SAPOA

THE VOICE OF COMMERCIAL PROPERTY

MEDIA RELEASE FROM THE SOUTH AFRICAN PROPERTY OWNERS ASSOCIATION (SAPOA)

24 November 2014

Municipal rates and taxes an ever-increasing burden on property owners

Latest research into municipal rates and taxes confirms what landlords already know: municipal rates and taxes cost twice as much as they did a decade ago, and represent an ever-increasing slice of operating costs.

It's an issue fostering considerable concern, as the growth in rates and taxes has tracked at 2.5 times the inflation rate.

The *Rates and Taxes Report* prepared for the SA Property Owners Association (SAPOA) by analysts Investment Property Databank (IPD) examines commercial property rates and taxes in SA's eight largest municipalities and was released this week.

"Rising operating costs threaten the sustainability of net returns across the spectrum of commercial and industrial property investment," says SAPOA CEO Neil Gopal.

"Since the sustainability of the property sector is a key focus for SAPOA, we have been vocal in challenging the basis and consistency of municipal rates charged to our members."

To put some numbers around the issue, consider that total operating costs for commercial properties in 2014 averaged R47/m², of which R11.60/m² went to municipal rates and taxes. That means municipal rates and taxes effectively doubled in real terms since 2000, when rates and taxes accounted for R4.93/m².

As Gopal points out, the report concludes that rates and taxes are the second fastest-growing operating cost item for property owners and investors. Indeed, only electricity costs have risen at a higher pace.

"Real increases in rates and taxes have been especially pronounced in the retail sector. Since 2007, retail property rates and taxes have grown by inflation plus 11.6%," says Gopal.

The report pinpoints other trends that raise red flags for the property sector. While municipal rates and taxes largely moved in line with commercial property values during the early 2000s, before the global recession, the opposite has been the case ever since.

In recent years, rates and taxes in SA have increased at a significantly higher rate than commercial property values.

"By June 2014, that growth had resulted in an over-recovery of commercial rates and taxes of about 12%, and there is little likelihood the gap will close in the foreseeable future," explains Gopal.

SAPOA

THE VOICE OF COMMERCIAL PROPERTY

The analysis further finds a weak relationship between a property's market value and the level of rates and taxes levied. The largest mis-pricing is in the office and industrial sectors of the market – typically sectors where properties have unique characteristics that could impact their value.

The report notes that some smaller municipalities could change their rates policies to attract more built investment. Nelson Mandela Bay, Buffalo City and Mangaung all charge commercial property rates over two cents in the rand, a position that is not considered pro-business.

"A lower "cents in the rand" rate could act as a catalyst for increase investment flows," comments Gopal.

This is echoed by SAPOA's regional Chairman for KwaZulu-Natal Edwin van Niekerk, who believes that municipalities would do well to expand the rates base rather than simply increasing the burden on existing landlords.

"Rates and the cost of doing business are a key consideration in corporate location decisions. It's a balancing act that cities get wrong at their peril," he adds.

Still, as he underscores, it's important to consider the context of individual municipalities.
"Consider the case of Ethekweni, which has large areas of previously-disadvantaged communities and a significant need for infrastructure development," he elaborates. "It's not realistic to compare that with a municipality which is almost fully developed."

The challenge is that property rates and taxes are a key generator of revenue for municipalities. This year, property rates and taxes brought in 17% of total municipal revenue for the eight municipalities included in the study.

-ENDS-

Released by:
The South African Property Owners Association (SAPOA)
CEO, Neil Gopal
Tel: 011 883 0679
www.sapoa.org.za

Distributed by:
Marketing Concepts
Suren Naidoo
Tel: 011 783 0700