



DATE	2019-12-11
To	Head: Strategic Assets
ATTENTION	Shameel Ho-Kim

VALUATION REPORT - successfully negotiated

MARKET RENTAL DETERMINATION OF CITY LAND BEING UNREGISTERED CONSOLIDATED ERF 161669 CAPE TOWN (GOOD HOPE CENTRE) – FILM AFRIKA Q (PTY) LTD

1. Brief

We have been requested to determine the current market related commercial rental in respect of the lease of City property being unregistered consolidated Erf 161669 Cape Town, (hereafter referred to as the “subject property”), as depicted on Surveyor General Diagram No. 6258/2001, measuring 2.4843 Hectares in land extent, together with the improvements thereon.

In our previous valuation report as at 2015-02-28 the subject property was valued at a monthly rental of R250 000 (excluding VAT and rates), but it was brought to our attention that rates would not be applicable, therefore the rental was revised and amended to R310 000 per month and eventually negotiated to R300 000 per month (effective 2017-03-01). This would equate to approximately R349 920 per month excluding VAT escalated to current date.



This updated valuation report is necessary in order to enter into a new lease agreement with the current tenants at a market related commercial rental.

2. Background

The “subject property” is shown on unregistered approved consolidated Surveyor General Diagram 6258/2001. The components of the consolidated diagram are also unregistered. It

would appear as if the properties are vesting in Council but that at least one component appears to be State land.

The Council will therefore have to take transfer of the vesting land in order to take title to the consolidated site. This aspect has not been fully investigated and will need to be addressed.

The “subject property” appears as Erf 5018 Cape Town in Council’s records and is listed under the ownership of The State.

According to Council’s records the building was constructed during 1980. The on-site inspection has revealed that the boundary fencing, the paved outside areas and the gardens are in a good and neat condition. The buildings are generally also in a very neat condition and well kept. The current tenant has painted and revamped certain areas of the internal areas to meet their operational needs. Structurally it also appears sound and the author was informed that the main dome roof has recently had major repairs done to it. A discussion with the City’s officials reveals that the flat roof section of the building has been refurbished with a five year guarantee whilst the electricity equipment, air-conditioning as well as the lifts/dumb waiters have all been serviced/replaced recently in order to be compliant. The total building extent currently is approximately 20 100m² which means that the site is very much under-developed.

3. Date of Valuation

2019-12-31

4. Date of Inspection

2019-12-09

In undertaking this rental determination, an inspection of the neighbourhood area and the “subject property” was carried out.

5. Caveats

The reader is forewarned of the following:

- (i) The valuation is for internal requirements only and must not be made available to the lessee/public without prior written consent from the Head: Market Valuations.
- (ii) All values in this report exclude VAT.
- (iii) This report has been prepared in conformity with recognized standard procedure regarding the leasing of City property.
- (iv) The “subject property” has been valued in terms of the current use and lease extent only (film production and related activities) and thus the potential of the underutilised bulk has not been taken into account.
- (v) It is further pointed out that the “subject property” is currently zoned for Open Space Zone 2 purposes but enjoys a departure to permit of the current use. This departure ceases at the expiry of the current lease agreement, which is 2020-01-30.

6. Physical Address

Corner Sir Lowry and Christiaan Barnard Roads, Cape Town.

7. Details of the “Subject Property”

The pertinent details of the “subject property” can be seen in **Table 1** below:

Table 1																	
Description	Consolidated Unregistered Erf 161669 Cape Town.																
Location	Between Sir Lowry and Strand Streets, Cape Town.																
Owner	The City of Cape Town (refer “Background” paragraph).																
Extent	2.4843 Hectares.																
Lease areas (as per previous lease)	<table> <tr> <td>Main hall</td><td>3 600m²</td></tr> <tr> <td>Drommedaris Hall</td><td>588m²</td></tr> <tr> <td>Reyger Hall</td><td>294m²</td></tr> <tr> <td>Goedehoop Hall</td><td>294m²</td></tr> <tr> <td>Foyers</td><td>762m²</td></tr> <tr> <td>Lower Ground Floor</td><td><u>2 500m²</u> (Total GLA: 8 038m²)</td></tr> <tr> <td>Parking: Basement</td><td>102 parking bays</td></tr> <tr> <td>Parking: Open</td><td>190 parking bays</td></tr> </table>	Main hall	3 600m ²	Drommedaris Hall	588m ²	Reyger Hall	294m ²	Goedehoop Hall	294m ²	Foyers	762m ²	Lower Ground Floor	<u>2 500m²</u> (Total GLA: 8 038m²)	Parking: Basement	102 parking bays	Parking: Open	190 parking bays
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Zoning	Open Space Zone 2 (OS 2). Enjoys a departure to permit the current use which expires on 2020-01-30 but should be extended upon the signature of a new lease agreement.																
Municipal Value	Not valued (GV2018)																
Branch comments	No branch comments were provided.																
Current monthly rental	R349 920 (including rates). Utilities e.g. electricity, water, refuse removal etc. are paid by tenant.																
Lease Expiry	2020-01-30																

8. Rental Approach

We have been tasked with determining the **market rental** of the “subject property”, which is defined by International Valuation Standards Committee (IVSC) as:

“The estimated amount which a property should be leased on the date of valuation, between a willing lessor and a willing lessee, in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

9. Method of Rental Determination

The most apt method to value properties such as the “subject property” is by means of the Market Data Approach of Direct Comparison. With this method, rentals of comparable properties with a similar usage in the area or further afield are traced and researched and compared to the “subject property”, with adjustments made for differences in value forming attributes and for the efflux in time, if necessary.

10. Market Information

The “subject property” known as The Good Hope Centre is a customised facility built for the City of Cape Town circa 1980, for community purposes.

Market research has revealed that there are no direct comparable facilities operated privately (the upmarket Cape Town International Convention Centre excluded) and that the only comparable properties are in fact City of Cape Town owned and operated being in the form of

Town Halls/Community Centres/Civic Centres. These facilities are all operated/leased on the basis of Council adopted scale of Tariffs and is therefore social/community orientated and subsidised.

The newly concluded lease at the Cape Town Stadium (3 514m²) commenced as at 2019-10-31 and at commercial rental of R80/m² to R100/m²; and a retail rental of approximately R150/m² (excluding rates and additional operation costs). It must be noted that this is an isolated City asset and that the new tenant would also be liable to improve/fit the leased areas to meet their operational needs at their own expense (i.e. no tenant installation allowances).

As stated earlier, the “subject property” is unique in that there are no real directly comparable properties in the market. The “subject property” basically comprises open areas in the form of a number of halls and the adaptation thereof to an alternative use for example an educational centre or offices, is problematic in the absence of specifics.

From inspection, the current tenant appears to be effectively utilising a high proportion of the internal areas for different uses specific to the film industry, such as storage in the basement areas, filming in lower ground passages and cloakrooms facilities and prosthetics laboratory in the main kitchen area to name a few examples.

In our research, we have had regard to asking/prevaling rentals in respect of large Industrial/Commercial/Retail rentals and have adapted these to what in our opinion are reasonable rentals to apply to the “subject property”. We have also had discussions with expert brokers in the field in order to inform our conclusions. We have adopted the same approach to the rentals applicable to basement and secured open parking bays.

We also considered the following rentals that are currently on the market, which provide an indication as to what rentals are being asked for large warehousing space.

Woodstock – 3 130m² @ R70/m²	Observatory – 4 542m² @ R75/m²	Epping 2 – 9 724m² @ R78/m²
		

Further to the above, the following properties listed below are currently on the market to let. In interpreting the rentals, the following should be noted that the rental value rate (i.e. R/m²) is inversely related to the extent of the lettable extent.

	Lettable extent	Rate
Ndabeni	3 291m ²	R75/m ²
Airport Industria	3 469m ²	R69/m ²
Ottery	5 860m ²	R52/m ²

We also looked at survey evidence published in Rode's Report on the South African Property

Market (2019:2) for parking rentals within the Cape Town CBD node:

	Grade A+	Grade A	Grade B	Grade C	Shade net parking	Open-air parking
Parking	R1 667.00	R1 425.00	R1 100.00	R1 000.00	R 600.00	R 500.00

Taking into account the abovementioned market information and making an allowance for differences in extents and location, a rental of R100/m² to R110/m² is not considered unreasonable to apply to the subject property. Based on the above, our income capitalisation model suggests the following market rental value.

Good Hope Centre					
Valuation as at				31 Jan 20	
Year 1 end				01 Jan 21	
GROSS MARKET RENTALS					COMMENTS
Description	No of bays	Area (m ²)	Gross market rental		
			R/m ²	R/month	
Main hall		3600	R100.00	R360 000	
Drommedaris Hall		588	R100.00	R58 800	
Reyger Hall		294	R100.00	R29 400	
Goedehoop Hall		294	R110.00	R32 340	
Foyers		762	R50.00	R38 100	
Lower Ground Floor		2 500	R50.00	R125 000	
Parking: Basement	102		R1 200.00	R122 400	
Parking: Open	190		R500.00	R95 000	
292		8 038		R861 040	
		Weighted average	R80.07	/m ² /month	
				8 038	
				(R2 583 120)	
				0%	
				10.0%	
FINAL CALCULATIONS					Assuming property is fully let. = 25% of gross market income
Gross market rental income (Year 1)			R10 332 480		
Operating expenses (Year 1) (normalised)			R2 583 120		
Long term vacancy provision			R0		
Net market rental income (Year 1)			R7 749 360		
Capitalised value			R77 493 600	= R9 641 /m ² rentable area	
Less: Planned capital expenditure			R0	This is <u>essential</u> capex and, hence, it is not expected to lead to an increase in acheivable rentals.	
MARKET VALUE (rounded)			* R77 500 000	= R9 642 /m ² rentable area	
					*The Market Value determined on current use and not highest and best use
Net market rental per month (rounded)					R580 000 = 9.0% yield

Based on the fact that the property is almost entirely tenant occupied and less speculative than other commercial markets, no vacancy provision has been factored in our income capitalisation model.

Based on our own internal database (and survey evidence in Rode's Report) we deducted operating costs of 25% of gross rentals in our income capitalisation model.

12. Negotiations

The rental of R580 000 per month (including rates but excluding VAT) was conveyed to the representatives of Film Afrika in a meeting held at the City Hall on 2019-12-11. This proposed rental was agreed in principal, effective as from 2020-02-01, it is therefore accordingly recommended for acceptance.

13. Recommendation

That a monthly rental in respect of the City land being unregistered consolidated Erf 161669 Cape Town, measuring 2.4843 Hectares in extent and 8 038m² in lettable area, together with the improvements thereon and known as the Good Hope Centre, be determined at a commencing rental of R580 000 per month (inclusive of rates but exclusive of VAT), escalating at 8% per annum.

- (i) The monthly rental commences as from 2020-02-01.
- (ii) The proposed lease term is for a period of one (1) year with an option to renew for a further (1) year period.
- (iii) Rental to be reviewed after initial lease period of (1) year.
- (iv) The above rental assumes that the Lessee is responsible for maintenance and repairs as per agreed maintenance plan to be submitted to the Landlord for prior written approval.
- (v) The above rental excludes any operational costs i.e. electricity, security, water etc
- (vi) For lease renewal purposes submission of audited financials to be included as a condition of lease.



Mike Spaans
Professional Valuer

RP



Paul Pendlebury
Head: Market Valuations

Date: 2019-12-12