

CHAPTER TWO: TOWNSHIP TRANSFORMATION AND PROPERTY MARKETS

2.1 INTRODUCTION

South African townships have undergone a series of transformations since the 1900s. Public and private sector investment in these areas has increased and renewal has taken place. Township economies have developed on the back of township market development and improvement. Therefore, before the focus is turned toward this study's objective of identifying the impact that formal retail investment had on these areas it is important to understand how they developed and how the different types of markets operate in these areas.

2.2 TOWNSHIP TRANSFORMATION

Over the years, townships have developed an **iconic profile** in South African society, as the places where the **struggle for freedom** was waged, where many of today's **leaders**, including politicians, famous artists, business and sportsmen and women were **born and grew up**. They are also places where a **real sense of community remains**. Today townships across the country are known for their **vibrancy** in various aspects such as creative industries, mass transport activity, trade promotion and cultural heritage promotion¹.

Approximately 4.6 million households were living in townships across South Africa in 2005 – this represented 36% of the total number of households in South Africa at the time (12.7 million). A significant proportion of metropolitan households (50%) in 2005 were living in townships².

The extent varies per metropolitan area:

- ✓ Cape Town: 46%
- ✓ eThekweni (Durban): 38%
- ✓ Ekurhuleni (East Rand): 70%
- ✓ Johannesburg: 49%
- ✓ Nelson Mandela Bay (Port Elizabeth): 67%
- ✓ Tshwane (Pretoria): 42%

Townships have transformed over time – as evident from the township transformation timeline developed by DPLG and EU. Government and private sector investment also increased over time, particularly during the period 2005-2009.

Most large townships were built or significantly expanded by the apartheid government after 1950. Through the enforcement of the Group Areas Act (1950), accompanied by various elements of racially engineered town planning legislation, the government forced the entire non-white urban population to live in townships.

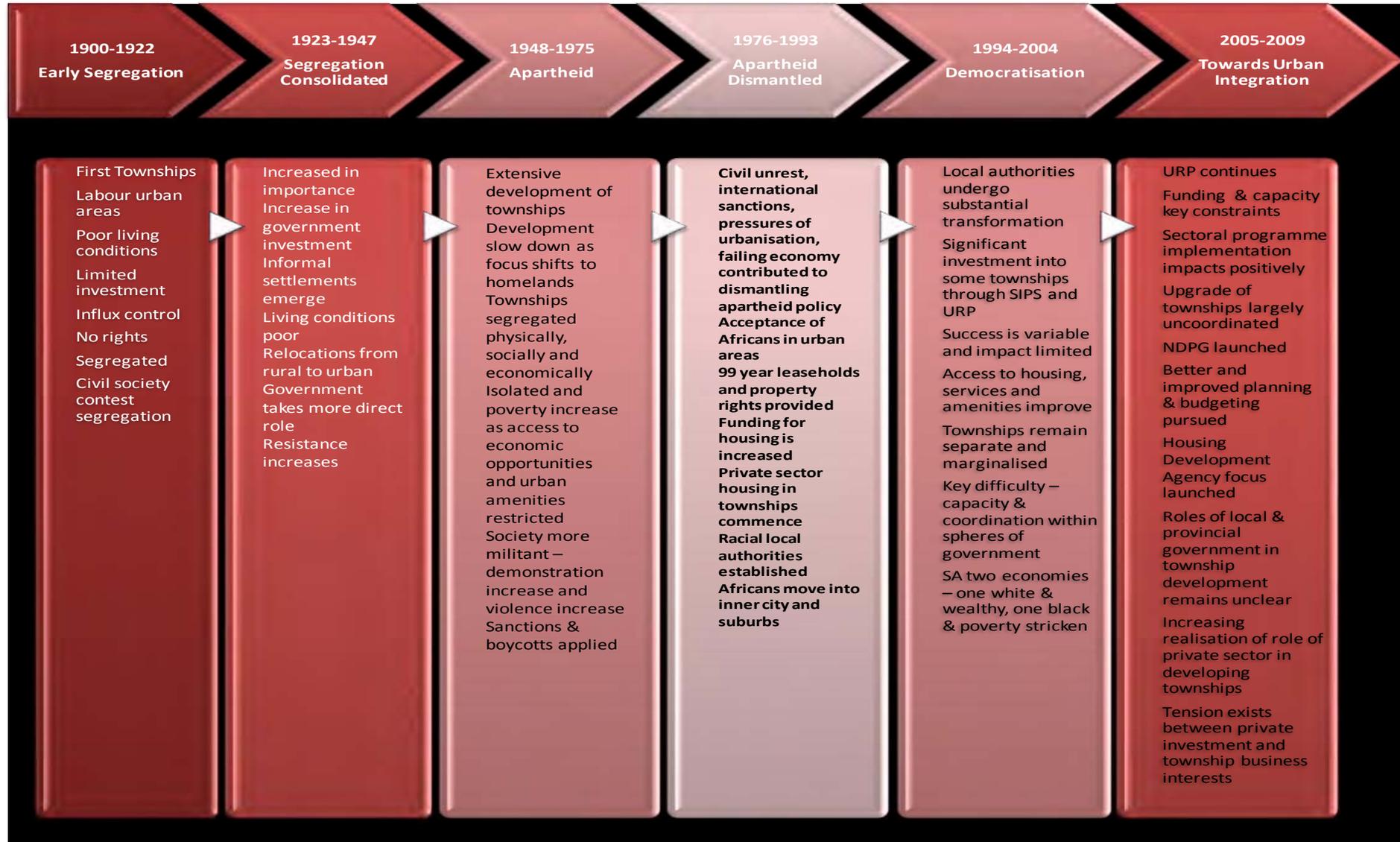
These regulations, alongside massive housing programmes initiated to accommodate a growing urban working class, underpinned the creation of townships and shaped South African cities in the unique way that we see today.

For black (African, Indian and coloured) South Africans, townships were areas of exclusion, control and containment, affecting every aspect of residents' lives. Most townships were linked to the city centre and industrial areas by a single road and possibly one railway line, which could easily be blocked if residents began to organise protests against these conditions.

¹ Source: DPLG and EU. 2009. Township Renewal Timeline. SA Cities Network.

² Source: DPLG and EU. 2009. Township Renewal Timeline. SA Cities Network.

Figure 2.1: Township Transformation Timeline



Source: Demacon Ex. DPLG & EU, 2010

After apartheid was dismantled a new trend emerged which was characterised by the following³:

- ✓ Townships remained spatially excluded due to the peripheral location of many and their limited transport links to the cities.
- ✓ In some cases, however, cities have expanded in such a manner that townships now form part of the city – examples include; Alexandra (Johannesburg) and Duncan Village (East London).
- ✓ New patterns of economic activity have developed, particularly since the early 1990s. Today, many cities are ‘multinodal’, with economic activity and workplaces concentrated in several locations.
- ✓ These structural changes affect townships in different ways. Many townships, especially those built in the 1970s and 1980s (e.g. Soshanguve in Pretoria, Mdantsane in East London and Botshabelo outside Bloemfontein) remain far away from work opportunities. Others find themselves close to new economic nodes (e.g. INK [Inanda, Ntuzuma and KwaMashu], which lies one freeway exit away from Umhlanga Ridge – the wealthy business/residential district of Durban).
- ✓ Proximity to urban growth nodes has, however, not resulted in integration or in visible development.
- ✓ Most of the townships that are well located have become the destination for large numbers of migrants moving from rural areas to urban opportunities, examples include Alexandra and Duncan Village.
- ✓ For apartheid’s planners, cheap and efficient movement of labour to and from employment opportunities was never a major factor. This has left South Africa with a very expensive public transport system – costly for township residents to use and for the state to subsidise.

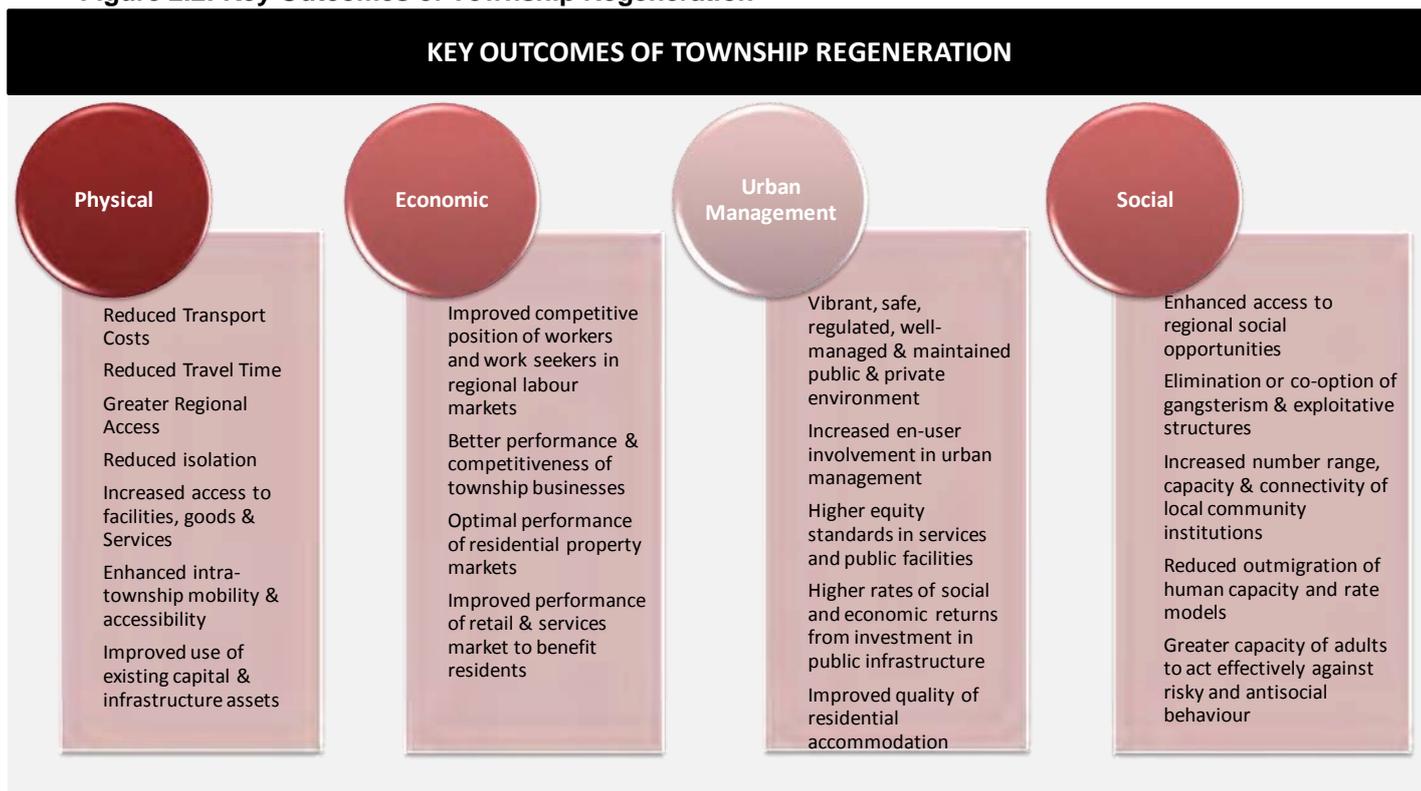
2.3 THE TOWNSHIP LANDSCAPE TODAY AND OUTCOMES OF TOWNSHIP REGENERATION⁴

- ✓ Townships are an ever-present part of the urban landscape in South Africa. The typical city or town will contain a mix of the following elements:
 - ✓ Core and frame (fringe/periphery);
 - ✓ Decentralised commercial centres and suburbs;
 - ✓ Industrial areas;
 - ✓ Upper- and middle-income residential neighbourhoods;
 - ✓ Declining residential neighbourhoods;
 - ✓ Townships and post-apartheid additions.
- ✓ Due to the historical social compression in racially segregated areas, old townships are socially, culturally and economically diverse.
- ✓ Many of the townships – especially larger townships – contain middle- and lower-income areas and scattered middle-income households.
- ✓ However, most township residents are poor and unemployment rates are very high.
- ✓ Income disparity is particularly evident and these disparities are growing.
- ✓ Clearly, the benefits of economic growth for township residents have been far below expectations. For many people, townships have become poverty traps.
- ✓ However, progress has been made with regard to government’s township regeneration strategies and approaches – refer to Figure 2.2.

³ Source: TTRI. 2009. Township Renewal Sourcebook. South African Cities Network.

⁴ Source: TTRI. 2009. Township Renewal Sourcebook. South African Cities Network

Figure 2.2: Key Outcomes of Township Regeneration



Source: Demacon Ex. SA Cities Network, 2010

It is essential to consider township markets when planning for renewal and economic development. Paragraphs hereafter focus on economic development in townships and highlight the interlinked markets that operate within this setting. They focus on the role of functioning residential and commercial property markets. They also examine how public and private sector actions can improve market efficiency.

2.4 TOWNSHIP PROPERTY MARKETS

Market: a set of arrangements by which buyers and sellers exchange goods, services or information; involves the interaction of demand and supply.

A market consists of:

- ✓ An institutional foundation (laws, rules, regulations, enforcement)
- ✓ Organisations which provide services (banks, financial institutions, loan sharks)
- ✓ Support organisations such as audits, legal, IT, and market research⁵

Property markets are influenced by four different markets:

- ✓ User market
- ✓ Financial market
- ✓ Development market
- ✓ Land market

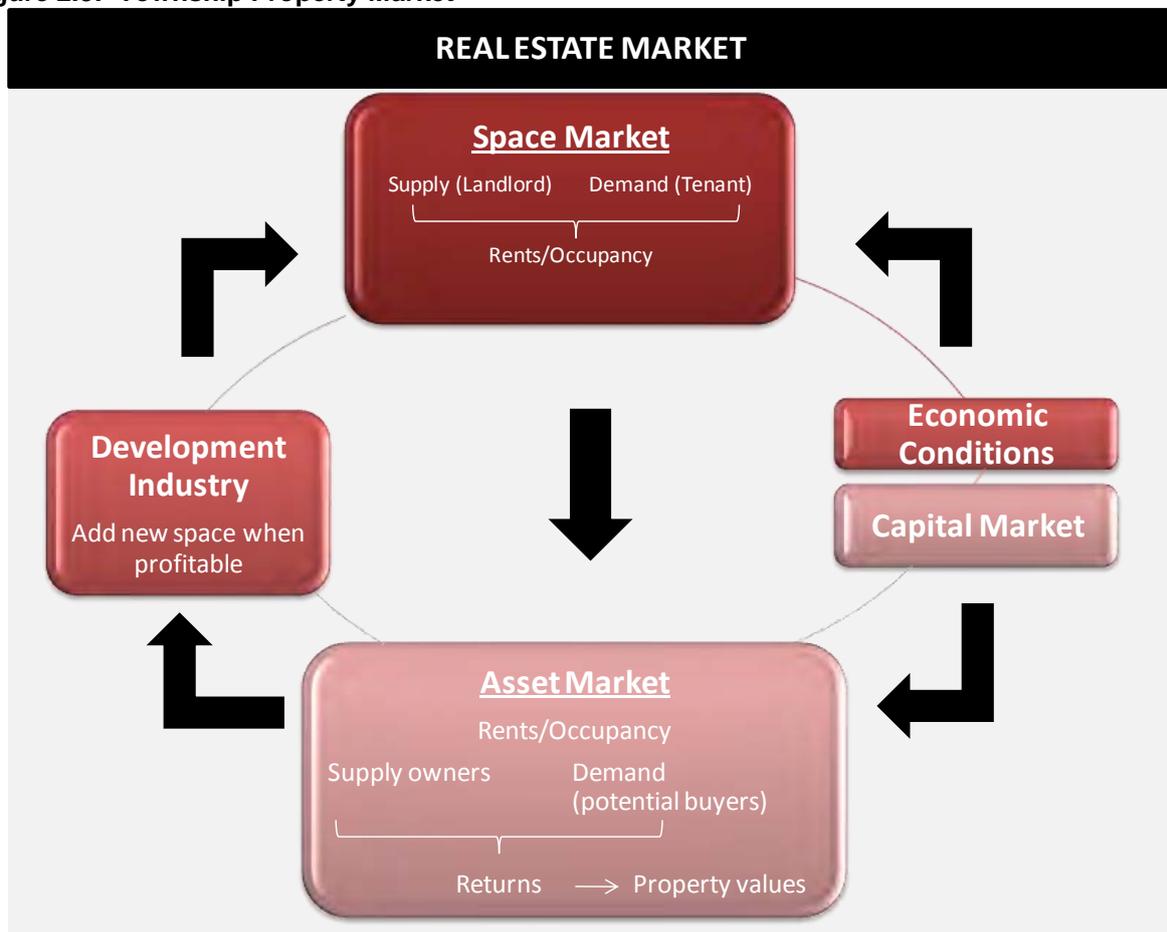
⁵ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury.

Property markets may be affected by the following⁶:

- ✓ **Economic conditions** – GDP growth, economic recession etc, which affect demand for space and conditions in the capital market;
- ✓ **User market:** increased demand can result in higher rentals;
- ✓ **Capital market:** conditions such as increased interest rates determine investor returns;
- ✓ The asset market, rentals and expected investor returns (capitalisation rate) translate **rentals** into **property values**;
- ✓ **Development industry:** triggered by rising or falling property values and rising or falling building costs. If property prices increase more rapidly than building cost, supply will increase;
- ✓ **Supply:** a rise in supply (if growth in demand slows down) can lead to an oversupply of space which could result in a decline in rentals and property values;
- ✓ Property markets are therefore affected by a combination of all of the above factors.

These impacts are indicated graphically in Figure 2.3.

Figure 2.3: Township Property Market



Source: Demacon Ex. TTRI, Understanding the economics of township property markets, 2005

⁶ Source: TTRI, Understanding the economics of township property markets, 2005

2.4.1 THE ROLE OF PUBLIC AND PRIVATE SECTOR IN THE MARKET

Market failure occurs when the market fails to distribute resources efficiently. State regulations and other interventions are often said to be distorting the market, which generates debate between the private and public sectors about what market failure is and when the state should intervene to improve distribution and competitiveness. This is also the case with the distribution of land and housing and the regulation of business. Both the private sector and the public sector have positive roles to play, which should lead to economic growth and less poverty⁷.

Access Frontiers

The access frontier is defined as the current maximum proportion of people in a society who could access a product or service, given the current configuration of costs and market structure⁸.

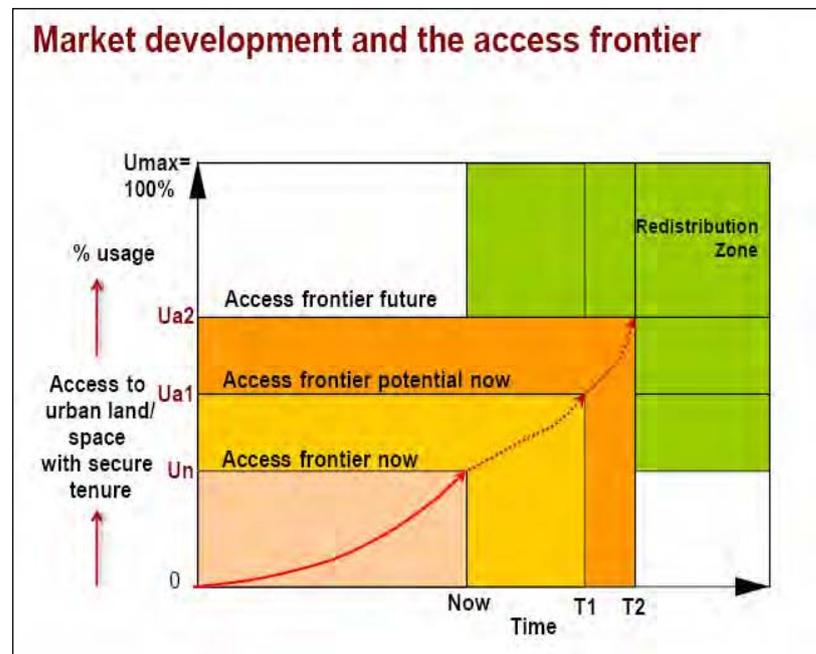
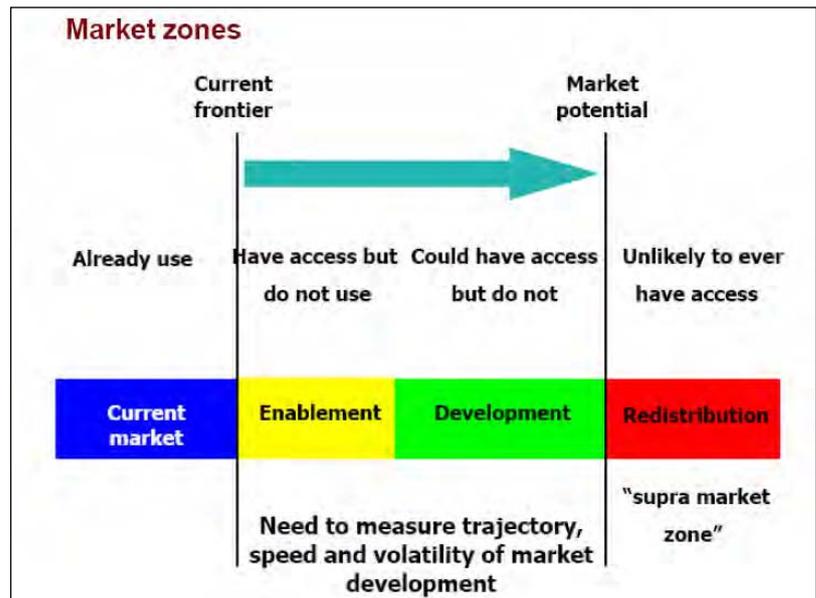
This segments the market for a product into four groups:

- ✓ Those who use it now;
- ✓ Those who could have it but don't want it;
- ✓ Those who are within the reach of the market now and in the foreseeable future if changes were made in the environment;
- ✓ Those outside of the reach of the market due to poverty⁹.

It focuses on how to increase the proportion of the eligible population who can access a product or service, such as land or urban services.

Three zones are distinguished in a market, based on the positions of current usage and current and future access frontiers:

- ✓ Market enablement zone;
- ✓ Market development zone;
- ✓ Market redistribution zone¹⁰.



There is a need to move the current access frontier to include more users in order to expand the market. In a healthy market, the frontier will move outwards over time, bringing new consumers into the market.

⁷ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury.

⁸ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

⁹ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

¹⁰ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

Policies need to be developed to ensure that the frontier is able to move outwards to increase the number of people served.

Those consumers who are beyond the reach of the direct market due to poverty, located within the redistribution zone, require government interventions. Interventions can be investing in infrastructure, good planning, skills development etc, and regulating the market and incentivising the market players where the market is not functioning well.

Government intervention can, however, have various impacts. Government action can crowd out private provision for all time – then the access frontier becomes a ceiling and the market cannot work further for the poor. But, if government intervention can meet the needs of the very poor, while maintaining the incentive for private firms to push the access frontier and remove barriers to market development, then government can reduce its fiscal liability.

2.4.2 TOWNSHIP MARKETS AND ECONOMIC DEVELOPMENT

Township economies consist of three aspects¹¹:

- ✓ **Welfare**, with high levels of dependence on social grants due to high unemployment;
- ✓ **The external economy**, i.e. employment outside the township;
- ✓ **The internal economy**, i.e. formal and informal enterprises.

Within townships, transaction costs are high, education is expensive and can be inappropriate, and the area is physically isolated from the city, with limited access to information and opportunities.

The outcomes of township economic development:

The outcomes of township economic development can be discussed in terms of two aspects: increasing net township financial flows and increasing the internal circulation of money in townships.

- ✓ **Increasing net township financial flows¹²:**
 - Township economic development will increase the demand for township residents in external labour markets;
 - It will enable townships to retain higher income households and to attract new wage earners as residents of townships;
 - It will increase sales to township enterprises from external markets.
- ✓ **Increasing the internal circulation of money in townships¹³:**
 - It will intercept retail expenditure by township residents at 'in township' centres, reducing the leakage of buying power from these areas;
 - It will contribute to the expansion of the range and competitiveness of goods and services provided by township enterprises;
 - It creates property investment opportunities in the township for residents and commercial enterprises;
 - It increases the number of local jobs within townships.

Increasing the flow of money into and within townships reduces the overall levels of poverty as more people are brought into the functioning market system. If the state enables the necessary supporting structures, the increased flows of income will stimulate markets such as the residential and commercial property markets and promote overall economic development.

¹¹ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

¹² Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

¹³ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

Township economies can be grown in three ways:

- ✓ **Creating new enterprises;**
- ✓ **Attracting investment from outside;**
- ✓ **Growing existing businesses.**

In order to shed some light on the property markets the residential and commercial markets and underlying trends are discussed in the following section.

2.5 TOWNSHIP RESIDENTIAL MARKET

The need for housing or shelter is one of the most basic needs for all humans. When these needs are met, people can afford to spend resources on aspects such as personal and financial security, house improvements etc. This is a process that can create household wealth and ultimately economic growth. The aim is therefore to ensure that the need that people have for houses is catered for, as this will enable households to contribute to the local economy through wealth creation.

According to Bauer (2000), economic development can be created where private property is secure, and this will ensure that investment will follow. Where it is absent less investment is evident. Mises (1921, 1947, 1949) argues that without private ownership there can be no exchange. Without exchange, there are no exchange ratios, i.e., market prices. Without market prices, rational economic calculation is impossible. And without economic calculation, there is no way to ensure that resources will tend to flow to those areas where actors need them most. The institution of private property is what allows for market prices, which in turn enable the rational allocation of resources.

Given the above statements it is evident that property is one of the tools that can create economic wealth for households. Property is a fixed asset that can realise:

1. Capital growth;
2. Financial leverage.

Finance can be obtained in a number of ways, of which loans are the most common.. The role of property in capital growth and leveraging is an important aspect and contributes to people's ability to get financing. Leveraging can also be done through a bond on a home while capital growth could ensure additional income over a period of time. Through the provision of finance, entrepreneurs and businesses can leverage the finance by investing in business opportunities.

It is known that the value of property increases over time. At a certain point (A) during the repayment of property, the repayment and value of the asset are at equilibrium. After this point the household has the ability to refinance the home at the current market price and by doing so, increases its spending power.

The additional finance received from the re-financing leverages the income of the household above its current potential. This means that the household can now use the finance to:

- ✓ Increase its demand for durable / luxury goods and services;
- ✓ Finance a new vehicle;
- ✓ Acquire an additional property which can be used for investment purposes;
- ✓ Start a small business;
- ✓ Pay off debt, etc.

Therefore, it is important to acknowledge the performance of the residential market in township areas.

South African residential elements of a township include:

- ✓ Old township houses;
- ✓ Hostels;
- ✓ RDP houses;
- ✓ Informal settlements;
- ✓ Vacant land suited for residential purposes;
- ✓ To a lesser extent, middle income/gap housing.

Financially versus Socially Dominated Markets

Financially dominated markets¹⁴

Financially dominated markets are generally inaccessible to the poor due to:

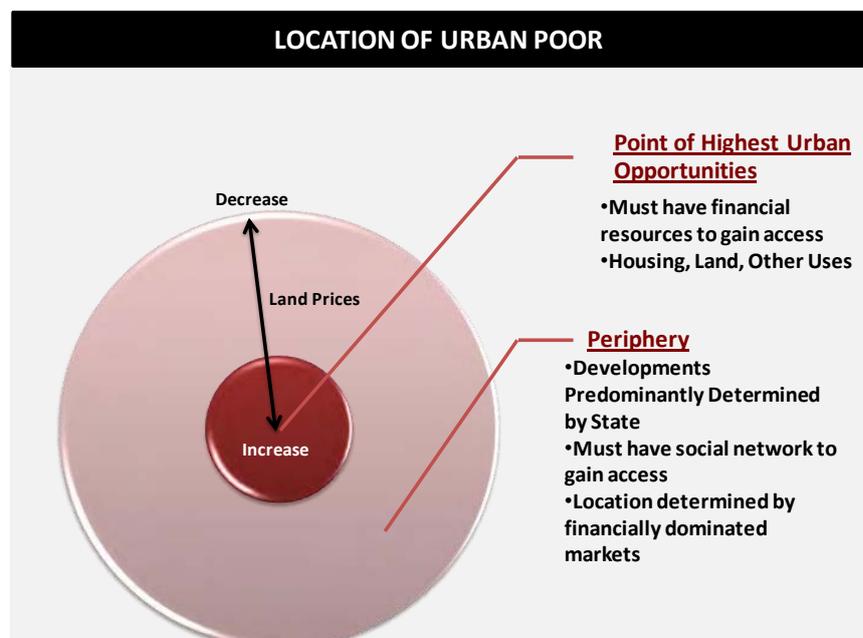
- ✓ High land values;
- ✓ Land regulations which protect former white areas;
- ✓ High costs of accessing land (specialist skills and legal costs);
- ✓ The setting of price dominates the supply and demand of land.

Socially dominated markets

- ✓ Land markets operate outside traditional formal areas in:
 - *informal settlements*;
 - *RDP projects*;
 - *backyard shacks*;
 - *traditional authority areas*.
- ✓ Social relations are more dominant than financial relations;
- ✓ Socially dominated markets are organised and functional;
- ✓ Transactions are highly responsive to state action;
- ✓ Supply and demand of land is mediated more by social relations.

It is important to understand that the location choices of the poor are limited by a number of factors:

- ✓ Financially dominated markets in relation to the delivery of mass housing on the periphery;
- ✓ Financially dominated markets and the individuals' ability to pay – the ability to pay is directly proportional to the freedom to choose;
- ✓ Primary value for the poor is access to future development - driven by the need to secure a foothold in the city;
- ✓ Extent of social networks.

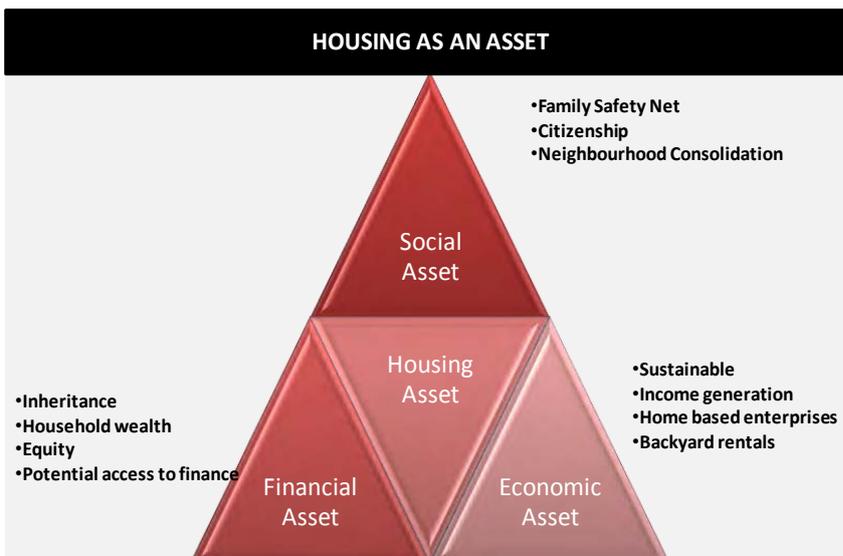


¹⁴ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

It should also be understood that housing represents a social, economic and financial asset to households in second economy areas.

Housing as Economic Asset – Case of SSLs and HBEs¹⁵

Housing in South Africa is an economically productive asset, offering opportunities for income generation and poverty alleviation – not using a house as collateral but rather as a business venue.



- ✓ Current policy in SA: **recognises the need to support the growth and development of private enterprise** – particularly SME's – home based enterprises (HBEs) and small scale landlords (SSLs);
- ✓ House provides a **critical platform for use by small scale landlords** who supply and manage affordable rental housing and promote income generation and wealth creation;
- ✓ **SSLs provide substantial development outcomes [accommodation and income generation];**
- ✓ SSLs mainly operate in the informal economy – to formalise and grow they need an **enabling environment, access to finance and business support;**
- ✓ SSLs operate in the **private sector**, earning income and profit. Funding provided should encourage and support **investments made to create new stock or improve existing stock**. Government funding should be aligned to incentives rather than subsidisation through the National Housing Subsidy Programme;
- ✓ Up to **355 000 home based enterprises** are active in townships and inner vities – comprising 13% of total population of these areas and generating approximately R476 million per month;
- ✓ Rate of entrepreneurship is low – indicating that there is **untapped opportunity;**
- ✓ Services provided are affordable, personalised and appropriate to local residents;
- ✓ House provides a **critical platform for enterprise/business activity – offering opportunities for income generation and poverty alleviation;**
- ✓ **The house is generally not used as collateral, but as a venue for business;**
- ✓ The limited use of houses means there is untapped opportunity;
- ✓ Value exists in supporting existing HBEs and promoting new HBEs;
- ✓ To achieve this regulation and support for HBEs must be changed.

2.5.1 GENERAL CHARACTERISTICS¹⁶

- ✓ Many township residents have invested significantly in their homes.
- ✓ Banks have begun to provide bonds in townships, but selling and buying remains difficult because transferring properties is a long and tedious process.
- ✓ Townships are characterised by stable ownership structures with owners having limited interest in selling their houses.
- ✓ Most township houses are paid up and are therefore an affordable, secure place to stay.
- ✓ They may constitute family homes that are often inherited, and the legal owners may feel obliged to keep the house for the benefit of the family.
- ✓ In addition, many use their properties to run businesses and/or to generate income by letting out rooms or backyard shacks.
- ✓ Houses represent social, economic and financial assets.
- ✓ With regard to housing, the emphasis has been on dealing with the backlog for lower-income houses, while commercial housing investment opportunities have often been ignored.

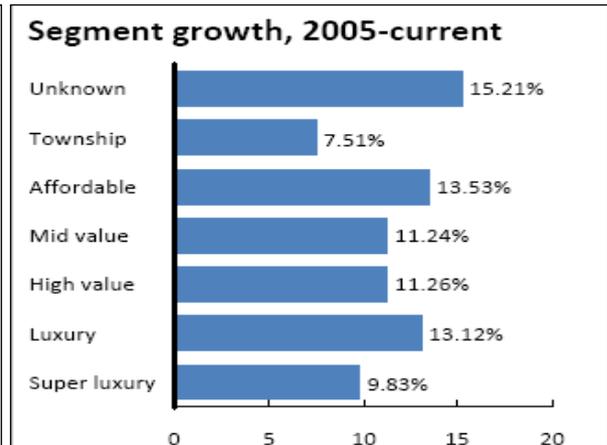
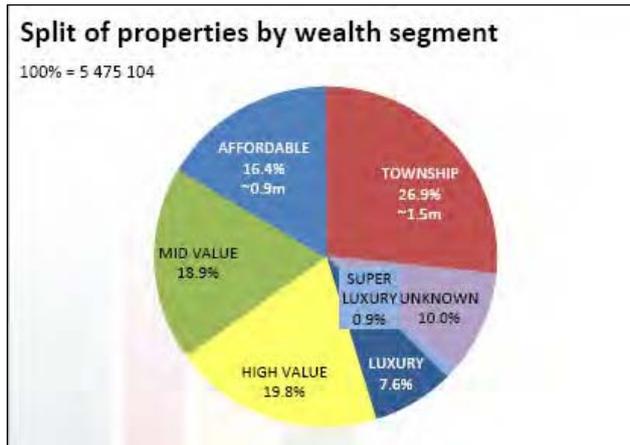
¹⁵ Source: Shisaka Development Management Services in association with CSIR Built Environment. Housing Entrepreneurs – Key Findings and Recommendations

¹⁶ Source: TTRI. 2009. Township Renewal Sourcebook. South African Cities Network.

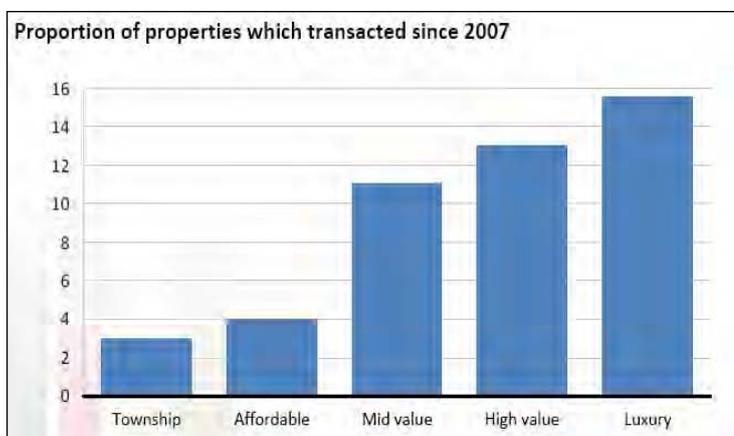
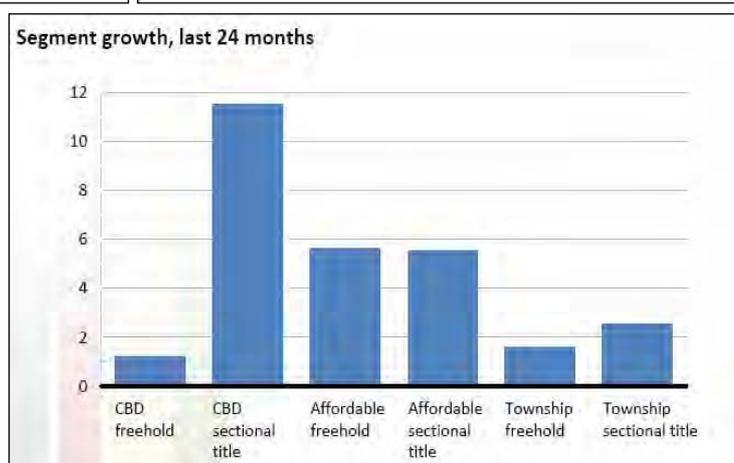
- ✓ Many townships have large areas around the town centres that cannot be developed solely as retail areas.
- ✓ They offer great prospects for small and large investors in the provision of infill and mixed-income housing. This will also help to attract new and retain existing, middle-income earners.

2.5.2 GENERAL TRENDS PERTAINING TO TOWNSHIP RESIDENTIAL STOCK¹⁷

- ✓ In terms of market research that Lightstone conducted on current property trends at the lower end of the market in October 2009, the following were found:
- ✓ Area value bands track house price inflation in areas with different average values: luxury (>R1.5m); high value (R750k-R1,5m); mid-value (R250k-R750k) and affordable (<R250k)

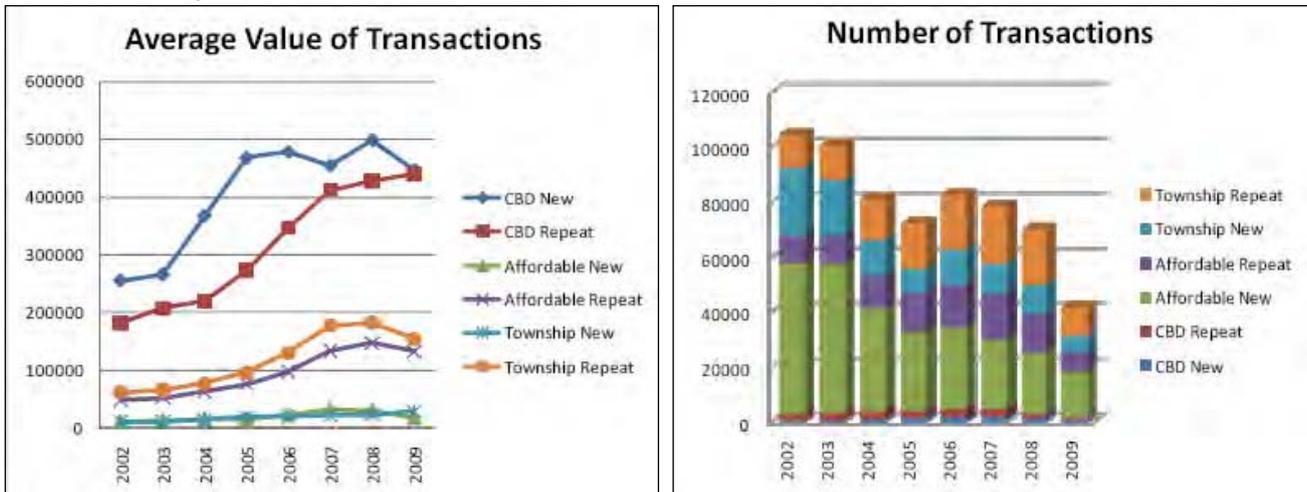


- ✓ Stock growth has been quite even across the different value segments. Township growth has probably been restrained by density/ growth boundaries.
- ✓ There has been substantially stronger growth in CBD sectional title than in any of the other 'development' areas.
- ✓ Although the affordable market's house price inflation is still increasing 10.8% year on year, monthly data is very volatile with the most recent figures indicating that the inflation in this segment will continue to drop.
- ✓ Higher value markets tend to be much more liquid, probably due to access to finance, while lower value markets are also less likely to trade for cultural or social reasons (e.g. houses remain in family, subsidy housing sales restrictions).
- ✓ Total monthly residential transfers have dropped from R25k to R10k.
- ✓ Contrary to popular belief, average transfer values have remained fairly consistent at R750k.



¹⁷ Source: Lightstone, 2009. Property trends at the low end of the Market. Urban LandMark Conference.

- ✓ Low end volumes have held up relatively well through the cycle, despite a significant drop in 'new affordable' properties post 2003.
- ✓ The CBD has realised the highest values with township properties also running up strongly over the period.



- ✓ The proportion of bonded transfers has dropped from 75% in late 2007 to 55% in mid-2009.
- ✓ Bond penetration is very low in the township and affordable segments, owing largely to historical issues like RDP/BNG housing and transfer of 99 year leases.
- ✓ The mix of reduced transfer values and lower bond penetration has driven total monthly bond value from R12 billion in late 2007 to R4 billion in mid 2009.
- ✓ While CBD, affordable and township properties only represent 25% of SIE notices, they have a higher 'notice rate' than other properties. Distressed sale discounts are deepest in affordable and township markets, but appear to have stabilised.

2.5.3 COMMON PROBLEMS WITH TOWNSHIP RESIDENTIAL MARKET PERFORMANCE AND DESIRED OUTCOMES¹⁸

The most common problems with township residential market performance include:

- ✓ Limiting town planning regulations;
- ✓ Access to finance;
- ✓ Limited housing stock for trading;
- ✓ State imposed 10 year ban on trading;
- ✓ Commonly traded below market related or construction price;
- ✓ No formal financing mechanism;
- ✓ Price determined in social negotiations.

The desired outcomes for a well functioning township residential property market include¹⁹:

- ✓ Ability of sellers to secure the real value of their property assets;
- ✓ Owners should be able to invest in properties and secure the capital gains;
- ✓ Township residential property markets provide entry and secure tenure to the full span of income groups;
- ✓ Residential properties can be optimally used to generate incomes and support livelihoods;
- ✓ Residential tenure can be used to access credit – for improvements and income enhancement purposes.

¹⁸ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

¹⁹ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

2.6 COMMERCIAL MARKETS

Activating the economy²⁰

- ✓ Currently, township economies are marginal and undiversified.
- ✓ Economic activity in many townships is generally limited to retail (frequently informal), trade, transportation and government services.
- ✓ Regarding retail and services: according to several studies, township residents spend most of their disposable income outside the townships.
- ✓ Currently, shopping malls or centres are being developed in many townships. Of these, the Maponya Mall in Soweto is the biggest and sets a high standard.
- ✓ Malls appear to satisfy the aspirations of residents for a choice of high-quality goods and an exciting shopping experience. Such developments may contribute to retaining existing, or attracting new, middle-income residents to the townships.
- ✓ A balance between shopping centres, local businesses and informal providers needs to be achieved in these areas – in order to protect small businesses playing a pivotal role in increasing economic opportunities in the area.
- ✓ Business facilities, access to finance, and crime represent critical blockages to SMME development within these areas – and are also the dominant reasons for trading from home.
- ✓ Complicated legal issues also hamper economic development as they make access to land (via purchase or lease) difficult.

The commercial market in second economy areas consists of small businesses and formal retail and commercial development. Both of these components are important for economic development in these areas – however, underlying tension exists between them that should be addressed effectively²¹. In order to achieve economic growth in these areas large scale commercial development should be attracted, whilst measurements should be put in place not to choke opportunities for small businesses.

Figure 2.4: Understanding Retail and Commercial Township Markets



Source: Demacon Ex. TTRI, 2010

²⁰ Source: TTRI. 2009. Township Renewal Sourcebook. South African Cities Network.

²¹ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

“Survey findings show that the impact of shopping mall development on existing small businesses cannot be explained uni-dimensionally, purely portraying a decline in small business activity. While some small businesses expect to close their doors, several small businesses were established due to mall development. This is particularly true of street vendors with their ability to intercept large numbers of township consumers at the new malls. A third of the respondents surveyed in Soweto predict an expansion of their business turnover while a third expect a contraction in business turnover. Some regard the newly developed malls as their major competitor while others experienced stiff competition from fellow small businesses.”
(BMR - Ligthelm, 2008:2)

The retail market in these second economy nodes is constrained by a number of other factors including²²:

- ✓ Increased levels of crime;
- ✓ Shortage of parking;
- ✓ Lack of intermodal integration;
- ✓ Unstructured and unmanaged street vendors;
- ✓ Limited banking facilities;
- ✓ Limited business management skills among entrepreneurs;
- ✓ Difficulties with rental business space – poor building maintenance, low rental take-up and high rents;
- ✓ A general distrust of local government as being able to ensure proper management and maintenance of the proposed development area – there is a perceived general lack of public sector commitment.

Future of Township Retail Debated²³

- ✓ **Demographics** – Metropolitan areas are likely to grow significantly in the medium to long term, with the township areas being the recipients of a lot of this growth - thus the township market is likely to grow over time.
- ✓ **Income** – There are conflicting views: some argue that overall township incomes have not risen (i.e. as incomes rise, residents leave), while other research suggests that the majority of the middle income township residents do not intend to move out.

The importance of small business operations and development are discussed in the next section.

2.7 SMALL BUSINESS DEVELOPMENT AND BSM CLASSIFICATION

Government’s commitment is to halve poverty and reduce unemployment to below 15% by 2010²⁴. Small business has been identified as a potential powerhouse with the ability to drive South Africa’s economic growth. The National Small Business Act and the Accelerated and Shared Growth Initiative of South Africa (AsgiSA) are some of the strategies developed with the objective of bridging the gap between the first and second economies and addressing the deep rooted inequalities that exist therein. The goals of government strategy are, broadly speaking, to: curb unemployment and facilitate job creation, alleviate poverty and ensure redistribution of wealth²⁵.

Increasing divergence between economic growth and formal employment growth implies that South Africa has experienced jobless or even ‘jobloss’ growth during the past two decades. The size and growth of the informal sector (second economy) are dictated by the divergence

²² Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury

²³ Source: ULM, 2009. A Snap Shot of the Township Commercial Property Market.

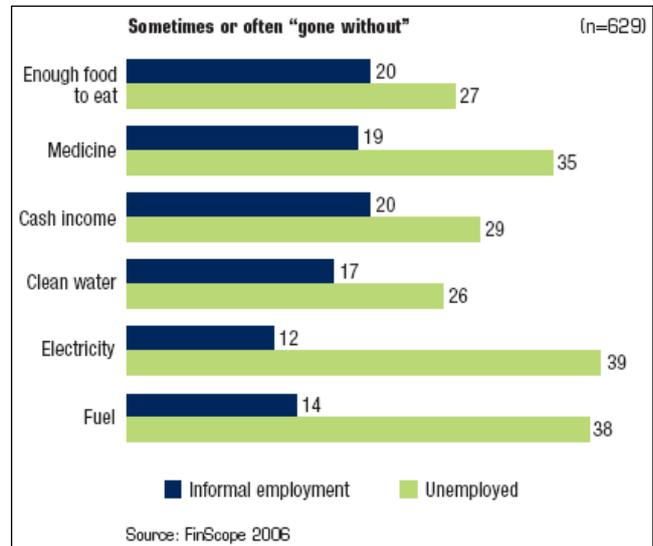
²⁴ Source: Shisaka Development Management Services in association with CSIR Built Environment. Housing Entrepreneurs – Key Findings and Recommendations.

²⁵ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

between population growth and employment growth in the formal economy. The shortage of employment opportunities in the formal sector compels people to enter the informal sector in an attempt to escape the plight of unemployment²⁶. Those employed in the informal sector have a slightly better quality of life than the unemployed. Without informal business activity, poverty would be exacerbated.

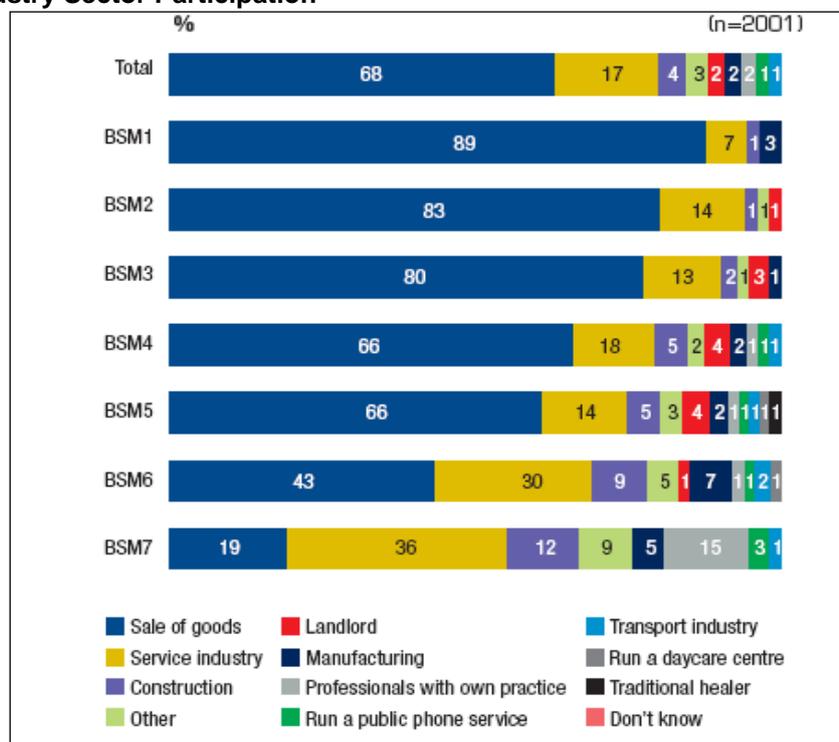
Finscope conducted a small business survey in 2006 in order to gain a better understanding of small businesses and their classification. A Gauteng Pilot Study was conducted and the overall aim was to gain a comprehensive understanding of the small business market in Gauteng.

The small business market is so varied and diverse that it was necessary to move away from a one dimensional measure that looked purely at the formality, size or legal status of the business. A segmentation tool was created to look at the continuum of small business from the informal street vendors to the more sophisticated and sustainable business practices – the Business Sophistication Measure²⁷ (BSM).



The BSM identified seven different segments and plotted the growth of business sophistication. Table 2.1 provides a summary of these segments and their underlying characteristics – supported by a few figures highlighting some of the characteristics.

Figure 2.5: Industry Sector Participation



Source: Demacon Ex. FinScope, 2006

²⁶ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.
²⁷ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

Table 2.1: BSM Classification and Characteristics²⁸

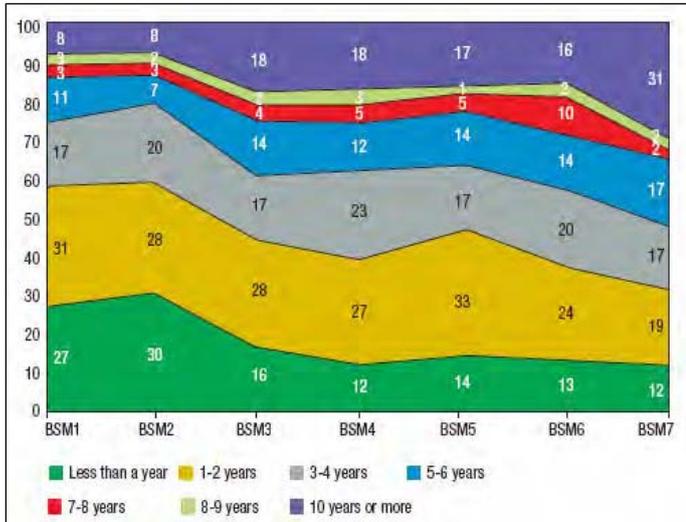
	BMS1	BMS2	BMS3	BMS4	BMS5	BMS6	BMS7
Owner age profile	✓ 16-24 years ✓ 20% ✓ 25-34 years ✓ 49%	✓ 16-24 years ✓ 17% ✓ 25-34 years ✓ 49%	✓ 16-24 years ✓ 16% ✓ 25-34 years ✓ 40%	✓ 35-49 years ✓ 37% ✓ 50+ years ✓ 21%	✓ 35-49 years 34% ✓ 50+ years 20%	✓ 35-49 years 39% ✓ 50+ years 24%	✓ 35-49 years 40% ✓ 50+ years 29%
Education	✓ Some primary 4% ✓ Some High School 61%	✓ Primary Complete 15% ✓ Some High School 49%	✓ Some primary 9% ✓ Some High School 50%	✓ Some High School 43% ✓ Matric 30%	✓ Matric 33%	✓ Matric 38% ✓ Post matric ✓ Qualification 21% ✓ Post graduate degree 4%	✓ Matric 29% ✓ Post matric ✓ Qualification 48% ✓ Post graduate 5% ✓ Bachelors degree 8%
Gender	✓ Male 60% ✓ Female 40%	✓ Male 56% ✓ Female 44%	✓ Male 58% ✓ Female 42%	✓ Male 54% ✓ Female 46%	✓ Male 53% ✓ Female 47%	✓ Male 55% ✓ Female 45%	✓ Male 61% ✓ Female 39%
Employees	✓ Mean 0.1	✓ Mean 0.14	✓ Mean 0.23	✓ Mean 0.47	✓ Mean 0.85%	✓ Mean 1.78%	✓ Mean 8.88%
Average Annual Turnover	✓ R9 113	✓ R10 723	✓ R16 793	✓ R24 710	✓ R27 841	✓ R66 597	✓ R463 747
Location	✓ Informal Area 35% ✓ CBD 15%	✓ Informal Area 46%	✓ Informal 33% ✓ Township 49% ✓ Hostel 8%	✓ Township 61%	✓ Township 60% ✓ CBD 12%	✓ Township 42% ✓ Suburb 48% ✓ Small holding 6%	✓ Township 13% ✓ CBD 19% ✓ Suburb 61% ✓ Small holding 12%
Previous work experience	✓ None 64% ✓ 1 Year 0% ✓ 2 years 11% ✓ 5 years 0% ✓ 10 years 0% ✓ 10+ years 36%	✓ None 52% ✓ 1 Year 0% ✓ 2 Years 12% ✓ 5 years 0% ✓ 10 years 0% ✓ 10+ years 44%	✓ None 48% ✓ 1 Year 0% ✓ 2 Years 6% ✓ 5 years 0% ✓ 10 years 0% ✓ 10+ years 47%	✓ None 41% ✓ 1 Year 0% ✓ 2 Years 0% ✓ 5 years 0% ✓ 10 years 0% ✓ 10+ years 54%	✓ None 33% ✓ 1 year 9% ✓ 2 year 0% ✓ 5 year 0% ✓ 10 year 0% ✓ 10+ year 62%	✓ None 29% ✓ 1 year 9% ✓ 2 year 4% ✓ 5 year 10% ✓ 10 year 8% ✓ 10+ year 63%	✓ None 14% ✓ 1 year 0% ✓ 2 year 0% ✓ 5 year 0% ✓ 10 year 0% ✓ 10+ year 77%
Longevity	✓ 1 year 27% ✓ 3-4 years 18%	✓ 1 year 31% ✓ 3-4 years 22%	✓ 1 year 17% ✓ 10+ years 18%	✓ 1 year 17%	✓ 5-6 years 14% ✓ 10+ years 12%	✓ 5-6 years 13% ✓ 10+ years 14%	✓ 5-6 years 16% ✓ 10+ years 18%
Sector	✓ Trade 89%	✓ Trade 84% ✓ Service 14%	✓ Trade 80% ✓ Service 13%	✓ Trade 65% ✓ Service 18% ✓ Landlord 4%	✓ Trade 66% ✓ Service 14% ✓ Landlord 5% ✓ Construction	✓ Trade 43% ✓ Service 30% ✓ Construction 9% ✓ Manufacturer 7%	✓ Trade 19% ✓ Service 36% ✓ Construction 12% ✓ Professional Practice 15%
Skills	✓ Self taught 91% ✓ Family 7%	✓ Self taught 80% ✓ Family 13% ✓ Previous job 3%	✓ Self taught 76% ✓ Family 14% ✓ Previous job 6%	✓ Self taught 72% ✓ Previous job 9% ✓ At school 3%	✓ Self taught 61% ✓ Family 8% ✓ Previous job 19% ✓ At school 6%	✓ Self taught 46% ✓ Family 13% ✓ Previous job 18% ✓ Training Prog 17% ✓ Mentor/Advisor 3%	✓ Self taught 26% ✓ Family 16% ✓ Previous job 39% ✓ Training prog 29% ✓ University 16%
Citizenship	✓ Not SA Citizen 27%	✓ Not SA Citizen 9%	✓ Not SA Citizen 94%	✓ Not SA Citizen 94%	✓ Not SA citizen 10%	✓ SA Citizen 98%	✓ SA Citizen 97%
Facilities	✓ No ownership of item in the business 79% ✓ Running water 2%	✓ Running water 27% ✓ Electricity 18%	✓ Running water 75% ✓ Outside toilet 61% ✓ Water 18%	✓ Running water inside 42% ✓ Electricity 86%	✓ Run water 81% ✓ Electricity 93% ✓ Geyser 45% ✓ Kitchen 73% ✓ Storeroom 2%	✓ Running water 77% ✓ Electricity 94% ✓ Storeroom 54%	✓ Run Water 73% ✓ Electricity 92% ✓ Security systems 46% ✓ Reception 27%

²⁸ Source: Demacon Ex. FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

Impact of Township Shopping Centres – July, 2010

	BSM1	BMS2	BMS3	BMS4	BMS5	BMS6	BMS7
Legal status/Registration	<ul style="list-style-type: none"> ✓ Traders 99% ✓ Unregistered individuals 1% 	<ul style="list-style-type: none"> ✓ Traders 92% ✓ Unregistered individuals 7% 	<ul style="list-style-type: none"> ✓ Traders 74% ✓ Unregistered individuals 18% 	<ul style="list-style-type: none"> ✓ Traders 64% ✓ Unregistered individuals 24% 	<ul style="list-style-type: none"> ✓ Traders 58% ✓ Unregistered individuals 29% ✓ Sole Prop 105 	<ul style="list-style-type: none"> ✓ Traders 30% ✓ Unregistered individuals 41% ✓ Sole Prop 15% 	<ul style="list-style-type: none"> ✓ Traders 1% ✓ Unregistered individuals 5% ✓ Close corporation 52% ✓ Partnership 15%
Premises	<ul style="list-style-type: none"> ✓ Own 6% ✓ Rent 4% ✓ Use 89% 	<ul style="list-style-type: none"> ✓ Own 37% ✓ Rent 59% ✓ Use 51% 	<ul style="list-style-type: none"> ✓ Own 59% ✓ Rent 13% ✓ Use 25% 	<ul style="list-style-type: none"> ✓ Own 70% ✓ Rent 21% ✓ Use 8% 	<ul style="list-style-type: none"> ✓ Own 64% ✓ Rent 26% ✓ Use 10% 	<ul style="list-style-type: none"> ✓ Own 68% ✓ Rent 22% ✓ Use 8% 	<ul style="list-style-type: none"> ✓ Own 55% ✓ Rent 33% ✓ Use 11%
Business technology	<ul style="list-style-type: none"> ✓ Own cell phone 20% 	<ul style="list-style-type: none"> ✓ Own cell phone 44% 	<ul style="list-style-type: none"> ✓ Own cell phone 60% 	<ul style="list-style-type: none"> ✓ Own cell phone 70% 	<ul style="list-style-type: none"> ✓ Own a cell phone 76% ✓ Landline 27% 	<ul style="list-style-type: none"> ✓ Own a cell phone 86% ✓ Landline 46% ✓ Computer 24% 	<ul style="list-style-type: none"> ✓ Computer 77% ✓ Email/Internet 58% ✓ Website 20% ✓ Photostat machine 55% ✓ Credit card machine 23%
Transport	<ul style="list-style-type: none"> ✓ 0% 	<ul style="list-style-type: none"> ✓ 0% 	<ul style="list-style-type: none"> ✓ 0% 	<ul style="list-style-type: none"> ✓ Company car 2% 	<ul style="list-style-type: none"> ✓ Company car 11% 	<ul style="list-style-type: none"> ✓ Company car 27% 	<ul style="list-style-type: none"> ✓ Company car 49%
Planning	<ul style="list-style-type: none"> ✓ 0% 	<ul style="list-style-type: none"> ✓ 0% 	<ul style="list-style-type: none"> ✓ Budget 4% ✓ Marketing plan 1% 	<ul style="list-style-type: none"> ✓ Budget 8% 	<ul style="list-style-type: none"> ✓ Budget 14% ✓ Witten plan 2% ✓ Strategy 4% ✓ Mission 1% 	<ul style="list-style-type: none"> ✓ Budget 27% ✓ Financial records 10% ✓ Witten Plan 10% ✓ Marketing Plan 6% ✓ Strategy 10% ✓ Mission 2% 	<ul style="list-style-type: none"> ✓ Budget 57% ✓ Financial records 47% ✓ Witten Plan 30% ✓ Marketing Plan 36% ✓ Strategy 30% ✓ Mission 19%
Finance							
Personal	<ul style="list-style-type: none"> ✓ Personal Bank 21% ✓ Unbanked 79% 	<ul style="list-style-type: none"> ✓ Personal Bank 36% ✓ Unbanked 64% 	<ul style="list-style-type: none"> ✓ Personal Bank 38% ✓ Unbanked 62% 	<ul style="list-style-type: none"> ✓ Personal Bank 70% ✓ Unbanked 30% 	<ul style="list-style-type: none"> ✓ Personal Bank 82% ✓ Unbanked 18% 	<ul style="list-style-type: none"> ✓ Personal Bank 92% ✓ Unbanked 8% 	<ul style="list-style-type: none"> ✓ Personal Bank 100% ✓ Unbanked 0%
Business	<ul style="list-style-type: none"> ✓ Business Banking 0% ✓ Unbanked 100% 	<ul style="list-style-type: none"> ✓ Business Banking 13% ✓ Unbanked 87% 	<ul style="list-style-type: none"> ✓ Business Banking 23% ✓ Unbanked 77% 	<ul style="list-style-type: none"> ✓ Business Banking 47% ✓ Unbanked 53% 	<ul style="list-style-type: none"> ✓ Business Bank 64% ✓ Unbanked 36% 	<ul style="list-style-type: none"> ✓ Business Bank 81% ✓ Unbanked 19% 	<ul style="list-style-type: none"> ✓ Business Bank 97% ✓ Unbanked 3%
Business Transaction	<ul style="list-style-type: none"> ✓ Transaction/Savings Account 100% 	<ul style="list-style-type: none"> ✓ Transaction/Savings Account 90% 	<ul style="list-style-type: none"> ✓ Transaction/Savings Account 91% 	<ul style="list-style-type: none"> ✓ Transaction/Savings Account 92% 	<ul style="list-style-type: none"> ✓ ATM 30% ✓ Cell phone Banking 5% ✓ Debit Card 11% ✓ Current/ Cheque Account 21% 	<ul style="list-style-type: none"> ✓ Current/ Cheque Account 29% ✓ ATM 29% ✓ Debit Card 13% ✓ Fixed Deposit Account 5% 	<ul style="list-style-type: none"> ✓ Interne 37% ✓ Credit Card 38% ✓ Current/ Cheque Account 67% ✓ Overdraft 23% ✓ Garage Card 21% ✓ Vehicle Finance 19% ✓ Call/ Investment Account 16% ✓ Fixed Deposit Account 16% ✓ Cell phone 17% ✓ Debit Card 29% ✓ Mortgage 7% ✓ ATM Card 43%

Figure 2.6: Age of Business



Source: Demacon Ex. FinScope, 2006

Figure 2.7: Average Annual Turnover

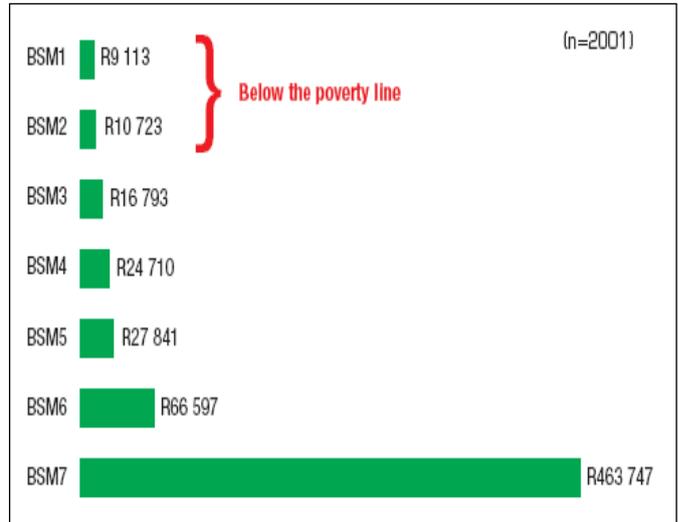
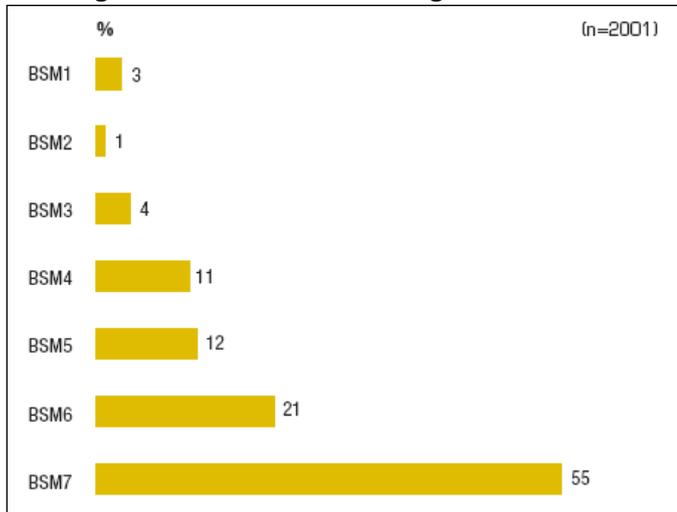
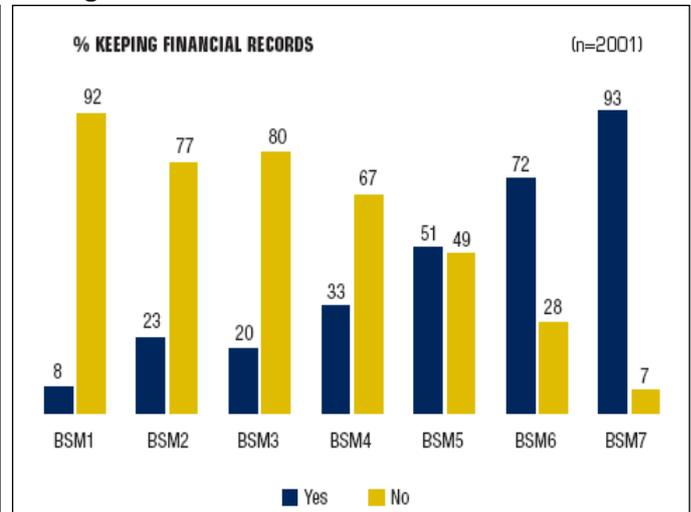


Figure 2.8: Business Training



Source: Demacon Ex. FinScope, 2006

Figure 2.9: Financial Records



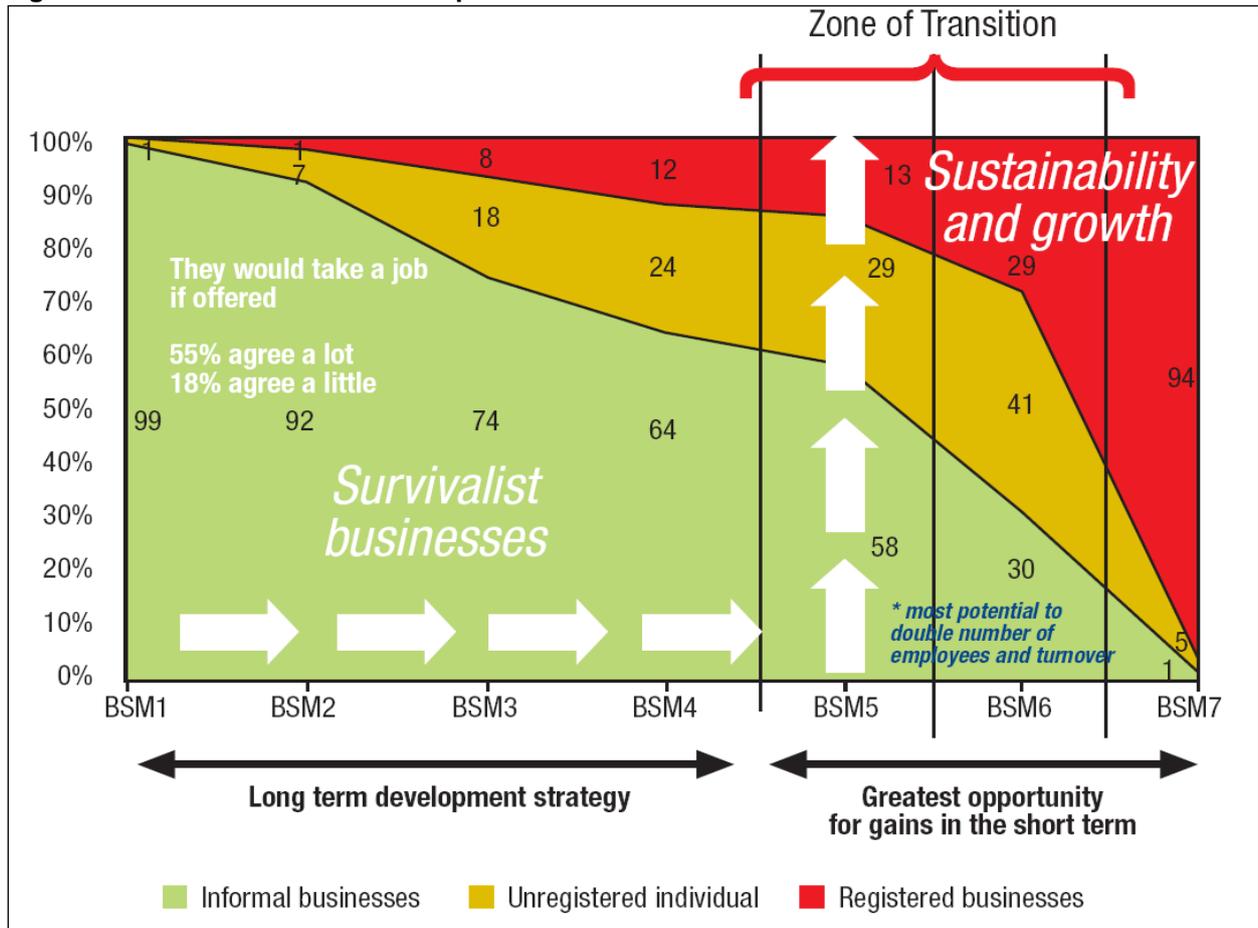
A key objective of the research was to gain an understanding of the market and the potential for growth within it, to assess opportunities for innovation in product and delivery and to identify where businesses are showing signs of operating effectively and growing. This is identified as the zone of transition²⁹.

2.7.1 ZONE OF TRANSITION

Support for the lower BSM entities will require longer term strategies and significant resources, whilst the higher BSMs are likely to be adequately equipped and stimulated through shorter term initiatives. Undoubtedly, all will benefit from a supportive regulatory environment.

²⁹ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

Figure 2.10: Small Business Development and Zone of Transition



Source: Demacon Ex. FinScope, 2006

Considerations:

Social and Economic³⁰

- ✓ Many businesses are “survivalist” or “breadline” businesses, with as many as 220 000 business owners in Gauteng generating a turnover below the current poverty line.
- ✓ Black owned and women owned businesses are not responding to opportunities in the broader economy and exist on the fringe of what has been labelled as the first economy.
- ✓ Only a small percentage of business owners are currently generating employment opportunities for others - these are registered businesses.
- ✓ Attention should be paid to business owners found in the zone of transition where businesses are achieving greater degrees of sophistication.

Access to Finance³¹

- ✓ Banks are currently servicing the upper sector of the small business market via a wide range of products.
- ✓ There is a real need for banking services. Business owners are looking for financial services that are conveniently located and are prepared to bank with whoever will accept them.
- ✓ Financial institutions need to streamline offerings and segment their markets to provide products that are appropriate and affordable.
- ✓ The incidence of loans and borrowing from the formal financial sector is very low.
- ✓ Family and friends are the main source of financial borrowing.
- ✓ The amount of money used to start a business is generally very low (below R500).

³⁰ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

³¹ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

Policy and Intervention³²

- ✓ There is a clear skills shortage:
 - There is a relationship between education and skills and the sustainability of the business;
 - A large number of people in the small business market have taught themselves the skills they use in the business;
 - Current initiatives are aimed at the upper tiers of the market;
 - Support initiatives should look not only at business and technical skills but at developing a “mindset” to change the perceived levels of opportunity;
 - A combination of skill and motivation is required to take advantage of business opportunities.
- ✓ Awareness of support initiatives is low:
 - VAT registration only applies to a small number of businesses;
 - The main reason for non-compliance is that it costs too much;
 - Government procurement initiatives should be linked to support services;
 - Partnerships between big and small business should be encouraged.

2.7.2 EFFECTING A CHANGE IN SMALL BUSINESS EVOLUTION AND DEVELOPMENT³³

- ✓ Black owned and women owned businesses are currently not able to capitalise on opportunities in the broader economy – they tend to exist on the fringe of what has been labelled the first economy. Substantial initiatives will be required to effect a change for these entities.
- ✓ Government procurement initiatives could be linked with support services or partnerships between big and small business. A strategy of firm linkages could assist small business in “learning by doing” and “learning whilst earning”.
- ✓ Business skills need to be included in the educational curriculum to help change the perceived levels of entrepreneurial opportunity. A combination of both motivation and skills is required for people to take effective advantage of business opportunities.
- ✓ Although an entrepreneurial mindset cannot be learned, education could play a role in developing a mindset that is not averse to competition and risk taking.
- ✓ Radical innovations are required from policy makers and financial service providers to develop a beneficial environment and increase the impetus for small business.
- ✓ Government support mechanisms are being used by only 8% of small businesses, with Umsobomvu being far and away the market leader in providing business support.
- ✓ Given the widespread desire for business development services (BDS), there is a need to examine how to make the delivery mechanisms for BDS more effective.
- ✓ With a quarter of small businesses reporting crime and theft as a problem, government needs to make business locations safer. Initiatives that allow traders to bank the day’s takings in the same secure environment might be worth exploring.
- ✓ Black economic empowerment (BEE) awareness is extremely low. Government agencies seeking to promote BEE initiatives, for example, through procurement contracts, will want to reflect on how to communicate the BEE message more effectively – for example, through cell phones.
- ✓ 69% of small businesses operate from home (including garage, back room or rented accommodation). Government support for home-based businesses specifically (including the lifting of restrictions on the use of residential environments for business purposes) is paramount.
- ✓ As VAT registration applies only to a small number of businesses (BSM 5 and above), the government’s easing of the tax and regulatory burden on small businesses should be accelerated.

³² Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

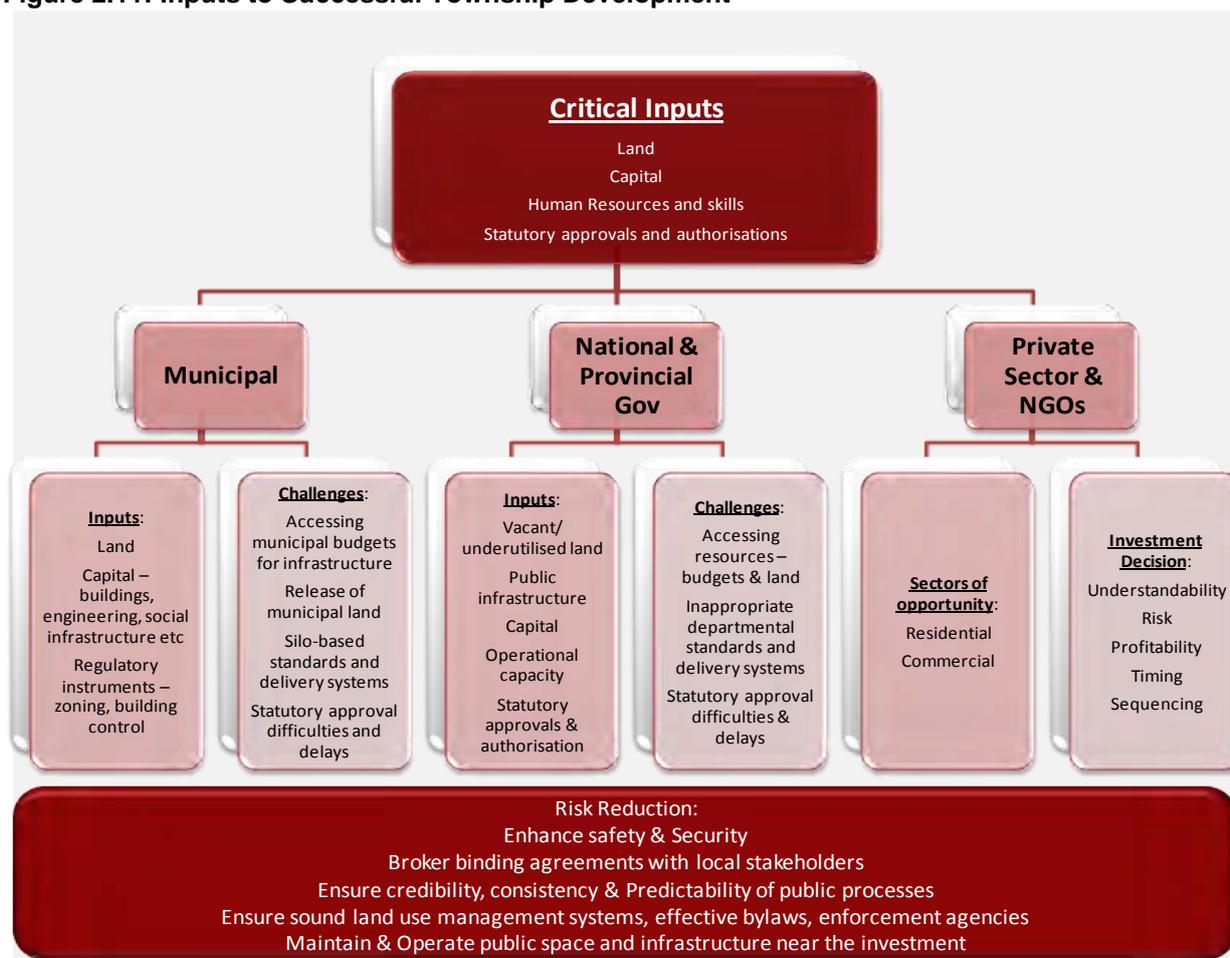
³³ Source: FinScope Small Business Gauteng 2006. Pilot Study Survey Highlights including BSM Model.

2.8 INPUTS TO SUCCESSFUL TOWNSHIP DEVELOPMENT

Four critical inputs are required to ensure successful township development: land, capital, human resources and skills, statutory approvals and authorisations. These inputs are dispersed between three sectors: local government/municipality, national and provincial government and the private sector and NGOs.

For township development to be successful these inputs should be mobilised and committed, should happen at the right place and in the right sequence.

Figure 2.11: Inputs to Successful Township Development



Source: Demacon Ex. TTRI, 2010

2.9 SYNTHESIS

Township transformation is evident and has taken place particularly over the past ten years. During this time, private sector investment has increased in these areas, increasing opportunity, choice and access to the mass consumer market.

Township commercial markets, however, experience high levels of competition from elsewhere in the city. Therefore, township markets must be competitive, offering investors specific market advantages.

Commercial markets occur in an institutional environment. Planning and development of retail space in these areas requires resources, political commitment and ongoing management.

Development of the formal commercial and retail sector in these second economy nodes must secure the growth and interests of small businesses through: training, improved access to

credit, maximising BEE opportunities and partnership arrangements between large and small businesses³⁴. Overall, public and private sectors should work together to ensure successful township economic development.

The subsequent chapter provides an overview of changes that took place within the consumer landscape over the past few years – contributing towards commercial development within these second economy areas.

³⁴ Source: TTRI, 2009. Unlocking Township Markets. Department of Treasury