Molemole Mixed Use Market Study

MARKET RESEARCH FINDINGS
&
RECOMMENDATIONS

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EXECUTIVE SUMMARY

PROJECT BRIEF

DEMACON Market Studies were commissioned by the **Molemole Municipalityt** to conduct empirical market research and compile a specialist market study on the proposed Molemole Mixed Use development, in Mogwadi (formerly known as Dendron) within the Molemole Local Municipality, Limpopo Province.

This report is structured in terms of the following main chapters:

- ✓ Development Perspective & Site Evaluation
- ✓ Economic Profile And Trend Analysis
- ✓ Socio-Economic Market Profile
- ✓ Consumer Market Profile
- ✓ Retail Market Potential Assessment
- ✓ Residential Market Analysis
- ✓ Office Market Analysis
- ✓ Considerations for Retail Development In Second Economy Areas
- ✓ Development Recommendations.

ECONOMIC OVERVIEW

The economic indicators of an area form the basis for current demand for retail product offering and also serve as drivers for future growth in demand. The local economy where the development is located is called **Molemole**. Subsequent paragraphs highlight the main indicators for the market area under investigation. It should be noted that the local economy of Molemole was analysed relative to the Capricorn District Municipality.

Table 1: Key Economic Indicators of the Market Area

Variable	Market Characteristics
Size of the economy (2009)	✓ Molemole local municipal Economy contributed 6.8% towards the Capricorn district economy
Economic Growth Performance (1995-2009)	✓ Molemole Local municipality – Average Annual Growth is 3.9% ✓ Capricorn District Municipality - Average growth is 3.4%
Dominant Economic Contributors within local economy (2009)	Molemole Local Municipality's dominant economic contributors are: ✓ Business and Financial Services – 30.1% ✓ Agriculture, forestry and fishing – 16.4% ✓ Trade – 15.9% ✓ Transport and Communication – 14.7%. ✓ Community and social service – 10.4% ✓ Manufacturing – 4.6% ✓ Construction – 4.0%

The leading economic indicator rose 5.5% year on year (y/y) in January from an 8.9% y/y increase in December. The country's seasonally adjusted leading economic indicator provides a guideline for economic growth for at least six months ahead. The latest increase takes the indicator to an index level of 134.2.

Composite business cycle indicators						
Description	*Sep, 2010*	*Oct, 2010*	*Nov, 2010*	*Dec, 2010*	*Jan, 2011*	*Feb, 2011*
Leading indicator (2000=100)(3)	129.5	129.7	129.9	132.6	134.2	
Coincident indicator (2000=100)(3)	143.5	145.4	147.8	148.8		
Lagging indicator (2000=100)	99.6	99.9	99.2	97.9		

Source: SARB 2011

The indicator increased by 1.2% cent in January 2011 compared with the preceding month. Eight of the eleven component time series that were available for January 2011 increased, while three decreased. The largest positive contribution to the leading indicator came from residential building plans passed, followed by the export commodity price index. The major negative contributors in January were the twelve-month percentage change in the number of new passenger vehicles sold, as well as the twelve-month percentage change in job advertisement space.
The leading indicator had been over 120 and nearer to 130 for the whole of 2007. It slowed, however, and then dissipated when the first recession in 17 years was entered into in late 2008.

The coincident indicator - which moves in line with the economy - for December came in at 148.8 from 147.8 a month before. The lagging indicator, however, was reported at 97.9 from 99.2. The coincident indicator is an economic factor that varies directly and simultaneously with the business cycle, thus indicating the current state of the economy. The lagging indicator changes after the economy has already begun to follow a particular trend.

Using these indicators, the leading, coincident and lagging composite business cycle indices are produced, indicating the direction of the change in economic activity rather than the level of economic activity.

DEMOGRAPHIC SUMMARY

The primary trade area for the proposed retail centre development was informed by a number of factors, of which some are:

- ✓ The general SACSC criteria for convenience centres.
- ✓ Consumer market behaviour and expenditure trends
- ✓ Regional and sub-regional levels of accessibility
- ✓ Geographic barriers
- ✓ General consumer mobility patterns and drive times
- ✓ Presence of competitive centres within an on the outskirts of the trade area.

Table 2: Key socio-economic variables of the market area population, 2011

Variable	Market Characteristics
Primary Market	
Population size (2011)	✓ 25 341 people ✓ 8 924 households
Household Size (2011)	✓ 2.8 people per household
Age	✓ 32.1% - between 0 and 14 years ✓ 11.3% - between 15 and 20 years

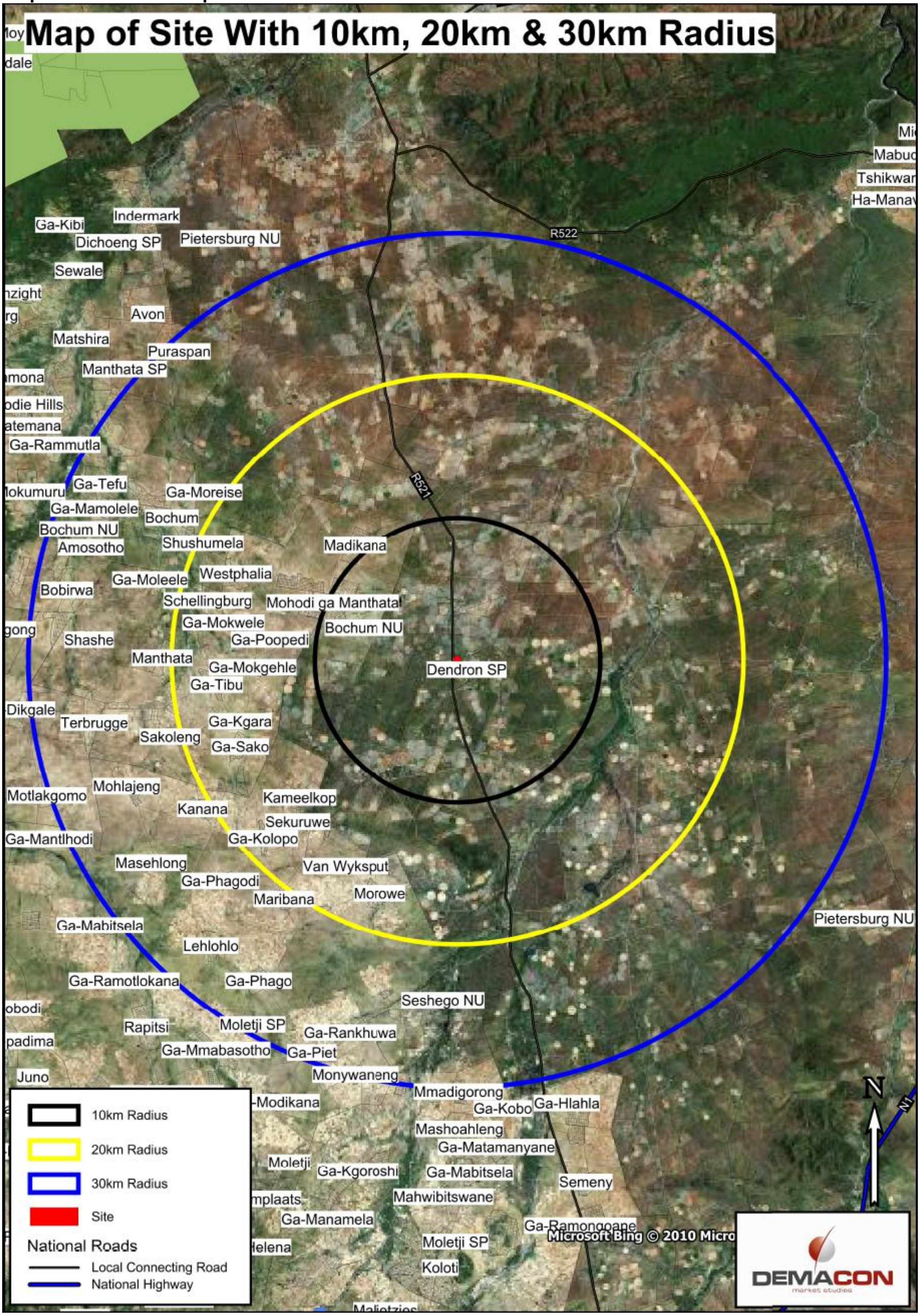
Variable	Market Characteristics
	✓ 34.5% - between 21 and 40 years ✓ 15.9% - between 40 and 60 years ✓ 5.6% - older than 60 years
Highest level of education	✓ 5.8% - Higher education ✓ 10.7% - Grade 12 ✓ 27.6% - Some secondary education ✓ 30.9% - No schooling
Level of employment	✓ 67.5% - Economically active ✓ Of which 83.2% is employed ✓ 16.8% is unemployed
Tenure Status	✓ 33.7% - Occupied Rent Free ✓ 28.4% - Owned And Fully Paid ✓ 25.4% - Owned But Not Yet Fully Paid ✓ 12.6% - Rented
Dwelling Types	✓ 56.1% - Informal dwelling/shack NOT in back yard but on shared property ✓ 38.1% - House or brick structure on a separate stand or yard ✓ 2.7% - Informal dwelling/shack in back yard ✓ 1.3% - Traditional dwelling / hut / structure made of traditional materials ✓ 1.0% - House / flat / room in back yard
Occupation profile	✓ 37.3% - Elementary occupations ✓ 33.0% - Skilled agriculture and fishery workers ✓ 7.2% - Plant and machine operators and assemblers ✓ 5.8% - Craft and related Trades workers
Average household income (2011)	✓ Income earning households: LSM 1-10 ✓ R26 593/annum ✓ R2 216/month ✓ LSM 4 to 10+: ✓ R154 463/annum ✓ R12 122/month
Predominant LSM	✓ 88.4% - LSM 1 to 3 ✓ 11.6% - LSM 4 to 10+
Variable	**Market Characteristics**
Secondary Market	
Population size (2011)	✓ 46 002 people ✓ 14 499 households
Household Size (2011)	✓ 3.4 people per household
Age	✓ 37.3% - between 0 and 14 years ✓ 12.5% - between 15 and 20 years ✓ 28.6% - between 21 and 40 years ✓ 14.1% - between 40 and 60 years ✓ 6.8% - older than 60 years
Highest level of education	✓ 4.6% - Higher education ✓ 9.4% - Grade 12 ✓ 27.4% - Some secondary education ✓ 35.2% - No schooling
Level of employment	✓ 53.5% - Economically active ✓ Of which 75.7% is employed ✓ 24.3% is unemployed
Tenure Status	✓ 62.5% - Owned and Fully Paid ✓ 33.2% -Occupied Rent Free ✓ 2.3 – Rented ✓ 2.0% - Owned And Fully Paid
Dwelling Types	✓ 76.4% - House or brick structure on a separate stand or yard ✓ 10.4% - Informal dwelling/shack NOT in back yard but on shared property
Occupation profile	✓ 38.8% - Elementary occupations ✓ 29.9% - Skilled agricultural and fishery workers ✓ 7.5% - Plant and machine operators and assemblers

Variable	Market Characteristics
Average household income (2011)	✓ Income earning households: LSM 1-10 ✓ R24 172/annum ✓ R2 014/month ✓ LSM 4 to 10+: ✓ R130 800/annum ✓ R10 900/month
Predominant LSM	✓ 90.1% - LSM 1 to 3 ✓ 9.9% - LSM 4 to 10+

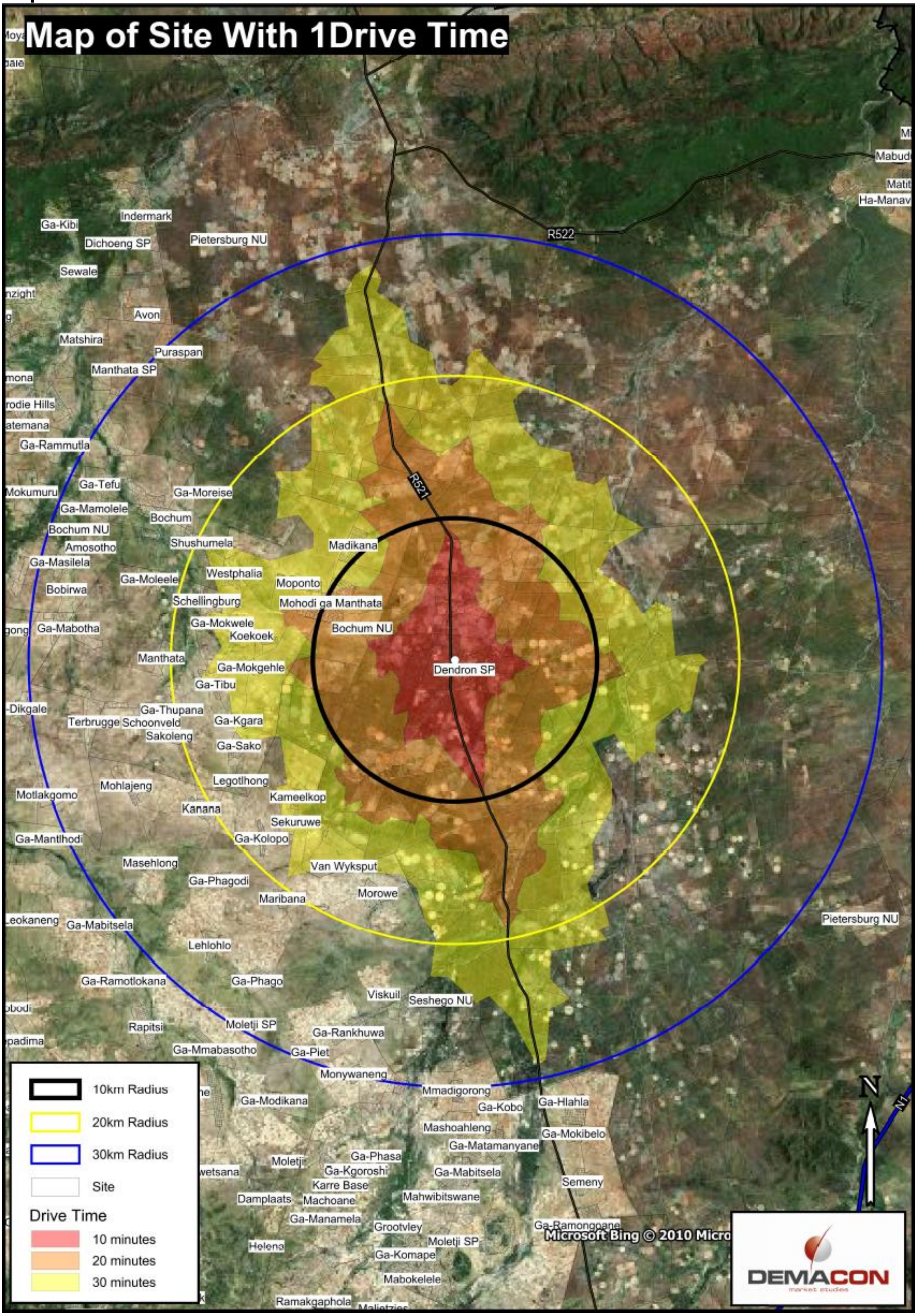
The primary consumer market profile reveals the following pertinent characteristics:

- ✓ It is estimated that approximately **25 341 people / 8 924 households** reside in the primary market area (2011)
- ✓ The weighted average monthly household income for the target market (LSM 4 to 10+) amounts to **R12 122 for the primary market (2011)**
- ✓ **Moderate living standards – 11.6%** (**LSM 4 to 10+)** characterises the Hebron Shopping Centre's core target market, while the LSM 1- 10+ constitute the effective market
- ✓ The market profile will support predominantly **lower to middle-end retail goods and services.**

Map 1: Trade Area Map



Map 1.2: Drive times from Site



SUMMARY OF SURVEY FINDINGS

The table below show the various socio-economic variables of the market area

Table 3a: Key findings of the household survey 2011, Retail

Variable	Finding
	✓ Mogwadi – 71.88% ✓ Kalkbank – 9.38% ✓ Senwabarwana – 6.25%
Number of people in Household	✓ Five – 34.38% ✓ More than Five – 25% ✓ Two – 15.63%
Place of work	✓ Mogwadi – 56.25% ✓ Senwabarwana – 21.88% ✓ Polokwane – 12.5%
Main form of transport for shopping	✓ Own vehicle – 68.8% ✓ Minibus/taxi – 28.1%
Retail centres catered adequately for needs	✓ No – 66.0% ✓ Yes – 40.0%
Preferred Time of the Day: Shopping	✓ 12pm -2pm – 53.1% for weekdays ✓ 08:00 and 12:00pm – 95.65% for weekends
Do you feel there is need for a new shopping centre	✓ Yes – 100%
Would you shop at the new centre if it is built	✓ Yes – 100%
How will the new centre change your shopping pattern	✓ I will visit the centre for shopping purposes – 65.6% ✓ I will never have to shop anywhere else - 21.9% ✓ I will shop less frequently from outside my area – ✓ – 9.4%

Table 3b: Key findings of the household survey 2011, Residential

Variable		Finding
Is there demand for residential development		✓ Yes – 72.0% ✓ No – 28.0%
Would you consider buying in the development		✓ Yes, definitely – 40.6% ✓ Yes, probably – 15.6% ✓ Definitely not – 21.9%
Primary reason to buy		✓ Primary residence – 87.5% ✓ Buy to let – 12.5%
Preferred dwelling type		✓ Full title free standing house – 94.1% ✓ Sectional title: Duplex unit – 5.9% ✓ Sectional title: Stack unit – 0% ✓ Sectional title: Simplex unit – 0%
House features	Bedrooms	✓ 3 bedrooms – 55.6% ✓ 4 bedrooms – 27.8%
	bathrooms	✓ 1 bathroom – 56.3% ✓ 2 bathrooms – 43.8%
	Living areas	✓ 1 living area – 47.8% ✓ 2 living areas – 39.1%
	Garages	✓ 1 garage – 40.7% ✓ 2 garages – 59.3%
Important locational considerations		✓ Proximity to schools – 68.8% ✓ Security – 66.7% ✓ Proximity to workplace – 62.5% ✓ Proximity to retail facilities – 60.0% ✓ Affordability – 60.0% ✓ Peaceful environment – 60.0%

Consumer Household Survey Findings

- ✓ The findings indicated that the primary market is currently underserved, with households travelling to distant shopping centres such as Senwabarwana Plaza and Polokwane retail centres or simply resorting to buying from local sources such as spazas.
- ✓ The general sentiment from the market is that there is need for a new shopping centre in Mogwadi. A critical success factor will be to incorporate a formal taxi rank as part of the precinct since a large portion of the households in the trade area use public transport to reach shopping destinations.
- ✓ The proposed market should target middle order brands as highly branded products are out of reach for the majority of households within the target primary market. The market clearly reflects a strong preference towards the more affordable medium brands across all retail categories.
- ✓ Bank ATM's are also crowd pullers and should be included in the precinct. The incorporation of other government or municipal administrative functions has been successfully used to attract the critical mass need for the success of the retail precinct, for example, the inclusion of a post office or social grants payout point.
- ✓ Survey results show that current facilities are inadequate and a perceived demand exist for a new centre at the proposed locality; this is furthermore supported by the fact that indicated support towards the proposed centres is very high. Consumer elasticity also supports the development of a new centre reflecting an increased tendency to shop locally and refrain from shopping at previous preferred retail destinations. These trends bode well towards the successful development of the proposed retail centre.

LOCATIONAL ASSESSMENT

The development poses unique investment benefits and challenges. Findings of the location assessments can be summarised as follows:

Map 2: Layout Map

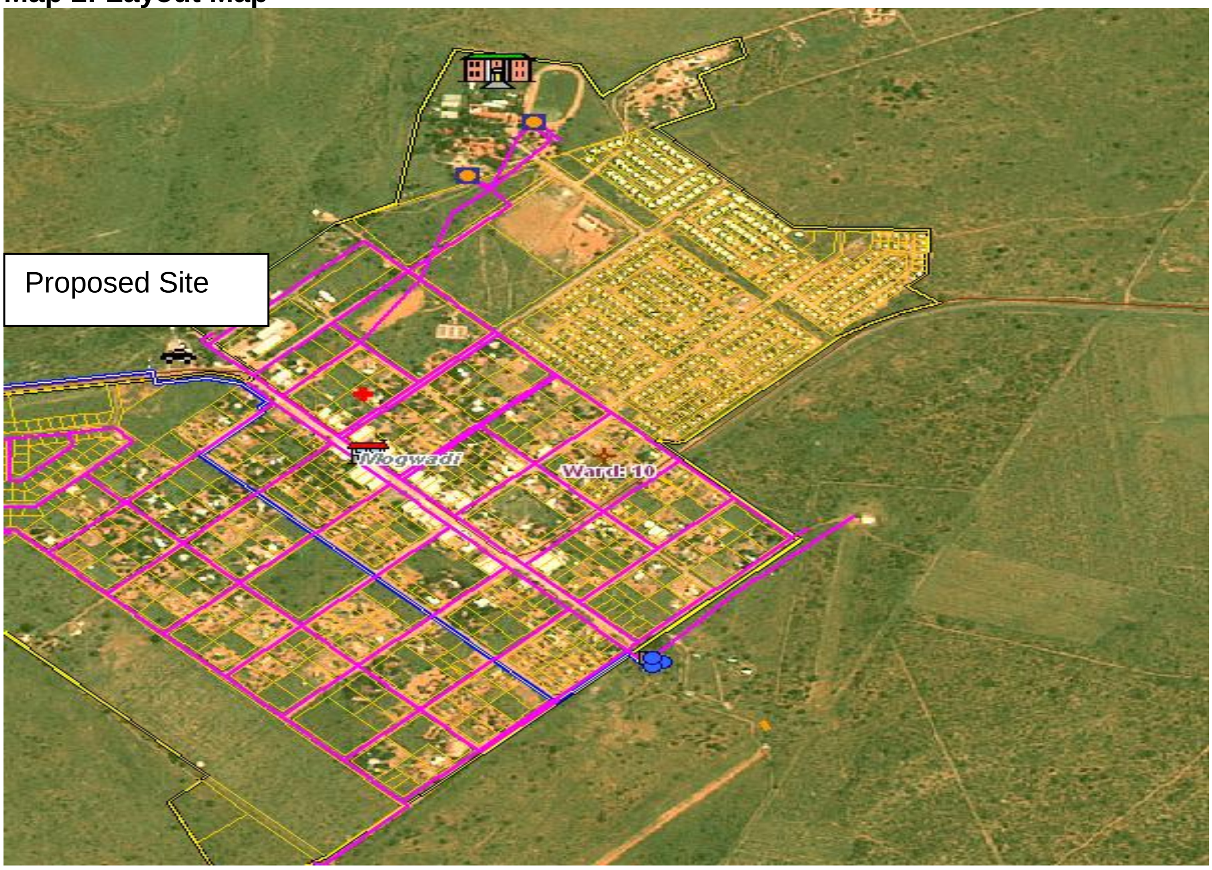


Table 4: Summary of Site Evaluation Results:

Proposed Land Use	Percentage
Retail	72%
Residential	69.8%
Offices	61.4%

* ***Note:*** *80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful mixed use development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

The above assessment, contextualised by the regional economic overview discussed in Chapter 2, should enable stakeholders to make informed decisions regarding future development prospects and investment options in the market area.

The site should be evaluated in the context of the economic and consumer market recovery forecast, as well as the anticipated consolidation phase which macroeconomists and real estate analysts predict will follow in the post 2010 to 2015 / 2016).

The highest and best use principle should be applied to the Molemole mixed use, which suggests that this precinct should focus more on retail and residential activity and limited office development.

RETAIL MARKET GAP ANALYSIS

Development Type	Effective Market Gap	Development Prospects
Convenience Retail Centre	**Yes**	**Medium**

➢ SIZE AND CRITICAL MASS

Demacon's Retail Demand Modelling results illustrate that the consumer market can sustain a *convenience retail facility* based on the following market demand

Table 5: Retail Centre Potential as given by Size that can be supported by Market Area

Project summary	
Average and actual share values	35 - 40%
Total annual growth in market demand (sqm/a)	545
Centre share of growth (sqm/a)	218
Point of market entry	-
Additional growth in demand for centre (sqm)	1,308.04
Retail GLA at OPME	3,641
Services GLA at OPME	910
Cinemas	-
OPME Centre size (GLA m^2)	**4,551 GLA m^2**
On-site job creation	152 jobs
Retail Sales potential (R 2011 value)	95,783,993
Total capital investment - buildings (R 2011 value)	34,587,249
Parking bays required	273 bays
Parking infrastructure & landscaping cost	7,240,386

Source: Demacon 2011

- ✓ Market potential modelling indicates that the retail centre potential is approximately **4 551m^2 GLA**
- ✓ Tenant mix in various retail categories e.g. the entertainment component, additional food and clothing stores – the list of shops, services, restaurants and entertainment provides the shopper with more choice and may increase the dwell times.
- ✓ Ample parking should be provided at a ratio of **6 bays per 100m^2 retail GLA.** This will translate into 273 bays for optimum parking.
- ✓ In terms of employment, the proposed project will create 152 jobs on site.
- ✓ The use of a specialist merchandising / tenant mix specialist is advisable

RETAIL SENSITIVITY ANALYSIS

The sensitivity analysis makes use of two variables to determine market potential for the retail development. These are **LSM type** and **market share**

Given a comparative analysis of SA small towns, a **market share of between 20% and 30%** for a destination type centre is the market. However, in certain circumstances, a lack of competitiveness in the urban landscape has enabled selected centres to achieve absolute dominant market shares of 60 – 70%, thereby effectively closing the door for any potentially competing scheme.

Given the comparative analysis of small towns, the ideal size for a centre with a destination type function in this type of market will be between 5000m^2 – 10000m^2 GLA, for instance, smaller than Makhado crossing (13 456m^2) and is to be an open plan centre with either a **L – or U shape** and not an enclosed mall. In addition to the retail and selected services, an additional **1000m^2 – 2000m^2 can be added for automotive and fitment centres**. A dominant market share will guide a centre size of up to 6000m^2

However, the local market will in all probability continue to be dominated by the Blouberg/Senwabarwana node

Advantages of the proposed retail centre

The development of the new retail centre will have numerous advantages for the local community and municipality:

- ✓ The centre will contribute to the creation of a well-balanced and attractive retail environment, catering for the demands of the primary market of Mogwadi and surrounds.
- ✓ The retail centre will attract higher volumes of consumers to the area, increase convenience through shopping convergence (one stop shopping for various goods and services).
- ✓ It will expand and diversify the current retail hierarchy
- ✓ The community centre will increase and expand the product and service range within the market and improve the overall quality thereof.
- ✓ It will contribute to the expansion of the local municipal tax base.

RESIDENTIAL DEVELOPMENT RECOMMENDATIONS

- ✓ **Gap Analysis**

Development Type	Effective Market Gap	Development Prospects
Low End and Middle Priced Bonded Units	Yes	Medium to High

Demacon's Residential Demand Modelling results illustrate that the consumer market can sustain a *residential project* based on the following market demand scenarios assumed

Table 6: Residential Affordability Profile

Income midpoint	House Price	Generic Indicative Unit Sizes	Distribution (%)	Classification
R 0	R 0	$40m^2 – 50m^2$		Freestanding low cost home
R 3,333	R 8,056	$40m^2 – 50m^2$		Freestanding low cost home
R 10,001	R 24,168	$40m^2 – 50m^2$		Freestanding low cost home
R 20,001	R 48,335	$40m^2 – 50m^2$		Freestanding low cost home
R 40,002	R 96,668	$40m^2 – 50m^2$	93.2%	Freestanding economic
R 80,004	R 193,334	$50m^2 – 60m^2$	3.4%	Gap & Entry level Economic Freestanding / Group
R 160,007	R 386,666	$50m^2 – 60m^2$	2.3%	Low-end bonded
R 320,013	R 773,330	$65m^2 – 75m^2$	0.7%	Middle income
R 640,026	R1,546,658	$100m^2 – 120m^2$	0.3%	Middle-high income
R 1,280,051	R 3,093,314	$150m^2 – 350m^2$	0.0%	High income
R 2,560,101	R 6,186,626	$350m^2 – 550m^2$		Elite
R 3,442,914	R 8,319,991	$550m^2$ -$750m^2$+	0.2%	Elite

Core target market

Source: Demacon, 2011

The target market segment of the proposed development is represented by the finance linked to middle end of the residential market spectrum – households earning on average incomes between R80 004 and R320 013 per annum that can afford houses priced between R200k and R800k.

Project Size and Anticipated Take-Up

Table 7 indicates the current market performance and the market share that the bonded housing component of the proposed project could attract.

Table 7: Summary of Market Recommendations

	TOTAL MARKET		
A	Additional HH: base yr + 6yrs		18,776
B	Annualised Market growth (full housing spectrum)		3,129
C	Bonded & Finance Linked Segment		6.8%
D	Bonded & Finance Linked take-up per annum		214
E	Annual secondary market contribution (units / annum)	Min	9
F		Max	12
G	Total annual bonded & Credit Linked housing demand	Min	223
H		Max	225
	PROJECT SPECIFIC		
I	Project Bonded & Finance Linked Units		450
J	Forecast market share of total market sales	Min	35%
K		Max	45%
L	Project forecast total annual take-up rate (units / annum)	Min	78
M		Max	101
N	Years to 80% take-up (bonded & credit-linked units)	Min	4.4
O		Max	5.8
P		Avg	5.1

Explanatory Notes:
A = increase in demand for new housing units, 2010 – 2015 (i.e. new household formation in the market area)
B = Annualised market growth, i.e. of A/5
D = B x C
E & F = Annual secondary market contribution (i.e. the contribution made by re-sales in the target affordability income brackets)
G & H = Annual finance linked and bonded segment demand; D + E and D + F
I = Project finance linked and bonded units
J & K = assumed market share of market area
L = G x J
M = H x K
N = I / L
O = I / M

- ✓ It is important to understand that the modelling portrays demand and take-up based on current market trends.
- ✓ Table 7 shows two sections, 1) total market and 2) project specific. Between 2011 and 2016 an estimated 18 776 new households will seek accommodation in the target geographic market area, resulting in an **annual growth in demand of approximately 3 129 units** (across the full housing spectrum, including informal and subsidy). Under present market conditions, the finance linked and bonded segment (6.8%) will yield a take-up rate of 214 units per annum.
- ✓ The proposed Molemole project will have **approximately 450 finance linked and bonded** (entry level to middle priced) units.
- ✓ Based on competition in the market it is anticipated that the project will be able to attract a **market share of between 35% and 45%,** this will furthermore be supported by an additional impact of annual direct takers, i.e. new mines/ power stations etc. opening within the area. **Project take up will amount to 80 to 100 units per annum** resulting in an average project take-up rate of 5.1 years for the proposed 450 units.
- ✓ It is recommended that the development should be phased – for example two phases - each constituting **200 - 250 finance linked and bonded units.**
- ✓ A rental component of between **80 and 100 units** can be included as part of the overall development. It should however be noted that developers interest in rental stock commence at attainable monthly rentals of R2 500 per month.

DEVELOPMENT RECOMMENDATIONS SUMMARY FOR MOLEMOLE HOUSING DEVELOPMENT

Composition:

The proposed subsidy component of the project in our experience, at 35% is much in line with the best practice market norm of 30% to 40%. Research has found that this rate has definite implications on the take up rates of bonded units.

Subsidy Component:

- ✓ Top Structures Minimum Size: 40m^2 – minimum 2 bedrooms
- ✓ Stand Sizes: approximately 250m^2 – except if it represents attached units
- ✓ Value: Below R180 000
- ✓ Number of units: 300

Bonded Component:

- ✓ Top Structures: From 40m^2+
- ✓ Stand Sizes: From 150m2 to 400m^2 – can also include number of larger stands ranging up to 750m^2

- ✓ Value: Priced from R200 000 to R800 000 (with more emphasis on the lower and middle-end of the scale).
- ✓ Number of units: 450.

➢ OFFICE GAP ANALYSIS

Development Type	Effective Market Gap	Development Prospects
Low Rise, Medium Density, Suburban Lifestyle Office Developments	Yes	Low

The optimum point of market entry should be introduced to the market once the shopping centre is operational Modular design is recommended to facilitate flexibility and adjustment in accordance with user requirements specifications.

Table 8: Synthesis of Space Demand Modelling Results – m^2 GLA

Cumulative Additional Space Demand	2011	2016	2021	2026
Finance & Insurance *(sqm GLA)*	4	29	78	120
Business services *(sqm GLA)*	40	266	731	1,119
TOTAL: Molemole (Dendron)	**44**	**294**	**809**	**1,240**
Nodal Share - Min	**35**	**236**	**647**	**992**
Nodal Share - Max	**44**	**294**	**809**	**1,240**
Average	**40**	**265**	**728**	**1,116**

** Note: the nodal shares and the average figures are cumulative*

Table 9: Recommended office park space options

VARIABLES	Rand per annum / m^2 GLA
Size of Office (sq m) (up to 2026)	**1,116 m^2 GLA**
Capital investment (2011 constant values)	**R11,157,104**
Employment opportunities	**56 jobs**
Parking	**30bays**
Parking infrastructure & landscaping cost (2008 constant values)	**R2,783,474**
OPME	**-**
Gross rentals (excl VAT)	**R80 – R100**

** Note: the nodal shares and the average are cumulative figures*

RECOMMENDATIONS

- ✓ An area of approximately **1 116m^2** office GLA (up to 2016) is to be allocated as gross leasable Grade A and Grade A+ office space.
- ✓ The total average development potential up to **2016** amounts to approximately **265m^2 GLA** increasing to **728m^2 GLA** of developable bulk by **2021** and **1 116 m^2** in **2026.**
- ✓ The recommended type of developments: Grade A office development
- ✓ The sustainability of the office development will hinge on the slow roll out of the office component to the mixed use due to low demand.
- ✓ The optimum point of market entry for the development should come on stream once the shopping centre becomes operationalProvision should ideally be made for future expansion of activities at the node.

Overall the development prospects for the Molemole Office Development are still low. The site is ideal for office development but the node still need to ramp up its commercial activity before the office component becomes significant.

LAND USE BUDGET AND IMPLEMENTATION TIMEFRAMES

Land Requirements

Table 13.20 provides an indication of the ideal land use budget, given forecast take-up rates for the various projects. The project consist of residential, industrial, retirement, trade, retail, short stay, medical and offices.

Table 13.20: Land Take-Up (hectares)

Land use Components	Net demand up to 2015 (over medium to long term)	Surplus buffer (20%) - future expansion	Roads, Social Services, etc (20% - 30%)	Percentage of development
Offices	0.2	0.2	0.3	**0.8%**
Retail	1.4	1.6	2.0	**5.6%**
Residential - middle to higher	18.0	21.6	27.0	**73.8%**
Residential - subsidy	4.8	5.8	7.3	**19.8%**
Hectare Take-up	**24.4**	**29**	**36.6**	**100.0%**

Note: Models accepts full occupancy - Surplus buffer of between 20% and 30% allowed

Given prevalent market conditions and future expectations, an estimated 36.6 hectares of land could be successfully developed within a 5 – 10 year timeframe. The bulk of the precinct should be allocated to residential, both financed linked and subsidy units (73.8% and 19.8% respectively).

A mixed use precinct node with retail and offices could account for a further 6.4%.

Estimated Timeframe for the Land Uses

Table 13.21: Estimated timeframe for the land uses

Land Use	Proposed Size	Total Proposed Size (hectares)	Optimum point of market entry
Residential - bonded	450 units	27.0	2012 / 2013
Residential - subsidy	194 units	7.3	2013 / 2014
Retail	4551m^2	2.0	2013 / 2014
Offices	1,116m^2	0.3	2016 / 2017
Total		**36.6**	

To conclude, from the land use tables - demand for the project amounts to approximately **36.6 hectares**. In this context, the highest and best use principle should be applied which suggests that residential and retail would be the highest and best use while office and other commercial components could follow once these have been successfully completed.

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Chapter one provides an introduction and a concise report outline for the *Molemole Mixed Use Market Study.* The chapter also provides concise background to the project, a study area description as well as a report outline.

1.2 PROJECT BRIEF

The Molemole Municipality requires an independent, specialist analysis regarding the capacity of the market to sustain a proposed mixed use development located in the Mogwadi area of Molemole Local Municipality.

In terms of the project brief the study should assess the following aspects:

- ✓ Current retail supply and demand status of the market
- ✓ Identification of the trade area and sphere of influence
- ✓ Estimating the market share calculations of various consumer market segments
- ✓ Assessment of the magnitude of residential growth
- ✓ Identification of development trends and new initiatives within the greater market area
- ✓ Current and future market potential for retail floor space
- ✓ Consumer market expenditure patterns, perceptions and preferences with regards to the proposed Molemole Mixed Use
- ✓ Recommendations, including relating to size and composition of the proposed retail centre.

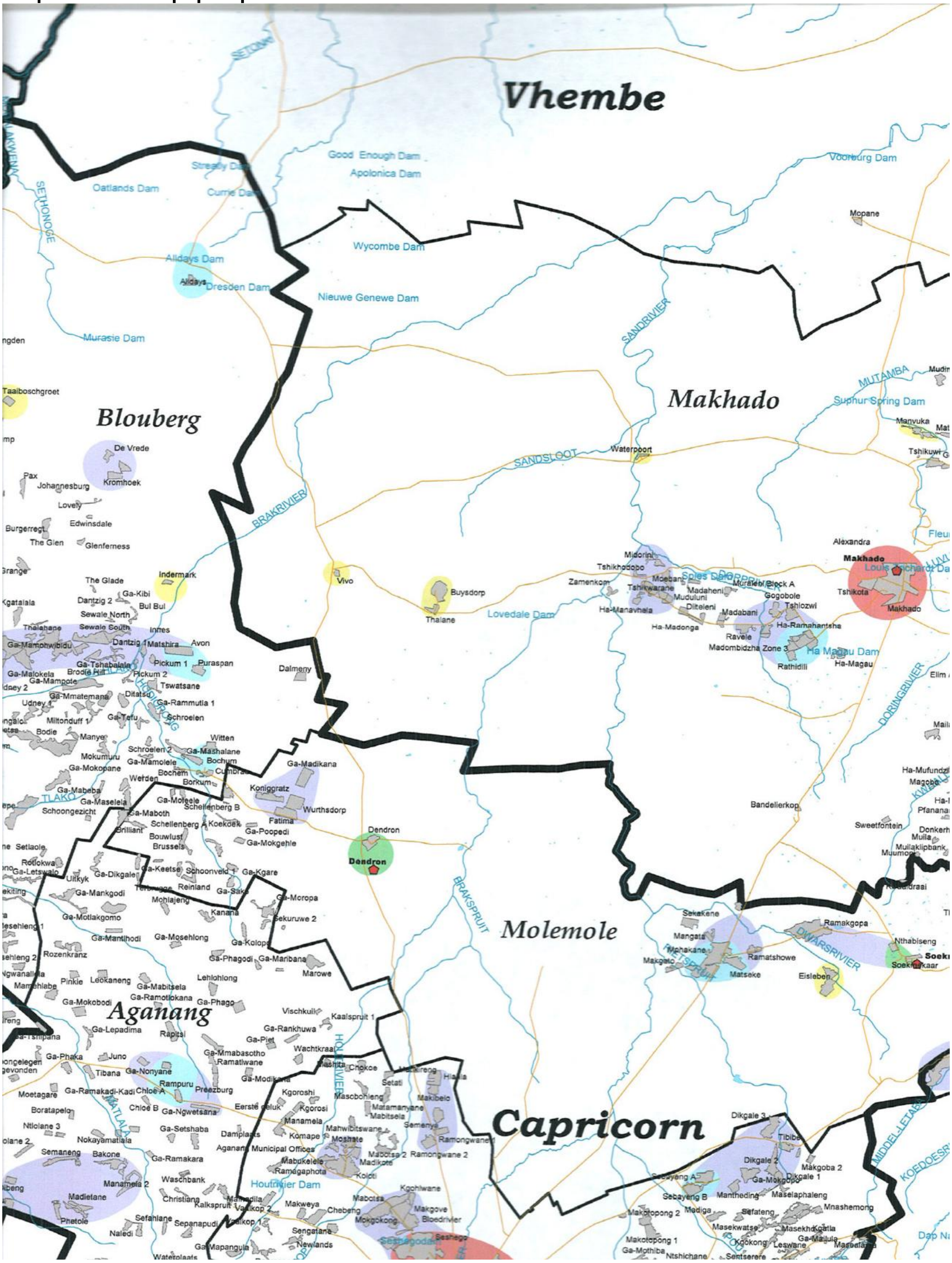
Pursuant to conducting a comprehensive market research approach, Demacon employs multi-variant economic and demographic techniques – an approach that is more robust, as opposed to singular dimensional demographic analyses.

1.3 LOCATION OF THE SITE

The proposed Molemole Mixed Use development site is located in Mogwadi, within the Molemole Local Municipality. Molemole Municipality is located within the Capricorn District Municipality which is in the Limpopo Province. It is located about 60km north-west of Polokwane. **Molemole Municipality's head office is situated in the town of Mogwadi**, formerly known as Dendron.

Map 1.1 below illustrates the Limpopo Spatial rationale, while map 1.2 and map 1.3 show the location of the proposed site within the municipal economy area the location of the centre within a refined local context respectively.

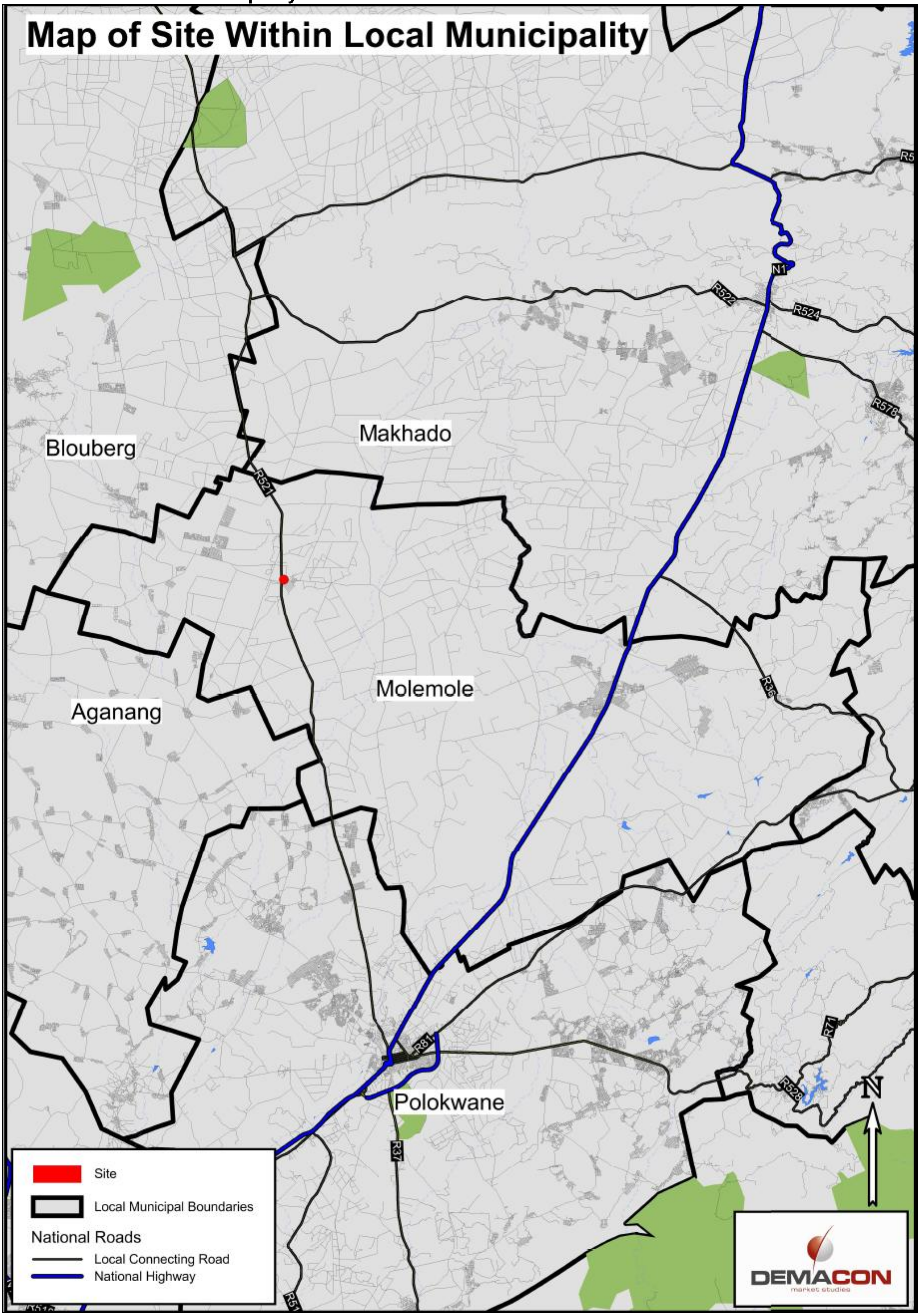
Map 1.1: The Limpopo Spatial rationale



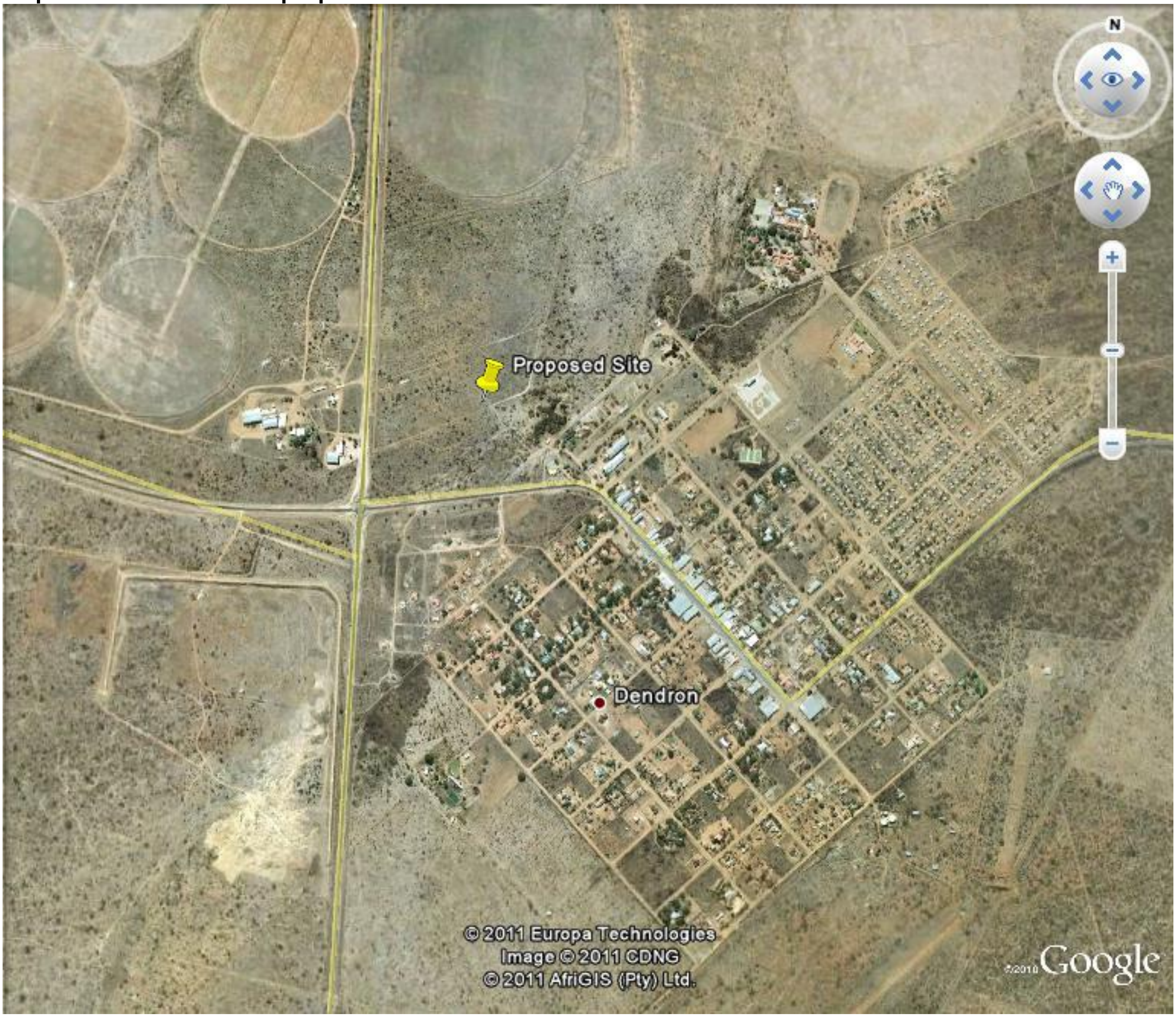
Source: Dwarf

The map shows the Limpopo spatial rationale indicating the various spatial rationale clustures. Mogwadi/Dendron is identified as a district growth point.

Map 1.3: Location of the proposed Molemole Mixed Use Site within the municipal boundaries of the Molemole Local Municipality



Map 1.2: Location of the proposed Molemole Mixed Use within a local context



1.4 REPORT OUTLINE

The remainder of the report is structured in terms of the following chapters:

- ✓ **Chapter Two:** **Location and Development Context**
- ✓ **Chapter Three:** **Economic Profile & Trend Analysis**
- ✓ **Chapter Four:** **Socio-economic Market Profile**
- ✓ **Chapter Five:** **Consumer Market Profile**
- ✓ **Chapter Six:** **Retail Market Potential Assessment**
- ✓ **Chapter Seven:** **Residential Potential Assessment**
- ✓ **Chapter Eight:** **Office Market Potential Assessment**
- ✓ **Chapter Nine:** **Considerations for Retail Development In Second Economy Areas**
- ✓ **Chapter Ten:** **Development Recommendations.**

The following Chapter provides a detailed local development perspective of the Molemole economy in which the centre will be located supported by a site evaluation.

CHAPTER 2: LOCATION AND DEVELOPMENT CONTEXT

2.1 INTRODUCTION

The proposed development site is situated within Mogwadi Town, in the Local Municipality of Molemole which is located within Limpopo province. The Chapter aims to provide contextual background to the area and general development trends, cumulating into a location assessment of the site as potential retail location.

2.2 REGIONAL CONTEXT AND SPATIAL DEVELOPMENT GUIDELINES

Molemole Municipality covers an area of 3,347 km. The municipality is bordered to the south by Polokwane Municipality, to the North West by Blouberg Municipality, to the south east by greater Letaba Municipality and to the north by Makhado Municipality. Molemole Municipality forms part of the five municipalities that makes up Capricorn District Municipality, namely, Blouberg Municipality, Aganang Municipality, Lepelle-Nkumpi Municipality and Polokwane Municipality. One national road, the N1 crosses through the municipal area linking Molemole with Zimbabwe to the north. The provincial road P94/1 (R521) passes through the municipality and links Molemole to Botswana to the west.

Building Blocks of the Molemole Spatial Development Framework

Inorder to reap the maximum benefits of development in Molemole, its Spatial Development Framework focuses on economic infrastructure and social development based on the following three principles; consolidation, leveraging the resource base and creation of linkages. Each of the principles is briefly discussed as follows:

i) The Principle of Consolidation

A compact urban environment creates the opportunity for any functional activity to exploit economies of scale. As such, urban areas cluster together to achieve economies of scale. To achieve a consolidated urban structure, densification and infill developments should take place. New developments are also strategically placed in relation to existing opportunities and infrastructure. Consolidation of urban environments requires a high level of service provision supported by an integrated transportation system. The principle of consolidation should focus on the available resources and the optimal utilization thereof.

In the rural environment, the same principle should apply, save for the fact that, the scale and focus would differ from area to area. As the rural area is not homogeneous, each approach should be focused on the potential of the area. The focus should be on what is available and how it contributes to the growth and development of the area.

ii) Focus on the Resource Base

The framework notes that resources are limited, but if managed and utilized to the fullest potential, the spinoffs should benefit the region. Efficient management and proactive planning should be focused on the resources to be consolidated into an approach to contribute to the development of Molemole Local Municipality. The aim should be to focus on the resources within the area and to build on the potential.

Unique areas such as manufacturing, agriculture and tourism, which can compete in the provincial economy, need to be developed and marketed in such a way. Combined efforts lead to success.

iii) Creation of Linkages

Molemole Local Municipality's SDF also notes that intra- and inter-regional linkages need to be developed to create a grid of linkages opening the area and increasing the accessibility. Some areas, like the urban areas, would require a dense grid of linkages whereas the rural areas would require a more dispersed grid of linkages.

The concept to create appropriate linkages in supporting the development in the Molemole Local Municipality can best be illustrated by the principle of a grid, which represents conceptually the ideal situation for the creation of linkages, and provision of services. The concept of linkages forms the base of the enabling framework together with the development potential of the Molemole Local Municipality.

The Molemole Spatial Development Framework can be categorized into the following development categories:

- ✓ Primary Urban Core Development area;
- ✓ Agricultural Development Area;
    - Intensive area;
    - Extensive area;
    - Urban area;
- ✓ Enabling framework of linkages and nodal development; and
- ✓ Tourism Development.

Molemole Local Municipality Spatial Development Framework

Primary Urban Development Area

This zone represents a combination of different land uses which includes living, commercial / economic, social and recreational environments. The focus of this development area is consolidation, integration and the maximization of the existing resource base (infrastructure)

➢ Residential Development

The residential / settlement areas are primary structured around the urban development nodes of Botlokwa, Morebeng and **Mogwadi**. In addressing existing and the future residential development, the focus should be on the following principles:

- ✓ The urban/settlement areas should focus on service and infrastructure development. If the residential areas is separated from each other, the serviceability cost (implementation and management) becomes very expensive;
- ✓ The settlement areas should be delineated by an urban fringe, as to contain future uncontrolled urban/settlement growth. This principle will contain urban sprawl and promote residential intensification;
- ✓ The development of the core urban/settlement areas should be linked to sustainable areas in terms of population / households. By establishing integrated larger settlement concentrations, complimentary higher order social , economic and recreational facilities will establish;
- ✓ The urban areas / settlements must be managed in terms of the Town Planning Scheme. Higher order activities should be allowed where it attracts the maximum exposure, whilst protecting the residential areas from infringing conflict uses;
- ✓ Within the urban/settlement areas, different housing typologies at higher densities should also be encouraged. Within the Molemole Local Municipality area, the urban/settlement concentrations should be structured as follows:
- ✓ The Botlokwa area is the primary urban settlement area adjacent to the N1 Freeway. Smaller settlement areas should be integrated with the larger areas to become an integrated urban environment.

- ✓ In view of its strategic locality along major transportation routes, and the railway line in the case of Morebeng, it is proposed that the urban areas of **Mogwadi** and Morebeng became second order urban / settlement nodes. The aforementioned areas are also centrally located in terms of dominant agricultural practices.
- ✓ Although the settlement areas of Mokomene and Mohodi Ga Manthata is not strategically located along major transportation routes, these areas provide strategic support (employment, social services and linkages) to the areas of Botlokwa and Morebeng (Mokomene) and **Mogwadi** (Mohodi Ga Manthata).
- ✓ The other smaller settlement areas, particularly in the western portion of Molemole Local Municipality area is fragmented, and for such reason should not be encouraged to expand further. It is proposed that a detail social audit be conducted in order to ascertain the extent and locational factors of these activities.

With regard to new residential developments/ allocations, an additional 3500 sites/units have been allocated in the Botlokwa area. With an additional need of **2000 sites in Mogwadi**, the aforementioned allocations, in addition to demarcation of sites over the last 2 years will primarily focus on the subsidized market. Being planned is the construction of 500 middle - high income stands for the Motumo Trading Post, and they will be linked to the game reserve.

➢ Commercial / Industrial Development

The commercial and industrial activities in Molemole Local Municipality are primarily characterized by the following elements:
- ✓ Very limited higher order facilities exist in the areas as most of the residents conduct shopping in Polokwane;
- ✓ In view of the large rural component, accessibility to some of the local shops is difficult; and
- ✓ The pricing structure of the goods is higher than in the major urban areas.

In view of the proximity of the identified urban/settlement nodes (Mogwadi, Botlokwa and Morebeng) along the primary transportation routes, in addition to the fact that these areas already provide some services to adjacent settlements, it is proposed that higher order retail / commercial facilities be located in these areas.

From a locality and design point of view, the following factors should be considered:
- ✓ The stand/s should be strategically located along or at intersection of collector or main roads;
- ✓ The design of the site should be integrated by providing consolidated retail space in one (1) building;
- ✓ The tenant mix should provide for one (1) or two (2) anchor stores complimented by a number of smaller retail outlets;
- ✓ The site should be designed to provide for on-site parking, taxi-rank and loading / off-loading area;
- ✓ The development must be visually attractive and well defined; and
- ✓ Through traffic to other areas must be intercepted.

Although the higher order retail / commercial activities are proposed to be established within the proposed primary urban/ settlement nodes where population thresholds are higher and accessibility is good, 2nd order retail facilities could also be established in other settlement areas. Retail / commercial activities is driven by need and initiated by the private sector.

Apart from a few service industrial activities, no major industrial area exists in the area. With the large focus of irrigation agriculture in the Mogwadi area, there is a potential to establish processing, packaging and distribution points in close proximity to the areas of production. The same principle applies in the Morebeng area, where plantations exist. Secondary

manufacturing should be promoted. Other economic opportunities which should be promoted within the Molemole Local Municipality area are:
- ✓ The massive production of farming products and the establishment of agri-industries focussing to export internally and internationally;
- ✓ The marketing of the granite mines in close proximity to the Botlokwa area; and
- ✓ The intensification of the expanded public works programme.

Other LED projects which have been identified which will contribute to the establishment of job opportunities; include:
- ✓ Mining – The mining of Gold at Goedenoeg and Magnetite quartzite at Zandrivierspoort;
- ✓ Agri-Businesses at **Mogwad**i and Morebeng;
- ✓ Tourism – At Morebeng;
- ✓ Manufacturing at **Mogwadi** (Marula Processing); Mokomene (Mixed activities) and Matoks (Shopping Centre)

Social Facilities

Social and recreational facilities need to be integrated and provided in support of the residential growth. It is proposed that a "resource audit" be conducted to determine the over-and under provision of facilities linked to locality.

Agricultural Development Zone

Within the Molemole Local Municipality, the majority of land is classified as agriculture. This sector is unique insofar as it has sufficient adaptability to compliment other sectors. In view of the challenges and the diverse nature of agricultural activities, not only in terms of extent, but also the use, agricultural development opportunities are categorized into three (3) zones:

i) Intensive Zone

Large areas of intensive agriculture are situated within the western section of the Municipal area. This form of agriculture presents a number of opportunities in as far as it's can create additional work opportunities and the establishment of agribusinesses where processing will take place. The intensive agricultural zone should primarily support the secondary development node of Mogwadi focusing on:
- ✓ Agricultural processing;
- ✓ Market;
- ✓ Low to medium intensity tourism and hospitals uses;
- ✓ Provision of formal housing; and
- ✓ Mixed land uses based on agricultural activities.

ii) Extensive Farming

The cultural and eastern sections of the study area are primarily characterized by extensive farming activities (stock and game farming). This area is also subject to a large number of land claims. With the extensive nature of the area with low population densities, this agricultural activity need to be promoted by providing viable stock, rained crops and game farming. Large portions of land have been identified in the Central area of Molemole Local Municipality, which have potential to be developed for agricultural development. With the effective east/west linkage throughout the area, this identified area will become more accessible.

Secondary activities which could be linked to this agricultural practice include:
- ✓ Tourism and hospitality on game farms;
- ✓ Processing of meat products;
- ✓ Arts and crafts;

- ✓ Retail support to farms; and
- ✓ Industries (Taxidermus).

It will be extremely important to complete the land claims process as large portions of land is not being effectively farmed and utilized. The finalization of this process will ensure positive investment and job creation opportunities.

The primary and secondary settlement nodes of Botlokwa and Morebeng should provide a support function to these areas.

iii) Urban Agriculture

Large portions of land adjacent to the settlement areas is characterized by Traditional Authority land ownership. The majority of these portions are being farmed communally. Smaller pieces of infill areas should be made available to beneficiaries for subsistence farming. In this regard it is proposed that a land management plan be established to direct these activities.

iv) General

As large portions of land within the Molemole Local Municipality area is communally farmed without proper management, some of the areas are overgrazed which leads to erosion and long recovery periods. It is proposed that a process being implemented amongst Traditional Leaders whereby land management is being introduced through training sessions.

The agricultural sector provides the largest economic growth potential, where opportunities within the potato and game farming sub-sectors are great. Import parity farming has increased the maize price to such an extent that an opportunity is created for potatoes to become an alternative source of basic nutrition. This will result in a considerable increase in the market of potatoes in their raw form and to substitute in various food or food preparations. The development of these opportunities will require a strategy to be formulated in conjunction with representatives of the potato farmer's union and subsistence farmers.

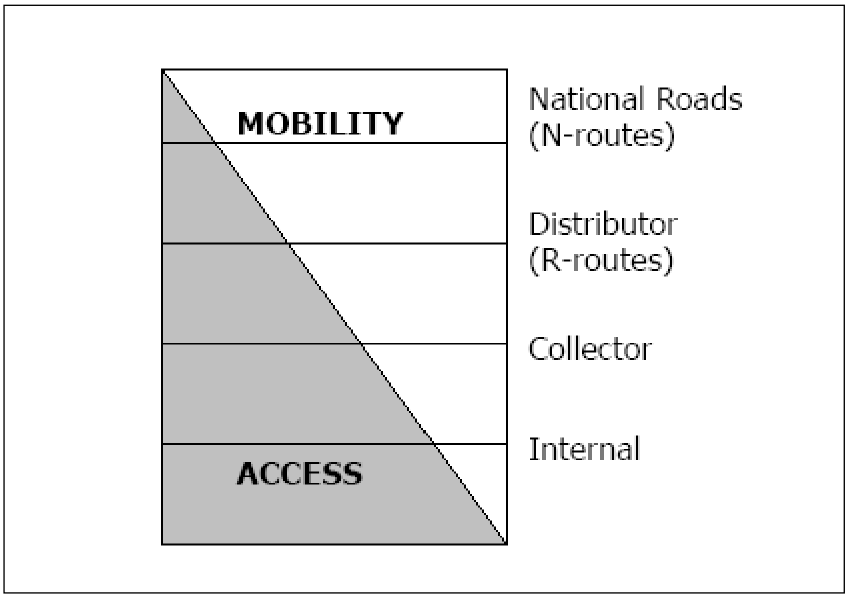
➢ Enabling Framework of Linkages and Nodal Development

The enabling Framework will create the necessary linkages within and between the proposed development zones to provide and increase accessibility with a regional context. The framework is based on the interaction and support between existing linkages and the development potential of specific areas. As transportation corridors tend to direct growth and development in the urban and rural environment, it is proposed that the existing network be strengthened. Based on the principle of creating linkages, each potential development zone requires specific levels of accessibility and hence specific intensities of linkages.

This subsection deals with the principle of linkages – and nodal development as to promote the effective integration between land use and transport.

Transportation Structure

Major roads fulfil different transportation functions, depending on the type of road, and it is this specific function that determines the land use structure that will be suitable to abut these roads. Typically, a major road network consists of roads functioning on 4 levels, which are designed to work symbiotically.



The two upper levels consists of National (N-routes) and distributor roads (R-routes). The primary purpose of these roads is to provide mobility. This level of mobility is determined by the number of accesses allowed along these roads, with a lesser number of accesses implying greater mobility. The freeway design only allows access to land uses bordering them at intersections, not provided at distances less than 5km apart, making these roads highly mobile. Distributor roads provide accesses at 400-600m intervals, thus providing fair levels of mobility, but also providing greater accessibility to neighbouring land uses than do freeways. In essence, national are designed to distribute traffic fast and efficiency over large distances, thus providing optimum regional mobility, whereas the distributor of roads are designed to give some measure of land use access. Because of its balance between mobility and land use accessibility, distributor roads and function effectively as public transport routes that provide inter-regional connectivity.

The two lower levels of the road hierarchy are collector roads and internal roads. As depicted in the Diagram above, these roads have high levels of access. In other words, they have intersections at regular intervals, giving neighbouring land uses good access to these roads. Because of the high number of accesses, mobility of these roads is impaired, more than on a distributor road. Collector roads make excellent public transportation routes because they are easily accessed, and usually provide connect residential areas to distributor road.

Taking into account the typical road hierarchy set out above, a 4 level road hierarchy can be identified in Molemole Local Municipality.

➢ Development Corridors

Specific roads and rail routes have been earmarked as corridors to act as conducts of development and to link development zones with each other and with areas beyond the Molemole Spatial Development Framework.

In view of the extensive nature of Molemole Local Municipality, the development and definition of the respective roads in the area is of utmost importance. Apart from the functionality of the respective roads, the linkage between the roads will be important for the following reasons:

- ✓ Accessibility to remote settlements need to be improved which will have an impact on economic growth;
- ✓ Access between respective settlements need to be improved (tarred) which will facilitate improved public transport systems, efficient access to community services and the establishment of economic opportunities;
- ✓ Large areas (central) within Molemole Local Municipality have development opportunities from an agricultural and tourism perspective, but are totally inaccessible. With an effective linkage in the long-term, this area could present various opportunities.

A development corridor can be defined as "a linear strip of land or area, connecting large activity nodes, traversing urban or inter-urban areas, surrounding a major transport facility or facilities, providing an appropriate regional level of mobility and accessibility to adjacent areas, and containing a high concentration of pollution and mixed land uses (job opportunities)".
The following inter-and intra regional linkages have been proposed:

- ✓ Primary Corridors (National Roads)
  • The N1 north-south linkage between Polokwane and Musina. Although this road can be viewed as a primary transportation corridor, intensive corridor development should focus between the Motumo Trading Post and the internationally latitudinal line of Capricorn, 10km north of Botlokwa. This stretch of corridor is referred to as the Machaka Corridor.

- ✓ B) Secondary Corridors (Distributor Roads)
  • The R521 road between Polokwane via Mogwadi to Alldays;
  • The route R36 between Tzaneen via Morebeng towards the N1; and
  • The rail linkage between Polokwane via Morebeng towards Zimbabwe.
- ✓ C) Collector Roads
  • There are a number of collector roads in the Municipal area which links the respective settlements. These collector roads need to be tarred in order to improve accessibility and functionality in the area.

The above linkages will become the framework for future development. Development nodes will develop at strategic areas or at the convenient point of intersections.

Road Network Development

Proposals for the development of the road network primarily aim to support and strengthen the development of the proposed corridors.

The Molemole Local Municipality is characterized by a well-established system of north-south corridors with limited east-west linkage roads. Within the Municipal area, east/west linkages between the respective urban nodes need to be established which would facilitate secondary economic activities and improve accessibility. Although east/west routes exist within the area, it is not well defined and should be promoted, upgraded and maintained in order to fulfil a secondary function to the primary corridors. These roads are:

- ✓ The linkage road between Botlokwa and Morebeng which runs through Mokomene;
- ✓ The road between Mogwadi and the N1 (north of Botlokwa). A portion of this road need to be tarred; and
- ✓ The road between Mogwadi past Mohodi in a westerly direction.

Inter Settlement Linkages

A number of roads have been identified to be upgraded within the Municipal area which will improve accessibility between the respective settlements and improve public transport facilities.

Linkages which have been identified are as follows:

- ✓ Between Matipane and Madekana (D15232);
- ✓ Between Eisleben and Mokomene (D3142);
- ✓ Makgato and N1 (D2567);
- ✓ Overdyk, Devonia and Ga-Manthata (D3332);
- ✓ Sekakene, Mangata and N1 (D3132);
- ✓ Morebeng and Mogwadi N1 (RAL); and
- ✓ Maupye Roads (D3458) RAL.

➢ Development Nodes

The Spatial Development Framework proposes a nodal structure within the area with the purpose to concentrate similar and supportive uses in a particular area, thereby stimulating economic forces. Those nodes predominantly accommodate higher order business, social and residential uses.

The proposed development nodes in the Municipal area are as follows:

✓ **Botlokwa Node (Community Centre**)

This node is located along the N1 Road and already fulfils a higher order function within the Municipal area. The primary focus of this node will be on the following activities:

- Higher order commercial/service industries along the N1;
- Structured sports-and recreational facilities;
- Tourism outlets stretching from Motumo Trading Post until the Capricorn

✓ **Latitudinal line (Machaka Corridor**);

- Structural and higher density residential activities;
- Urban Agriculture;
- Public Transport facilities;
- Complementary Social facilities; and
- Granite manufacturing and processing.

In terms of the classification of business centre's/nodes, it is proposed that a Community Centre be established at Botlokwa, in view of its proximity along the N1 corridor. This retail component should provide the entire range of consumer goods and services. It could include 2 or 3 large supermarkets, clothing stores, entertainment, convenience stores and offices. Such a centre could be between 10 000m^2 and 20 000m^2 in extent.

The effective structuring and implementation of the development node should be based on sound Town Planning principles and the enforcement of the Land Use Management System. The structured development of the above node should be a short-term priority.

✓ **Mogwadi Node (Neighbourhood Node)**

This node is located along the R521 Road at the intersection of north/south and east/west roads. In view of its strategic locality within the intensive agricultural zone, the focus of this development node should be:

- To provide supporting activities for surrounding farming activities (service centre)
- To provide processing and manufacturing opportunities link to the agricultural component
- Tourism activities
- **Residential development (+/-2000 units)**
- **Retail/social activities**
- Urban agriculture
- Market
- Trucking facilities
- The provision of Tertiary educational facilities.

This node should provide day-to-day, as well as a few higher order consumer goods. The size can vary between 5 000m^2 and 10 000m^2 in extent. To ensure the success of such a centre, it should be located next to a major road.

✓ **Morebeng Node (Neighbourhood Node)**

The Morebeng Development Node is unique in as far as it provides the convergence point for both road and rail transport. This development node should provide:

- Agricultural support services to extensive- and plantation agricultural;

- Intermodal transfer facilities between road and rail;
- Tourism activities based on the historical significance of the area;
- Arts and crafts;
- Service industries linked to agricultural activities;
- Retail/ commercial;
- Complimentary social facilities; and
- Housing provision.

✓ **Other Development nodes (Local Node)**
A network of smaller development nodes should be established throughout the area with the primary focus to provide services to local residents and to visitors. The following smaller activity nodes could be established:
- Within existing settlements along strategic road networks (Mokomene; Mohodi;
- Ga-Manthata);
- Along the primary – and secondary corridors with the intention to intercept through traffic and tourists to the area.

The localities as indicated on the SDF are conceptual and could be located within the preferred area based on detail research. A local node may require a mini-supermarket and one or two convenience stores, which will provide day-to-day consumer goods. Such nodes should be located along major collector roads.

➢ Implementation Considerations

When developing and implementing a business node, a number of considerations are important.

Firstly, the decentralized node must not impact negatively on local business areas. Usually, areas are older forms of business centres and have provided retail and related services to its region for many areas. Consequently, they are usually entrenched as the primary business nodes within a region. To ensure that an existing business area retains its symbolic and practical function, as well as to continue to utilize the infrastructure investment made in these areas over the years, it is important that they be managed in a way that will ensure their continued viability. Practically, this will involve protecting an existing business area from excessive retail and office decentralization and general decay. This can only be done by creating a planned, managed and controlled business centre hierarchy.

Secondly, when developing business nodes in identified areas, care must be taken to ensure that these centres will be viable. On the one hand this involves ensuring the retail space provided ties up with the spending power of the local communities, which are often quite low. On the other hand, it involves locating these centres sensibly to ensure they have the best change in capturing the largest possible consumer market. When locating a business centre in an identified area the following 4 location factors should be taken into account:
- ✓ Desire lines: A business node must be located on the desire lines of the relevant community to ensure enough commuter traffic passes the planned centre.
- ✓ Inter-modal transit facilities: Because disadvantaged communities are largely dependent upon public transport, it is imperative that a business node be place at a location providing maximum modal choice and accessibility.
- ✓ Community facilities: Certain community facilities, such as schools, are pedestrian and consumer generators. Thus, locating a business node close to such facilities ensure the local presence of consumers.
- ✓ Future growth: When locating a business centre it is important, not only to take into account existing consumer markets, but also future consumer markets which develop as a result of the growth of a specific township.

➢ Development Guidelines and Marketing

During the development and implementation of development corridors and nodes, there should be specific guidelines for the development of these areas. Some of the marketing elements should contain the following:

- ✓ A specific name for the corridor or node with the intention to create an identity;
- ✓ Signage: Appropriate signage at the gateway and at the three (3) different nodes;
- ✓ Marketing material: Promotional material such as a website and advertisements;
- ✓ Information Centre: A centre where information about development opportunities and existing businesses along the corridor and at nodes can be readily obtained. This should be combined with a tourism information centre;
- ✓ Development Incentives: Specific incentives will be offered to prospective investors; and
- ✓ Performance monitoring and aftercare: Ensure that marketing measures and development guidelines are effective. Implementation should also be monitored and indicators of problem areas should be identified at early stage.

➢ Tourism

Tourism is considered a powerful tool for developing economies, with the ability to integrate diverse strengths and improve socio-economic conditions. Tourism activities (existing and potential) should not be viewed in isolation and need to be linked within the sub-region to create tourism "value-chains" which will provide the tourist the opportunity to visit various activities, which could extent for longer than 1 (one) day.

Within Molemole Local Municipality the following activities is proposed:

- ✓ Turfloop Nature Reserve;
- ✓ Game farming and recreational centres in the extensive areas;
- ✓ Arts and Crafts Centres along the primary-and secondary corridors;
- ✓ The establishment of some hospitality activities;
- ✓ The marketing of the historical areas of Morebeng and Mogwadi linked to its natural agricultural resources;
- ✓ The effective implementation and marketing of the development corridors and nodes;
- ✓ The establishment of hiking trails;
- ✓ Promotion of Traditional Culture linked to hospitality venues in Traditional settlements;
- ✓ Environmental Tourism.

Sound tourism planning is based upon the belief that positive spatial patterns such as networks, clusters and other opportunities should be reinforced. Tourism delivers markets to products and therefore is inherently spatial. An important first step is to understand the tourism journey. Key points include:

a) Gateways and entry points – Access or clearing points usually in the form of airports or border posts (but could also be entry to specific area, province, municipality, admission at park, etc.)
b) Routes - Tourists travel along routes to reach their destinations. They don't necessarily take the shortest and quickest route, but rather tend to balance the effort of getting there with the quality of the experience and safety.
c) Staging posts – Staging posts are places where tourists stop to rest of stay overnight for the journey ahead.
d) Destinations – Destinations are usually a cluster of attractions and support infrastructure. A destination needs to have compelling product, access and viable support infrastructure.
e) Distribution points – Tourists need to travel to something in a destination. The distribution point within the destination becomes a critical link within the overall experience as it serves as the major source of information, direction and focus.

SETTLEMENTS HIERARCHY

The following hierarchy of settlements were identified in Molemole municipality's SDF:-

The first order settlements are made up of towns and villages or a group of villages located close to each other, namely, **Mphakane (along Machaka corridor), Mogwadi and Morebeng.**

Second order settlements are individual settlements located close to each other which have a small or virtually no economic base, meaningful social and often some institutional activities, but a substantial number of people of people located at these settlements. In most cases, the population concentration points form part of a settlement cluster, which has one or more growth points within a cluster, for example, **Mokomene, Mohodi and Eisleben.**

Third order settlements exhibit some development potential based on population growth and service function potential, although most of them only have a very limited or no economic base. Most of these settlements have 5000 people or more, and do not form part of any settlement cluster. Most of these settlements are relatively isolated in terms of surrounding settlement, namely, **Ga Phasa, Brussels, Ga-Moleel.**

Strategic Development Areas (SDA's) as per Municipal SDF

Spatial planning is supposed to provide strategic direction to municipalities in terms of location of public investment, particularly capital expenditure. Investment decisions should support the hierarchy of settlements and seek to normalize the existing spatial patterns. The SDA's should be actively supported and promoted in terms of provision of bulk infrastructure, active marketing of the areas, provision of incentives for developers and compilation of land – use plans.

Molemole has identified the following SDA's:

- ✓ Machaka Corridor along the N1
- ✓ Mokomene
- ✓ Mohodi
- ✓ Eisleben
- ✓ **Mogwadi**
- ✓ Morebeng

Over and above the identified strategic development areas, there is a portion of land identified and earmarked for industrial development, middle and upper housing and shopping complex in Machaka (along Machaka corridor) and Ramokgopha. This is in addition to the land earmarked for **Mogwadi shopping complex** (hereafter referred to as the Molemole mixed use), garage and housing development.

Challenges

A big chunk of land is in the hands of traditional authorities, who continue to demarcate land without prior involvement of the municipality. Another challenge relates to the lack of municipal land for development projects and expansion.

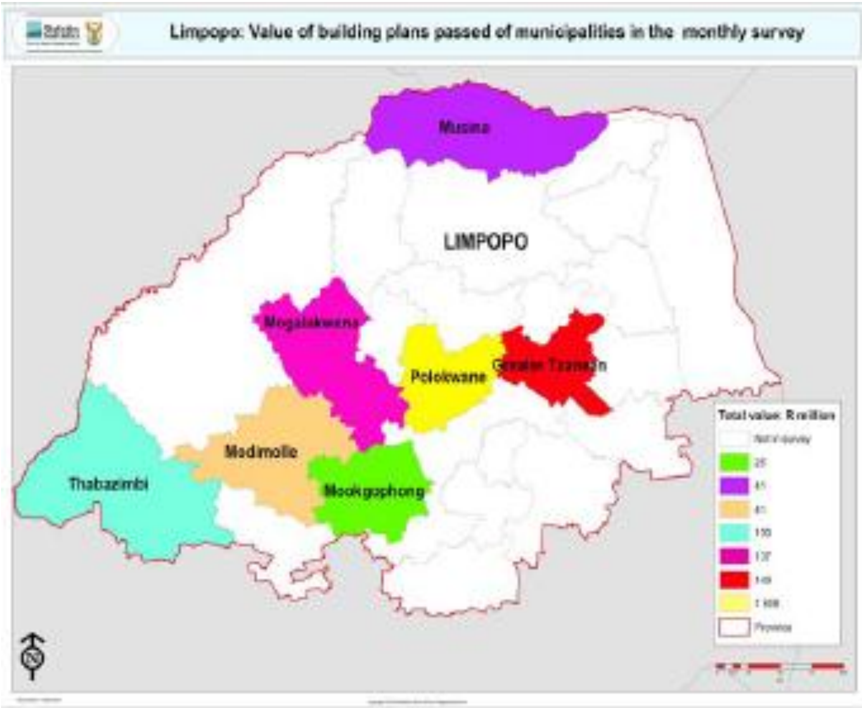
Interventions

The municipality should strengthen the partnership it is having with Magosi, in order to fast track the release of land for development.

Within Molemole Municipal Area the settlement concentrations are structured as follows:

- ✓ The Botlokwa area is the primary urban settlement area adjacent to the N1 (along Machaka corridor). Smaller settlement areas should be integrated with larger areas to become an integrated urban environment.
- ✓ In view of its strategic locality along major transportation routes, and the railway line in case of Morebeng, it is proposed that the urban areas of **Mogwadi and Morebeng** become **2nd order settlement nodes**. The aforementioned areas are also centrally located in terms of dominant agricultural practices.
- ✓ Although the settlement areas of Mokomene and Mohodi is not strategically located along major transportation routes, these areas provide strategic support (employment, social services and linkages) to the areas of Botlokwa and Morebeng (Mokomene) and Mogwadi (Mohodi).
- ✓ The other smaller settlement areas, particularly in the western part of Molemole municipal area is fragmented

Development Implications



Mogwadi Town is designated as a Strategic Development Area (SDA) and first order urban settlement node in the Molemole Spatial Framework (with some proposals to make it a second order node). The development implication is that the provision of services and the provision of land will be expedited in order to spur development in the area. The location of Mogwadi (formerly Dendron), on the R521 has significant development implications because it is very accessible to resident community and to the passing traffic. If well developed to offer higher order services, the area can be prosperous. In terms of the proposed Mogwadi Shopping centre, the proposed residential units planned will increase the market population and hence potential demand.

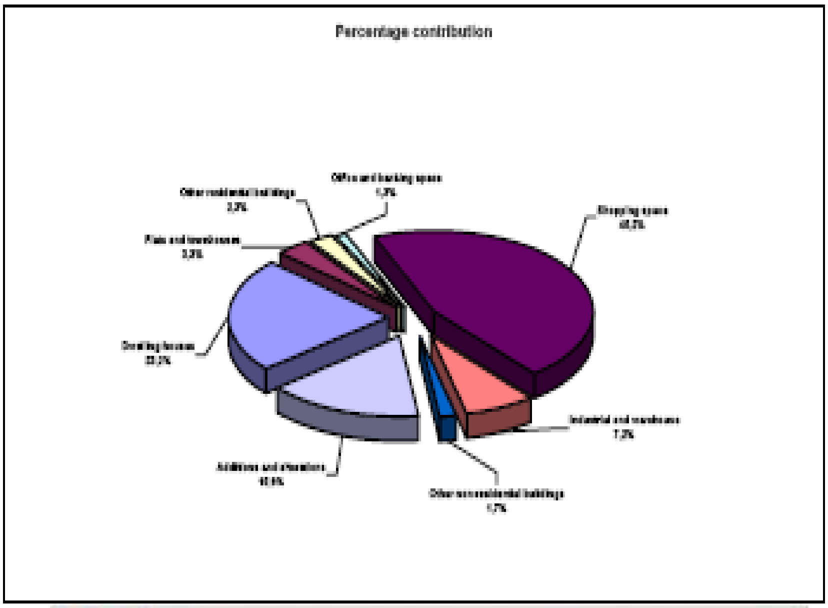
The implications of development projects that encompass housing projects, which are earmarked for the area, will bring positive development to the area. Development will attract higher income earners to the area, increasing population density, resulting in increased demand densities that will result in an increase in retail demand densities.

2.3 BUILDING PLAN DATA

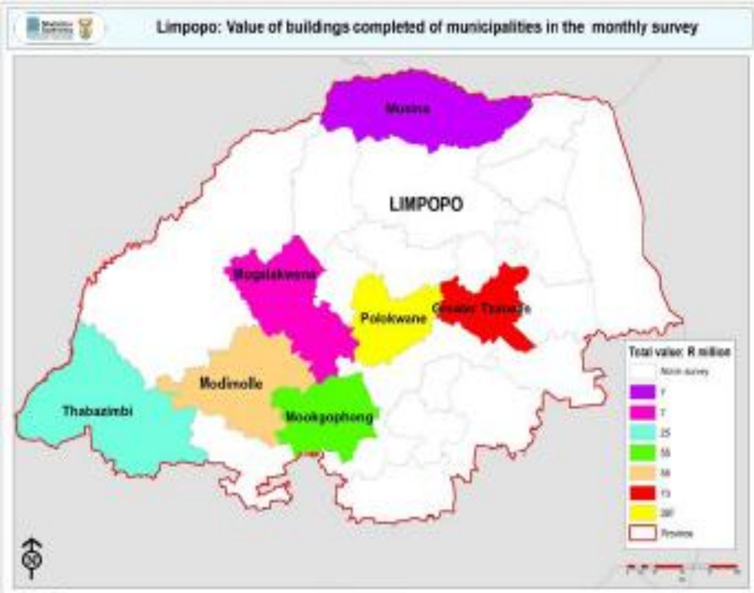
Key findings of building plans passed for Limpopo for 2009

Building plans passed in Limpopo were largely dominated by data recorded for Polokwane Municipality, recording 77,6% or R1 808,1 million of the total of R2 331,0 million reported for Limpopo. Greater Tzaneen Municipality was second in line (contributing 6.4% or R149.4 million), followed by Mogalakwena Municipality (5.9% or R136.8 million) and Thabazimbi Municipality (5.6% or R129.6 million).

Shopping space made the largest contribution to non-residential buildings, reporting 45.2% or R1 052.5 million of the total building plans passed in Limpopo for 2009. Shopping space to the value of R1 038.7 million was reported for Polokwane (see Figure 23 and Tables 69.1 and 69.2, pages 86 and 87). Regarding residential buildings, dwelling-houses made the largest contribution, reporting 23.2% or R540.0 million. Flats and townhouses contributed 3.3% or R76.1 million to the total value of building plans passed for Limpopo during 2009. The highest values for new dwelling-house plans were recorded for the municipal areas of Polokwane (R303.5 million), Thabazimbi (R76.9 million), Greater Tzaneen (R69.8 million) and Mogalakwena (R47.8 million). Regarding flats and townhouses, approximately 95% of planned developments were recorded for Polokwane Municipality (R71.9 million).



Key findings of building plans passed for Limpopo for 2009



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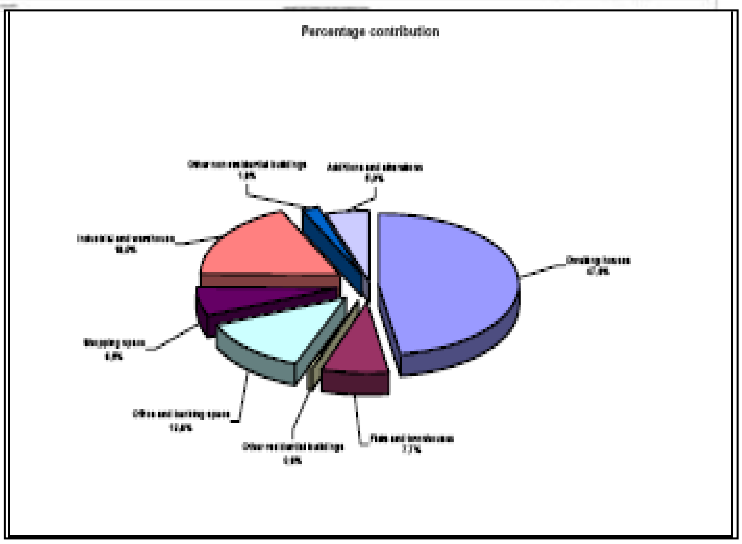


Residential buildings completed in Limpopo contributed 55.9% or R346.9 million to the total value of R620.4 million reported as completed for 2009. The largest portion can be attributed to dwelling-houses (47.6% or R295.2 million), followed by flats and townhouses (7.8% or R48.1 million) and other residential buildings (0.6% or R3.5 million) (see Figure 24 and Table 135, page 170). The biggest development with regard to non-residential buildings took place in the category of industrial and warehouse space (18,0% or R111,6 million, mainly due to completions reported for the municipal area of Polokwane to the value of R92,5 million), followed by office and banking space (12,8% or R79,4 million) and shopping space (6,5% or R40,2 million)

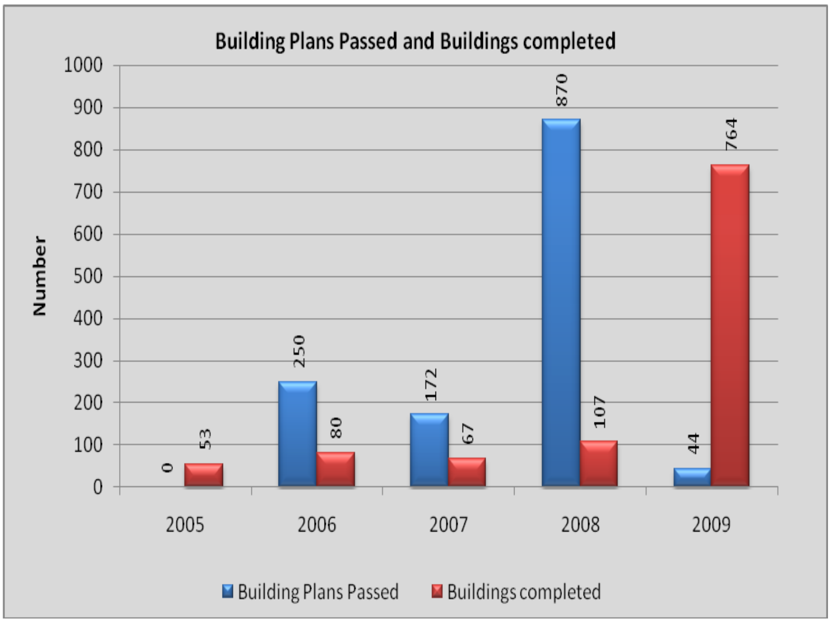
Growth in terms of the Limpopo provincial area is illustrated in terms of building statistics data. Tables 3.1 and 3.2 illustrate building plans passed and buildings completed for residential and non-residential uses between 2004 and 2009.

Table 2.1: Limpopo Residential Building Plans Passed and Completed, 2005 to 2009

	Plans passed					Buildings completed				
	2005	2006	2007	2008	2009	2005	2006	2007	2008	2009
Dwelling Houses	-	184	134	842	41	51	51	50	51	761
Townhouses and flats	-	65	38	27	0	2	28	13	56	3
Other	-	1	0	1	3	0	1	4	0	0
Total	**0**	**250**	**172**	**870**	**44**	**53**	**80**	**67**	**107**	**764**

Source: Demacon Ex. Stats SA, 2011

Findings: (Table 2.1)



- ✓ In terms of building plans passed it are evident that the residential market within the Molemole Local municipality area has experienced a jump in buildings completed d in 2009 from 107 to 764 units.
- ✓ The average annual number of residential building plans passed between 2005 and 2009 is **267 units.**
- ✓ In terms of residential buildings completed it is evident that the local municipal area experienced a slow movement in construction of residential units.
- ✓ The average annual number of residential buildings completed between 2005 and 2009 is **214 units.**

2.4 LOCATION ASSESSMENT

Market potential is influenced not only by consumer income and expenditure, but in particular also by the characteristics of the specific location under consideration. Urban property markets have specific location requirements and should subsequently be assessed in terms of selected location criteria.

To this effect, a ***DEMACON Site Evaluation Models ©*** are utilised. The DEMACON models are pragmatic and are based on the assignment of values to various location factors. Firstly, the site is evaluated on a ten-point scale, with ten being the highest. Secondly, weights are attached to these factors, in order of importance (1 to 5, with 5 being the most important).

In the context of preceding citywide and local analyses, Demacon was requested to rate a number of potential sites for future investment purposes. The subsequent economic analysis, coupled to knowledge of the *surrounding urban markets* will enable an in-depth analysis. Refer to map 2.7 for the locality of the development.

In terms of the site assessments the following land uses were evaluated in subsequent paragraphs:

- Residential
- Retail
- Offices

➢ Retail Market Assessment

➢ Table 2.9: Retail assessment

Factor	Grade 1-10	Weight 1-5	Points
Consumer Volumes	6	5	30
Income / LSM profile	6	5	30
Population Growth	7	4	28
Visibility	8	4	32
Accessibility	8	4	32
Functional & Complimentary Uses	7	3	21
Effective Market Gap	7	4	28
Proximity to Intermodal Facilities, e.g. BRT Route, Gautrain, Rail/Taxi/Bus terminus	7	3	21
Address Value	7	4	28
Availability of Land	8	4	32
Future Expansion Potential	7	4	28
Directional Growth of Area	7	4	28
Proximity to Labour	8	3	24
Proximity to Suppliers	7	3	21
Perceived Level of Security	8	4	32
		Total	**415**
		Score	**72%**

Note: *80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful shopping centre development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

➢ Residential Market Assessment

Table 2.8: Residential assessment

Factor	Grade 1-10	Weight 1-5	Points
Perceived Level of Safety and Security	9	5	45
Area Price Profile	7	4	28
Address Value	7	4	28
LSM Profile	6	5	30
Perceived Quality of Residential Environment	7	4	28
Tempo of Residential Growth	6	5	30
Within direction of Current & Future Growth	7	5	35

Factor	Grade 1-10	Weight 1-5	Points
Perceived investment value	6	4	24
Access to main roads	8	3	24
Proximity to work place	7	3	21
Proximity to schools	7	4	28
Proximity to retail facilities	7	4	28
Proximity to social amenities	7	3	21
Proximity to public transport	7	3	21
Availability of Land	7	3	21
		Total	**412**
		Score	**69.8%**

Source: Demacon, 2010

* ***Note:*** *80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

➢ Office Market Assessment

Table 2.10: Office Assessment

	Grade 1-10	Weight 1-5	Points
Micro location	7	3	21
Accessibility	8	5	40
Visibility	8	4	32
Image	5	4	20
Linkages with other activities	6	4	24
Workforce	6	3	18
Infrastructure	6	3	18
Future Development Trends	6	4	24
Proximity to retail facilities	7	3	21
Access to public transport	8	3	24
Secure Area	7	4	28
Performance of existing node	0	4	0
		Total points	**270**
		Score	**61.4%**

Source: Demacon, 2010

* ***Note:*** *80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

Findings: (Table 2.3)
The site evaluation indicated an appealing site with a medium to high site ratings due to location attributes but the market profile and demand would introduce certain challenges pertaining to market size and target source markets. The major challenge to the site is the low population of the trade area.

Most important fundamentals needed for the establishment of a successful mixed use development are already in place. These fundamentals include bulk infrastructure such as electricity and water, roads etc. However, the proposed centre site is in the areas considered second economies, which are characterised by low household income. Future directional growth is strong in the area. This has a positive impact on the proposed development as it contributes to the expansion of the market and underlying demand densities.

2.5 SYNTHESIS

Preceding paragraphs analysed the site in terms of retail, residential and office potential. The development poses unique investment benefits and challenges. Findings of the location assessments can be summarised as follows:

Table 2.13: Summary of Site Evaluation Results:

Proposed Land Use	Percentage
Retail	72%
Residential	69.8%
Offices	61.4%

* ***Note:*** *80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful mixed use development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

The above assessment, contextualised by the regional economic overview discussed in Chapter 2, should enable stakeholders to make informed decisions regarding future development prospects and investment options in the market area.

The site should be evaluated in the context of the economic and consumer market recovery forecast, as well as the anticipated consolidation phase which macroeconomists and real estate analysts predict will follow in the post 2010 to 2015 / 2016).

The highest and best use principle should be applied to the Molemole mixed use, which suggests that this precinct should focus more on retail and residential activity and limited office development.

CHAPTER 3: ECONOMIC PROFILE AND TREND ANALYSIS

3.1 INTRODUCTION

The chapter provides insight into the composition and stability of the local economy to provide a more comprehensive economic assessment of medium- to long-term profitability prospects of the proposed Molemole Mixed Use than the conventional demographic analysis.

An intricate, though well defined relationship exists between the economy and urban real estate markets. The performance of specific economic sectors serves as proxy for the performance of these real estate markets. The purpose of this chapter is to outline the salient features of the market area economy (reference is made to the **Greater Giyani Local Municipality and the Mopani District Municipality)** in terms of selected time series economic indicators; most notably the economic profile and growth trends within these economies.

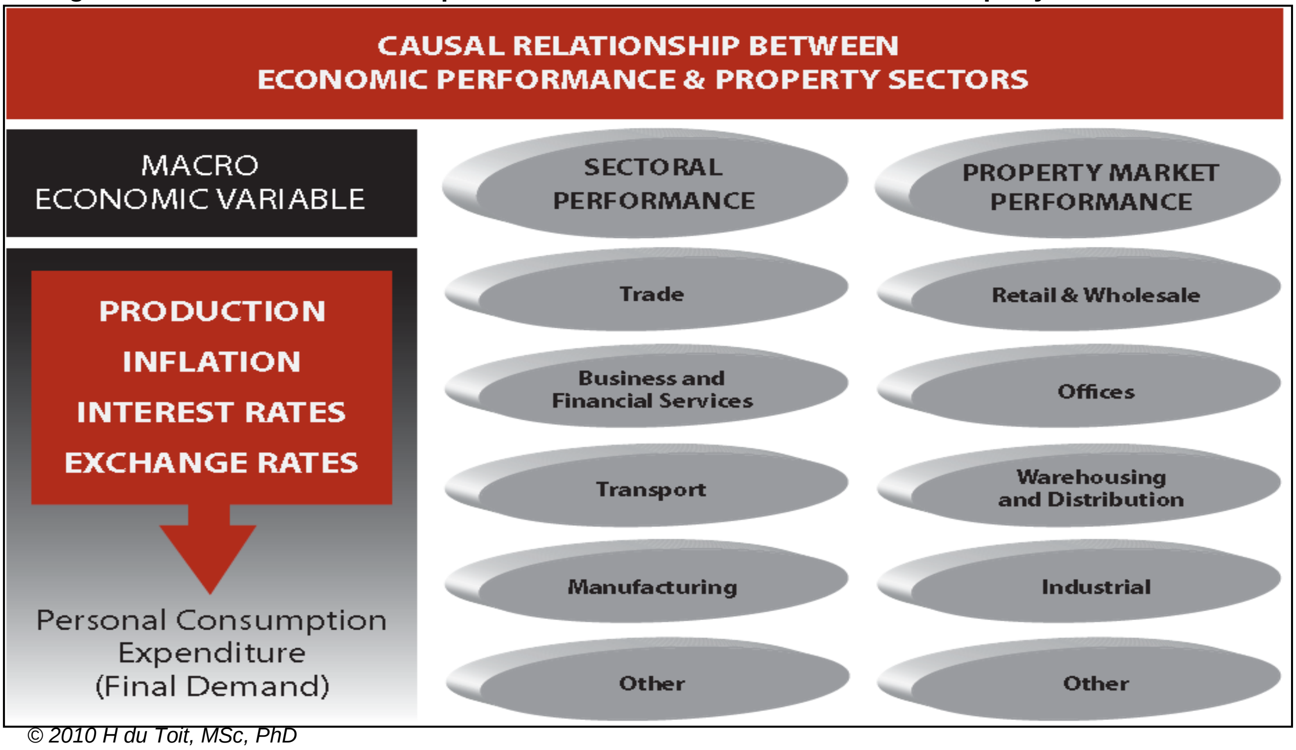
Subsequent sub-sections provide a concise overview of the local economy in terms of the following aspects:

✓ Reference Framework	✓ Local Economic Trends
✓ Macroeconomic Fundamentals	✓ Synthesis

3.2 REFERENCE FRAMEWORK

The causal relationship between economic sector performance and property market performance is illustrated in Diagram 3.1.

Diagram 3.1: Causal Relationship between Economic Performance and Property Sectors



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Indicators such as production, inflation, interest rates and exchange rates influence Personal Consumption Expenditure (PCE). PCE is a major demand driver for a broad spectrum of economic goods and services, including retail and accommodation. Gross Geographic Product (GGP), in turn, serves as leading indicator for property market performance.

In the context of Diagram 3.1, the trade sector performance serves as proxy for the retail market and the business and financial services sector serves as proxy for the office market. This causal relationship serves to inform property development proposals on a macro scale and creates a platform for more fine-grained analyses.

3.3 MACRO-ECONOMIC FUNDAMENTALS

In terms of broad macroeconomic trends, the following are some of the dominant trends regarding the national economy and the impact of macroeconomic indicators on the property sector.

Table 3.1: Macroeconomic Indicators

Trend	Short to medium term implications
✓ Economic growth rate of ±**2.6%** in **2010,** expecting to recover to 3.0% in 2011 ✓ Rand appreciated significantly from 2008 (R/$ R8.22, R/£ R15.06), however forecasts for 2010 reveal a weaker rand for 2011: (R/$ R7.46, R/£ R11.22, €/R R9.56) ✓ Stabilising inflation (lowest since 1960s, between 3% - 6% range) – average of 4.3% expected for 2011 ✓ Current prime interest rates (9.0%)	✓ Strong growth predicted in lower end of property sector, with a recovery expected in 2010 ✓ Decreasing growth in house price index ✓ Strong demand from growing black middle class ✓ Foreign demand for South African property remain buoyant
✓ After rising markedly in the first half of the 2010, nominal and real house price growth slowed down in the third quarter of the year, driven by base effects as well as recent economic developments. ✓ Nominal house price growth of about 7% was recorded for 2010, with 2011 price growth to remain low. Real house price growth in the rest of 2010 and in 2011 will depend on nominal price trends as well as consumer price inflation.	✓ The affordability of housing improved in the first half of 2010 as a result of developments with regard to interest rates, household income and house prices during this period. This is according to the latest trends in the ratios of house prices and mortgage repayments to household disposable income. ✓ The ratio of net household saving to disposable income was at a level of -0.2% in the second quarter of 2010. As a result of this situation with regard to saving, the household sector has technically no surplus funds available to access in times of financial difficulty. ✓ Stabilisation in house prices reflect positive increase in residential demand, inducing increased fixed capital formation in residential property
✓ Annual reductions in transfer duties on property as from 1 March 2006 – no transfer duty payable on property valued at R500 000 and less ✓ Abolition of stamp duty on mortgage bonds from 1 March 2004	✓ Higher real disposable income ✓ Increase in household expenditure, with emphasis on middle and lower income groups
✓ Household disposable income increased by a real annualised rate of 4,8% q/q in the second quarter of the year, which was somewhat lower than the 5,1% q/q registered in the first quarter.	✓ Initial market sentiment is that property affordability will not improve significantly under present conditions ✓ Although house price growth is tapering off, prices are set to remain at high levels ✓ Growth will remain strong in selected locations
✓ During 2010 the MPC used the space provided by lower inflation forecasts to cut interest rates by a further 150bp. There will be little room for further cuts in 2011, but at the same time little compelling need to begin to hike rates before early 2012. ✓ The government's New Growth Path puts job creation at the centre of policymaking, though	✓ The ratio of household debt to disposable income was only marginally lower at 78.2% in the second quarter 2010 from 78.7% in the first quarter. The slightly lower second-quarter debt ratio was the net result of household debt increasing by 1.4% q/q, whereas nominal household disposable income increased by 2% q/q in the quarter.

Trend	Short to medium term implications
finding agreement from all stakeholders on the policy specifics could remain elusive.	

Q 1 2011 SA QUARTERLY PERSPECTIVES – ABSA CAPITAL[1]

Expect stronger growth, somewhat higher inflation, low interest rates and a firm rand

- ✓Weak Q3 GDP figures have caused us to trim our 2010 growth forecast to 2.8%. We expect 2011 to be stronger at 3.8% as there are clear signs that the consumer sector has been boosted from very low interest rates and high real wage growth.
- ✓The government's New Growth Path puts job creation at the centre of policymaking, though finding agreement from all stakeholders on the policy specifics could remain elusive.
- ✓Globally, we look for GDP growth to slide to 4.2% in 2011 from an estimated 4.9% in 2010. This is a long way from earlier fears over a double-dip and with policymakers in major advanced economies content to maintain stimulative policies we see a favourable environment for global equities, commodities and emerging market currencies.
- ✓Inflation in South Africa looks to have bottomed in September. Unlike in many offshore markets, we are less concerned about food-driven inflation for South Africa, and when combined with the impact from the strong rand we believe that inflation will remain below 4% during H1 2011, rising to just over 4.5% during H2.

Table 3.2: Key South African Forecasts

	2010				2011F						
	Q1	Q2	Q3	Q4F	Q1F	Q2F	Q3F	Q4F	2010F	2011F	2012F
GDP (%)	4.6	2.8	2.6	4.7	3.6	3.9	4.1	4.3	2.8	3.8	4.3
CPI (%)	5.7	4.5	3.5	3.5	3.5	3.8	4.3	4.7	4.3	4.1	5.1
Repo (eop %)	6.5	6.5	6.0	5.5	5.5	5.5	5.5	5.5	5.5	5.5	8.0
Prime (eop %)	10.0	10.0	9.5	9.0	9.0	9.0	9.0	9.0	9.0	9.0	11.5
USD/ZAR (ave)	7.51	7.54	7.33	6.95	6.90	6.87	6.96	7.06	7.33	6.95	7.23

Source: Absa Capital

- ✓During 2010 the MPC used the space provided by lower inflation forecasts to cut interest rates by a further 150bp. There will be little room for further cuts in 2011, but at the same time little compelling need to begin to hike rates before early 2012.
- ✓Despite the wishes from the export sector and from some policymakers, we believe that the rand is likely to sustain its recent strength through much of 2011. A more aggressive policy against rand strength is difficult given South Africa's medium-term constraints. Portfolio flows will remain the key to the rand outlook, even as the current account deficit moves gradually wider.

CPI INFLATION – ABSA CAPITAL[2]

Recent developments in inflation

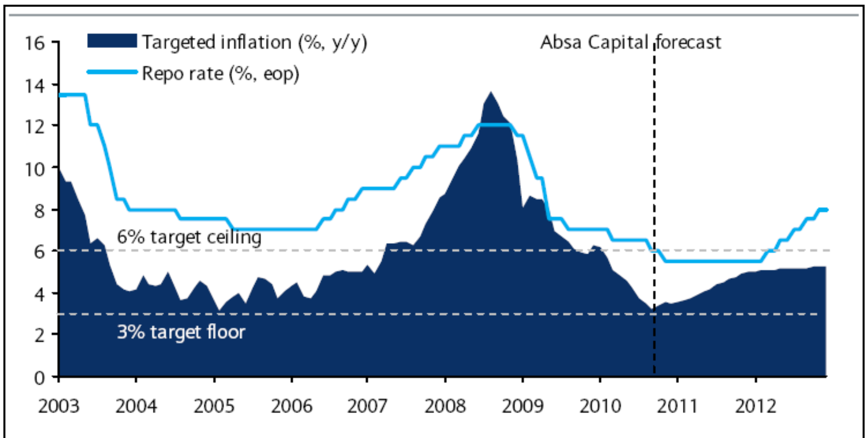
- ✓After reaching a peak in August 2008 of nearly 14% y/y, consumer inflation experienced a long downward trajectory, bottoming out at 3.2% y/y in September.

[1] Source: Absa Capital, December 2011: 2011Q1 South Africa Quarterly Perspective
[2] Source: Absa Capital, December 2011: 2011Q1 South Africa Quarterly Perspective

✓In the end, the extent of disinflation surprised most analysts (ourselves with even month-ahead forecast proving too pessimistic for most of this period.
✓Though the headline figure is now comfortably near the bottom of the Reserve Bank's target range of 3-6%, when considering the 12 main groupings that make up the inflation basket, just one (miscellaneous services) is currently within the 3-6% target range, with the prices of six categories rising by less than 3% y/y (indeed, five are rising by less than 1%) and the others rising by more 6%.
✓Looking at Q4, inflation followed October's small upward trend, as petrol prices in particular crawl higher. This would provide an average inflation rate for the quarter of about 3.4% y/y, and a fully-year figure for 2010 of 4.3%.
✓ But with our focus now firmly on 2011, it is the divergence within the CPI basket that deserves focus; as it highlights the tension between the cyclical pull to maintain low inflation versus the secular push to see inflation in South Africa rise.
✓In essence, favourable trends from pass-through from the strong rand and from favourable (of consumers) soft-commodity prices will be able to offset much of the broader push from higher wages and administered prices.
✓Soft commodities are a pivotal driver of food prices, and globally these are now widely seen as an upside threat to inflation. US corn prices were 44% higher in November as compared a year earlier, for instance, and other large rises have been felt across many other basic food inputs. We are much less concerned about similar pressures in South Africa, as our own corn prices are actually lower than where they were a year ago.
✓Bumper harvests locally, combined with a logistics system that has made it very hard for local producers to tap global markets, have allowed this gap to open.
✓That's good news for 2011 inflation in South Africa.
✓The rand's continued strength has also been a key factor in the fall in consumer inflation to date. Research into the impact of moves in the rand on inflation in South Africa point to the fact that lags in the process can be quite long and that the pass-through itself can be quite high.
✓On a trade-weighted basis, in mid-December the rand was about 6% stronger than a year earlier, and nearly a third stronger than two years ago. This means that even should the rand remain unchanged at the levels experienced in Q4; the impact of the currency will continue to depress measured inflation well into 2011.
✓This isn't to say that the inflation threat can be laid to rest in South Africa. Electricity and other administered prices are expected to rise rapidly in the periods ahead, and much of those very high wage increases being experienced currently will ultimately find their way into the final price of goods and services.
✓Likewise, the first half of 2011 will also see base-effects pushing the headline inflation figure higher.
✓But taken together, consumer inflation remaining below 4% in the first half of the year and ending 2011 just above 4.5%. Inflation is likely to rise into the low 5's during 2012.

The outlook for inflation

✓At the November MPC, the Reserve Bank cut significantly its inflation forecasts for 2011 and 2012, and there is very little difference between their set and Absa Capital's forecasts currently.
✓The central bank now expects inflation to average 4.3% in 2011, 4.8% in 2012 and to end



Source: Stats SA, Absa Capital

their forecast exercise in Q4 2012 at 5.1% and we believe that these new inflation forecasts matter in two ways.

- ✓The first comes from an observation about the three rate cuts that were delivered piecemeal in the period following the August 2009 rate cut and including the November 2010 50bp cut. What differentiates these three meetings (March, September and November) from the six meetings at which policy rates were left on hold during this period was the ability of the Bank to announce a cut in its medium-term inflation profile.
- ✓Even as data on growth and employment and current inflation was processed by policymakers, and the rand moved throughout the period, meaningful changes to the inflation profile were only announced during the three meetings at which rate cuts were also decided upon.
- ✓With that logic in mind, we believe that a further rate cut this cycle is unlikely as the room for further downside surprise against the forecast looks, in our view, unlikely.
- ✓Furthermore, with clearer signs emerging that credit extension is becoming firmer and plenty of evidence that consumer spending has become more confident, the perceived "need" to push rates lower has also diminished.
- ✓This is in line with the pricing in financial markets, which currently ascribes a negligible chance to a further rate cut in 2011.
- ✓The second takeway from the SARB's inflation forecasts is about the timing of the next rate hiking cycle.
- ✓On the basis that inflation remains comfortably within the target through end-2012, it is clear that the "low for longer" language being used to describe monetary policy in many advanced economies may well suit South Africa as well.
- ✓Barring an unforeseen shock, we look for the first rate hike from the MPC to arrive only in early 2012, and for this to be delivered as the start of a policy normalisation rather than as the same sort of active attack on inflation that was suffered during 2006 through 2008.
- ✓This looks in line with the pace of economic recovery thus far as compared many estimates of the output gap, and also will help ensure that South Africa enjoys a monetary policy cushion should the global economy exhibit some weakness in 2011.

COMPOSITE BUSINESS CYCLE INDICATORS – SARB, January 2011[3]

The Reserve Bank's leading indicator fell by 0.8 of an index point in October, continuing its downward trend and implying that the economic recovery will slow in 2011. The indicator provides an indication of the economy's performance six to 12 months ahead. It has been moving erratically up and down over the past couple of months but now its general trend is starting to show a decline. Even though the indicator fell in October to an index level of 129.8, it was still higher than the 116.4 seen in October last year. September's index was revised downwards to 130.6 from 131.9. The index effectively fell 0.6% in October after rising 0.8% in September. Year on year, it rose 11.5% in October after an increase of 16.3% in September.

Table 3.2: Composite Business Cycle Indicators

Composite business cycle indicators						
Description	***Sep, 2010***	***Oct, 2010***	***Nov, 2010***	***Dec, 2010***	***Jan, 2011***	***Feb, 2011***
Leading indicator (2000=100)(3)	129.5	129.7	129.9	132.6	134.2	
Coincident indicator (2000=100)(3)	143.5	145.4	147.8	148.8		
Lagging indicator (2000=100)	99.6	99.9	99.2	97.9		

Source: SARB, January 2011

Composite leading business cycle indicator

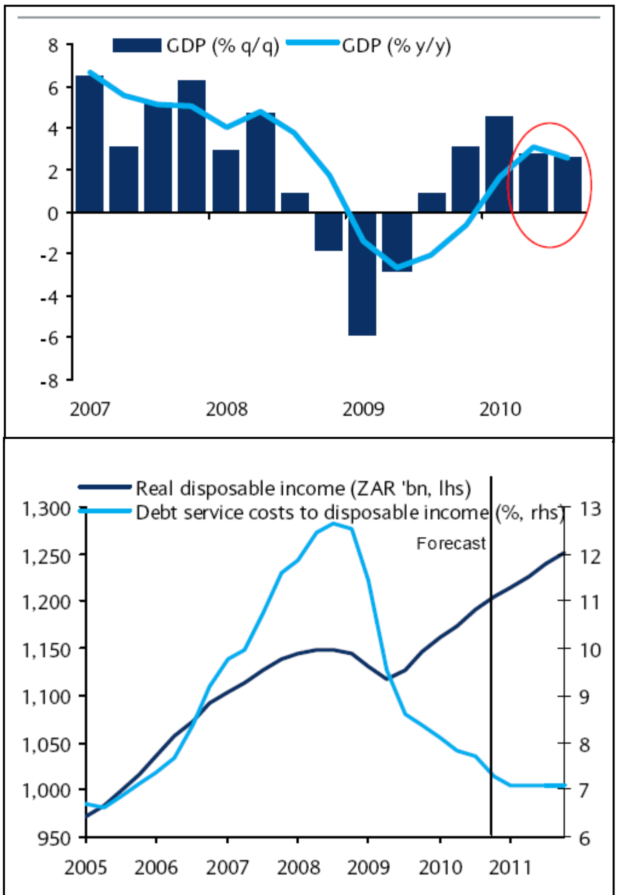
The following 12 components are included in the composite leading business cycle:

[3] Source: South African Reserve Bank, 2011: Composite Business Cycle

- ✓ Job advertisement space in the Sunday Times newspaper: Percentage change over twelve months
- ✓ Number of residential building plans passed for flats, townhouses and houses larger than 80m^2
- ✓ Interest rate spread: 10-year government bonds less 91-day Treasury bills
- ✓ Index of prices of all classes of shares traded on the JSE
- ✓ Real M1 money supply (deflated with CPI): Six month smoothed growth rate
- ✓ Index of commodity prices in US dollar for a basket of South Africa's export commodities
- ✓ Composite leading business cycle indicator of South Africa's major trading-partner countries: percentage change over twelve months
- ✓ Gross operating surplus as a percentage of gross domestic product
- ✓ Opinion survey of business confidence: Manufacturing, construction and trade
- ✓ Net balance of manufacturers observing an increase in the average number of hours worked per factory worker (half weight)
- ✓ Net balance of manufacturers observing an increase in the volume of orders received (half weight)
- ✓ Number of new passenger vehicles sold: Percentage change over 12 months.

ECONOMIC DATA RELEASES SHOWS DEMAND-SIDE RECOVERY IS WELL UNDERWAY[4]

1. The SA Reserve Bank's (SARB) Q3 Quarterly Bulletin showed compelling evidence that the demand-side recovery is well underway.
2. Household consumption expenditure picked up speed in Q3, growing at a rate of 5.9% q/q saar (vs. 4.9% in Q2) while the detail revealed a rather optimistic profile for the consumer over the medium-term.
3. Not only is lower inflation and high nominal wage increases boosting real disposable income but a substantial 600bp in interest rate cuts in Q4 08-Q3 10 has reduced debt service costs to 7.8% of disposable income in Q3 (8.0% in Q2).
4. What is more is that the additional 50bp interest rate cut in November will surely help push the debt service cost ratio even lower in Q4 (to around 7.0%, on our estimates).
5. Against a backdrop of such improved consumer dynamics, it is not too surprising that consumer confidence rose to +14 points in Q4.
6. Unfortunately, a weak spot remains for consumer balance sheets: the recovery in private sector credit extension has been sluggish, growing by about 5% y/y since the end of 2009. While partially due to the recession-induced pullback in credit appetite and structural barriers of the National Credit Act, it is interesting that a lethargic recovery in corporate credit is actually masking a stronger improvement in household credit.
7. Constrained by choppy business confidence and a significant build up of cash on business balance sheets, corporate credit has been slow to recover and, would require stronger domestic demand and higher business confidence levels if it is to gain strength.



Source: SARB, Absa Capital

[4] Source: Absa Capital, December 2011: 2011Q1 South Africa Quarterly Perspective

8. In contrast, signs have emerged that, at an aggregate level, household credit growth is gaining traction as higher incomes, a favourable interest rate environment and improving levels of consumer confidence are leaving consumers more comfortable in taking on new debt.
9. This is certainly a positive spin to the consumer outlook for next year.
10. Considering household consumption from a business perspective, confidence amongst retailers is looking better, jumping to 63 in Q4 10 and showing that 15% of respondents have recorded a rebound in sales of semi-semi-durable and non-durable goods during the quarter.
11. This improvement in retailer confidence seems reasonable given that retail sales (+6.1% y/y in October) and new passenger vehicle sales (+28.9% y/y in November) have recorded strong growth rates over recent months.
12. This supports an upward growth path for the wholesale and retail sector and in Q4. This sector grew at a rate of 3.0% y/y - the second consecutive quarter of growth in the retail trade sector after seven uninterrupted quarters of declines.
13. Taken together, the positives to the consumer outlook certainly outweigh the negatives over the medium-term. Despite negatives like a lacklustre labour market and still-high household debt levels (household debt to disposable income rose to 78.5% in Q3 from 78.2% in Q2), the aforementioned positive factors should certainly support consumer spending growth.
14. Add to these improved levels of household net wealth (the Q3 household net wealth-to-income ratio ticked up to 352% as equity and bond markets yielded strong returns even in the face of a slowing housing market) and we think household consumption will rise to 5.0% y/y in 2011 from 4.6% y/y in 2010.

A supportive global economic backdrop

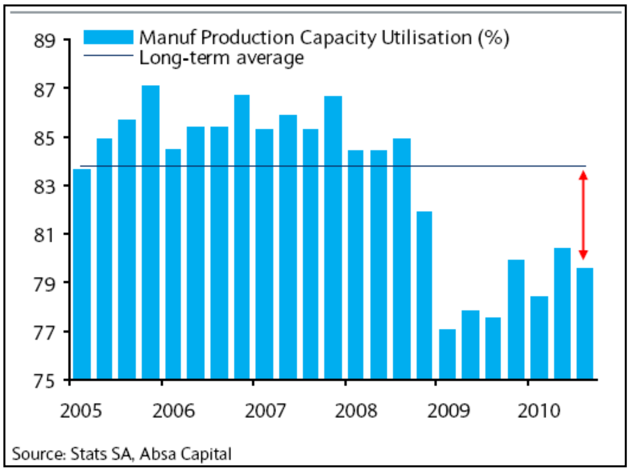
Despite the problems of some European countries, the global economic recovery is entrenched Economic data over the past few months clearly indicate that the global recovery is intact, and fears of a double-dip recession have abated. At the same time, global policy has become even more supportive for global growth, especially on the monetary side as measures like the second round of quantitative easing in the US show clearly that policymaker's primary concern remains one of supporting growth. This change in risk profile is reflected in global markets, where equity prices (and long-bond yields) are significantly higher almost everywhere over the past three months. As compared our last Quarterly update, our projections for global growth have been tweaked higher and now sit at 4.9% for 2010 and 4.2% for next year (previously 4.7% and 4.1%, respectively).

To be sure, pressures around European debt persist - and there can be little doubt that the likes of Greece, Ireland, Portugal and Spain are set for a long and difficult adjustment path - but growth in the euro area more broadly has actually held up quite well. Led by a German economy that is expected to grow by a post-unification high of 3.6% this year (and a post-unification low in the unemployment rate), we look for European GDP to rise by 1.7% this year and by 2.0% in 2011. The same is true of China, where concerns about excessive slowing have been replaced by worries about how much policymakers will have to tighten to slow down the economy. Growth forecasts for China have subsequently been boosted to 10.2% for 2010 and 9.3% in 2011. Meanwhile, outside of job creation nearly all signs in the US point to a modest reacceleration in growth from the slowdown observed in the middle of the year. Following the 6 December announcement of new tax measures to support the recovery, we have upped our activity estimates for the US to 2.8% this year and to 3.1% for 2011.

The combination of a sustained economic recovery and decidedly accommodative policy stimulus sets up a constructive environment for a number of assets globally, not least of all global equities where, at least in the near term, the case is bolstered by high profit margins, strong corporate balance sheets and negligible financing costs. A favourable environment for commodity markets, as the fundamental balance between supply and demand continues to tighten. Emerging Markets may also be benefactors of the global environment as abundant global liquidity has exacerbated the structural global portfolio rebalancing trend already in favour of emerging economies. This may well see further appreciation pressures on many EM currencies. Analysts are less sanguine the outlook for global fixed income markets, where a combination of sharply high debt levels and a less bearish view on growth, both argue for yields to generally push higher.

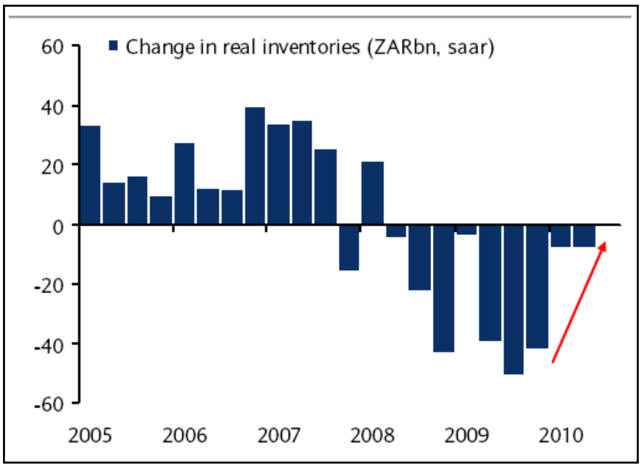
PRODUCTION LIKELY TO SEE A MODEST BOUNCE BACK IN 2011

15. With a combined contribution of around 25% of GDP, it makes sense to delve into the outlook for both the mining and manufacturing sectors of the South African economy, particularly given their relatively choppy growth rates over the past two quarters.
16. The disappointing growth in Q2 mining and Q3 manufacturing figures however need to be taken in context of the significant amount of industrial action which took place over these two quarters which distorted the true underlying trend in this data.



Source: Stats SA, Absa Capital

17. Following the contraction in manufacturing sector growth in Q3 to -5.0% q/q from +5.0% in Q2, we would expect growth in the sector to rebound in Q4 10.
18. Aside from the low base created in production activity thanks to widespread strikes in the private sector, we note that some positive signals are also emerging, where the BER's Q4 10 manufacturing survey shows a pick-up in confidence and production volumes, while there are also encouraging signs observed within the detailed business activity and more forward-looking new sales orders sub-indices of PMI, with business activity snapping back from its strike-induced declines in August and September (54.8 in November) and new sales orders accelerating to 56.5.
19. Critically, purchasing managers' expectations for the manufacturing sector six months out also continue to rise, sitting at a healthy 64.6 index points in November.
20. Looking to 2011 however, growth prospects for the sector are likely to remain relatively soft in the near term, particularly given the still relatively subdued demand conditions in the private business sector as well as the headwinds the sector is likely to endure in the face of sustained currency strength.



21. This is perhaps evident in the manufacturing sector's inability and/or unwillingness to create meaningful employment, with the most recent PMI employment sub-index sitting at a lacklustre level of 47.6 – still showing that the sector continues to shed jobs.
22. Q3's sharp rebound in mining activity also came as no real surprise to us given the improved levels of production observed in higher frequency mining production figures throughout Q3 as well as the low base production came off after the large amount of maintenance and industrial action many mines experienced in Q2.
23. Although we would expect annualised mining production growth in the final quarter of 2010 to slow down somewhat, our expectation for commodity prices to remain relatively well supported over the medium term, along with our expectation that the global economic recovery, particularly in commodity-dependant EM countries such as China, should remain supportive of modest growth in this sector in 2011.

The new Economic Growth Path: Focus on Employment

Everyone agrees on the need to generate many more jobs, but finding common policy ground remains elusive Economic Development Minister Patel unveiled the government's New Growth Path (NGP) blueprint for South Africa recently. Unlike earlier strategic plans such as the Growth, Employment and Redistribution (GEAR) strategy and Accelerated and Shared Growth Initiative (Asgisa), which focussed on lifting economic growth, the NGP puts job creation at the centre of government policy making. Through a combination of coordinated macro- and microeconomic policies, supported by a social pact between the main role players in the economy, the government hopes to create around five million jobs by 2020 and reduce the unemployment rate from 25% currently to about 15%.

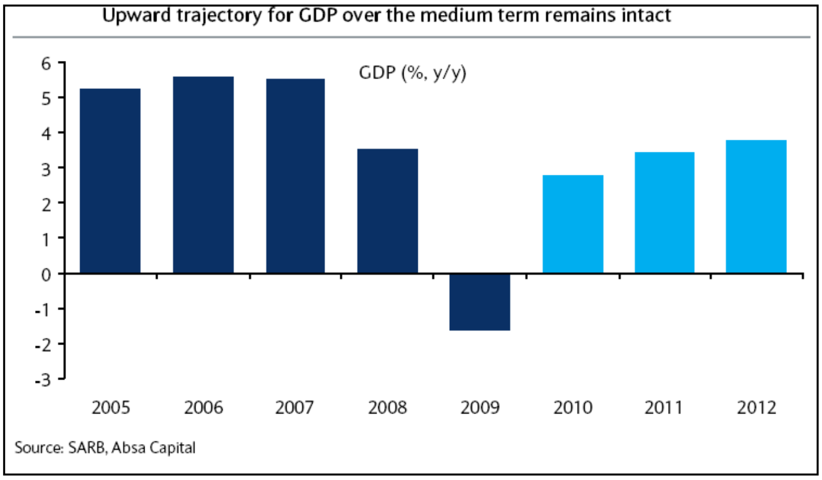
Though much detail is yet to be released, the NGP targets six main areas for job creation. Infrastructure is given a prominent position, both in its ability to directly create jobs through construction (particularly housing), the provision of equipment, through operation and maintenance, but also by helping to reduce bottlenecks that have restrained growth and employment elsewhere in the economy. Agriculture, both in terms of smallholder schemes for those working the land in terms of agro processing are highlighted as important ways of creating employment in rural areas.

The promotion of mining is sought, with a particular focus on increased beneficiation as a way of encouraging fabrication and not just smelting, through the introduction of targeted export taxes, and through the setting up of a state-owned mining company to co-exist with the private sector. The manufacturing sector too is discussed, as is tourism and, of course, public sector employment. Just as critical as the actual ideas and policies are for the success of the NGP, any successful implementation will require generating the necessary buy-in within the various factions within the ANC, between the ANC's political partners, and from business and from civil society. Once the discussion moves from the overview of where jobs might be created, to the micro and macro framework that would support the NGP, things become much more difficult.

Already in the micro policy in the NGP that calls for a national consensus on wages, prices and savings to help ensure greater employment and less inflation. For the labour movement, any discussion of constraining workers wages is a no go areas, as made very clear by Cosatu, whilst any move to constrain the wages of executives is seen as generating a threat of further brain drain by BUSA. Similar conflicts have already emerged with regard the NGP call for a more activist monetary policy designed not only to maintain low inflation but to also ensure a low cost of capital (i.e low interest rates) and a more interventionist policy against rand strength – all of which is popular - with the space for this easier monetary policy provided by a tighter fiscal policy – which is not.

ECONOMIC RECOVERY – ABSA CAPITAL[5]

24. With almost all consumer indicators pointing higher in 2011, household expenditure should have every chance to push stronger.
25. Nominal disposable income is expected to remain strong owing largely to the high multi-year wage settlements this year – helping this, the job market should stabilise somewhat.
26. The forecast that inflation averages a lower 4.1% in 2011 (than 4.3% in 2010) thereby allowing real disposable income to grow further.
27. Add to this a view that



[5] Source: Absa Capital, December 2011: 2011Q1 South Africa Quarterly Perspective

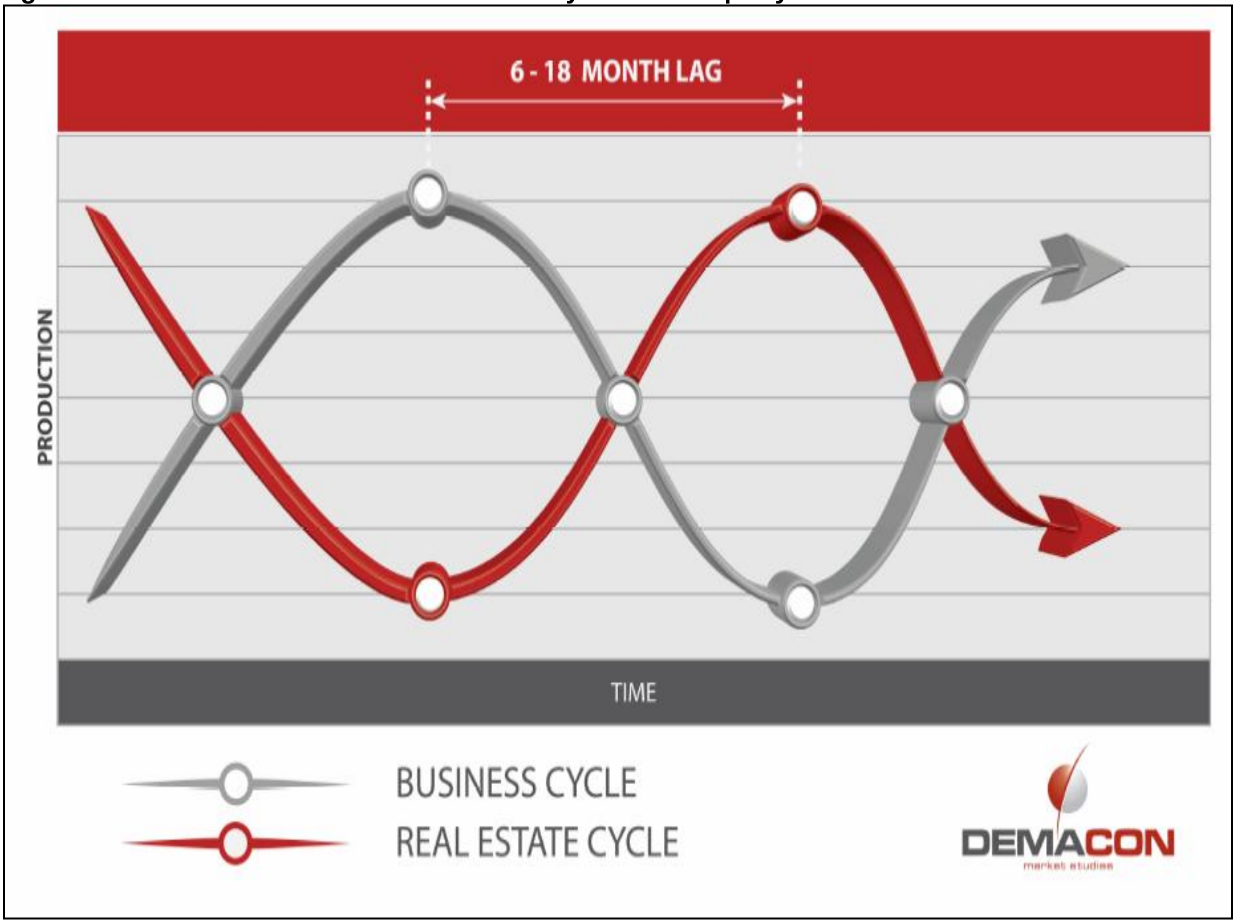
rates remain unchanged through 2011, and debt servicing costs should end up lower in 2011 – a welcomed backing for stronger consumption.

28. As a final boost, while still-low compared to historical standards, stronger growth are pencilled in for private sector credit which goes hand in hand with the general improvement in economic conditions.
29. Though fixed investment spending should improve we expect it to remain hindered by still-high levels of spare capacity and below-par business confidence levels.
30. Nevertheless, while not as upbeat as consumption a better growth rate should at least transpire versus its slump though 2009/10 thanks to the lagged response of stronger domestic demand.
31. On the whole, analysts are confident that from 2.8% in 2010, GDP growth should pick up to 3.8% in 2011.
32. While 4.3% in 2012 is attainable, a vigorous growth trajectory over coming years is unlikely given uncertain global conditions, economic slack and the lack of substantial employment creation.

PROPERTY MARKET PERFORMANCE

Research has shown that there is a time delay of some 6 – 18 months: i.e. response from the property market to, for example, a decrease in interest rates (a macroeconomic variable that stimulates production) becomes evident in the level of activity in the property market some 6 to 18 months after the announced interest rate decrease (Refer to Figure 3.2).

Figure 3.2: Relation between the Business Cycle and Property Markets



This section aims to provide an overview of general trends pertaining to the commercial property market.

3.4 COMMERCIAL PROPERTY MARKET DEVELOPMENT TRENDS[6]

The South African commercial real estate market managed a gentle but respectable 4.6% total return for the six months to June 2010, according to the **SAPOA / IPD South Africa Biannual Property Indicator.**

In the first half of 2010, it has once again been robust income returns, at 4.4%, which have driven the bulk of returns. Capital growth, however, has plateau after a second-successive biannual 20 basis points positive return. The marginal growth is an improvement on the same period last year, which, at -0.7%, was South Africa's only recorded period of capital depreciation since the credit crunch struck in mid 2007.

The results suggest a slow but steady return to trend after the cyclical trough in the first half of 2009, and puts the market on track to post an improved return for the full year 2010 compared to the 8.7% total return recorded in 2009.

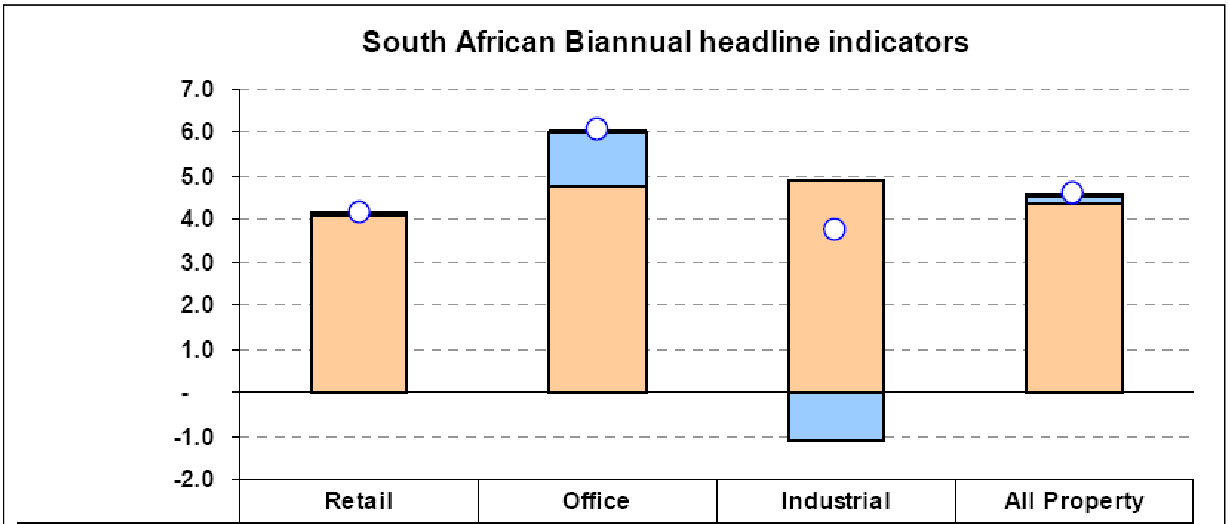
But the signals are mixed. On the one hand, net income grew in both nominal and real terms, stimulated by an overall decrease in vacancies from 7.1% to 6.9%. This positive impact, however, was offset by a further softening of yields by 13 basis points to 8.5% suggesting that investors remain cautious about risk even in the face of a recovering economy.

Jess Cleland, Head of Research at IPD South Africa, said: "The real driver of performance for investors over the first half of 2010 – and indeed the last two years – has been income. Investors' focus, quite rightly, is on the preservation and growth of that income stream in the face of muted capital growth."

Sector performance

The retail sector, buoyed by a boost in tourism during the 2010 FIFA World Cup towards the end of the six-month period, improved on its -0.4% capital depreciation over the second half of last year to deliver flat capital growth.

Figure 3.3: South Africa Annual Property Index, 2010



	Retail	Office	Industrial	All Property
Capital Growth	0.0	1.3	-1.1	0.2
Income Return	4.1	4.8	4.9	4.4
Total Return	4.1	6.1	3.7	4.6

Source: SAPOA/IPD South Africa Annual Property Index, 2010

[6] Source: IPD, 2010: IPD Index Statement - SAPOA / IPD South Africa Biannual Property Indicator

Tourism inflows did help to drive sales growth over the second quarter, particularly in larger, high profile shopping centres. Vacancies declined slightly over the six months to 4.9% and net income growth is relatively low but accelerating. However, sharp increases in operating costs – which inflated by 12.2% during the first six months of the year – threaten to dampen the recovery process.

Offices have continued their recovery with the strongest sector capital growth, at 1.3%, posted on the back of 6.0% net income growth and marking a turnaround in fortunes since its -2.6% decline in H1 2009. However, high vacancies suggest a level of oversupply within the market indicating rentals will remain under pressure until space absorption returns to the sector. Inner city offices were the only segment of the office market that managed to attenuate rising vacancies, resulting in stronger than average capital growth.

The industrial property market continues to struggle against the twin pressures of a strong Rand together with declining in business activity and confidence, as evidenced by a sharply declining Kagiso PMI from early 2010 onwards.

Capital growth in the sector suffered as a consequence over the first half of 2010, leading to a negative capital return of -1.1%. One bright signal for industrials, though, was how vacancies decreased slightly to 5.7% compared to 6.0% at the end of December 2009. Net income growth outstripped operating cost growth, resulting in an increased operating profit for owners of industrial property.

Investment trends for the contributing funds to the IPD database – predominantly large listed and life and pension funds – reveal a confidence in the prospects for the retail sector, particularly for shopping centres between 50,000m² to 100,000m² in size. Conversely, there has been an overall disinvestment in the office sector with a large portion of inner city offices being offloaded from investment portfolios.
The performance of listed property over the first six months of 2010 also augurs well, indicating confidence in the sector. The solid returns generated by direct property have supported the excellent performance of listed property over the first six months of 2010. Underlying direct property assets provide stable and predictable income streams, driving listed property returns higher within an overall weak equities market. South African listed property PUT and PLS indices returned 9.9% and 10.7% respectively, easily outperforming the JSE All Share index return of -4.1%.

Stan Garrun, Managing Director at IPD South Africa, added: "By the midway point of the first year of the new decade, a familiar real estate pattern is emerging internationally: divergence from uniformity. Two years ago, markets all travelled in one direction – downward – while last year, there were isolated signs of recovery in some markets. In 2010, the divergence in market trends was even more apparent.

STATE OF THE PROPERTY MARKET – RODE'S REPORT, 2010:Q4

Capitalisation rates

At present, downward pressure on capitalisation rates comes from benign inflation expectations, inflows of foreign portfolio capital, and its positive impact on bond yields and, hence, required minimum income returns on substitute investments. However, doubts about the sustainability of rises in market-rental growth, as well as rising municipal charges, are probably exerting a counter-balancing influence.

These forces seem to be in equilibrium; hence capitalisation rates were – generally speaking – in the third quarter of 2010, either marginally up or down compared to the previous quarter.

Office rentals

Even amidst the headwinds of a slowing economy and rising unemployment, office rentals in many of the country's nodes managed to put together some growth.

Although not vigorous, the growth in market rentals in Johannesburg (+5%), Durban (+4%) and Pretoria (+3%) decentralised, managed – in the third quarter of 2010 – to outperform building-cost inflation (0%). The disappointment came from Cape Town decentralised (-4%), where market rentals continued to contract.

Industrial market

In the third quarter of 2010, the fickle and uncertain nature of the economic recovery was exposed by the moderation in economic activity.

More disappointing, from an industrial property point of view, was that the slow-down was in large part attributable to a contraction in manufacturing production. This, given industrial property's reliance on a strong manufacturing sector, could mean more downward pressure n market rentals. Indeed, in the third quarter of 2010, growth in nominal rentals remained poor. The best rental performance came from Port Elizabeth (+1%), followed by the Cape Peninsula, where market rentals showed no growth. On the Central Witwatersrand (-4%) and in Durban (-5%) contractions in market rentals were still observed.

Flat rentals

Flat rentals have started to show signs of an acceleration in yearly growth, albeit modestly. In fact, in some regions growth has stepped up to rates that are now at least on a par with consumer inflation.

In the third quarter of 2010, nominal rentals in Durban, Cape Town and Bloemfontein were up by 3%, in line with the growth rate of consumer inflation (excl. Housing). However, in Johannesburg (+1%), Pretoria (+1%) and Port Elizabeth (-1%) growth in nominal rentals was unable to keep up with inflation. This, of course, means that in these cities flat landlords continued to suffer the indignity of having flat rentals contracting in *real* terms.

The house market

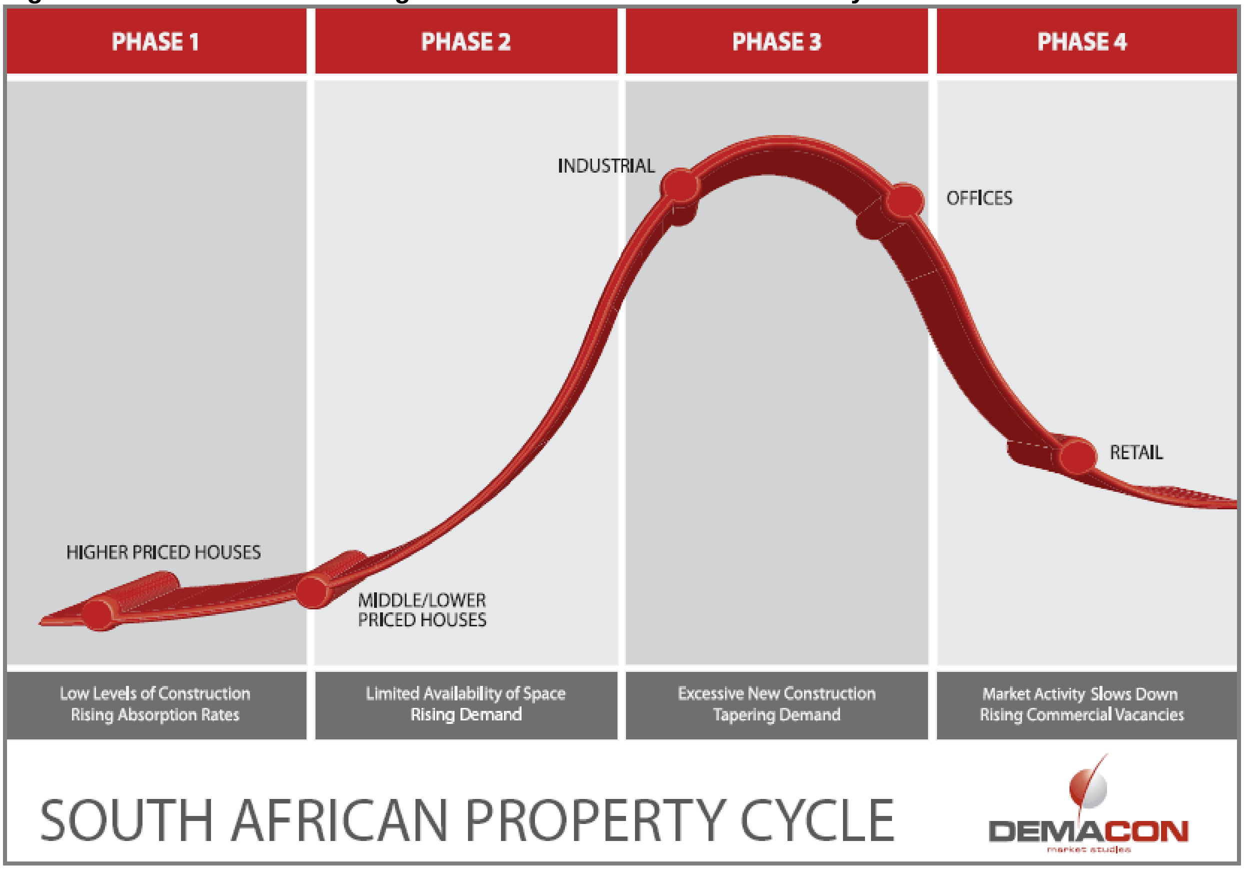
Now that the base effects on the yearly growth in house prices have worn off, the weakness still inherent in the market has been exposed.

In November 2010, the growth in nominal house prices continued to lose momentum; so much so, that they were down by about 1% compared with a year earlier. However, more interesting is the fact that house prices have been contracting on month-on-month bases since May 2010. Thus, in November, house prices were roughly 0.7% lower than the month before. Assuming prices continue to contract at this rate would result in values being as much as 8% lower in twelve months' time.

SECTORAL POSITIONING OF SOUTH AFRICAN REAL ESTATE

The following figure (**Figure 3.4**) illustrates the sectoral position that each market (offices; industrial; retail and residential) occupies in the real estate cycle in South Africa, in terms of **level of activity *versus* time**.

Figure 3.4: Sectoral Positioning of the South African Real Estate Cycle



Retail: The effects of repeated interest rate hikes since 2006 have become visible in the latest retail sales data, and slowed down the prolific growth rates that were last seen in the 1970's. A modest retail sales recovery is expected from 2010, strengthening towards 2011 and fears of a double-dip recession have been laid to rest. In spite of the slowdown (reflected in *national* averages), numerous private sector clients disclosed to Demacon that retail sales in their mall portfolios were up between 15% and 20% in the time period from December 2007 to December 2008, and December 2008 to December 2009.

Offices: In recent years, databases, as well as brokers and real estate professionals, have noted the lack of stock in South African commercial markets, in particular the office and industrial market. Composite rental and vacancy indicators point towards notably rising stock volumes (development proposals and approved rights) and gradually rising vacancy rates in selected nodes. Many nodes with substantial amounts of proposed office rights are poised for phased take-up over the short to medium term. Gautrain Station precincts in particular, can be expected to reveal expanding commercial stock profiles.

Industrial: Similar to the office market, the industrial market has seen dramatic increases in approved rights in selected nodes and corridors. A number of new industrial and distribution parks have come on stream in major metropolitan areas and many of these developments will be poised for phased take-up over the medium to longer term. Industrial parks and hybrid business parks in well located nodes / corridors with good regionally accessible can be expected to perform well and outperform less central / off-centre industrial parks.

Independent **DEMACON** market studies, coupled with extensive network of leading real estate companies, indicate that in spite of turbulent global economic times, the domestic real estate long cycle is currently in an upswing phase and will remain at buoyant levels, despite selected sub-sectors coming under pressure due to short term cyclical trends. Market indicators suggest that the long cycle will only taper off towards 2015, which implies positive market growth conditions for most real estate sub-sectors over the medium to long term.

FUTURE EXPECTATIONS

- ✓ Real economic growth of around 3% is forecast for 2011, and is expected to rise to just below 4% in 2011.
- ✓ South Africa's Economic performance in 2011 will to a large extent depend on global economic developments
- ✓ Inflation is forecast to reach a lower turning point in the near future and to increase gradually during the course of 2011.
- ✓ It is expected that interest rates will be cut once more over the short term, based on rand exchange rate movements and prospects for the economic cycle and inflation, but rates are forecast to remain unchanged for most of the year
- ✓ The domestic growth outlook remains subdued and below-trend growth is expected to persist. The forecast of the Bank is relatively unchanged since the previous meeting of the MPC, with GDP growth remaining at 2.8 per cent for 2010 and expected to average 3.3 per cent and 3.6 per cent in 2011 and 2012 respectively
- ✓ The lower-than-expected inflation outcomes contributed to a further downward adjustment in the inflation forecast period to the end of 2012. Targeted CPI inflation averaged 3.5 per cent in the third quarter of 2010.
- ✓ A similar average outcome is expected during the fourth quarter, resulting in an expected average inflation rate of 4.3 per cent for 2010. Inflation is then expected to remain at an average of 4.3 per cent in 2011 and to increase to 4.8 per cent in 2012.
- ✓ The main risk to the inflation outlook continues to emanate from cost-push factors. These include wage trends and administered prices. Food and petrol prices are also identified as potential longer term risks.

The MPC has accordingly decided to reduce the repurchase rate by 50 basis points to 5.5 per cent per annum with effect from 19 November 2010 and has been kept at that rate on the January and March 2011 MPC meetings. This action is viewed to be consistent with the continued attainment of the inflation target. The scope for further downward movement, however, I seen to be limited given the signs of recovery in household consumption expenditure and credit extension

Our own research furthermore indicates that barring short term cyclical fluctuations which are bound to occur, most SA metropolitan areas are, in terms of a typical S-shaped growth curve, poised for positive; long term growth over the forthcoming 30-40 years – boding well for most metropolitan economies and real estate markets.

The flip side is that many rural areas will continue to experience decelerating population growth rates and selected commercial investments in some of these markets may come under severe pressure. Investors in these areas will have to play close attention to planning their project viabilities and payback periods accordingly.

The South African consumer market is also characterised by an increasingly large segment of **socially upward mobile consumers** (with the LSM 6 – 10+ segment growing at approximately 1.3% annually) – the rising black middle class with a set of very strong aspirational values. This trend holds direct beneficial implications for especially the domestic retail en residential sectors.

The following section provides an overview of local economic trends in the market area.

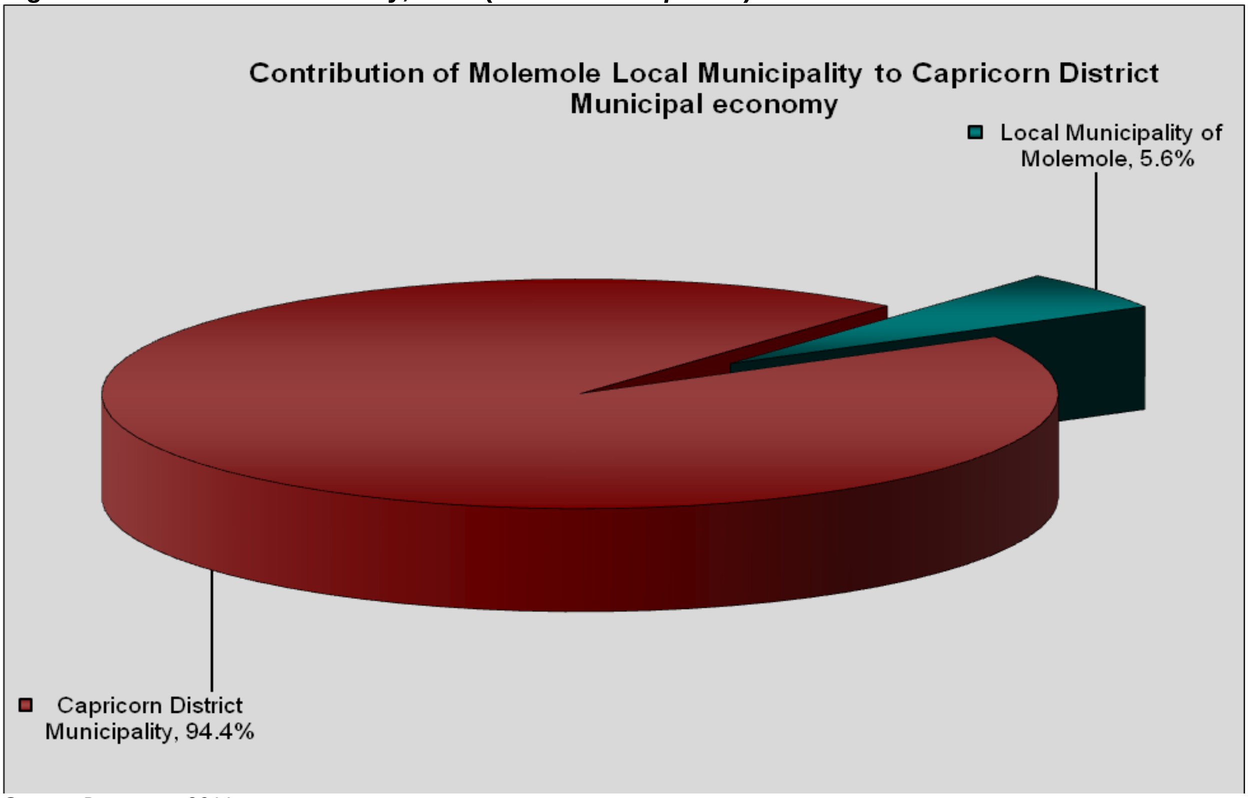
3.5 LOCAL ECONOMIC TRENDS

Subsequent economic indicators provide insight to the economic performance of the **Molemole local Municipal economy relative to the Capricorn District Municipality.** The data indicate the dominant economic sectors, growth sectors as well as the comparative advantages of the local economy.

3.5.1 SIZE OF THE ECONOMY

Figure 3.6 indicates the size of the economy of Molemole Local municipality in relation to the Capricorn District Municipality economy

Figure 3.6: Size of the economy, 2009 (GVA *at basic prices*)



Source: Demacon, 2011

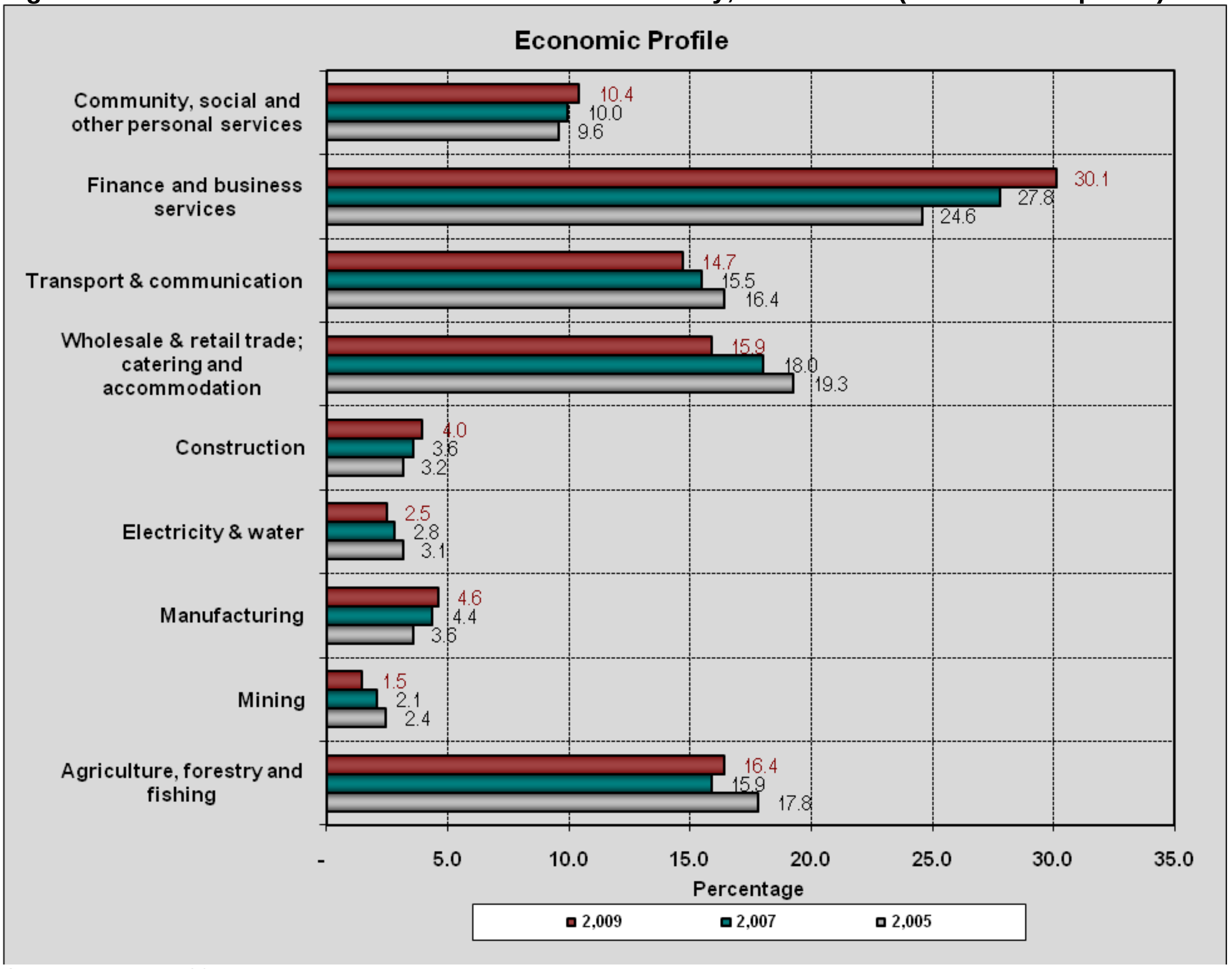
Findings: (Figure 3.6)

- ✓ Figure 3.6 indicates that the **Molemole** municipal economy contributed **5.6%** towards the Capricorn District Municipality economy between 1995 and 2009. This suggests that economic importance of this municipality is marginal at district level. The bulk of economic activity is expected to cluster in Polokwane, the district capital.
- ✓ Since the development site is located in Mogwadi, one of the identified district growth points, economic activity is expected to be higher and concentrated around the site than in surrounding areas.
- ✓ This economic contribution is vested in the performance of the underlying individual economic sub-sectors discussed in the subsequent paragraphs.

3.5.2 ECONOMIC PROFILE

The assessment in the following sections serves to highlight sub-regional **growth trends** in the market. Future investment opportunities will be informed by this sub-regional assessment. Figure 3.7 indicates the contribution by the ten major economic sectors to the total economic production of the local economy.

Figure 3.7: Economic Profile of Molemole Local economy, 2005 – 2009 (GVA at basic prices)



Source: Demacon, 2011

Findings: (Figure 3.7)

The pillars of the Molemole local economy include: Agriculture, Trade, Finance and Business Services, Transport and Communication Sectors and Community, social and other persona services - contributing approximately **87.5%** towards the local economy in 2009.

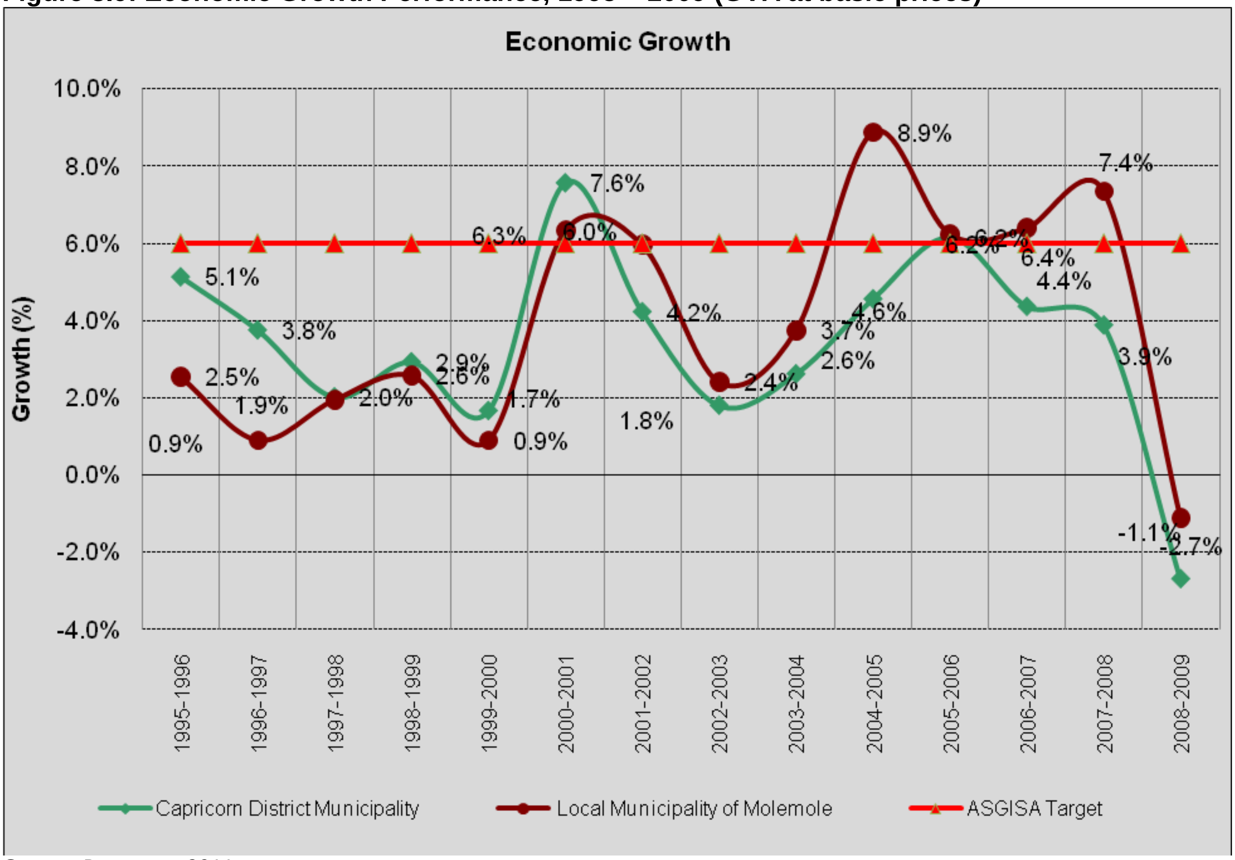
- ✓ The local economy is dominated by service industries, led by the finance and business services which contributed 30.1% in 2009, followed by trade (15.9%) and transport and communication (14.7%).
- ✓ The strongest non-service industry contribution came from agricultures (16.4%), reflecting the rural profile of the local municipal area.
- ✓ The community, social and other personal services which is also a pillar of the local area and may indicate that the municipal area benefits from various government and charitable society development projects and services due to indigent in local households.

✓ The area has low contributions from construction, manufacturing and electricity degeneration sub-sectors, all which are high labour absorbers. This may points out to low employment in the local municipal area.

3.5.3 ECONOMIC GROWTH

Figure 3.9 provides detail on the growth performance of the Molemole Local Municipality economy and the Capricorn District economy between 1995 and 2009.

Figure 3.9: Economic Growth Performance, 1995 – 2009 (GVA at basic prices)



Source: Demacon, 2011

Findings: (Figure 3.9)

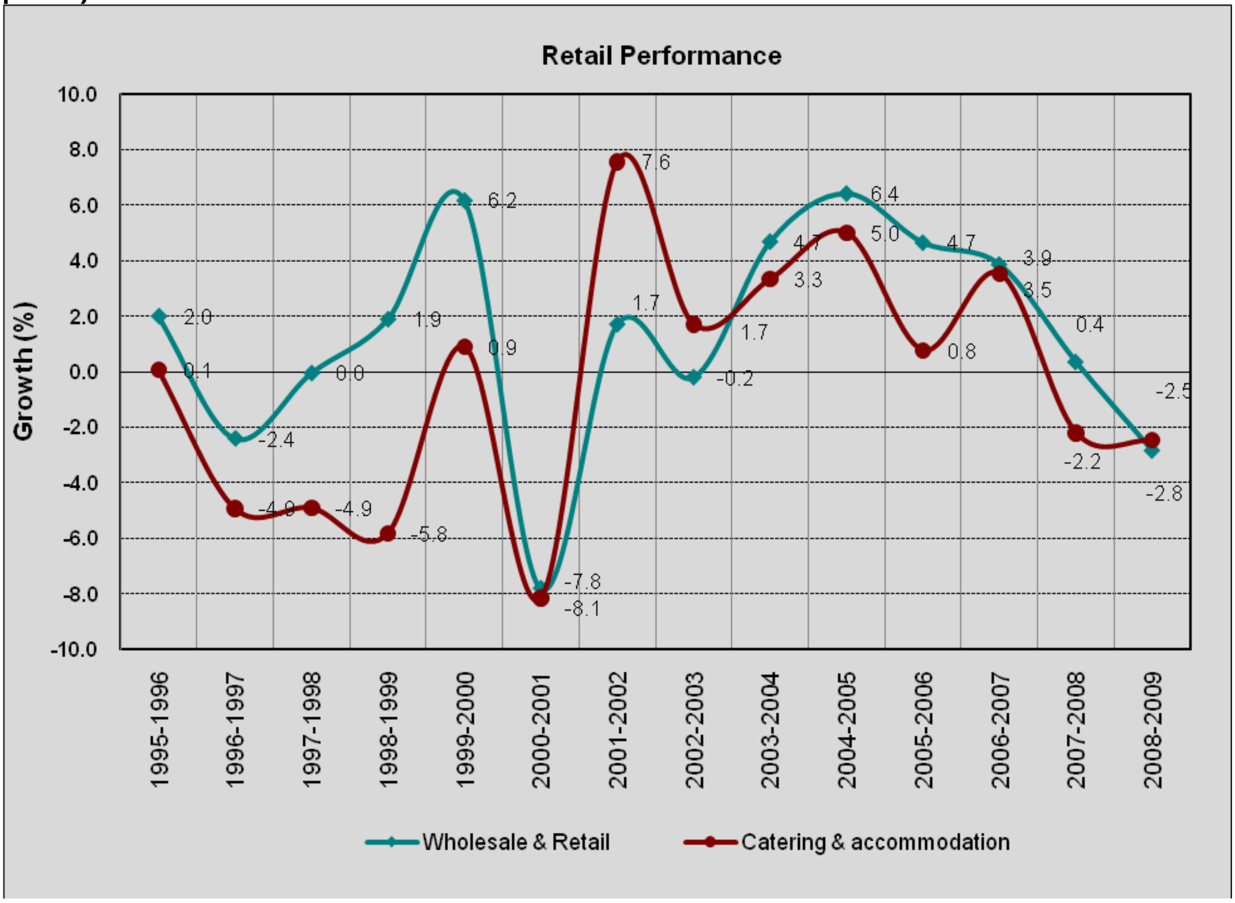
- ✓ The local business cycle follows the national cycle closely. In the context of the national recovery - including economic growth and retail sales - local economic growth and growth in disposable income is expected to reveal a similar recovery trend since 2009.
- ✓ The local and provincial economies reflected a similar growth trend pattern.
- ✓ The local economy peaked during 1999 to 2000 and 2005 to 2006, and reached its lowest marks during 1997 and 2008 to 2009.
- ✓ The local business cycle reflects a negative growth trend with reference to 2007 to 2009. However it should be noted that availability of data lags current trends. The national economy has been in recovery since 2010, hence it is to be expected that the local economy is also in recovery.
- ✓ The average annual growth rate for the Molemole local municipality economy over the period 1995 - 2009 amounted to **3.9% per annum**, while growth in the district economy of Capricorn is lower at **3.4% per annum.**

3.5.5 TRADE SECTOR PERFORMANCE

The trade sector comprises establishments engaged in retailing merchandise, generally without transformation, and rendering of services incidental to the sale of merchandise. Trade thus involves the selling or arranging the purchase or sale of goods from resale, and selling durable, semi-durable and non-durable consumer goods. The trade sector is sensitive to business cycle fluctuations, which in turn are extremely sensitive to global economic fluctuations.

The state of this sector is therefore an ultimate and direct reflection of consumer demand. The impact of macro and micro economic forces on the trade sector therefore extends to both supply and demand side dynamics of the product value chain. The trade sector is the all-important interface between producer, wholesaler and consumer. Figure 3.11 illustrates trade sector growth in the market area since 1995.

Figure 3.11: Trade Sector Performance of Molemole local economy, 1995 – 2009 (GVA at basic prices)



Source: Demacon, 2011

Findings: (Figure 3.11)

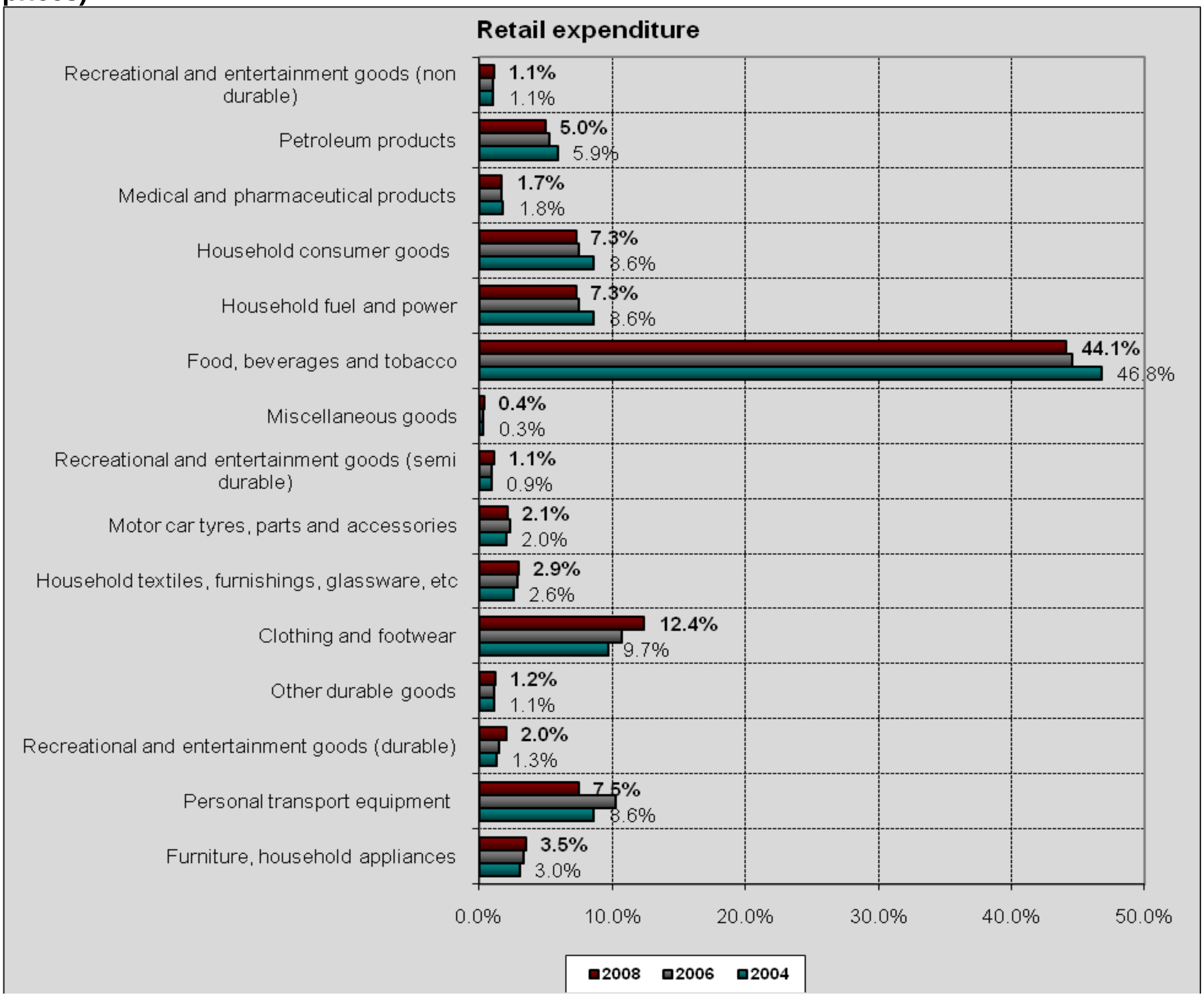
- ✓ The **local economy's** Wholesale and Retail trade sub-sector represents the dominant contributing sub-sector towards the metro's trade sector – contributing **95.8% in 2009**
- ✓ Growth in the municipality's **Trade Sector** as a whole peaked in 1999 to 2000 before dipping significantly into negative growth in 2001- 2003 year before recovering strongly again in 2005 to 2006. In the last couple of years, the sector has recorded weak performance (2007 – 2009). This period coincides with the global financial crisis.
- ✓ This sector recorded an average annual growth rate of **0.5%** over this time period.

- ✓ Growth in **Wholesale and Retail trade** reflected a similar upward and downward cycle as the trade sector as a whole. This sector recorded an average annual growth rate of **0.6%** over this time period.
- ✓ Growth in **Catering and Accommodation** peaked in 2001 to 2002 and 2006 to 2007. This sector recorded an average annual growth rate of **-0.8%** over this time period.

3.5.6 HOUSEHOLD EXPENDITURE PER RETAIL CATEGORY

The trade sector is accounted for by a spectrum of consumer types, including private households, other businesses, government and exports. The household sector is by far the largest of these consumer markets, especially in the retail sub-sector. Retail sales refer to the amount of money spent on a variety of consumer goods. This includes for example non-perishable products, footwear, jewellery and hardware. Retail sales serve as an indication of the expenditure in certain categories.

Figure 3.12: Molemole municipal Household Expenditure per Retail Category (constant 2005 prices)



Source: Demacon, 2011

Findings: (Figure 3.12)

- ✓ The retail expenditure figure shows that the retail expenditure in the local municipal are is dominated by expenditure on food, **beverages and tobacco (44.1%),** followed by **clothing and footwear (12.4%)**

- ✓ The retail expenditure profile indicates a **retail expenditure dominated by necessities** like food and clothing and it maybe reflective of low average incomes in the municipal area with a larger proportion of income being spend on basic life necessities.
- ✓ However, the municipal area is consistent with the general urban South African trend, which indicates that expenditure directed towards non-durable groceries is declining year-on-year with a rise in consumption expenditure on semi durables including clothes and footwear as well as household appliances, furnishings and glassware. These trends can be ascribed to the high rate of inflation on non-durables (especially meat) and unabated durable goods deflation.

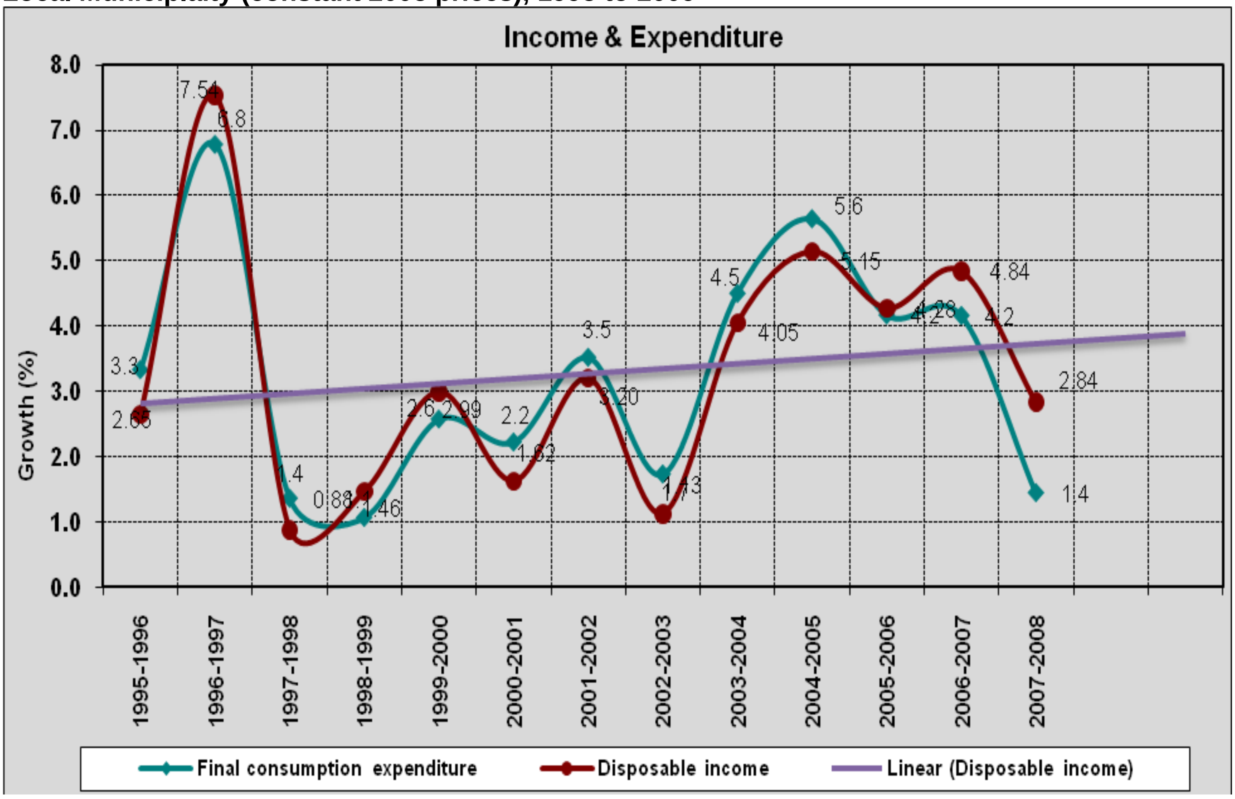
Retail sales figures provide an indication of current demand for specific categories of consumer goods, which can be divided into three broad groupings, namely:

1. Durable goods	Durable goods include goods such as furniture, household appliances and personal transport equipment.
2. Semi-durable goods	Semi-durable goods include products such as footwear, clothing and household textiles.
3. Non-durable goods	Non-durable goods include food, beverages, and tobacco, and household consumer goods, medical and pharmaceutical products.

3.5.7 GROWTH IN FINAL CONSUMPTION EXPENDITURE AND DISPOSABLE INCOME

Figure 3.13 in the subsequent paragraphs illustrate the rate of ***growth of final consumption expenditure*** (on all goods and services) in relation to ***growth in disposable household income***. The graph reveals a high degree of positive correlation between the two variables, which in turn reveals similar up- and downturns to the business cycle as a whole.

Figure 3.13: Growth in final consumption expenditure and disposable income of the Molemole Local Municiplaity (constant 2005 prices), 1995 to 2009



Source: Demacon, 2011

Findings: (Figure 3.13)

- ✓ The cyclical trend observed in the above figure correlates with the national business cycle trend, i.e. a follow through on the 2000 / 2001 weakening of the Rand and subsequent growth to record high levels in 2004 (continuing into 2005 and the first quarter of 2006) as well as the recent global recession caused by the financial crisis in 2008-2009.
- ✓ It should be noted that data is available with a lag, and as such, though the figure shows declining growth in both income and expenditure (2007 – 2009), the economy has been on a recovery path since year 2010 and this is expected to cascade down to the local economy.
- ✓ **Final consumption expenditure** of the Molemole municipality grew at an average rate of **3.4%** over the twelve year period (1995 – 2008) and an average annual growth rate of **3.34%** in terms of **disposable income** was also realised.
- ✓ The disposable income trend-line indicates that, despite the volatility in the year to year growth rate in disposable income, it has been steadily trending upwards over the twelve year period. This implies that income is forecasted to continue growing, and provide support to the trade sub-sector.

3.6 SYNTHESIS

This module provided an overview of the macro-economic trends underlining the local economy, supported by an overview on the performance of the performance of the South African property market.
This module provided an overview of the macro-economic trends underlining the local economy, supported by an overview on the performance of the performance of the South African property market.

- ✓ Macroeconomic indicators indicate that despite the recent recession that the South African economy is recovering positively. This improving economic climate is expected to prevail over the short to medium term – although economic growth has slowed down
- ✓ The SARB Monetary Policy Committee (MPC) took the decision to keep the repo rate unchanged at 5.5% during their meeting in March 2011. Interest rates are forecast to remain stable at current levels up to the second quarter of 2011. From the interest rate-sensitive property market's point of view it provides some welcome relief.
- ✓ Despite high levels of debt, the household sector is expected to reap the benefits of the recovery in the economy, which is forecast to lead to higher levels of employment and household income growth this year.

Local Economy Summary

Table 3.: Economic characteristic of the market area

Variable	Market Characteristics
Size of the economy (2009)	✓ Molemole local municipal Economy contributed 6.8% towards the Capricorn district economy
Economic Growth Performance (1995-2009)	✓ Molemole Local municipality – Average Annual Growth is 3.9% ✓ Capricorn District Municipality - Average growth is 3.4%

Variable	Market Characteristics
Dominant Economic Contributors within local economy (2009)	Molemole Local Municipality's dominant economic contributors are: ✓ Business and Financial Services – 30.1% ✓ Agriculture, forestry and fishing – 16.4% ✓ Trade – 15.9% ✓ Transport and Communication – 14.7%. ✓ Community and social service – 10.4% ✓ Manufacturing – 4.6% ✓ Construction – 4.0%

Source: Demacon 2011

In summary:

The local business cycle reflects a negative trend with reference to 2007 to 2009 and this was in close tandem with the national business cycle. In the context of the national recovery - including economic growth and retail sales - local economic growth and growth in disposable income is expected to reveal a similar recovery trend since 2009. It should be noted however that data is available with a significant time lag. With the national economy experiencing recovery, we would expect the recovery to cascade down to the local economies.

The leading economic indicator rose 5.5% year on year (y/y) in January from an 8.9% y/y increase in December. The country's seasonally adjusted leading economic indicator provides a guideline for economic growth for at least six months ahead. The latest increase takes the indicator to an index level of 134.2.

This bodes well for further improvement in growth in new residential mortgage loans and re-advances granted in the current quarter. While the rise in the leading indicator is also driven by moderately strengthening economic growth signals an **improving economy has positive implications** for disposable income growth and thus residential purchasing power in the near term.

The domestic growth outlook remains subdued and below-trend growth is expected to persist. The forecast of the National Reserve Bank pertaining to GDP growth remained at 2.8 per cent for 2010, a slight recovery is however expected in 2011 and 2012 with average estimated growth rates of 3.3 per cent and 3.6 per cent respectively. This bodes well towards the metropolitan regions of the national economy, which in general leads the economic recovery curve and in general reflects economic growth rates exceeding that of the national average.

Market potential is not influenced by economic and demographic trends, but also by macro and micro area dynamics. In the context of the above, Chapter Four provides a demographic profile of the study area under consideration.

CHAPTER 4: SOCIO-ECONOMIC MARKET PROFILE

4.1 INTRODUCTION

The demand for commercial activities is a derived demand. Hence, the current level and depth, as well as anticipated future growth in demand are a function of the local consumer market profile. The purpose of this chapter is to delineate the trade area and to provide a concise overview of the socio-economic profile of the local consumer market.

The consumer market profile is outlined in terms of the following headings:

- ✓ Market area delineation and population size
- ✓ Age profile
- ✓ Level of education
- ✓ Employment status
- ✓ Occupation profile
- ✓ Average annual household income
- ✓ Living standard measurement
- ✓ Synthesis.

The following section provides an overview of the delineation of the market area as well as the population size of the sub-places in the market area.

4.2 TRADE AREA DELINEATION AND POPULATION SIZE

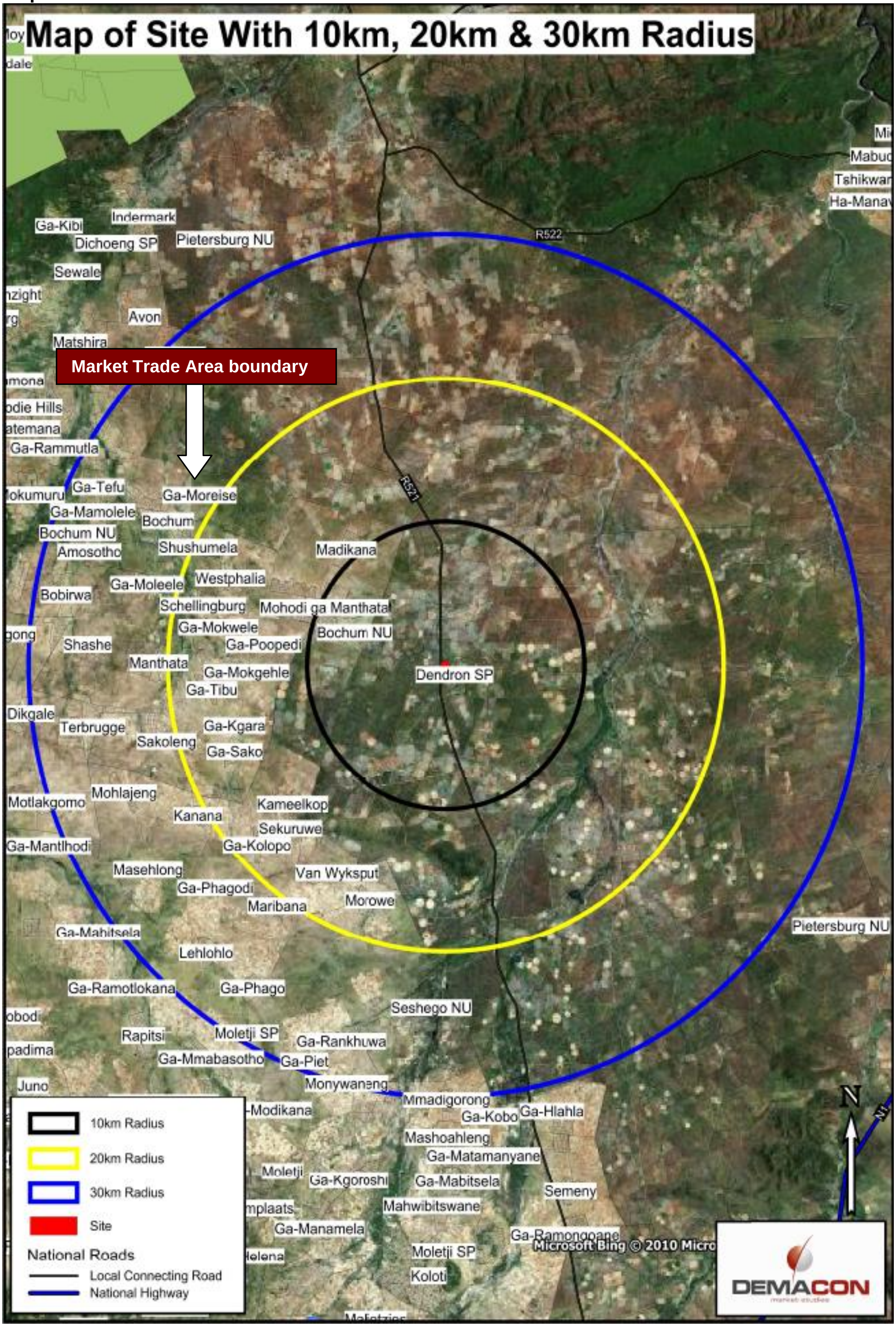
The proposed Molemole mixed use development site is located in Mogwadi, at the junction of the R521 and the road turning into Mogwadi (Dendron) in the Molemole Local Municipality. The proposed mixed use is located close to the built up district designated growth point of Mogwadi. The proposed mixed use site is very accessible and the neighbourhood is considered a second economy.

The primary trade area for the proposed retail centre development was informed by a number of factors, of which some are:

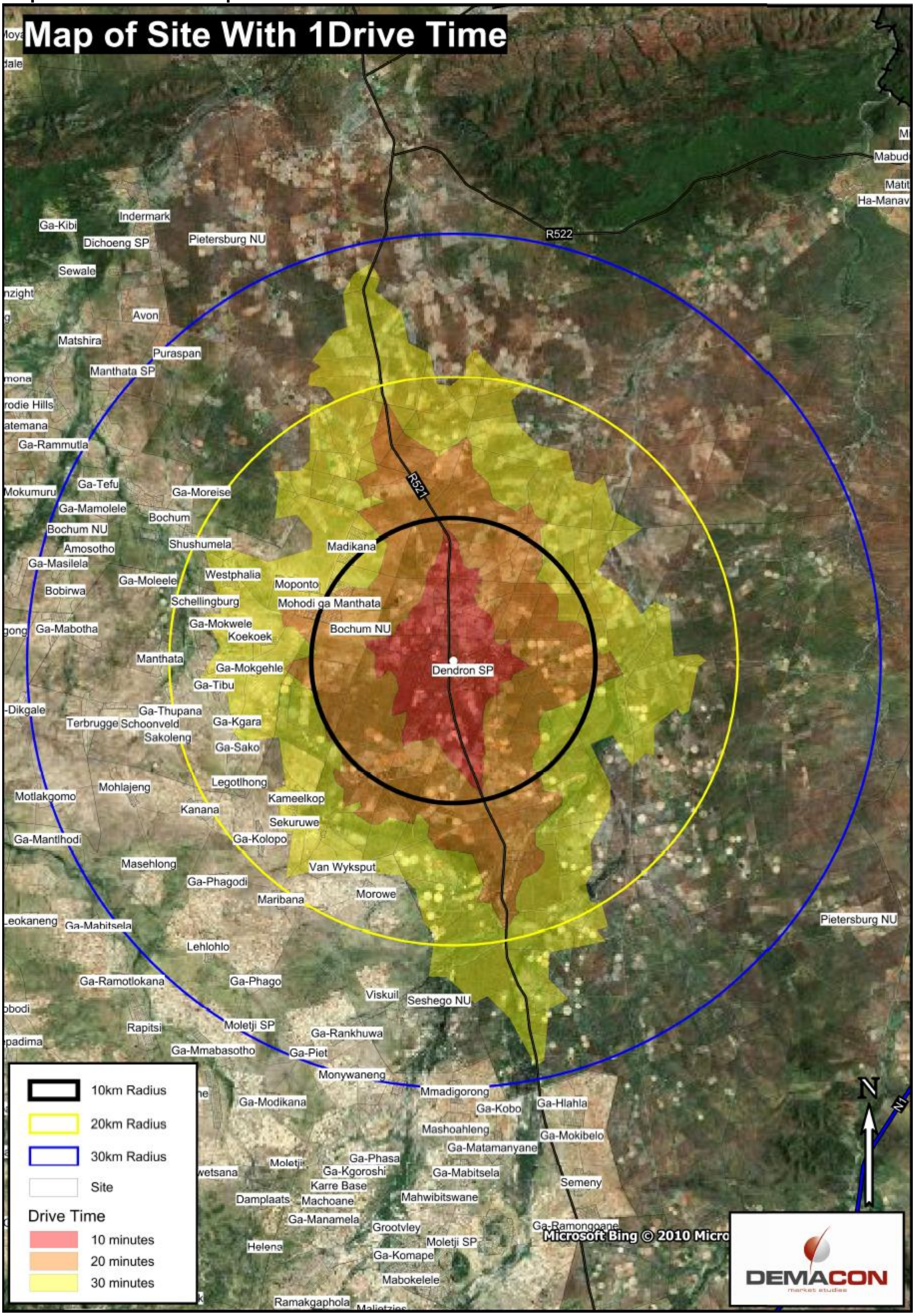
- ✓ The general SACSC criteria
- ✓ Consumer market behaviour and expenditure trends
- ✓ Regional and sub-regional levels of accessibility
- ✓ Geographic barriers
- ✓ General consumer mobility patterns and drive times
- ✓ Presence of competitive centres within an on the outskirts of the trade area.

The market area delineation is illustrated in Map 5.1 and Table 5.1 indicates the population size of the market area and the various sub-places within the defined trade area polygon.

Map 4.1: Delineation of the trade area



Map 4.1: Drive times map



Map 4.3: Population/demand density map

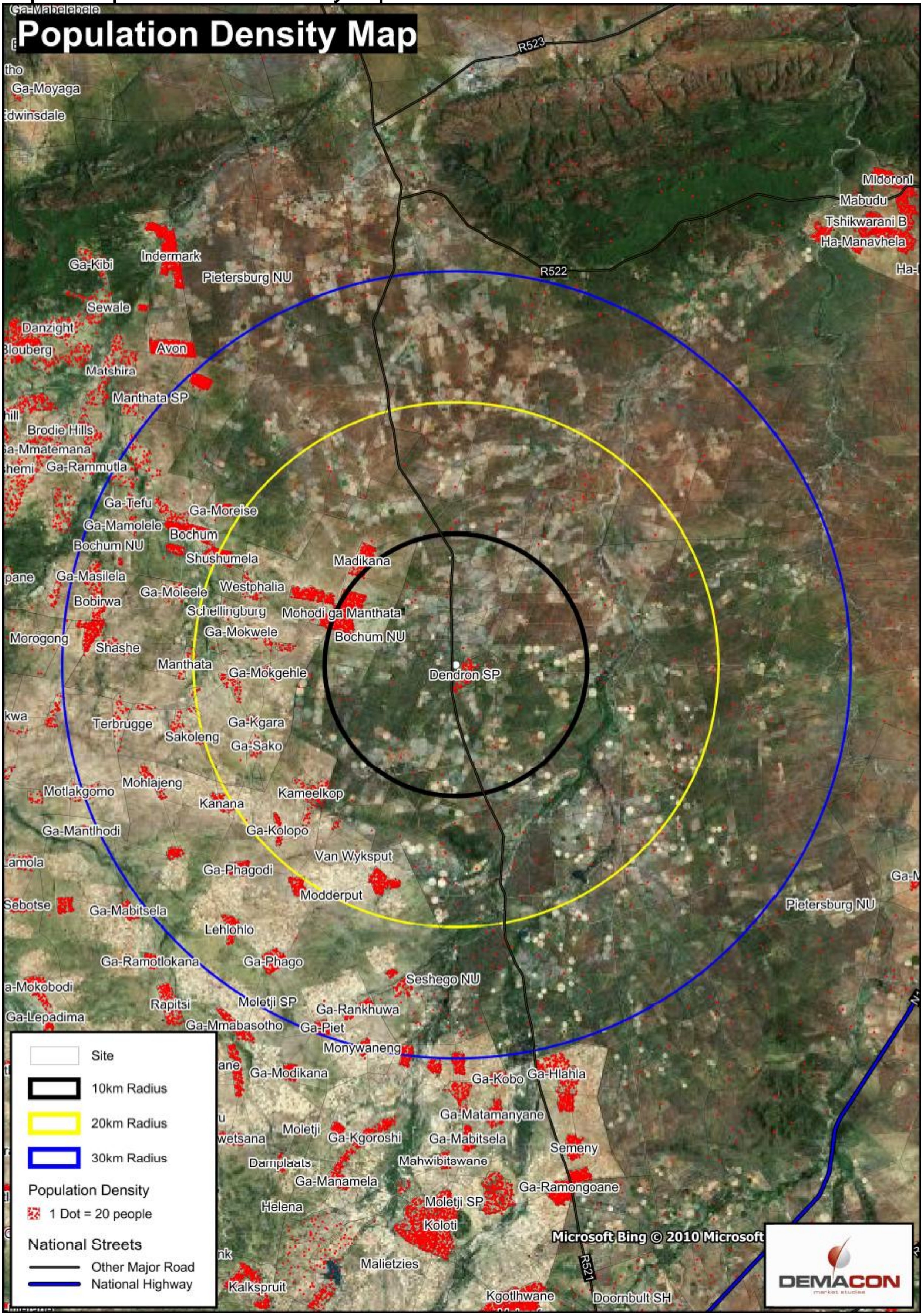


Table 4.1: Primary trade area population indicators – 2011

Subplace	Number of people	Number of hh	Household Size
Dendron SP	1,977	783	2.5
Mohodi ga Manthata	14,211	3,284	4.3
Bochum NU	68	42	1.6
Pietersburg NU	9,084	4,816	1.9
Total	**25,341**	**8,924**	**2.8**

Source: Demacon 2011

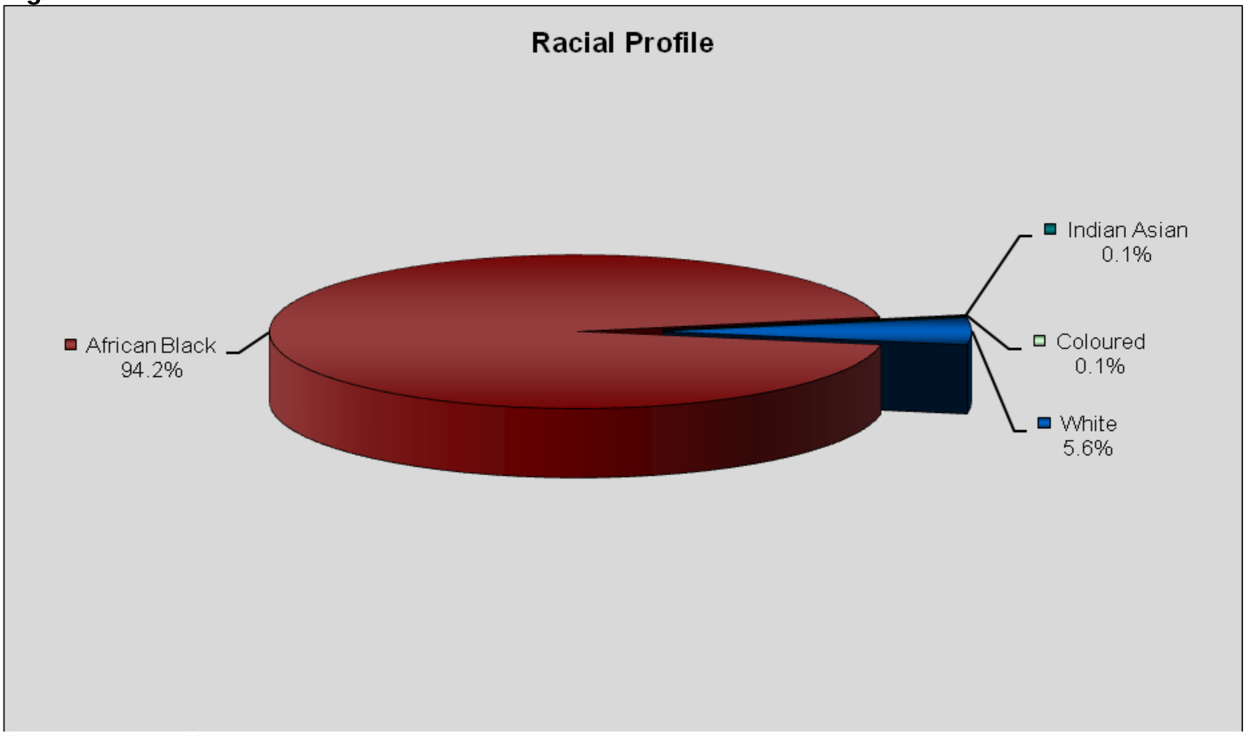
Findings: (Table 4.1)

- ✓ The trade market is characterised by a population figure of **25 341 people** translating into a total of **8 924 households,** with an average household size of **2.8 persons per household**.

4.3 RACIAL DISTRIBUTION

Figure 4.1 indicates the racial distribution of the 2011 primary trade area population estimates. The racial distribution will also impact on the retail behaviour of the consumer market and will impact on the preferences and demand for retail products and services.

Figure 4.1: Racial Distribution



Source: Demacon 2011

Findings: (Figure 4.1)

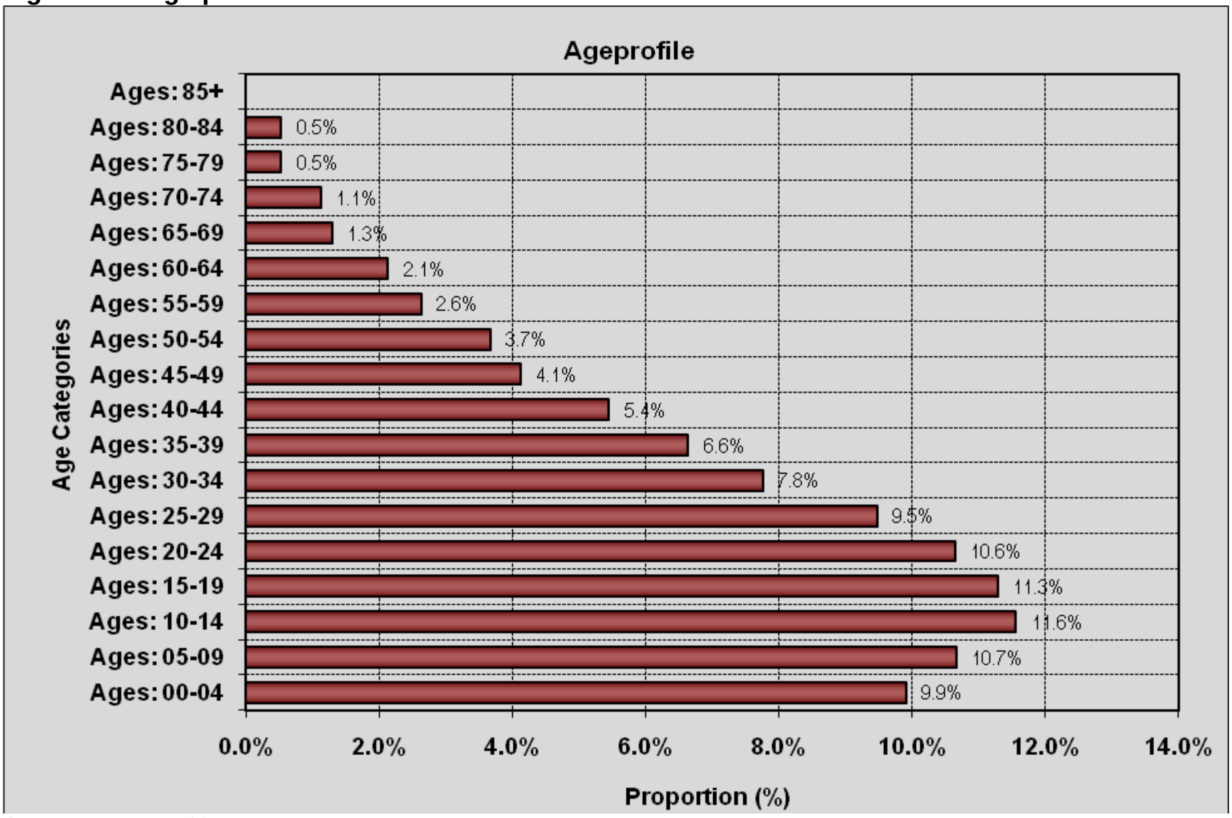
It is evident from the racial census data, that the dominant segment of the market area population is represented by African Blacks (94.2%), white (5.6%) and 0.1% each for the coloured and the Indian/Asian racial groups.

The implication of these subtle community factors is that they can have a major impact on the performance of the proposed mixed use development because of differences in cultures, lifestyle and product and design preference. Tenanting mix must favour the dominant or target market in the market area for the retail component, while residential house designs must also take cognizant of the dominant racial group for the housing component.

4.4 AGE PROFILE

The age distribution of a specific area serves as an important indicator, with reference to consumer demand behaviour and preferences - in particular the dominant age groups. Figure 4.2 illustrates the consumer market age profile.

Figure 4.2: Age profile



Source: Demacon, 2011

Findings: (Figure 4.2)

- ✓ The age profile of the households in the market area is indicative of an aging population. However, on close examination, one would realise that the young (0 – 14 years) constitute almost a third of the market population. Therefore the tapering in the 0 – 14 years age groups might be indicative of moderating growth rates, not necessarily an aging population profile.
- ✓ Market population proportion for the children of between 0-14 years is **32.2**%.
- ✓ The economically active population (15years to 65 years) proportion is **63.7%.**
- ✓ The age profile also indicates that the post fifteen years, the proportions of each age group declines steeply and tapers off towards 60 years. This is indicative of many economically active persons in the market area, leaving for better employment opportunities in Polokwane and Gauteng provinces as well as other places outside the municipal area.
- ✓ The young and up-coming population segment aged between 21 and 40 years makes **34.5%** of the municipal population
- ✓ A mere **3.4%** of the market population is aged above 65 years.

Development implications

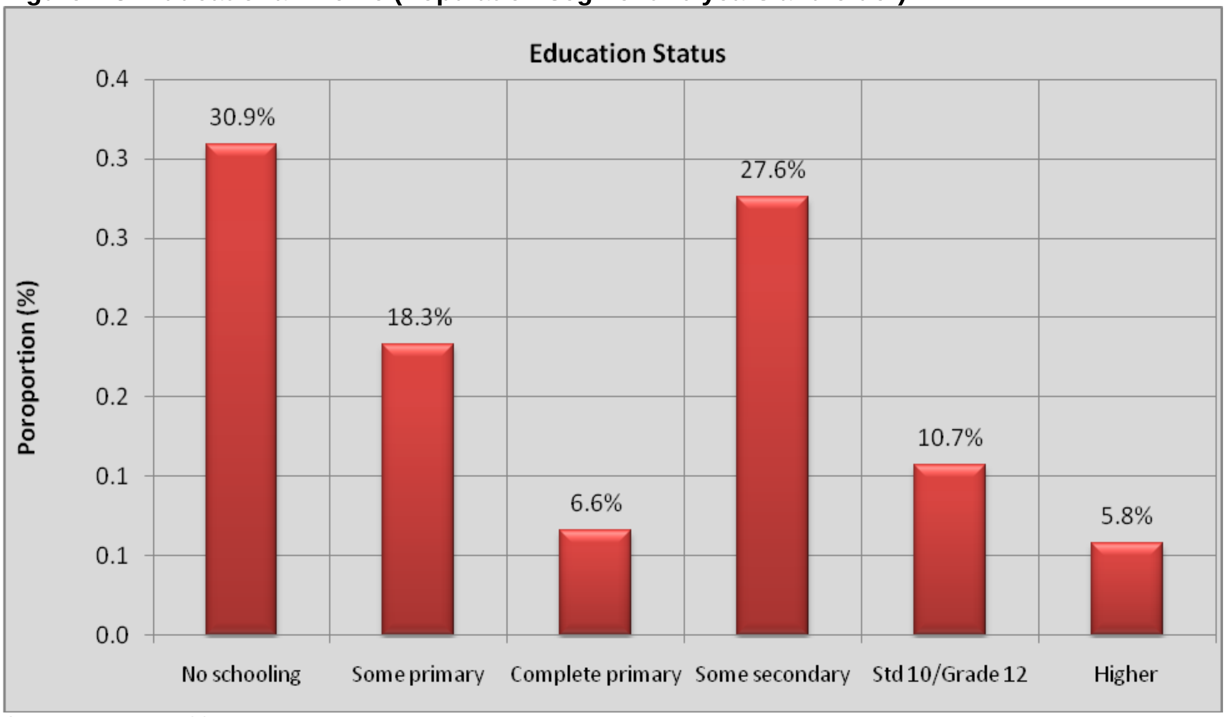
The implications of the age profile on the proposed mixed use development is that, the economically active component of the population that is leaving the municipal area, probably to look for greener pastures in other areas, also take with it their buying power needed to support retail and residential development. It also takes with it, human capital in the form of skills needed for development. However, it may also be positive if there are income remittances from other areas of the country to the municipal area. The tapering growth in the 0-14 years might signal families relocating to other areas outside the municipal area, which might reduce the critical mass needed to economically provide services to settlements. Also, the dominant population age is between 0 – 35 years. This implies a dynamic market demand, retail behaviour, and consumer preferences because of the younger up-coming market having well defined aspirational values, preference towards fashion and a high level of brand consciousness.

4.5 LEVEL OF EDUCATION

The level of education is indicative of the level of human development – with emphasis on the highest level of education. It also serves as a proxy for the potential to be absorbed in the local labour force. The attendance of youth at educational institutions is therefore indicative of the anticipated future absorption rate of the market population within the local economy.

Figure 4.3 indicates the educational background of the market population. The figure also indicates the type of education obtained by the market segment.

Figure 4.3: Educational Profile (Population segment 20 years and older)



Source: Demacon, 2011

Findings: (Figure 4.3)

- ✓ From Figure 4.3 it is evident that there are two dominant segments, the no schooling and the some secondary segments with 30.9% and 27.6% respectively.
- ✓ The education profile for the municipal area is indicative of a dual profile. One segment **(55.8**%) is those poorly educated, ranging from no schooling to completion of primary education. This group is less likely to leverage education to get better paying jobs. The

other segment **(44.2%)** is those who have received better education and maybe be able to leverage it to get higher salaried jobs.

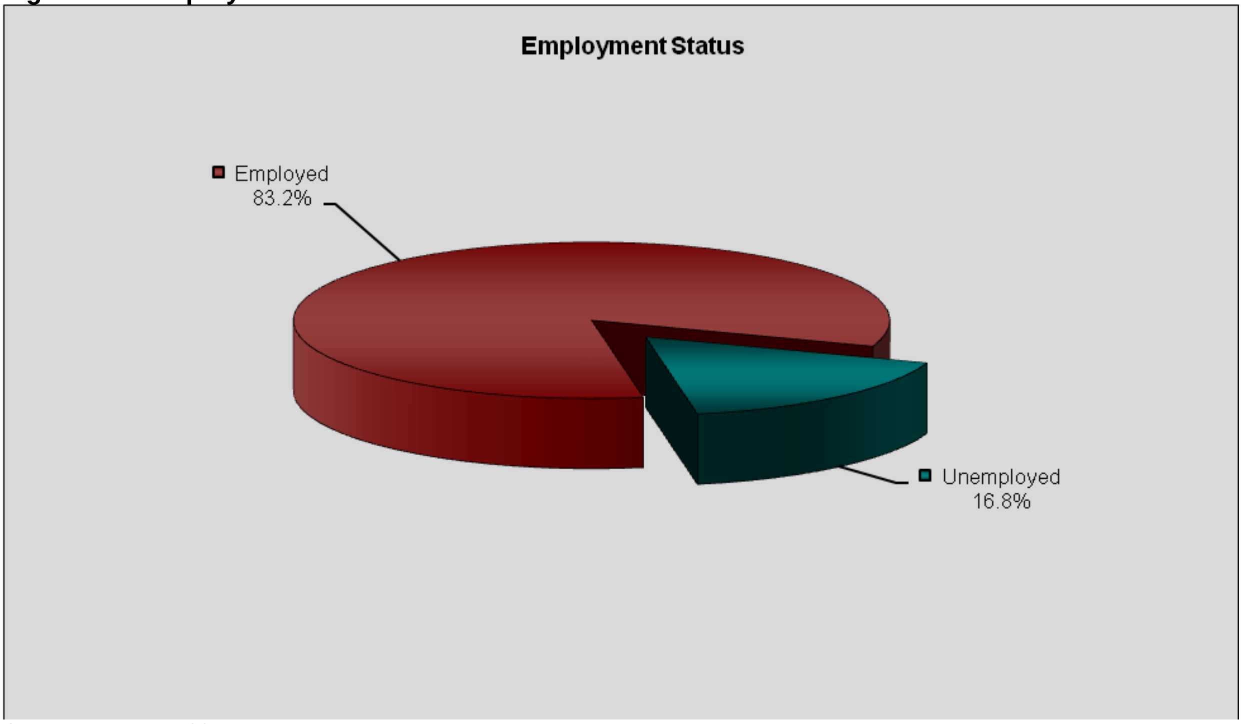
Development Implications

A number of factors contribute to the general property development climate in a specific geographical area. Of the socio-economic factors that provide an initial indication of market potential are levels of education and standards of living. A small segment of the market population is sufficiently educated (matriculated) (**16.5%)** and this group is the one expected to take up semi and skilled jobs while the rest of the people takes up blue collar jobs. This also suppress the community income since the majority earn low average income and have low buying power expected to drive the type of commercial development within the market area.

5.6 EMPLOYMENT STATUS

The figure below shows the employment status of households in Molemole municipal area.

Figure 5.4: Employment Status



Source: Demacon, 2011

The level of employment reflects employment and unemployment levels in the consumer market, which impacts on disposable income patterns. Level of employment, coupled with household size is also indicative of dependency ratios (Refer to Figures 5.4).

Findings: (Figure 5.4)

- ✓ A large segment of the market population is economically active (67.5%), whereas 32.5% of the market population is not economically active - representing youth, children, the elderly and the disabled not able to be employed.
- ✓ Of the segment of the population that is economically active, 83.2% is employed, whereas 16.8% is unemployed.
- ✓ The local unemployment compares favourably with the national unemployment rate of 24% for quarter four or 2010 (StatsSA).

✓ However, the area shows high dependency ratios (unemployed and economically not active per number employed) of 100:78. This means that every working individual also support 0.78 persons in addition to himself compared to the national 100: 64 in 2005.

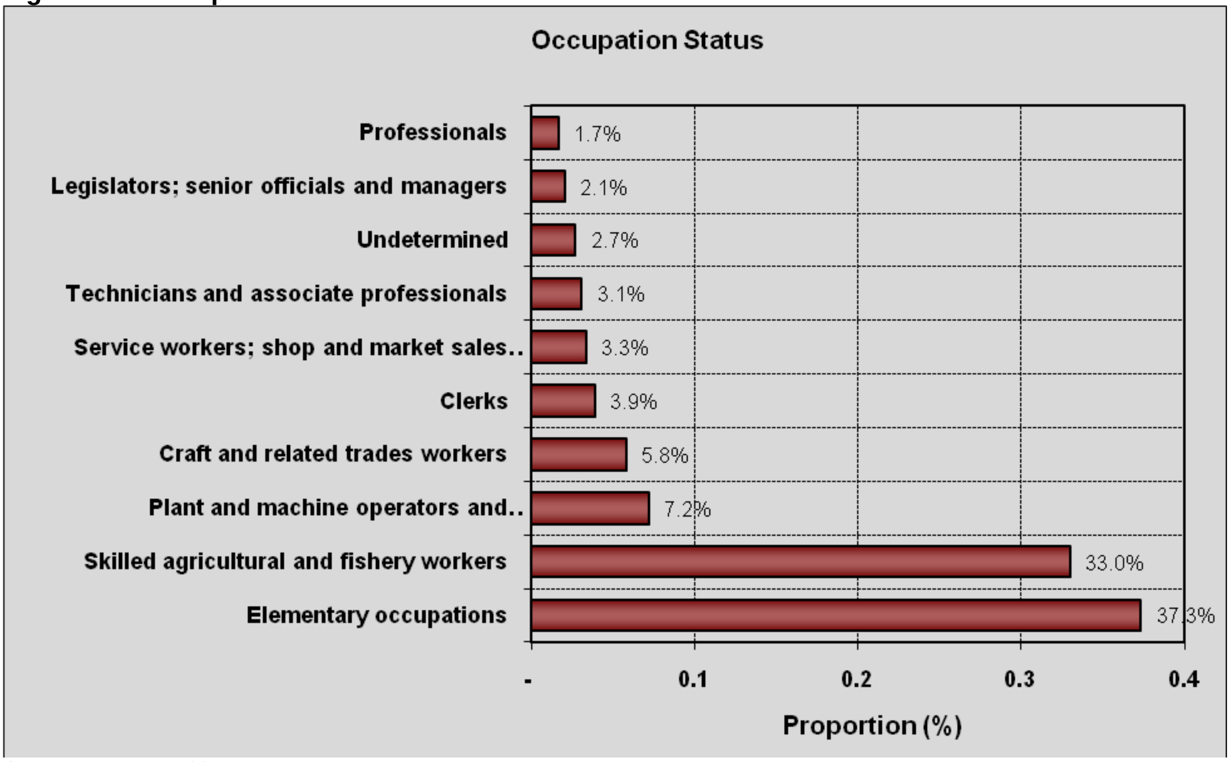
Development implications

The consumer market area is characterised by a relatively large economically active market segment which is predominantly employed (83.2%). The profile reflects higher dependency ratios compared to the nation as whole and this is indicative of a more indigent community than the national average. The employment levels in conjunction with the moderate levels of education reflect a consumer market with a demand focused more towards the lower end of the retail services and product spectrum.

4.7 OCCUPATION PROFILE

The occupation profile is an important indicator of anticipated community income, serving as proxy for the level of community wealth and stability. The presence of white and blue collar occupations serves as indication of a higher income profile or lower income profile consumer market. Figure 4.5 indicates the occupation profile of the consumer market.

Figure 4.5: Occupation Profile



Source: Demacon, 2011

Findings: (Figure 4.5)

✓ The figure reflects definite blue collar occupation profile (elementary occupations, skilled agricultural and fishery workers, plant and machine operators and craft and related trades workers, contributing 83.3% among them.
✓ The dominant single occupation within the market area is Elementary occupations (37.3%)
✓ This is supported by the following occupations:
  - Skilled agricultural workers (33.0%).
  - Plant and machine operators and assemblers (7.2%)
  - Craft and related trade workers (18.7).

- Service workers, shop and market sales workers (5.8%)
- Clerks (3.9%)

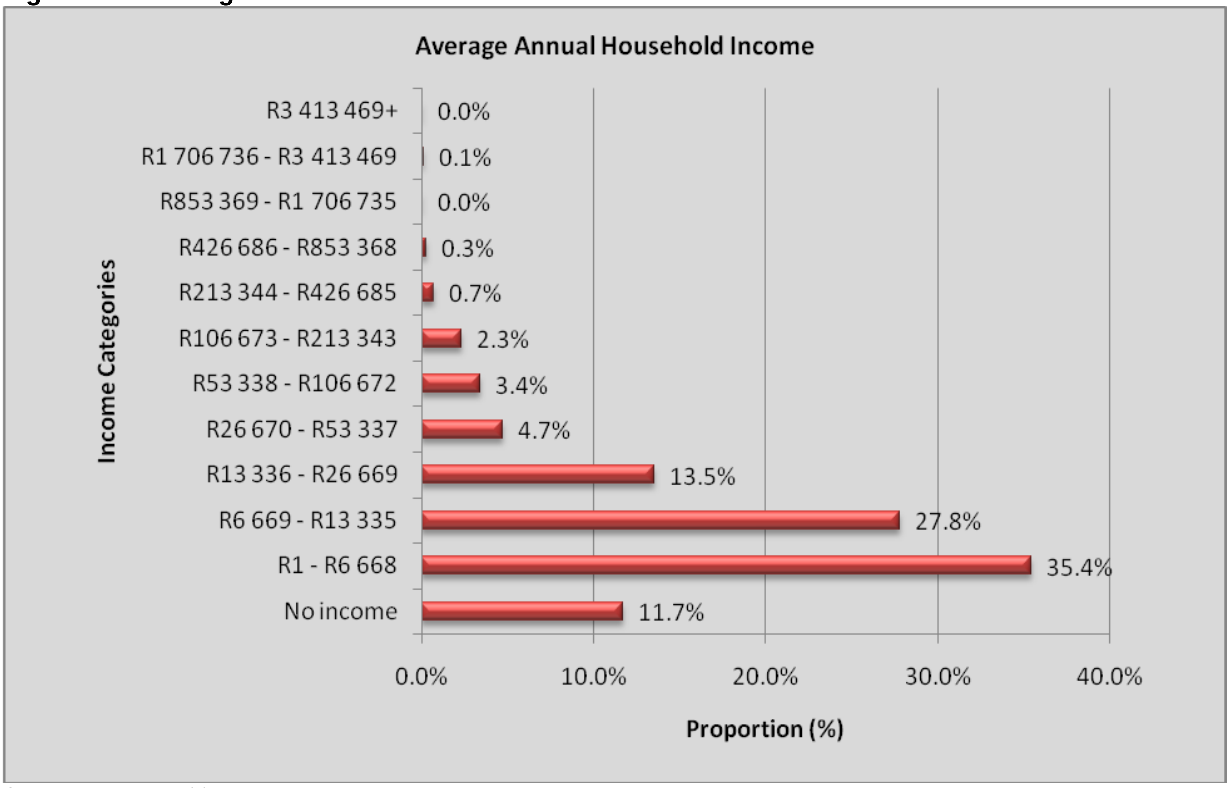
Development implications

The occupation profile reflects a predominant blue collar occupation profile, serving as proxy for lower income earners. A large percentage of people are employed in **agricultural (33%)** sector indicates that the market area is a predominantly rural (second economy market). The implication of the occupational profile with the proposed mixed use development is that, the dominant jobs define household incomes as well as their shopping patterns and housing demand.

4.8 AVERAGE ANNUAL HOUSEHOLD INCOME

Average household income is a direct indicator of retail demand and the amount of retail floor space that could practically be supported by a given consumer market. Average household income, to an extent, also reflects the living standard of a household and influences aspects such as asset ownership. Figure 4.6 illustrates the annual household income profile of the consumer market area.

Figure 4.6: Average annual household income



Source: Demacon, 2011

Findings: (Figure 4.6)

- ✓ 11.7% of the households earn no income at all.
- ✓ 88.4% of households in the market area earn annual incomes that are in the LSM 1 - 3.
- ✓ 11.6% of the households earn annual incomes that put them in the LSM 4 -10+ categories. This category has more purchasing power and constitutes the effective retail market.
- ✓ The weighted average annual household income for the entire market (LSM 1 – 10+) is **R26 593 per annum** translated to **R2 216 per month (2011)**.

✓ The weighted average annual household income for the target market LSM 4 to 10+ amount to **R145 463 per annum** translated to **R12 122 per month (2011)**.

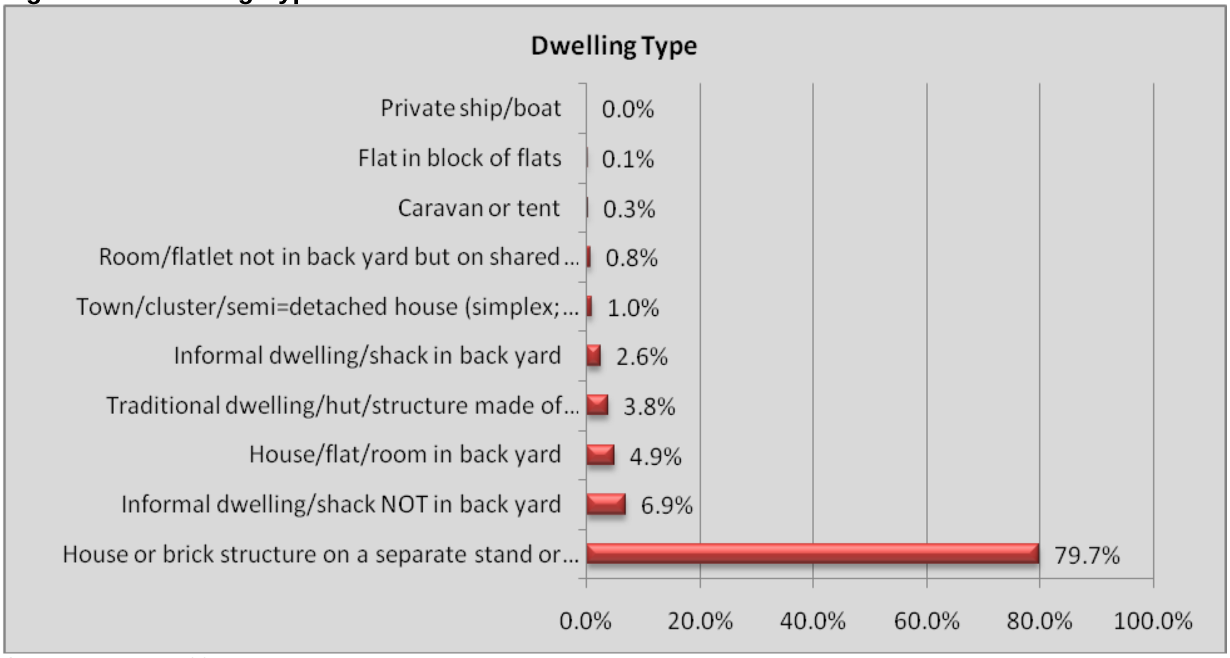
Development implications

The income profile for the market area shows that the majority of the households earn income less than R2 200 per month. This indicates that the market area is characterised by a *low income earning* community featuring pockets of wealth and poverty. The income profile affirms a consumer market with a predominant demand profile for **low to middle range consumer goods and services**.

4.9 DWELLING TYPE

Household dwelling types are another indicator of household wealth. Wealthy households occupy fully paid town houses while their not so well off counterparts may be staying in rented houses and apartments as well as informal dwellings/shacks. However, in other settlements the dominance of paid up houses may reflect the dominance of government provided RDP houses

Figure 4.7: Dwelling Types



Source: Demacon, 2011

Findings:

The dwelling type profile of the market area indicates that:

✓ Just under 80% of the households live in a house or brick structure on a separated stand
✓ 6.9% live in an informal dwelling/ shack
✓ 4.9% live in a house or flat or room in the back yard

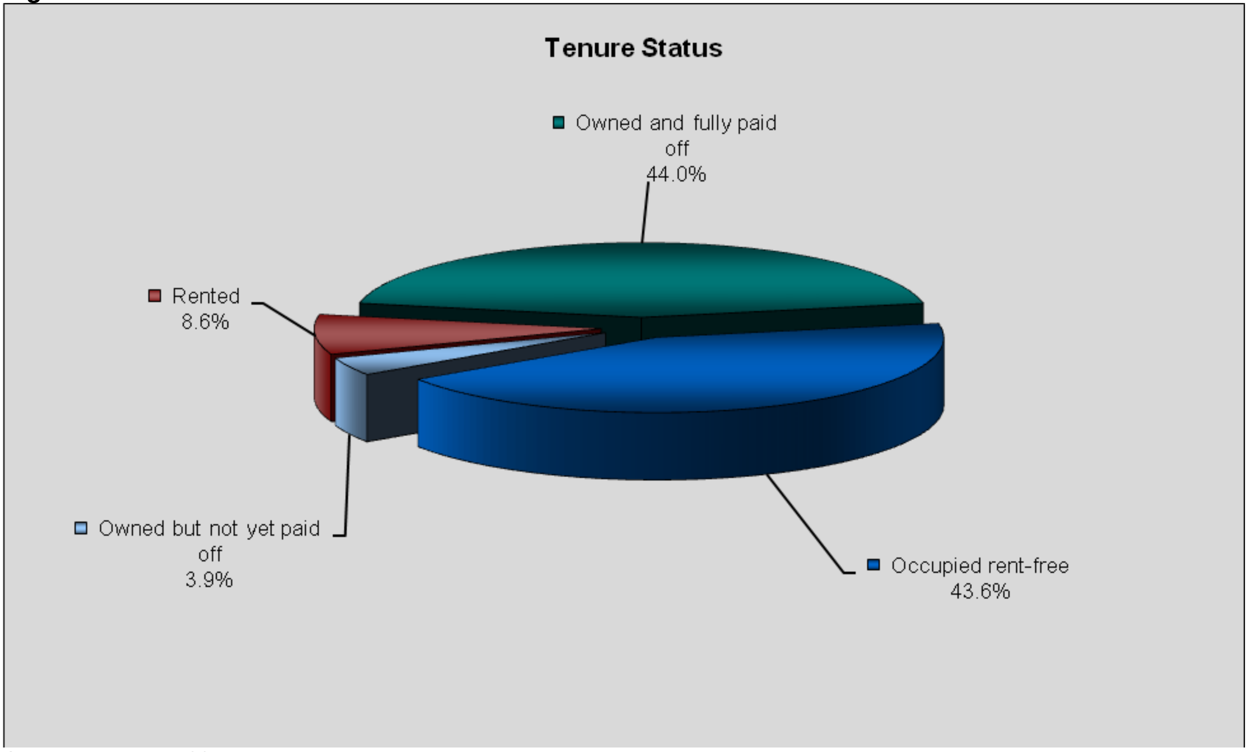
Implications

The dominant dwelling type is that of house or brick structure on a separate stand (79.7%). This profile would normally reflect a wealthy neighbourhood in which the majority are living in proper houses or structures with most amenities in place. However, in this instance, the dominance of house or brick structure reflects the dominance of government-built low cost housing, in line with most South African rural growth centres which have a government built low cost houses landscape. This is reinforced by the fact that the second largest group are those living in informal settlements (likely to be those not yet allocated their RDP houses). This aligns with the moderate levels of education, employment and income levels in the area. The proposed centre could contribute economically towards job creation and improve dwelling type profile within the area.

4.10 TENURE STATUS

Tenure type also reveals the income received by households. Low income earners prefer to rent of live in rent free housing such as shacks.

Figure 4.8: Tenure Status



Source: Demacon, 2011

Also resonating with dwelling types is tenure status. Low income earners usually occupy rent free accommodation, rent or may own but not yet paid for. Findings in the market area are:

- ✓ 44.0% of the households own fully paid houses
- ✓ 43.6% of the households occupy rent free housing
- ✓ 8.6% rent their accommodation
- ✓ 3.9% own their houses but have not yet fully paid for it.

Implications

As indicated in the dwelling type figure, the high figures of owned and fully paid houses as well as those occupied rent free is not in this instance reflective of the existence of wealthy households in the trade area, but the landscape being dominated by government provided RDP housing. The low level of rented stock reveals that this market segment might be underserved or unsustainable due to low incomes received by local households.

5.11 LIVING STANDARD MEASUREMENT

The LSM index is an internationally recognised instrument designed to profile a market in terms of a continuum of progressively more developed and sophisticated market segments. The LSM system is based on a set of marketing differentiators, which group consumers according to their standard of living, using criteria such as degree of urbanisation and ownership of assets (predominantly luxury goods).

Essentially, the LSM system is a wealth measure based on standard of living, rather than income alone. The market segmentation continuum is divided into ten LSM segments, where LSM 1 signifies the lowest living standard and LSM 10+ signifies the highest living standard. The LSM categories are defined and weighted in terms of the following 29 variables (Table 4.2).

Table 4.2: Living Standard Measurement (LSM) Variables

1	Hot running water	16	Less than 2 radio sets/household
2	Fridge/freezer	17	Hi-Fi/music centre
3	Microwave oven	18	Rural outside
4	Flush toilet in/outside house	19	Built-in kitchen sink
5	No domestic in household	20	Home security service
6	VCR	21	Deep freezer
7	Vacuum cleaner/floor polisher	22	Water in home/plot
8	No cell phone in household	23	M-net/DSTV subscription
9	Traditional hut	24	Dishwasher
10	Washing machine	25	Electricity
11	PC in home	26	Sewing machine
12	Electric stove	27	DVD player
13	TV set	28	1 cell phone per household
14	Tumble dryer	29	Motor vehicle in household
15	Home telephone		

It is important to note that the LSM system is widely applied internationally for marketing and branding purposes, and that it is therefore not an instrument developed locally to label or stereotype certain market segments.

Table 4.3 summarises the current status of the consumer market in terms of the LSM index within the market area. Essentially, the LSM index summarises the net result of market indicators discussed in preceding paragraphs.

Table 4.3: Living Standard Measurement Indicator

Income category (R/month)	LSM Status	Primary Market Area (% of households)
Super A income	LSM 10+	0.3%
A Income	LSM 10	0.4%
B Income	LSM 9	0.5%
C Income high	LSM 8	1.5%
C Income low	LSM 7	1.8%
D Income	LSM 6	2.3%
D Lower top	LSM 4 to 5	4.7%
D lower end	LSM 1 to 3	88.4%

Source: Demacon calculations

Development implications

As seen in Table 4.3, a large segment of households **(88.4%)** in the market area form part of the LSM 1 to 3 categories. The target market LSM 4 to 10+ however represents only **11.6%** of the market population households. The LSM profile provides a condensed summary of market characteristics and affirms the findings of preceding paragraphs.

4.12 SYNTHESIS

Table 4.4 provides a summary of the key socio-economic variables characterising the consumer market.

Table 4.4: Key socio-economic variables of the retail market area population, 2011 (polygon informed by 10km radius)

Variable	Market Characteristics
Primary Market	
Population size (2011)	✓ 25 341 people ✓ 8 924 households
Household Size (2011)	✓ 2.8 people per household
Age	✓ 32.1% - between 0 and 14 years ✓ 11.3% - between 15 and 20 years ✓ 34.5% - between 21 and 40 years ✓ 15.9% - between 40 and 60 years ✓ 5.6% - older than 60 years
Highest level of education	✓ 5.8% - Higher education ✓ 10.7% - Grade 12 ✓ 27.6% - Some secondary education ✓ 30.9% - No schooling
Level of employment	✓ 67.5% - Economically active ✓ Of which 83.2% is employed ✓ 16.8% is unemployed
Tenure Status	✓ 33.7% - Occupied Rent Free ✓ 28.4% - Owned And Fully Paid ✓ 25.4% - Owned But Not Yet Fully Paid ✓ 12.6% - Rented
Dwelling Types	✓ 56.1% - Informal dwelling/shack NOT in back yard but on shared property ✓ 38.1% - House or brick structure on a separate stand or yard ✓ 2.7% - Informal dwelling/shack in back yard ✓ 1.3% - Traditional dwelling / hut / structure made of traditional materials ✓ 1.0% - House / flat / room in back yard
Occupation profile	✓ 37.3% - Elementary occupations ✓ 33.0% - Skilled agriculture and fishery workers ✓ 7.2% - Plant and machine operators and assemblers ✓ 5.8% - Craft and related Trades workers
Average household income (2011)	✓ Income earning households: LSM 1-10 ✓ R26 593/annum ✓ R2 216/month ✓ LSM 4 to 10+: ✓ R154 463/annum ✓ R12 122/month
Predominant LSM	✓ 88.4% - LSM 1 to 3 ✓ 11.6% - LSM 4 to 10+
Variable	**Market Characteristics**
Secondary Market	
Population size (2011)	✓ 46 002 people ✓ 14 499 households
Household Size (2011)	✓ 3.4 people per household
Age	✓ 37.3% - between 0 and 14 years ✓ 12.5% - between 15 and 20 years ✓ 28.6% - between 21 and 40 years ✓ 14.1% - between 40 and 60 years ✓ 6.8% - older than 60 years
Highest level of education	✓ 4.6% - Higher education ✓ 9.4% - Grade 12 ✓ 27.4% - Some secondary education ✓ 35.2% - No schooling
Level of employment	✓ 53.5% - Economically active ✓ Of which 75.7% is employed ✓ 24.3% is unemployed
Tenure Status	✓ 62.5% - Owned and Fully Paid

Variable	Market Characteristics
	✓ 33.2% -Occupied Rent Free ✓ 2.3 – Rented ✓ 2.0% - Owned And Fully Paid
Dwelling Types	✓ 76.4% - House or brick structure on a separate stand or yard ✓ 10.4% - Informal dwelling/shack NOT in back yard but on shared property
Occupation profile	✓ 38.8% - Elementary occupations ✓ 29.9% - Skilled agricultural and fishery workers ✓ 7.5% - Plant and machine operators and assemblers
Average household income (2011)	✓ Income earning households: LSM 1-10 ✓ R24 172/annum ✓ R2 014/month ✓ LSM 4 to 10+: ✓ R130 800/annum ✓ R10 900/month
Predominant LSM	✓ 90.1% - LSM 1 to 3 ✓ 9.9% - LSM 4 to 10+

Demacon 2011

The primary consumer market profile reveals the following pertinent characteristics:

- ✓ It is estimated that approximately **25 341 people / 8 924 households** reside in the primary market area (2011)
- ✓ The weighted average monthly household income for the target market (LSM 4 to 10+) amounts to **R12 122 for the primary market (2011)**
- ✓ **Moderate living standards – 11.6%** (**LSM 4 to 10+)** characterises the Hebron Shopping Centre's core target market, while the LSM 1- 10+ constitute the effective market
- ✓ The market profile will support predominantly **lower to middle-end retail goods and services.**

Chapter 5 provides a more in depth overview of the consumer market with reference to retail expenditure, perceptions and preferences.

CHAPTER 5: CONSUMER MARKET PROFILE AND PREFERENCES

5.1 INTRODUCTION

DEMACON conducted extensive consumer market surveys around the centre in the market area. The purpose of the survey was to obtain the consumer market profile as well as to extract the views and preferences of consumers in the market. This will provide insight into, identify market strengths and weaknesses and take pre-emptive action by developing the optimum tenant mix as well as other recommendations on how best to deal with identified issues.

The survey set out to ascertain the market's shopping preferences and demand for specific retail facilities or specific tenants as part of the centre mix. Household incomes and expenditure patterns were also determined, as well as other aspects of the consumer market such as life stage, etc. the survey also elicited the views and preferences about residential market demand in Mogwadi (Dendron).

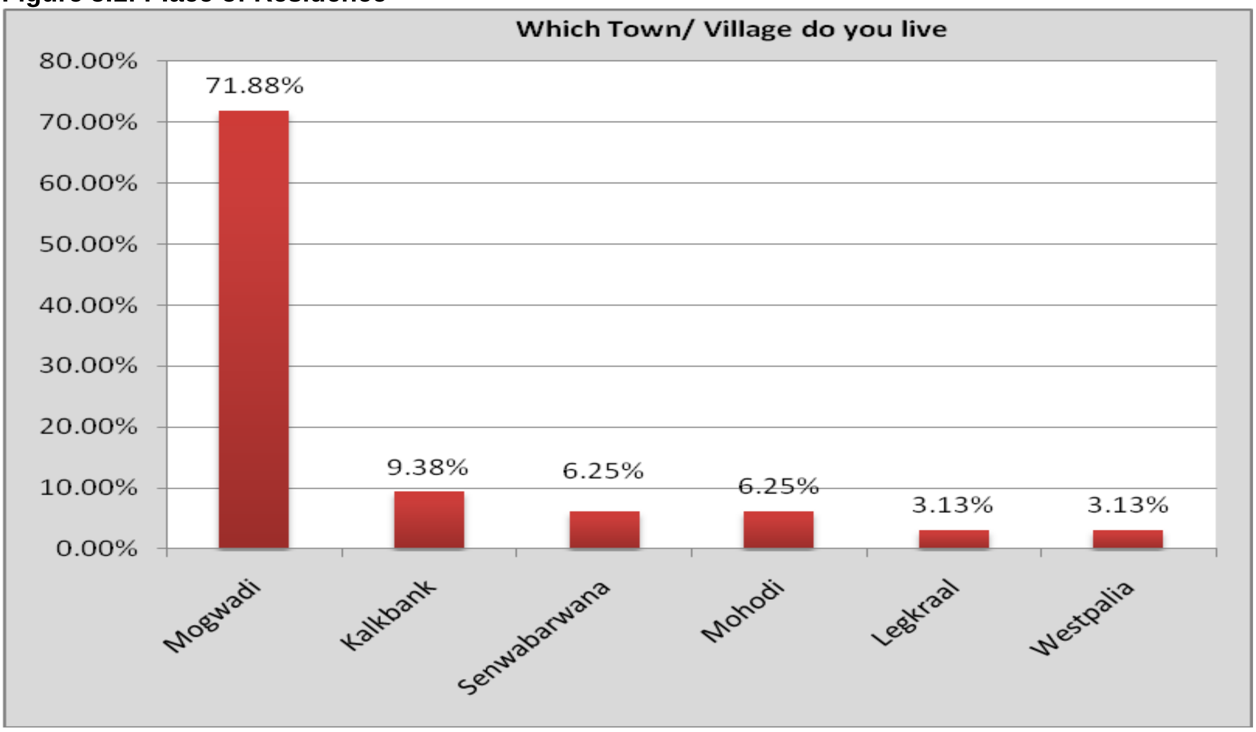
5.2 CONSUMER MARKET EXPENDITURE PATTERNS AND PREFERENCES

A large number of these questions pertain to perceptions and, as such do not necessarily correlate with actual market values. The level of knowledge to the specific subject also impact on the quality of answers provided within the subsequent paragraphs.

5.2.1 DEMOGRAPHIC/ HOUSEHOLD INFORMATION

The following figure illustrates where most of the household reside by suburb, village or town.

Figure 5.1: Place of Residence



Demacon Household Survey, 2011

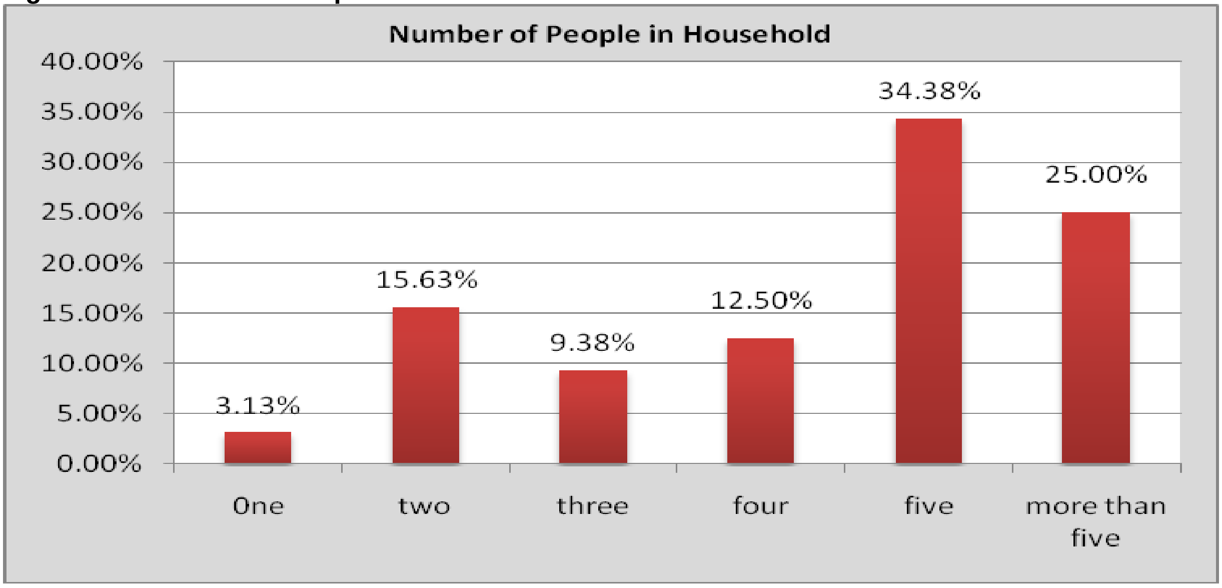
About **71% of the market** population reside in Mogwadi Town, formerly known as Dendron. This is followed by **9.38**% of the market households that reside in **Kalkbank,** which is located south of Mogwadi on the R521 link road. The large proportion of the market households that reside in Mogwadi is positive to the proposed Mogwadi Mixed Use development because there is little income leakage, since the sphere of influence and competition increases as you move away from the development itself. Thus the large portion of people residing where the proposed development is located indicates a strong primary market for the development.

The following figure indicates the household profile of people who reside in the market area.

Household Size

Figure 5.2 below shows the household size for the market area of the proposed Molemole Mixed Use development.

Figure 5.2: Number of People in a Household



Demacon Household Survey, 2011

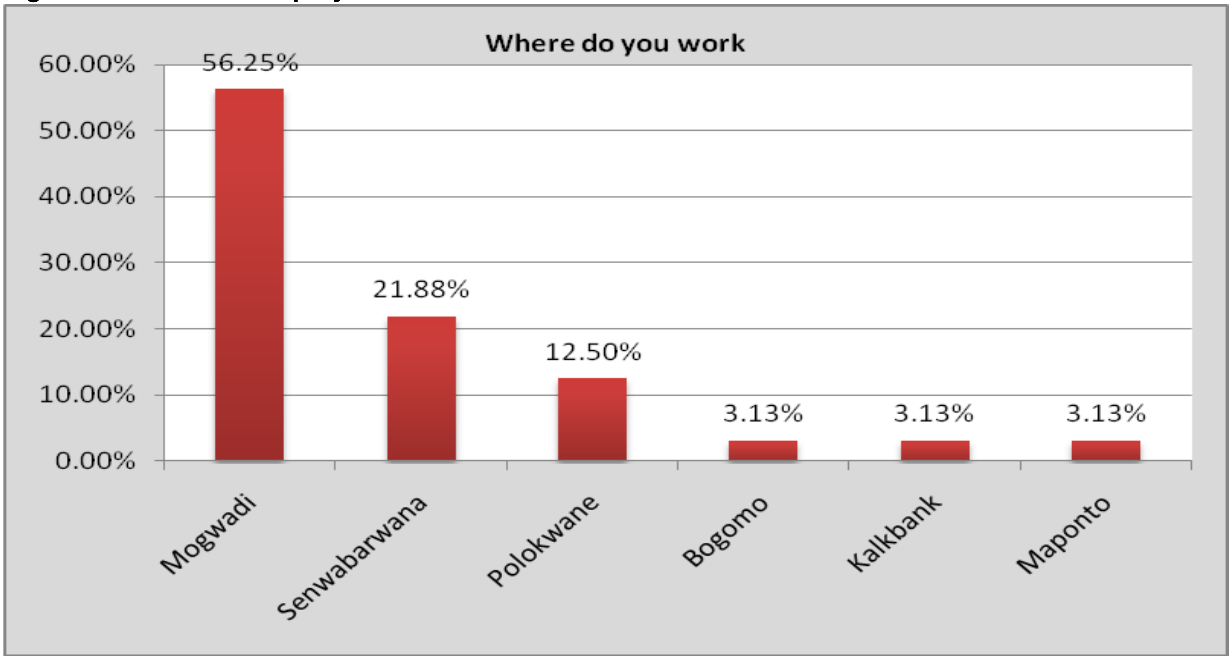
Figure 5.2 indicates that the market is dominated by family set ups that are large. More than 60% of the households have at least five family members while at least 96% of the households have more than one person. This is reflective of **high dependency ratios** as well as the fact that this is a **rural household family setting** where family members stay together at the family house or homestead. The market implication of this might be high income spend on food, homeware, clothing items and transportation goods (**family oriented goods and services)**.

Place of Employment of Households in the Market Area

The figure below shows that Mogwadi is the dominant place of employment for the majority of households in the market area. Mogwadi is the place of work for 56.25% of the households, followed by Senwabarwana with 21.9%, Polokwane at 12.5% as well as Bogomo, Maponto and Kalkbank at 3.13%. It can thus be deciphered that the majority of households work and reside in Mogwadi.

This raises the prospects of income generated in the area to be spent in the market area with little leakages.

Figure 5.3: Place of employment

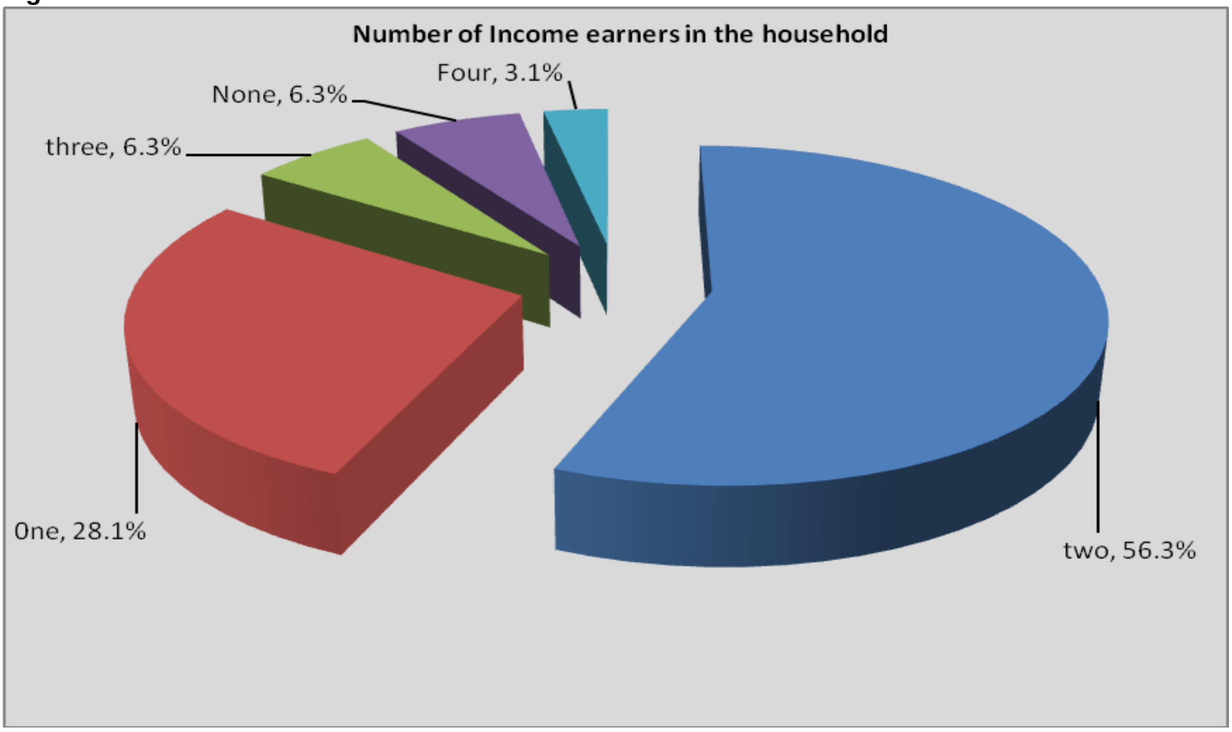


Demacon Household Survey, 2011

Number of Income earners in the Household

The figure below shows the number of income earners in a household. The number of income earners in a household is predictive of a household's disposable income and buying power on a non-contrarian basis.

Figure 5.4: Number of Income earners in a Household



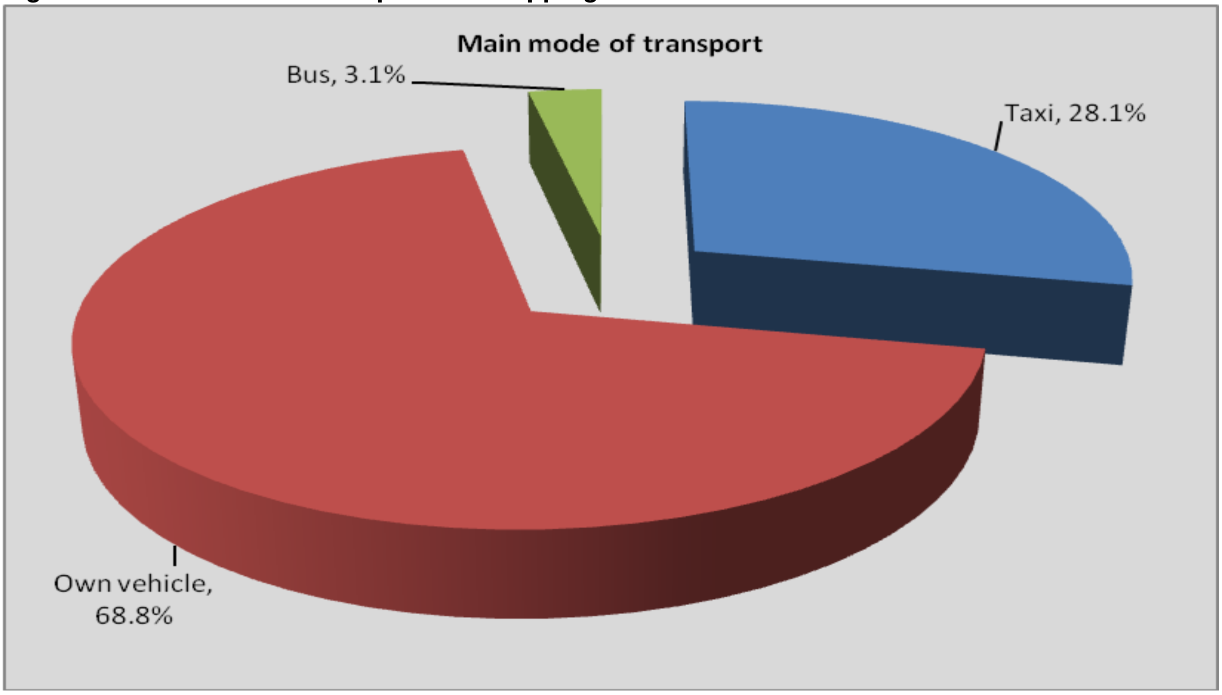
Demacon Household Survey, 2011

More than 93% of the households have at least one person who is earning income. About 6.3% have no one in the household earning income and are likely to form the core of indigent households that need social security assistance through various arms of the government for example, the Molemole Local Municipality. This diagram does not however, reveal the nominal amounts received by each household, hence over reliance on it to discern living standards has to be done in conjunction with the income profile and the LSM categories.

Household's main form of transportation for Shopping

The following figure shows the households' main form of transportation for shopping.

Figure 5.5: Main form of transport for shopping



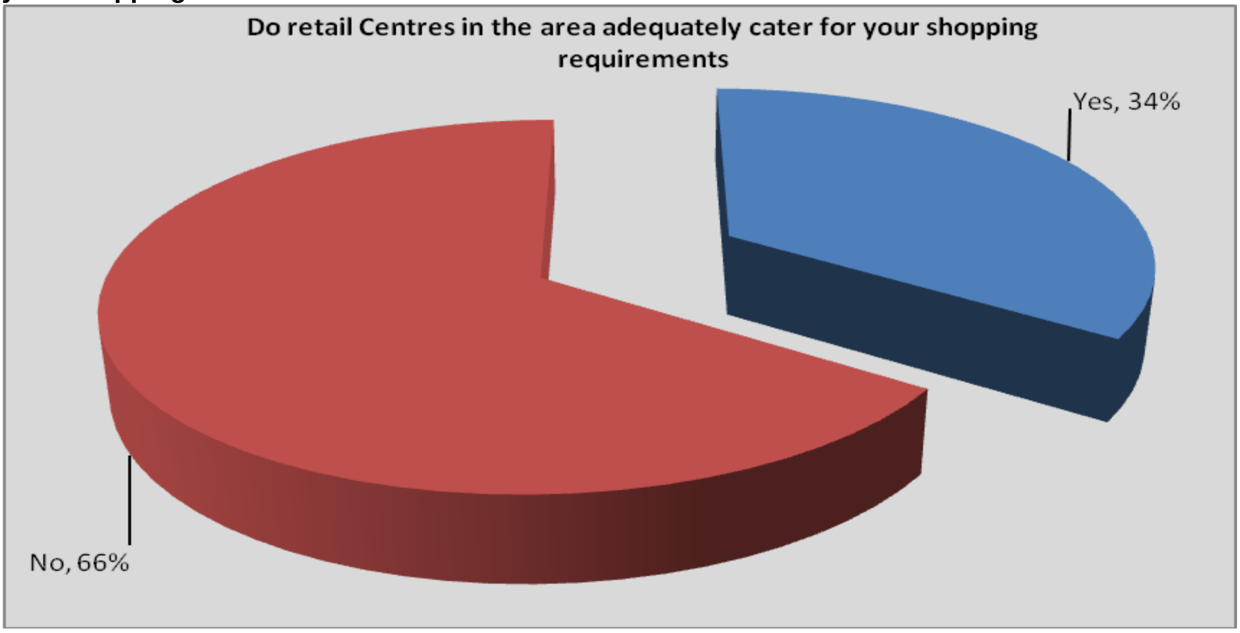
Demacon Household Survey, 2011

The figure above shows that the households are mobile. This is reflected by the number of households that have their own transport, i.e., those who use own vehicle (68.8%). Mobile households pose a greater risk of travelling outside their areas for shopping if their area does not provide the desired range and quality of goods and services. The developers are thus implored to introduce design and tenant mix strategies that are consumer informed. The sizable portion of 28.1% use taxis as a means of transport. For the development to capture this market, incorporating a taxi rank as part of the development has been done with success in similar developments in South Africa.

Shopping patterns and preferences

The figure below shows if the local retail facilities cater adequately for shopping requirement of the resident household.

Figure 5.6: Do retail facilities in the area cater adequately for shopping predominantly conduct your shopping



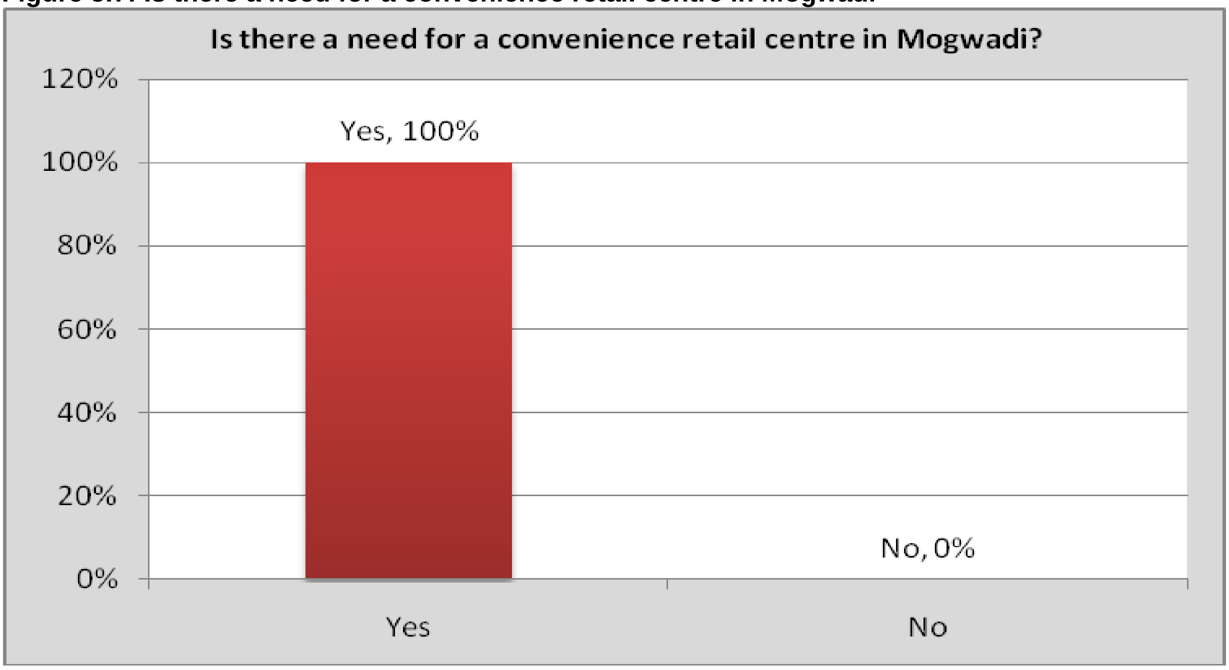
Demacon Household Survey, 2011

A large proportion of the market (66.0%) of the households in the market area confirmed that they are not adequately catered for in their shopping needs, with respect to **product range and quality**. This implies that there is market opportunity in the market area to bring other retail offerings that will extract this uncatered for market.

Is there a need for a convenience centre in Mogwadi?

The above enquiry was followed up by a question on whether there is a need for a convenience centre in Mogwadi.

Figure 5.7: Is there a need for a convenience retail centre in Mogwadi



Demacon Household Survey, 2011

All the people surveyed indicated that there is a strong need for a structured convenience retail centre in Mogwadi. The strong affirmative response is reflective of **the need of a better retail centr**e that is capable of providing a one stop shopping environment, by integrating various retail shops under one cluster, unlike the current situation where small shops are dispersed across town. This will also improve shopper experience as well as generating the critical mass needed to extract scale economies for the operators.

Will you shop at the new retail facility?

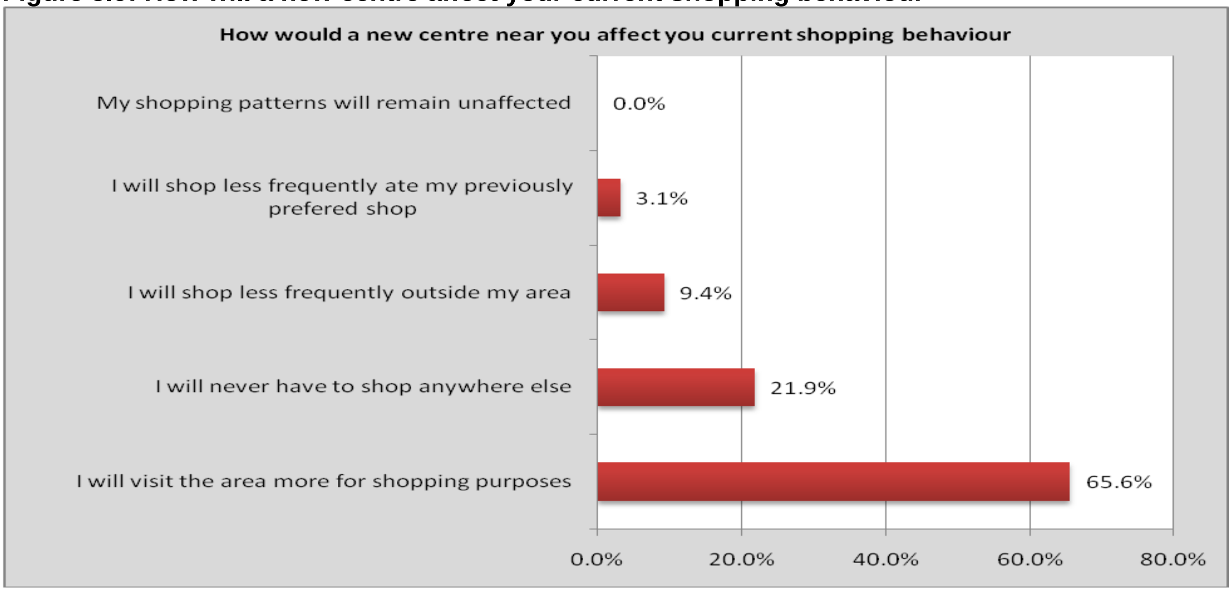
The following table shows the response of whether the households will shop at the new centre.

Figure 5.8: Will you shop at the new retail facility

Demacon Household Survey, 2011

The figure above reveals that **100% of the households will shop at the new centre**. The strong positive response is indicative of strong potential demand and lower risk attached to the development.

Figure 5.9: How will a new centre affect your current shopping behaviour



Demacon Household Survey, 2011

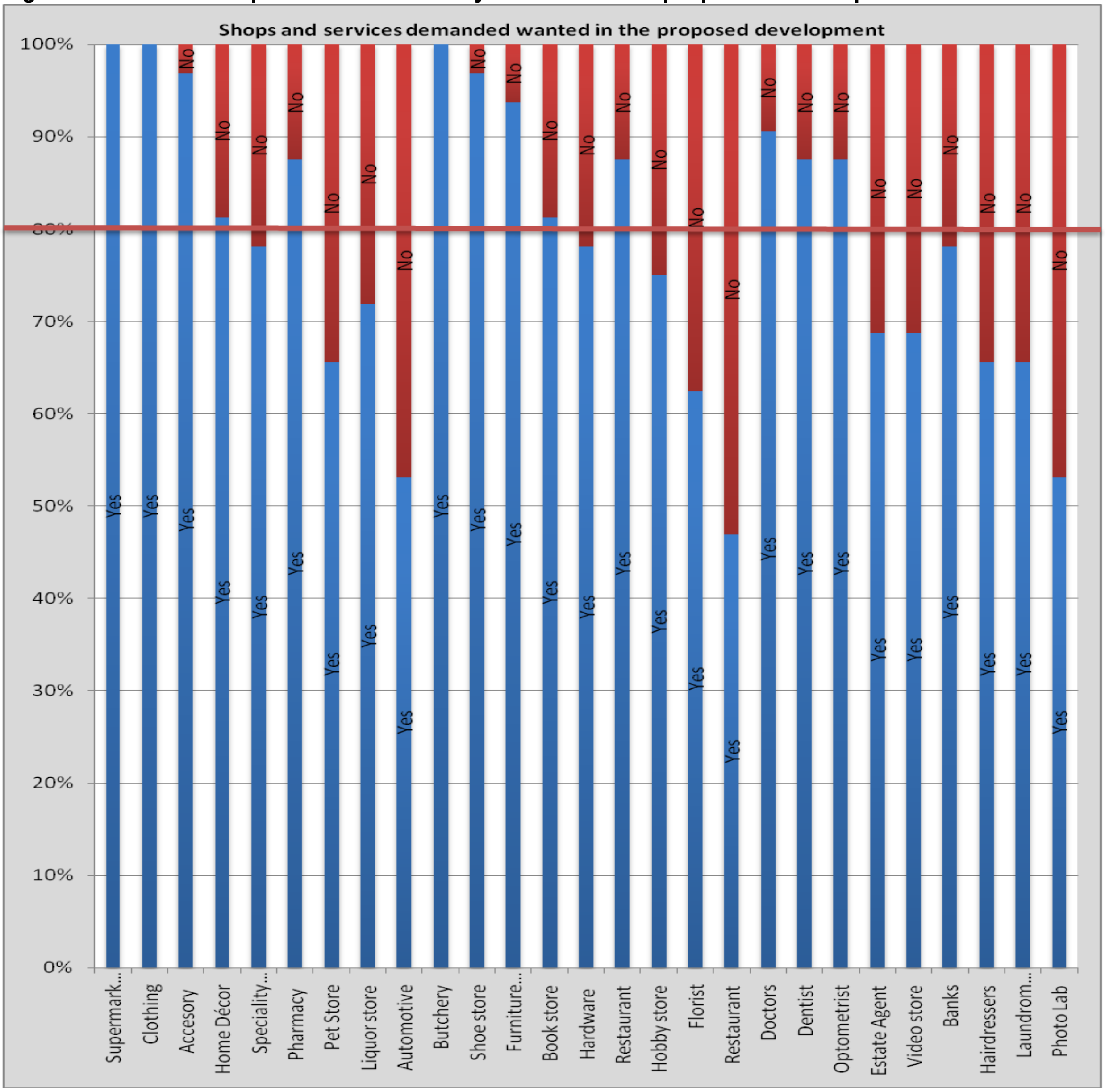
The figure above shows that households will visit the proposed development for their retail needs. It is significant to note that none of the respondents said their current shopping behaviour will remain unaffected. **Over 87%** of the households **indicated strongly that they will either never shop anywhere else** or will visit the development more for shopping purpose.

Shops and Services preferred

The following figure shows which retail categories they desire to see on the new retail development.

To determine which shops and services are most preferred, a **minimum score of 80% was imposed**, with those scoring at or above the minimum score inferred to be the strongly preferred offerings. Those that score marginally below may be considered for inclusion as well if other fundamental factors suggest so.

Figure 5.9: Which Shops and Services do you want on the proposed development



Demacon Household Survey, 2011

The retail categories listed below shows all categories that score at least the arbitrarily imposed minimum score of 80%:

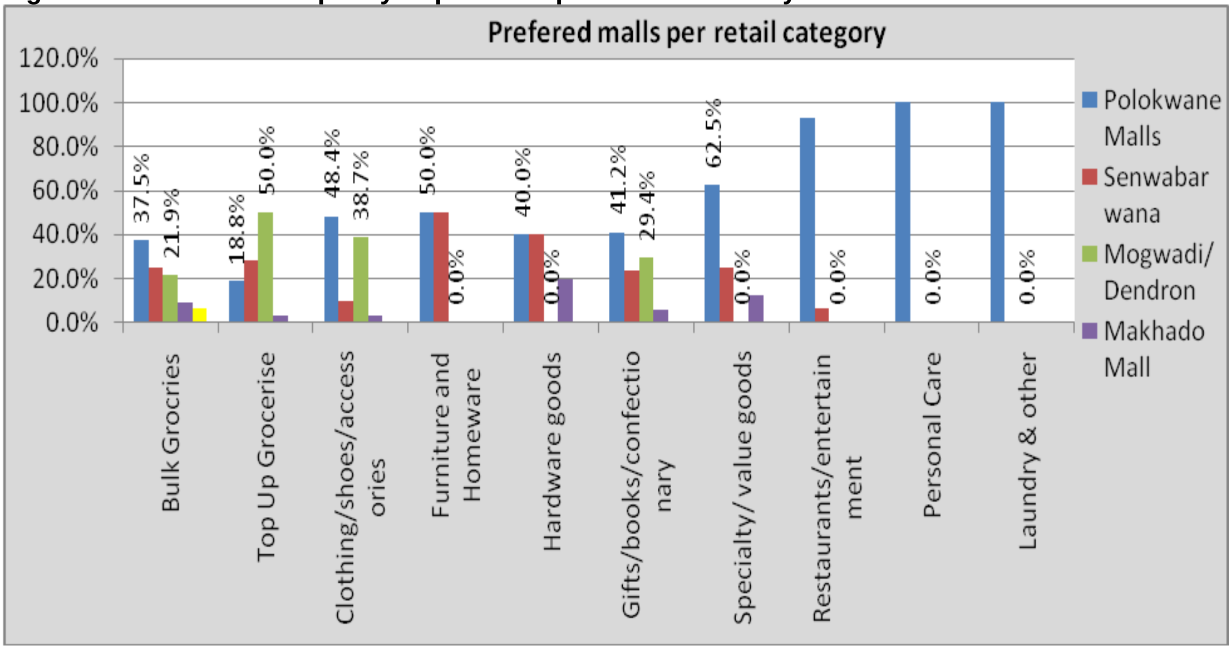
- ✓ supermarket
- ✓ Accessory
- ✓ Pharmacy
- ✓ Restaurant
- ✓ Clothing
- ✓ Home decor
- ✓ Butchery
- ✓ Hardware
- ✓ Shoe store
- ✓ Furniture
- ✓ Bookstore
- ✓ Doctor/dentist/optometrist

This list is not exhaustive and only serves to provide an intuitive guide to the nature of retail categories the consumer would like to see in the proposed development. Including administrative functions to rural and suburban retail centres has been success as part of tenanting, for example, including a post office or grant pay point or a municipal rates paypoint.

Preferred Shopping Centres per retail category

The figure below shows where households in the market area do their shopping of various retail goods and services. This is serves as a proxy for retail competition that is inherent is each retail category.

Figure 5.10: What is the quality of products purchased within your residential area



Demacon Household Survey, 2011

The figure shows that most households **(37.5%) do their bulk grocery shopping in Polokwane** followed by Senwabarwana (25%) and 21.9% do their shopping in Mogwadi. This pattern is reversed for top-up groceries, with Mogwadi topping the shopping destinations with 50% of the market. For higher order goods (furniture and hardware goods), households in the market area visit Polokwane or Senwabarwana, while for value goods, personal care and laundry and other services, the households almost exclusively shop in Polokwane.

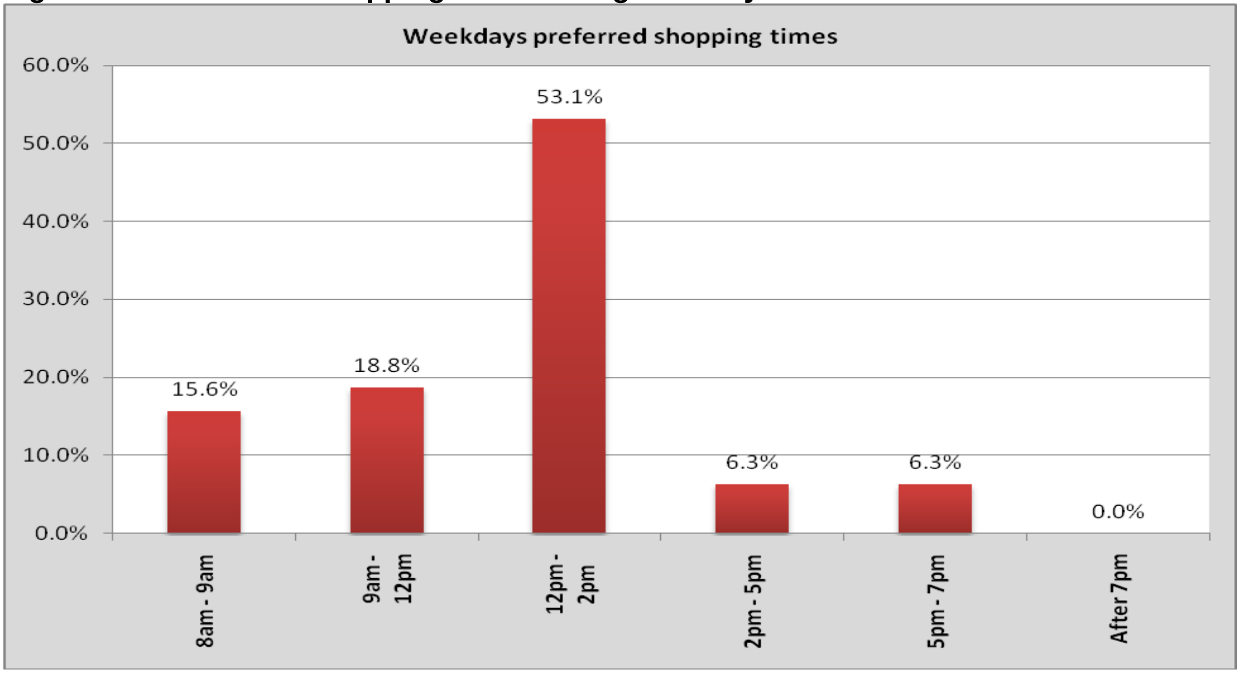
Preferred shopping times during weekdays and weekends

The two figures below show the times to do shopping preferred by the households in the market.

During **weekdays**, households prefer to do their **shopping from 8am to 7pm**, with the majority preferring to shop between 12pm and 2pm. It's also noticeable that the morning half account for more shoppers than the afternoons.

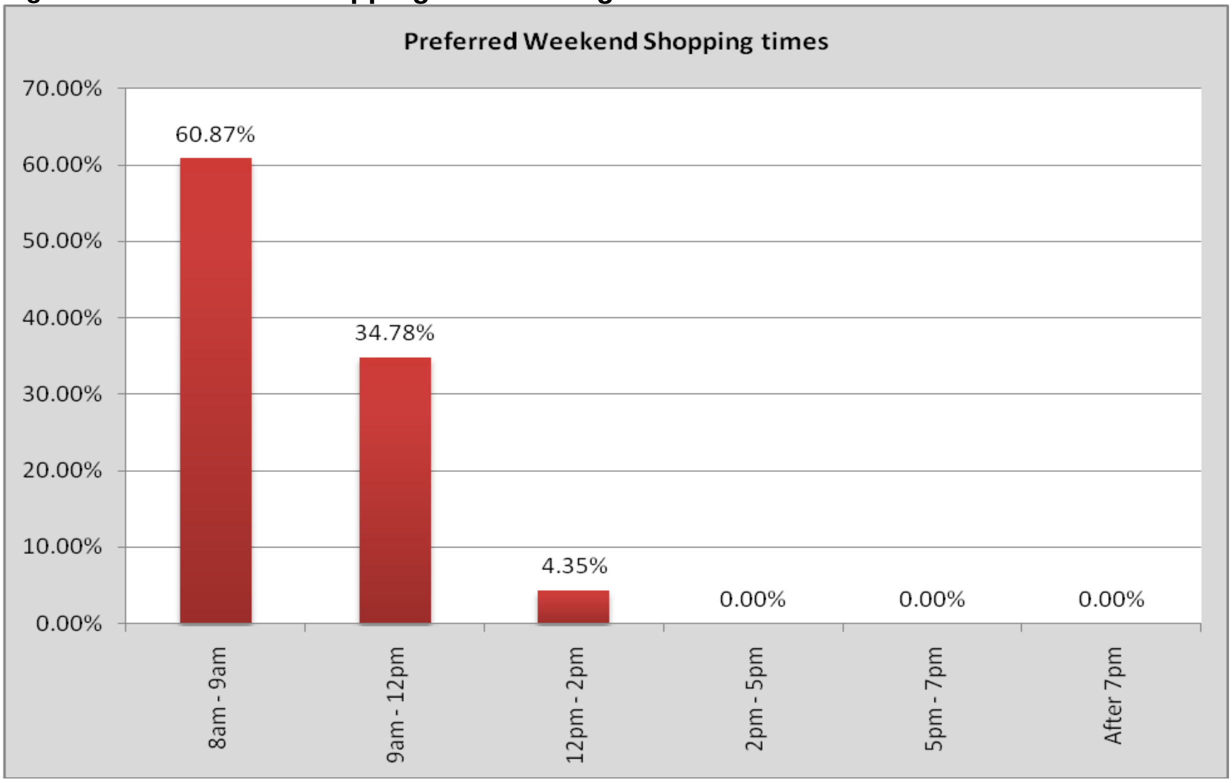
During weekends, the morning has the largest proportion of shoppers from 8am to 2pm accounting for all weekend shopping. The survey results show that there is weak activity after 2pm on weekends.

Figure 5.11: Preferred shopping times during weekdays



Demacon Household Survey, 2011

Figure 5.12: Preferred shopping times during weekends



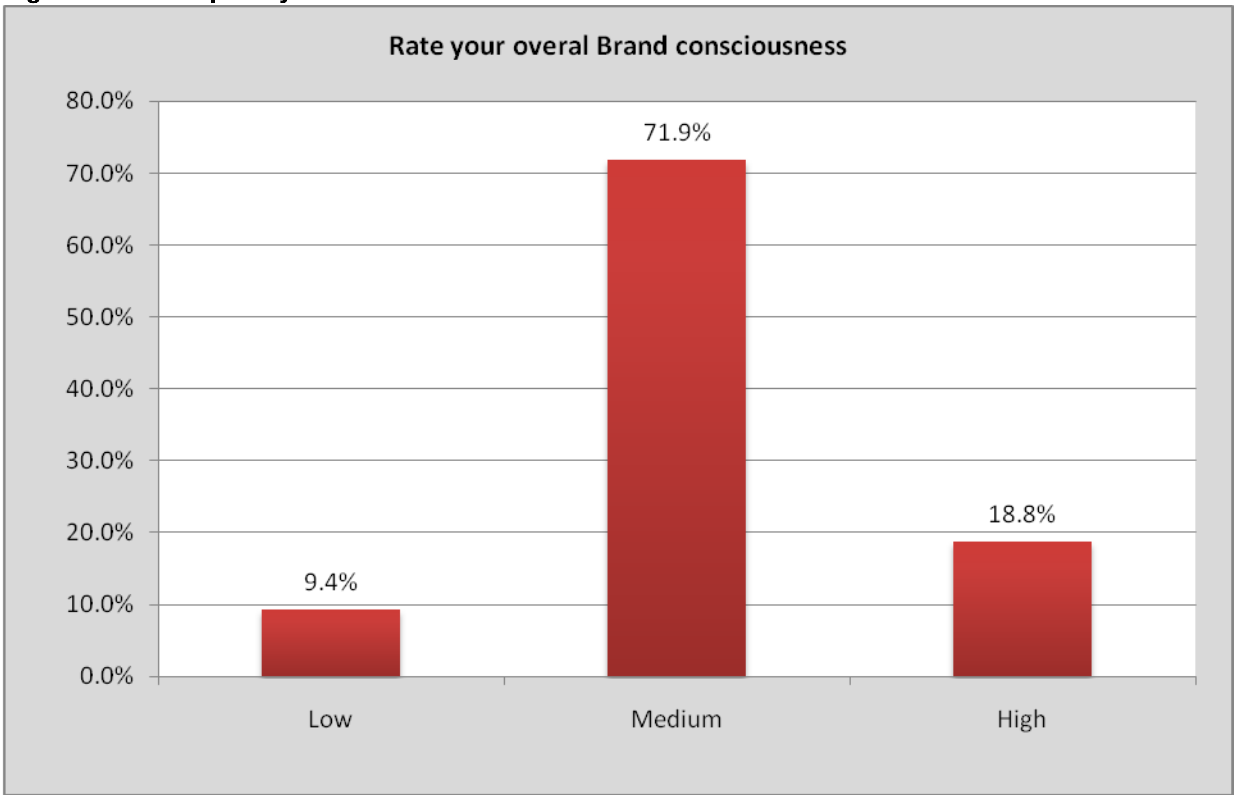
Demacon Household Survey, 2011

The implications of this pattern are that in setting the centre operating times, these preferred times should inform that decision.

Brand consciousness and quality preferences

The following figure indicates the market's brand consciousness.

Figure 5.13: Frequency of visits to other centres



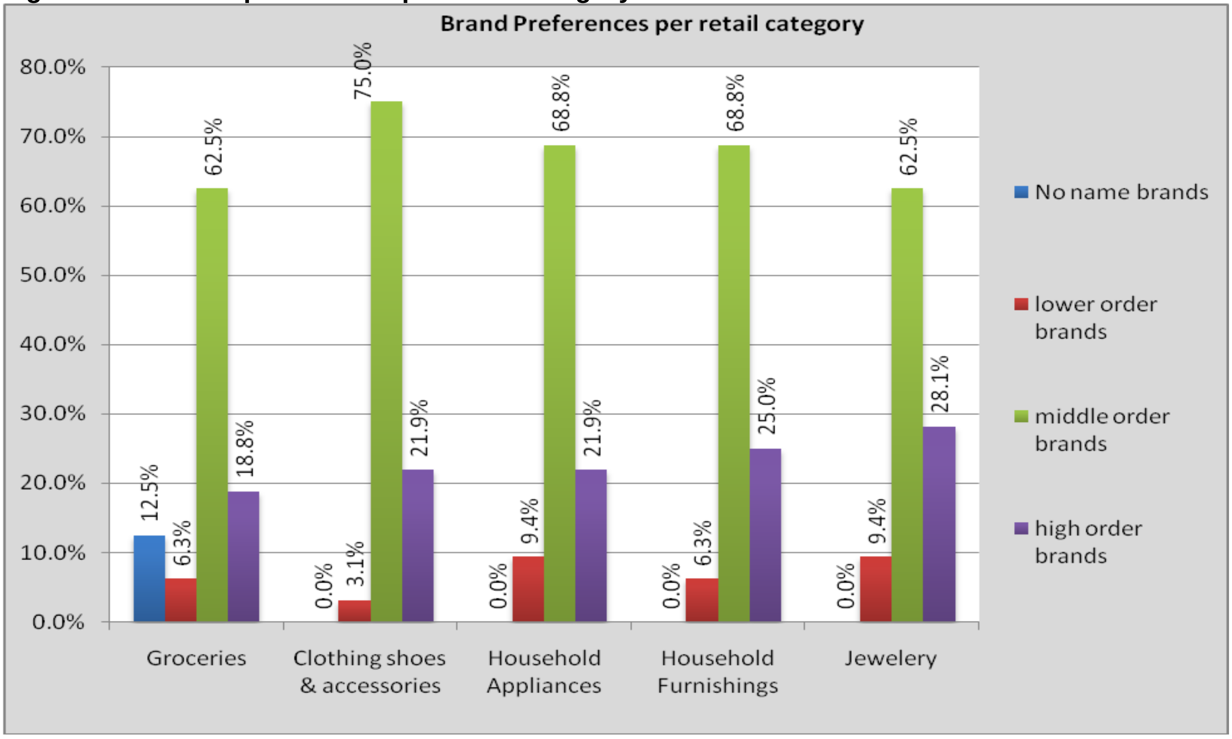
Demacon Household Survey, 2011

The survey indicated that the majority of the households that are resident in the market area are moderately brand conscious. 71.9% prefer medium order brands to high and low order ones.
18.8% prefer higher order brands compared to the 9.4% for lower order brands. This shows a tilt towards medium to higher order goods and services being demanded in the market area.

Brand preferences per retail category

The diagram below shows the brand preferences per retail category. It shows that the medium order brands are popular across all retail categories. This is distantly followed by higher order brands, especially in consumer durables such as furniture, jewelry and household appliances. No name brands are only preferred in the groceries retail category. It should however be noted that, these survey responses may be aspirational rather than actual; hence caution must be exercised in their interpretation.

Figure 5.14: Brand preferences per retail category



Demacon Household Survey, 2011

5.3 SYNTHESIS

This chapter highlighted the findings of the household survey conducted for the proposed Hebron Shopping Centre and provides some market information relating to consumer profile, current satisfaction levels as well as their shopping preference. It also provides suggestions on how to make the mall a more attractive shopping destination for the target primary market area.

Herewith a summary of the main findings:

Table 5.1 Summary of findings

Variable	Household Consumer Survey
Dominant place of Residence	✓ Mogwadi – 71.88% ✓ Kalkbank – 9.38% ✓ Senwabarwana – 6.25%
Number of people in Household	✓ Five – 34.38% ✓ More than Five – 25% ✓ Two – 15.63%
Place of work	✓ Mogwadi – 56.25% ✓ Senwabarwana – 21.88% ✓ Polokwane – 12.5%
Main form of transport for shopping	✓ Own vehicle – 68.8% ✓ Minibus/taxi – 28.1%
Retail centres catered adequately for needs	✓ No – 66.0% ✓ Yes – 40.0%
Preferred Time of the Day: Shopping	✓ 12pm -2pm – 53.1% for weekdays ✓ 08:00 and 12:00pm – 95.65% for weekends
Do you feel there is need for a new shopping centre	✓ Yes – 100%
Would you shop at the new centre if it is built	✓ Yes – 100%
How will the new centre change your shopping pattern	✓ I will visit the centre for shopping purposes – 65.6% ✓ I will never have to shop anywhere else - 21.9% ✓ I will shop less frequently from outside my area – ✓ – 9.4%

Implications of results

- ✓ The findings indicated that the market is currently underserved, with households travelling to distant nearby shopping centres such as Senwabarwana and Polokwane retail centres or simply resorting to buying from other local sources such as spazas shops.
- ✓ The general sentiment from the market is that there is need for a new shopping centre in Mogwadi. A critical success factor will be to incorporate a formal taxi rank as part of the precinct since the majority of the households in the trade area use public transport to reach shopping destinations.
- ✓ The proposed market should target middle order brands as highly branded products are out of reach for the majority of households within the target primary market. The market clearly reflects a strong preference towards the more affordable medium brands.
- ✓ Bank ATM's can also be included in the development as they tend to attract people.
- ✓ Survey results show that current facilities are inadequate and a perceived demand exist for a new centre at the proposed locality; this is furthermore supported by the fact that indicated support towards the proposed centres is very high. Consumer elasticity also supports the development of a new centre reflecting an increased tendency to shop locally and refrain from shopping at previous preferred retail destinations. These trends bode well towards the successful development of the proposed retail centre development.

CHAPTER 6: RETAIL MARKET POTENTIAL ASSESSMENT

6.1 INTRODUCTION

The demand-side dynamics within the market have been concisely described in preceding chapters, supported by a retail market growth assessment. An assessment of the net effective demand for retail floor space is made in this chapter. Five and ten year growth forecasts are provided, based on prevalent economic, population and income growth trends in the market.

6.2 RETAIL SUPPORT POTENTIAL

The development and overall sustainability of a retail facility relies strongly on its location. The following **location requirements** immensely influence the success of a retail facility:

- ✓ *Visibility and exposure:* Retail facilities should be highly visible and accessible to potential consumers. It should be located in proximity to efficient road and transport networks.
- ✓ *Accessibility:* Retail facilities must be accessible to local labour force as well as consumers. It should be accessible on a local and regional level, as well as on a site specific basis referring to the ingress and egress from the development.
- ✓ *Functionality & complimentary:* The centre should fit the urban context and should be functionally compatible.
- ✓ *Sufficient buying power:* Total disposable income of the market area population that is available to be spent at a specific retail facility.
- ✓ *Competition:* Existing shopping centres present competition and has an impact on the sustainability of future developments.
- ✓ *Role & function in hierarchy:* Should fit in with existing retail hierarchy of the area.
- ✓ *Address value:* Retail locates in areas where household expenditure is high, where it is accessible and visible.
- ✓ *Growth:* Growth in market population, disposable income and retail support impact on developments.
- ✓ *Traffic volume:* Level of traffic volumes contribute to level of support and exposure.

EXISTING RETAIL FACILITIES

- ✓ Total supply of shopping centre retail floor space in the market presently amounts to approximately **26 363m2,** which cosists of **13 798m^2** as built centres and **12 565m2** under construction.
- ✓ Existing retail facilities attract moderate to high consumer volumes.

The Map below shows the existing retail centres within a 10 km radius.

Map 6.1: Existing and Proposed Retail Centre

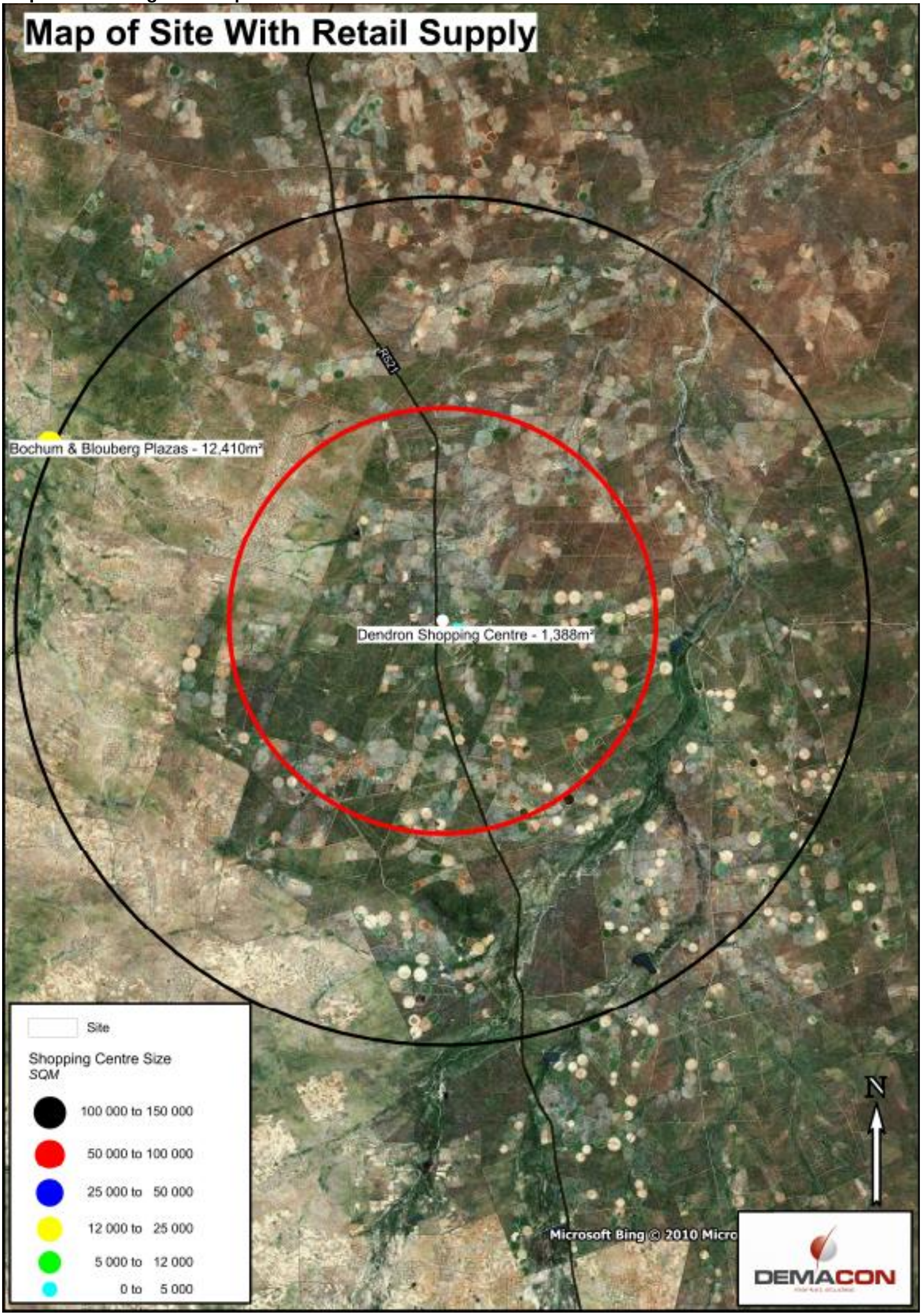


Table 6.1 indicates retail supply within the 10km radius.

Table 6.1: Retail Centres within the 10 km radius

Name of retail centre	Description
Bochum and Blouberg Plazas	✓ Size:12 410m^2 ✓ Nature: Community Centre ✓ Anchor: Score Supermarket ✓ Number of shops: 40 ✓ Location: Dendron Road – Bochum ✓ Parking Bays: 224
Dendron Shopping Centre	✓ Size:1 388m^2 ✓ Nature: Local Convenience Centre ✓ Anchor: Barnets ✓ Number of shops: 5 ✓ Location: Dendron
Blouberg Mall	✓ Size: 12 565m^2 ✓ Nature: Community Centre ✓ Location: Bochum ✓ **Under Construction**
Total floor space (m^2 retail GLA)	✓ **26 363m^2**

Source: DEMACON, 2011

According to the Molemole Local Municipality planning department, there is no other proposed retail centres in the local municipality.

RETAIL ENVIRONMENT DEVELOPMENTS

South African retail sector's sales growth continues to be driven by a broader market and economic recovery in 2011: Fitch Ratings

Market fundamentals have improved markedly over the past 12 months since early 2010, and despite lingering structural weaknesses in consumer spending, confidence and credit growth caused by high unemployment and the low level of consumer savings, Fitch expects retail and wholesale sales growth to accelerate from mid-2011 onwards.

Fitch believes that the **South African economy had moved into a sustainable growth position** by end-2010, boosted by strong quarterly GDP growth of 4.4% recorded in Q410, and that demand conditions will further improve in 2011, albeit from a low base. The conservative credit profiles of Fitch-rated South-African retailers support a **stable outlook for the retail sector over the next 12 to 18 months.**

However, risks to retail growth over the medium term include possible interest rate increases, weak consumer confidence levels and persisting indebtedness, rising inflation and increased levels of competition from both local and international players. Wal Mart Stores Inc ('AA'/Stable) in late 2010 made a cash offer for 51% of South African discount retailer Massmart Holdings Limited (Massmart), although final approvals remain outstanding, which will further increase pressure on retailers across the sector.

"Improving aggregate **retail sales growth is expected from mid-2011 onwards**, supported by strong South African GDP growth and a continuing low interest rate environment. However, the pace of improvement in retailers' operating margins is expected to be gradual, as above-inflation wage cost increases and high levels of competition continue to plague the industry," says Roelof Steenekamp, Director in Fitch's South African corporate team. "Despite the January 2011 growth figure being slightly below market expectations, medium-term fundamentals remain healthy."

Fitch expects food inflation to accelerate during 2011, from very low levels in 2010, which will boost food retailers' sales growth over the next 12 months to early 2012. Larger food companies, notably Pick and Pay Stores Ltd (Pick and Pay; 'A+ (zaf)'/Stable/'F1(zaf)') and Shoprite Holdings Limited (Shoprite), are also expected to benefit from the significant geographical spread of their operations, the defensive nature of their products and extensive distribution capabilities in 2011 and 2012.

Shoprite reported 9.5% growth in turnover for the six months ended 31 December 2010, with its South African supermarkets growing strongly, by 8.4% over this period. Pick and Pay reported turnover growth of 6% for continuing operations for the six months ended 31 August 2010 and 2.1% on a like-for-like basis.

Statistics South Africa reported on 16 March 2011 that seasonally-adjusted growth in South Africa's retail sales increased slightly, by 1.5% year-on-year in January 2011, compared with a 1.6% increase in December 2010. However, retail sales grew by 7.7% in real terms for the three months to January 2011, compared with the same period a year ago. The main contributors to growth over this period were general retailers (up 5.7%), textiles, clothing, footwear and leather goods retailers (up 7.9%) and household furniture, appliances and equipment retailers (up 17.3%), whilst food retailers reported an increase of only 0.4%, hampered by weak demand conditions during 2010.

Retailers involved in the more discretionary, higher value, durable and semi-durable retail segments such as furniture, household goods and appliances, and hardware, have recorded higher growth compared with the overall retail market, highlighting the improvement in demand as a result of improved economic conditions and the effects of delayed spending.

The Fitch report is indicative of the fact that the retail industry is robust and is foreseen to grow in the next 12 – 18 months and it set the tone for retail potential in Molemole.

RETAIL DEMAND MODELLING

Retail demand modelling has become increasingly specialised over the past decade. One particular aspect that has changed is a notable shift away from broad based supply-demand estimations to multivariate, differentiated models. Contemporary models focus on specific expenditure categories of specific target market segments. In the context of preceding chapters, the potential in the market to support the proposed Molemole (Mogwadi) Shopping Centre is subsequently determined, based on a market segmentation approach.

6.2.1 Retail Market Demand Estimations

Retail demand is a function of household income and expenditure patterns. The retail demand calculations are conducted based on an intricate combination of the prevalent population, income growth trends (all values: 2011 constant prices) as well as the prevailing trading densities in similar retail developments.

Table 6.3 summarises current and forecast market expenditure for retail floor space within the market area (primary, secondary and tertiary market) assuming that the other two proposed retail centres will be built. Demand values are presented for **2011, 2016 and 2021 (all values constant 2011 prices)**. Target market represents the LSM 4 to 10+ within trade area polygon.

Table 6.2: Market Retail Expenditure, 2011, 2016 and 2021 (LSM 4 to 10+)

Retail Category	2011	2016	2021
Bulk groceries	R 49,100,194	R 83,518,302	R 142,230,438
Top-up groceries	R 14,678,100	R 24,967,112	R 42,518,623
Clothing, shoes, accessories	R 21,692,414	R 36,898,298	R 62,837,257
Furniture and homeware	R 6,364,840	R 10,826,447	R 18,437,279
Hardware goods	R 2,338,104	R 3,977,062	R 6,772,878
Gifts, books and confectionary	R 4,806,104	R 8,175,072	R 13,922,027
Specialty / value goods	R 1,558,736	R 2,651,375	R 4,515,252
Restaurants, entertainment	R 16,106,942	R 27,397,538	R 46,657,604
Personal care	R 5,065,893	R 8,616,968	R 14,674,569
Other personal goods and services	R 8,183,366	R 13,919,717	R 23,705,073
Total	**R 129,894,694**	**R 220,947,890**	**R 376,270,999**

Source: DEMACON Retail Demand Model, 2011

The above expenditure patterns translate into the demand for retail floor space within the market area as summarised in Table 6.3.

Table 6.3: Market Retail Floor Space Demand, 2011, 2016 and 2021 (LSM 4 to 10+)

Retail Category	2011	2016	2021
Bulk groceries	1,856	2,724	4,001
Top-up groceries	555	814	1,196
Clothing, shoes, accessories	1,134	1,663	2,444
Furniture and homeware	333	488	717
Hardware goods	122	179	263
Gifts, books and confectionary	225	330	484
Specialty / value goods	73	107	157
Restaurants, entertainment	842	1,235	1,814
Personal care	265	388	571
Other personal goods & services	428	628	922
Total	**5,832**	**8,557**	**12,570**

Source: DEMACON Retail Demand Model, 2011

Findings: (Tables 6.2 and 6.3)

- ✓ The market retail expenditure in 2011 amounts to approximately R129.9 million, increasing to R220.9 million in 2016 and R376.3 million in 2021.
- ✓ This translates into a total of 5 832m^2 of retail GLA that can be supported by the market population in 2011, increasing to 8 557m^2 retail GLA in 2016 and 12 570m^2 GLA in 2021.

TENANT COMPOSITION

Given the above market potential estimation, based on the Residual Demand Technique, the Market Share Model could assist in refining the tenant composition of the proposed centre. PhD research conducted by the author indicates that the share technique should not be applied in isolation, but only once market potential has been established, to inform centre composition and tenant mix.

In the context of the market potential analysis, empirical data was utilised to estimate the apportionment of additional floor space. This translates into the anticipated market share that the proposed centre could attract within the market area – translated into floor space apportionment guidelines – Refer to Table 6.4.

Table 6.4: Expenditure based parameters for tenant mix apportionment, 2011 (LSM 4 to 10+)

Retail Category	Min Demand	Max Demand	Midpoint	%
Bulk groceries	650	835	743	32%
Top-up groceries	194	250	222	10%
Clothing, shoes, accessories	397	510	453	19%
Furniture and homeware	116	150	133	6%
Hardware goods	43	55	49	2%
Gifts, books and confectionary	79	101	90	4%
Specialty / value goods	26	33	29	1%
Restaurants, entertainment	295	379	337	14%
Personal care	93	119	106	5%
Other personal goods & services	150	192	171	7%
	2,041	**2,624**	**2,333**	**100%**

Source: DEMACON Retail Demand Model, 2011

The above table indicates that the market potential for retail (in 2011) is in the region of approximately 2 333**m^2 retail GLA.** The potential is calculated on average benchmark trading densities and market shares for similar centres in comparable market areas.

The centre will, however, not be operational in 2011 and optimum centre size should take in account the short term growth in demand, as well as the acceptable addition of 10% – 20% for **non-retail services**.

Based on this analysis, market growth trends, the following recommendations are made with regards to the ideal size for the centre (Refer to Table 6.5).

Table 6.5: Retail Centre Size Options Supported by Market Area (LSM 4 to 10+)

Project summary	
Average and actual share values	35 - 45%
Total annual growth in market demand (sqm/a)	545
Centre share of growth (sqm/a)	218
Point of market entry	-
Additional growth in demand for centre (sqm)	1,308
Retail GLA at OPME	3,641
Services GLA at OPME	910
Cinemas	-
OPME Centre size (m^2 GLA)	**4,551m^2 GLA**
On-site job creation	152
Retail Sales potential (R 2011 value)	95,783,993
Total capital investment - buildings (R 2011 value)	34,587,249
Parking bays required	273
Parking infrastructure & landscaping cost	7,240,386

Source: Demacon 2011

The optimum centre size that can be supported by the market area assuming that the other two proposed centres are actually built is **4 551m^2 retail GLA**. A neighbourhood centre of this size will have an annual sales potential of **R95.8 million** and can support **152** permanent jobs.

Based on prevalent consumer behaviour and research findings in comparable economies, it can be expected that the proposed Molemole Shopping Centre predominantly cater for LSM 4 to 10+ categories with an optimum shopping centre size of 4 551m^{2}GLA. Actual performance of the proposed centre will be dependent on a **balance** between **market demand** (as revealed by consumer income and spending patterns) and **tenant demand** (i.e. the expressed desire by tenants to occupy space in the centre) and **investor demand** (i.e. the need for capital growth).

RETAIL SENSITIVITY ANALYSIS

The sensitivity analysis makes use of two variables to determine market potential for the retail development. These are **LSM type** and **market share**

Given a comparative analysis of SA small towns, a **market share of between 20% and 30%** for a destination type centre is the market. However, in certain circumstances, a lack of competitiveness in the urban landscape has enabled selected centres to achieve absolute dominant market shares of 60 – 70%, thereby effectively closing the door for any potentially competing scheme.

Given the comparative analysis of small towns, the ideal size for a centre with a destination type function in this type of market will be between 5000m^2 – 10000m^2 GLA, for instance, smaller than Makhado crossing (13 456m^2) and is to be an open plan centre with either a **L – or U shape** and not an enclosed mall. In addition to the retail and selected services, an additional **1000m2 – 2000m2 can be added for automotive and fitment centres**. A dominant market share will guide a centre size of up to 6000m^2

However, the local market will in all probability continue to be dominated by the Blouberg/Senwabarwana node

6.3 SYNTHESIS

This chapter integrated the findings of preceding chapters into the empirical assessment of retail market potential for the proposed Molemole Shopping Centre.

As mentioned earlier, it is not merely market potential that defines the overall performance of a development and its underlying market components, but also the its location in relation with other centres in the larger area as well other present and future economic and non economic factors. Market potential of the proposed Molemole Shopping Centre is calculated and estimations show that the market can support various centre sizes depending on the development view/option envisaged by the investor.

Optimum Centre Size

The table below shows the summary points of each option

Table 6.6: Development Options Summary

Project summary	
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Given the comparative analysis of small towns, the ideal size for a centre with a destination type function in this type of market will be between 5000m^2 – 10000m^2 GLA, for instance, smaller than Makhado crossing (13 456m^2) and is to be an open plan centre with either a **L – or U shape** and not an enclosed mall. In addition to the retail and selected services, an additional **1000m2 – 2000m2 can be added for automotive and fitment centres**. A dominant market share will guide a centre size of up to 6000m^2

However, the local market will in all probability continue to be dominated by the Blouberg/Senwabarwana node

The challenge will be to find a **balance** between **market demand** (as revealed by consumer income and spending patterns) and **tenant demand** (i.e. the expressed desire by tenants to occupy space in the centre) and **investor demand** (i.e. the need for capital growth and revenue stream).

The following chapter, Chapter 8 examines retail development in second economy areas.

CHAPTER 7: RESIDENTIAL MARKET ANALYSIS

7.1 INTRODUCTION

This section of the report focuses on the residential market, with the objective of estimating the development potential within the designated area. In order to reach this objective, the supply and demand for residential facilities within the market area should be identified and assessed in terms of current trends.

Subsequent sub-sections provide a concise overview of the residential property market in terms of the following aspects:

- ✓ Domestic Market Indicators – State of the Market
- ✓ Residential Demand Modelling
- ✓ Synthesis

7.2 DOMESTIC MARKET INDICATORS – STATE OF THE RESIDENTIAL MARKET

7.2.1 HOUSE PRICE TRENDS ABSA

The latest data on the national residential property market were obtained from the ABSA Housing Review – ***Four Quarter 2010***.

Summary:

- Real growth in the South African economy slowed down to a seasonally adjusted annualised rate of 3.2% in the second quarter of 2010, from 4.6% in the first quarter. Real economic growth is forecast at 3% this year.

- Household finances continued to improve further in the second quarter. Debt levels, however, remain high, while real income and consumption growth slowed down up to mid-2010. Household mortgage advances growth picked up further in the third quarter after bottoming in late 2009.

- After rising markedly in the first half of the year, nominal and real house price growth slowed down in the third quarter of the year, driven by base effects as well as recent economic developments.

- The average price of a house in the affordable category increased by a nominal 3,2% year-on-year (y/y) to a level of R301 500 in the third quarter of 2010, with prices declining by 0,3% y/y in real terms.

- In the middle segment, house price growth averaged a nominal 5,4% y/y in the third quarter of 2010, bringing the average price to a level of R1 021 500 in the quarter. Real price growth of 1,8% y/y was recorded in the third quarter. On a quarter-on-quarter basis, price deflation occurred in the third quarter.

- The average price of homes in the luxury segment was up by a nominal 3,1% y/y in the third quarter to a reach level of about R4,5 million. After adjustment for inflation, the average real value of luxury houses was down by 0,5% y/y in the third quarter of the year.

- At geographical level house prices increased further on a year-on-year basis in the third quarter of 2010, but were down on a quarter-on-quarter basis in both nominal and real terms in most regions.
- The affordability of housing improved in the first half of 2010 as a result of developments with regard to interest rates, household income and house prices during this period. This is according to the latest trends in the ratios of house prices and mortgage repayments to household disposable income.

- After middle-segment house price growth of a nominal 11% y/y was recorded in the first half of 2010, it started to slow down from the middle of the year and was significantly lower at 5,4% y/y in the third quarter. The slowdown house price growth in the middle segment was related to the base effect of a recovery in price growth from mid-2009 as well as recent developments on the economic front.

- Nominal house price growth of about 7% is expected for the full year, with 2011 price growth to remain low. Real house price growth in the rest of 2010 and in 2011 will depend on nominal price trends as well as consumer price inflation.

Overview:

The economy

The South African economy expanded further in the second quarter of 2010, but growth moderated somewhat compared with the first quarter of the year.

Real gross domestic product (GDP) increased at a seasonally adjusted annualised rate of 3,2% quarter-on-quarter (q/q) in the second quarter, down from 4,6% q/q in the preceding quarter.

The lower rate of economic growth in the second quarter can be attributed to a significant decline in real production in the primary sector, especially mining (-20,8% q/q), while growth in the real value added by the secondary sector slowed down across all of its subsectors. The manufacturing sector recorded lower real growth of 6,9% q/q in the second quarter compared with a robust 8,4% q/q in the first quarter of the year.

Growth in the services sector of the economy accelerated to a real 4% q/q in the second quarter from 2,7% q/q in the first quarter. Higher growth in production was noticeable in all subsectors of the secondary sector in the second quarter, mainly as a result of increased levels of activity related to the Soccer World Cup in mid-2010.

The household sector

Household finances showed some further gradual improvement in the second quarter of 2010 on the back of lower inflation and stable interest rates. Employment conditions, however, remained tight in the first half of the year.

Household disposable income increased by a real annualised rate of 4,8% q/q in the second quarter of the year, which was somewhat lower than the 5,1% q/q registered in the first quarter. This development contributed to real consumption expenditure by households recording slower growth of 4.8% q/q in the second quarter from 5.7% q/q in the first quarter.

Household credit extension, comprising instalment sales credit, leasing finance, mortgage advances, credit card debt and other loans and advances, showed growth of 5,6% year-on-year (y/y) in the first eight months of 2010, after reaching a lower turning point of 2,6% y/y in late 2009. This is a reflection of the gradual improvement in households' financial position on the back of the economic recovery and banks' lending rates declining to their lowest level in three decades.

The ratio of household debt to disposable income was only marginally lower at 78.2% in the second quarter of 2010 from 78.7% in the first quarter. The slightly lower second-quarter debt ratio was the net result of household debt increasing by 1,4% q/q, whereas nominal household disposable income increased by 2% q/q in the quarter.

In view of the lower debt ratio and a somewhat lower average prime interest rate in the second quarter of the year compared with the first quarter after rates were cut by 50 basis points in March, the cost of servicing household debt as a percentage of disposable income was down to 7,8% in the second quarter from 8,1% in the first quarter.

The ratio of net household saving to disposable income was at a level of -0,2% in the second quarter of 2010. As a result of this situation with regard to saving, the household sector has technically no surplus funds available to access in times of financial difficulty. Net household saving is based on the level of gross saving, adjusted for depreciation write-offs on the value of fixed assets held by households, such as residential buildings.

Against the background of the abovementioned developments in respect of household finances, the sector's net wealth (the total value of tangible and financial assets less liabilities such as mortgage and other debt) was at a level of 366,5% of disposable income in the second quarter of 2010. This percentage was on a rising trend between early 2003 and mid-2007 on the back of rising house prices and share prices during this period. The global financial crisis, spilling over to South Africa, caused share prices to decline sharply, with the growth in the value of residential property slowing down significantly and moving into negative territory in the first half of 2009.

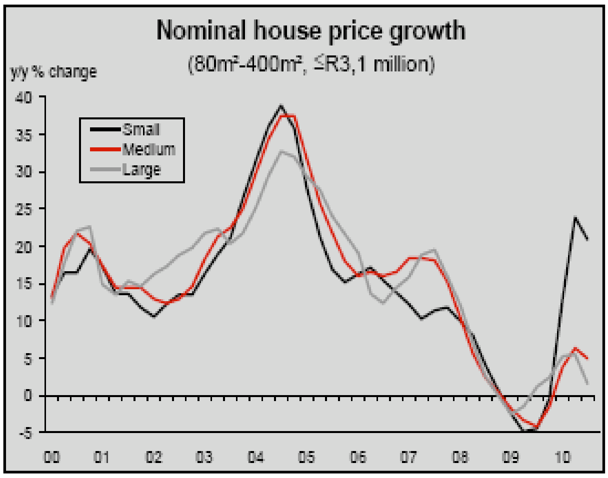
These developments had an adverse impact on the net wealth of households, which dropped to around 319% of disposable income in the first half of last year. The residential property market and mortgage finance Real residential fixed capital formation contracted by 4,9% y/y in the second quarter of 2010, slowing down further from a year-on-year rate of -5,8% in the first quarter and a low of -9,8% y/y in the first quarter of 2009. The continued contraction in residential capital formation, albeit at a slower pace, is evident of trends in residential building activity, as measured by plans approved for new housing and the construction of new housing in the first half 2010 compared with a year ago.

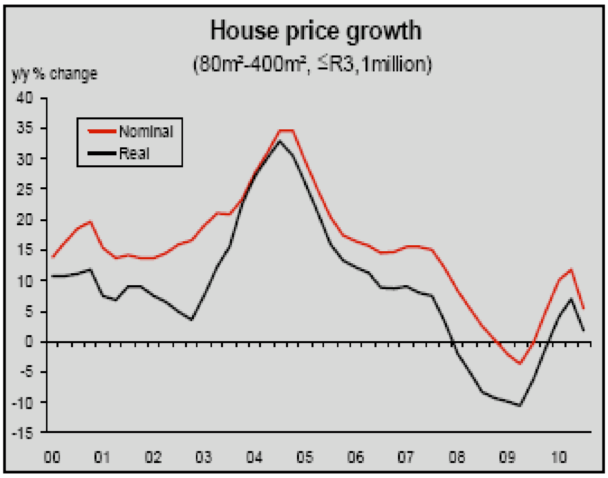
After rising markedly in the first half of the year, both nominal and real year-on-year house price growth slowed down in the third quarter of 2010, largely as a result of the base effect of a recovery in price growth from mid-2009 and recent developments on the economic front (a slowing economy, also affected by strike action in various sectors in the third quarter; continued tight employment conditions; lower second quarter real household income growth; a still high household debt ratio; a much slower pace of interest rate cuts compared with 2009; and consumer confidence remaining flat in the first three quarters of the year).

The value of outstanding mortgage balances in the household sector, largely related to residential property, improved to 5,5% y/y in the first eight months of 2010 after bottoming at 3,6% y/y in late 2009. This steady increase in the rate of household mortgage advances growth is a reflection of the gradual improvement in households' financial position, as discussed above. The lagged effect of lower interest rates has positively affected household mortgage advances growth in recent times, with the September rate cut expected to provide some further support to the residential property market and the demand for mortgage finance over the short term.

In the second quarter of 2010 the ratio of outstanding household mortgage debt to disposable income was slightly lower at 47,4% (47,8% in the first quarter). This was the net result of growth in household mortgage debt (1,2% q/q) and nominal disposable income (2% q/q) in the second quarter. Households' mortgage debt remained relatively stable at a level of just below 61% of total debt over the past few quarters up to mid-2010.

The cost of servicing household mortgage debt as a percentage of disposable income declined to 4,7% in the second quarter of 2010 from 4,9% in the preceding quarter, and is at its lowest level since mid-2006. This was due to the abovementioned trends in growth of household mortgage debt and disposable income, while the mortgage rate was on average somewhat lower in the second quarter compared with the first quarter.



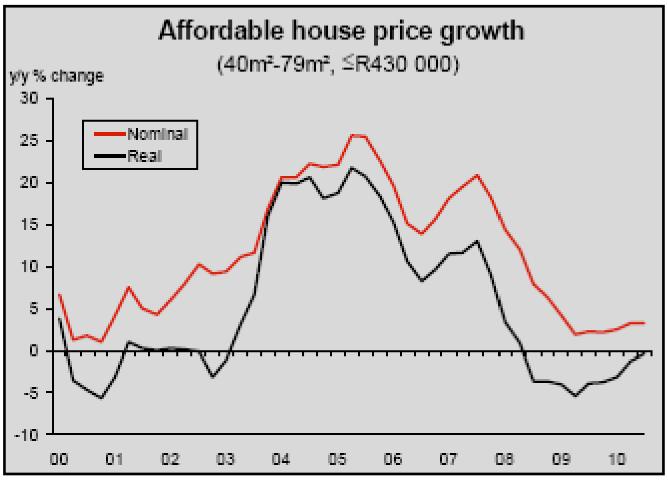


House price trends

Nominal year-on-year house price growth, especially in the middle-segment of the market, was lower in the third quarter of 2010 compared with the first and second quarters. In real terms price growth also tapered off, despite a further slowdown in consumer price inflation. The trends in house price growth are based on the value of houses for which mortgage finance was approved by Absa.

Affordable housing

The average nominal value of affordable houses (houses of 40m²-79m², priced at up to R430 000) increased by 3,2% y/y to about R301 500 in the third quarter of 2010, after rising by the same percentage in the second quarter. In real terms the average value of affordable houses dropped by 0,3% y/y in the third quarter of the year after declining by 1,3% y/y in the second quarter.



Middle-segment housing

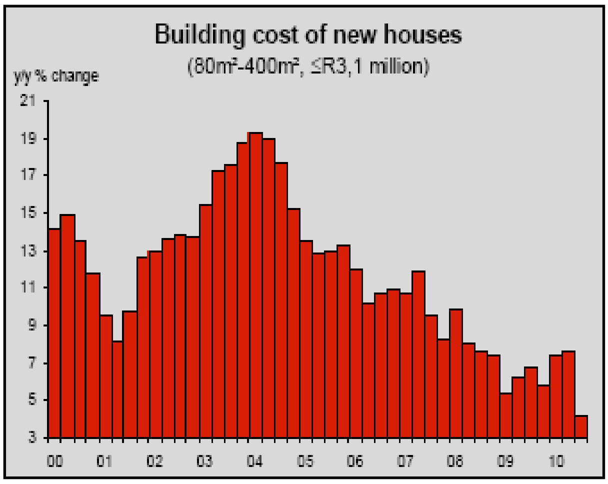
In the category of middle-segment housing (houses of 80m²-400m², priced at up to R3.1 million) year-on-year price growth slowed down to 5.4% in the third quarter of 2010 from 11.7% in the second quarter. This brought the average nominal value of a house in this segment of the market to around R1 021 500 in the third quarter.

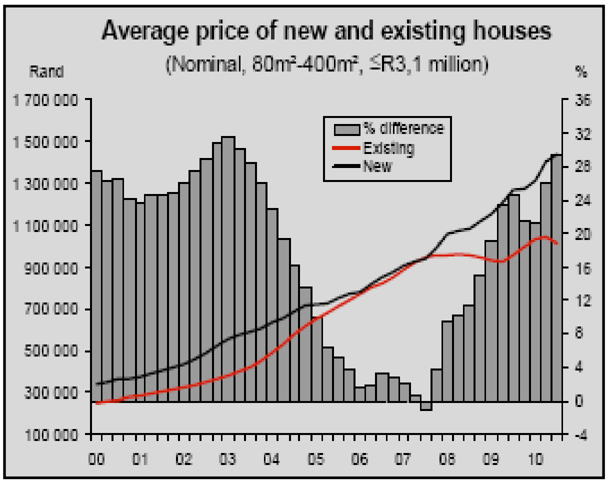
The real value of middle-segment housing increased by 1,8% y/y in the third quarter of the year, down from 6,9% y/y in the second quarter. Both nominal and real price growth was lower in the three middle-segment categories in the third quarter of 2010 compared with the second quarter:

- ✓ Small houses (80m²-140m²):
  - Second quarter: nominal 23.8% y/y and real 18.5% y/y.
  - Third quarter: nominal 20,9% y/y and real 16,7% y/y.

- ✓ Medium-sized houses (141m²-220m²):
  - Second quarter: nominal 6,3% y/y and real 1,7% y/y.
  - Third quarter: nominal 4,9% y/y and real 1,3% y/y.

- ✓ Large houses (221m²-400m²):
  - Second quarter: nominal 5,5% y/y and real 1% y/y.
  - Third quarter: nominal 1,6% y/y and real -1,9% y/y.





Luxury housing

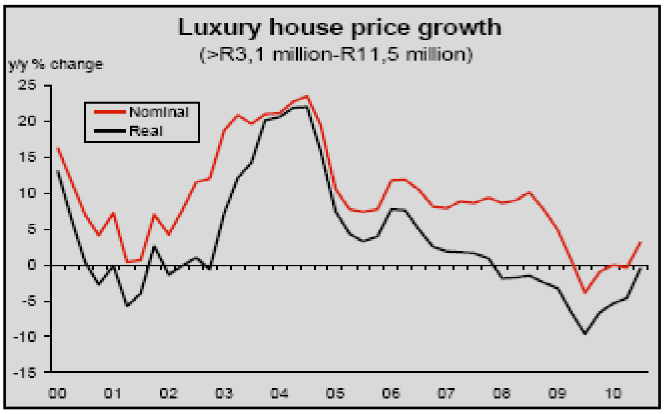
In the luxury segment (houses valued at above R3,1 million up to R11,5 million) the average nominal value of homes was up by 3,1% y/y to about R4,5 million in the third quarter of 2010 after declining by 0,4% y/y in the second quarter.

After adjustment for the effect of inflation, the average real value of luxury houses was 0,5% y/y down in the third quarter after dropping by 4,7% y/y in the second quarter of the year.

Regional house prices

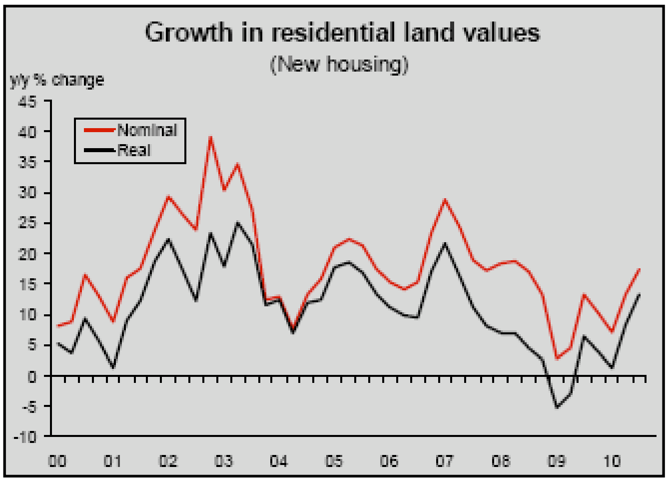
In nominal and real terms house prices in the middle segment of the market increased in most regions on a year-on-year basis in the third quarter of 2010.

However, on a quarterly basis prices were down in most areas in nominal and real terms, indicating that the market slowed down over a wide front in terms of price



growth in recent months on the back of the economic developments discussed above.

At a provincial level nominal house price growth varied between 3,3% y/y in Gauteng and 12,3% y/y in the Free State in the third quarter. In the major metropolitan areas trends in nominal house prices ranged from a decline of 2,3% y/y on the East Rand in Gauteng to still strong growth of 20% y/y in Bloemfontein in the Free State in the third quarter of the year.



Along the coast house prices increased by a nominal 5,4% y/y in the third quarter of 2010, after rising by 7,7% y/y in the preceding quarter. This is an indication that recent economic developments also had an impact on the coastal market, which is to a large extent influenced by trends in property investment. The average real value houses in the country's coastal regions increased by 1,8% y/y in the third quarter, down from an increase of 2,9% y/y recorded in the second quarter.
Although affected by national economic trends and developments, the performance of the residential property market at geographical level, i.e. the provinces, metropolitan areas, the coast and rural regions, is also much dependent on regional and area-specific factors and developments. These may include infrastructurerelated aspects; growth in economic activity and the sophistication of economic development; socio-economic conditions; investor focus; location; and the relative size of the property market in the region.

Building costs and new and existing house price trends

The cost of building a new house in the middle segment of the market increased by a nominal 4,6% y/y in the third quarter of 2010 (7,6% y/y in the second quarter). Against this background the average value of a new house increased by a nominal 13,4% y/y to R1 438 300 in the third quarter of the year (16% y/y in the second quarter), which translated into a real increase of 9,5% y/y (11% y/y in the preceding quarter).

The average value of an existing house increased by a nominal 5,9% y/y to a level of about R1 013 600 in the third quarter of 2010 (12,3% y/y in the second quarter). In real terms this came to an increase of 2,3% y/y in the third quarter (7,5% y/y in the second quarter).

As a result of the abovementioned price trends, it was around R424 700, or 29,5%, cheaper to buy an existing house than to have a new one built in the third quarter of 2010.

Land values

The average nominal value of land for new housing increased by 17,4% y/y to an average of about R545 400 in the third quarter of 2010 after rising by 13,3% y/y in the second quarter. In real terms land values increased by 13,3% y/y in the third quarter (up by 8,4% y/y in the preceding quarter).

In the coastal regions, however, land values for new housing declined further in the third quarter of the year, recording a nominal drop of 16,5% y/y and a real decline of 19,4% y/y in the quarter. This brought the average nominal value of a coastal stand to a level of about R379 600 in the third quarter.

Mortgage finance

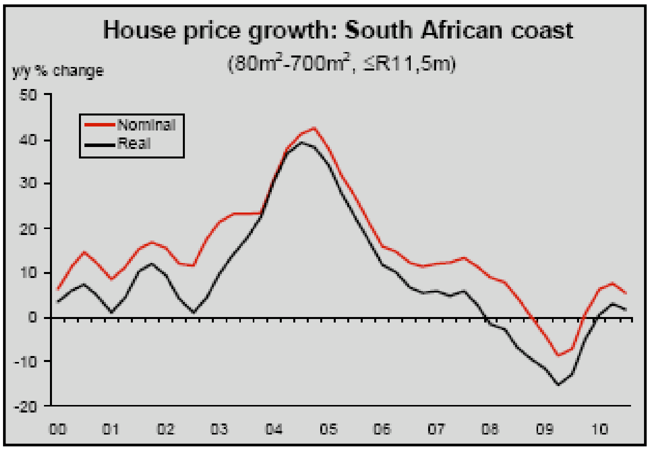
After being cut by a further 50 basis points in September this year, commercial banks' variable mortgage interest rate is currently 9,5%, which is at its lowest level since mid-1974. In view of the cumulative 600 basis points worth of rate cuts since late 2008, monthly mortgage repayments are in general around 31% lower compared with December 2008, when the mortgage rate was at a level of 15,5%.
The impact of changes in the mortgage interest rate is reflected in the tables at the back of the report, presenting monthly mortgage repayments for various loan amounts at various interest rates, as well as mortgage loan amounts based on various fixed monthly repayments at various interest rates. These calculations are based on a 20-year repayment term.

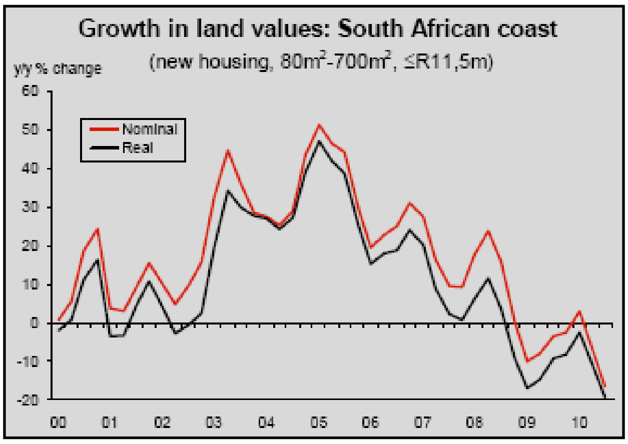
Affordability of housing

The affordability of housing improved in the first half of 2010 as a result of developments with regard to interest rates, household income and house prices during this period. This is according to the latest trends in the ratios of house prices and mortgage repayments to household disposable income (see graph on the affordability of housing).

The ratio of house prices to disposable income was slightly down in the second quarter of the year compared with the first quarter, which was the net result of growth in house prices (0,6% q/q) and nominal disposable income (2% q/q) in the second quarter.
The ratio of mortgage repayments to household disposable income was lower in the second quarter of 2010 compared with the preceding quarter. This was the net result of the abovementioned trends in nominal house prices and household disposable income in the second quarter, while the mortgage interest rate was on average slightly lower in the quarter compared with the first quarter.

A downward/upward trend in the abovementioned two affordability ratios implies that house prices and mortgage repayments are rising at a slower/faster pace than household disposable income. The result is that housing has in effect become more/less affordable.





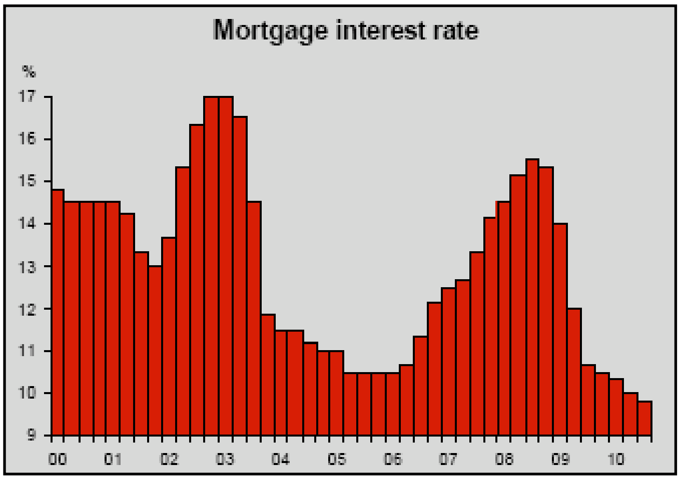
Outlook

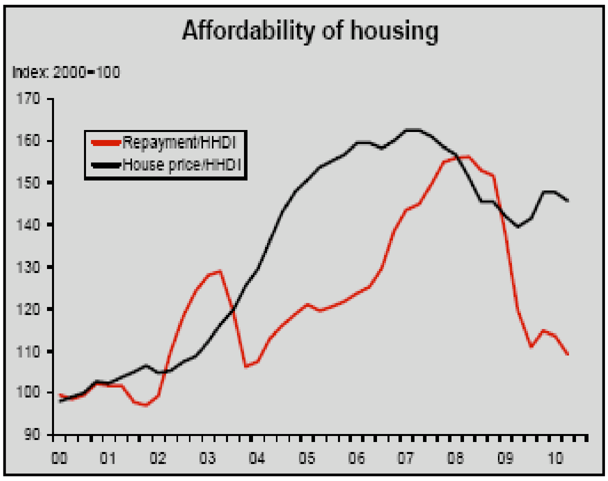
Real economic growth of around 3% is forecast for 2010, expected to rise to just below 4% in 2011. South Africa's economic performance in the rest of the year and in 2011 will to a large extent depend on global economic developments.

Inflation is forecast to reach a lower turning point in the near future and to increase gradually during the course of 2011. It is expected that interest rates will be cut once more over the short term, based on rand exchange rate movements and prospects for the economic cycle and inflation, but rates are forecast to remain unchanged for most of next year.

After middle-segment house price growth of a nominal 11% y/y was recorded in the first half of 2010, it started to slow down from the middle of the year and was significantly lower at 5,4% y/y in the third quarter.
The slowdown in house price growth in the middle segment was related to the base effect of a recovery in price growth from mid-2009. However, prices declined by 2,6% q/q in the third quarter as a result of developments on the economic front.

Based on the abovementioned trends in house prices up to the third quarter of the year, average nominal price growth of around 7% y/y is forecast for 2010, reflecting the view that the declining trend is set to continue towards the end of the year. Against this background nominal house price growth for 2011 is expected to remain low. Real price growth for 2010 and 2011 will depend on nominal price trends as well as the average consumer price inflation rate for this year and next year.

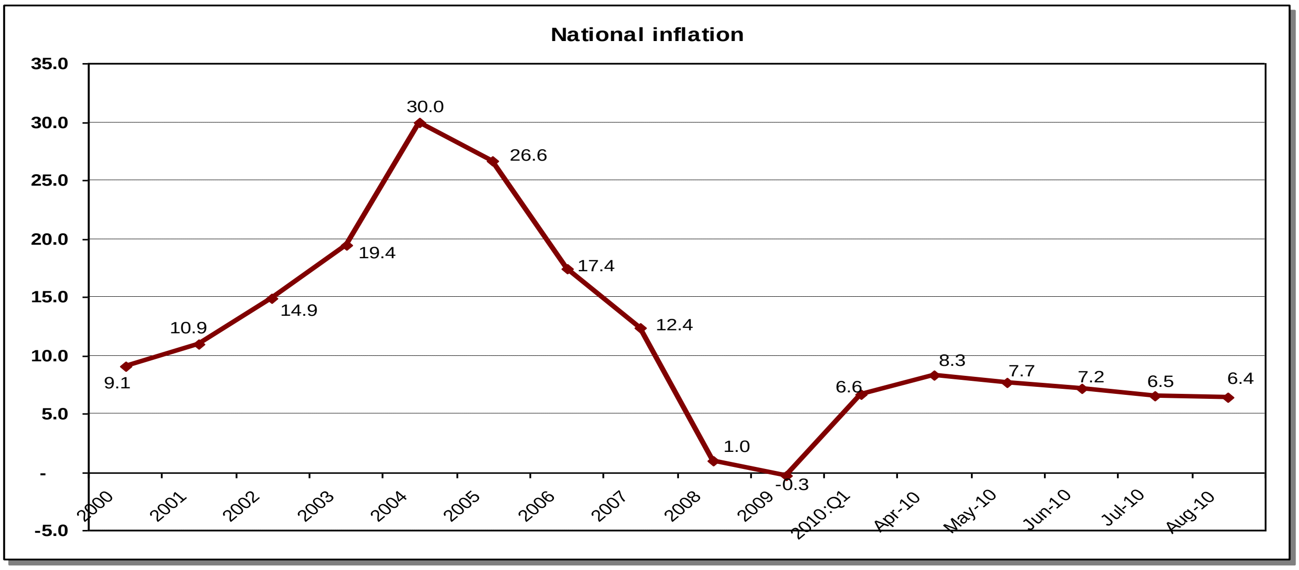




7.2.2 RESIDENTIAL INFLATION TRENDS

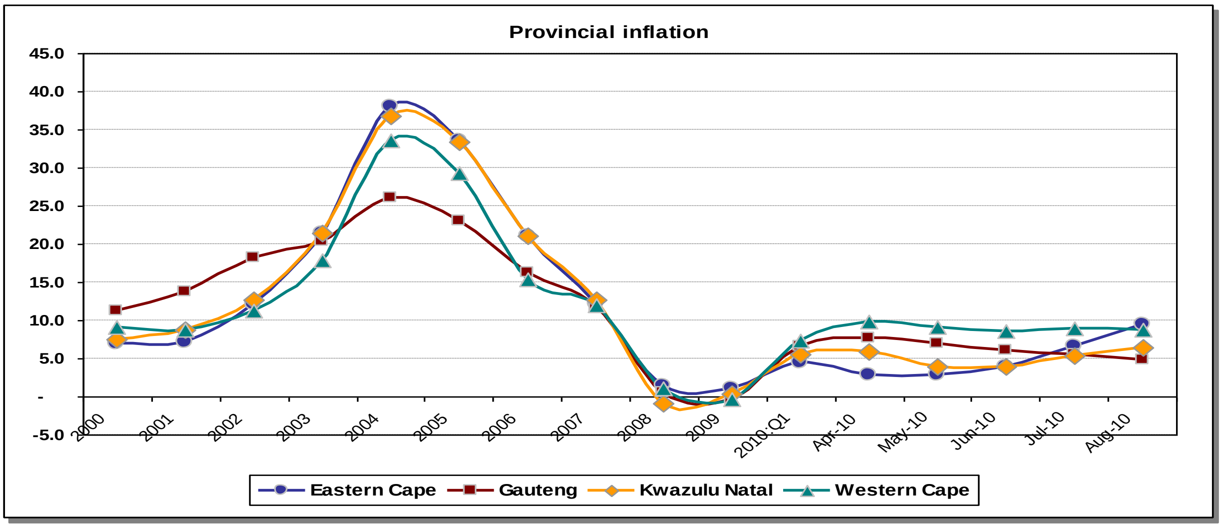
Subsequent figures reflect on the price inflation trends of the national residential property market – based on the Lightstone Residential Property Indices, December 2010.

Figure 7.1: National House Price Inflation



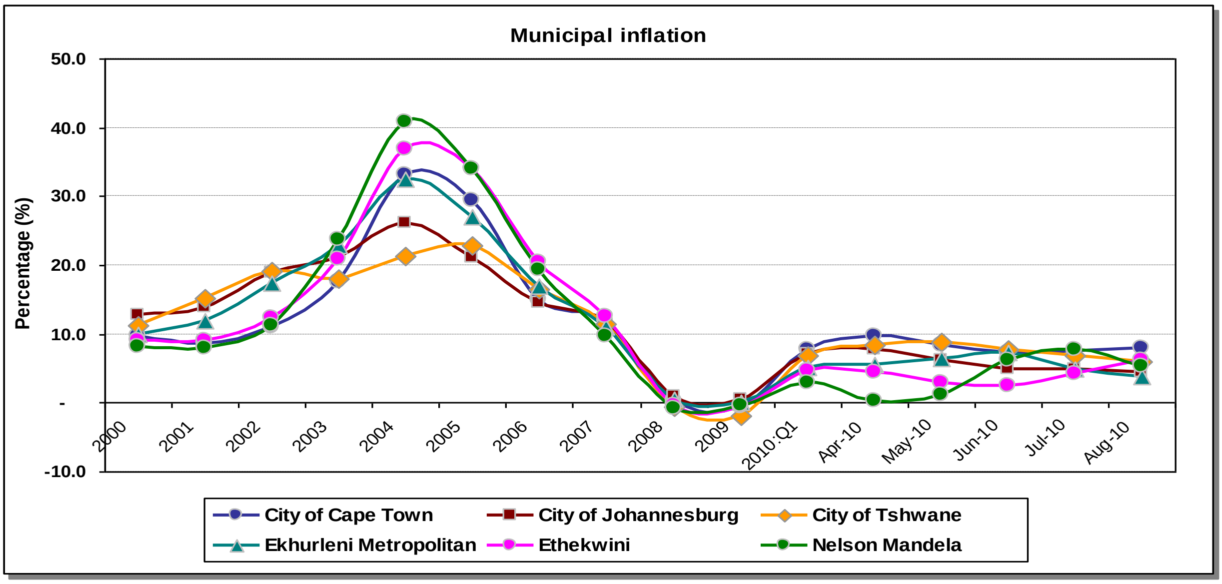
Source: Demacon Ex Lightstone, 2010

Figure 7.2: Provincial inflation



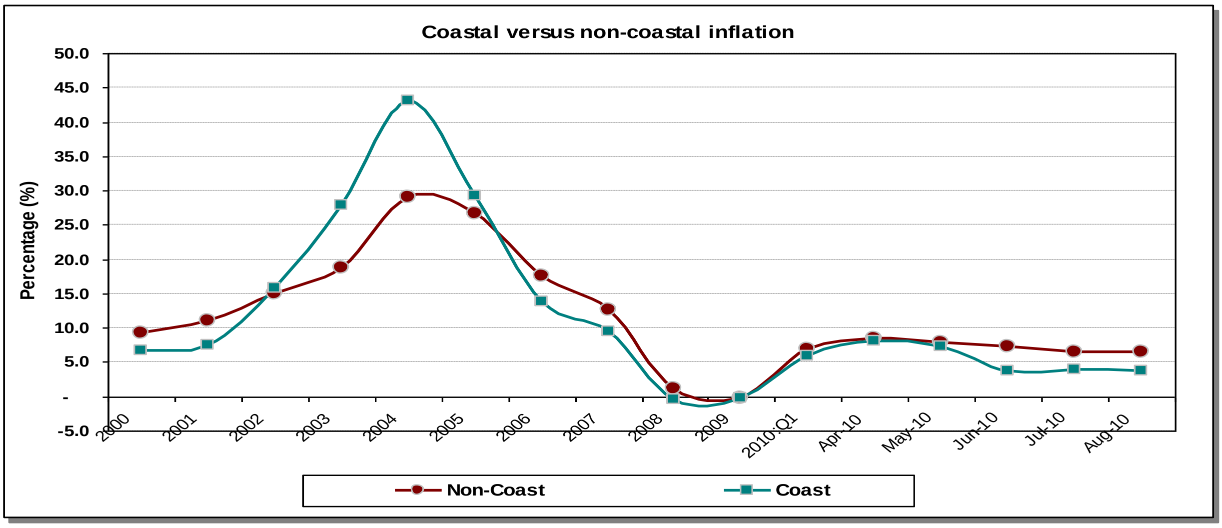
Source: Demacon Ex Lightstone, 2010

Figure 7.3: Metropolitan HPI



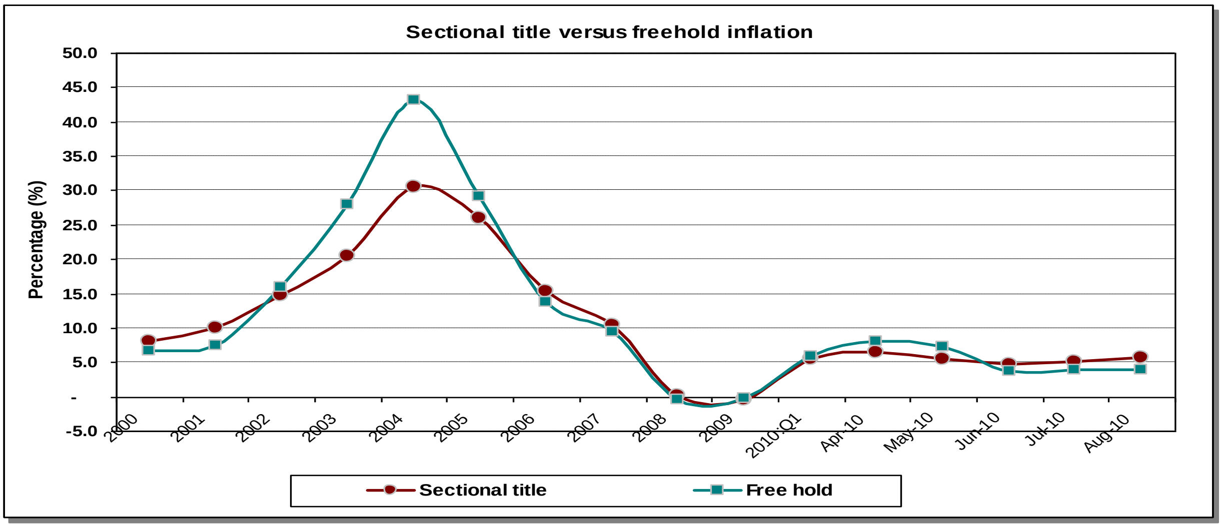
Source: Demacon Ex Lightstone, 2010

Figure 7.4: Coastal vs. Non-Coastal HPI



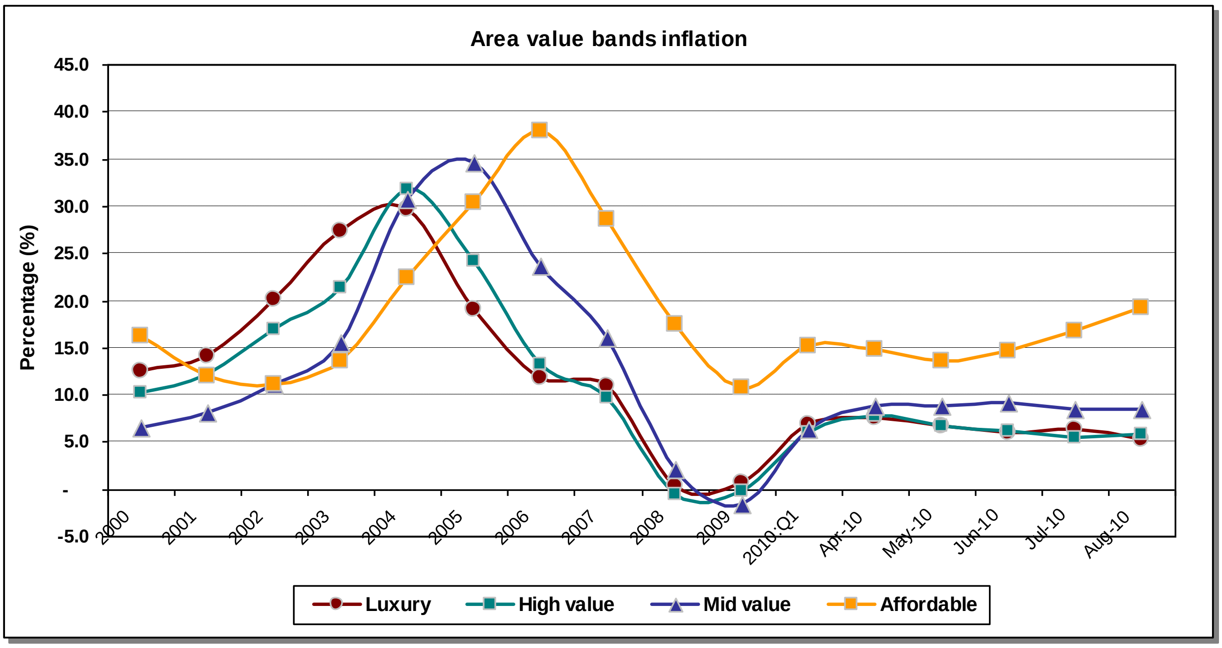
Source: Demacon Ex Lightstone, 2010

Figure 7.5: Sectional Title vs. Freehold HPI



Source: Demacon Ex Lightstone, 2010

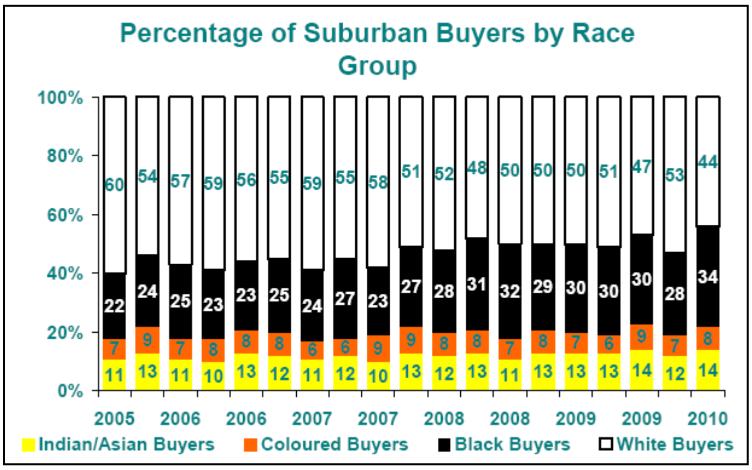
Figure 7.6: Value Band HPI



Source: Demacon Ex Lightstone, 2010

7.2.3 "EMERGING MIDDLE CLASS" COULD BE PILLAR OF SUPPORT FOR RESIDENTIAL MARKET IN 2010 – FNB, APRIL 2010[7]

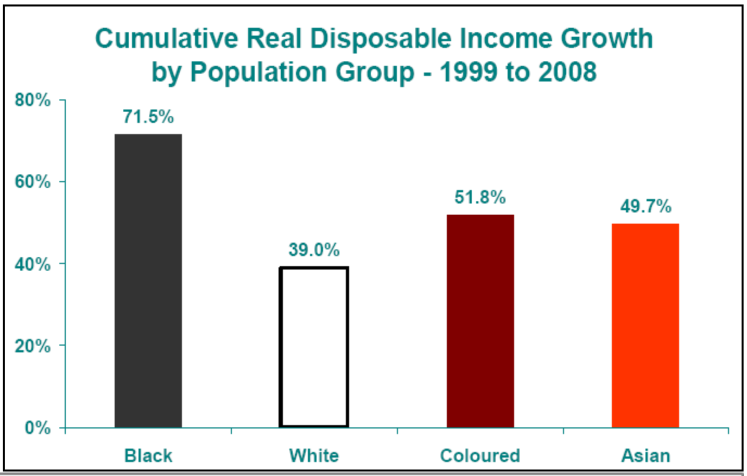
The following information was obtained from a market research report done by FNB, reflecting on the role that the "Black Middle Class"



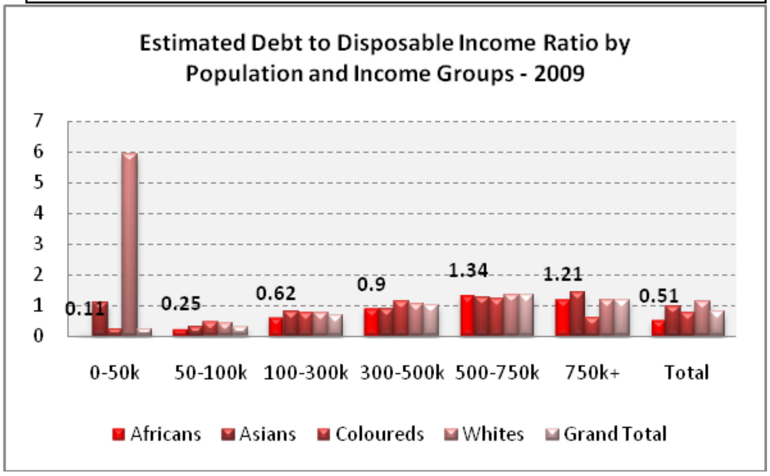
[7] Source: FNB. 2010. Will Emerging Middle Class Buying Outpace the Rest in 2010?

could play in the residential market in 2010.

- ✓ The FNB 1st quarter survey of agents showed buying by the so-called "Black" population group rising to its highest percentage of total buying since this survey question was started back in the 3rd quarter of 2005, while the group classified as "white" dipped to its lowest percentage of total buying since this survey question started.
- ✓ The 1st quarter 2010 survey estimate put white population group buying at 44%, while the black population group's buying was estimated at 34% of total buying, not that far behind anymore, and a significant jump from the previous quarter's 53% (White) to 28% (Black).



- ✓ One data point is too early to draw conclusions, admittedly, but we believe that there is strong reason to expect the Black group's buying to show strongly in 2010.



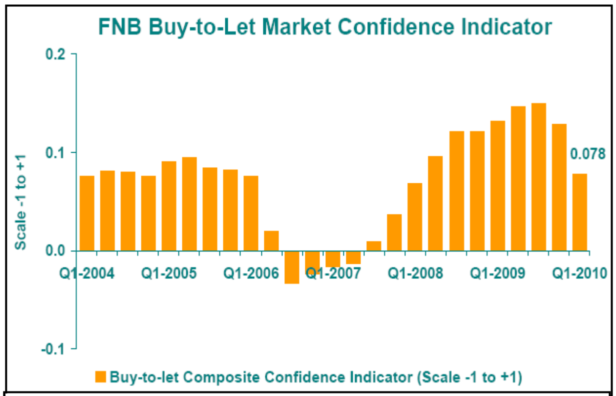
- ✓ While the long term trend towards a higher rate of Black buying is reflective of the steady transformation of the labour market, we doubt that this transformation alone will be the reason for a strong showing in Black group buying in 2010.
- ✓ This is because, in the 2008/9 recession, job shedding was the name of the game, so it is likely that transformation of the labour market stalled temporarily, and with it such widely divergent income growth rates between race groups as those seen over the past decade.
- ✓ Rather, the strong start to 2010 in the Black population group's percentage of buying, may be due to the combination of last year's interest rate cuts and this group's ability to grow its borrowing at a faster rate than the White, Coloured and Asian groups, which in turn is due to segments of it being less indebted relative to disposable income than the other population groups' more established middle classes.
- ✓ This would partly conflict with a view, held by some that this "Emerging" Black Middle class had been on a borrowing spree during the boom years, and may be in worse debt shape than other population groups.
- ✓ Our "conflicting" suspicion is based on Bureau of Market Research estimates of the household debt-to-disposable income ratio per race group and income band, as summarised in the subsequent figure.
- ✓ According to the BMR estimates, the Black groups in the income bands R500k-R750k (1.34) and R750k-plus (1.21) have debt ratios very much in line with the national average for that income segment, having seemingly fully adjusted to the high borrowing/high spending western-style habits of their peers in other race groups.
- ✓ But it is down below the R500k income level where the Black population group appears to be in significantly better shape from an indebtedness point of view, having seemingly not yet caught up with "the Joneses". The ratios of 0.90 and 0.62 for the R300-500k and R100-

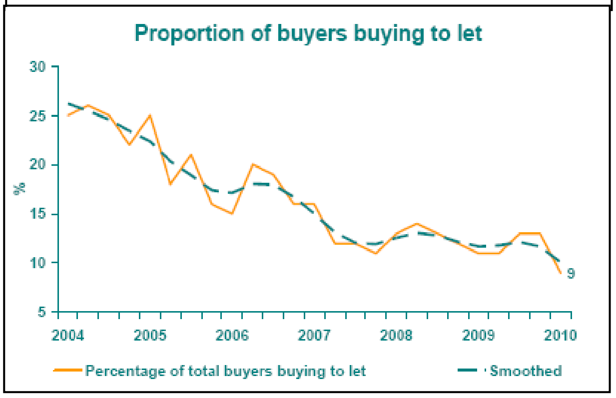
300k income bands respectively compare well with the higher 1.07 and 0.76 ratios for the White population group members within those two bands.

- ✓ As a result, following significant interest rate cuts last year, the Black population groups within these two segments may well have room to grow their new borrowing at a significantly faster rate than do the other three minority population groups, even should their disposable income not grow any faster than the other race groups in the same income brackets, implying that they can also grow their home buying at a faster rate.
- ✓ Assuming mortgage loan repayment-to-income ratios of up to 30%, this would be supportive of the market priced up to R1.3m. However, in reality, though, the average repayment-to-income ratio would be a lot lower than 30% in these more conservative days of affordability calculations and deposit requirements.
- ✓ Hence, it is likely that these less indebted Black income earners below the R500k income mark would be having a more profound impact on the market below the R1m price mark.
- ✓ Is this where we're seeing the more significant increase in Black buying. Well, the agents surveyed in the Barometer tell us that in the lower income segment (self-classified by agents and with an average price of R616,900) the percentage of Black households buying is as high as 46% of total buying, suggesting indeed a "bias" of this group towards lower priced suburban areas.
- ✓ So, in closing, although the economy is slowly recovering, 2010 may still see job creation at a snail's pace, as job creation recoveries tend to lag economic growth recoveries. In the absence of strong job creation, it could well be that the gap in income growth rates by race groups is drastically reduced for the time being, with all groups "chugging" along moderately. In this environment, the Black population group in the income bands below R500k becomes very important for residential demand, due to its estimated lower levels of indebtedness, meaning that they can grow their borrowing faster.
- ✓ In short, therefore, the jump in the Black population group's suburban buying as a percentage of total buying in the 1st quarter may be less than a co-incidence, and we could see this group providing an important pillar of support for the market in 2010, especially in the sub-R1m market.
- ✓ This may not be solely the result of the group's superior income growth (which should resume as job creation ultimately recovers), but also due to its noticeably lower level of indebtedness amongst income earners below the R500k mark.

7.2.4 BUY TO LET MARKET – FNB, APRIL 2010[8]

Estate agents surveyed in the 1st quarter FNB Residential Property Barometer survey provided insight into the buy-to-let market:

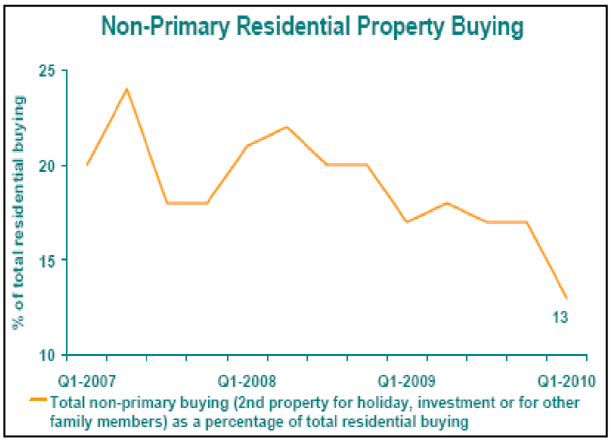


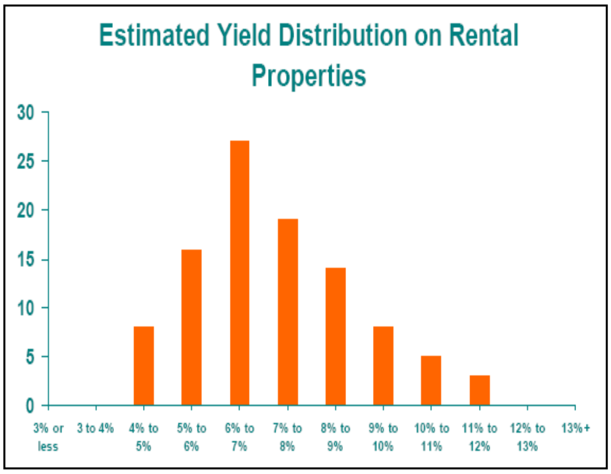


- ✓ It would appear that some recovery in agent optimism in the buy-to-let market in 2008/09 was somewhat misplaced, and has started to recede sharply as this segment of the market shows little strengthening.
- ✓ Agents surveyed in the FNB Property Barometer are asked for their near term expectations on buy-to-let demand, and their answer is either "strengthen" (1), "remain the same" (0) or "weaken" (-1). The net expectation is reflected in the Agent Buy-to-let Market Confidence

Indicator, which is still positive (on a scale of 1 to -1) at 0.078, but has receded significantly from the previous quarter's value of 0.128. This is the 2nd successive quarter of decline in confidence.

- ✓ The slump in agent confidence should come as little surprise, as they also report a slump in buy-to-let buying expressed as a percentage of total residential buying too.
- ✓ From a previous quarter's 13% of total buying, agents surveyed estimated that buy-to-let buying dropped to 9% of total buying in Q1 2010, the lowest percentage on record since the survey started back in 2004.
- ✓ As a matter of fact, as the household sector slowly works its way back to better financial health following recession, overall non-primary residential buying has also reportedly declined from 17% of total buying in the previous quarter to 13% of total buying in Q1 2010, according to Barometer survey respondents.
- ✓ At a stage early in 2007, non-primary residential buying accounted for almost a quarter of total buying, according to previous Barometer surveys. The ongoing weakness in buy-to-let demand, and now the slump in agent confidence in this market, is not altogether surprising. Although interest rates have been cut significantly, and the economy is improving, SA's household sector remains under financial pressure and still near to a cyclical high in its debt-to-disposable income ratio.
- ✓ For many would-be investors, therefore, having to fund the difference between rental income on a property and a bond repayment, for the 1st few years of ownership, remains an unattractive prospect. And agents are indeed indicating that in most cases such a "top-up" would be required, with survey respondents estimating that on average only 65% of a bond are covered by rental income.





- ✓ Anecdotal evidence from some quarters is that rental markets may be starting to recover, as economic times improve and tenant financial pressures are reduced.
- ✓ However, in the near term at least, low yields on residential property look set to constrain buy-to-let buying, as well as other forms of non-primary residential buying, causing their recoveries to lag the overall cycle, and keep the current residential market recovery predominantly driven by primary residential buying.
- ✓ The accompanying graph summarises the view by survey respondents that the bulk of residential properties gross yields fall between 6% and 7%.
- ✓ That would appear somewhat low, given that operating costs still need to be subtracted, and given that the household sector still finds itself under significant financial pressure.

7.2.5 FNB PROPERTY BAROMETER – DECEMBER 2010

FNB HOUSE PRICE INDEX AVERAGED 6.7% GROWTH FOR THE YEAR 2010

House price inflation remains unchanged from previous month, as house price inflation averages an estimated 6.7% for 2010 as a whole

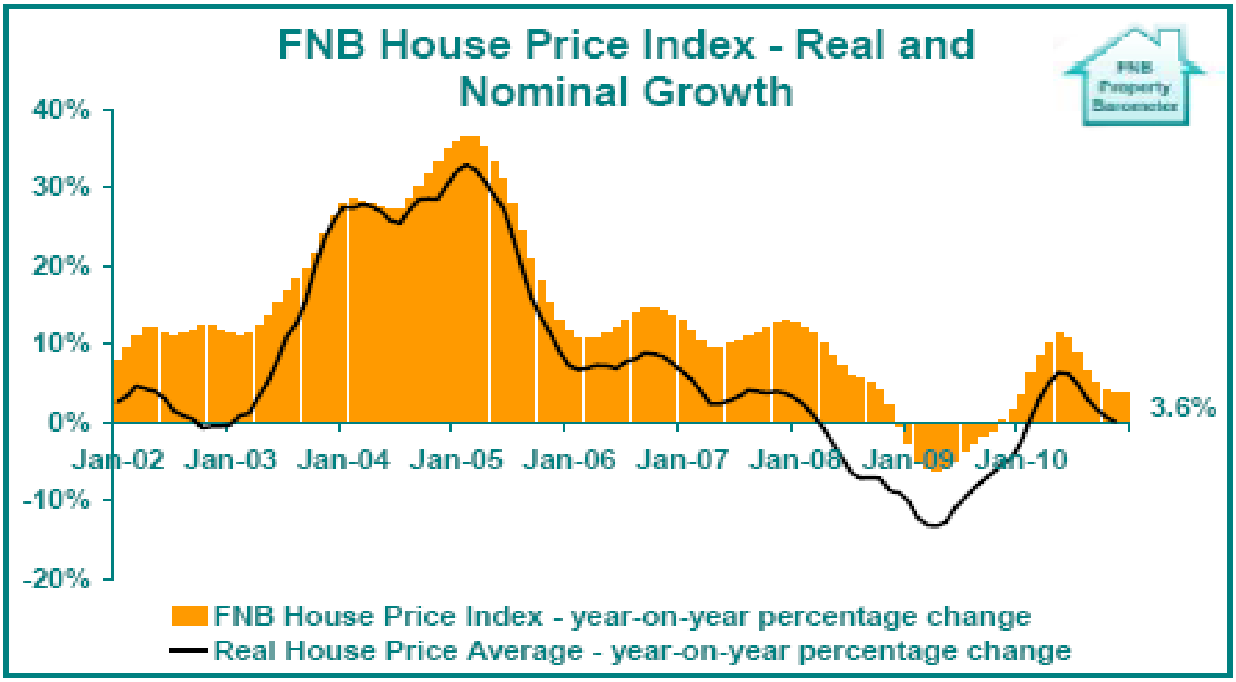
The December 2010 FNB House Price Index completes the picture for last year, a year which proved to be hard work for those in the property industry, although it was significantly better than 2009.

For December, the year-on-year rate of increase in the FNB House Price Index was 3.6%, which was unchanged from the November revised rate of growth of 3.6%. In real terms, i.e. adjusting for a November Consumer price inflation rate of 3.6% year-on-year, this means that November saw zero percent real change.

Examining 2010 as a whole, though, the picture was better than what the weak year-end figures suggest. The average price level was estimated to be 6.7% higher than the 2009 average price level, which translates into a real price average that was 2.3% higher in 2010 than in 2009, when taking the 1st 11 months of 2010 into account (We still await December CPI stats).

It must be said, though, that 2010 was a "tale of 2 halves", with the 1st half of the year showing an acceleration in average price growth, in response to massive interest rate cuts in 2008/9, while the 2nd half of the year showed a de-celeration in price growth in response to the SARB putting the brakes on the pace of interest rate cutting from late-2009.

Figure 7.6: FNB House Price Index – Real and Nominal Growth



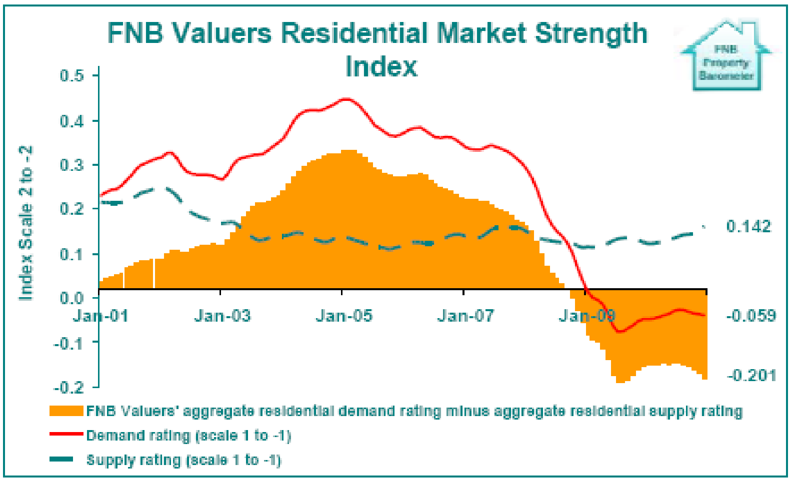
And then, right at the end of 2010, there were hints at some stabilization in nominal price growth, albeit at a very low rate of price increase.

It is too early to say whether the stabilization in the rate of price increase is any sign of a turnaround in the price trend, and at this stage we think probably not. Rather, we believe it possible that the 2 successive interest rate cuts in September in November may have given the market a slight bit of impetus (on top of any seasonal factors) through the summer months, but that this will fade should there be no further interest rate cutting.

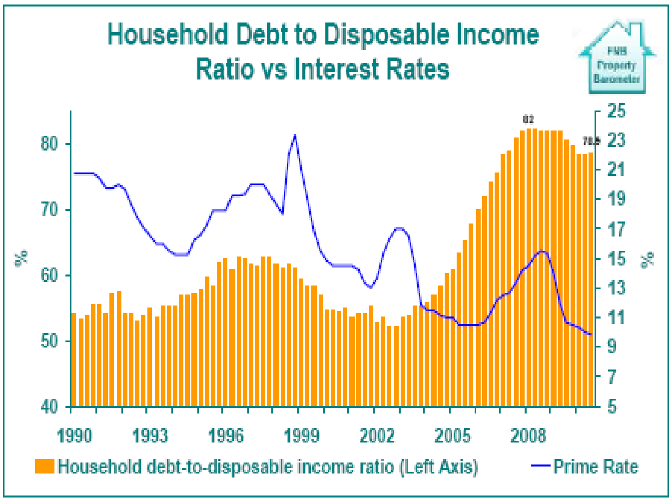
And so, the market enters 2011, with its fundamentals still mediocre at best.

It is important to accept that the broader property cycles (excluding the "mini-recoveries" such as that of the 1st half of 2010) are generally long in duration, and the slow times following booms can last for a good number of years while the market slowly battles to eliminate past "excesses". Certain indicators suggest that 2011 will probably be another year of hard work for the residential property-related industries. FNB's valuers, as a group, certainly appear to believe that the situation of weak demand relative to supply continues.

The FNB Valuers' Market Strength Index weakened further in December. When an FNB valuer values a property, he/she is required to provide a rating of demand as well as supply for property in the specific area. The demand and supply rating categories are a simple "good (+1)", "average (0)", and "weak (-1)".



The aggregate supply rating was slightly higher at +0.142, while the aggregate demand rating weakened from -0.057 (revised) previous to -0.059 in November. After aggregating the individual demand and supply ratings, we subtract the aggregate supply rating from the demand rating. The collective opinion of the valuers is that demand relative to supply has weakened further from -0.19 in November to -0.2 in December, the continuation of a weakening trend in the Market Strength Index.



The ongoing weakness in valuers' perceptions of the market continues to be of little surprise, with the country's household sector still experiencing a high level of indebtedness. In December, the SARB Quarterly Bulletin showed the household sector debt-to-disposable income ratio to have been 78.5% as at the 3rd quarter of 2010, which remains only marginally lower than the 82% all time high recorded at the beginning of 2008. The household sector, therefore, remains constrained with regard to the extent by which it can grow its borrowing of this very high base (a high base by SA standards, at least).

In addition, 2011 looks set to provide little in the way of additional interest rate stimulus to the market. Already, 2010 proved to be a year of far slower interest rate cutting by the SARB, compared with 2009. And recently, we have seen 2 consecutive months of mild increase in the consumer price inflation rate, from a September low of 3.2% to 3.6% by November. Factors suggesting a further near term increase in consumer inflation include upward pressure on global food prices, rising oil prices and some increase in domestic petrol price inflation recently, as well as mildly rising home rental inflation as measured in the CPI.

A 3.6% consumer price inflation rate is by no means a problem, however, and we do not expect interest rate hiking until 2012 (although the performance of the rand this year is probably the wildcard from an inflation point of view, and another year of solid performance by the currency would be crucial to this view). But it is important emphasise that the stimulus to the market comes from interest rate cutting, not from rates moving sideways, and given the SARB's inflation focus, it would be unlikely to cut rates should inflation be rising..

And so, after starting the year with some of the mild stimulus from late-2010 interest rate cuts still to feed through into house prices, a year of expected sideways movement in interest rates, leads us to believe that 2011 will see further deceleration in the rate of increase of the FNB House Price Index following perhaps an initial few months of relative stability.

Figure 7.7: FNB House Price Index Growth

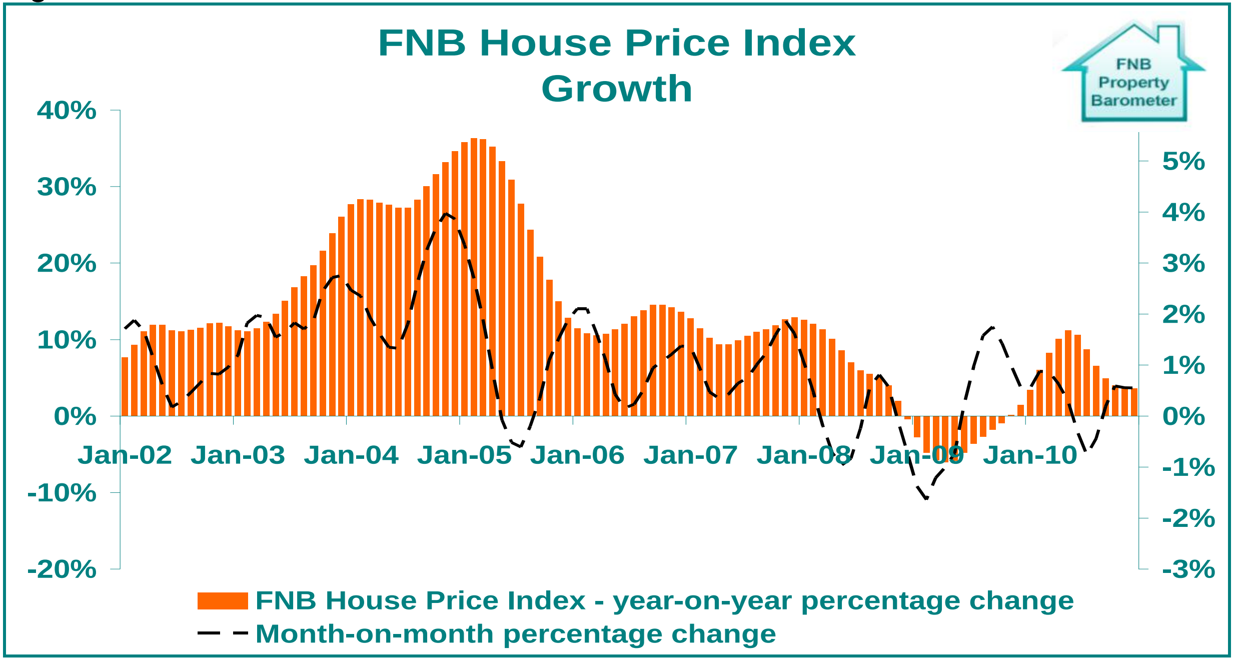
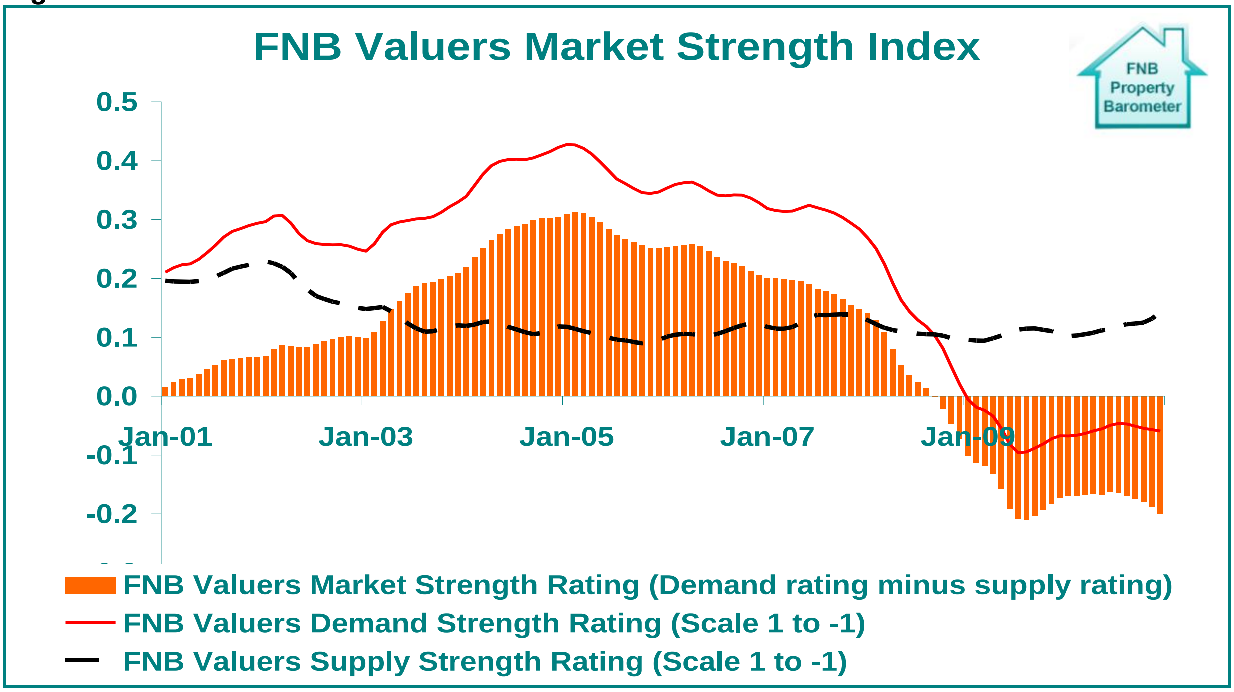


Figure 7.8: FNB House Price Index Growth



7.2.6 ABSA HOUSE PRICE INDICES

Growth in home values slowing down further

Year-on-year growth in the value of middle-segment homes for which Absa approved mortgage finance (see explanatory notes) slowed down further in November 2010. In all three categories of housing measured by the Absa house price indices (small, medium sized and large houses), price growth was lower in both nominal and real terms in the penultimate month of the year compared with a year ago. On a monthly basis, home values continued to decline after reaching a peak around April this year, but the pace of monthly contractions appears to be slowing down.

Although the base effect of a recovery in house price growth in the second half of 2009 is impacting year-on-year price growth calculations in the second half of 2010, the downward trend in price levels over the past few months is believed to be related to economic developments in general. These include slowing economic growth since the second quarter; job losses totalling 275 000 in the first three quarters of the year; a markedly slower pace of interest rate cuts than in 2009; no improvement in consumer confidence during the course of the year; and consumers still having high levels of debt in relation to disposable income. Although interest rates are low and growth in real household disposable income and consumption improved in 2010, credit extension to the household sector, including mortgage advances, continued to record single-digit growth up to October this year.

In the segment of small houses (80m²-141m²) the average nominal price was up by only 0.8% year-on-year (y/y) in November 2010 after rising by a revised 5.9% y/y in October. This brought the average value of a small house to around R688 100 in November. In real terms, i.e. after adjustment for the effect of consumer price inflation, price growth came to 2.4% y/y in October (7.5% y/y in September). The average nominal value of medium-sized houses (141m²-220m²) increased by 1.8% y/y in November this year (3% y/y in October), which brought the price in this category of housing to around R951 100 in November. In real terms, prices dropped by 0.4% y/y in October after rising by 0.9% y/y in September.

Table 7.1: Absa House Price Indices December 2010

Month	Small houses (80-140m²)			Medium sized houses (141 - 220m²)			Large houses (221 - 400m²)		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Jan	341.9	338.4	364.1	378.8	374.9	383.4	382.9	375.0	390.9
Feb	342.1	334.7	377.6	379.1	372.5	387.4	384.2	373.6	394.1
Mar	342.1	330.9	390.4	379.1	370.3	389.8	384.6	373.1	397.1
Apr	342.2	327.5	400.2	379.0	368.2	390.3	383.8	374.1	399.0
May	342.5	325.1	404.6	370.2	366.4	389.3	382.6	376.3	398.8
Jun	342.8	324.6	401.9	379.9	365.0	387.2	381.2	379.3	396.6
Jul	343.0	325.8	393.0	380.6	364.6	385.0	380.2	382.4	393.5
Aug	343.2	328.3	380.7	381.3	365.2	383.2	379.7	384.7	390.7
Sep	343.4	331.8	368.2	381.5	367.0	382.1	379.4	385.9	388.7
Oct	343.4	336.4	356.2	381.0	370.0	381.1	379.1	386.2	387.2
Nov	342.8	342.9	345.5	379.4	374.0	380.7	378.2	386.9	386.4
Dec	341.2	352.2		377.2	378.7		376.6	388.3	
Average	**342.5**	**333.2**	**380.2**	**379.7**	**369.7**	**385.4**	**381.0**	**380.5**	**393.0**

In the category of large houses (221m²-400m²) the average nominal price level was marginally down by 0.1% y/y in November after increasing by 0,3% y/y in October. The average price of a large house came to around R1 407 300 million in nominal terms in November. A real price drop of 3% y/y was recorded in the large category in October, after declining by 2.4% y/y in September this year.

On the back of the value of middle-segment homes having been noticeably higher in the first half of the year compared with the same period last year, while year-on-year price growth started to slow down from around mid-2010, average nominal house price growth of about 7% is expected for the full year. Real price growth for this year is forecast at around 2.5% y/y, taking into account the headline consumer price inflation rate expected to average 4.3% y/y in 2010.

Nominal house price growth of just below 5% is projected for 2011 on the back of the outlook for the domestic economy and the consumer sector. Based on expected nominal price trends and the projection for consumer price inflation in 2011, the average level of house prices is forecast to remain virtually stable in real terms next year compared with 2010.

Table 7.2: Absa House Price Indices, 2010

	Nominal y/y % change			Real y/y % change		
	Oct 2010	Nov 2010	Year to date 2010	Sept 2010	Oct 2010	Year to date 2010
Small houses ($80m^2$ - $140m^2$)	5.9	0.8	14.7	7.5	2.4	11.2
Medium sized houses ($141m^2$ - $220m^2$)	3.0	1.8	4.5	0.9	-0.4	0.3
Large houses ($221m^2$ - $400m^2$)	0.3	-0.1	3.5	-2.4	-3.0	-0.6

7.2.7 CURRENT PRIME INTEREST RATE

- ✓ The South African Reserve Bank cut interest rates by 0.5% last month (Sept) to bring the prime rate down to 9.5%.
- ✓ The rate cut was expected by most economists and will provide a welcome boost to the local economy.
- ✓ The cut was also welcomed by many consumers and homeowners. A drop of 0.5% could translate to a huge saving over the full term of your bond. While, in the short term, it means more consumers are now better able to manage their monthly debt commitments.
- ✓ Here's how the most recent rate cut will affect your pocket…

Table 7.3: Interest rate affect

Bond Amount	Term	Monthly Saving
R1mil	20yrs	R328
R800k	20yrs	R263
R250K	20yrs	R115

- ✓ While a drop in the prime interest rate equates to a drop in your monthly expenses. It also means that you are now able to qualify for a bigger home loan.
- ✓ With a salary of R20,000/pm, you could now qualify for a bond of up to R640k
- ✓ In 2008 (when the prime rate was 15.5%), you could only qualify for a maximum bond of R440k, with a salary of R20,000/pm

Figure 7.9: Prime interest rate history

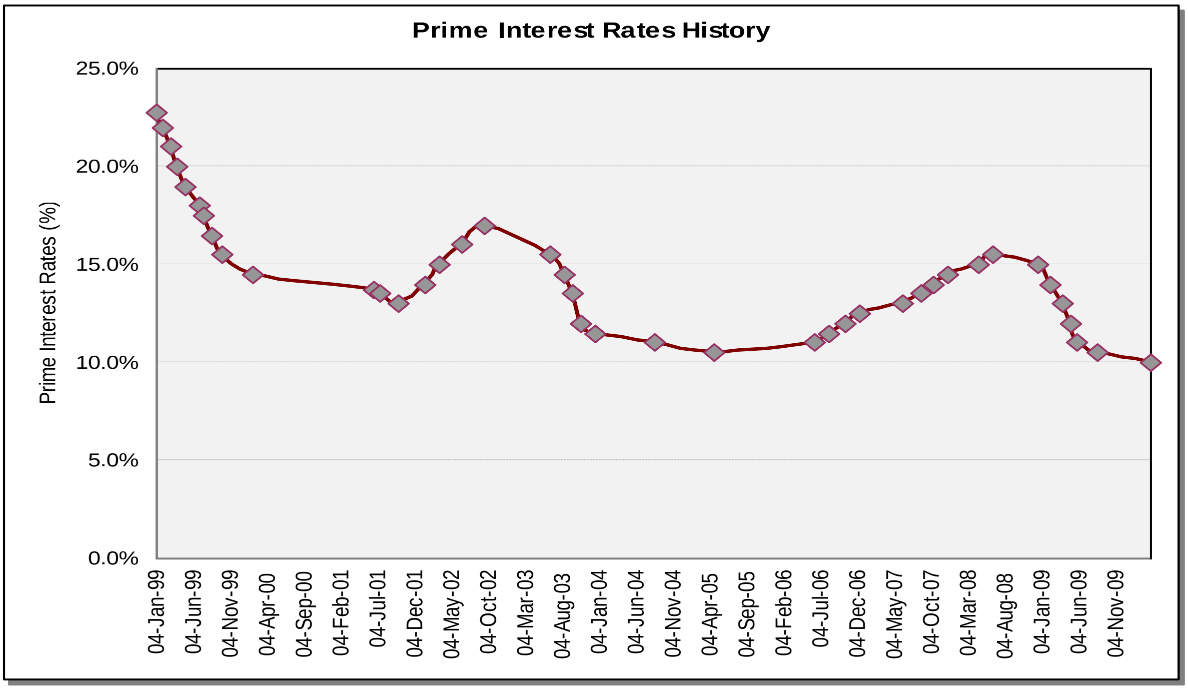


Table 7.4: Prime Interest Rates - South African Home Loans Interest Rates, since Jan 4 1999.

25 Mar 10	10.00%	20 Aug 07	13.50%	15 Aug 03	14.50%	16 Aug 99	16.50%
14 Aug 09	10.50%	11 Jun 07	13.00%	13 Jun 03	15.50%	14 Jul 99	17.50%
28 May 09	11.00%	11 Dec 06	12.50%	13 Sep 02	17.00%	02 Jul 99	18.00%
04 May 09	12.00%	13 Oct 06	12.00%	14 Jun 02	16.00%	03 May 99	19.00%
24 Mar 09	13.00%	03 Aug 06	11.50%	18 Mar 02	15.00%	02 Apr 99	20.00%
06 Feb 09	14.00%	12 Jun 06	11.00%	16 Jan 02	14.00%	02 Mar 99	21.00%
12 Dec 08	15.00%	18 Apr 05	10.50%	01 Oct 01	13.00%	02 Feb 99	22.00%
13 Jun 08	15.50%	16 Aug 04	11.00%	16 Jul 01	13.50%	04 Jan 99	22.75%
11 Apr 08	15.00%	15 Dec 03	11.50%	18 Jun 01	13.75%		
07 Dec 07	14.50%	20 Oct 03	12.00%	01 Feb 00	14.50%		
15 Oct 07	14.00%	15 Sept 03	13.50%	04 Oct 99	15.50%		

Source: www.propertyloans.co.za

Subsequent paragraphs provide the local market activity, followed by the demand modelling for the market area.

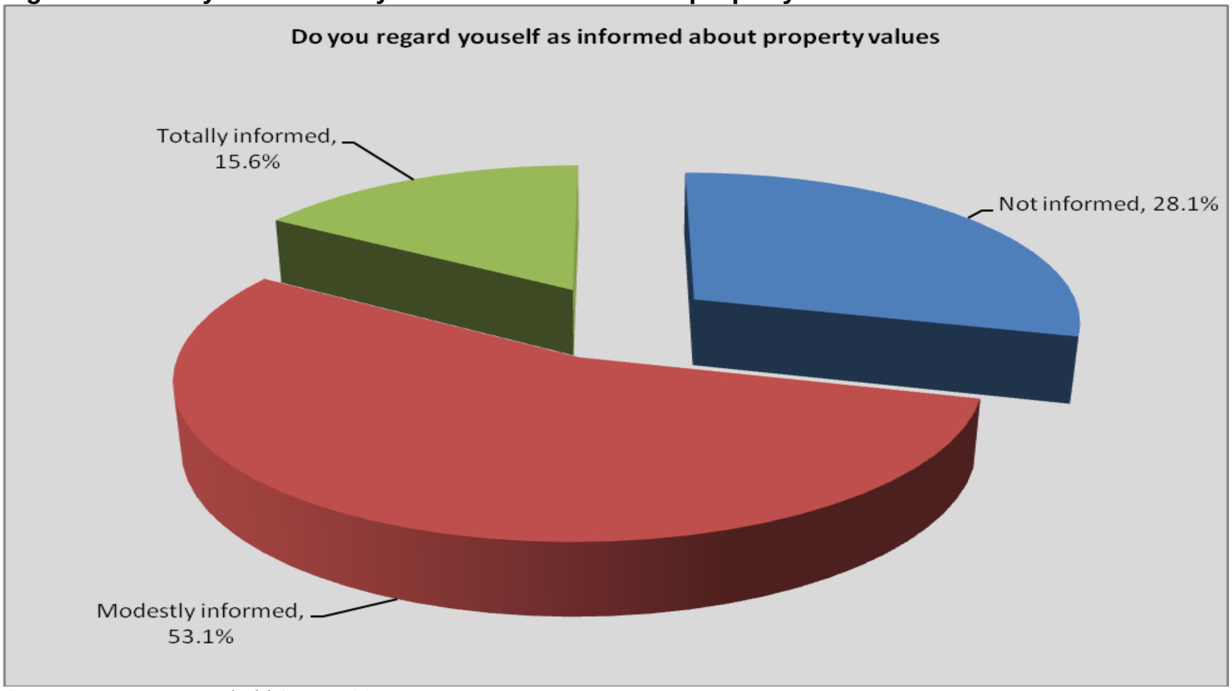
7.3 RESIDENTIAL MARKET DEMAND PROFILE AND PREFERENCES

This section shows the results from the survey conducted in the market area to determine the potential residential market demand and market preferences inherent in the town of Mogwadi. This will inform the developer of the residential component of the proposed mixed use development.

Consumer's residential market knowledge about property values

The diagram below indicate how informed the households are in terms of residential market trends and developments.

Figure 7.10: Do you consider yourself informed about property values



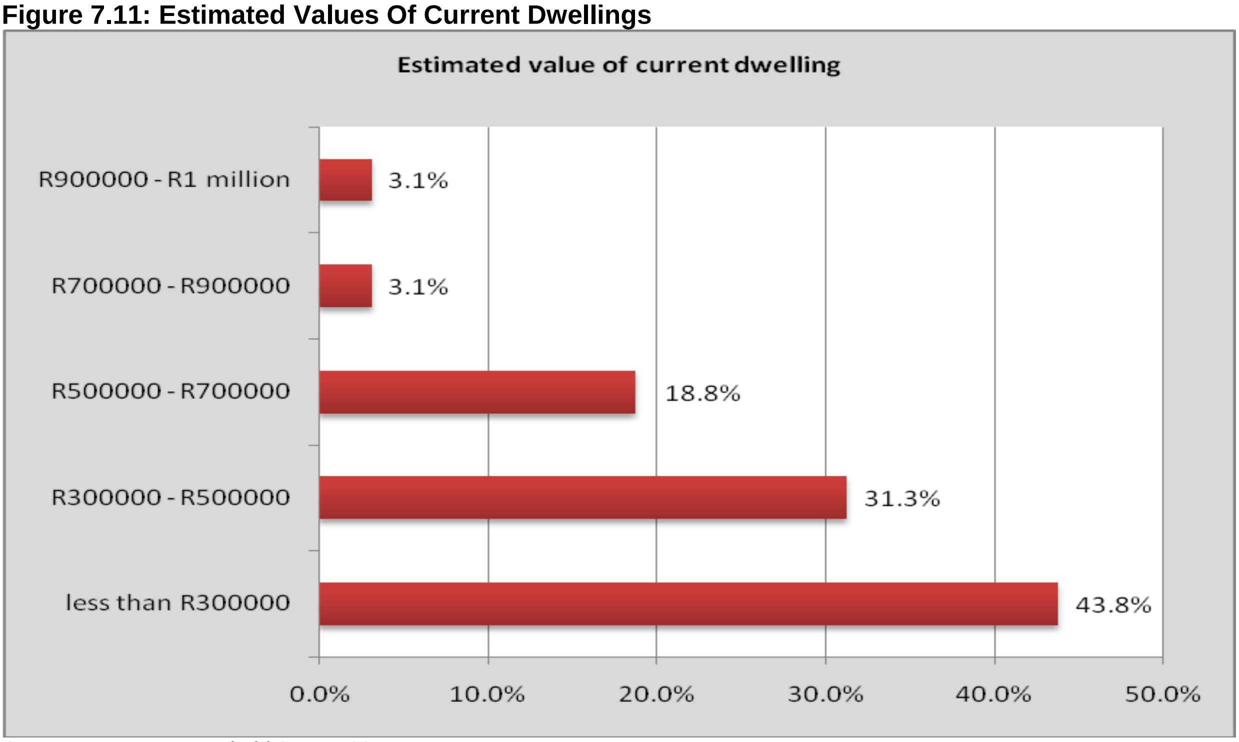
Source: Demacon Houshold Survey 2011

The figure above indicates that a large proportion of the households (53.1%) are modestly informed about property values and property market trends. Those who are **totally informed forms 15.6%** of the total households in the market area. Slightly over a quarter of the households (28.1%) consider themselves not informed.

Estimated value of Current Dwelling

The following figure shows the distribution of the value of current dwellings for households in the proposed development's market area (catchment area).

Figure 7.11: Estimated Values Of Current Dwellings



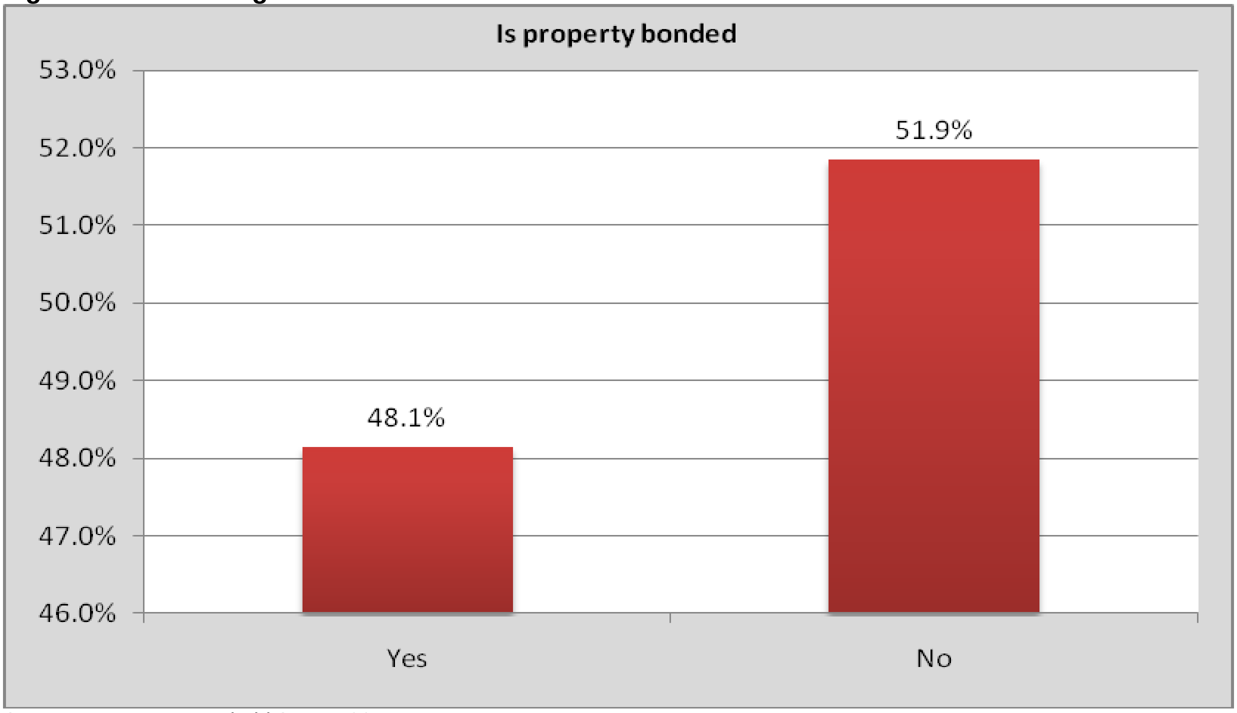
Source: Demacon Houshold Survey 2011

A larger proportion (**43.8%) of the household dwell in houses with estimated values of less than R300 000,** while 31.3% dwell in houses, whose estimated value is between R300 000 and R500 000. Almost a fifth of the households (18.8%) dwell in houses with values between R500 000 and R700 000. This is informative because it implies the dominant size and prices that are desired and afforded by the market.

Property Bonded or not

The figure below shows that the dominant portion of the dwellings is not bonded. However the proportions are fairly close to a fifty-fifty split between those bonded and those not bonded. The bonded component can be used as a proxy for the actual market demand proportion of residential market demand. Thus, there seems to be demand for bond funded housing in the area, hence there is potential for the residential component of the proposed Molemole mixed use development to tap into that demand.

Figure 7.12: Dwelling bonded or Not Bonded

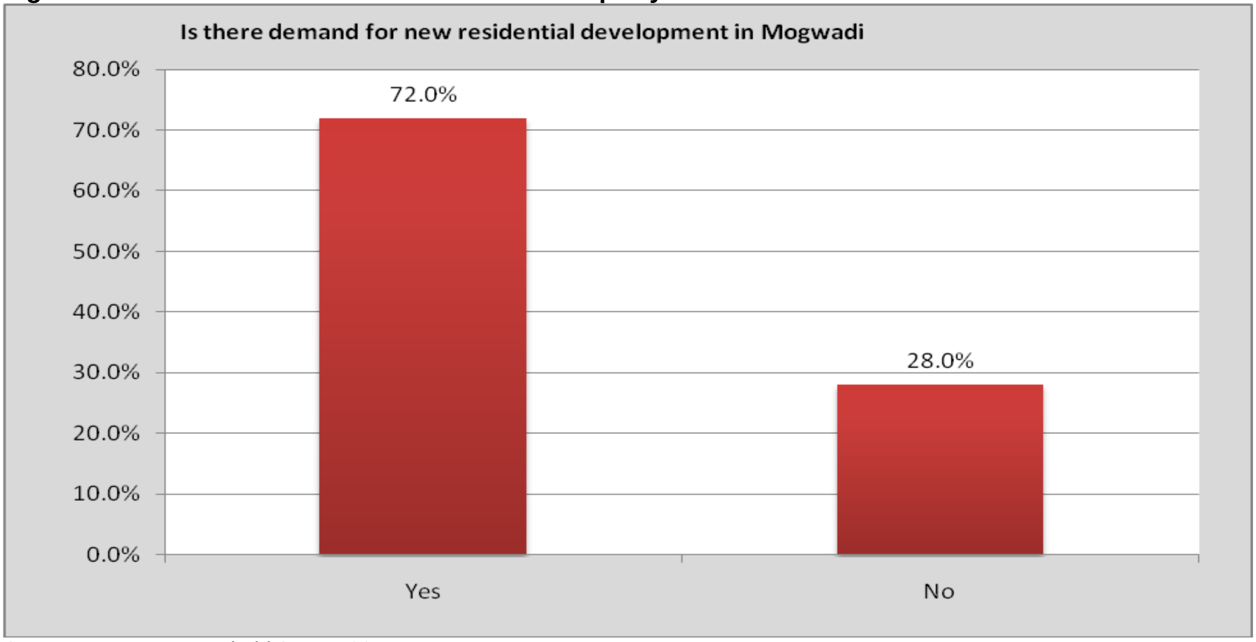


Source: Demacon Houshold Survey 2011

Is there demand for residential property in Mogwadi

The household survey enquired about residential property demand in Mogwadi and the responses are indicated by the following figure.

Figure 7.13: Is there demand for residential Property



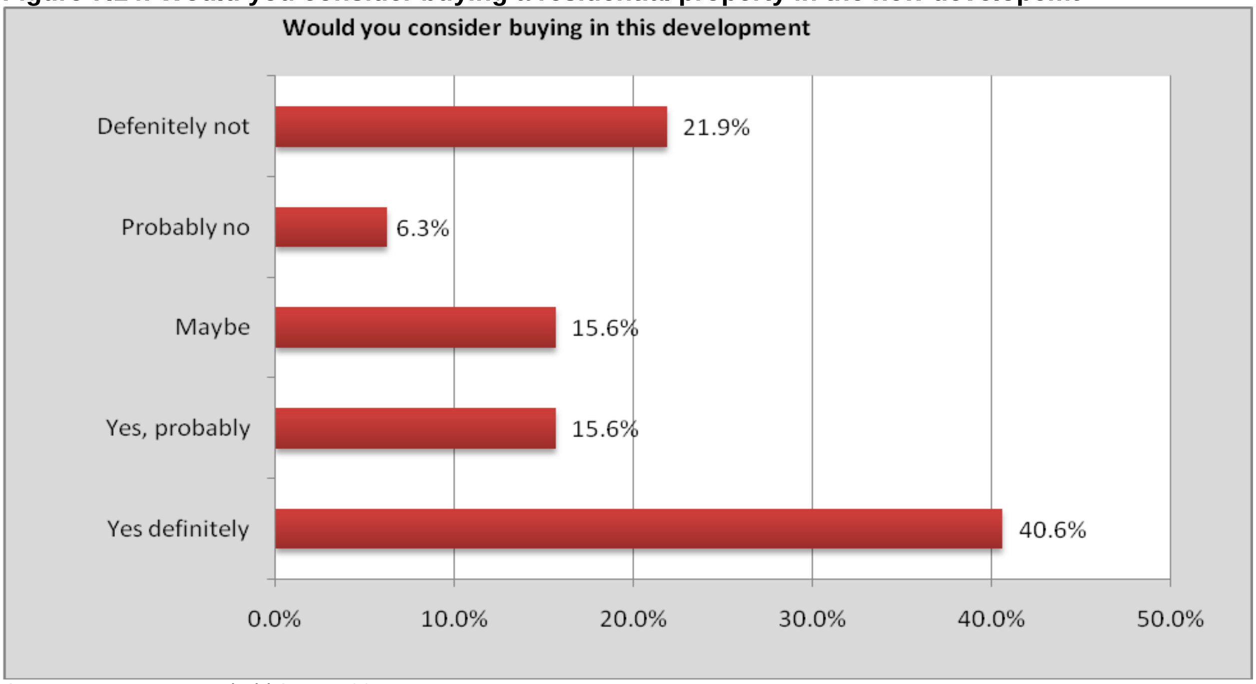
Source: Demacon Houshold Survey 2011

The figure above shows that a large proportion of the households (**72%) in the market area think that there is demand for residential property** in Mogwadi town. This reinforced by the residential property that is being developed by individuals in Mogwadi, which is, the development of modern, urban design-type residential homes.

Would you consider buying residential property in this development?

Asked if they would consider buying residnetial proeprty in the development, **40.6% indicated strongly that they will definitely buy a property**, while 15.6%, said probably and afurther 15.6% weakly that they may buy a residential property. Those who indicated that they will not buy, may constitute those who already have a residential property in the area, those who can't afford it or those living in own property in nearby farms or villages.

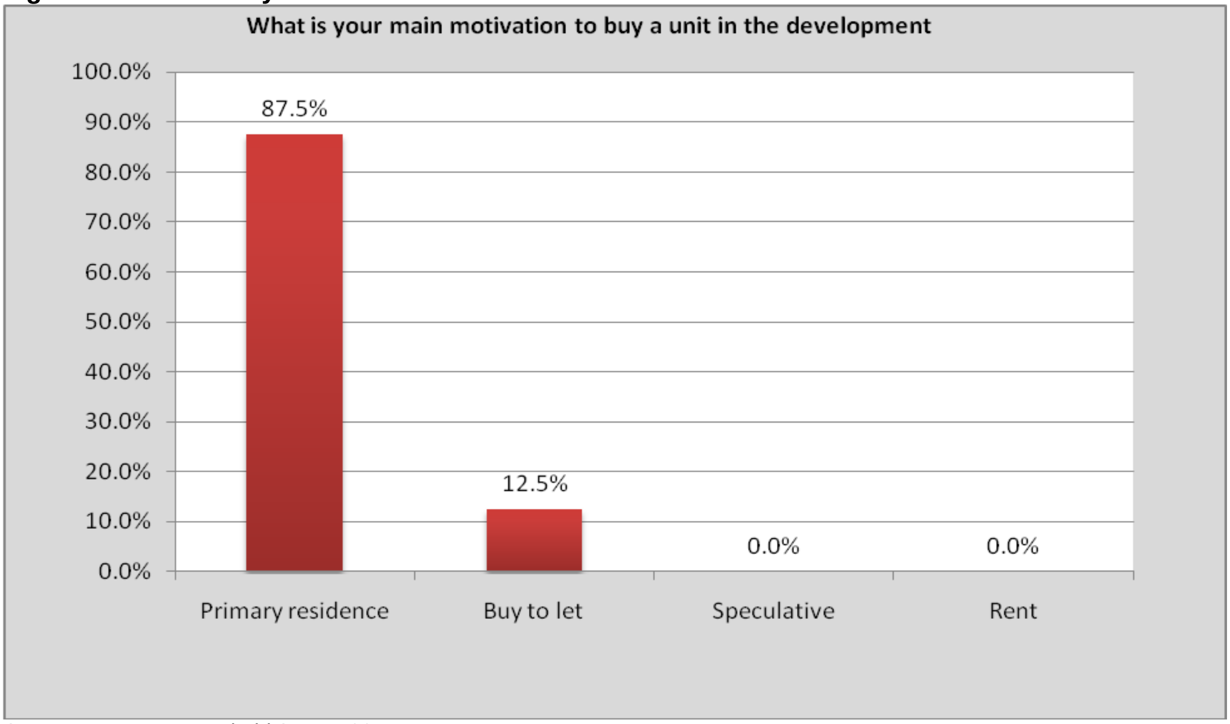
Figure 7.14: Would you consider buying a residential property in the new developemt



Source: Demacon Houshold Survey 2011

What will be your main motivation to buy in the new development?

Figure 7.15: What is your main motivation



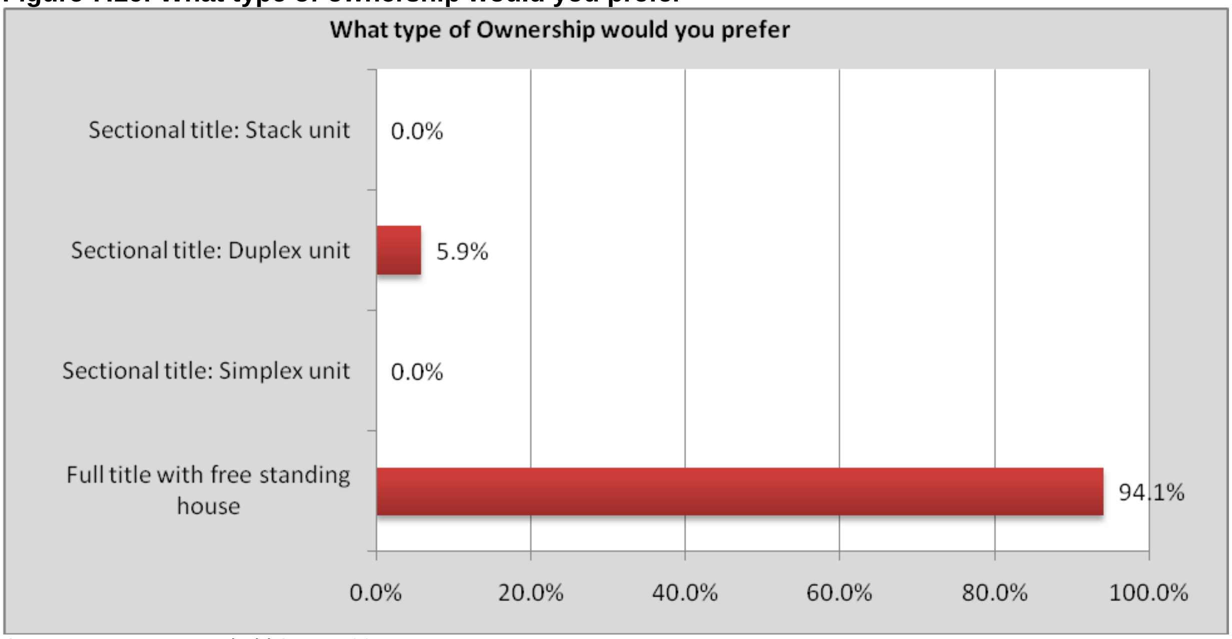
Source: Demacon Houshold Survey 2011

The figure above shows that demand for residential property in Mogwadi will be driven primarily by a **need for a primary residence (87.5%)** and a smaller proportion as an investment by buying to let. None of the respondents intend to buy the property for speculative and intent to get a rental unit in the proposed development.

What type of Dwelling would you prefer?

To infer which type of dwelling is popular, households were asked on their prefered ownership type.

Figure 7.16: What type of ownership would you prefer

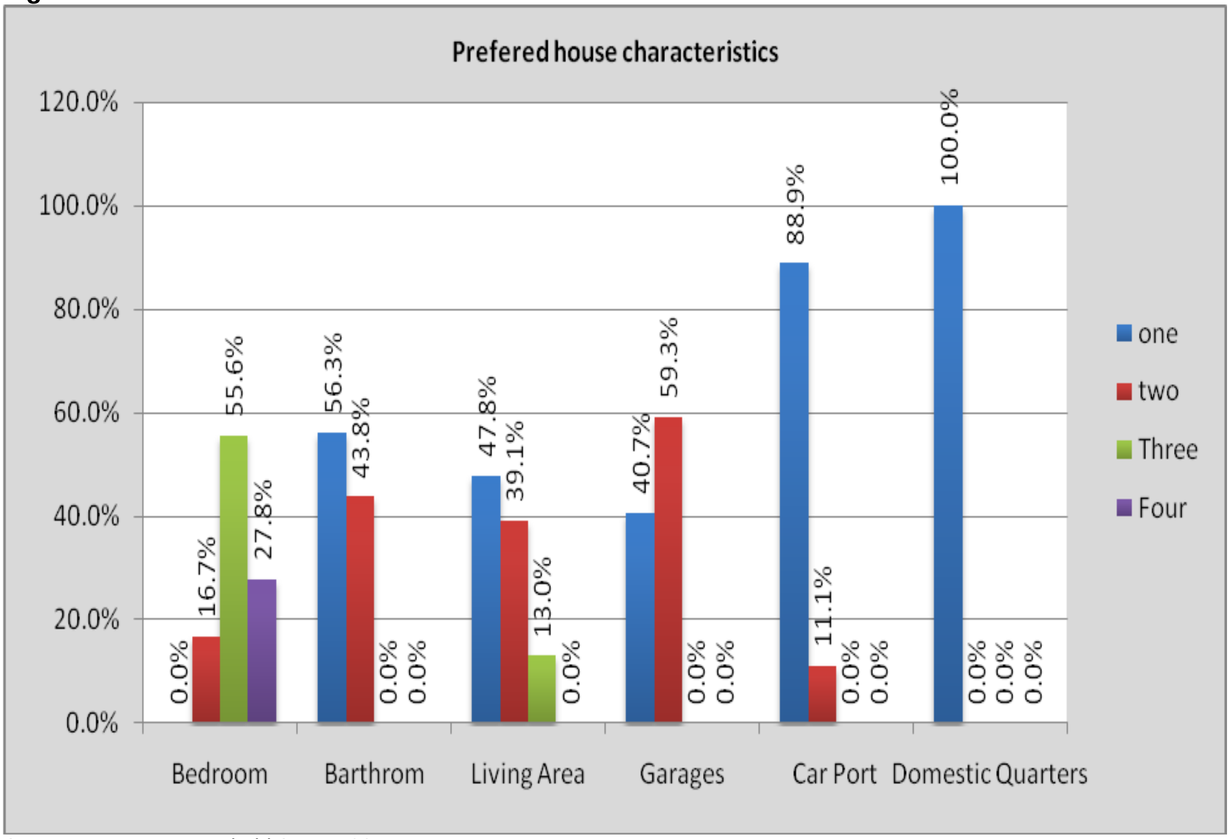


Source: Demacon Houshold Survey 2011

From the figure above, it is clear that the most desired type of ownership in the development will be a **full title, free standng house**. This is the most desirable type to 94.1% of market households. A very small proportion of 5.9% would prefer a sectional title: dublex unit. None of the respondents prefered a sectional title: simplex unit or stack unit.

Prefered House Characteristics

Figure 7.16: Prefered house characteristics



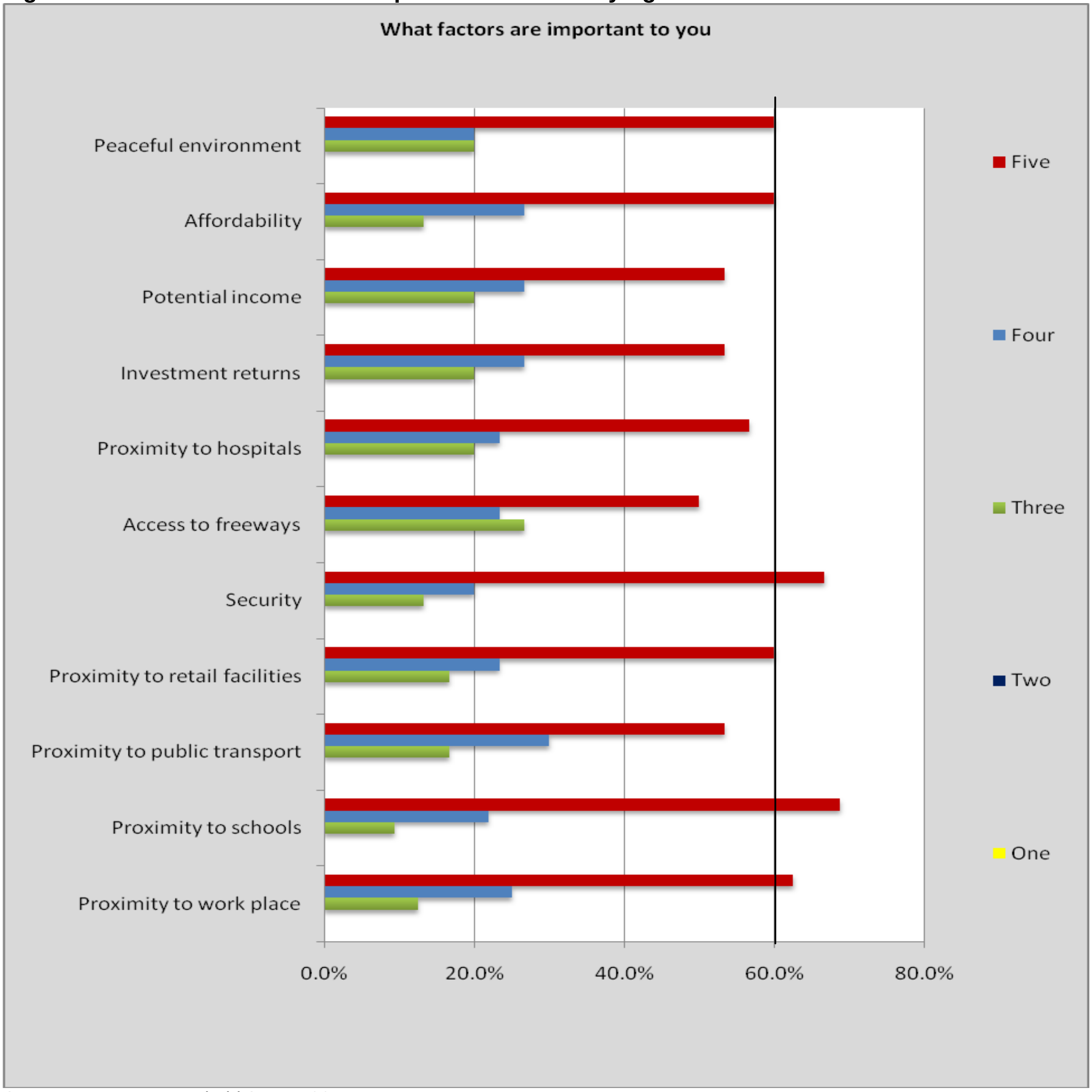
Source: Demacon Houshold Survey 2011

The most popular house features are **three bedroom houses (55.6%),** with one (56.3%) or two (43.8%) bathrooms. The house should have one (47.8%) or two (39.1%) living areas as well as single (40.7% or double (59.3%) garages. Caution must however be exercised as these desired features may indicate aspirations and may not indicate the ability to buy.

Important loctional factors to homebuyesrs

The figure below indicates factors considered important by household in buying a residential property.

Figure 7.17: Factors considered important in home buying



Source: Demacon Houshold Survey 2011

In trying to distinguish factors that are considered by potential residential home buyers, we abritrarilty imposed a minimum percentage score for all the factors, where those that are equal and greater than 60% are considered as important factors. **A peaceful environment, affordability and proximity to retail facilities** score the minimum score of 60% as important consderations when buying a residential property. **Security scored highest** as the most important factor with 68.8%, is closely followed by **being near schools (66.6%). Being close to work place** scored just above the minimum score **(62.5%).**

7.4 RESIDENTIAL DEMAND MODELING

Demand for residential units can be stated as follows:

Demand = f(P; p; A; E; Y; i)

The above means that demand for residential units is a function of:

- ✓ Population Size (P)
- ✓ Population Growth (p)
- ✓ Age (A)
- ✓ Employment (E)
- ✓ Income (Y)
- ✓ Interest Rates (i)

Subsequent paragraphs indicate the residential profile of Molomole Municipal area.

➢ House Price Estimates

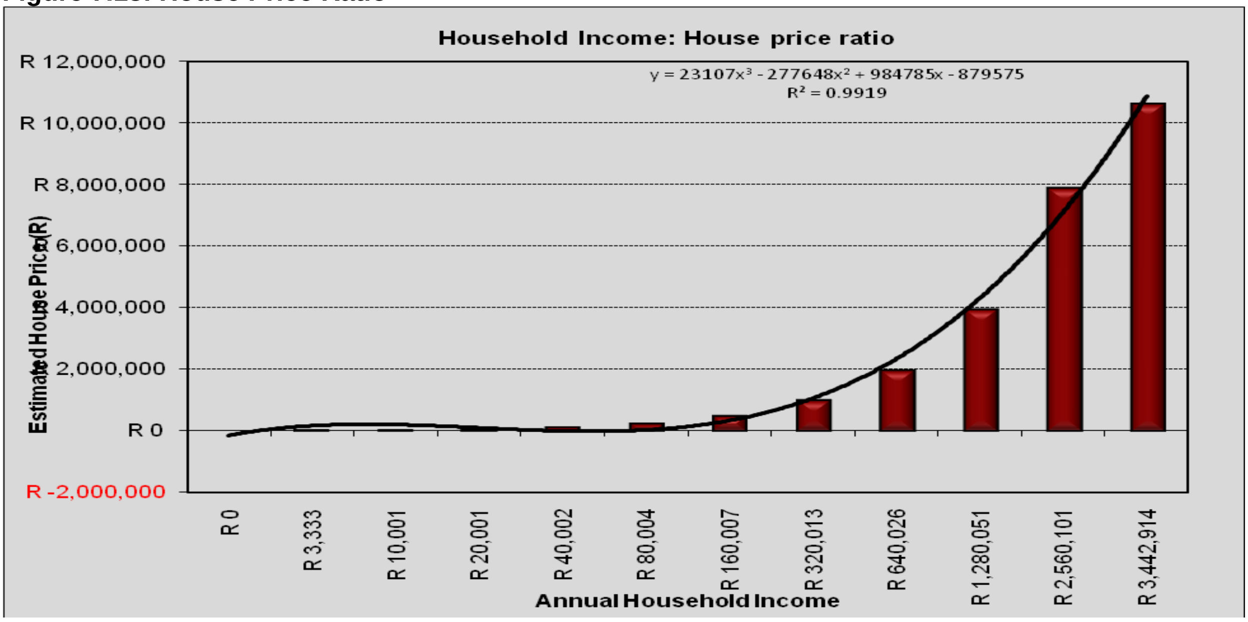
Table 7.5: House Prices Estimates (2011)

Income Midpoint (2011	Annual Repayment Value	House Price	Stand Value
R 0	R 0	R 0	R 0
R 3,333	R 1,000	R 10,274	R 3,082
R 10,001	R 3,000	R 30,824	R 9,247
R 20,001	R 6,000	R 61,646	R 18,494
R 40,002	R 12,001	R 123,291	R 36,987
R 80,004	R 24,001	R 246,580	R 73,974
R 160,007	R 48,002	R 493,157	R 147,947
R 320,013	R 96,004	R 986,312	R 295,894
R 640,026	R 192,008	R 1,972,621	R 591,786
R 1,280,051	R 384,015	R 3,945,240	R 1,183,572
R 2,560,101	R 768,030	R 7,890,479	R 2,367,144
R 3,442,914	R 1,032,874	R 10,611,392	R 3,183,417

Source: Demacon, 2011

➢ Household Income: House Price Ratio

Figure 7.18: House Price Ratio



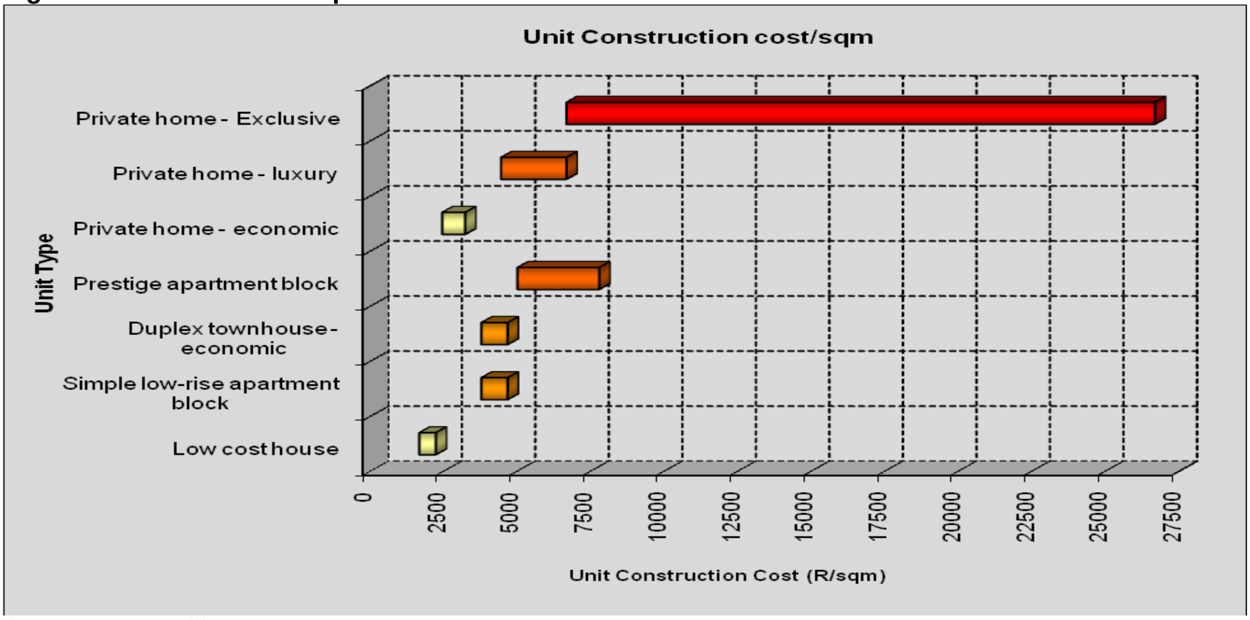
Source: Demacon, 2011

➢ Construction Profile

The following figure indicates the unit construction cost per square meters for the following housing types:

- Low cost house
- Duplex townhouse - economic
- Private home - economic
- Private home - Exclusive
- Simple low-rise apartment block
- Prestige apartment block
- Private home - luxury

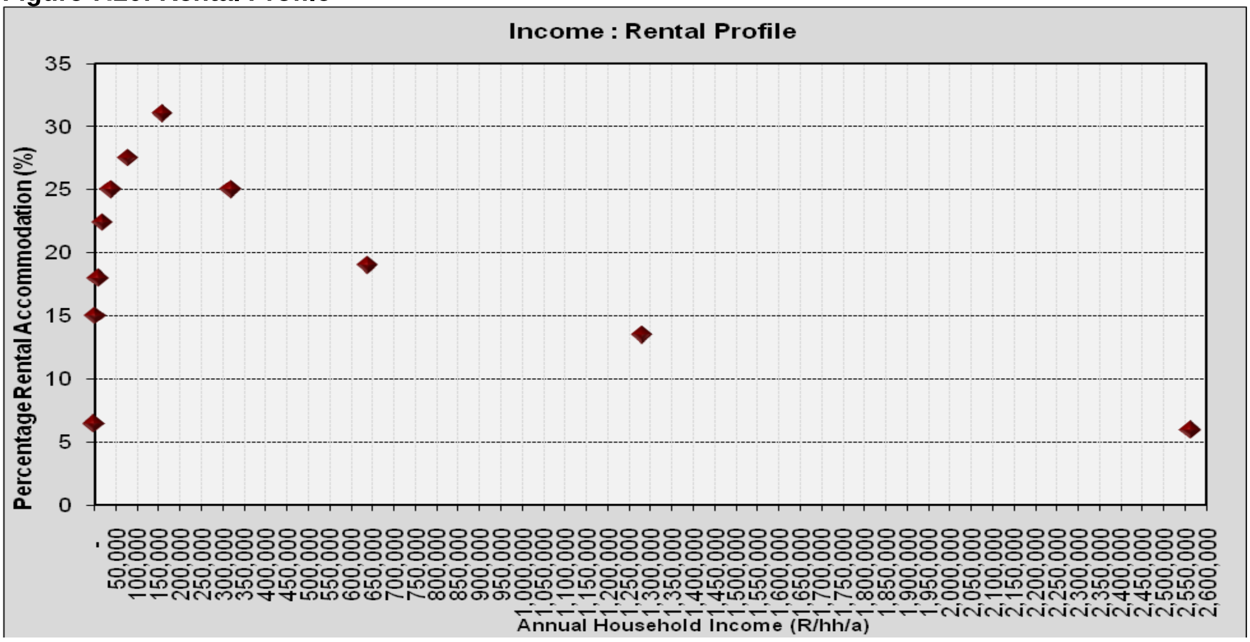
Figure 7.19: Construction profile



Source: Demacon, 2011

➢ Household Income: Rental Profile

Figure 7.20: Rental Profile



➢ House Prices / Unit Sizes / Stand Size Estimates

Table 7.6 indicates the stand values, the unit size estimations, the distribution of units, the stand size estimations, and the unit price estimation for a given forecast for an estimated capacity of **450 residential units.**

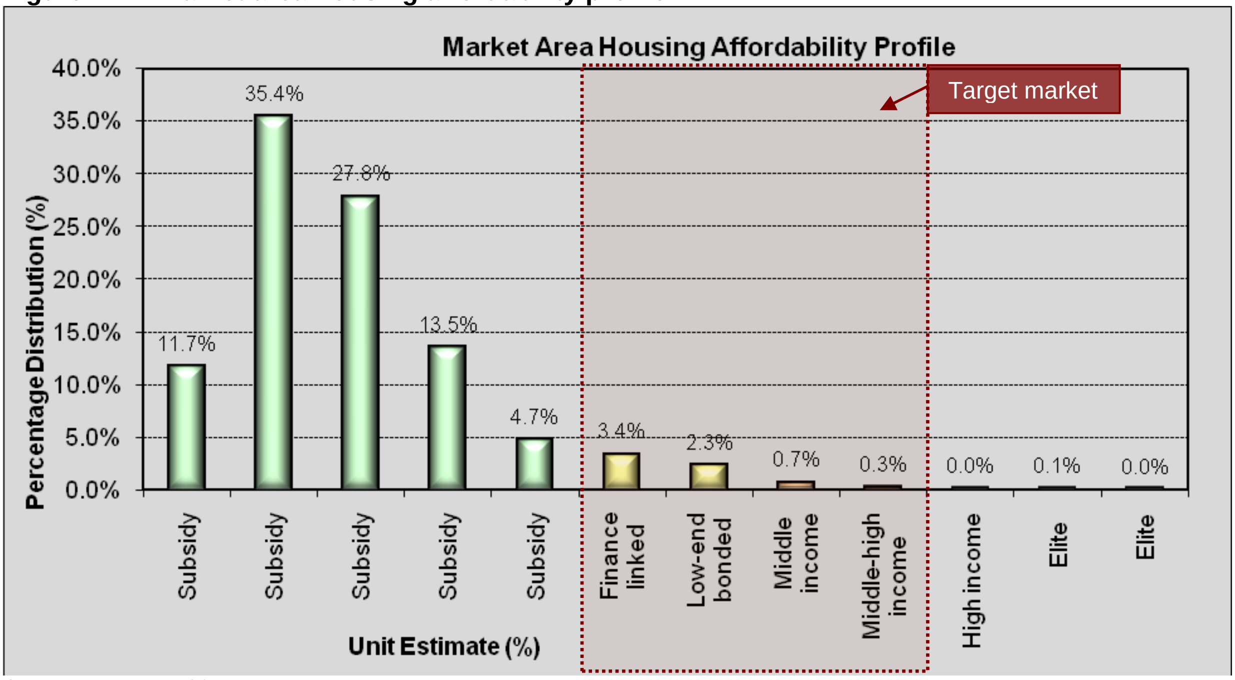
Table 7.6: House Prices / Unit Size / Stand Size Estimates – (target market)

Forecast midpoint	House Price	Stand Value	Distribution (%)	Potential Capacity (450)
R 80,004	R 246,580	R 73,974	49.2%	222
R 160,007	R 493,157	R 147,947	34.1%	154
R 320,013	R 986,312	R 295,894	9.9%	45
R 640,026	R 1,972,621	R 591,786	3.8%	17
R 1,280,051	R 3,945,240	R 1,183,572	0.6%	3
R 2,560,101	R 7,890,479	R 2,367,144	2.1%	9
R 3,442,914	R 10,611,392	R 3,183,417	0.2%	1

Figure 7.39 indicates the market area housing affordability profile

➢ Market area housing affordability profile

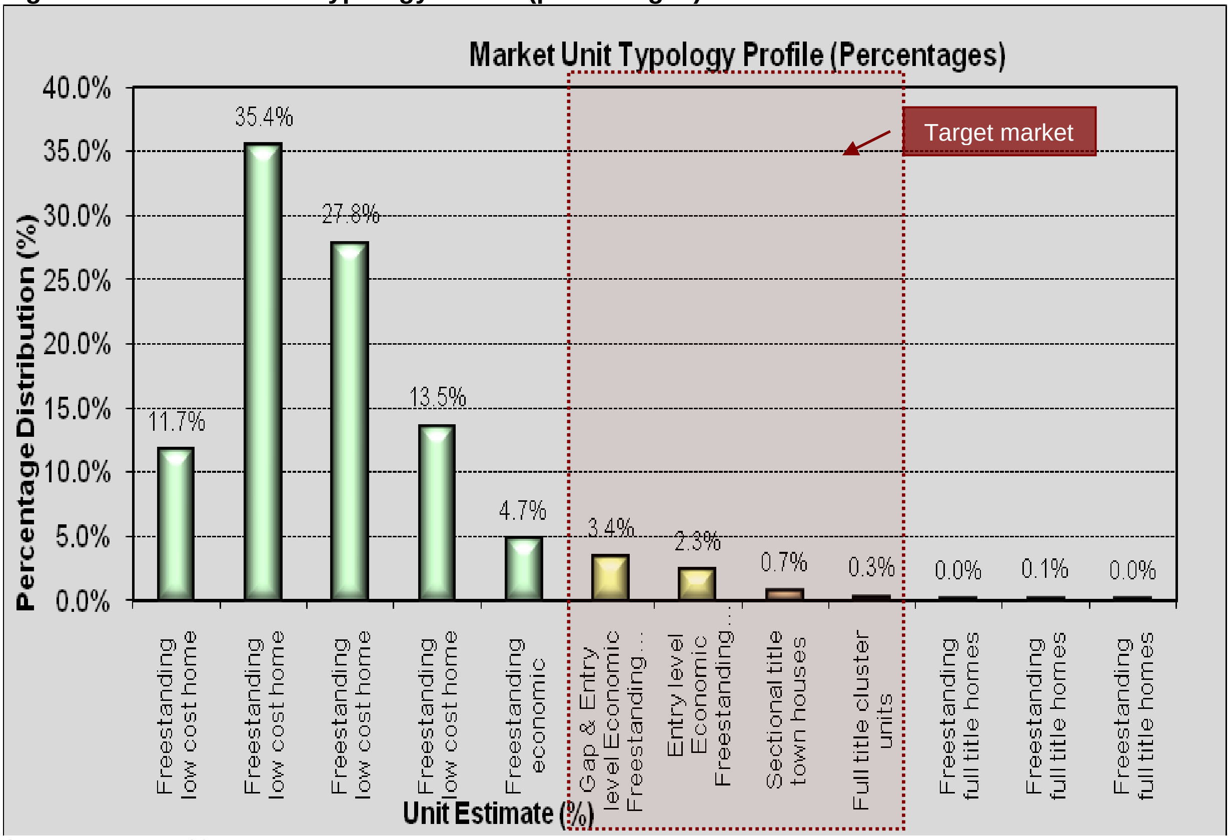
Figure 7.21: Market area housing affordability profile



Source: Demacon, 2011

➢ Market Unit Typology Profile (percentages)

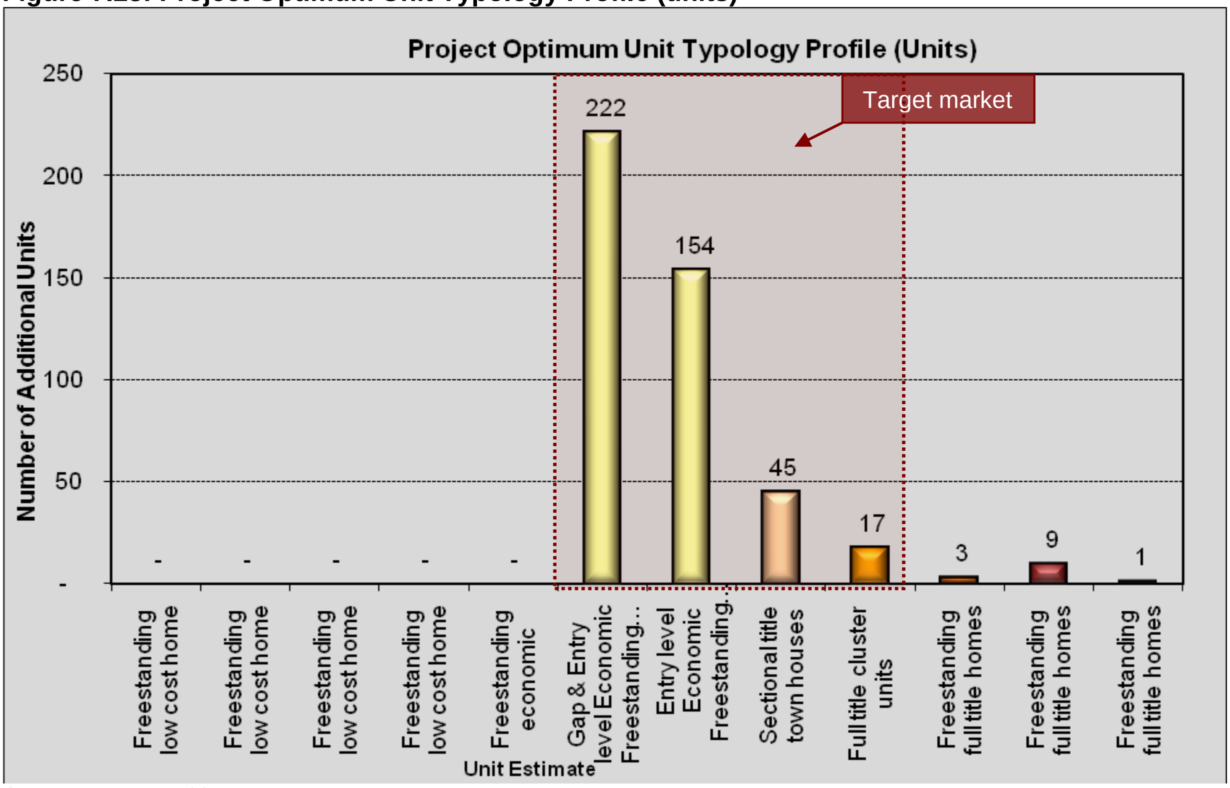
Figure 7.22: Market Unit Typology Profile (percentages)



Source: Demacon, 2011

➢ Project Optimum Unit Typology Profile (units)

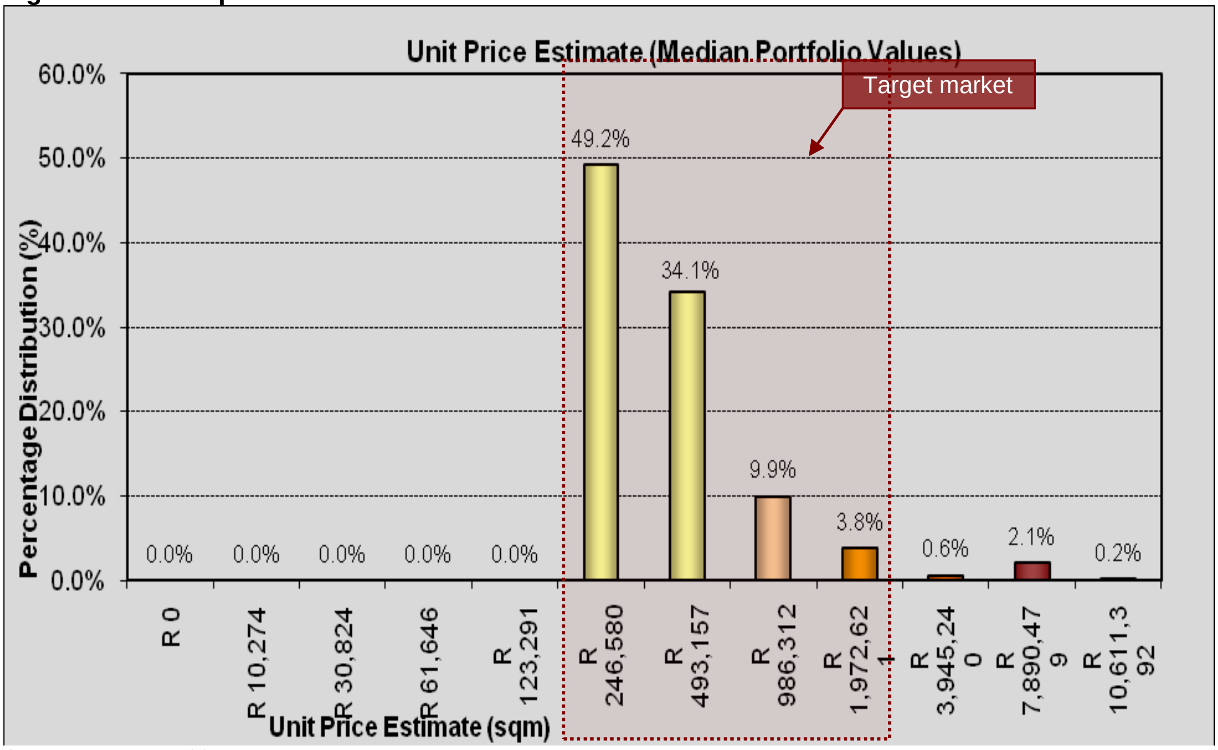
Figure 7.23: Project Optimum Unit Typology Profile (units)



Source: Demacon, 2011

➢ Unit Price Estimate (Median Portfolio Values)

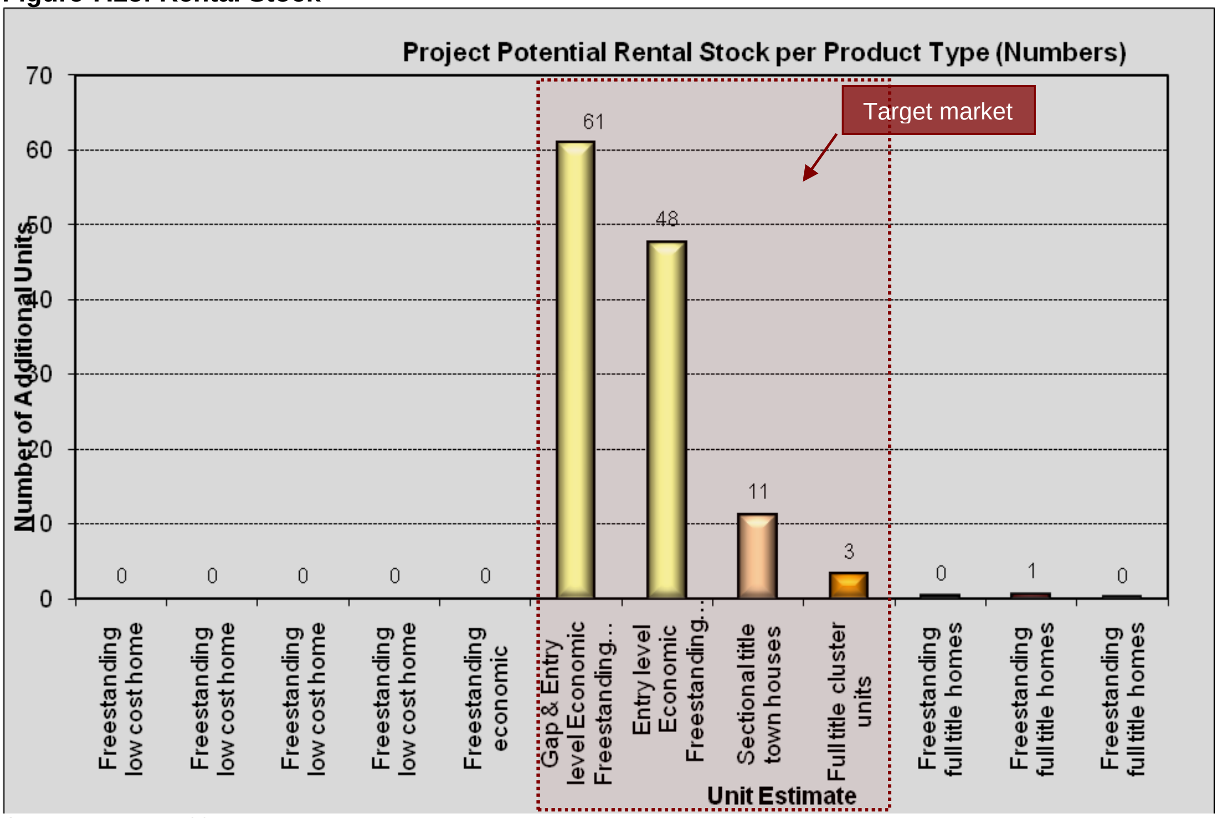
Figure 7.24: Unit price estimation



Source: Demacon, 2011

➢ Potential Rental Stock per Product Type (numbers)

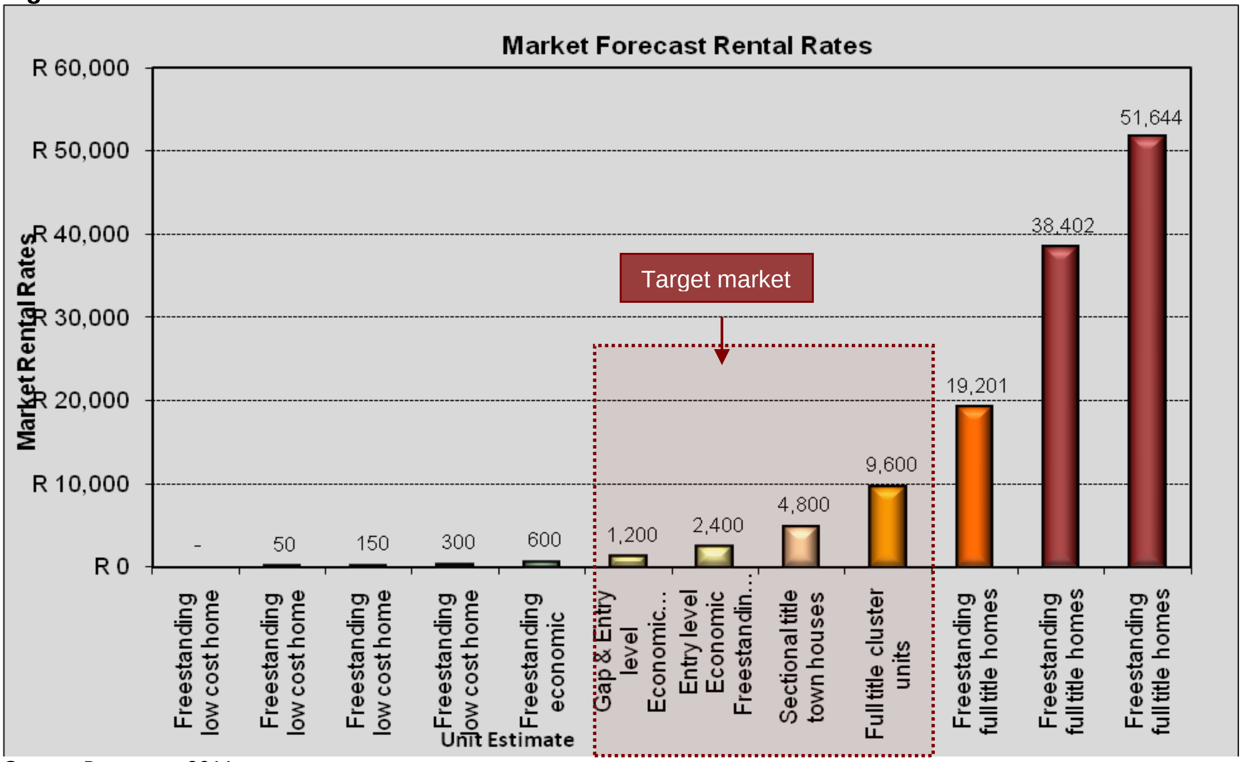
Figure 7.25: Rental Stock



Source: Demacon, 2011

➢ Forecast Market Rental Rates

Figure 7.26: Forecast Market Rental Rates



Source: Demacon, 2011

7.5 SYNTHESIS

This chapter provided an overview of the macro-economic trends underlining market area, supported by a focused discussion on the performance of the property market. The following summarize the findings of the residential market and the residential composition.

Summary of the residential composition

The following table provides a summary of the pricing share and annual take up for residential developments in the market area.

Table 7.7: Summary of the residential composition (target market)

Forecast midpoint 2011	House Price	Distribution (%)	Potential Capacity 450	Classifications
R 80,004	R 246,580	49.2%	222	Gap & Entry level Economic Freestanding / Group
R 160,007	R 493,157	34.1%	154	Entry level Economic Freestanding / Group
R 320,013	R 986,312	9.9%	45	Entry level Economic Freestanding / Group
R 640,026	R 1,972,621	3.8%	17	Full title cluster units
R 1,280,051	R 3,945,240	0.6%	3	Freestanding full title homes
R 2,560,101	R 7,890,479	2.1%	9	Freestanding full title homes
R 3,442,914	R 10,611,392	0.2%	1	Freestanding full title homes

Source: Demacon, 2011

Subsequent table provides a sensitivity analysis for the market area, if the developer should dominant the market with a market share of 35% - 45%.

Table 7.8: Sensitivity analysis

TOTAL MARKET		
Additional HH: base yr + 6yrs		18,776
Annualised Market growth (full housing spectrum)		3,129
Bonded & Finance Linked Segment		6.8%
Bonded & Finance Linked take-up per annum		214
Annual secondary market contribution (units / annum)	**Min**	9
	Max	12
Total annual bonded & Credit Linked housing demand	**Min**	223
	Max	225
PROJECT SPECIFIC		
Project Bonded & Finance Linked Units		450
Forecast market share of total market sales	**Min**	35%
	Max	45%
Project forecast total annual take-up rate (units / annum)	**Min**	78
	Max	101
Years to 80% take-up (bonded & credit-linked units)	**Min**	4.4
	Max	5.8
	Avg	5.1

Total Annual take-up of market area
[2] – Reflects the percentage of the local population with incomes and affordability levels aligned to credit-linked and lower-end bonded units
[3] – Total number of existing households within the credit linked and lower-end bonded local segments
[4] – Number of potential buyers through local secondary market transactions, eg qualifying local potential buyers selling existing homes to move to new project.
[5] - For purposes of this calculation was assumed that at the project's future point of market entry, prime lending rates were modelled at 9.0%.

Findings:

- Molemole Mixed Use Development proposes a total of **450 residential units (900 people if couples)** to be developed, into an integrated housing development comprising of **middle to high income developments** as well as a subsidised component.
- To ensure optimum take-up, the average entry level *stand price* for the bulk of stands should be in the region of **R245 000 – R500 000.**
- In addition, to remain competitive, the bulk of units should be priced in the region of **R300 000 – R700 000.**
- Property prices should be aligned with those of comparable estates on the one hand and consumer income and affordability levels on the other hand.
- Only selected stands and units with supreme views etc could be higher priced but given the state of the market forecasts, the prices should commence as recommended above.
- It would take an estimated **4.5 to 6 years** for these units to be absorbed by the market (improving market conditions may accelerate take-up).
- The ultimate stand sizes should be in the order of **223m^2 – 3 450m^2** with an ideal minimum size of **800m^2.**
- Stand and unit prices exceeding the norm may cause the above take-up rates to be delayed.
- The beneficial impact of investment buyers on accelerated take-up is reflected in the above figures and depending on marketing drive, this could dramatically impact on accelerating take-up rates by 50% - 100%, i.e. to halve forecast take-up periods.

- This is however, only likely to occur towards 2013 once the market is firmly on the recovery path

The following chapter provides the office market potential assessment.

CHAPTER 8: OFFICE MARKET ANALYSIS

8.1 INTRODUCTION

This section of the report focuses on the office market, with the objective of estimating the development potential within the designated area. In order to reach this objective, the supply and demand for offices within the market area should be identified and assessed in light of current trends.

Subsequent sub-sections provide a concise overview of the office market in terms of the following aspects:

- ✓ South African Office Market
- ✓ State of the Office Market
- ✓ General Office Market Concepts and Trends
- ✓ Selected Case Studies
- ✓ Molemole Office Node
- ✓ Space Demand Modelling
- ✓ Synthesis

8.2 GENERAL OFFICE MARKET TRENDS

Offices are defined by the functions performed in them, the type of premises occupied and the occupational sector accommodated within them. The function of offices can be described as personal services, administration and the management of social and economic systems.

The office market in general is divided into different office categories. These categories relate to the quality of the office space provided. The market generally distinguishes between:

- ✓ **Grade P:**

Top quality offices with modern space that 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 good environment.

- ✓ **Grade A:**

Generally new and not older than 10 years unless renovated. These offices are located in prime location and provide high quality finishes, on-site parking and air-conditioning. Grade A offices typically accommodate financial service activities and rely on agglomeration provided by large retail nodes.

- ✓ **Grade B:**

Generally 10 to 20 years old, unless renovated. Accommodation is modern, situated in good locations and provides on-site parking and air-conditioning. B grade offices typically accommodate government institutional and small businesses. These offices are usually located in the vicinity of smaller retail centres and in CBD's.

- ✓ **Grade C and D:**

Generally 20 to 30 years old. Buildings are in fairly good condition, although finishes are not to modern standards. These offices generally accommodate government institutions, small businesses and activities related to industrial uses, and are typically located in older CBD's. It is important to acknowledge the fact that specific location requirements underline the development of offices in a specific area. These location requirements include the following:

- ✓ *Accessibility* - Accessibility of an office location to the labour force as well as clients is an important factor. Road networks should support development.

- ✓ *Location of clients* - Offices should be located in proximity to existing and potential clients.

- ✓ *Labour* - Offices should be located in proximity to skilled and unskilled labour within an area.

- ✓ *Functionality & Complimentary* - Office development should fit existing environment based on role and function.

- ✓ *Office clustering* - Clustering creates an environment that attracts new office development to a specific area. Clustering also encourages other economic activities due to the linkages between offices and other economic activities.

- ✓ *Address value* - Office developments tend to locate in areas which give them a specific address value and attractive environment.

- ✓ *Linkages* - Office developments generally have linkages with other economic activities in various commodities such as service, information and goods. Office location improves as proximity to banks, restaurants as well as public transport facilities increase.

- ✓ *Future development trends* - Future development has a major impact on a specific area, influencing its future potential.

The office park is a consequence suburban office development. Office parks are not merely freestanding suburban office buildings, but rather a group of office structures developed according to a coordinated master plan and managed by means of a variety of measures. The office park therefore occurs in a controlled environment.

The general trends concerning business parks are that it should be a landscaped area with building densities lower than what it would usually be in a traditional industrial estate. It's an area of land in which many office buildings are grouped together. All of the work that goes on is commercial, not industrial or residential.

These are popular in many suburban locations, where it is cheaper to develop land because of the lower land costs and the lower building costs for building wider, not necessarily higher. Business parks should preferentially be located where motorway, rail and airport communications are within a short distance.
At the moment, there is a growing trend towards sectional title of commercial property and this is due to the fact that small to medium businesses want to be able to own their own property. With the economy booming and decentralization taking place, there are great numbers of small businesses who are looking for convenient office space that is affordable.

The **first office parks** in South Africa made their appearance in the mid-eighties in Bryanston East, Woodmead and Midrand. Some examples of office parks in South Africa are Woodmead office park (Sandton), Menlyn office park (Pretoria), Waterfall park (Midrand), Constantia Village

(Midrand) Sandhurst Park (Sandton), Sunnyside Parktown (Johannesburg), Woodlands office park (Sandton), Sanlyn (Pretoria), Braampark (Johannesburg), The Isle of Houghton (Johannesburg), Tyger Valley Office Park (Belville), The Oval (Sandton), St Andrews Office Park (Bryanston), Hyde Park Lane (Johannesburg), La Lucia Ridge Office Estate (Natal) and Parktown office park (Johannesburg).
The office park shows certain similarities to a shopping centre on the one hand and an industrial park on the other. Like a shopping centre, an office park demands compatible architecture, continuous management and services to tenants and parking on the site for employees and visitors.

Like the industrial park, it contains additional features such as control over traffic movements, comprehensive landscaping, control over signage, and other control measures. Depending on the size of the office park, support services such as a bank, restaurant, shops and a conference centre may be provided.

An office park may be designed in such a way that individual sites in the office park are sold or let to bodies who wish to erect their own buildings or to developers who wish to erect buildings for single or multiple tenants.

The design layout should maximize the natural attributes of the site and ensure that each building in the development has its own identity, access and orientation. The most important **control measures** include:

- ✓ Control over appearance (architectural, signage, etc.).
- ✓ Landscaping
- ✓ Parking provision
- ✓ Traffic circulation (vehicles and pedestrians).
- ✓ Prevention of disturbances
- ✓ Coverage
- ✓ Site maintenance

Location is by far the most important consideration in the development of an office park. Location is, in the first instance, linked to the accessibility to freeways and highways, which in turn improves the accessibility to the CBD, other residential areas and airports.

The appearance of the immediate environment, the prestige attached to adjacent high socio-economic residential areas, the provision of shopping and recreation facilities and shorter work/home trips are important secondary considerations. The most important locations criteria in choosing the site for an office park are:

- ✓ Accessibility from major roads and freeways.
- ✓ Visibility from major roads
- ✓ Availability of land large enough to accommodate the concept, probably not less than five hectares (although offices built in landscaped surroundings can be accommodated on small sites).
- ✓ The preference of tenants for a particular location.

The developer should not succumb to the temptation to increase the density as high as possible, thereby losing the distinctive appeal of the office park concept. Sclapobersky (1995) recommends a FAR of 0.25, although the FAR can be increased to 0.3 or even higher if the following factors are present:

- ✓ An abundance of mature trees on the site
- ✓ A good fall in the contours of the property
- ✓ The accommodation of at least 60% of the parking in basements under the buildings.

- ✓ Utilising buildings of two or three storeys in height.

For an office park, the **minimum parking ratio** recommended is four bays per 100m² office GLA, or preferably 4.5 to 5 bays per 100m².

Concerning office ownership, the Sectional Title Act makes provision for the development of sectional title offices. This possibility of ownership of a site, rather than having to rent, has been used by developers on a small scale to develop sectional title offices.

The advantages of owning one's own office site are, in fact, the advantages of owning a property. These include the following:

- ✓ Security of tenure
- ✓ More control over the interior of the property
- ✓ Often an own identity (especially if the sections are separate buildings)
- ✓ Hedging against future increase in rentals
- ✓ Ownership of tangible assets

The value of the sectional title property is reasonably well quantifiable when an interest in the business is sold or a partnership is dissolved. However, sectional title ownership is not the answer to all types of businesses. If a business has **variable space requirements,** fixed space and lack of expansion possibilities are limiting factors.

A sectional title office which is larger than current needs can be bought and the excess let out, but then the owner also acts as the lessor, with all the attendant implications at risk. The property is also not necessarily easy to be disposed of quickly should the owner wish to move elsewhere.

The **bond payment** when purchasing a sectional title property will typically be higher for the first couple of years than the rental. The breakeven point, from a cash flow point of view, is 5 to 8 years, depending on the interest rates on mortgage bonds and the rental market at that stage. It may be that the owner could have invested his available capital more efficiently (e.g. in his own business) than in fixed property.

Another disadvantage is the owner's involvement in the controlling body and the fact that, together with the other owners, he is responsible for the maintenance and management of the sectional title property. This greater say in the property may also be seen as an advantage, depending on the management capabilities of the controlling body relative to those of the lessor when office premises are rented. The owners at least have a vested interest in the maintenance of their own property.

Images below indicate selected low-rise business parks in the Gauteng which are perceived to be fairly well located and tenanted. As mentioned above, design, security, parking, landscaping and mixed uses are of the most important factors for designing a business park.

FALCON CREST - SUNNINGHILL OFFICE PARK

PROTEA PLACE - SANDTON

THE BOULEVARD OFFICE PARK

BRYANSTON WEDGE

BRUMA OFFICE DEVELOPMENT

CULLCROSS OFFICE PARK


QUINS OFFICE PARK

CLEARWATER OFFICE PARK

8.3 OFFICE PARK DEVELOPMENTS / CASE STUDIES

Subsequent table indicates industrial park developments as well as commercial park developments as listed in the **2010 / 2011 Samco Report**.

Table 8.1: Office Parks

OFFICE PARKS	
Project	**Description**
CONSTANTIA PARK OFFICE PARK	**Location:** Constantia Kloof, Roodepoort, Gauteng **Description:** ✓ Size: 70 793m^2 ✓ Attributes: ✓ Park like environment ✓ Highway visibility ✓ Amenities include Holiday Inn Express Hotel, Virgin Active Gym, restaurants and filling station ✓ Choice of floor space – 150m^2 to 1 500m^2 ✓ Development opportunities up to 40 000m^2 

OFFICE PARKS	
Project	**Description**
GREEN HILL VILLAGE OFFICE PARK	**Location:** Lynnwood, Gauteng **Description:** ✓ A grade office park ✓ Easily accessible from N1 and N4 motorways ✓ First phase consists of three buildings measuring 4 500m^2 in total and leasing as well as sectional title ownership options are available ✓ Anticipated occupation February 2011 ✓ Office park provides a secure and tranquil working environment in a prime position. ✓ Individual buildings designed to accommodate users from 70m^2 
NICOL MAIN OFFICE PARK 	**Location:** Bryanston, Gauteng **Description:** ✓ Phase 1 completed in 2009 ✓ Phase 2 of the development is now letting for occupation mid 2011 ✓ Total office accommodation of 17 500m^2 is available ✓ 4 200m^2 is completed, and 13 300m^2 available to be let ✓ Four to five levels with double level basement parking ✓ A grade office space with green building design principles

OFFICE PARKS

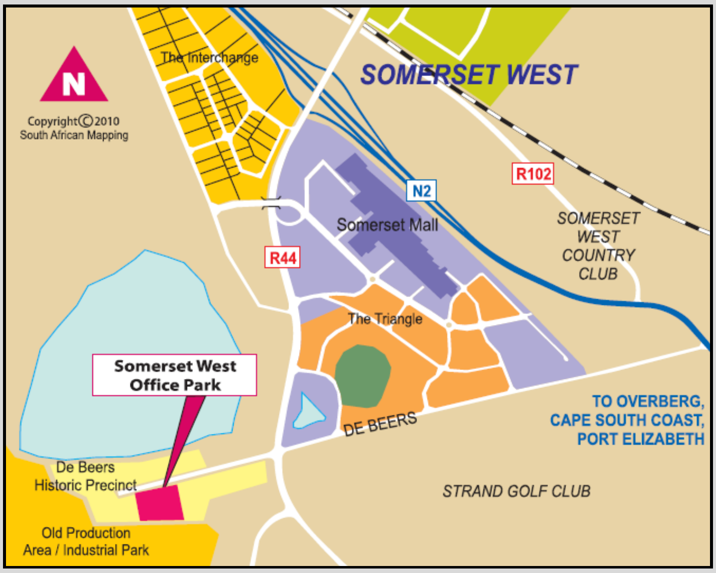
Project	Description

FOUNDERS HILL OFFICE PARK

Location: Modderfontein, Gauteng

Description:

- ✓ Part of the larger 4 200ha Modderfontein site
- ✓ The office park overlooks the golf course
- ✓ It is centrally located in terms of Sandton and OR Tambo international airport
- ✓ Easy access to the N3 highway
- ✓ Directly on the Gautrain route
- ✓ Individual units offer a stand-alone work environment
- ✓ Close proximity to retail centres
- ✓ Close proximity to future Modderfontein Station

OFFICE PARKS	
Project	**Description**
SOMERSET WEST OFFICE PARK	**Location:** Somerset West, Western Cape **Description:** ✓ 5 000m^2 exclusive office park ✓ Three free standing office buildings ✓ Vary from 1 100m^2 to 2 300m^2 office GLA ✓ A grade office space on two levels with secure basement parking ✓ Individual suites from 270m^2 GLA are available 

8.4 LOCAL MARKET INDICATORS

National Performance (decentralized offices)

Even amidst the headwinds of a slowing economy and rising unemployment, office rentals in many of the country’s nodes managed to put together some growth. Although not vigorous, the growth in market rentals in Johannesburg (+5%), Durban (+4%) and Pretoria (+3%) decentralised managed – in the third quarter of 2010 – to outperform building-cost inflation (0%). The disappointment came from Cape Town decentralised (-4%), where market rentals continued to contract.

➢ OFFICE MARKET RENTAL RATES

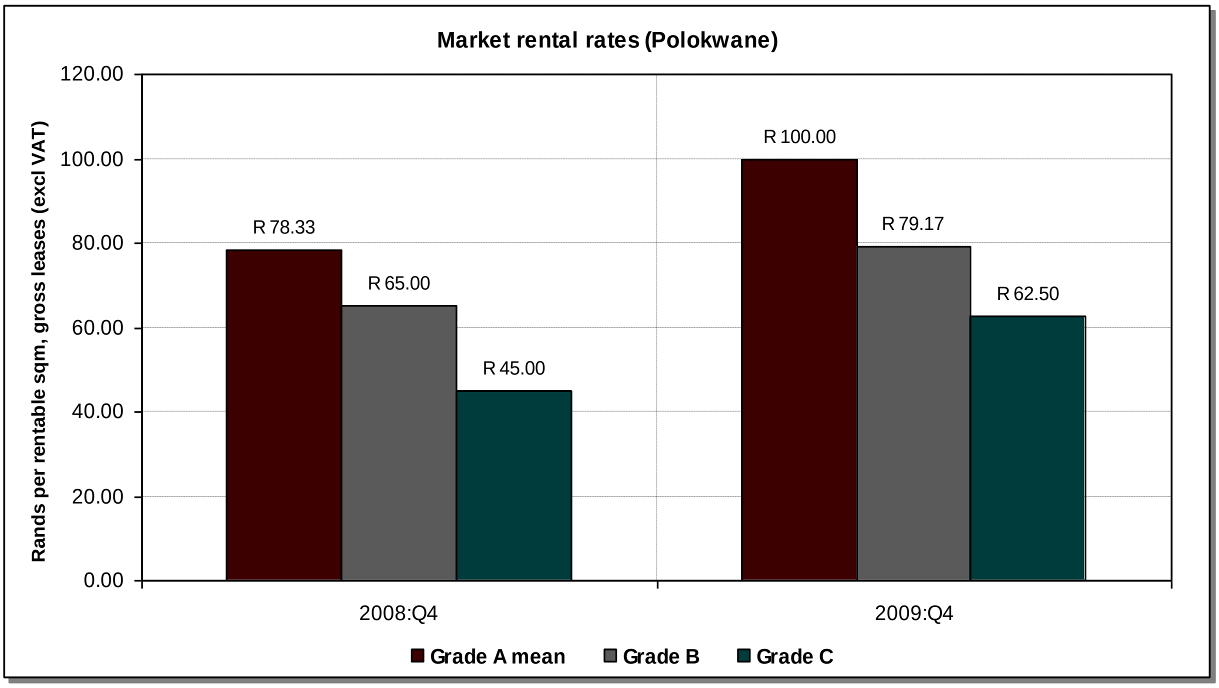
The following tables summarise market rental rates for monitored office nodes (Polokwane and Nelspruit) in Limpopo. Hoedspruit is not considered as an official monitored office node; therefore no data is available for offices.

Table 9.2: Office market rental rates - Polokwane

Time period	Grade A mean	Grade B	Grade C
2008:Q4	78.33	65.00	45.00
2009:Q4	100.00	79.17	62.50
2010:Q4	N/A	N/A	N/A

Source: Rode Report, 2010:Q4

Figure 9.1: Polokwane rental rates



Source: Rode Report, 2010:Q4

Table 8.3: Office market rental rates - Nelspruit

Time period	Grade A mean	Grade B	Grade C
2008:Q4	N/A	N/A	N/A
2009:Q4	100.00	82.50	62.50
2010:Q4	N/A	N/A	N/A

Source: Rode Report, 2010:Q4

Subsequent section provides the office market parking rentals.

➢ OFFICE DEMAND & VACANCIES

Despite slowing on a quarterly basis, output produced by the FIRE sector (financial, insurance and real estate) of the economy still managed to accelerated to 2.4% (y-o-y) in the third quarter of 2010.

But considering that this growth rate is well below the 5% per annum average over the past sixteen years, it does seem to damper the sectors' prospects for employment growth. In fact, in the reporting quarter, employment in the FIRE sector slumped again, falling to its lowest level since the start of the survey 2008. This certainly, does not bode well for the demand for office space. Nonetheless, in the third quarter of 2010 office vacancies were, in general, marginally up. This, after the previous-quarter survey, seemed to indicate a possible levelling off in vacancy rates.

No data available for Polokwane and Nelspruit.

➢ OFFICE MARKET PARKING RENTALS

Table 8.4: Office market parking rentals – 2009:Q4

Suburbs	Grade A	Grade B	Grade C	Under shade net	Open-air parking
Polokwane	293.00	252.00	217.00	187.00	138.00

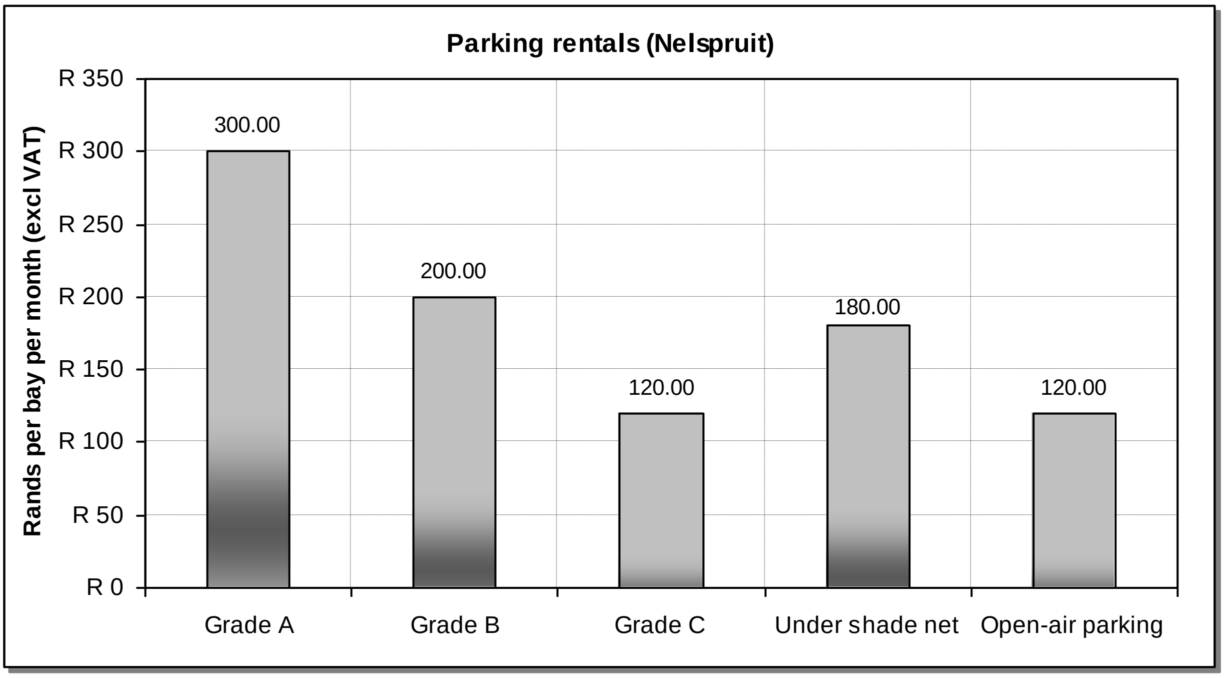
Source: Rode Report, 2009:Q4

Table 8.5: Office market parking rentals – 2010:Q4

Suburbs	Grade A	Grade B	Grade C	Under shade net	Open-air parking
Polokwane	N/A	N/A	N/A	N/A	N/A

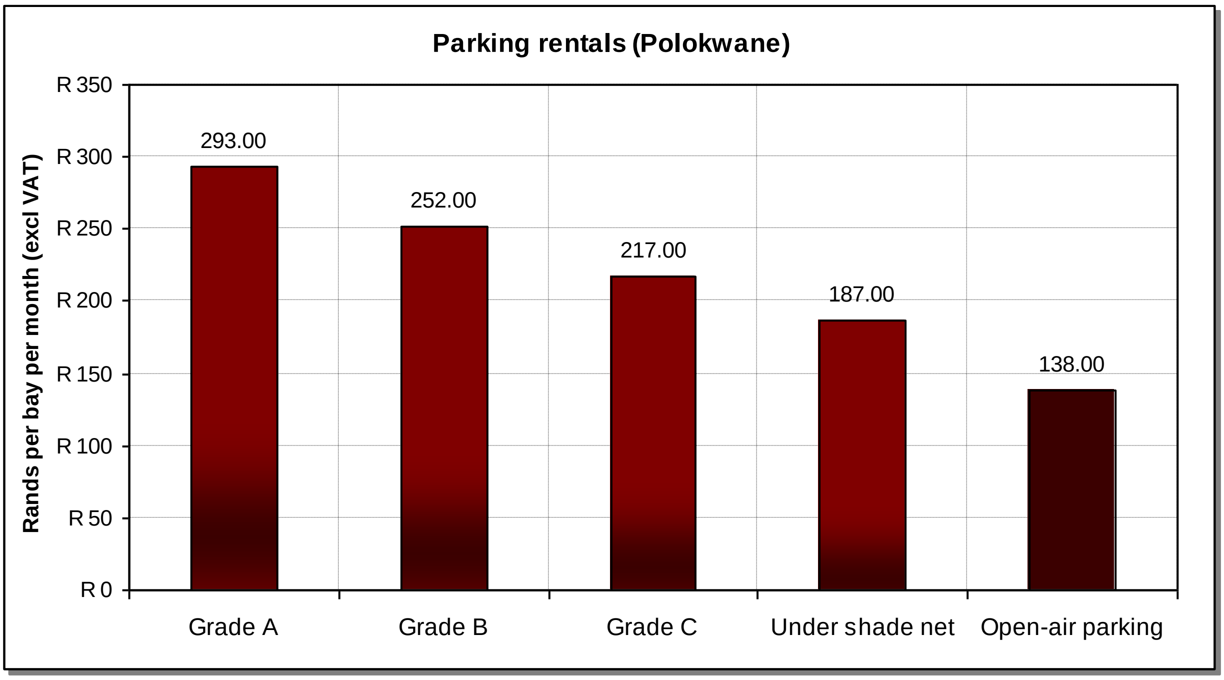
Source: Rode Report, 2010:Q4

Figure 8.2: Parking rentals (Nelspruit) – 2009:Q4



Source: Rode Report, 2009:Q4

Figure 8.3: Parking rentals (Polokwane) - 2009:Q4



8.5 MOLEMOLE OFFICE NODE

Subsequent paragraphs provide the current office supply within the market as well as the market potential assessment which includes the space demand modelling of Molemole area.

SPACE DEMAND MODELING

Office demand modelling has become increasingly specialised. One particular aspect that has changed is a notable shift away from broad based supply-demand estimations to multivariate, differentiated models. In the context of preceding chapters, the development potential for a business park in the market is subsequently determined, based on a specialist econometric model. It is known that the demand office space depends on the production function of a market area. To develop a model, *inter alia* three data sets are required in time series format.

They are:

- ✓ Total employment of the market area,
- ✓ Finance and business services employment,
- ✓ Finance and business services productivity indicator.

Related property market indicators, together with the four data series were used in the following formula.

➢ FORMULA:

The following equation is used to determine office space absorption:

$$AB_{t'} \quad {}_{=}{}^{*}CO)\tilde{\iota}_{t'} - OC_{t-1})$$
$$= \tilde{\iota}(\alpha_0 + \alpha_1 EM_1 + \alpha_2 EW_t + \alpha_3 Q_t - \alpha_4 R_{t-2}) - \tilde{\iota}_1 OC_{t-1}$$

Key:

AB	=	Net absorption of space
OC	=	Occupied Space
EM	=	Employment in Finance sector
EW	=	Employment in Business sector
Q	=	Finance and Business Output per Worker
R	=	Rental Rate for Office Space

➢ RATIONALE

The net absorption of space, $AB_{t'}$ will be an adjustment between the desired amount of occupied space, $OC^{*}_{t'}$ and that used last period, $OC_{t-1.}$ The desired amount of space will be a linear function of current lagged employment in the finance and business sectors ($EW_{t'}$ $EM_{t'}$) together with the level of office output per worker (Q).

Finance employment and output per worker is used as separate variables (instead of total office production), recognizing that the space demand, which originates from more workers can be quite different from that arising when firms use more capital and knowledge to generate additional output. To estimate an office rental elasticity of space demand, the rental rate for office space (R_t) is entered directly into the equation for the desired stock of space.

(The long-term square metres demanded per finance and business workers are the parameters α_1, α_2 in the Equation above. The actual estimated statistical coefficients on finance and business employment are the parameters multiplied by the estimated parameters multiplied by the estimated parameter on the lagged occupied stock).

➢ SPACE DEMAND MODELING

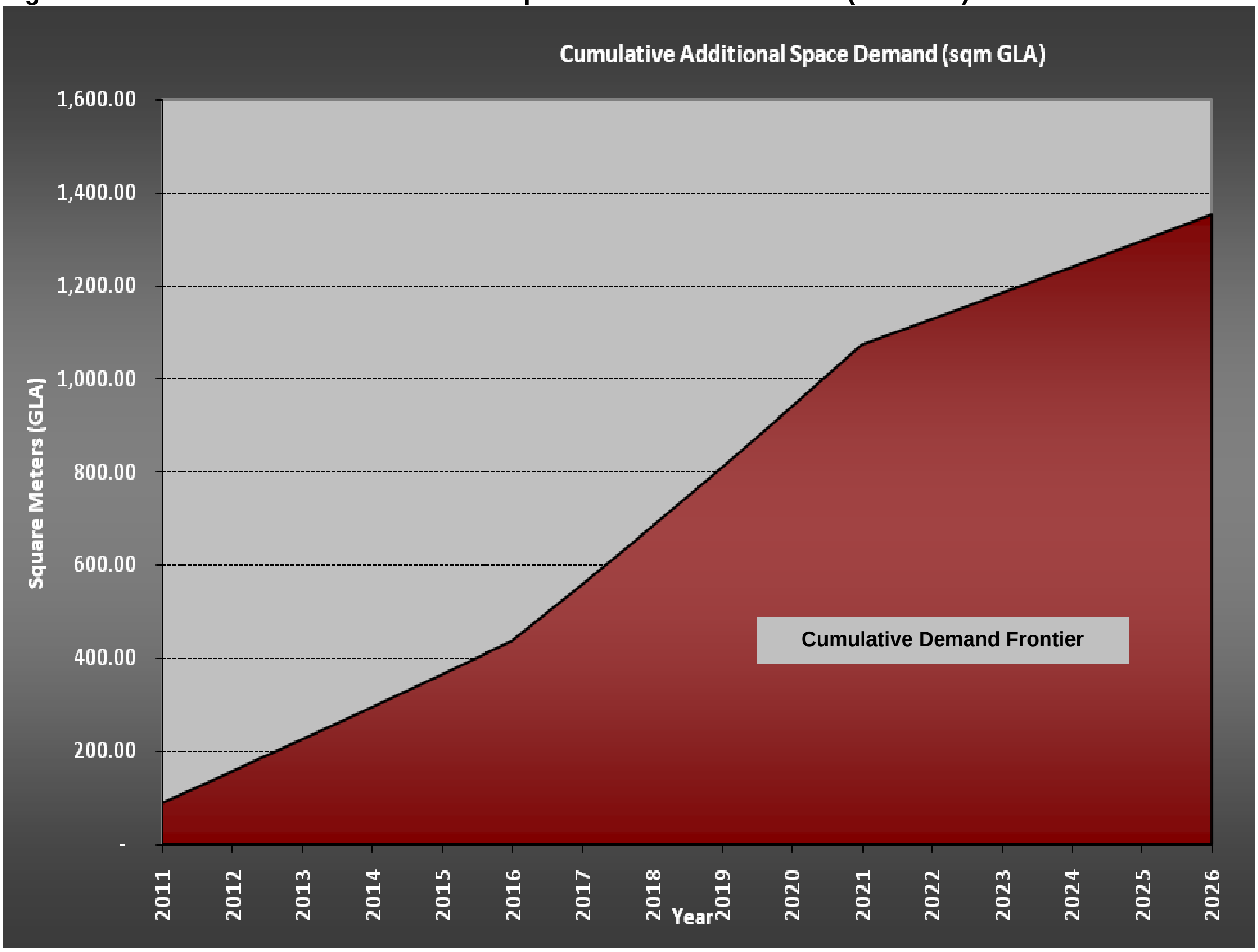
The aim of the following is to determine whether there would be a demand for certain types of floor space in the future and if so, how much.

This can be determined by taking into account GGP, employment and output per worker. The following series of figures illustrate the following:

- ✓ Cumulative additional office space demand for Molemole
- ✓ Forecast office space take-up for Molemole
- ✓ Proportional take-up for Molemole
- ✓ Finance and business services share of office space for the Molemole Local Economy.

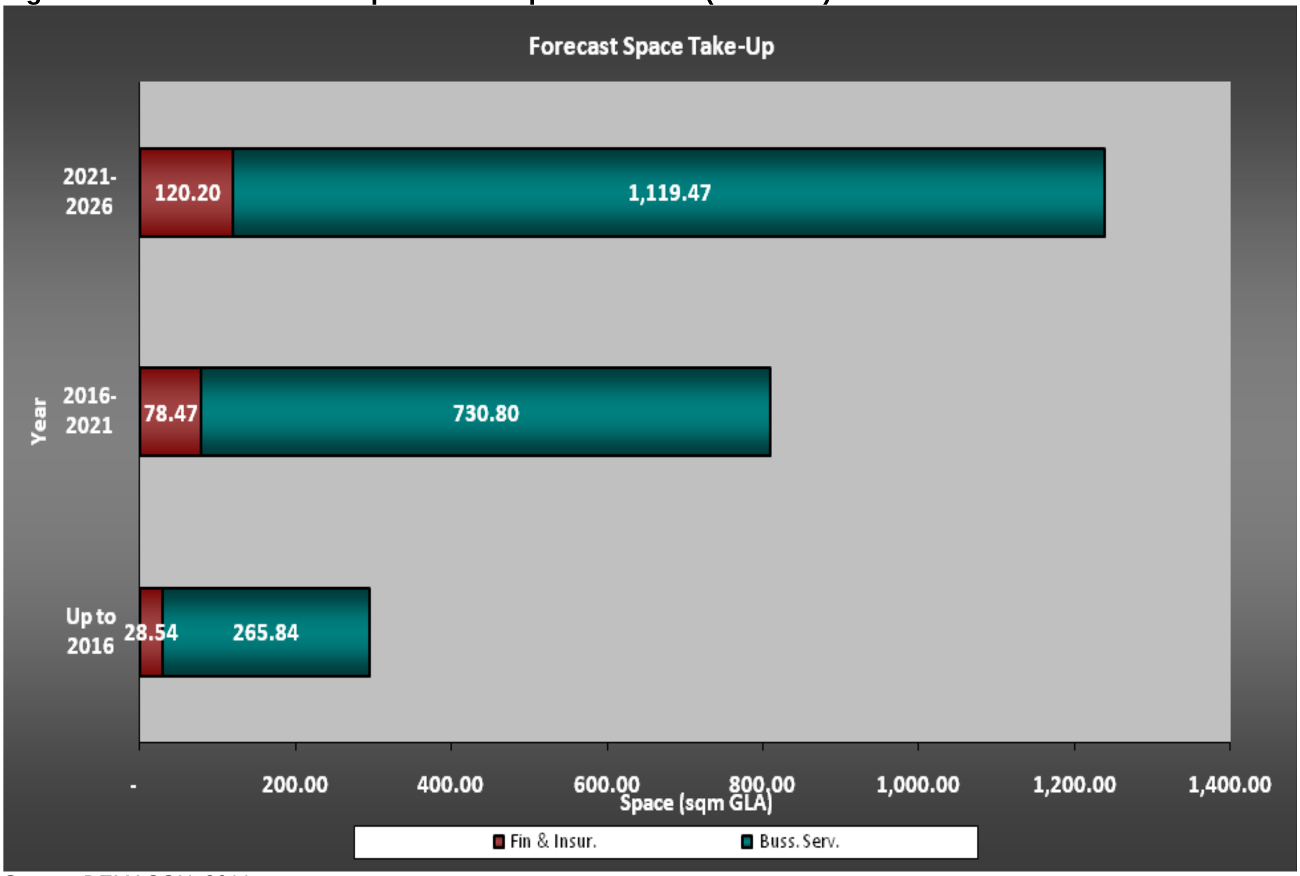
The figures show the office space results for Molemole local economy for the period 2016 to 2026.

Figure 8.1: Cumulative Additional Office Space Demand – Molemole (Dendron)



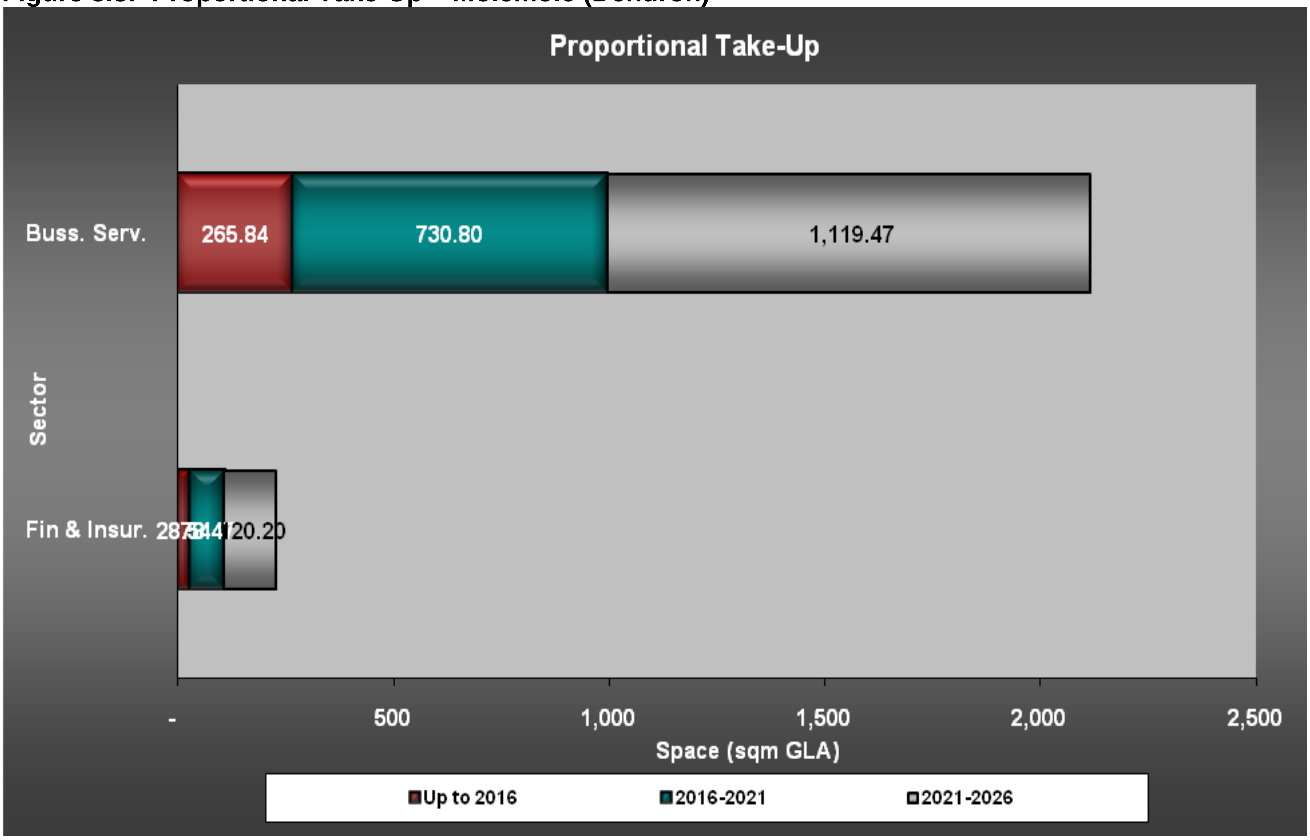
Source: DEMACON, 2011

Figure 8.2: Forecast Office Space Take-Up – Molemole (Dendron)



Source: DEMACON, 2011

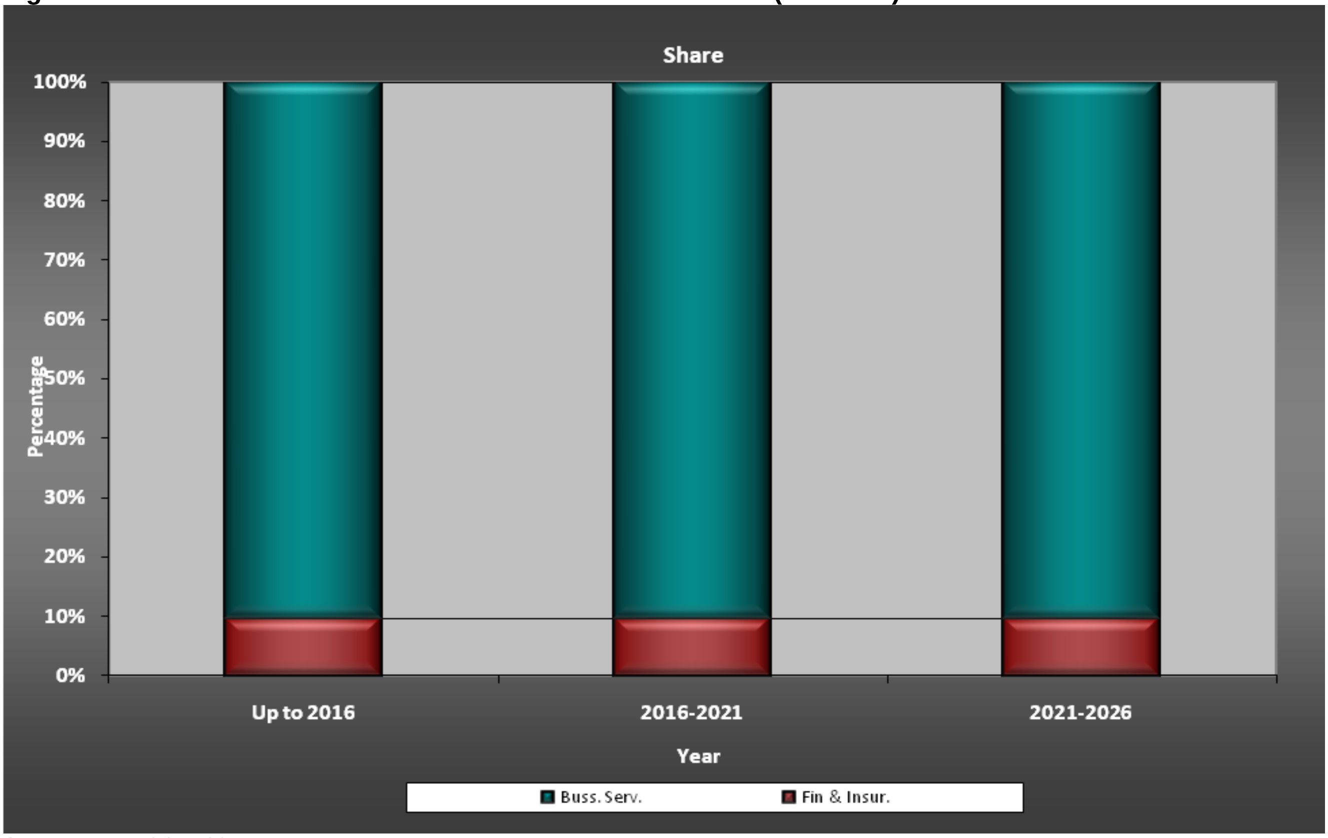
Figure 8.3: Proportional Take-Up – Molemole (Dendron)



Source: DEMACON, 2011

Figure 8.4 illustrates the respective share of finance & insurance and business services for the specified area.

Figure 8.4: Share - Finance & Business Services – Molemole (Dendron)



Source: DEMACON, 2011

8.6 SYNTHESIS

The following table provides a synthesis of space demand modelling results of the finance and insurance and the business services sectors also the market share for offices.

Table 8.7: Synthesis of Space Demand Modelling Results – m^2 GLA

Cumulative Additional Space Demand	2011	2016	2021	2026
Finance & Insurance *(sqm GLA)*	4	29	78	120
Business services *(sqm GLA)*	40	266	731	1,119
TOTAL: Molemole (Dendron)	**44**	**294**	**809**	**1,240**
Nodal Share - Min	**35**	**236**	**647**	**992**
Nodal Share - Max	**44**	**294**	**809**	**1,240**
Average	**40**	**265**	**728**	**1,116**

Source: Demacon, 2011

***** *Note: the nodal shares and the average figures are cumulative*

Space demand calculations reflect positive growth within the business sector. The above figures reflect aggregate market growth capacity within the Mogwadi (Dendron) area and it is evident that the current situation reflects a subdued demand outlook for the office park development on a short term prospect.

From the two preceding tables it is evident that the total office space demand for the **Molemole** area amounts to **265m^2** in **2016.** The average **Molemole nodal share** of office space demand is **294m^2** during **2016,** increasing to **809m^2** in **2021** and **1 240m^2** during **2026.**

Table 8.8 summarises the recommended office park space options.

Table 8.8: Recommended Office Space Options for the Proposed Development

RECOMMENDED SIZES	
Size of Office (sq. m) (up to 2026)	**1,116m^2 GLA**
Capital investment (2011 constant values)	**R 11,157,104**
Employment opportunities (on site)	**56 jobs**
Parking	**30 Bays**
Parking infrastructure & landscaping cost (2011 values)	**R2,783,474**
Optimum Point of Market Entry	**When shopping centre is operational**

Source: Demacon, 2011

* *Note: the nodal shares and the average are cumulative figures*

The optimum proposed size of the Molemole Mixed use office development is 1 116m^2 which translate to a capital investment of approximately R11.2 million. The development will create 56 employment opportunities. A total of 30 parking bays are required and parking infrastructure and landscaping costs are approximately R2.8 million.

Building data for the Molemole Local Municipality shows that office development is stagnant year on year from 2007 to 2009. This is an indication that office demand is still to catch up in the area.

The following also emerged from preceding paragraphs:

- ✓ The total office space development potential for **Molemole** up to **2016** amounts to approximately **294m^2 GLA** increasing to **809m^2 GLA** of developable bulk by **2021.**
- ✓ As indicated from the modelling, there is more than sufficient demand for the market to sustain and absorb an office development of **1 116m^2**
- ✓ The office component is a medium to long term project and optimum point of entry (OPME) is after the shopping centre is operational.

CHAPTER 9 CONSIDERATIONS FOR RETAIL DEVELOPMENT IN SECOND ECONOMY AREAS

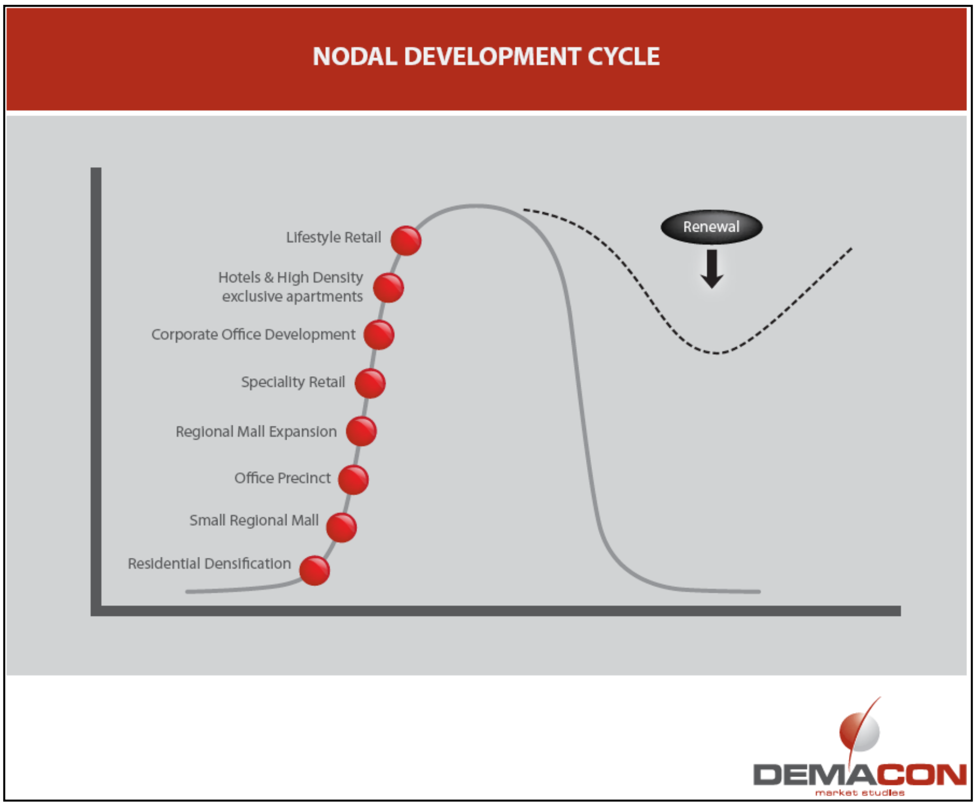
9.1 INTRODUCTION

According to **Demacon Market Studies'** extensive research on the impact of second economy centres (report done for Urban Landmark), second economy areas have experienced increased public and private sector investment over the past ten to fifteen years. The dominant type of private sector investment lies in retail centre development. This chapter aims to provide sufficient background to the development trends pertaining to retail supply within these second economy areas of South Africa – on a national as well as on a provincial basis.

The content of this chapter is covered under the following dominant headings:

- ✓ Role of Retail Centres in Nodal Development
- ✓ National and Provincial Development Trends
- ✓ Retail Boom and Centre Performance
- ✓ Investor/Developer Lessons Learnt
- ✓ General Risk Profile.

9.2 ROLE OF RETAIL CENTRES IN NODAL DEVELOPMENT



The figure to the right illustrates the general process of nodal development in urban areas – residential development and densification represents the first phase of nodal development, followed by the development of a retail centre, supported by office precinct and speciality retail. This is supported by the development of office parks, hotels and high density, exclusive apartments and lifestyle retail. Evidently, a retail centre represents the first non-residential property type to be included as part of a node – emphasising the importance of this type of investment within any specific area.

The nodal cycle in second economy areas correlate with this cycle – although the land-uses are more basic and less specialised due to the immaturity of the markets and higher risk profiles of the more specialised uses. Residential densification takes place, followed by retail investments, office and higher density residential uses. As the node progresses towards the state of maturity more specialized uses can be developed. Subsequent paragraphs provide guidelines for the development of nodes within second economy areas.

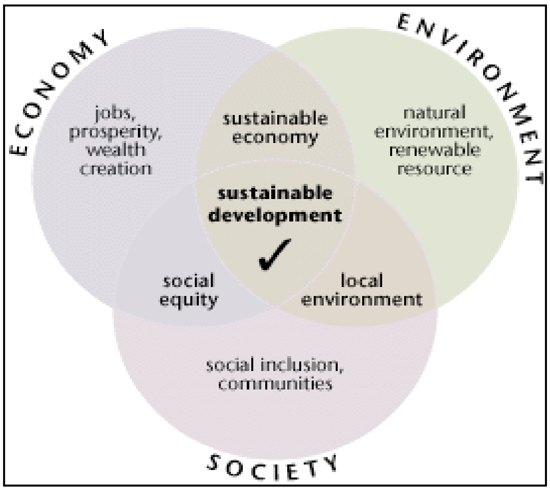
Mixed-use nodes fulfil an important role in the development of second economy landscapes because they **offer an intense and diverse range** of goods and services, and they represent enormous concentrations of both **private and public sector investment.** They also help establish the **image of the area,** form an important **source of revenue** for local governments, generate significant amounts of the area's **employment opportunities and** host enormous **economic diversity.**

The development of mixed-use nodes in second economy areas, the second economy system is **structured** in such a way that **integration** takes place, in a **spatial** as well as an **economic** context. Nodal development in second economy areas has changed over the years, moving from a **social** development to an **economic** approach. The development process of mixed-use nodes has become an integrated process between the private sector, government and non-profit sector.

The economic logic underlying the development of mixed-use nodes can be explained in terms of the urban interaction model, assuming that the **market share** of a node is inversely proportional to the **distance** between the **market** and the **node** and proportional to the **attractiveness** of the location. Mixed-use nodes in these areas are developed along **desire lines**, which represent a naturally expressive pattern of consumer movement preferences – with strong emphasis on pedestrian and public transport movements.

A mixed-use node within second economy areas represent a **powerful vehicle** that serve the community, induce **investment** and **capital injections** into the area and contribute to the economic **upliftment** of the people, ultimately resulting in the **improved quality of living in the area**.

The goal is to develop an **activity node**, aimed at improving the **social and economic conditions** of the community; representing a viable entity consisting of a combination of **economic and social activities** that are **integrated, vibrant and pedestrian friendly**.



A node in these areas generally consists of the following main structural elements; **public spaces, connections, public sector facilities** and **institutions and private enterprises,** despite the context in which it is developed. These building blocks can be translated into, inter alia, various urban property markets: i.e. Residential market, retail market, office market, and light industrial market and community facilities.

In terms of the configuration of these nodes – specific anchors are developed to attract a daily flow of consumers. These anchors can range from a **retail centre**, to an inter-modal facility, to a specific public or community facility such as a municipal office (including a municipal service pay point/pension pay point), community centre etc. These **anchor facilities** should be supported by a range of supporting commercial activities, integrated with residential uses and other community facilities such as a police station, clinic etc. The development of the mixed-use node should provide for components that will contribute towards the attraction of the required thresholds to support the included commercial activities.

For these nodes to be sustainable it should be **entrepreneurial focused and market driven**. The development approach should be well **co-ordinated** and carefully **phased** and requires well thought planning to ensure that key facilities are implemented in a coordinated way, linked to housing development in order to induce the required thresholds for private sector investment.

It should however be noted that the qualities of mixed-use nodes within second economy areas take **time to evolve.** The critical mass of customers is fundamental to the success of any retail based development, therefore the need for **coordinated and carefully phased** approaches in order to ensure that **coordinated public and private investment** can result in the achievement of larger customer thresholds and hence more significant levels of private investment.

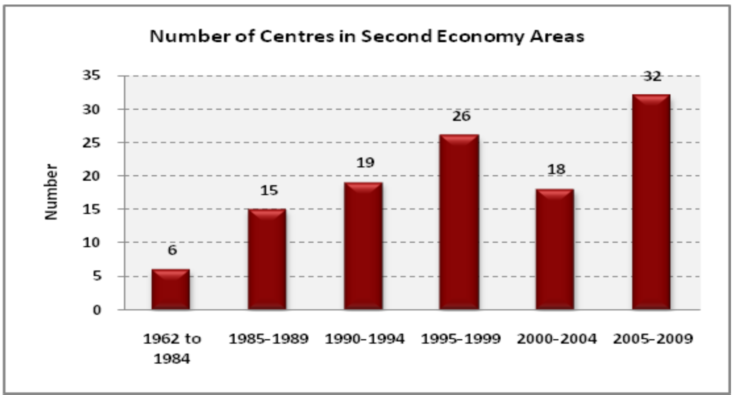
Overall, retail centres represent critical building blocks of nodal development within second economy areas – serving as a catalytic anchor. It should however, be developed at the right location with sufficient space to develop into a mature mixed-use node over time. Provision should be made for these nodes within township planning layouts in order to secure sufficient land.

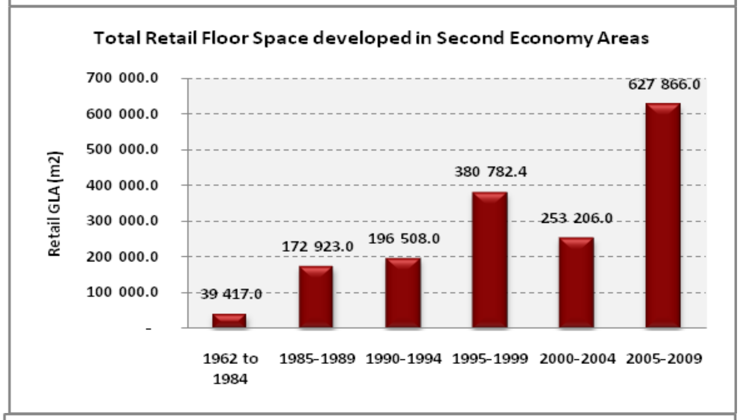
9.3 NATIONAL AND PROVINCIAL DEVELOPMENT TRENDS

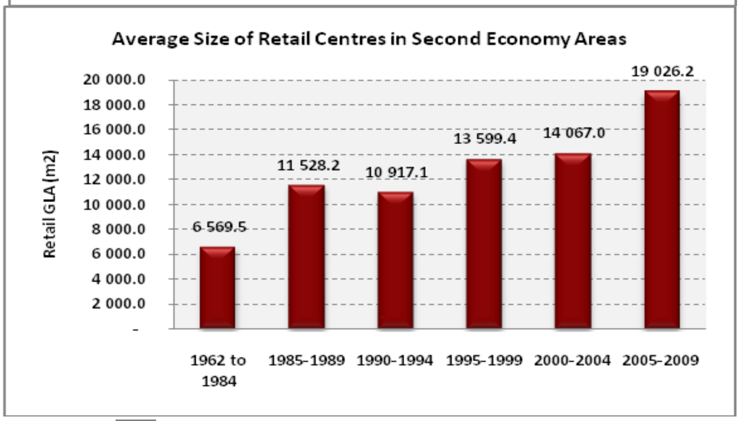
- ✓ Nationally **160 retail centres** have been developed in second economy areas – rural and township areas – constituting approximately **2.0 million m^2 of retail floor space**.
- ✓ Development dates could however merely be obtained for 117 of these centres – constituting approximately 1.6 million m^2 of retail floor space.
- ✓ Merely the dated developments were utilised for the discussion on national development trends because it is addressed in terms of time line trends.
- ✓ These centres (43 centres constituting approximately 350 000m^2 retail GLA) are however included under the provincial development trends.
- ✓ Some of the centres included serve a dualistic market, where the secondary market is a great deal larger than the primary market, and originates from a rural spatial base.

National Trends:

- ✓ Retail centre development in second economy areas have increased nationally between 1962 and 2009 – with emphasis on the post 1990 period.
- ✓ The majority (64.9%) of these centres have been developed post 1994 and 35.1% pre-1994.
- ✓ In terms of retail floor space developed it is evident that the largest bulk has been developed post 1994 (75.5% of total retail floor space developed), with emphasis on 1995 to 1999 (22.8%) and 2005 to 2009 (37.6%).
- ✓ The average size of retail centres augmented from a mere 6 500m^2 retail GLA to nearly 20 000m^2 retail GLA between over this period.
- ✓ The smallest retail centres varied between approximately 2 200m^2 retail GLA to approximately 4 300m^2 retail GLA.
- ✓ The largest retail centres increased from a mere 11 000m^2 retail GLA to an impressive 65 000m^2 retail GLA.
- ✓ Pre-1990 mostly local convenience and neighbourhood centres were





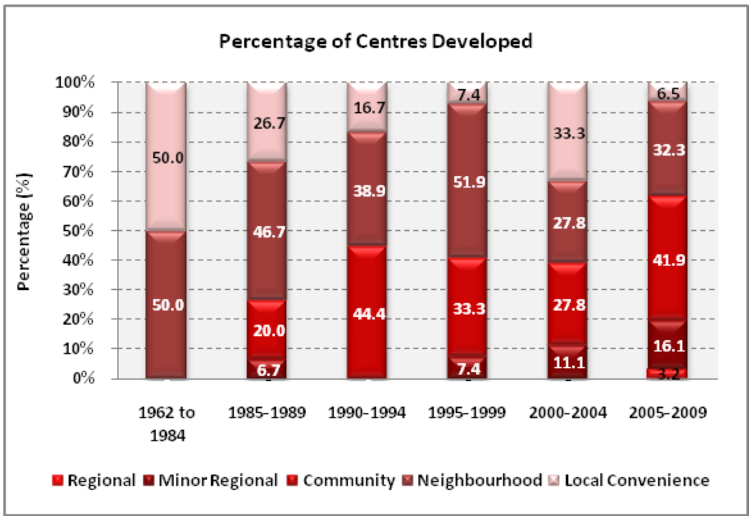


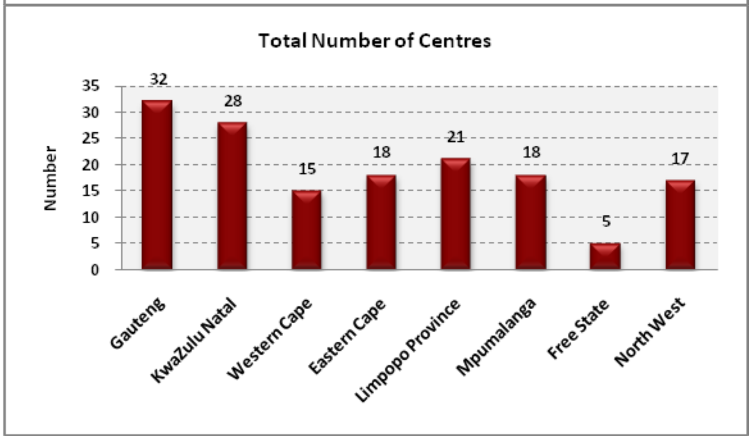
developed. Post 1990s a stronger trend of community centres developed and post 1994 regional centres became part of the mix.

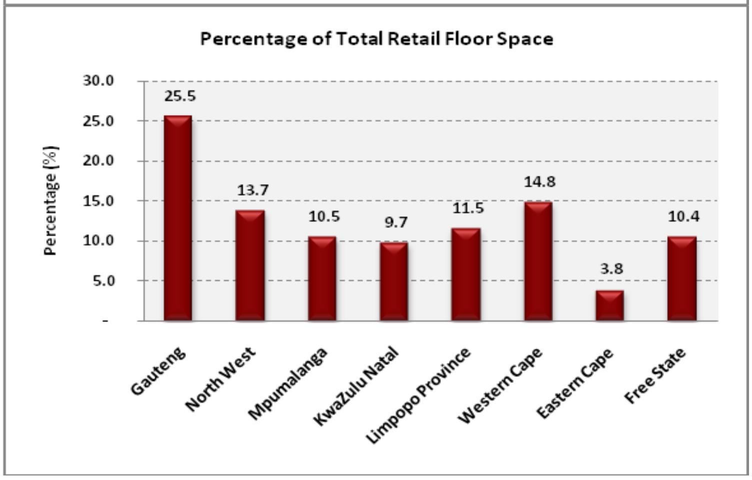
- ✓ Average number of shops increased to the 50s during the pre-1994 period, from which it declined to the 40s between 1995 and 1999, escalating to nearly 60 between 2005 and 2009.
- ✓ Dominant centres developed between 1962 and 2009 include:
  - Bafokeng Plaza – 27 000m²
  - Chatsworth Centre – 41 447m²
  - Setsing Centre – 26 154m²
  - Westgate Mall – 30 115m²
  - Twin City – 54 500m²
  - Central City – 52 000m²
  - Liberty Promenade – 53 581m²
  - Mega City – 46 846m²
  - Jabulani Mall – 44 355m²
  - Maponya Mall – 65 000m²
  - Trade Route Mall – 42 550m²
  - Tsakane Mall – 33 616m²
  - Mdantsane City – 35 849m².

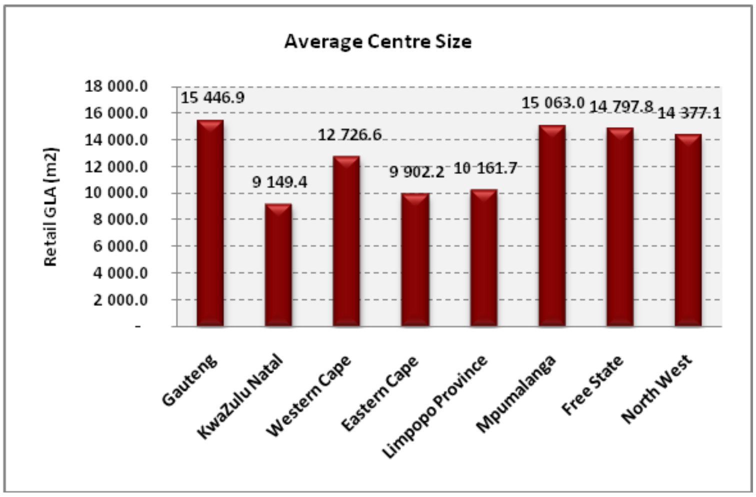
<u>Provincial Trends:</u>

- ✓ The first second economy retail centres were developed within KwaZulu Natal (1962), followed by the Western Cape (1978) and Gauteng (1984). Mpumalanga reflected the latest dated retail centre development (1992).
- ✓ Gauteng boasts of the highest number of retail centres in second economy areas – 32, followed brusquely by KwaZulu Natal with 28 centres. These provinces are followed by Limpopo (21), Eastern Cape (18), Mpumalanga (18), North West (17) and Western Cape (15). The Free State is characterised by five centres and no retail developments are present within the



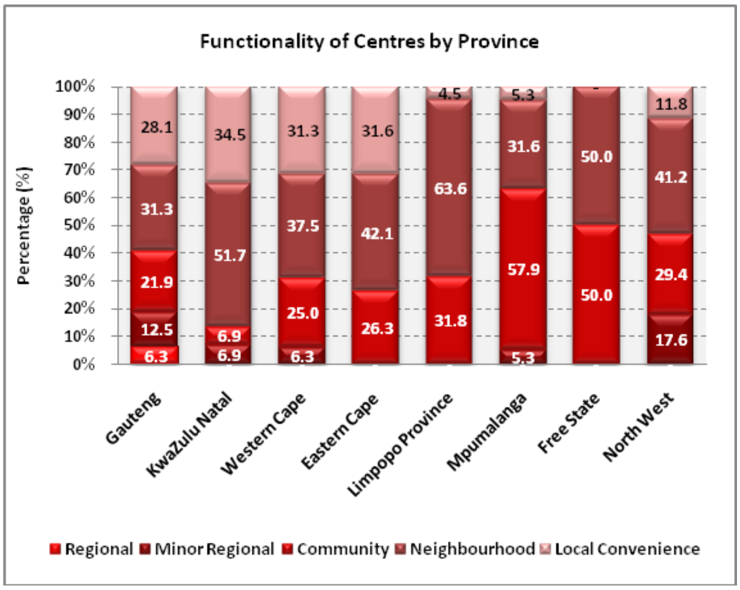




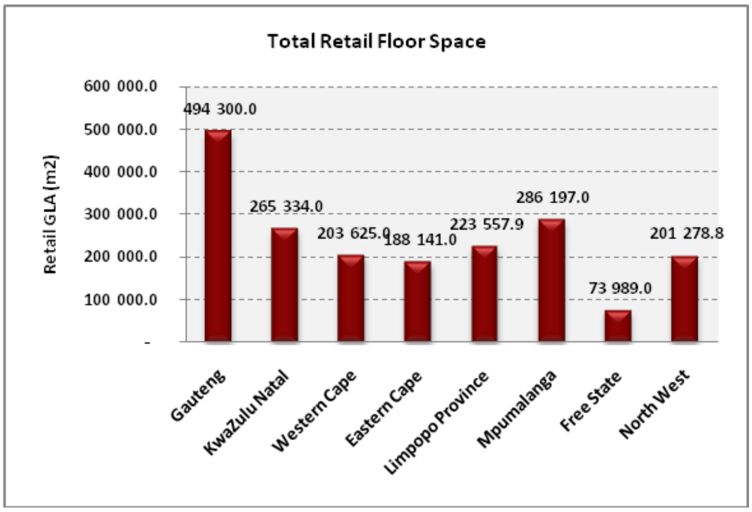


Northern Cape second economy areas.

- ✓ In terms of total second economy retail floor space, Gauteng ranks first with 494 300m² retail GLA, followed by, Mpumalanga with 286 197m² retail GLA and KZN with 265 334m² retail GLA, Limpopo with 223 557.9m² retail GLA, Western Cape with 203 625m² retail GLA, North West with 201 278.8m² retail GLA and the Eastern Cape with 188141m² retail GLA. The Free State is merely characterised by 73 989m² or retail GLA in their second economy areas.



- ✓ Gauteng accounts for 25.5% of the total national second economy retail floor space, Mpumalanga accounts for 14.3%, North West accounts for 13.7%, KZN accounts for 13.2% and Limpopo for 11.1%, Western Cape for 10.1%, the Eastern Cape for 9.4% and the Free State for a mere 3.7%.



- ✓ In terms of the average centre size it is evident that Gauteng boasts with the largest average size of 15 446.9m², followed by Mpumalanga (15 063.0m²), Free State (14 797.8m²), North West (14 377.1m²), Western Cape (12 726.6m²), Limpopo (10 161.7m²), Eastern Cape (9 902.2m²) and KZN (9 149.4m²).
- ✓ The province with the smallest centre size is Gauteng with 2 000m² retail GLA. In general the smallest centres vary between 2 000m² and 5 848m² retail GLA.
- ✓ The province with the largest centre size is Gauteng with 65 000m² retail GLA. In general the largest centre sizes vary between 19 292m² and 65 000m² retail GLA.
- ✓ In terms of functionality, Gauteng reflects the most diverse functionality – including regional, minor regional, community, neighbourhood and local convenience centres. Gauteng is followed by North West, KZN, Western Cape and Mpumalanga also reflecting a relatively diverse functionality profile. Eastern Cape, Limpopo and the Free State reflect a less diverse functionality profile – with merely community, neighbourhood and local convenience centres.
- ✓ Supermarkets, except for KZN with Ithala Bank and Eastern Cape with Pep predominantly represent the top anchor of second economy retail centres in the provinces.
- ✓ In terms of the dominant anchor tenants it is evident that Shoprite and Spar dominate as supermarket chains, followed by Score and Pick 'n Pay.
- ✓ Pep dominates as clothing anchor, followed by Jet and Woolworths.
- ✓ Ithala Bank, Standard Bank and FNB made it to the top five anchor tenants of KZN, Eastern Cape and Limpopo respectively.
- ✓ Boxer and Rhino Cash 'n Carry also made it to the top five anchor tenants of KZN and Eastern Cape.

9.4 RETAIL BOOM AND CENTRE PERFORMANCE

Emerging Retail Boom:

- ✓ Strong focus are placed on the development of high density commercial nodes in second economy areas – predominantly in areas characterised by high levels of accessibility – predominantly public transport nodes and stations
- ✓ In general, these commercial developments consist of retail centres, supported by office space (private and public sector focus) and community facilities, surrounded by higher density residential developments
- ✓ Originally these nodes were strongly based on public sector investment, however since the late 1990s, private sector investment in these nodes became evident
- ✓ Since the late 1990s, South African townships have emerged as the new market for national retailers – especially supermarket chains
- ✓ The increasing movement of retailer chains into previously untapped middle- and lower- income markets has resulted in a substantial increase in shopping mall development in these second economy areas
- ✓ This trend emerged due to changed perceptions regarding the black consumer market. Since 1994, the stigma clinging to the second economy consumer market started to decline, and retailers acknowledged that consumer expenditure relates to the level of consumer income (LSM profile) and not race. Changes in the general income profile of the black community have also led to the rise of the Black Middle Class, with high aspirational values and a demand for luxury items.
- ✓ Due to the high level of developments in the general middle-income suburbs and the stagnation of these markets, developers started to shift their focus to under delivered second economy and rural areas.
- ✓ This resulted in the creation of a retail footprint in previously under-serviced areas, especially townships – a trend that prompts the burgeoning of township economies. The proliferation of retail outlets in townships near South Africa’s major towns and cities is proof of this.
- ✓ It has been fifteen years since the first township mall was built in Dobsonville, Soweto for less than R10 million. Within fifteen years, the rise of township shopping centres has forced marketers to consider them a real force in the retail industry. Shopping centres are now developed at costs up to R700 million – Maponya Mall in Soweto[8].
- ✓ In the townships adjacent to Cape Town, there is the Nyanga Junction Mall, Vantage Mall, Westgate Mall, Towncentre and Khayelitsha Mall. On the other hand, the Durban KwaZulu Natal province boasts with Umlazi and Dube Village Malls. Gauteng with townships such as Soweto with Maponya Mall, Jabulani Mall, Dobsonville Mall, Protea Gardens and Bara Mall. Areas such as Port Elizabeth’s Motherwell Township (Motherwell Mall) and Polokwane’s Seshego Township (Zone 4 Plaza Mall) are all catching up with the trend of mushrooming township malls[9].
- ✓ The public Investment Corporation (PIC) has been behind a slew of recent investments in township areas. Wayne van der Vent (PICs head of properties) said that when they started investing in townships in 1997 not much has happened. He indicates that in Soweto, it is only in the past five to six years that everything started to explode. He indicated that their portfolio consists of 26 retail centres in townships, with 350 000m^2 GLA. Eleven years ago, there was not even 50 000m^2 GLA in total. This indicates the level of growth pertaining to retail taking place in these areas. He also emphasised that this phenomenon was merely true for the retail market, investment in the office and residential markets were limited due to supply and demand aspects.

[8] Source: Creative Intelligence. April. 2009. The rise of township shopping malls.
[9] Source: cms.privatelabel.co.za. S. Mabotja. May 2008. Retail footprint: Developers are making strides in the townships.

He also emphasised the importance of government commitment and investment to assist in the development of these markets.[10].

- ✓ The sudden surge of demand for space over the past few years is indicative of how well these centres are trading.

National Grocers are moving into townships:

- ✓ Pick 'n Pay – Pick 'n Pay has been entering markets, in which it was previously not established under the Pick 'n Pay brand – by converting Score Stores and by opening new stores in Greenfield developments. This was done predominantly via the franchise model that creates a platform for an operator who is also the owner. Aside from empowerment, this helps in achieving a connection with the community that the store serves.
- ✓ Pick 'n Pay has more than 100 stores in predominantly black areas and a significant portion of the group's expansion over the next few years will be into similar areas. For the consumer, access to the modern retailing infrastructure of the large chain stores means wider choice at lower prices[11].
- ✓ Food offering is tailored to suit local needs, and with good quality and competitive pricing it is hardly surprising that Pick 'n Pay outlets are becoming the preferred retail store in these areas.
- ✓ Super Spar – the 2 600m^2 SuperSpar anchoring the Philani Mall in Umlazi, Durban set a national trading record for Spar outlets on opening day – eclipsing the performance of the Elim Spar in the Hubyeni Shopping Centre.[12]. Spar (3 000m^2) within Umlazi Mega City generated a turnover of R850 000 on opening day and has obtained an average trading density of R2 300/m^2 since then, which is considerably higher than trading densities usually generated by food retailers in suburban malls
- ✓ Evan Walker, RMB Asset Management retail analyst indicated that Shoprite and Spar had been the biggest beneficiaries of having stores positioned in rural areas and townships. This had helped the two groups to gain market share from independent grocers. Pick 'n Pay was transforming their Score supermarkets into Pick 'n Pay stores, but had not opened any new ones, causing it to lose out relative to Spar and Shoprite.[13]

Tenant Mix

- ✓ In general, centres in second economy areas are required to include 70% to 75% national tenants, 15% regional tenants and the rest local entrepreneurs. According to Future Growth Community Property Fund (CPF), a lot of churn has taken place in terms of small stores over the past 18 months[14]. Where these stores could not pay their rent and were encouraged to close down and cut their losses. Despite this movement, vacancies in their centres have not exceeded 4 percent according to James Hower, the portfolio manager of the fund.
- ✓ He says that the performance of the big national chains has meant the losses incurred due to smaller tenants defaulting on rent have been minimal. He also indicated that the stores still deliver high returns because most centres include stores that mainly sell basics – such as food, clothing and building supplies. He also indicated that retrenchments seem not to have affected their centres. For example, their shopping centre in Diepsloot, where there is 70% unemployment, has the second best performing Shoprite in South Africa in terms of turnover growth – this can to an extent, be due to the fact that consumers were not servicing high levels of debt and the safety net that social grants provide.

General Retail Centre Performance

[10] Source: www.thepropertymag.co.za. 2009. Township Investments.
[11] Source: Eprop. C. Bisseker, September 2006. Retailers Drive into township market threatens spaza shops.
[12] Source: Eprop. SA Corporate RE. August. 2008. Township Spar sets national opening-day trade record.
[13] Source: www.fastmoving.co.za. Shoprite's turnover races 27% higher.
[14] Source: Business Report, S. Enslin-Payne. October. 2009. Tenant Mix shields CPF's malls.

- ✓ Success of township centres is evident from the growth in retail sales and trading densities: for example Umlazi Mega City (35 000m^2) in Durban – it obtained a 17% growth in retail sales in Dec 2007 over Dec 2006. Retailers were achieving trading densities of more than R20 000/m^2/annum at the centre. These turnovers were achieved despite the series of interest rate hikes and NCA. Another indication of growth is evident from the request from the local taxi association for additional rank space.[15]
- ✓ Maponya Mall in Soweto (66 000m^2) is turning over close to R80million per month, which compares well with other regional malls in Johannesburg. Management's gross turnover target for the first year of operation was R960 million. The mall ended its first year at around the R930 million mark – which is 3% below the projected turnover. Adam Blow, director of Zenprop indicated that they are satisfied with the performance under current economic conditions. He also indicated that approximately 7% of their stores are trading below par – a level that they are comfortable with given a number of those tenants having never traded in a formal retail environment.
- ✓ Vangate mall (30 000m^2) in Athlone, Cape Town is currently sitting at an average trading density of R27 000/m^2/annum compared with the industry average of R20 000 to R22 000/m^2/annum.
- ✓ Centre managers also indicated that it is difficult to generalise about what works best in township malls – upmarket stores are not necessarily the ones in trouble – to a great extent shops offering credit performs better as well as restaurants with liquor licenses.
- ✓ It is also evident that what works in one township does not necessarily work in another. Tenant mix, product offerings and size have to be very site specific – Says SA Corporate Retail Estate Fund CEO Graig Ewin.
- ✓ Des de Beer, MD of the Resilient Property Group also indicated that the township shopping centres are generally weathering the current consumer downturn better than their suburban counterparts. He says that black consumers have little debt, so higher rates do not affect their spending. However, he indicated that some retail sectors are taking strain – some takeaway chains, and stores selling non-essential items, such as homeware and furniture.[16].
- ✓ It is also interesting to note that new retail centres can be developed at yields of between 10% and 11.5% in these second economy areas, whereas buying existing stock in suburb areas has become very expensive with yields generally down to between 7.5% and 9%.
- ✓ Retail centres in these areas are also experiencing an increase in value – example Daveyton Mall (East Rand) experienced a value increase from R49million to just more than R70million over a two-year period.

9.5 INVESTOR/ DEVELOPER GUIDELINES

- ✓ Most prominent funds and larger investors regard **14 000m^2 as the absolute minimum** centre size and most prefer **25 000m^2+ GLA** as an ideal size – this affords the opportunity to incorporate major banking institutions who (for good reason) seem to be reluctant to occupy space in centres smaller than 15 000m^2. However, it should be understood that with the right location; centres of 5 000m^2 to 10 000m^2 could be very successful (it depends strongly on location and current supply).
- ✓ Land ownership and control, as well as land use rights ("business" zoning) are of paramount importance – the site needs to be controlled, preferably by one or a limited number of (private) stakeholders.

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[15] Source: Eprop. SA Corporate Real Estate Fund, January. 2008. Umlazi Residents set to buy 25% stake in Township Mall

[16] Finweek. J. Muller. October. 2008. Township Trade: Pumping or Slumping?

- ✓ Land ownership by a tribal authority or government entity may introduce **timing delays**. Land not zoned or not controlled by a private entity may introduce timing delays of 12 – 24 months and longer.
- ✓ Smaller developers/investors allow maximum BEE representation of 10% to 20% and larger developers/investors 30% to 35%. BEE representation cannot be compared – some representations are having silent partners while in others, partners are actively participating in the firm's risk taking and value adding. In general, BEE representations are higher where the BEE partner contributes financially towards the project.
- ✓ Land ownership issues should be '**uncomplicated'** (verb), as overly complex challenges beyond the norm may simply encourage developers / investors to move on to less complicated projects / sites.
- ✓ The cost of land in rural and township areas is very affordable and represents a very small percentage of the total project cost. However, the servicing of the land, upgrading of existing services and obtaining the correct land use rights (and required EIA) increase these costs substantially to approximately 5% to 10% of total project cost.
- ✓ The top structure costs for rural and township areas differ. In general rural centres represent open plaza type of centres with top structure costs of approximately R5 000 to R10 000/m^2. Township centres in general represent enclosed malls with top structure costs of R7 000/m^2 to R13 000/m^2
- ✓ Most township / second economy consumers insist on first economy tenants, i.e. national tenants typically found in any modern shopping centre in a typical first economy urban setting. Not only is this expectation reasonable, it has become commonplace to tenant second economy shopping centres with such tenants. 'Second rate / tier' tenants (not used here in a derogatory sense but in a strictly financial sense) typically do not succeed in successfully capturing the massive leakage of purchase power from such markets.
- ✓ Second economy markets, although attracting an increasing share of new developments, present a comparatively higher risk profile and risk mitigation for the developer / investor is paramount. Risk mitigation strategies typically include the introduction of a high percentage (95 %+ of centre income) national tenants; development along a major taxi route and incorporation of a taxi rank (including liaison with taxi associations); and incorporation of national banks as tenants.
- ✓ In terms of tenanting strategies – developers commence with a food anchor – centres less than 20 000m^2 GLA allows for a single food anchor. Centres larger than 20 000m^2 GLA allows for two food anchors – example Pick 'n Pay and Shoprite.
- ✓ Rural centres in general is characterised by more low-end retailers and township centres by more high-end retailers, e.g. Pep (rural) vs. Markham's (township).
- ✓ No entertainment facilities are included in these centres due to the fact that these type of tenants underperform and in general fail in these centres
- ✓ A centre's success also relies on the investor's ability to attract banks. Black people require banking facilities before they can conduct their shopping. Banks in a number of occasions are accommodated in centres at extremely low rentals and the required high installation costs are shifted onto the investor/ developer's shoulders.
- ✓ Rental through rates differ for open and enclosed malls. A rental through rate of R80 to R90/m^2 needs to be achieved in open centres and R100 to R120/m^2 for enclosed centres.
- ✓ Rental through rates of lower than these will probably imply 'second rate' tenants and may translate into a substandard development. Note: the challenge is further complex and anomalous in the sense that nationals typically pay lower rentals.
- ✓ Big nationals pay lower rentals. National tenants pay between R55 and R70/m^2, whereas line shops pay rentals of between R200 and R400/m^2.

- ✓ National tenants sign up anywhere to keep competition out. They carry limited risks while all the risk is put on the shoulders of the developer and the banker. With a 20% vacancy rate in a particular centre, the national tenants can walk away from underperforming centres without any further responsibility.
- ✓ Due to the higher risk profiles associated with these types of retail centres, smaller investors require paper yields of 11% to 12% to attract their interest, whereas the larger investors require a minimum paper yield of 16% to 17%.
- ✓ In terms of centre design, it is evident that most rural centres are developed as open centres and township centres as enclosed malls. When centre size exceeds 20 000m^2 there is a movement towards enclosed malls due to the walking distance required by the design.
- ✓ Shopping centre design best practices furthermore dictate that it centres should not be configured on more than one shopping level – i.e. the site needs to be of sufficient size to accommodate a single floor retail development.
- ✓ In terms of parking ratios there is no uniform indication – the larger developers reflect a parking ratio of 4 bays / 100m^2 GLA, whereas the smaller developers reflect 3 bays / 100m^2 GLA for township centres and 2 bays/ 100m^2 GLA for rural centres.
- ✓ In general, centre design includes the development of a taxi rank – financed as part of the development. However, if such facilities are provided local buy in should be obtained from local taxi associations else these facilities are boycotted and unutilised.
- ✓ In general developers try for formalise informal trade by providing “trade boxes” around the centre. However, if this is not properly addressed and managed, the facilities remain unutilised.
- ✓ In general, developers do not have a specific hierarchy in terms of which they classify their retail centres. The function of the centre depends on its location, current supply and the available consumer income of a specific geographic area. Centres of 20 000m^2 retail GLA can operate as a regional centre, and centres of 10 000m^2 retail GLA as community centres.
- ✓ The dominant success factors relate to location, critical mass, accessibility, visibility and tenant mix
- ✓ Critical mass is very important – centres of approximately 15 000m^2 retail GLA may be hard hit if larger centres enter the market because the majority of these centres are developed on land with limited expansion potential.
- ✓ Shopping centres typically serve as powerful nodal development catalysts and create opportunities for ancillary commercial development. Hence, space should ideally be available to accommodate future expansion
- ✓ Local buy-in is critical for the success of the centre and facilities such as taxi ranks and formalised informal trade facilities.

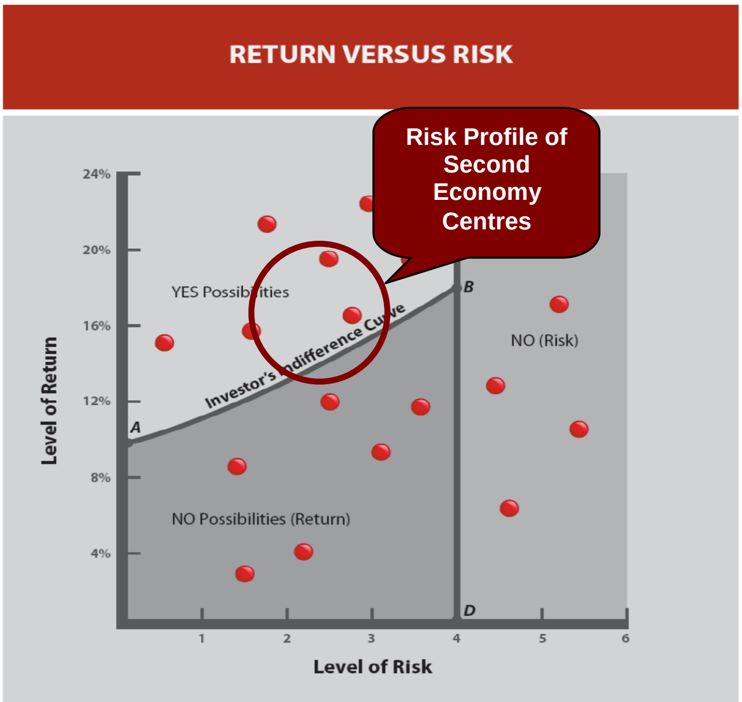
9.6 GENERAL RISK PROFILE

Most South African investors have identified and defined their niche in the market to the extent that there is a clearly identifiable spectrum of investors with specific sectoral and / or geographic location preferences. Most funds and syndicates involved in the retail market have a **premeditated strategy and focus** – predominantly on either First or Second Economy markets. Furthermore, they are specific in their decision-making in terms of certain shopping centre types / order sizes. Hence, given site locality and nature of the market, the potential spectrum of investors / funds most likely to show interest in a project can be narrowed down with a fair degree of certainty.

The delicate balance between real estate risk and return compels investors to evaluate their investments frequently and either proceed or terminate the investment process during any stage. The magnitudes of capital investment involved render this process extremely sensitive and make investors more risk averse. Hence, in general, tolerance margins to deviate from accepted investment practices are slim and the current economic climate compounds this sentiment.

In a South African context, certain investment groups have developed a highly simplified (though pragmatic) model which enables them to perform an initial first round filtering (scoping / screening) exercise and eliminate projects with unappealing risk profiles.

- ✓ 100 000 people within a 10 kilometre radius (or at the very least 60 000 – 70 000)?
- ✓ Can the site accommodate a development of 15 000m^2 or more (or at the *very least* 10 000m^2)?
- ✓ Can the site accommodate future expansion?
- ✓ Is the site controlled by a limited number of private entities?
- ✓ Is the site controlled by a tribal authority? Do they support the project? Absence of a land claim? Is the local tribal authority agreeable to an equity stake of between 3% and 7.5% in the project? Does this correlate to the approximated cost of providing developable land for the project?
- ✓ Is the site located along a main provincial route or freeway?
- ✓ Is there an existing agglomeration of business activities, social services and / or a taxi rank in the vicinity & is the site sufficiently far enough from the closest 'Old Town' CBD (10km)?
- ✓ Is it a 'Greenfields' development OR is demolition and redevelopment required?
- ✓ Absence of any onerous obligations that may increase the project risk, including complex / cumbersome site assembly (multiple land owners – private or public); inappropriate zoning and the need to rezone; social obligations and political expectations.
- ✓ Will the project be in a position to dominate the local market?
- ✓ Do local conditions allow for a modern design and national tenant driven mix?
- ✓ Could an initial Year 1 minimum income yield of at least 9%-10% be achieved?



The Figure illustrates the dynamics of second economy shopping centres. The graph shows the relationship between centre size, distance of a centre from the town CBD and the primary market population. The figure indicates three "zones"; an ideal zone, the medium risk zone and a high risk zone. These zones indicate the risk involved with developing a centre that falls within various combinations of the three variables (market population, centre size and distance from CBD). A centre of 10 000m^2 serving a primary market population of 60 00 people and is located 8km from a town CBD will fall within a high risk zone. A centre of 20 000m^2 serving a primary market population of 100 000 located 10km from town CBD will fall within the medium risk zone.

9.7 SYNTHESIS

Overall, it is evident that retail centre development is continuing along a positive trajectory in these areas – with emphasis on the township environments. These destinations offer real investment opportunities – developers should heed to these market dynamics.

In general, retail centres in second economy areas are performing exceptionally well – as evident from annual income, trading densities, low vacancies and increased interests of national tenants to move into these areas.

Shopping centres typically serve as powerful nodal development catalysts and create opportunities for ancillary commercial development. Hence, space should ideally be available to accommodate future expansion. The dominant success factors relate to location, critical mass, accessibility, visibility and tenant mix.

Most South African investors have identified and defined their niche in the market: most funds and syndicates involved in the retail market have a **premeditated strategy and focus** – predominantly on either First or Second Economy markets and furthermore specific in terms of certain shopping centre types / order sizes. The magnitude of capital investment involved renders this process extremely sensitive and risk averse. Hence, generally, tolerance margins to deviate from accepted investment practices are slim – the current economic climate compounds this sentiment.

If one or a number of the above investment criteria cannot be met, or if expectations (and hence the risk burden) set by the municipality for a developer exceed the norm, it may prove extremely difficult (if not impossible) to attract a reputable developer / fund to such project.

The challenge however remains to find a balance between market demand (as revealed by consumer income and spending patterns) and tenant demand (i.e. the expressed desire by tenants to occupy space in the centre). These aspects should be taken into consideration during the development of retail offerings within the study area.

CHAPTER 10: DEVELOPMENT RECOMMENDATIONS

10.1 INTRODUCTION

The purpose of this chapter is to integrate the findings of the previous chapters into a set of development recommendations that will assist in strategic planning and investment decisions regarding the proposed Molemole mixed use development. The chapter will commence with a summary of research findings and culminate in a set of development guidelines.

10.2 STUDY FINDINGS

Trade Area Market Profile

The primary consumer market profile reveals the following pertinent characteristics:

- ✓ It is estimated that approximately **25 341 people / 8 924 households** reside in the primary market area (2011)
- ✓ The weighted average monthly household income for the target market (LSM 4 to 10+) amounts to **R12 122 for the primary market (2011)**
- ✓ **Moderate living standards – 11.6%** (**LSM 4 to 10+)** characterises the Hebron Shopping Centre's core target market, while the LSM 1- 10+ constitute the effective market
- ✓ The market profile will support predominantly **lower to middle-end retail goods and services.**

Household Consumer Survey Findings

Table 10.1: Dominant Findings, 2011

Variable	Household Retail Consumer Survey
Dominant place of Residence	✓ Mogwadi – 71.88% ✓ Kalkbank – 9.38% ✓ Senwabarwana – 6.25%
Number of people in Household	✓ Five – 34.38% ✓ More than Five – 25% ✓ Two – 15.63%
Place of work	✓ Mogwadi – 56.25% ✓ Senwabarwana – 21.88% ✓ Polokwane – 12.5%
Main form of transport for shopping	✓ Own vehicle – 68.8% ✓ Minibus/taxi – 28.1%
Retail centres catered adequately for needs	✓ No – 66.0% ✓ Yes – 40.0%
Preferred Time of the Day: Shopping	✓ 12pm -2pm – 53.1% for weekdays ✓ 08:00 and 12:00pm – 95.65% for weekends
Do you feel there is need for a new shopping centre	✓ Yes – 100%
Would you shop at the new centre if it is built	✓ Yes – 100%
How will the new centre change your shopping pattern	✓ I will visit the centre for shopping purposes – 65.6% ✓ I will never have to shop anywhere else - 21.9% ✓ I will shop less frequently from outside my area – ✓ – 9.4%

Variable		Household residential component Survey
Is there demand for residential development		✓ Yes – 72.0% ✓ No – 28.0%
Would you consider buying in the development		✓ Yes, definitely – 40.6% ✓ Yes, probably – 15.6% ✓ Definitely not – 21.9%
Primary reason to buy		✓ Primary residence – 87.5% ✓ Buy to let – 12.5%
Preferred dwelling type		✓ Full title free standing house – 94.1% ✓ Sectional title: Duplex unit – 5.9% ✓ Sectional title: Stack unit – 0% ✓ Sectional title: Simplex unit – 0%
House features	Bedrooms	✓ 3 bedrooms – 55.6% ✓ 4 bedrooms – 27.8%
	bathrooms	✓ 1 bathroom – 56.3% ✓ 2 bathrooms – 43.8%
	Living areas	✓ 1 living area – 47.8% ✓ 2 living areas – 39.1%
	Garages	✓ 1 garage – 40.7% ✓ 2 garages – 59.3%
Important locational considerations		✓ Proximity to schools – 68.8% ✓ Security – 66.7% ✓ Proximity to workplace – 62.5% ✓ Proximity to retail facilities – 60.0% ✓ Affordability – 60.0% ✓ Peaceful environment – 60.0%

Consumer Household Survey Findings

- ✓ The findings indicated that the primary market is currently underserved, with households travelling to distant shopping centres such as Senwabarwana Plaza and Polokwane retail centres or simply resorting to buying from local sources such as spazas.
- ✓ The general sentiment from the market is that there is need for a new shopping centre in Mogwadi. A critical success factor will be to incorporate a formal taxi rank as part of the precinct since a large portion of the households in the trade area use public transport to reach shopping destinations.
- ✓ The proposed market should target middle order brands as highly branded products are out of reach for the majority of households within the target primary market. The market clearly reflects a strong preference towards the more affordable medium brands across all retail categories.
- ✓ Bank ATM's are also crowd pullers and should be included in the precinct. The incorporation of other government or municipal administrative functions has been successfully used to attract the critical mass need for the success of the retail precinct, for example, the inclusion of a post office or social grants payout point.
- ✓ Survey results show that current facilities are inadequate and a perceived demand exist for a new centre at the proposed locality; this is furthermore supported by the fact that indicated support towards the proposed centres is very high. Consumer elasticity also supports the development of a new centre reflecting an increased tendency to shop locally and refrain from shopping at previous preferred retail destinations. These trends bode well towards the successful development of the proposed retail centre.

10.3 RETAIL MARKET GAP ANALYSIS

Development Type	Effective Market Gap	Development Prospects
Convenience Retail Centre	Yes	Medium

Demacon's Retail Demand Modelling results illustrate that the consumer market can sustain a *small regional retail centre* based on the following market demand scenarios assumed.

➢ FACTORS THAT INFLUENCE CONSUMER BEHAVIOUR

It has been established through empirical research that the factors listed below impact directly on a centre's power of attraction. In addition to proven market demand, centre design should accommodate these values (Diagram 10.1).

Diagram 10.1: Factors that Influence Consumer Behaviour

FACTORS THAT INFLUENCE CONSUMER BEHAVIOUR

LEVEL 1: CONSUMPTION VALUES

- Functional value: need for specific products; tenant mix
- Social value: place to interact
- Emotional value: to excite or relax
- Epistemic value: need to be stimulated, informed, to learn and to find out
- Conditional value: e.g. to shop for Christmas or a birthday
- Significative value: does the mall symbolise or signify an area

LEVEL 2: CONSEQUENCES OF SHOPPING AT A SPECIFIC CENTRE

- Aspirational factors
- Ambience
- Convenience
- Belonging
- Cost
- Feelings
- Familial impact
- Historic factors
- Individual goal directedness
- New experiences
- Time awareness

LEVEL 3: ATTRIBUTES OF THE SHOPPING CENTRE

- Appearance
- People
- Layout
- Parking
- Time and money
- Retail requirements
- Convenient location

These aspects affirm that physical factors are only one dimension of consumer behaviour patterns. Other factors such as cognitive, emotional and experiential factors are increasingly contributing to the viability of retail centres. The sustainability of a centre is dominated by level one factors which empasises the importance of providing the correct tenant mix as part of the shopping centre. The tenant mix should adhere to the demands and preferences of the market population.

➢ SIZE AND CRITICAL MASS

Demacon's Retail Demand Modelling results illustrate that the consumer market can sustain a *convenience retail facility* based on the following market demand

Table 10.2: Retail Centre Potential as given by Size that can be supported by Market Area

Project summary	
Average and actual share values	40.0%
Total annual growth in market demand (sqm/a)	545
Centre share of growth (sqm/a)	218
Point of market entry	-
Additional growth in demand for centre (sqm)	1,308.04
Retail GLA at OPME	3,641
Services GLA at OPME	910
Cinemas	-
OPME Centre size (GLA m^2)	**4,551 GLA m^2**
On-site job creation	152 jobs
Retail Sales potential (R 2011 value)	95,783,993
Total capital investment - buildings (R 2011 value)	34,587,249
Parking bays required	273 bays
Parking infrastructure & landscaping cost	7,240,386

Source: Demacon 2011

- ✓ Market potential modelling indicates that the retail centre potential is approximately **4 551m^2 GLA**
- ✓ Tenant mix in various retail categories e.g. the entertainment component, additional food and clothing stores – the list of shops, services, restaurants and entertainment provides the shopper with more choice and may increase the dwell times.
- ✓ Ample parking should be provided at a ratio of **6 bays per 100m^2 retail GLA.** This will translate into 273 bays for optimum parking.
- ✓ In terms of employment, the proposed project will create 152 jobs on site.
- ✓ The use of a specialist merchandising / tenant mix specialist is advisable

RETAIL SENSITIVITY ANALYSIS

The sensitivity analysis makes use of two variables to determine market potential for the retail development. These are **LSM type** and **market share**

Given a comparative analysis of SA small towns, a **market share of between 20% and 30%** for a destination type centre is the market. However, in certain circumstances, a lack of competitiveness in the urban landscape has enabled selected centres to achieve absolute dominant market shares of 60 – 70%, thereby effectively closing the door for any potentially competing scheme.

Given the comparative analysis of small towns, the ideal size for a centre with a destination type function in this type of market will be between 5000m^2 – 10000m^2 GLA, for instance, smaller than Makhado crossing (13 456m^2) and is to be an open plan centre with either a **L – or U shape** and not an enclosed mall. In addition to the retail and selected services, an additional **1 000m^2 – 2 000m^2 can be added for automotive and fitment centres**. A dominant market share will guide a centre size of up to 6 000m^2

However, the local market will in all probability continue to be dominated by the Blouberg/Senwabarwana node

FACTORS TO BE CONSIDERED

It has been **established through empirical research** that the factors listed below impact directly on a centre's power of attraction. In addition to proven market demand, centre design should accommodate these values.

These aspects affirm that physical factors are only one dimension of consumer behaviour patterns. Other factors such as cognitive, emotional and experiential factors are increasingly contributing to the viability of shopping centres

Layout, design and finishes

- ✓ The anchor tenant should be appropriately positioned to generate consumer traffic past line shops.
- ✓ Layout should be legible and should promote convenience.
- ✓ Pedestrian flow patterns should be accommodated.
- ✓ The centre should comply with modern design standards.
- ✓ The centre should reflect up-market, high quality finishes.
- ✓ Attention should be paid to quality design features such as sidewalks, street furniture, etc.
- ✓ The centre should be branded to have a unique image and theme.

Tenanting options and trade hours

Tenanting should be done with market insight, as bringing tenants that are out of sync with the local market will negative performance of the development. If tenants do not meet the expectations of the market through their product offering, quality, pricing and any other applicable factor, the consumers will visit the centre less, leading to profitability challenges by the tenants, which often lead them to close shop. A centre should therefore be tenant balanced so as to provide a level of satisfaction by including the various retail categories. The presence of national retailers is encouraged where possible.

Based on modern second economy shopping centre trends, the proposed centre should consist of a mixture of shops selling non-durables, durables and services. In terms of these broad categories, the following types of shops can be included:

a) Non-durables: fast moving or perishable products

- ✓ Supermarket
- ✓ Florist
- ✓ Confectionary store
- ✓ Bakery
- ✓ Butchery.

b) Durables: Non-perishable products and specialty goods

- ✓ Home and houseware shops
- ✓ Hardware/DIY
- ✓ Computer and appliance stores
- ✓ Book stores
- ✓ Speciality stores – hobby stores, art and craft stores, gift stores etc.
- ✓ Pharmacy
- ✓ Cell phone stores
- ✓ Pet store
- ✓ Biltong store.

c) Wine and dine: Restaurants and Take Aways

- ✓ Restaurants
- ✓ Coffee Shops
- ✓ Take Away and fast food outlets.

d) Services: Financial, medical, personal care etc.

- ✓ ATMs

- ✓ Optometrist
- ✓ Doctor
- ✓ Dentist
- ✓ Estate Agent
- ✓ Hairdresser
- ✓ Beauty Salon
- ✓ Photo Lab
- ✓ Dry Cleaners
- ✓ Video store.

Trading hours

The community centre should provide extended trade hours - preferably up to at least 19:00, to afford consumers the opportunity to conduct retail purchases after work. Trade hours should be tested with the market once the centre is operational.

Centre Sustainability

The sustainability of a centre is dominated by attaining a palatable configuration, suitable for the size and local market as well as a correct tenant mix forming part of the convenience centre. The tenant mix should be sensitive to the demands and revealed preferences of the market population.

Based on modern second economy shopping centre trends, the proposed centre should consist of a mixture of shops selling non-durables, durables and services. In terms of these broad categories, the following types of shops can be included:

Table 10.3: Typical Tenant options for consideration (list provides examples only)

Supermarkets, general dealer and Green Grocer	Clothing Stores	Furniture stores and appliances
✓ Shoprite Checkers	✓ Pep Stores	✓ Lewis
✓ Pick 'n Pay	✓ Ackermans	✓ Ellerines
✓ Score Supermarket	✓ Jet	✓ Furniture City
✓ Spar	✓ Mr Price	✓ Lubners
✓ OK Foods	✓ Sales House	✓ Morkels
✓ Fruit & Veg City	✓ Dunns	✓ Beares
✓ Pick 'n Pair	✓ Boxer	✓ Town Talk
✓ Shoe City	✓ Fashion Express	✓ Russels
✓ Bata	✓ Fashion World	✓ Price and Pride
✓ Cuthbert's	✓ Identity	✓ Bedzone
✓ Discom	✓ Style	✓ JD Group
✓ Charlie Parkers	✓ Webbers	✓ Green & Richards
✓ Cash 'n Carry	✓ Edgars	✓ Barnetts
	✓ Markhams	✓ Best Electric
	✓ Woolworths	✓ Electric Express
		✓ OK Furniture
Supporting services	**Restaurants and take aways**	**Other**
✓ Financial Institutions - banks	✓ Pie City	Gift stores
✓ Savings and Loan institutions	✓ KFC	✓ Crazy Store
✓ Legal Services	✓ Nando's	✓ Excitement store
✓ Doctors	✓ Chicken Licken	Cell Phone Stores
✓ Dentists	✓ Wimpy	✓ Vodacom

✓ Optometrist	✓ Something Fishy ✓ Steers ✓ Captain De Regos ✓ Pizza stores	✓ Cell C ✓ MTN Liquor Store ✓ Solly Kramer ✓ Rank Liquor Butchery Pharmacies ✓ Link Pharmacy

Advantages of the proposed retail centre

The development of the new retail centre will have numerous advantages for the local community and municipality:

- ✓ The centre will contribute to the creation of a well-balanced and attractive retail environment, catering for the demands of the primary market of Mogwadi and surrounds.
- ✓ The retail centre will attract higher volumes of consumers to the area, increase convenience through shopping convergence (one stop shopping for various goods and services).
- ✓ It will expand and diversify the current retail hierarchy
- ✓ The community centre will increase and expand the product and service range within the market and improve the overall quality thereof.
- ✓ It will contribute to the expansion of the local municipal tax base.

10.4 RESIDENTIAL DEVELOPMENT RECOMMENDATIONS

✓ Gap Analysis

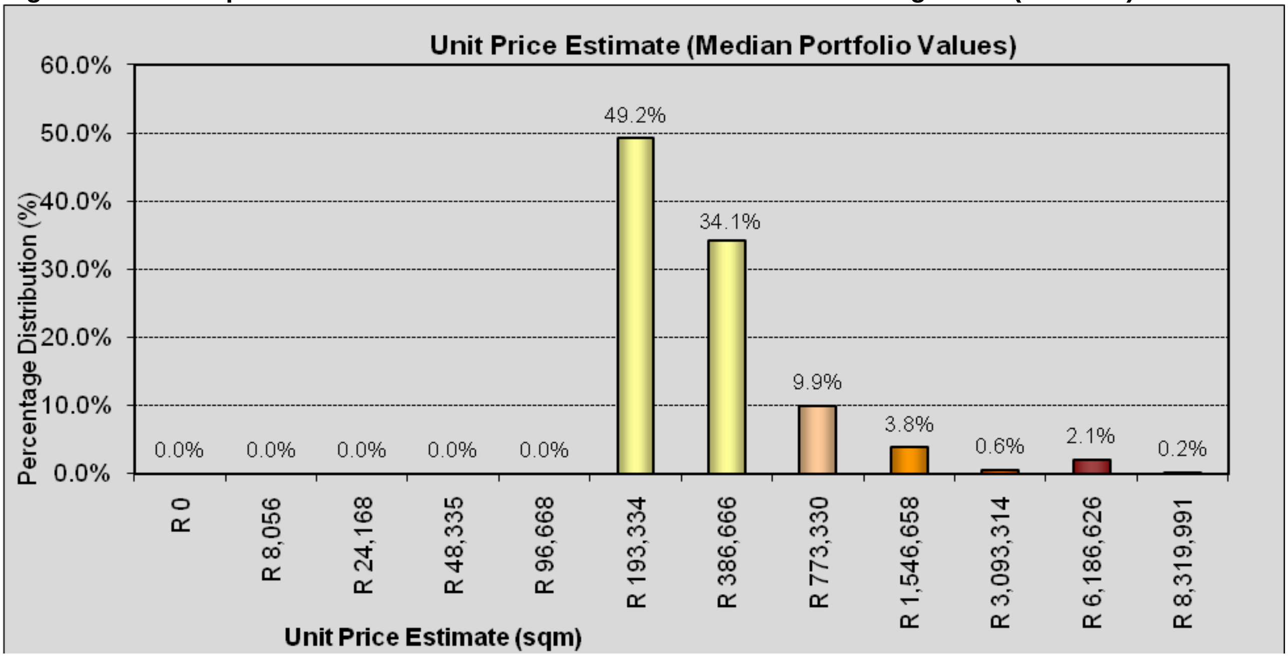
Development Type	Effective Market Gap	Development Prospects
Low End and Middle Priced Bonded Units	Yes	Medium to High

Demacon's Residential Demand Modelling results illustrate that the consumer market can sustain a *residential project* based on the following market demand scenarios assumed

✓ Development Recommendations

The following table provides a summary of the pricing share and annual take up of the core target market of the proposed residential development.

Figure 10.1: Unit price estimation for the lower to middle end market segments (Demand)



Source: Demacon Residential Demand Modelling, 2011

The following table summarises the residential market in terms of housing affordability and net demand.

Table 10.4: Residential Affordability Profile

Income midpoint	House Price	Generic Indicative Unit Sizes	Distribution (%)	Classification
R 0	R 0	40m² – 50m²		Freestanding low cost home
R 3,333	R 8,056	40m² – 50m²		Freestanding low cost home
R 10,001	R 24,168	40m² – 50m²		Freestanding low cost home
R 20,001	R 48,335	40m² – 50m²		Freestanding low cost home
R 40,002	R 96,668	40m² – 50m²	93.2%	Freestanding economic
R 80,004	R 193,334	50m² – 60m²	3.4%	Gap & Entry level Economic Freestanding / Group
R 160,007	R 386,666	50m² – 60m²	2.3%	Low-end bonded
R 320,013	R 773,330	65m² – 75m²	0.7%	Middle income
R 640,026	R1,546,658	100m² – 120m²	0.3%	Middle-high income
R 1,280,051	R 3,093,314	150m² – 350m²	0.0%	High income
R 2,560,101	R 6,186,626	350m² – 550m²		Elite
R 3,442,914	R 8,319,991	550m² -750m²+	0.2%	Elite

Core target market

Source: Demacon, 2011

The target market segment of the proposed development is represented by the finance linked to middle end of the residential market spectrum – households earning on average incomes between R80 004 and R320 013 per annum that can afford houses priced between R200k and R800k.

Project Size and Anticipated Take-Up

Table 10.5 indicates the current market performance and the market share that the bonded housing component of the proposed project could attract.

Table 10.5: Summary of Market Recommendations

	TOTAL MARKET		
A	**Additional HH: base yr + 6yrs**		**18,776**
B	**Annualised Market growth (full housing spectrum)**		**3,129**
C	**Bonded & Finance Linked Segment**		**6.8%**
D	**Bonded & Finance Linked take-up per annum**		**214**
E	**Annual secondary market contribution (units / annum)**	**Min**	**9**
F		**Max**	**12**
G	**Total annual bonded & Credit Linked housing demand**	**Min**	**223**
H		**Max**	**225**
	PROJECT SPECIFIC		
I	**Project Bonded & Finance Linked Units**		**450**
J	**Forecast market share of total market sales**	**Min**	**35%**
K		**Max**	**45%**
L	**Project forecast total annual take-up rate (units / annum)**	**Min**	**78**
M		**Max**	**101**
N	**Years to 80% take-up (bonded & credit-linked units)**	**Min**	**4.4**
O		**Max**	**5.8**
P		**Avg**	**5.1**

Explanatory Notes:
A = increase in demand for new housing units, 2010 – 2015 (i.e. new household formation in the market area)
B = Annualised market growth, i.e. of A/5
D = B x C
E & F = Annual secondary market contribution (i.e. the contribution made by re-sales in the target affordability income brackets)
G & H = Annual finance linked and bonded segment demand; D + E and D + F
I = Project finance linked and bonded units
J & K = assumed market share of market area
L = G x J
M = H x K
N = I / L
O = I / M

- ✓ It is important to understand that the modelling portrays demand and take-up based on current market trends.
- ✓ Table 9.2 shows two sections, 1) total market and 2) project specific. Between 2011 and 2016 an estimated 18 776 new households will seek accommodation in the target geographic market area, resulting in an **annual growth in demand of approximately 3 129 units** (across the full housing spectrum, including informal and subsidy). Under present market conditions, the finance linked and bonded segment (6.8%) will yield a take-up rate of 214 units per annum.
- ✓ The proposed Molemole project will have **approximately 450 finance linked and bonded** (entry level to middle priced) units.
- ✓ Based on competition in the market it is anticipated that the project will be able to attract a **market share of between 35% and 45%,** this will furthermore be supported by an additional impact of annual direct takers, i.e. new mines/ power stations etc. opening within the area. **Project take up will amount to 78 to 101 units per annum** resulting in an average project take-up rate of 5.1 years for the proposed 450 units.
- ✓ It is recommended that the development should be phased – for example two phases - each constituting **200 - 250 finance linked and bonded units.**
- ✓ A rental component of between **80 and 100 units** can be included as part of the overall development. It should however be noted that developers interest in rental stock commence at attainable monthly rentals of R2 500 per month.

➢ Marketability and Affordability

The following tables illustrate housing affordability for the target market based on three different scenarios, based on interest rate variations over respectively a 20 and 30 year repayment period:

- ✓ Scenario 1 - Housing Affordability Profile at 9% prime interest
- ✓ Scenario 2 - Housing Affordability Profile at 11% prime interest
- ✓ Scenario 3 - Housing Affordability Profile at 12% prime interest.

Scenario 1: Housing Affordability Profile at 9% prime interest

% of Households	Average Annual Income	Average Monthly Income	20 year bond		30 year bond	
			Repayment Estimate	Mortgage Estimate	Repayment Estimate	Mortgage Estimate
3.4%	R80,003	R6,666	R2,000	R219,095	R2,000	R246,579
2.3%	R160,006	13,333	R4,000	R438,189	R4,000	R493,156
0.7%	R320,013	R26,667	R8,000	R876,376	R8,000	R986,311
0.3%	R640,025	R53,335	R16,000	R1,752,751	R16,000	R1,972,621

Repayment is calculated assuming 9% interest over 20/30 years. Qualification for mortgage is assumed to be 30% of the gross income.

Scenario 2: Housing Affordability Profile at 11% prime interest

% of Households	Average Annual Income	Average Monthly Income	20 year bond		30 year bond	
			Repayment Estimate	Mortgage Estimate	Repayment Estimate	Mortgage Estimate
3.4%	R80 003	R6 666	R2 000	R191 129	R2 000	R208 661
2.3%	R160 006	R13 333	R4 000	R382 256	R4 000	R417 320
0.7%	R320 013	R26 667	R8 000	R764 511	R8 000	R834 638
0.3%	R640 025	R53 335	R16 000	R1 529 020	R16 000	R1 669 275

Repayment is calculated assuming 11% interest over 20/30 years. Qualification for mortgage is assumed to be 30% of the gross income.

Scenario 3: Housing Affordability Profile at 12% prime interest

% of Households	Average Annual Income	Average Monthly Income	20 year bond		30 year bond	
			Repayment Estimate	Mortgage Estimate	Repayment Estimate	Mortgage Estimate
3.4%	R80 003	R 6 666	R2 000	R179 275	R2 000	R193 333
2.3%	R 160 006	R 13 333	R4 000	R358 548	R4 000	R386 665
0.7%	R 320 013	R 26 667	R8 000	R717 096	R8 000	R773 329
0.3%	R640 025	R53 335	R16 000	R1 434 191	R16 000	R1 546 657

Repayment is calculated assuming 12% interest over 20/30 years. Qualification for mortgage is assumed to be 30% of the gross income.

Source: Demacon, 2011

DEVELOPMENT RECOMMENDATIONS SUMMARY FOR MOLEMOLE HOUSING DEVELOPMENT

Composition:

The proposed subsidy component of the project in our experience, at 35% is much in line with the best practice market norm of 30% to 40%. Research has found that this rate has definite implications on the take up rates of bonded units.

Subsidy Component:

- ✓ Top Structures Minimum Size: 40m^2 – minimum 2 bedrooms

- ✓ Stand Sizes: approximately 250m^2 – except if it represents attached units
- ✓ Value: Below R180 000
- ✓ Number of units: 300

Bonded Component:

- ✓ Top Structures: From 40m^2+
- ✓ Stand Sizes: From 150m2 to 400m^2 – can also include number of larger stands ranging up to 750m^2
- ✓ Value: Priced from R200 000 to R800 000 (with more emphasis on the lower and middle-end of the scale).
- ✓ Number of units: 450.

10.5 OFFICE GAP ANALYSIS

Development Type	Effective Market Gap	Development Prospects
Low Rise, Medium Density, Suburban Lifestyle Office Developments	Yes	Low

The optimum point of market entry should be introduced to the market in 2020 / 2021. Modular design is recommended to facilitate flexibility and adjustment in accordance with user requirements specifications.

Table 10.6: Synthesis of Space Demand Modelling Results – m^2 GLA

Cumulative Additional Space Demand	2011	2016	2021	2026
Finance & Insurance *(sqm GLA)*	4	29	78	120
Business services *(sqm GLA)*	40	266	731	1,119
TOTAL: Molemole (Dendron)	**44**	**294**	**809**	**1,240**
Nodal Share - Min	**35**	**236**	**647**	**992**
Nodal Share - Max	**44**	**294**	**809**	**1,240**
Average	**40**	**265**	**728**	**1,116**

* *Note: the nodal shares and the average figures are cumulative*

Table 10.7: Recommended office park space options

VARIABLES	Rand per annum / m^2 GLA
Size of Office (sq m) (up to 2026)	**1,116 m^2 GLA**
Capital investment (2011 constant values)	**R11,157,104**
Employment opportunities	**56 jobs**
Parking	**30bays**
Parking infrastructure & landscaping cost (2008 constant values)	**R2,783,474**
OPME	**2020/2021**
Gross rentals (excl VAT)	**R80 – R100**

* *Note: the nodal shares and the average are cumulative figures*

Table 10.8: Space Demand Results - m^2 GLA

Forecast	Square metres
2016	**436.59 m^2 GLA**
2021	**1,073.51 m^2 GLA**
2026	**1,353.24 m^2 GLA**

➢ OFFICE TYPOLOGY SCENARIO'S

The following table provides an assessment of four office typologies scenarios to be considered for the Molemole Office Development.

Table 10.9: Assessment of four office typology scenarios

	MICRO OFFICE UNITS	MEDIUM SIZED CLUSTERING OFFICES	MEDICAL OFFICES & SUITES	CORPORATE OFFICES
Location requirements	Regional office nodes	Sub-regional office nodes	Middle to high income markets Periphery of regional commercial node	Regional office nodes
Nodal character of area	Financial institutions, corporates and multi-national companies	Corporates and smaller consulting firms	Community to regional size shopping centres. Established office node	Free way exposure
Size of offices m^2	10m^2 – 20m^2	50m^2 – 150m^2 modules	10,000m^2 – 20,000m^2	4,000m^2+
Size per m^2 per persons	5m^2 – 6m^2	15m^2 – 20m^2	35m^2 – 55m^2	15m^2 – 20m^2
Rentals (per m^2)	R 250 / m^2 – R300 / m^2 (includes selected services)	R90 / m^2 – R115 / m^2	R125 / m^2 – R145 / m^2	R110m^2 – R130m^2
Business examples	e.g. Regus Midrand, Business Centre Sandton	e.g. Route N4 Business Park, Witbank	e.g. Unitas, Mulbarton	e.g. Woodmead Corporate Business Park

Based on the above criteria and the above assessment including nodal character and prevailing rentals, the development concept that would be most suitable to the Molemole Office Development would be a medium sized clustering office. The site has good access and visibility and draws from the good access to the freeway. Prevailing gross rentals coupled to the lack of financial head offices suggest that the node may find it difficult to attract tenants for micro office units on a sustainable basis.

OFFICE DEVELOPMENT RECOMMENDATIONS

- ✓ An area of approximately **1 116m^2** office GLA (up to 2016) is to be allocated as gross leasable Grade A and Grade A+ office space.
- ✓ The total average development potential up to **2016** amounts to approximately **265m^2 GLA** increasing to **728m^2 GLA** of developable bulk by **2021** and **1 116 m^2** in **2026.**
- ✓ The recommended type of developments: Grade A office development
- ✓ The sustainability of the office development will hinge on the slow roll out of the office component to the mixed use due to low demand.
- ✓ The optimum point of market entry for the development should be 2020 / 2021
- ✓ Provision should ideally be made for future expansion of activities at the node.

Overall the development prospects for the Molemole Office Development are still low. The site is ideal for office development but the node still need to ramp up its commercial activity before the office component becomes significant.

10.6 LAND USE BUDGET AND IMPLEMENTATION TIMEFRAMES

Land Requirements

Table 13.20 provides an indication of the ideal land use budget, given forecast take-up rates for the various projects. The project consist of residential, industrial, retirement, trade, retail, short stay, medical and offices.

Table 13.20: Land Take-Up (hectares)

Land use Components	Net demand up to 2015 (over medium to long term)	Surplus buffer (20%) - future expansion	Roads, Social Services, etc (20% - 30%)	Percentage of development
Offices	0.2	0.2	0.3	**0.8%**
Retail	1.4	1.6	2.0	**5.6%**
Residential - middle to higher	18.0	21.6	27.0	**73.8%**
Residential - subsidy	4.8	5.8	7.3	**19.8%**
Hectare Take-up	**24.4**	**29**	**36.6**	**100.0%**

Note: Models accepts full occupancy - Surplus buffer of between 20% and 30% allowed

Given prevalent market conditions and future expectations, an estimated 36.6 hectares of land could be successfully developed within a 5 – 10 year timeframe. The bulk of the precinct should be allocated to residential, both financed linked and subsidy units (73.8% and 19.8% respectively).

A mixed use precinct node with retail and offices could account for a further 6.4%.

Estimated Timeframe for the Land Uses

Table 13.21: Estimated timeframe for the land uses

Land Use	Proposed Size	Total Proposed Size (hectares)	Optimum point of market entry
Residential - bonded	450 units	27.0	2012 / 2013
Residential - subsidy	194 units	7.3	2013 / 2014
Retail	4551m^2	2.0	2013 / 2014
Offices	1,116m^2	0.3	2016 / 2017
Total		**36.6**	

In conclusion, the land use tables show that demand for the project amounts to approximately **36.6 hectares**. In this context, the highest and best use principle should be applied which suggests that residential and retail would be the highest and best use while office and other commercial components could follow once these have been successfully completed.