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The River Club: An analysis of the potential of the property market (update to 2016 report)

Prepared for:
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Acronyms and abbreviations

BER	Bureau for Economic Research (at Stellenbosch University)
BCI	Building Cost Index
CBD	Central business district
CoCT	City of Cape Town
GDPR	Regional gross domestic product
GBA	Gross building area of a building
GLA	Gross lettable area (rentable area as defined by Sapoa)
mn	million (to differentiate it from the abbreviation of metre)
PCA	Primary catchment area
PRASA	Passenger Rail Agency of South Africa
SACSC	South African Council for Shopping Centres
SCA	Secondary catchment area
TRUP	Two Rivers Urban Park, which includes the River Club when broadly defined
WCG	Western Cape Government

Executive Summary

This report is an update of a similar report completed in May 2016 for the River Club. It deals with the proposed redevelopment of the River Club, which in turn forms part of the proposed greater Two Rivers Urban Park (TRUP) development. It provides an updated analysis of the short- and long-term market conditions that are expected to influence the proposed River Club property development in the Cape Town metropolitan area.

The analysis focuses on the location and the socio-demographic characteristics of people within a 5-km radius of the subject development. The study also examines the economic base of Cape Town and the possible implications for the city's built environment (indirectly including the River Club site).

The study concludes that the River Club redevelopment offers an opportunity to potentially absorb an unknown **share** of a forecast 27 000 m^2 of new **office space** per annum. The extension of the M16 (Berkley Road) would hypothetically positively influence the capture rate of this space as it would potentially provide excellent frontage to office buildings and improve general accessibility to the site.

The proposed residential component would also complement proposed uses on the site in a mixed-use environment. The analysis reveals that under respectively base-case and highly-optimistic scenarios annually upwards of between 14 000 m^2 and 48 000 m^2 of residential space could be taken up in the subject development. However, potential negative perceptions, emanating from the flooding potential, could possibly negatively affect the sales tempo (irrespective of whether the latter would be addressed by the developer(s)).

The study also found that the site is suitable to accommodate **retail space** in the order of 20 000 m^2 and a 150-room full-service 4-star **hotel**.

The River Club redevelopment would be complementary to the greater TRUP development (of which it forms part). Thus, it would assist in providing jobs, shopping space and housing to the broader TRUP population and could become a desirable destination to live and work. A successful, well-maintained development would also improve the utility of, and the perception regarding, TRUP. It is thus the view of the researchers that the proposed development would on a net basis greatly add qualitative value to society compared to keeping the site as it currently is.

On the balance of factors and considering the available information, the development of River Club development would thus be desirable.

It is important that the analysis provided in this report should be seen as a market estimate based on general market trends. The study does not attempt to test the marketability or financial viability of specific highest-and-best-use scenarios.

1. Introduction

In May 2016, we completed a report which addressed the prospects for various property types foreseen to be erected on the redeveloped River Club site located in the Table Bay District of the City of Cape Town (CoCT)

Given the changes in macro-economic conditions since our original report was prepared, it was deemed necessary to update it in order to ascertain the impact of current market conditions on certain sectors of the property market in general and the River Club site in particular.

The current report again considers the property-market potential of the River Club development. The development is a partnership between Indigo Properties and Zenprop. These two entities have formed a partnership called the Liesbeek Leisure Properties Trust (LLPT) as a development vehicle to undertake the project. The overarching aim of the River Club development is to transform the site into a dynamic mixed-use precinct. It is anticipated that the development will become a 'destination place' and thus contribute in a catalytic fashion to the greater Two Rivers Urban Park (TRUP) development, of which it also forms part (see **Figure 5.1**).

2. Report structure

This report is structured in the following manner:

Section 3: Setting the scene by describing the brief and indicating the scope of work;
Section 4: An overview of the methodology utilised and the sources of data in the compilation of the report;
Section 5: Providing a brief description of the study area, i.e. contextualising the 'lie of the land';
Section 6: Analysing and discussing the socio-demographic profile of people and households in the vicinity of the River Club site;
Section 7: Analysis of the property market, nationally and also specifically to the site and its catchment area;
Section 8: Providing property market forecasts, where appropriate;
Section 9: Determining the (non-quantified) opportunity cost of the development from a societal point of view if development were not to proceed
Section 10: Conclusions

3. Brief and scope of work

The River Club in Cape Town is currently engaged in an environmental impact assessment (EIA) in terms of the National Environmental Management Act (NEMA), as well as a rezoning process for the redevelopment of the River Club site. As part of the EIA process, a property market analysis is required to ascertain the prospects for various property types foreseen to be erected on the site. The proponent (LLPT) seeks to use the report to motivate the economic desirability of the site in terms of location and time.

This report thus provides an analysis and assessment of property market activities appropriate to the site, given the vision for the River Club, and includes the following objectives:

- Analyse the market demand for the amount of commercial, retail, hotel, office and residential bulk proposed (i.e. is there, in this part of the city, demand for the proposed development or, with the anticipated growth of the City, is there expected to be a demand over time);
- Investigate the delivery to the market of the proposed bulk in phases over time, and give an indication of the development/ bulk quantum that can be absorbed by the market in the various phases;
- Analyse the River Club's suitability as a location for new development to meet this demand;
- Investigate the effect on property prices and rent in surrounding areas;
- Research the opportunity cost of not developing the site (i.e. lost benefit of the site as a publically accessible open space used for recreational activities, as compared with the status quo, i.e. the under-utilisation of valuable well-located, highly accessible land within the urban edge);
- Consider the link between the site and the TRUP (narrowly defined), and comment on the (commercial) development potential of the site in relation to TRUP (narrowly defined); and
- Consider the development of the site as a catalyst to develop TRUP (narrowly defined).

4. Methodology and sources of data

In fulfilling the study objectives stated above, our research methodology is in brief as follows:

- Analysis of the River Club's locational characteristics and its relationship to the greater Two Rivers Urban Park (TRUP) site;
- Exploration of the economic and demographic base of the relevant catchment area;
- Examination of national economic trends;
- Discussion of long office-, industrial- and residential-property cycles
- Analysis of current and historic property prices and rentals;
- Investigation of the current and historic demand of various property types;
- Investigation of the current and historic supply of various property types;
- Forecasts of demand, take-up and market rentals

This work is based on an analysis of the following data sources:

- The Population Census 2011 and other socio-demographic data;
- Determining where we are in the property cycle. This was sourced from *Rode's SA Property Trends* (June 2017), a publication compiled through Rode & Associates' own primary research;
- Interrogating Rode & Associates' in-house database and also analysing SAPOA data to ascertain the prevailing market conditions (rentals and vacancy rates) for the office nodes and residential areas closest to the subject property, and to perform forecasts of key variables. The retail analysis was performed using Census 2011 statistics and data from the SA Shopping Centre Directory (2015). Regarding the residential market, we also sourced residential sales prices and trends from Lightstone and PropStats;
- Obtaining the research inputs of property specialists in the retail and hospitality fields; and
- Conducting structured interviews where required with property specialists.

5. Location of the River Club within Two Rivers Urban Park (TRUP)

The River Club is located within the greater TRUP site about 8 km from the Cape Town CBD (see **Figure 5.1**). TRUP includes various precincts and areas with diverse, and mainly unrelated, functions. These are (see **Figure 5.2**):

- The River Club;
- Alexandra Precinct (WCG-owned with Alexandra Hospital as primary tenant);
- Maitland Garden Village (a local residential suburb);
- Oude Molen Precinct (owned by the WCG and includes a wide range of uses in the old hospital buildings such as private schools, lodges, and restaurants.);
- Ndabeni Precinct (this is mainly an industrial area. However, there are properties in this precinct which are owned by the CoCT and that present development opportunities); and
- Floodplains and wetlands forming the Liesbeek and Black River Green Corridors. Land within these corridors are mainly owned by the CoCT.

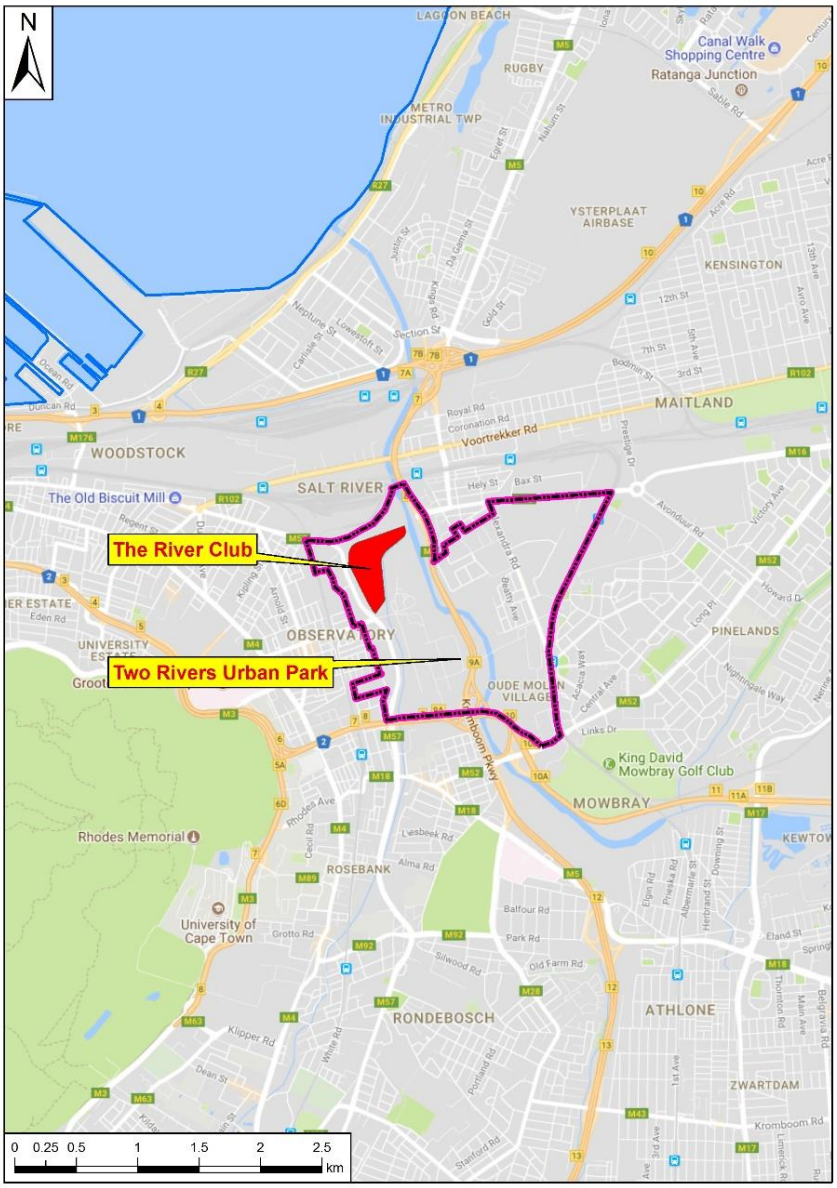


Figure 5.1 Location of the River Club site within the greater Two Rivers Urban Park (TRUP)

Many of these precincts are occupied by long-established tenants. The relatively permanent and functionally fragmented occupancy of the site would possibly complicate future planning of TRUP as a whole.

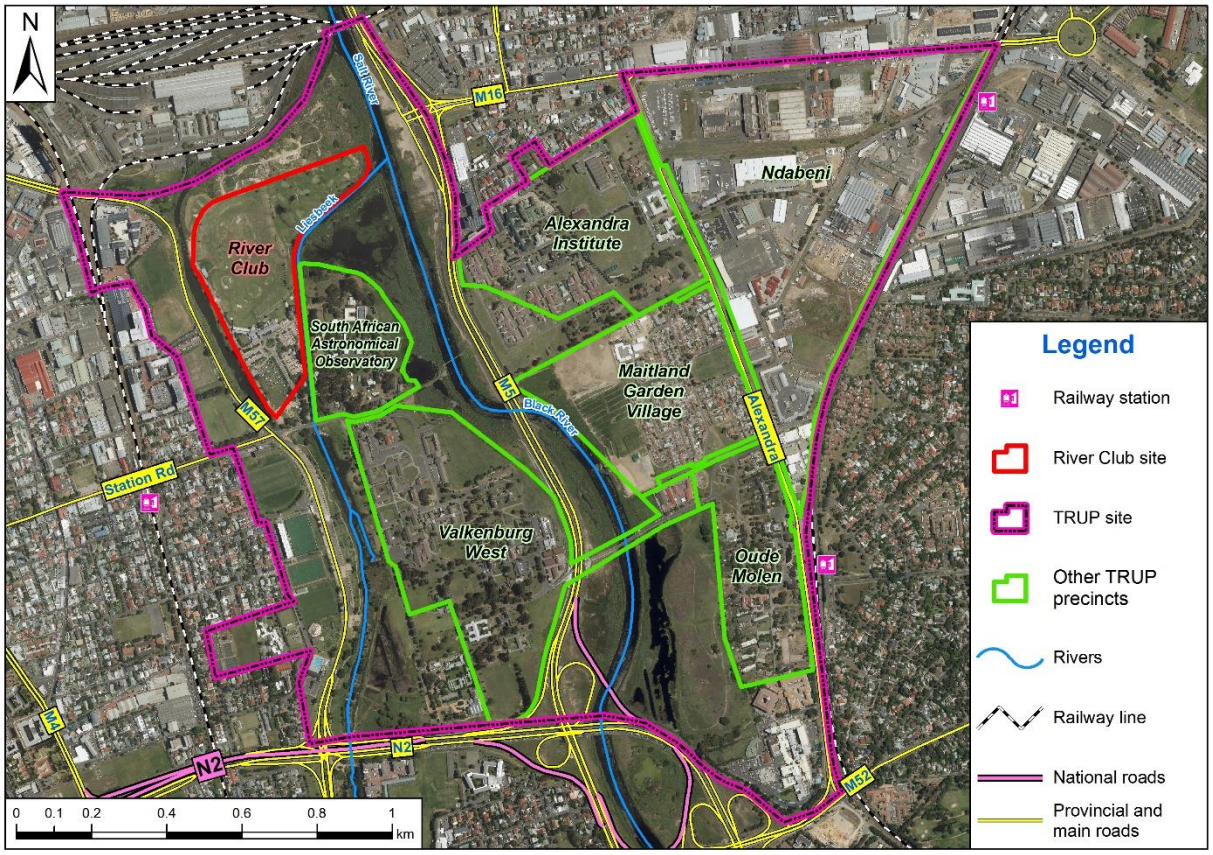


Figure 5.2 The various precincts of Two Rivers Urban Park (TRUP), including the River Club

Natural and man-made barriers formed by the rivers and the M5 motorway split TRUP in various distinct areas. There are no generally accessible major roads that link these segments, and rapid internal movement between the various areas on the site is thus not possible. The mooted extension of the M16 (Berkley Road) westwards over the Black/Salt rivers to the northern extremity of the River Club would be a key intervention that would greatly improve accessibility to and from the River Club site.

Other than the M5, TRUP (wider definition) is intersected and bounded by various other important roads, which are depicted in **Figure 5.2**. These are the M57 (Liesbeek Parkway), the M16 (Berkley Road), Alexandra Road and the M52 (Forest Drive). External access to the site is thus relatively easy from all directions. There are also two railway lines on the eastern and western boundaries of the site and three train stations (Ndabeni, Observatory and Pinelands) in the vicinity.

Although it is located within an urban setting, the TRUP site is inextricably tied to the natural environment as well. The natural elements include the scenic views of Devil's Peak and the Table Mountain range, the Black and Liesbeek Rivers and associated Raapenburg, Valkenburg and Vincent Pallotti wetlands, the topography of the landscape, which includes the river valleys and middle ridges which spatially divide TRUP (CoCT 2003: 11). These natural amenities afford the site a unique character. Additionally, the TRUP (broad definition) has significant

heritage value in that it forms part of, or borders on, the first free-burgher farms allocated in 1657. As such, it can be argued, this is where the colony of the Cape of Good Hope, and, therefore, South Africa, started.

The River Club site itself is located at the confluence of the Black and Liesbeek Rivers (see **Figure 5.3**) and is about 15 hectares in extent. The site is well located in light of its proximity to the CBD, the Tygerberg area and southern suburbs.

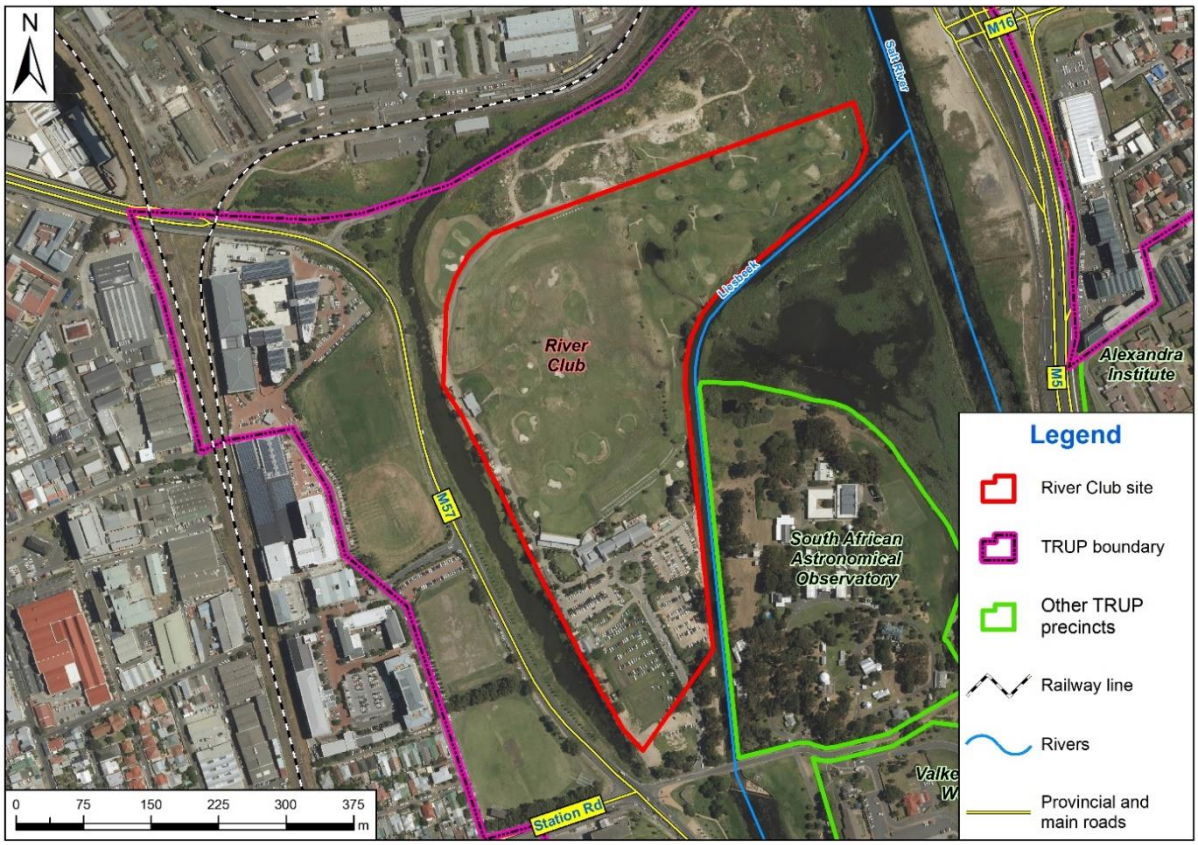


Figure 5.3 The River Club site

The River Club site creates the impression of being an island in the middle of the neighbouring built-up area as it is surrounded by water almost on all sides and is relatively undeveloped. The only access to the site currently is at the southwestern boundary of the property via the M57 (Liesbeek Parkway). The site is relatively close to the Observatory railway station (see **Figure 5.2**), which serves the busy Simon's Town line. Directly to the east of the site lies the South African Astronomical Observatory set of buildings, while to the west lies the original Liesbeek River course, which was cut off when the river was canalized along the site's eastern boundary, and now forms a stagnant backwater of the Black River.

Beyond this channel are sports fields and the Black River Park business park (Planning Partners 2016:2), while further north of the River Club site lies vacant land owned by PRASA, beyond which is the PRASA railyard (outside the boundaries of TRUP). The site is currently occupied by The River Club Golf & Conference Centre, which includes a number of conference/function facilities, a restaurant, a nine-hole mashie course, golf shop and driving range, as well as internal roads and parking areas. The largest part of The River Club site comprises open, partly landscaped areas with grass and planted trees, i.e. the golf driving range and golf course (Planning Partners 2016: 2).

6. Socio-economic and demographic profile of the population in the study area

6.1 Aligning the study areas and available statistics

The approach adopted for the preparation of the socio-economic and demographic profile of communities within the area that surrounds the River Club site entailed analysis of Census 2011 sub-places within a 5-km concentric circle from the centre point of the River Club site. We used this approach because of the need to understand the socio-demographic impact of residents within the immediate vicinity of the site. Our choice of the 5-km zone as a study area is based on the observation of population distribution, economic activities and likely sources of procurement and labour in the areas surrounding the proposed River Club development. We have also included data for the Table Bay District of the City of Cape Town for purposes of comparison (the River Club site is located in this administrative district).

Figure 6.1 is a depiction of the River Club site's location in the TRUP, the various planning districts surrounding the site (including the Table Bay District) and the 5-km concentric zone.

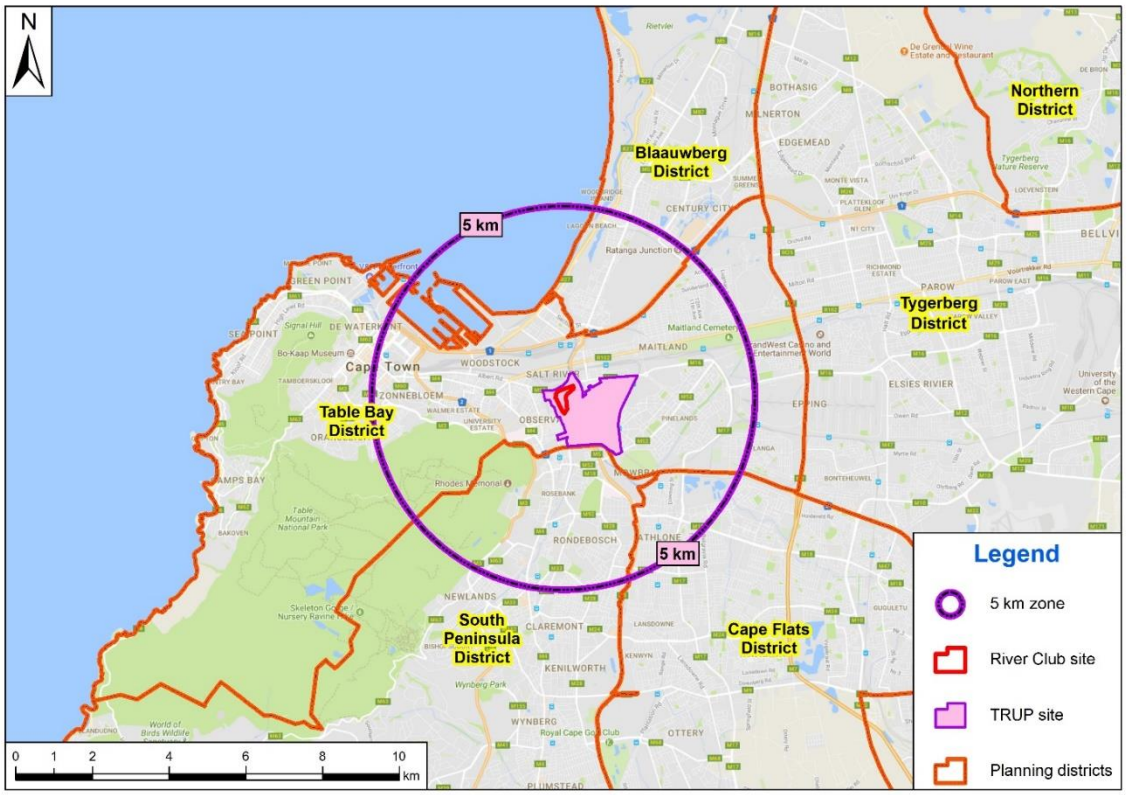


Figure 6.1 CoCT planning districts and the 5-km concentric zone surrounding the River Club

6.2 Socio-economic and demographic profile

The following socio-demographic profile of the various areas surrounding the study area is based on data from the 2011 Census. A summarised socio-demographic profile is presented in **Table 6.1**.[1]

[1] The analysis by race group may, in principle, be unacceptable to some readers. However, we take the pragmatic route, considering that it is national policy to promote 'inclusionary' housing, which presumably means greater integration of race groups and socio-economic strata. Thus, we feel the data in Table 6.1 are of practical value.

It is apparent that the 5-km zone has a lower total population compared to the Table Bay District, namely around 162 000 versus 206 000. The population of the CoCT was estimated at 2 892 243 in 2001 and 3 740 026 in 2011, representing an average annual growth of 2,6%.

An analysis based on the 5-km concentric zone suggests that over 75% of the population residing within this area are non-white, while in the Table Bay District non-whites comprise a similar proportion (about 73%) of the population. In the CoCT, almost 39% of people are Black, slightly more than 42% Coloured, and nearly 16% White. Males and females are almost equally split in the 5-km zone, the Table Bay District and the CoCT. It is evident in the 5-km zone that 52% of the population is below 30 years of age, while this figure is mirrored in the Table Bay District at 51% and the CoCT at almost 56%.

Based on the above analysis it is thus evident that the River Club site is located in a relatively young, multi-racial area. This is important as it provides an indication of the socio-demographic characteristics of the population that would at least partially underpin the demand for space at the River Club.

Table 6.1 A socio-demographic profile of the study areas
(based on Census 2011)

	5-km zone		Table Bay District		CoCT	
Population group	**Number**	**%**	**Number**	**%**	**Number**	**%**
Black	36 890	22,8%	86 469	41,9%	1 444 939	38,6%
Coloured	73 780	45,5%	53 505	25,9%	1 585 286	42,4%
Asian	5 389	3,3%	4 657	2,3%	51 786	1,4%
White	40 177	24,8%	54 981	26,7%	585 831	15,7%
Other	5 831	3,6%	6 685	3,2%	72 184	1,9%
Total	**162 067**	**100%**	**206 298**	**100%**	**3 740 026**	**100%**
Gender	**Number**	**%**	**Number**	**%**	**Number**	**%**
Male	79 531	49,1%	100 859	48,9%	1 830 699	48,9%
Female	82 536	50,9%	105 439	51,1%	1 909 327	51,1%
Total	**162 067**	**100%**	**206 298**	**100%**	**3 740 026**	**100%**
Age classification	**Number**	**%**	**Number**	**%**	**Number**	**%**
0-18	38 548	23,8%	47 273	22,9%	1 161 374	31,1%
19-30	46 050	28,4%	58 147	28,2%	926 123	24,8%
31-40	23 741	14,6%	35 440	17,2%	592 673	15,8%
41-50	19 360	11,9%	24 004	11,6%	454 916	12,2%
51-65	21 177	13,1%	25 444	12,3%	415 435	11,1%
Over 65	13 191	8,1%	15 990	7,8%	189 505	5,1%
Total	**162 067**	**100%**	**206 298**	**100%**	**3 740 026**	**100%**

6.3 Dwellings and tenure status

An examination of **Table 6.2** reveals that only 2,4% of households in the 5-km zone live in informal housing,[2] while slightly more than 97% reside in formal housing.[3] A significantly larger percentage (11,3%) of households in the Table Bay District live in informal housing and nearly 88% in formal housing. Compared to these two areas, the CoCT has a substantially larger proportion (almost 21%) of people living in informal housing, and as a result a smaller percentage staying in formal housing (about 78%).

Regarding tenure, it is apparent that about 47% of households in the 5-km zone rent their dwellings, a proportion matched in the Table Bay District. Interestingly, in the CoCT only about 30% of households rent their homes.

Table 6.2 Tenure status of households by type of main dwelling

	Informal	%	Formal	%	Other	%	Total	%
5-km zone								
Rented	570	1,2%	21 788	45,2%	125	0,3%	22 483	46,6%
Owned but not yet paid off	46	0,1%	10 457	21,7%	32	0,1%	10 535	21,9%
Occupied rent-free	268	0,6%	829	1,7%	3	0,0%	1 100	2,3%
Owned and fully paid off	176	0,4%	12 929	26,8%	18	0,0%	13 123	27,2%
Other	86	0,2%	842	1,7%	29	0,1%	957	2,0%
Total	**1 146**	**2,4%**	**46 845**	**97,2%**	**207**	**0,4%**	**48 198**	**100,0%**
Table Bay District								
Rented	1 976	2,8%	30 935	44,1%	192	0,3%	33 103	47,2%
Owned but not yet paid off	110	0,2%	11 424	16,3%	117	0,2%	11 651	16,6%
Occupied rent-free	3 457	4,9%	2 635	3,8%	174	0,2%	6 266	8,9%
Owned and fully paid off	2 224	3,2%	15 687	22,4%	31	0,0%	17 942	25,6%
Other	180	0,3%	1 003	1,4%	36	0,1%	1 219	1,7%
Total	**7 947**	**11,3%**	**61 684**	**87,9%**	**550**	**0,8%**	**70 181**	**100,0%**
City of Cape Town								
Rented	54 503	5,1%	261 607	24,5%	3232	0,3%	319 342	29,9%
Owned but not yet paid off	7 034	0,7%	215 354	20,2%	1046	0,1%	223 434	20,9%
Occupied rent-free	71 636	6,7%	66 528	6,2%	1061	0,1%	139 225	13,0%
Owned and fully paid off	78 705	7,4%	274 479	25,7%	2061	0,2%	355 245	33,2%
Other	11 258	1,1%	19 563	1,8%	503	0,0%	31 324	2,9%
Total	**223 136**	**20,9%**	**837 532**	**78,4%**	**7 904**	**0,7%**	**1 068 572**	**100,0%**

The preceding analysis indicates that the River Club is located in a built-environment characterised by households that overwhelmingly live in formal housing, and that a substantial proportion rent their accommodation.

6.4 Economic and employment base of the City of Cape Town

Within the CoCT, the FIRE (finance, insurance, real estate and business services) sector and trade (wholesale and retail trade, catering and accommodation) contributed 67% of GDPR to its economy in 2013 (WCG 2015: 34).

[2] Informal housing includes caravan/tent; informal dwelling (shack; in backyard); informal dwelling (shack; not in backyard; e.g. in an informal/squatter settlement or on a farm); traditional dwelling/hut/structure made of traditional materials.

[3] Formal housing includes cluster house in complex; flat or apartment in a block of flats; house or brick/concrete block structure on a separate stand or yard or on a farm; house/flat/room in backyard; room/flatlet on a property or larger dwelling/servants quarters/granny flat; semi-detached house; townhouse (semi-detached house in a complex).

Regarding economic growth measured by GDPR, **Table 6.3** indicates that between 2005 and 2013 the economy of the CoCT grew at 3,4% per annum.

Concerning historic sectoral growth, **Table 6.3** shows that agriculture, forestry and fishing, FIRE, and construction were the top three performing sectors in terms of real GDPR growth between 2005 and 2013. Although the agricultural sector expanded at remarkable 9% per annum over this period, its contribution to the CoCT's GDPR was a meagre 1,6 (WCG 2015: 34).

The importance of the FIRE and trade sectors for the CoCT economy has been stated previously. These sectors' consistently strong performance as measured by GDPR growth (see **Table 6.3**) over the recent past has managed to sustain the CoCT economy over this period (WCG 2015: 34).

The outlook for the CoCT's economy is positive with expected GDPR for 2015-2020 growth to average 2,6% per annum (**Table 6.3**), which, however, is well below the 2005-2013 average of 3,4%. However, it must be pointed out that these forecasts were made in 2015, and the prospects for the national economy has undergone a sea change since then; however, the property market in Cape Town seems to be benefiting from this slow-down through semigration, which may to a degree cancel out the negative effect of the stalling national economy.

Table 6.3 Historic and forecast CoCT sectoral GDPR growth

Sector	Real GDPR growth (2005-13)	Real GDPR forecast (%) (2015-2020)
Agriculture, forestry and fishing	9,0	2,8
Mining and quarrying	-0,2	2,3
Manufacturing	2,3	2,0
Electricity, gas and water	1,7	1,8
Construction	5,1	3,6
Wholesale and retail trade, catering & accommodation	3,4	2,6
Transport, storage and communication	3,5	3,1
FIRE (finance, insurance, real estate and business services)	4,0	3,2
Community, social and personal services	2,3	1,6
General government	3,0	1,2
CoCT average	**3,4**	**2,6**

Source: Western Cape Government (2015: 34) and Quantec

The River Club development will benefit from the expected growth in the construction sector of 3,6%, as well as the FIRE and trade sectors, which are expected to show growth of respectively of 3,2% and 2,6% (see **Table 6.3**) over the forecast period (2015–2020). These benefits will accrue because the FIRE sector favours corporate offices and business-process-outsourcing centres that are flexible, secure, accessible, and close to suburbs, clients and services. The trade sector generally prefers locations that are accessible to consumers and close to transport networks, have high market visibility, consumer density and buying power (CoCT 2012: 24). The River Club site meets all these locational criteria.

7. Property-market analysis

7.1 Where are we in the long property cycle?

In this section, we interpret and analyse time-series data to provide a better understanding of the property cycle, which serves as an important investment tool for buyers, sellers and, specifically from the perspective of this study, also for developers.

The property cycle has a duration of approximately 15-20 years. Because the cycle is so long, it has an even greater significance than the shorter business cycle. Like any cycle, the property cycle can serve as an important investment tool for buyers, sellers and developers. Buyers should ideally enter the market when the property cycle is still near its trough, simply because of the fact that from that point onwards, the probability is greater that *real* rentals and prices will rise rather than decline. Sellers, on the other hand, should aim to leave the market when the property cycle is near its peak.

Developers normally enter the property market in droves during the latter phase of an upswing. This is so because prices and *real* rentals are now high, making new developments lucrative. However, to enter into new developments close to either side of the peak could be risky, especially on the downside of the peak — the more so if the developments are done on a speculative basis.

It is convenient to represent the office and industrial cycles by considering the trajectory of *real* rentals.[4] "Real" is calculated by deflating nominal rentals by a building cost index — normally either the JBCC CPAP Haylett Index (Haylett) or the BER Building Cost Index (BER BCI). The difference between these two indices in a nutshell is that Haylett measures building-construction input costs only, *viz.* labour, capital and materials, whereas the BER BCI not only measures physical inputs, but also the profit margins of building contractors as well. Hence, any deviation between these two indices is the result of contractors either stretching or contracting their profit margins. During the upswing phase of the property cycle, contractors are increasingly committed, which results in tendering competition becoming weaker, which in turn allows the contractors that do tender to stretch their profit margins. In the downswing phase the converse applies.

With this as background, we can now consider some historic characteristics of the South African non-residential property cycle. *Real* office and industrial rentals exhibit a long cycle in South Africa (see **Figure 7.1** for a brief explanation), with an average duration of about 17 years. The idealised cycle has an upswing phase of about 10 years (*real* rentals rising) and a downswing phase of about 7 years (*real* rentals declining).

[4] **Note:** we do not use *real* market values, but rather *real* rentals as a proxy for the office- and industrial-property cycles. We can do this because market rent is a critical determinant of market value. Furthermore, the other critical variable in determining market value, namely capitalization rates, is generally inversely related to market rentals in any case. In fact, a strong argument can be made that rentals are a superior proxy for the property cycle, because market value sometimes reacts to a rerating of property (i.e. a change in capitalization rates), which is unrelated to underlying property fundamentals. And, of course, it is fundamentals that cause new developments to be occupied, not falling capitalization rates.

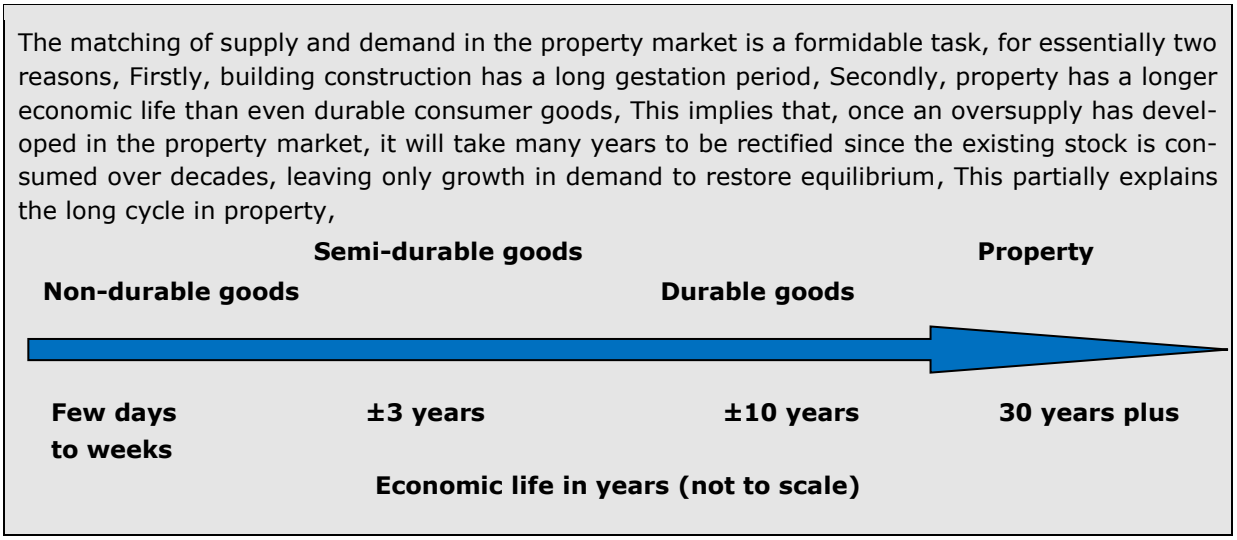


Figure 7.1 Why such a long property cycle?

Note that we use **Johannesburg decentralised** office rentals as a proxy for the South African decentralised office-property cycle. However, we could also have used the office rentals of Pretoria, Cape Town, or Durban decentralised as they all generally move in synchrony. Of course, this is not to say that the magnitude of the change in rentals in the various areas does not differ. Similarly, we use industrials rentals on the **Central Witwatersrand** as a proxy the South African industrial property cycle.

7.1.1 The office and industrial property cycles

At the end of 2016, Rode proposed two property cycle scenarios that could possibly eventuate, viz. a Consensus scenario (based on our panel of economists' then baseline macroeconomic forecasts) and a Junk scenario (compiled by Rode, because we had our doubts about the realism of the Consensus scenario). As it turned out, Rode was right, and what had been the Rode Junk scenario in December 2016, has effectively become the Consensus scenario in June 2017. However, in order to cover all bases, we hereby introduce a new Junk scenario, which follows an even lower growth path than the December scenario. Thus, the new scenarios are:

- A **Consensus scenario** based on our panel of economists' 6-year macroeconomic forecasts as in June 2017. It is a reasonable assumption that our panellists, in dotting down their forecasts, assumed further sovereign debt de-ratings, including domestic debt.
- A **Junk scenario** compiled by Rode, in terms of which we assume very-low, stagnant economic growth. Note that the term 'junk' is purely used as a name tag (as in 'very bad'), as the June Consensus scenario also implies further de-ratings of ZA debt.

Under the Consensus scenario, our panel of economists surveyed in June 2017, expects *real* GDP growth of only 0,7% for 2017 (see **Table 7.1**). Therefore, we foresee the possibility of continued weak demand for office and industrial space, and continued upward pressure on vacancy rates during the year. On average, the economists surveyed do, however, foresee an acceleration in economic growth from 2018 onwards. By implication this could mean improved growth in service sector output (driving demand for office space) and improved

growth in manufacturing output (driving demand for industrial space), not to mention the possibility of improving business sentiment on demand for space to rent.

The outcome of all of this could be declining vacancy rates, which in turn bodes well for nominal market office and industrial rentals. Nonetheless, under the Consensus scenario, nominal office and industrial rentals are forecast to at first show growth below the expected growth in building costs. During the second half of the forecast period, however, market office and industrial rentals are likely to show growth in excess of building-cost inflation. The outcome of this is expected to be a somewhat south and sideways trend in *real* office and industrial rentals over the next few years (see **Figures 7.2** and **7.3**).

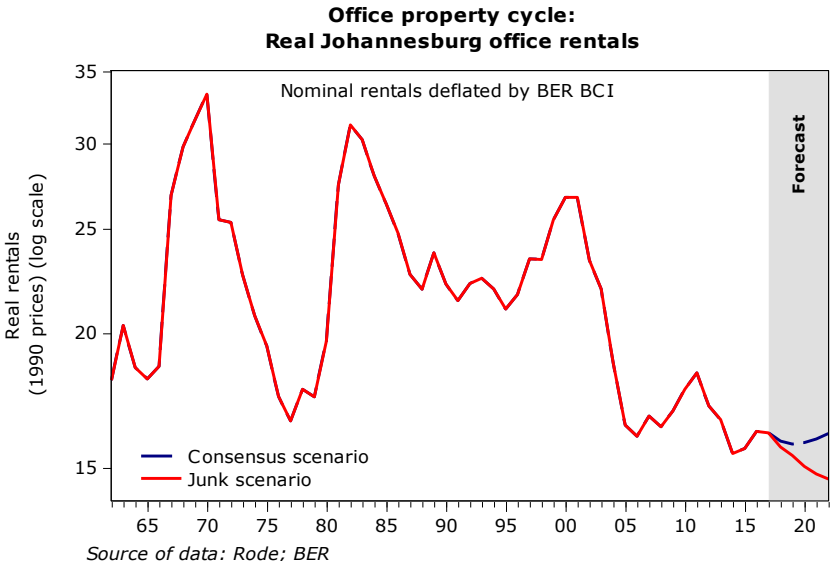


Figure 7.2 The office property cycle

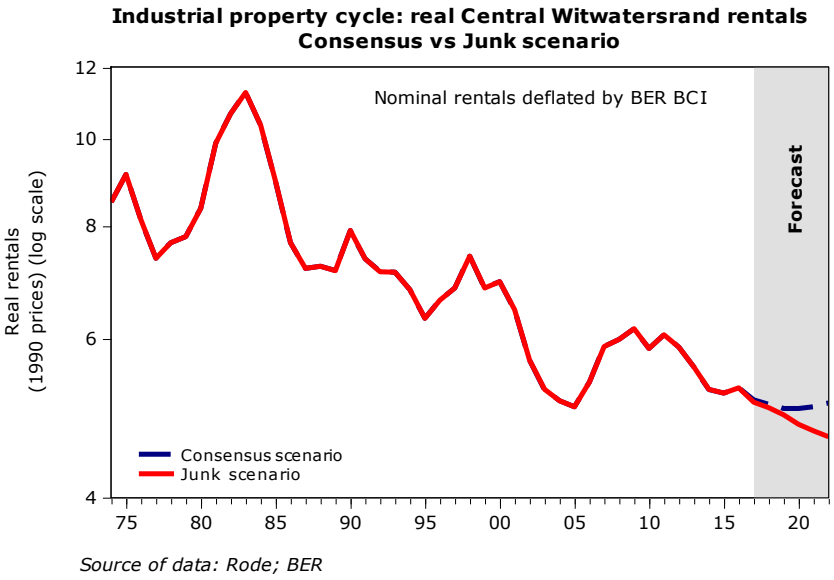


Figure 7.3 The industrial-property cycle

At the time of writing, domestic political uncertainty, the persistent underperformance of key sectors of the domestic economy, hesitant global growth prospects and the possibility that South Africa might be excluded from the world government bond index (which could result in large portfolio-investment outflows) prevailed. As stated above, these circumstances compelled us to, once again, consider an even lower economic growth scenario, which we call the Junk scenario. Our Junk scenario's *real* GDP forecasts are summarized in **Table 7.1** and **Figure 7.4**. As can be seen in **Figures 7.2** and **7.3**, under this scenario the direction of *real* office and industrial rentals is forecast to be strictly south.

Table 7.1 Real GDP forecasts: Consensus vs Junk scenario

	Means						
	2017	**2018**	**2019**	**2020**	**2021**	**2022**	**Mean: '17-'22**
Consensus scenario: % change*	0,7	1,3	2,0	2,2	2,5	2,5	1,9
Junk-rating scenario: % change†	0,6	0,3	0,4	1,0	1,2	1,5	0,8

*Based on Rode's panel of economists, June 2017

† Rode's in-house forecasts

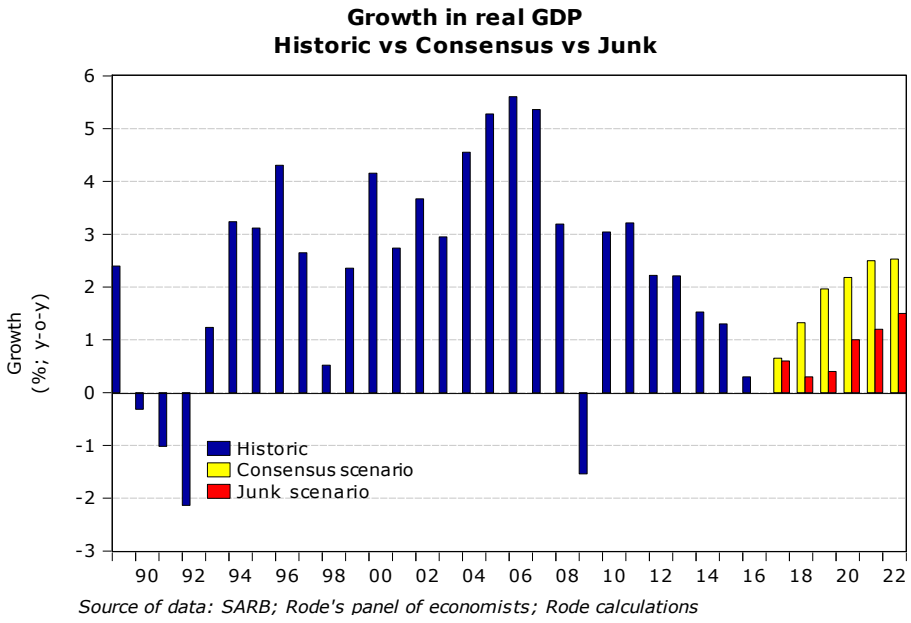
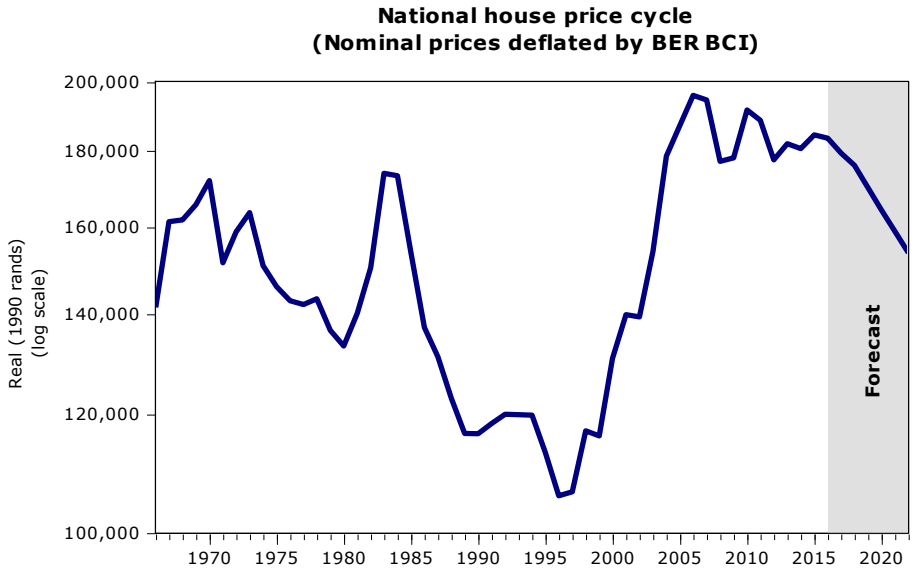


Figure 7.4 Growth in real GDP: Consensus vs Junk scenario

7.1.2 The residential-property cycle

The lack of dynamism from important drivers of the mortgage and house markets will most likely keep the growth in the nominal value of mortgage loans granted and nominal house prices at bay. The good news, however, is that under our Consensus scenario, we do not expect a decline in nominal house prices. But, we do foresee nominal growth of only 4,9%

p.a., which is below the expected growth in building-cost and slightly below consumer inflation (see **Figure 7.5**).



Source of data: Absa; Stats SA. Rode forecasts

Figure 7.5 National house-price cycle

7.2 Office property market

7.2.1 Site context

The River Club redevelopment is foreseen to comprise a substantial office component (see **§8.2.2**). **Figure 7.6** shows the location of office nodes within a 10-km radius of the site.

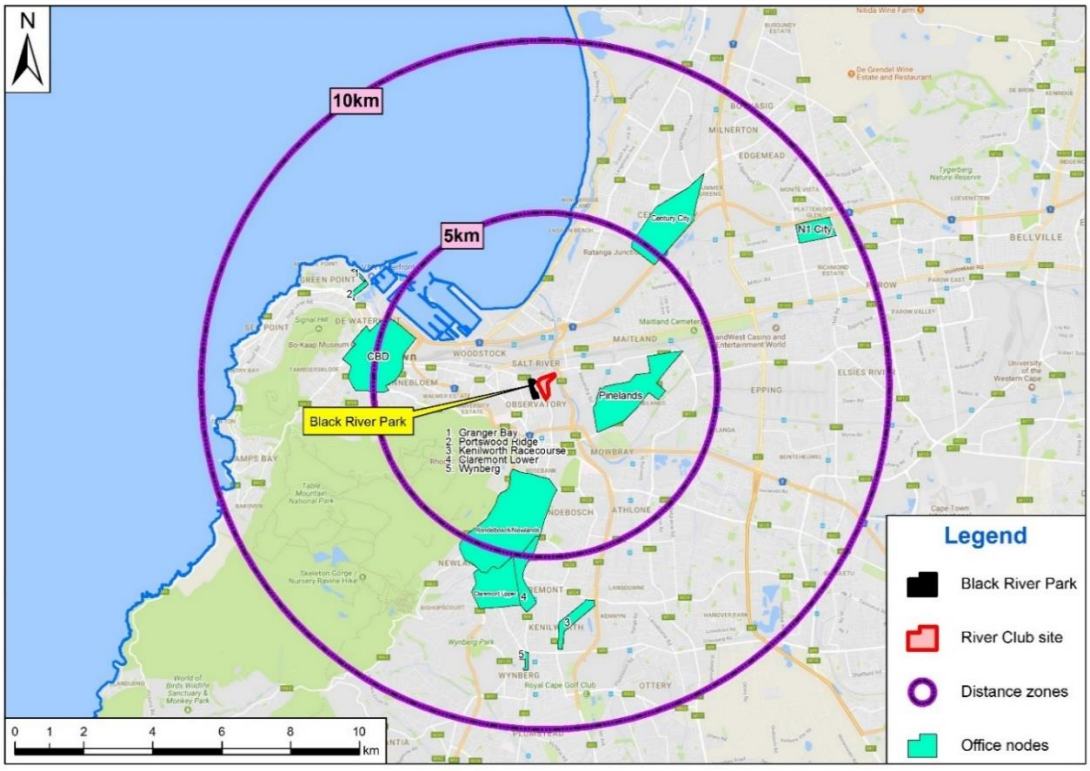


Figure 7.6 Location of office nodes in the vicinity of the River Club

Its location is very advantageous for office development as it abuts the existing Black River Park business park, consisting of 75 000 m^2 of office space and the Pinelands node. Several other office nodes are also partially within a 5-km radius, viz. Century City, Rondebosch/Newlands and Claremont. The site will have good macro access to the CBD as well as to the northern and southern suburbs of Cape Town, where LSMs 9-10 reside.

The development's residential component will supply an ample, well-located workforce. It will also have good highway frontage onto the M5, M57 (Liesbeek Parkway) and, possibly, with the mooted extension of the M16 (Berkley Road) it would have excellent frontage onto the latter road too. Currently, however, road access to the site is limited and traffic congestion on available roads further reduces accessibility to and from the site.

In sum, we consider the site's location very suitable for office development (this viewpoint does not take into account its environmental or geological suitability).

We next discuss factors underpinning the local office market that may affect the River Club's office component in the short to medium term.

7.2.2 Current size and vacancy rates of the Cape Town office-property market

Table 7.2 shows that the stock of grades A and B office space[5] in Cape Town as at the second quarter of 2017 was almost 2,4 mn square metres. Of this, a total of about 161 000 m^2, equating to an overall vacancy rate of 6,7%, was available for leasing. As for nodal vacancy rates (see also **Table 7.2**), during the quarter under review, Pinelands was the most-rented up of the Cape Town office nodes, with vacancies of grades A & B combined just above 2%. By contrast, the Cape Town CBD had a vacancy rate of more than 10%.

Table 7.2 Cape Peninsula office stock and vacancies by node as in 2017 (Q2)

Office node	GLA (m^2)	Distribution of GLA	Vacancies (m^2)	Vacancy rate
Bellville/Tygervalley area	541 838	22,7%	18 507	3,4%
Cape Town CBD	936 593	39,2%	96 759	10,3%
Century City	337 912	14,1%	27 107	8,0%
Claremont	107 922	4,5%	3 648	3,4%
Pinelands	237 716	9,9%	5 079	2,1%
Rondebosch/Newlands	102 531	4,3%	5 763	5,6%
V&A Waterfront area	126 853	5,3%	4 308	3,4%
Total	**2 391 365**	**100%**	**161 171**	**6,7%**

Source of data: *SAPOA*

In **Figure 7.7** we show the office stock for grades A and B in June 2007 and June 2017 for the various office nodes in Cape Town. Evident is that the past decentralization trend has slackened markedly as the Cape Town CBD has only shown a very small proportionate decrease in the stock of office space between 2007 (39,9%) and 2017 (39,2%). Other office

[5] **Grade A:** Generally not older than 10 years or which has had a major renovation; high quality modern finishes; air conditioning, adequate on-site parking, market rental near the top of the range in the node in which the building is located.
Grade B: Generally 10−20 years old (assuming no major refurbishment) and accommodation and finishes close to modern standards; air-conditioned; on-site parking.

nodes in Cape Town have, in fact, shown more substantial decreases in proportional office space. The exceptions are Century City, which had a doubling in its proportional share of the available office stock from 7% in 2007 to 14,1% in 2017. The V&A Waterfront node also showed a comparative increase in office space from 4,6% to 5,3% during the analysis period.

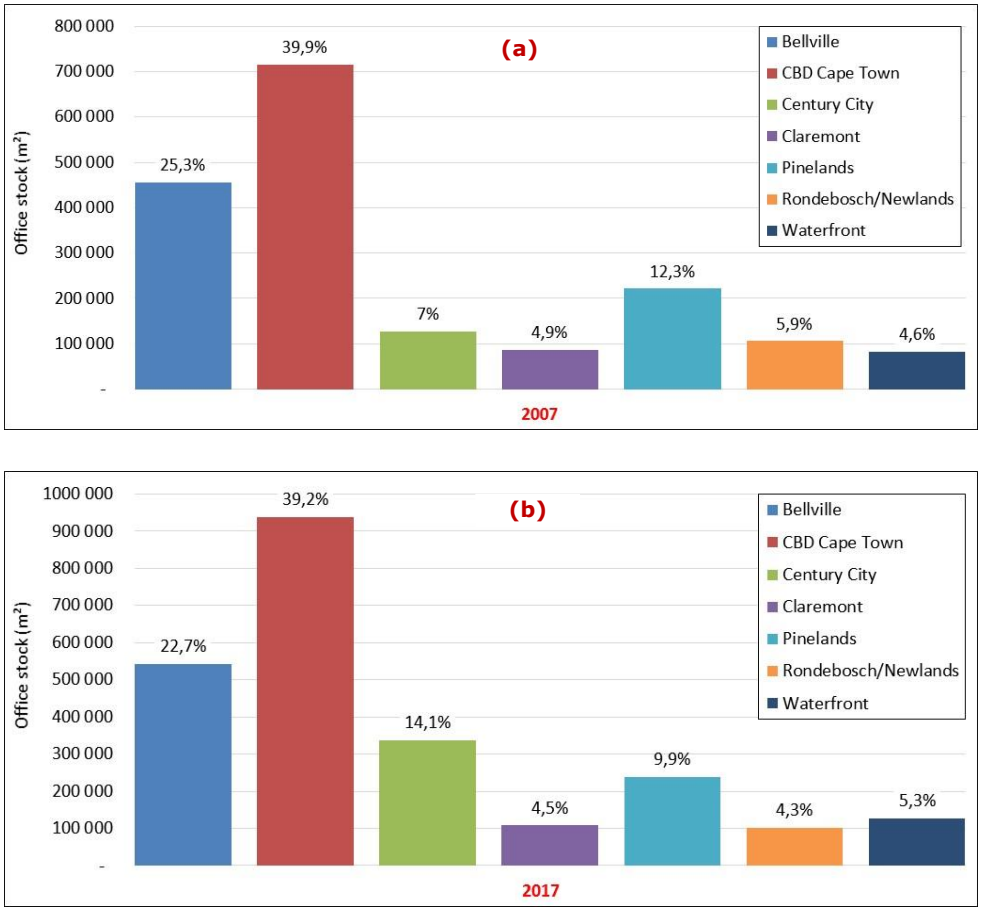


Figure 7.7 Share of total grades A and B office stock in Cape Town (a) 2007, and (b) 2017

7.2.3 Historic office-rental growth rates

In **Table 7.3** the growth in office rentals in Cape Town office nodes are ranked according to their 5- and 10-year growth rates. The Pinelands and other nearby nodes are highlighted as they intersect the 5-km River Club zone. Evident from **Table 7.3** is that, measured by their 10-year growth rates, none of these nodes falls in the top five office nodes in Cape Town, while all (except Century City) have growth rates close to the Cape Town average. Also note how the growth in market rentals in these nodes were unable to outperform the growth in building costs over the past 10-years, while over the past five years the nodes in question (Century City excluded) have managed to do so.

These findings imply that over a 10-year period, net office rentals and market values were unable to grow in *real* terms.[6] This made the financial viability of new developments in the *poorly-performing nodes* progressively more difficult. Over the past five years, this difficulty has eased somewhat as office rentals have grown in *real* terms.

[6] When assuming constant capitalisation rates and operating expenses growing at the market-rental rate

Table 7.3 Cape Town 5-and 10-year grade A office-rental growth rates
(% compound growth p.a.)

5-year		10-year	
Sea Point	14.7%	Sea Point	10.9%
V&A Portswood Ridge	11,4%	V&A Portswood Ridge	7,7%
Granger Bay	10,4%	Bellville CBD	5,7%
Claremont Upper	8,9%	Tokai	5,3%
Rondebosch/Newlands	8,7%	Durbanville	5,1%
Cape Town CBD	8,5%	Tygervalley Area, Bellville	5,0%
Pinelands	7,5%	Cape Town CBD	4,9%
Tokai	6,7%	Rondebosch/Newlands	4,6%
Kenilworth (Racecourse)	6,1%	Claremont Upper	4,6%
Wynberg	5,5%	Pinelands	4,3%
Westlake	5,3%	Granger Bay	3,9%
Tygervalley Area, Bellville	4,9%	Wynberg	3,8%
Century City	4,1%	Century City	3,6%
Durbanville	4,0%	Kenilworth (Racecourse)	3,3%
Goodwood (N1 City)	3,0%	Westlake	2,4%
Bellville CBD	1,8%	Goodwood (N1 City)	1,9%
Tygerberg Hills	1,7%	Tygerberg Hills	1,9%
Cape Peninsula average	**6,6%**	**Cape Peninsula average**	**4,6%**
BER Building Cost Index	**6,4%**	**BER Building Cost Index**	**4,9%.**

Source of data: *Rode's Report on the SA Property Market*

7.2.4 Current office rentals

To identify growth and stagnation nodes within the city, we ranked the office nodes according to their current grade-A market rental levels, as current market rentals are a good indicator of the relative attraction of individual nodes. This is so because market rentals mirror the locational advantages (accessibility, proximity to the homes of decision takers), crime levels and quality of an office building. Again, nodes within 5 km of the River Club have been highlighted. Only the Cape Town CBD falls within the top-five performing office nodes, measured by the level of grade-A office rentals. With the exception of Pinelands, all the other highlighted nodes (i.e. those within 5 km) are above the Cape Town average (see **Table 7.4**).

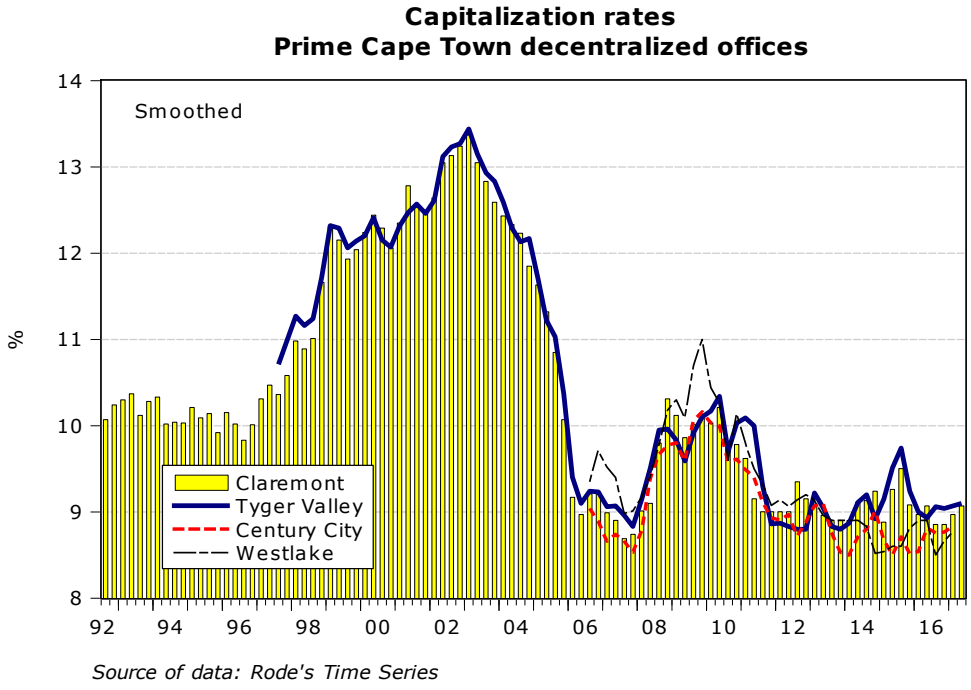
Table 7.4 Cape Peninsula grade-A market-rental rates for office buildings
(Av. of Q1:2017 and Q2: 2017)
Rands per rentable m² per month, gross leases (excl VAT)

Office node	R
V&A Portswood Ridge	187,25
Granger Bay	166,67
Sea Point	138,04
Cape Town CBD	137,39
Claremont Upper	135,85
Century City	134,93
Rondebosch/Newlands	128,50
Tygervalley Area, Bellville	117,50
Pinelands	116,46
Westlake	115,84
Tygerberg Hills	115,84
Kenilworth (Racecourse)	113,50
Durbanville	113,25
Tokai	111,46
Goodwood (N1 City)	100,42
Wynberg	97,50
Bellville CBD	90,00
Cape Town average	**124,73**

Source of data: *Rode's Report on the SA Property Market*

7.2.5 Capitalization rates

Figure 7.8 indicates that capitalization rates in the Cape Town decentralized office nodes have been weakening (increasing) over the past year or so. Our respondents are of the opinion that investors currently require a minimum *net* income return of about 9% to induce them into buying or selling grade-A multi-tenanted property in Cape Town decentralized.[7] A positive for the office-property capitalization-rate outlook in Cape Town decentralized must be the region's very low vacancy rate.



Source of data: Rode's Time Series

Figure 7.8 Capitalization rates in prime Cape Town decentralized office nodes

7.3 Residential market

7.3.1 Site context

The River Club development will contain a large residential component (see **§8.3.2**). From a locational perspective, it is evident that the site is located in a pleasant natural environment with scenic mountain views, wetlands and rivers in close proximity, and borders established middle-class residential areas such as Observatory and Pinelands. Residents would have easy access to recreation and education facilities (both secondary and tertiary). Additionally, there is a lack of developable land in the area resulting in possible substantial latent demand for a residential development in the area. Its proximity to the CBD, industrial townships as well as the northern and southern suburbs means that it is close to potential employment opportunities. The future office component will also provide work to residents of the site. The various development components would thus complement each other, in this way creating a live-work-play mixed-use milieu.

[7] Assuming the property is fully let at market rentals

We next discuss the factors that currently shape the residential market in Cape Town and in the vicinity of the River Club site and which could affect residential development in the short- to medium term.

7.3.2 Recent trends in Cape Town house prices

Regarding recent growth in nominal house prices, **Table 7.5** shows the yearly growth in house prices in the major cities for the past few quarters. Note from the table the modest (sub-inflation) growth in nominal prices in all the cities, barring Cape Town. Also observe that the growth in prices in Cape Town is moderating – perhaps affordability is becoming an issue. This as a result of the growth in nominal prices in the Mother City having in recent years outperformed the growth in disposable incomes by some margin.

Table 7.5 Growth in nominal house prices by city (ex FNB)
(% change on a year earlier)

Municipality	2016Q2	2016Q3	2016Q4	2017Q1	2017Q2
City of Cape Town	11,2	10,2	9,3	8,5	7,9
City of Joburg	3,9	3,5	3,8	4,4	4,8
City of Ekurhuleni	3,7	3,6	3,5	3,8	4,2
City of Tshwane	5,0	4,2	3,6	3,6	4,1
City of eThekwini	2,7	1,7	1,3	1,7	2,8
Nelson Mandela Bay	4,6	2,4	0,2	-1,6	-2,7

Source of data: FNB

Table 7.6 summarizes growth in nominal house prices at the Cape Town suburb level. Note how in the second quarter of 2017, nominal prices across all of the suburbs (or suburb groupings), barring Atlantis/Mamre, showed impressive growth in excess of inflation. Also, observe how growth in the more affluent areas (e.g. Atlantic Seaboard and City Bowl) has been the strongest across the board. The highlighted City Eastern Suburbs[8] (this area abuts the River Cub site) and Southern Suburbs[9] (the River Cub site is located here) areas have shown house price growth of respectively 13,5% and 14,7% over the past year.

Also, note how the yearly growth in prices has in general been cooling. This is confirmed in **Table 7.6**, which shows how growth in the City of Cape Town, as a whole, cooled from 15,6% in 2016Q2 to 13,8% in 2017Q2. Nevertheless, compared to a much lower growth in household incomes, it is evident that affordability has been affected adversely, which means these elevated growth rates are of course not sustainable.

[8] Includes Rugby, Lagoon Beach, Kensington, Maitland, Salt River, Woodstock, Maitland Garden Village, Pinelands, Windermere, Oude Molen Village.
[9] Includes Bishopscourt, Claremont, Newlands, Tokai, Rondebosch, Mowbray, Wynberg, Observatory, Kenilworth, Rosebank, Muizenberg, Contantia, etc.

Table 7.6 Growth in nominal house prices at Cape Town suburb level (% change on a year earlier)					
Subregion	**2016Q2**	**2016Q3**	**2016Q4**	**2017Q1**	**2017Q2**
Atlantis, Mamre	2,2	-3,1	-5,7	-7,6	-10,0
Mitchells Plain, Eerste River	7,8	9,0	10,5	12,2	13,7
Bellville, Parow and surrounds	11,8	10,4	9,4	8,8	8,3
Blouberg, Milnerton, Melkbosstrand	14,6	13,8	13,4	13,4	14,0
Durbanville, Kraaifontein, Brackenfell	13,4	12,0	10,3	8,5	6,8
Somerset West, Strand, Gordons Bay	11,8	14,3	14,4	13,4	12,2
Southern Peninsula	13,3	12,1	12,4	12,8	12,8
City Bowl	23,1	22,6	22,2	21,8	21,1
Atlantic Seaboard	20,7	24,1	28,0	30,1	29,9
City Eastern Suburbs	18,7	17,7	17,0	15,8	13,5
Southern Suburbs	14,8	14,3	14,0	14,3	14,7
Cape Flats	10,6	10,8	11,4	12,0	12,5
City of Cape Town Metro	**15,6**	**15,2**	**14,8**	**14,3**	**13,8**

Source of data: FNB

Nationally, important drivers of house prices remain lethargic. A continuation of low single-digit growth in house prices countrywide — barring Cape Town for now — is therefore most likely. An important driver to consider is the nominal value of residential mortgages granted, which for the whole of 2016 contracted on a year-on-year basis. However, for the first two quarters of 2017, modest growth in the value of mortgage loans granted, was again observed.

As evidence of the importance of the mortgage market on house prices, the graph that follows (**Figure 7.9)** shows the fairly strong relationship between the growth in nominal house prices and the growth in the nominal value of mortgages granted.

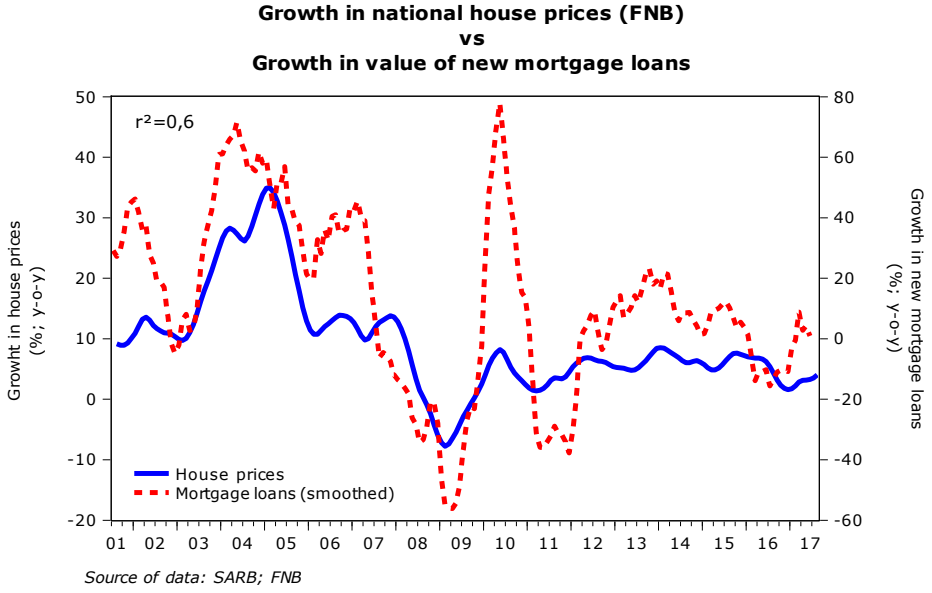
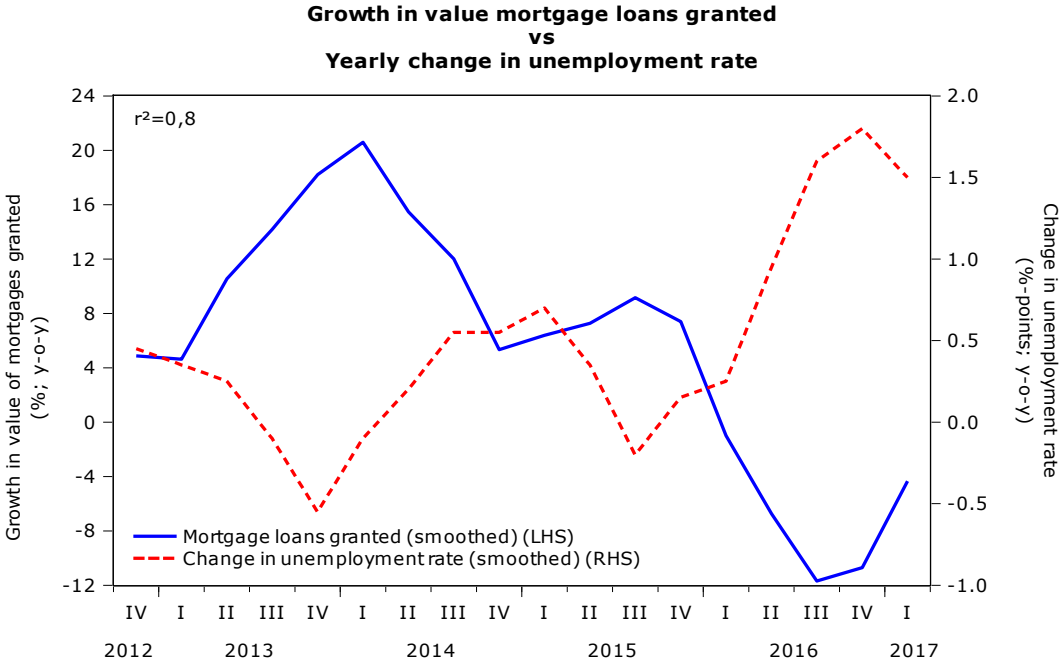


Figure 7.9 Growth in national house prices vs growth in value of new mortgage loans

For now, however, questions remain as to whether growth in the value of mortgages granted, will be sustained. For one, the current growth rates observed are from a low base. Furthermore, strong headwinds continue to confront effective demand for mortgage loans (from borrowers), and mortgage lender sentiment might continue to adversely affect mortgage loans granted. These headwinds are:

- Weak economic activity, which in turn does not bode well for employment and prospects for real growth in disposable salaries. In fact, in the second quarter of 2017, the official unemployment rate remained at 27,7%, its highest rate in more than 13 years. **Figure 7.10** shows the strong inverse relationship (r^2=0,8) that has developed in recent years between the growth in the value of mortgages granted and the annual percentage-point change in the official unemployment rate.



Source of data: SARB; Stats SA; Rode calculations

Figure 7.10 Growth in value of new mortgage loans vs yearly change in unemployment rate

- The high household debt-to-disposable income ratios, which adversely affect consumers' credit-risk profiles. The ratio between household debt and disposable income has improved in recent years, but in the first quarter of 2017, it was still uncomfortably high at 73%.
- Consumer confidence levels, which are in the doldrums, and as a result might affect the willingness of households to make substantial financial commitments, such as buying a house.
- Upward pressure on property running costs such as electricity and property taxes, which might undermine the demand for housing.

Of course, one positive for the mortgage and house markets must be the improved inflation expectations, and the better outlook for the direction of short-term interest rates that these expectations bring. Having said that, economists seem to have reached consensus that the

current interest-rate down-phase is going to be shallow; in fact, the decline may already have reached its lower turning point.

7.3.3 Trends in Cape Town flat rentals

A look at the country's major cities (see **Figure 7.11**) shows that nominal flat rentals in Durban (+7%) showed the strongest growth, followed by Pretoria and Johannesburg, where rentals were up by 6%, and Cape Town where growth of only 4% was recorded (albeit off a high base). Nationally, flat rentals were in the second quarter of 2017 up by a yearly rate of only 5%.

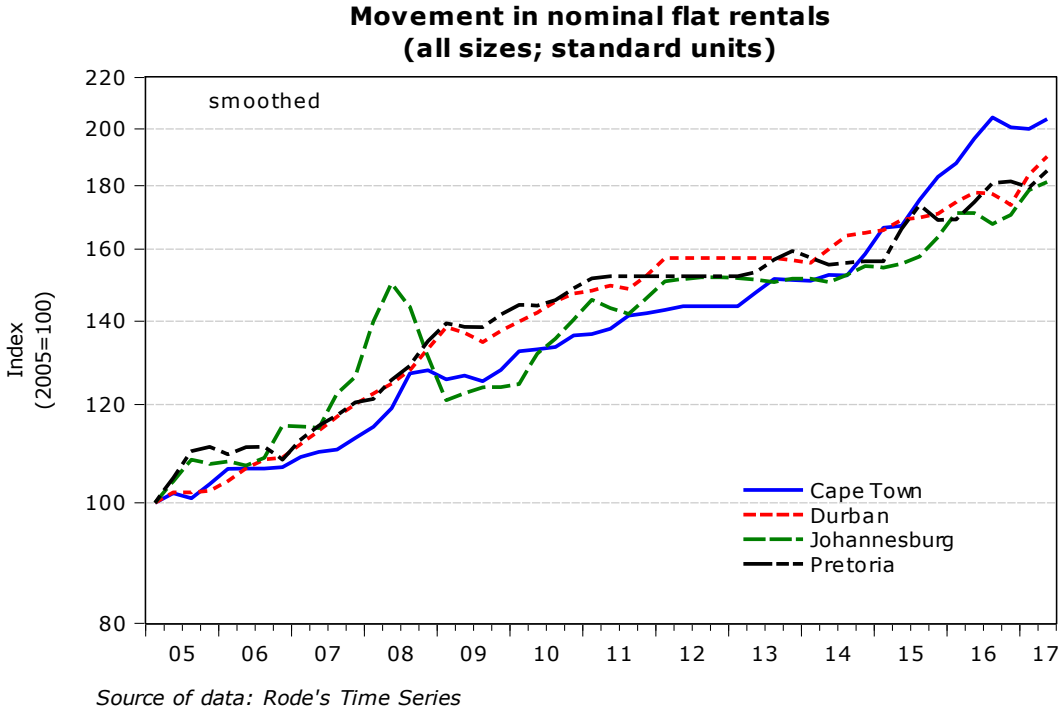


Figure 7.11 Movement in national nominal flat rentals

In the second quarter of 2017, consumer prices (excluding owners' equivalent rent) grew by roughly 5%, implying that in Cape Town alone flat rentals were unable to grow in *real* terms. Notable, however, is the outperformance of Cape Town rentals since 2015.

Regarding the growth prospects for flat rentals, muted economic growth prospects will most likely continue to weigh down on rental growth (the affordability factor). Furthermore, signs of the financial strain that households are experiencing, come in the form of the modest growth of disposable salaries. In July 2017, nominal disposable salaries — as measured by the BankservAfrica Disposable Salary Index (BDSI) — were up by a yearly rate of 7%, while in *real* (consumer-price deflated) terms, growth of only 2% was recorded.

At the more local level, **Figure 7.12** shows consolidated flat rental trends (historic and forecast) in major suburbs (i.e. Claremont, Pinelands, Rondebosch and Rosebank) close to the River Club site. Since 1992, these suburbs have shown nominal growth rates of 9,3% per annum, while our forecasts predict nominal growth of 4,7% annually over the next six years.

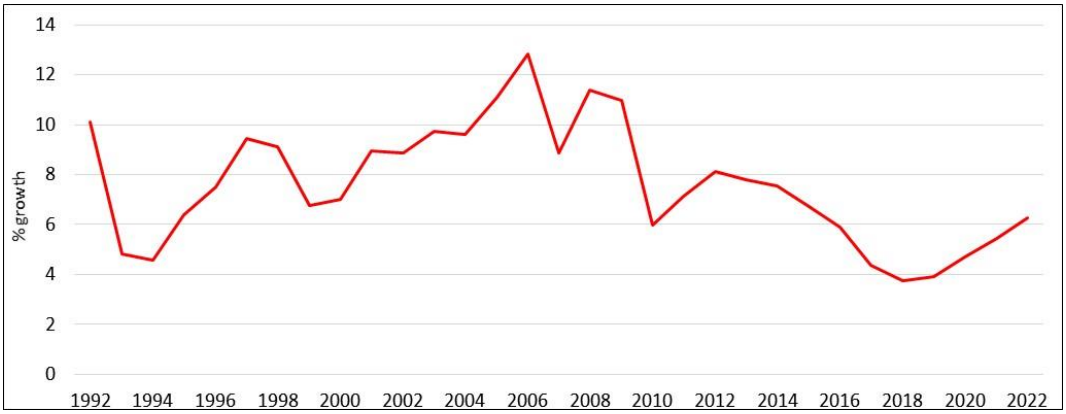
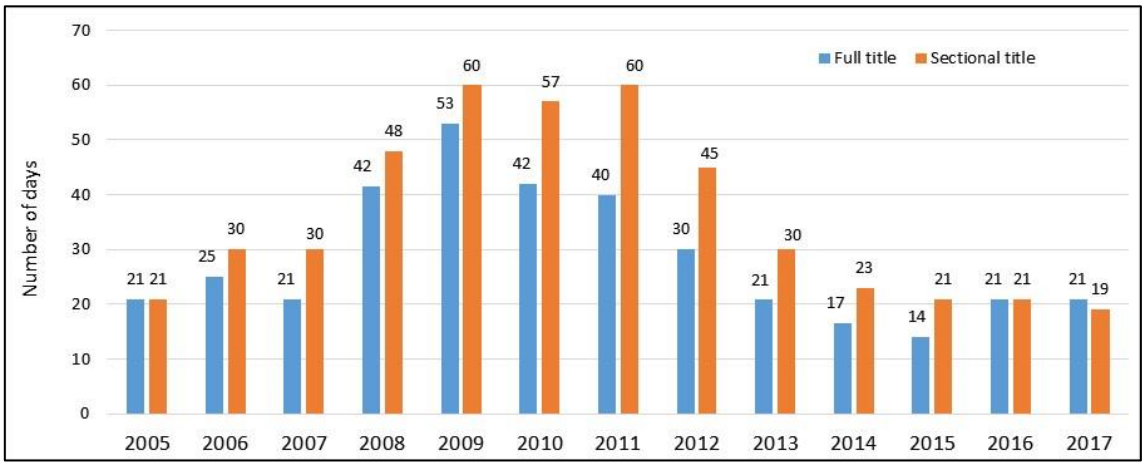


Figure 7.12 Historic and forecast flat rental growth in suburbs close to the River Club site

7.3.4 Current property market conditions in the vicinity of the River Club

We determined the current residential-property conditions by analysing PropStats[10] data on residential sales in the vicinity of the River Club between 2005 and the end of September 2017. We included 2017 data as these are not subject to registration delays at the Deeds Office. Our previous report's incomplete figures for 2016 are thus updated in this report.

Evident from **Figure 7.13** is that units in the vicinity of the subject property are now for a shorter period on the market (compared to 2009-2011) before being bought. Over the last two years, full-title units are on the market for 21 days before being sold, while sectional-title units are on the market for 19 days (21 days in 2016). These figures are comparable to the boom years of 2005-2007 and the market is now probably more of a "sellers" market than the "buyers" market that existed previously. Anecdotal evidence suggests that one of the reasons for this is a lack of stock to satisfy prevailing demand.

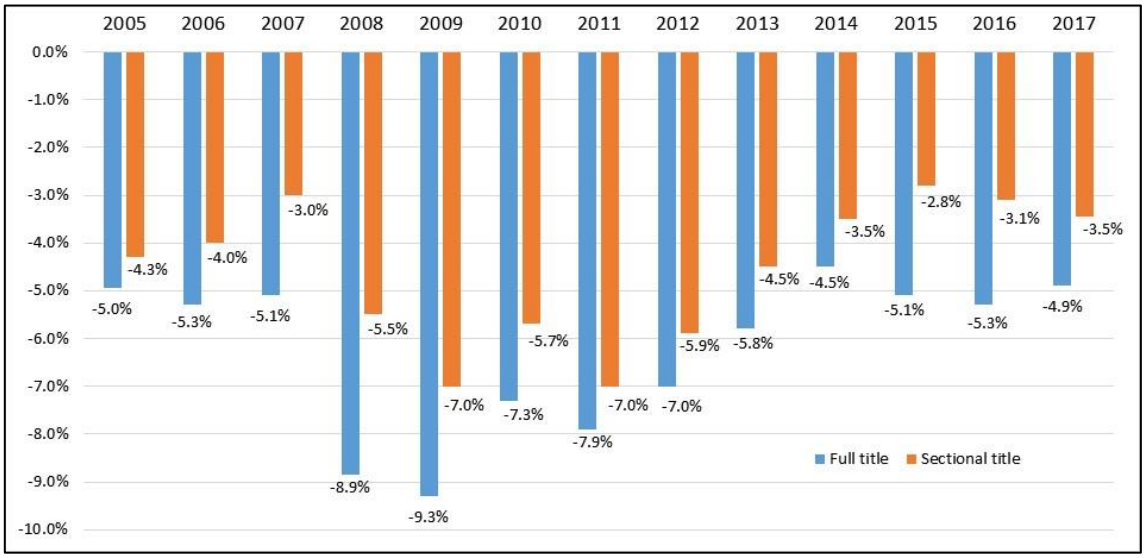


Source of data: *Propstats*

Figure 7.13 Median days listed before residential property is sold

[10] PropStats is an online sales database compiled on a voluntary basis by members of the Western Cape branch of the Institute of Estate Agents of South Africa (IEASA).

We also analysed the difference in median listed and sales prices provided by Propstats. Apparent from **Figure 7.14** is that sectional-title units are currently selling at a discount of 3,5% to their initial listing price versus about 4,9% for full–title units. These figures are roughly comparable with 2014, 2015 and 2016 and are a marked improvement on some prior years (e.g. 2009), when sectional-title units sold at a discount of 7% and full-title units at 9,3%.



Source of data: *Propstats*

Figure 7.14 Median difference between sales and listed price

7.3.5 Residential transfers in the study area

The following property market analysis may provide insights into the market segments that could be successful on the River Club site, given trends in the area. We derived four house-price value bands in a 5-km radius of the study area, *viz*. R0-R600k, R600k-R1,5 mn, R1,5-R3 mn and >R3 mn. These price bands were used to determine the demand apportionment described in **§8.3.2**. Historic sales of existing properties ('churn') in the study area of Cape Town in 2016 in the target price bands provide an indication of the size of these respective market segments.

As the Deeds Office only distinguishes between full-title and sectional-title transfers, residential and other typologies are not separately categorised. Vacant land and land with improvements are also not identifiable from the deeds records. To obviate these data shortcomings, a subset of improved full- and sectional-title residential property transfers was extracted from Lightstone's deeds database through a data cleaning procedure.

In **Figure 7.15** full and sectional title transfers are analysed by price band for the 5km-zone.

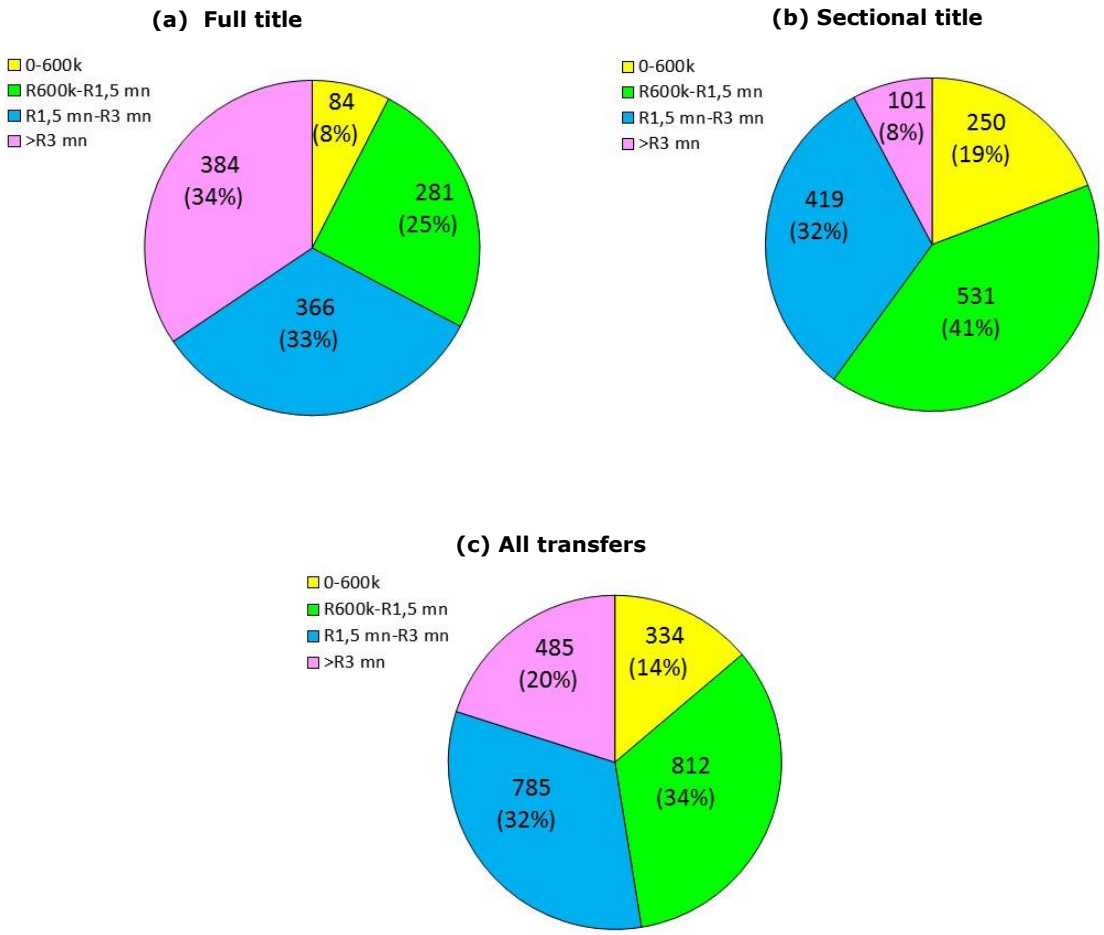


Figure 7.15 Residential transfers (2016) in the 5-km zone for all price categories

Some pertinent facts obtained from the analysis of all residential property transfers in the research area are the following:

Regarding full-title transfers (**Figure 7.15 (a)**), it is evident that the >R3mn price band is the largest in terms of the number of transfers, comprising 34% of sales. The R1,5 mn – R3 mn category is also substantial and constituted 33% of sales in 2016.

With respect to sectional-title transfers (**Figure 7.15 (b)**), we see that by far the majority of transfers (about 92%) were below R3 mn. The most significant price band was the R600k−R1,5 mn one as it comprised 41% of transfers. The number of transfers above R3 mn is rather small (i.e. 8%) in comparison to full-title transfers where 34% of sales occurred in this price band. `

If one considers both full- and sectional-title transfers overall, one can deduce from **Figure 7.15 (c)** that the most transfers (i.e. 34%) the 5-km zone occurred in in the R600k−R1,5 mn range, with the R1,5 mn−R3 mn category the next most significant (i.e. 32%). Of the approximately 2 400 transfers, the proportional split between full- and sectional-title sales was respectively 46% and 54%.

We also mapped the median sales prices in the 5-km zone. In **Figure 7.16** the median full-title sales prices in 2016 are depicted. Evident is that within a 5-km radius of the site, there are suburbs with rather divergent median prices. The suburbs with the high median sales prices are shaded pink in the map). There are seven suburbs with median values above R3 mn. None of these is located directly next to the subject site. Four suburbs (shaded yellow) had median prices below R600 000. The River Club site is located in Observatory, which had a median full-title sales price of around R2,1 mn.

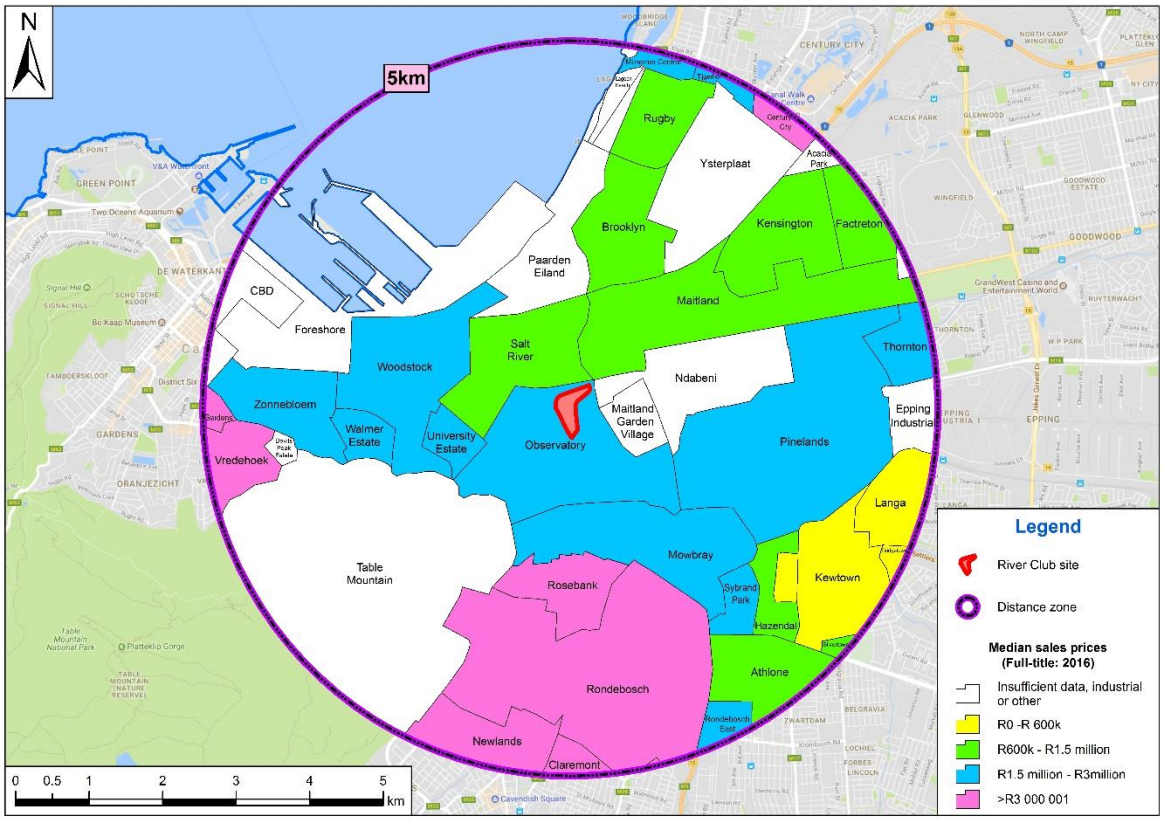


Figure 7.16 Median full-title sales prices (2016) in the 5-km zone

The 2016 median sectional-title sales prices are shown in **Figure 7.17**. It is apparent that the median sales prices per suburb for sectional-title properties are generally lower than for full-title. Furthermore, there are only two suburbs with a median sales price above R3 mn, whereas for full-title properties there are seven. With the exception of Salt River and Maitland, all of the areas close to the River Club site had median sales prices in 2016 in the R1,5 mn – R3 mn range. Observatory had a median sectional-title sales price of around R1,2 mn.

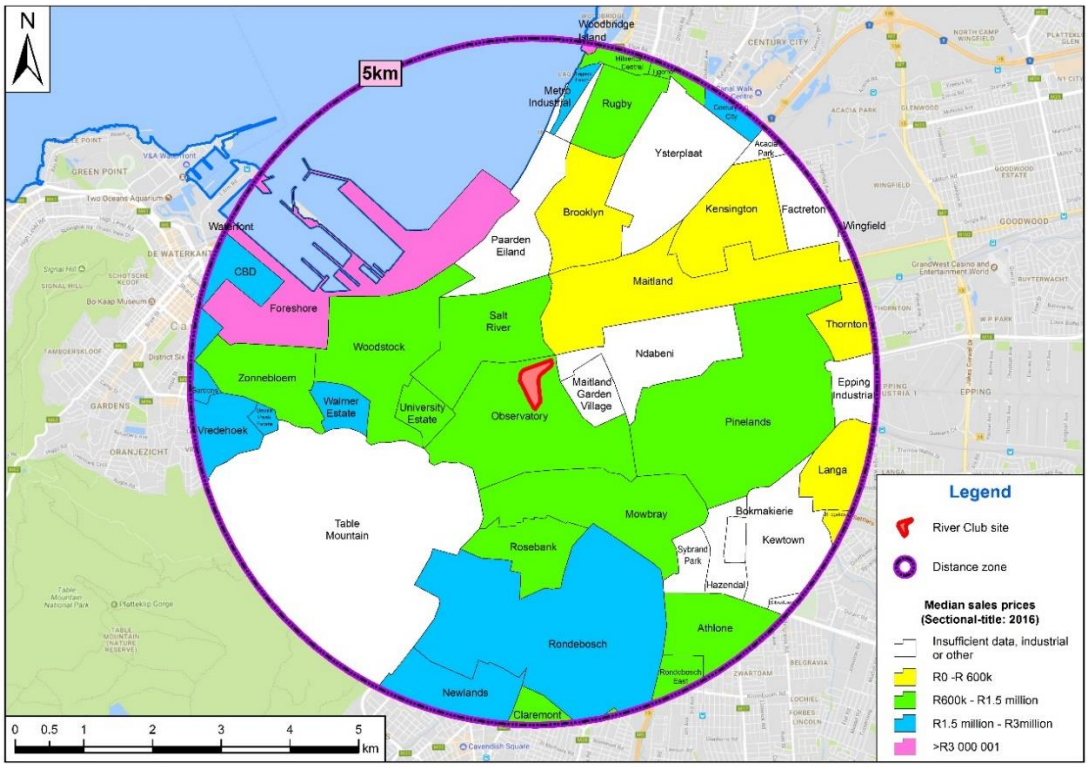


Figure 7.17 Median sectional-title sales prices (2016) in the 5-km zone

In **Figure 7.18** one can observe that the top suburbs in 2016 (measured by median transfer prices for both full- and sectional properties) were the Foreshore and Newlands, as they had a median sales price above R3 mn. Observatory's median sales price was around R1,9 mn (for all residential property types).

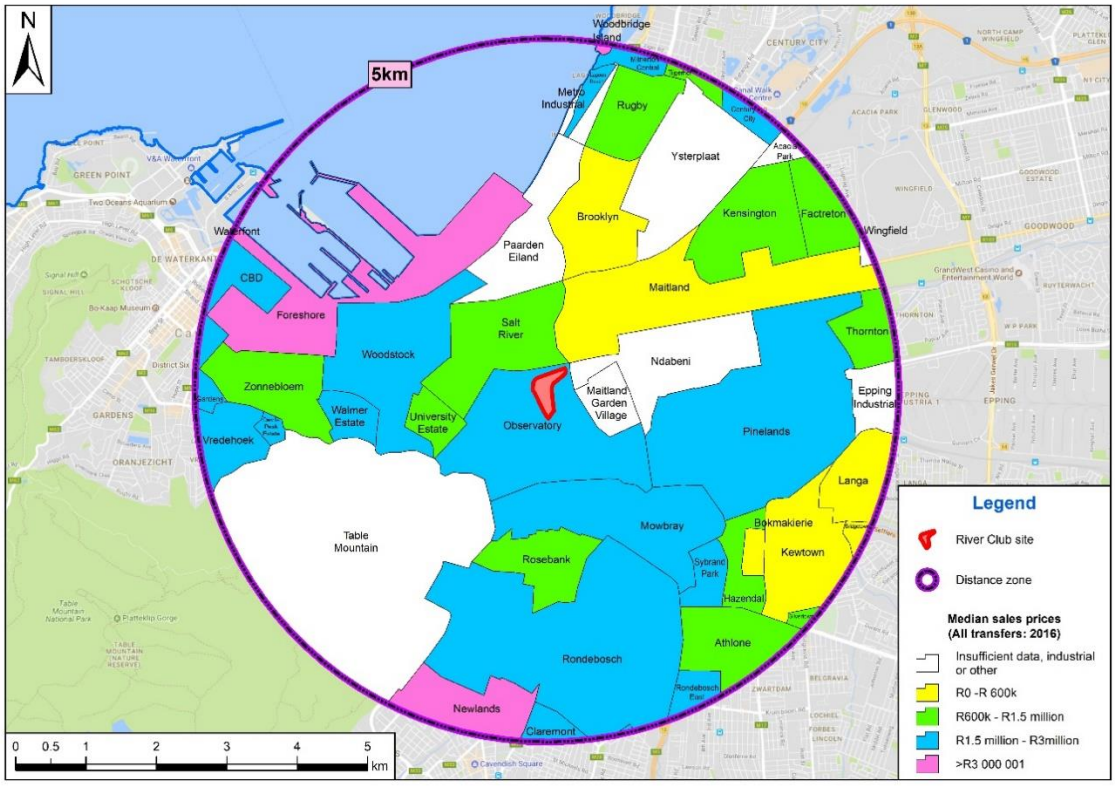


Figure 7.18 Median residential (full and sectional-title) sales prices (2016) in the 5-km zone

A modern, well-designed and attractive development like the one planned by the developer on what is now an unattractive wilderness (as seen from the M5 freeway), would normally be expected to have a positive effect on the values of the neighbouring areas. However, in practise the River Club development is enclosed by barriers (freeways, major roads and rivers), thus isolating it from the bordering neighbourhoods. It is, therefore, unlikely that River Club would have a direct positive spin-off on these areas.

Be that as it may, the preceding analyses do provide insight into price segments and residential property types that have been successful in the recent past. As the River Club's residential offering will include apartments, past sectional-title transfer trends indicate the significance of catering to the market below R3 mn, as more than 90% of transfers occurred in this price band. The high-end flats market (i.e. above R3 mn) does not appear to be particularly large.

The possibility exists to configure the development so that it caters to various income groups, thereby creating a mixed-income environment. Thus, development of the site can provide lower-middle-class citizens access to well-located property and security of tenure. Although lower income groups may hypothetically be accommodated in the residential development, their effective demand (i.e. how much they can afford to pay) will make this option unviable. Furthermore, the constraint on end-user financing may be problematic if units are sold instead of let.

7.4 Student-housing potential

As the River Club redevelopment will all in likelihood include market-related rental accommodation, purpose-built student-rental accommodation could be considered because of the site's proximity to the Cape Peninsula University of Technology (CPUT) and the University of Cape Town (UCT). Although developers have recently built a number of purpose-built student residences in the site's vicinity, in March this year UCT was still in need of 2 000 beds despite having a capacity for 6 700 beds (Deklerk, 2017). Observatory was one of the areas UCT identified having a shortage of student beds.

Personal interviews with letting agents and interrogating recent internet sources revealed some insightful trends pertaining to student accommodation.

Some of the major insights gleaned were:[11]

- All the letting agents agreed that there is generally ample demand for student accommodation in the vicinity of the River Club, especially from CPUT and UCT students, but also from students attending the numerous colleges in the area (such as Varsity College, various culinary educational institutions, AFDA film school, etc.), resulting in an active student-housing market;
- UCT students favoured areas close to campus, the most popular being accommodation on Main Road, Rondebosch, and along the main taxi and Jammie shuttle routes. However, students live all over the greater Cape Town area, as post-graduate students are willing to live further away because they do not need to visit the campus daily;

[11] Based on interviews with managing agents that specialise in middle-class housing for students

- Virtually all students prefer large, single rooms as basic requirement. Poorer students are, however, willing to share rooms, but cultural and religious homogeneity are often required before students are willing to share;
- Other facilities were of lesser importance in the past; however, millennials apparently do not like sharing bathrooms (Property Wheel, 2016); hence the need to include a bathroom with a shower;
- Purpose-built student accommodation should be so designed that bedrooms are large enough to accommodate only one person comfortably, and too small to accommodate two or more people. This would prevent overcrowding, which occurs occasionally. However, as seen above, most students prefer not to share rooms (and bathrooms) anyway;
- Furnished accommodation does not make a significant difference to achievable rentals. However, built-in cupboards are a must. Students are also known to increase the wear and tear of furniture;
- Sufficient secure parking is also very important. Letting agents opined that modern student-accommodation developments typically only provide the minimum allowable amount of parking (i.e. one bay per two-bedroom apartment). The ideal development should, therefore, at least provide one bay per bedroom;
- Sufficient security measures (burglar bars, security guards, safety gates and biometric access for complexes) are important requirements for many students and their parents, particularly more well-off ones;
- The demand for student accommodation is strongest during the end and the beginning of each year;
- Owing to budget constraints, there was a demand for two-and three-bedroom flats among students, as they were relatively cheaper than one-bedroom units, provided all the rooms were sublet. These units also offer students the advantage of having a study buddy in close proximity;
- Services included in rentals generally only include water, although prepaid water is becoming a feature these days as well. Due to the current drought modern student complexes are installing water meters per unit to monitor usage;
- Prepaid electricity and Wi-Fi availability should be essential features of purpose-built student accommodation. Wi-Fi can be included in the rental or charged separately (although the former option is easier to administer);
- Laundry facilities and even gyms would improve the liveability of student accommodation;
- The average lease period is 12 months (although students would prefer 11);
- The average deposit is 1½ month's rent, although one letting agent opined that he collects two months' rent as a deposit, which is spread out over a two-month collection period;
- Letting agents opined that rentals are rather static at the moment (November 2017), with moderate escalations (between 5% and 8%) expected through 2018;
- The current estimated monthly rentals for student accommodation in the site's vicinity provided by two interviewees is shown in **Table 7.7** below:

Table 7.7 Estimated monthly rentals for student accommodation in 2017

Type	Bachelor	1 bedroom	2 bedroom	3 bedroom
Standard	R5 000-R7 000	R6 000-R8 000	R8 000-R11 000	R10 000-R13 000
Upmarket	R6 500-R10 000	R7 500-R15 000	R9 500-R18 000	R12 000-R20 000

7.5 Retail analysis

7.5.1 Site context

The "Urban context and planning informants" report provides a comprehensive and well-considered rendering of the location-assets of the site. In the context of the development of a mixed-use node in TRUP and River Club, an analysis of the spatial geography of Cape Town offers a complementary perspective worth considering.

In this perspective, the N1 is not merely viewed as a "sub-metropolitan" movement channel but as the core structural element in the shaping of Cape Town's urban form. There is a body of agreement that urban form is ultimately determined by the dominant transport mode. In this argument, the N1 is positioned as the dominant macro-level development corridor or 'super-corridor' of the city; e.g. some 90% of road freight is said to be moved along the N1 corridor.

Since 1985, with the development of the decentralised Tyger Valley centre (by today, the node has amassed 130.000 m^2),[12] three other mall-nodes of regional scale have been developed off the N1, namely N1 City (88 000 m^2), Canal Walk (146 000 m^2) and Cape Gate (±120 000 m^2). It amounts to more than 480.000 m^2 of retail space. On the Voortrekker Rd. development corridor, only the expansion of Parow Centre and Middestad Mall happened and only one branded clothing store is left on the 8-km high street strip between Durban Road and Vanguard Drive. Of these, Canal Walk and Bellville (mostly Tyger Valley), are the only regional malls to have attracted a substantial office complement to mixed-use, collectively amounting to close to 630 000 m^2 of A- and A^+-grade space, compared to the CBD's 365 000 m^2. The Voortrekker Road Corridor (VRC) has attracted no new office space, and the N2 has only attracted Vangate Mall (28 000 m^2). However, things are starting to change along the N2 highway.

The key determinants for such mixed-use developments are vacant land, access to/from a highway and a reasonably wealthy and growing residential market. These factors are also evident in Johannesburg's north-western quadrant along the N1 and M1, Pretoria's north-eastern sector along the N1 and eThekwini's Umhlanga precinct, but a 'wealth' equivalent to that around Cavendish and Tyger Valley was absent at the launch of Canal Walk. This is also the case at River Club. It is our thesis that Canal Walk, as an infill development, and apart from sheer scale, suited the inhabitants of the southern suburbs, which had run out of easily accessible developable space and a highway of competitive scale, and adopted Canal Walk as a convenient alternative equidistant from the core business nodes of Claremont, Tyger Valley (Bellville) and the Cape Town CBD.

TRUP is located along the 3-km M5 link between the N1 and the N2 at the bottleneck of the funnel where all regional roads converge that bring the vast majority of motor vehicles to the city centre from its 160° landside. River Club is in the middle of this link. The proposed Malta/Alfred Road and Berkley Road bridge over the river system would enable access onto and off the M5 – from where the site has exceptional visual exposure. Thus, the River Club site will be accessible at the macro-level from north, south, east and west. It will probably be the most accessible location in the Cape Town Metropolitan area, complying with key criteria critical to the success of Canal Walk: Vacant land with access from both of the two

[12] General the use of 'centre' or 'mall' refers to a centre under one roof and a single management. If that is not the case we refer to a 'precinct', 'node', or 'cluster'.

highways, and equidistant from Claremont, Canal Walk and the City Centre. At the same time, a potential opportunity to bring more offices to a linear strip between TRUP and the Athlone power station site is encouraging, while new upmarket, gated estates are sprawling west from Somerset-West and development around the airport can strengthen the middle of the N2 'corridor'. Air-travel connectivity account for 64% of a city's global status. The proposed addition of almost 60 000 m^2 of office space at the River Club, together with the Black River office precinct and the development potential of rest of TRUP, can ultimately challenge Claremont's position in the top four office nodes of Cape Town. Around 3 500 to 4 500 daytime office workers and 600 to 700 additional residents will change the profile of the area. On the downside, congestion on the highways has reached alarming proportions. However, the M5 is arguably the last potential exit off the highways to divert traffic away form an inevitable trip into the CBD.

At the meso-scale, the extension of Berkley Road will open ease of access north via Koeberg Road. To the south, Liesbeek Park Way is better connected to Mowbray, Rondebosch and Claremont (east) through Camp Ground Road than Main Road, which is only indirectly connected to the site. The link east into the Voortrekker Road development corridor is also indirect as the Voortrekker Road/ Koeberg Road intersection and the extension of Koeberg Road over the railway tracks (Cannon Road) to Berkley Road are often problematic. At the same time, the current absence of a substantial residential population past Ndabeni does not add much purchasing power. Beyond Sunrise Circle, the market has multiple retail alternatives available.

7.5.2 The operating environment

Rode's panel of economists surveyed in June 2017 expects *real* GDP growth of only 0,7% for 2017 but an acceleration in 2018 and thereafter.

Moreover, in September 2017 the World Bank slashed the country's economic growth outlook [for 2017] to 0,6%, from 1,1% it forecast earlier in the year, and declared that the country's second quarter growth of 2,5 % would be insufficient to restore positive per capita gross domestic product (GDP) growth for the year. However, the bank said it expected South Africa's economic growth for next year to be 1,1%, with a growth of 1,7% expected in 2019 supported by an improvement in commodity prices and strengthening balance sheets of households.[13]

Regarding 2018's growth prospects, Professor Raymond Parsons of North-West University's School of Business and Governance expected the economy to come out of recession this year, but his forecast for growth in 2017 as a whole was still only about 0,5%, despite the strengths of the economy and the reaffirmation of commitment by big business. He stated that the growth outlook for next year is now about 1,1% and job losses are still steadily rising. These growth rates are well below population growth and are simply inadequate to cater for South Africa's job creation and poverty challenges.[14]

This malaise can be ascribed to governance issues like inefficiencies in managing parastatals, state capture and institutionalised corruption imposing severe costs on the economy. A weak economy, high unemployment and deep poverty generates social tensions, and confidence

[13] https://www.iol.co.za/business-report/world-bank-slashes-south-africas-economic-growth-outlook-11279840
[14] http://www.engineeringnews.co.za/article/south-africa-to-emerge-from-recession-this-year-but-uncertainty-remains-a-risk-2017-08-28

within the country remains badly damaged, leaving a trust deficit, which discourages fixed investment by the private sector. All these factors pose a high risk to fiscal sustainability at a time of weak growth and declining tax revenues.[15]

Professor Parsons also noted that changed economic circumstances pose a serious challenge to existing revenue and deficit targets, similar to the shock fiscal shortfall in the aftermath of the global financial crisis, despite Finance Minister Malusi Gigaba committing to fiscal consolidation.[16]

In the June 2017 edition of *Rode's SA Property Trends* Rode found that headwinds to retail sales, trading densities and, hence, the rental growth were persisting – this as key drivers of retail sales continued to underperform with it appearing as if they will remain there for quite some time.

The following are examples of underachieving retail-sales drivers:

- Consumer finances remain under severe strain as indicated by the combination of rising unemployment and modest growth in *real* disposable salaries
- Regarding rising unemployment, in the first quarter of 2017, the official unemployment rate jumped to 27,7%, its highest point in more than 13 years;
- With respect to growth in real disposable salaries, June 2017 marked the fourth consecutive month in which real disposable salaries (as measured by BankservAfrica) showed growth of only 1%;
- Real credit extended to households has been contracting (on a year-on-year basis) for more than a year now. Thus, much support for retail sales should not be expected from consumers buying on credit.
- The growth in retail sales volumes tends to follow the direction in consumer sentiment levels, which have in general waned since 2010. Since 2012, confidence levels have generally been "negative" and in recent quarters, levels have now also dropped to below those recorded during the 2008 financial crisis.

Currently, across most merchandise categories and shopping-centre types, nominal trading densities are either showing modest (below inflation) growth or showing contractions. In March 2017, nominal trading densities (nominal sales per m² of GLA) slowed to 2,7% from 5,5% in the previous quarter. Over the same period, retail prices grew by a yearly rate of roughly 6%, implying that in the reporting quarter, trading densities declined in *real* terms for the first time in more than five years.

Mall-based retailers are underperforming relative to the larger retail market, which does not augur well for trading densities and consequently, the growth in retail rentals.

- In the first quarter of 2017, the *nominal* value of mall based retail sales declined by 4%, compared to the overall retail market, where growth of 5% was achieved (MSCI Real Estate).
- The large contractions were in the nominal trading densities of department stores. Consumers are cutting back on buying discretionary durable and semi-durable items. Stats SA's data shows that retailers of these types of goods have also shown poor sales growth in both *nominal* and *real* terms in recent years.
- As for the other categories, nominal trading density growth has started to moderate to rates below retail-price inflation.

[15] Ibid.
[16] Ibid.

All of this, naturally, also further increases the possibility of downward reversion on renewal of escalated contractual rent to more affordable market levels.

7.5.3 Determining retail supply and demand

We assessed at a high level the retail characteristics of the area within a 10-km radius of the River Club site, as well as the retail demand in this area. It provides an indication of the retail potential of the River Club site.

7.5.3.1 Retail supply-side

Notes on the competitive environment

With reference to **Table 7.8** and **Figures 7.19 and 7.20** a few observations are of particular relevance:

- The River Club is located in the centre of an imaginary equilateral triangle formed by three of the largest regional retail nodes in the metro, namely the Cape Town CBD cluster (Golden Acre and Grand Parade), Canal Walk and the Cavendish Square precinct in Claremont. All of them are just beyond 5 km from River Club, with the V&A Waterfront cluster about 7 km away, and the road network between them meeting at the River Club.
- Although there are ten retail centres or about 100 000 m^2 of GLA within the 5-km radius, only certain ones have real relevance:
    - They include the larger neighbourhood/small community centres (some of the green dots) as well as a few smaller ones (orange dots). These centres reflect the outside perimeter of any catchment demarcation for the River Club.
    - The speciality centre (Woodstock Exchange) has little retail significance, while the lifestyle (décor) centre (The Palms in Woodstock) only impacts on that particular product category. Together with the CBD and the Cavendish Square precinct, the Kenilworth cluster on the M5 (anti-clockwise just east of Cavendish) and Vangate Mall (28 000 m^2) southeast of River Club are substantially larger and have significant influence on the catchment area.
    - There are also marginally smaller centres with variable influence on the market. While the Pinelands market is captive to the smaller but perfectly located 15 000-m^2 Howard Centre, the Rondebosch 'student' cluster (17 000 m^2) will have tenant-wise less effect. The same applies to the 13 000-m^2 Garden Centre, which is tenanted for more upmarket segments and almost have a 'lifestyle' feel.
- All three of these smaller competitive centres/nodes have a food & grocery (F&G) anchor, a Woolworths and a Clicks store. At Howard Centre, they are respectively approximately 4 300 m^2, 1 000 m^2 and 600 m^2 in size. Woolworths hosts both food and clothing in the premises while Pick n Pay Clothing is separate from the grocery store. While the F & G anchors at the other two centres/nodes are much smaller (±1 300 m^2), Rondebosch has two totalling approximately 3 000 m^2. In addition, a free-standing Shoprite in Mowbray probably exceeds 5 000 m^2.
- Apart from Woolworths and Pick n Pay mentioned above, only Gardens Centre with Truworths (&Man) and Cape Union Mart has a national brand offering in the clothing and footwear (CFA) category. It is also the only centre/node with the likes of Musica, @Home, Red-Square, Le Creuset, La Senza, The Body Shop and Wordworths. Howard Centre adds a CNA, Wimpy and Spur.

Table 7:8 Retail types, GLA and distance to the River Club by zone				
Classification	**Number**	**Mean GLA**	**Total GLA**	**Mean km to River Club**
5 km				
Local convenience centre	2	5 270	10 539	2,1
Neighbourhood centre	4	10 088	40 351	3,0
Speciality centre	2	9 930	19 860	3,0
Value centre	1	9 635	9 635	3,2
Lifestyle centre	1	20 000	20 000	4,1
10 km				
Local convenience centre	7	5 476	6 841	6,8
Big Box retailers	1	7 624	8 668	8,7
Neighbourhood centre	24	9 091	6 950	6,9
Speciality centre	2	9 930	3 030	3,0
Value centre	3	15 238	5 736	5,7
CBD/Town centre	4	16 955	5 747	5,7
Community centre	1	23 600	7 472	7,5
Lifestyle centre	2	23 860	5 229	5,2
Large community centre	3	27 623	7 276	7,3
Minor regional centre	2	41 340	5 837	5,8
Major regional centre	1	64 209	8 640	8,6
Part of super regional node	5	29 405	6 071	6,1
Super regional node	1	146 828	5 394	5,4

Source: South African Council of Shopping Centres: 2015

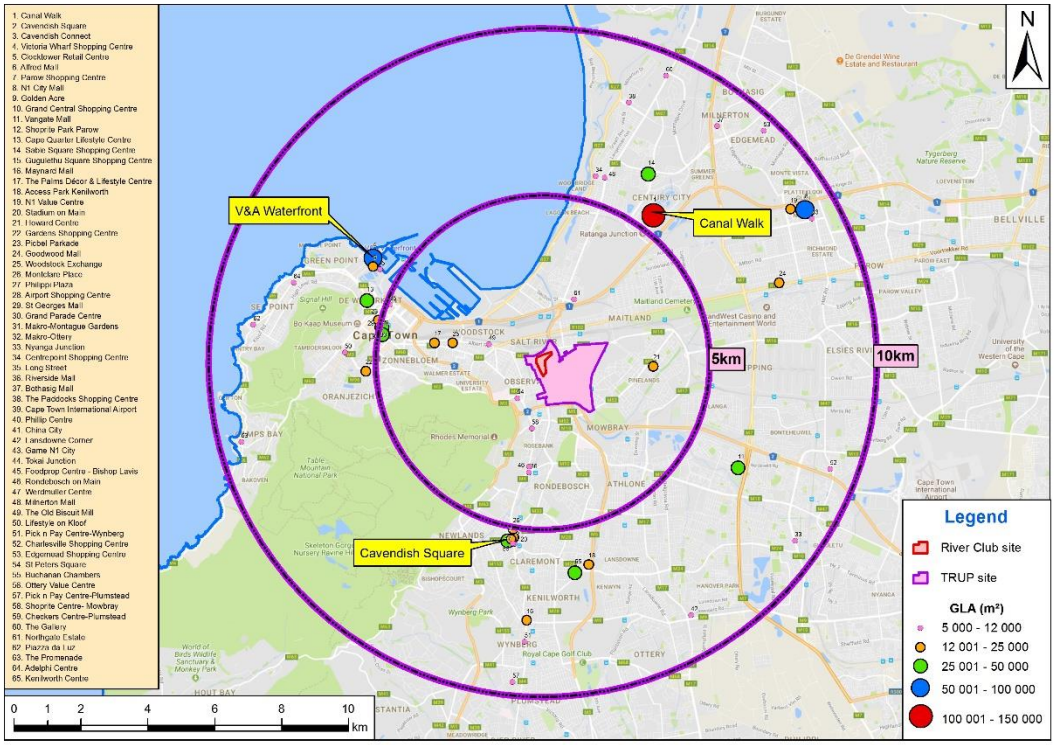


Figure 7.19 Retail supply in 5km and 10km radii from the River Club

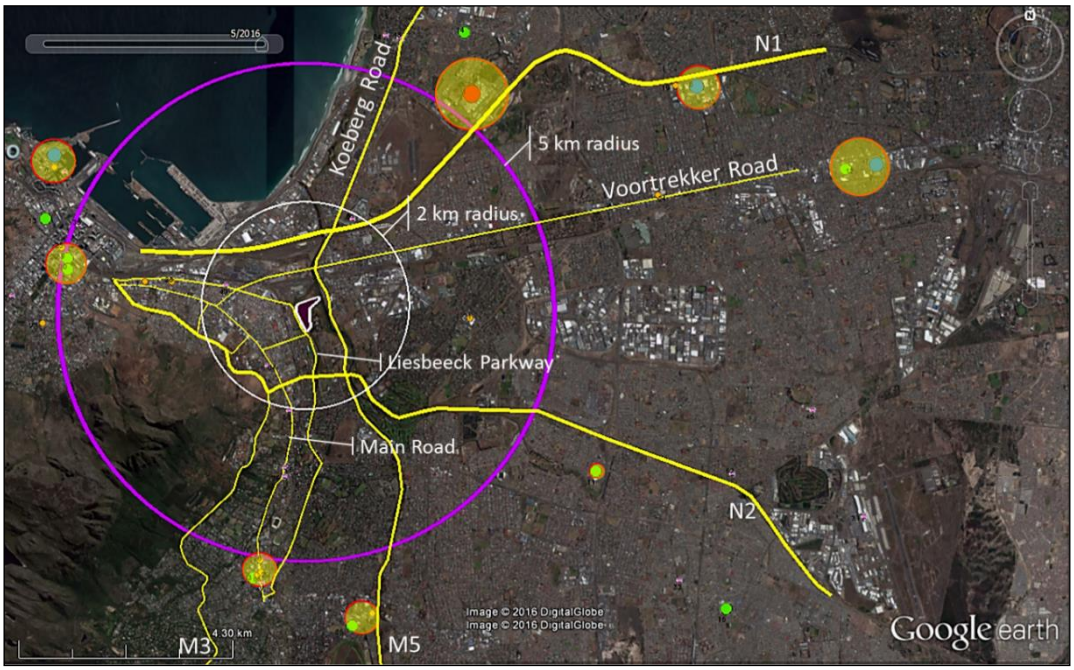


Figure 7.20 Retail supply and connectivity within 2 km and 5 km from the River Club

The retail census

Table 7.8 also contains a summary of the number of retail centres by type, their average distance to River Club and their average gross lettable area (GLA) for 5-km and 10-km zones. The 5-km radius is a typical boundary of the reach of a regional centre of approximately 50 000 m^2. The distribution of current retail supply is shown in **Figure 7.19**, with the name and reference number of each centre in the left margin of the map.

7.5.3.2 Retail demand

It is evident that there is no direct competition for a community centre on the River Club site within a 2,5-km range. In addition, there is little national-branded representation in various product categories under one roof within that area, most particular clothing and footwear.

Preliminary high-level estimate of potential net demand

A preliminary market assessment shows that while River Club has the lowest purchasing power (see **Figure 7.21 (a)**) within a 5-km radius compared to the Cavendish precinct and Canal Walk, it has the highest retail expenditure potential per square metre of existing GLA (see **Figure 7.21 (c)**). The analysis stresses the little competition in the 5-km zone of the River Club (see **Figure 7.21 (b)**), suggesting substantially more unmet demand, under-supply, and capacity for substantially more retail space. The analysis is based on Census 2011 and data from the SA Shopping Centre Directory (2015) compiled by the South African Council of Shopping Centres (SACSC).

That Cavendish Square catchment has the highest retail purchasing power and River Club the lowest was not a surprise – supporting Cavendish's larger retail footprint. However, Cavendish also had the lowest expenditure per competing GLA, suggesting a relatively higher level of saturation (**Figure 7.21 (c)**).

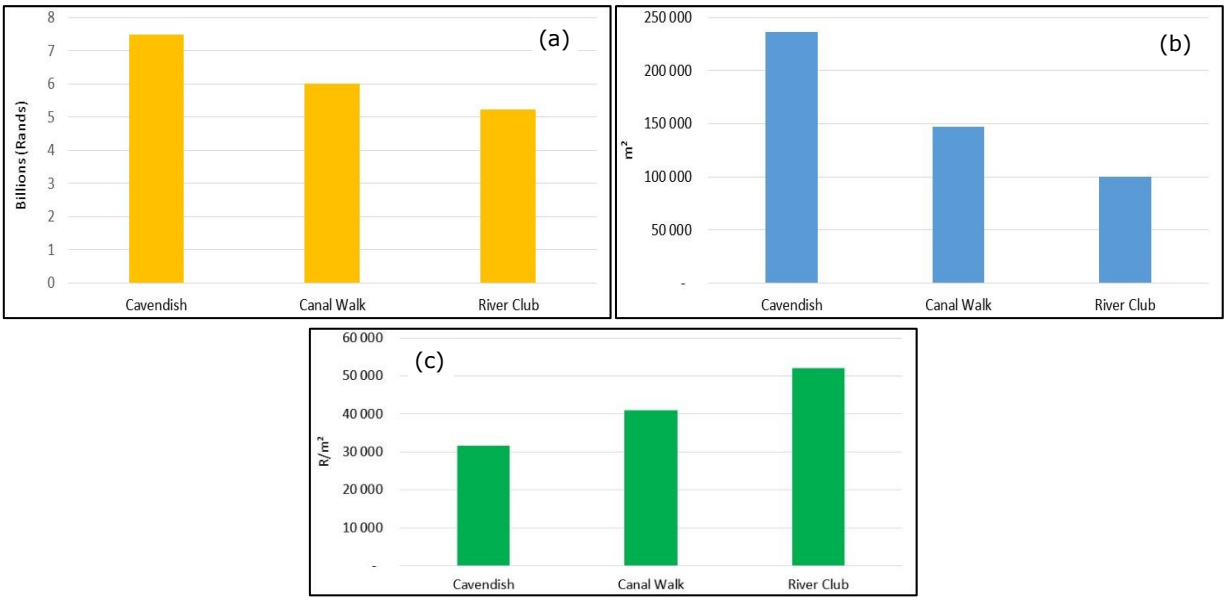


Figure 7.21 Retail (a) expenditure (rands); (b) GLA (m²); and (c) expenditure per m² for 5-km zones around retail hubs

Realising that the site is very fragmented and fraught with multiple barriers, a similar 'test' was applied for a 25 000 m^2 community centre in a 2,5-km radius with a similar result.

7.5.3.3 Delimiting catchment areas

A simplified 'gravity' method is used to delimit catchment areas, while taking cognisance of accessibility and barriers to accessibility. A breakpoint is determined between two competing centres based on their relative sizes, like two stationary magnets competing for a metal object between them. In the primary catchment area, the propensity to shop at a clearly dominant centre is very high. Propensity drops exponentially with increase in distance, and also varies between different product categories. In the secondary catchment area, two or more centres are contesting the area in-between and the River Club proposition is not a clear first choice. For this assessment we assumed a mall of around 19 000 m^2.

Key considerations for the delimitation of the primary catchment area (PCA) and secondary catchment area (SCA), in various directions, included the following:

- Koeberg Road (north) is the only link across the N1 to the River Club site. River Club is expected to be the dominant centre in Brooklyn and Ysterplaat, i.e. the primary catchment area (PCA). Competing forces from the 16 000 m^2 between the Milnerton and Centre Point Malls, together with the proximity of Canal Walk and the Ascot Centre, will exert a dominant influence beyond Rugby. The 10 000 m^2 Centre Point Mall, set to open in 2018, will dominate this transitional area, therefore, Rugby is only partially included in the Secondary Catchment Area (SCA).
- Along Voortrekker Road (east), residential Maitland should support River Club (PCA). A portion of Kensington, divided between River Club and Howard Centre via Sunrise Circle is in the transition zone (SCA) and the remainder of Kensington/Windermere should be attracted to Howard Centre and can also opt for Canal Walk, N1 City, or Goodwood Mall (13 000 m^2).

- The only residential markets that will use M16 (Berkley Road) to access the River Club are some of the Maitland/Kensington residents and developments on the north bank of the TRUP area along Alexandra Road.
- Pinelands remains captive to Howard Centre unless the River Club can offer a more attractive and clearly differentiated value proposition in 20% more space (3 000−4 000 m^2).
- To the south, the PCA includes Mowbray only. The influence of the 17 000 GLA of the Rosebank node, together with Cavendish Square, challenges the River Club's dominance. The inhabitants of Sybrand Park will weigh the River Club against the 28.000 m^2 Vangate Mall in Athlone (SCA). The bulk of Rondebosch falls outside the catchment area.
- Towards the mountain, the whole area between the N2 (Settlers Way) and Roodebloem Road and Salt River Road (the extension of Voortrekker Road), i.e. Observatory, Salt River, University Estate and a portion of Woodstock falls within the PCA. Only around 50% of Woodstock is allocated to the SCA due to the competing attraction of the CBD and, to a lesser extent, the 13.000 m^2 Gardens Centre.

The approach was prudently conservative. The PCA and SCA are shown in **Figure 7.22**.

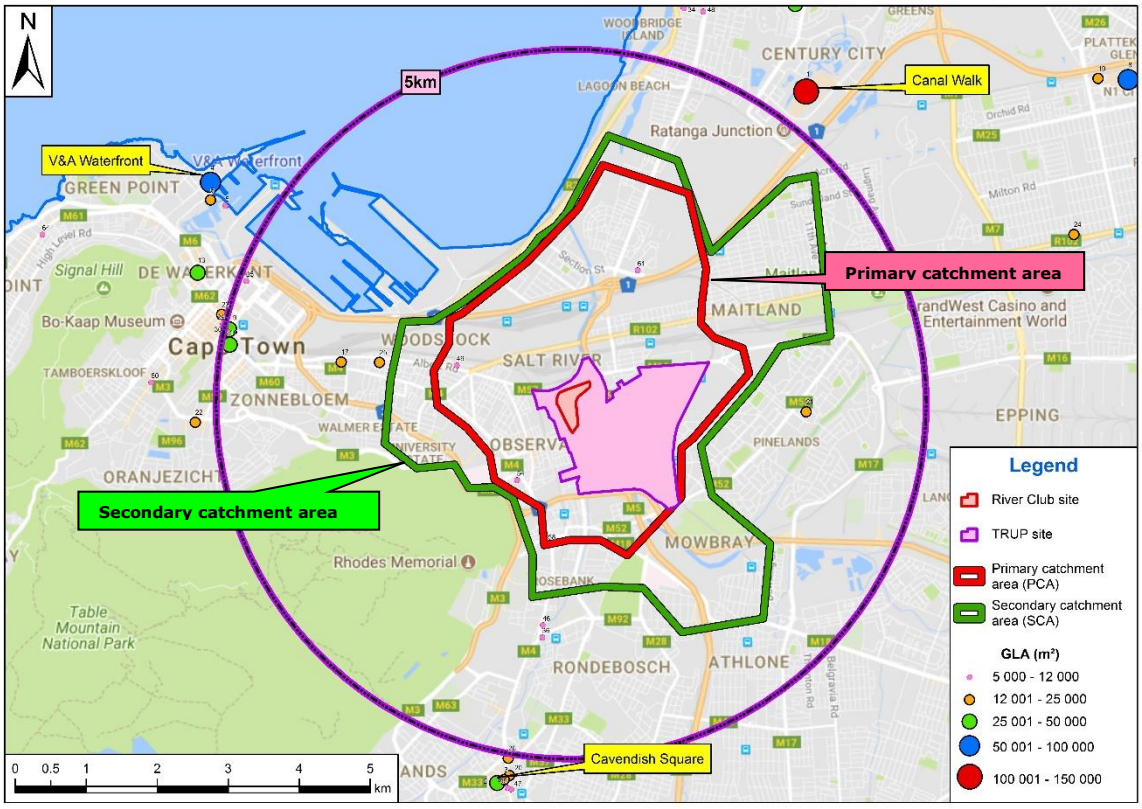


Figure 7.22 The primary and secondary catchment areas (PCA & SCA)

7.5.3.4 Demographic characteristics of the catchment areas

The demographics of the 5-km radius represents the characteristics of the catchment areas as there is a substantial overlap, particularly in the 2,5-km radius. The household and population distribution by income group is displayed in **Table 7.9**. Collectively, the two catchment areas have a population of around 82 000. The primary catchment area contributes 64% to the combined population (refer **Table 7.9**).

Table 7.9 Households & population by household income group									
Income groups (Census 2011)	Total catchment area			Primary catchment area			Secondary catchment area		
	Households		Individuals	Households		Individuals	Households		Individuals
	No.	%	No.	No.	%	No.	No.	%	No.
No income	2 650	11,3%	9 130	1 837	12,3%	6 454	813	9,6%	2 676
R 1-R 19 600	2 293	9,8%	8 464	1 595	10,7%	5 852	698	8,3%	2 612
R 19 601-R 38 200	2 374	10,1%	8 774	1 636	10,9%	6 024	738	8,7%	2 749
R 38 201-R 76 400	3 383	14,5%	12 379	2 338	15,6%	8 520	1 045	12,4%	3 859
R 76 401-R 153 800	4 103	17,5%	14 757	2 714	18,1%	9 797	1 389	16,5%	4 960
R 153 801-R 307 600	4 093	17,5%	14 254	2 482	16,6%	8 703	1 611	19,1%	5 551
R 307 601-R 614 400	2 819	12,0%	9 274	1 593	10,6%	5 262	1 226	14,5%	4 012
R 614 001-R 1 228 800	1 241	5,3%	3 817	578	3,9%	1 766	662	7,8%	2 051
R 1 228 801-R 2 457 600	453	1,9%	1 389	196	1,3%	627	258	3,1%	763
R 2 457 601 or more	3	0,0%	4	3	0,0%	3	-	0,0%	1
Total	23 413	100,0%	82 242	14 972	100,0%	53 009	8 441	100,0%	29 234
Household size	3,5			3,5			3,5		
% by catchment area	100%			64%			36%		

Table 7.10 shows the concentration of the population in the AB and EF income groups, with around 55% less in the middle CD group. It is a function of the lack of alignment between LSM (SAARF 2011), the Census 2011 income bands and the IES 2011 income and expenditure deciles. The table also shows the clustering that is used in this study.

Table 7.10 Population of the catchment areas by income group								
	AB	CD	EF	Total	AB	CD	EF	Total
Primary catchment area	22 600	8 000	19 600	50 200	45%	16%	39%	100%
Percentage of total catchment (down)	65%	53%	58%	60%				
Secondary catchment area	12 400	7 000	14 000	33 400	37%	21%	42%	100%
Percentage of total catchment (down)	35%	47%	42%	40%				
Total catchment area	35 000	15 000	33 600	83 600	42%	18%	40%	100%
	100%	100%	100%	100%				
Aligning LSM, and deciles to income categories								
	AB	CD	EF					
Corresponding LSM (SAARF 2011 & Census 2011)	7,9,10	5	1,2,3					
Corresponding deciles (IES 2011)	8,9,10	4,5,6,7	1,2,3,4					

There is a disproportional distribution of income between income groups (and LSMs), that is reflected in the absolute dominance of AB households in terms of their contribution to income and expenditure and the opposite for families in the other income groups.

7.5.3.5 Potential for upward mobility through house price growth and property development

The socio-economic profile of the market, more specifically in the Observatory to Woodstock area, is changing and this trend will probably continue in the future (for example, Salt River and Woodstock are part of the City's R20-billion urban renewal initiative). [17] What by some

[17] Property Wheel (2017)

is deemed to be threatening gentrification will be a boon to the proposed River Club retail sector in terms of higher property densities (apartments), population growth, a higher demographic profile dictated by property prices and more purchasing power.

The property market in the City Near Eastern Suburbs,[18] notably Woodstock and Observatory, has also shown remarkable appreciation in recent years. This area abuts the River Cub site The City Eastern Suburbs and Southern Suburbs[19] (the River Cub site is located in this broad area) have shown double-digit house-price growth over the past year (see also **§7.3.2**).

Neighbourhoods experiencing exceptionally high growth rates over time, along with high coffee shop densities generally indicate upward mobility. Former gritty and neglected neighbourhoods start changing as old, derelict houses are upgraded or replaced by modern double-storeys or even apartment blocks with investment potential. Salt River and Woodstock are certainly showing signs of these changes. With this comes upgrading of the general building stock. Since 2013, 14 development sites have been sold in Woodstock for more than R200 mn. In Salt River four, and in Observatory five – three of which were sold between 2014 and 2016. It can be expected that the River Club and TRUP developments will pull such developments towards the former and that Salt River, despite currently having neither a high density of coffee shops or high property growth rates, will soon be part of the process.

Five city owned sites in Woodstock and Salt River have been made available to the private sector for development that includes a social housing component. These changes in the River Club's primary catchment area may in due course have positive spin-offs on the proposed development (note that we have not accounted for any new competitive shopping centre in the catchment areas of our analysis).

7.5.3.6 Market potential assessment

Being a mature area, population growth is currently low. The only potential for substantial residential growth lies in increased household formation (rather than in population increase), densification, and infill, particularly in the TRUP precinct.

Economic forecasts to 2020 remain at an inhibiting low growth in GDP. While income growth (salaries and wages) has still exceeded inflation (CPI) real income growth is probably not sustainable much longer in a low-growth-high inflation environment, and faith in longer term forecasts have faded. Trading densities, too, have been projected accordingly.

While credible statistical resources are used to inform the projections in this study, e.g. Stats SA, Census 2011, IES 2011, the BER and IPD, many assumptions are made in the estimation of market demand.

7.5.3.7 Development potential summary

Population growth and income and expenditure and the resulting demand for retail space in the total catchment area has been projected from 2011 to 2016, and over three ensuing 2-year periods to 2018, 2020, 2022 and is summarised in **Table 7.11**.

[18] Includes Rugby, Lagoon Beach, Kensington, Maitland, Salt River, Woodstock, Maitland Garden Village, Pinelands, Windermere, and Oude Molen Village.
[19] Includes Bishopscourt, Claremont, Newlands, Tokai, Rondebosch, Mowbray, Wynberg, Observatory, Kenilworth, Rosebank, Muizenberg, Contantia, etc.

Table 7.11 Total River Club Mall market potential estimate for turnover and trading space								
	2016	2018	2020	2022	2016	2018	2020	2022
Retail categories	**Total retail consumption expenditure (R'mn)**				**Estimated expenditure at the mall (R'mn)**			
Food & groceries*	880	925	1040	1200	240	260	290	335
Clothing, footwear & apparel	300	315	360	410	80	85	100	115
Furniture & household equipment	240	250	280	330	40	45	50	60
Miscellaneous retail goods	420	450	510	590	75	80	90	105
Retail services	390	420	470	550	70	75	85	100
Total expenditure	2 230	2 360	2 660	3 080	505†	545	615	715
Retail categories	**River Club market share**				**Resulting space demand (m^2)**			
Food & groceries*	27%	28%	28%	28%	4 500	4 650	5 000	5 460
Clothing, footwear & apparel	27%	27%	28%	28%	4 150	4 350	4 750	5 320
Furniture & household equipment	17%	18%	18%	18%	2 800	2 850	3 100	3 490
Miscellaneous retail goods	18%	18%	18%	18%	4 350	4 500	4 950	5 550
Retail services	18%	18%	18%	18%	4 450	4 650	5 050	5 660
Total market share and justified GLA	23%	23%	23%	23%	20 250‡	21 000	22 850	25 480
Projected total catchment population								
Population	84 000	86 000	88 500	91 000				

* Including alcoholic beverages & tobacco
† Market potential for the proposed River Club retail component
‡ Estimated retail centre size

The market potential for the proposed River Club mall by 2018 is estimated at approximately R545 mn. It is based on a 23% market share for a centre of around 20 000 m^2 (see **Table 7.11**). Realistic propensities to shop at an appropriately tenanted centre on the site have been reduced to satisfy the guiding size parameter.

This is a conservative demand estimate as we found demand for up to for 27 000 m^2, almost equally distributed between the product categories, at reasonable propensities to shop and assuming a reasonable market share. The excess demand offers an opportunity to the developer and the flexibility to implement a tenant strategy that can optimise the centre relative to the weaknesses of centres such as Howard Centre.

For all of the fragmentation of the site, this is an exceptional spot with excellent development potential.

7.6 Suitability of the site for a hotel

Our hotel expert confirmed there were no major price changes at the various hospitality enterprises since our previous report was compiled.

Therefore, the information in our previous report is still valid and is restated below.

The current zoning of the subject property is Special Open Space 3 (SO3). This zoning could prove problematic to accommodate a hotel complex. However it may be obtainable on Consent Use, particularly if the applied zoning for a hotel is 0,5 parking bays per room in combination with the fact that the entire property will be mixed use.

Obtaining height clearance beyond three to four storeys from the CoCT may prove difficult.

Our hotel expert also commented on the potential flooding of the site and the possible impediment it would have on the long-term development of the property.

There is currently little hotel competition in the area of the River Club. The major competition currently is:

- Protea Mowbray Hotel (3 stars and 70 rooms). Cost per night is about R1 220 per room.
- Double Tree by Hilton (4 stars and 183 rooms). Cost per night is about R1 550 per room.
- City Lodge (3 stars and 133 rooms). Cost per night is about R1 120 per room.
- Medindi Manor Guest House (4 star B&B and 15 rooms). Cost per night is R1 050 including breakfast.
- Banksia Boutique Hotel (4 stars and 8 rooms). Cost per night is R1 550 including breakfast.

He recommended that the accommodation section of the hotel be linked to the current building on the site as it has considerable parking in close proximity, and also has conference facilities.

He felt that the site would be suitable for a 4-star full-service 150-room hotel constructed on a three-storey basis to a maximum of 150 rooms of 50 m² each (150 x 50 m^2). It would preferably cater to a guest mix of 65% business and 35% leisure.

8. Property market forecasts

8.1 Introduction

We first constructed econometric models to forecast the future trajectory of office demand and take-up in the vicinity of the River Club site and residential demand for the Cape Peninsula as a whole. Some of the critical macroeconomic variables that we tested in our models to explain changes in the property variables mentioned above included:

- Economic growth (as measured by *real* GDP);
- Consumer inflation (as measured by the CPI);
- Short-term interest rates (prime); and
- Long-bond yields.

The forecasts of the macroeconomic variables are summarized in **Table 8.1**, which is extracted from the June 2017 issue of the *Rode's SA Property Trends* publication.

The property forecasts derived from the macroeconomic variable analysis are summarised in **Tables 8.2** and **8.3**. For the future trajectory of office rentals, we considered both a Consensus Scenario (based on Rode & Associates economists' forecast of *real* GDP growth) and a Junk Scenario. We do not depict the trajectory of house prices and flat rentals under the Junk scenario because we believe that even under the more optimistic Consensus scenario the *real* house prices and flat rentals will move south over the forecast period.

Table 8.1 Survey of macroeconomic forecasts

Macroeconomic variables*	**Means**					
	2017	**2018**	**2019**	**2020**	**2021**	**2022**
Real expenditure on GDP: % change	0,7	1,3	2,0	2,2	2,5	2,5
CPI: including VAT, all items: % change	5,4	5,4	5,3	5,5	5,4	5,4
10-year bonds (average for the year): %	8,7	8,7	8,8	8,8	8,6	8,6
Nominal prime overdraft rate (average) (%)	10,3	10,1	10,2	10,3	9,9	9,9

* Forecast date: June 2017 (n = 7) Source of data: Rode's panel of economists

In **Table 8.4** we depict the impact on office rentals under the Junk Scenario

Table 8.2 Forecast summary of the critical variables
Nominal % growth per year (av. for year, unless stated otherwise)
(Consensus scenario)

Property variables	2016	2017	2018	2019	2020	2021	2022	Mean: 17-22
Absa's HPI	5,8	3,2	4,0	4,0	5,1	6,4	6,8	4,9
Flat rentals	4,5	4,5	5,5	6,7	6,7	7,0	6,6	6,2
BER BCI	4,8	5,6	6,0	7,7	8,8	9,9	10,4	8,1
Haylett	6,4	6,3	6,3	6,2	6,4	6,3	6,3	6,3
House prices (national)	5,8	3,2	4,0	4,0	5,1	6,4	6,8	4,9
Flat rentals (River Club area)	6,3	4,4	3,7	3,9	4,7	5,4	6,3	4,7
Prime office rentals (average for year)								
Cape Town CBD	5,0	6,0	5,7	5,9	7,6	8,7	9,8	7,3
Cape Town dec.	4,8	6,6	7,6	7,4	8,7	10,1	11,1	8,6
Office vacancy %: grades A and B (average for year)								
Cape Town CBD	9,9	10,0	10,1	9,9	9,4	9,0	8,5	9,5
Cape Town dec.	5,5	5,3	5,6	5,6	5,2	4,8	4,6	5,2

Table 8.3 Forecast of real growth
using forecast of the BER Building Cost Index as a deflator
(Consensus scenario)

Property variables	2016	2017	2018	2019	2020	2021	2022	Mean: 17-22
House prices (national)	1,0	-2,3	-1,9	-3,4	-3,4	-3,2	-3,2	-2,9
Flat rentals (national)	-0,3	-1,0	-0,5	-0,9	-1,9	-2,7	-3,4	-1,7
Flat rentals (River Club area)	1,4	-1,1	-2,1	-3,5	-3,8	-4,1	-3,7	-3,1
Prime office rentals (average for year)								
Cape Town CBD	0,2	0,4	-0,2	-1,6	-1,1	-1,1	-0,5	-0,7
Cape Town dec.	0,0	1,0	1,5	-0,3	-0,1	0,2	0,7	0,5

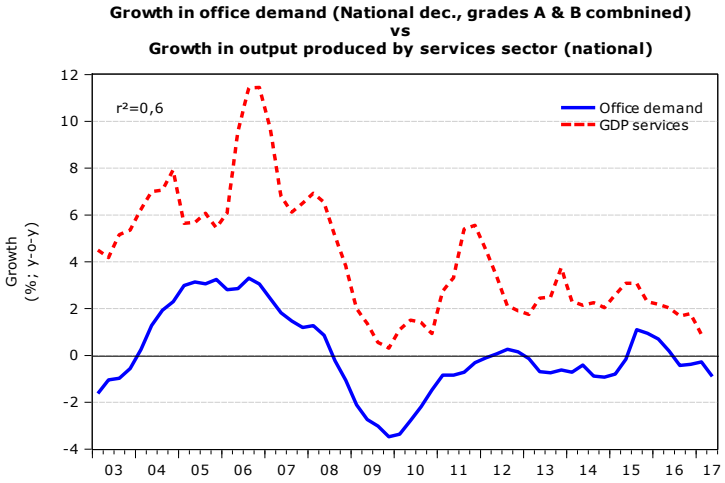
Table 8.4 Forecast summary of the critical variables
Nominal % growth per year (av. for year, unless stated otherwise)
(Junk Scenario)

	2016	2017	2018	2019	2020	2021	2022	Mean: 17-22
Prime office rentals (average for year)								
Cape Town dec.	4,8	6,5	2,0	3,4	4,6	5,3	6,4	4,7

8.2 Office market forecasts

8.2.1 Forecast of office vacancies and rentals

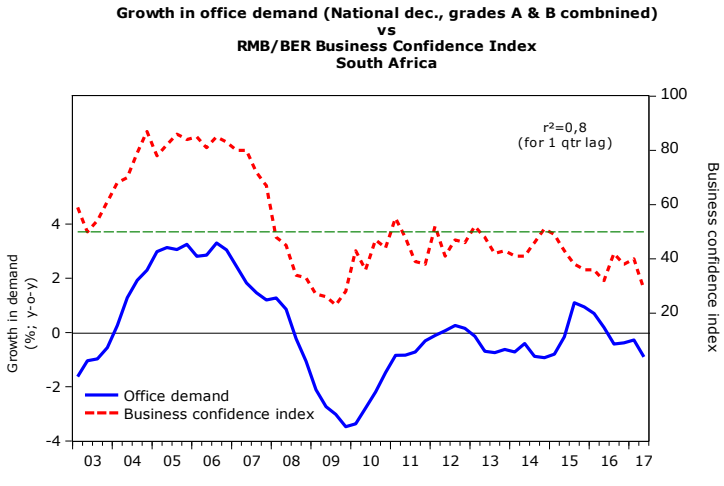
The general trend in the growth of output produced by the services sector has been south since 2015, while at the same time sentiment levels amongst business decision-makers has been low. These two factors do not augur well for the demand for office space, vacancy rates and market rentals. **Figure 8.1** shows the robust (r^2=0,60) positive relationship between growth in office demand and the growth in service-sector output. Naturally, an underperforming services sector implies weak growth in employment and hence, less of a need to expand or acquire additional office space.



Source of data: SAPOA; Stats SA; Rode calculations

Figure 8.1 Growth in office demand and services sector output

As shown in **Figure 8.2**, business sentiment has also headed south since 2015, caused by uncertain economic and (quite possibly) political conditions, both locally and abroad. Given the weak business confidence levels, firms are therefore likely to continue to think twice about expanding their premises or hiring new employees. The implications of this are continued lacklustre demand for office space to rent, and rising (or at best sideways trending) vacancy rates.



Source of data: SAPOA; BER; Rode calculations

Figure 8.2 Growth in office demand and business confidence

Our panel of economists expects real GDP growth of only 0,7% for 2017. Therefore, we foresee continued weak demand for office space and continued upward pressure on vacancy rates during the year. On average, the economists surveyed do, however, foresee an acceleration in economic growth from 2018 onwards. By implication, this could mean improved growth in service-sector output, improved business sentiment and, resultantly, stronger demand for office space and a decline in office vacancy rates.

Naturally, falling vacancy rates should bode well for nominal market office rentals, which we forecast will grow at between 6% and 9% p.a. in the country's decentralized office regions (the most promising outlook for Cape Town decentralized office rentals is growth of 8,6% p.a.). Building costs (as measured by the BER BCI) are, however, forecast to grow at around 8% p.a.; the outcome of which will most likely be a slightly south and sideways trajectory of real office rentals in the country's major decentralized office regions (see **Figure 8.3**).

Table 8.4 shows the Junk-rating scenario forecasts for market rentals in the Cape Town. Evident is the much lower expected growth in rentals under this scenario.

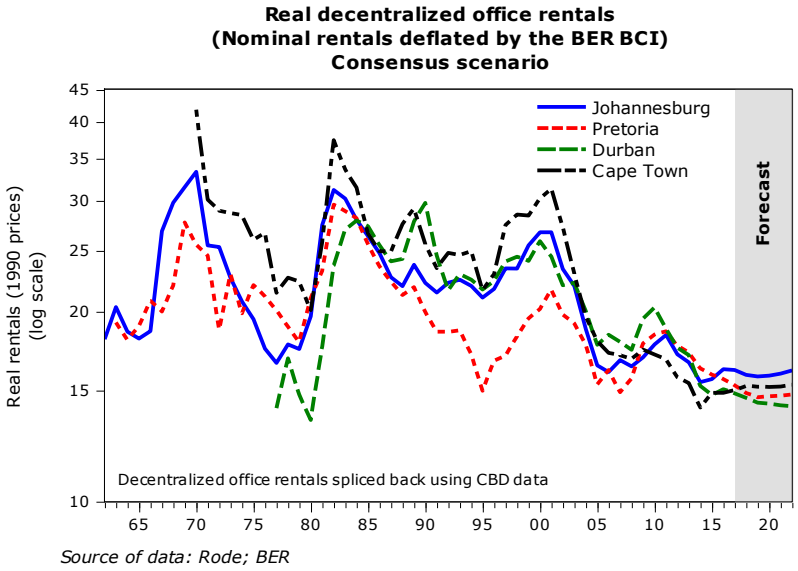


Figure 8.3 Office rental forecasts

8.2.2 Office demand and take-up for the River Club site's vicinity

After examining the correlation between various variables, we found *real* expenditure on GDP (refer **Table 8.1**) to to be significant in explaining fluctuations in the demand and take-up for office space in the vicinity of the site. We have used our consensus GDP scenario (refer **§8.2.1**) for forecasting purposes.

Figure 8.4 provides a historical overview of cumulative demand and take-up since 1998 of grades A and B office space (measured in square metres) for the major office nodes (Cape Town CBD, Century City, Pinelands, Rondebosch/Newlands) surrounding the River Club site, as well as the forecast trajectory of cumulative demand and take-up for the next five years derived from our econometric model. **Table 8.5** provides a summary of forecast stock and take-up for the areas described above.

For modelling purposes, we assumed that cumulative demand is equal to stock less vacant office space (space on the market for renting, irrespective of whether there is still a valid lease over the space), measured at year-end. In other words, cumulative demand is office space occupied. Office stock is regarded as total rentable office space, while office take-up is the change in office demand (space occupied) from the previous year. From **Figure 8.4 (a)** we can observe that office demand in surrounding nodes has steadily increased and we forecast that this trend will continue for the next five years. Regarding take-up (see **Figure 8.4 (b)** and **Table 8.5**), we expect that an average of 27 147 m^2 of grade-A office space can be expected to be taken-up in the surrounding nodes per annum over the next six years (cumulatively totalling almost 163 000 m^2).

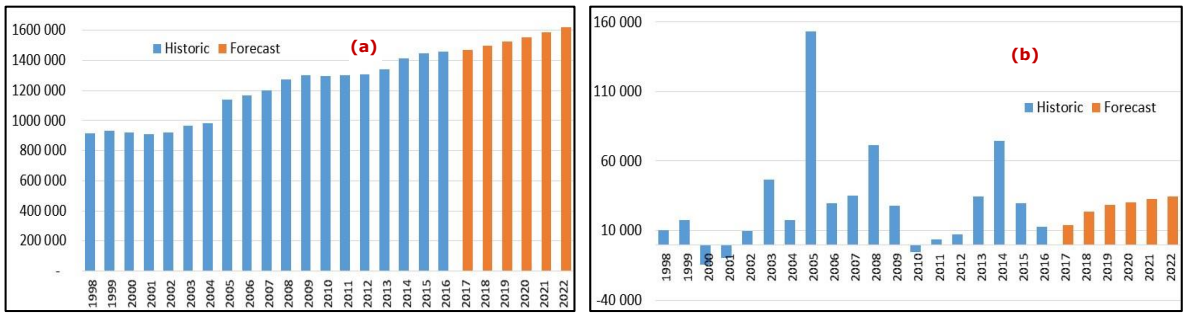


Figure 8.4 Cumulative demand (a) and take-up (b) forecasts for grades A and B office space

As these forecasts apply to five separate office nodes, it is obvious that an office node at the River Club site would capture an unknown share of this market. If a 10% capture rate is assumed then an office development on the River Club site would be able to capture about 2 700 m^2 of this forecast take-up per annum, a 50% capture rate would intercept approximately 13 600 m^2, and a 80% rate around 22 000 m² annually (see **Table 8.5**). Possible reasons for different capture rates occurring are explained in **§8.4**.

However, we have been informed that unsolicited corporate tenant demand[20] for the River Club development in September 2017 apparently stood at around 149 000 m² which should augur well for the proposed development.

Table 8.5 Summary of office space forecasts for the River Club site's vicinity
"Demand"= cumulative demand = stock

Actual 2016		Forecast (grade A & B; m^2) for office nodes surrounding the River Club site						Average 2017-22
		2017	2018	2019	2020	2021	2022	
Demand	1 458 053	1 471 998	1 495 580	1 523 844	1 554 099	1 586 624	1 620 934	1 542 180
Take-up	20 283	13 945	23 583	28 264	30 255	32 525	34 309	27 147
Assuming 80% capture rate								
Total demand		1 177 598	1 196 464	1 219 075	1 243 279	1 269 299	1 296 747	1 233 744
Take-up		11 156	18 866	22 611	24 204	26 020	27 447	21 717
Assuming 50% capture rate								
Total demand		735 999	747 790	761 922	777 049	793 312	810 467	771 090
Take-up		6 972	11 791	14 132	15 128	16 263	17 155	13 573
Assuming 10% capture rate								
Total demand		147 200	149 558	152 384	155 410	158 662	162 093	154 218
Take-up		1 394	2 358	2 826	3 026	3 253	3 431	2 715

[20] Source: The developer

How do our forecasts affect the proposed office space quantum proposed for the River Club development (see **Table 8.6**)? If the hypothetical 80% capture rate[21] occurs then it would take roughly 2½ years to fully absorb the office space proposed for the River Club redevelopment. If the 10% capture rate eventuates then the take-up rate will naturally deteriorate substantially. A phased approach is thus advised.

Table 8.6 Proposed office space area schedule for the River Club development (m²)

	GBA *	GLA (rentable area)
Precinct 1	15 100	12 835
Precinct 2	44 500	37 825
Total	**59 600**	**50 660**

*According to the architects working on the project, GLA will be a 15% reduction on average

8.3 Residential market forecasts

8.3.1 Forecast of house prices and flat rentals

For the reasons explained in **§7.1.2**, we expect the lack of dynamism from important drivers of the mortgage and house markets will most likely keep the growth in the nominal value of mortgage loans granted and nominal house prices at bay. However, the good news is that under our Consensus scenario, we do not expect a decline in nominal house prices. But, we do foresee nominal growth of only 4,9% p.a., which is below the expected growth in building-cost and slightly below consumer inflation (refer **Figure 7.5**).

As for the residential-rental market, the previously mentioned factors that are likely to keep house prices at bay will also dampen the growth in residential rentals. We forecast that nominal flat rentals in Rondebosch/Rosebank/Claremont and Pinelands to show growth of about 4,7 % p.a. for the next few years, which is, lower than the expected growth in building-cost and marginally below consumer inflation (refer **Table 8.1**).

8.3.2 Forecast demand for residential property in the vicinity of the River Club

Regarding the analysis of historic and forecast new demand for residential property, we made use of Stats SA's data on residential buildings completed in the CoCT. Although the River Club site is located in the Table Bay planning district, our data analysis was extended to the entire CoCT as the site is close to several other planning districts and would generate residential demand from them.

Table 8.7 provides an historic overview of new residential demand (measured in square metres) for the CoCT from 1997 to 2016. Noticeable is that dwelling houses have over the last 20 years comprised almost 70% of all residential space completed in the municipality, while flats and townhouses have historically contributed around 17% and 11% respectively.

[21] We selected this high capture rate for illustration purposes owing to the high apparent unsolicited demand for office space in the River Club redevelopment.

We, however, excluded dwelling houses, townhouses and other residential buildings from further analysis as a residential development on the River Club site will most likely consist of high- or medium-density apartments. Using Stats SA data on the number and average sizes of flats completed in 2016, we determined that the average completed unit size was 84 m².

After examining the correlation between various variables, house-price growth was found to be significant in explaining change in residential demand in the CoCT.

Table 8.7 City of Cape Town: residential space completed (1997-2016)

Year	Total	Dwelling houses		Flats		Townhouses		Other residential	
	m²	m²	%	m²	%	m²	%	m²	%
2016	1 075 153	707 889	66%	281 185	26%	76 898	7%	9 181	1%
2015	1 025 890	755 888	74%	202 213	20%	58 179	6%	9 610	1%
2014	750 780	551 398	73%	141 730	19%	30 925	4%	26 727	4%
2013	1 194 410	821 851	69%	240 072	20%	102	9%	30 203	3%
2012	915 066	667 119	73%	179 828	20%	66 570	7%	1 549	0%
2011	864 727	624 589	72%	141 925	16%	62 164	7%	36 049	4%
2010	896 515	611 419	68%	191 219	21%	45 577	5%	48 300	5%
2009	1 252 562	803 920	64%	282 073	23%	77 640	6%	88 929	7%
2008	1 411 462	933 550	66%	281 428	20%	161	11%	34 997	2%
2007	1 558 110	936 107	60%	395 214	25%	178	11%	48 376	3%
2006	1 561 899	955 760	61%	367 245	24%	221	14%	17 791	1%
2005	1 611 903	1 095 206	68%	245 321	15%	242	15%	28 884	2%
2004	1 240 872	920 745	74%	125 054	10%	181	15%	13 312	1%
2003	1 131 988	879 045	78%	80 731	7%	124	11%	48 208	4%
2002	1 209 673	987 524	82%	78 231	6%	136	11%	7 180	1%
2001	909 168	678 839	75%	51 455	6%	146	16%	32 462	4%
2000	812 904	642 765	79%	61 493	8%	88 599	11%	20 047	2%
1999	875 865	642 767	73%	100 398	11%	132	15%	0	0%
1998	746 964	536 341	72%	69 923	9%	140	19%	0	0%
1997	843 881	525 785	62%	159 348	19%	158	19%	0	0%
Total	**21 889**	**15 278**	**69,8%**	**3 676 086**	**16,8%**	**2 433**	**11,1%**	**501**	**2,3%**
Mean	**1 094 490**	**763 925**	**69,8%**	**183 804**	**16,8%**	**121**	**11,1%**	**25 090**	**2,3%**

Figure 8.5 provides an historic overview of new residential demand for flats (measured in square metres) for the City of Cape Town since 1997 as well as the forecast trajectory of demand for the next six years derived from our econometric model.

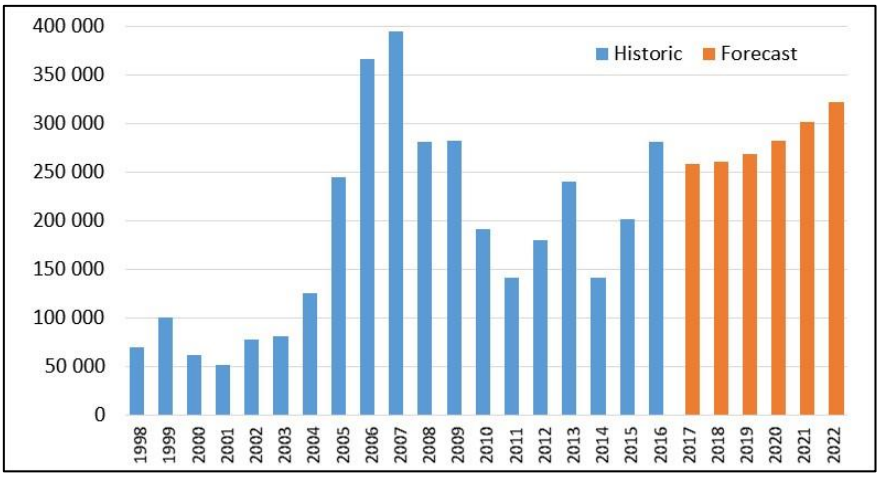


Figure 8.5 Historic and forecast new residential demand (flats) in the CoCT

Evident from **Figure 8.5** is that we forecast that growth in demand for apartment space in the CoCT will strengthen over the next six years. Average growth in demand is forecast to average 282 487 m^2 per annum or, based on 2016's average unit size of around 84 m^2, a total of 3 367 apartment units per year.[22]

After our residential demand forecast was completed, we applied it to a hypothetical development on the River Club site using three scenarios that assumed a development would capture only residential demand within a defined area. We assumed upfront that a recommended high-density residential development would only provide housing below R3 mn.

Next, we calculated the sparsely populated areas[23] of the CoCT by means of a GIS to arrive at a more accurate estimate of the areal extent of the CoCT's built environment (i.e. where residential buildings are completed). We also determined the spatial extents of the 5-km, 7,5-km and 10-km concentric zones around the River Club site (sparsely populated areas were also excluded in these zones). We derived proportionate ratios of these areas versus that of the built-up area of the CoCT.

These ratios were used to apportion the CoCT's residential demand (in m^2) to the various zones as shown in **Table 8.8**.

Table 8.8 New residential demand (flats) forecasts (m^2) for the CoCT and the 5-km zone

Area	2017	2018	2019	2020	2021	2022	Mean
City of Cape (Town (CoCT)	258 392	260 730	268 447	282 718	302 137	322 495	282 487
10-km zone (17,1% of CoCT)	44 184	44 584	45 904	48 344	51 665	55 146	48 305
7,5-km zone (10,4% of CoCT)	26 816	27 059	27 860	29 341	31 356	33 469	29 317
5-km zone (5,1% of CoCT)	13 057	13 175	13 565	14 287	15 268	16 297	14 275

To determine the number of residential units that could be taken up in the various zones per year, we:

- Determined the percentage of historic transfers (sectional title) in the 5-km zone. We found that in 2016, 21% of transfers below R3 mn were in the 'R0– R600k band, 44% in the 'R600k–R1,5 mn' category; and 35% in the 'R1,5 mn–R3 mn' band. The price category above R3 mn was considered to be too upmarket and was ignored.
- Split the average annual demand shown in **Table 8.8** for the 5-km zone (and other zones) between these three price bands based on the 21%/44%/35% ratio;
- Divided the demand per price band by the median size of sectional title units per price band to determine the number of opportunities for the 5km and other zones.

Our results are shown in **Table 8.9**. Under the 5-km zone scenario, 2 998 m^2 (or 21%) of the 14 275 m^2 average annual flats demand in this zone (refer **Table 8.8** above) was allocated to the 'R0- R600 k' price band; 6 281 m^2 (44%) to the 'R600-k–1,5-mn category; and 4 996 m^2 (35%) to the 'R1,5 mn–R3 mn' band. These figures were divided by the 2016

[22] This was determined using Stats SA data by dividing the total amount of apartment space completed in the CoCT in 2016 by the number of units.

[23] Census 2011 subplaces with less than 50 people per square kilometre. Some international norms regard areas with less than 150 people per square kilometre as rural.

median unit sizes per price category,[24] thus yielding 57, 110 and 67 units respectively (or a total of 233 apartment units that could be taken up per annum).

Holding all other factors constant, the area-based scenario incorporating the 5-km zone may be unrealistic because a medium-scale development like the one possible on the subject land would satisfy unmeasured *latent* demand across the entire Cape Peninsula. Put differently, *historic* demand in Cape Town as reflected in **Table 8.9** is probably understated because of a lack of developable land particularly in the southern suburbs. If more opportunities were historically available in the marketplace, particularly ones located on a prime location like the River Club, more would have been taken up.

Table 8.9 City of Cape Town residential demand apportionment for the various zones

Scenarios and price bands		Mean forecast of annual growth in demand 2017-2022 (m²)	Mean forecast of annual growth in demand 2017-2022 (no. of units)
10-km zone	R0–R600k*	10 144	191
	R600 k–R1,5 mn**	21 254	373
	R1,5 mn – R3 mn***	16 907	225
	Total	**48 305**	**790**
7,5-km zone	R0–R600k	6 157	116
	R600 k–R1,5 mn	12 899	226
	R1,5 mn – R3 mn	10 261	137
	Total	**29 317**	**479**
5-km zone	R0–R600 k	2 998	57
	R600 k–R1,5 mn	6 281	110
	R1,5 mn – R3 mn	4 996	67
	Total	**14 275**	**233**

* Based on 53-m² unit sizes
** Based on 57-m² unit sizes
*** Based on 75-m² unit sizes

The alternative take-up scenarios using different sized zones around the site and shown in **Table 8.9** should, therefore, be considered when analysing the GLA proposed for the River Club development (see **Table 8.10)**. Under the most conservative scenario (the 5-km zone scenario), it would take slightly less than two years year for the development to be sold out, and about 6 months under the highly optimistic scenario (the 10-km zone scenario). The latter scenario assumes a sell-out rate of 790 units per annum). These absorption rates do not consider a potential negative impact on the sales tempo resulting from the site's current flooding potential (the question of negative perceptions).

Table 8.10 Proposed residential space schedule for the River Club development

	GBA (m²)	GLA (m²)
Precinct 1	8 400	7 140
Precinct 2	21 600	18 360
Total	**30 000**	**25 500**

[24] Stats SA's average 2016 apartment size (84 m²) was not used in this case as it did not accommodate various price ranges and was not unique to the study area as it encapsulated the entire City of Cape Town.

8.4 Factors that may affect our property forecasts

8.4.1 General factors

The forecasts contained in this report should first be seen as a baseline scenario. That is, they generally assume a continuation of historic (structural) trends. Our forecast approach is thus not able to predict future structural changes in the economy or property market that may occur without warning. This type of quantum jump is impossible to forecast through historic precedent.

Various factors may affect the capture rates of our forecast office take-up discussed in **§8.2.2**. First, a new office node will be established on the site, which will take a while to gain traction – take-up rates may thus be low initially. However, on the positive side, the site is centrally located, accessible and close enough to decision-makers' homes in affluent suburbs to potentially make it an attractive and desirable office node. Additionally, a residential development on the site would also provide on-site work opportunities for office staff, increasing the desirability to live there.

Our forecasts also do not take account of unique selling points that the subject property may have in future, which may result in a significantly different outcome. An example of this is the mooted extension of the M16 (Berkley Road) which could be beneficial to office space capture rates as it would potentially provide excellent frontage to office buildings and improve general accessibility to the site. The apparent high unsolicited corporate office demand in the vicinity of the site is an indication of the early interest it is generating. [25]

Other mooted property developments (either residential, commercial or mixed-use) in the vicinity of the River Club and TRUP may materialize over the next few years, and these would impact on the supply side and could potentially cannibalize demand from the River Club precinct.

Lastly, our forecasts are based on certain assumptions regarding macroeconomic variables like the path of GDP growth and interest rates (see **Table 8.1**) – and these are of course uncertain. On the other hand, there is circumstantial evidence that semigration from Gauteng is bolstering the Western Cape's economy.

8.4.2 Impact of the new economy and the Fourth Industrial Revolution

According to Dixon (2005: 481) the "new economy" concept is not tied to a specific time or technology. There have always been new economies as there have continuously been periods when technological change caused a shift in the commercial exploitation of intellectual capital, brought new products or services to new consumers, changed the way enterprises work, and altered both economic and social behaviour (Rowlatt *et al* (2002: 29). The various industrial revolutions humanity has undergone are examples. According to Schwab (2016) these include using water and steam power to mechanize production (the First Industrial Revolution), utilizing electric power to create mass production (the Second Industrial Revolution) and exploiting electronics and information technology to automate production (the Third Industrial Revolution).

[25] Source: The developer

Each of these events altered the social, technological, economic, environmental and political structure of the prevailing age – none was thus a purely economic occurrence.

According to Rowlatt *et al* (2002: 29) the current new economy is characterised by:

- Specialized computer network infrastructure to assemble, analyze, communicate, and manage information;
- Electronic transactions of goods and services (e.g. through the internet);
- Interactions transferring information between enterprises or individuals (which are not themselves purchases) but which add value in some way.

Due to these changes, Schwab (2016) states that we have, in fact, now arrived at a fourth industrial revolution, which is building on the third (described above). This industrial revolution:

> [… is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.

In addition, according to Schwab (2016):

> The speed of current breakthroughs has no historical precedent. When compared with previous industrial revolutions, the fourth is evolving at an exponential rather than a linear pace. Moreover, it is disrupting almost every industry in every country. And the breadth and depth of these changes herald the transformation of entire systems of production, management, and governance.
>
> The possibilities of billions of people connected by mobile devices, with unprecedented processing power, storage capacity, and access to knowledge, are unlimited. And these possibilities will be multiplied by emerging technology breakthroughs in fields such as artificial intelligence, robotics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing.

Looking at the positives, this revolution has the potential to increase worldwide income levels and enhance humanity's quality of life. Technology has already made possible new products and services that make personal lives more pleasurable and efficient. It may also lead to a supply-side miracle, with long-term gains in efficiency and productivity (Schwab, 2016).

On the downside, this revolution my also cause greater inequality, chiefly in its capacity to disrupt labour markets. As automation substitutes for labour across economies, the net displacement of workers by technology might exacerbate the gap between returns to capital and returns to labour. Inequality thus characterises the greatest societal concern associated with the Fourth Industrial Revolution. This may cause an employment market increasingly differentiated into "low-skill/low-pay" and "high-skill/high-pay" sectors, which in turn may lead to an increase in social conflict. It may also affect the nature of national and international security, influencing both the probability and the nature of conflict (Schwab, 2016).

In these writers' view, the increasing inequality and unemployment is a very likely scenario.

The built environment will probably respond well to positive opportunities presented by these changes through the rise of smart cities.

> Smart cities are cities built on 'smart' and 'intelligent' solutions and technology that will lead to the adoption of at least five of the eight following smart parameters—smart

> energy, smart buildings, smart mobility, smart healthcare, smart infrastructure, smart technology, smart governance and smart education, [and lastly] smart citizens (Frost and Sullivan, 2013).

We foresee that technological advances in the built environment will lead to the greater integration of 'live, work, play' and education in new property developments. The traditional distinction between people's place of work, home and school will thus become increasingly blurred as we already witness space being flexibly utilised as office or learning space during the day, and residential space at night. Cities may eventually become more walkable as car usage declines through car sharing, improvements in public transport, and distances decreasing between people's places of work, school and home. We already see millennials in the USA buying fewer cars and driving less (Communiqué PR, 2013). These changes may generate positive spinoffs for future property developments internationally and locally (including the River Club) if they flexibly adapt to them.

The secular trends[26] discussed above will have a gradual impact on the property cycle and, therefore, also specific developments. Trends of this nature are, however, already encapsulated in historic data used in our analyses and are, therefore, reflected in the forecasts.

[26] A secular trend is a long-term growth path of an economic variable, around which there may be short-term (business cycle) or other fluctuations.

9. Opportunity cost of development at the River Club site

In microeconomic theory, the **opportunity cost of a choice** is defined as the value of the best alternative forgone where, given limited resources, a choice needs to be made between several mutually exclusive alternatives. Assuming the best choice is made, the opportunity cost is the "cost" incurred by not enjoying the *benefit* that would have been had by taking the second best available choice […] The notion of opportunity cost plays a crucial part in attempts to ensure that scarce resources are used efficiently. Thus, opportunity costs are not restricted to monetary or financial costs: the real cost of output forgone, lost time, pleasure or any other benefit that provides utility should also be considered opportunity costs (Wikipedia, 2017).

In the subject matter, the choice is between upgrading the subject site to the specs as proposed by the developer and leaving the site as is. This can be judged from two vantage points, viz. the developer and society. We needn't concern ourselves here with the opportunity cost of the developer, which is the risk-adjusted profit foregone by not doing a similar development elsewhere. This leaves the opportunity cost applicable to society.

At present, the only utility society enjoys is a social club and golf course which, in heavy rain, could be ankle-deep in water (this was the case in June 2012).[27] The view from the freeway is especially one of desolation, and is an eyesore in a strategic location. In addition, the site represents a large tract of strategically located land in the heart of the metropolis that is not optimally used.

Based on the proposed (and likely) specs of the development, the above meagre utility (to society) would be improved to provide the following facilities: office space, small retail space, a hotel, medium-density housing units (most likely including a substantial rental component), a hiking/cycle trail, maybe cleaned-up rivers and a generally tended landscape. Provided the Berkley Road extension goes ahead, vehicular access to the area would be improved.

Thus, the site would become a desirable live-work-play destination, something it certainly isn't at present.

In addition to these gains in corporeal utility, the development would substantially increase municipal rates for the City of Cape Town.

Thus, it is clear that the proposed development would on a net basis greatly add value to society compared with the current situation.

Having said this, the unknown at this stage is the cost of managing flood waters, and who is going to pay for this.

[27] *Die Burger*, *Eiendomme* supplement, 30 April 2016

10. Conclusions

In this report, we have, based on short- and medium-term trends, attempted to provide an analysis and assessment of property market activities proposed for the River Club site in Cape Town.

The River Club site is located suitably close to the Cape Town CBD and the northern and southern suburbs of Cape Town. External access to the site via the available road network and train lines is relatively easy from all directions. It is also located within the greater TRUP site and the Table Bay planning district of the CoCT.

Our census data analyses revealed that there is a substantial number of people living within a 5-km radius of the site (over 162 000) who are predominantly young and non-white. This is noteworthy as these people would at least partially underpin the demand for residential and other space on the River Club site.

The economic base of the CoCT is deeply embedded in the FIRE (finance, insurance, real estate and business services) and trade (wholesale and retail, catering and accommodation) sectors, and is expected to remain the key impetus behind economic growth in the CoCT. These sectors are expected to perform well over the next few years, with growth of 3,2% and 2,6% respectively.[28] The growth of these sectors will naturally impact on the form of the built environment – a beneficial factor from the perspective of the development of the River Club.

The site does not fall within an established **office node**; however, it abuts the Pinelands node and is close to various other office nodes. It is also close to middle-class suburbs, which is a key driver of office development as decision-makers prefer to live close to where they work. The fact that management staff would one day also live in the development would add extra stimulus to this.

The office nodes close to the site historically do not show the highest rental growth in Cape Town. However, some nodes such as Century City, Rondebosch/Newlands and the Cape Town CBD's current rentals are doing well compared to the Cape Town average. The most promising outlook for Cape Town decentralized office rentals is growth of 8,6% p.a., which is slightly above building-cost inflation, with the outcome being sideways trending *real* office rentals.

We forecast annual take-up of approximately **27 000 m²** in office nodes surrounding the River Club site, some of which may be captured by the River Club development. The extension of the M16 (Berkley Road) would enhance the capture rate of this space as it could offer excellent frontage to office uses and increase general accessibility to the subject development. Obviously, a major risk is that take-up rates could fail to meet expectations. Phasing is thus essential. However, evidence of high unsolicited corporate office demand exists in the vicinity of the site which would bode well for take-up rates.[29]

Despite structural problems in providing housing to the urban poor and issues surrounding affordability, the residential market in Cape Town is showing some promising signs. In the second quarter of 2017, nominal prices of middle-segment houses in the Cape Town metropolitan area have shown respectable yearly growth of about 7,9% on a year earlier in 2016.

[28] Western Cape Government. 2015. *Municipal Economic Review and Outlook 2015* (p.35).
[29] Source: The developer

However, growth in prices in Cape Town is moderating as a result of affordability possibly becoming an issue. This as a result of the growth in nominal prices in the Mother City having in recent years outperformed the growth in disposable incomes by some margin. However, the housing sector is facing some headwinds, such as weaker economic activity and frustratingly high ratios of debt to disposable income, putting a brake on the granting of mortgage bonds. Naturally, by the time properties on this site come to the market, these metrics could have changed quite drastically.

Residential rentals in the Cape Town apartment market has shown strong growth of 4% per year (the lowest in the country, although admittedly off a high base) at the second quarter of 2017. Consumer prices (excluding owners' equivalent rent) grew by roughly 5% in the second quarter of 2017, implying that in Cape Town alone flat rentals were unable to grow in *real* terms. However, since 2015 Cape Town flat rentals have substantial outperformed those in the rest of the country. We forecast that nominal flat rentals in the vicinity of the site will grow at about 4,7% p.a. for the next six years.

In late 2017, the residential market close to the River Club improved with regards to the time on the market before sectional-title properties are sold, while units are selling at more or less the same discount to asking prices encountered in 2016.

The proposed **residential** component would complement proposed uses on the site in a mixed-use environment. The analysis reveals that under respectively base-case and highly-optimistic scenarios annually upwards of between 14 000 m^2 and 48 000 m^2 of residential space could be taken up in the subject development.

However, potential negative perceptions emanating from the flooding potential, could possibly negatively affect the sales tempo (irrespective of whether the latter would be addressed by the developer(s)).

The market potential for **retail** sales at the proposed River Club retail component is estimated at approximately R500 mn (in 2016 rands). It is based on a 23% market share for a centre of around 20 000 m^2. The site offers an excellent retail opportunity.

The study found that there is solid demand for **student rental space** in the vicinity of the River Club, while the site is also suitable for a 150-room full-service 4-star **hotel** catering to a combination of business and leisure guests.

The River Club upgrade will be complementary to the greater TRUP development and may assist in providing work opportunities, shopping space and accommodation to the broader TRUP community. A successful, well-maintained development will also improve the perception and utility of TRUP and could thus act as catalyst to the TRUP's future development as it could become a desirable destination to live and work. However, the River Club upgrade should also be aware of the direction TRUP's proposals are heading as it would be beneficial to the long-term success of the project to be mindful of factors that could stimulate or threaten the development. The same applies to other mooted public sector-driven projects in the city that could affect property demand in the River Club project.

Technological changes in the built environment driven by the new economy and Fourth Industrial Revolution will probably cause positive spinoff for future property developments (including the River Club) provided they flexibly adapt to them.

In summary, our view is that the proposed development would on a net basis greatly add value to society compared to maintaining the status quo. The development of River Club development would thus be desirable.

--End--

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