

**BUQS 3028**

# **Property Development for Planners**

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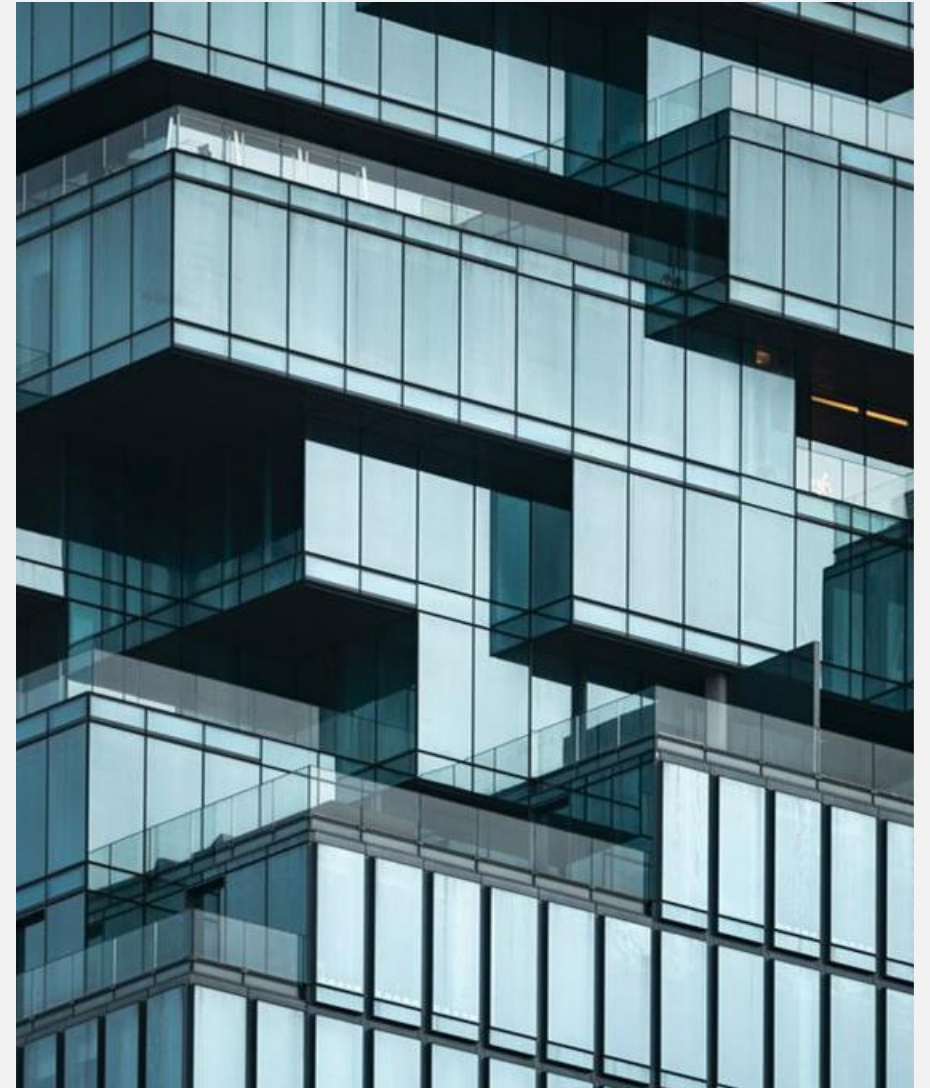
The Carlton Centre.

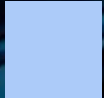

Access date: 25 March 2023. Accessed at: <http://surl.li/fxgdr>




# Introduction

- The Carlton Centre is a commercial mixed-use building located in the city of Johannesburg
- It is a 50-storey skyscraper located on 150 Commissioner Street, Marshalltown
- It was built after the Carlton Hotel was demolished in the 1960s
- It was developed from 1968-1974 and reopened in 1973
- The building was purchased by Transnet in 1999 for R33 million
- The building is comprised of office space (68000sqm), retail space (53000sqm), 670 Hotel rooms as well as 56 conference venues.
- Although in terrible conditions, the retail space is still operational
- The crime rates and pollution of the region account for most of the blame in the decline of the centre
- We will be undertaking a Market Analysis and Marketability study of the Carlton Centre to provide Ubuntu Properties with a in depth understanding of the building.





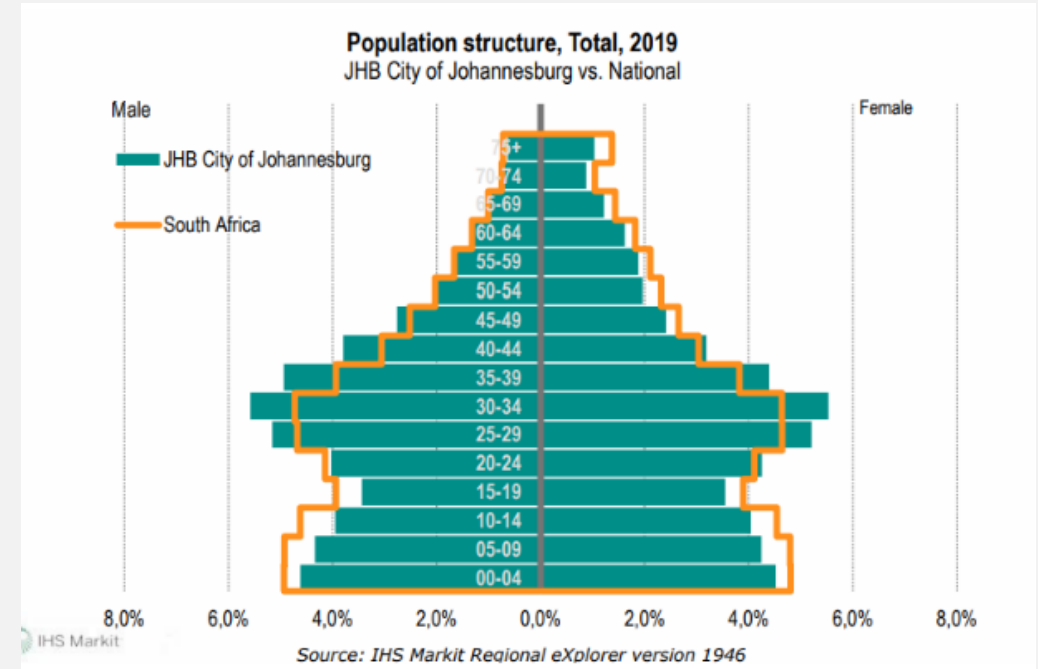
Population,  
Demographic  
information,  
and crime  
statistics





# Population and Demographic

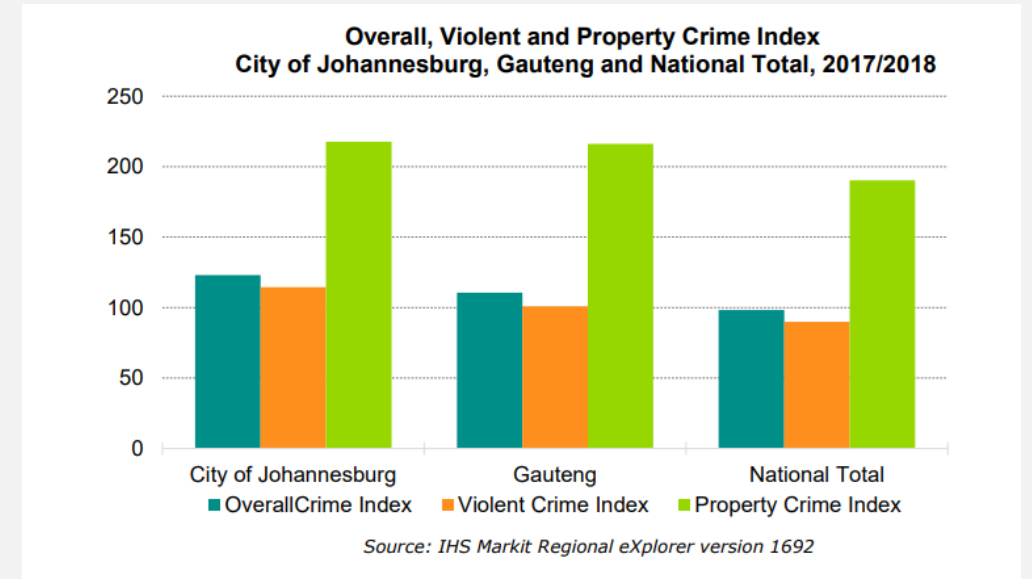
- Population of the City of Johannesburg : 6 198 000
- Gender distribution 50/50
- Racial distribution of the city is:
  - Black African 76,4%
  - White 13,7%
  - Coloured 5,3%
  - Indian/Asian 4,9%
  - Other 0,8%
- The CoJ municipality is the largest municipality in South Africa in terms of population, size (1 645 km<sup>2</sup>) and economy (15% national GDP-2018)
- Although it has a large economy, the unemployment sits at 1.8million.
- The population is experiencing a constant growth of around 2-3% each year further densifying the city



Population and age distribution on CoJ vs SA

# Crime Statistics

- Crime in the city of Johannesburg is higher than the crime in Gauteng and South Africa
- The highest sector being property crime due to the high population and unemployment rate.
- By property crime we are referring to the high jacking of property (usually abandoned buildings like the Carlton hotel) by either homeless people or unaffording individuals
- This results in an influx of illegal housing



Crime index of CoJ, Gauteng and SA (Profile and analysis, City of Johannesburg 2020).



# Supply and Demand of Land uses



# Supply and Demand (Land use)

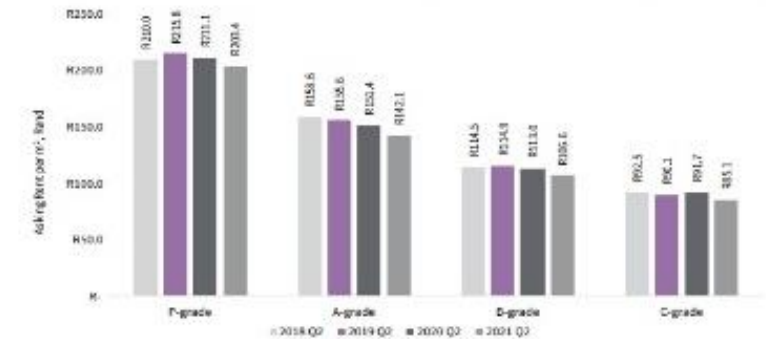
## Office

- Estimated stock: 10.42 million. (1.7 million m<sup>2</sup> available for leasing as of 2021)
- Vacancy rate: all grades 17%, 10% prime grade
- Average prime rental range: R114/sqm – R200/ sqm
- Rental outlook: Negative cyclical downturn
- An oversupplied market with weak corporate demand
- Johannesburg has the highest vacancy rate across all major metropolitans
- Businesses are scaling down on space requirement due to new models of working such as online or hybrid systems
- Many businesses are also relocating to safer and more desirable spaces like Rosebank and Sandton
- Uncertainty to economic stability has caused some corporates to lean towards more short-medium term lease agreements
- Outlook: the office market expected to plummet for the foreseeable future, sustainable economic growth especially in the finance and business sector will see the market recover

## Performance:

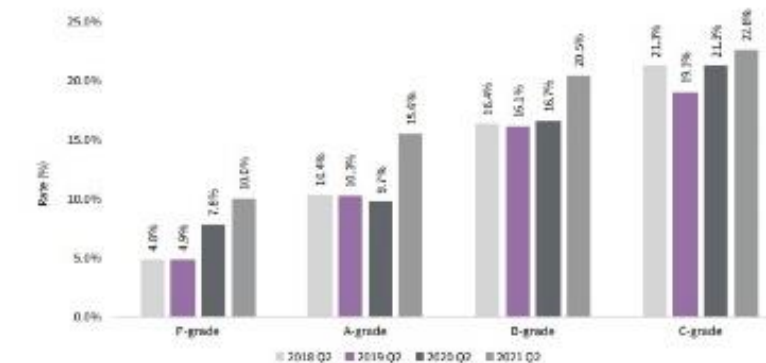
- As employers are trying to have more people come back to offices some areas are observing more demand than others, nodes like Sandton, Rosebank
- These areas are becoming more ideal for businesses since they offer a safer environment and smaller office spaces, therefore accommodating hybrid working

City of Johannesburg: Average Gross Asking Office Rental by Grade, 2018-2021



Source: SAPQA, 2021; Rode, 2021; JLL, 2021.

City of Johannesburg: Vacancy Rate by Grade, 2018-2021



Source: SAPQA, 2021.



# Supply and Demand (Land use)

## Industrial

- Prime Rent: R65/sqm – R70/sqm
- Prime vacancy rate 4.5% - 8.5%
- Rental Outlook: Growth inflationary linked to 7.5% annually
- The market has shown steady market resilience in Johannesburg, and most notable due to e-commerce activity
- Online retailers have shot up the demand for storage and distribution space, even though this is the case some firms are relocating to more centralised and strategic urban industrial Parks

## Performance:

- The market has a superior performance compared to other markets
- the main drivers of these are the retail and manufacturing sub-sectors
- Robust retail sectors are driving demand up for warehousing and distribution whilst boosting the demand of manufactured goods

# Supply and Demand (Land use)

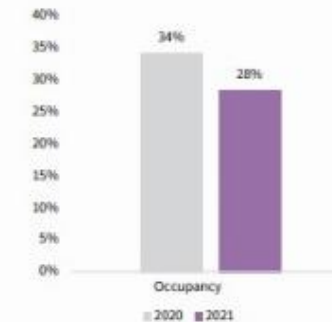
## Hospitality

- Occupancy (YTD): 28%
- ADR(YTD): R990
- RevPAR (YTD): R282
- The market has seen some increase in recent times after the Covid-19 pandemic
- insight of all this Gauteng has recorded lower occupancy than the Western Cape and the lowest sub-market in South Africa.

## Performance:

- The market has faced poor corporate and leisure travel, especially nodes like Sandton have had the worst performance after the Covid-19 Pandemic
- which led to some hotels shutting down temporarily
- The liquidation of the Comair/British Airways partnership in South Africa has temporarily caused seat capacity shortages across the domestic market
- The closure of Comair will have a marked effect on the transport and hospitality sectors, with the group accounting for up to 40% of domestic air trips in South Africa.

City of Johannesburg Occupancy Comparison: June 2020-2021

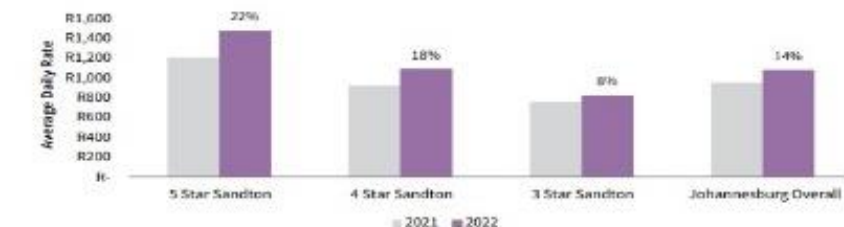
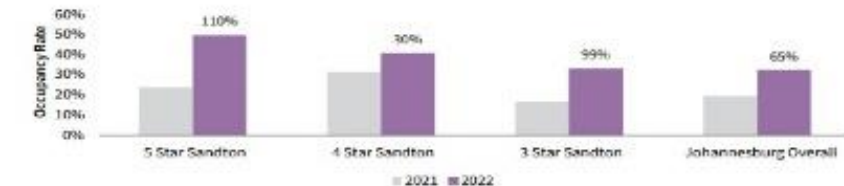


City of Johannesburg ADR & RevPAR Comparison: June 2020-2021



Source: STR, June 2021.

Hotel Performance Metrics and y-o-y growth, H1 2022



Source: STR



# Supply and Demand (Land use)

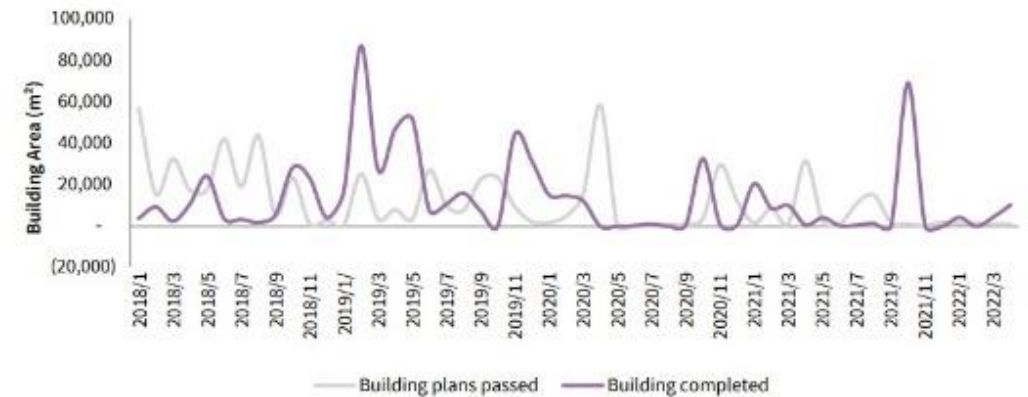
## Retail

- Retail Stock (2022): +47 000m<sup>2</sup> additional supply, +77 000m<sup>2</sup> moot development and extension
- The retail property market has shown to be the strongest coming out of the pandemic
- operating conditions are stabilising negative rental reversion trend appears to be moderating as well
- The retail property stock has also seen increase in supply through the conversion of office spaces into retail properties
- the emerging of delivery services is creating another opportunity for the utilisation of space in the retail market

## Performance:

- The vacancies in Johannesburg have improved and this was due to the lift of lockdown restrictions
- Increased letting activities have driven the recovery but at the expense of rental growth because constrained domestic pocket is still affecting consumer spending.
- Rental reversions for most landlords are above 10% which is better than the 15% of 2021.
- The speedy recovery of the sector was also highly influenced by the removal of the mask mandate when you are in public.

Building statistics as reported by Larger Municipalities: Shopping Space (Gauteng)



Source: JLL, SAPOA

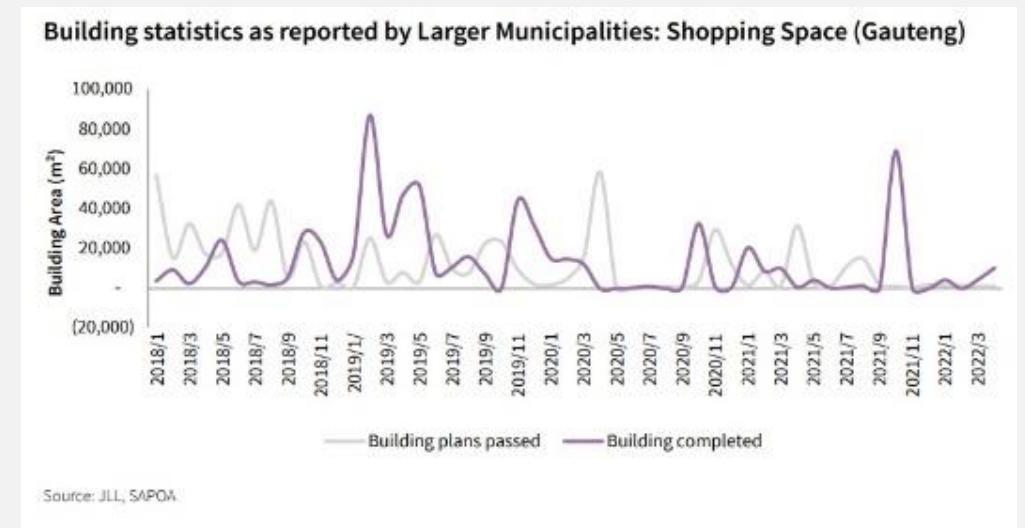
# Supply and Demand (Land use)

## Residential

- The market is predominantly leaseholds or sectional titles but the construction of housing projects have embodied the trend of gated communities
- Residential developments are now predominantly pursued by private developers
- but in some areas spatial and social dynamics have led to collaborative development between the public and private sector
- According to Stats SA, for January to April 2022 there had been a 10% increase in the value of residential building plans passed within larger municipalities

## Performance:

- Growing middle class and low interest rates has led to more interest when it comes to home ownership across the lower and middle housing value bands
- The desire to live near workplaces caused the moderated and lending rates to drop which enabled tenants to acquire properties at competitive rates
- This was prevalent to the middle-upper ends of the market
- The lower income of the spectrum endured a negative impact from the pandemic hence why vacancies arose from affordable housing configurations such as Johannesburg Central.
- Rising inflation, cost of living, interest rates and fuel costs are expected to boost residential market rentals which benefit Johannesburg because low-income brackets are migrating to economic hubs and residential development in strategic nodes







# Economic Growth and Drivers of Growth



# Johannesburg GVA



- Johannesburg's GVA has displayed a rather uneventful pattern
- in attempts of redressing this, the City of Johannesburg is determined to increase the economic growth of the region by at least 5%
- the Johannesburg municipality would need to invest into creating and revamping the business sector
- not only increase the employment opportunities for the people, but to also attract any potential foreign investors to aid South African businesses
- the municipality of Johannesburg would need to critically analyse the different sectors (especially those in decline) and their contribution to the overall economy
- and try creating new innovative strategies to ensure that the sectors are adapting well enough to the shift in environments
- The transport, storage, and communication sector, the finance, insurance, real estate, and business services sector, as well as the community, social, and personal services sector, are likely to outpace the wholesale and retail trade
- these have dominated over the past five years, and so other sectors should embody these patterns to produce a higher GVA

CoJ: GVA at basic prices (2010 Rm)	2010-2015	2015-2020
Total GVA	3.1%	1.5%
Primary sector [SIC: 1-2]	1.2%	1.2%
Agriculture, forestry and fishing [SIC: 1]	0.0%	0.1%
Mining and quarrying [SIC: 2]	1.4%	1.4%
Secondary sector [SIC: 3-5]	2.3%	-0.2%
Manufacturing [SIC: 3]	2.7%	-0.4%
Electricity, gas and water [SIC: 4]	1.1%	-0.9%
Construction [SIC: 5]	1.6%	0.9%
Tertiary sector [SIC: 6-9]	3.3%	1.9%
Wholesale and retail trade, catering and accommodation [SIC: 6]	3.6%	1.1%
Transport, storage and communication [SIC: 7]	2.9%	2.2%
Finance, insurance, real estate and business services [SIC: 8]	3.3%	2.3%
Community, social and personal services [SIC: 93-96, 98]	1.9%	2.2%
General government [SIC: 99]	3.7%	1.7%

**Source: (CoJ, 2018)**





# Income statistics and Employment/ Unemployment rates

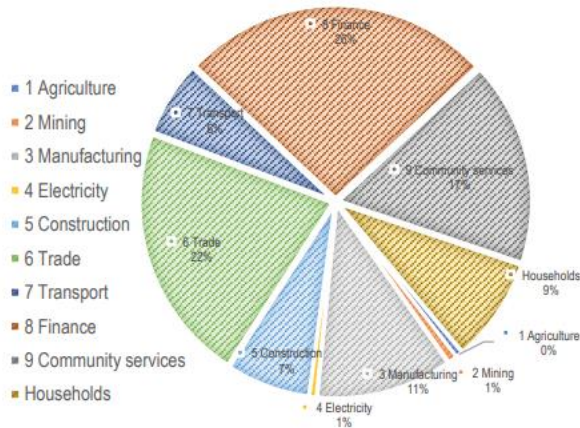


# Income Statistics and Employment/Unemployment rates



## Employment

EMPLOYMENT COMPOSITION  
CITY OF JOHANNESBURG, 2018



- About 53% of the active population are employed
- 77% consist on the formal sector
- finance sector accounts for about 28%, 22% on trade and retail, and 17% in community services
- The development and high density of the city barely allows for agriculture which comprises around 0.6%
- the 3 largest sectors for employment are Finance, trade, and Community services
- The total formal employment by main sectors have displayed a rather interesting pattern that displays a directly proportional relationship between its employment numbers and that of the informal employment sectors
- This shows that from the years of 2019 to 2021 there has been a drastic decline in both departments
- with the formal employment sector declining of 4,25%, but improving during the years 2020-2021
- While the informal employment sector declining at a faster and more rapid rate of 32,44%
- This translating in the unemployment of 2021 being its highest in 4 years, with the rate of 35,06%
- However, the labour force participation rate seems to have improved from the outbreak of the pandemic, with the 2021 rate being 65,83% versus its 2020 rate which was at 63,98%

# Income Statistics and Employment/Unemployment rates



## Unemployment

- Unemployment is between 33 and 35 percent
- Almost 50% of youth are unemployed and have low skill levels
- They are forced to become part of the wholesale, retail and trade paying low wages
- Although the annual income of Johannesburg is around R57000, which is nearly double the average in South Africa, 8% of people have no income and 47% of people live on less than R40000 per annum

## Labour Skill

- Even though the number of highly skilled workers has been rising since 1995, this growth has been slower compared to the proportion of the skilled and partially skilled population
- There are little over 200000 highly skilled individuals in the city
- However, the challenge now lies in the outbreak of the pandemic, it exposed people to technological approaches to money generation
- This resulting in the shift of economic activities heavily relying on technology, thus the drop in demand for office spaces
- This automatically decreases the number of positions that require unskilled labour in the job market





# Property Market in Johannesburg



# Johannesburg Property Market



- Total office stock in the Johannesburg CBD remains the largest in the country at nearly 2-million m<sup>2</sup>
- Although many companies are experiencing a hybrid work environment, a lot of businesses still demand physical space
- The Carlton centre building maintenance is what most potential buyers/renters are struggling to see past
- The building has a feeling of neglect and not a great space for people to work in
- The vacancy rate in the CBD is around 22%, this is largely due to the undesirable look and office spaces available
- The market is still ripe for development as there is many businesses still interested in the CBD due to the availability of transport systems and the close proximity to other institutions
- The housing market has experienced huge developments as people move into the inner city and although majority of this housing is informal and backyard housing, the market for normal rental has also grown
- The market is currently experiencing what is described as “sinkholes” where illegal/unsustainable activities are causing the CBD to become undesirable
- These “sinkholes” are seeming to spread around the CBD making the areas property market drop in value
- The market still exists, and demand is high, but the market value has dropped



Access date: 25 March 2023. Accessed at: <http://surl.li/fxggr>



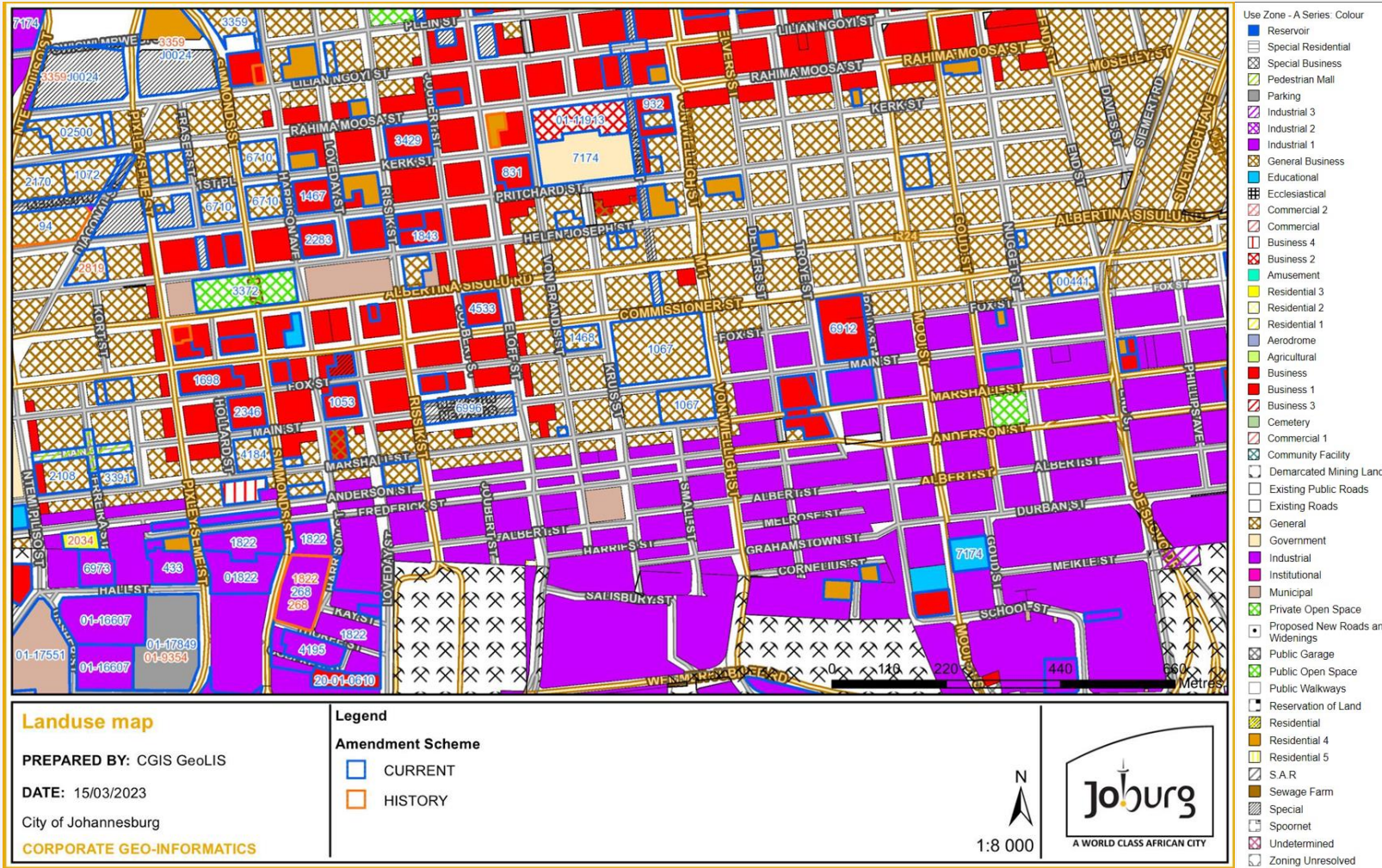


# Site, Local Market and Neighbourhood Analysis





# Site



- Since 2000, the building was the head office of transport parastatal (Transnet)
- Prior had also been the headquarters of AECL.
- 93% office space occupancy
- 65% percent retail use

# Site



Access date: 25 March 2023  
Accessed at: <http://surl.li/fxchx>

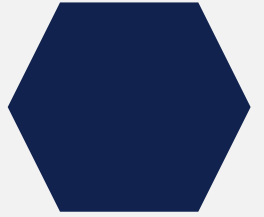
## Carlton Centre

- Carlton Centre was known as Carlton Hotel
- Hotel closed 1998
- Designed by US architectural firm SKIDMORE, OWINGS and Merrill.
- Design of tower is very similar to one of One Seneca Tower in Buffalo, NEW YORK
- After the city urban decay, the Parastatal purchased it for R33 million from Anglo American Properties in 1999
- Replacement cost of the building has been estimated at R1.5 billion.

## Property Use

- Since 2000, the building was the head office of transport parastatal (Transnet)
- Prior had also been the headquarters of AECI.
- 93% office space occupancy
- 65% percent retail use
- Has shops like Levisons, soviet, Aca Joe and Totalsports in the shopping precinct.
- The building is currently used as an office tower and shopping centre.
- The building has 93% occupancy of its office space and retail occupancy of 65%.
- South African Revenue Services (SARS) moved to its premises of 5000sq metres.
- The hotel remains empty and there has been some illegal housing use of the land.

# About Carlton Centre



## Technical Details

- Constructed: 1967-1974
- Floor count: 50
- Floor area: 75 355 square metres
- Elevators: 23
- Building height: 223 m
- Plot size: four blocks long
- Carlton hotel: over 600 rooms and 31 storeys high

## Property Amenities

- Commercial and Office land use
- Elevators
- Rooftop (Top of Africa)
- Underground parking
- Retail (Restaurants and Shopping)
- Entertainment centre (Arcade)

## Constraints

- Minimal outdoor recreational area
- Crime rates
- State of the building (not maintained)
- Illegal housing





# Johannesburg Central Market and Proposed Development



# Johannesburg Central Market



## Commercial Market

- Total office stock in JHB CBD remains the largest in the country, nearly 2million metres squared.
- In some parts of the CBD, the age of buildings and general lack of maintenance has resulted in the office environment being unattractive.
- There is an oversupply of stock in Johannesburg office sector. A big percentage is a result of high developer confidence.
- Trend: Developers have a long-term outlook on the economic potential of the city and are making calculated risks to capitalise on this.
- Some recognised development includes the ABSA Tower and Jewel City. They have been upgraded into a modern mixed-use building: Retail, commercial and Residential.
- Johannesburg will be rejuvenated. Major capital is set to be pumped into the commercial sector.

## Residential Market

- Total value R1 trillion
- Has 824 360 properties
- 13% are under R300 000 and 25% are between R300 000 & R600 000, (which are the most affordable markets).
- More than quarter are subsidies (27%)
- The Metro has more active resale market than new build

## Retail Market



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- Trend: Developers have a long-term outlook on the economic potential of the city and are making calculated risks to capitalise on this.
- Some recognised development includes the ABSA Tower and Jewel City. They have been upgraded into a modern mixed-use building: Retail, commercial and Residential.
- Johannesburg will be rejuvenated. Major capital is set to be pumped into the commercial sector.



# Proposed Development



Potential view of the building  
Access Date: 25 March 2023.

Accessed at: <http://surl.li/fxdok>

## Residential

- The proposed Development is Mixed commercial and residential
- Due to the state of the region and urban decay the Hotel will see little to no money being reopened as a hotel.
- Therefore we will be implementing a rezoning of the hotel for full time residential use
- The hotel will then be renovated to a suitable and desirable standard for rental income
- The 662 rooms will be converted to small apartment units (small apartment units are high in demand in the area for students as well as people who work in the CBD) , therefore low-cost accommodation/apartments would be ideal
- These rooms will be rented from R4500 (lower levels, 1 bedroom (+/- 450 units), R6000 (Mid-level, 2 bedroom (+/- 196 units) and R10000 (Top levels, biggest rooms (+/- 24 units)
- considering that the 30-storey part of the Carlton was once used for the hotel, turning it into residential would receive a positive response
- Our argument is based on the demand, and the fact that majority of the people that work in the CBD travel long distances to work, the chances of them opting to live closer to work are high



# Proposed Development

## Retail



Inside Carlton Centre Mall. Access Date: 25 March 2023. Accessed at: <http://surl.li/fxdok>

- The Carlton Centre mall will be closed and completely renovated making it more desirable for people as well as more desirable for businesses to locate there
- The mall as well as the first 4 floors of the Carlton center will be used for retail usage (53000sqm existing + 2 new floors of retail space (3400sqm).
- The security systems and security maintenance will be redeveloped making the mall a safer space
- The idea will be to attract more users of the mall and one of the ways this will be achieved will be to have a mall shuttle that goes to Universities, Collages and major businesses during lunch/ peak hours.
- The mall currently experiences a lot of foot traffic and is highly used so we won't be rezoning or changing the space, we will only be renovating, implementing higher security



# Proposed Development

## Commercial/Office Use



Building of the Dep. of Home Affairs  
Access Date: 25 March 2023.

Accessed at: <https://t.ly/6YAF>

- Although it was discussed that Office space was a struggling sector in the current time where many businesses opted for a hybrid system of working
- we have decided that there is still a need in some departments for large office spaces
- Floors 5-7 proposed for the following uses;
  - Clinics
  - Dentist
  - Doctors room
  - Small private business
- Floors 8-45 set for office spaces for government (64,600sqm), to restrict the R45 billion that government spends on rent by occupying different buildings
- These government departments could be the following, as they spend the most;
  - Dep. of Water and Sanitation
  - Dep. of Defence and Military Veteran
  - Dep. of National Treasury
  - Dep. of Correctional Services
  - Dep. of Home Affairs
  - Dep. of Human Settlements
  - Dep. of Human Settlements etc.
- We would consult with government and lease off the 68000sqm space



# Proposed Development

## Recreation

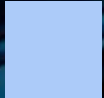



JFF Rooftop Bar, in Maboneng.


Date: 25 March 2023. Accessed at: <https://t.ly/4NZw>

- Due to its aesthetically pleasing height, the rooftop of this building offers a surreal experience
- It would be beneficial to capitalize on this and to open the rooftop area to the public for leisure
- Floors 46-50 (rooftop) are deemed as recreational space
- The rooftop will house a high end rooftop club; named “The top of Africa”
- Floors 46-49 will house high-end luxury restaurants and conference centres
- This is meant to attract a wealthy audience that is foreign to Joburg CBD, to fully experience the luxury that the precinct has to offer
- The building will ensure that safety measures are taken to curb any criminal activities





# The Competitive Position & the Income Bracket of the Project



# The Competitive Position & the Income Bracket of the Project

## The Competitive Position:

- The position in which the project stands in competition is defined what the project will offer
- In this project, we will be providing;
  - New amenities into the building
  - Improving the safety
  - Creating a captivating environment for all
- This project will directly reshape the Carlton Centre precinct by doing the following;
  - Providing affordable housing
  - Providing the state with affordable office space
  - Providing a mall that will have shops and fast food chains
  - Providing a high-end space for recreation
- Located within inner city, this position is a transport hub, and it has excellent accessibility

## Income Bracket

- The income brackets of the area will be catered to, for both
  - Housing
  - Offices
- Rental will match of the rentals of the surroundings
- Including the implementation of safety and amenity accessibility

## Weaknesses and Threats

- 'Sinkholes' (illegal/undesirable activities in nearby buildings)
- Crime





# The Budget of the Project





# The Budget of the Project



## Cost of Redevelopment:



Using the estimated valuation of the building to be R1,35 billion

Phase	Job Description	Total
1	Wall	R720,000
	Electric Fence	R180,000
	Boom Gate and Guard House	R1,000,000
	Labour	R2,000,000
2	Hotel	R200,000,000
3	Mall	R30,000,000
4	Office	R84,000,000
5	Recreation	R40,000,000
Total		R171,000,000,000

Total Cost = R171,000,000,000

Total R1,71 billion is meant to be a loan, that will be paid back to the bank over a period of 30 years at a current prime interest rate of 11%.

Monthly installments = R16,284,730.06  
With the addition of R4,000,000/ month for maintenance

Thus; total costs = R21,5 million

# The Budget of the Project

## Income of Redevelopment:

Using an 85% occupancy rate

	Total
Residential	R3,441,000
Retail	R5,640,000
Office	R155,040,000
Conference/ Recreation/	R2,500,000
Total	R27,145,000

- With the assumption of only getting 85% occupancy rate;  
Total= R23,073,250
- The proposed development is feasible after the monthly cost of R21,5 million;
- The profits will be;
  - Best-Case Scenario - +/- R5,646,000
  - Worst-Case Scenario- +/- R1,573,250
- Should the investor spend from their own pockets, they will be able to recoup their money in;
  - Best-Case Scenario : 63 months = 5 years and 3 months
  - Worst-Case Scenario: 74 months = 6 years and 2 months



# The Benefitaries and Constraints of the Project





# The Beneficiaries and Constraints of the Project

## Who will benefit:

- **Investor (Our Client)** would see substantial returns on their investment
- Workers(live close to work) and other as the high demand for housing in CDB will be met with a modern and safe building close to amenities such as the Carlton mall
- The government would benefit from our proposed office space as many of them can be housed in the one building and at a attractive rental rate
- Shop owners in the mall will receive an increased influx of customers as the renovation and new amenities will attract people to the area
- The property Market will also be brought up by this new development as well as the local economy.

## What are the constraints:

- Long construction period => during which income will not be received
- Hotel rezoning => may receive some objections
- Illegal building hijackers => may cause some issues during the redevelopment stages



# Conclusion

In conclusion, the property market is by far one of the most profitable markets in the world. There will always be a growing need for residences as population grows, need for retail and commercial use of space will also always be required by human beings regardless of how much technology alters the world.

As ubuntu properties, our establishment aims prioritizes coherent and well- structured services at the best value for our client and the overall consumers. We are very confident and believe that this venture will create and establish a very satisfactory investment return every year.

We will continuously come up with strategies, especially in terms of attracting consumers who will use this space along the process. We hope that we will be able to build a good loyal customer base every year.

Ana

[Sales@contoso.com](mailto:Sales@contoso.com)

