

VALUATION SYNOPSIS: MARKET RENTAL DETERMINATION OF CITY LAND BEING UNREGISTERED CONSOLIDATED ERF 161669 CAPE TOWN (GOOD HOPE CENTRE) – MOONLIGHTING FILMS.

Brief and background

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.

The subject property was most recently valued as at 2021-11-30 for a 5-month period, to be leased to Moonlighting Films (expiring 2022-04-30) at R420 000 per month (inclusive of rates but exclusive of VAT). This rental was far lower than the previously assessed rental of R580 000 per month due to the growing challenges that faced the rental market as a result of the Covid-19 Pandemic as well as the short term lease period proposed, i.e. 5 months.

As mentioned the subject property was valued prior to pandemic on 2019-12-31 at a monthly rental of R580 000 per month (inclusive of rates but exclusive of VAT), escalating at 8% per annum. The proposed rental was agreed in principal by Film Afrika, effective as from 2020-02-01.

The City is proposing entering into a new lease agreement with Moonlighting Films for the period 1 May 2022 to 31 April 2024, hence the request for a revaluation of the subject property.

Date of Valuation

2022-03-31

Details of the Subject Property

Description	Consolidated Unregistered Erf 161669 Cape Town.	
Location	Between Sir Lowry and Strand Streets, Cape Town.	
Owner	The City of Cape Town	
Extent	2.4843 Hectares	
Lease areas (as per previous lease)	Main hall	3 600 m ²
	Drommedaris Hall	588 m ²
	Reyger Hall	294 m ²
	Goedehoop Hall	294 m ²
	Foyers	762 m ²
	Lower Ground Floor	<u>2 500 m²</u>
	Total GLA:	8 038 m²
	Parking: Basement	102 parking bays
Parking: Open	190 parking bays	
Zoning	Mixed Use 2 (as per brief)	
Municipal Value	Not valued (GV2018)	
Branch comments	No negative branch comments were received (as per brief)	
Current tenant	Moonlighting Films	
Current rental	R420 000 per month (excluding VAT but inclusive rates)	

Improvements	The subject property, known as the Good Hope Centre (GHC), is a customized facility built in 1976 for the City of Cape Town as an exhibition hall and conference center.
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Description of improvements

a) **Exhibition Hall and Conference Centre**

The exhibition hall comprises an arch with tie-beams on each of the four vertical facades and two diagonal arches supporting two intersecting barrel-like roofs which in turn were constructed from pre-cast concrete triangular coffers with in-situ concrete beams on the edges. Inside the dome is a mezzanine level (as a sports venue there is seating capacity for 7000 people). The walls are precast concrete and brick with aluminium windows and doors. Access to the Exhibition Hall is mainly from north, south and west side of the building. The west side of the building offers a vehicle ramp for loading purposes into the exhibition hall and is accessed from Newmarket Street. Floor coverings are screeded concrete and the ceiling is either screeded concrete or suspended ceilings. In the four corners of the Exhibition Hall are the ablution facilities below the stairs. The basement area below the exhibition floor comprises a parking garage and various other rooms. These rooms include change rooms, ablutions, showers, mechanical plant room, switch rooms, generator rooms and store rooms. A few of the public toilets have recently been upgraded. Inside the hall are fixed wooden seating benches on the ground and mezzanine floor.

The double-storey conference section is precast concrete and brick walls, pillars and beams below a flat concrete roof, with aluminium doors and windows. Access to the basement parking is through this area. The basement area comprises various change rooms, toilets, server room, boiler room, plant room, offices, store rooms, minor exhibition hall/store, and large kitchen with walk in cold room and freezer and dish wash area. Some of the storage areas are below the stairs that lead to the first floor. The first floor accommodation includes a large foyer area, restaurant, multi-purpose hall, and the small exhibition hall. The floors all have various passenger and food lifts (dumb waiters) that are regularly serviced.

A project brief had been submitted for the refurbishment of the GHC to attain occupational health and safety certification in 2019. The main dome roof remains a major concern with various leaks. The backlog maintenance is estimated to cost R9 million. Immediate compliant costs were estimated at R8 million.

Discussion with Ebrahim Meyer from Strategic Assets has indicated that since the report the money spent to date on refurbishments are approximately R14 million (R7 million for the LV units that were completely replaced, and other capital expenditure of R7 million, i.e. remedial work to roof, bathrooms, office and basement lights).

In late 2021, the total estimate to have the facility compliant will cost approximately R100 million; this would include the total replacement of the lead dome roof (estimated at R40,0 million); reinforcement of footings and arches to the dome will be approximately R2,0 million; the landscaping and paving was estimated at R10 million and the like-for-like refurbishment upgrade of existing infrastructure, i.e. interior/ exterior, HVAC, etc., is estimated at R38 million, and fees at 10% or R10 million.

As at March 2022, partial refurbishments have been completed on ablutions and lights, the dome roof still requires urgent attention. A Feasibility study is currently in process, which is investigating the options submitted as per the Business Study completed in 2020. Overall condition of the building is average.

b) Parking area and surrounds

The parking area is tarred and the walkways a combination of the concrete slabs and brick paving. The entire unregistered erf is surrounded with a combination of wire fencing (“clearview”), palisade fencing and various steel roller gates for vehicular access. The main access to the parking is from Sir Lowry Road and is 24-hour manned by means of boomed gate and a steel roller gate. The overall condition of the parking and walkway area is fair with some maintenance required. In between the parking and walkway areas is garden areas that require some maintenance.

Rental Approach

We have been tasked with determining the **market rental** of the subject property, which, is defined by International Valuation Standards Council 2020 (IVSC) as:

“Market Rent is the estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably prudently and without compulsion.”

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.

Current Economic State

In October 2021, it was reported that The City of Cape Town had authorised 671 film shoot applications over the past three months, a 44% increase on the same period last year. It was said that that the increase in bookings was a positive sign that the industry was making its return.

The same source reported that summer is peak season for film shoots in Cape Town. The City said it was monitoring about 50 productions which would be filmed during the summer and was enhancing its support for the industry to ensure a successful season. The productions included local TV series and four international feature films, as well as commercials for international clients. Some of these would be filmed in Cape Town until the end of January 2022.

A different source reported that The City have authorised 1 017 film shoot permits for January 2022 alone.

Cape Town Tourism noted they had seen an increase in international visitors with 66% for domestic and 29% for international as of late January 2022.

Market Information

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 is problematic in the absence of specifics.

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. An experienced industrial and commercial property broker who specialises in the location and similar areas has stated that R55/m² net rental for this specialised property of around 8 000m² is in the region of market related. It was also relayed that at present, market parking rates of ±R1 000 and ±R450 are applicable to basement and secured open parking bays respectively.

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, albeit inferior to the subject property.

Woodstock – 3 000m² @ R57/m²	Cape Town, Bree Street – 1 690m² @ R80/m²	Woodstock – 2 420m² @ R61/m²
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Further to the above, the following properties listed below are currently on the market to let in well-known industrial areas further away from the subject property. 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.

Location	Lettable extent	Rate
Epping	8 800m ²	R55/m ²
Epping	7 556m ²	R55/m ²
Airport Industria	5 750m ²	R76/m ²

We also looked at survey evidence published in Rode’s Report on the South African Property Market (2021:3) for parking rentals within the Cape Town CBD node as well as industrial property in Woodstock/Salt River location:

Cape Town CBD	Grade A+	Grade A	Grade B	Grade C	Shade net parking	Open-air parking
Parking per bay	R1 470	R1 350	R1 160	R970	R800	R767

Industrial Rentals per m²	1 000m²	2 500m²	5 000m²	10 000m²
Woodstock/Salt River	R58.00	R53.60	R53.75	R55.00

Although a full recovery to pre-lockdown levels is yet to be achieved, there are indications that the current market is showing signs of recovery. For this reason, we have kept the rental and operating cost rates the same as the previous report but adjusted the vacancy factor, parking rates and capitalisation rate in accordance with latest market information.

Based on the above, our income capitalisation model suggests the following market rental value. The rental determined is for the period 1 May 2022 to 30 April 2024.

Good Hope Centre					
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	R100,00	R29 400	
Foyers		762	R50,00	R38 100	
Lower Ground Floor		2 500	R50,00	R125 000	
Parking: Basement	102		R1 000,00	R102 000	
Parking: Open	190		R450,00	R85 500	
	292	8 038		R828 200	
		<i>Weighted average</i>	<i>R79,71 /m²/month</i>		
Rentable area				8 038	
Gross operating expenses (R/annum)				(R2 981 520)	
Short-term vacancy provision				0,00%	
Capitalisation rate				10,00%	
FINAL CALCULATIONS					
Gross market rental income (Year 1)				R9 938 400	Assuming property is fully let.
Operating expenses (Year 1) (normalised)				R2 981 520	= 30% of gross market income
Vacancy provision				R0	
Net market rental income (Year 1)				R6 956 880	
Capitalised value				R69 568 800	= R8 655 /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 achievable rentals.
MARKET VALUE (rounded)				* R69 600 000	= R8 659 /m ² rentable area
					*The Market Value determined on current use and not highest and best use
Net market rental per month (rounded)				R520 000	= 9,0% yield

Recommendations

That a market 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 in the order of **R520 000 per month** (inclusive of rates but exclusive of VAT).

- (i) The monthly rental to commence from 2022-05-01.
- (ii) The proposed lease term is for a period of two (2) years.
- (iii) The above rental excludes any operational costs i.e. electricity, security, water etc
- (iv) The above rental has been undertaken on the basis that the Lessee is responsible for maintenance/security and repairs.



Mike Spaans
Professional Valuer



Rosanna Potgieter
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Date: 2022-04-01