

ROSEBANK PROPERTY UPDATE

Completion of Rosebank's Gautrain station is expected to rejuvenate the node and revive the bustling commercial district

South African property returns have weathered the global downturn remarkably well. Despite the second consecutive year of declines in returns, property performance remains strongly in the black with a nominal 8.7% total return for the year to December 2009. The property market in Johannesburg has still not recovered as reflected by the dip in building activity in the industrial and shopping industry. According to Statistics SA the number of building plans passed from January to May 2010 dropped by 15% compared to the same period last year, and non-residential building plans passed accounted for the biggest chunk of the contraction, with a R3bn or 40% drop compared to last year. Reasons seem to be the more conservative approach to lending by banks and a lower demand for space from tenants, all linked to the overall drop in economic growth.

Without doubt, Rosebank is fast becoming Johannesburg's second business hub in the North after Sandton

The good news is that Rosebank along with other nodes that have a Gautrain station is experiencing speculative development. With the World Cup party over, property investors are back in business. Rosebank, like all well-located prime office nodes seems to be recovering from the weak commercial property market. The soon to be launched Gautrain station will only add to this buoyancy. There is a surge of interest from both local and international corporate tenants for property in Rosebank with a prerequisite being the close proximity to the Gautrain, followed by a preference for 'green' buildings. The growing trend towards a demand for space near the Gautrain stations will have a marked, positive impact on nearby office and industrial areas that meet these criteria as business, tourism and other

commuters begin taking advantage of this convenient new transport facility. A further spin-off anticipated is the increased trade for existing and possible new retail developments near the Gautrain stations as commuters have the convenience of being able to purchase goods en route to their destinations. It is easy to see why these properties would be in high demand - being close to the Gautrain station in Rosebank means ease of access to shops, hotels and places of residence. The entrance to the Gautrain station feeds directly into Tyrwhitt Avenue, between the existing Zone and Zone II.

All major landlords in the node including Hyprop, Investec, Old Mutual, Standard Bank, Tiber and Sasol have committed significant investment for various developments that over time are set to change the landscape of Rosebank. In addition, the completion of the Gautrain and BRT stations, as well as the re-opening of Oxford Road and other routes now closed for construction, will dramatically increase commuter and pedestrian flow to the area and boost commercial tenants who would in turn become patrons of the various retail centres, restaurants and other entertainment facilities.

Dynamic, iconic, green and designed

There are lots of new developments opening, some in progress, and a few still on the drawing board.

The **Holiday Inn Rosebank** in Johannesburg opened for business on 7 May 2010 – another boost for Rosebank as the fastest growing commercial node in Johannesburg. Located next to The Zone shopping centre in Oxford Road, in the heart of the Rosebank management district, the new 158-room hotel is the latest hotel to open under the new Holiday Inn brand standards. The hotel boasts a business centre, restaurant, bar, gym and health/fitness centre, outdoor swimming pool and secure underground parking. Holiday Inn Rosebank is managed by ISO Leisure, in an exclusive partnership with InterContinental Hotels Group, the world's largest hotel group by number of rooms.

Another development milestone will be the official opening of **The Zone Phase II** offering loft offices and two floors of retail in November 2010. A huge range of stores will give shoppers an opportunity to re-invent themselves. Visitors can enjoy a unique shopping experience, starting with easy access for vehicles from 920 parking bays. Pedestrians can gain access from Oxford Road and Tyrwhitt Mall, and there will be direct entrances to the Rosebank Gautrain station and Bus Rapid Transport system. The Zone Phase II integrates with The Zone Phase I on the south and The Firs Shopping Centre on the north.

What is now a giant hole on 25,000m² of land will soon become a state-of-the-art energy-efficient office complex housing **Standard Bank** employees. Construction of the development, which is framed by Bolton, Oxford, Cradock and Baker streets, has begun and is set to be completed for occupation in the first quarter of 2013. Construction began last year with the bulk earthworks. Phase one will see the construction of an 11-storey building. The bank has the rights to go up to 20 storeys but has opted for a lower building with a larger footprint. Standard Bank was one of the first companies to join the Green Building Council in 2008. As a green building, it will be energy and resource efficient. In practice, this means selecting building materials that will have a minimal impact on the environment, following an integrated design to ensure energy and resource efficient design principles and adopting efficient waste management systems.

Oxford Corner, on the corner of Jellicoe Avenue and Oxford Road, and the site of much construction by Tiber Projects of late, is ready for occupation. The main contractor is Tiber Bonvec Construction. The building is intended for offices and measures 8,416 m² of offices over eight floors. There are also two showroom areas measuring 251 m² and 367 m² respectively. The office floors vary in size. The ground floor offices are 723 m² each. On levels two to seven, they measure approximately 1,100 m² each. On level eight the offices are 839 m². The building was designed by Paragon Architects. Construction began in the beginning of 2008 and has taken two years to complete.

Hyprop Investments recently acquired two commercial properties in close proximity to the Mall on Bath and Cradock Avenues. Hyprop has purchased a 70% undivided share in the

office park **Nedbank Gardens** on Bath Avenue directly opposite the Mall. Intaprop (Pty) Limited holds the remaining 30% share. The property comprises three office buildings together totalling 15,700m² of gross lettable area (GLA) on a 14,000m² site. On the corner of Cradock and Tyrwhitt Avenues Hyprop has purchased **Cradock Heights**, a commercial property with a GLA of 4,745m². Hyprop will also soon be totally refurbishing Mall itself. The project includes a substantial cosmetic facelift of the centre as well as the new Planet Fitness gym on the rooftop which opened late last year.

The Rose is a new development planned for Rosebank on the corner of Sturdee and Jellicoe Avenues. This elegant four-storey building, which boasts 2,852m² of office space and 100 parking bays, will only begin to be built once sufficient leases are in place.

On the creative front, **Circa** opened its doors in November 2009. This iconic, three-storey art gallery on the corner of Jellicoe Avenue and Jan Smuts reflects the changing identity of Rosebank from neighbourly to cosmopolitan, cutting edge and world class. Rather than the oval that it at first appears to be, the building is in fact a pure ellipse – this allows interior walls that are ‘flat’ enough for the hanging of artworks. Modular walls that slide between the ground and first floor exhibition rooms allow for innovative and optimal utilization of the space. The top floor has a large open deck that affords visitors a panoramic view of forested Johannesburg. The concrete exterior of the building is sheathed in subtle colour-differentiated anodized aluminum fins. These are set a few centimetres apart from each other so that at night interior light can emerge, giving the building an almost translucent quality.

Rosebank is one of the few urban areas of Johannesburg with a thriving street life. Many of the new developments intend to capitalise on, and enhance, the successful urban environment by drawing visitors and businesses to support the office, retail, entertainment facilities and hotels.

Development progress snapshot

Property	Status
Monarch Hotel, Oxford Road	Complete
Firs/Hyatt redevelopment	Complete
Zone Phase II	Complete
Mutual Square, Oxford Road	In Progress
Refurbishment of Crowne Plaza, Sturdee Ave	Complete
Redevelopment of the Galleria, Cradock/Biermann	Rezoning approved
Tiber office complex, Oxford/Jellicoe	Complete
Redevelopment of Parklands Centre, Keyes ave	In Progress
The Rose office complex, Sturdee/Jellicoe	Rezoning approved
Nedbank Gardens redevelopment, Bath ave	Transport study still to be undertaken
Standard Bank development, Cradock/Baker/Oxford/Bolton	In Progress

Clusters of property use

Various clusters of tenant occupation:

- Retail and entertainment in Upper Rosebank
- Business and financial services in the southern half of the node
- A residential precinct in the northern mid-portion of the node
- A public facilities precinct within the mid-western portion of the node

The Rosebank offering

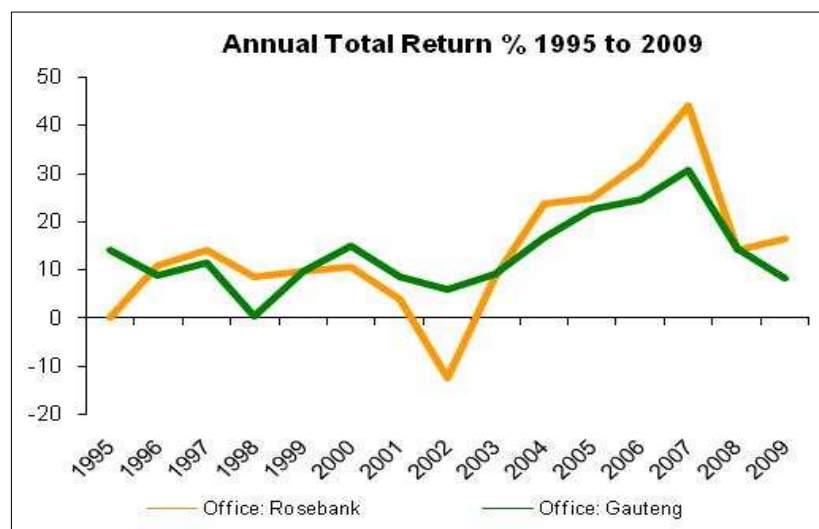
Rosebank's offering includes:

- 7 hotels, 200 retail outlets with more to come when Zone Phase II is completed
- 42 restaurants and cafes, 7 night clubs
- 10 top class galleries, 20 cinemas
- A vibrant African Craft Market, a Sunday rooftop market

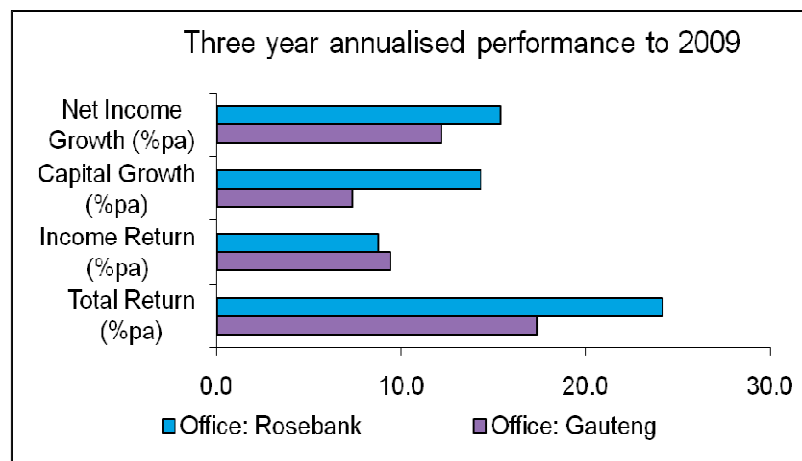
- Home to at least four head offices of large organisations

Property research indicate positive trends

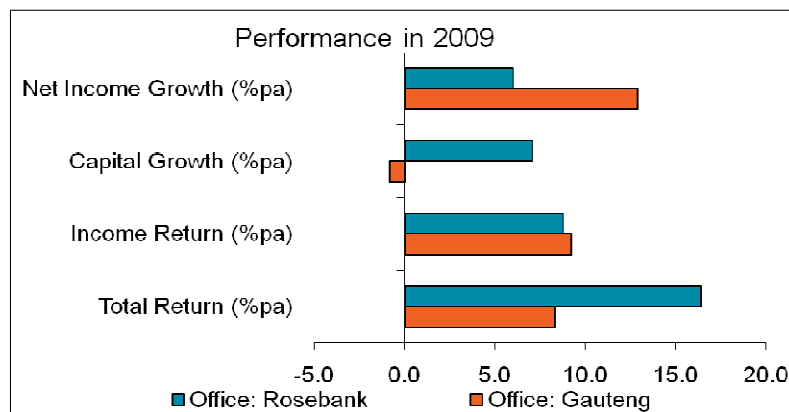
Property research from both Investment Property Databank Limited (IPD) and South African Property Owners Association (SAPOA) clearly indicate that Gautrain has been the catalyst for a lot of development in the area. Key trends as indicated in the IPD graphs (1 to 4) are as follows:



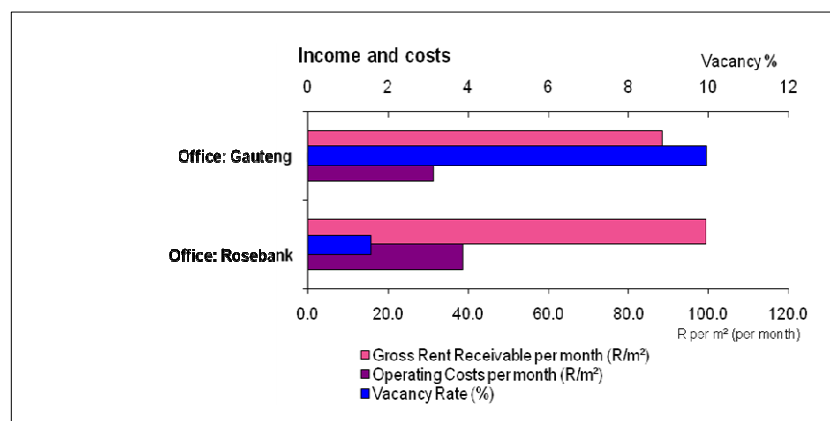
Rosebank office property has outperformed the Gauteng office average over the last 6 years. Downward trends prior to 2003 were the result of an oversupply of space during the late 1990s / early 2000s which saw vacancies peak in 2003. Interest rate spikes in 1998 and 2002 account for the resulting dip in property returns in these years.



The only performance indicator on which Rosebank office fares slightly less than the Gauteng office average is 'net income return'. This is characteristic of higher quality office properties, a feature that is supported by the higher operating costs per month and the capital value per square metre figure.



Low office vacancies in Rosebank are likely the result of a combination of strong demand for, and limited supply of, office rental accommodation in the node.



Lastly, Rosebank office rentals have seen excellent capital growth compared to Gauteng. This is driven by the general economy, sales precedents in the area, the desirability of the area and new investment in the area - the very apparent new property development in Rosebank and future Gautrain are strong drivers of this. Capital growth in turn positively influences total return.

Key definitions:

- Capital Growth - is calculated as the change in capital value, less any capital expenditure incurred, expressed as a percentage of capital employed over the period concerned.
- Total Return - is calculated as the change in capital value, less any capital expenditure incurred, plus net income, expressed as a percentage of capital employed over the period concerned.

Phenomenal prices are being reached in Rosebank, which is booming due to the Gautrain launch and a massive capital injection into the area.

In terms of office vacancy as per the SAPOA office vacancy survey Second Quarter 2009 and Second Quarter 2010, the area bounded by Bolton Avenue, Jan Smuts Avenue, Oxford Road and Jellicoe, including sundry buildings in Parkwood and Parktown North along the major arterial roads, between 2009 and 2010, area available to lease has increased by 27,781m² on 8,311m² last year. This is due to 21,079 m² of grade A space coming onto the market. Minimum gross asking rentals increased in A-grade at R100 per m² gross asking rentals, and the maximum asking rentals in A-grade increasing by R39.50 p/ m² to R169.50 sqm per gross asking rentals. Refer to tables below.

Second
Quarter
2010

Building Grade	Rentable area (m2)	Area for lease (m2)	Current %	Previous months in %			Gross asking rentals - rand m2		
				3	6	9	MIN	MAX	MED
A	117 482	21 079	17.9	7.0	7.7	4.9	100.00	169.50	125.00
B	153 266	5 036	3.3	3.3	3.1	1.9	74.00	115.00	95.00
C	9 350	1 666	17.8	17.8	13.9	6.1	100.00	100.00	100.00
TOTAL:	280 098	27 781	9.9	5.3	5.2	3.1			

Second
Quarter
2009

Building Grade	Rentable area (m2)	Area for lease (m2)	Current %	Previous months in %			Gross asking rentals - rand m2		
				3	6	9	MIN	MAX	MED
A	98 282	2 163	2.2	2.6	2.6	2.0	95.00	130.00	110.00
B	176 532	6 148	3.5	2.6	3.4	1.9	65.00	100.00	90.00
C	8 950	0	0.0	40.1	0.0	0.0			
TOTAL:	283 764	8 311	4.5	3	3.0	1.8			

Glossary of terms

1. Office building grade

Grade P

Top quality, modern space which is generally a pace-setter in establishing rentals and which includes the latest or a recent generation of building services, ample parking, a prestige lobby finish and good views, or a good environment.

Grade A

Generally not older than fifteen years or which has had a major renovation; high quality modern finishes; air conditioning; adequate on-site parking, market rental near the top of the range in the metropolitan area in which the building is located. (The following should also be taken into account in determining whether the building is A-grade or not: Consider whether the building has a good quality lobby finish, quality access to/from an attractive street environment and other similar factors, such as safety and security.)

Grade B

Generally older buildings, but accommodation and finishes close to modern standards as a result of refurbishments and renovation from time to time, air-conditioned; on-site parking, unless special circumstances pertain.

Grade C

Buildings with older style finishes, services and building systems. It may or may not be air-conditioned or have on-site parking.

2. Rentable area

All areas referred to in this survey are rentable areas in conformity with the definition of rentable areas as set out in the SAPOA Method of Measuring Floor Areas in Commercial and Industrial Buildings. Essentially this covers the entire floor, excluding major vertical penetrations of the floor such as stairs, lift shaft, flues, pipe shafts and vertical ducts which serve more than one floor of the building. It includes additional services such as stairs, dumb waiters and lifts which exclusively serve a tenant occupying offices on more than one floor.

3. Gross asking rental

Gross Asking Rental is defined as being the full rental being asked including operating costs and municipal costs excluding parking, VAT, electricity/water consumption and internal cleaning.

Sources:

IPD nodal report 2009

www.sapoa.org.za

www.eprop.co.za

www.property24.com