

Analysis of the Impact of the JDA's Area-Based Regeneration Projects on Private Sector Investments

Executive Summary

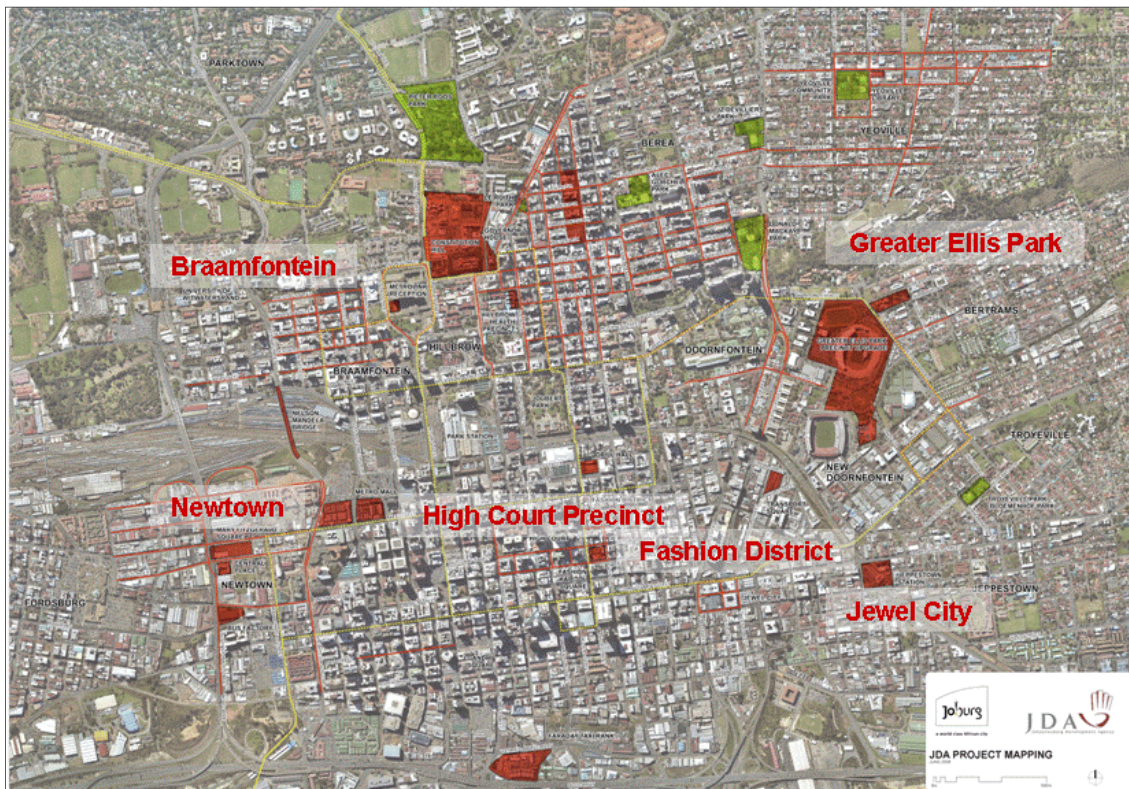
Background

The Johannesburg Development Agency (JDA) is an agency of the City of Johannesburg which stimulates and supports area-based development initiatives throughout the Johannesburg metropolitan area in support of the City's Growth and Development Strategy.

The JDA was established with the express purpose of facilitating area-based economic development in the City of Johannesburg. The JDA has successfully undertaken capital-based projects through out the City since 2001. These projects have involved the investment of significant public sector funds sourced from the City of Johannesburg, the Department of Transport and National Treasury.

The research commissioned by JDA sought to analyse and review private sector investment in a number of the JDA's area-based regeneration projects in various intervention areas. These areas include: Greater Newtown, Fashion District, Greater Ellis Park (incl. Doornfontien, New Doornfontien and Bertrams), Braamfontein, High Court Precinct, and Jewel City. The figure below provides an overview of the broad location of each of the five intervention areas in the inner city considered in this study

Figure 1: Location of intervention areas in the inner city

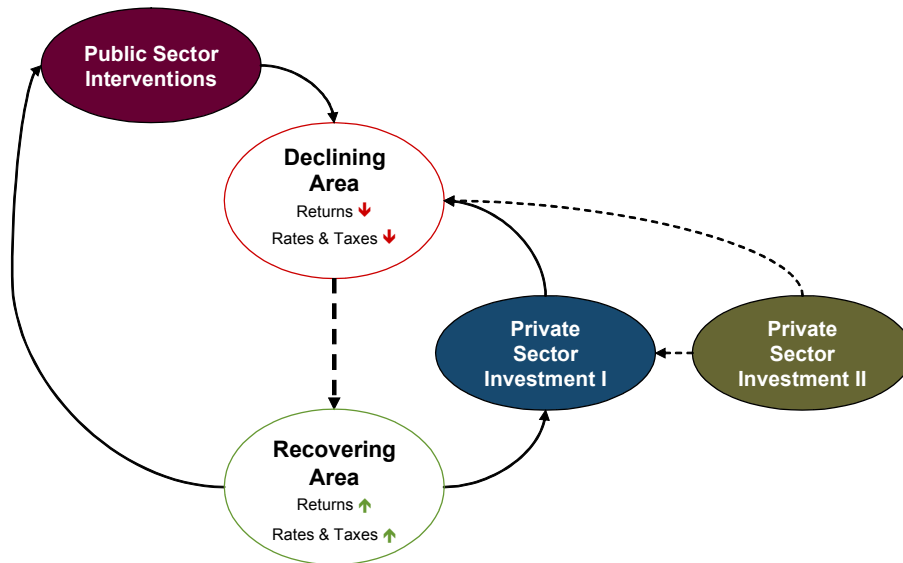


The overall objectives of the study were to quantify private sector investment in these JDA development areas, analyse the property market trends as well as the factors that influence investor interest in the JDA development areas.

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Illustrated in the figure below is the high-level conceptual model underpinning the ABI approach that also informs the research methodology we have adopted.

Figure 2: Conceptual model of ABI economic impact



In essence the theory holds that public sector interventions (investment in infrastructure, urban upgrade, urban management, tax incentives, etc.) in declining areas provides a necessary platform for private sector investment and re-investment into these areas.

Private sector *investment* in this case is and the research is understood as the purchase of property, refurbishment or the conversion for retail, residential or commercial or industrial use

The methodology utilised involved accessing multiple data and JDA project information per intervention area in order to assess the levels of public and private sector investment and to obtain trends data in respect of key property indicators. A "control area" – being the entire inner city or broader Johannesburg were also defined in order to establish the relative performance of the JDA intervention areas. Four primary information and data sources were considered and utilised in this assignment:

- Deeds data (Registrar of Deeds)
- Property data (Viruly, SAPOA, Rode and IPD)
- JDA DIMS data
- Interviews with investors, developers, brokers and financiers

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JDA Investment

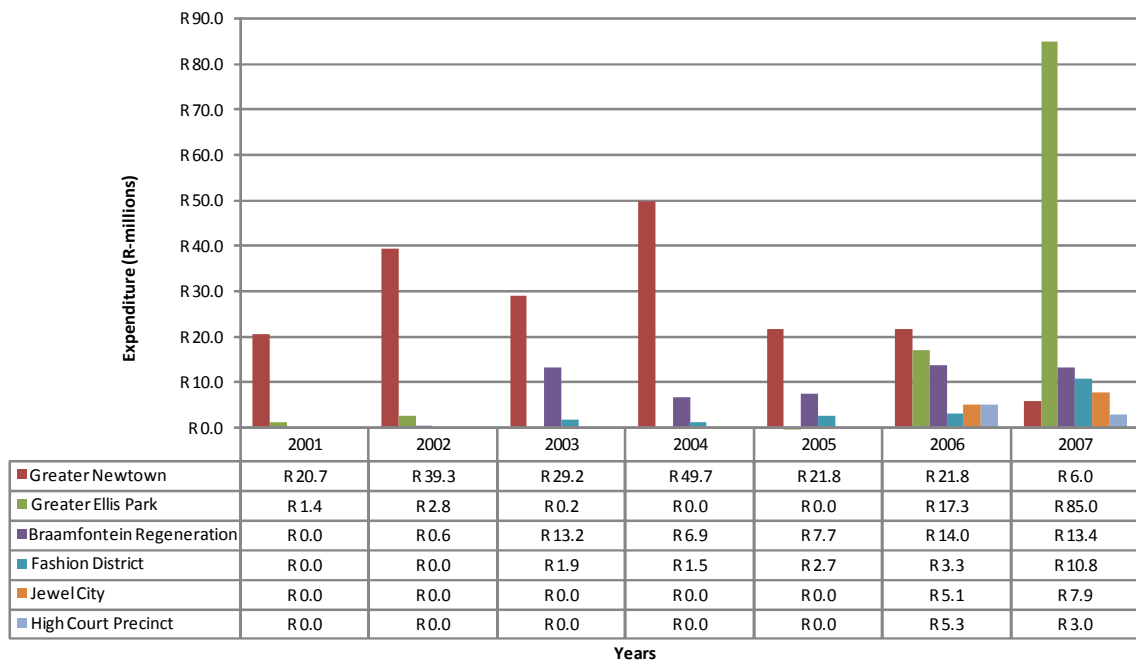
As at December 2007 the JDA had spent R393 million across the six projects analysed.

Table 1: JDA Expenditure in selected precincts: 2001 - 2007

	Budget	Expenditure							Total Spent
		2001	2002	2003	2004	2005	2006	2007	
	R m	R m	R m	R m	R m	R m	R m	R m	
Greater Newtown	200.9	20.7	39.3	29.2	49.7	21.8	21.8	6.0	188.7
Greater Ellis Park*	241.8	1.4	2.8	0.2	0.0	0.0	17.3	85.0	106.7
Braamfontein Regeneration	55.7	0.0	0.6	13.2	6.9	7.7	14.0	13.4	55.7
Fashion District	28.2	0.0	0.0	1.9	1.5	2.7	3.3	10.8	20.2
Jewel City	13.5	0.0	0.0	0.0	0.0	0.0	5.1	7.9	13.0
High Court Precinct	8.3	0.0	0.0	0.0	0.0	0.0	5.3	3.0	8.3
Total	548.3	22.2	42.8	44.6	58.0	32.2	66.7	126.1	392.6

Source: JDA DIMS, own analysis; Note: All amounts indicated are exclusive of VAT; * Ellis Park excludes BRT

Figure 3: CoJ expenditure values per area, 2001-2007



Source: JDA DIMS, own analysis; Note: All amounts indicated are exclusive of VAT

Most of the projects in the portfolio selected for review have only been in implementation since 2004, while two (Jewel City and High Court Precinct) have only been underway since 2006. The two largest interventions to date are Greater Newtown and Greater Ellis Park. Greater Newtown represents one of the earliest and most significant investments by the JDA and the City of Johannesburg. Especially notable in respect of the Newtown intervention is the comprehensive and broad nature of the intervention, covering property investment, infrastructure, urban upgrading as well as marketing and public events interventions.

Property market impact

The second area investigated in this assignment is the impact of the JDA and CoJ interventions on the broader property market in the intervention areas. This impact was assessed in respect of:

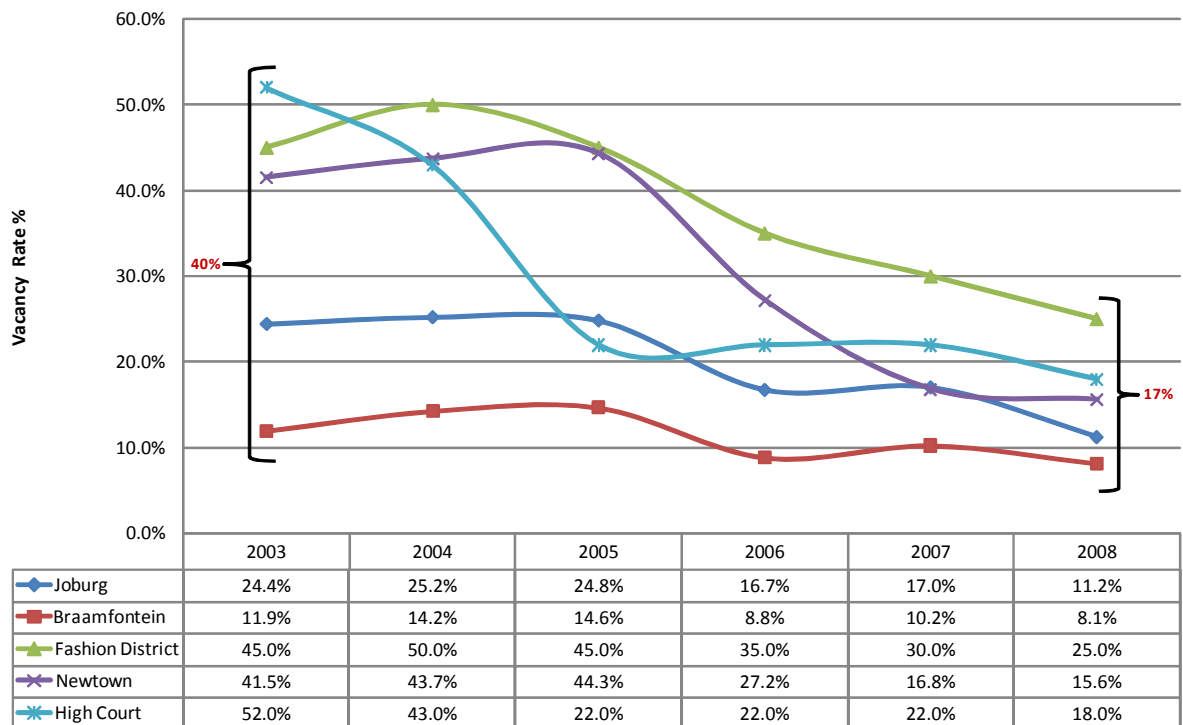
- Vacancy rates;
- Rental rates; and
- Transaction volumes and values

Vacancy rates

Vacancy rates are an indicator of the overall health of the commercial property sector in an area. Many of the JDA's intervention areas historically suffered from the flight of businesses and very high vacancy rates.

The figure below provides insight into the trend in respect of vacancy rates for A and B Grade office space in the intervention areas as well as Johannesburg as a whole.

Figure 4: Vacancy rates (A & B grade office) for Joburg and intervention areas, 2003 - 2008



Source: Viruly, 2008

Note: Nominal values (i.e. not adjusted for inflation); A and B Grade office space

The data show a very positive impact in respect of declining vacancy rates across the intervention areas – from an average peak of 40% in 2003 down to an average of 17% in 2008.

While Braamfontein has historically had the lowest vacancy rates of the intervention portfolio, it has continued to decline and is currently on a par with other prime office nodes such as Sandton.

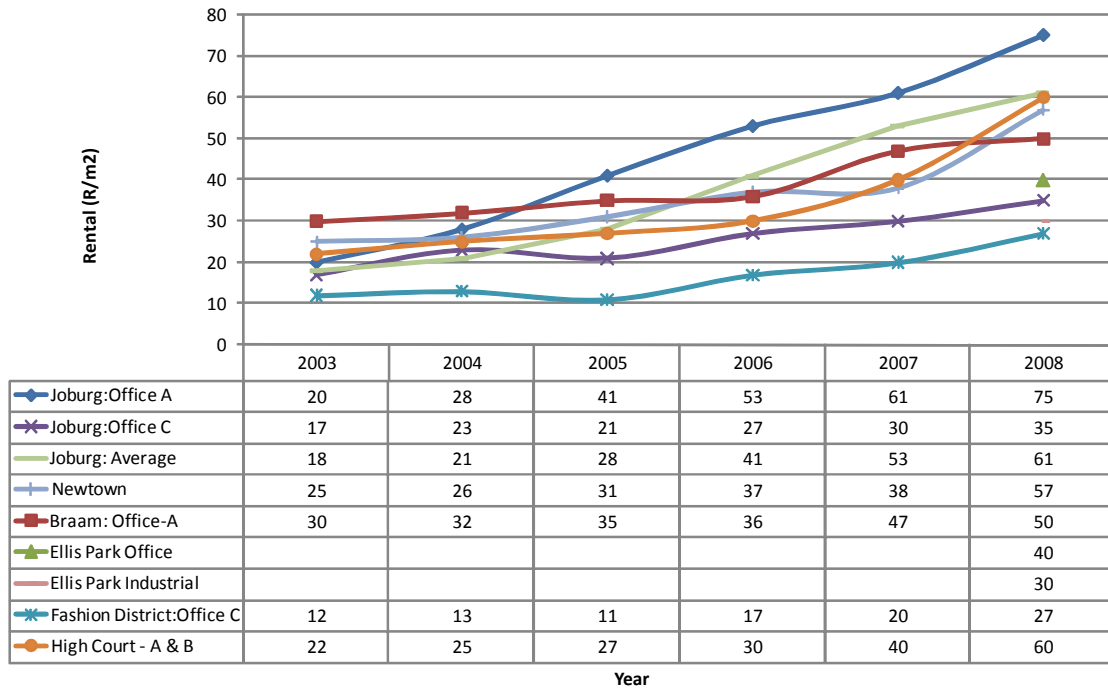
Most notable is the substantial improvement in Newtown, High Court Precinct and the Fashion District – substantially more significant than the overall Johannesburg average.

Overall it is clear that the JDA / CoJ interventions have had a very positive impact. While the overall market improved in 2005, the more rapid improvement in the intervention areas can be ascribed in large measure to the public sector interventions.

Rental rates

Rental rates are a further indicator of health in respect of the commercial property sector. The figure below indicates A, B and C-grade office as well as industrial rentals that could be sourced.

Figure 5: Rental rates for Joburg and intervention areas, 2003-2008 (Nominal)



Source: Viruly, 2008
 Note: Nominal values (i.e. not adjusted for inflation)

The data show a significant improvement across the board in rental achieved for all classes of property. Most of the intervention areas have typically followed the overall Johannesburg growth trajectory. However notable exceptions are Braamfontein and the High Court Precinct which have in recent years outperformed the Johannesburg average. In some cases (Braamfontein and High Court District), rentals are on par with other prime nodes in the city.

Most notable above is the very significant and rapid improvement in the Fashion District – albeit for C-grade office space. Clearly there is a demand for such office accommodation.

The improved and in instances better than Johannesburg average performance must be ascribed to the increased attractiveness of these areas and increased demand for quality affordable office accommodation in those locations. It is clear that public sector interventions play a critical role in improving and retaining this competitiveness.

Transaction Levels

The third area for consideration is property transaction levels. Based on a review of deeds registry data this analysis provides insight into changes in the volume and value of property transaction in each of the intervention areas since 1997.

Typically the higher the number of transactions the healthier a market, while increases in average price per square meter are a good measure of confidence. Because almost all property transactions in these areas stem from the private sector, the deeds data is also an important proxy for overall levels of private sector investment.

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The table below summarises the volume and value of transactions since 1997.

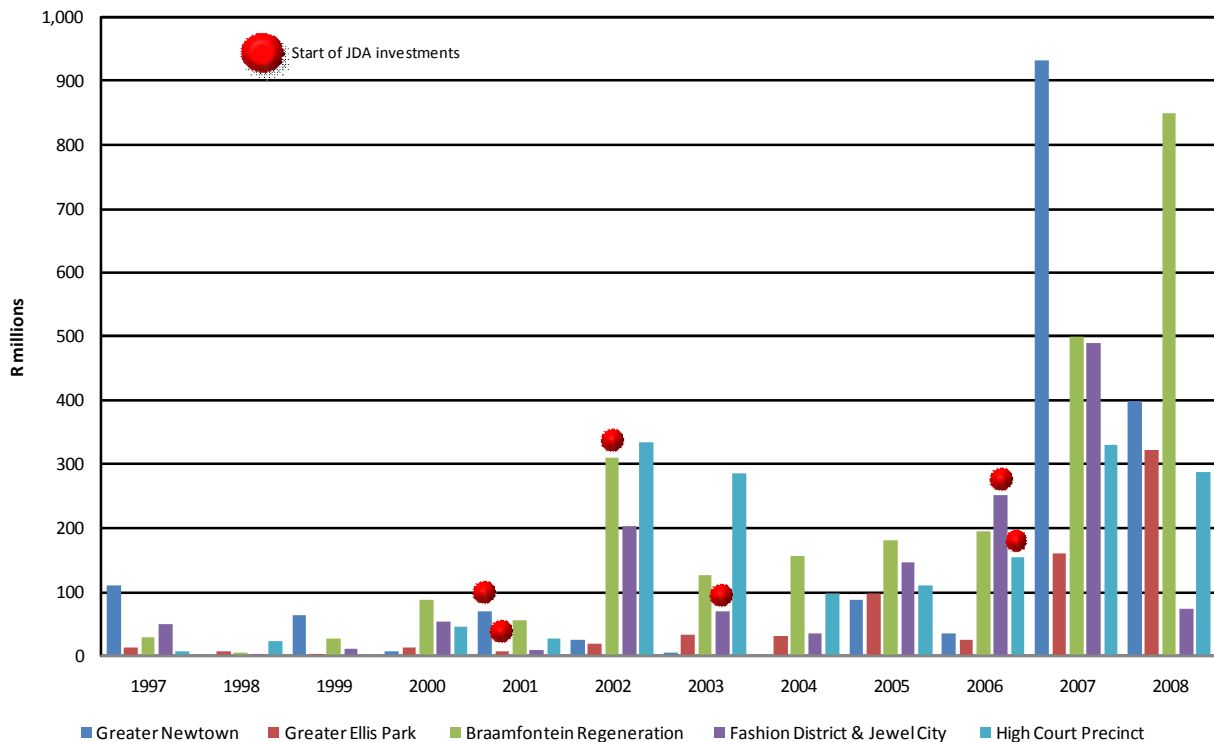
Table 2: Property Purchases – JDA Intervention Portfolio, 1997-2008

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 ¹	Total
Braamfontein													
Total Trsx (No.)	14	2	7	37	127	39	40	53	78	62	1249	629	2337
Total Trsx Value (R-million)	27.65	4.00	26.52	85.87	53.65	308.54	125.60	155.02	179.70	194.30	499.81	848.80	2,509.5
Greater Ellis Park													
Total Trsx (No.)	23	10	10	30	17	52	49	13	160	26	52	44	486
Total Value (R-million)	11.27	6.30	2.05	12.52	6.71	18.15	32.22	30.57	96.78	25.04	159.95	320.47	722.0
Greater Newtown													
Total Trsx (No.)	13		27	19	16	42	4	2	27	23	94	23	290
Total Value (R-million)	110.54		63.21	6.59	70.05	25.65	4.20	1.00	86.94	35.35	932.01	399.05	1,734.6
Fashion District / Jewel City²													
Total Trsx (No.)	26	4	30	231	20	37	28	36	70	88	72	354	996
Total Value (R-million)	47.26	1.58	9.76	51.68	6.95	202.07	69.09	33.71	145.16	250.96	488.13	71.51	1,377.9
High Court Precinct													
Total Trsx (No.)	7	6	6	19	6	129	34	19	25	29	440	471	1191
Total Value (R-million)	6.22	22.00	0.00	45.36	25.45	332.59	284.83	97.25	108.83	154.23	328.34	286.00	1,691.1

Source: Deeds Registry, AfriGIS, own analysis

The figure below provides insight into the level of private sector investment in property purchases from 1997 to 2008 per JDA intervention area.

Figure 6: Property Purchases – JDA Intervention Portfolio, 1997-2008



Source: Deeds Registry, AfriGIS, own analysis

¹ It should be noted that 2008 deeds data reported here is only for the period January to August 2008.

² In undertaking the deeds data analysis Fashion District and Jewel City have been analysed as a single area due to their proximity.

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In period 1998 to 2008, R 8 billion worth of property was purchased in the areas comprising the JDA's intervention portfolio (as defined for this study). Most notably 93% or R 7,5 billion of this investment occurred in the period 2001 to 2008. During this period the number of transactions has also increased steadily (47% per annum) on an annual basis, peaking in 2007 with 1,907 purchases.

Notable in the data (as evidenced further below) is the large number of sectional title transaction in some of the areas – transactions driven mainly by increased residential investment.

The data suggest a close correlation between JDA activities and increased investment. In particular this is most clear in the case of Braamfontein and Jewel City.

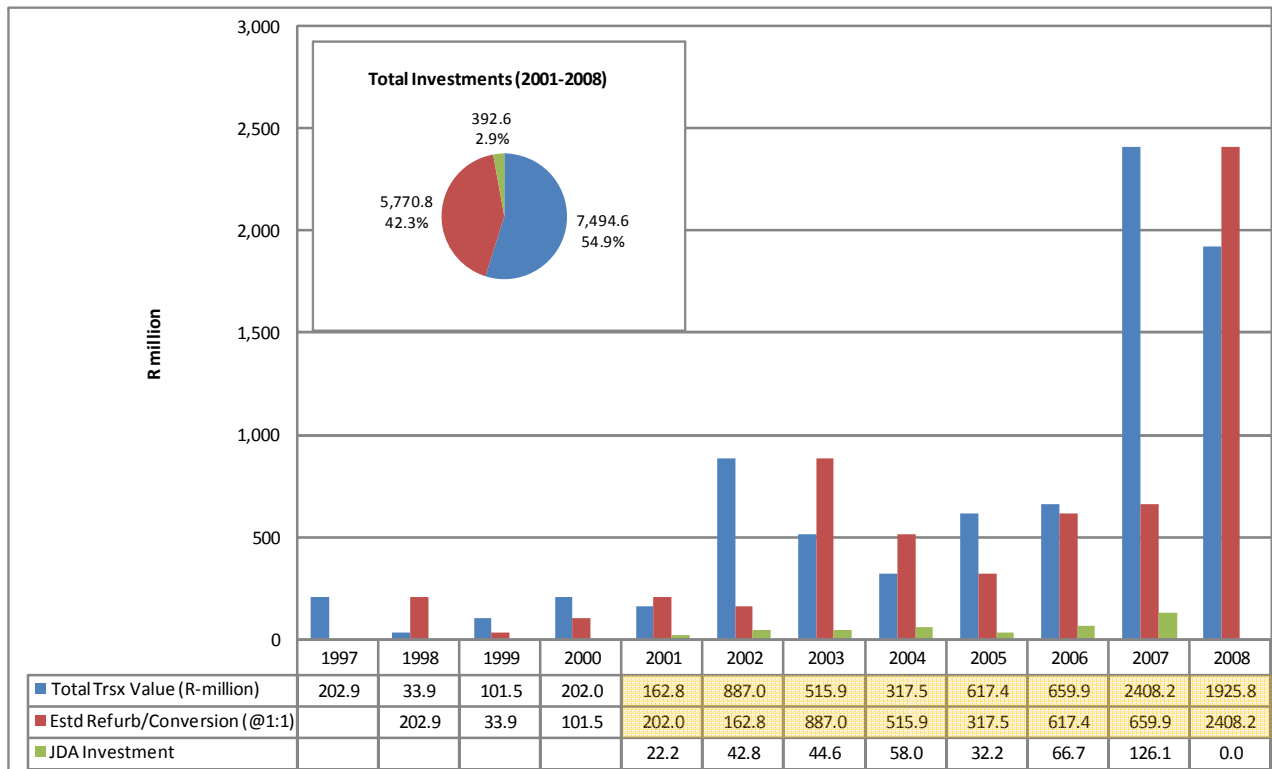
What is also evident (supported by the interviews and anecdotal evidence) is that in many cases private sector investment pre-empts planned JDA / CoJ investment and intervention.

Private sector investment

Total private sector investment in the JDA's intervention areas was assessed on the basis of interview responses as well as a model developed for this study. Specifically the investment model assumes that the level of investment in conversions, refurbishments and upgrades is at least equivalent to the purchase value of the properties. While this approach has limitations, the detailed investor data received in the study provides string support for the conservative ratio of 1: 1 in respect of purchase value to additional investment.

Set out below is an analysis of the level of private sector investment (reflected at initial purchase value + additional investment in refurbishment, conversion or upgrade) against the levels of JDA / CoJ investment to

Figure 7: Total public & private sector investment per intervention area, 1997- 2008



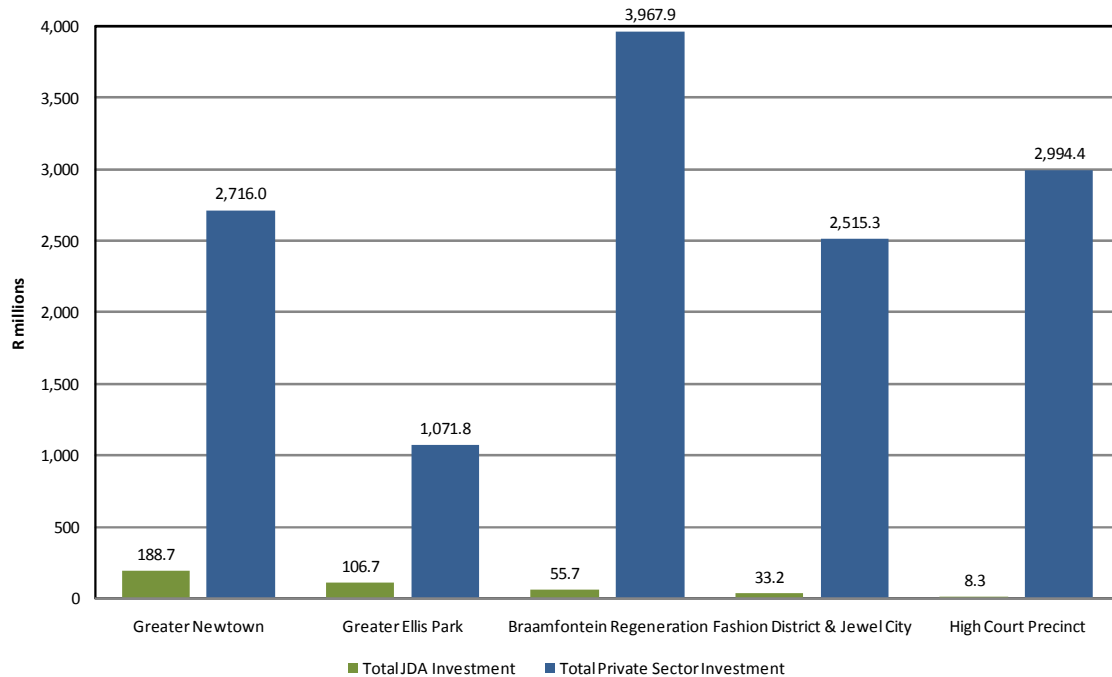
Source: Deeds Registry, JDA DIMS, own analysis

Evident above is that R 7,5 billion in property investments has taken place in the five intervention areas since 2001. Assuming the 1:1 ratio an additional R 5,8 billion in refurbishment, conversion and upgrade has been invested in the same period. This level of private sector investment stands in strong contrast to the R 393 million spent to date by the JDA.

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The figure below provides another view of the same data indicating the overall growth in investment levels as well as public / private composition of that investment.

Figure 8: Total private versus public investment per intervention area, 2001 - 2008



Source: Deeds Registry, JDA DIMS, own analysis
 Note: JDA DIMS data was only analysed to Dec 2007 and is not reflected for the 2008 period

Private sector perceptions

As part of the study a small survey of private investors was undertaken to obtain insight into investor. Overall the survey reveals that:

- The top key investment drivers are Area Based Regeneration projects / initiatives (ABIs), good returns and activity within the private investment climate.
- Just over half (55%) of the investors interviewed invested in the identified nodes prior to the JDA implementing ABIs
- Of those, just over half were aware that the JDA had various ABIs planned for the nodes.
- The same proportion of respondents who were not aware of the JDA's plans for upgrade in the areas, would have invested there regardless of the planned ABIs. Interesting responses as to 'why' they would have invested regardless included:
 - The fact that they were historical land owners in the area and would have invested in property there because of this.
 - That other private sector investment was taking place in the area regardless of the JDA. This investment had seen an increase in land-values with the result that investment and returns in the area were now attractive. Other private sector activity close by gave the respondents confidence.
 - In the High Court Precinct – the momentum of private sector residential development was sufficient to support a demand for recreational and retail use, regardless of what the city did to the area.
 - In Newtown – the size of the commuter and creative industries markets is sufficient to support recreational and retail demand.
 - Often, investment was made in a good quality stand-alone property with good returns and positive growth prospects in terms of income and capital growth.
 - "In some cases the 'return on an investment' was borderline and the likelihood of the City upgrading the area would have persuaded us that the upgrade would enhance the value of the

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property. Therefore whilst not immediately attractive, the investment would be worthwhile in the longer term. However, the likelihood of an upgrade would not have persuaded us to accept a poor investment return."

- All investors rated the importance on the JDA's ABIs on their investment decisions as 'important' to 'very important'.
- The quality of the ABIs was rated as 'average' to 'good'

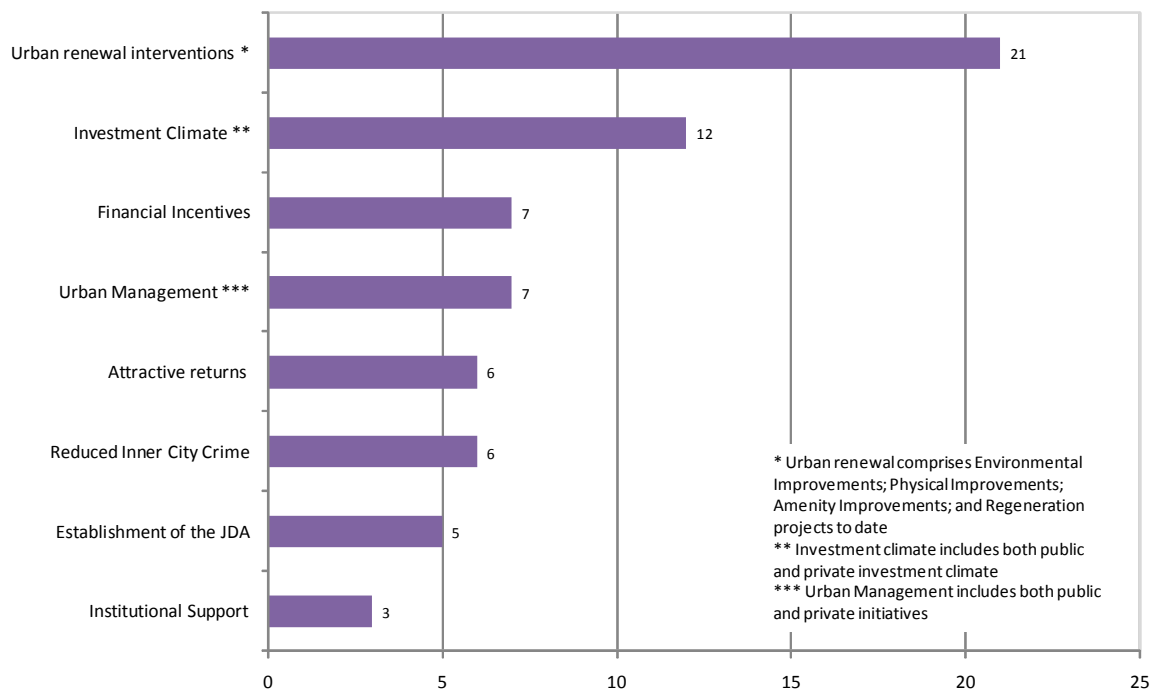
Comments and concerns raised throughout most interviews were around:

- the sustainability of the upgrade projects (in terms of management and maintenance);
- the lack of comprehensive and logical financial incentives for development; and
- urban management boundaries which stop short of areas into which investment has been made or where there is great potential for investment (particularly noting the Southern edge of the Braamfontein CID).

Investment drivers

The figure below provides a clear picture of the overall importance of urban renewal interventions for investors.

Figure 9: Key investment drivers



Note: n = 11

The top two key drivers to the majority of investors were attractive returns and regeneration projects to date. Financial Incentives, environmental upgrades, physical area improvements, reduced crime in the area all scored equally.

Role of the JDA

Without exception, investors rated the importance of the JDA area based regeneration projects as 'important' to 'very important' in terms of impact on their investment decisions.

Figure 10: Rated importance of JDAs ABI on investment decisions

On a scale of 1 (low) to 5 (very high), how would you rate the importance of the JDA and its area-based initiatives to your investment decision in the nodes?

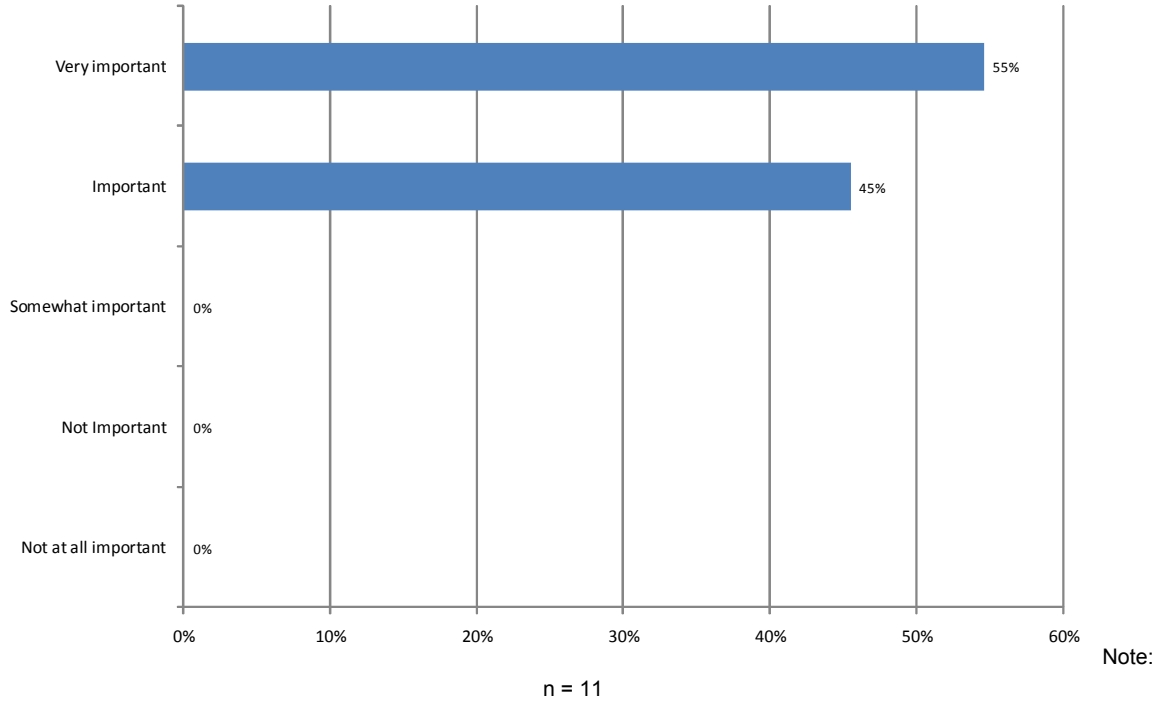
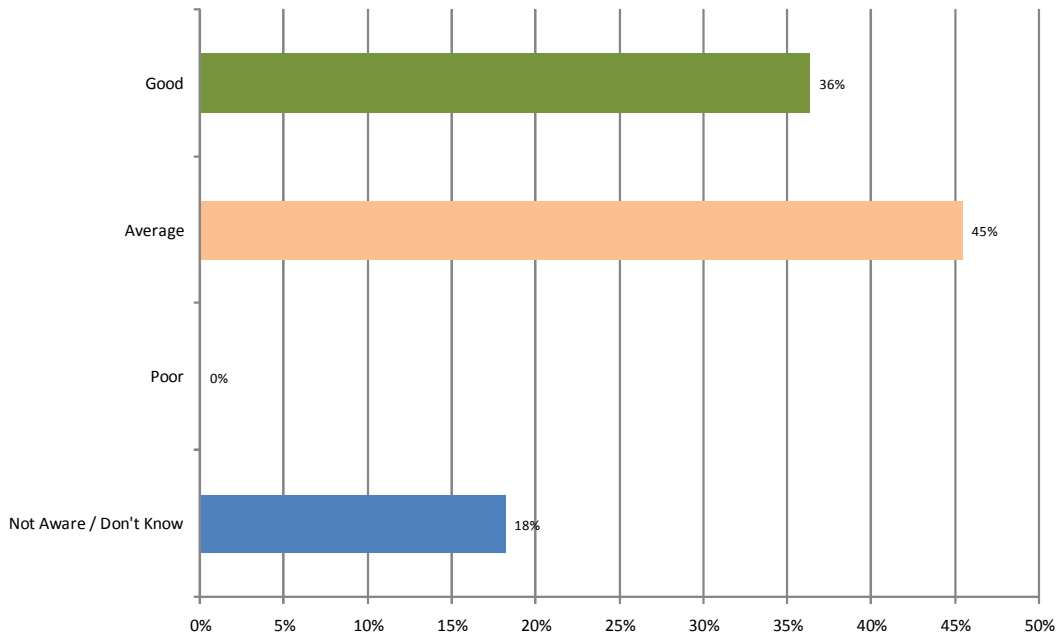


Figure 11: Rating the JDAs ABIs

How would you rate the JDA interventions in respect of the following areas?



Note: n = 11

By far the majority of investors responded that they perceived the ABIs to be from 'average' towards 'Good'. The most often repeated comment accompanying this rating was; "we cannot emphasise strongly enough the

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importance of JDA doing everything possible to ensure that poor service delivery does not undermine their good work.”

Overall the perception survey suggests that the role of the JDA is welcomed and has been positive for investors. More critically the data also suggests that the JDA's marketing / planning activities are as important a catalyst to private sector investment as physical infrastructure.

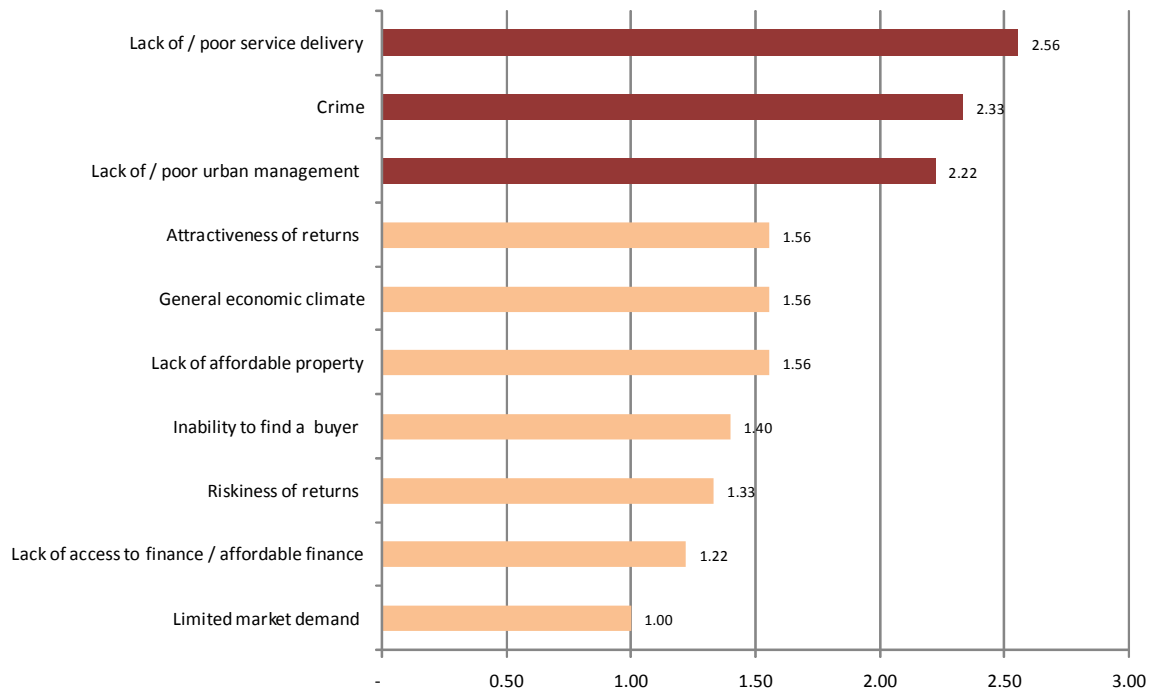
Inhibitors to investment

Overall the most critical concern / inhibitor indicated by respondents was the lack of / or poor service delivery on the part of the City of Johannesburg.

Other critical areas of concern include the lack of or poor urban management and crime.

Most interestingly all respondents felt that lack of market demand was not a constraint – in fact the consensus view was that generally demand outstrips supply in many sectors, especially affordable rental accommodation.

Figure 12: Ranking of key constraints to investment



Note: n = 9

The analysis clearly highlights the top three investor concerns:

- Lack of / or poor service delivery
- Crime
- Lack of / or poor urban management

The responses clearly identify a number of concerns and potential inhibitors to future investment.

Perhaps the most overarching issue is the ongoing sustainability of the ABI's and the provision of the required support and services once infrastructure delivery and urban environment upgrade have been completed.

Conclusions

There is little doubt that JDA investments in the inner city areas of Johannesburg have had a significant impact on the resurgence of specific development areas, and as a consequence on the reversal of fortunes of the inner-city as a whole.

While it is not possible to attribute the resurgence of the inner city property market solely to JDA interventions, this has been a key contributing factor to the physical upliftment, change in perceptions and the resultant change in investor confidence, leading to increased rates of property purchase and refurbishment in the inner city.

The data indicates that, during and after JDA and related investments, property markets in these nodes experienced substantial increases in the number and value of transactions, in some cases in excess of the average changes in the inner city as a whole. Certain interviewees (e.g. Paul Jackson from TUHF) mention that TUHF have, to a greater extent, followed JDA investments in key nodes. This indicates the importance of the JDA's initiatives in leading and mobilising private sector confidence and investment.

However, it is important to place the period of JDA investment in the inner city (and most importantly the period from 2002 to 2007) within the context of a 'property boom' experienced throughout the world, which boosted the positive impacts that JDA investments had on inner-city areas.

The following key points are noted:

- **Most JDA intervention areas show positive trends in respect of the key indicators identified initially as the hallmarks of successful ABI interventions.** This includes decreased vacancy rates, increased rentals, increases in property turnover and increases in property values. A relatively larger decrease in vacancies (and narrowing of the spread of vacancy rates across JDA areas) indicates increased interest in these intervention areas from lessees. The research shows consistent yet relatively higher increases in rentals within JDA investment nodes in relation to the inner city generally.
- **Deeds data** are one of the only relatively reliable data sources available that can indicate changes in the inner city property market. This data **show a rapid increase in number and value of property transactions within areas in which the JDA has intervened.**
- **Whilst certain interviewees were of the opinion that they would have invested in the inner-city without JDA investments, this is not the case for many (especially new) investors in inner-city property.** In addition, the turn-around of certain areas has had the effect of reversing capital flight from the inner-city (that is, convincing significant investors in these areas who were contemplating leaving the inner city to rather work with the City to improve their areas) as well as encouraging new investment in these areas. Braamfontein is a key case in point here, where companies considering migrating to decentralised business nodes committed to invest with the JDA in stabilising and improving the precinct. Braamfontein now has all the indicators of a stable, effective node.
- Whilst the property transaction data is compelling in the story it tells, it is also important to bear in mind the physical changes that have occurred in the inner city investment areas. Over the space of five years, significant geographic areas of the inner city have changed from desolate no-go areas to attractive, sought-after locations. **The impact of this increased amenity is hard to pinpoint, but is a critical part of regenerating such areas.**
- **Ongoing interest, investment in, and effective urban management of regenerated areas is as critical to their ongoing success as the initial investments in these areas.** Many interviewees mentioned the immediate threat that unresolved (and recurring) 'crime and grime' issues have in breaking down the goodwill generated by the initial investment in these areas. Importantly, private sector investment takes a while to be mobilised (as can be seen from the lag times between JDA investment and overall deeds trends), and will dissipate if initial interventions in an area are eroded.

- In terms of sustainability and inclusivity, it is **important to invest in social infrastructure, to go beyond the physical built environment; include social programmes to compliment the physical upgrades, support education specifically build civic awareness.**
 - **Indications are that the JDA's original intervention methodology (as applied for example in Newtown and Braamfontein) has yielded more direct, longer-term impacts than some of the more recent, smaller and more focused interventions.** General consensus amongst interviewees is that Newtown and Braamfontein are considered very successful interventions, while some of the more recent interventions (e.g. Jewel City and High Court) are not considered as successful in generating investor confidence and property turnaround. Certain interviewees mentioned the change in focus of the JDA's methodology (from larger, longer-term, more comprehensive interventions entailing substantial professional assessments and planning, leading to multi-faceted, negotiated capital investments and following through with ongoing investments, social programmes and management undertakings) to smaller, more capital investment-focused initiatives. **The perception is that the more capital-focused, and less process-focused interventions are bound to have a lower medium-to long-term impact.** The process through which regeneration initiatives are planned, launched, marketed and carried through during and after capital investment is a critical component of their success, as these 'social processes' assist to identify and generate investor interest in these areas, and ensure that the focus and objectives of capital interventions are clear.
 - **Certain intervention areas show signs of an increasing residential component.** However, this may be counter-acted by JDA nodal investments, as the key success factor of this residential conversion process is the ability to procure cheap buildings for upgrade or conversion to residential uses.
 - **Regarding incentives and the impact of the UDZ within the identified areas, discussions with property owners revealed that it is not so much a driver as a nice to have.** The latest SACN report on urban incentives states "According to property investors in the Johannesburg CBD, the main investment driver has been growing market demand combined with visible urban management improvements. They believe that the UDZ tax incentive has not made a substantial impact on attracting investments that would not otherwise have taken place.... ." The UDZ tax incentive is seen as slightly improving profit levels but is not considered a strong enough benefit to attract additional investment in Johannesburg. There is an impression that the take up of the UDZ depreciation allowance in Johannesburg has largely served to improve returns for large property owners rather than unlocking significant new property investments.
-