



TWO RIVERS URBAN PARK: A PROPERTY MARKET POTENTIAL ANALYSIS

FINAL REPORT

Prepared for:
Western Cape Government in partnership with The City of Cape Town

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Glossary of Terms

BER	Bureau for Economic Research
BCI	Building Cost Index
CFR	Conceptual Framework Review
CBD	Central Business District
CoCT	City of Cape Town
CTSDF	City of Cape Town SDF (2012) (CTSDF)
EIMZ	Environmental Impact Management Zones
CTCCRP	Cape Town Central City Regeneration Programme
GDPR	Regional Gross Domestic Product
GLA	Gross Lettable Area
IDP	Integrated Development Plan
NSDP	National Spatial Development Perspective
PGDS	Provincial Growth & Development Framework
PSDF	Provincial Spatial Development Framework
PRP	Provincial Regeneration Programme
SACSC	South African Council for Shopping Centres
SDF	Spatial Development Framework
TMNP	Table Mountain National Park
TRUP	Two Rivers Urban Park
WCG	Western Cape Government

Executive Summary

The report provides an analysis of the short and long term market conditions which are expected to influence the TRUP project in the Cape Town metropolitan area. The analysis adopts a top-down approach which starts with mega trends and the future needs of a built environment in a 'new economy'. It then moves to an analysis at metropolitan and site specific characteristics. It also considers how TRUP could respond to a policy framework which places a strong emphasis on the social transformation of the urban environment.

The report suggests that the highest and best use of land must be seen from financial and social perspectives as well as the overall complexities associated with the site. The market analysis is based on primary and secondary catchment areas of 5 and 10km radii respectively. The demand and supply analysis is considered in the context of present and future market trends. Special attention is given to other public sector driven projects that could influence future uses associated with the TRUP project.

The market study concludes that the TRUP project offers an opportunity to deliver housing in the affordable housing market (namely between R600,000 and R1,500,000) and to deliver mixed use and mixed income environment supported by public sector uses; these would complement existing uses on the site.

The report suggests that based on existing market trends TRUP could absorb some 160 housing units per annum and 2,800 sqm of office space per annum and retail facilities in the order of 10,000 sqm over a ten-year period. Opportunities could also exist for urban manufacturing.

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

1. Introduction

This report provides a market overview of the urban precinct in which the Two Rivers Urban Park (TRUP) is located. The project is a partnership between the City of Cape Town (CoCT) and the Western Cape Government (WCG), which is located in the Table Bay District of the CoCT. The overarching vision of the TRUP programme is to ensure that the development is able to play a meaningful role in furthering the quality of the built environment serving the Cape Town Metropolitan area.

The research is based on the proposition that the TRUP has the potential to create an environment that reflects the needs of a broad range of income groups. It is also based on the proposition that the site must be seen within the context of other developments being proposed in the broader metropolitan area. This also suggests that it would be unrealistic to suggest that the TRUP should be developed to its highest commercial highest and best use.

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: Presenting an introduction into the legislative and regulatory context at national, provincial, and local level that may impact on the site;
- Section 7: Analysing and discussing the socio-demographic profile of people and households in the vicinity of the TRUP site;
- Section 8: Describing the importance of the property market cycle and providing a property market overview of the site's hinterland;
- Section 9: Providing property market forecasts where appropriate;
- Section 10: A SWOT analysis; and lastly,
- Section 11: Conclusions.

3. Brief and Scope of Work

This report provides a property-market potential analysis of the TRUP site located in the Table Bay District of Cape Town (see Figure 1). Specifically, the report provides an analysis and assessment of property market activities appropriate to the site, given the vision for TRUP and includes the following aspects:

- Assessment of the socio-economic context, extent, trading areas, performance for various property market segments including offices, retail, accommodation, and industrial;
- Identification of competitive areas for each identified property market segment;
- Identification of the disposable income and potential buying/purchasing power of residents where applicable;
- Provide an evidence-based property market analysis showing past trends and forecasts for the next five years; and
- An understanding of the future demand for space based on the understanding of economic fundamentals.

4. Methodology and Sources of Data

In fulfilling the study objectives stated above, the methodology utilised is outlined below. The methodology is based on a top down approach which may be summarised as follows:

- Analysis of mega trends (STEEP);
- Analysis of the national economy;
- Analysis of the metropolitan economy;
- Analysis of the economic and demographic base of the relevant catchment area;
- Analysis of the demand for property;
- Analysis of the supply of property; and
- Calculation of the market gap.

This work is also based on the following:

- Review of relevant government policy and previous studies;
- Analysing Census 2011 data;
- Determining where we are in the economic cycle. This was sourced from Rode's *SA Property Trends* (June 2015), an in-house 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 industrial, office nodes and residential areas closest to the subject property, and to perform forecasts of key variables. Regarding the residential market, we also sourced residential sales prices and trends from Lightstone and PropStats; and
- Conducting structured interviews where required with property specialists.

5. Overview of the TRUP Site

The TRUP site is located about 8km from the Cape Town CBD at the intersection of the N2 and M5 freeways and at the confluence of the Black and Liesbeek Rivers (see Figure 1). The site is well located in terms of proximity to the CBD and the northern as well as southern suburbs of Cape Town. The site is about 300 hectares in extent and is surrounded by various residential communities (of mainly middle-income to lower-middle income households), industrial areas, retail and health facilities, schools and tertiary educational institutions (CityThinkSpace 2012: 17).

Natural and man-made barriers formed by the rivers and the M5 motorway split the site in various unconnected sectors. There are unfortunately no generally accessible major roads that link these segments and rapid internal movement between the various areas on the site is thus not possible. Several off-ramps and flyovers leading from the M5 and crossing the river network would greatly improve ease of internal access. Other than the M5, the site is intersected and bordered by various other important roads which are depicted in Figure 1. 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 both 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.

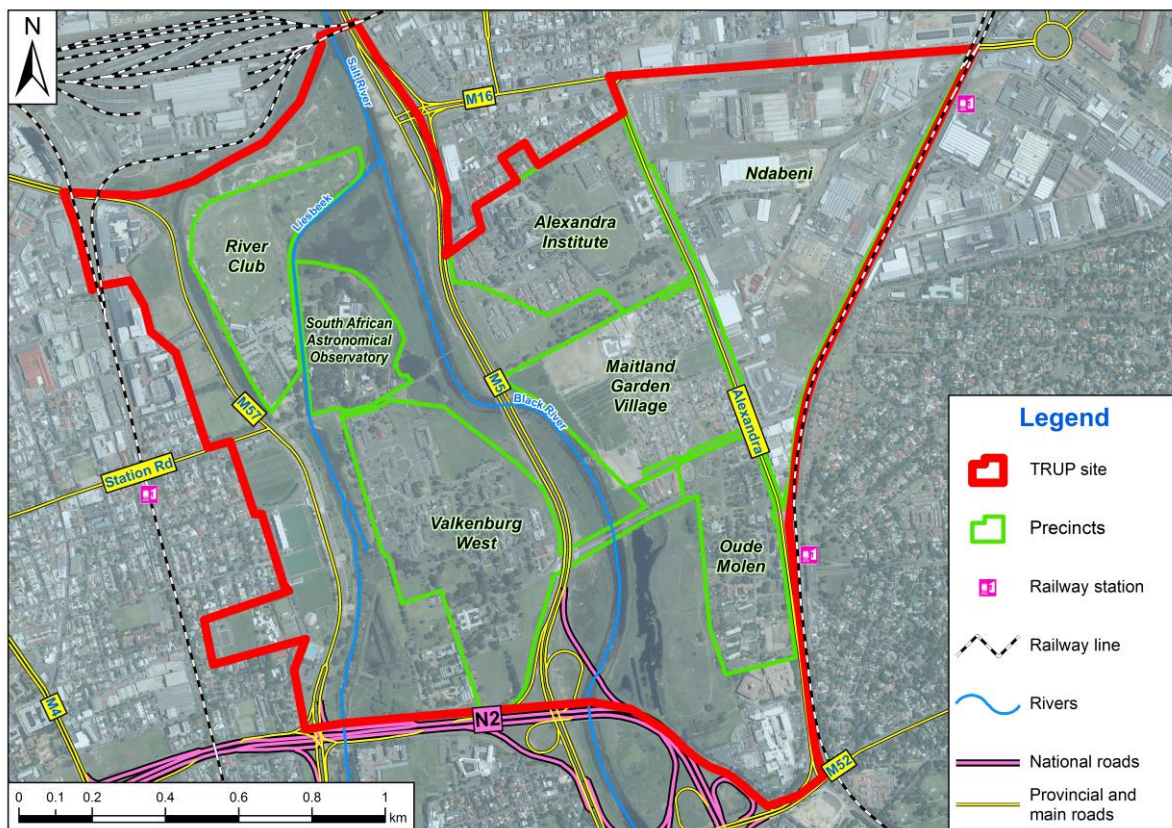


Figure 1: Location of Two Rivers Urban Park in the Table Bay District of the City of Cape Town

The TRUP site includes various precincts and areas with diverse and mainly un-related functions. These precincts are:

- River Club (currently privately owned);
- South African Astronomical Observatory (owned by the WCG);
- Valkenburg West Precinct (owned by the WCG);
- Alexandra Precinct (owned by the WCG with Alexandra hospital as the primary tenant);
- Maitland Garden Village (a local residential suburb with public amenities and facilities);
- Oude Molen Precinct (owned by the WCG and includes a wide range of uses in the old hospital buildings such as private schools, lodges, restaurants, etc.);
- 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.

Many of these precincts are occupied by long-established tenants. The relatively permanent and functionally fragmented occupancy of the site also complicates management and future planning.

Although it is located within an urban setting, the TRUP 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 Raapenberg, Valkenburg and Vincent Pallotti wetlands, the topography of the landscape which includes middle ridges river floodplains, depressions, and valley bottoms which spatially divide the TRUP (CoCT 2003: 11). These natural amenities are major assets as they afford the site a unique character which should be preserved.

Additionally, the TRUP has significant heritage value in that it was one of the earliest places of human settlement during the pre-colonial and colonial eras.

It is thus apparent that the TRUP site is complex and fragmented in nature and any development on a precinct of the site would potentially present a developer with many challenges. The site's respective strengths, weaknesses, opportunities and threats drawn from the body of this report are summarised in a SWOT analysis (see Section 10). The overall challenge is to ensure that the site plays an optimal role within the metropolitan area.

6. Legislative and Regulatory Context

6.1 Introduction

It is important to note that the individual, recognisable benefits of a project conceal the true benefits if the project diminishes benefits elsewhere in the area. The economic desirability is therefore essential to determine whether the proposed development complements economic planning as reflected in spatial development planning. It is not sufficient that the development results in some positive spin-offs if it is not compatible with planning guidance designed to maximise the overall economic potential of an area. Regulatory policies and guidelines are central to economic development planning and are prepared in order to guide overall development of an area, industry or a subindustry in a direction that local and provincial authorities see as desirable.

In order to place the potential TRUP development in the correct regulatory perspective, various legislative frameworks, policies, guidelines and district plans are considered in the context of the TRUP site. These discussions are ordered according to the geographic scale that each document addresses i.e., national scale to site level.

6.2 Relevant Regulations, Policies and Legislation

6.2.1 National Development Plan 2030

This National Development Plan 2030 (NDP) was the result of work performed by the National Planning Commission to assess the country's achievements and shortcomings since 1994 and culminated in a draft national plan released in November 2011¹. The TRUP project may assist in fulfilling some of the objectives of the plan – mainly contained in Chapter 3 (Economy and Employment) and Chapter 8 (Transforming Human Settlements).

The TRUP is of substantial size, centrally located in Cape Town and close to a number of transport routes. Should it be successful, a development on the TRUP site, theoretically allows the realisation of the following NDP Chapter 3 objectives:

- Reducing the unemployment rate by creating jobs;
- Increasing the number of adults working and the labour force participation rate;
- Increasing the GDP; and
- Broadening ownership of property assets to disadvantaged groups.

Chapter 8 of the NDP addresses urban inefficiencies in the space economy and the housing market:

¹ National Planning Commission. N.d. *National Development Plan 2030: Our future – make it work*. p. 25.

- Entrenched spatial patterns across all geographic scales that exacerbate social inequality and economic inefficiency;
- Imbalances between location of jobs and people;
- Land markets do not operate effectively for the poor to support urban livelihoods;
- The growth of property value has led to an overall average house price that has made housing unaffordable to many South Africans, and has further excluded participation in the property market by historically excluded groups. The growth has largely benefited middle- and higher-income groups;
- There is a growing 'gap market' as many households with an income above the threshold for receiving a subsidised house have neither access to a private bond nor adequate government support;
- Inadequate attention is paid to rental accommodation across income bands. There is insufficient incentive for public and private investors to invest in rental housing. The government lacks operational capacity to manage rental stock; and
- Despite efforts to transform South Africa's urban areas, many housing projects do not create socially and economically sustainable urban spaces.

A strategically chosen catalytic intervention such as the TRUP site may assist (albeit in a small way) in the densification of Cape Town and contribute to equitable resource allocation to promote better located and more affordable housing and settlements. Spatial transformation in a manner that supports locally driven spatial governance will thus be facilitated. The social and environmental function of land could also be properly acknowledged over and above the value of land as a marketable commodity.

6.2.2 Draft Western Cape Provincial Spatial Development Framework 2014

The themes of the Draft Western Cape Provincial Spatial Development Framework are grouped according to four inter-related themes, namely:

- Introducing a transversal system of spatial governance;
- Sustainable use of the Western Cape's spatial resources;
- Opening-up opportunities in the provincial space-economy; and
- Developing integrated and sustainable human settlements.

There are various policies stemming from each theme. Of these themes, the space-economy and settlements themes are perhaps the most important for the TRUP site. The space-economy theme is high on the provincial agenda as a dynamic space-economy can stimulate livelihood and income-earning opportunities, draw private investment, and encourage inclusive growth, while human settlements that address informality, poor accessibility, inadequate housing delivery, low urban densities, exclusion and inefficient urban land markets.

6.2.3 Provincial Land Disposal Policy

The Government Immovable Asset Management Act No 19 of 2007 stipulates that when an immovable asset is acquired or disposed of, best value for money must be realised. Best value for money has been defined as “...the optimization of the return on investment in respect of an immovable asset in relation to functional, financial, economic and social return, wherever possible...” and as such is not restricted to a “money related” definition only. However, the social return is not normally factored into calculating the best value for money. The transfer of *State Land*² to municipalities is governed by clear legislative and operational processes, *albeit* cumbersome when used.

Consideration of government-owned land disposal (and/or development) must be a citywide rather than a project-level intervention. This will facilitate, *inter alia*, inter-governmental cooperation and effective monitoring of urban transformation. In this regard, the local municipality will be a key role-player, if not in the initial stage of conceptualising the development, then in the decision-making regarding land-use change, infrastructure and erection of structures.

6.2.4 CoCT Integrated Development and Human Settlement Plans

The City of Cape Town's Integrated Development Plan (IDP)³ provides the strategic framework that guides the municipality's planning and budgeting over the course of each political term. The CoCT sets out to do this by means of building on the five key pillars of:

- The opportunity city;
- The safe city;
- The caring city;
- The inclusive city and
- The well-run city.

A development at TRUP could address several of these strategic focus areas. The “opportunity city” is aligned with the WCG's goal of creating growth and jobs while it is also linked to several national government outcomes. In the “opportunity city” the core focus is to create an enabling environment for economic growth and job creation. The city sets itself the goal of maintaining social and economic infrastructure to ensure infrastructure-led economic growth and development, whilst also leveraging the city's assets to drive economic growth and sustainable development. Various programmes are identified to accomplish these objectives.

The “caring city” strategic focus area is aligned with the WCGs goal of developing integrated and sustainable human settlements as well as several national government

² State land is land which is held by the national and provincial governments, but which excludes local-authority and parastatal land.

³ City of Cape Town. 2012. *Integrated Development Plan 2012 – 2017: 2014/2015 review*. Cape Town: City of Cape Town.

goals. One particularly important objective of the “caring city” is to ensure increased access to innovative human settlements for those who need it. Identifying land and planning housing developments along the city's development corridors, and the city's integrated human settlements and densification programmes are essential elements to achieve this objective.

The Integrated Human Settlement 5-Year Strategic Plan⁴ contains the following statements that:

- Greater efficiencies regarding densification need to be achieved in dealing with vacant land *inside the urban edge*;
- Such land be used to its maximum potential through infill initiatives, the release of unused land belonging to other state departments, and mixed-use retail and residential development along key development nodes and transport corridors; and
- Where urban edge development cannot immediately be undertaken, the land needs to be banked for future use.

The issues of acquisition, transfer and reservation of land is also discussed in the context of creating new living environments. In this regard, it is recommended that with the delivery of low-cost housing, the focus must shift towards addressing settlement inefficiencies. This can be achieved through the development of integrated human settlements that contribute to a more compact settlement form by providing a range of inclusionary housing opportunities, combined with community and socio-economic opportunities for those who will occupy them⁵.

6.2.5 City of Cape Town SDF (2012) (CTSDF)

The aim of the Cape Town Spatial Development Framework (CTSDF)⁶ is to guide the future growth of the city. Several of the most important goals of the CTSDF are to:

- Align the city's spatial development goals, strategies and policies with those of the national and provincial spheres of government;
- Indicate areas best suited to urban development, the areas that should be protected, and the areas where development may occur if it is sensitively managed;
- Indicate the desired phasing of urban development;
- Guide changes in land-use rights;
- Guide proposals contained in the more detailed District Spatial Development Plans;
- Help spatially guide, co-ordinate, prioritise and align public investment infrastructure and social facilities in the City's 5-year Integrated Development Plan;
- Provide guidance to direct decision making on the nature, form, scale, and location of urban development, land use change, etc.; and,

⁴ City of Cape Town. 2012. *Integrated Human Settlement 5-Year Strategic Plan: 2013/14 review*, p. 18.

⁵ *Ibid.*, p. 34.

⁶ City of Cape Town. 2012. *Cape Town Spatial Development Framework: Statutory Report*. p. 8.

- Ensures that nobody is exempted from their rights and obligations in terms of the zoning scheme and other legislation.

The CTSDF contains three key strategies. The first broad strategy is to “plan for employment and improve access to economic opportunities”. Here the sub-strategies that relate to TRUP are promoting inclusive, shared economic growth and development; addressing spatial economic imbalances; and integrating land use, economic and transport planning are imperative.

The second key strategy is to “manage urban growth, and create a balance between urban development and environmental protection”. Sub-strategies relevant to TRUP are facilitating urban development and encouraging a more compact form of development.

The third key strategy is to “build an inclusive, integrated vibrant city”. The transformation of the apartheid city; proactively supporting publicly-led land reform and new housing delivery; and encouraging integrated settlement patterns are the sub-strategies that warrant mention from the perspective of TRUP.

It is also important to note the CTSDF's relevance to planning decisions. Under the new legislative regime, a development application needs to be consistent with the CTSDF unless there are site-specific circumstances preventing this.

6.2.6 Cape Town Central City Regeneration Programme (CTCCRP)

The WCG aspires through the Cape Town Central City Regeneration Programme (CTCCRP) to:

- Unlock Cape Town's potential to become a city that serves the needs of all its citizens as one of the best cities in the world;
- Leverage private sector investment, capacity and expertise;
- Refurbish and achieve savings in the operation and maintenance of its properties; and
- Generate an income stream to finance provincial property development and maintenance.

The goal is that the CTCCRP will engender economic growth and generate job opportunities. In addition, it will facilitate access to urban resources, improve social cohesion and enable environmental sustainability and energy efficiency. To this end, several provincially-owned properties within the TRUP site are being explored for development as part of the CTCCRP⁷.

⁷ CityThinkSpace. 2012. *The Two Rivers Urban Park local area sustainable neighbourhood: High-level development and urban design concept*. p. 4.

6.2.7 The Table Bay District Plan (2012)

The Table Bay District Plan⁸ consists of eight documents developed for each of the planning districts of the CoCT, all of which are informed by the citywide Cape Town Spatial Development Framework (CTSDf). The district plan is medium-term strategy with an approximate ten-year planning frame guiding spatial development processes with each district.

The strategic actions it pursues are the following:

- Supporting and enabling the implementation of the National Spatial Development Perspective (NSDP), Provincial Growth and Development Strategy (PGDS) and Spatial Development Framework (PSDF), Cape Town's Integrated Development Plan (IDP) and Cape Town SDF within the district;
- Carrying out part of a package of decision support tools to facilitate land use and environmental decision-making processes;
- Delineating fixes and sensitivities as informant to statutory decision-making processes;
- Providing clear guidance to the form and direction of areas for new urban development in the district in a way aligned with the principles and policies of higher-level planning frameworks;
- Offering a foundation for land-use change inside the current footprint as well as strategic public and private investment initiatives facilitating the achievement of the principles and policies of higher-level planning frameworks; and
- Informing the establishment of priorities for more specific local-area planning analyses and frameworks providing detailed direction to land-use management and public and private investment.

With the above underpinning strategic activities as a background, the TRUP features in some key areas of the Table Bay District Plan. These are:

- It forms part of "Strategy 2: Manage a sustainable form of urban growth and create a balance between urban development and environmental protection" of the District Plan. The TRUP site forms a key natural structuring element at the district scale in that it can provide sport and recreation facilities as part of the open space network. It can also form part of a coast-to-coast green system within the CoCT;
- As TRUP is regarded as an "other structuring open space" spatial planning category, there are district development guidelines applicable to it. Important guidelines are:
 - Avoidance of development that would compromise open space linkage;

⁸ City of Cape Town. 2011. *Table Bay District Plan: Spatial Development Plan & Environmental Management Framework*. Cape Town: City of Cape Town.

- Development bordering open spaces should be focussed towards the open space to stimulate the utilisation and passive surveillance of these areas;
- Passive surveillance of open space interfaces can be improved by 2-3 storey medium-density developments adjacent to them; and
- Small-scale commercial activities may enhance open space where appropriate to the setting;
- In terms of the District Plan, TRUP is also considered a nature-based “destination place”. Some of these areas’ key development guidelines include:
 - The promotion of greater tourism and recreational opportunities where potential exists for significant improvement;
 - Development opportunities could be realised from these improvements in abutting urban areas; and
 - The maintenance and enhancement of the character of the natural, heritage and recreational aspects of valuable recreational and tourism nodes. Small, valuable natural special places should also be maintained as they contribute to human quality of life, recreation, tourism and therefore the social sustainability of the precinct.
- The TRUP forms part of several Environmental Impact Management Zones (EIMZ) in the Table Bay district, for example Hydrological Zone, and Conservation and Biodiversity Priority Zone. These zones are homogeneous areas with similar attributes and must be considered in planning, development and environmental and land management decisions.

6.2.8 The Two Rivers Urban Park Contextual Framework (2003)

The Conceptual Framework Review (CFR)⁹ strongly emphasises the need to conserve the environmental attributes of the Two Rivers Urban Park. While the point is made that the TRUP is well located within the metropolitan economy, the potential broader socio-economic benefits of the site, receives little attention in the conceptual framework.

The CFR 2003 emphasises:

- The need to rehabilitate, protect, secure and enhance the intrinsic ecological qualities of the site;
- The need to conserve the unique cultural landscape that it provides;
- The possibility to use the site to encourage environmental education;
- To maximise opportunities for all people; and
- To promote sustainable development.

The policy statement in the CFR recognises that the site is adjacent to dense residential, commercial and industrial land uses and is characterised by excellent access.

⁹ City of Cape Town. 2003. Two Rivers Urban Park Conceptual Framework and Phase 1 Environmental Management Plan. Cape Town: City of Cape Town.

Yet, the relationship between the TRUP and its role in the surrounding economy seems to have received very little further analysis.

In considering the opportunities and constraints associated with TRUP, mention is made of the potential for mixed use developments, the optimisation of existing land, and the scope for developments on the edges of the development. But a warning is also given that future developments could have a negative impact on the natural environment.

The CFR highlights certain constraints that would impact on future developments and the economic role that the site could play:

- It only proposes developments on under-utilised land which will assist in giving form and clarity to the Park;
- Developments are primarily considered on the edges of the Park; and
- While the point is made that "mixed use" developments have a role to play in ensuring the sustainability of the TRUP, little attention is given to the potential take-up and the characteristics of this take-up.

From a socio-economic perspective the most important gaps of the CFR 2003 are as follows:

- Little attention is given to the socio-economic benefits (benefits beyond environmental considerations) that the TRUP project could provide to the local community;
- Although the point is made that the site is located adjacent and is part of a vibrant urban built environment, the relationship is not considered to any degree; and
- The parameters which will influence the long term financial sustainability of TRUP receive very little attention.

Additionally, little attention is given in the CFR (2003) to:

- A socio-economic analysis of the catchment area in which the site is located;
- Market and economic dynamics and take-up rates; and
- The broader socio-economic context and the positive impact that the site could have in enhancing the urban environment and thus quality of life.

7. Socio-Economic and Demographic Profile of the Population in the Study Area

7.1 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 TRUP site entailed analysis of Census 2011 sub-places within a 5 km concentric circle from the centre point of the TRUP site. This approach was used owing to the need to understand the socio-demographic impact of residents within the immediate vicinity of the site. Our choice of the 5km zone as a study area is based on our observations of population distribution, economic activities and likely sources of procurement and labour in the areas surrounding the proposed the TRUP development. We have also included data for the Table Bay District of Cape Town City of Cape Town for purposes of comparison. We believe that our approach offers a realistic socio-demographic and economic profile of the population most likely to be affected by the proposed TRUP development as well as the potential that it could offer to underpin the demand for space at TRUP.

Figure 2 is a depiction of the TRUP site's location, the various planning districts surrounding the site (including the Table Bay District), Census 2011 sub places and the 5 km concentric zone.

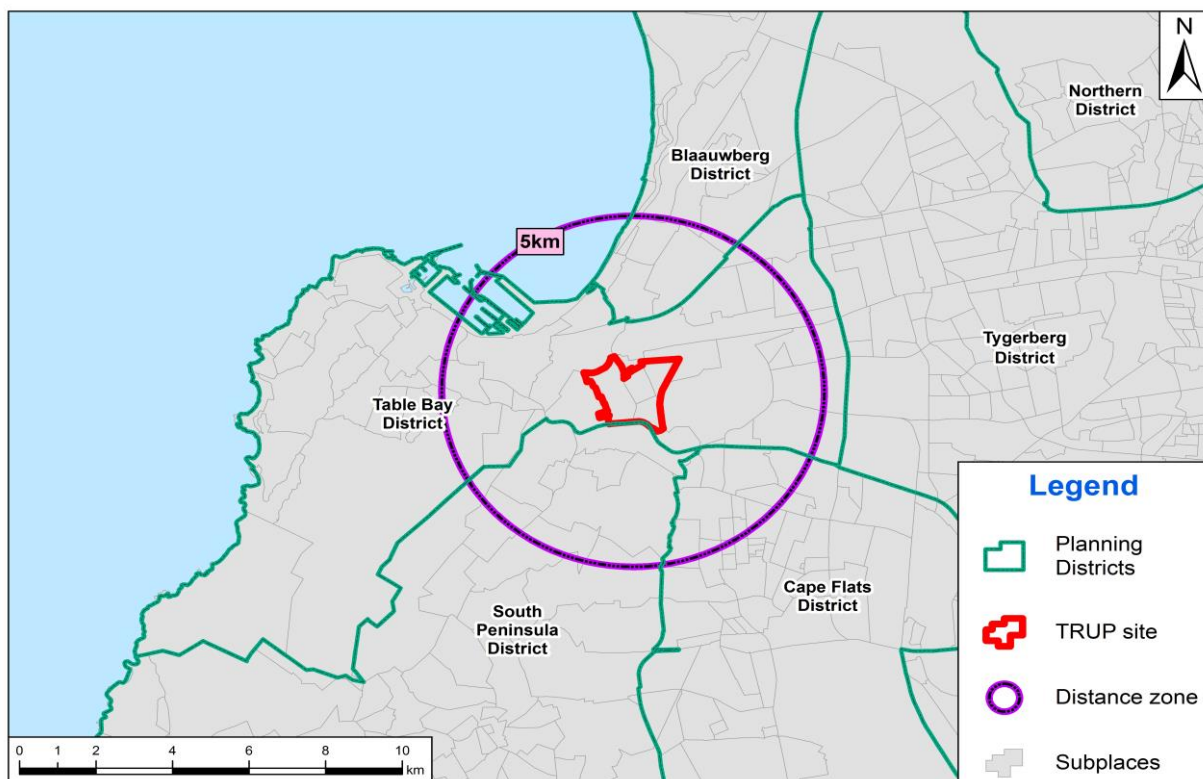


Figure 2: CoCT Planning Districts and the 5 km Concentric Zone as Applied to the Area Surrounding the Proposed TRUP Development

7.2 Limitations of the Demographic Analysis

We identified a number of limitations that constrain the analysis:

- Socio-demographic and economic statistics for specific sub-areas of Cape Town are outdated; and
- Comparisons are seldom possible between the 1996, 2001 and 2011 census years due to changes in the enumeration areas.

Thus, the 2011 data is not necessarily representative of the current demographics of the area given presumed population growth over the past four years. Despite the constraints noted above, the approach adopted for the assessment offers a relatively accurate indication of the socio-economic and demographic profile of the population residing in the specified zones in 2011.

7.3 Socio-Economic and Demographic Profile

7.3.1 Socio-Demographic Profile of the Study Area Population

The following socio-demographic profile of the various areas surrounding the study area is based on data from the 2011 National Population Census Survey. A summarised socio-demographic profile is presented in Table 1 for the 2011 census year.

Table 1: A socio-demographic profile of the study areas based on the 2011 Census						
	5km zone		Table Bay District		CoCT	
Population group	Number	%	Number	%	Number	%
Black	88 148	39.1%	86 469	41.9%	1 444 939	38.6%
Coloured	87 104	38.7%	53 505	25.9%	1 585 286	42.4%
Asian	6 391	2.8%	4 657	2.3%	51 786	1.4%
White	37 294	16.6%	54 981	26.7%	585 831	15.7%
Other	6 285	2.8%	6 685	3.2%	72 184	1.9%
Total	225 221	100%	206 298	100%	3 740 026	100%
Gender	Number	%	Number	%	Number	%
Male	110 330	49.0%	100 859	48.9%	1 830 699	48.9%
Female	114 891	51.0%	105 439	51.1%	1 909 327	51.1%
Total	225 221	100%	206 298	100%	3 740 026	100%
Age classification	Number	%	Number	%	Number	%
0-18	59 421	26.4%	47 273	22.9%	1 161 374	31.1%
19-30	61 984	27.5%	58 147	28.2%	926 123	24.8%
31-40	34 465	15.3%	35 440	17.2%	592 673	15.8%
41-50	26 239	11.7%	24 004	11.6%	454 916	12.2%
51-65	27 512	12.2%	25 444	12.3%	415 435	11.1%
Over 65	15 600	6.9%	15 990	7.8%	189 505	5.1%
Total	225 221	100%	206 298	100%	3 740 026	100%

It is apparent both the 5 km zone and the Table Bay District have similar population sizes, namely around 225 000 and 206 000 respectively. 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 zones suggests that over 83% of the population residing within this area are non-white. Within the Table Bay District, the greatest proportion (42%) of people are Black, with White comprising the second largest group at 27%, and Coloured a close third at 26%. In the CoCT almost 39% 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 over half (about 54%) of the population is below 30 years of age, while this figure is closely mirrored in the Table Bay District at 51%. The other age cohorts are largely similar for both these study areas. In the CoCT almost 56% are below 30 years of age.

7.3.2 Population Analysis

Table 2 provides an alternative breakdown of the population distribution of residents within 5 km of the site and inside the Table Bay District in 2011. The findings suggest that about 6% of the CoCT population live within 5 km of the TRUP, while a slightly lower percentage of people reside in the Table Bay District. The relatively small number of people living in the Table Bay District may seem somewhat surprising given that there are only eight such districts, however, a very substantial part of its area comprises the Table Mountain National Park. An analysis of the breakdown per population groups indicates that Black residents living within 5 km of the site comprises 2.4%, of the total CoCT population – a figure that is mirrored in the Table Bay District. Coloureds and Whites in the 5km zone respectively contribute 2.3% and 1% to the total CoCT population, while in the Table Bay District these population groups respectively provide 1.4% and 1.5% to the total CoCT population.

Table 2: Breakdown of the population in the Table Bay District and the 5km zone						
	Black	Coloured	Asian	White	Other	Total
Population within 5km zone	88 148	87 104	6 391	37 294	6 285	225 221
Contribution to the CoCT popula-	2.4%	2.3%	0.2%	1.0%	0.2%	6.0%
Population within Table Bay District	86 469	53 505	4 657	54 981	6 685	206 298
Contribution to the CoCT popula-	2.3%	1.4%	0.1%	1.5%	0.2%	5.5%
CoCT population	1 444 939	1 585 286	51 786	585 831	72 184	3 740 026

7.3.3 Analysis of Education Levels

An analysis of education levels in the study areas for 2011 is provided in Table 3. The results indicate that 1% of persons living within 5 km of the site had no schooling (including those under the school age), while a similar fraction of the population in the Table Bay District had no schooling in 2011. The assessment further suggests that almost 70% (nearly 63% in the Table Bay District) of persons living within 5 km of the site received Grade 1 to Grade 12 schooling or a technical qualification, diploma or cer-

tificate, whereas approximately 13% (more than 17% in the Table Bay District) obtained Matric with a higher diploma or degree qualification. Apparent from Table 3 is that the CoCT has proportionally less people with post-matric qualifications than both study areas.

Table 3: Education levels for the population per specified zone in 2011						
Education level	5km zone		Table Bay District		City of Cape Town	
	Total	%	Total	%	Total	%
No schooling	3 270	1%	2 684	1.3%	80 207	2.1%
Grade 0	4 916	2%	4 100	2.0%	97 934	2.6%
Grade 1 / Sub A - Grade 12 / Std	143 48	64%	116 496	56.5%	2 663 296	71.2%
NTC 1 / N1/ NIC/ V Level 2 - N6 /	2 504	1%	2 193	1.1%	43 288	1.2%
Certificate/diploma with less than	1 105	0%	1 126	0.5%	13 997	0.4%
Certificate/diploma with Grade 12	9 039	4%	9 720	4.7%	113 758	3.0%
Higher Diploma	7 918	4%	10 139	4.9%	99 149	2.7%
Bachelor's Degree	8 170	4%	10 293	5.0%	75 333	2.0%
Bachelor's Degree and Post grad-	3 183	1%	4 189	2.0%	27 944	0.7%
Honours degree - Higher Degree	8 522	4%	11 328	5.5%	65 679	1.8%
Other	1 062	0.5%	1 364	0.7%	13 905	0.4%
Not applicable	32 050	14%	32 665	15.8%	445 536	11.9%
Grand Total	225	100	206 298	100	3 740 026	100

7.3.4 Analysis of Age Levels

An analysis of the age levels among the population within 5 km, the Table Bay District and the CoCT is intended to provide an indication of the population that could be considered economically active i.e., persons between the ages of 19 and 65. The analysis that follows provides a broad indication of age categories for 2011. The findings are provided in Figure 3 and are based on the zones specified for the analysis.

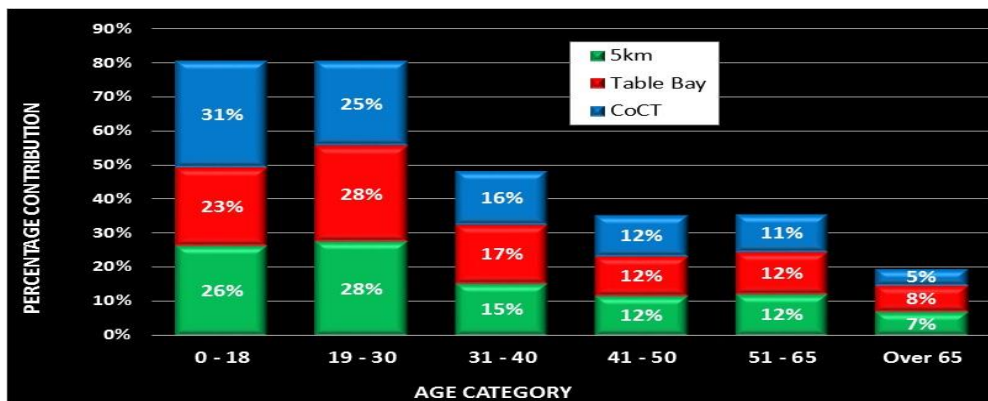


Figure 3: An Assessment of Percentage Contributions to Age Levels for 2011

The findings depicted in Figure 3 indicate that 26% of the population within 5 km of the site are below 19 years of age, a slightly higher figure than the 23% for the Table Bay District. The CoCT has 31% of people in this age cohort. Our analysis also suggests that 67% of the population within 5 km from the site are in the working age category of between 19 and 65 years of age, while the working cohort in the Table Bay District

represents 69% of the total population. The assessment indicates that every two persons who would normally be considered economically active i.e., between 19 and 65 years of age, could support another person that is not economically active within 5 km of the site. For the City of Cape Town this dependency ratio is 1.8 and for the Table Bay District it is 2.3.

A more detailed deconstruction of the population presented in Figure 4 indicates that Black and Coloured residents under 19 years of age respectively represent 40% and 43% of the total population within 5 km, while the White population group 18 years or younger represents 10% of the total population living within this zone.

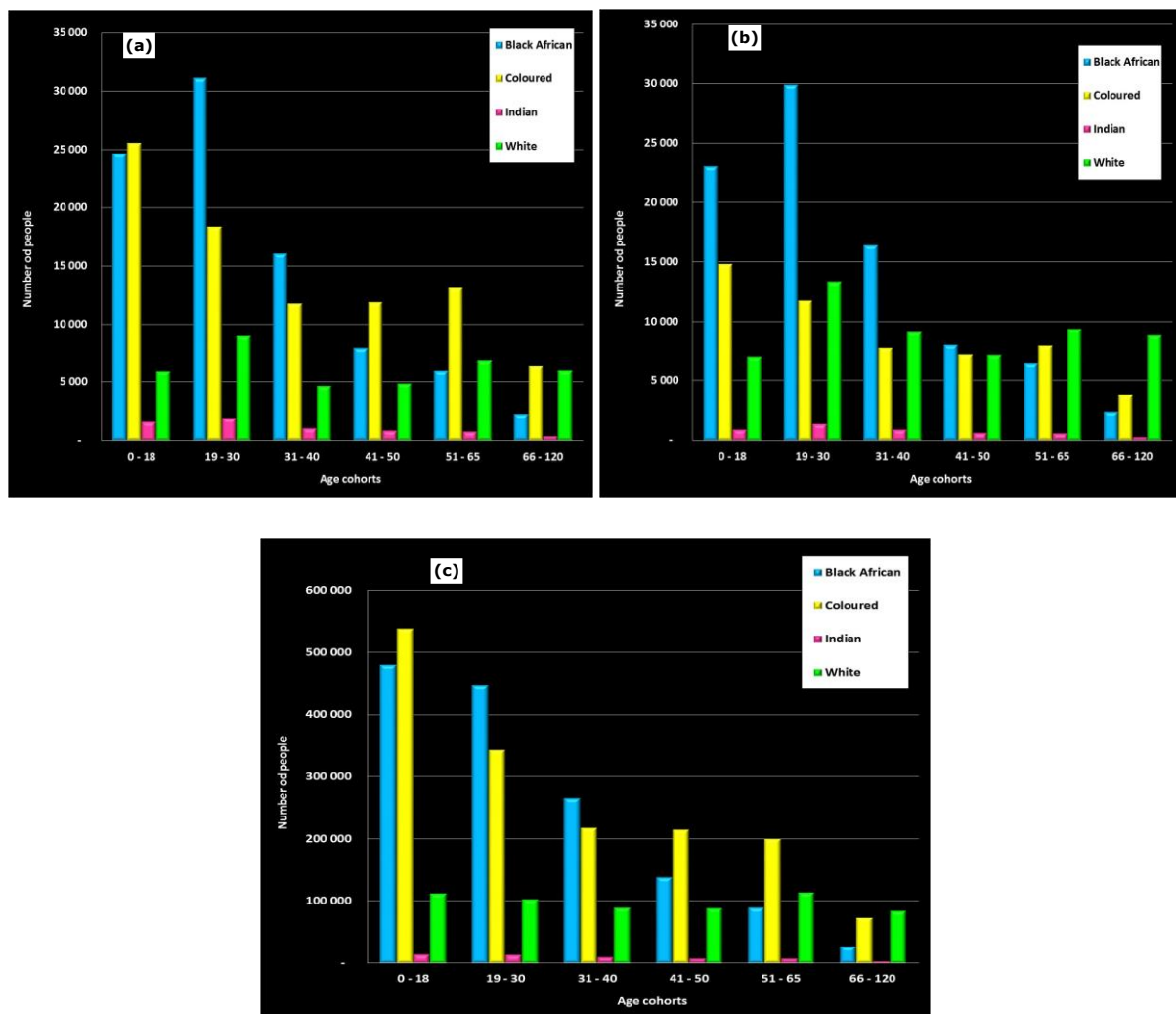


Figure 4: Age Cohorts for Various Areas (a) 5km Zone from the TRUP Site, (b) Table Bay District, (c) City of Cape Town

An analysis of dependency factors suggests that among the Coloured population residing within 5 km of the site, 1.7 persons that have the potential to be economically active could support another economically inactive person (i.e. younger than 19 years and older than 65 years of age). The dependency figures for the other popula-

tion groups are 2.3 for Black African and 2.1 for White residents. The unusually high dependency figure for White residents can possibly be explained by the high number of retirees in the 5 km zone.

7.3.5 Analysis of Household Income Levels

Table 4 provides the income ranges for households as defined by various areas pertinent to the TRUP site. Of households that disclosed their income, 13.8% of the households residing within 5 km of the proposed development had no income, 41% earned less than R76 401 per annum (excluding households with no income) and 6.5% of households earn more than R614 400 annually.

Within the Table Bay District, 12.5% of the households do not have an income, 34.6% of the households have an annual income of less than R76 401, whereas 9.6% of households declared an income of more than R614 400 per annum.

Table 4: Distribution of annual household income for each specified area in 2011						
Income category	5km		Table Bay District		CoCT	
	No	%	No	%	No	%
No income	9 291	13.8%	8 752	12.5%	146 517	13.7%
R 1 - R 4800	1 300	1.9%	1 324	1.9%	29 374	2.7%
R 4801 - R 9600	1 781	2.6%	1 744	2.5%	42 418	4.0%
R 9601 - R 19 600	6 367	9.4%	5 010	7.1%	113 276	10.6%
R 19 601 - R 38 200	8 782	13.0%	7 699	11.0%	170 824	16.0%
R 38 201 - R 76 400	9 425	14.0%	8 517	12.1%	154 427	14.5%
R 76 401 - R 153 800	9 779	14.5%	10 114	14.4%	139 348	13.0%
R 153 801 - R 307 600	9 559	14.2%	11 066	15.8%	126 625	11.8%
R 307 601 - R 614 400	6 849	10.1%	9 187	13.1%	92 860	8.7%
R 614 001 - R 1 228 800	3 133	4.6%	4 597	6.6%	38 018	3.6%
R 1 228 801 - R 2 457 600	875	1.3%	1 393	2.0%	9 749	0.9%
R 2 457 601 or more	387	0.6%	768	1.1%	5 065	0.5%
Unspecified	2	0.0%	6	0.0%	73	0.0%
Grand Total	67 529	100%	70 176	100%	1 068 573	100%

In the CoCT as a whole, 13.7% of the households have no income, 47.8% of the households earn less than R76 401, while only 4.9% of households earn more than R614 400 per annum.

7.3.6 Employment and Skills Level Analysis

An employment perspective for the different zones in CoCT is provided in Table 5 with specific reference to the number of employed, unemployed and not-economically active persons per population group.

Table 5 indicates that only 2.7% of Whites residing within 5 km of the site are unemployed compared to 13.7% Blacks and 6.5% Coloureds. Similar low unemployment

figures for Whites also prevail in the Table Bay District and the CoCT. Unemployment figures for Blacks are 13.4% and 16.1% in the Table Bay District and CoCT respectively.

Unemployment statistics for Coloureds in the Table Bay District are 5.9% and in the CoCT 9.5%. An assessment of the dependency ratios for the various areas is based on the premise that for each person who is employed, a factor of people are unemployed or economically inactive.

The findings of the research for the various areas suggest a very similar dependency ratio of 0.99, 1.11 and 0.99 for the population within 5 km, the Table Bay District and the CoCT, respectively. This implies that every employed resident in the various areas has to support one unemployed or economically inactive person.

Table 5: Employment by population group for specific areas										
5km zone										
Employment category	Black	%	Coloured	%	Indian	%	White	%	Other	%
Employed	27 084	30.7%	31 178	35.8%	2 635	41.2%	17 136	45.9%	2 471	39.3%
Unemployed	12 069	13.7%	5 683	6.5%	204	3.2%	997	2.7%	356	5.7%
Economically inactive	26 849	30.5%	23 314	26.8%	2 017	31.6%	8 383	22.5%	1 618	25.7%
Not applicable	22 146	25.1%	26 928	30.9%	1 535	24.0%	10 779	28.9%	1 840	29.3%
Total	88 148	100%	87 103	100%	6 391	100%	37 295	100%	6 285	100%
Table Bay District										
Employment category	Black	%	Coloured	%	Indian	%	White	%	Other	%
Employed	26 430	30.6%	20 108	37.6%	1 990	42.7%	28 611	52.0%	2 547	38.1%
Unemployed	11 609	13.4%	3 138	5.9%	129	2.8%	1 123	2.0%	332	5.0%
Economically inactive	27 329	31.6%	14 420	27.0%	1 571	33.7%	10 261	18.7%	2 060	30.8%
Not applicable	21 101	24.4%	15 839	29.6%	966	20.7%	14 987	27.3%	1 745	26.1%
Total	86 469	100%	53 505	100%	4 656	100%	54 982	100%	6 684	100%
City of Cape Town										
Employment category	Black	%	Coloured	%	Indian	%	White	%	Other	%
Employed	441 911	30.6%	512 551	32.3%	21 369	41.3%	287 029	49.0%	31 379	43.5%
Unemployed	233 126	16.1%	150 263	9.5%	2 350	4.5%	14 173	2.4%	6 078	8.4%
Economically inactive	349 834	24.2%	415 642	26.2%	14 724	28.4%	108 062	18.4%	15 721	21.8%
Not applicable	420 068	29.1%	506 831	32.0%	13 343	25.8%	176 567	30.1%	19 006	26.3%
Total	1 444 939	100%	1 585 287	100%	51 786	100%	585 831	100%	72 184	100%

7.3.7 Formal and Informal Sector Employment

In Table 6 a further assessment of employment levels is provided by economic sector and by population group for the economically-active population residing in specific areas.

Table 6: Classification of the economically active population in various areas per economic sector and population group in 2011						
Formal sector						
Population group	5km		Table Bay		CoCT	
	No	%	No	%	No	%
Black	21 734	26.7%	21 047	25.9%	317 785	24.6%
Coloured	27 731	34.1%	17 748	21.8%	435 487	33.7%
Indian	2 340	2.9%	1 708	2.1%	18 529	1.4%
White	15 266	18.8%	25 364	31.2%	253 801	19.6%
Other	2 065	2.5%	2 096	2.6%	21 841	1.7%
Subtotal	69 136	85.0%	67 963	83.6%	1 047 443	81.1%

Informal sector						
Black	2 531	3.1%	2 316	2.9%	53 897	4.2%
Coloured	2 125	2.6%	1 214	1.5%	44 712	3.5%
Indian	156	0.2%	118	0.1%	1 520	0.1%
White	1 034	1.3%	1 726	2.1%	19 332	1.5%
Other	225	0.3%	200	0.2%	4 877	0.4%
Subtotal	6 071	7.5%	5 574	6.9%	124 338	9.6%
Private households						
Black	2 779	3.4%	3 048	3.8%	61 214	4.7%
Coloured	1 452	1.8%	1 235	1.5%	29 751	2.3%
Indian	163	0.2%	163	0.2%	1 388	0.1%
White	1 526	1.9%	3 016	3.7%	23 328	1.8%
Other	219	0.3%	262	0.3%	4 205	0.3%
Subtotal	6 139	7.5%	7 724	9.5%	119 886	9.3%
Total	81 346	100%	81 261	100%	1 291 667	100%

The findings applicable to the 5 km zone suggest that 85% of this population are employed in the formal sector, followed by the informal sector at 7.5%. In the Table Bay District, the formal sector employs 83.6% of the economically active population, followed by the informal sector with 6.9%. Our assessment also indicates that 81.1% of the people in the CoCT are employed in the formal sector, and 9.6% in the informal sector.

7.3.8 Dwellings and Tenure Status

An examination of Table 7 reveals that 12.2% of households in the 5 km zone live in informal housing¹⁰, while almost 87% reside in formal housing¹¹. A slightly smaller 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 44% (40.4% of which live in formal dwellings) of households in the 5km zone rent their dwellings. In the Table Bay District this figure rises to almost 47% of which about 44% reside in formal dwellings. Interestingly, in the CoCT only about 30% of households rent their homes (24.5% of whom live in formal dwellings).

¹⁰ 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.

¹¹ 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).

Table 7: Tenure status of households by type of main dwelling in 2011								
5 km Zone								
	Informal housing	%	Formal housing	%	Other	%	Total	%
Rented	2 180	3.2%	27 285	40.4%	234	0.3%	29 699	44.0%
Owned but not yet	121	0.2%	12 148	18.0%	117	0.2%	12 386	18.3%
Occupied rent-free	3 484	5.2%	2 090	3.1%	173	0.3%	5 747	8.5%
Owned and fully	2 247	3.3%	16 255	24.1%	30	0.0%	18 532	27.4%
Other	191	0.3%	931	1.4%	42	0.1%	1 164	1.7%
Total	8 223	12.2%	58 709	86.9%	596	0.9%	67 528	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	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	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	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	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%

7.4 Economic and Employment Base of the City of Cape Town

The City of Cape Town (CoCT) contributed 73% to the Western Cape's regional gross domestic product (GDP) and 66% to employment (WCG 2015:31).

The sectoral contributions of the CoCT largely correspond to those of the Western Cape. The tertiary sector of the CoCT, however, contributed slightly more to its economy than that of the Western Cape, while agriculture contributes relatively more to the Western Cape's economy as a whole (see Figure 5).

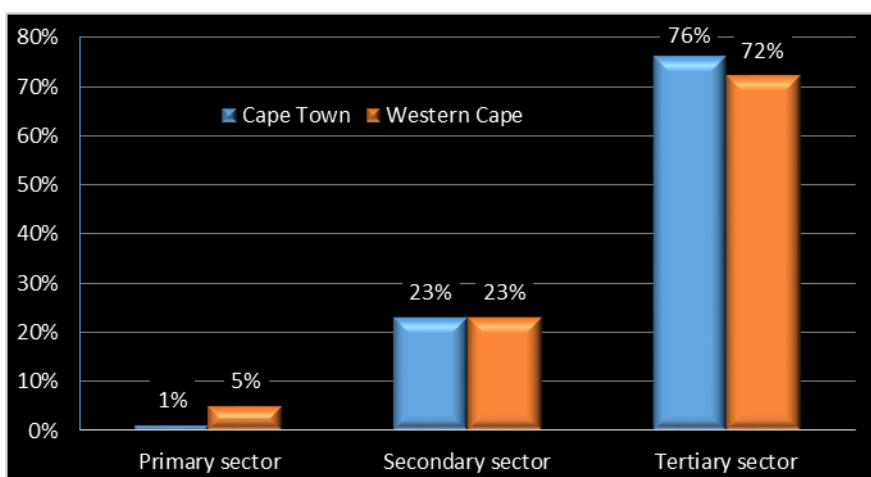


Figure 5. Average CoCT and Western Cape GDP Sectoral Contribution (2000-2014)
(Source Western Cape Government 2015:3 and Quantec)

Within the CoCT and the Western Cape's tertiary sectors, the FIRE (finance, insurance, real estate and business services) sector and trade (includes wholesale and retail trade, catering and accommodation) contributed 67% and 62% of GDP to their economies respectively.

Regarding economic growth measured by GDP, Table 8 indicates that between 2005 and 2013 the economies of both the CoCT and the Western Cape grew at 3.4% per annum. Their economies have also tracked each other closely during the expansion, recession (caused by the global recession) and recovery phases of the economy.

In terms of job creation, it is evident that between 2005 and 2013 over 51 000 jobs have been created in the CoCT on a net basis, while this figure is only 25 152 for the Western Cape. Concerning is that more than 10 000 jobs have been lost on a net basis in the Western Cape during the recovery phase compared to less than 1 000 for the CoCT.

Table 8: Average CoCT and Western Cape GDP and employment growth (2000 – 2013)								
Region	Real GDP growth (ave y-o-y %)				Employment (net change)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2005-13	2000-7	2008-9	2010-13	2005-13	2000-7	2008-9	2010-13
CoCT	3.4	5.0	1.5	2.7	51 306	107 122	-1 964	-970
Western Cape	3.4	4.9	1.4	2.6	25 152	128 301	-11 841	-10 468

Source: Western Cape Government (2015: 33) and Quantec

Regarding historic sectoral growth, Table 9 shows that agriculture, forestry and fishing, FIRE, and construction were the top three performing sectors in terms of real GDP growth between 2005 and 2013. Although the agriculture expanded at remarkable 9% per annum over this period, its contribution to the CoCT's GDP is a meagre 1.6% and as a result only created about 3600 jobs on a net basis.

Despite the construction sector's impressive growth of 5.1% over this period it has also shed jobs, presumably due to weaker growth during the recovery period affecting employment negatively. The manufacturing sector has also shown significant job losses, although its growth has over the long term been below that of the CoCT.

The importance of the FIRE and trade sectors for the CoCT economy has been stated previously. These sectors' consistently strong performance in terms of GDP growth over the recent past has managed to sustain the CoCT economy over this period and has resultantly contributed strongly to employment opportunities in the job market.

Table 9 : CoCT and Western Cape sectoral GDP and employment growth (2000 – 2013)								
Sector	Real GDP growth (ave y-o-y %)				Net employment (number)			
	Trend	Expansion	Recession	Recovery	Trend	Expansion	Recession	Recovery
	2005-13	2000-7	2008-9	2010-13	2005-13	2000-7	2008-9	2010-13
Agriculture, forestry and fishing	9.0	9.8	21.9	2.2	3 654	16 146	1 923	-1 451
Mining and quarrying	-0.2	0.4	-7.2	1.5	1 112	-503	48	-48
Manufacturing	2.3	3.6	-3.0	2.7	-40 465	-41 009	-20 229	-7 105
Electricity, gas and water	1.7	5.2	-1.4	1.0	1 048	2 521	-1 462	440
Construction	5.1	8.4	4.3	1.5	-21 983	-13 996	-6 752	-18 075
Wholesale and retail trade, catering and accommodation	3.4	5.5	-0.7	3.4	50 278	22 366	3 948	3 255
Transport, storage and communication	3.5	6.5	1.9	2.3	11 436	-1 167	5 517	6 888
FIRE	4.0	6.5	3.1	3.0	9 681	71 707	-7 005	17 042
Community, social and personal services	2.3	3.4	1.1	1.4	19 207	29 034	15 197	-4 462
General government	3.0	1.2	4.0	2.7	17 337	22 023	6 852	2 546
Total	3.4	5.0	1.5	2.7	51 306	107 122	-1 964	-970
Western Cape	3.4	4.9	1.4	2.6	25 152	128 301	-11 841	-10 468

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

The outlook going forward for the CoCT's economy is positive with expected GDP for 2015-2020 growth to average 2.6% per annum (see Table 10) which is below the 2005-2013 average of 3.4%.

The construction sector is expected to exhibit the strongest growth during the forecast period on the back of the WCG's budget allocated towards infrastructure spending and development. These funds will mainly be utilised for repairs and maintenance initiatives within the transport, roads and utility services spheres. As regards other building activity, Stats SA has also reported an uptick in the number of buildings passed during the first half of 2015 (WCG 2015:36). In this regard significant construction projects currently underway are the Cape Town harbour extension; the expansion of the CTICC; developments in the V&A Waterfront; and certain large office-sector developments (WCG 2015: 69).

Expected investment by the CoCT into transport infrastructure by expanding its road network will be the stimulus for the transport, storage and communication sectors expected growth of 3.1% per annum.

The tertiary sector is, however, expected to remain the key impetus behind economic growth in the CoCT. The FIRE and trade sectors are also expected to show growth of 3.2% and 2.6% over the forecast period which should also positively influence the construction sector's prospects.

Sector	Forecast						Forecast (%) 2015-2020
	2015	2016	2017	2018	2019	2020	
Agriculture, forestry and fishing	2.3	2.6	3.1	2.9	3.0	3.1	2.8
Mining and quarrying	2.4	2.2	2.2	2.0	2.5	2.7	2.3
Manufacturing	0.7	1.9	2.1	2.2	2.5	2.5	2.0
Electricity, gas and water	-0.7	2.0	2.0	2.1	2.7	3.0	1.8
Construction	2.6	2.1	4.0	4.2	4.1	4.3	3.6
Wholesale and retail trade, catering and accommodation	1.3	1.8	2.7	2.9	3.4	3.3	2.6
Transport, storage and communication	2.0	2.0	3.5	3.6	3.7	3.7	3.1
Fire	2.8	2.4	3.3	3.3	3.5	3.8	3.2
Community, social and personal services	0.7	1.1	1.9	2.0	1.9	1.9	1.6
General government	0.8	0.7	1.4	1.3	1.5	1.5	1.2
Total	1.8	1.9	2.8	2.9	3.1	3.2	2.6

Source: Western Cape Government (2015: 35) and Quantec

The location preferences of various tertiary sector activities and their impact on the built environment should be borne in mind from the perspective of the future development of TRUP. They obviously vary per sub-sector, but in general the FIRE sector would favour 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).

8. The SA Property Market

8.1 Mega-Trends

Before commencing a more detailed analysis of the TRUP site's property-related features it is appropriate to first set the scene by reflecting on a few important characteristics and trends of the South African property market over the last few decades. Since the early 1960s, the life assurance companies and pension funds have dominated the non-residential real estate market, and at one stage they had about 12% of their assets invested in property, a high proportion by world standards. These institutions are interest-rate and cash-flow insensitive. Hence, they could afford to take bold investment decisions based on forecasts, which contributed to the deep troughs in the property cycle.

However, since the dawn of the new South Africa in 1994, these institutions were allowed to invest progressively more of their assets in foreign markets. Furthermore, the returns on property were exceedingly poor from the mid-1980s onwards (owing to the downswing phase of the long property cycle). These two factors combined led to the institutions deciding in about 1996 to start disinvesting from property and to abandon virtually all new investment in South African property in favour of foreign equity and bonds. As a sector they now aim to reduce their property holding to about 5% of total assets. This resulted in a short-term jump of about 2%-3% points in capitalisation rates in 1996. Fortunately, this period also coincided with a phase of vigorous real-estate growth for well-located office properties, otherwise the effect on property values would have been disastrous. Hence, the private investor and listed property funds have now become more important players. These investors are more interest-rate and cash-flow sensitive than the institutions, and the consequence should be a more stable market, with private developers and their financiers taking heed of interest-rate signals.

A lax, cheap-money monetary policy in the 1970s and 1980s and an economic lager led to an average inflation rate of about 15% p.a. in South Africa during those years. Monetary policy became strict from 1989 onwards, but during the early 1990s fiscal policy in turn became lax, when avoiding a revolution from either the left or the right was deemed more important than fiscal rectitude. However, since about 1997, fiscal policy has also been brought to heel. Together with global competition after 1994 and cheaper imports from China and other Asian countries, this resulted in consumer inflation dropping structurally to well within the SA Reserve Bank's inflation target range of 3%-6%. The resultant stable and transparent macroeconomic environment lessens the chances in years to come of deep recessions caused by panic monetary measures. Structurally lower inflation allowed interest rates to be dropped significantly, which resulted in the rise of the listed-property-fund sector, and this sector has now taken over from the institutions as the major investment entity. The low income yields of these

funds allow them to pay more for directly-held property, thereby exerting downward pressure on capitalisation rates. Thus, the remarkable boom in listed property funds and the sharp drop in capitalisation rates of the past few years can be ascribed to the authorities' success in bringing inflation to heel.

Since the early 1990s a strong de-centralisation trend away from the South African CBDs became evident. This decentralisation trend was caused by push and pull factors. Pull factors were decision takers who wanted to work closer to home in a better environment (a worldwide phenomenon). Push factors were deficient parking facilities and the crime and grime that overwhelmed the South African CBDs. Today, most of the major CBDs, such as Johannesburg CBD, Pretoria CBD, Durban CBD, and the Port Elizabeth CBD, are in a sad state with poor prospects. The only exception is the Cape Town CBD, which also went through a period of decay, but has bounced back owing to private-sector initiatives to control crime and grime.

8.2 The Long Office-, Industrial- and Residential Property Cycles

The property cycle is very long; on average between 15 and 20 years. South Africa is not the only country with such a long property or building-construction cycle. Like any cycle, it 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 the probability is great that from that point on, *real* rentals and prices will rise strongly. 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 because prices and *real* rentals are now high, making new developments more viable. However, to enter into new developments close to the peak could be risky, especially on the down side 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* rentals¹². "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 input costs only, viz. labour, capital, and materials, whereas the BER BCI not only measures physical inputs, but the profit margins of building contractors as well. Hence, any deviation between these two indices is the result of con-

¹² **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 capitalisation 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 capitalisation rates), which is unrelated to underlying property fundamentals. And, of course, it is fundamentals that cause new developments to be occupied, not falling capitalisation rates.

tractors 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 6 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).

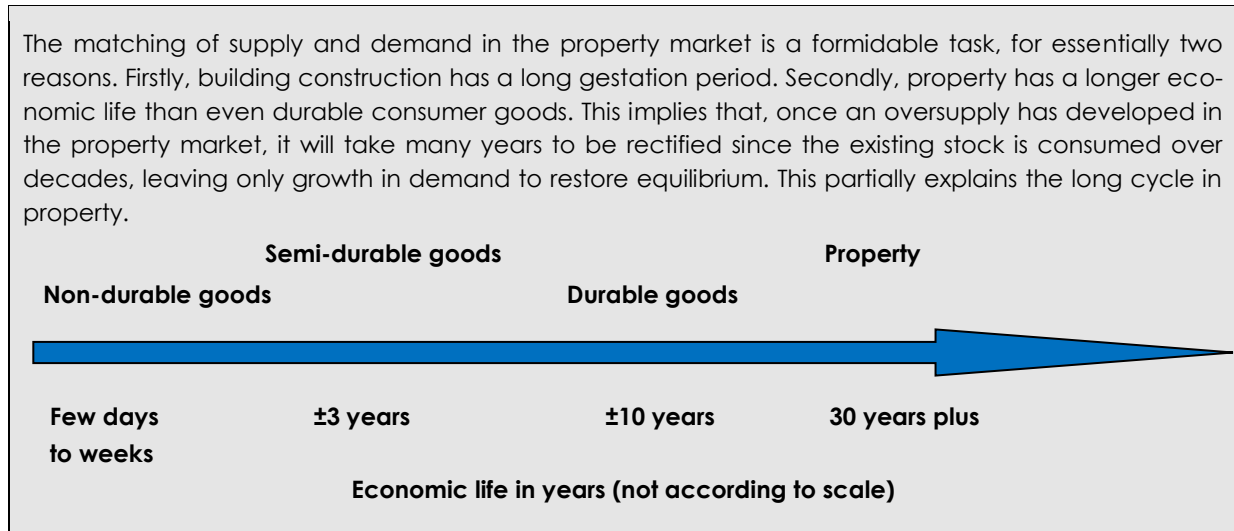


Figure 6: Why such a long property cycle?

Note that in Figure 7 we use **Johannesburg de-centralised** office rentals as a proxy for the South African decentralised office property cycle. However, we could just as well 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. For analogous reasons, we normally consider Central Witwatersrand *real* rentals when studying the industrial property cycle.

8.2.1 The Office and Industrial Property Cycles

As shown in the accompanying graph (Figure 7), after starting on a downswing in 2002, the office property cycle began bottoming out again in 2007. The reason for the downswing between 2002 and 2007, despite the fact that the business cycle was still in a strong upswing, was primarily an oversupply of office space created by over-zealous development activity between the late 1990s and early years of the following decade. Owing to strong economic growth, resulting in a robust demand for office space, this excess office supply was effectively absorbed by 2007. In this year, vacancy rates for prime-quality office space in the major decentralised office nodes were generally below the 5% level. The uptick in vacancies which started in 2008, on the

back of the downswing in the business cycle, did have a debilitating effect on the growth in nominal market rentals. The building-construction industry was, however, hit harder by the business cycle downswing. With fewer new projects to tender for, contractors were forced to trim their profit margins. This led to weak building-cost inflation. As a result, *real* building-cost deflated rentals could stay afloat amidst the recent economic storm.

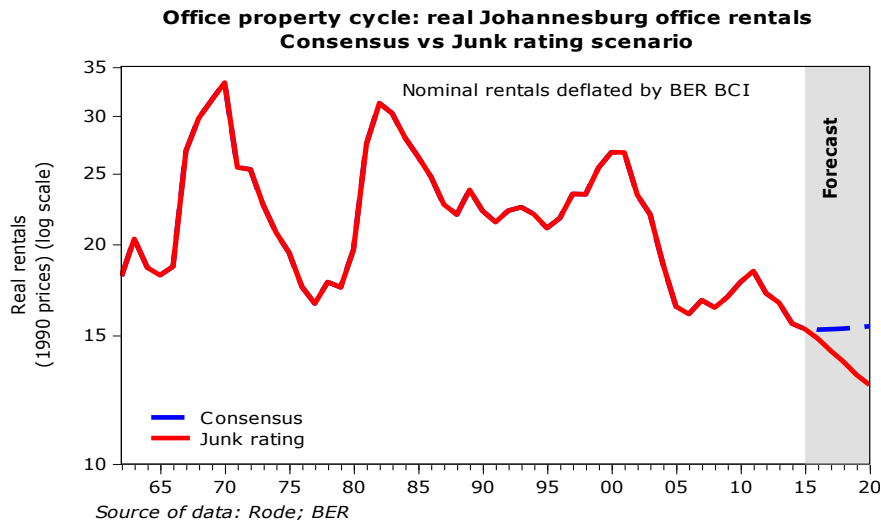


Figure 7: The Office Property Cycle

As for the industrial property cycle, the last significant peak was during the early 1980s (Figure 8), largely as a result of a severe shortage of land created by the economic boom and government's self-sufficiency drive (demand) and probably also the government's decentralisation policy (supply). Since then, *real* industrial rentals have been in a long decline (with two less significant peaks in 1990 and 1998). *Real* rentals were only notably able to bottom out in 2005, again on the back of low vacancies and high replacement costs coupled with strong economic growth.

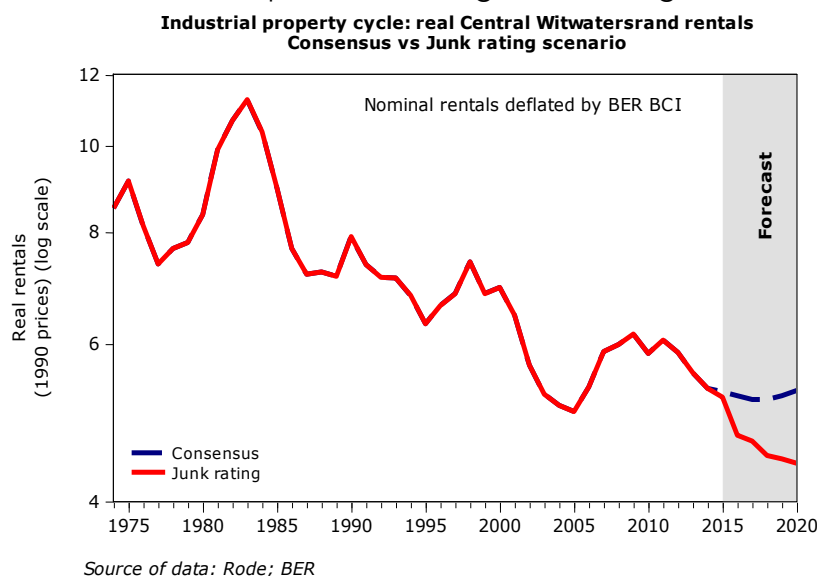


Figure 8: The Industrial Property Cycle

As both Figures 7 and 8 show, since 2011 market office and industrial rentals have, in general, been unable to keep up with building-cost inflation. The result since then has been sliding *real* (BER BCI-deflated¹³) rentals. Welcoming, therefore, must be the expectation by the Rode panel of economists, surveyed in June 2015, of better growth in economic activity from 2016 onwards. Such a scenario, which we called our Consensus scenario, would bode well for the demand for office and industrial property, spur on a gradual decline in vacancies and result in upward pressure on market rentals. But market rentals will, at best, most likely only be able to achieve growth that is on par with building-cost inflation. For this reason, we foresee a sideways trend in *real* office and industrial rentals over our six-year forecast period (see shaded areas of Figure 7 and 8).

We also considered the fact that one of the international ratings agencies has confirmed that the risk of a downgrade in SA's sovereign credit rating is increasing. Worrisome is the fact that SA's investment-grade sovereign credit rating is already uncomfortably close to speculative grade, or junk status. The mandate of most investors is to invest only in markets with investment-grade ratings. For this reason, we considered an alternative to the Consensus scenario, which we called the Junk-rating scenario.

Here we assume that SA's rating is downgraded¹⁴ to non-investment status. This results in an outflow of capital, which places pressure on the balance of payments and forces the SA Reserve Bank to increase interest rates sharply to protect the currency. The combination of capital outflows and monetary policy tightening forces the economy into a sharp, but quick recession. In Table 11 and Figure 9 which follow, we summarise our Junk scenario forecasts. Evident here is the contraction in *real* GDP during 2016 as a result of tighter monetary policy. Thereafter, as the rand recovers and inflation cools, the Reserve Bank is again able to cut interest rates. However, interest rates do not fall all the way back to the starting point. Nonetheless, this again leads to growth in *real* GDP, albeit at modest rates.

Under the Junk-rating scenario, *real* GDP is forecast to grow at roughly 0,6% p.a. over our six-year forecast period. Notice from the preceding graphs the strong southward trajectory of *real* office and industrial rentals under the Junk scenario. We attach a 50% probability to the Junk scenario.¹⁵

¹³ Building Cost Index (BCI) of the Bureau for Economic Research (BER) at Stellenbosch University

¹⁴ Currently, Fitch's credit rating of SA (BBB with a negative outlook) is two notches above "junk" status, while S&P's rating (BBB-) is only one notch above "junk" status.

¹⁵ We thank economist Carmen Nel of RMB for her inputs to this scenario.

Table 11: Real GDP forecasts Consensus vs Junk-rating scenario							
	Means						Ave.: '15-'20
	2015	2016	2017	2018	2019	2020	
Consensus scenario: % change*	1,5	1,9	2,3	2,6	2,9	3,0	2,4
Junk-rating scenario: % change†	1,2	-2,5	1,7	0,3	1,4	1,4	0,6
*Based on Rode's panel of economists, June 2015 † Rode's in-house forecasts							

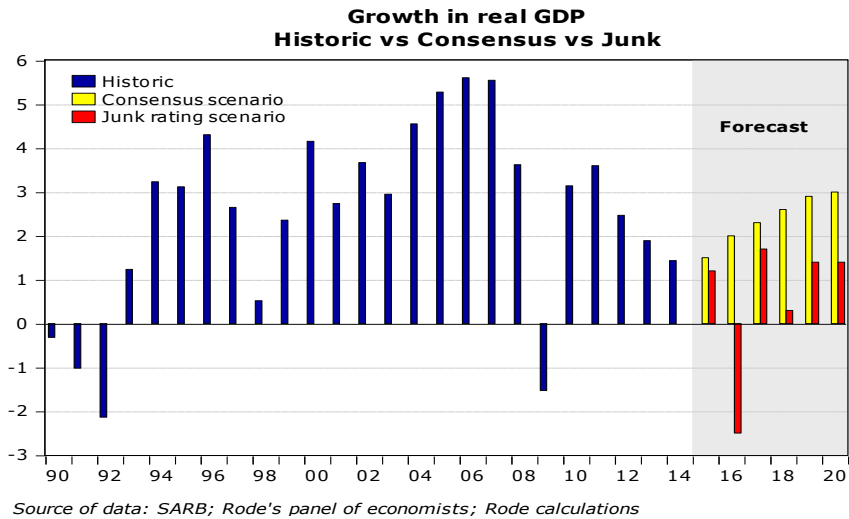


Figure 9: Growth in Real GDP: Consensus vs Junk-Rating Scenarios

8.2.2 The Residential-Property Cycle

Even under an arguably optimistic Consensus scenario for *real* economic growth we foresee the likely direction of *real* national house prices over the next few years to be south (see Figure 10).

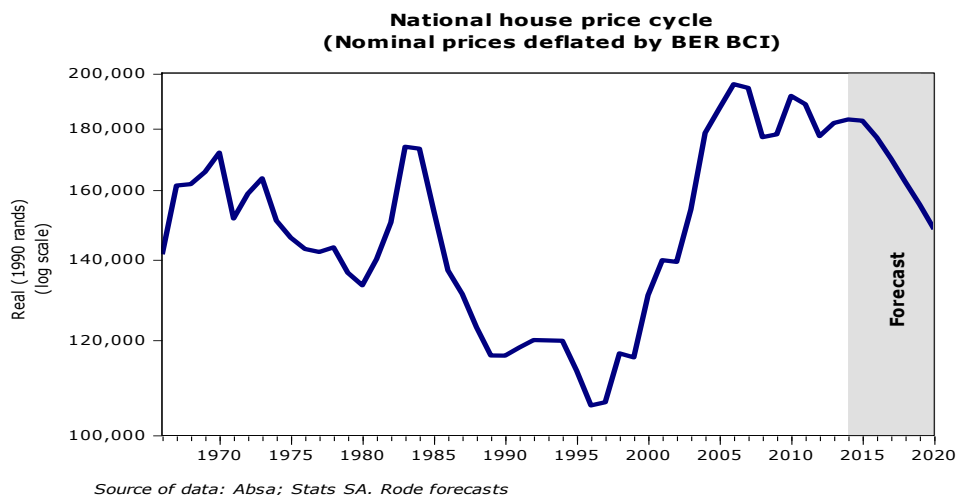


Figure 10: National House-Price Cycle

Factors that might dampen growth in nominal prices, and result in this growth possibly being below consumer inflation are:

1. The weak economy and its likely damper on the growth in employment and disposable incomes. To quote economist Cees Bruggemans:
*[In salary negotiations with the public sector] government had agreed to far too much (7% wage deal, but after adding back benefit increases, it really amounts to 11,5%). Yet there would be no slippage on budget reduction promises. There would also be no deflection from capex or social delivery expenditure. Instead, last Friday [4 Sept.], in writing, Finance Minister Nene suggested he would be doing what hasn't really happened before to our gold-plated public sector. Head-count shrinkage. Freezing of positions. Reductions in head-count where possible.*¹⁶

This is of course in addition to what the private sector has been doing all along. If this promise of the Minister is not adhered to, the probability of a ratings downgrade looms large. Weak economic growth prospects imply weaker tax takes for the Treasury. Hence, the taxman might be forced to ask individuals to give a little bit more (think a higher VAT rate). This might over the next few years also mean lower growth in after-tax incomes.
2. Consumers that are under unrelenting stress. Despite having dipped in recent years, household debt-to-disposable income levels remains uncomfortably high at 78%.
3. Consumer confidence levels that are falling through the floor, which might affect the willingness of households to make substantial financial commitments such as buying a house or flat-screen TV.
4. The continued disproportionate increases in administered prices (think Eskom), which will negatively affect affordability.
5. Interest rates that are set to rise due to the interest-rate cycle and Basel II and III requirements. This will also affect affordability.
6. Real house prices that are still above historic highs, and are thus more likely to revert to their mean.

8.3 Building Plans Completed at Various Levels

In terms of building plans completed nationally, it is evident from Table 12 that from the largest metros, the CoCT was the second strongest performer for residential property, and the leading player non-residential property in 2014.

¹⁶ Newsletter dated 9 September 2015

Table 12: Building plans completed in major South African municipalities (2014)				
Municipality	Residential		Non-residential	
	m²	%	m²	%
City of Cape Town	750 780	25%	383 492	20.5%
Nelson Mandela Bay Municipality	113 900	4%	84 236	4.5%
Ethekwini Municipality	162 478	5%	235 296	12.6%
City of Johannesburg	619 431	20%	323 660	17.3%
City of Tshwane	966 287	32%	389 042	20.8%
Ekurhuleni Metropolitan Municipality	445 591	15%	453 912	24.3%
Total	3 058 467	100%	1 869 638	100%

In major Western Cape municipalities, the CoCT was the dominant player in terms of building plans completed for both residential (69%) and non-residential property (90%) in 2014 (see Table 13).

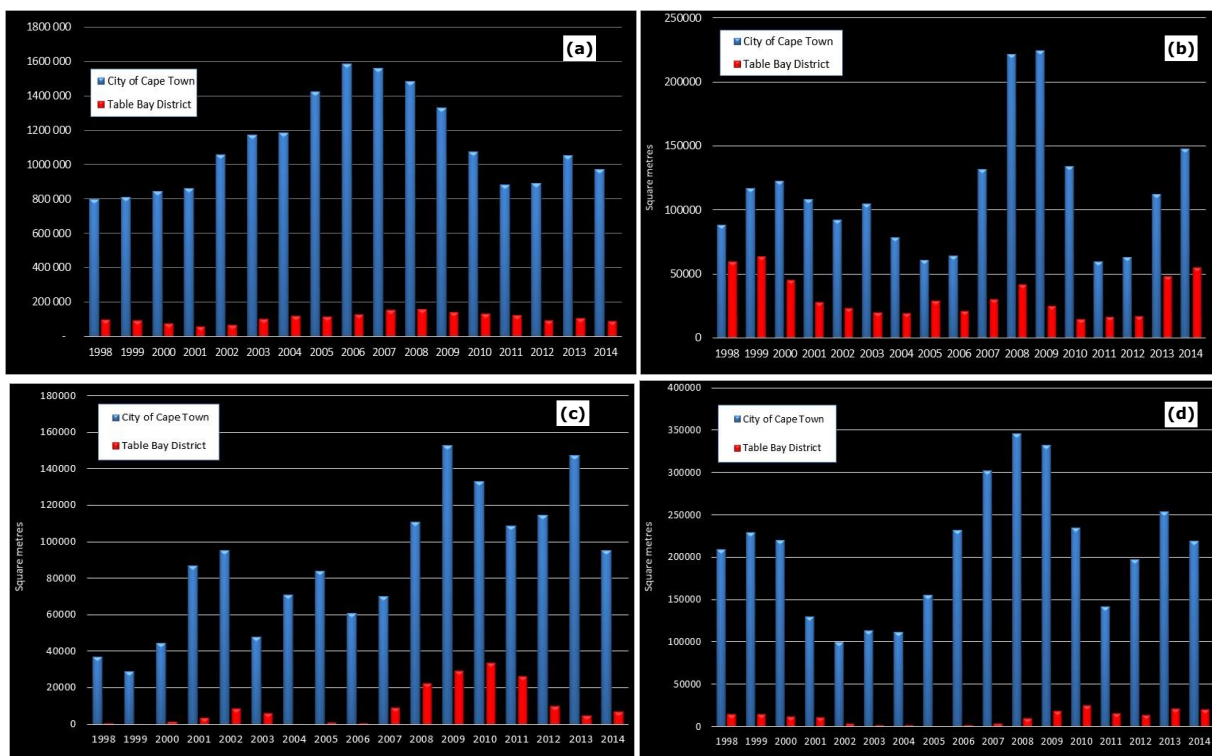
Table 13: Building plans completed in major Western Cape municipalities (2014)				
Municipality	Residential		Non-residential	
	m²	%	m²	%
Bitou Municipality	14 970	1%	0	0%
Breede Valley Municipality	9 225	1%	1 044	0.2%
City of Cape Town	750 780	69%	383 492	90%
Drakenstein Municipality	31 675	3%	99	0%
George Municipality	51 402	5%	2 478	1%
Greater Oudtshoorn Municipality	1 655	0.2%	0	0%
Knysna Municipality	24 119	2%	0	0%
Mossel Bay Municipality	37 642	3%	11 592	3%
Overstrand Municipality	37 856	3%	6 327	1%
Saldanha Bay Municipality	39 355	4%	2 038	0.5%
Stellenbosch Municipality	77 450	7%	5 730	1%
Swartland Municipality	10 405	1%	12 292	3%
Total	1 086	100%	425 092	100%

At the planning district level, the Table Bay district was the weakest performer in terms of residential buildings plans completed in 2014 at a meagre 4%, while, interestingly, it had proportionally the third highest figures for non-residential buildings completed at 14% of the total (see Table 14).

Table 14: Building plans completed in Cape Town (2014)				
Planning district	Residential		Non-residential	
	m²	%	m²	%
Blaauwberg	102 992	14%	157 003	41%
Cape Flats	41 382	6%	21 243	6%
Eastern	105 025	14%	4 606	1%
Mitchells Plain / Khayelitsha	131 130	17%	14 618	4%
Northern	155 585	21%	98 447	26%
Southern	82 376	11%	13 991	4%
Table Bay	31 580	4%	54 572	14%
Tygerberg	100 710	13%	19 012	5%
Total	750 780	100%	383 492	100%

Considered over the long-term, one can discern from Figure 11(a) that completed residential building plans in the CoCT have moved sideways the last few years following the peak in 2006 and the slump thereafter. Residential building activity in the Table Bay District has remained relatively constant and following its peak in 2008 and subsequent decline as a result of the great recession has recovered to slightly below its 1998 levels.

Regarding office property, it is evident from Figure 11(b) that office construction has shown a promising upturn the last two years after the lows of 2011/2012. However, it is nowhere near its peak 2008/2009. Table Bay District includes the Cape Town CBD – it is thus not surprising that a substantial proportion of new CoCT office stock has traditionally been erected in this district. After a few years of diminishing contribution to the total CoCT office stock it is apparent that over the last two the Table Bay District has shown renewed impetus. On the other hand, retail building activity in the CoCT has been somewhat volatile over the years (refer Figure 11(c)), however, current building activity is substantially higher than it was in the late 1990s. Recent retail construction in the Table Bay District has over the last four years been on the wane, and is substantially lower than at its peak in 2010. After the highs of 2008/2009 current industrial building activity in the CoCT is still only comparable to that of the late 1990s. It is evident from Figure 11(d) that the Table Bay District area has not in the past been a major source of industrial construction in the CoCT. Recent building activity has flat lined since 2010.



Source: Stats SA

Figure 11: Buildings in m² Completed (a) Residential, (b) Office, (c) Retail and (d) Industrial

8.4 Industrial Property Market

8.4.1 Introduction

Figure 12 shows the location of industrial townships either wholly or partially within 10km of the TRUP site. The TRUP site intersects Ndabeni, abuts Woodstock/Salt River/Observatory and is very close to Maitland and Paarden Eiland/Metro.

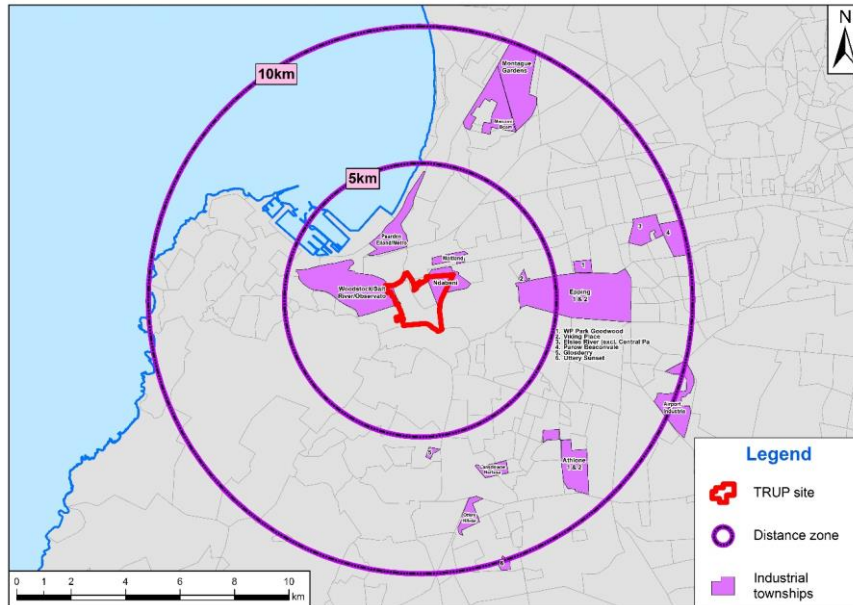
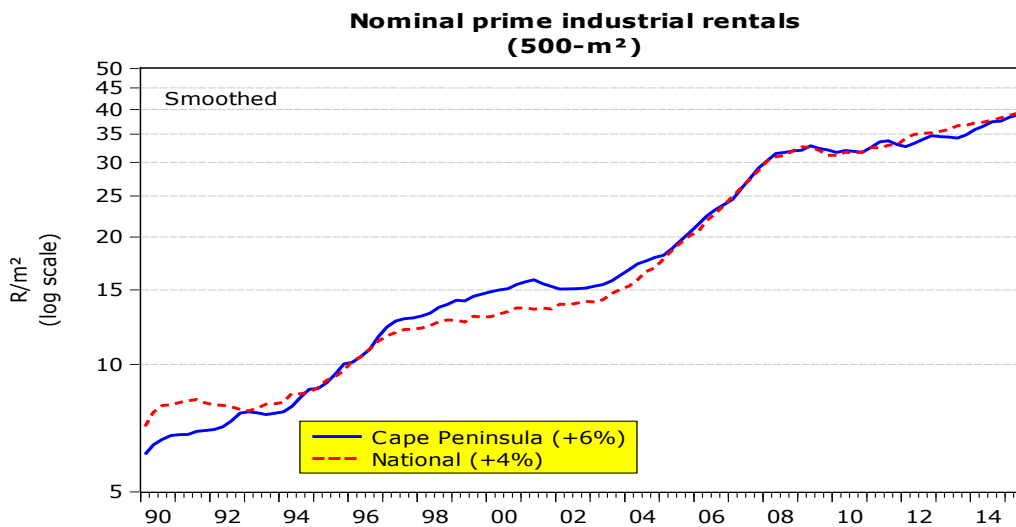


Figure 12: Location of Industrial Townships in the Vicinity of TRUP

8.4.2 Recent Industrial-Vacancy and Rental Trends in the Cape Peninsula

As can be discerned from Figure 13 current rental levels in the Cape Peninsula are on a par with those at national level.



Source of data: Rode's Time Series

Figure 13: Industrial Rentals: Cape Peninsula vs National

In the second quarter of 2015, the Cape Peninsula was the top in terms of both market rental (+7%; y-o-y) and stand value (+8%; y-o-y) growth amongst the major industrial conurbations in South Africa. Declining vacancies in the Cape Peninsula (see Figure 14) explain why rentals were able to show decent growth. The strong performance of stands can be explained by the fact that it is usually a residual item in the so-called residual-land-valuation model used by developers and valuers to value stands.

According to listed property developer and landlord *Equites Property Fund*, they are benefitting from the woes that the manufacturing sector is finding itself in, which is resulting in an increase in the demand from importers for warehouse space for their goods (Source: *Business Day*; 16 October 2015). This assertion is to an extent confirmed by Figure 13 which shows the very robust inverse relationship between industrial vacancies in the Cape Peninsula and the cyclical component of the import volumes index. This implies that when imports in SA are on an upswing (downswing) phase that industrial vacancies in the Cape Peninsula usually decrease (increase).

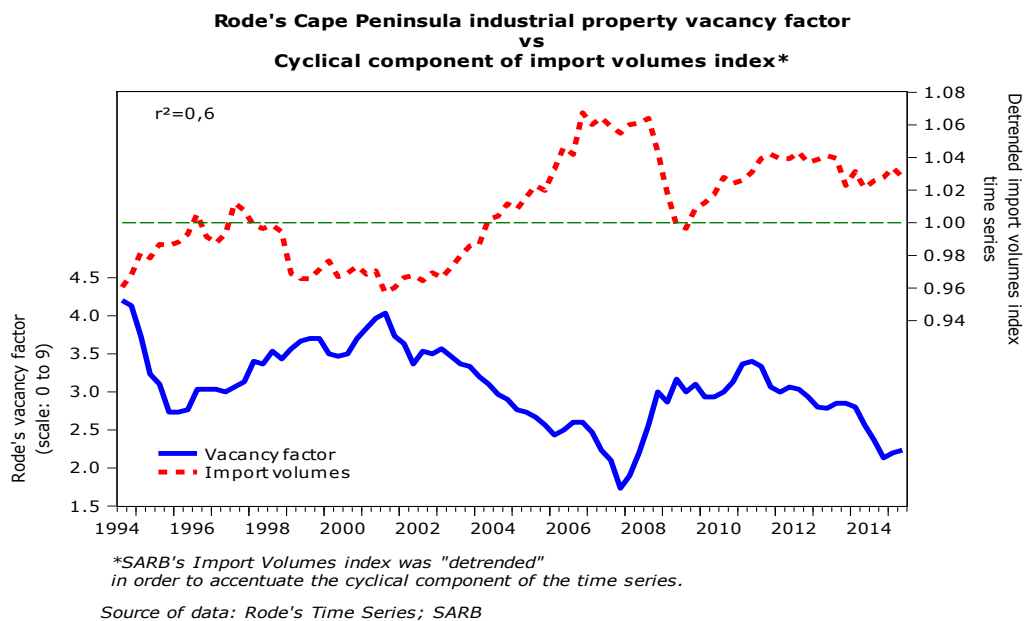


Figure 14: Industrial Rentals: Cape Peninsula vs National

In Figure 15 an explanation of the various components of time-series is provided. The coefficient of determination (r^2) implies that changes in the cyclical direction of import explain roughly 60% of the change in the Cape Peninsula's industrial vacancies.

A time series can contain all or some of the following components: **Trend (T)**, **Cyclical (C)**, **Seasonal (S)** and **Irregular (I)**. Usually, it is assumed that they are multiplied or added, i.e. $yt = T \times C \times S \times I$ or $yt = T + C + S + I$.

"De-trending" is statistical or mathematical procedure of removing the trend from the series in order to emphasise the other components of the time series. The South African Reserve Bank's Import Volumes Index time series was "de-trended", thereby highlighting the **cyclical (C)** and **irregular (I)** components of the time series. The time series does not seem to a **seasonal (S)** component. Any pattern showing an up-and-down movement around a given trend is identified as a cyclical pattern.

Source: Florida Institute for Human & Machine Cognition (n.d.)

Figure 15: Components of Time Series

8.4.3 Historical Industrial-Rental Growth Rates in the Cape Peninsula

In Table 15 the growth in industrial rentals in the Cape Peninsula industrial areas have been ranked according to their 5- and 10-year growth rates. Six of the top seven areas in terms of 5-year compound growth rates, and four of the five top performing areas with regard to 10-year compound growth rates are within 5 km of the TRUP site (these areas are highlighted in yellow).

Table 15: Cape Town 10- and 5-year industrial rental growth rates (% compound growth p.a.)			
5-year		10-year	
Maitland	9,7%	Maitland	9,5%
Ndabeni	9,4%	Ndabeni	8,3%
Woodstock/Salt River/Observatory	7,0%	Woodstock/Salt River/Observatory	8,3%
WP Park Goodwood	7,0%	Epping 1 & 2	8,3%
Epping 1 & 2	6,3%	Parow Industria	8,2%
Viking Place	6,1%	Elsies River (excl, Central Park)	8,0%
Everite Brackenfell	5,9%	Kraaifontein	7,9%
Parow Industria	5,7%	Parow Beaconvale	7,8%
Parow East	5,7%	Brackenfell Industria	7,4%
Parow Beaconvale	5,6%	WP Park Goodwood	7,3%
Paarden Eiland/Metro	5,6%	Tygerberg Business Park	7,3%
Tygerberg Business Park	5,3%	Airport	7,2%
Bellville Stikland/Kaymor	5,3%	Everite Brackenfell	7,2%
Killarney Gardens	5,2%	Bellville Triangle	7,1%
Brackenfell Industria	4,6%	Kuils River	7,0%
Airport	4,5%	Bellville South/Sacks Circle	6,9%
Okavango Park	4,5%	Paarden Eiland/Metro	6,6%
Elsies River (excl, Central Park)	4,3%	Bellville Stikland/Kaymor	6,3%
Bellville Triangle	4,0%	Viking Place	6,1%
Montague Gardens	3,9%	Parow East	6,1%
Marconi Beam	3,5%	Saxenburg Industrial Park	5,9%
Saxenburg Industrial Park	3,3%	Retreat/Steenberg	5,3%
Retreat/Steenberg	3,3%	Marconi Beam	5,3%
Bellville Oakdale	3,1%	Killarney Gardens	5,3%
Racing Park	2,7%	Montague Gardens	5,0%
Kraaifontein	2,2%	Okavango Park	4,5%
Bellville South/Sacks Circle	2,2%	Ottery Hill Star	4,0%
Kuils River	2,0%	Landsdowne Nerissa	3,4%
Landsdowne Nerissa	1,8%	Athlone 1 & 2	3,1%
Athlone 1 & 2	1,0%	Racing Park	0,7%
Ottery Hill Star	0,0%	Bellville Oakdale	-2,2%
Cape Peninsula average	4,5%	Cape Peninsula average	6,1%
BER Building Cost Index	7,6%	BER Building Cost Index	7,1%

Nominal rentals in Maitland and Ndabeni, both within a 5km radius of the TRUP site, were over the past five able to, albeit marginally, outperform the growth in building

costs. Considered over a 10-year period, Woodstock/Salt River/Observatory and Epping 1 & 2 have also been to do so. This implies that over these periods, industrial rentals, and market values when assuming constant capitalisation rates and operating expenses, were able to grow in *real* terms thereby further implying that retrospectively, the development of new industrial space in these nodes might have been financially viable.

8.4.4 Current Industrial Rentals

Current market rentals are a good indicator of the relative attraction of individual industrial townships. This is so because market rental reflects a property's locational advantages (especially accessibility, proximity to the homes of decision takers, and crime level), and quality of the building. Industrial townships close to TRUP (i.e. within 5 km) are, therefore, of particular interest. We rank the Cape Peninsula rental levels in this table according to the 500-m² category (see Table 16). Immediately apparent from the table is that the top-four industrial townships are all within 5 km of TRUP. Viking Place and Epping 1 & 2 also have industrial rentals above the Cape Peninsula average.

Table 16: Cape Peninsula mean prime industrial market rentals (Q4:2014, Q1:2015 and Q2: 2015) (R/m² p.m.; gross lease; excl VAT)	
Industrial township	R
Ndabeni	R 48.05
Woodstock/Salt River/Observatory	R 47.83
Maitland	R 46.94
Paarden Eiland/Metro	R 46.25
WP Park Goodwood	R 45.00
Retreat/Steenberg	R 44.34
Marconi Beam	R 44.17
Viking Place	R 43.78
Airport	R 43.24
Montague Gardens	R 42.16
Epping 1 & 2	R 40.47
Bellville Oakdale	R 40.00
Everite Brackenfell	R 39.03
Bellville Stikland/Kaymor	R 38.72
Parow East	R 38.53
Tygerberg Business Park	R 38.33
Parow Beaconvale	R 37.72
Okavango Park	R 37.23
Killarney Gardens	R 36.95
Ottery Hill Star	R 36.67
Saxenburg Industrial Park	R 36.51
Parow Industria	R 36.50
Brackenfell Industria	R 35.67
Bellville Triangle	R 33.95
Racing Park	R 33.63
Kraaifontein	R 33.43
Bellville South/Sacks Circle	R 32.55
Landsdowne Nerissa	R 31.67
Kuils River	R 31.63
Elsies River (excl. Central Park)	R 29.89
Athlone 1 & 2	R 29.89
Cape Peninsula average	R38.73

8.5 Office Property Market

8.5.1 Introduction

Figure 16 shows the location of office nodes within a 10 km radius of the TRUP site. From this map, it is apparent that the site does not fall within an established office node, however it abuts the Pinelands node. Several other office nodes are. However, partially within a 5 km radius, viz. Century City, Rondebosch/Newlands and Claremont.

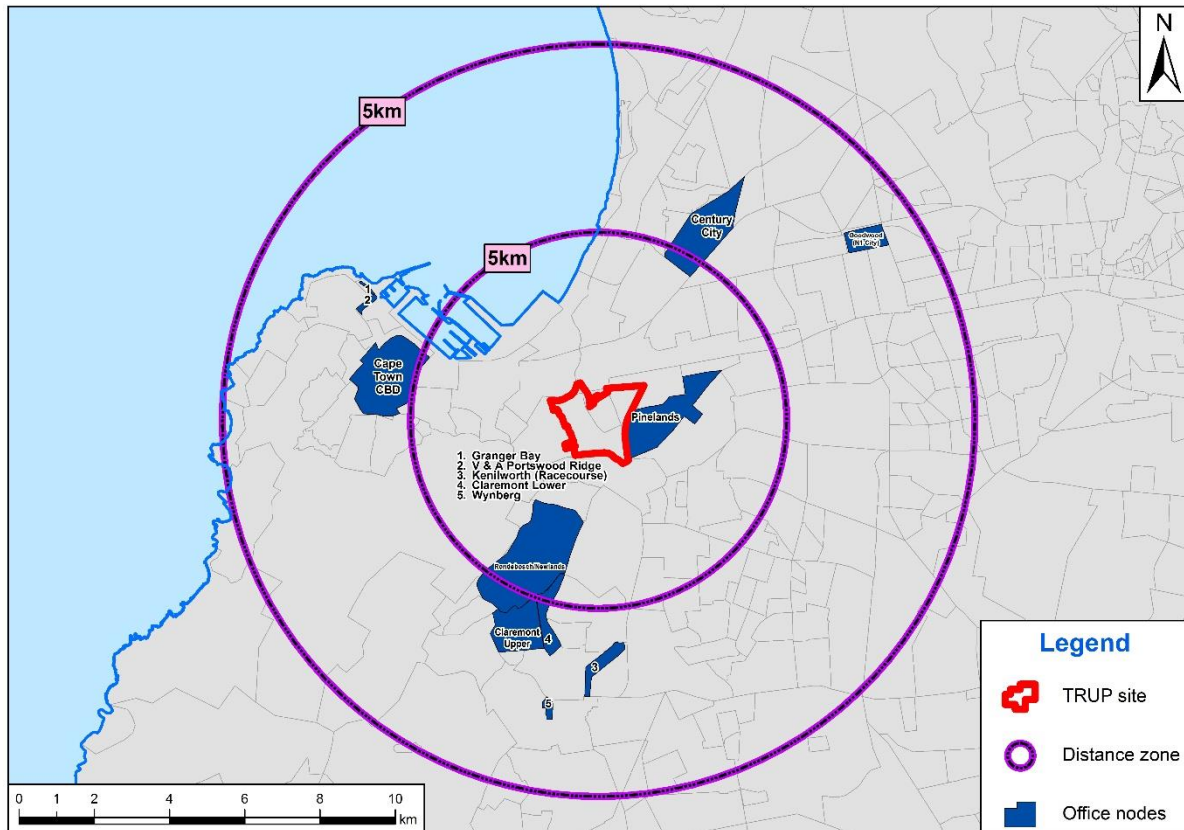


Figure 16: Location of Office Nodes in the Vicinity of TRUP

8.5.2 Current Size and Vacancy Rates of the Cape Town Office Property Market

Table 17 shows that the stock of grades A and B office space¹⁷ in Cape Town as at the third quarter of 2015 was 2,2 million m². Of this, a total of about 164.000 m², equating to an overall vacancy rate of about 7%, was available for leasing.

¹⁷ **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.

As for vacancy rates (Table 17), during the quarter under review Pinelands was the most-rented up of the Cape Town office nodes, with a Grades A & B combined office vacancy rate of almost 2%. Pinelands is also the closest Cape Town office node to the TRUP site.

Table 17: Cape Peninsula office stock and vacancies by node as in 2015 Q3			
Office node	GLA (m ²)	Distribution of GLA (%)	Vacancy rate (%)
Bellville/Tygervalley area	542 838	24%	7.3%
Cape Town CBD	864 418	39%	10.3%
Century City	303 257	14%	6.6%
Claremont	106 222	5%	4.1%
Pinelands	234 925	10%	1.9%
Rondebosch/Newlands	99 731	4%	5.5%
V&A Waterfront area	89 353	4%	2.1%
Total	2 240 744	100%	7.4%

Source of data: SAPOA

In Figure 17 the Grade A and B office stock in 2005 and 2015 for the various office nodes in Cape Town is shown. Evident is that the Cape Town CBD has shown a proportionate decrease in the amount of office stock from 2005 (41.6%) to 2015 (38.6%). This phenomenon also applies to the other office nodes in Cape Town, except Century City which has shown a substantial increase from 4.7% in 2005 to 13.5% in its share of the available office stock.

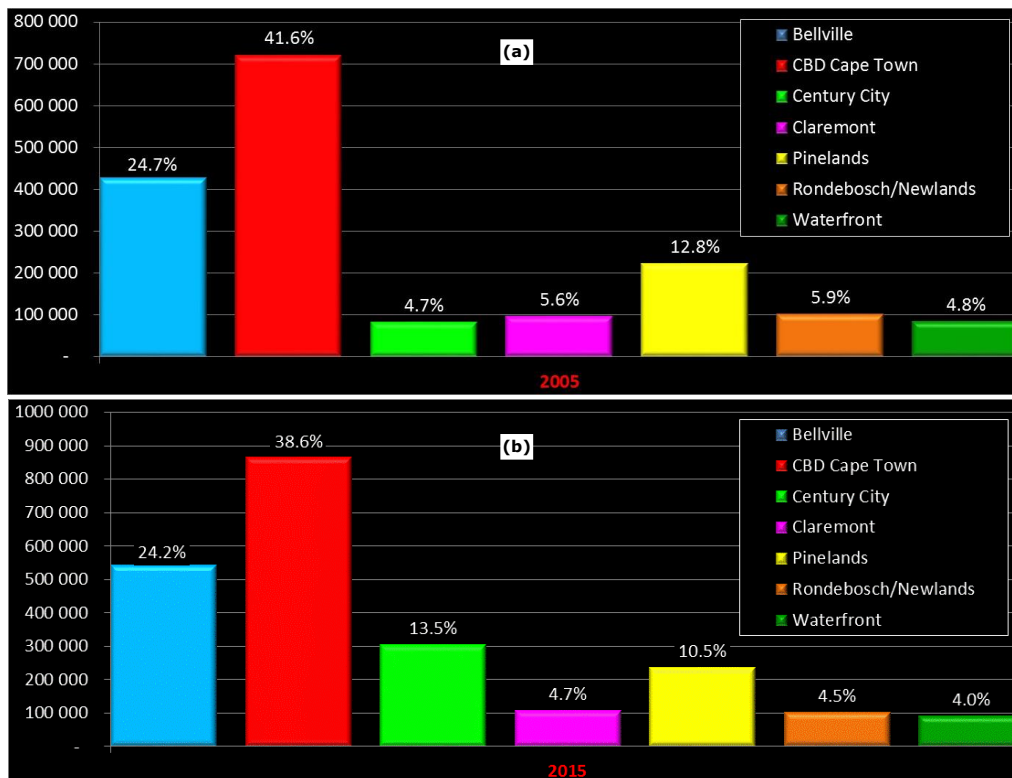


Figure 17: Share of Total Grade A and B Office Stock in Cape Town (a) 2005, and (b) 2015

8.5.3 Historical Office-Rental Growth Rates

In Table 18 the growth in office rentals in Cape Town office nodes have been ranked according to their 5- and 10-year growth rates. The Pinelands and other nearby nodes are highlighted as they intersect the 5km zone. Evident from Table 18 is that measured in terms of 10-year growth rates none of these nodes fall in the top five office nodes in Cape Town, while all 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 5- and 10-year periods. This implies that over these periods, office rentals and market values when assuming constant capitalisation rates and operating expenses in these nodes were unable to grow in *real* terms thereby further implying that retrospectively, the development of new office space in these nodes might not have been a financially viable option.

Table 18: Cape Town 10- and 5-year Grade A office-rental growth rates (% compound growth p.a.)			
5-year		10-year	
Durbanville: grade A	9,5%	Sea Point: grade A	7,1%
V&A Portswood Ridge.	7,9%	V&A Portswood Ridge,	6,9%
Tygervalley Area. Bellville.	7,6%	Durbanville: grade A	6,2%
Wynberg: grade A	7,4%	Tygervalley Area, Bellville,	6,1%
Pinelands: grade A	7,1%	Claremont Upper: grade A	5,8%
Claremont Upper: grade A	6,7%	Cape Town CBD: grade A	5,8%
Century City: grade A	6,5%	Pinelands: grade A	5,7%
Sea Point: grade A	6,4%	Tokai: grade A	5,7%
Cape Town CBD: grade A	5,4%	Rondebosch/Newlands: grade A	5,4%
Tokai: grade A	5,3%	Century City: grade A	5,2%
Tygerberg Hills: grade A	3,6%	Tygerberg Hills: grade A	5,0%
Rondebosch/Newlands: grade A	2,6%	Wynberg: grade A	5,0%
Westlake: grade A	2,1%	Westlake: grade A	4,2%
Kenilworth (Racecourse): grade A	1,5%	Kenilworth (Racecourse): grade A	4,2%
Cape Peninsula average	5,7%	Cape Peninsula average	5,6%
BER Building Cost Index	7,6%	BER Building Cost Index	7,1%

8.5.4 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. Current market rentals are also a good indicator of the relative attraction of individual office nodes. Market rentals mirror the locational advantages (specifically accessibility, proximity to the homes of decision takers, and crime level) and quality of an office building as well as the extended office node. Century City and the Cape Town CBD are in the top-five performing office nodes, while Pinelands is just above the Cape Town average and Rondebosch/Newlands somewhat below it for (see Table 19).

Table 19: Cape Peninsula grade A current market rental rates for office buildings (Q1:2015 and Q2: 2015), Rands per rentable m² per month, gross leases (excl VAT)	
Office node	R
V&A Ports wood Ridge	R142.50
Claremont Upper: grade A	R125.83
Century City: grade A	R122.28
Cape Town CBD: grade A	R118.96
Tygerberg Hills: grade A	R118.54
Sea Point: grade A	R117.50
Pinelands: grade A	R115.00
Tygervalley Area/Bellville.	R113.93
Durbanville: grade A	R113.13
Rondebosch/Newlands: grade A	R107.50
Tokai: grade A	R106.88
Westlake: grade A	R106.50
Kenilworth (Racecourse): grade A	R98.00
Wynberg: grade A	R95.00
Cape Town average	R114.40

8.6 Residential Market

8.6.1 Current Market Conditions

We determined measures of current market conditions by interrogating PropStats¹⁸ data on residential sales in the vicinity of the subject property between 2004 and 2015. We have included 2015 data as the data is captured after a sale has occurred on the Propstats website and there is thus no interval before the data is available caused by registration delays at the Deeds Office.

Evident from Figure 18 is that units in the vicinity of the subject property are now shorter on the market (compared to 2008/9) in the study area before being bought. Full-title units are now only on the market for 12 days before being sold, while sectional-title units are on the market for 23 days. These figures are superior 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 that there is a lack of stock to satisfy prevailing demand.

¹⁸ 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).

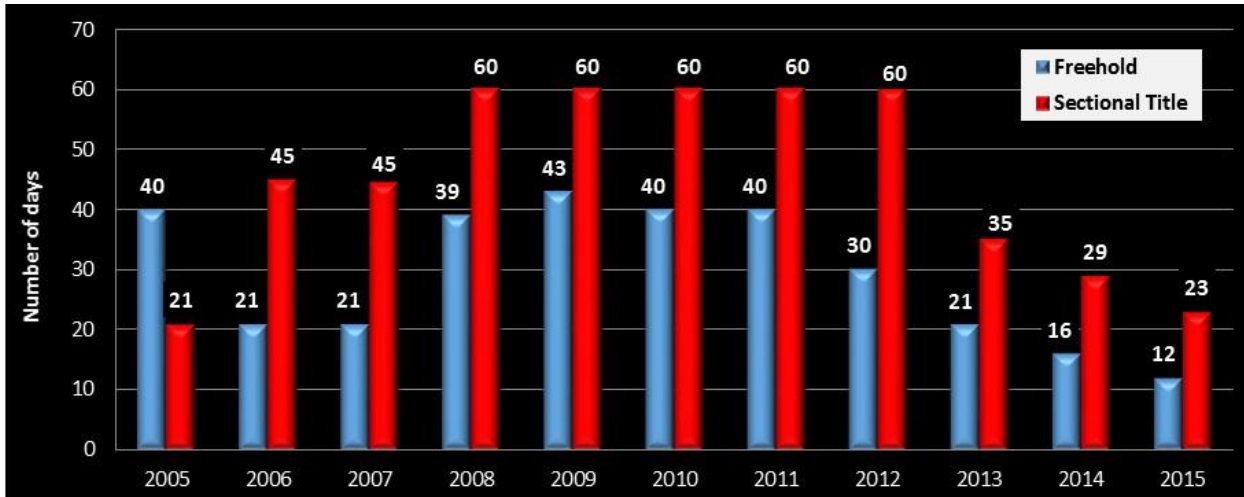


Figure 18: Median Days Listed before Residential Property is Sold

We also analysed the difference in median listed and sales prices. Apparent from Figure 19 is that sectional-title units are currently selling at a discount of 3% to their initial listing price versus 5% for full-title units. This is a marked improvement on 2009, when sectional-title units sold at a discount of 7.2% to their listing price and full-title units at 9.3%.

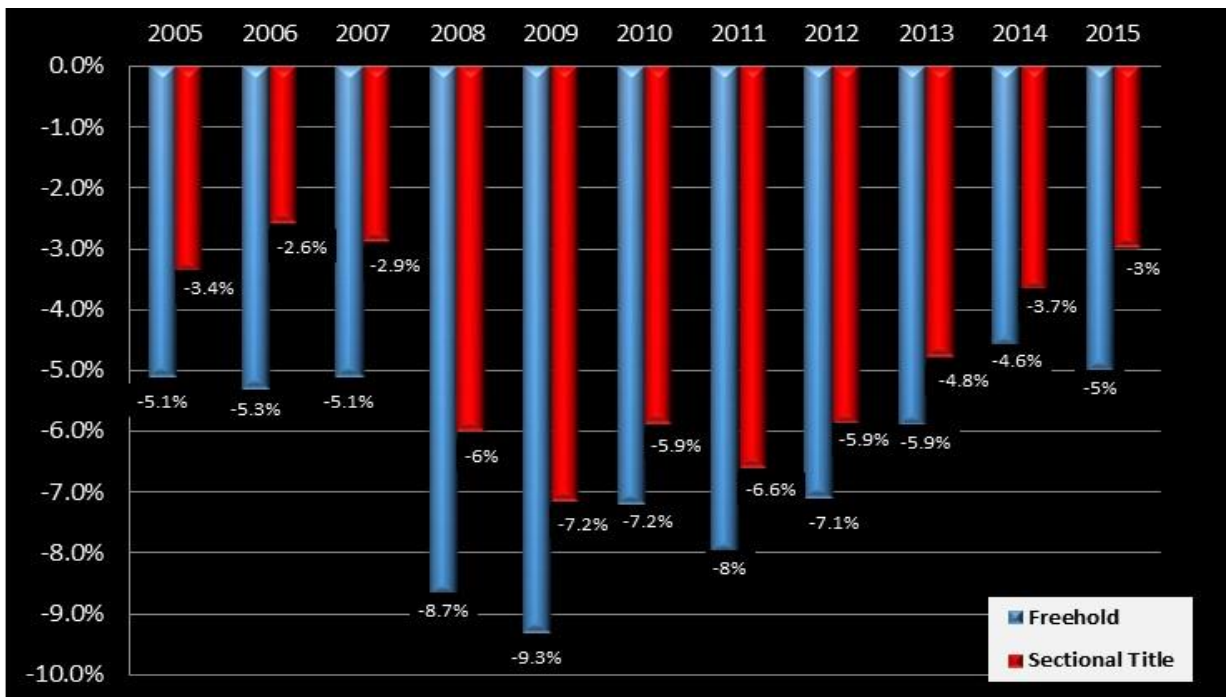


Figure 19: Median Difference between Sales and Listed Price

8.6.2 Recent Trends in Cape Town House Prices

Despite having decelerated in recent quarters, nominal prices of middle-segment houses in the Cape Town metropolitan area were still able to show decent yearly growth of 8%. Taking a slightly longer historic view, Figure 20 shows that since 2008

middle-segment house prices in Cape Town showed growth of 6% p.a. This was slightly above the growth of national house prices and just in line with building-cost inflation.

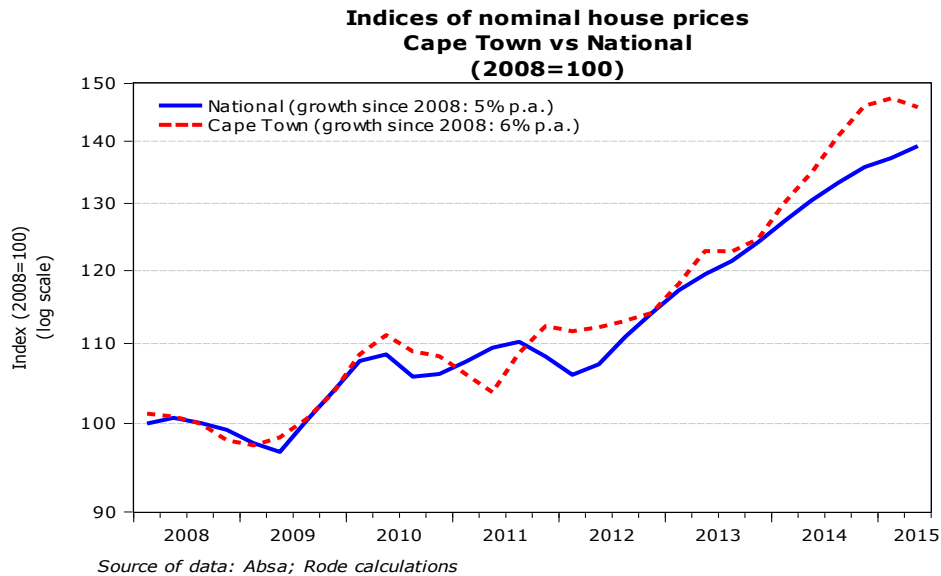


Figure 20: House prices: Cape Town vs National

Now, however, the cards seem to be stacked against the housing sector. Starting first with the outlook for the economy, SARB's Leading Business-Cycle Indicator is signalling that even weaker economic activity should be expected. The indicator has been contracting (on a year-on-year basis) for almost two years, with the 4% contraction in July being the largest over this period.

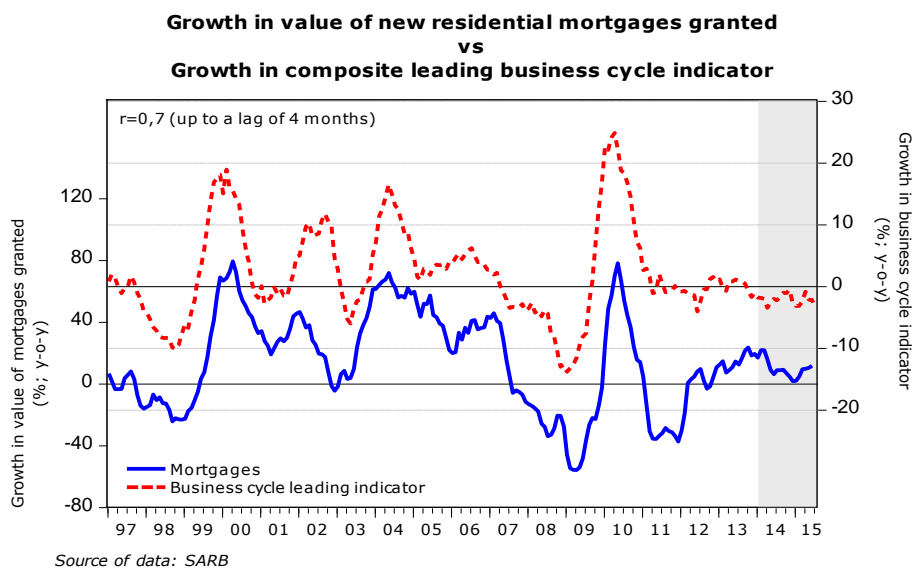


Figure 21: SARB Leading Business Cycle Indicator vs New Mortgages Granted

This, as Figure 21 suggests, does not bode well for the growth in new residential mortgage loans granted.

Financiers will continue to be constrained by the still frustratingly high ratios of debt to disposable income, 78% in 2015 Q2, which have not come down by much since the peak of the boom. This puts an important brake on granting mortgage bonds. In addition, the looming (modest) interest rate hikes in the wake of rising inflation expectations are not going to improve affordability.

Naturally, should mortgage loans granted succumb to slower economic activity; it in turn could act as a restraining factor on house-price movements. This is illustrated by Figure 22, which depicts the robust positive correlation between the growth in Cape Town house prices and the growth in the value of new mortgage loans granted.

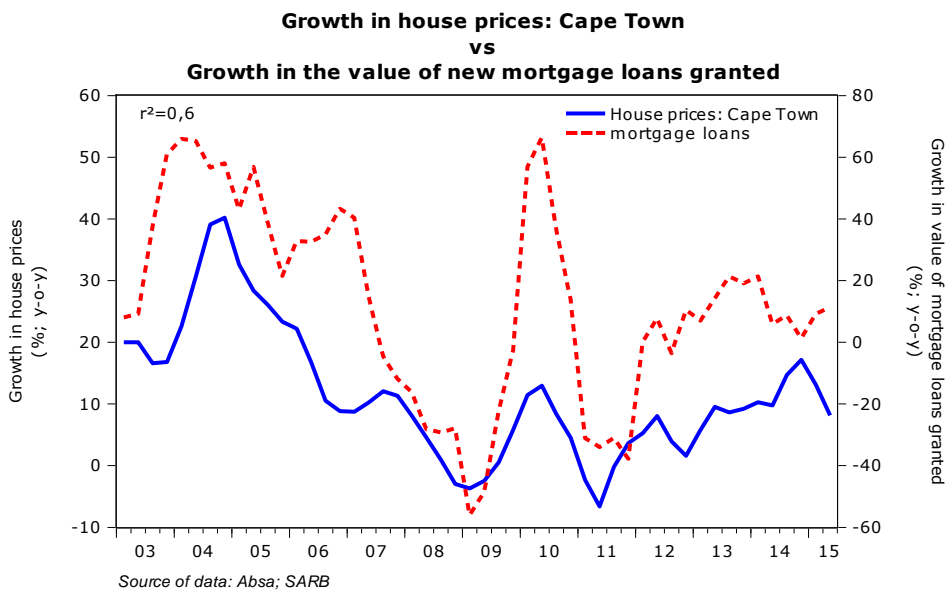


Figure 22: Cape Town House Prices vs Value of New Mortgages Granted

Furthermore, prospects of weaker economic activity also dampen the outlook for the growth in employment and disposable incomes. The growth in household disposable incomes has already started to wane and will most likely continue to do so as Government is forced to be more penny-wise when it comes to salary hikes and headcounts. This would of course reduce the tax take from individuals. Also, weak economic growth prospects imply weaker tax takes from firms. Hence, the taxman might be forced to ask individuals to give a little bit more, which might also mean lower growth in after-tax incomes.

8.6.3 Trends in Flat Rentals

Since the onset of the financial crisis roughly eight years ago, flat-rental growth in Johannesburg averaged only 3,3% per year. Pretoria and Durban fared slightly better at 4,6% and 4,9% respectively, whereas only Cape Town (6,8%) and Port Elizabeth (7,3%)

managed to keep up with consumer inflation, albeit barely. However, after moving sideways over the past few years, Durban has now started to grow at a year-on-year rate of 6,7% in the second quarter of 2015. Pretoria is also showing signs of life, but nothing worth mentioning at this stage. Cape Town's growth remains steady, growing in the second quarter at 10,1% compared with a year earlier.

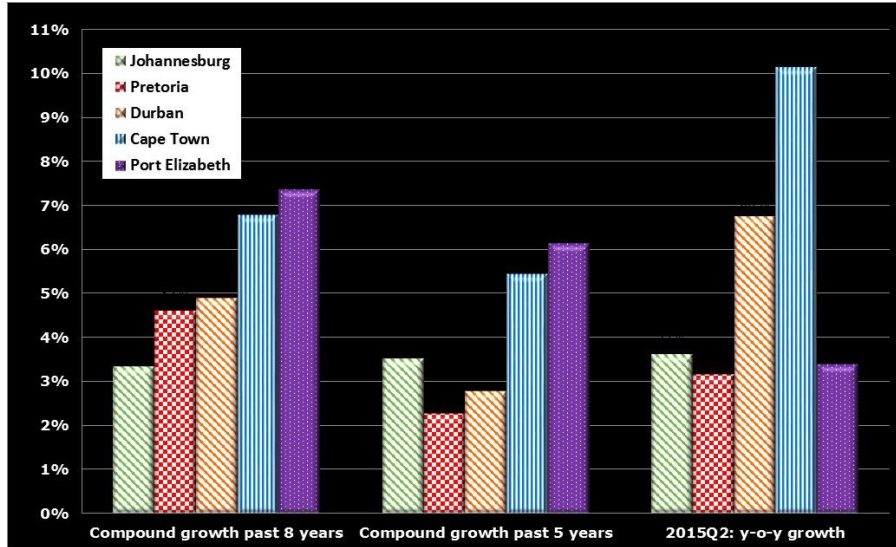


Figure 23: Growth in Flat Rentals for the Country's Major Cities

Figure 23 shows that, except for Port Elizabeth, rental levels in the coastal metros of Durban and Cape Town were the highest amongst the major metros in the country. Observe how flat rentals in Cape Town are taking off (a remarkable 10,1% year on year). There is anecdotal evidence aplenty that well-educated footloose South Africans are migrating in large numbers to the Western Cape; and this presumably explains this phenomenon. Moving to the local level, one can observe from Figure 24 flat rental trends in major suburbs within 5km of the TRUP-site. Noticeable is that Rondebosch/ Rosebank/Claremont have been outstripping the Cape Town average since 2011, while Pinelands has recently been tracking it closely.

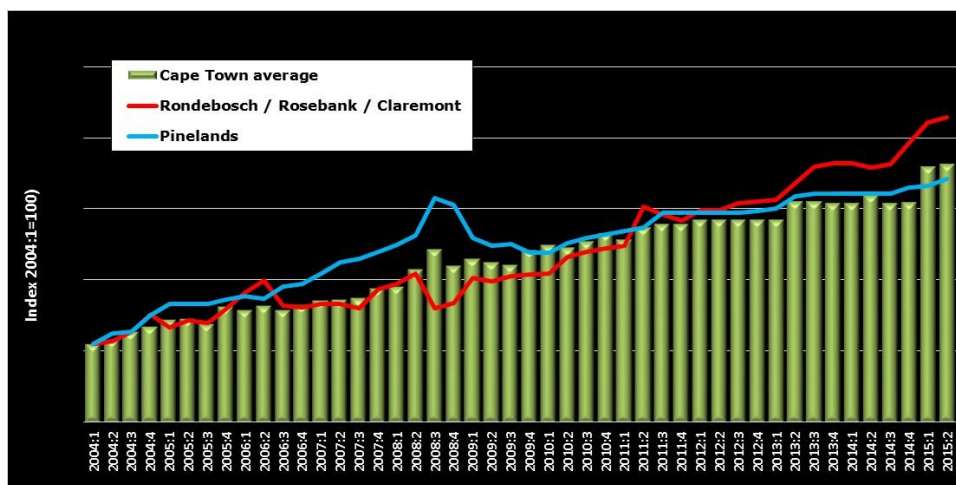


Figure 24: Average Flat Rentals: 1-bedroom Flats (Standard Units) in Specific CT Suburbs

8.6.4 Residential Transfers in the Study Area

We derived four house-price value bands in a 5 km-radius of the study area, viz. R0-R600k, R600k-R1,5 million, R1,5-R3 million and >R3 million. These price bands were used to determine the demand apportionment described in Section 9.3. Historical sales of existing properties ('churn') in the study area of Cape Town from 2000 to 2014 in the target price bands provide an indication of the size of these respective market segments.

When we say we analysed the trend of a particular price segment, we mean the analysis was done in constant 2014 Rands. This means we deflated previous years' prices using the Absa house price index. In this way, we compared "like with like" over time. 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 the following procedure:

- We excluded 2015 transactions as the time delay between date of sale and registration at the Deeds Office would by necessity impact on the completeness of the data available for download;
- Transactions with zero values and very small transactions were excluded from further analysis as they were obviously not market related;
- Similarly, transactions with sales prices above R50 million were also eliminated as they were regarded as non-residential;
- Full-title transactions where the City of Cape Town or Western Cape Government were the sellers were eliminated as these are not regarded as market-related transactions;
- Full-title transfers in a suburb with an erf area three times larger than the median erf size were eliminated, as we regard these as probably non-residential (e.g. industrial);
- Full-title transfers with a value of less than one-third the median sales price in a particular suburb were also eliminated, as we assumed these to be vacant land. Transfers in the various industrial townships were completely excluded from the analysis as they are obviously non-residential;
- All sectional-title transfers below 35 m² were eliminated as these were regarded as exclusive-use areas;
- Commercial sectional-title transfers were identified and eliminated on the basis of their comparatively large sizes and high prices and whether sectional schemes had a high volume of transactions where both buyers and sellers were non-natural persons. These sectional schemes were then located using Lightstone's Property Report website mapping tool and subsequently examined using Google's Street View facility before a decision was made on either re-

taining or eliminating them. Buildings were also googled where uncertainties still existed; and

- Finally, the number of records in each suburb was adjusted commensurate to the area they comprised in the 5 km zone. Thus, for example, just 49.3% of Newlands' transfers were considered in the analysis as only this fraction of the suburb's area was located in the 5 km zone.

Regarding full-title transfers, Table 20 below summarises the transfers for the 5 km zone. It is evident that the R600 001 - R1.5 million price band is the largest in terms of the number of transfers over the past 10 years comprising almost 38% of sales. Interestingly, the R0 - 600 000 category is also substantial and constituted more than 18% of sales.

Table 20: Full-title transfers (2005-2014)		
Price band (amounts in constant 2014 Rands)	No. of transfers in the 5km zone	% breakdown in the 5km zone per 2005-2014 transfers
R0 - 600 000	2 442	18.4%
R600 001 - R1.5 million	5 002	37.6%
R1.5 million - R3 million	3 986	30.0%
>R3 million	1 858	14.0%
Total	13 288	100%

Figure 25 indicates that the number of full-title transfers in the 5 km zone has recently improved after the lows of 2008/9. However, these figures are still well below those of 2005/6. Also apparent in the graph is that each price band's proportional contribution has remained relatively constant over the last ten years.

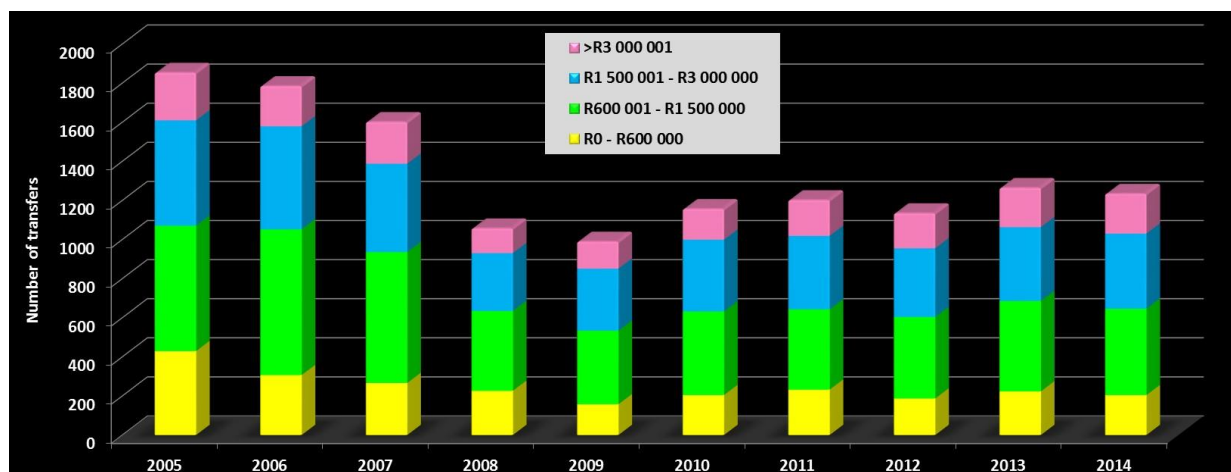


Figure 25: Annual Full-Title Transfers in the 5km Zone for all Price Categories (2005 - 2014)

In Figure 26 the median full-title sales prices of suburbs in 2014 have been depicted in a choropleth map. Evident is that within a 5 km radius of the site there are suburbs with widely divergent prices. The suburbs with the high median sales prices (i.e. above

R3 million) are not surprisingly Rondebosch, Newlands, Devil's Peak Estate and Vredehoek (shaded pink in the map). Eight suburbs (shaded yellow) had median full-title sales prices below R600 000 in 2014. Maitland Garden Village, which intersects the TRUP site, was one of these. However, this result should be interpreted with care as there were only three transactions in 2014 (and just 21 in the period 2005-2014).

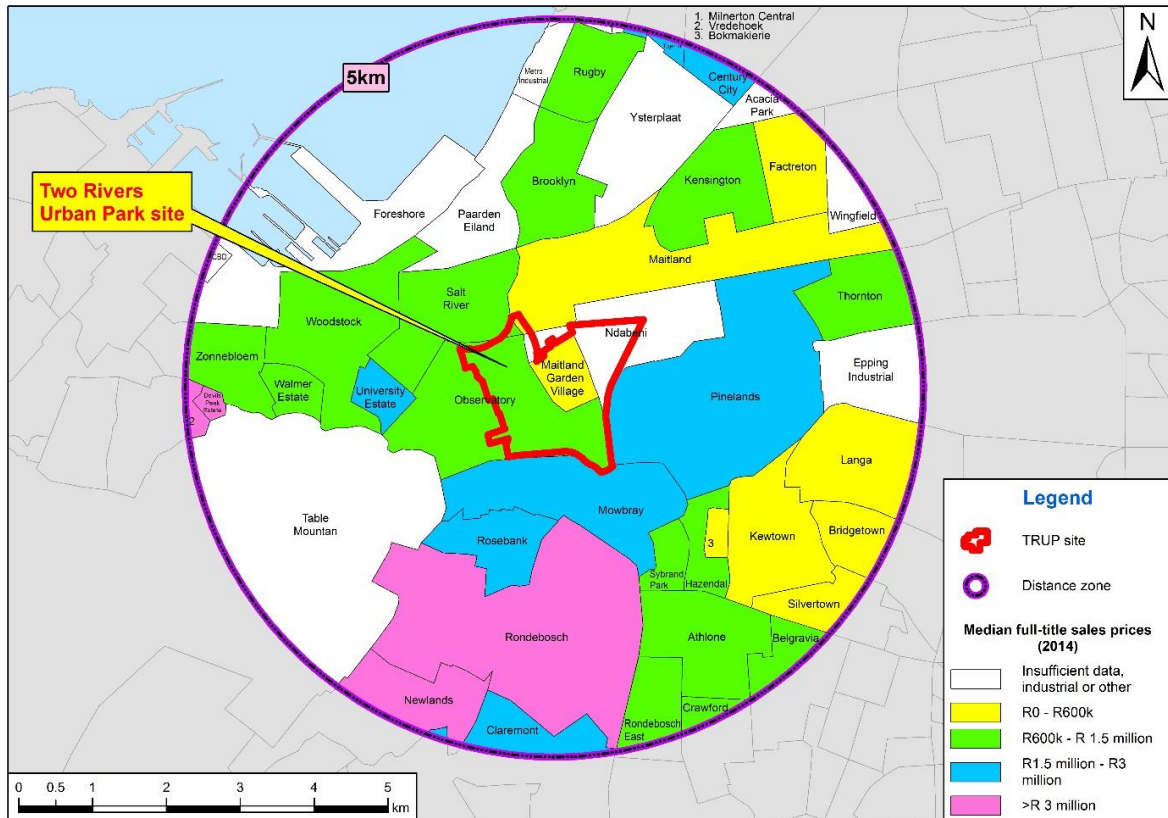


Figure 26: Median Full-Title Sales Prices (2014) in the 5km Zone in Cape Town

Table 21 includes a summary of sectional-title transfers. One can deduce that the majority of this type of property occur in the “R600 001 - R1.5 million” band, with the “R0 - 600 000” category the second most important. The number of transfers above R3 million are rather insignificant (i.e. 3%) in contrast to full-title transfers where 14% of sales occurred in this price band over the analysis period.

Table 21: Sectional-title transfers (2005-2014)		
Price band (amounts in constant 2014 Rands)	No. of transfers in the 5km zone	% breakdown in the 5km zone per 2005-2014 transfers
R0 - 600 000	2 092	20%
R600 001 - R1.5 million	6 389	61%
R1.5 million - R3 million	1 601	15%
>R3 million	345	3%
Total	10 427	100%

Figure 27 shows that after the drastic drop in sectional-title transfers in 2008/2009 the annual number of transfers has steadily increased, although the magnitudes are nowhere near the peak years of 2005 to 2007.

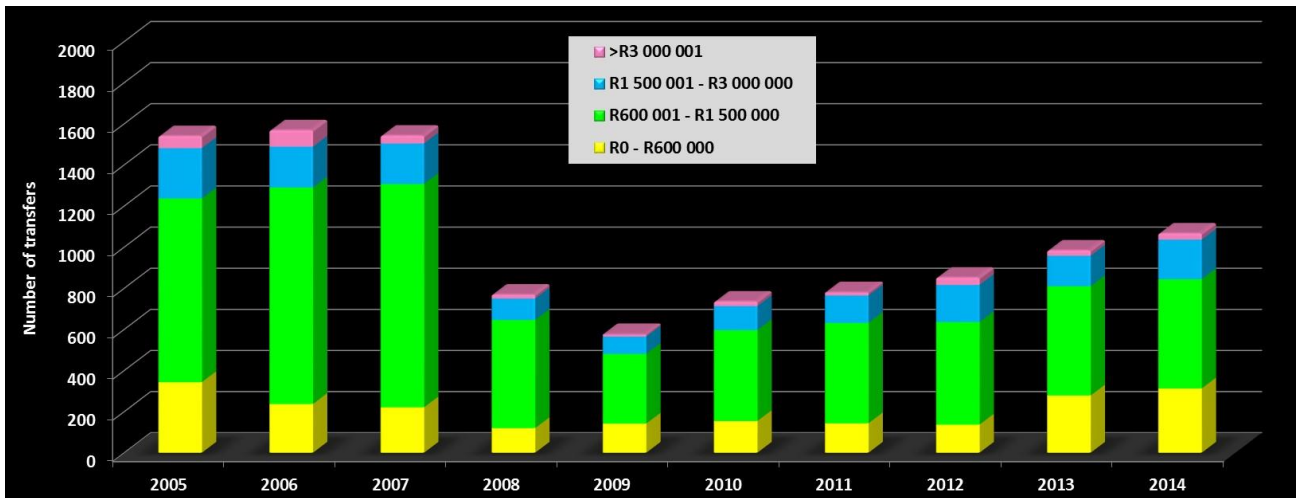


Figure 27: Annual Sectional-Title Transfers in the 5km Zone for all Price Categories (2005 - 2014)

The 2014 median sectional-title sales prices have been depicted in Figure 28. It is evident from the map that there are fewer suburbs compared to Figure 26 with meaningful data. Furthermore, it is apparent that the median sales prices per suburb for sectional title properties is lower than for full-title. There is thus no suburb with a median sales price above R3 million, whereas for full-title properties there are four.

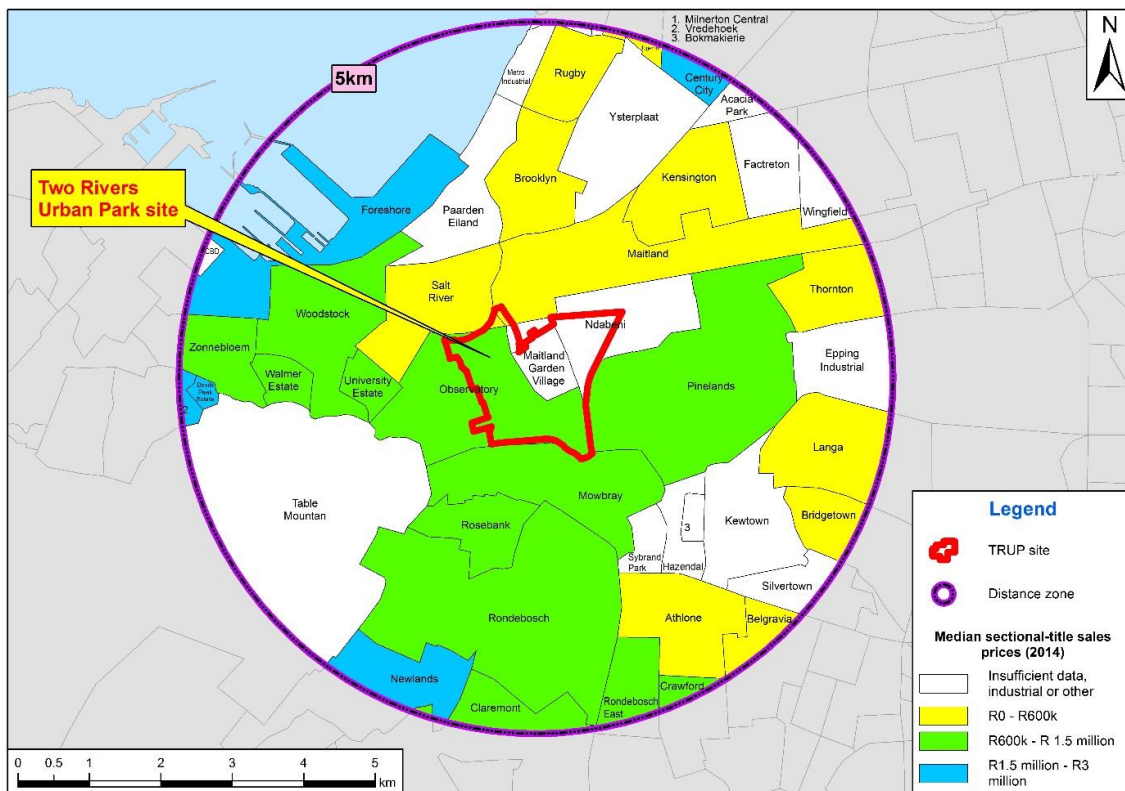


Figure 28: Median Sectional-Title Sales Prices (2014) in the 5km Zone in Cape Town

If one considers both full- and sectional transfers as a whole, one can deduce from Table 22 that almost half of property transfers in the 5 km zone occurred in the "R600 001 - R1.5 million" band with the "R1.5 million - R3 million" category the next most significant. If one also compares Table 20 with Table 21 one can see that there were 13 288 full-title transfers (or 56% of the total) and 10427 sectional-title transfers (44% of the total).

Table 22: All residential transfers (2005-2014)		
Price band (amounts in constant 2014 Rands)	No. of transfers in the 5km zone	% breakdown in the 5km zone per 2005-2014 transfers
R0 - 600 000	4 534	19%
R600 001 - R1.5 million	11 391	48%
R1.5 million - R3 million	5 587	24%
>R3 million	2 203	9%
Total	23 715	100%

In Figure 29 one can detect that since the doldrums of 2008/2009 there has been a steady uptick in the number of all property transfers, although the number of annual transfers are still well below the heady days of 2005 to 2007.

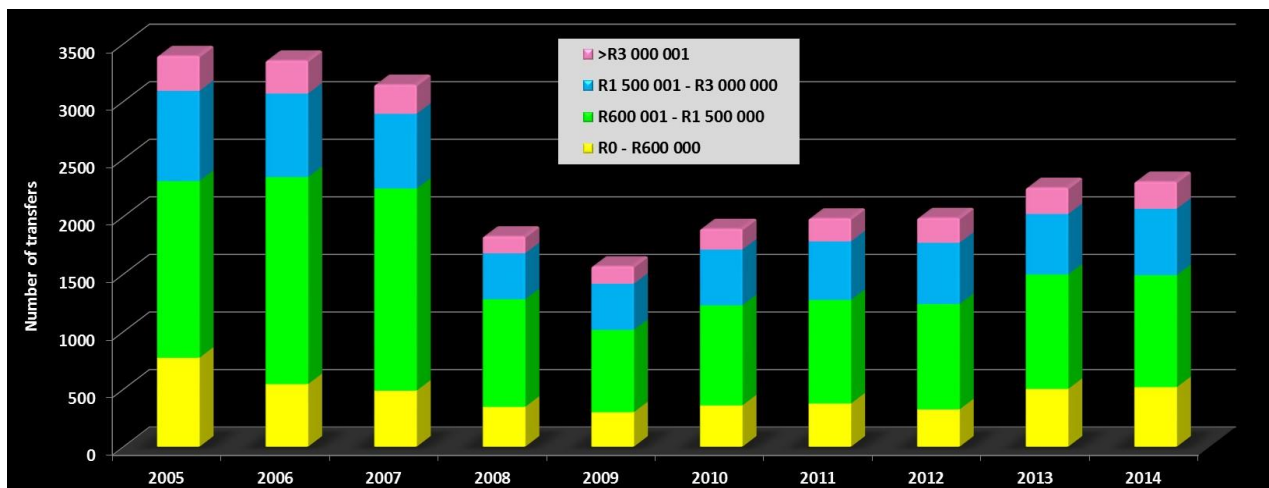


Figure 29: All Annual Transfers in the 5km Zone for all Price Categories (2005 - 2014)

In Figure 30 one can discern that the top suburbs in 2014 in terms of median transfer prices for both full- and sectional properties are Century City, Claremont, Devil's Peak Estate, Foreshore, Newlands, Pinelands, Rondebosch and Vredehoek. Newlands was also the only suburb in 2014 with a median sales price above R3 million.

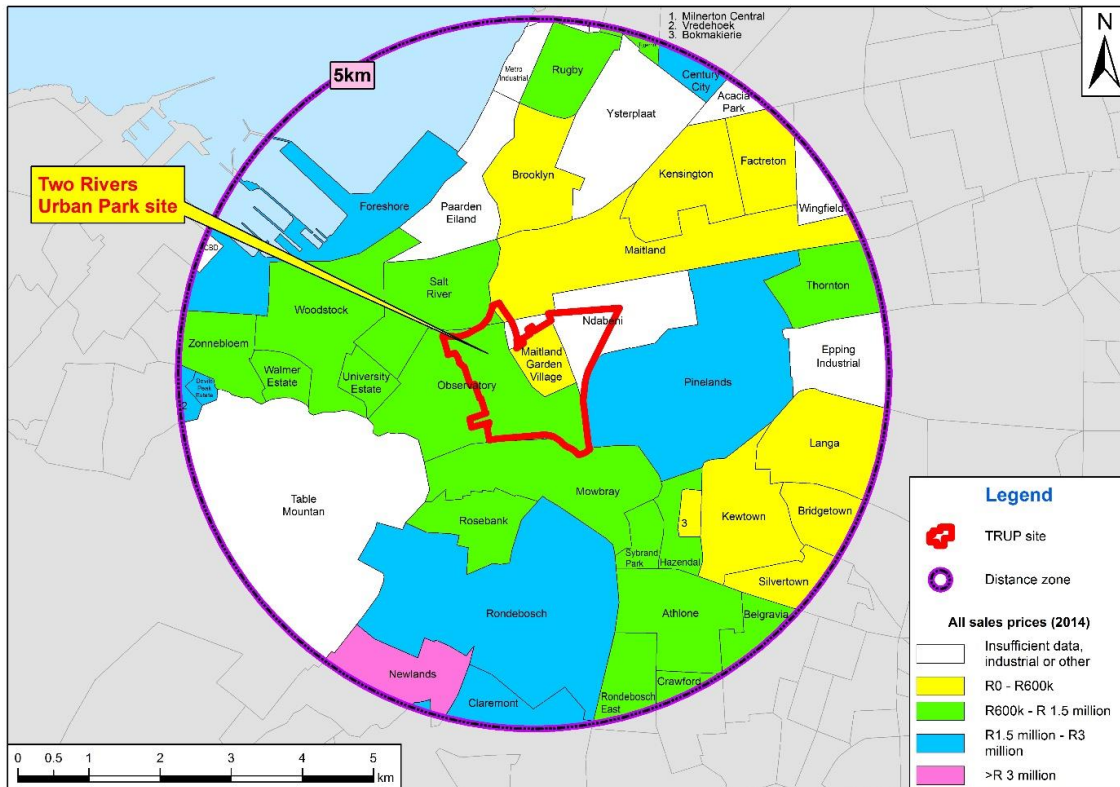


Figure 30: Median Sales Prices (2014) in the 5 km Zone in Cape Town

How should one apply the preceding residential property transfer analysis to any potential residential development on the TRUP site? As the site is surrounded by a divergent property market in terms of affordability, a development on the site should cater to these various market segments too. Secondly, any development could successfully accommodate various housing typologies such as free-standing homes (full-title) and flats (sectional title) as these have been successfully developed in the site's hinterland in the past.

8.6.5 Housing Affordability

In the discussion of the residential market it would be remiss not to address housing affordability in Cape Town. A housing affordability analysis (shown in Table 23) was performed by the CoCT in 2015 using data from Census 2011 and the CoCT's general valuation roll. Shortages (shown by a red negative number) or surpluses in the table are indicated by the number of properties (supply) minus demand (number of households) for each value/income category. The difference is indicated as a proportion of the total stock (supply). It is evident from the table that there is a substantial shortage in the lower income/value end of the market, while the opposite applies for the upper end (CoCT 2015: 13).

The obvious question is if TRUP can play any role in improving housing affordability in the City.

Table23: The need for housing in the City of Cape Town							
Demand: households			Supply: residential properties			Shortage/surplus	
Income category	No. of households	% of total	Value category	No. of properties	% of total	No. of properties	% of total stock
R0	146 517	13.7%	R0	0	0.0%	-146 517	-22.0%
R1 - 400	29 373	2.8%	R1 - R11 514	0	0.0%	-29 373	-4.4%
R401 - R800	42 418	4.0%	R11 515 - R23 028	0	0.0%	-42 418	-6.4%
R801 - R1 600	113 277	10.6%	R23 029 - R46 055	0	0.0%	-113 277	-17.0%
R1 601 - R3 200	170 284	16.0%	R46 056 - R92 111	48 354	7.3%	-122 470	-18.4%
R3 201 - R6 400	154 427	14.5%	R92 112 - R184 222	52 021	7.8%	-102 406	-15.4%
R6 401 - R12 800	139 348	13.0%	R184 223 - R368 443	13 1106	19.7%	-8 242	-1.2%
R12 801 - R25 600	126 625	11.9%	R368 444 - R736 886	172 874	26.0%	46 249	7.0%
R25 601 - R51 200	92 860	8.7%	R736 887 - R1 473 772	160 284	24.1%	67 424	10.1%
R51 201 - R102 400	38 018	3.6%	R1 473 773 - R2 947 545	70 919	10.7%	32 901	5.0%
R102 401 - R204 800	9 748	0.9%	R2 947 546 - R5 895 089	22 880	3.4%	13 132	2.0%
R204 801 and up	5 066	0.5%	R5 895 090 and up	7 075	1.1%	2 009	0.3%
Total	1 068 501	99.9%		665 513	100.0%	-402 988	-60.6%

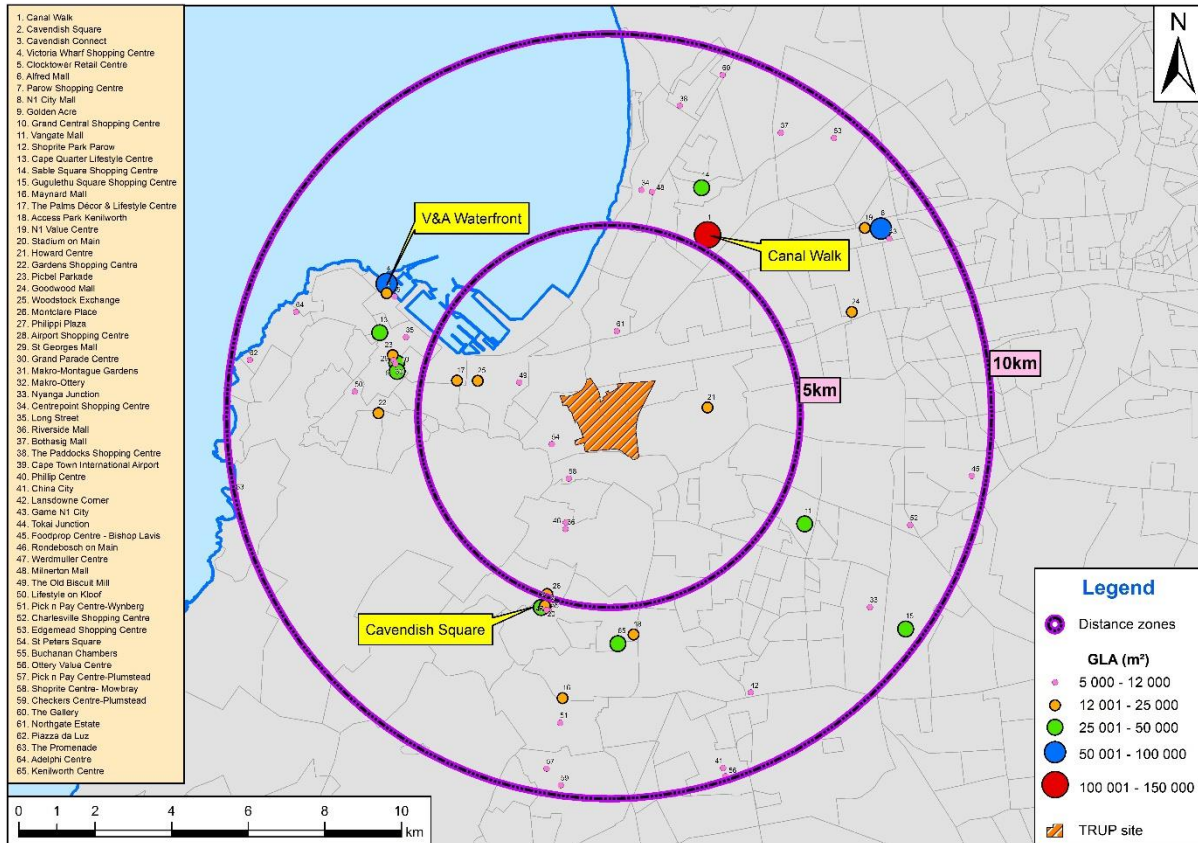
Source: City of Cape Town (2015: 12)

8.7 Retail Analysis

We have also performed a retail analysis of the vicinity of the TRUP site to the retail characteristics of the area surrounding the TRUP site.

Regarding existing retail supply Figure 31 shows the location of existing retail supply within a 10-km radius of the TRUP site. It is apparent the TRUP site lies in the centre of an imaginary equilateral triangle formed by three of the largest retail nodes in Cape Town, namely the V&A Waterfront, Canal Walk and Cavendish Square. Two of these large nodes are just beyond 5km from the centre of the site, with the Waterfront about 7km.

Table 24 contains a summary of the number of retail centres, their average distance to TRUP and their average gross lettable area (GLAs) for the 5km and 10km zones. Evident from the Table is that within 5km of the TRUP site there are ten retail centres or about 100 000 m² of GLA available. However, three of these retail centres are either speciality or lifestyle centres and some of these centres are not readily accessible from all parts of the TRUP site given the current road network. Howard Centre (14 800 m² GLA) is the most accessible (from the eastern side of TRUP) neighbourhood centre from the TRUP site and is located about 2.5 km from the centre of the TRUP site, while St Peters Square (6 000 m² GLA) is the most accessible neighbourhood centre from the western side (1 668 m²) and is located approximately 1.7 km from the centre of TRUP.



Source: South African Council of Shopping Centres: 2015

Figure 31: Retail Supply in the Vicinity of the TRUP Site

Being located on the link (M5) between the N1 and the N2, accessible from the north, south and east, and equidistant from these major regional nodes, it can be argued that this is probably the most accessible location (considered from a macro-perspective) in the metro and worthy of consideration for a regional facility. The bottleneck caused by the M5's traffic congestion obviously has a negative effect on the site's actual accessibility. However this may be resolved with the possible extension of the M16 (Berkley Road) and associated diamond interchange in the near future.

Using Census 2011 data on annual household income we next analysed the annual household income for the population within 5km of Century City, the V&A Waterfront, Cavendish Square and the TRUP site to derive the total income and potential retail expenditure for each area. We decided on a 5 km zone¹⁹ that typically forms the boundary of the reach of a regional centre of approximately 50 000m².

¹⁹ A catchment reflective of transport impedance (e.g. a five minute drive time) may have been more realistic, however, the fluidity of the transport situation in the area made it difficult to handle in any other way. The transport uncertainty is caused by the possible extension of the M16 (Berkley Road) and associated diamond interchange in the near future.

Table 24: Retail types, GLA and distance to TRUP per zone				
Classification	Number	Mean GLA	Total GLA	Mean km to TRUP
5km				
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	5	5 476	38 329	6.8
Big Box retailers	1	7 624	7 624	8.7
Neighbourhood centre	24	9 091	218 190	7.0
Value centre	3	15 238	45 713	5.7
CBD/Town centre	4	16 955	67 818	5.7
Community centre	1	23 600	23 600	7.4
Lifestyle centre	2	23 860	47 720	5.2
Speciality centre	2	9 930	19 860	3.0
Large community centre	3	27 623	82 689	7.3
Minor regional centre	2	41 340	82 680	5.8
Major regional centre	1	64 209	64 209	8.6
Part of super regional node	5	29 405	147 026	6.1
Super regional node	1	146 828	146 828	5.4

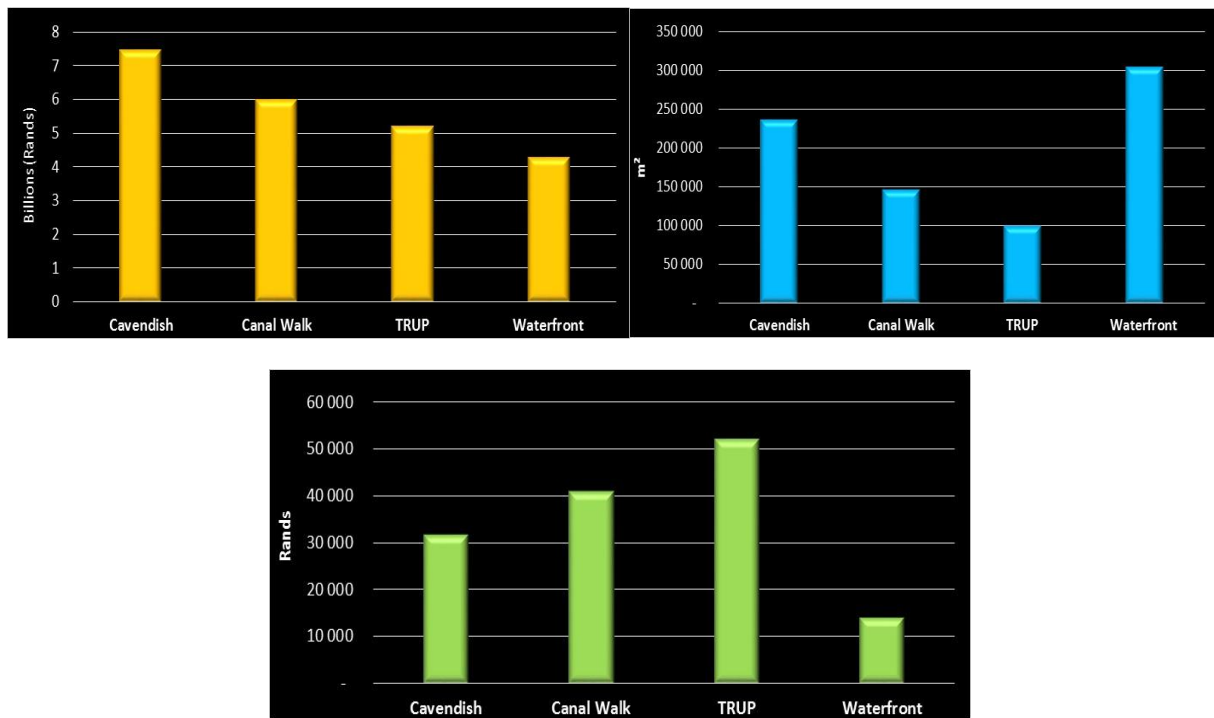


Figure 32: Retail (a) expenditure; (b) GLA (m²); and (c) expenditure per m² for 5km zones around retail hubs

Our results are depicted in Figure 32. Evident is that Cavendish Square has the highest retail buying power (Figure 32 (a)), while the Waterfront has the lowest (because the sea and mountain reduce the size of its 5 km area). The TRUP 5km-zone has the second lowest expenditure potential, suggesting a smaller footprint centre, and the lowest GLA per m² competing for that expenditure (Figure 32 (b)) while it has the highest

potential retail expenditure for the available amount of GLA in the zone (Figure 32 (c)). This indicates that the area's retail market potential is currently apportioned to a relatively small amount of existing retail space and that the potential exists on the TRUP site for another, say 50 000 m² of retail space (a community centre or small regional centre).

Realising that the site is very fragmented and fraught with multiple barriers, we applied a similar 'test' for a 25 000m² community centre in a 2.5 km radius. We again found that there is little competition for substantial expenditure potential. However, given the site's location in an environmentally sensitive area, a neighbourhood centre of about 10 000 m² may be preferable. A more in-depth analysis of the potential is, therefore, warranted.

8.8 Student Housing Potential

As a residential development at TRUP may all likelihood include market-related rental accommodation, purpose-built student rental accommodation should be considered because of the site's proximity to the Cape Peninsula University of Technology (CPUT) and the University of Cape Town (UCT). Hook (2015:14) for example, reports that UCT received 21 469 residence applications and could only accommodate 6 600.

Personal and telephonic interviews with estate agents and other student housing specialists revealed some insightful trends pertaining to student accommodation. We contacted the following organisations:

- Rentals in Cape Town (tel: 0861 99 99 76)
- Rawson Rentals (tel: 021 447 9890)
- Chorus Letting (tel: 0861 24 67 87)

Some of the major insights gleaned were:

- All the letting agents agreed that there is generally very strong demand for student accommodation in the vicinity of TRUP, 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 undersupplied 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.
- Virtually all students prefer large, single rooms as basic requirement. Some students are, however, willing to share rooms, but cultural and religious homogeneity are often required before students are willing to share. Other facilities are a less important consideration.

- Purpose-built student accommodation should be so designed that bedrooms are large enough to accommodate only one person comfortably, but 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 anyway.
- Sufficient security measures (burglar bars, safety gates and biometric access for complexes), own bathrooms and own parking bays are other important requirements for many students and their parents, particularly the more well-off ones.
- The demand for student accommodation was strongest during the end and the beginning of each year.
- Owing to budget constraints, there was a demand for three-bedroom flats among students, as they were relatively cheaper than one-bedroom units, provided all the rooms were sublet.
- Services included in rentals generally only include water, although prepaid water is becoming a feature these days as well.
- Prepaid electricity and Wi-Fi should be essential features of purpose-built student accommodation.
- One letting agent also opined that laundry facilities and even gyms would improve the liveability of student accommodation
- The estimated monthly rentals for student accommodation provided by the interviewees is shown in Table 25 below:

Table 25: Estimated monthly rentals for student accommodation				
Type	Bachelor	1 bedroom	2 bedroom	3 bedroom
Standard	R5 000-R5 500	R6 000-R7 000	R8 500-R9 500	R11 000-R15 000
Upmarket	R6 800-R7 500	R7 000-R8 500	R10 000-R11 000	R13 500-R17 000

- Other important student housing leasing information that we gleaned through our research is shown in Table 26 below:

Table 26 Student accommodation leasing information	
Average lease period	12 months (although students would prefer 11)
Average deposit	1½ months
Expected % rental growth for 2016	10%

9. Property Market Forecasts

9.1 Introduction

In this section we include some pertinent forecasts as they relate to the various property types that we see having the highest demand on the TRUP site. Although a case for the development of an industrial park on the TRUP site can be made given the strong performing rentals in the site's vicinity, the site's proximity to lower-income suburbs and the potential source of unskilled and semi-skilled labour we have not provided additional forecasts of industrial property other than the national forecasts of industrial rentals discussed in Section 8.2.1. This is because we do not see industrial property development being the highest and best use of TRUP's valuable land.

We constructed econometric models to forecast the future trajectory of office demand and take-up in the vicinity of the TRUP 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 19, which is extracted from the June 2015 issue of the Rode's *SA Property Trends* publication.

The property forecasts derived from the macroeconomic variable analysis are summarised in Tables 28 and 29. For the future trajectory of office rentals we considered both a Consensus Scenario (based on Rode and Associates economists' forecast of *real* GDP growth) and a Junk Rating Scenario (depicting the impact on rentals should SA's sovereign credit rating be downgraded to 'junk' status). We do not depict the trajectory of house prices and flat rentals under the Junk Rating 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. Note that we were able to build models to forecast the growth in house prices and flat rentals on a national basis only.

Table 27: Survey of macroeconomic forecasts*						
	Means					
	2015	2016	2017	2018	2019	2020
Real expenditure on GDP: % change	1,5	1,9	2,3	2,6	2,9	3,0
CPI: including VAT, all items: % change	6,1	5,0	6,0	5,5	5,4	5,3
10-year bonds (average for the year): %	8,2	8,6	9,4	9,5	9,6	8,2
Nominal prime overdraft rate (average) (%)	9,1	9,4	10,0	10,6	10,7	10,7
Nominal Cape Town house-price growth (y-o-y)	7,4	5,7	5,0	4,8	5,2	6,5

*Forecast date: June 2015 (n = 8) Source of data: Rode's panel of economists

Table 28: Forecast summary of the critical variables (November 2015), Nominal % growth per year (average for year, unless stated otherwise), Consensus scenario								
Property variables	2014	2015	2016	2017	2018	2019	2020	Mean 15– 20
BER BCI	8,5	6,8	7,2	8,2	9,1	10,0	10,4	8,6
Haylett	7,3	7,1	6,3	6,8	6,6	6,5	6,4	6,6
Consumer inflation (CPI)	6,1	6,1	5,0	6,0	5,5	5,4	5,3	5,6
House prices (national)	9,2	6,5	6,0	3,9	3,9	4,4	5,3	5,0
Flat rentals (all sizes; national)	5,7	4,3	4,6	5,4	5,7	6,2	6,6	5,5
Prime office rentals (average for year)								
Cape Town CBD	7,3	5,5	6,9	7,9	9,0	10,0	10,7	8,3
Cape Town dec.	8,6	5,5	6,5	8,1	9,5	10,9	11,8	8,7
Office vacancy %: grades A and B (average for year)								
Cape Town CBD	11,4	10,2	10,1	9,8	9,4	9,0	8,5	9,5
Cape Town dec.	6,4	6,0	5,6	5,2	4,8	4,4	4,1	5,0

Table 29: Forecast of real growth using forecast of the BER Building Cost Index as a deflator Consensus scenario								
Property variables	2014	2015	2016	2017	2018	2019	2020	Mean 15– 20
House prices (national)	0,6	-0,2	-1,1	-4,0	-4,8	-5,1	-4,6	-3,3
Flat rentals (all sizes; national)	-2,6	-2,3	-2,5	-2,7	-3,1	-3,4	-3,4	-2,9
Prime office rentals (average for year)								
Cape Town CBD	-1,1	-1,2	-0,4	-0,3	-0,1	0,0	0,2	-0,3
Cape Town Dec.	0,1	-1,2	-0,7	-0,2	0,4	0,9	1,2	0,1

In Table 30 we depict the impact on office rentals should SA's sovereign credit rating be downgraded to 'junk' status.

Table 30: Forecast summary of the critical variables (November 2015); Nominal % growth per year (average for year, unless stated otherwise); Junk Rating Scenario

	2014	2015	2016	2017	2018	2019	2020	Mean 15– 20
Prime office rentals (average for year)								
Cape Town CBD	7,3	3,5	2,5	1,7	2,0	1,8	2,1	2,3
Cape Town Dec.	8,6	3,1	0,0	2,0	1,5	2,1	2,4	1,9

9.2 Office Market Forecasts

9.2.1 Forecast of Office Vacancies and Rentals in Cape Town

The current acceleration in output produced by the services sector bodes well for the vacancy rate outlook. In the second quarter of 2015, output produced by the services sector managed to accelerate to 3%. Besides being the largest sector, in terms of overall contribution to GDP, it is also the largest consumer of office space. Figure 33 shows the importance of a healthy services sector to the office property market by displaying the relatively strong relationship ($r=0,7$) between growth in office demand in Cape Town and growth in services sector employment.

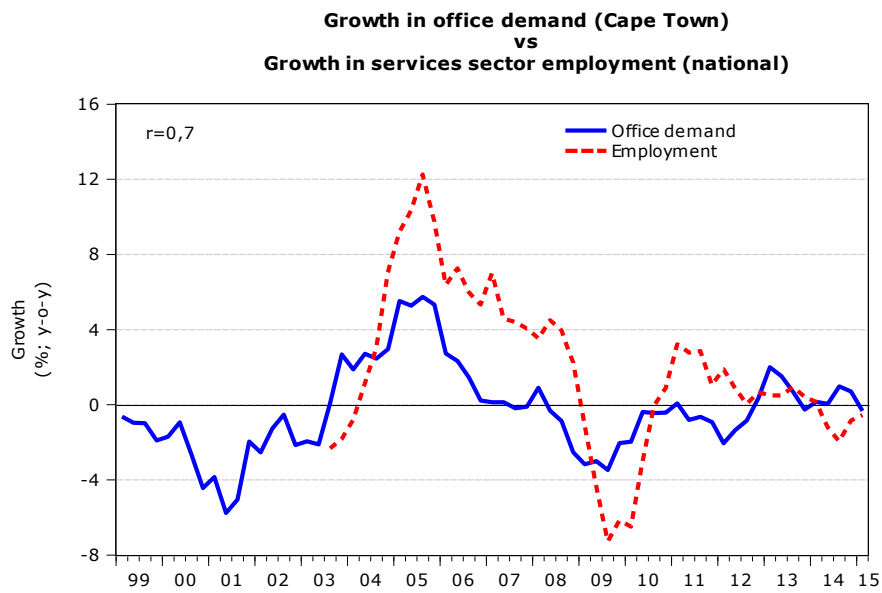


Figure 33: Office Demand vs Employment

As for the forecasts, compared to our previous survey conducted in December 2014 Rode & Associates panel of economists lowered their expectations for the growth in real GDP over the next few years (our Consensus scenario). But, they do foresee an acceleration in the growth of real GDP from 2016 onwards and expect growth to

average about 2,4% p.a. come 2020. This, by implication means a continued improvement in output produced by the services sector and hopefully an improvement in services sector employment, office demand and, consequently, a drop in office vacancy rates.

In Table 28 we summarised our Consensus scenario forecasts for office vacancy rates and market rentals, while Figures 34 and 35 displays our forecasts graphically.

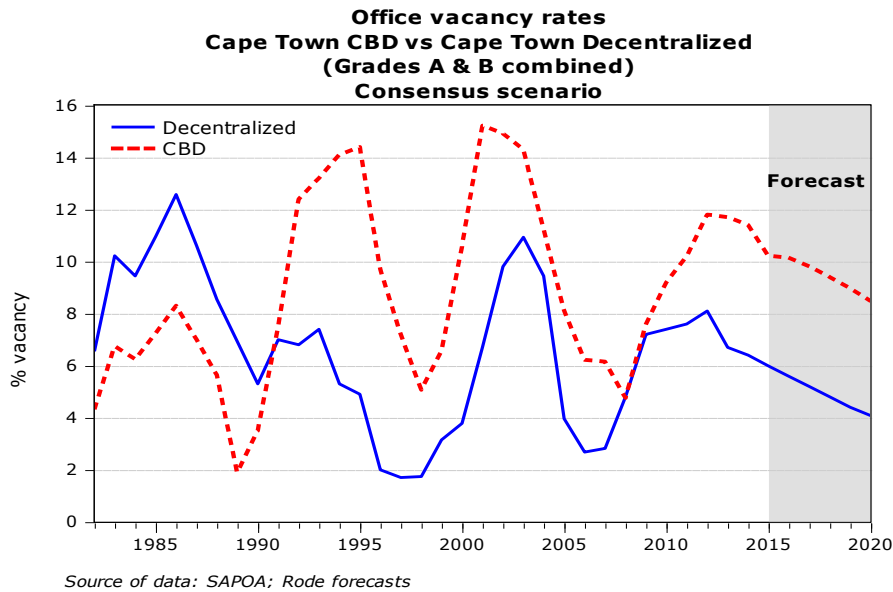


Figure 34: Office Vacancy Forecasts

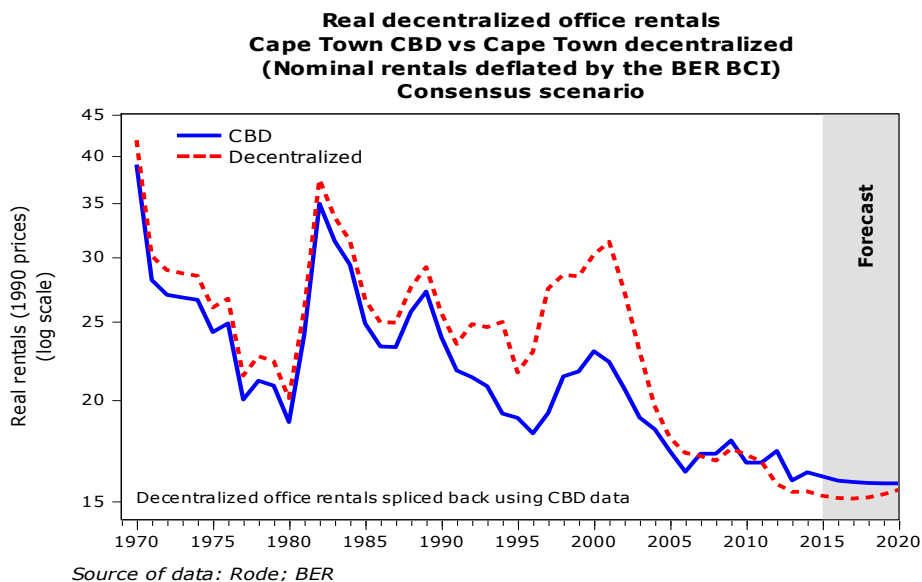


Figure 35: Office Rental Forecasts

Under the Consensus scenario, we forecast the decline in vacancy rates which already started in 2012 to continue albeit gradually from 2016 onwards. This as the

economy starts to gain upward momentum. This should also augur well for nominal market-rental prospects, which we forecast will grow at between 8% and 9% p.a. This growth, however, will at best only be on par with building-cost inflation, with the outcome being sideways trending *real* office rentals. As noted previously we also considered a second scenario for the growth in *real* GDP, which we call the Junk-rating scenario. Under this scenario, we forecast that *real* GDP will grow at only 0,6% p.a. over the next six years (see Section 8.2.1 for our reasoning behind this scenario). Table 22 shows the Junk-rating scenario forecasts for market rentals and vacancies in the Cape Town. Evident is the much lower expected growth in rentals under this scenario.

9.2.2 Office Demand and Take-up for the TRUP Site's Vicinity

After examining the correlation between various variables, we found *Real* expenditure on GDP (refer Table 27) 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 Section 8.2.1) for forecasting purposes.

Figure 30 provides an historical overview of Grade A- and -B office demand and take-up (measured in square metres) for the major office nodes (Cape Town CBD, Century City, Pinelands, Rondebosch/Newlands) surrounding the TRUP site since 1998 as well as the forecast trajectory of demand and take-up for the next five years derived from our econometric model. Table 31 provides a summary of forecast demand and take-up for the areas described above. Average demand in the particular office nodes is estimated at about R1.5 million square metres per annum.

For modelling purposes, we assumed that office 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, 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 36 (a) and Table 31 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 (Figure 36 (b) and Table 31), we expect that an average of close to 28 242 m² of grade-A office space can be expected to be taken-up in the surrounding nodes per annum over the next five years (totalling more than 141 000 m²).

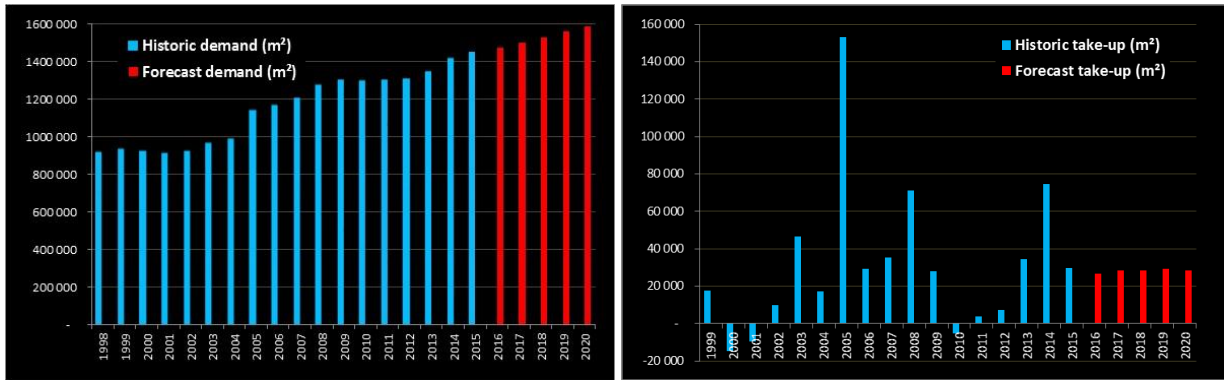


Figure 36: Demand (a) and Take-up (b) for Grade A and B Office Space Surrounding the TRUP Site

Table 31: Summary of office space forecasts for the TRUP site vicinity							
	Actual 2015	Forecast (grade A & B; m ²)					Average 2016-20
		2016	2017	2018	2019	2020	
Demand	1 445 214	1 471 898	1 500 373	1 528 908	1 558 160	1 586 423	1 529 152
Take-up	29 622	26 684	28 474	28 536	29 251	28 264	28 242

As these forecasts apply to five separate office nodes it is obvious that an office node at TRUP would only capture a fraction of this market. If a 10% capture rate is assumed then an office development on the TRUP site would be able to capture about 2 800 m² of this forecast take-up per annum.

9.3 Residential Market Forecasts

9.3.1 Forecast of House Prices and Flat Rentals

The growth in national house prices is cooling, which should not come as a surprise as key drivers of house prices are still struggling. As for the outlook for house prices, the following factors have to be considered:

- Weak economic activity and its likely damper on growth in employment and disposable income. In fact, the growth in household disposable incomes has already started to wane and will most likely continue to do so as Government is forced to be more penny-wise when it comes to salary hikes and head-counts. This would of course reduce the tax take from individuals. Also, weak economic growth prospects imply weaker tax takes from firms. Hence, the taxman might be forced to ask individuals to give a little bit more, maybe in the form of an increased VAT rate. This would over the next few years mean lower growth in after-tax incomes.
- Consumers that are under unrelenting stress as seen in the still-high household debt-to-disposable income levels. The ratio of debt-to-disposable income of households has decreased since 2009 but the ratio remains uncomfortably high

at 78%.

- Consumer confidence levels that are falling through the floor, which might affect the willingness of households to make substantial financial commitments such as buying a house or car.
- Disproportionate increases in administered prices (think Eskom), which negatively affect affordability.
- Interest rates that are set to rise due to the interest-rate cycle and Basel II and III requirements, which will also affect affordability.
- Real house prices that are still above historic highs, and are thus more likely to revert to their mean.

For these reasons, we expect nominal house prices to be kept at bay over the medium term and to most likely show growth below that of inflation. As can be seen in Table 28, under the Consensus scenario, we expect house prices to show nominal growth of roughly 5% p.a. over the forecast period. This will be below consumer and building-cost inflation, which are forecast to grow at 6% and 9% per annum respectively. 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 will show growth of about 6% p.a., which is roughly in line with consumer inflation (see Table 28).

9.3.2 Forecast Demand for Residential Property in the Vicinity of TRUP

The socio-political imperative of addressing the housing deficit (see Section 8.6.5) and housing people close to their place of work makes the central location of TRUP site attractive for a residential development (refer to Annexure A for a more detailed exposition of the importance of well-located state land to aid urban transformation). For this reason, we have attempted to forecast and allocate residential demand for a notional development on the TRUP site.

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. We excluded dwelling houses from our analysis as a residential development on the TRUP site will most likely be a high-density one and we thus only examined data on completed flats and townhouses. Although the TRUP site is located in the Table Bay district focus our data analysis was extended to the entire CoCT as the TRUP site is close to several other planning districts and would generate residential demand from them.

Table 32 provides an historic overview of new residential demand (measured in square metres) for the CoCT since 1997.

Year	Total	Flats		Townhouses	
	m ²	m ²	%	m ²	%
2014	172 655	141 730	82%	30 925	18%
2013	342 356	240 072	70%	102 284	30%
2012	246 398	179 828	73%	66 570	27%
2011	204 089	141 925	70%	62 164	30%
2010	236 796	191 219	81%	45 577	19%
2009	359 713	282 073	78%	77 640	22%
2008	442 915	281 428	64%	161 487	36%
2007	573 627	395 214	69%	178 413	31%
2006	588 348	367 245	62%	221 103	38%
2005	487 813	245 321	50%	242 492	50%
2004	306 815	125 054	41%	181 761	59%
2003	959 776	879 045	92%	80 731	8%
2002	1 065 755	987 524	93%	78 231	7%
2001	730 294	678 839	93%	51 455	7%
2000	704 258	642 765	91%	61 493	9%
1999	743 165	642 767	86%	100 398	14%
1998	606 264	536 341	88%	69 923	12%
1997	685 133	525 785	77%	159 348	23%
Total	9 456 170	7 484 175	79%	1 971 995	21%
Mean	556 245	440 246	79%	116 000	21%

Using Stats SA data on the number and average sizes of flats and townhouses completed in 2014 we determined that the average completed unit size was 114 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. Our forecast for house-price growth in Cape Town is shown in Table 27 above.

Figure 37 provides an historic overview of new residential demand (measured in square metres for flats and townhouses) 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.

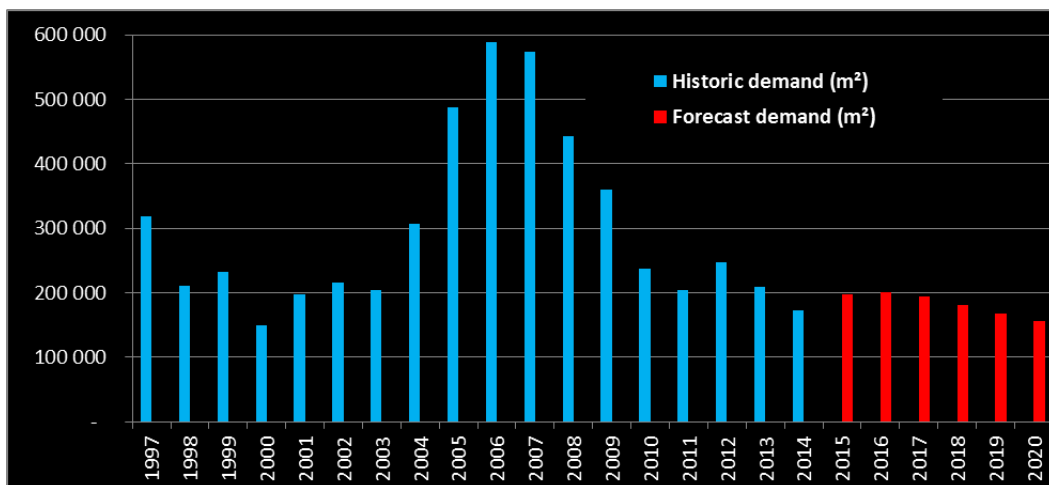


Figure 37: Historic and Forecast New Residential Demand (flats and townhouses) in the CoCT

Evident from Figure 37 and Table 33 is that we forecast that growth in demand for flats and townhouses in the CoCT will weaken slightly over the next six years. Average growth in demand is forecast to average 183 092m² per annum or based on 2014's average unit size of 113.5 m², a total of 1 612 units.²⁰

After our residential demand forecast was completed we applied it to a hypothetical development on the TRUP 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 have a price point below R1.5 million. We have thus retained only the 'R0 – R600k' and 'R600k – R1.5 million' price bands in our subsequent analyses and excluded the others discussed in Section 8.6.4.

Next we calculated the sparsely populated areas²¹ 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 TRUP site's area as well as the spatial extent of the 5km concentric zones around the TRUP site (sparsely populated areas were also excluded in this zone). We derived proportionate ratios of this area versus that of the built-up area of the COCT based on the fact that it comprised 5.44% of CoCT's built-up area.

These ratios were used to apportion demand the CoCT's residential demand (in m²) to the 5 km zone as shown in Table 33.

Area	2015	2016	2017	2018	2019	2020	Mean
City of Cape (Town)(CoCT) (Co(CoCT))	197 647	201 618	194 765	181 217	167 361	155 945	183 092
5km zone (5.44%of CoCT)	10 749	10 965	10 592	9 855	9 102	8 481	9 957

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

- Determined the percentage of historic transfers (sectional title) in the 5 km zone. We found that historically 25% of transfers below R1.5 million were in the 'R0 – R600k' band and 75% in the 'R600k – R1.5 million' category; and
- Split the average annual demand shown in Table 33 for the 5 km zone between these two price bands based on the 25%/75% 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 5 km zone.

²⁰ Smaller unit sizes would naturally have a positive effect on the number of units delivered to the market.

²¹ 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.

Our results are shown in Table 34. Under the 5 km zone scenario, 2 456 m² (or 25%) of the 9 957 m² average annual demand in this zone (refer Table 33 above) was allocated to the 'R0- R600k' price band and 7 501 m² (75%) to the 'R600k – R1.5 million' category. These figures were divided by the historic median unit sizes per price category, thus generating 49 and 112 units respectively (or a total of 161 units that could be taken up per annum).

Table 34: City of Cape Town residential demand apportionment for the 5 km zone (amounts in constant 2014 rands)		
	R0–R600k*	R600k–R1,5 million**
Mean forecast of annual growth in demand 2015 -2020 (m ²)	2 456	7 501
Mean forecast of annual growth in demand 2015-2020 (no. of units)	49	112

* Based on 50-m² unit sizes

** Based on 67-m² unit sizes

Holding all other factors constant, the area-based scenario incorporating the 5-km zone may be somewhat unrealistic because a medium-scale development like the one possible on the subject land would satisfy unmeasured *latent* demand. Put differently, *historic* demand in Cape Town as reflected in Tables 32 and 33 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 TRUP, more would have been taken up.

9.4 Factors Affecting Our Forecasts and the Impact of the “New Economy”

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 structural changes in the property market that may occur without warning. This type of quantum jump is impossible to forecast through historic precedent.

Various factors may affect our capture rate of 10% of forecast office take-up discussed in Section 9.9.2. First, the site is not located in an established office node and other available sites may be more suitable for office use. However, the site is close to decision-makers in affluent suburbs to both the north and south, making its location as possible new office node attractive and which could positively affect the capture rate. Additionally, a residential development on the site could also provide office on-site work-opportunities for staff. The availability of suitable land may, however place a dampener on these prospects.

Our forecasts do not take account of unique selling points that the subject property may have in future, that may result in a significantly different outcome. For example, the TRUP site can conceivably be considered for government office accommodation – the public sector can thus play a critical role in underpinning the market and this role may increase if market conditions deteriorate.

It should also be emphasised that TRUP be considered within the context of the entire metropolitan area. A development on the TRUP site should, therefore, not merely maximise its highest and best use from a built environment perspective. It could also mean optimising the environmental value for the City or the socio-economic value of locating less affluent people in more affordable housing close to employment opportunities. Other mooted development sites could thus be considered that provide better prospects for specific types of development. These are shown in Figure 38. These proposed developments (either residential, commercial or mixed-use) in the vicinity of TRUP may materialise over the next few years and will impact on the supply side.

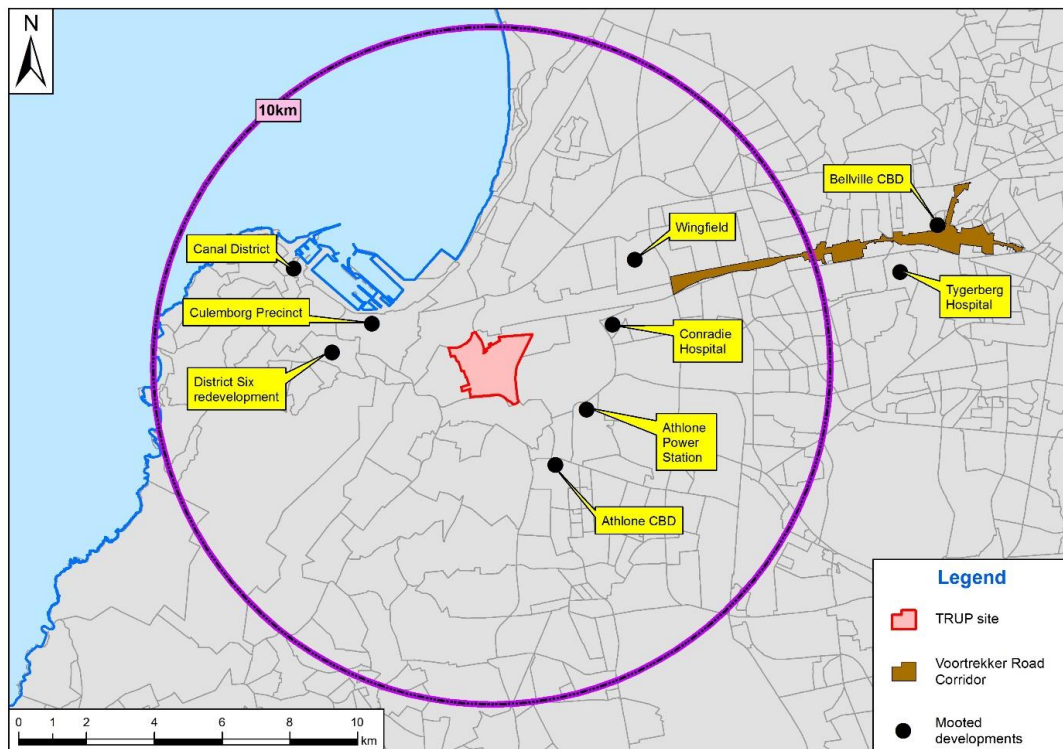


Figure 38: Mooted Developments in the Vicinity of TRUP

Additionally, one should also consider the impact of trends in the so-called “new economy” on the Cape Town property market in general, as well as on development proposals for the TRUP site. These trends are:

Sociological

- Continued urbanisation; the number of people entering the metropolitan area;
- Smaller family units; we are seeing some trends in this regard;
- The need to bring lower income groups to places of work;

- Finding a balance between home, work and play;
- The inability of first time home owners to enter the property market;
- Densities will need to rise to meet the needs of a growing population;
- The social transition of nodes; and
- Social complexities / structures will change rapidly.

Technological/ Infrastructure

- The focus is on "smart" cities (technologically driven);
- The next decades will be about improving the level of transportation;
- The way we will be thinking about space will change as we focus on the internet; this will alter our definition of space;
- The growth of online shopping means that the focus will move to "click and mortar" warehousing becomes retail;
- Less focus on the car and the existing infrastructure starts being used differently;
- The funding of infrastructure grows in importance; and
- Focus on the compact city, where infrastructure is used efficiently.

Economic

- The structure of the economy is changing and the new economy provides new opportunities and threats for the built environment;
- The location attributes of nodes will change, and the challenge lies in the built environment supporting and adapting to socio- economic conditions;
- The built environment will need to remain connected with changing socio-economic conditions; and
- The growth of the middle class in South Africa offers new opportunities, but also threats.

Environmental

- New technologies mean that the built environment will start reacting differently to the environment;
- The impact of "green buildings"; and
- The environment adds value to developments and is no longer seen as a constraint to development.

Political

- There is a growing understanding of the importance of cities in furthering economic growth and development;
- Growth management and efficiency becomes central to city thinking, in that plenty of time and effort is spent on how the city can provide the infrastructure and services required to accommodate anticipated population and economic growth in the medium- to long-term, without remaining fiscally unsustainable;
- Failure in creating the inclusionary city means growing level of service delivery protests and civic action for social integration;
- How are lower income groups brought into the main stream economy through the built environment?

- The role of local government grows;
- Sustainable urbanism is linked with sustainable finance.

The Built Environment

- The physical built environment has a critical role to play in promoting economic growth and development;
- The built environment needs to show the required level of flexibility to adapt to the new economy;
- Opportunities need to exist for smaller players to play a role;
- Spatially it means developing the right things at the right place in the city and that can change quickly in the new economy;
- Mend suburbs before you extend;
- Adapt planning approaches; and
- Connect social initiatives with economic benefits.

10. SWOT Analysis of the TRUP Site

A SWOT analysis is a technique to evaluate the strengths, weaknesses, opportunities and threats involved in a project or associated with a particular geographic location. This method has been applied to the various property sectors that pertain to TRUP and is summarised in Table 35 below. In Table 36 other low real estates impact uses are tabled.

Table 35: SWOT analysis of property sectors influencing the TRUP site				
	Internal		External	
	Strengths	Weaknesses	Opportunities	Threats
Office	Close proximity to existing office nodes	Potential incompatibilities with the site	Link to universities and hospital	Competing private and public sector developments
	Locational attributes	Low opportunities to benefit from economies of scale	Public sector initiatives and the use of government leases	Short to medium term low take-up rates
	Highway frontage	Traffic	Space for smaller users of space	
	Close to educational institutions		Call centres (business process outsourcing)	
	Close to recreational facilities			
	Retail	Strong growing middle-class catchment area	Potential scale of development	Strong growing middle class
		Scale could be too small to become a destination	Provide a different retail experience	Competing retail offering
Industrial (warehousing)	Industrial space in close proximity	Site characteristics	Urban manufacturing	Competition from other developments
		Land Value	E-commerce	High land values
1. Residential (market related)	Physical environment	Residential will need to compete against other uses	High-density offering	Lower income demand
	Located in residential node	Infrastructure	Complements southern suburbs/Claremont offering	Traffic
	Access to Economic educational facilities			
2. Residential (social/affordable)	Close proximity to low-income suburbs	Land value	Mixed-income environment	Oversupply of space at a metropolitan area.
	Close to social amenities	Social facilities	Scale of development attracting investors	Sector is sensitive to macro-economic environment
	Good access to CBD			Lack of end-user financing
3. Residential (GAP/RDP)	Well-located	Land value	Create a mixed-income environment	Value movement risk
	Close to employment opportunities	Competing land uses	Large-scale housing development	Reduces opportunities to optimise land value

Table 36: Other Uses (Real Estate Impact)					
Other Uses e.g. recreational	Strengths	Weaknesses		Opportunities	Threats
	Historical and ecological characteristics	High demand residential and non residential uses		Growing density requires a different urban environment	Demand for land
	Demand for leisure	Accessibility to the site		Demand for open space	Pressure to develop
				Complement other proposed developments in the metropolitan area	

11. Conclusions

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

The TRUP site is ideally located 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, however, rapid internal movement between the various precincts comprising the site is not straightforward. The site is fragmented because major roads and rivers divide the site in various sectors. The site's various precincts have disparate functions, while its natural amenities and heritage value may also complicate future development of the site.

We have found that the TRUP site may assist in addressing the goals and objectives of several national- and local-level regulations, policies and legislation. These goals and objectives often overlap. Essential points gleaned from these documents in which TRUP may play a role are:

- Playing a role in economic growth and reducing the unemployment rate by creating jobs through the development of appropriate space;
- Protecting the natural environment and creating a balance between urban development and environmental protection;
- Conserving unique cultural and heritage landscapes;
- Promotion of greater tourism and recreational opportunities; and
- Contribute towards improving Cape Town's space economy and urban land market by creating integrated and sustainable human settlements. A thoughtfully and sensitively designed mixed-use development at TRUP would assist in this by:
 - Reducing the distance between the location of jobs and where people live;
 - Increasing housing affordability to excluded groups and thus also participation in meeting the housing needs of lower middle income groups;
 - Including affordable rental housing as part of the residential offering;
 - Broaden ownership of assets to disadvantaged groups;
 - Improve urban densities; and
 - Development opportunities could be realised from these improvements in abutting urban areas as well.

We next determined the socio-economic and demographic features of individuals and households living within a 5km radius of the TRUP site and found that the number of people living in this area is substantial, over 220 000, comprising about 6% of the total CoCT population.

At the macro-economic level, we foresee a sideways trend in *real* office and industrial rentals over our six-year forecast period, however there is another, prevailing pessimistic view which anticipates poor GDP growth causing *real* office and industrial rentals to follow a downward trajectory. We also foresee the likely direction of *real* national house prices over the next few years to be south and nominal flat rentals will show growth in line with consumer inflation.

The economic base of the CoCT is deeply embedded in the tertiary sector and is expected to remain the key impetus behind economic growth in the CoCT. The key FIRE (finance, insurance, real estate and business services) and trade (wholesale and retail trade, catering and accommodation) subsectors are expected to perform well over the next few years with growth of 3.2% and 2.6% respectively. The growth of these sectors will naturally impact on the form of the built environment, and should be borne in mind from the perspective of the development of TRUP.

It is worth noting that current industrial rental levels in the Cape Peninsula are on a par with those at national level, while at micro-level the historic and current rentals for industrial townships close to the TRUP sit are generally exhibiting growth superior to the Cape Peninsula average. The site does not fall within an established office node, however, it abuts the Pinelands node and is close to various other office nodes. The office nodes close to the site do not show superior historic rental growth, however, some nodes such as Century City and the Cape Town CBD's current rentals are doing well compared to the Cape Town average. The most promising outlook for Cape Town office rentals is growth of between 8% and 9% p.a. which is on par with building-cost inflation, with the outcome being sideways trending *real* office rentals. However, the more pessimistic view sees Cape Town office rentals trending southward (in line with national trends). We forecast that in office nodes surrounding the TRUP site there will average annual demand of about 1.5 million square metres per annum and take-up of approximately 28 000 m²). If a 10% capture rate is assumed, then an office development on the TRUP site would be able to capture about 2 800 m² of this forecast take-up per annum. However, these assumptions should be regarded with caution given prevailing economic conditions.

Despite structural problems in providing housing to the urban poor and issues surrounding affordability, the residential market in Cape Town is showing some promising features. Nominal prices of middle-segment houses in the Cape Town metropolitan area has shown decent yearly growth of 8%. However, the housing sector is facing some headwinds such as weaker economic activity and frustratingly high ratios of debt to disposable income putting an important brake on the granting of mortgage bonds. The Cape Town flats market has shown remarkable growth of 10.1% per year. The residential market close to TRUP is improving in terms of the time on the market before properties are sold, while units are selling at a smaller discount than encountered before. Residential transfers (both full-and sectional title) in adjoining suburbs

are also picking up, however, they are not close to the figures attained before the Great Recession.

We forecast that new residential demand in the CoCT will be about 183 000 m² (or 1 612 units) per annum. A high-density residential development on the TRUP site is advisable as it will use available, well-located state land to house people close to their place of work. Apportioning this demand to a new residential development is speculative and assumes continuation of historic (structural) trends. Notwithstanding these caveats, our calculations yielded a possible estimate of 161 units per annum that could be taken up per annum.

Although potential for a larger retail centre may exist, the site is fraught with multiple barriers and is located in an environmentally sensitive area. A neighbourhood retail centre of about 10 000 m² should, however, still be feasible.

Purpose-built student accommodation may also be considered on the site as there is substantial demand for this space in the vicinity of TRUP.

Finally, any development on TRUP should be considered within the entire metropolitan area context and should not merely aim to maximise its highest and best use from a built environment perspective on the site. It could also mean optimising the environmental value for the City or the socio-economic value of offering affordable housing to people close to their place of work. A carefully considered development approach is thus advised.

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Annexure A: Contextualising Urban Transformation and Land Values

Poor people in South Africa generally live in informal settlements, some distance from life-improving economic opportunities owing to the dysfunctional settlement pattern often prevalent in cities. As a result, poor people are often deprived of certain societal benefits and full participation in the economy. It is said to be easier to get information about job opportunities when you live with people with mixed status than when you're trapped on the far fringes of an RDP development where most of the residents are unemployed.²² Furthermore, for these people, participation in the property market is restricted as they often reside on low-value land with limited growth in property value, transactability and equity ²³ i.e., land with limited means to create wealth.

The following paragraph is pertinent in this regard:

"The urban dividend pays out to residents when density and scale economies give a better quality of life to people living, working and playing in cities. Looking at the Urban Dividend, consideration should be given to integration in real terms; to getting the poor integrated into a city through commitment, public investment and legislation, even if it entails utilising public funds to buy expensive suburban, well-located properties and developing social housing thereon. For example, integration means housing poor people in a well-located suburb such as Houghton and following through with the legal framework and policy requirements, while ensuring public investments. It means spending the R100 million to purchase a very small piece of well-located land rather than buying a large piece of land on the city edge. This is where the difficulty often enters the equation. Complexity does not lie in policies but rather, the will and commitment to make the right decisions and follow through."²⁴

Hence, well-located state-owned land can no longer be discharged in an ad-hoc manner to the highest bidder. The use of such land is vital to urban transformation. As mentioned, we specifically refer to the impact that the cost of well-located land has on access to land, and conversely the social return (or urban dividend) derived from using well-located land for housing, albeit at a diminished market value. In this regard, present-day policy directives do acknowledge this complexity and provide remedial 'interventions', which are as yet untested. In the interests of brevity, we only mention some of these interventions:

- Address inequalities in the land market that make it difficult for the poor to access the benefits of life in towns and cities;

²² Mahabane. I. 2014. *We are distributing but not very cleverly*. Available: www.bdlive.co.za/opinion/columnists/2014/08/01/we-are-redistributing-but-not-very-cleverly.

²³ Equity captured in a house can no doubt be used to start up a business, assuming the mortgagor has the necessary education and training.

²⁴ Infrastructure Dialogues. 2014. *The Integrated Urban Development Framework*. Available: www.infrastructuredialogue.co.za/wp-content/uploads/2014/06/iudf_infrastructure_dialogue_17july2014_report_final.pdf.

- Prioritise the development of a variety of housing types as part of a mix of activities and land-use types on well-located land;
- Incentivise new private housing developments to include a proportion of affordable housing;
- Respond systematically to entrenched spatial patterns across all geographic scales, that exacerbate social inequality and economic inefficiency;
- Review housing policies to better realise constitutional housing rights, ensure that the delivery of housing is used to restructure towns and cities and strengthen the livelihood prospects of households;
- Support the development of a functional and equitable residential property market;
- Promote land development in locations that are sustainable and limit urban sprawl; and
- Ensure that land development optimises the use of existing resources and infrastructure.

In a practical sense, short-term site-specific state interventions can provide access to well-located land and security of tenure. However, this will implicitly diminish the market value of such land and will imply a high capital cost per opportunity. Conversely, it would reduce the long-term life-cycle costs of occupants such as travelling costs and time i.e., add to the social return. However, occupants must be guided to use the land in ways which extract sufficient value. In deciding that a parcel should accommodate, for example, inexpensive housing, whereas in fact the highest and best use²⁵ of the land might be upmarket housing, the market value is indeed diminished. This diminution of value i.e., selling land below market value is in effect a subsidy and provides housing opportunities to the urban poor, which otherwise would not have accrued.

²⁵ The most probable use of a property that is physically possible, appropriately justified, legally permissible, financially feasible and which results in the highest value of the property being valued. (Source: International Valuation Standards Council, 2011).