

Chapter 11: Non-industrial land values

Land values of offices, shopping centres and filling stations

In this chapter we report on the market values of office, shopping-centre and filling-station land. As with all our other surveys, we polled a panel of experts for their opinions.

At the outset, the reader should note that the respondents' opinions on shopping-centre land and, to a lesser extent, filling-station land, vary more than their opinions on office land. This is to be expected, because shopping centres and filling stations are much more heterogeneous (which, of

course, impacts on foot traffic in the case of shopping centres and vehicle traffic in the case of filling stations). Hence, as with all the statistics in this publication, the reader should see these figures as a generalised approximation, which serves as a starting point for further investigation.

Office-land values

The results of the third quarter office-land survey are summarised in **Table 11.1**.

The market value of office and shopping-centre land is generally expressed as the value per **bulk** square metre.

Bulk square metres refer to the gross building area (GBA) of a building. According to *The Sapoa Method for Measuring Floor Areas in Commercial and Industrial Buildings*, GBA covers:

"...the entire building area, but excludes patios, plant boxes, suncreening, escape stairs, machine rooms, parking (basements or above ground), lift motor rooms, service rooms, caretakers' flats, etc.

"GBA is mainly used by planning consultants in order to plan and execute a building in accordance with the permissible Floor Area Ratio (F.A.R) as derived from the zoning of the property."

"GBA is fixed for the life of the building but it should be noted that different local authorities may interpret the National Building Regulations which regulated the F.A.R definition in a slightly different manner."

Developers use the so-called *residual valuation* technique (implicitly or explicitly) to value land. Put in a simplified manner, the residual technique entails the following:

- a) Firstly, the developer estimates the expected market value of the development upon completion.
- b) Secondly, he estimates the expected cost of the development and a profit margin that sufficiently compensates him for risk and the capital employed.
- c) Finally, he deducts (b) from (a), the result (residual) being the land value.

These steps are, however, not straightforward, as they include a number of assumptions (viz. rental levels, vacancies, and capitalization rates upon completion of project; building costs; growth in building costs over project horizon; appropriate profit margin; etc.). Hence land values, generally speaking, have a much broader range than, say, office rentals.

Table 11.1
Office-stand values in quarter 2005:3

Location	R/bulk m ²			SD			n
	Low	High	Best estimate	Low	High	Best estimate	
Johannesburg:							
Sandton CBD	R1.900	R2.815	R2.208	R327	R765	R310	5
Rosebank	R1.582	R2.131	R1.918	R237	R472	R387	4
Illovo	R1.581	R2.436	R1.981	R294	R835	R465	4
Illovo Boulevard	R1.801	R2.505	R2.155	R493	R854	R602	4
Parktown	R1.098	R1.591	R1.319	R275	R473	R311	4
Woodmead	R1.494	R2.197	R1.776	R399	R940	R718	5
Sunninghill	R1.326	R1.894	R1.452	R311	R520	R252	4
Bryanston	R1.845	R2.511	R2.106	R699	R963	R947	5
Fourways	R1.477	R2.056	R1.661	R575	R787	R763	6
Midrand	R796	R1.174	R986	R321	R493	R404	3
Strubens Valley, greater	R1.038	R1.533	R1.216	R548	R625	R608	3
East Rand Mall area	R917	R1.162	R800	R354	R424	N/A	2
Lakeside Mall area	R700	R900	R800	N/A	N/A	N/A	1
Pretoria:							
Brooklyn/Waterkloof	R1.900	R2.100	R2.000	N/A	N/A	N/A	1
Lynnwood	R1.500	R1.700	R1.600	N/A	N/A	N/A	1
Menlyn	R1.500	R1.700	R1.600	N/A	N/A	N/A	1
Hatfield	R1.500	R1.700	R1.600	N/A	N/A	N/A	1
Centurion	R1.100	R1.300	R1.200	N/A	N/A	N/A	1
Highveld Technopark	N/A	N/A	N/A	N/A	N/A	N/A	0
Cape Peninsula:							
Cape Town CBD	R957	R1.722	R1.221	R502	R594	R651	4
Westlake	R1.500	R2.500	R2.000	N/A	N/A	N/A	1
Century City	R1.499	R1.948	R1.750	R225	R100	R0	4
Goodwood (N1 City)	R1.118	R1.732	R1.750	R177	R354	N/A	2
Tyger Valley area	R1.225	R2.000	R1.750	R35	R0	N/A	2
Somerset Mall area	R947	R1.574	R1.285	R87	R361	R283	3
Durban:							
La Lucia Ridge	R1.095	R1.241	R1.050	R141	R212	n/a	2
Westville	R850	R1.000	R1.000	N/A	N/A	N/A	1
Berea	N/A	N/A	N/A	N/A	N/A	N/A	0
Westway	N/A	N/A	N/A	N/A	N/A	N/A	0
Durban Point	N/A	N/A	N/A	N/A	N/A	N/A	0

The market rental and, related to this, the capitalization rate, are the key determinants of market value of an income-generating building. Hence it follows that rental levels will also be a fundamental factor influencing land value. The accompanying graph demonstrates this relationship. The reader will note that we regressed

market rental rates of existing grade-A office buildings in the various office nodes (as reported elsewhere in this issue of *RR*) against their corresponding land values (as reported in this article).

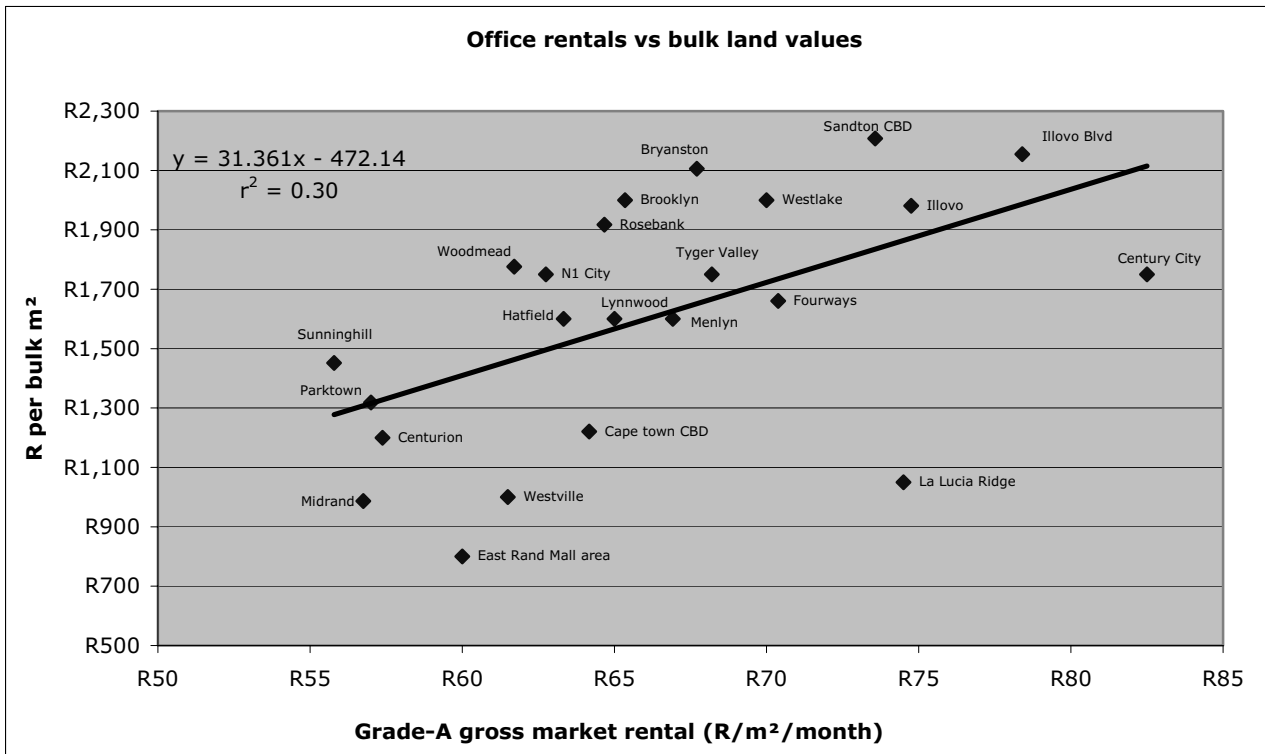
The regression line (or line-of-best-fit) has the following equation:

$$\text{bulk land value} = (31,36 * \text{gross market rental}) - 472,14$$

where

bulk land value = land value in rands per bulk m²

gross market rental = gross market rental per rentable m² achieved on existing top-quality grade-A office buildings in a node



The regression equation is based on the information from 23 office nodes and has a correlation coefficient of $r = 0,55$. The poor fit can be attributed to the fact that, unlike the rental market, the market for office land (or any non-residential land for that matter) is a rather inefficient one — that is, not only do stands differ in many respects (viz. shape, location, soil conditions, etc.), but supply is also often limited, buyers and sellers are limited, and information on the sales that do take place is often incomplete. In such a market, our regression equation should give the analyst or valuer a starting point from which to make a rough estimate of the bulk rate of a stand

in any node.

Consider, for example, the case of a node where grade-A office rentals for existing buildings are currently around R75/m²/month. What is the bulk office land value for this node?

$$\begin{aligned} \text{bulk land value} &= (31,361 * 70) - 472,14 \\ &= R1.880 / \text{bulk m}^2 \text{ (say R1.900)} \end{aligned}$$

Note that this equation should rather not be used to estimate the land values for nodes with grade-A office rentals of less than R55/m².

Shopping centres

Table 11.2 gives a summary of the shopping-centre land values reported by our panel of experts.

The reader will note that regional shopping-centre land is more expensive than community shopping-centre land, which, in turn, is more expensive than neighbourhood shopping-centre land. The fact that standard deviations are so large, is indicative of the fact that shopping centres are very heterogeneous and, hence, their land values can differ substantially. (Of course, it could also mean that because so few transactions take place, market participants are uncertain as to the market value.)

Filling stations

The market value of filling-station land, like that of shopping centres and offices, is critically dependent on the potential net income that the site can generate subsequent to development. Hence in the case of filling stations, the potential pumping capacity is at issue.

We are informed that in order to qualify as a filling-station site, a pumping capacity of 350.000 litres per month is what developers generally require as a minimum. Of course, the capacity of a site to house a 24-hour shop and, perhaps, a car wash (both of which are also related to pumping capacity), will also be important value determinants.

Table 11.2
National shopping-centre stand values

Type of shopping centre	R/bulk m ²			SD			n
	Low	High	Best estimate	Low	High	Best estimate	
Regional	R841	R1,248	R984	R277	R335	R305	5
Community	R710	R1,305	R965	R321	R397	R444	5
Neighbourhood	R692	R993	R795	R365	R502	R459	5

Critical assumptions:

Please note that the shopping-centre questionnaire asks our respondents to make the following two assumptions:

- i. Firstly that the land is already correctly zoned
- ii. Secondly, that the *external bulk infrastructure* is already in place.

The latter assumption is especially important in the case of a regional shopping centre, where it is often expected from a developer to finance the construction of roads, bridges, electric substations and the like, the cost of which often amounts to millions of rands.

Hence, in practice, one will find that a regional shopping-centre developer only paid, say, R1.000/bulk m², but had to pay for external infrastructure amounting to, say, R2.000/bulk m². Hence, in effect, this developer paid R3.000/bulk m² for the land. It is the latter figure that we report on.

The results of our third quarter survey are outlined in **Table 11.3**.

This concludes our section on the land values of offices, shopping centres and filling stations. ■

Table 11.3
National filling-station land survey

R per site			SD			n
Low	High	Best estimate	Low	High	Best estimate	
R1.482.974	R2.393.673	R1.716.897	R370.276	R410.934	R278.837	6

Listed below are names of the companies that participated in our survey:

- ABLAND (Pty) Ltd
- Bales De La Porte
- Barrow Properties
- BP Southern Africa (Pty) Ltd
- Century City Property Developments (Pty) Ltd/Rabie Properties
- Chevron (Pty) Ltd
- Elevation Properties
- Kirchmann-Hurry Investments
- McWilliam Murray Realty
- Multi Projects Development Specialists
- Old Mutual Properties
- Omnicron Commercial Property Brokers (Pty) Ltd
- RMB Properties
- Ronloth
- Spire Property Services
- Stratford Property Ventures
- Total SA (Pty) Ltd