

URBAN REAL ESTATE RESEARCH UNIT

Mapping the Development Process in Cape Town

May 2019

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WESTERN CAPE PROPERTY DEVELOPMENT FORUM

AL&A

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Professional Project Management Services since 1979

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NIGEL BURLS & ASSOCIATES

The UCT Urban Real Estate Research Unit (URERU) is a research unit in the Department of Construction Economics and Management

Aim is to provide a research platform for urban real estate economic, finance and management issues on the African continent.



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Cost and Time Consequences of Delays

LAND	CONSTRUCTION	OTHER
• Availability and cost of options • Finance costs • Rates & taxes • Opportunity costs • Professional costs • Lapsing of rights	• Increased sub-contracting to avoid fixed costs leads to: • Greater project management costs • Profit ratcheting • Poor quality work – “lowest tender to ensure viability“	• Inability to secure a project pipeline • Impacts ability to carry fixed costs • Impacts ability to retain “IP“ ito development team (sub-contractors) • Project managment cost of addressing the delay • Over specification to address uncertainty increases costs • Time and uncertainty disincentivises banks to finance land • Change in market conditions undermines the ability to assess feasibility • Time AND Timing of the delay is important Issues need to be identified early in the process • Time AND Uncertainty of the outcome increases contigency, profit requirements.

Impact of Long Time-Frames and Increased Costs

- Affordability
  - Shortfall
  - Affordability
  - Increased house prices and gentrification
- Viability
  - Non viable projects
  - Fewer projects
    - Impact on economy
    - Impact on the construction industry
    - Impact on rates base
- Transformation
  - Favouring bigger players
  - Spatial inertia

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Shortfall – Numbers

Number of households = 1 200 000
Number of formal houses* = 880 000
Estimated shortfall = *320 000*

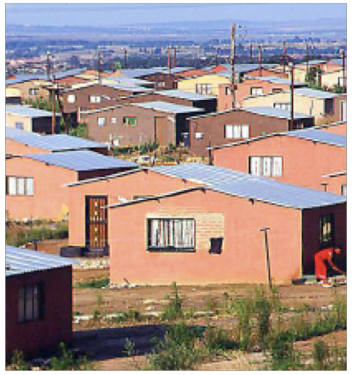
Household growth = 1,8% p.a.
Housing Growth (% of hholds) = 1,1% p.a.

Building between 8 000 – 10 000 p.a.
Need between 30 000 – 40 000 houses p.a.

* Including shared



During construction











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Shortfall – Viability Issue

AMPS 2015B HOUSEHOLDS Total MONTHLY HOUSEHOLD Income (before tax & other deductions)	Total	
<R3,500	173 588	18%
R3,500 - R6,999	224 854	23%
R7,000 - R15,000	298 348	31%
R15,000 - R20,000	83 623	9%
R20,000 - R40,000	143 506	15%
R40,000 +	49 869	5%
Total	973 787	100%

80%

R20 000 p.m.:
= R500 000 house
- 60m² = R8 000/m²
- 30m² = R16 000/m²

FEATURES

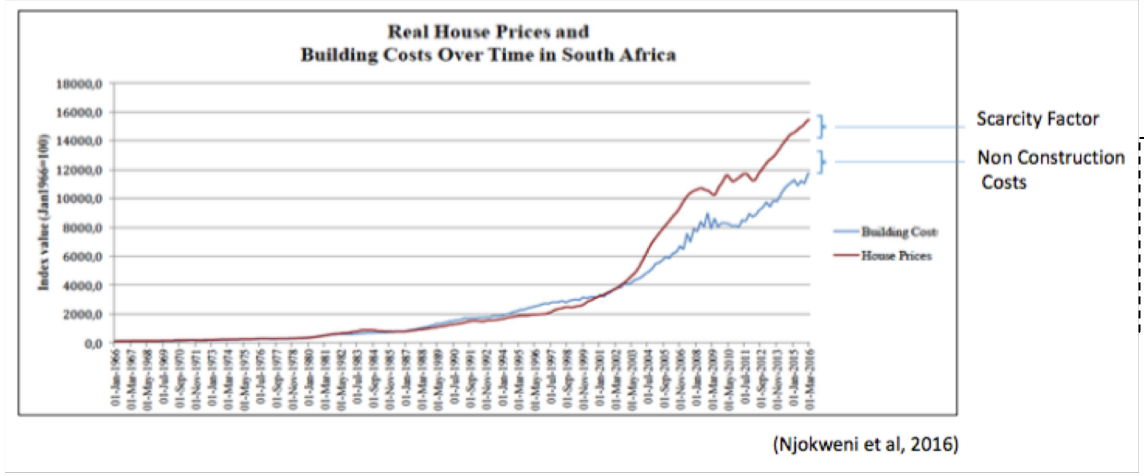
A FLAT MARKET

Joburg apartment market flatlines

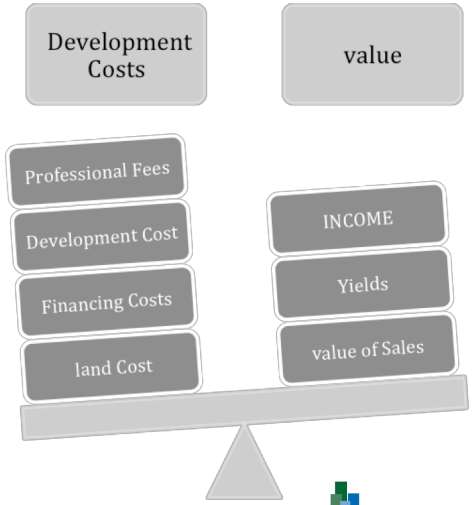
Inner-city apartment sales of R1m or more have stalled, but there's still plenty of action in the sub-R500,000 bracket

09 MAY 2019 - 12:28 *by* JOAN MULLER

He says upper-end units in the inner city typically sell for R13,000-R18,000/m², which is less than half the R30,000-R35,000 sectional-title buyers pay in Killarney or Rosebank. However, demand remains strong for units in the R300,000-R800,000 bracket.



…need to deliver below R20 000/m²



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Impact of Long Time-Frames and Increased Costs

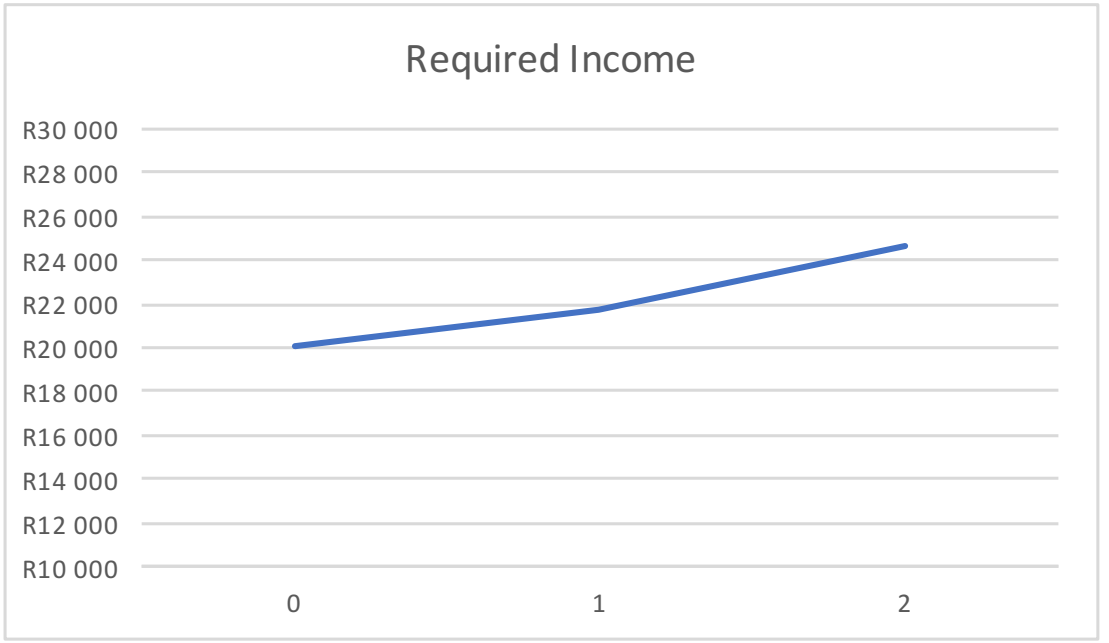
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Impact of a 2 – year delay on a 14m² micro-unit

R20 000/month (R24 654) household, paying R5 000/month (R6 163) = 14m²





...23% decline in affordability

...11% decline in affordability for every year of delay

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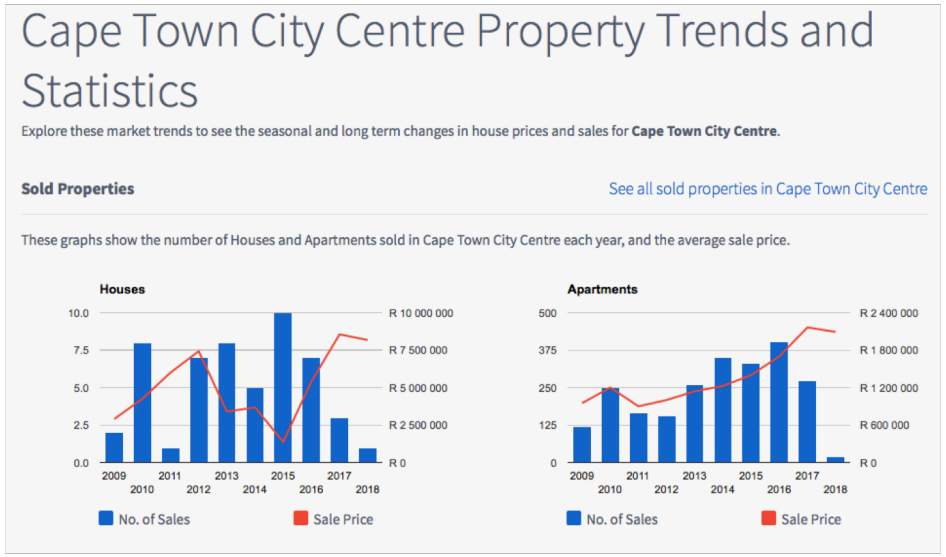
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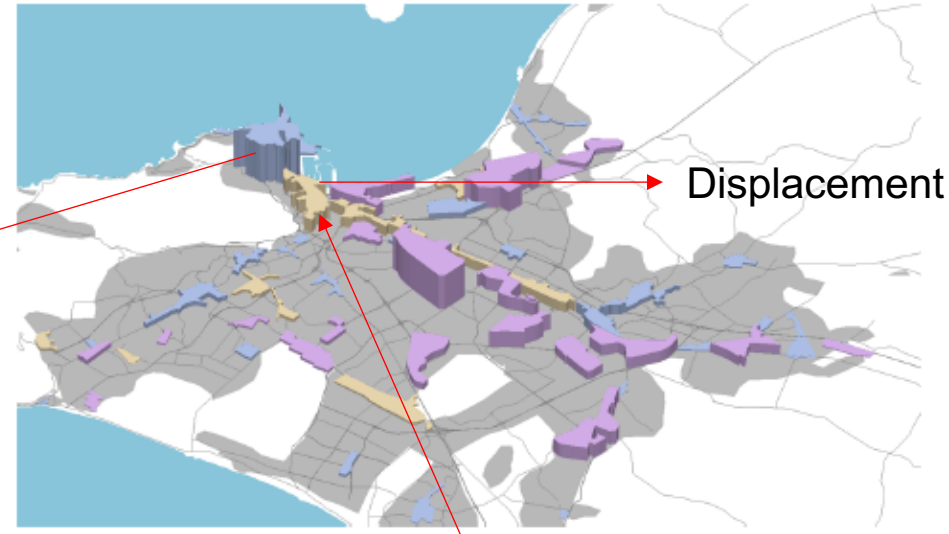
Gentrification

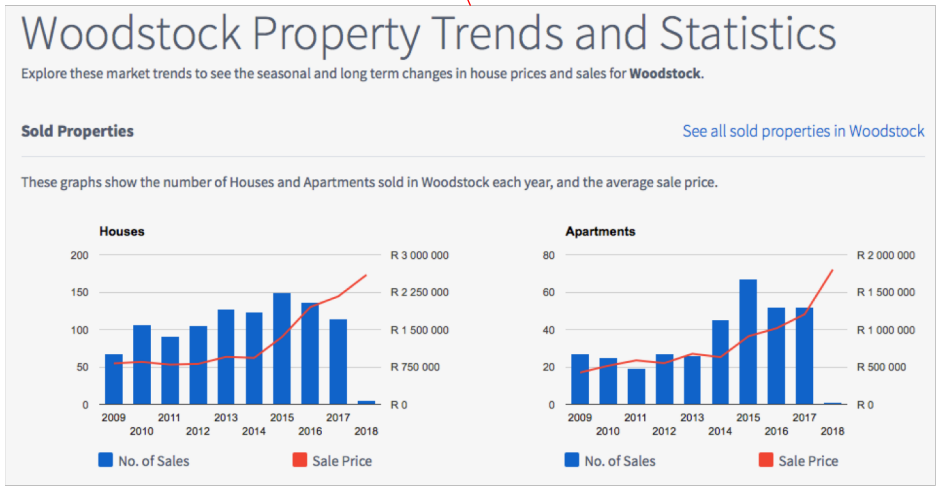
Estimated that over 100 000 houses (many well-located) filtered upwards out of the affordable market in the last 6 years

…1 600 houses (>R1,2m) versus 3 500 middle income households



(Property 24)





(Property 24)

Unaffordable Prices

Gentrification in surrounding suburbs

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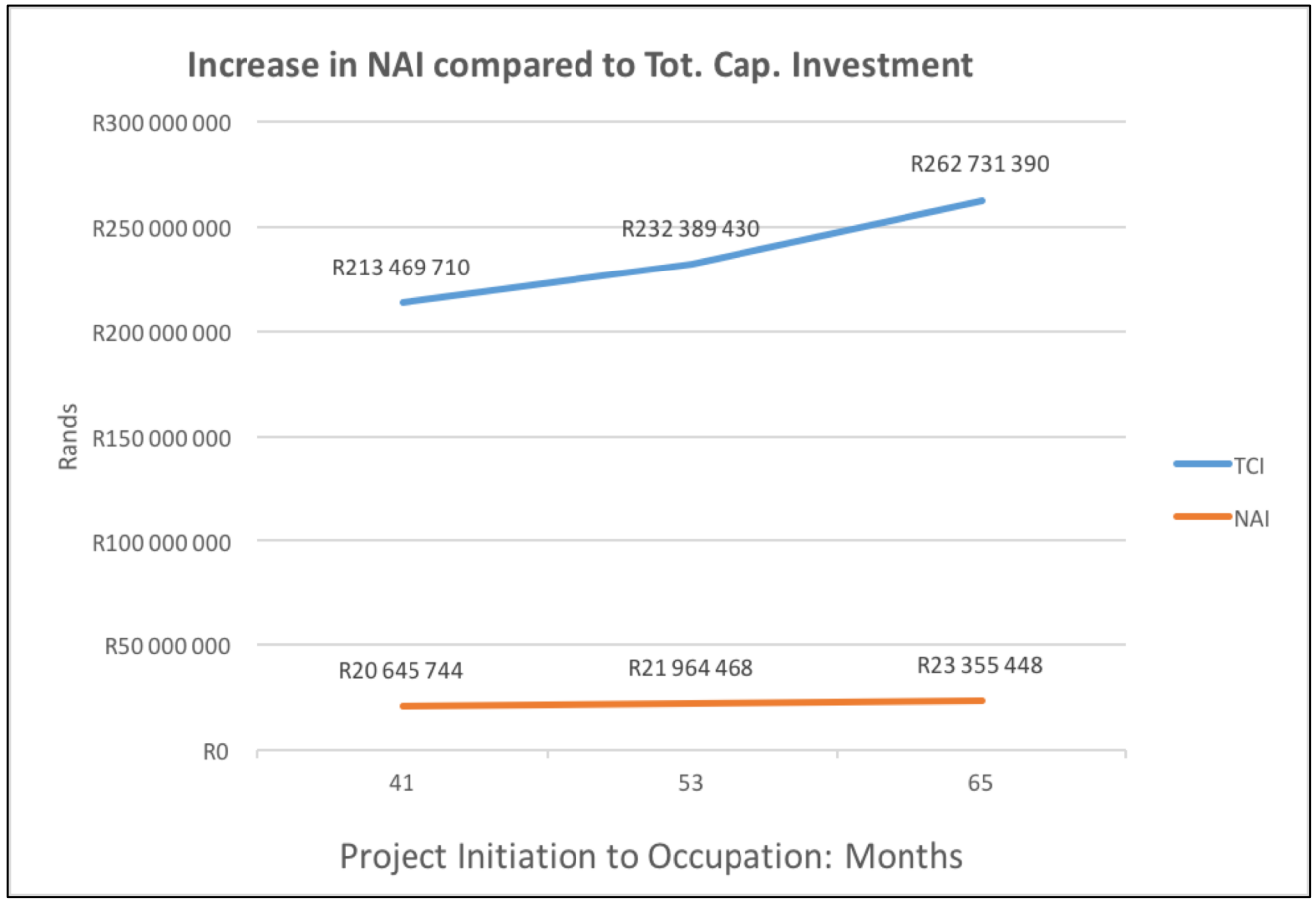
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Viability

Impact of a 2 – year delay on a 10 000m^2 mixed-use development



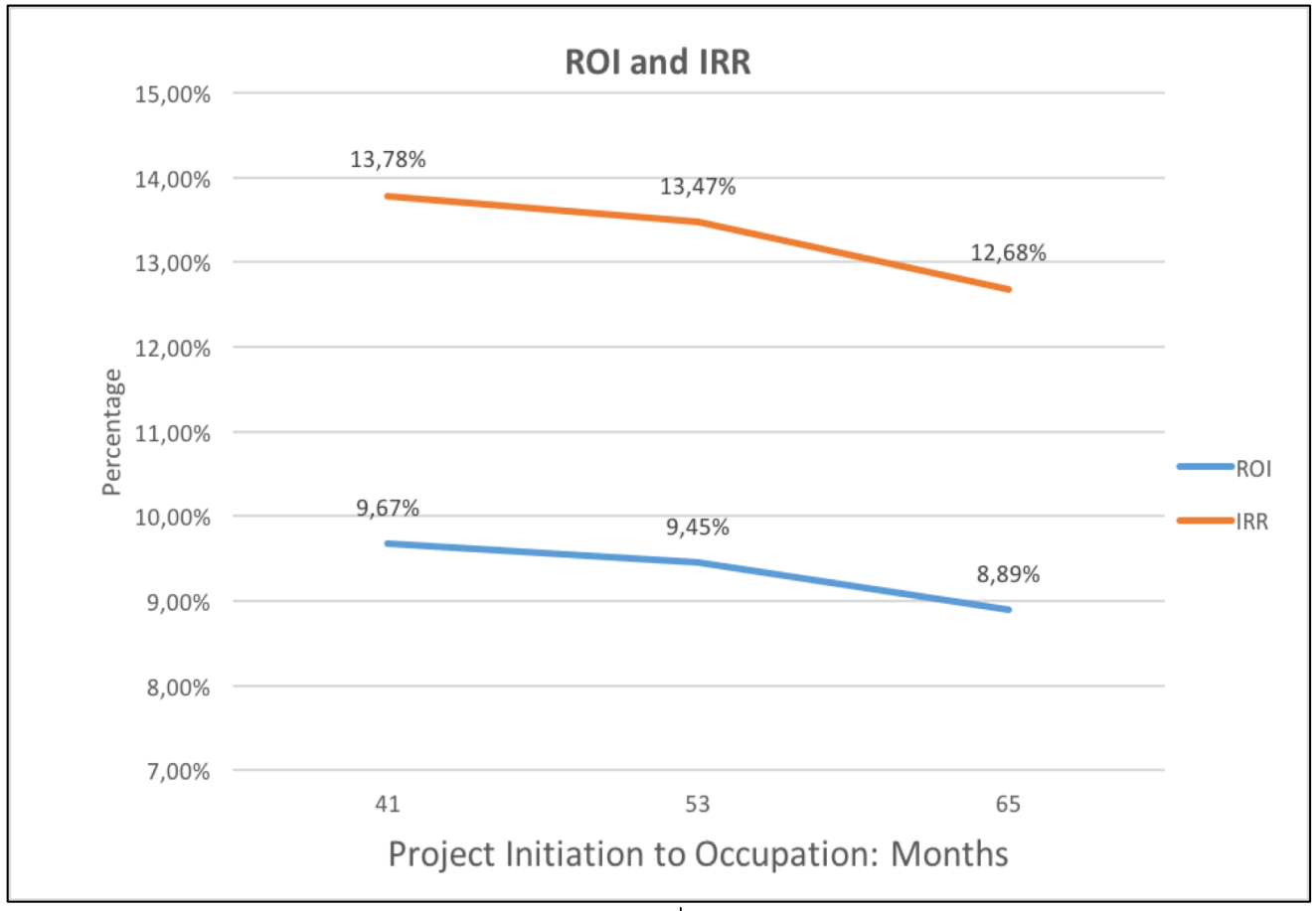
2 – year delay

Summary:

- Increasing gap between income & expenditure - 1:10 vs 1:11
- 8% decline in IRR and ROI
- Additional R3 481 346 shortfall to repay debt finance
- Accelerating viability deterioration over time

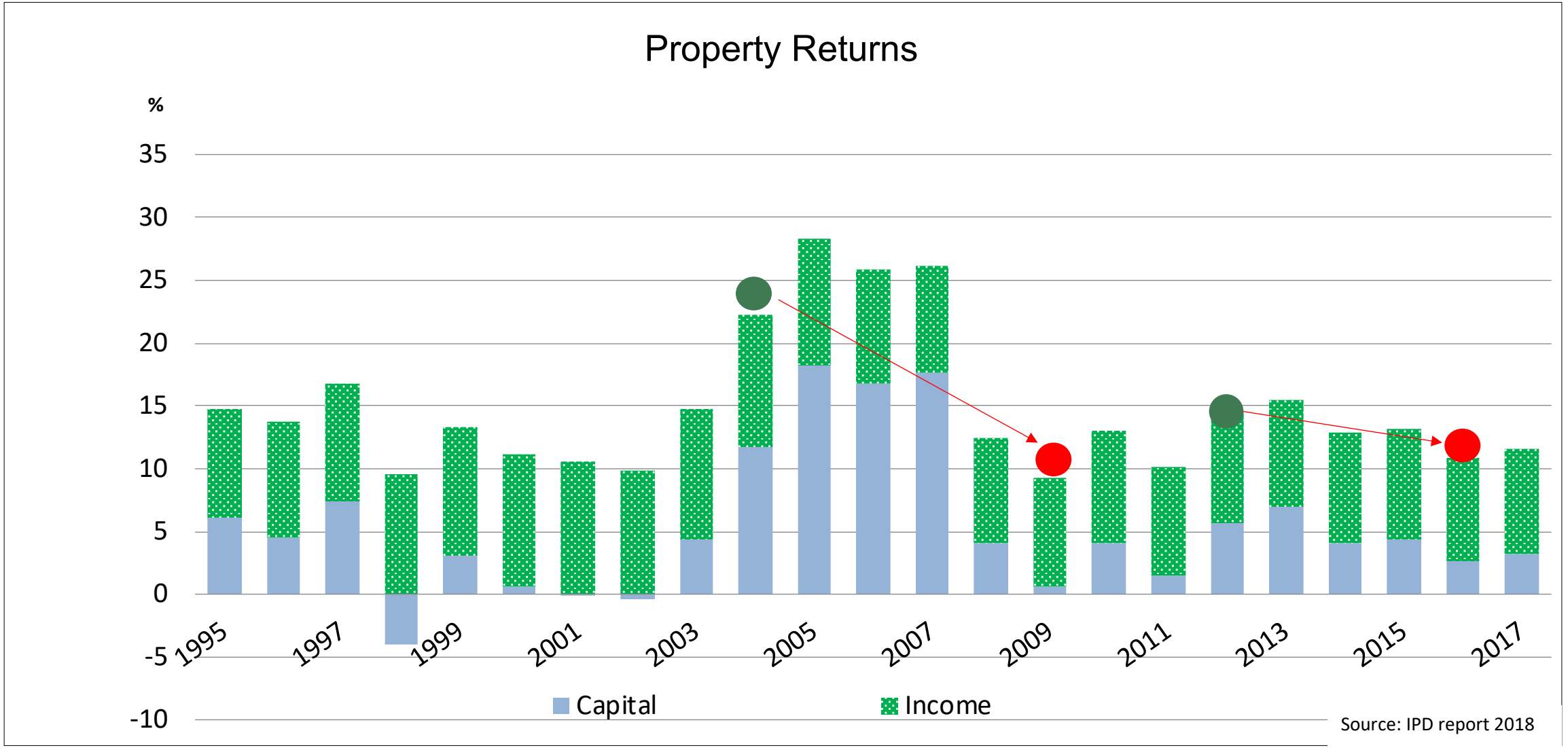
Viability

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Source: IPD report 2018

(Viruly, 2019)

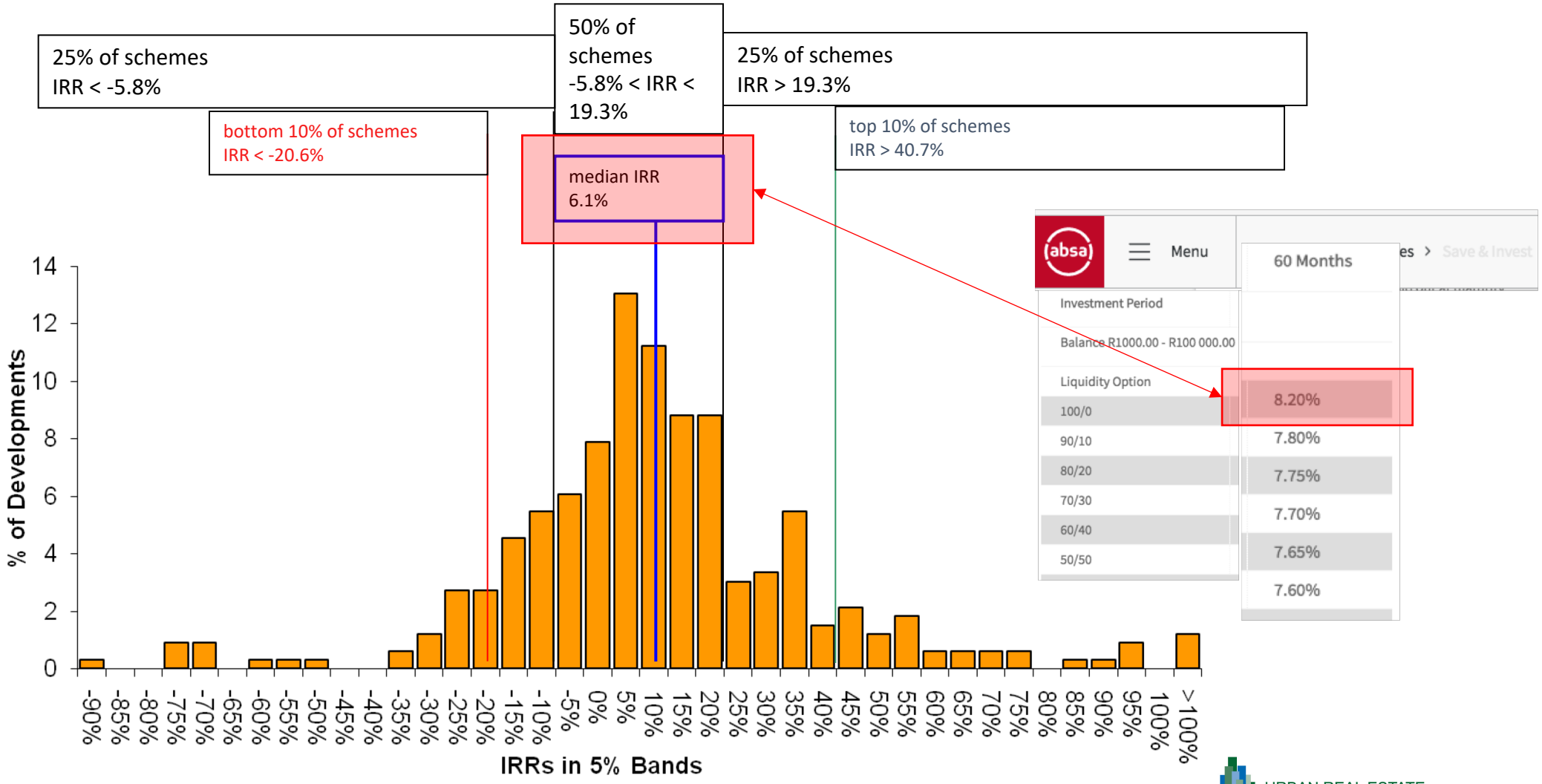
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329 South African developments 1995-2009 (IPD)

45% - 50% of assets offshore

80% of 2018/2019 activity was offshore

6% of the JSE



ANCHOR STOCKBROKERS

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	Loss to GDP	Loss to Business Sales & Production	Loss of Jobs	Loss of Income
30 day delay to a 1000m² development	R770 000 (R25 000 per day)	R2 800 000 (R90 000 per day)	2	R530 000 (R17 000 per day)

South Africa's unemployment rate rises to 27.6% in first quarter

ECONOMY / 14 MAY 2019, 12:07PM / KABELO KHUMALO



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Construction

News

CONSTRUCTION INDUSTRY IN A NATIONAL CRISIS SAYS MASTER BUILDERS SA

24 Mar 2019 • by PropertyWheel_GLP • 2 min read

"With four of the top six large construction companies losing 50% – 75% of their share price in 2017, and some losing in excess of 90% of their value as at June 2018, these alarming losses are likely to have brought about irreversible change as it may be too late for some key players."

(Bryte Construction Activity Monitor, 2018:4)

GROUP FIVE
structured ingenuity



BASIL READ®

The adverse impact of these company closures is severe, he noted.

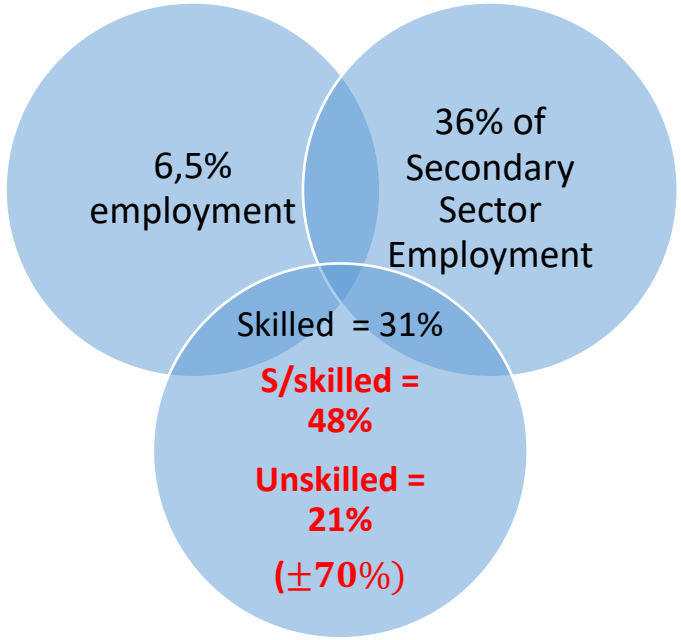
"The short-term effect is that direct employees of these collapsed companies lose their jobs. When you consider that the construction industry employs more than 11% of the workforce in South Africa, the negative impact on the economy as a whole is dire. There is also a knock-on effect across the industry because subcontractors, suppliers and service providers are equally affected".

"In the long-term, we will lose our capacity to develop infrastructure and will have to depend on foreign companies in the future. That is why we are appealing to the government for engagement" Mnisi concluded.

WBHO

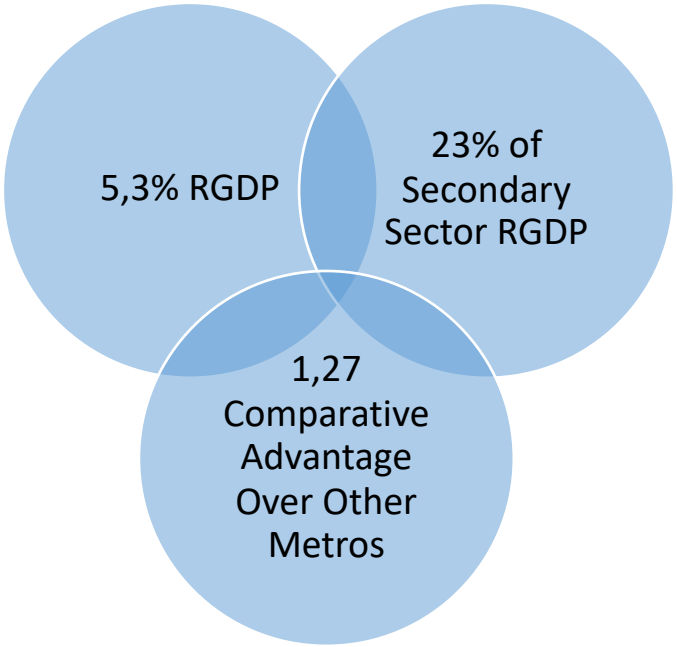
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Construction Contribution



Nationally Property = 40% of Construction

…Cape Town?





(MERO, 2018; PERO, 2018; EPIC, 2017.2)

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Industry Transformation

SAIBPP
SOUTH AFRICAN INSTITUTE OF BLACK PROPERTY PRACTITIONERS

"Delays impact negatively on the big, established players, but they are better resourced to deal with them…small players can't survive the delays…"



"This significant cost and duration compliance burden increases development cost and risk to small scale enterprise and owner developers and encourages non-compliance." (Shisaka, 2019)

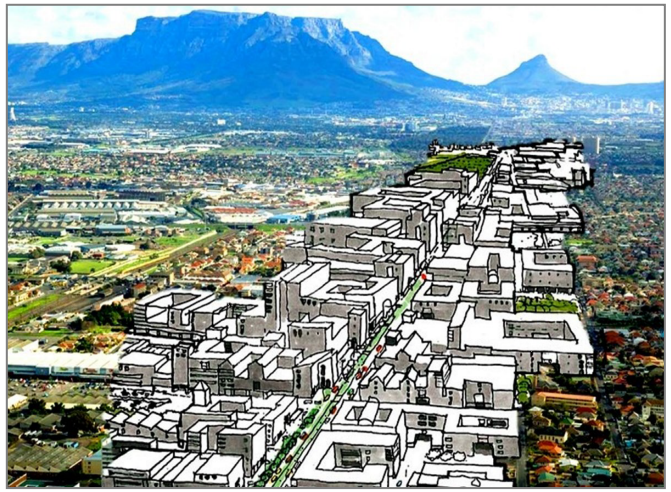
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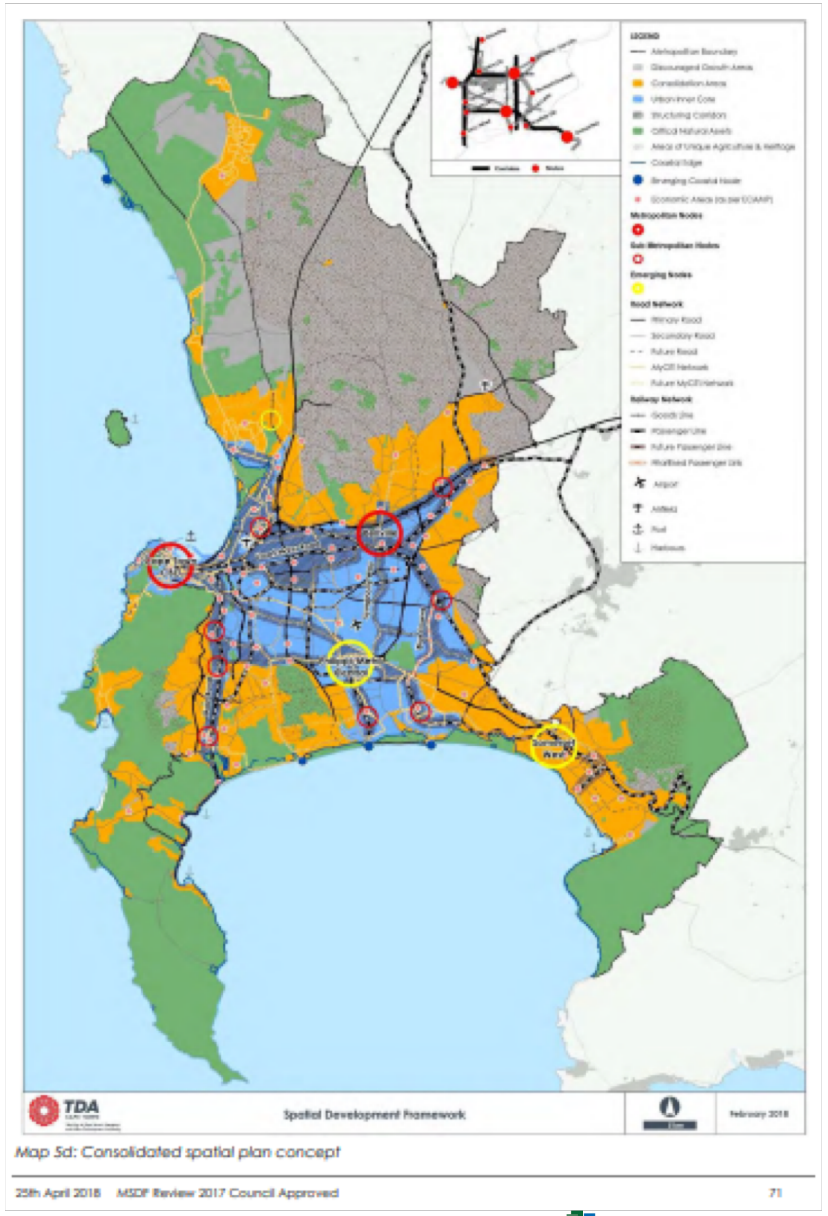
Spatial Transformation

"...to avoid the approvals process, I will only develop where rights exist..." (Developer, 2019)

"...majority of developments occur in only 4 nodes in the city"

(ECAMP, CoCT)



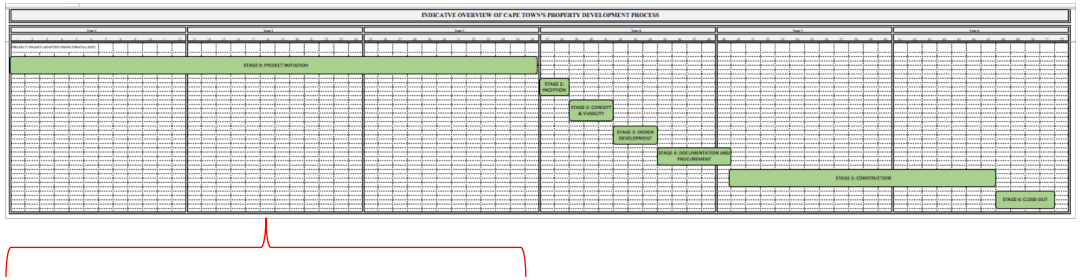


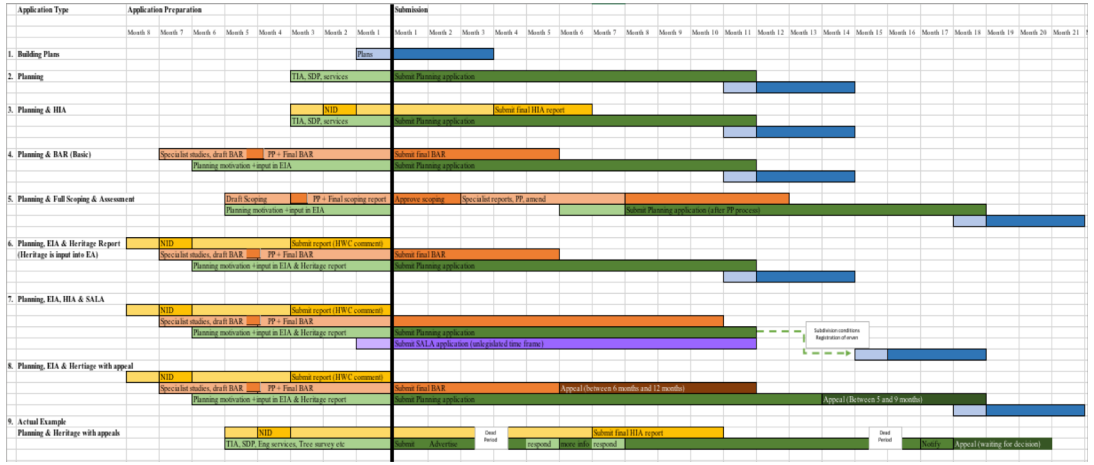
Map 5d: Consolidated spatial plan concept

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Causes of Regulatory Delay

- Multiple authorisations and authorising bodies
- Intended time-frames
  - Not all stipulated
  - Impacted upon by dependencies between processes
- Actual time-frames
  - Poor quality applications
  - Resource shortages
  - Lack of prioritisation
    - Resource allocation to simple vs complex projects
  - Personality-driven – case officer
  - “Gaming of the system“
    - Authorities
    - Competing developers





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Causes of Regulatory Delay

- Additional regulation
  - Increases preparation time and cost
    - e.g. Specialist studies
  - Increased opportunity for objections
- Conditions of approval
  - Direct cost
  - Impact on H&B Use
- Appeal processes

Appeals

49. (1) Regulations by the Minister and the MEC must provide for a system of appeal to the SAHRA Council or a provincial heritage resources council against a decision of a committee or other delegated representative of SAHRA or a provincial heritage resources authority.

(2) Anybody wishing to appeal against a decision of the SAHRA Council or the council of a provincial heritage resources authority must notify the Minister or MEC in writing within 30 days. The Minister or MEC shall then appoint an independent tribunal, consisting of three experts, having expertise regarding the matter.

90 Objection to an application

(1) A person who has been invited to comment or object, or any person in response to a public invitation to comment or object, may object to, comment on or make representations about the application in accordance with this section.

(2) An objection, comment or representation must be in writing.

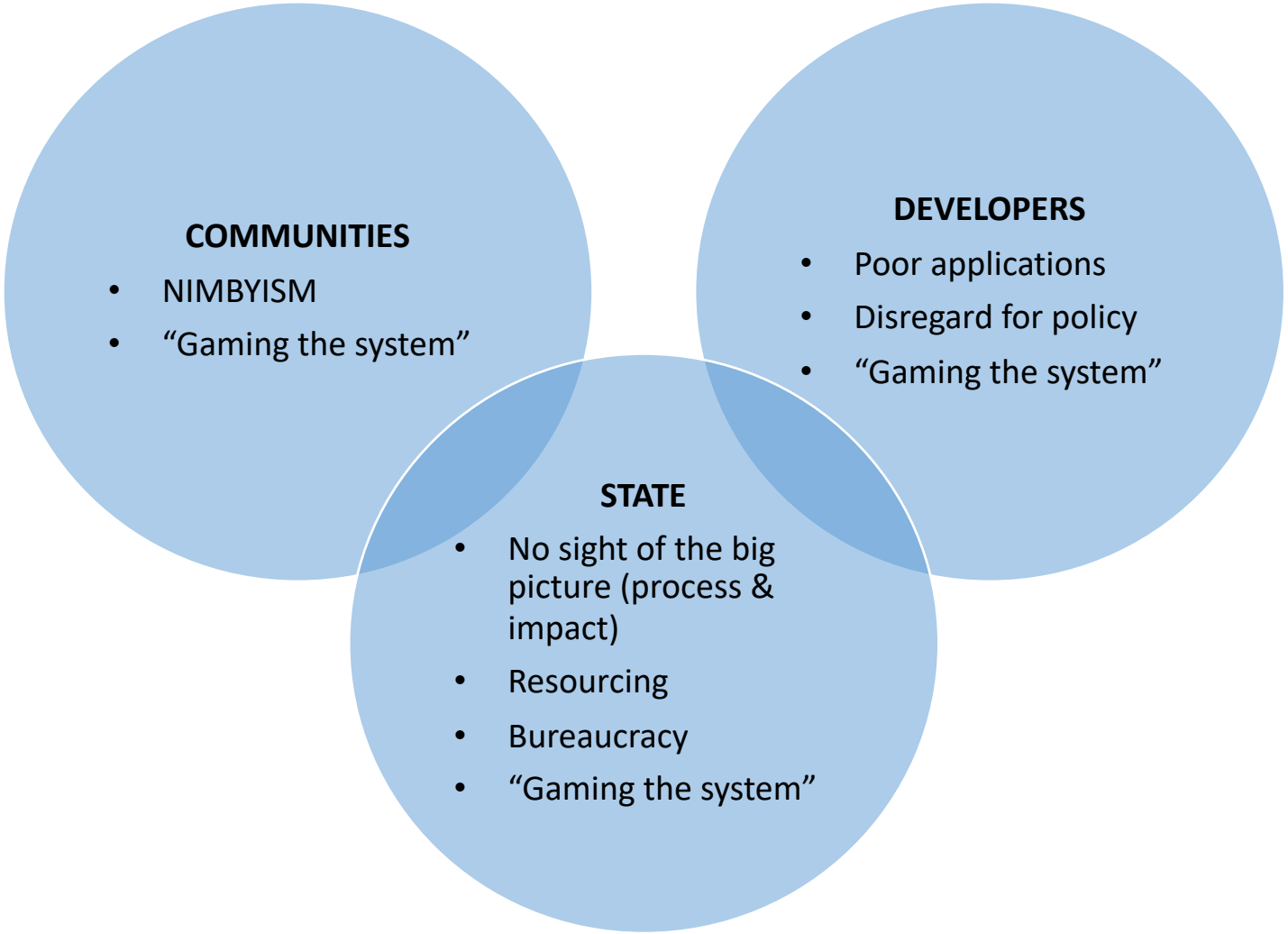
(3) A late objection, comment or representation will not be considered unless the City Manager condones the late submission in terms of subsection (4).

(4) The City Manager may condone the late submission of an objection, comment or representation if good cause is shown and consideration of the late objection, comment or representation would not –

(a) cause an unreasonable delay; or

(b) prejudice the public interest.

Everyone is responsible

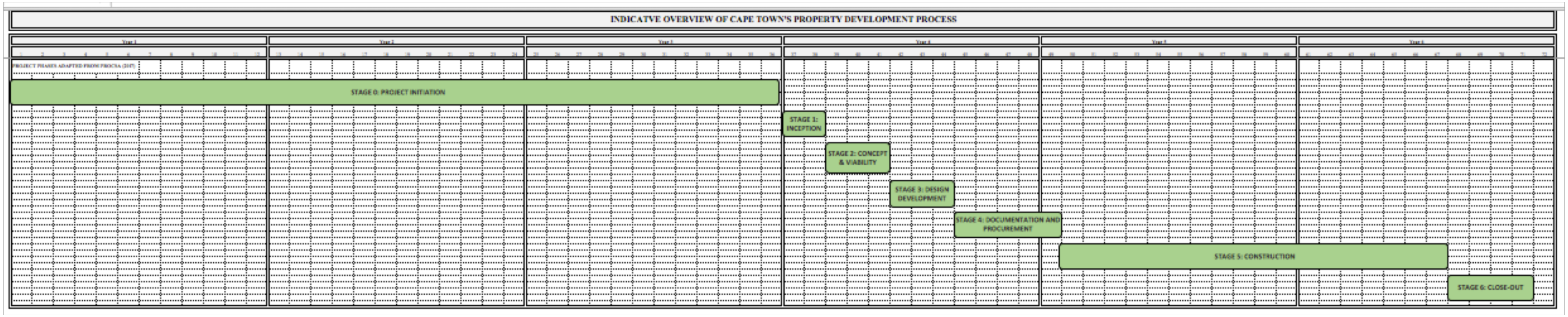


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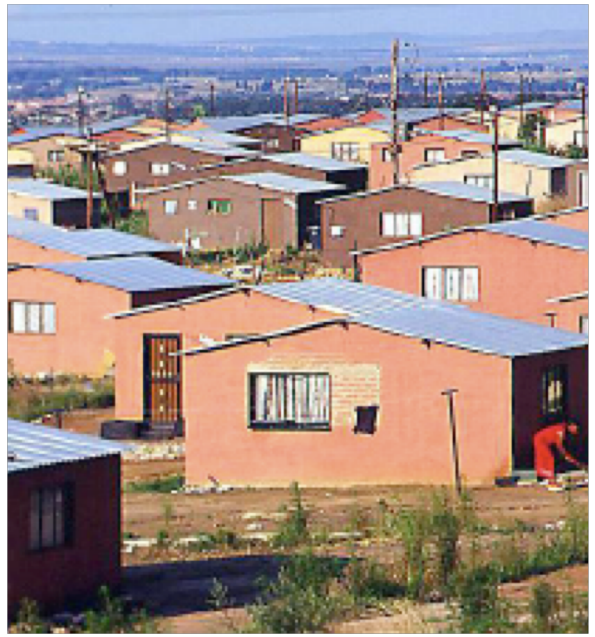
Required Actions

- **Collective recognition of the problem**
- Recognition of the cumulative impact of individual delays and multiple layers of regulation
  - Dependencies
  - Cumulative costs
- A systematic assessment of how existing and NEW legislation and processes impact on delivery, affordability, viability and transformation
  - Micro-indicators are important, but macro-indicators tell the true story
  - Not all the problems are known
  - Most of the solutions lie in the unsexy detail – not one silver bullet
- Recognition of the opportunity cost of public opinion and NIMBYISM
- Recognition that complexity and uncertainty incentivise speculation and corruption
- Identification of ways to achieve the same desired outcome in a less complex, uncertain and opaque manner

The objective of this model is to assist this process...



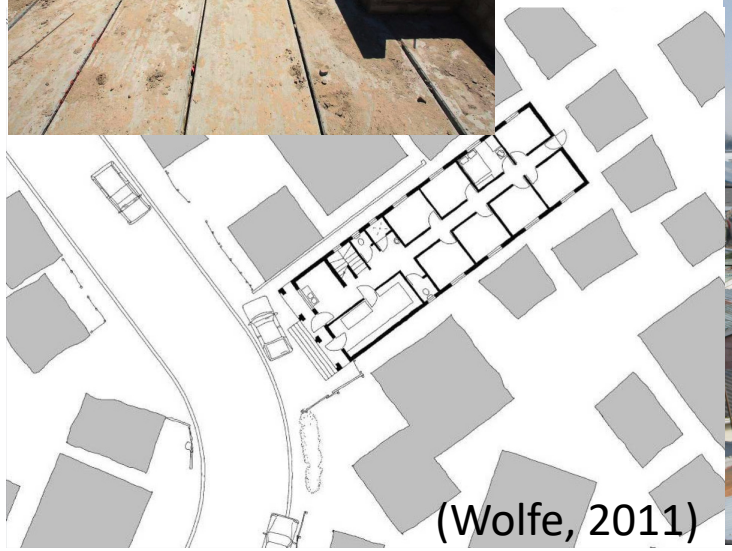
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(Wolfe, 2011)



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