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Sandton vs. the City

Property investors are re-aligning their perceptions of risk and return as apartment prices north of Johannesburg remain stubbornly high with minimal returns, whilst inner-city investments offer more affordable prices, solid returns and an almost assured occupancy.

A wide range of variables involved in an investment in the Northern suburbs, carry with them a certain level of uncertainty. Not only is there an over-supply of investment apartments, but purchase prices are high, and rentals are low relative to this price. More often than not, in an attempt to make a return, units are bought off plan and sold before they have even been transferred.

MD of Aengus Property Holdings, Richard Rubin said there is a great deal of risk involved for investors buying in residential areas north of the city. "I'm not sure the market in these areas is robust enough to guarantee healthy returns."

In contrast, Aengus Lifestyle Properties' (ALP - a company held by Aengus Property Holdings and JSE-listed ApexHi Properties Ltd) buildings offer investors and owner/occupiers the assurance of a complete set of services in affordable, top quality buildings with existing tenants. ALP will be selling some of its premium loft living space in Johannesburg, with up to 700 luxury lifestyle apartments available for purchase during the course of this year.

Aengus' city buildings are surrounded by major corporate and retail anchor tenants, which bring with them a certain demographic. "All of our buildings have 100% occupancy, with a waiting list of potential new tenants," Rubin said. Aengus buildings attract a high quality resident – all of whom are screened for suitability, and earn a minimum of R10 000 a month.

Rubin said that the Aengus buildings benefited from strong, experienced property management. "All our units are managed by Aengus Property Management (APM), an ISO accredited, Fidelity Fund Certified management company."

According to Aengus Operations Director, Gavin Meskin, APM will manage, maintain, let, and collect rent and levies in all of these buildings. Rubin said APM will continue to manage these buildings and their bodies corporate on behalf of Aengus Lifestyle Properties, as well as the investor, and owner-occupier market. ALP will keep a controlling stake in all of the corporate bodies, to which Meskin adds, "The major failing of many sectional title developments in South Africa is due to badly run, under-budgeted, bodies corporate, which have later become insolvent. Therefore buyer education, as well as control of the body corporate on behalf of investors and owner/occupiers is relevant to the security of any individual's investment.

Coupled with the positive climate for high-quality inner-city living, is Mayor Amos Maseko's commitment to uplift the city through projects like the Joburg 2030 smart city initiative, major investment driven by Blue IQ, and the 2010 World Cup.

"Given the outlook for the city, we believe Aengus units will see strong capital appreciation," Rubin said. "By contrast, many property commentators see the northern suburbs of Johannesburg as higher priced, with a much slower growth expected."

"Although the city is in a perceived high risk investment area, in reality it represents a logical investment destination. According to Meskin, "Serious developers have been flooding back to the city since the decentralisation to the North by Corporate Johannesburg. As a result there were a number of empty commercial buildings. Buildings were then bought and redeveloped a lot cheaper than one could develop as new-builds in the North. This allows for the benefit to be passed onto the investor as well the owner/occupier in redeveloped or converted residential buildings,"

"There is significant capital appreciation in an area that has experienced a major downturn, and is now being redeveloped. We are seeing the city being brought back to life by major investment, encouraged by renewed confidence in the area," according to Rubin.

Rubin said significant future demand for accommodation is likely, with more than 1 million commuters travelling in and out of the city every day, and very few of them able to find accommodation.

A typical Northern Suburb Development may offer units for between R1.1 million and R1.2 million, depending on the size and floor on which they are situated. These then rent for between R4 500 and R5 500. For the investor, returns before payment of levies are around 5%.

Aengus' smaller units offer a far better return. These units will sell for approximately R266 000 and are currently rented out at R2 500 p/m, representing a 11% return for the investor.

Aengus units will give existing tenants first option to buy the units. A survey the company conducted amongst tenants at its Lofts@66 development in 2006 indicated there would be strong demand for the units. "Almost 75% of respondents said that they would buy a property in the inner city," Rubin said.

The Urban Development Zone tax incentive which government introduced three years ago is an added incentive for all those investing in the city. "Government has now extended this benefit to the individual investor, which will provide for various income tax benefits for that investor which they will not enjoy in investment in the North," concludes Rubin.