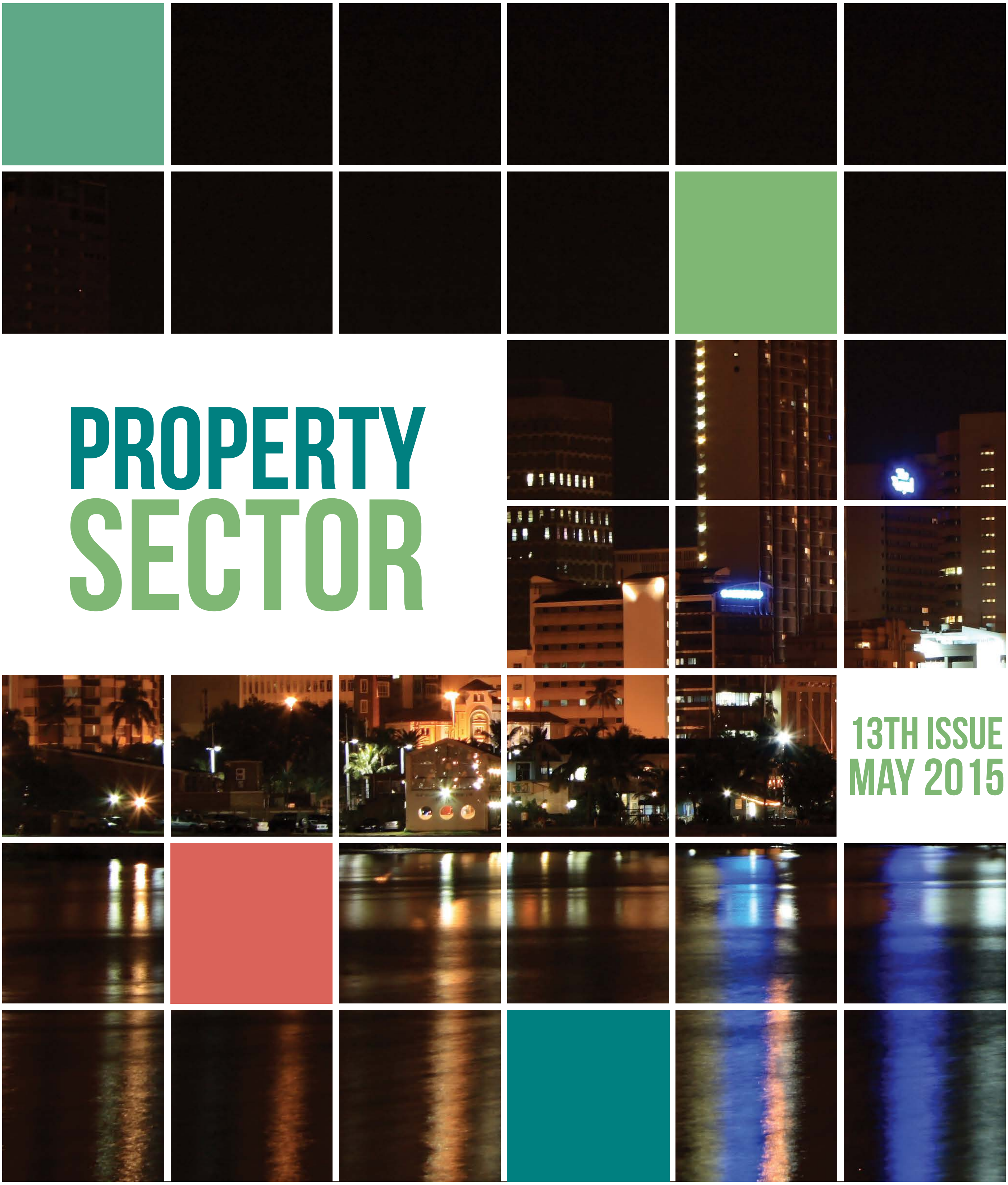
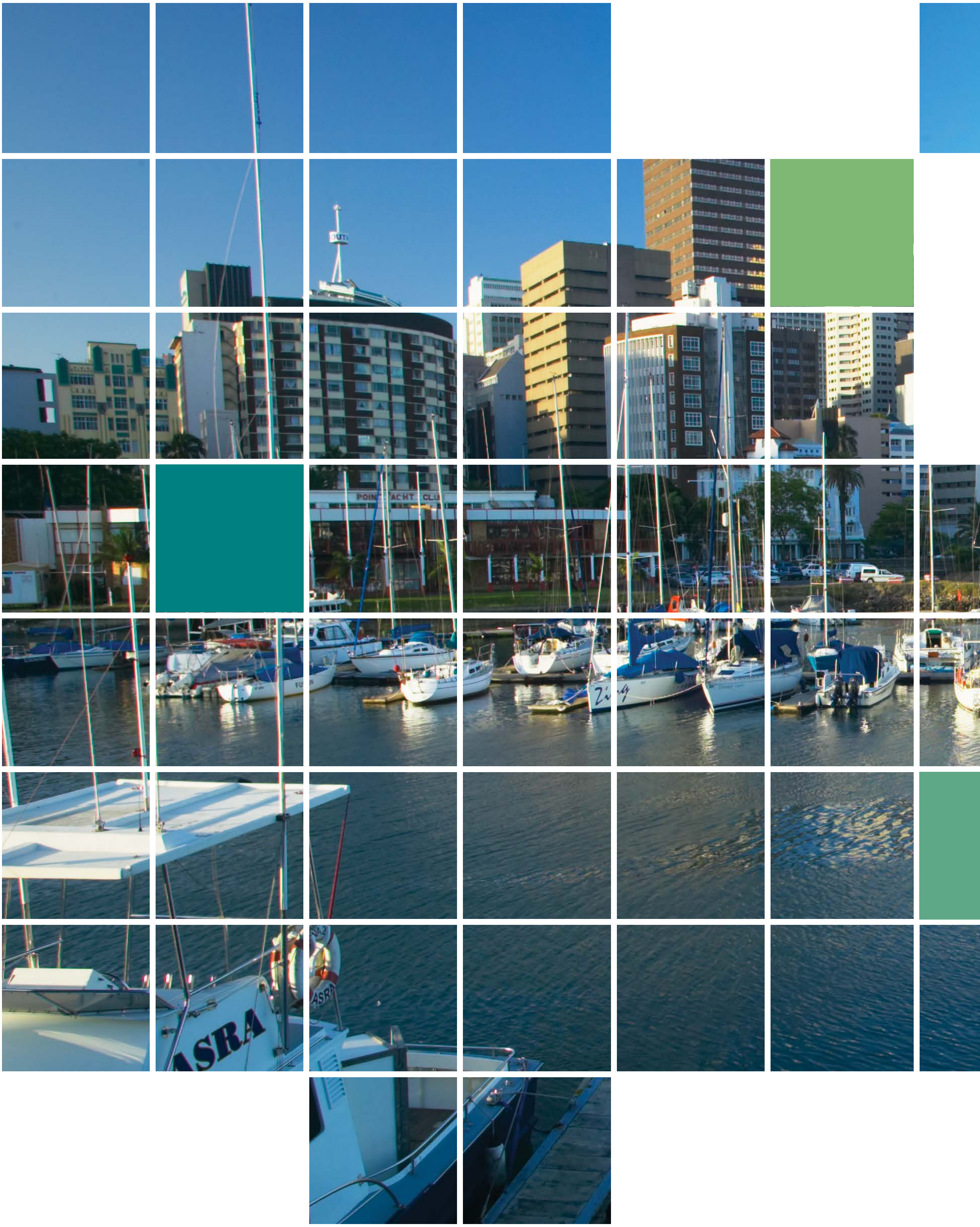


PROPERTY SECTOR

13TH ISSUE
MAY 2015

ETHEKWINI MUNICIPALITY

EDGE
Economic Development
& Growth in EThekwini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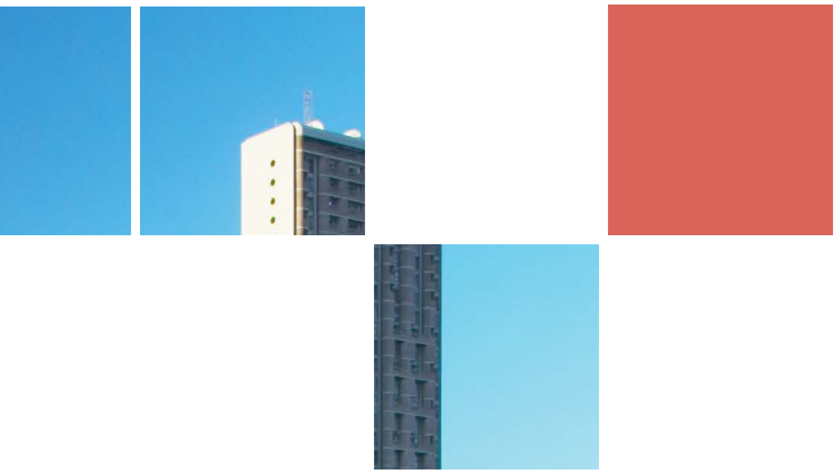

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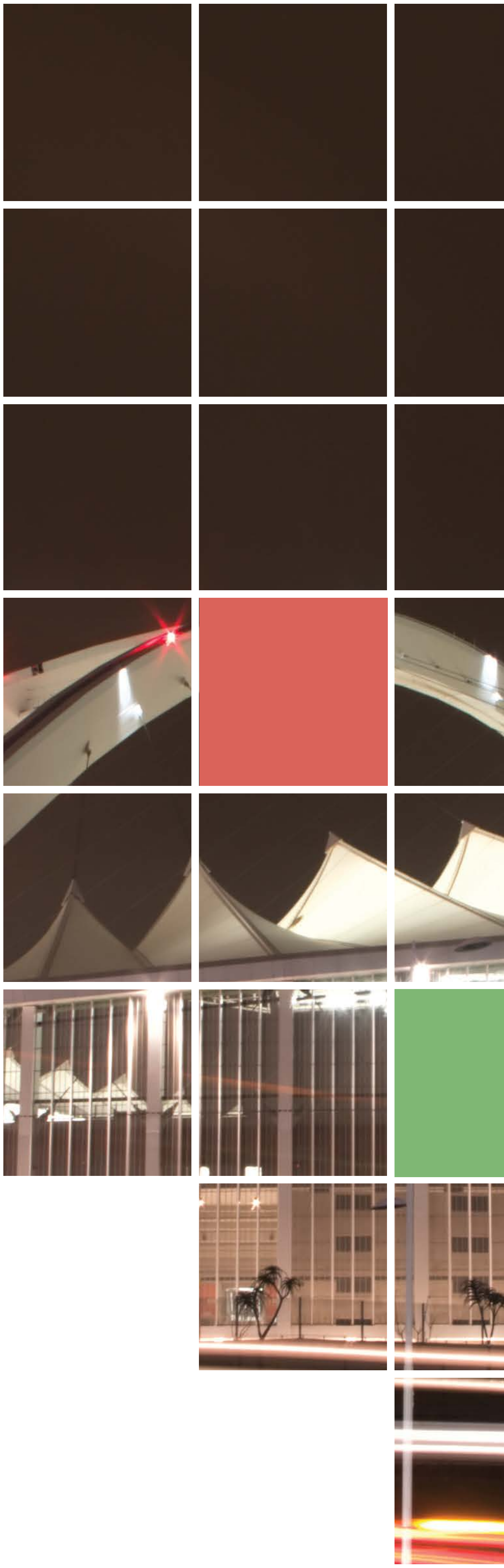

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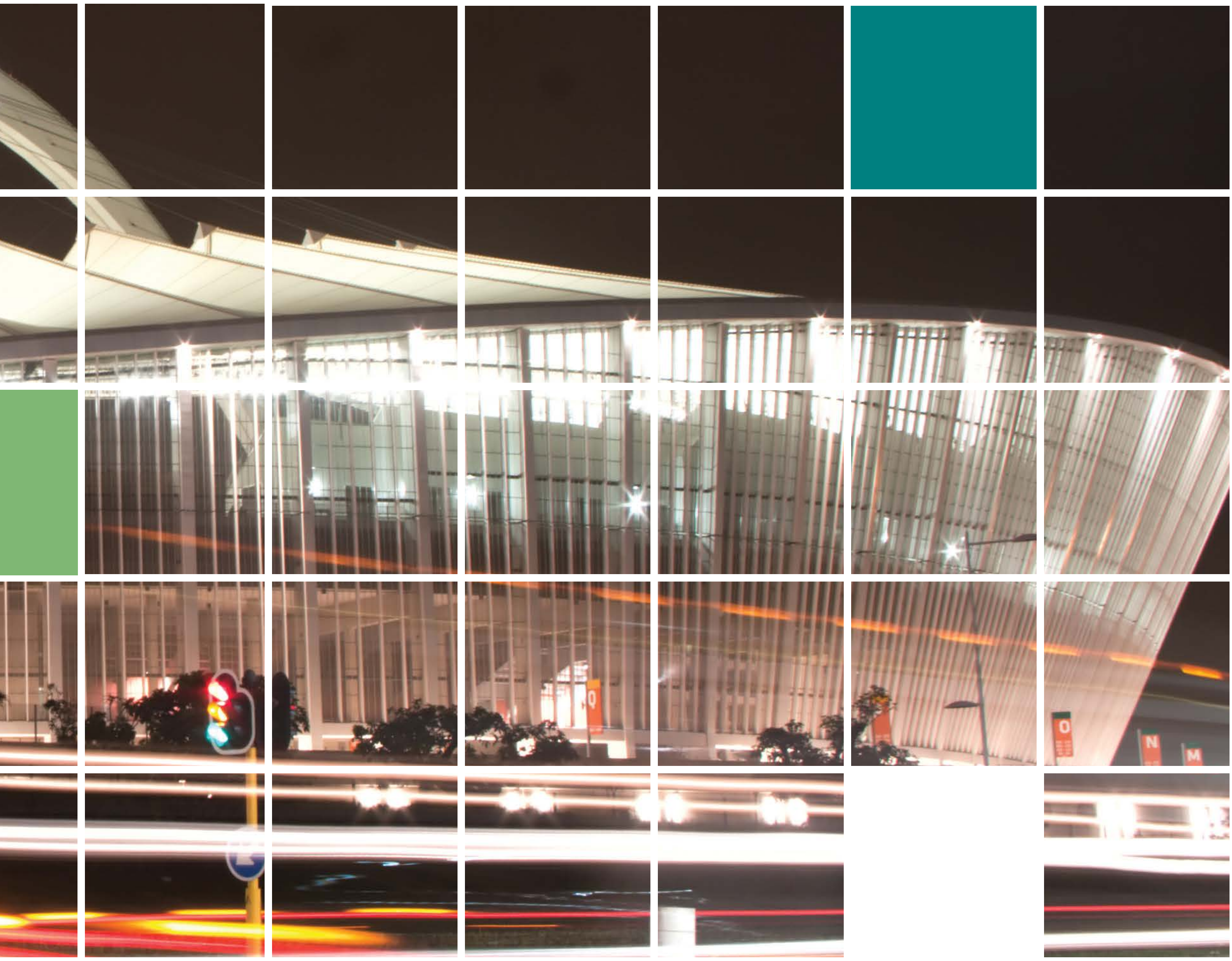
Welcome to the EDGE

Welcome to the thirteenth edition of The EDGE, a quarterly economic bulletin that looks at the eThekwini economy, with a brief overview of the global and national context.

Published by the eThekwini Economic Development and Investment Promotion Unit, The EDGE aims to inform stakeholders of the latest developments and trends in eThekwini.

The theme of this edition centres on the Property Sector within eThekwini.



Foreword by Her Worship the Deputy Mayor, eThekwini Municipality, Councillor Shabalala

Welcome to the 13th edition.

This past month has been a trying time for this beautiful city. While Durban has prided itself on its mix of cultures and portrayed itself as a cosmopolitan city, the ugly face of Xenophobia gripped the heart of the city in a wave of violence. While the shouts of the intolerant mobs numbering in their hundreds echoed throughout the world and particularly in Africa, the goodwill of the peace marches, the helping hands and messages of support from the millions of South African's were barely heard anywhere. Such is the nature of media reporting. However, Government moved swiftly both on the security front as well as on the social front, to quell the violence and extend humanitarian relief, while the issue of discrimination itself was being addressed at the grassroots level.

Property is a long term commitment and investors in property look for political stability which is a precursor to the economic growth needed to create demand for goods and services. The Municipality has worked hard in getting Durban recognized as an international destination for trade and travel, and our beautiful city won a number of globally prestigious titles. However, the events of the recent past have set us back immensely. But we will not allow our future to be made bleak by this! No, we will take up the challenge of ensuring investor confidence and the city's appeal as an investment destination, with even greater energy than before.

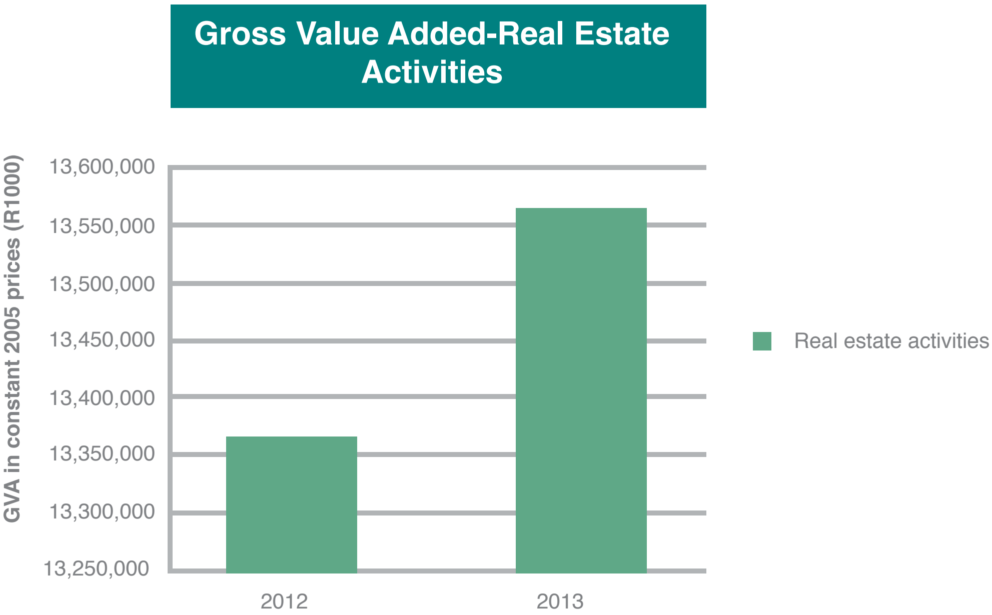
While doing this we cannot ignore the socio-economic conditions of joblessness, poverty and inequality which breed desperation, jealousy and then hatred. Government's focus on radical economic transformation has to be pursued with great vigour and conviction. Greater transformation is also required in the property industry in particular as well as in the patterns of land ownership. Job creation remains a fundamental factor in addressing the challenges that face the city.

In the coming financial year, the City is proposing to spend over R3 billion on public transport infrastructure and upgrading nodes along key public transport corridors. These transport corridors will form the framework for densifying the city, which is critical in improving people's access to urban opportunities. There will be significant investment opportunities in affordable housing as well as commercial development along these corridors, which we would encourage the private sector to get involved in. We urge stakeholders to join forces with the City as we roll out ambitious investment programmes through catalytic projects as the City seeks to increase the pace of economic growth and job creation. Working together we can build a prosperous future.

A Closer Look at the Property Sector

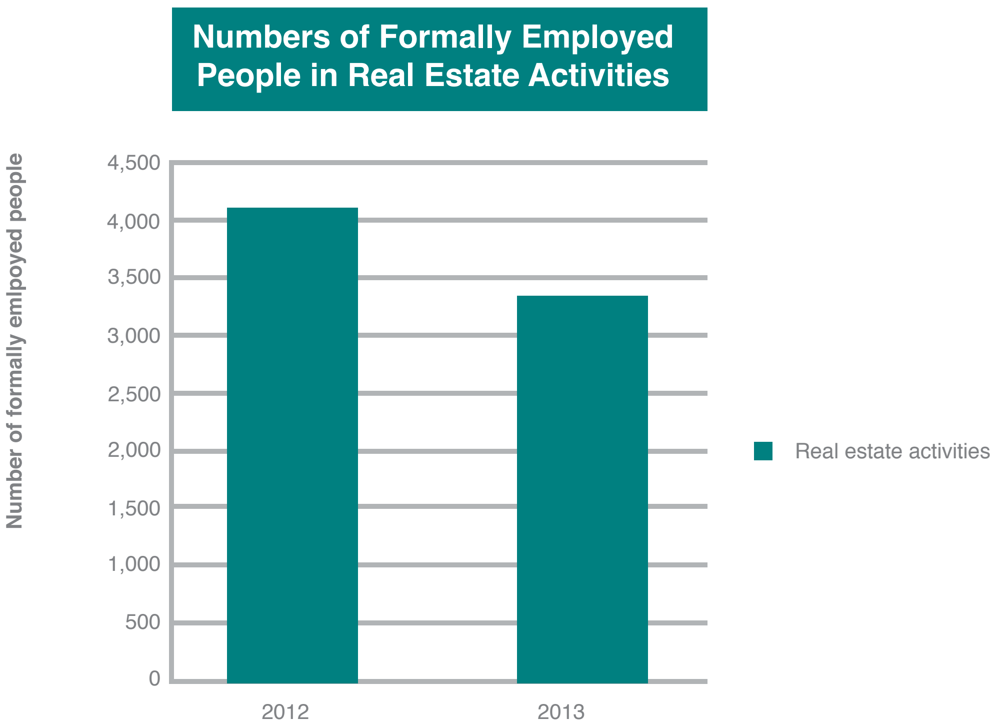
Economic Overview

Key Indicators



Source: IHS Global Insight

The graph above shows the Gross Value Added for the Real Estate Sector in eThekwini. One can see that there has been a slight increase of 1.5% since 2012. This shows that the sector is growing albeit at a slow pace.



Source: IHS Global Insight

The number of formally employed people in the Real Estate Sector in eThekwini is low and this has declined since 2012 by 18%.

Detail Summary Report-Land Use Management Applications Received / Finalised												
Region	Criteria	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	TOTAL	GRAND TOTAL
Central	Total Applications Received	620	559	630	621	524	327	381	456	646	4764	
	Total Applications Finalised	474	442	438	408	400	220	284	367	468	3501	
North	Total Applications Received	201	193	211	263	225	125	154	161	215	1748	10733
	Total Applications Finalised	160	143	168	205	173	94	119	129	180	1371	
South	Total Applications Received	131	123	172	110	88	71	110	109	145	1059	
	Total Applications Finalised	105	90	132	73	63	40	88	74	98	763	
Inner	Total Applications Received	304	254	249	233	229	134	161	166	282	2012	7926
	Total Applications Finalised	236	195	156	144	158	80	123	134	212	1438	
West	Total Applications Received	111	160	139	137	118	115	72	142	156	1150	
	Total Applications Finalised	81	117	101	84	87	79	64	116	124	853	

Source: Development Planning and Management Unit, eThekwini Municipality

The table above, shows the number of Land Use Management applications received and finalised for each of the regions in eThekwini. The highest number of applications for the various categories received and finalised are in the Central region, followed by the Inner West. Of the total applications received, 74% were finalised

The Global Property Market

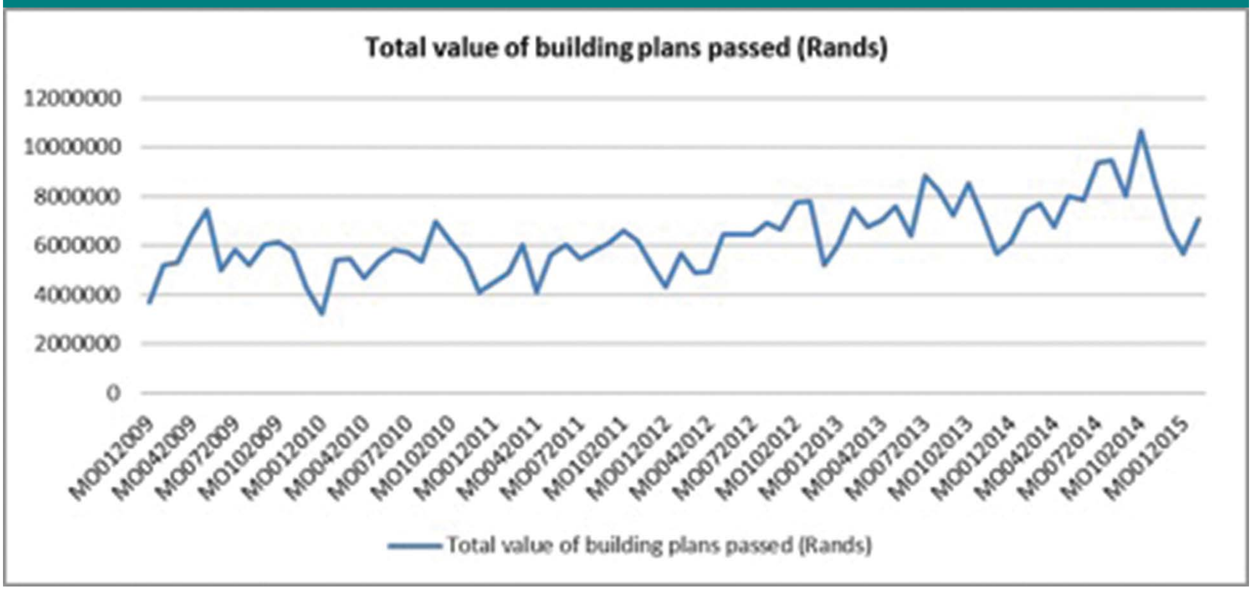
The global property market has bounced back from the impacts of the financial crisis in 2008/09, however, based on international surveys of businesses by major property research companies; it has been shown that despite the increased globalisation of the real estate market, investors still retain a significant focus on their respective domestic countries and regions. This is due largely to the political and economic uncertainty. Otherwise prominent investor preferences remain in London, New York, Toronto, Sydney, Tokyo and Munich.

During the recession there was a lag in the building activity, which resulted in a pent demand for retail and office space as the recovery gained strength. This has been buoyed further by the strong interest in commercial property following the wearing off of the global crisis in 2008/09 and the expected strong growth during 2014.

The South African Property Market

The South African property market is also recovering from the impacts of the global crisis in 2008/09. Since then, the total value of building plans passed averaged R 6 303 510 per month, and has generally shown a positive trend (Graph 1).

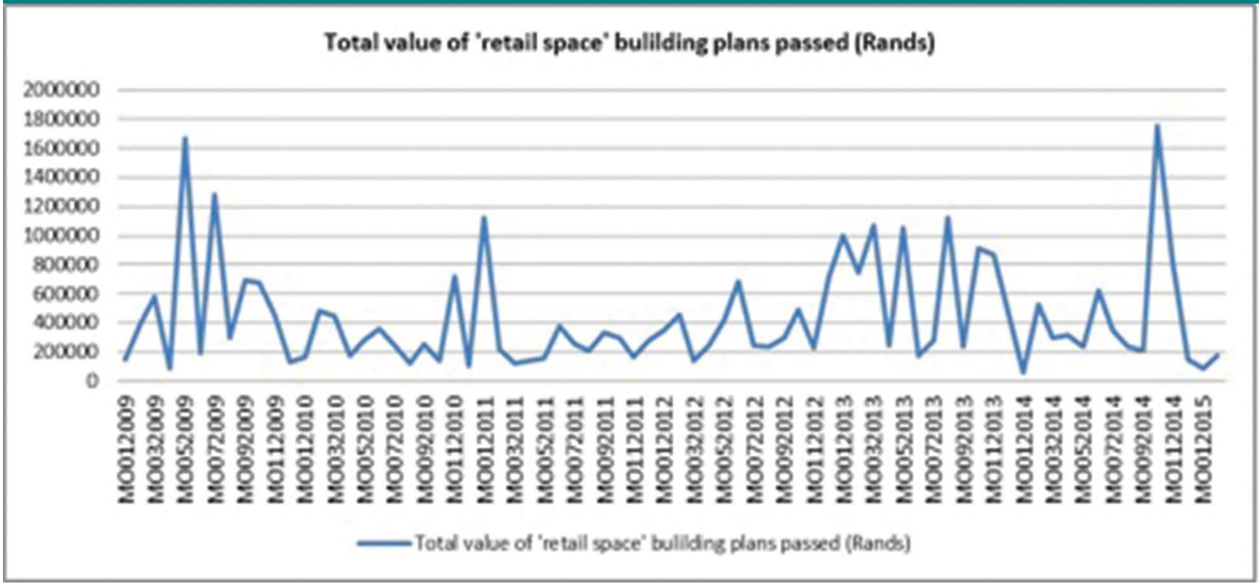
Graph 1: Total value of building plans passed (Rands)



Source: Stats SA

The South African residential property sector and the industrial and warehousing sector have also seen an expansion, with the total value of residential building plans passed having averaged R 2 799 954 per month, while the total value of industrial and warehouse building plans passed averaged R 558 992, 50 per month. The retail property sector and the office and banking property sectors have experienced ebbs and flows in the value of its building plans passed (Graph 2 and Graph 3), both with significant peaks towards the end of 2014. The total value of retail building plans passed averaged at R 437 150, 40 per month, while office and banking building plans passed averaged R 398 865, 40 per month.

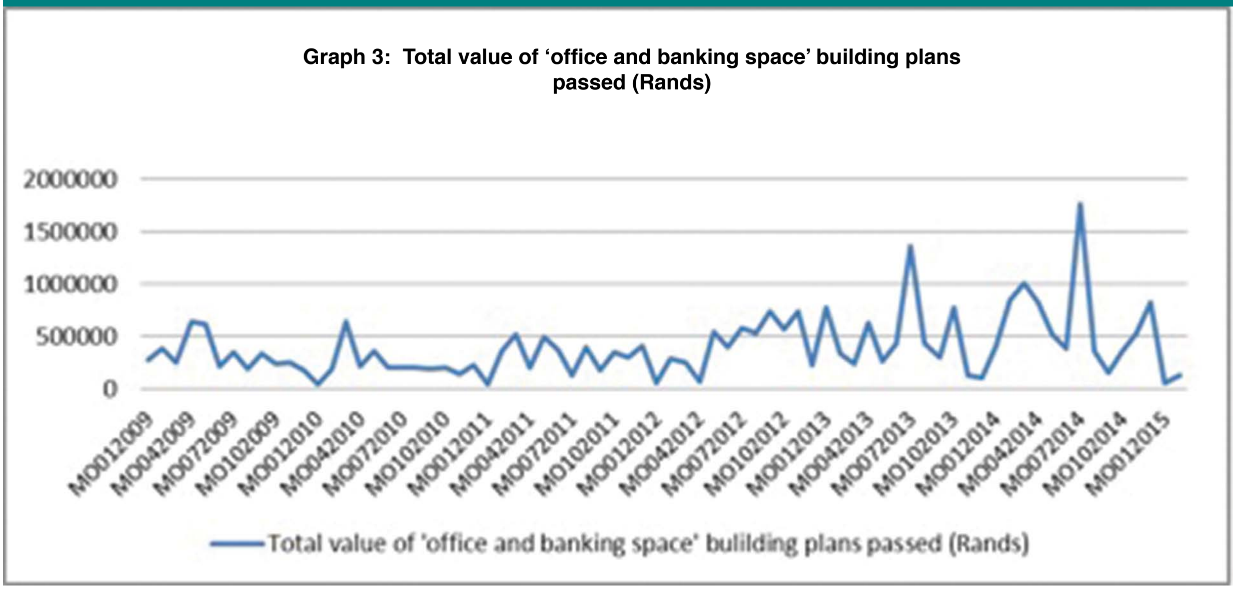
Graph 2: Total value of 'retail space' building plans passed (Rands)



Source: Stats SA

Selected building statistics of the private sector as reported by local government institutions (P5041.1). Available online http://www.statssa.gov.za/?page_id=1854&PPN=P5041.1

Graph 3: Total value of 'office and banking space' building plans passed (Rands)



Source: Stats SA

The macroeconomic environment faces many challenges that impact directly on the key drivers of the office, retail and industrial property markets. The economic growth rate for 2015 has been adjusted downward by the South African Reserve Bank (SARB) from 2, 5 per cent to 2 per cent . This may reduce the demand for industrial space, however, the services sector has been outperforming the manufacturing sector for many years and this may still drive up moderate demand for office and retail premises.

The Determinants of the Performance of the South African Commercial Property Sector

Author: Professor Francois Viruly, Director, Viruly Consulting

Decisions made by public and private sector actors in the built environment have an important role to play in creating a platform from which economic growth and development take place. The demand for space and the performance of property markets is determined by the sector's ability to adapt to the socio-economic realities that it serves. Moreover the strength of the relationship between private and public sector players in the built environment is important in maintaining the connection between the built environment and the delivery of socio-economic objectives, as expressed in Integrated Development Plans (IDP) and Spatial Development Frameworks (SDF). From a practical perspective it requires investors and developers to deliver properties and an urban form that supports the changing needs of households and business entities.

The South African property market continues to record a strong performance in a domestic economy characterised by lacklustre economic growth. The performance of the South African economy has been affected by uncertain growth in the global economy, weak levels of aggregate demand, as well as structural impediments such as power outages. On average annualised basis economic growth has slowed to 2.4% in the period 2010-2014 compared to an average of 3.6% in the ten years to 2010. Reflecting the performance of the South African economy, the commercial property market is recording a mixed set of returns. In the past three years the South African commercial property sector recorded total returns of 14.6%, reflecting a yield of 8.7% and a capital growth of 5.5%. The KwaZulu-Natal commercial property market outperformed the market with a return of 20.3% for the retail sector and returns of 13.7% for the office sector and 17.8% for the industrial sector.

Table 1 National Total Returns IPD over three sectors

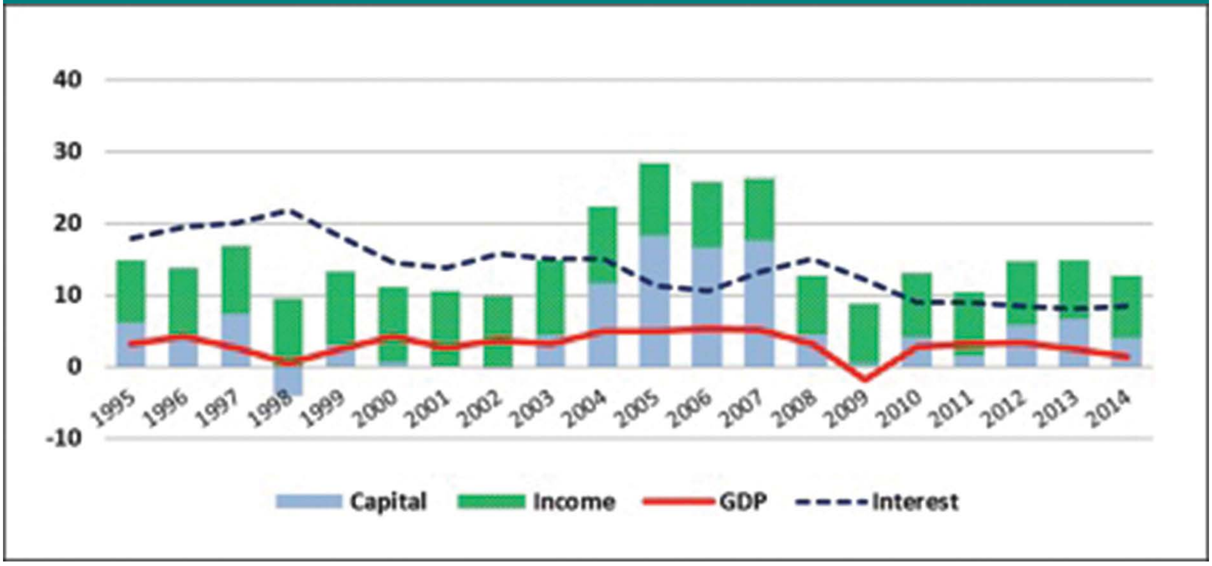
Sector	National Total Returns (Capital and Yield) 3 year Average 2012-14
Retail	16.0%
Office	12.3%
Industrial	15.4%
Total	14.6%

Source: IPD

In 2014 the retail warehousing performed particularly well with a return of 20.1%, followed by small single standing retail shops (17.7%) and small regional shopping centres (16.2%).

The overall performance of the South African commercial market is illustrated in graph 1 which shows that since 2008, the market has provided stable total returns ranging between 10% % and 15%.

Graph 1 Total IPD Returns versus GDP Growth



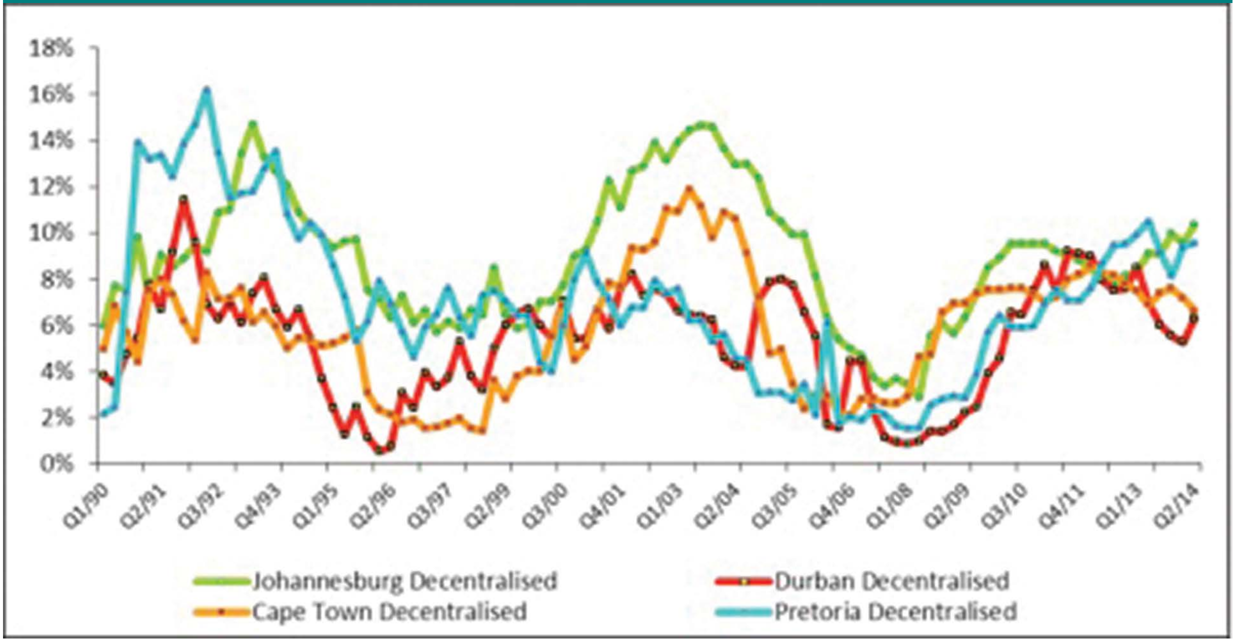
Source: IPD

The level of investment and development in the retail sector is responding to structural changes in existing catchment areas largely as a result in rising densities, and a changing urban form that reflects new relationships between home , work , play and education . The strong performance in the industrial sector is to a significant degree driven by a modernisation of the logistics sector, and a changing online retailing environment which is blurring the boundary between retailing and warehousing space.

The office sector continues to experience relatively high vacancy rates with investors focusing on the letting of space and reconfiguring space to reflect changing work methods . The decentralisation of office space and the “disconnection” that has occurred between the supply and demand for office space in South African CBDs remains an important dynamic in the office sector.

While there is some evidence that vacancies are declining, the performance of the office market varies considerably from one geographic node to the next. A slowdown in building activity in the office market suggests that vacancy rates should, during the course of the year, trend to the natural vacancy rate of approximately 8%.

Graph 2 Decentralised A and B Office Vacancies

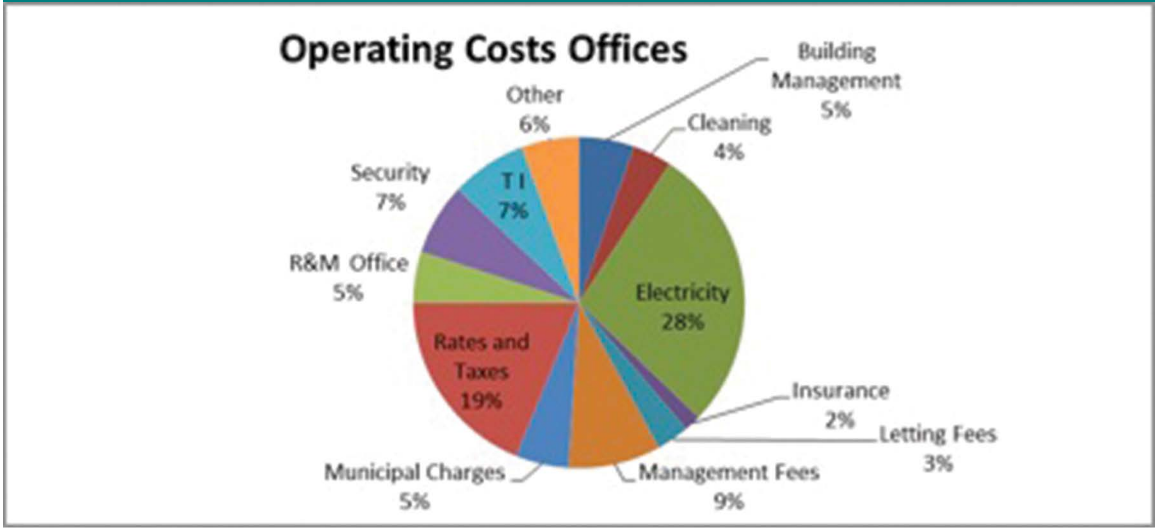


Source: SAPOA-Viruly

As illustrated in the graph above, vacancy rates are cyclical in nature reflecting the economic cycle as well as dynamics in the property market, but equal consideration should be given to the effectiveness of urban regeneration programmes. Vacancy rates in decentralised Durban nodes have strengthened in recent years, outperforming other South African cities. This possibly being a reflection of the fact that the Durban property market is less characterised by speculative developments.

Of particular concern to the property sector has been the significant rise in administered costs which increased by approximately 8% in 2014. As illustrated in graph 2 the rise in operating costs implies that a growing proportion of gross rentals are being absorbed by operating costs. In 2014 the average ratio of operating costs to gross income was 40.2%, the ratios in the retail, office and industrial sectors being 44%, 38% and 37.4% . Some 50 % of operating costs, namely electricity, water, rates and taxes and utilities are affected by administered prices. The sector is finding new ways to improve electricity and other operating costs through the introduction of green building principles.

Figure 1 Operating Costs: Offices



Source: IPD

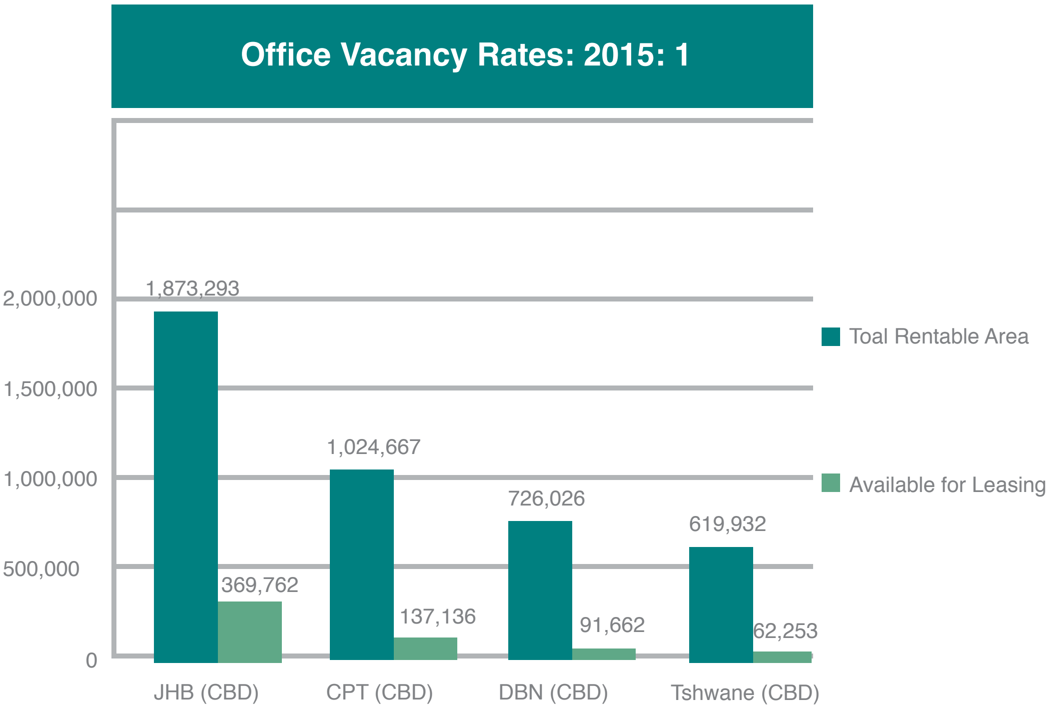
The short term performance for the South African commercial property market will continue to be influenced by the trajectory of the global and local economies , interest rates and in particular the performance of the retail sector. The property clock for the South African commercial property market suggests that the retail and industrial sectors will continue to outperform the market, with the office sector consolidating as vacancy rates decline.

Figure 2 Property Clock as April 2015

In the longer term the challenge for the property sector is to ensure that it continues to adapt to rapidly changing technological and socio-economic environment. Important drivers will include the focus on public transport, green buildings and a changing retail environment. In South Africa the challenge for investors, developers and communities lies in the creation of a built environment that supports broader socio-economic transformation and provides a platform for local economic growth and development

The Durban Property Market

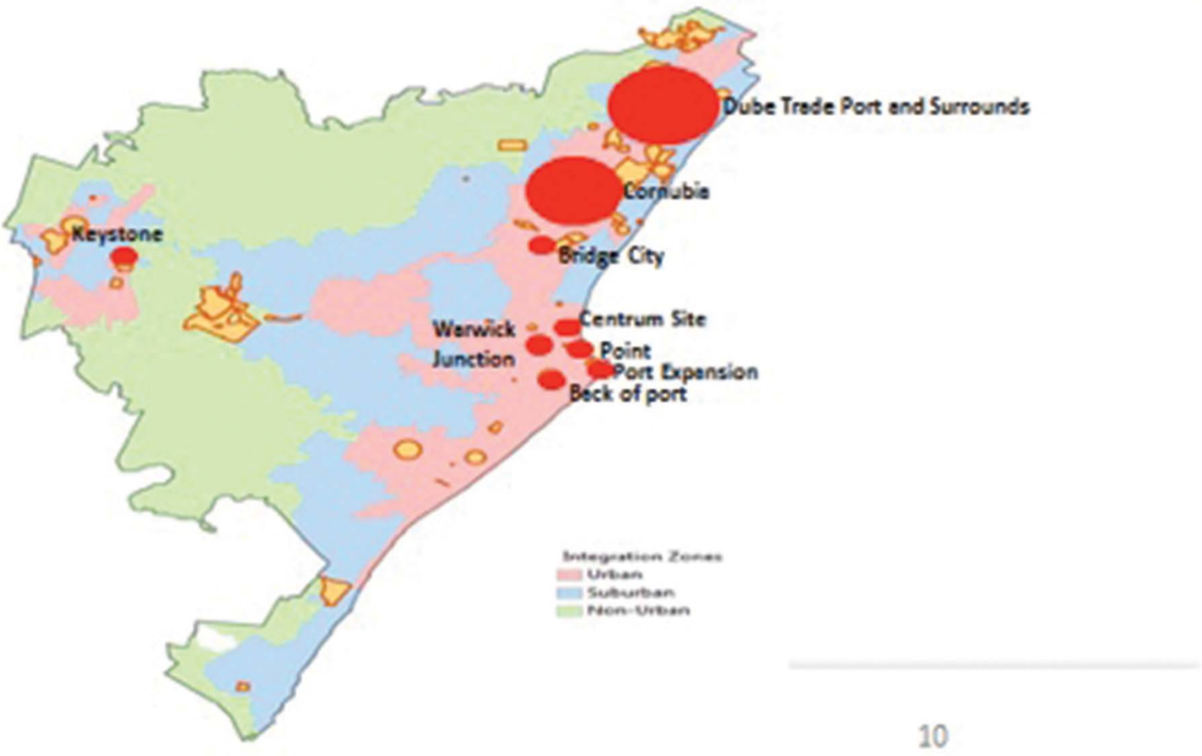
The eThekwini retail, office and industrial markets have shown varied levels of demand depending on the specific node, supply of available space and the macroeconomic commercial market fundamentals. The demand for industrial and office space has been strong in the major nodes that include Berea, Umhlanga/La Lucia and Westville.



According to the South African Property Owners Association's (SAPOA) latest quarterly office vacancy schedule, the national office vacancy rate was 11.2%, only marginally up from 11.1% from the previous quarter. The above graph shows the total rentable area and the available area for leasing for the four significant CBDs. EThekwini CBD had the 3rd lowest at 12.6% with the Johannesburg CBD having the highest at 19.7%. Cape Town was 13.4% and Tshwane 10%. The SAPOA Office Vacancy Report also revealed that during the last quarter, the national inner city office vacancy rate improved to end at 14.9% while the decentralised nodes posted an aggregate vacancy rate of 9.7%.

EThekwini will increase its supply of prime new office space in the future after the completion of significant mixed-use developments: the Cornubia project (See Map of Catalytic Projects) in the north of Durban will provide 2 million square metres of commercial space; 80 hectares for industrial development and 24 000 housing units (of which 15 000 will be low cost housing units) over the next 20 years. Another significant development offering investment and trading opportunity is located at Dube TradePort.

Catalytic Projects in or Near Implementation



Development in relation to the Built Environment Performance Plan

The Built Environment Performance Plan (BEPP) is a compulsory plan which cities submit annually to National Treasury. The purpose of this Plan is to illustrate the manner in which a city intends to align and spend national grants which have been earmarked for infrastructure development. The core policy objective to be pursued through BEPPs is to facilitate the development of cities which are not only compact, but also develop cities which are integrated, productive, inclusive, liveable and sustainable.

EThekwini Municipality's BEPP 2015/16 outlines the primary characteristics of its catalytic projects. By ensuring that major developments within the Municipality adhere to these characteristics, the Municipality can safeguard that its developments are spatially efficient and improve the quality of life for citizens, and nurture a competitive business environment. The BEPP characteristics which the eThekwini Municipality adhere to include:

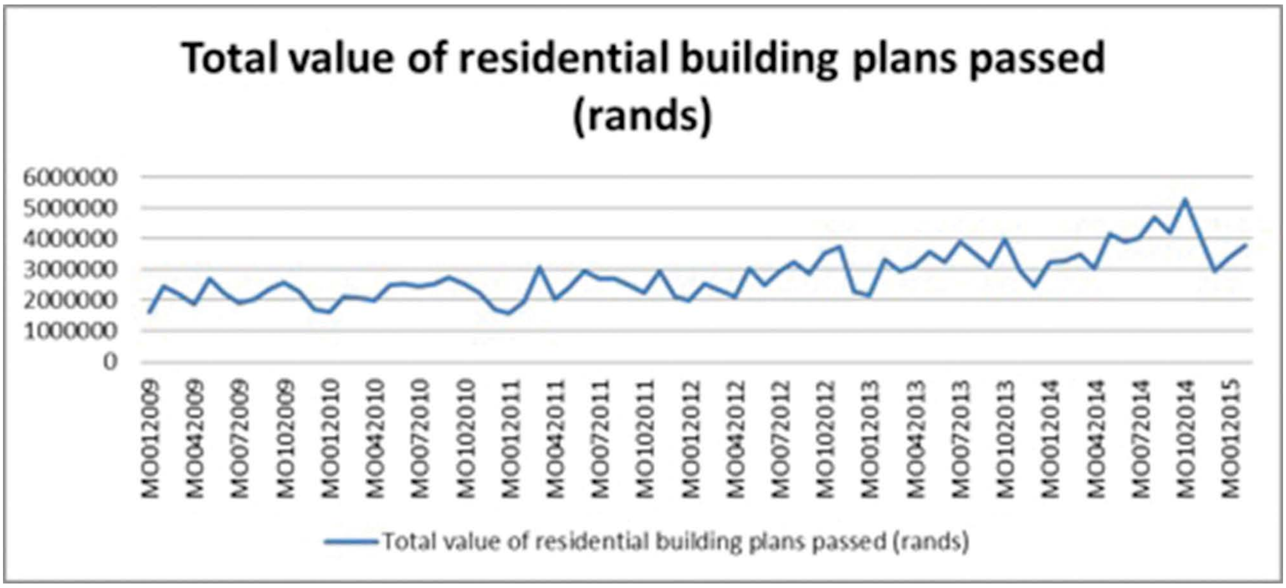
- Urban development projects are mixed and intensified land uses, where residential developments cater for people across income bands, while ensuring increased density. Residential developments must also ensure appropriate access to public transport systems.
- Urban development projects are strategically located within integration zones in cities, to ensure that the projects are likely to have a significant impact on spatial form.
- Urban development projects require significant investment in infrastructure and require a combination of public sector funds to leverage private sector investment and unlock household investment.
- Urban development projects require specific skills across a variety of professions and have multiple stakeholders.

Spatial prioritisation and the Economic Development Dashboard

In 2013/14, eThekwini Municipality developed an Economic Development Dashboard to: track investor interest; calculate infrastructure requirements for each reported investment opportunity; calculate infrastructure costs; record job creation statistics (both temporary and permanent jobs); track rates returns; and identify spaces which could be opened-up for social development.

The most recent iteration of the Dashboard identifies several 'A-list' development projects for the Municipality which include Dube Trade Port and surrounds the Cornubia development.

The infrastructure costs associated with the A-list developments is approximately R 2, 2 billion, of which R 900 million will be funded by national and provincial spheres and state entities, with the remaining R1, 3 billion being locally funded.



Catalysing Growth in the Property Market

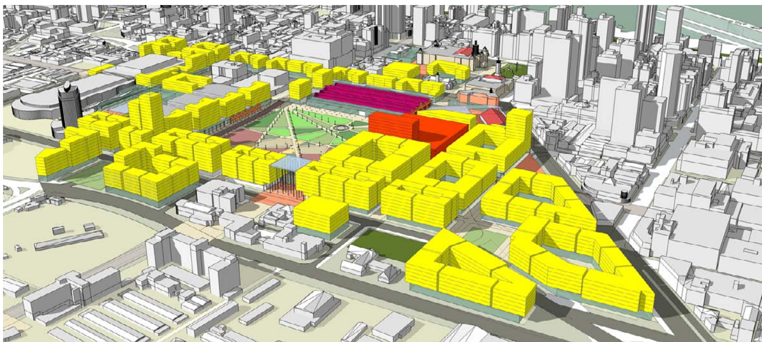
Durban or EThekwini is characterised as a low density city which, like other apartheid cities, is fractured spatially according to race and income levels. The spatial form of the city places a huge burden on lower income households to travel long distances daily between home and work. National Treasury through its City Support Programme has realised the pivotal role that cities have to play in addressing the challenges of poverty, unemployment and inequality. Meeting the goals of the National Development Plan cannot be achieved through further patterns of spatial fragmentation which sees low income development mushrooming on the fringes of the metro. The City has identified some catalytic projects in support of its Economic Development and Job Creation Strategy adopted about a year ago, aimed at addressing the triple challenge as well as the spatial fragmentation. An important informant to the 2015/16 capital budget was the need to unlock areas for such investment. These investments will play an important role in boosting the local real estate sector over the next 10 years which will largely be responsible for the City's growth in rates revenue as well as driving the job creation priority.

Cornubia

The mixed use Cornubia development is one of the City's largest and most strategic projects for the short and medium term and consequently a priority in terms of the capital budget. The 1 200 hectare site is owned in portions by the City and Tongaat-Hullet. It is estimated that the cost of full development, which will occur in phases over the next 10-15 years, will include R18billion worth of public investment and a further R27billion worth of private sector investment. The first phases of this mixed use development included the development of an 80 hectare industrial park which is currently in progress and has attracted significant interest from the transport and logistics sector as well as manufacturing. The first phase also included the development of 480 subsidised homes; while a further 2 221 will be completed over this financial year and next year. The priority for next year will also include the development of the Flanders Road interchange which will provide access to the proposed commercial centre. To date, more than R2 billion has been invested into Cornubia by the City and Tongaat Hulett, with a further R100 million being invested by other private developers. The full development will include 24 000 houses built over 10 years, 15 000 of which will be subsidized, and it is estimated that it will create about 53 000 direct jobs during construction and 40 000 jobs on-site when the development is fully operational. The construction will contribute directly R8.5billion towards Durban's GDP during the construction period and R3.3 billion directly towards Durban's GDP once it is fully operational.

Dube Trade Port

Dube Trade Port (DTP) is strategically located in the City's northern growth corridor. DTP consists of the King Shaka international Airport as well as a trade platform for time sensitive goods. This includes air freight facilities, storage and processing facilities as well as land-uses such as high value intensive agriculture, offices, hotels and retail space. The site is 1,800 hectares in extent of which 500 – 700 hectares are for industrial development and a further 1.3m² of commercial floor space. The total value of public and private sector investment is anticipated to be R32.8bn which includes R640 million of municipal infrastructure spending and R920 million from the South African National Roads Agency limited (SANRAL) and the Department of Transport. DTP has was also designated as an Industrial Development Zone in July 2014 and has become a prime investment locale within KwaZulu-Natal for agro-processing and time sensitive manufacturing.



“In the coming financial year, the City is proposing to spend over R3 billion on public transport infrastructure and upgrading nodes along key public transport corridors”

Dube Trade Port has acted as a catalyst for development along the northern corridor and a number of other strategic developments have been initiated by the private sector such as Inyaninga, uShukela, and Sibaya, amongst others.

• **UShukela:**

uShukela is 80 hectares in extent, of which 50 hectares is developable as a business, industrial and logistics precinct. Development plans for uShukela include both airport-related and non-airport-related activities and could provide for light industrial facilities, offices and conferencing services, as well as automotive and home centre zones. It will consist of 430 000m² of platform area.

• **Sibaya:**

The Sibaya precinct is already home to a world class casino and conference centre and the entire development will happen over several phases, relating to specific nodes. However, Node one and five are at an advanced stage and in readiness for implementation. Node One includes 49,6 developable hectares and has the potential to include 1 140 residential units, 130 hotel rooms and 65 800m² of commercial space. Node Five consists of 76,7 hectares of developable land which makes provision for 1 185 residential units, 490 hotel rooms and 37 900m² of commercial activity.

• **Inyaninga:**

Consists of a 350 hectare site which is planned for the development of dedicated Light manufacturing business park to respond to the DTP logistics platform. The duration of the project is 5 - 7 years. In addition to this there are commercial and residential components.

Bridge City

The Bridge City development is strategically located at the entrance point to the residential townships of Phoenix, KwaMashu, Inanda and Ntuzuma, which is home to more than 750 000 people. The development consists of a 60 hectare serviced site upon which the Bridge City shopping centre was built and is now in operation. The shopping centre is also located on top of a regional intermodal hub (passenger rail, bus and taxi) developed to serve the city's Integrated Rapid Public Transport Network, which will form the backbone of public transport. In addition a regional magistrate court is currently being developed as well as a new 500 bed regional provincial hospital. A government mall is proposed on the site and further investment opportunities exist for the development of 4500 - 5000 residential units in the affordable and lower-middle income housing markets. In total, the development will consist of R10 billion worth of public and private sector investment.

Inner City

The Inner City is the heart of the metro and the primary node for office, sport and leisure, commercial services as well as high density residential accommodation. It is also the civic core and transport hub in addition to its proximity to the country's premier port. The revitalisation of the inner city is a priority for the Municipality and will be driven through a number of projects which are aimed at reinforcing and catalysing the economy of the inner city. These include, but are not limited to the following developments:

• **Point**

There has been renewed interest in the Point area and impetus by both the City and its Malaysian partner UEM Sunrise. A Technical Steering Committee has been set up and a new Framework Plan crafted which will form the basis for the development of 750 000m² of mixed use commercial and residential development which equates to an R15billion investment over a 5 – 10 year period.

• **Centrum Development**

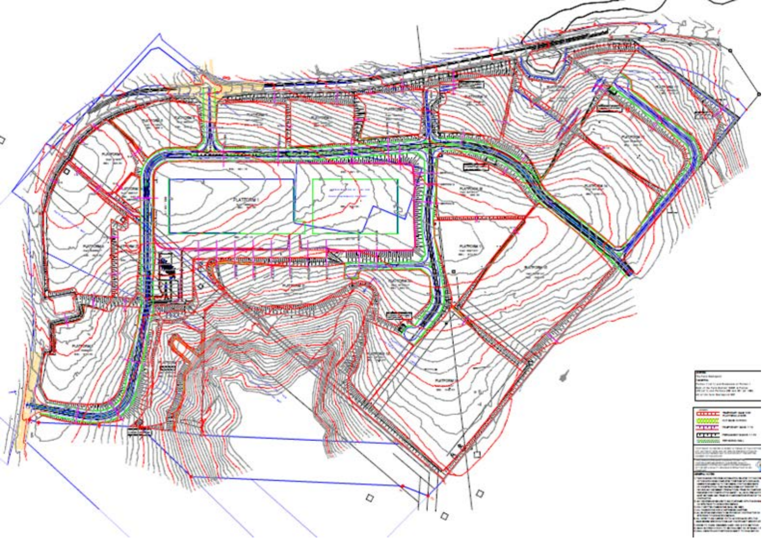
This development comprises of an R4bn public and R11bn Private Investment which a major public transport hub, 500 000m² of commercial bulk, 6000 residential units, a regional library and municipal complex. The possibility of an innovation hub is also being investigated.

• **Warwick Junction**

Warwick Junction is the busiest transport hub in the province and one of busiest in the country. The area currently consists of bus, taxi and nearby rail facilities, and is supported by large markets as well as numerous small businesses, residential and educational facilities. The planned investments into this area will include a municipal-led initiative which will consist of R250 million worth of investment into transport facilities and infrastructure. This will be supported by a further R250 million private sector investment into a retail development. Further investment opportunities also exist for retail, high density residential as well as mixed use developments. The overall plan provides for an ultimate development which will be in the order of R3 – 5 billion

Keystone

The proposed Keystone logistics and industrial park is situated adjacent to the Hammarsdale industrial node, and is strategically located alongside the national freeway (N3) and forms part of the Strategic Integrated Project (SIP) 2. SIP2 is one of the country's 18 national priority projects and relates specifically to the development of the Durban to Gauteng logistics and industrial corridor. This corridor is the country's most strategic economic corridor which links the country's premier port (port of Durban) to the economic heartland (Gauteng). Industrialists seeking to minimise logistics costs will be ideally placed within the metropolitan area along this corridor – Keystone meeting both criteria. This greenfields industrial park consists of 150 hectares of serviced land at a construction cost of R1 billion. The public sector is investing a further R350 million in the upgrade of the Hammarsdale interchange. The ultimate investment into this project including top structure will be approximately R5 billion. The project will commence implementation in the near future and is considered ready for investment.



Integrated Rapid Public Transport Network (IRPTN)

The city's Integrated Rapid Passenger Transport Network (IRPTN) is branded as Go Durban! and comprises nine transport corridors linked by bus, rail and taxi modes of transport across the eThekwini region by 2027. The development is divided into 4 phases:
Phase 1 has been prioritised around four critical corridors including rail, and is expected to be completed by 2018. It will comprise three Bus Rapid Transit (BRT) routes and one rail corridor. The three BRT routes consist of Bridge City to Durban CBD, Bridge City to Pinetown, and the Bridge City to Umhlanga Corridor. The rail corridor is Bridge City and KwaMashu via Berea Road to Umlazi and Isipingo.

The Phase 1 network will accommodate approximately 25% of the total trunk public transport demand on road-based BRT services with a further 40% being accommodated by the trunk rail network. Phase 1 implementation to be completed by 2018 will cost about R10bn and commenced in Pinetown at the beginning of March. Its focus is on the Durban city centre, Pinetown, Bridge City, KwaMashu, Umhlanga, Umlazi and Isipingo. Through Go Durban! the City hopes to ensure that 85% of all residents will have access to safe, affordable and scheduled public transport. Speaking at a South African Property Owner's Association (SAPOA) Breakfast on 17 April (2015) leading Property Economist Professor François Viruly predicted that the next big trend in the residential property market will be in the R400 000 – R500 000 range. He indicated that this will be directed towards the new public transport corridors as people seek to improve on the efficiencies related to the time and cost of traveling to work. This will support the approach of the City and National Treasury in promoting city densification which will improve on the on home - work access and result in greater disposable incomes available for spend on other items as well as result in cities that work more efficient and are environmentally sustainable.

Conclusion

The projects outlined above are not a comprehensive list, but rather an indication of some of the key investments that are at an advanced stage within the approval and development process. It is clear that investment appetite is increasing in the great Durban area. Added to this is the introduction of development incentives from the 2015/16 financial year aimed at fast tracking investments that create jobs and boosts the City's rates revenues. The Municipality's investment dashboard further provides a tool which alerts the administration of key developments and where facilitation is required to unblock investments that have significant value to the city. Durban is attracting significant investment interest and appears to be poised for growth over the next 10 – 15 years. Further to this, significant future opportunities in the residential market appear to be in the R400 000 range and property developers need to seek innovative ways of investing into this largely untapped market in Durban.

Achieving Radical Economic Transformation in the Property Sector: BBBEE and the newly revised Property Sector Codes

The property sector in South Africa and eThekwini are imperative because of how they represent and reflect the state of the Nation and City's economic wealth and ownership. The Property Transformation Charter is of particular interest because of its nature as a proactive initiative by the property sector to contribute to economic transformation in South Africa. The Charter envisions property relations which reflect an equitable demographic in South Africa- a potentially prized tool in the drive to achieve what has been coined as 'radical economic transformation'. In short, the Property Transformation Charter is the property sector's initiative on how to practically apply BBBEE in the property sector.

This is driven by the Property Sector Charter Council, who have- taking their cue from the DTI's recently revised BBBEE codes- introduced higher minimum BBBEE requirements in key economic priority areas: ownership, skills development, enterprise and supplier development. Smaller property entities are to comply in at least two areas, while larger entities must comply in all areas. A business must score a minimum of 40% of its target in the each of these priority areas, or it will drop a BEE level. The revised codes are included in the image next page:

B-BBEE Contributor Status	Current Qualification	New Qualification
Level One	≥100 points	≥100 points
Level Two	≥85 but <100 points	≥95 but <100 points
Level Three	≥75 but <85 points	≥90 but <95 points
Level Four	≥65 but <75 points	≥80 but <90 points
Level Five	≥55 but <65 points	≥75 but <80 points
Level Six	≥45 but <55 points	≥70 but <75 points
Level Seven	≥40 but <45 points	≥55 but <70 points
Level Eight	≥30 but <40 points	≥40 but <55 points
Non-Compliant	<30 points	<40 points

A commentary by Pareto CEO Marius Muller (Interviewed in 2014 by Fin24, in "Property Sector Must Keep Transformation Charter), provides interesting, on the ground insight. Muller points out that the revision of Property Sector BBBEE codes is important because property sector has previously had lower transformation targets (than other sectors), and still not met even these. For example, for listed property companies, the level of mandated investment is 70%, so they only need 7.5% black ownership (as compared to 15% black ownership in other sectors) to be transformed. Muller points out that businesses outside of the property sector had generally been given 10 years to reach their 15% black ownership targets, contrasted with property companies, who have 20 years to achieve their - reduced -7.5% targets. Despite this, nearly 10-years down the line, the property sector is nowhere near its halfway mark of 3.75% of black ownership. According to Muller, the need for transformation in the property sector is made even more obvious by the fact that 11 out of the 78 listed property executive director positions are filled by black persons and only one is female. Even then, only two of these black directors have reached to their positions as part of an established business- a sign of natural transformation. All the others have come from black business and most of them on the basis of government backed initiatives.
Given Muller's insight, the proactivity of the Charter, and the revised codes, it becomes clear that there is opportunity and for transformation in the sector- however, on the ground implementation must be addressed with as much enthusiasm. While not an easy task, achieving transformation in the property sector would be a significant contribution to radical economic transformation. The onus is now on individual property listed companies to adhere, and the charge as been given to the industry to run with the vision and translate it into reality.

Growthpoint highlights commercial property trends in Durban

Author: Growthpoint Properties Limited

There is much to be positive about in all sectors in the Durban property market right now, according to Growthpoint Properties.

Growthpoint is South Africa's largest REIT and a JSE ALSI Top 40 Index company. It owns and manages a diversified portfolio of 477 properties in South Africa, 51 properties in Australia through its investment in Growthpoint Properties Australia and a 50% interest in the properties at V&A Waterfront, Cape Town. Growthpoint's consolidated property assets are valued at approximately R100 billion. Its growing property portfolio in the KwaZulu-Natal region is valued at R5.3 billion.

There are some challenges in the market though. Greg de Klerk, KZN regional head for Growthpoint Properties notes that expected rising interest rates will impact the ability to bring new properties to market. He adds rising municipal rates is a concern, while investment in infrastructure by local and provincial government is also needed.

Offices

When it comes to thriving office nodes, there's a continued move by business into Ridgeside Umhlanga, Umhlanga New Town Centre, La Lucia Ridge and, to a lesser extent, Westville. These areas are experiencing the highest levels of development and the leasing in Durban.

"Right now the office market, certainly on La Lucia Ridge and Umhlanga Ridge, shows low vacancy rates in A- and Prime-grade buildings," says de Klerk. "Around 50,000sqm of office space will come to market over the next year in these nodes, of which about a third is being developed by Growthpoint."

It isn't only rental property stock under construction.

In Durban, there is a growing trend for companies to own their corporate buildings, spanning anywhere from 1,000sqm to 3,000sqm and up. In response to this trend, Growthpoint is busy with several projects, including the development for Illovo Sugar in Ridgeside Umhlanga.

Durban has also become one of the country's leading nodes for green buildings. Growthpoint Properties is investing R117.3 million in a new green office development, The Boulevard, in the Parkside precinct of Umhlanga New Town Centre. When completed, the Boulevard will complete a city block of green buildings in the precinct, providing A Grade office space of 22,000sqm. Growthpoint also owns the landmark Lincoln on the Lake and Mayfair on the Lake office buildings in Parkside. Both of these buildings have 4-Star As-Built Green Star SA ratings from the Green Building Council of South Africa (GBCSA).

The Boulevard is targeting 4-Star Design and As-Built Green Star SA ratings from the GBCSA. Growthpoint is also undertaking a 6,680sqm development called Ridgeview in Ridgeside, which has recently achieved a 5-Star Green Star SA design rating.

"Besides the positive environmental impacts of green building, they also create quality, energy-efficient, cost-efficient property. High and rising administered costs - especially electricity, rates and taxes - are placing pressure on both the property sector and business in general. So, sustainable, efficient properties are very attractive," says de Klerk.

Craig Davis, Leasing Manager at Growthpoint KZN, adds: "While there is great excitement about pioneering Green Star SA rated office blocks being developed in Durban's burgeoning business nodes, the growing supply of new buildings in A- and Prime-grade space is increasing pressure to achieve asking rentals, which are also pioneering at the highest rates experienced so far at just over R170 per square metre. On the other hand, market rentals have stagnated in recent years, at R140 to R145 per square metre, because of the slow growth in the general economy. This makes new office developments more difficult."

De Klerk comments: "There is a substantial demand for land in these areas, but a shortage of available supply. This is pushing up land prices, which in turn nudges up rentals on developments."

In addition, there is a flood of small sectional title office developments, ranging from 150sqm to 300sqm, flooding the market right now, and competing in the traditional B-grade office arena.

New highway infrastructure is supporting the commercial property development in Durban's northern corridor. This includes the upgrades at the Umgeni Road interchange and the N2/M41 Mount Edgecombe interchange.

"The improved highway infrastructure helps provide major links to Durban's main retail and business nodes, as well as the outer west industrial nodes," says de Klerk.

Industrial

With the Port of Durban being South Africa's largest and busiest port, the city's industrial property sector is extremely active and strong, with low vacancy rates. However, rentals remain under pressure. The demand for smaller and mini-units at multi-user parks continues unabated.

Although some way off, the development of the dig-out port at the old Durban International Airport site, which borders the existing port, is driving demand for industrial property in Durban South.

There is a scramble to set up large warehousing and manufacturing facilities of 10,000sqm to 20,000sqm and bigger near the port. However, there is almost no development land available in the surrounding industrial nodes. De Klerk believes this may push demand for industrial land further south, towards Umbogintwini.

"There is a shortage of serviced industrial land in Durban, which makes development land prohibitively expensive," notes de Klerk. "There is a strategic opportunity for local government, property owners and private developers to work together to find synergies and make sure that land for industrial development is made available with infrastructure. This will help to satisfy the demand from businesses that depend on port access."

Durban's outer west – including Westmead, New Germany and Pinetown – is enjoying large interest from small and medium manufacturing and industrial-based business, reveals Davis. These well-established industrial nodes benefit from excellent access to the major N3 and N2 highways, offer good electricity supply and infrastructure that support business.

The Cato Ridge and Hammarsdale areas are gaining traction with large national businesses major distribution centres. Big commitments in this area from Mr Price and Value Logistics are likely to be the catalyst for others to follow. This is also supported by the prospect of developing a dry port in Cato Ridge, which will relieve the growing, unsustainably high congestion on the roads around Durban Harbour with a rail link. With a shortage of industrial development land, the redevelopment of dated industrial facilities in several older industrial areas is a strong trend. Growthpoint has industrial properties across the city, with several redevelopments underway or recently completed.

Leon van Rooyen, Development Manager at Growthpoint KZN confirms these include a R60 million, 21,000sqm upgrade in Pinetown, and a new 10,000sqm development in Westmead for about R65 million, on Montecarlo Road. Growthpoint also recently finished an upgrade to Prospecton Road property for about R12 million.

Van Rooyen notes: "We're experiencing demand for industrial buildings with smaller footprints, and higher heights. The industry charges rentals by square metre, so industrial users are using this as a way to reduce their costs."

“Ethekwini will increase its supply of prime new office space in the future after the completion of significant mixed-use developments.”

Retail

The retail market in Durban is still growing, with a number of major new malls opening or under development.
Growthpoint owns several niche shopping centres in KZN, which offer specialist, destination and convenience shopping. This includes Growthpoint's La Lucia Mall, a 36,389sqm small regional centre in the heart of the upmarket residential and commercial estates in the northern suburbs of Durban.
Growthpoint also owns the recently upgraded Westville Mall, as well as 50% of Hillcrest Corner and 50% of the newly-opened Watercrest Mall, which it recently acquired with its new subsidiary, Acucap. It also owns City View Mall in Greyville.

In the west of the city, Hillcrest has a menagerie of shopping centres and strip malls, and the new 44,000sqm Watercrest Mall, which opened in April 2015, consolidates the current fragmented retail market in this node. This small retail centre has been expanded into a dominant regional mall.

"Watercrest is an example of how local government can work with private developers. Inanda Road had to undergo major upgrades to help access to the centre," says van Rooyen. "Local government's contribution to the improved road infrastructure made this project possible."

De Klerk concludes: "Durban has a successful property market. By establishing and upholding strong working relationships with local and provincial government and the property sector, we will continue to thrive and attract more investment and growth in the local market.

Residential Property Market: Future looks bright for KZN property market

Author: Pam Golding Prperties

Having been one of the first markets to react to the 2007 downturn in the residential property market, KwaZulu-Natal has been relatively slow to respond to the current upturn. "However," says Dr Andrew Golding, chief executive of the Pam Golding Property group, "the region has reflected a slow but sure return to above inflation house price growth and above average rental yields, and now what we are seeing is a scenario where the previously lagging KZN housing market potentially looks set to become the regional outperformer in 2015."
As illustrated by statistics provided in the Pam Golding Residential Property Index, since mid-2013 growth in house prices in this region has accelerated sharply, closing the price performance gap first with Gauteng and more recently, the Western Cape.

Dr Golding goes on to say that the revival in the KZN residential market is largely attributable to growing interest in the region's lifestyle offering. "The relocation of the airport to the North Coast, the prevalence of estates and good schools, along with the relative value for money on offer, has seen an influx of commuters, who have chosen to move to the region with their families. Investors have been re-entering the market, and with demand exceeding supply, the region is experiencing significant stock shortages.
Pam Golding Properties sales confirm this upward trend through their offices throughout the region. The growth to the north has stimulated sales in the Ballito region with attractive estate living as well as the holiday market and their office there is up 112% over last year. Mount Edgecombe has proven a highly sought after estate due to its central position and good schools in the area and PGP sales are up by 48% on last year, with a record monthly sales value of R71million in January alone, which included a R27 million property.

"In the Highway area, the central areas of Westville and Pinetown have retained their value and we have achieved increased sales here as well as in Kloof/Hillcrest, where PGP sales are up by 67 percent over last year. In areas such as Montclair and Bluff, where affordability is key, we have gained traction in the market. And turning further south, an increased demand for primary residential property has slowly crept into the South Coast from Amanzimtoti through to Scottburgh and even as far as Umtentweni where our sales have increased by 20 to 30 percent year on year," says Dr Golding. He says looking ahead, the KZN residential market looks set to be the most vibrant this year, at least in terms of potential house price growth.

There's undoubtedly a renewed sense of optimism and positive sentiment in the residential property market in KZN, and Pam Golding Properties' regional office reports an increasing demand for homes from buyers across all price bands.

Largely driven by the lifestyle offering, year-round climate, user-friendly beaches and excellent schools, we've seen an influx of investors re-entering the market as well as commuters who have chosen to move here with their families and then commute to Johannesburg during the week, says Greta Daniel, sales and operations manager for Pam Golding Franchise Services.

A healthy, family friendly lifestyle has pushed demand to the point where we are seeing the price curve in regard to house prices i.e. values, escalating faster than expected. For example, in some suburbs house prices have more than doubled over the past 10 years. Consequently, in major economic hubs and centres, demand has been outstripping supply for the past seven to eight months, and has been experiencing huge stock shortages.

"KZN offers more convenience than most other parts of the country, as schools and corporate hubs are scattered in nodes across the territory. For example, you can live, work and play within the suburb of Durban North, La Lucia, Morningside or uMhlanga. Each node is fully self-sufficient with its own office hub, banking node and schools – in fact Durban North has over 10 schools within a 10km radius."

She says the airport's relocation to the North Coast has also created an ultra-convenient lifestyle for commuters, making this the obvious choice to raise a family. "The prevalence of secure estates has also boosted demand, along with the relative value for money when one compares property prices with other upmarket coastal areas."

Feedback on Recent Events

MIPIM (The World's Property Market), Cannes 2015

Author: Rory Wilkinson, Tongaat Hulett

MIPIM is the largest global real estate conference and exhibition in the world and takes place in Cannes, France every year since 1991. This year 89 countries were represented with over 4,800 investors among the 21,400 delegates and 2 225 companies exhibiting.

Tongaat Hulett in partnership with Trade and Investment KZN, Tourism KZN, EThekwini Municipality's Investment Promotion Department and Savills International exhibited at this year's event. The primary objective for attending the event was to raise the profile of Durban and position a tangible investment opportunity within the global market. MIPIM provides the perfect platform for engaging with investors and developers from all around the world in a single place as well as providing an indication of what other countries and cities are doing to attract new investment and development. In attending MIPIM it is clear that the competition is significant and investors are able to 'pick and choose' from an incredibly impressive array of investment opportunities. The single most important message that emerged was that cities need to present a single and common brand that is fully endorsed by political and executive leadership and the private sector. Indeed the majority of cities on display had Mayors and high ranking city leadership leading the presentations and offerings with the private sector in support.

Viewed in this light, Durban has its hands full and faces a tough path to getting new FDI into the region. The vast majority of attractions at MIPIM are cities marketing themselves for new investment and development and they market themselves aggressively with very clear and wide ranging incentives together with a facilitatory investment and decision making environment. In this regard Durban is lacking and moving forward it will be critical for a united and aligned approach in marketing and branding the city as an attractive investment destination with plenty to offer the investor and developer.

MIPIM enabled the team to engage with over 74 parties, a number of whom expressed real interest in the opportunity to invest and develop in South Africa, and Durban in particular. Due to low returns in tier one cities around the world, there is an emerging interest by the investment community in Africa, including South Africa. There appears to be no shortage of capital within the global market, however this capital is looking for high returns in line with the risk profile of an investment.

A key challenge in this space is to demonstrate to these investors and developers that South Africa is one of the least risky markets on the continent and that the returns will be attractive. The majority of interest was by far around the residential and hotel/resort spaces as opposed to commercial, given the state and nature of the commercial sector within the country.

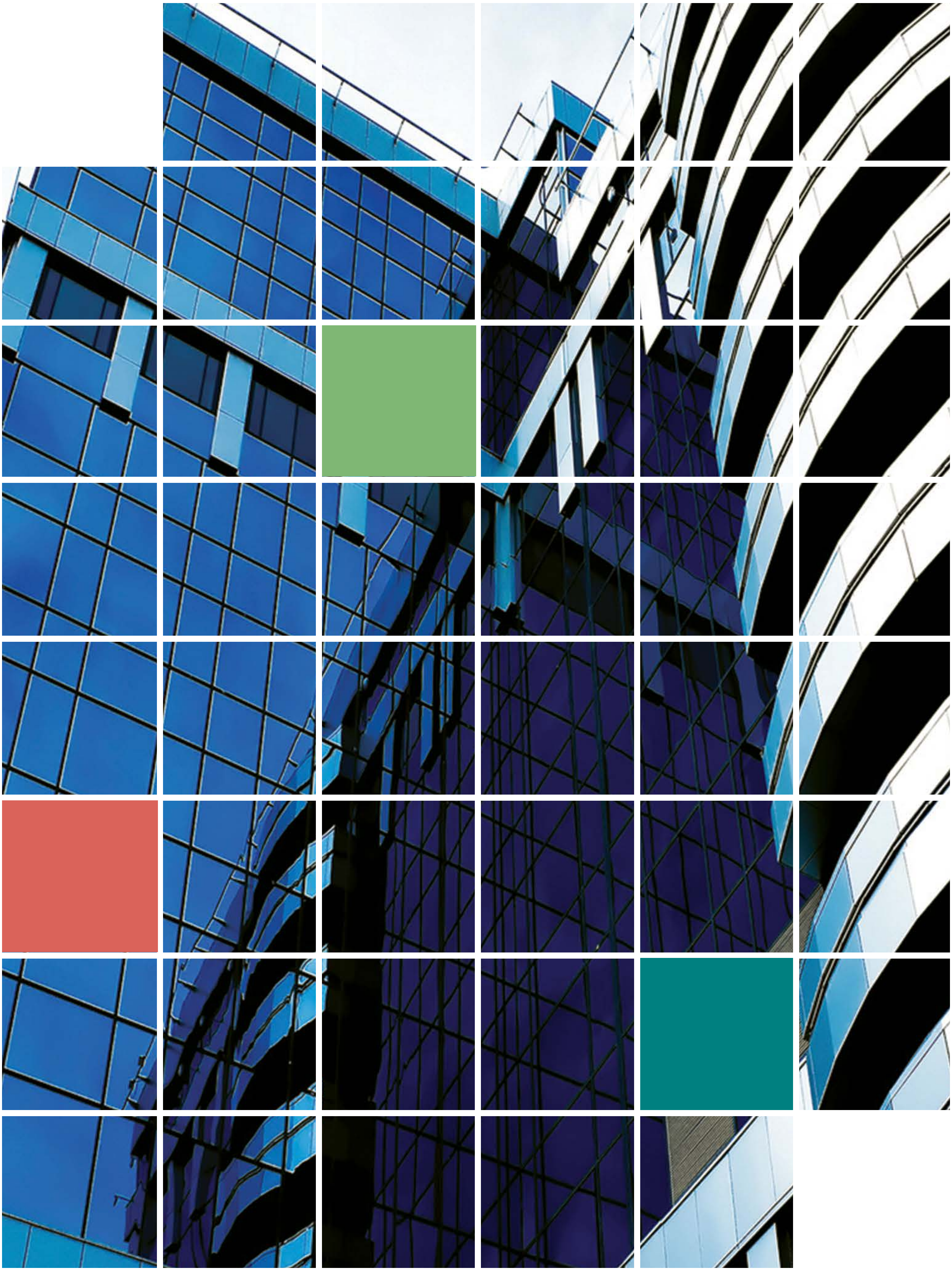
Following the discussions at MIPIM a number of real interested parties are being engaged with further towards getting them to visit the country and Durban and two large international developers have already committed to visiting within the next couple of months.

It is very clear that Durban has immense potential and has the ability to market and brand itself internationally on an equal footing with any other city. This will however require a specific, focused intervention that enjoys the full support of all key stakeholders and a joint collaboration between public and private sectors.

Looking Ahead to the Next Edition

The EDGE looks at topical and current issues that affect decision-makers in eThekwini. The theme of our next edition will focus on the Creative Industries Sector in eThekwini. The latest available data on key economic indicators will also be provided.

The EDGE is produced by the eThekwini Economic Development and Investment Promotion Unit's Policy, Strategy, Information and Research (PSIR) Department. For feedback or queries, email Aurelia Albert on Aurelia.Albert@durban.gov.za or phone 031 311 4015.



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