



PROPERTY ECONOMISTS & VALUERS

# *Technical background to Rode surveys*

Updated 19 April 2005

Please click on a title below (or continue to the next page):

<b>Introduction</b> .....	p2
<b>Standard capitalization rate</b> .....	p2
<b>Escalation rate (for industrial leasebacks)</b> .....	p3
<b>Hurdle rate</b> .....	p3
<b>Office rentals</b> .....	p3
<b>Industrial rentals</b> .....	p4
<b>Industrial land values</b> .....	p4
<b>Flat rentals</b> .....	p5

PO Box 1566 Bellville 7535  
South Africa  
Tel +27 (0)861 22 44 88  
Fax +27 (0)21 946 1238  
E-mail: [info@rode.co.za](mailto:info@rode.co.za)

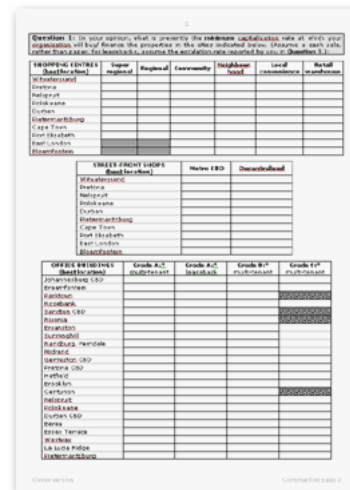
Posbus 1566 Bellville 7535  
Suid-Afrika  
Tel +27(0)861 22 44 88  
Faks+27(0)21946 1238  
E-pos: [info@rode.co.za](mailto:info@rode.co.za)

[www.rode.co.za](http://www.rode.co.za)

Rode & Associates CC/Rode & Genote BK, Reg.no. 1987/020479/23 VAT/BTW no. 4480101791  
ADVISORY BOARD/ADVIESRAAD: EPH BIEBER, DR TJ DE VILLIERS DE VOS, PROF GK  
LE ROUX, PROF IJ LAMBRECHTS, PROF WH THOMAS, AJ VAN RIET. MEMBER/LID: EG RODE

Rode has been surveying the crucial variables of the property market in South Africa since the beginning of 1988 using the expert-panel method. Broadly speaking, the researcher has two potential approaches available to him. These are:

- Track actual transactions, like the rental levels of lettings or the standard capitalization rates at which sales are concluded. Valuers (appraisers) call these 'comparables'.
- The expert-panel method of surveying, in which the surveyor regularly asks **the same** individual members of the panel for their expert **opinions**, which in turn will of course be based on actual deals of which the panellists are aware.



The screenshot shows a survey form with three main tables. The first table is titled 'MINIMUM CAPITALIZATION RATE' and has columns for 'Region', 'Suburb', 'Local', and 'Actual'. The second table is titled 'MINIMUM CAPITALIZATION RATE' and has columns for 'Region', 'Suburb', and 'Actual'. The third table is titled 'MINIMUM CAPITALIZATION RATE' and has columns for 'Region', 'Suburb', and 'Actual'.

The cons of tracking actual transactions are:

- A paucity of transactions in most nodes, making statistical inferences impossible.
- Hence the danger of relying on outlier data (mainly the result of small samples)
- Dated transactions
- The cost
- The unwillingness of the parties to report the details of individual deals.

In contrast, through the expert-panel method of research, most of the above cons of the actual-transactions approach are addressed through opinion surveys. This results in cheaper, more accurate and timely information. Sample size is still (and will always be) a problem in some of the less active nodes, but to a lesser extent.

Below we give the reader some insight in our survey approach to determine the levels of the various property variables:

**Standard capitalization rate:** The Rode capitalization rate panel consists of two categories of panellist — major owners, and leading investment brokers who know their market segments intimately. This means that the latter's knowledge is based on actual sales. The question put to these carefully chosen panellists is:

**Owners:** "In your opinion, what is presently the minimum standard capital-

ization rate at which your organization would buy the following properties in the cities indicated below? Assume a cash sale rather than paper. For leasebacks, assume the escalation rate reported by you in this questionnaire."

**Brokers:** "In your opinion, what is presently the most prevalent standard capitalization rate at which the following properties are sold/bought in the cities indicated below (assume a cash sale rather than paper)? For leasebacks, assume the escalation rate reported by you in this questionnaire."

**Escalation rate (for industrial leasebacks).** The question put to the panellists is:

**Owners:** "In your opinion, what is presently the minimum escalation rate your organization would accept for industrial leasebacks (if the initial yield equals the standard capitalization rate you provided in this questionnaire)?"

**Brokers:** "In your opinion, what is the current **prevalent** (i.e. most often achieved) market escalation rate for industrial leasebacks (assume the market capitalization rate you provided in this questionnaire)?"

**Hurdle rate:** The question put to landlord panellists is:

"In your opinion, what is presently the **minimum** expected internal rate of return or hurdle rate (%) at which your organization will acquire the following property types in the cities indicated below?" Time horizon!

The question is asked in respect of three property types: office buildings, industrial leasebacks and regional shopping centres.

Respondents are asked to supply two hurdle rates, one rate for "buy" and one rate for "develop on spec".

**Office rentals:** The Rode office rental survey asks respondents to supply average market rentals by grade (grades A+, A, B & C) for a specific office node.

The question put to the panellists is:

"In your opinion, what is presently the nominal gross **achievable/market** rental (not asking rent, not escalated contractual rents, not exceptional deals) per rentable m<sup>2</sup> excluding VAT?" The questionnaire also asks for the typical rent-free period in months, the gross current-year operating costs

per rentable m<sup>2</sup> and the predominant escalation rate on net & gross rentals, and operating costs.

'Nominal' rental means the panellist has to assume no incentives like a rent-free period.

We ask the panellists to assume office lettings of 250m<sup>2</sup> in the case of grades A+, A & B and 150m<sup>2</sup> in the case of grade C (150m<sup>2</sup> in smaller towns for all office grades); occupation within 3 months, a lease period of 4 years and an average position within the building.

**Industrial rentals:** The question put to panellists is:

"In your opinion, what are the current gross **achievable/market** rentals per m<sup>2</sup> for prime industrial buildings for the townships and lease sizes indicated below?"

Respondents are asked to assume that the office portion (if any) is less than 10% of the total area. The assumed floor area sizes are: 250m<sup>2</sup>, 500m<sup>2</sup>, 1.000m<sup>2</sup>, 2.500m<sup>2</sup> and 5.000m<sup>2</sup>. Respondents are also asked to fill in their vacancy estimate for prime industrial space, using a scale of 0 to 9. See the table below for detail on the vacancy scale.

Vacancy scale for industrial townships									
	<10%			10 - 20%			>20%		
<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
Nil	Low			Medium			High		

Thus, the reported vacancies do not represent percentages.

**Industrial land values:** The question put to panellists is:

"In your opinion, what are the current **market** values per m<sup>2</sup> for vacant, serviced levelled land in the townships and for the stand sizes indicated below? Where land is only leased, provide the rent per m<sup>2</sup> per month. Exclude transfer costs and VAT. Provided you are well informed, please give us your opinion even though you might not have concluded a sale for the exact sizes shown in the spreadsheet attachment."

The information is required for stand sizes of 1.000m<sup>2</sup>, 2.000m<sup>2</sup>, 5.000m<sup>2</sup> and 10.000m<sup>2</sup>.

**Flat rentals:** The question put to panellists is:

“In your opinion, what are the current market rentals for new lettings for rent-uncontrolled standard and upmarket flats in the following categories and areas? Parking is excluded from flat rentals.”

Respondents are asked to provide rentals for bachelor, 1-, 2- and 3-bedroom units. Note that the flat rentals are not quoted per m<sup>2</sup>. Rentals for lock-up garages and covered parking are also requested.

designed by: [www.rodegraphics.com](http://www.rodegraphics.com)