

# Residential Property Indices

Press Release

## GAUTRAIN – ALREADY SHOWING IMPACT ON PROPERTY PRICES

### PROPORTION OF GAUTRAIN RELATED PROPERTY TRANSACTIONS RAPIDLY INCREASING

Properties around the intended Gautrain route are experiencing a boom in both property prices and activity. In Rosebank a R600 million mixed-use development is currently planned, including upgrading of The Zone, The Firs and The Galleria. In Midrand, Zonk'izwe is a multi-billion rand development which includes retail, commercial, leisure, entertainment, residential and hotel developments. In Sandton the total development area of the node is nearly 1.7 million square meters for office, retail and residential property.

Significant urban renewal projects are also underway around Hatfield, Pretoria, Marlboro and Johannesburg Park stations. In the Hatfield precinct the urban renewal project is starting with an investment of R280 million in phase one including development of 693 residential units, 4000 square meters of retail space and 839 parking bays. In Pretoria, the R10 million Re-Kgabisa Tshwane program is underway to improve inner city's office accommodation which involves around 40 government departments and agencies. At the Marlboro Station, the Alexandra Urban Renewal project aims to spend about R1.3 billion on upgrading living conditions in the area and a 290-ha multi-billion rand mixed use development will take place at Frankewald Estate. At Rhodesfield Station in Kempton Park, the whole area is being redeveloped into a mixed use area and current residential properties are being sold to developers for commercial, high-density residential and office use.

The only station where relatively little investment in residential property is taking place is around OR Tambo Airport Station with investment earmarked for new access roads, highway interchanges and upgrading the existing access roads.

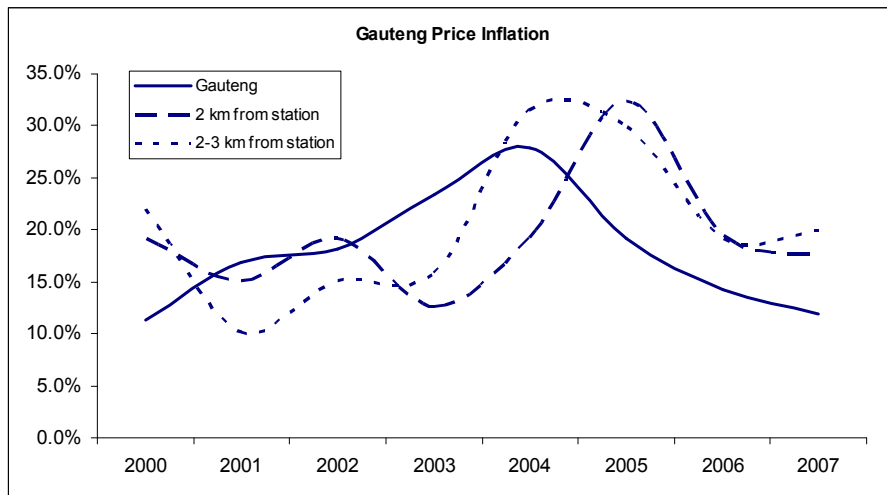
With all of this investment in upgrading accommodation and infrastructure around the Gautrain Stations, there has been much anecdotal evidence of increasing interest by property investors in residential property around the new stations. What has been the impact of this investment interest been on the residential properties around the stations?

Lightstone Risk Management has analysed residential repeat sales price inflation of residential properties within 2km and 3km of each Gautrain station from 2000 to 2007, and compared this with the overall price inflation in Gauteng. The 2km and 3km distances were chosen specifically since they would represent a relatively easy walk to the station, and would be sure to capture the effects of investors looking to benefit from ease of access to the stations.



# Residential Property Indices

Price inflation in Gauteng rose steadily from 11% in 2000, peaked at 28% in 2004 and then declined to around 12% in 2007. Price inflation around the Gautrain stations has however shown a more delayed and volatile pattern. Between 2000 and 2003, price inflation for properties around the Gautrain stations underperformed Gauteng price inflation, remaining between 10% and 20% per year. However since the plans for Gautrain became more certain, with 2005 figures seeing the most significant rise, price inflation of these Gautrain station properties have taken off, and have remained higher than the provincial price inflation ever since. Price inflation peaked at 32% between 2004 and 2005 and though it has come off from these peaks, remains between 18% and 20% in 2007.

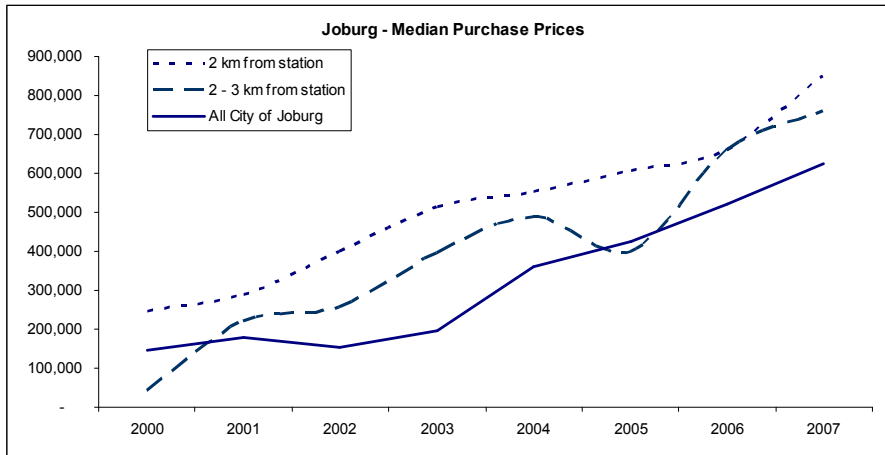


It might be argued that part of this performance is driven by a significant proportion of Gautrain related properties coming off a lower base than the rest of Gauteng. Properties in the more affordable segment of the market in general have recently shown much stronger price appreciation than higher value suburbs due to factors such as inner city and township rejuvenation (see previous articles by Lightstone) and affordability.

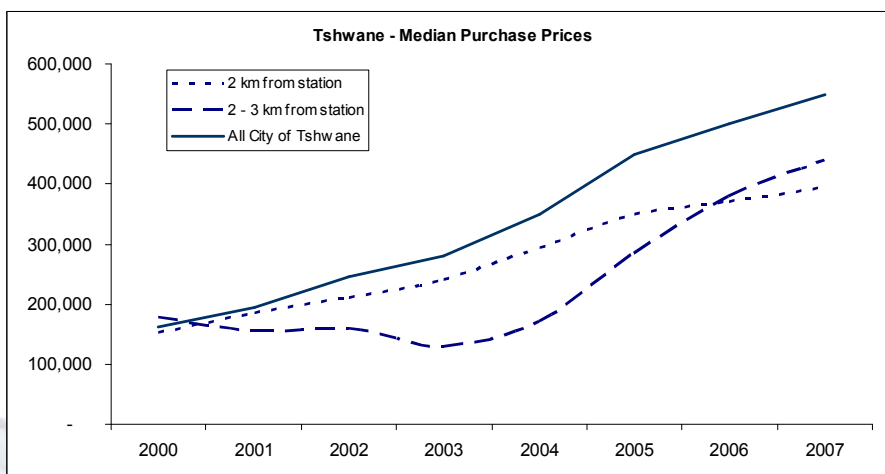
However Gautrain properties don't just contain a pool of lower priced houses. In Joburg the pool contains a broad mix of properties from Sandton and Rosebank (with 2007 median prices of properties at R1.35 million and R1.50 million respectively) to Kempton Park and the Joburg CBD (with 2007 median price of R179,000). As a result, median prices from 2000 to 2007 in Johannesburg around the Gautrain nodes have continually been above Johannesburg's overall median prices. In 2007 the median prices in areas within 2km of a station were R849,000 and within 2-3km were R760,000, compared to the R625,000 for Joburg overall.



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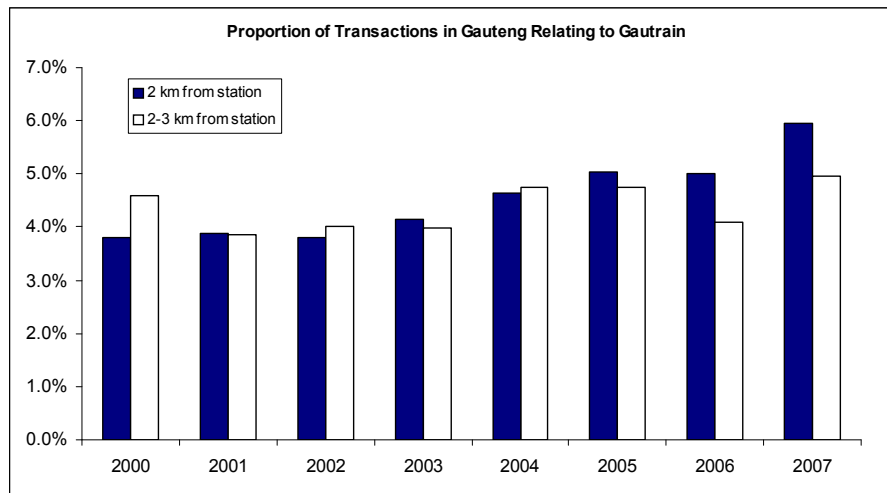


Interestingly however, the median price picture in Tshwane is different. Gautrain related properties have consistently been below median prices for the city as a whole and the gap has widened recently. This pattern is not easy to explain but it does seem that Tshwane's pool of Gautrain related properties contains a larger proportion of low priced properties (Pretoria CBD and Hatfield versus Centurion) and that these properties may have suffered from a lag in investment over the period. This might represent a significant investment opportunity going forward if the price patterns in Joburg are to begin to filter through to Tshwane. In 2007 the median price of a property in Tshwane was R550,000 compared with R395,000 and R440,000 in the areas within 2km and within 2-3km of a station respectively. Specifically the 2007 median price of Gautrain related properties around Centurion was R690,000 while around the Pretoria CBD station it was R310,000.



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Finally when one examines the sales activity around the Gautrain stations, it is clear that there has been growing interest in these areas, particularly within 2km of the planned stations. The proportion of all property transactions in Gauteng involving properties within 2km of Gautrain stations has grown from 3.8% to 6.0% from 2000 to 2007. This despite the fact that these properties are generally in well established residential areas which are unlikely to see growth in new stock as fast as the rest of Gauteng. On the other hand, activity in the areas between 2km and 3km from the Gautrain stations has remained relatively consistent between 4% and 5% over the same period, which perhaps indicates that these areas are being less influenced by the introduction of Gautrain.



The nature and impact of Gautrain residential property investment and development on an area around the station will vary based on its location. New residential property developments will result in high-density living along the lines of Hillbrow, Berea, Sandton, Killarney, Sunnyside and Hatfield which could further fuel the proportion of activity around the Gautrain nodes. The billions earmarked for new office, retail and hotel developments near the Gautrain stations in Sandton, Rosebank and Centurion are expected to have a huge spin-off for the area's existing suburban residential property market. Finally in the case of Gauteng's downtown stations in Pretoria CBD and Johannesburg CBD, the upgrade and increased utilisation of existing stock will have significant benefits for urban renewals programs already under way.

*Footnote: The estimated market value of a property is based on the previous sales price of the property, inflated with the relevant Lightstone Property Price Index (depending on the type of property and where it is located) to bring it to a current value. This estimate is then compared with the average sales price of transacting properties in the immediate vicinity (for a sectional title unit it will be compared with sales prices of units in the same sectional scheme. If there was insufficient activity in the scheme it will be compared with sectional schemes in the same area) The final estimate of market value is a combination of the individual property estimate based on the relevant Lightstone index and the average comparable sales as described above.*

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