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Route 21 Property update – Third Quarter 2008

Industrial and Office Property is “Hot Property” at the moment!

The effects of Eskom, high interest rates and economic uncertainty did not have the same effect on the office and industrial property sectors as other sectors and these will still be “hot” sectors for investors because of positive fundamentals, says property economist Erwin Rode, who was speaking at the annual Rode Property Conference in Pretoria earlier this month. He said this was due to the “*low vacancies linked with high replacement costs and low current levels of rentals*” in these property sectors.

Route 21 Perspective:

Route 21 Corporate Park’s current vacancy rate mirrors the Pretoria offices market which is at an all time low of 1.6%. The situation is likely to continue for the next 2 years. On top of the low vacancy rate, the park has also developed into a very sought after location for business as a result of our proximity and access to highways and our security infrastructure.

Developers and owners in Route 21 have seen Gross Rentals for the first time coming close to the magical R 100.00 per sqm national average for offices. We’ve also seen increase in asking rentals of close to 20% year on year. According to Rode, “*feasibility of new developments will have to be calculated on a gross rental of R 140.00 per sqm in order to make these projects worthwhile*”. This alone will push rentals on existing developments in Route 21 up even further by mid 2009.

Rode also predicts that cap rates for “A” grade offices, used by investors and banks to calculate a property’s value, will be in the range of 9% to 9.5%. At least one of the banks questioned last week confirmed that they are using a more conservative approach with cap rates of 10% to 11% to value office property in the same area.

Rode furthermore commented that “*investment in non-residential vacant land is still a good thing*” as we move into times of higher rental expectation. Commenting further that “*higher rentals will have a leverage effect*” on the value of vacant land.



Route 21 Rental Outlook for 2009:

An analysis of the Route 21 market rentals - asking prices for Des 2008 / Jan 2009 and actual contracts concluded indicated the following trends:

Office Space Nett Rentals	R 80 – R 85per sqm;
Warehousing and storage space:	Around the R 50 per sqm;
Operating Costs	R 10 – 12 per sqm;
Generator linkup:	R 4 per sqm;
Open Parking bays	R 250 - 260 per pay;
Covered parking bays	R 360 – R 390 per bay;
Basement parking bays	R 490 – R 510 per bay;

Should you have any questions or comments on any information contained in this report, you are welcome to contact myself on org@abacus.co.za or (012) 345 9200.

Kind Regards

Org Geldenhuys - Abacus Divisions

Commercial Property Developers / Leasing and Sales – based in Route 21.

Disclaimer: The views expressed in this report are those of the author and is not necessarily shared by the Route 21 Home Owners Association or the Board of Trustees.