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IMPACT OF AUCTION METHOD ON PROPERTY DISPOSALS PROCESS

Economic Growth/Property Transactions/**DISPOSALS**

Making progress possible. Together.

INTRODUCTION

- The Property Transactions Department is the custodian of all municipal immovable property assets. Assets with in the City's property portfolio are, however, **deployed to the relevant and specific user-departments for operational purpose** and use with the responsibility to manage and control such assets.

- When an immovable property is effectively utilised it could be one of the most important assets within the **City's arsenal to ensure effective service delivery** by the respective user-departments.

- In the event immovable property is surplus to requirements, it is imperative that the City **leverages its immovable assets** to facilitate, support and drive other strategic objectives and goals.

- Immovable property is also understood to be a catalyst for **economic opportunity, for revenue generation, and enabling spatial transformation.**

- Good governance principles and leveraging the City's immovable assets to further the strategic objectives of the City, **demands effective tactical decision-making in respect of the planning, utilization and disposa**l of its immovable property assets.

- Therefore, **well preserved property and an effective disposal management system goes hand-in-hand with achieving the desired market response** to the release of City land.

Considering Properties for the Disposal (lease/sale)

Property readiness & Selection process

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PROPERTY SELECTION FOR DISPOSAL

STRATEGIC →

Strategic Informants:
- IDP (Data-driven land management initiative, Land packaging initiative , Accelerated land release initiative, etc.)
- Strategic projects (High-Impact, High-Value Projects)
- Policy decisions (Area/ Spatial Development Plans)
- Corporate/departmental directives/requests (Property Release Program, Non-residential properties in Housing Estates, Restaurant in Company gardens, etc.)

SUPPLY →

Supply Informants:
- Properties surplus to municipal needs / provision of basic municipal services in various services branches
- Surplus to operational requirements (parks, houses, etc)
- Properties handed over i.t.o Property Asset Hand-over Protocol by various branches and recommended for disposal/lease investigation by Director: Property Management

DEMAND →

Demand Informants:
- Property market performance (Macro and local economy, property sector performance, local area performance, etc.)
- Local community needs (Needs analysis i.e. social infrastructure, retail facilities, housing etc. and inputs from Sub-Councils, Councillors, public, departments, etc.)
- Planning documents (Area Plans, Framework Plans, Spatial Development Plans, etc.)
- Specialised and commissioned research (Feasibility /Market/ Vacant Land studies)

PROPERTIES IN A LETTABLE AND SALEABLE CONDITION

“The Property should be in a condition that would allow successful bidders the ability to commence trading or take up the beneficial occupation”

- The property must be in a reasonable physical condition or fit for purpose and free of contamination.
- The property must be free of vagrants/not invaded.
- Appropriately zoned for future use or consent uses must be in place.
- Property must have approved building plans/occupancy certificates for improved properties.
- Have the necessary compliance certificates in order to transfer properties to the new owners (i.e. beetle, plumbing, electrical, etc.).
- The property must be easily accessible.
- Compliance and approvals in terms of required Legislation are in place (i.e. environmental, heritage, decommission/demolition licences, etc.
- Restrictive conditions of title removed.
- Property beneficiation/land use approvals in place such as rezoning, subdivisions, consolidations, etc.
- Realignment of utility services where required.
- Bulk infrastructure available.

Legislative Framework

"Compliance with the legal framework is a jurisdictional fact"

LEGISLATION APPLICABLE TO THE DISPOSAL OF CITY PROPERTY

The disposal/lease of immovable properties is governed by the following legislation:

- Municipal Finance Management Act 56 of 2003 (MFMA) – Section 14
- Municipal Asset Transfer Regulation (MATR) promulgated in 2008 -Chapters 2 & 4
- Management of Certain of the City of Cape Town's Immovable Property Policy approved by Council on 26 August 2010
- Immovable Property By-Law approved by Council on 26 August 2010 as amended on 28 October 2015
- Supply Chain Management Regulations of 2005 – Section 40
- Consumer Protection Act 2008
- Consumer Protection Act Regulations 2011
- Financial Intelligence Centre Act 2001
- Council's Systems of Delegation as amended from time-to-time

Disposal Management System

City is obliged to follow a competitive process

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AUCTION PROCESS

- Notify appointed Auctioneer regarding envisaged auction
- Selection of properties from Disposal Program
- Conduct site inspections
- Gather property information
- Send preliminary property listing to auctioneer
- Request full market value and reserve price
- Have clarification meeting with Auctioneer to agree on mandate terms and conditions
- Evaluate marketing strategy and cost and sign-off
- Collate property information for auction investor pack & sign-off
- Draft sale / lease conditions per property
- Finalise rules of the auction
- Finalise Auctioneer's mandate and sign-off

AUCTION PROCESS CONTINUES

- Approval of material (i.e. newspapers, signboard artwork, brochures, etc.)
- Advertising period (i.e. at least 3-4 weeks prior to auction date)
- Send External Memo to Sub Council Chair, Manager and Ward Cllr
- Address public queries & collate interested parties inputs
- Finalize sale/lease contract
- Registration process prior to auction event executed by Auctioneer
- Auction event: Observe auction procedure and complete Record of Auction Bid document, highest bidders sign contract and pay deposit (i.e. agreed percentage of the purchase price)
- Post Auction: Check & Verify post auction report and auction documentation
- Draft Report (Acceptance of Auction Bid Offer / Non-Acceptance of Auction Bid Offer) to delegated authority/Council for decision.
- Draft notices of decision to the Bidder, notify bidder and monitor appeal period
- Confirm with Legal Services regarding appeal
- Conclude contract

Timeframe: 4-6 months

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Impact of the Auction Method

Exhilarating Auction Experience!

IMPACT OF AUCTION METHOD ON PROPERTY DISPOSAL PROCESS

1. Shorter Administrative Process

a) Simple and widely accessible bidder registration.

b) Effective property disposal due to shorter timeframes, as compared to traditional Tendering process.

c) Streamlined post-auction admin process - enabling property transfer in +/- 150 days (factoring in post-auction reporting & conveyancing processes).

d) 424 properties auctioned within the past eight years, worth total market value upwards of +/- R900 000 000.00 (excluding VAT).

2. Auctioning of Multiple Properties

a) +/- 2 auctions conducted per financial year; +/- 20 properties auctioned consecutively per auction event.

b) Choice of purchasing vacant or improved properties with varying zoning rights (e.g. Business, Industrial, Residential, Community etc.)

c) Multiple bidding platforms i.e. Online, via Auctioneer app, via telephone and/or in person.

IMPACT OF AUCTION METHOD ON PROPERTY DISPOSAL PROCESS

3. Live & Transparent

a) Auction process is open, in real time, and immune from manipulation / corruption - vs. Tendering process.

b) Effortless, legally compliant and fair public competitive process.

c) Open to scrutiny and enables instantaneous auction result notification.

d) Enables accrual of highest possible property rental and sale prices to the City.

4. Targeted Marketing & Better Marketing Reach

a) Auctions are widely advertised; City and Auctioneer responsive to public inquiries.

b) Simplified registration process; Auctioneer available to assist at every step.

EXHILARATING AUCTION EXPERIENCE!

IMPACT OF AUCTION METHOD ON PROPERTY DISPOSAL PROCESS

5. Convenient & Secure Online Bidding Platform

a) Virtual auctions streamed live.

b) Bidding is accessible country-wide and is cost-effective to online and telephonic bidding platforms.

6. Unprecedented Bid Offers & Post-Auction Negotiation

a) Auction mechanism limits wasteful expenditure previously resulting from multiple non-responsive tenders – subsequently cancelled due to procedural inefficiencies caused by:

- Cumbersome Tender process; and
- Non-responsive bidders.

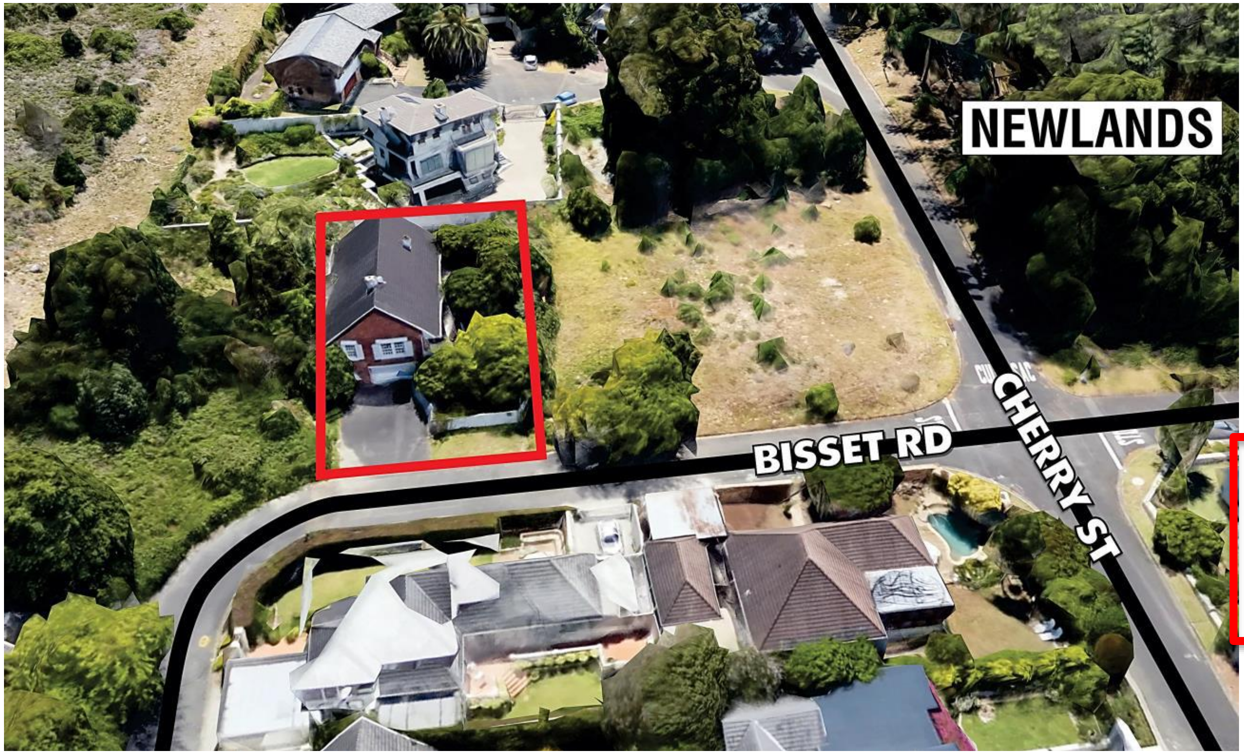
b) Release of properties to market via Auction (vs. Tender) has enabled:

- Achieving of unprecedented bid offers; and
- Negotiation opportunities between City and bidder – for City to achieve final market-related bid offers where initial highest bid offers are below reserve price.

NOTABLE EXAMPLES…

IMPACT OF AUCTION METHOD ON PROPERTY DISPOSAL PROCESS

Sale of an improved property



Property Details
Erf 104334, Cape Town, situated at 54 Bisset Street, Newlands
Auction Date
29 June 2023
Market Value (excl. VAT)
R5 250 000
Bid Achieved (excl. VAT)
R7 000 000

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Lease of improved property (Virgin Active)

Property Details
Right to lease and trade from portion of Remainder Erf 1056, Green Point, situated off Bill Peters Drive, Green Point. Initial lease period will be for 10 years, with additional 10-year renewal option after initial term. Subject to Council approval, additional 10-year renewal option may be authorised.
Auction Date
29 June 2023
Market Rental (incl. rates & excl. VAT)
R870 000 per month
Bid Achieved (incl. rates & excl. VAT)
R3 700 000 per month

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IMPACT OF AUCTION METHOD ON PROPERTY DISPOSAL PROCESS

Lease of improved property (McDonald's Restaurant)

Property Details
Right to lease and trade from portion of Erf 2188, Green Point, situated off Fritz Sonnenberg Road, Green Point, and not to the lease or sale of the existing business. Initial lease period will be for 5 years, with additional 5-year renewal option after the initial period.
Auction Date
20 June 2024
Market Rental (incl. rates & excl. VAT)
R170 000 per month
Bid Achieved (incl. rates & excl. VAT)
R420 000 per month

IMPACT OF AUCTION METHOD ON PROPERTY DISPOSAL PROCESS

Lease of vacant property (Tower Block)

Property Details
A long-term lease over a portion of Erf 270 Roggebaai, beginning with an initial 60-year term, followed by a 20-year renewal option, and an additional 19-year extension – thus culminating in a 99-year total lease period.
Auction Date
20 June 2024
Market Rental (incl. rates & excl. VAT)
R1 750 000
Bid Achieved (incl. rates & excl. VAT)
R1 000 000 per month
Negotiated Offer (incl. rates & excl. VAT)
R1 570 000 per month

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ENABILERS FOR A TRIPLE NET LEASE (Tower Block example)

Triple Net Lease means a fully repairing, maintaining and insuring lease agreement in terms of which the Lessee is responsible and liable for all operating costs, including but not limited to Municipal Services, rates, insurance premiums, internal and external maintenance and repairs, as well as capital expenditure relating to the Property as if it were the owner of the Property.

1. Lease period - must equate the investment amortisation (initial lease periods of 60 yrs)
2. Renewal options up to 99yrs
3. Conditions Precedent - allow completion for ‘unfinished business’
4. Rent free period – to complete beneficiation process
5. Deferred rental – during construction phase
6. Rental review of tendered offer – follow approval of development rights
7. Escalation of tendered rental – beneficiation period could take up to 3 years
8. Lump sum payment option at a capitalised rate of 9%
9. Structure – signature date, commencement date, rent commencement date
10. Sectionalisation of mixed use development – attract multitude of Investors
11. Perpetual rights option – on sale of residential units
12. Enabling works/investment in infrastructure/facilitation

KEY BENEFITS & OUTCOMES OF AUCTION METHOD

1. **Maximized revenue to the City**
   - Achievement of higher prices than if the properties were sold through private negotiations.

2. **Stimulation of the local economy**
   - Stimulating the local real estate market by attracting domestic and international investors.

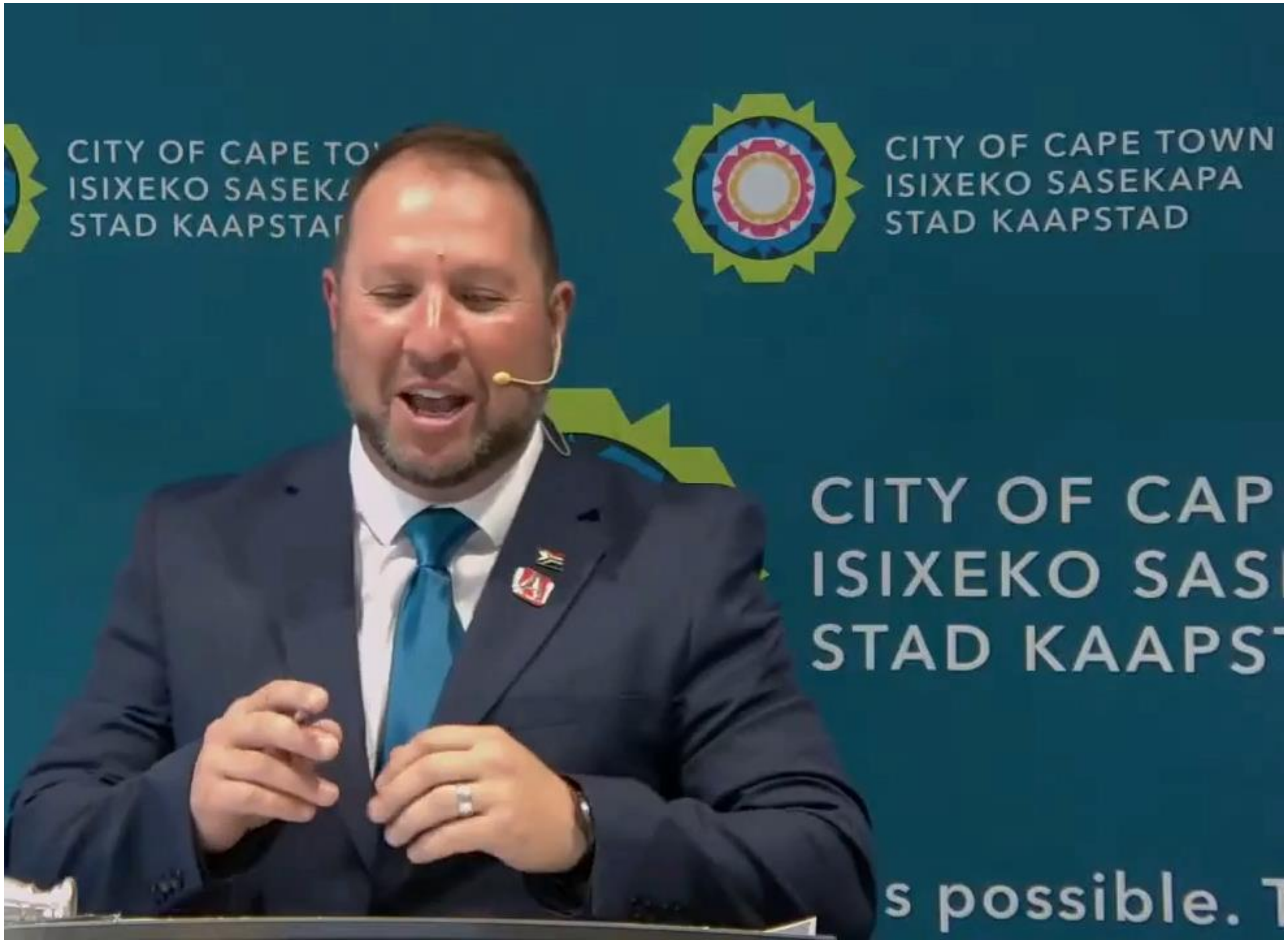
3. **Access to investment opportunities**
   - Auction method has made properties accessible to wider range of potential buyers, including investors, developers, and first-time homebuyers.

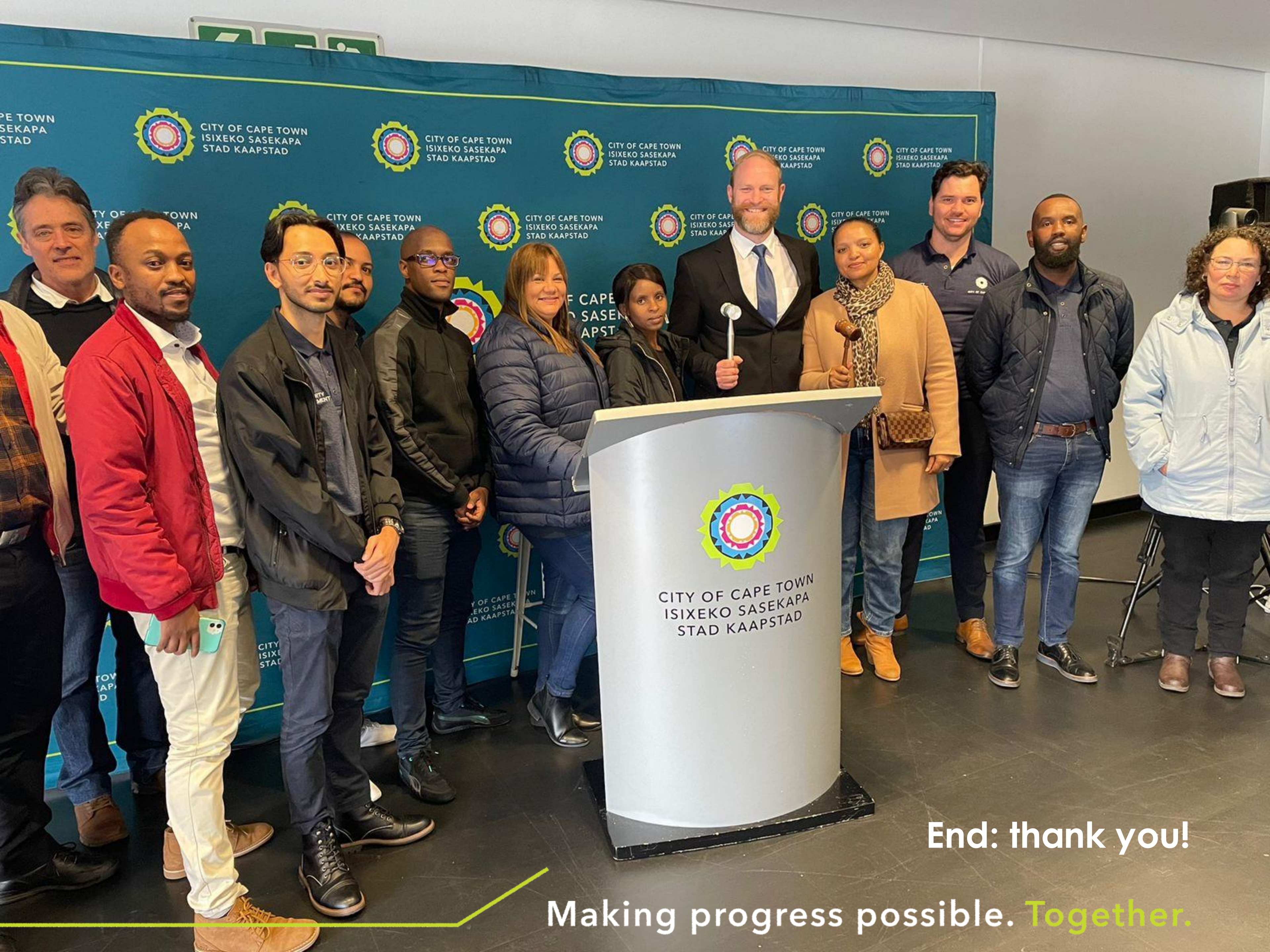
5. **Socio-economic benefits (from social care sales)**
   - Social care sales have contributed to increased social integration.

Dashboard: City of Cape Town Immovable Property Auctions 2016 -2024

NO. OF PROPERTIES PLACED ON AUCTION LISTING	MARKET VALUE (EX VAT)
2016	
27	R102 932.00
2017	
44	R42 770 000.00
2018	
32	R119 565 000.00
2019	
34	R35 975 000.00
2021	
55	R153 975 000.00
2022	
85	R106 505 000.00
2023	
87	R207 035 000.00
2024	
60	R288 115 000.00
TOTAL NO. OF PROPERTIES PLACED ON AUCTION LISTING	**TOTAL MARKET VALUE (EX VAT)**
424	**R954 042 932.00**

TENSION & EXCITEMENT OF LIVE AUCTION EVENT

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End: thank you!
Making progress possible. Together.