

The Sandton story

With extensive development taking place and an increased influx of people into the already bustling node, is Sandton heading for oversaturation?

By Candace King

About 40 years ago, the prestigious node known today as Sandton was an undeveloped countryside affectionately named the “mink and manure” belt of Johannesburg, housing horse stables and a small but affluent community.

Today, Sandton is regarded as the richest square mile in Africa, and the business and financial hub of South Africa. Global high-end brands and giant multinational corporates call it home, and all the leading property developers and companies want a slice of the Sandton pie.

“In the mid-to-late 1970s, the Sandton area was primarily a peri-urban area consisting of smallholdings and residential properties,” explains Mel Urdang, director of retail and leasing at Liberty Properties. “But in the late 1980s, following the first set of extensions to the Sandton City complex, other developers

commenced with a number of additional office and hotel developments. In the mid-to-late 1990s there was a significant move of commercial occupancies from the central business district to buildings in the northern suburbs. This resulted in both the upgrading of old premises and development of new offices for many of South Africa’s leading businesses. The move of the Johannesburg Stock Exchange and several of the major banks cemented the area’s status as the commercial hub of South Africa.”

The Liberty Group is one of the biggest role-players in the node. Liberty is the majority owner of the Sandton City complex, which consists of retail (Nelson Mandela Square and Sandton City), hotels (Sandton Sun, Sandton Towers Intercontinental, Garden Court Sandton City) and office facilities (Atrium on 5th and the

Sandton Office Towers) as well as the Sandton Convention Centre. Liberty also owns offices (171 Katherine Street) and hotels (Southern Sun Katherine Street and Garden Court Morningside) on the outskirts of the node.

Currently, Sandton is said to be in its second development life cycle and further growth is being spurred on by several factors. According to Urdang, the current growth is being driven by the quality of the real estate coupled with the truly mixed-use nature of the precinct. There are retail areas, convention facilities, hotels and residential facilities all within close proximity, making the node a very convenient location. Positive infrastructural developments (such as the Gautrain) have further enhanced the demand to be situated in the node – and so Sandton continues to expand and develop.





New developments, especially offices, are mushrooming across the Sandton skyline, with many of the big names – Alexander Forbes, Sasol and Ernst & Young (now EY) – flocking to the CBD in recent months

“Most of the developments, both under construction and planned, will change the Sandton skyline in the next five years,” says Fran Teagle, director of the commercial brokering division at Broll. “It means a modernisation of the area, as old B-grade buildings make way for new, modern Green buildings.”

New developments, especially offices, are mushrooming across the Sandton skyline, with many of the big names – Alexander Forbes, Sasol and Ernst & Young (now EY) – flocking to the CBD in recent months. Although the overall office sector has experienced slow growth for some time, office development in Sandton is flourishing. According to the SAPOA/IPD Office Vacancy Survey Report for Q3 2013, Sandton’s office vacancy rate is at 8,5% on 1 500 000m² of rentable space, which is almost half of the global average.

Currently, about 135 000m² of space is available for leasing, which is 78% of the 174 300m² of new projects already confirmed. Furthermore, this space is set at a price of R165/m². This is having an effect on B-grade office owners as a lot of vacant B-grade space is being left open on the market. These owners will need to seek out alternative methods in which they can keep existing tenants or attract new ones.

Infrastructure challenges and possible solutions

Apart from the vacancy problem, spatial and infrastructure issues are looming. There is widespread concern that Sandton is fast becoming another Bangladesh in terms of stressed, damaged infrastructure, municipal woes, overwhelming traffic issues, and a heightened densification of people in the area.



feature

Q&A with Barrow Properties' CEO Paul Barrow and sales and development manager Jake Hoddinott

Q Does the widespread development taking place in Sandton pose a threat to the bustling CBD?

PB: There will be a movement towards the Sandton CBD becoming a mixed-use city, with people living and working in close proximity. The improvement in public transport will assist in alleviating the traffic problems associated with densification.

JH: Sandton is fast emerging as a more traditional CBD. Johannesburg is unique in that it has several core business nodes. Although the growth and densification of the Sandton CBD places pressures on existing infrastructure and capacity, it is creating South Africa's clear-cut financial district. From a commercial-property point of view, there does appear to be significant demand to have a Sandton address.

Q Is it possible that Sandton will become oversaturated?

JH: If current infrastructure is not upgraded, then yes; but developers try work with the local municipality and town planning divisions to improve localised infrastructure around each development.

Q Will the heightened influx of people entering and exiting Sandton cause backlog and damage to the roads?

JH: Most definitely, and this can already be felt. However, more and more people are using public transport and we are seeing a shift to choosing to reside close to places of work. This is expected to intensify and is primarily driven by factors such as rising fuel costs, e-tolls and traffic congestion.

Q Construction has caused severe traffic jams. On top of this, there have been power and water outages. How can these issues be solved?

PB: Unfortunately this problem is not specific to our major CBDs. There needs to be a coordinated effort by all concerned to address this.

JH: There needs to be more direction from council in accommodating development needs and resolving bottlenecks in the development process. For the growth and improvement of Johannesburg, municipalities and town planning need to work closer with developers to avoid disruptions and utility problems.

Q What is the best way to cater for the increased number of people and vehicles in Sandton?

JH: Create pedestrian-only areas where people are forced to walk short distances rather than drive.

Q How will the major attraction to Sandton affect neighbouring nodes?

JH: The growth of Sandton will likely draw businesses away from less established business nodes such as Rivonia. However, certain business nodes are holding their own – Rosebank and Melrose Arch are examples. These prime business precincts are attractive to businesses because of their ease of access and the equidistant location between the old Johannesburg CBD and the Sandton CBD.

Q What does the future look like for Sandton?

JH: Sandton is fast becoming a modern, first-world CBD. On the back of this, it has attracted – and will continue to attract – the head offices of large local companies as well as international corporations setting up regional offices in South Africa and Africa.



Fran Teagle, director of the commercial brokering division at Broll

About 100 000 people (and counting) are entering and exiting Sandton every day. The new headquarters of Sasol, EY and Webber Wentzel alone are expected to bring in 10 000 more vehicles a day. According to statistics, the number of commuters to Sandton is growing at an average of two percent per year.

With the increase of commuters comes road damage and traffic congestion. Furthermore, the sufficient supply of electricity and sewage capability will also be a major concern – will the current electricity supply and sewage system in Sandton be able to accommodate the influx of new people?

"The ongoing development of the node continues to put pressure on the road infrastructure within the area," says Urdang. "However, each new development is approved by the city and we are confident that the future needs of Sandton will be accommodated in this regard."

"Traffic is heavy at peak times as in all business nodes but to date the roads and public transport have coped with the demand," Teagle says. She adds that the current construction is a temporary inconvenience in certain areas where development is underway, and may persist.



15 Alice Lane

SANDTON & ENVIRONS										Committed new developments		
	Total rentable area (m ²)	Area available for leasing (m ²)	Current %	Previous months			Gross asking rentals (rands/m ²)			Total rentable area (m ²)	Area available for leasing (m ²)	Median asking price
				3%	6%	9%	Min	Max	Med			
P	329 921	8 500	2,6	4,5	0,9	0,9	165,50	165,50	165,50	173 407	135 407	190,00
A	928 172	88 318	9,5	11,3	7,5	8,9	85,00	205,00	130,00			
B	286 615	35 243	12,3	9,0	9,7	9,8	75,00	145,00	100,00			
C	-	-	-	-	39,8	39,8	-	-	-			
Total	1,544,708	132,060	8.5	9,6	7,9	8,6						

Source: SAPOA/IPD Office Vacancy Survey Report Q3: 2013

With regards to the electricity and water supply concern, she says most buildings now have emergency water supplies and generators to keep things going.

Amid the concerns, solutions are coming to the fore. Currently, the district is busy with a Sandton transportation study in an effort to find ways to make it easier for commuters. It has been mentioned that improvements could be made, for example by widening the roads or building a flyover at the Grayston Drive and M1 interchange. Other solutions include the encouragement of commuters and pedestrians to use alternative modes of transport, including bicycles, buses and taxis.

“The upgrade of Sandton City’s pedestrian entrances to the shopping centre recognises the positive movement towards a more pedestrianised environment within the Sandton CBD,” says Urdang.

Development of dedicated cycling lanes is being investigated and the Johannesburg bus rapid transit system, Rea Vaya, will begin construction of its Sandton route in 2014. Developers will also need to look into the construction of high-density residential and mixed-use developments in the node. One such development is Katherine & West – the latest building in the Sandton CBD to turn heads. Starting from R9-million and scheduled to be ready for occupation in April 2014, the development comprises eight storeys of AAA-grade commercial units ideal for small-to-medium businesses or a regional base of an international organisation. The top two storeys of this prestigious development accommodate seven luxury duplex penthouses. It is conveniently located next to the Sandton Gautrain Station.

Appointed sales agent of Katherine & West Kent Gush of Kent Gush Properties says that “Billions of rands have been earmarked for new office, retail and hotel developments near the Gautrain stations in Sandton Central and Rosebank. This is having huge spin-offs for both the existing property market and new residential developments.”



“Sandton’s residential property market is appealing to buy-to-let investors because of the area’s increasing demand for rental accommodation,” comments Paul Barrow, CEO of Barrow Properties, the developers of Katherine & West.

The future of Sandton

Development is a positive thing when it attracts a plethora of people and the biggest and best in the business and property worlds. The drivers of Sandton’s current success story need to be fully aware of the concerns, and need to deal with the outcomes in the most innovative and efficient way possible.

Urdang says that Liberty will continue to provide world-class office and hotel facilities and the finest of retail offerings within the node.

“Liberty is focused on continuously improving its investments within the area in order to ensure the properties remain iconic, thus meeting the needs of the area, its tenants and its patrons,” he says.

Teagle believes that Sandton’s future looks very positive. “We see this as the real growth node for the foreseeable future,” she says. “While most of the commercial sites are owned by listed funds and large developers, there is demand from smaller private companies to purchase office space in Sandton, and we believe that there is opportunity for development of more sectional title office buildings.”

One thing is certain: Sandton’s star power status is bound to remain intact for many years to come.