

PRESS INFORMATION

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GAUTRAIN TO RAISE PROPERTY VALUES

Is it too early to say what the impact of the Gautrain will be on the Property Unit Trusts (PUTs)? Not according to Neno Haasbroek, CEO of the Sycom Property Fund.

“Unlike previous upturns in the property market, the difference now is that there is a shortage of land available for new development,” he explains. This is partly due to the central government’s desire to curb unchecked urban sprawl with its massive demands on infrastructure resulting in increasingly stringent zoning and planning controls.

These factors, together with building cost inflation of approximately 15% p.a., are likely to further constrain speculative development, implying premiums for sought-after locations. “Nodes with good infrastructure, whether residential or commercial, will increasingly become more sought after,” he adds, “and the Gautrain rail link will play a major part in altering the development landscape in the decade ahead.”

“Location, location, location”, a well-known industry saying, was coined by Johan von Thunen, an estate manager and pioneer of land economics from Mecklenburg, northern Germany in 1826 to explain the relationships between location, transport costs and product prices. It remains as relevant today as it was 180 years ago. Significantly, Von Thunen explained how the value of land depends on the value of what it produces. He related this not only to the land’s inherent productivity but also to its location and to transport costs.

Although at the time, it was agricultural produce that was being transported, it is fitting that today we are referring to a rail system which will transport commuters – after all, the service sector now accounts for 65% of South Africa’s economy.

Von Thunen also examined how a cheap transportation corridor affects property values: land prices are higher along the transport corridor than elsewhere because produce transport costs are lower. More recent studies have shown a similar trend in modern times, with property values uplifting along the corridor. Specifically, property value impacts tend to be localised around rail stations, particularly for commercial uses, with the greatest value gains seen in property within a 2 km radius of the station.

The Gautrain project will provide a rapid rail link between Pretoria, Centurion, Midrand, Sandton and Johannesburg with a link to OR Tambo International Airport. “Through this project, Johannesburg and Pretoria will at long last become part of the first world where

cities are served by a rapid rail link or Metro service,” notes Capital Property Fund MD Andrew Texeira. “We believe that this project is the start of a fully-fledged metro rail link that will ultimately link most of Gauteng. The rail link will have a positive effect on Gauteng but more specifically on those areas which will be served by the rail link. These areas will see major growth as new high rise buildings are developed within walking distance of stations in response to the demand created by people wanting to live and work close to such a facility.”

The PUTs which do own properties along the Gautrain corridor and in the vicinity of the stations, in particular, are likely to benefit from the project. The Sycom Property Fund owns Discovery House in the Sandton CBD, which is within walking distance and will benefit from the new rail link.

“The Emira Property Fund owns seven properties near the stations,” notes CEO James Templeton, “and six of them would offer attractive opportunities to be significantly redeveloped.”

Says Craig Hollowes, spokesperson for the Association of Property Unit Trusts (APUT), “We certainly do expect a positive trend in property values along the route. Already there has been good activity and the Property Unit Trusts are looking at several different methods to enhance their portfolios.”

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