Cape Town's downtown continues to attract investors - report

R23.954bn of investment has, conservatively, been committed to the Cape Town Central City since the start of 2017. This is according to the latest edition of *The State of Cape Town Central City Report: 2017 - A year in review*. The figure includes developments that opened their doors during 2017 (R3.548bn), as well as those currently under construction (R4.550bn), in the planning stage (R1.630bn) or proposed R14.226bn). This is considerably up from the R16.232bn of investment noted in the 2016 report.

Image source: www.pixabay.com

Published for the sixth year in a row by the Cape Town Central City Improvement District (CCID), the report (which annually reflects on the economic climate in the CBD across the previous year), therefore indicates that, despite enormous economic pressure on the country, Cape Town's downtown continues to attract investors and maintain confidence in the property marketplace across commercial, retail and residential sectors.

Actual investment figure could be higher

Notes Rob Kane, chairperson of the CCID: "We always use the term 'conservatively' when we record the investment being made into the CBD because we only list costs for developments for which we have been able to confirm values. Not all developers are prepared to reveal the estimated values of the projects with which they are involved. Hence, the actual figure would be higher than what we release in the report, but we base our information on what is available in the public domain."

With the City of Cape Town's last official property valuation, released for the 2016/17 financial year, reflecting a value at the time of over R30.628bn, the new investments listed in the report at R23.954bn could see official property valuations in the CBD therefore close to doubling within the next five to ten years. "We know there is already more in the pipeline," says Kane. "The report reflects the figures known to us up until the end of December 2017. However, the Central City has come a long way since the publishing of the first report reflecting on 2012: in those days we only had a total of 10 new developments listed. The 2017 report now lists 48."

Commercial property performance

Commercial property has also held its own over the past year in the Central City, with the 2017 report reflecting vacancies at 9.9%, while retail vacancies across the CBD stood at only 7% for the year under review.

Says Carola Koblitz, CCID communications manager and the editor of the report: “We are particularly heartened that retail is doing well in the Central City as we know it’s a tough economy out there. Which is why, each year, the report also takes a close look at upcoming trends on the horizon so that we can pass these opportunities on to our retail community and prepare them for what lies ahead, for example, in the merging of online and in-store customer experiences.”

East City precinct blossoming

Among the opportunities taken up from previous reports, notes Koblitz, has been the rise of the CBD’s East City precinct: “Also known to the CCID as Precinct 4, this is the area that lies largely between the Grand Parade and the Roeland Street side of town.

“A year ago, when we released the 2016 report, we called Precinct 4 ‘the precinct of possibilities’. This was the precinct that originally saw a flurry of activity back in the mid-2000s when a number of old office complexes were converted into residential. But since the burst of the residential bubble around 2008, this precinct appeared to stagnate for a while. It has also traditionally been the precinct with the lowest residential sales prices and rentals, and where retail and commercial rentals have also been at the lower scale of those in the CBD.

“However, we also noted that this area has a very large residential component, with a high number of students and young professionals making it their home. It also has a large number of government departments with high numbers of staff and daily users, as well as several educational institutes, and yet – until a few months ago - very few retail establishments catering to the many and varied needs of this precinct’s different communities. Fast forward a year after publishing this information in the 2016 report, and suddenly the East City is blossoming. Residential blocks are seeing larger numbers of owner occupiers and the rand per metre square is climbing to match that being achieved in the rest of the CBD. Properties that for many years have been no more than warehouses and storage facilities are turning into trendy shops, office complexes and entertainment venues. Precinct 4 is now officially booming.”

Residential property remains strong

The report also indicates that residential property remains strong in the Central City, with those transferred during 2017 averaging R2.769m per unit (up 18.5% year-on-year from R2.337m during 2016). In terms of R/m^2, the 2017 report reflects an average of R41,287/m^2 (versus R33,921/m^2 during 2016).

“This,” notes Kane, “is a year-on-year increase in R/m^2 of 21.72%. However, we must also take into account that the average size of units has decreased – from 71m^2 in 2016 to 52m^2 in 2017. In other words, the Central City, as it gains in popularity, is following the same trend reflected in popular cities across the globe: residents are settling on smaller living spaces so that they can be part of a vibrant downtown.”

CBD market saturation point

However, stresses, Kane, developers thinking of bringing new residential units on line must understand both the CBD’s market saturation point as well as where the real needs lie. “During the course of 2017, a total 0f 205 units were transferred, but of these only 40 were sold for more than R50,000/m². More than half of these (102 units in total) still sold for somewhere between R20,000/m² and R39,000/m².

Koblitz adds: “So, while there is a call for smaller units, developers must remember that a CBD thrives on having a residential community of both owners and rental tenants that can afford to live in the CBD. Otherwise, we risk returning to the same scenario we experienced in the late 2000s when the international property bubble burst and many investors sat with leveraged properties they were unable to sell. Developers must therefore keep affordability in mind when bringing new units onto the market.”

View the full 2017 report.