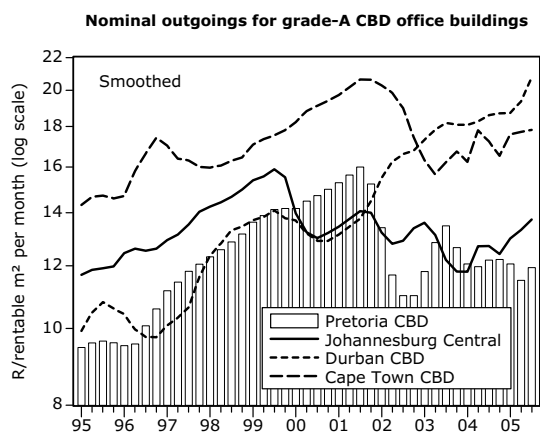


Chapter 10: Operating expenses of office buildings

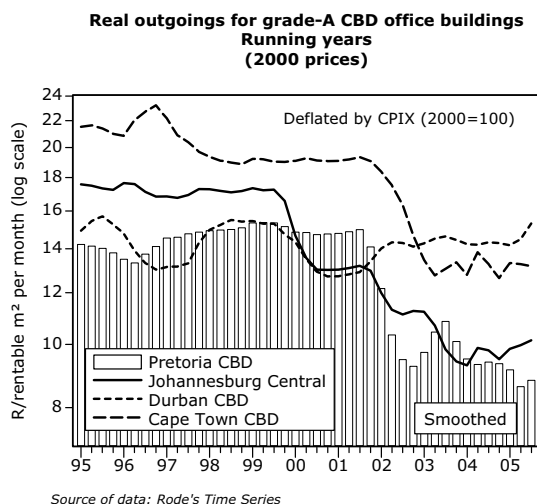
Durban and Pretoria the extremes

CBDs

Operating costs in Johannesburg Central and Durban CBD have been spurring since the beginning of the year, whereas in the CBDs of Cape Town and Pretoria, operating costs have moved sideways. Real (consumer inflation deflated) operating costs followed a similar trajectory.



Source of data: Rode's Time Series



Source of data: Rode's Time Series

Table 10.1, and the accompanying graph, summarize the mean gross operating expenses for quarter 2005:3, as reported by landlords for named properties in the major CBDs.

Table 10.1			
Mean gross outgoings for named CBD prime office buildings			
As reported by owners			
Year ended September 2005 in R/rentable m ² per month			
	Total outgoings		
	Mean	SD	n
Johannesburg & Braamfontein	R13,99	R2,52	11
Sandton CBD	R23,44	R2,15	9
Pretoria CBD	R12,58	R2,23	4
Durban CBD	R21,87	R3,26	8
Cape Town CBD	R17,83	R7,59	9

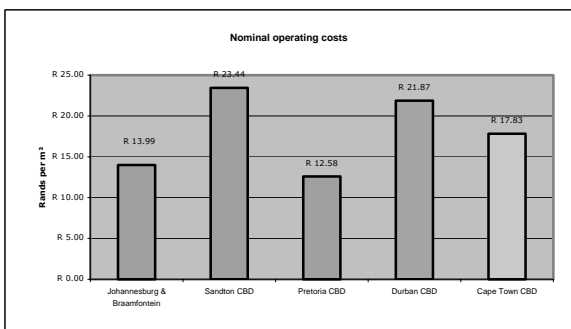
n = Number of buildings in sample; SD = Standard deviation. See Glossary of terms and abbreviations in Annexure 1 or visit www.rode.co.za.

The standard deviation in **Table 10.1** tends to be quite large.

Here are a few of the more significant reasons for this variance:

- Buildings have different market values per m², and hence their rates and taxes per m² will be different. (Of course, different market values per m² *within a node*, are largely related to differing market rentals and vacancy rates, which, in turn, are a function of factors such as the age or quality of a building and the quality of the covenant(s).
- Larger buildings tend to enjoy economies of scale, and this reduces the operating costs per m².
- Age or wear-and-tear aside, maintenance expenses should differ owing to the unique architectural characteristics (design and materials) of each building. A skyscraper, for example, may have a much greater lift-maintenance expense than a 3-storey office building.

Thus, the more homogeneous the buildings in a node are, the smaller the standard deviation should be.

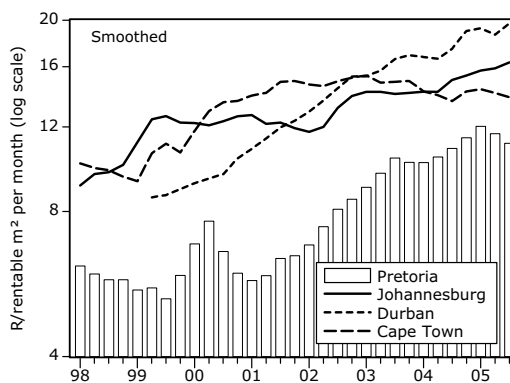


All the graphs portraying the *real* movement in outgoings use the CPIX (consumer inflation excluding mortgage costs) to deflate the *nominal* data. Using the CPIX as deflator implies that we are looking at *real* operating costs from the landlord's or the investor's point of view — as distinct from the developer.

Decentralized office nodes

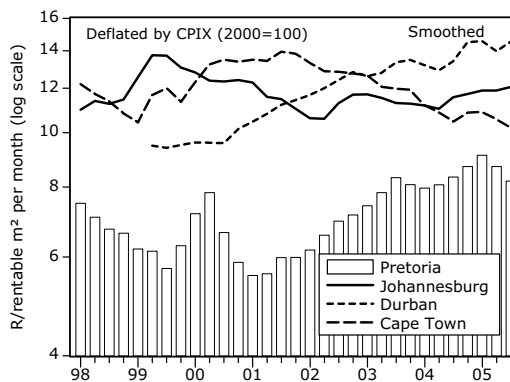
On the decentralized front, Pretoria and Cape Town again showed the weakest movement. In fact, operating costs in these areas have been moving downwards for the last two quarters. In real terms, a roughly similar picture emerged.

Nominal outgoings for grade-A decentralised office buildings



Source of data: Rode's Time Series

Real outgoings for grade-A decentralised office buildings
Running years (2000 prices)



Source of data: Rode's Time Series

What is quite interesting is that in the case of both decentralized nodes and CBDs, Durban has the highest operating costs, whereas Pretoria has the lowest operating costs. We can only speculate that the answer probably lies in the differences in rates and taxes.

This concludes our section on operating

costs. The operating-cost tables follow. ■

Grateful thanks to our panellists for the information they supply. Codes of the brokers and landlords who contributed to this quarter's survey appear in the table on p. 43. An explanation of the codes can be found on p. xii.

Rode & Associates performs two quarterly outgoings (operating cost) surveys — one for CBDs and another for decentralised nodes. The CBD survey is more rigorous and more accurate as it polls institutional owners for actual outgoings for a sample of named CBD buildings, whereas the decentralised survey asks brokers for their opinion as to the current typical outgoings paid by landlords in a given node during the most recently ended year.

We ask all respondents to include the following in their reported outgoings: cleaning, repairs & maintenance, common-area electricity & water, management, all leasing expenses (commissions, advertising, tenant alterations, installations or relocation expenses and buy-outs), security, property taxes, refuse & sewerage less recoverable amount, audit fees, external & common area repairs & maintenance and insurance (fire and Sasria). The following are excluded: head office overheads, tenant's own electricity and water, *recovered* tenant alterations or installations, recoverable refuse & refuse, internal maintenance and VAT.

Table 10.2
Typical gross outgoings for prime office buildings
 As reported by brokers
 R/rentable m² per month: quarter 2005:3

	Mean	SD	n
Johannesburg decentralized nodes:			
Sandton	17,25	2,19	6
Dunkeld West	18,33	2,89	3
Wierda Valley	20,00	1,73	3
Randburg Ferndale	14,20	1,64	5
Rivonia	15,17	2,23	6
Rosebank	18,90	4,45	5
Illovo	17,63	0,48	4
Illovo Boulevard	17,60	1,82	5
Chiselhurst	18,38	2,69	4
Parktown	17,90	0,22	5
Richmond/Milpark	14,00	2,00	5
Bedfordview	14,33	1,53	3
Bruma	14,40	3,05	5
Meadowbrook	N/A	N/A	0
Woodmead	15,60	2,04	5
Sunninghill	14,75	2,52	6
Bryanston/Epsom	16,50	2,88	6
Fourways	16,25	2,99	4
Houghton	18,50	3,00	4
Melrose Arch	25,00	3,54	5
Hydepark	18,50	3,00	4
Eastgate/Kramerville	13,00	2,83	4
Ormonde	14,67	2,89	3
Midrand	12,80	3,27	5
Pretoria decentralized nodes:			
	9,33	5,13	3
Lynnwood Glen	10,00	0,00	2
Lynnwood	10,39	0,68	3
Lynnwood Manor	10,00	N/A	1
Lynnwood Ridge	10,00	N/A	1
Faerie Glen	11,50	4,95	2
Val de Grace	10,17	0,23	2
Menlyn	15,50	7,78	2
Menlo Park (Brooks St.)	10,00	N/A	1
Brooklyn/Waterkloof	13,33	3,21	3
Nieuw Muckleneuk	14,67	6,43	3
Hatfield	10,09	6,65	5
Centurion	10,33	6,81	3
Highveld Technopark	9,00	1,41	2
Sunnyside	9,00	3,61	3
Arcadia	8,50	4,95	2
Murrayfield	9,84	0,23	2

SD and n: See Glossary of terms and abbreviations in Annexure 1.

Table 10.2 (continued)
Typical gross outgoings for prime office buildings
 As reported by brokers
 R/rentable m² per month: quarter 2005:3

	Mean	SD	n
Germiston	16,50	N/A	1
Benoni CBD	16,50	N/A	1
Benoni dec	N/A	N/A	0
Boksburg CBD	10,00	N/A	1
Boksburg North	10,00	N/A	1
Boksburg (East Rand Mall area)	10,00	N/A	1
Vereeniging	N/A	N/A	0
Vanderbijlpark	14,64	N/A	1
Klerksdorp	N/A	N/A	0
Nelspruit	8,00	0,00	2
Polokwane	7,06	1,78	4
Durban decentralized nodes:			
Durban Berea	20,00	0,00	2
Essex Terrace	22,50	3,54	2
Westway	23,00	2,83	2
La Lucia Ridge	24,00	1,41	2
Westville	20,00	0,00	2
Pinetown	17,00	N/A	1
Hillcrest-Kloof (Upper Highway)	N/A	N/A	0
Empangeni	N/A	N/A	0
Richards Bay	9,00	N/A	1
Pietermaritzburg CBD	N/A	N/A	0
Pietermaritzburg peripheral CBD	N/A	N/A	0
Pietermaritzburg decentralized	N/A	N/A	0
Cape Town decentralized nodes:			
V&A Portswood Ridge	18,50	N/A	1
Granger Bay	18,50	N/A	1
Kenilworth (Racecourse)	12,33	4,04	3
Westlake	11,67	2,89	3
Claremont Lower	11,50	4,44	3
Claremont Upper	13,93	2,81	4
Pinelands	13,25	4,60	2
Athlone	N/A	N/A	0
Rondebosch/Newlands	11,50	4,44	3
Wynberg	12,25	6,01	2
Century City	14,25	2,47	2
Goodwood (N1 City)	14,87	1,61	2
Tygerberg Hills	15,25	1,77	2
Bellville CBD	12,39	3,71	5
Bellville Tyger Valley	12,63	2,87	4
Durbanville	13,00	4,24	2
Kuils River	N/A	N/A	0

SD and n: See Glossary of terms and abbreviations in Annexure 1.

Table 10.2 (continued)
Typical gross outgoings for prime office buildings
As reported by brokers
R/rentable m² per month: quarter 2005:3

	Mean	SD	n
Stellenbosch			
Brandwacht	7,00	N/A	1
Vineyard	7,00	N/A	1
Oewer Park	5,00	N/A	1
Tegnopark	10,00	N/A	1
Port Elizabeth CBD	N/A	N/A	0
Port Elizabeth decentralized	N/A	N/A	0
East London CBD	N/A	N/A	0
East London decentralized	N/A	N/A	1
Bloemfontein CBD	10,00	2,83	2
Westdene	11,00	4,24	2
Windhoek	16,50	N/A	1

SD and n: See Glossary of terms and abbreviations in Annexure 1.

Table 10.3
Escalation rates on operating costs

Node	2005:3	Node	2005:3
Johannesburg CBD	10,0	Klerksdorp	N/A
Braamfontein	9,7	Vereeniging	N/A
Sandton CBD	10,2	Vanderbijlpark	8,0
Dunkeld West	10,2	Nelspruit	9,0
Wierda Valley	10,2	Polokwane	9,8
Randburg Ferndale	9,6	Bloemfontein CBD	10,0
Rivonia	10,1	Westdene	10,0
Rosebank	10,1	Durban CBD	9,0
Illovo	10,4	Durban Berea	10,0
Illovo Boulevard	10,1	Essex Terrace	10,0
Chiselhurst	10,1	Westway	10,0
Parktown	10,1	La Lucia	9,0
Richmond/Milpark	10,1	Westville	10,0
Bedfordview	10,2	Pinetown	10,0
Bruma	9,9	Hillcrest-Kloof (Upper Highway)	N/A
Meadowbrook	10,0	Empangeni	N/A
Woodmead	9,9	Richards Bay	9,0
Sunninghill	9,8	Pietermaritzburg CBD	10,0
Bryanston/Epsom	10,2	Peripheral CBD	10,0
Fourways	10,4	Decentralised	10,0
Houghton	10,6	Port Elizabeth CBD	N/A
Melrose Arch	10,9	Port Elizabeth dec.	N/A
Hyde Park	10,2	East London CBD	N/A
Eastgate/Kramerville	9,8	East London	N/A
Ormonde	9,5	Cape Town CBD	9,7
Midrand	10,1	V&A Portswood Ridge	9,0
Germiston	10,0	Granger Bay	9,0
Benoni CBD	10,0	Kenilworth Racecourse	9,7
Benoni dec	N/A	Westlake	9,7
Boksburg CBD	10,0	Claremont Lower	9,7
Boksburg North	10,0	Claremont Upper	9,8
Boksburg (East Rand Mall area)	10,0	Pinelands	9,3
Pretoria CBD	10,0	Athlone	N/A
Lynnwood Glen	10,5	Rondebosch/Newlands	9,8
Lynnwood	11,0	Wynberg	9,3
Lynnwood Manor	10,0	Century City	9,0
Lynnwood Ridge	11,0	Goodwood (N1 City)	9,5
Faerie Glen	10,7	Tygerberg Hills	9,7
Val de Grace	11,0	Bellville CBD	10,6
Menlyn	10,7	Tyger Valley area	9,3
Menlo Park (Brooks St.)	10,5	Durbanville	9,0
Brooklyn/Waterkloof	10,7	Kuils River	N/A
Nieuw Muckleneuk	11,0	Brandwacht	N/A
Hatfield	10,8	Vineyard	N/A
Centurion	10,8	Oewer Park	N/A
Highveld Technopark	10,5	Tegnopark	N/A
Sunnyside	11,3	Windhoek	10,00
Arcadia	11,3		
Murrayfield	10,7		