

A research project sponsored by the FinMark Trust, Ford Foundation, Micro Finance Regulatory Council / USAID, South African National Treasury and the National Housing Finance Corporation.

## BEE IN THE PROPERTY SECTOR

Like many South African industries, the property industry is currently going through the process of drafting a transformation charter. The charter is "a transformation charter as contemplated in the Broad-Based BEE Act (No 53 of 2003) and the DTI BEE Codes of Good Practice". It establishes specific targets and commitments for the Property Sector.

South Africa's property industry is not insignificant, and the opportunities for broad-based black economic empowerment are substantial. The property sector acknowledges this in its charter, when it states:

*"Black people continue to be significantly under-represented in ownership of property, whilst administrative, legal and financial constraints restrict the ability of black people, particularly in underdeveloped areas, to participate in the secondary property market."*

As the TRPM study has found, there is huge potential for creating value, and thereby contributing significantly to broad-based black economic empowerment, in the secondary residential property market, especially where it is undervalued - in low income areas.

The TRPM study estimated that one fifth of South African households live in formerly black townships, in housing worth an estimated R68,3 billion. This value notwithstanding, TRPM suggested that township properties were undervalued by between 10-44%, depending on the sub-market (privately developed, old township, incremental (i.e. RDP), or informal) concerned. If we were to estimate that across the board, the R68,3 billion of property was undervalued by even 30%, that would roughly suggest at least **an additional R29,25 billion that could accrue to low income property owners living in that stock - if the secondary residential property market was made to work.** Further,

the industry activity that increased market churn would create, would no doubt address many of the key objectives of the property charter and create a market for the sector's expansion.

*This edition of TRPM News provides a brief review of the property charter in its current draft.*

YDL Property Wealth Education, speaks about South Africa's "two speed market" in which the primary market, comprising an estimated 1,2 million houses, is operating with an average house price of R670 000. YDL estimates that the secondary market, comprising the remaining 6,8 million houses in South Africa, is operating with an average house price of R40 000. This is to be expected - the vast majority of South African households are low income and at least township housing is undervalued. It is worth noting, however, because it highlights again, the significant opportunity for broad-based BEE.

This opportunity notwithstanding, the draft property charter makes only brief reference to mechanisms to address the problems in the secondary residential property market. With residential property comprising the largest asset class world-wide, this undermines the property sector's capacity to realise broad-based BEE in South Africa, where an apartheid history has undermined the performance of property as an asset for black, low income earners. If the property sector were to emphasise the potential for the secondary residential property market to contribute towards its BEE goals, it would find an ally in the financial sector, which has made explicit commitments in its charter in respect of access to housing finance for low income earners, and a functioning secondary property market.

Certainly, this is also among the goals of the National Housing Department in terms of its new housing strategy, entitled "Breaking New Ground", and approved by Cabinet last September. Among the

initiatives set out by government in that document are specific measures to stimulate the residential property market.

To the extent that the Property Charter does address the residential property sector - and the functioning of the primary and secondary housing markets therein - many of the recommendations made by the TRPM study would be of relevance.

The Property Charter has been posted on the web for comment. The diagram on the next page illustrates the process that is being undertaken: the deadline for finalising the charter is June 2005. Interested parties can contact the Property Charter Steering Committee through Mohlaleng at fax: 0866150584 or [tumi@mohlaleng.com](mailto:tumi@mohlaleng.com)

Kecia Rust - TRPM Coordinator

## OVERVIEW OF THE PROPERTY CHARTER

Draft 1 Version 5.1 of the Property Sector Transformation Charter is currently available from SAPOA's website. The Charter has the following objectives:

- *Unlock obstacles to property ownership and participation in the property market by black people;*
- *Promote property development and investment in underdeveloped areas;*
- *Achieve a substantial change in the racial and gender composition of ownership, control and management in the sector;*
- *Promote improved employment conditions and encourage diverse organisational cultures;*
- *Enhance the participation of black people, disabled people, youth, workers, cooperatives and women in the property industry;*
- *Promote employment equity in the sector;*
- *Increase the pool of intellectual capital in the sector by focusing on attracting new entrants and developing appropriate curricula;*
- *Contribute towards increased investment in the skills development and training of existing and new black professionals, and black women leadership*
- *Enhance entrepreneurial development and increase the number and expertise*

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## TRPM NEWS

UPDATE NO. 7: 21 APRIL 2005

of black firms and SMEs providing services and products to the sector;

- Increase the procurement of goods and services from BEE-accredited suppliers;
- Promote investment in the property sector;
- Increase the accessibility of finance for property development; and
- Encourage good corporate citizenship amongst enterprises in the sector, including participation in corporate social investment projects and adherence to triple bottom-line accountability.
- Contribute to the positive growth of the property industry.

These are all very important objectives and speak quite strongly to the TRPM study's findings on shortcomings specifically in the residential property (resale) market.

Specifically, the draft Charter includes the following sections:

- *Preamble*
- *Challenges facing the property sector*
- *Objectives of the charter*
- *Governance*: relating to how performance in respect of the charter will be monitored and governed
- *Employment equity*: commitment to address racial and gender representivity in the property sector, especially in the various management categories
- *Skills development*: commitment to invest in human resource development across the full spectrum of skills, with special

emphasis on increasing the participation of black people in skilled, strategic and operational leadership in the sector

- *Procurement*: commitment to target a significant portion of procurement, on BEE-accredited companies
- *Enterprise Development*: commitment to invest in, support, facilitate and foster new and existing black owned enterprises through business enablers, which promote sustainability of the enterprise
- *Ownership*: commitment to address the low levels of black ownership in property owning enterprises and in property services, as well as to unlock obstacles to ownership by black people of property assets, especially participation in the secondary property market.
- *Control*: commitment to addressing the representation of black people including black women at board level and in executive management in the sector
- *Corporate Social Investment*: a commitment to initiating and contributing to CSI projects that benefit black groups, communities and individuals and that promote transformation and development
- *Development*: an explicit focus on property investment and development especially in under-developed areas
- *Regulatory issues*: relating to the implementation of the Charter
- *The scorecard*
- *Interpretations / Definitions*

The Charter drafting process is being driven by technical teams which are setting targets in each area.

The Institute of Black Property Practitioners, Sapoa, the Women's Property Network, The Estate Agency Affairs Board, the South African Black Technical and Allied Career Organisation, the SA Council of Shopping Centres, the Institute of Estate Agents of SA and the SA Institute of Valuers are all participating in the drafting process.

## RESOURCES



The current draft of the Property Charter can be accessed from: <http://www.sapoa.org.za/PropertyCharter.htm>



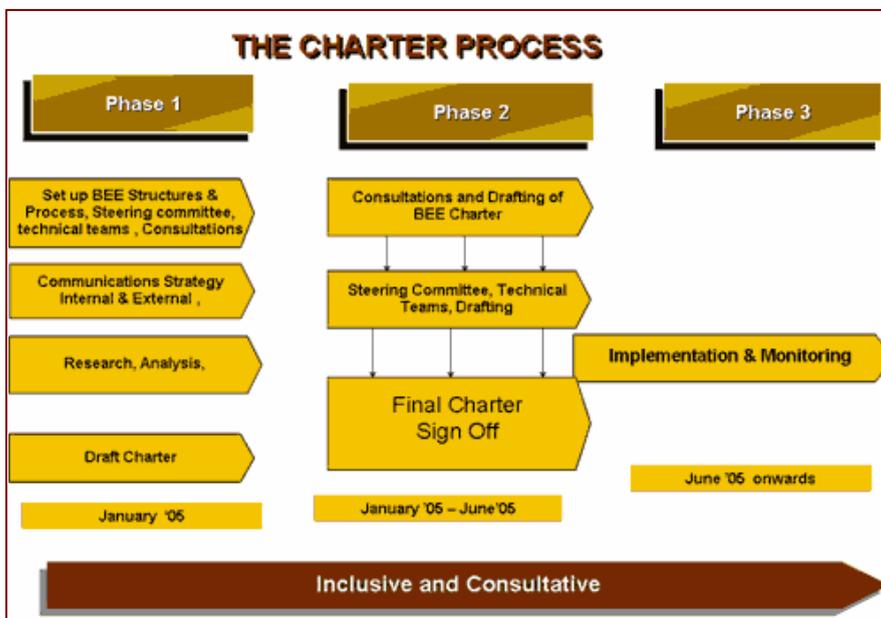
YDL is an independent provider of property investment education. Visit them on [www.ydl.co.za](http://www.ydl.co.za), or call +27 11 465 7356, also for info about property investment workshops.

The Trafalgar Inner City Report 2004 is also available from YDL on <http://www.ydl.co.za/documents/InnerCityDiqj.pdf>

## UPCOMING EVENTS

The **Financial Diaries** project is a year-long household survey that examines financial management in poor households. The results of the Financial Diaries study will be released at a **workshop in Johannesburg, on 24<sup>th</sup> May 2005 and in Cape Town on 26<sup>th</sup> May 2005**. For information, contact [events@financialdiaries.com](mailto:events@financialdiaries.com). To find out more about the Financial Diaries project website, visit the website at [www.financialdiaries.com](http://www.financialdiaries.com)

**Remember:** get TRPM data for free on [www.eighty20.co.za](http://www.eighty20.co.za)



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