BIZCOMMUNITY

Unlocking your property's potential zoning value

Local real estate investors are potentially losing out on untapped revenue because they haven't taken time to understand their property zoning conditions and the potential value locked in unexploited development rights, says High Street Auctions director Greg Dart.

The concept is simple; zoning directly affects the monetary value of your property, says Dart. And the effect is sometimes so dramatic that the sale prices of neighbouring properties which appear almost identical, can differ by thousands or even millions of rands depending on their zoning.

High Street Auctions director Greg Dart

“By law, every property in South Africa is zoned for a particular purpose,” explains Dart. “In a nutshell, your property’s zoning defines what you can and can’t develop on it.

“There are numerous zoning categories, but the main ones for private and corporate investors are – broadly speaking – residential, commercial and industrial.”

Profit zones

He says there are two avenues from which to leverage additional zoning value.

“A property’s current zoning is noted on its zoning certificate, but at High Street we’re constantly amazed by the number of property owners who don’t know what theirs is.

“Not knowing means you’re potentially losing money, because if you own real estate in a desirable location that you haven’t fully developed according to its zoning conditions, chances are a developer will be interested in taking it off your hands and pay handsomely for the opportunity.”

Dart says the second avenue to unlock value from zoning is to explore a property’s rezoning options.

“This is particularly important for long-term investors who have owned their properties for a decade or more, because there have been significant changes to municipal by-laws since the implementation of the Spatial Planning and Land Use Management Act (SPLUMA).

“One of SPLUMA’s requirements was that by 2020, every municipality in South Africa had to establish a land-use scheme in compliance with the Act. As a result of this spatial framework realignment, opportunities for new development paths have arisen in many areas.

“So even if you know what zoning category your property was assigned at the time of purchase, it’s worth contacting your local town planning department to find out if any new rezoning possibilities now exist.”

Dart says the rule of thumb in ascribing worth to zoning is the more you can do with a property in terms of use or expansion, the more valuable it will be to buyers.

Rezoning to broaden development scope can significantly increase property values. Source: Supplied

Zoning by category

For corporate and private investors, the main zoning categories are:

Residential:

- Residential 1 – The zoning that stipulates one dwelling per stand.
- Residential 2 – This allows for a density of between 10 and 20 dwellings per hectare (10,000m²) and is ideal zoning for
- cluster housing or townhouses.
- Residential 3 – Zoning permits between 21 and 40 dwellings per hectare, which is ideal for estates and larger complexes.
- Residential 4 – Zoning allows for between 41 and 120 dwellings per hectare and usually applies to apartment blocks.

Business/Commercial:

- Business 1 – Applies to general business, retail centres and malls. Has few restrictions, so owners are allowed to have almost any type of shop on site.
- Business 2 – Also zoning for retail, but with certain trade restrictions.
- Business 3 – A more restricted zoning that does not permit a wide variety of businesses to open and operate in a centre.
- Business 4 – Zoning given for office developments; most typically the thousands of office parks scattered across South Africa. Can also include a residential component.

Industrial:

- Industrial 1 – Zoning for factories, warehouses and storage hubs.
- Industrial 2 – Strict zoning for industries that involve noxious and/or unpleasant odours and emissions like abattoirs, tanneries and foundries.
- Industrial 3 – Zoning for specific applications such as specialist workshops or mini-factories.

To rezone or not?

Dart says while it is true that broader zoning latitude increases property prices, owners seeking to increase their resale values by way of rezoning should carefully consider their options before starting a process they can't reverse.

"You have to understand your market and the only way to do that is with expert advice.

"If you own a large Residential 1 property and decide to apply for Residential 2 rezoning, the process is going to be costly, intensive and long – up to two years in some districts.

"Imagine putting in all that time and effort, only to discover when you try to sell that the highest demand and highest prices being achieved in the area are actually on properties zoned for business."

Dart says changes in zoning can also affect rates and taxes that a property attracts so it is essential that there is a business case for rezoning land for enhanced rights that could incur higher rates and taxes.

"Sellers need to stay on top of market conditions, and educate themselves about both tangible and prospective value touch-points.

"Property owners must put zoning on the radar if they want to leverage maximum returns when they sell. There's unquestionably significant profit potential in unrealised real estate development rights."