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# Value Capture in South Africa

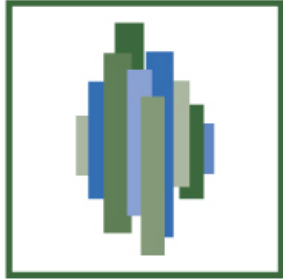
A way to overcome urban  
management challenges and unlock  
development opportunities?



# VALUE CAPTURE IN SOUTH AFRICA

A way to overcome urban management challenges and unlock development opportunities?

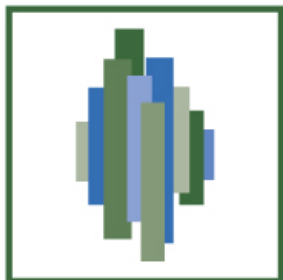
Robert McGaffin, University of Cape Town



## What is construction economics and management?

Construction Economics and Management offers degree programmes accredited both locally and internationally by professional institutions. The study of construction studies, quantity surveying, construction management and property studies at UCT typically entails a combination of fields associated with the built environment, namely management, law, economics, science and technology. Graduates of the department play a vital role in the process of planning, designing, constructing and managing all types of residential, commercial and industrial developments.





## Undergraduate

### Overview

#### Bachelor of Science in Construction Studies

This degree equips students with a wide range of skills and knowledge required of a managerial role in the construction industry. Over the three years of study, students are challenged with aspects that deal with design, construction and engineering technology as well as subjects such as economics, statistics, human resource management, commercial and contract law, costing, surveying and professional communication. Practical experience is a component in all three years' curricula.

[Read more ...](#)

#### Bachelor of Science (Honours) in Construction Management

This one year postgraduate degree follows the undergraduate programme in Construction Studies and results in a professional qualification as a Construction Manager. Graduates will be qualified to identify, analyse and solve problems in the field of construction assembly and manage the construction process. The degree provides graduates with the necessary foundation to specialize further in project management, property management and housing at Masters level.

[Read more ...](#)

#### Bachelor of Science in Property Studies

This programme exposes students to a broad knowledge base including finance, economics, property law, and appropriate communication and computer skills. In addition, students develop particular skills in property valuation and development. These include evaluating and structuring finance for property investments, assessing feasibility and risk in property developments, valuing property assets, managing property portfolios, designing and implementing facilities management programmes, and managing the procurement of buildings.

[Read more ...](#)

#### Bachelor of Science (Honours) in Property Studies

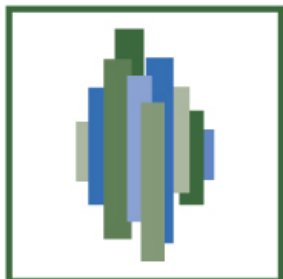
This programme is intended for students who have completed a BSc in Property Studies and who wish to advance their knowledge and skills, and gain further insight by specializing in particular aspects of property valuation and management. The qualification provides the necessary foundation for specialization at Masters level in various fields such as: property development and management; project management; housing development; and facilities management.

[Read more ...](#)

#### Bachelor of Science (Honours) in Quantity Surveying

This one-year postgraduate degree follows the undergraduate programme in Construction Studies and results in a professional qualification as a Quantity Surveyor. Quantity Surveyors work closely with other professionals on construction projects, and are responsible for the financial and contractual management of projects.





## Postgraduate

### Overview

#### Project Management (PGDip/MSc)

Project Management is a key growth area. It is recognized as the most appropriate form of management for the new generation of managers who are asked to handle multi-disciplinary projects in a rapidly changing business environment. Its benefits are increasingly being used to improve management performance in areas that were not previously thought of as project driven.

The course is underpinned by the standards and processes set out in the Project Management Body of Knowledge and the PRINCE2 methodology. The content is built up from the academic research literature and encompasses construction, engineering, information technology, and business projects in its scope. The programme seeks to maintain a balance in its content to meet the needs of the public sector, utilities and the private sector.

[Read more ...](#)

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#### Property Studies (PGDip/MSc)

Property is a fundamental national asset, the use of which has an important influence on the environment, the economy, and society in general. In recognition of this, the Department of Construction Economics and Management has responded to the demand from both students and employers for postgraduate courses in property and real estate studies with the introduction of taught postgraduate courses in Property Studies. The programmes consist of taught modules, project work and, in the case of the Masters programme, a research component.

The MSc and PG Diploma programmes are fully accredited by the South African Council for the Property Valuers Profession\* and the MSc programme by the Royal Institution of Chartered Surveyors.

\* requires both CON5043Z (Property Valuation Theory and Practice) and CON5044Z (Advanced Property Valuation) for accreditation purposes.

[Read more ...](#)

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#### Research-Based Degrees

Research-based degrees in the form of the Masters of Philosophy (MPhil) and the Doctor of Philosophy (PhD) are offered.

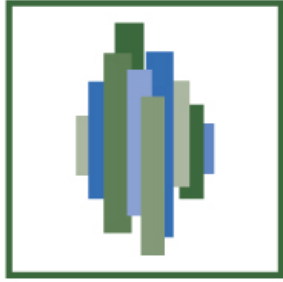
[Read more ...](#)



MAKE  
THINGS  
HAPPEN



## UCT-Nedbank Urban Real Estate Research Unit



### **Unit**

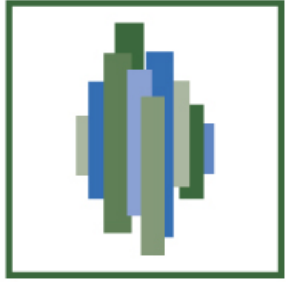
- Operationally a unit is smaller than a centre or an institute.
- A focused research mandate that may span across disciplines or rest with one discipline.
- A formal management structure with a director and a team of researchers.
- The director should be an internationally recognised researcher on the permanent or T3 academic staff.
- Ongoing projects and measurable outcomes evolving from its focused research theme.

### **Centre**

- Operationally a centre is larger than a unit.
- A broad research mandate that spans across disciplines or rests with one discipline.
- A formal management structure with a director of considerable international standing and a team of researchers.
- The director and at least one team leader should be on the permanent or T3 academic staff.
- Ongoing projects and measurable outcomes evolving from its broad research mandate.

### **Institute**

- Operationally an institute is larger than a centre and is usually housed in a defined, visible space.
- A broad research mandate that spans across disciplines or sub-disciplines and implies extensive collaboration on a wide range of associated research questions.
- A formal management structure with a director of considerable international standing and several research teams, which are individually headed by internationally recognised researchers, and constitute a large-scale network of researchers.
- The director and several team leaders should be permanent academic staff whose major time and commitment is to the institute.
- Categorisation of membership based on the percentage of time spent in the institute is encouraged. Membership categories would for example include full, affiliate, associate and adjunct, thus indicating varying degrees of time commitment to the institute.
- Ongoing projects and measurable outcomes evolving from its broad research mandate.
- Sustainable over a long-term period.



## **Urban Real Estate Market Dynamics & Trends**

## **RESIDENTIAL & COMMERCIAL MARKETS:**

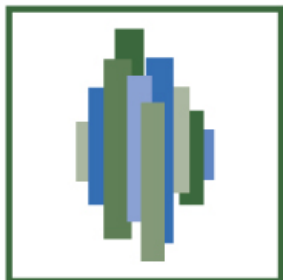
## **Urban Real Estate Investment & Finance**

Context & Drivers [STEEPP]  
Real Estate Trends [Sectors, New Markets & Cycles]  
Real Estate Mechanics [Supply & Demand & Processes]  
Private Finance [Public/Private Equity; Public/Private Debt]  
Public Finance [Policies & Mechanisms – Value-Capture]  
Valuation  
Urban Management [Urban FM]  
Policy Interventions [TOD, Inclusive growth, subsidies etc.)

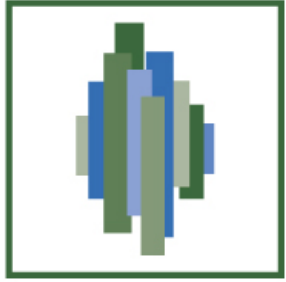
## **Urban Development & Management**

## **African Urban Real Estate Markets**





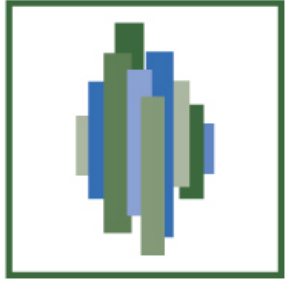
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|                                  |        |        |                   |                       |                        |                |     |                     |             |                     |         |                    |                        |                                |                        |                    |                   |                  |
| OPERATION OF THE RESEARCH AGENDA |        |        |                   |                       |                        |                |     |                     |             |                     |         |                    |                        |                                |                        |                    |                   |                  |
| Student/PostDoc/<br>RA Resource: | Title: |        | Type of Activity: |                       |                        |                |     |                     | Supervisor: | Output and Channel: |         |                    |                        |                                |                        |                    |                   |                  |
|                                  |        |        | Hons              | MSc/<br>MPhil<br>60CR | MSc/<br>MPhil<br>120CR | MPhil<br>180CR | PhD | Applied<br>Research |             | Academic            |         |                    |                        |                                | Industry               |                    |                   |                  |
|                                  |        | STATUS |                   |                       |                        |                |     |                     |             | Thesis              | Journal | Book or<br>Chapter | Academic<br>Conference | Academic<br>Research<br>Report | Industry<br>Conference | Industry<br>Report | Industry<br>Media | General<br>Media |



# Infrastructure model

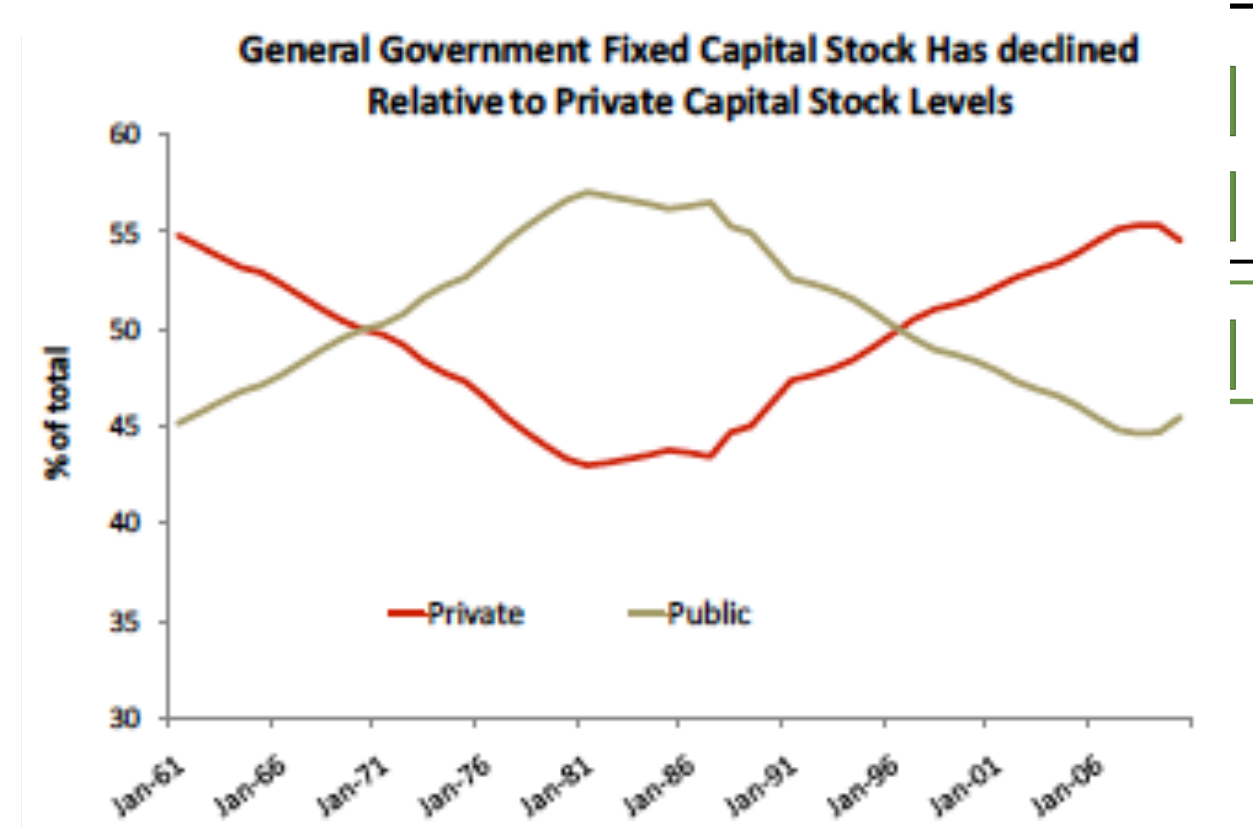
- Infrastructure is delivered at scale, is capital intensive and requires long payback periods
- Property development is smaller, incremental and has shorter repayment periods
- Therefore, state delivers and recoups through development contributions over time



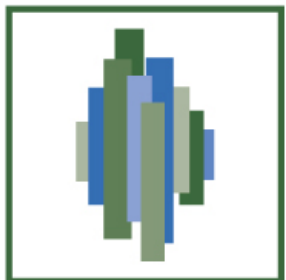


# Model under pressure

- Competing demands:
  - Service delivery
    - Increasing urbanisation
    - Backlogs
  - Spatial restructuring
  - Economic development
- Funding constraints

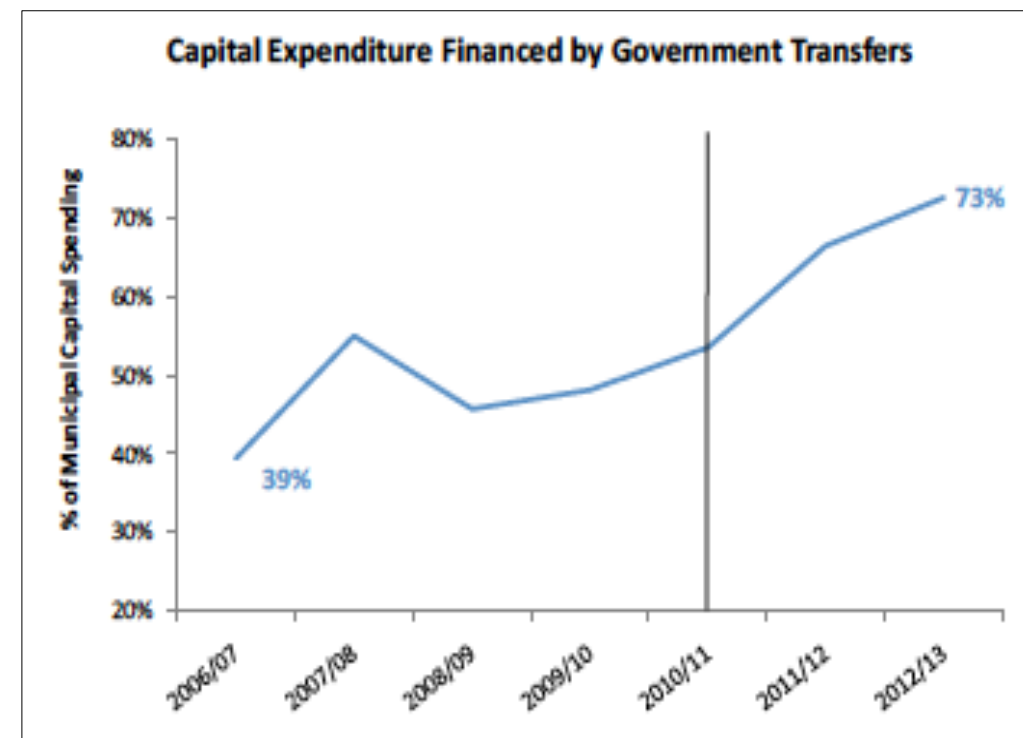
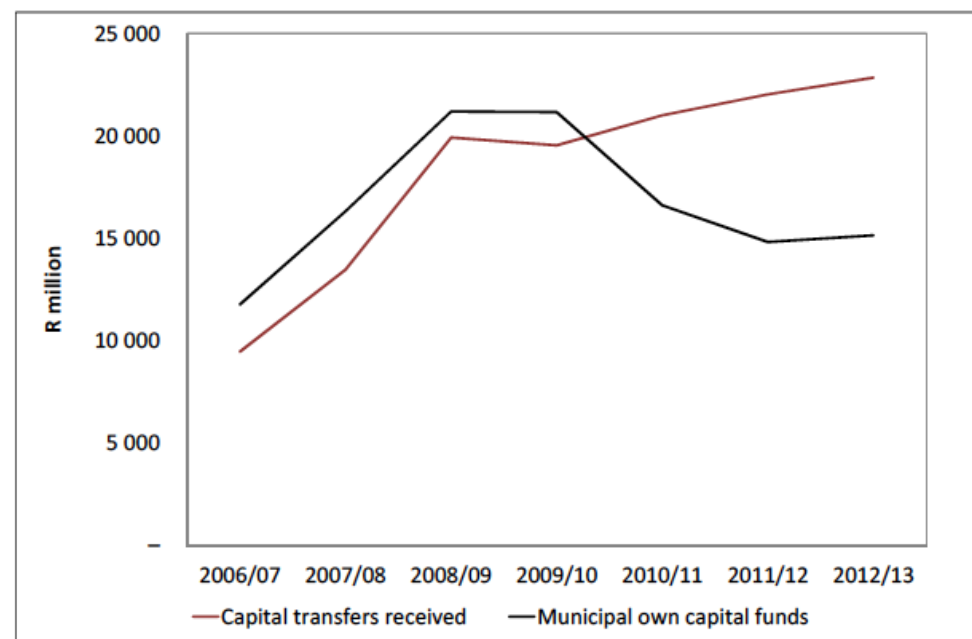






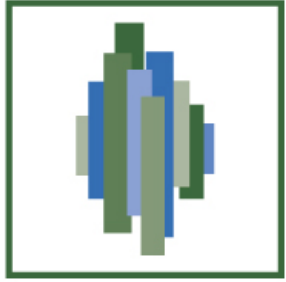
# Funding constraints

**Figure 4.3 Municipal own contribution to capital expenditure, 2006 to 2012**



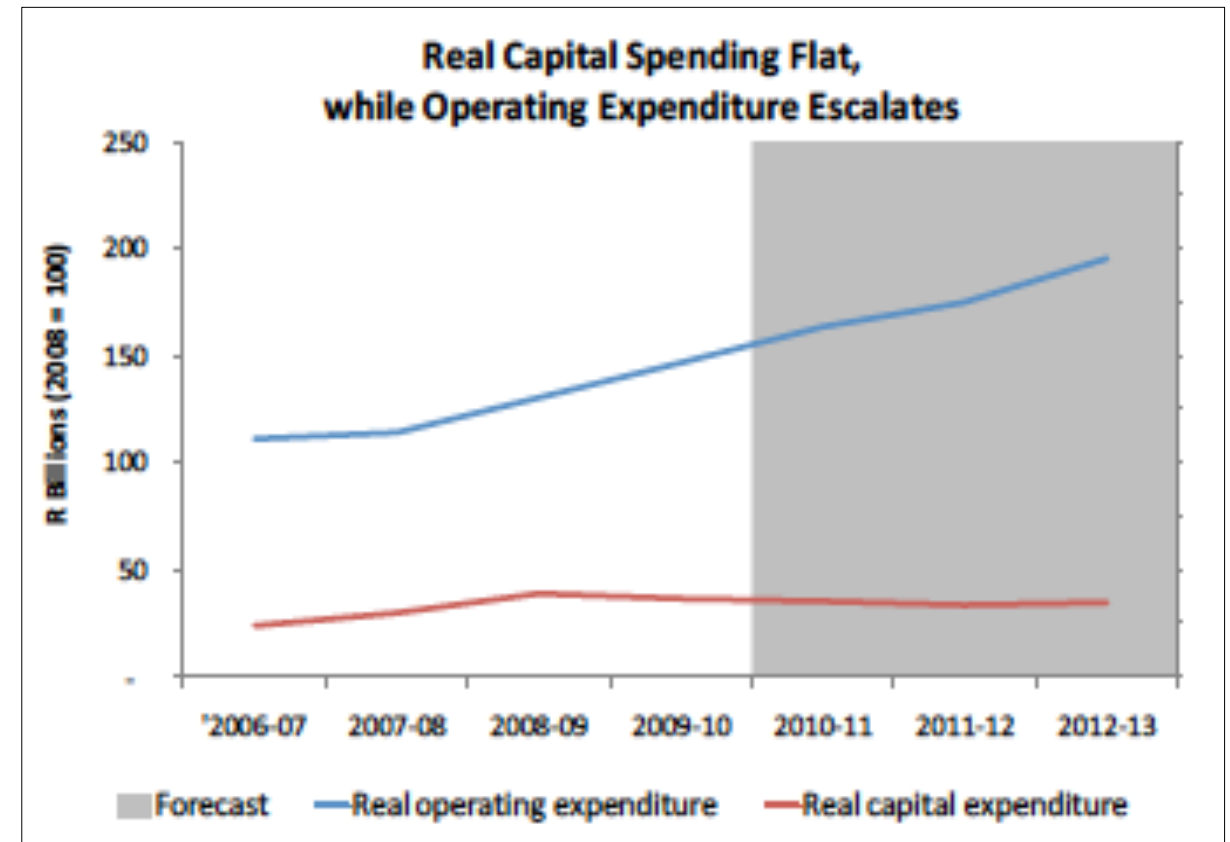
Source: Silberman and National Treasury

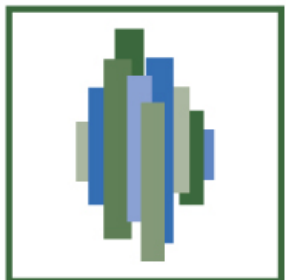
- Increasing reliance on national transfers to fund capital budgets



# Funding constraints

- And increased operating expenses

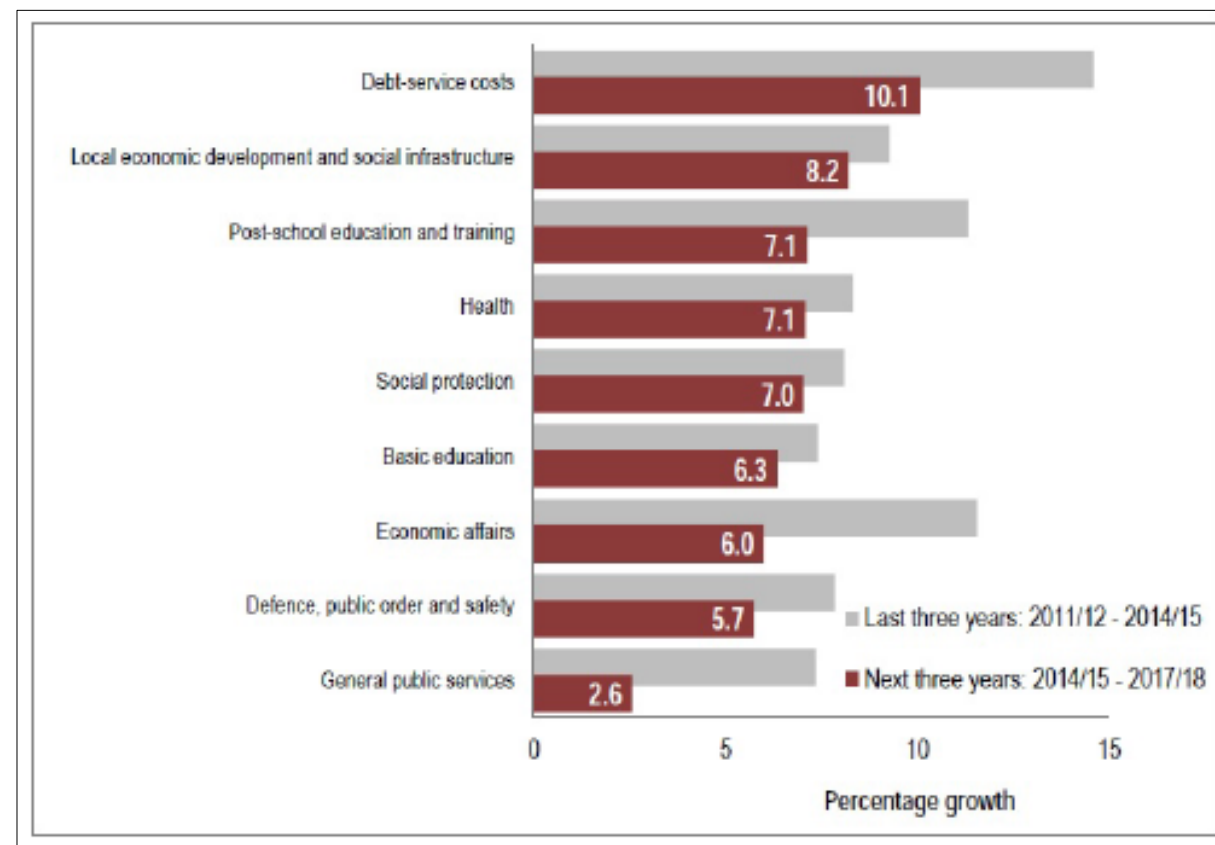




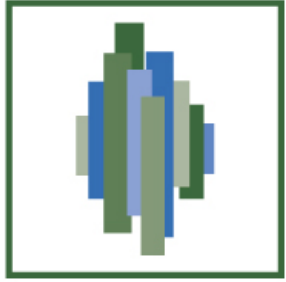
# Funding constraints

- But declining national revenue and increased reliance on borrowing

Gross national tax revenue revised downwards by R35-billion between 2015/16 and 2017/18 due to steep decline in commodity prices and corporate income tax collection

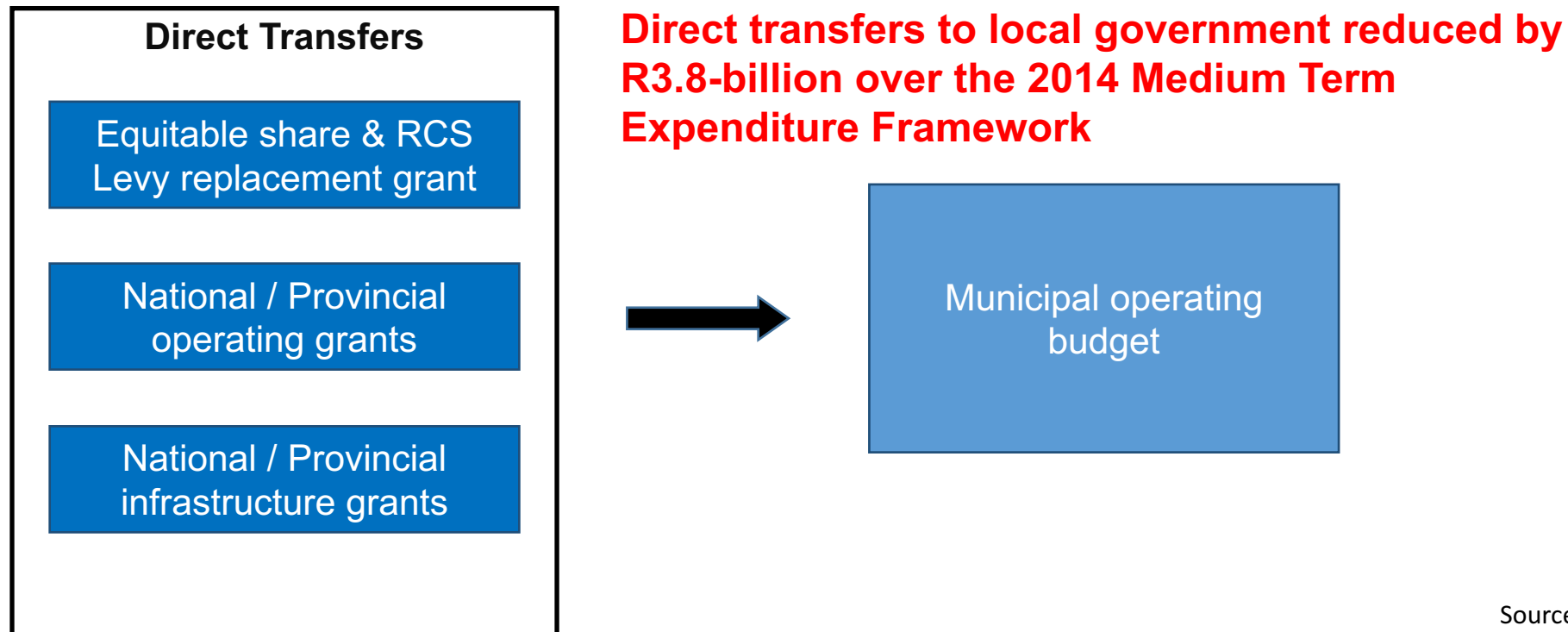


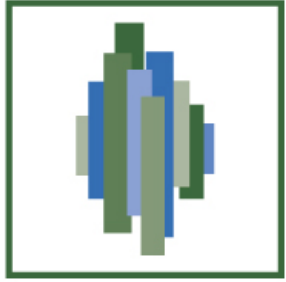




# Funding constraints

- Therefore reduced national transfers:





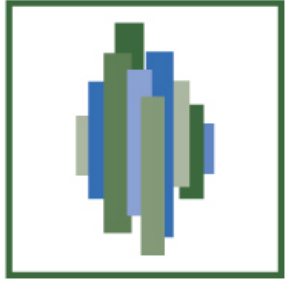
# Value capture

Can value capture assist in addressing the above challenges?

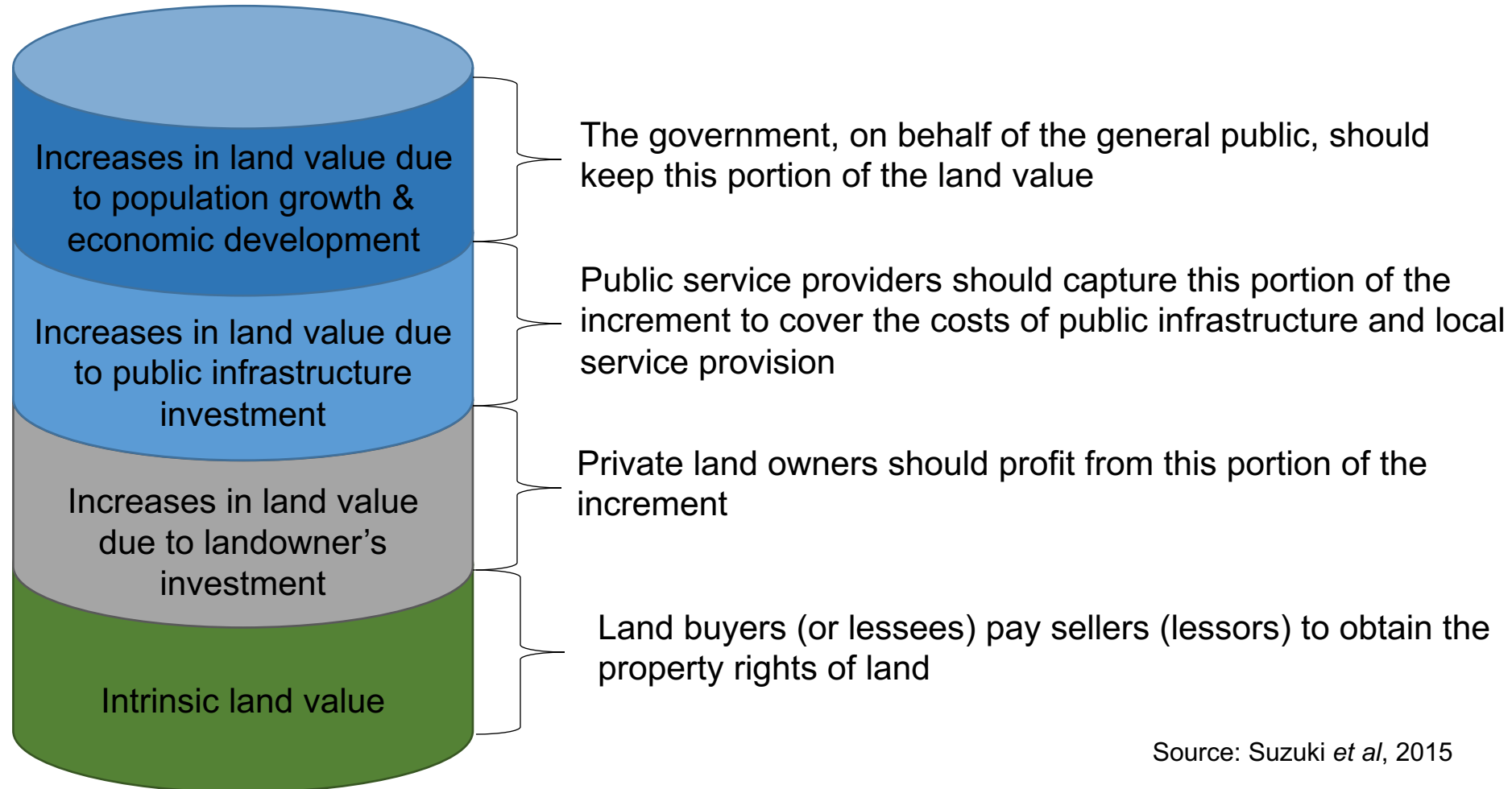


What is it?

“The sharing between the state and private sector of the increased property value that results from public investment”

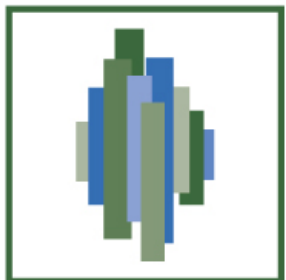


# Sharing the value

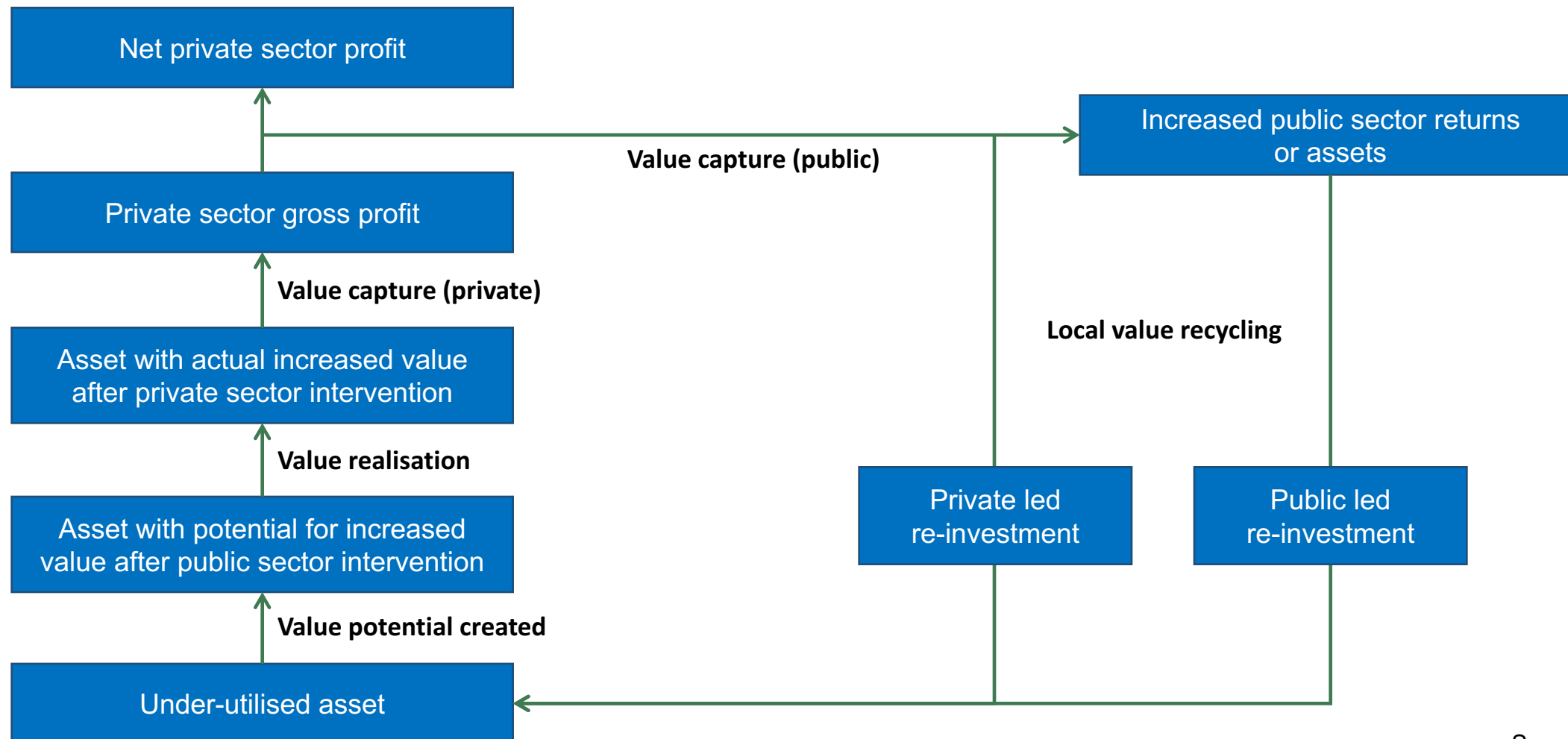


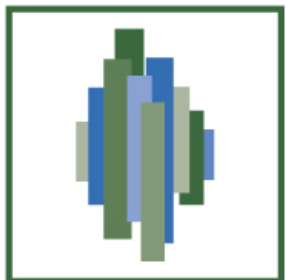
Source: Suzuki *et al*, 2015





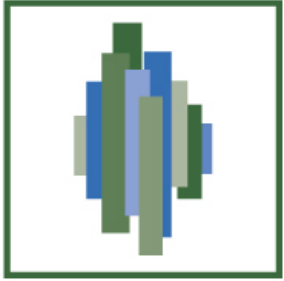
# How it works





# Use-related mechanisms

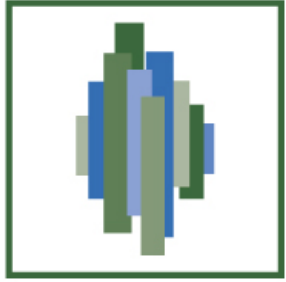
| Value Capture Mechanism               | Description   |
|---------------------------------------|---|
| Density bonus                         | A zoning-based incentive aimed at encouraging developers to provide certain public amenities or to meet certain public objectives in exchange for allowing greater floor area and/or building height.                               |
| Air-rights                            | The granting of air rights above public infrastructure to the private sector could be aimed at encouraging the provision of public amenities, affordable housing, encouraging greater densities and increasing the City's tax base. |
| Tax abatement                         | A reduction or exemption from taxes for a specific period of time in a designated area, usually to stimulate investment in locations with lower demand – e.g. Urban Development Zone in South Africa                                |
| Lease or disposal of state-owned land | Instead of maximising the market value of the land sale or lease, the state may choose to prioritise other policy objectives, such as affordable housing in well located areas. Could also be an income-generating opportunity.     |
| Land-adjustment                       | Landowners pool land together for reconfiguration and redevelopment, and contribute a portion of their land to raise funds to partially cover the public infrastructure development costs.  |



# Income-generating mechanisms

| Value Capture Mechanism               | Description   |
|---------------------------------------|---|
| Development charges                   | A levy imposed on developers to pay for infrastructure requirements resulting from additional and expanded land uses.   |
| Business / City Improvement Districts | Delineated zones where an additional charge is levied on properties to finance top-up services to supplement the standard services provided by the state, often focused on security and cleansing. Often perform additional roles, such as area marketing, which together with the increased security and cleanliness, may resulted in increased property values. |
| Tax Increment Financing               | TIF schemes enable municipalities to borrow against the future anticipated incremental tax revenue that would be generated within a specific geographic area as a result of the construction of large-scale infrastructure.   |
| Special Assessment Districts          | Similar to TIFs except that the income that is used to repay public funds or borrowings is in the form of a levy that has been agreed to upfront with the affected property owners within the SAD. This reduces the financial risk for the municipality, which instead is spread amongst the property owners.   |





# Can value-capture address the identified infrastructure challenges?

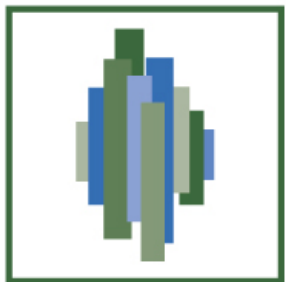
## Yes, it can...

- Assist municipalities to raise local revenue
- Enable municipalities & private sector to respond to development opportunities
- Reduce need for municipalities to make trade-offs between infrastructure development for economic growth, spatial restructuring or service delivery
- Can increase borrowing capacity of municipalities without impacting gearing limits & credit rating
- Enable municipalities to share some of the financing risk with the private sector

## However...

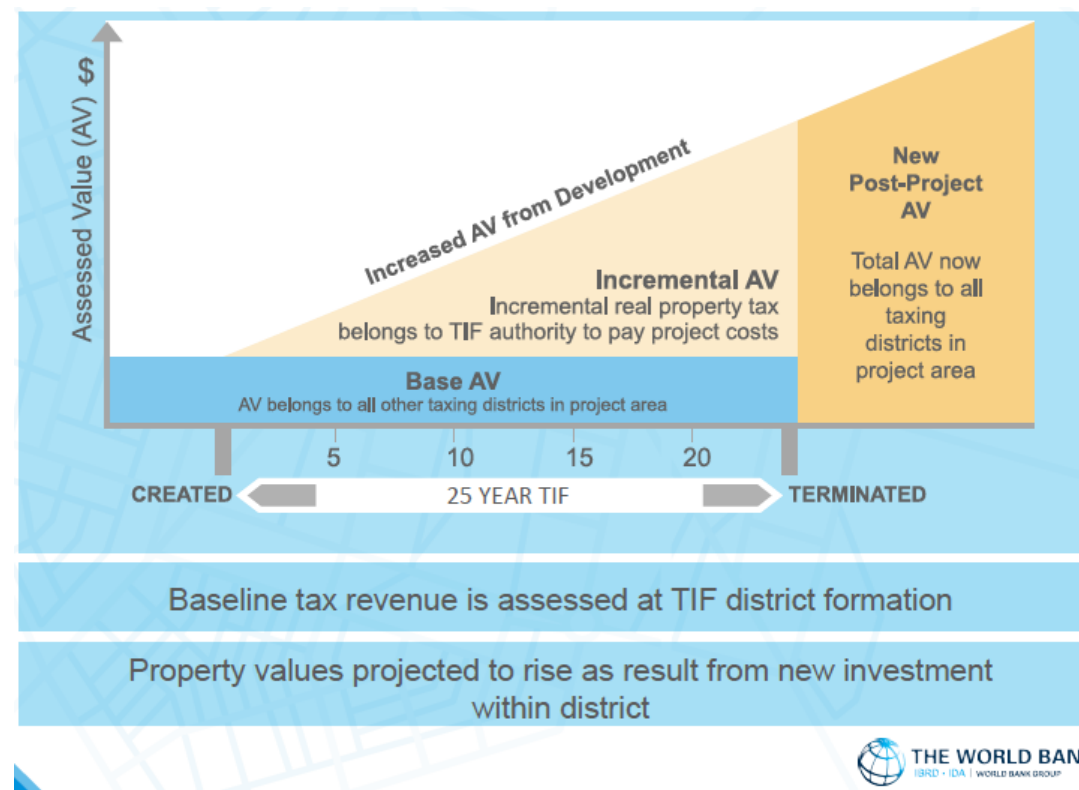
- Are market conditions conducive to value creation?
- Is there private sector appetite?
- Is there public sector capacity and skill?

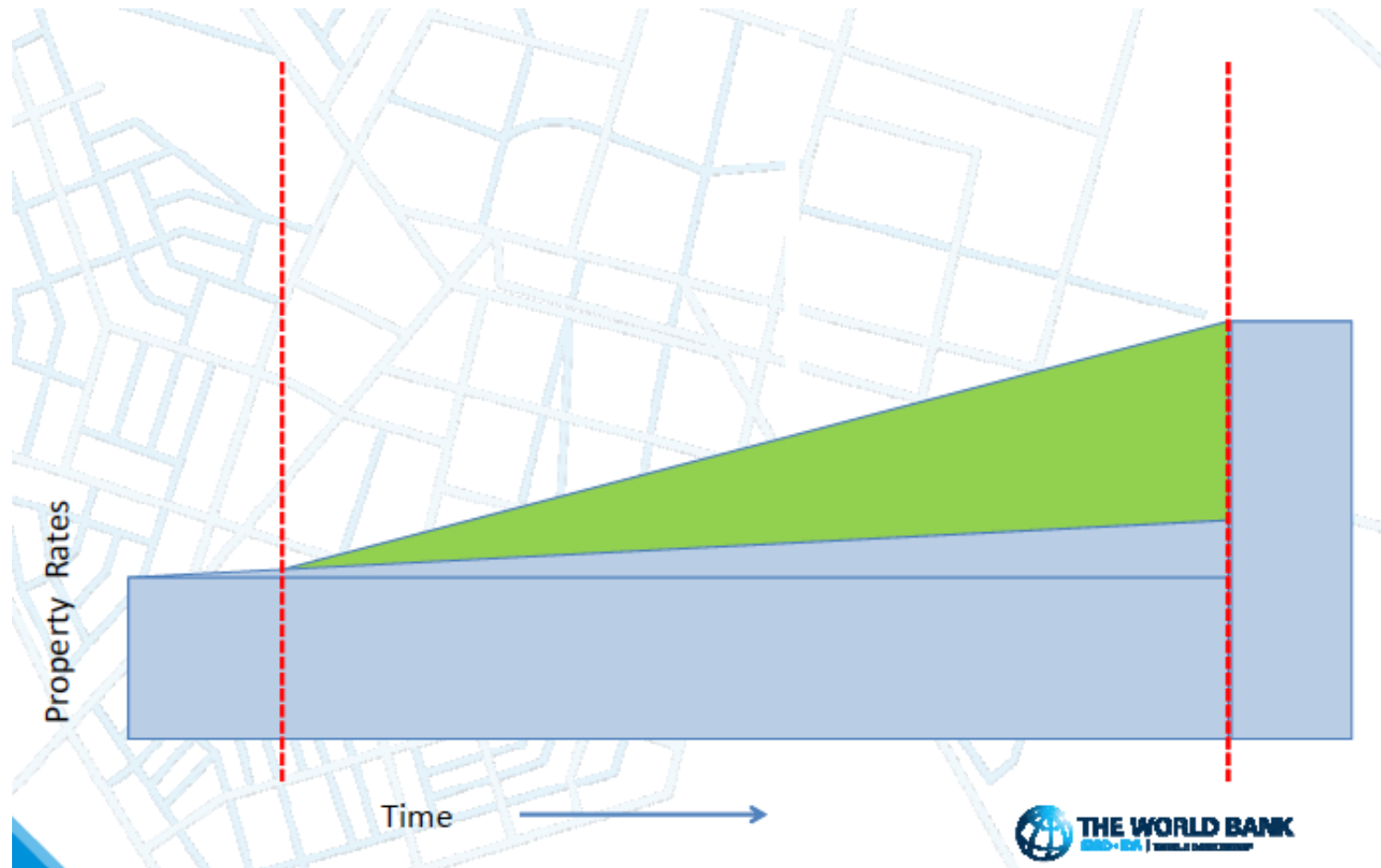
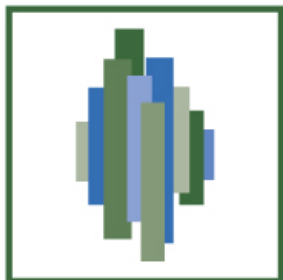


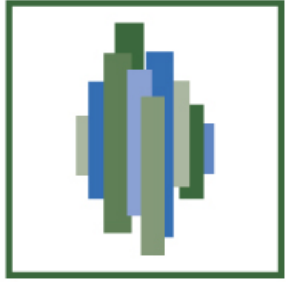


# How a TIF works

- Site / precinct identified based on (re)development potential
- Property taxes payable as per the site's **existing** use are determined
- Full development potential is calculated based on market conditions
- Infrastructure requirements are determined and priced.
- Property taxes that would be paid if the site were developed to its full potential are calculated
- The difference (the increment tax) between existing property taxes and potential property taxes is calculated
- Municipality raises public bond on the back of the expected increment income
- Size and phasing of the bond are determined based on the size of the increment tax generated
- The increment tax is ring-fenced to pay for a TIF bond
- The bond is issued and the proceeds used to fund the required infrastructure
- Once the bond has been repaid, the increment tax is "unfenced" and is added to the general property tax revenue pool.





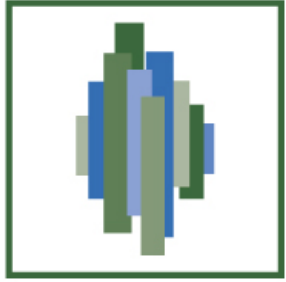


# A closer look at TIF: What are the challenges?

- Scale of provision of bulk infrastructure – who pays for excess?
- Sites with multiple land-owners
- TIF not expressly provided for in existing legislation
- Administrative risk and burden for municipality
- May impact municipality's gearing limits and credit rating depending on whether TIF is treated as an on- or off-balance sheet item
- Currently off-balance sheet status only possible through a Special Purpose Vehicle







# Is there appetite for value-capture?







# UCT Nedbank Urban Real Estate Research Unit

[www.ureru.uct.ac.za](http://www.ureru.uct.ac.za)

[Robert.McGaffin@uct.ac.za](mailto:Robert.McGaffin@uct.ac.za)