

Three cheers for an extended Gautrain

Geoff Blount, CEO of Cannon Asset Managers, takes an early look at investment opportunities that are likely to arise from the extension to the Gautrain network.

Unlike the scepticism that met the announcement of the initial 80km of Gautrain's routes, the additional 140km announced Gautrain, as part of the 25-year Transport Plan for Gauteng, has been excitedly received, even though building is only likely to be in several years' time. And this immediately begs the question about whether there are any investment opportunities that this announcement creates?

It's too early to make specific investment decisions: feasibility studies still need to be undertaken and are only set to start early in 2014, during which route specifics will be determined; design is also still to be worked out; and a budget will only be decided once the preliminary investigations have been concluded and there is more clarity on costings and funding methods.

But there are certain investment guidelines that will apply sooner, while others will need to wait for more detail - such as which companies are awarded contracts. The construction index rose 0.5% on Friday, but was most likely to do with the general market movement of 0.4%, rather than the Gautrain announcement specifically. While this is good news for the sector, it is really too early to know which companies will benefit and to what extent, but there are other aspects of the economy that will definitely profit from the news.

A global phenomenon

For an investor, there is a definite relationship between property and development assets around transport station nodes. This includes residential, commercial and retail property. And it is a global phenomenon. We witness the growth in property value as well as development intensity in all major centres around the world around transport nodes.

You will recall the negativity that greeted the first stage of Gautrain development. Property owners were in despair at the prospect of deteriorating (so they thought) land values. How wrong they were. The notion of asset depreciation was quickly dispelled once the realisation set in that safe, swift transport holds great advantage. Such properties now command a significant premium compared to others located further from a station.



Proposed Gautrain route extensions

[click to enlarge](#)

If you accept that Sandton is the new CBD for the Greater Johannesburg Metro, then this will allow for great densification of the district. One of the hindrances to greater density is the need to move people in and out of an area. Trains can bring in higher volumes of workers allowing the capacity of the city to rise markedly. We can, therefore, expect to see significantly more high-rise developments taking place, promoting greater urban intensification.

Residential property around the transport nodes becomes more attractive, once commuting becomes easier. The ability to travel quickly and easily from Boksburg, Irene, Fourways, Roodepoort or Soweto to the Sandton CBD will impact on property prices in those areas, but, ironically, won't take pressure off Sandton prices, given the accelerated commercial development that Gautrain will create for Sandton itself.

Gentrification taking place

Regeneration will also take place along the transport routes, in particular near stations. We are already seeing the benefits of the existing Gautrain development in an area such as Braamfontein where gentrification is taking place on a commanding scale and new life is being breathed into the once-tired suburb.

The route expansion will also have dramatic implications for the economy. Raising the mobility of one of the key factors of production, namely people, and (hopefully) reducing dead time in traffic, will lead to higher economic growth. And the gains are leveraged by the multiplier effect: for each rand spent on developing a system to move resources more rapidly and cheaper, the benefit to the economy is a multiple of that.

Much has been written about the benefits of higher urban density and, briefly, the advantages include maximising the use of land, enhancing the global image and status of the city, and strengthening its global economic positioning and competitiveness. This, in turn, leads to more general urban renewal and attracts inward investment. Support business is advanced, promoting jobs and economic growth. I'm sure that many can agree that the strategic advantage delivered by greater urban density would benefit both the Johannesburg Metro and the country as a whole.

Part of a holistic approach

It is important also to consider that Gautrain is not a standalone project, but one that is being developed as part of a holistic approach to urban transport. It will dovetail with the Passenger Rail Agency of South Africa (PRASA) Metrorail system and the Bus Rapid Transit systems planned and being implemented by the Johannesburg and Tshwane metros to form an integrated whole.

And while I am not convinced that this will lead to less traffic on the road, I believe that it will, at the very least, absorb the prospective growth in traffic, thus alleviating potential future pressure. Existing car use is unlikely to shrink, but I expect that this will slow its growth significantly.

This will have other spin-offs. It will reduce the need for a larger road infrastructure, which is already reaching its maximum capacity, enabling the capital that would require to be spent in more productive investments. It will also spare the environment to the extent that there will be less carbon, less pollution and less congestion.

For more, visit: <https://www.bizcommunity.com>