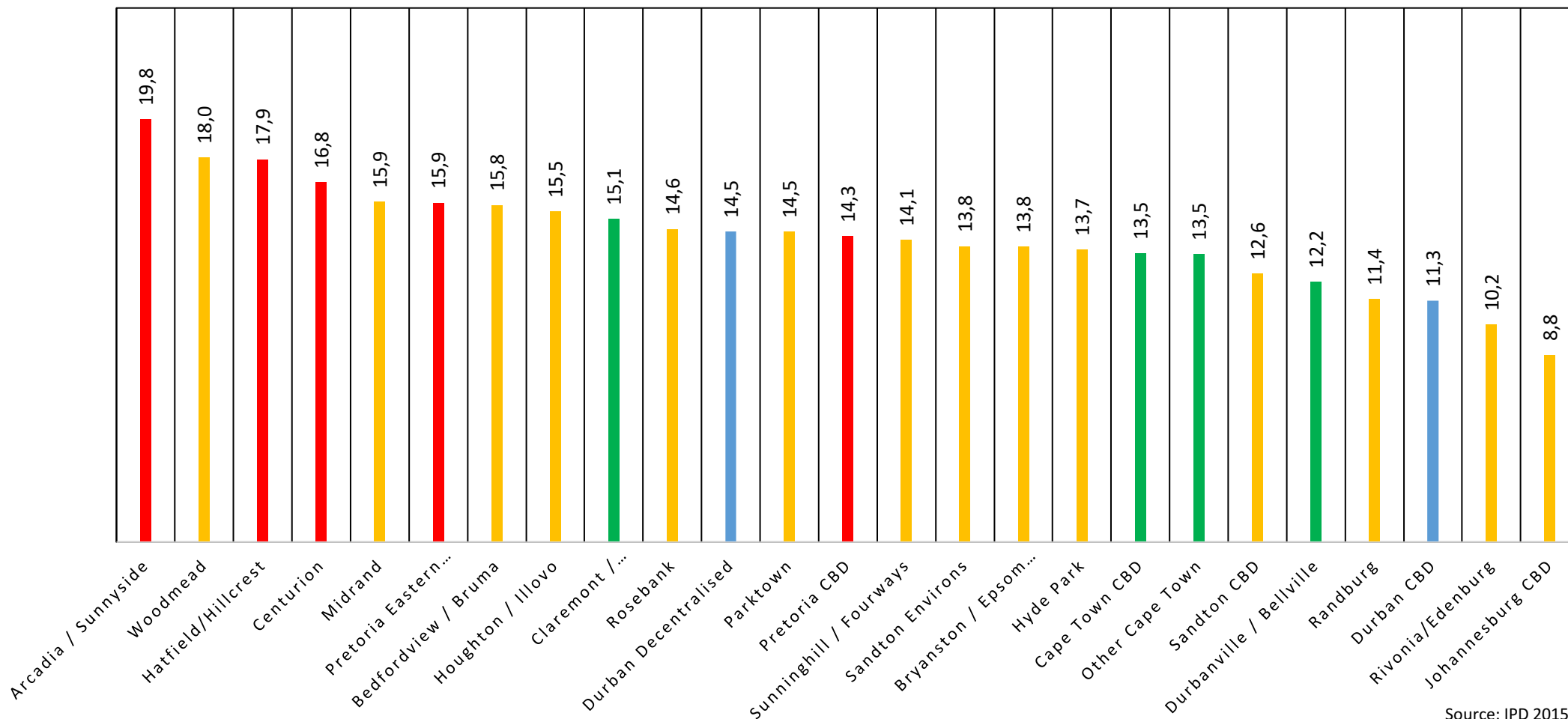


Total Returns CBDs and Decentralised Nodes

	Average 5 years	Average 10 years
JHB CBD	11.50	16.00
JHB Decentralised	11.51	16.51
Pretoria CBD	18.81	21.86
Pretoria Decentralised	12.84	18.82
Cape Town CBD	11.12	15.68
Cape Town Decentralised	11.54	14.98
Durban CBD	11.96	18.77
Durban Decentralised	11.62	16.94

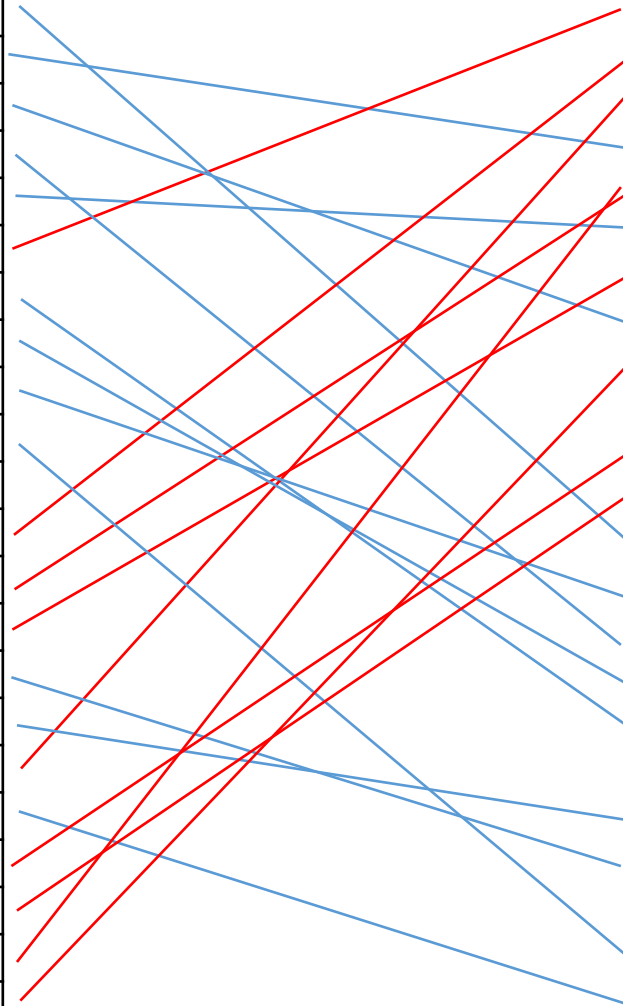
Average Total Return

Average Total Return Office (1995-2014)



Change in Stock vs Average Return

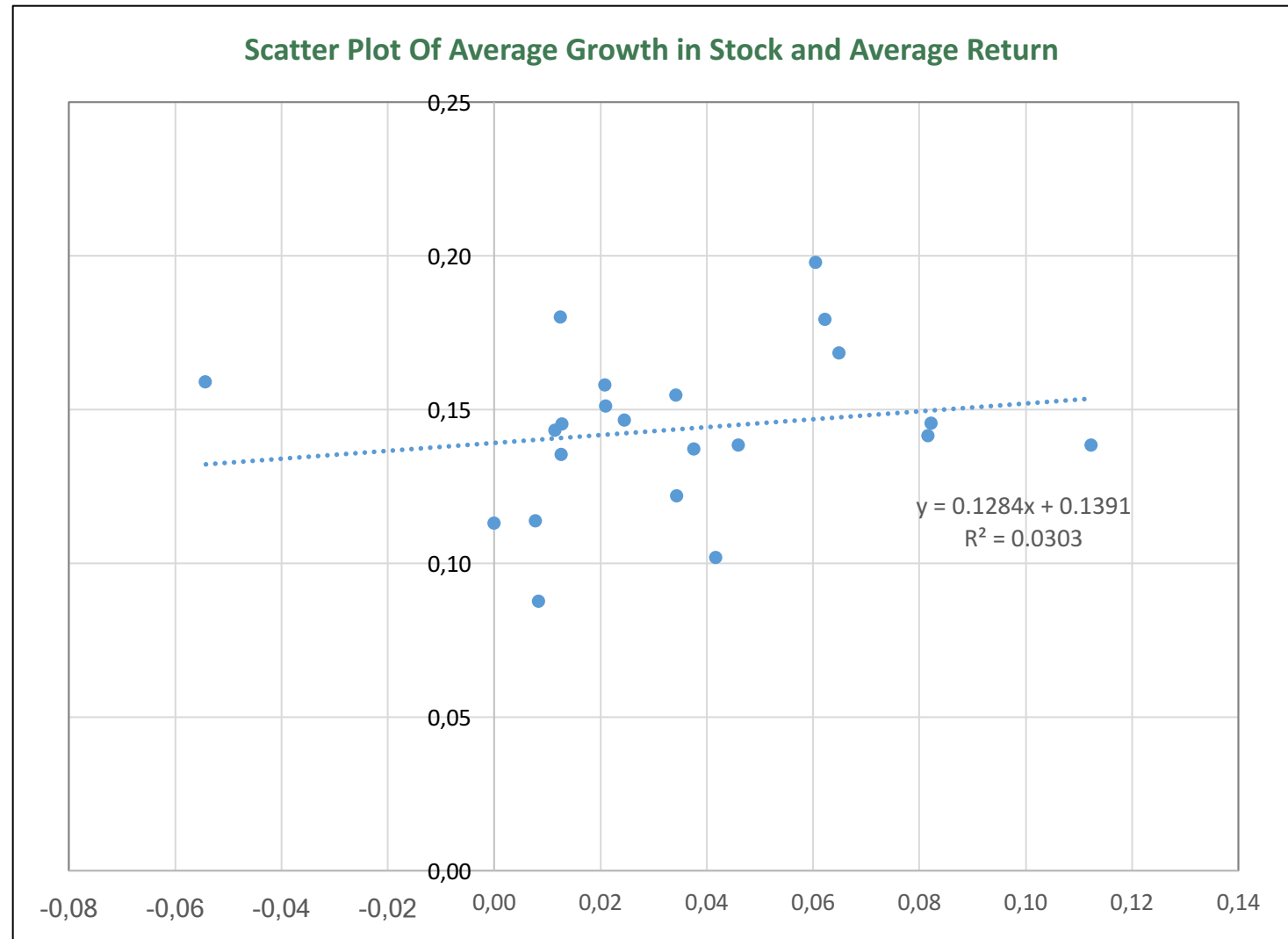
Nodes	Change in Stock Past 10 Years
Durban Decentralised	0.85
Arcadia	0.80
Centurion	0.72
PTA Eastern Suburbs	0.68
Woodmead	0.55
Pretoria CBD	0.50
Cape Town CBD	0.44
Bryanston/Epsom Downs	0.43
Hatfield/Hillcrest	0.32
Belville	0.30
Sandton and Environs	0.26
Rosebank	0.20
Claremont	0.20
Houghton/Killarney	0.19
Sunninghill	0.17
Johannesburg CBD	0.15
Parktown	0.13
Rivonia	0.11
Hyde Park/Dunkeld	0.06
Bedfordview	0.06
Rondebosch/Newlands	-0.02
Durban CBD	-0.03
Randburg	-0.12



Node	Average Return Past 10 years
Pretoria CBD	21.85
Rosebank	20.36
Parktown	19.81
Arcadia / Sunnyside	19.76
Claremont / Rondebosch	18.51
Woodmead	18.41
Houghton / Illovo	17.77
Centurion	17.56
Durban CBD	17.56
Midrand	17.19
Hyde Park	17.00
Bedfordview / Bruma	16.75
Durban Decentralised	16.66
Hatfield/Hillcrest	16.57
Pretoria Eastern Suburbs	16.43
Bryanston / Epsom Downs	15.78
Cape Town CBD	15.41
Sandton	15.59
Johannesburg CBD	15.50
Sunninghill / Fourways	13.51
Other Cape Town	13.33
Durbanville / Bellville	12.34
Rivonia/Edenburg	10.96
Randburg	9.69

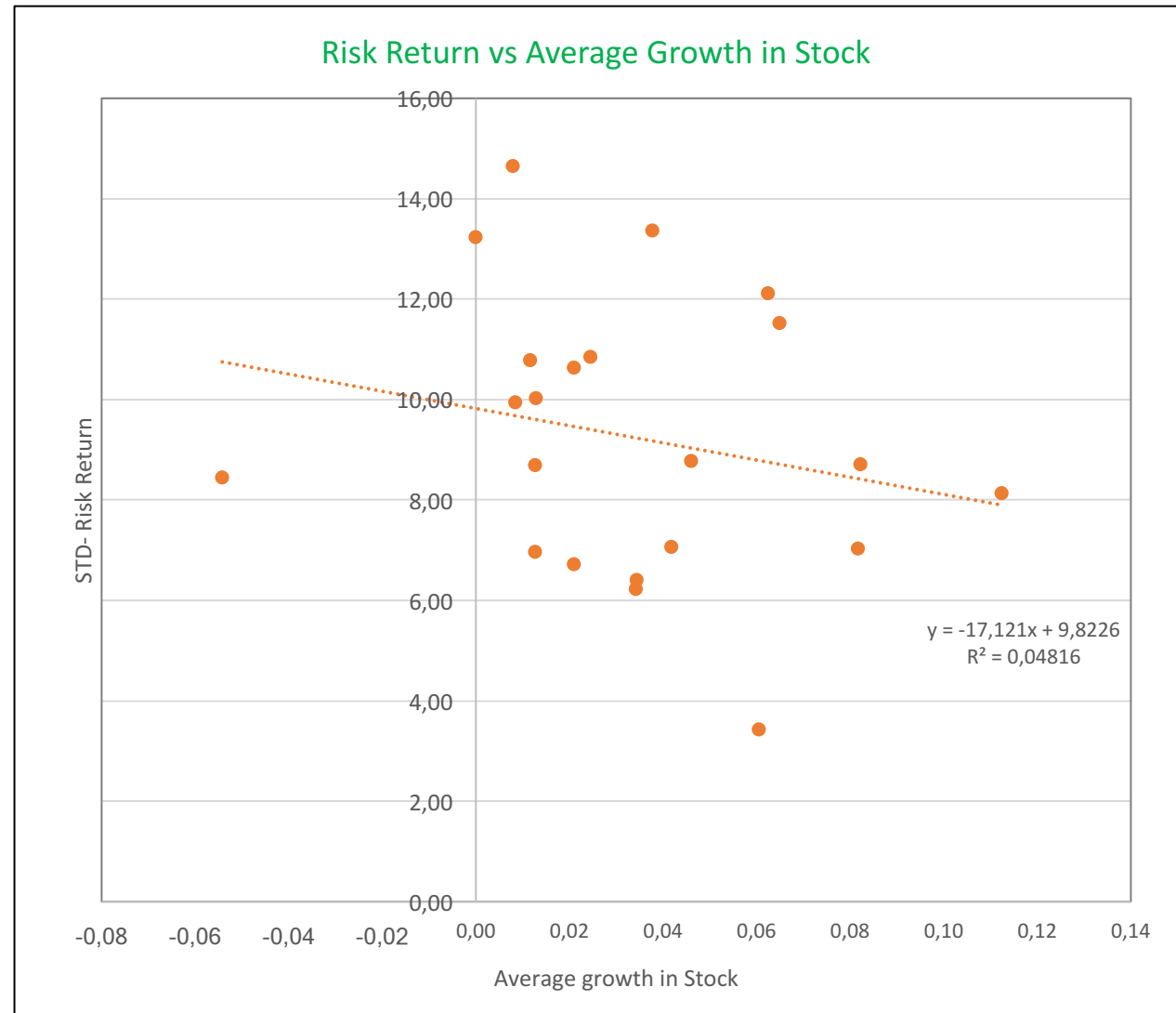
Average Growth in Stock and Average Return

Node	Average Growth in Stock	Average return
Johannesburg CBD	0.01	0.09
Bedfordview	0.02	0.16
Bryanston/Epsom Downs	0.11	0.14
Houghton/Killarney	0.03	0.15
Hyde Park/Dunkeld	0.04	0.14
Parktown	0.01	0.15
Randburg	0.01	0.11
Rivonia	0.04	0.10
Rosebank	0.02	0.15
Sandton and Environs	0.05	0.14
Sunninghill	0.08	0.14
Woodmead	0.01	0.18
Pretoria CBD	0.01	0.14
Arcadia	0.06	0.20
Centurion	0.06	0.17
Hatfield/Hillcrest	0.06	0.18
PTA Eastern Suburbs	-0.05	0.16
Cape Town CBD	0.01	0.14
Bellville	0.03	0.12
Claremont	0.02	0.15
Durban CBD	0.00	0.11
Durban Decentralised	0.08	0.15

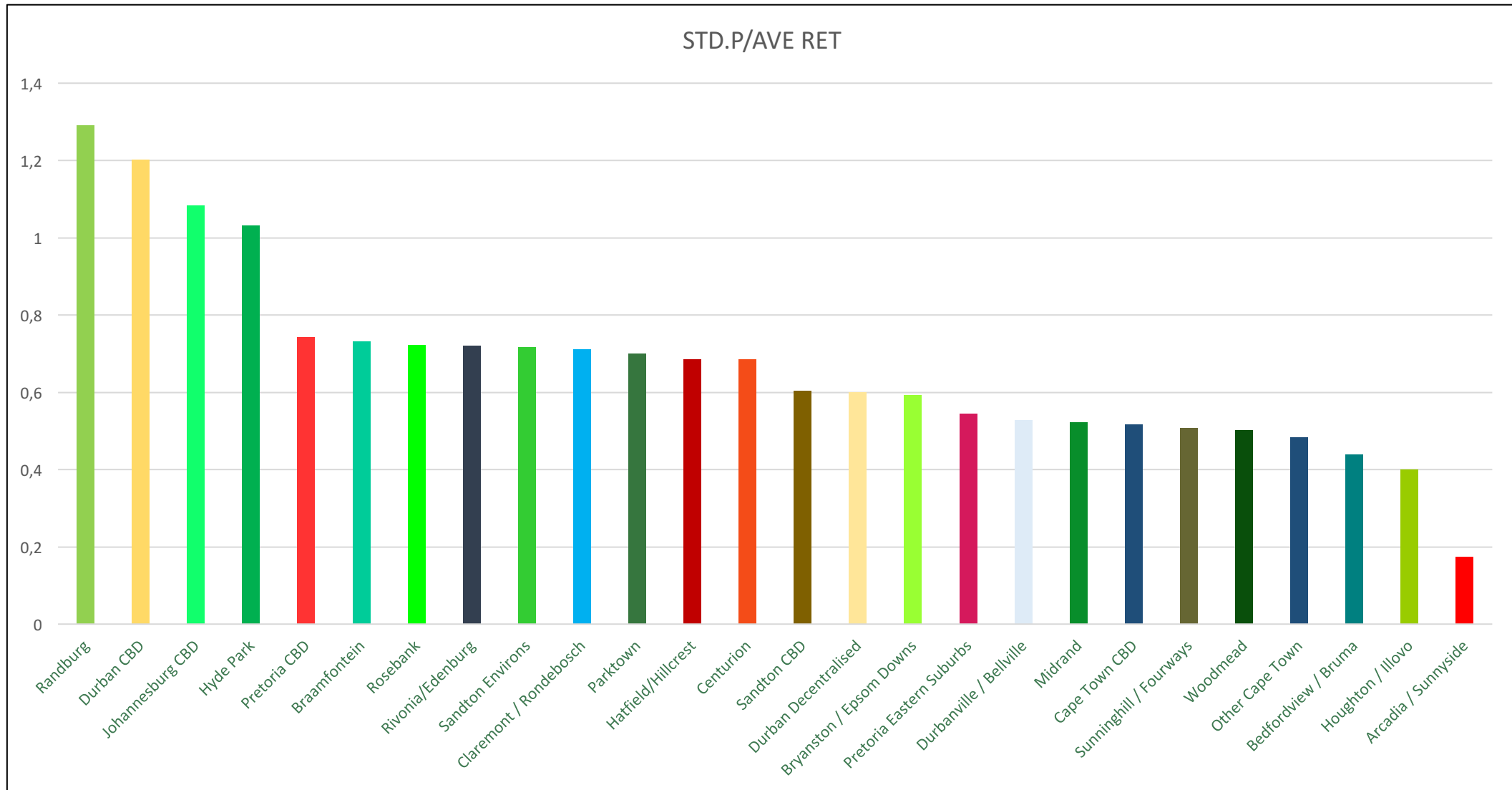


Risk Return vs Average Growth in Stock

Nodes	Growth	Risk Return
Johannesburg CBD	0,01	9,93
Bedfordview	0,02	6,71
Bryanston/Epsom Downs	0,11	8,12
Houghton/Killarney	0,03	6,22
Hyde Park/Dunkeld	0,04	13,35
Parktown	0,01	10,02
Randburg	0,01	14,64
Rivonia	0,04	7,06
Rosebank	0,02	10,84
Sandton and Environs	0,05	8,76
Sunninghill	0,08	7,03
Woodmead	0,01	8,69
Pretoria CBD	0,01	10,77
Arcadia	0,06	3,42
Centurion	0,06	11,50
Hatfield/Hillcrest	0,06	12,10
PTA Eastern Suburbs	-0,05	8,44
Cape Town CBD	0,01	6,95
Bellville	0,03	6,39
Claremont	0,02	10,62
Durban CBD	0,00	13,22
Durban Decentralised	0,08	8,70



Risk Return Analysis



Conclusion

- There seems to be a relatively weak relationship between returns and the growth of nodes.
- While CBDs have come under considerable pressure, it is not necessarily that they have shown the lowest returns, but they have high levels of volatility .
- To suggest that investors have left because of low returns does not seem to stand , neither because they are riskier.
- We need to undertake further work to assess the numerous factors that potentially influence investment decision making and the choice of investment nodes.