



PROPERTY ECONOMISTS & VALUERS

Glossary of terms and abbreviations

Updated 15 March 2006

PO Box 1566 Bellville 7535	Posbus 1566 Bellville 7535
South Africa	Suid-Afrika
Tel +27 (0)861 22 44 88	Tel +27 (0)861 22 44 88
Fax +27 (0)21 946 1238	Faks+27 (0)21946 1238
E-mail: info@rode.co.za	E-pos: info@rode.co.za

www.rode.co.za

Rode & Associates CC/Rode & Genote BK, Reg.no. 1987/020479/23 VAT/BTW no. 4480101791
ADVISORY BOARD/ADVIESRAAD: EPH BIEBER, DR TJ DE VILLIERS DE VOS, PROF GK
LE ROUX, PROF IJ LAMBRECHTS, PROF WH THOMAS, AJ VAN RIET. MEMBER/LID: EG RODE

Please click on a term below (or continue to the next page):

3

Arithmetic mean
Besa
BER BCI
Building construction
Bulk
Standard capitalization rate
CBD

4

Civils
Civil construction
Cyclical trend
Dec
Deflation
Deseasonalized
Discount rate
Disinflation
Escalation rate
Forward (income) yield

5

Geometric mean
Geometric mean return
Haylett index
Historic or trailing (income) yield
Hurdle rate
Index

6

Industrial-building grades
Industrial park
Initial yield

7

Internal rate of return (IRR)
JSE
Leaseback
Lessee
Lessor
Market rental
Market value
Mean
Median
Metro

8

MFA
n
N/A
Office building grades defined by quality of finishes and facilities

9

Office grades defined by gross market rentals as in December 2004
Office demand
Office stock
Office take-up
Office vacancies
Operating costs
Opportunity cash flow (OCF)
Outgoings (operating costs)

10

Price
PLS
PUT
Rental

11

Rent-free period
Required rate
Retail price
RR
Sapoa
SARB
Secular trend

12

Shopping centre configurations
Shopping centre types

13

Smoothing
Standard deviation (SD)
Stats SA
Time series
Total return
VAT
Wholesale value

14

Year-growth
Year 0
Year 1

Arithmetic mean: The most often used measure of central tendency, it is the simple average of a number of observations. Mathematically, it is equal to the sum of all values divided by the number of observations. For example, the arithmetic mean of 6 and 7 is $(6+7)/2$. The arithmetic mean of 6, 7 and 8 is $(6+7+8)/3$; and so forth. Outlier observations may unduly affect the mean. In the Rode publications all references to the mean refer to the arithmetic mean, unless otherwise specified. See also [geometric mean](#) and [median](#).

Besa: Bond Exchange of South Africa.

BER BCI: Bureau for Economic Research Building Cost Index. Measures pre-contract non-residential building-construction prices and as such it includes the profit margin of contractors. This index is one of the best indicators of the health of the building-construction industry. If it accelerates faster than input costs ([Haylett Index](#)), then contractors are stretching their profit margins as a result of sufficient work, and vice versa.

Building construction: The construction of buildings like houses, office blocks, factories, shopping centres, schools, hospitals. See also [civil construction](#).

Bulk: The [market value](#) of office and shopping-centre land is generally expressed as the value per *bulk* square metre. Bulk square metres refer to the gross building area (GBA) of a building. According to *The Sapoa Method for Measuring Floor Areas in Commercial and Industrial Buildings*, GBA covers: "The entire building area, but it excludes patios, plant boxes, sunscreening, escape stairs, machine rooms, parking (basements or above ground), lift motor rooms, service rooms, caretakers' flats, etc. GBA is mainly used by planning consultants in order to plan and execute a building in accordance with the permissible Floor Area Ratio (F.A.R) as derived from the zoning of the property. GBA is fixed for the life of the building but it should be noted that different local authorities may interpret the National Building Regulations which regulated the F.A.R definition in a slightly different manner."

Standard capitalization rate: It is the expected net operating income for [year 1](#), assuming the entire building is let at [open-market rentals](#), divided by the purchase/transaction [price](#), normally expressed as a percentage. This calculation ignores [VAT](#), transfer duty and income tax, and assumes a cash transaction (in contrast to a paper-based sale).

CBD: Central business district or downtown. This is an area of concentrated high economic activity. The user can differentiate between the metropolitan CBD (e.g. the Johannesburg CBD) and a decentralized CBD (like the Sandton CBD).

Civils: colloquial for [civil construction](#).

Civil construction: the construction of physical infrastructure like roads, bridges, dams, the laying of stormwater pipes, electricity and water reticulation. See also [building construction](#).

Cyclical trend: A short-term growth path of an economic variable. Normally refers to the business cycle, as distinct from a [secular trend](#).

Dec: Decentralized. A Rode abbreviation. Town and regional planners differentiate between local decentralization (from the metropolitan CBD to the suburbs) and regional decentralization (to outlying areas of the country).

Deflation: Deflation occurs when prices are declining over time. This is the opposite of inflation and could be catastrophic. When the inflation rate (by some measure) is negative for a period, the economy is in a deflationary period. See also [disinflation](#).

Deseasonalized: Seasonal fluctuations have been removed. In the case of retail sales, this is essential in order to be able to compare sales pertaining to different months of the year, as opposed to comparing sales of one quarter or month with the same quarter or month a year earlier.

Discount rate: The rate used to express an expected future cash stream in present-value terms. In most instances, the discount rate is equal to the [hurdle rate](#). Mathematically, the hurdle rate of a property is the sum of its market [capitalization rate](#) and the expected constant growth rate of its cash flow in perpetuity.

Disinflation: Disinflation occurs when the inflation rate is declining over time. See also [deflation](#).

Escalation rate: The rate by which a rental is hiked once a year in terms of a lease. The ruling market escalation rate can be seen as an attempt by the market to forecast the growth in market rentals over the duration of the lease, but this attempt is obviously rarely successful. Thus it is important to differentiate between an escalated rental and a [market rental](#).

Forward (income) yield: A bourse term, hence it is typically applied to listed properties. In the non-listed property market, its approximate equivalent is the [capitalization rate](#). It represents the expected net income of [year 1](#) (the following 12 months) divided by the current price/value. It stands to reason

that existing leases would largely determine the net income of year 1. See also [historic \(income\) yield](#).

Geometric mean: A measure of central tendency calculated by multiplying the series of numbers and taking the n th root of the product, where n is the number of items in the series. The geometric mean is defined only for sets of positive numbers. For example, the geometric mean of 6 and 7 is the square root of (6×7) . The geometric mean of 6, 7 and 8 is the cube root of $(6 \times 7 \times 8)$; and so forth. See also [arithmetic mean](#) and [median](#).

Geometric mean return: It is also called the time-weighted rate of return or the average compounded rate of return. It is calculated by taking the [geometric mean](#) of a portfolio's subperiod returns. Where there is a great variance in subperiod returns, this is a better return measure than the arithmetic mean return. Unlike the internal rate of return, it is not influenced by the timing and weights of money-flows.

Haylett index: A measure of the movement of all input costs in the building industry, especially material and labour costs. Designed to recompense the building contractor for in-contract rises in input costs. Official designation: JBCC CPAP Haylett Formula (Work Group 180). Does not include profit margins for contractors.

Historic or trailing (income) yield: A bourse term, hence it is typically applied to listed properties. It represents the net income of [year 0](#) divided by the current price/value. See also [forward \(income\) yield](#). In a market of rising net incomes the historic yield would be expected to be lower than the forward yield.

Hurdle rate: The minimum total return (income yield plus expected capital appreciation) required by potential investors to induce them to invest in a property. Also known as the [required rate](#). As such this is normally the correct rate to use when doing discounted cash flow (DCF) analyses. This is a similar concept to a company's cost of capital, and it is not to be confused with the cost of money (say, overdraft interest rate). One way of measuring the [total return](#) on an investment, ex post or ex ante, is the [internal rate of return](#) (IRR) method. See also [discount rate](#).

Index: Describes the method of standardizing the base for comparative data in a [time series](#), usually equating the initial measure to 100 and then expressing all other data in exact relation to that base, e.g. the index for office rentals in any year by comparison with a base-year value of 100 might stand at 90 or 110, indicating a fall or rise of 10% respectively.

Industrial-building grades:

- ¹ Prime: A property in which space is easily lettable because it satisfies each of the following prerequisites:
- a. Generally in a good condition;
 - b. Satisfactory macro access (i.e. access to freeway);
 - c. Satisfactory micro access (i.e. from street to building);
 - d. Proper loading facilities;
 - e. Eaves >4 m (excluding micro/ mini units);
 - f. Clear spans;
 - g. On ground level;
 - h. Adequate three-phase electrical power.

The eight conditions above are *prerequisites* for space to be considered prime. However, a building may possess additional enhancements that could improve lettability through increasing the size of the potential tenant pool. Such enhancements could include sufficient office accommodation, adequate parking, sprinkler systems, masonry up to sill height, adequate floor loadings, roof insulation, sufficient yard space and a good location (as opposed to access).

- ¹ Secondary: This is industrial space which is not classifiable as prime because it does not satisfy all eight prerequisites for prime space listed above. Such space is typically old buildings or structures, which have been haphazardly renovated. It would have poor access, too little yard space or office accommodation, inadequate goods lifts, no three-phase power and obsolete electrics and ablution facilities. Such space is often (but not exclusively) found in highly urbanised areas.

Comparative grading of industrial and office space	
Industrial	Offices
Prime +	A
Prime	B
Prime -	C
Secondary	D

Industrial park: An industrial park is a multi-tenanted complex of industrial buildings, typically surrounded by a security fence with access control and possibly some greenery.

Initial yield: The first year's expected net operating income (based on existing

leases and other income reasonably expected) divided by the purchase price. Therefore the initial yield and the [capitalization rate](#) are only the same in those rare cases where a building is let at open-market rentals.

Internal rate of return (IRR): A performance measurement that takes cognisance of the time-value of money. Technically, it is that rate which equates the inflows with the outflows of a cash flow. Also known as the money-weighted rate of return because the timing and weights of the money-flows influence the return. See also [geometric mean return](#).

JSE: JSE Securities Exchange South Africa.

Leaseback: A fully repairing and insuring lease (tenant pays all [operating costs](#)) for 10 years or longer (with typically 5-yearly rent reviews or fixed annual escalations) with a tenant with a strong covenant.

Lessee: A person or other entity to whom space is rented under a lease. A tenant. See also [lessor](#).

Lessor: One who rents space to another under a lease. A landlord. See also [lessee](#).

Market rental: The most probable rental that a voluntary, informed and prudent [lessee](#) will pay a voluntary, informed and prudent [lessor](#) in a normal open-market (arms-length) transaction, when neither party is under any compulsion to rent or let, other than their normal desire to transact.

Market value: The most probable price that a voluntary, informed and prudent purchaser will pay a voluntary, informed and prudent seller in a normal open-market (arms-length) transaction at the date of valuation – after allowing for proper marketing prior to the valuation date – when neither party is under any compulsion to sell or to purchase, other than their normal desire to transact. See also [price](#).

Mean: See [arithmetic mean](#); [median](#); [geometric mean](#).

Median: Midpoint of a series of observations when arranged in order of magnitude. Thus it is a measure of central tendency that divides the data set into halves. Less affected by outlier observations than the arithmetic mean. For example, the median of 5, 6, 7, 8, 9 is 7. And for 5, 9, 15, 16, 17, 21, 23 the median is 16. See also [geometric](#) and [arithmetic mean](#).

Metro: Metropolitan.

MFA: Medium-Term Forecasting Associates, construction economists located in Stellenbosch.

n: Number of respondents.

N/A: Not available — fewer than two respondents.

Office building grades defined by quality of finishes and facilities:

- ¹ Grade A: Generally not older than 10 years, unless renovated; prime location; high-quality finishes; adequate on-site parking; air-conditioning. Commands a gross market rental as indicated in the accompanying table. Examples are: Surrey House (Johannesburg CBD); Libridge (Braamfontein); 540 Pretorius Street (Pretoria CBD); Old Mutual Centre (Durban CBD); Safmarine House (Cape Town CBD); Southern Life Plaza (Bloemfontein); Nedcor (Port Elizabeth, Greenacres); Metropolitan Life (East London).
- ¹ Grade B: Generally 10 to 20 years old, unless renovated; accommodation to modern standards; prime location; air-conditioning; on-site parking. Commands a gross market rental as indicated in the accompanying table. Examples are: 11 Diagonal Street (FNB House) (Johannesburg); Noswall Hall (Braamfontein); De Bruyn Park (Pretoria CBD); Durban Bay House (Durban CBD); Foregate Square (Cape Town CBD); VSN Centre (Port Elizabeth CBD); Standard Bank (Germiston); Omni Centre (Bloemfontein); Standard Bank (East London).
- ¹ Grade C: Generally 20 to 30 years old, unless renovated; in fairly good condition, although finishes are not up to modern standards; good location; may have on-site parking; unlikely to be centrally air-conditioned; commands a gross market rental as indicated in the accompanying table. Examples are: 15 Loveday Street (Johannesburg CBD); Braamfontein Centre (Braamfontein); Maritime House (Durban CBD); St George's Centre (Cape Town CBD); Old Mutual (Port Elizabeth); Perm (Germiston); Lefko Building (Bloemfontein); Central Square (East London).
- ¹ Grade D: A building reaching the end of its functional life; old and in poor condition; near the bottom of the rental rate range; typically no air-conditioning and no on-site parking; may have good location.

These grades might be further sub-divided into sub-grades A+, A-, B+, B-, C+ or C-.

Office grades defined by gross market rentals as in December 2004:

Node	Grade A	Grade B	Grade C
Johannesburg CBD	> 39,00	24,00 – 39,00	20,00 – 24,00
Braamfontein	> 45,00	34,00 – 45,00	22,00 – 34,00
Pretoria CBD	> 40,00	29,00 – 40,00	23,00 – 29,00
Durban CBD	> 43,00	27,00 – 43,00	25,00 – 27,00
Cape Town CBD	> 66,00	42,00 – 66,00	40,00 – 42,00
Port Elizabeth CBD	-	19,00 – 26,00	15,00 – 19,00
East London	> 40,00	30,00 – 40,00	25,00 – 30,00
Nelspruit	> 55,00	45,00 – 55,00	32,00 – 45,00
Bloemfontein CBD	> 40,00	35,00 – 40,00	21,00 – 35,00

Office demand: **Office stock** less office space vacant (space on the market for renting irrespective of whether there is still a valid lease over the space). In other words, demand is office space occupied.

Office stock: Total rentable office space.

Office take-up: Change in **office demand**. Where take-up is positive, it can also be called the growth in demand.

Office vacancies: This is the floor area available for leasing at any given time, irrespective of whether there is still a valid lease over the space. Often expressed as a percentage of the stock in rentable m².

Operating costs: See **outgoings**.

Opportunity cash flow (OCF) : A valuation term introduced by Rode. The OCF quantifies the amount gained or foregone by the landlord in that the property is either over rented or under rented. More precisely, for each lease and the space that such a tenant occupies, it is, until expiry of such a lease, the present value (PV) of the contractual rental less the open-market rental (as at the valuation date) escalating at the open-market escalation rate (as at the valuation date).

Outgoings (operating costs) : In the case of office buildings, the following items are included under total *gross* outgoings, irrespective of who pays for these:

- ¹ Cleaning.
- ¹ Repairs & maintenance.
- ¹ Common-area electricity & water (not tenant's own).

- ¹ Security.
- ¹ Management (excluding head office overheads).
- ¹ All leasing expenses: broker's commission and in-house payroll, advertising, tenant installations & relocations (unless recovered), buy-outs, etc.
- ¹ Municipal tax.
- ¹ Insurance (fire & SASRIA). In the case of self-insurance, the landlord's provision should be included.
- ¹ Refuse & sewerage less recoverable amount.
- ¹ External & common area repairs & maintenance.
- ¹ Audit fees.

The following items are excluded:

- ¹ VAT.
- ¹ Head office overheads.
- ¹ Tenant's own electricity and water.
- ¹ Tenant installations/relocations recovered.
- ¹ Internal maintenance.
- ¹ Recoverable refuse & sewerage.

Price: The amount actually paid for an asset. Not the same as [market value](#), because special circumstances may have applied when the transaction was concluded.

PLS: Property loan stock, also known as variable loan stock (VLS) (type of listed property fund).

PUT: Property unit trust (type of listed property fund).

Rental:

- ¹ **Basic rental** (base rental in the USA): A set amount used as a minimum rent in a lease which also employs a percentage of turnover or other allocation for additional rent.
- ¹ **Gross rental:** The *total* rental payable by the tenant, *excluding* [VAT](#), the tenant's own electricity and water charges, but *including* other operating costs recovered by the landlord (if any), as well as promotion expenses payable by the tenant in the case of shopping centres. See also [rental, net](#).
- ¹ **Net rental:** The amount payable by the tenant, *excluding* [VAT](#) and *excluding* operating costs recovered by the landlord (if any). See also [rental, gross](#).

¹ Nominal rental: This has a dual meaning:

- Firstly, it refers to rentals where the analyst or valuer assumes no incentives like a [rent-free period](#), free relocation, cash upfront, or balance-of-installation allowance. It also excludes amortisation of tenant-installation costs.
- Secondly, it can also mean actual rental values (i.e. not deflated). See also [rental, real](#).

¹ Pioneer rental: The highest rental actually achieved – and could be a once-off outlier deal; hence “pioneer” is not “market”. The difference between pioneer and the highest market rentals may be used as a blunt tool to gauge the prospects for market rental growth in the short term. If the differential is positive, it is an indication of growth prospects in the node. If the differential is negative, it is an indication that landlords are finding it difficult to find new tenants at the going market rental rate.

¹ Real rental: Deflated rental, typically observations (values) over time (a [time series](#)) from which the relevant inflation has been removed. See also [rental, nominal](#).

Rent-free period: No rent is payable by the tenant for an initial portion of the term of a lease. It is offered by a landlord as a rental concession to attract tenants.

Required rate: see [hurdle rate](#).

Retail price: In the context of property syndication, this means the price at which a property-holding company’s shares are sold to the public or the price at which these shares trade. See also [wholesale value](#).

RR: *Rode's Report on the South African Property Market*, a quarterly journal for the professional property practitioner.

Sapoa: South African Property Owners Association.

SARB: South African Reserve Bank (viz. the central bank)

Secular trend: A long-term growth path of an economic variable, around which there might be short-term (business cycle) or other fluctuations. See also [cyclical trend](#).

Shopping centre configurations:

- ¹ Mall: Typically enclosed with common walkway between two facing strips of stores. This is the design mode for super regional, regional and most community shopping centres.
- ¹ Strip centre: Is an attached row of stores or service outlets managed as a coherent retail entity, with on-site parking, usually located in front of the stores. Store-fronts may be connected by open canopies, but there are no enclosed walkways linking the stores. Store configuration is either a straight line, "L" or "U" shaped. This is the design mode for most neighbourhood, convenience and value (power) centres.

Shopping centre types:

- ¹ Super regional: More than 100.000 rentable m² of shop space; substantial comparison-shopping; principal tenants are three or more major department stores; more than 250 shops. Examples are: Eastgate and Sandton City (Johannesburg); Menlyn Park (Pretoria); Gateway (Durban metro); Canal Walk (Cape metro).
- ¹ Regional: 30.000 to 100.000 rentable m² of shop space; principal tenant(s) are one or more major department stores; approximately 40 to 250 shops. Examples are: Westgate, Fourways Mall, Cresta (Johannesburg); Brooklyn Mall (Pretoria); The Pavilion (Durban metro); Sanlam Centre in Parow, Tyger Valley, Kenilworth (Cape metro); Greenacres (Port Elizabeth); Mimosa Mall (Bloemfontein); Vincent Park Shopping Centre (East London).
- ¹ Community: 10.000 to 30.000 rentable m² of shop space; principal tenant is typically a variety store (e.g. Clicks) or a discount department store (e.g. Dion or Game); approximately 30 to 60 shops. Examples are: Sunnypark (Pretoria); Musgrave Centre (Durban); Middestad Mall in Bellville, Meadowridge, Goodwood Mall, Constantia Village (Cape metro); Constantia Centre (Port Elizabeth); Brandwag Centre (Bloemfontein); Beacon Bay Retail Park (East London).
- ¹ Neighbourhood: 3.000 to 10.000 rentable m² of shop space; principal tenant is a supermarket; 15 to 40 shops.
- ¹ Convenience: 300 to 1.200 rentable m² of shop space; principal tenant is a café or grocer like Kwik Spar; 5 to 15 shops.
- ¹ Retail warehouse: Stand-alone; single tenant; > 10.000m²; air-conditioned, no ceiling, warehouse-like finishes, e.g. Makro, Hypermarket, Game, Dion.
- ¹ Value centre: Multi-tenanted strip centre; > 10.000m²; warehouse type

finishes in order to deliver lower prices to consumers.

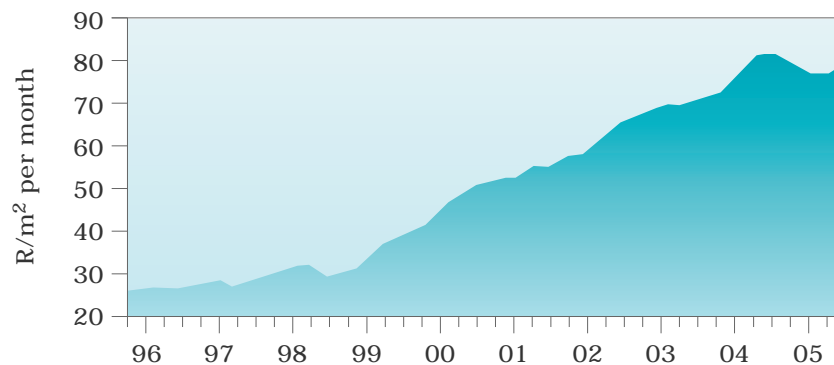
Smoothing: Removal of shorter-term fluctuations in a **time series**, by e.g. moving averages, exponential smoothing, or curve fitting.

Standard deviation (SD): A measure of dispersion. For instance, assume a **mean** of R10 and an SD of R1,50. This means there is a 68% chance the values will lie between $R10 - R1,50 = R8,50$ and $R10 + R1,50 = R11,50$.

Stats SA: Statistics South Africa, South African government's statistics department. Previously known as Central Statistical Services (CSS) and even earlier as the Department of Statistics.

Time series: A set of observations for the same variable at different times (see graph). The intervals or frequencies may be of any length, e.g. years or quarters for national-income or property data, monthly for prices, and weekly, daily, or even minute-by-minute for stock exchange prices.

A graphic portayal of a rental timeseries
Quarterly frequency



Total return: Normally measured over a year, in which case it is the income yield for the applicable year (net income in **year 1** divided by the purchase price or value in **year 0**) plus the change in capital value over that year. Also known as the combined return because it combines the income yield and capital return in one measure.

VAT: value-added tax.

Wholesale value: In the context of property syndication, this means the estimated price that a share or shares of a syndicated property-holding company would fetch (excluding winding-up costs) should the holding company be

dissolved and the underlying property sold as a normal, non-syndicated property.
See also [retail price](#).

Year-growth: Percentage by which figures have changed compared to the same month, quarter or year of the previous year.

Year 0: Refers to the year ended at the present time.

Year 1: Refers to the period from [year 0](#) to the end of the first year thereafter.

References:

1. International Council of Shopping Centres
2. Sapoa
3. Bureau of Market Research, University of South Africa