

## CHAPTER 7

### THE PROMOTION OF THE PRIVATE SECTOR INVESTMENT IN THE JOHANNESBURG INNER CITY:

#### ANALYSIS AND DISCUSSION

##### 7.1 INTRODUCTION

This chapter analyses the research data presented in Chapter 6 in detail and explores emerging themes and trends in terms of perceptions held by the private sector about the urban regeneration process in the Johannesburg Inner City. The discussion is incisive yet primarily guided by empirical data gathered and frequently taps into the insight from secondary data. The findings are drawn from careful analysis and interpretation of the data. The analysis of data unearths interesting perspectives about the process of urban regeneration based on views held by the private sector. It indicates the perceived outcomes of forces working in the inner city and the direction that the inner city is likely to take or the resultant urban form.

While urban regeneration is generally perceived to have produced significant positive changes in the area, the process is viewed with scepticism as having contributed to urban growth only in a limited way. The market forces on the other hand are belied to have motivated most private investment in the inner city. This chapter also highlights the perspectives emerging from research data, even though they were not initially the focus of the study.

##### 7.2 URBAN REGENERATION AND PERCEIVED POSITIVE OUTCOMES

The Johannesburg Inner City is the heartland of where Johannesburg started. Before urban decline, the area was the country's premier commercial hub and business location of choice for many companies (Bremner, 2000). However, the market downturn and urban decline in the 1980s and early 1990s, which was manifested in various forms, saw the flight of the private sector from the inner city

to decentralized suburban locations, mainly north of the city. A corresponding low level of private sector investment and economic activity was observed throughout the inner city. In an effort to rescue the city from the vicissitudes of decline, the government sought to regenerate the inner city by encouraging private sector investment.

Large sums of money have been spent by government in upgrading certain inner city precincts, incentive schemes have been introduced and various crime preventions measures have been devised and implemented. All these were believed to have a cushioning effect to the private sector investment, likely to minimize supply-side risks and improve investment levels. More than 20 years have passed since ideas of rejuvenating the declining downtown Johannesburg first made their way into the urban planning discourse and political agenda. These ideas envisioned Johannesburg as ‘a world class city African city’, and an investment destination of note (CoJ, 2002). This strategy that seeks to promote private sector investment falls, as implemented in Johannesburg, inexorably within the mindsets and frameworks of the world cities theory and competitive cities theory. In other words the promotion of the private sector investment in urban regeneration is underpinned by the economic imperative to create a competitive inner city, attractive to investment.

Empirical data collected in this study shows that the private sector perceives urban regeneration to have yielded a myriad of indelible positive outcomes in the inner city. The public sector-driven precinct upgrading projects are perceived to be symbols of change that have significantly improved the outlook of certain parts of the inner city and changed the negative perception of the area. The private sector urban regeneration projects can now be seen to be aligned, to a certain extent, to areas where government precinct upgrading projects have been implemented (see Figure 3 on page 186). Most of these areas are in turn perceived to be good business locations and preferred investment areas (see Figure 5 on page 200).

The above suggests that there is a re-look, from a private sector perspective, at the economic potential of assets of the city in built form. As a result, old derelict buildings are being refurbished by enterprising property developers into new and high intensity uses. The city is seen as more inclusive than before, providing a wider choice for housing, especially for lower middle class (see also Cox, 2006). Financial institutions are also willing to lend money to prospective investors in the inner city. The research findings indicate that tenants are perceived to be less likely than before to default on their rental obligations and the culture of non-payment and rent boycott that was prevalent in the 1980s is now seen as subsiding.

More investors and entrepreneurs are coming from different parts of the city, province and the country, such as Cape Town and Pretoria, to invest in the Johannesburg Inner City - quite a different currency to the situation in the late 1980s (see Table 2 on page 182). New and trendy restaurants are mushrooming in downtown areas and major chain stores such as Edgars and Woolworths have, since 1996, increased their space take-up and intensified their presence in the inner city. In the process new employment opportunities are created. The private sector is now not only prepared to invest in the inner city but also has some of its offices in the area.

This paints the picture of an inner city in a process of recovering economically and poised to become an investment destination of note that can compete with other localities for investment. This also points to a shifting investor perception of the inner city and that investor confidence in the area is being restored. Likewise, the inner city properties are seen to be showing good performance resulting in low vacancy rates, growth in property values and a spike in rentals.

The inner city is also perceived to have generally improved in terms of urban management practices from what it used to be in the late 1980s and early 1990s. Aided by the work performed by the CIDs, the inner city is now considered

cleaner and safer than before. All these improvements are generally consistent with positive outcomes of urban regeneration contained in literature and discussed in chapter 5 above (paragraph 5.7). It is therefore not necessary to discuss them in much detail. Suffice to say that, in the context of this study, the perceived positive outcomes bode well for the inner city local economy.

They generally suggest that the current changes brought by the urban regeneration are likely to inspire private sector investment in the inner city – an exciting prospect for those driving the turnaround strategy for the inner city. The main thrust of this study, however, is to explore and distil the private sector perception of the Johannesburg Inner City in light of the urban regeneration initiatives and how it has responded to measures designed to attract investment in the inner city. This is done below.

### **7.3 FACTORS MOTIVATING PRIVATE SECTOR INVESTMENT IN THE JOHANNESBURG INNER CITY**

There is a common tendency in the inner city to loosely associate any private sector investment occurring almost exclusively with urban regeneration initiatives. For instance, the JDA often portrays the dramatic increase in property transactions; private sector investment; and the resultant increase in occupancy rates and property values as the direct outcome of its interventions in areas where it implemented precinct upgrading projects (JDA, 2006; 2005b). Contrary to this belief, the findings of this study show the misalignment between the motives behind urban regeneration initiatives and private sector perceptions.

General market factors and trends are perceived to have been playing a more prominent role in motivating private sector investment flow in the inner city. As illustrated earlier in Table 7 (page 192), the high demand for space, primarily in the residential sector has been the most significant motivating factor for private sector investment decisions in the Johannesburg Inner City. This demand relates largely to factors briefly discussed below. The research results show that

the inner city is often viewed by the private sector in comparison to suburban alternatives, particularly the decentralized commercial nodes north of the city. However, the property values, rentals as well as costs of doing business in general are perceived to be low in the inner city compared to the decentralized nodes. Therefore the area is promoted on ground affordability. This has enhanced the popularity of the inner city from both the tenant and investor point of view and improved the area's demand outlook:

All my buildings are fully let...but tenants are calling everyday for more space. I now have to move out of my own building to another one to make space for a tenant. That is a true testimony of inner city revival, something I never imagined when I purchased my first building in 1989 (interview with Gerald Olitsky, MD of Olitsky Property Holdings).

On the other hand Greenfield developments in the decentralized nodes tend to be problematic. Due to limited land supply and restrictions on new developments, the statutory requirements and approvals such as land rezoning in decentralized nodes tend to take long and cost handsomely. This in turn increases interest in the inner city as an investment alternative or business location. The demand is high particularly in the residential sector, reflected in either the upgrading or refurbishment of existing accommodation or conversion of old office buildings to residential uses. Most property developers interviewed were involved in this sector. It is estimated that at least R2 billion has been invested in residential refurbishments contributing about 10 000 residential units in the inner city (Fraser, 2007).

The spiralling building costs and the rise in interest rates from June 2006 to June 2009 have further stimulated the demand for residential stock in the inner city and fuelled the rental market. In an environment where the demand clearly outstrips supply, the growth in the rental market has also stimulated the buy-to-let investor market which and made off-plan purchasing popular. Recent media publications write that the 'demand for [new] residential units in Johannesburg's inner city continues to be strong', with 'residential blocks sold out in three days' (*Business Day Reporter*, 2007, p. 8).

Additionally, the investment interest shown in residential areas north of the CBD such as Hillbrow, Yeoville, Berea etc., where few urban regeneration initiatives have been implemented, also symbolizes high residential demand in the inner city. These residential areas are in turn perceived as good investment locations (see Figure 5 on page 200). Similarly, the provision of accommodation was identified in this study as a significant motivating factor for private sector investment or perhaps a response to high demand. As can be seen in Map 8, there have been numerous private sector property acquisitions in these locations.

Meanwhile there is an underlying belief that private investment has benefits such as employment creation and this in turn serves as a by-product of private investment. By virtue of being the economic hub of the country, Johannesburg provides most employment opportunities. As discussed in chapter 5, new tenants are showing interest in the inner city by taking up space. Consequently, the area experiences high in-migration of people from different parts of the world, country and various townships around the city. These people, especially the younger groups, are likely to seek accommodation in the inner city (where costs are lower), thus contributing to high demand especially in the residential sector of the property economy. Likewise, one of the motivating factors for private sector investment in the inner city was identified as the availability of a large workforce:

The advantage of the inner city is the availability of large workforce. Companies that move out of the inner city soon realize that their staff costs increase tremendously. Definitely transport and recruitment costs play a big role. People who look for work in decentralized nodes are costly to hire because they want more money to cover their costs (interview with David Rice, Managing Director of AphexHi Properties)

At the same the high demand in the inner city is not perceived as reversing the past trend of decentralization of office and commercial land uses. The private sector is not necessarily deserting decentralized nodes in favour of the inner city. As the market grows, it is predominantly the new market entrants and smaller companies (as opposed to say JSE-listed companies that once had offices in the inner city) that are seen to be taking up space in the inner city:

The inner city is attractive to various types of tenants who take up space. Small companies prefer inner city than Sandton. Of course the cost issue plays an important

role. But the inner city now attracts a different kind of users and firms. While big firms moved out of the inner city in the 1980s and 1990s, it is small and new firms that are now moving in and taking up space (Interview with Ivor Locke, Director of CPR Property Management).

The above view resonates with a well-documented observation that the inner city has become home to small-scale enterprises and informal business as larger enterprises abandoned the inner city for decentralised locations (Rogerson, 2005; 2000; 1997 and Rogerson and Rogerson, 1997).

The demand as discussed above has inadvertently created an investment opportunity for property investors. It is for that reason that potential financial returns on investment were identified to be the significant motivating factor for private sector investment in the inner city. Motivated by love of and faith in the future of the inner city, speculating investors now consider the Johannesburg Inner City to be a worthwhile investment option. Portfolio diversification and spreading investment risk equally motivate investment decisions. Spurred by successes of fellow peers and competitors, footloose investors look at the inner city for investment opportunities. Protecting existing investment was also identified as an important motivating factor as investors want to see handsome returns on their investment and therefore kept their buildings in good shape to appeal to prospective tenants.

The intrinsic characteristics of the inner city such as its good location and excellent accessibility as well as the availability of good, yet aging, infrastructure still play an important role to give the inner city a competitive advantage over most other areas. The existence of a good road network and public transport system means that access in and out of the city can be gained with convenience especially for employees who use public transport. At the same time the inner city is perceived as vibrant, intriguing and as a rambunctious environment that appeals to an array of people. This creates a threshold for goods and services and strengthens the demand for other economic goods and service.



Photos 1 and 2: Some recently refurbished buildings in the city centre have served as a motivating factor to other property developers to invest in the inner city.

The favourable macroeconomic conditions were identified to have played an important role in facilitating private sector investment. In particular, low inflation and lower interest rates seen in the last few years (until June 2006) were cited by respondents as important motivating factors:

The last few years have seen lowest interest rates in a long time. This leveraged affordability of property and stimulated demand for space...especially residential. The investor market was flooded. The returns have been good for us, at 15% or more (interview with Trevor Mkhwanazi, former partner at Atterbury Property Developments).

Factors discussed above constitute the largest component of factors identified as motivating private sector investment in the inner city. As stated, they are primarily market related. On the basis of the above the study concludes that market factors have been playing a major role in influencing private investment in the Johannesburg Inner City. This trend is consistent with the international literature in this domain. For instance, a study of 200 firms conducted by McGreal *et al* (2000) about the motives and attitudes of private investor actors with regard to investing or not investing in regeneration localities across the UK drew a similar finding:

The major influence on investment decision making has been general market trends. Perceived total returns is the primary motive for investors holding their current portfolio of urban regeneration investments. Other significant factors include perceived security of investment/spreading of risk, diversification benefits through new business opportunities...rental growth (occupier demand)...capital appreciation. Regeneration initiatives tend to be of secondary nature in terms of those criteria which influence decision making, though risk reduction measures are considered to be of fundamental importance (McGreal *et al*, 2000, p. 129).



The problem is not mainly that the market factors appear to have played an important role contrary to urban regeneration initiatives, which is expected. On one view the role played by market factors in this regard may symbolise the success of urban regeneration initiatives in meeting their original imperative and expectations of facilitating market forces and subsequently stimulate private investment, even though the research findings indicate that they are rated secondary to market factors. In this view it will make sense for urban regeneration efforts to seek to influence market forces so as to enhance private investment and the urban regeneration momentum.

On the other hand, this study holds that in an area where market efficiency is portrayed as the condition for achieving competitiveness, the urban regeneration process that borders largely on fickle forces such as market trends does not offer a stable foundation for sustainable local economic regeneration. As will also be discussed in detail below market conditions tend to occur unevenly across a geographic landscape and instead prevail in certain areas better than others. By showing greater dependence on market factors (whether on these act independently or are induced by regeneration initiatives) urban regeneration is likely to lead to a greater degree of urban fragmentation as private investors choose areas with favourable market conditions than those that do not. Any changes in market forces in times of market downturn may effectively render some areas or projects unviable resulting in the creation of 'lame ducks' and unsustainable pattern of growth.

In fact the literature is replete with examples of property-led regeneration projects driven largely by the Urban Development Corporations (UDCs) in both the US and UK which collapsed when the market slowed down. For instance, after a lengthy period of enthusiasm and property boom in the 1970s and 1980s in the UK, which heightened property speculation and facilitated the provision of space in large quantities, the subsequent market downturn of the 1990s resulted in market oversupply and led to most planned projects being delayed or cancelled

(Loftman And Nevin, 1995; Imrie and Thomas, 1993; Healey *et al*, 1992b). Well-known examples of projects which were cancelled or failed to get off ground include the Royal Quays Regional Shopping Centre in London, Sandwell 2000 Shopping centre in Black Country, the prestigious Canary Wharf developments in May 1992, in London Docklands and Dockland sites in Baltimore in the US (Loftman and Nevin, 1995, Atkinson and Moon, 1995).

In Johannesburg, the urban regeneration initiatives are perceived to have played a role in facilitating private sector investment, although a secondary role to market factors. For instance, the precinct upgrading projects are perceived as significant in creating awareness, strategically promoting the inner city, sending the right sentiments to the market and changing perceptions about the area. These projects also created new markets, heightened the sense of security to private investors for their investments thereby enhancing the prospects of a flourishing inner city:

Big projects such as the upgrading of the Newtown Cultural Precinct have changed the perception about the inner city. We are now, more than ever before, prepared to invest in the inner city through new acquisitions and refurbishment of our existing buildings (interview with David Rice, MD of ApexHi Properties)

Subsequently, AphexHi Properties purchased 10 buildings in 2004 for letting purposes in the inner city and reportedly planned to buy another 10 more in the area soon thereafter (JHI Report, 2004).

The Urban Development Zone (UDZ) initiative was identified as another important motivator for private sector investment. The improvements in urban management, especially cleanliness and security, with the help of the CIDs, has also had an added impetus in facilitating private sector investment. It is interesting to note that out of all factors advanced as motivators of private sector investment, some initiatives designed for this particular purpose did not feature in the responses given. For instance, initiatives such as the Better Building Programme were not mentioned at all as the motivating factors, even though some companies interviewed were participating in that programme (see Table 7 on page 192).



Photos 3 and 4: The new Gandhi Square in Marshalltown (left) and Mary Fitzgerald Square in Newtown Cultural Precinct (right) are some of the shiny examples of urban regeneration. The areas look cleaner and brighter than before and have excellent entertainment facilities, while the inner Councilor, Mr Zakhele Shezi (in a blue shirt), looks on in apparent appreciation of what has been achieved. Already some commercial activities (e.g. restaurants, shops and offices) are located in these areas but there are concerns that not many activities are taking place in the area at night.

#### **7.4 THE RISK PROFILE OF THE JOHANNESBURG INNER CITY**

There are a number of factors perceived to problems or hindrances to the flow of private sector investment in the Johannesburg Inner City. These are discussed thematically in the following paragraphs.

##### *Excessive bureaucracy in the delivery of municipal services*

Of all participating companies, 73% cited the general deficiencies in the delivery of municipal services as the major hindrance to private sector investment in the inner city, making this the most frequently mentioned constraint. The inadequate functioning of municipal services was perceived as contributing to the limits of urban regeneration in a number of ways. The most problematic service delivery deficiencies relate mainly to urban management practices such as the maintenance of public spaces, by-law enforcement and waste management.

The city has not fully created an enabling environment for private sector investment. The city administrators are the sole problem....they are slow and ineffective. The provision of simple things like cleaning, streetscape maintenance and by-law enforcement have been poorly managed. When one takes clients to view downtown buildings, dirty streets can be a real turn-off and deal-breaker (interview with Mr. Laurance Zikalala of 3D Properties)

The municipality is generally perceived as slow, bureaucratic and inefficient (this resonates with earlier arguments of Fraser, 2005a; Lipietz, 2004 discussed in paragraph 4.8 for correlating views). The provision of essential services such as site/building plan approval, site rezoning, connection of power and water, issuance of occupation certificates and rates clearance certificates, were some of the frequently cited problems:

Council inefficiency and lack of capacity is problematic. The council has outdated procedures and is not geared to deal with most delivery issues. It's hard to understand why it takes up to 3 years to get a simple thing as the rates clearance certificate (interview with Mr. Adam Levy, MD of Jungle Holdings).

The council needs to improve service delivery in areas such as billing process, improve maintenance of public space including provision of adequate restroom facilities. At the moment things are going out of control to the detriment of the rejuvenation of the CBD (interview with Mr. Christo van Zyl, of Urban Ocean Property Developers).

These factors create the perception that the city is not well managed and impose financial risks to investors. The situation gets worse as the City of Johannesburg is frequently threatened with legal actions for poor service delivery:

Poor service delivery by council in terms of cleaning, security, street lighting is still a big problem. We've had to threaten 'Pick It Up' with legal action to see some improvement. The City just does not come to the party, unless it is threatened with legal action (interview with Mr. Renney Plitt, Managing Director of Affordable Housing Company - AFCCO).



Photos 5 and 6: Lack of maintenance and widespread litter are just some indicators of service delivery deficiencies in the inner city. On the other hand the existence of derelict buildings which are usually illegally occupied and overcrowded are indicators of non-compliance with city by-laws. All these are perceived as anathemas by private sector.

The recently published Inner City Regeneration Charter<sup>53</sup> reinforces and validates the above finding about the deficiencies in the delivery of municipal services:

In the past the City of Johannesburg has not had an integrated and consistent approach to the management and maintenance of the public environment....Poorly capacitated systems of by-law enforcement, inadequate everyday-service coordination, a lack of responsiveness to a range of public nuisance, an inability to mount creative responses to underlying problems that give rise to grimy and disorderly urban spaces, has extended the perception that the Inner City is still in systematic decline (CoJ, 2007, p.6).

Although it was not the intention of this study to assess the plausibility of the competitive cities theory, the finding about the inadequate service may be construed to illustrate some of the flaws and limitations of competitive cities approach that underpins Johannesburg's urban regeneration strategy. Indeed such findings lead to more questions about the plausibility of that approach. One may argue that in its quest to become a competitive 'world-class African City' that is attractive to investment; in its attempts to find ways to fit into globalization; and in drawing inspiration from and emulating the successes of a small range of Western cities, the City of Johannesburg has neglected some crucial aspects of basic service delivery.

It may also be argued that more emphasis has been placed on the stimulation of growth and investment to meet the normative requirement of competitiveness. That is because competitive cities ideas tend to put much emphasis on competitiveness of commerce, industry and government institution as determinants of city's prosperity and such approaches 'encourage an emphasis on promoting economic relations with a global reach, and prioritizing certain prominent sectors of the global economy for development and investment' (Robinson, 2002, p. 547). The costly upgrading of inner city precincts, the place-

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<sup>53</sup> The Inner City Regeneration Charter is the culmination of the City of Johannesburg's stakeholder consultation process which commenced in November 2006. The City engaged various stakeholders such as the private sector, community or civic formations, faith-based organizations, academics, researchers and non-governmental organisations seeking to systematically identify key challenges facing urban regeneration process and measures to improve the process. Some of the private sector representative who participated in the charter process had earlier participated in this research. While the Inner City Regeneration Charter was published long after the completion of the data collection process for this study (07 November 2007), there are parallels between challenges identified in the charter and the findings of this study as indicated in the following discussion.

marketing, the multiple subsidies offered property investors, and the emulation of international urban renewal practices have all been on the priority list of the city's development agenda to the detriment of the delivery of essential services in the inner city.

While it can be argued, on the basis of the above finding, that there is a need for a shift in urban regeneration policy from current emphasis on the competitive cities approach in Johannesburg to an approach that will seek to ensure efficient provision of municipal services, certainly more work is required to assess the relevance and plausibility of the competitive cities approach in Johannesburg. And while these are different sets of issues which another study may cover in detail, what remains is that the City of Johannesburg cannot continue to ignore factors that act as hindrances to private sector investment. It needs to explore creative ways to improve the delivery of basic urban services and adopt a more socially aware approach. Likewise a large number of respondents saw the need to up-scale basic service delivery by improving current institutional capacity, providing more resources and deepening urban management practices. Improving service delivery and maintenance of public spaces has other benefits in reducing crime as crime is less likely to occur in well-kept areas.

#### *Lack of by-law enforcement*

Lax urban management practices are reflected negatively in incessant by-law infringements such as non-compliance with building regulations and unlawful occupation and general incivility. Poor by-law enforcement remains a potent threat to private sector investment, in spite of the existence of sufficient legislative framework. The Inner City Regeneration Charter also acknowledges this stating that 'enforcement capacity to give effect to by-laws has also been lacking' (CoJ, 2007, p. 8). Tenants' level of education is perceived to be another area of concern. While tenants are perceived to be more likely than before to comply with city regulations, they sometimes have little knowledge about by-laws and building regulations.

At the same time, city management practices are informed by Western city models. This is not always be compatible with the African oriented users who are accustomed to communal living and may from time to time wish to share leased space with members of extended family, nuclear family etc. With little or no knowledge of city by-laws and regulations, the new users may bring relatives and family members to live with in the inner city thus inadvertently contributing to overcrowding and thus breaching of city by-laws and other regulations. The overriding perception among respondents was that by-law enforcement should be scaled-up to demonstrate that the city is well managed. Perceived as also important was the importance of public education:

Public education is important to change perception. People have been educated politically about their political rights, human rights and so on....with little or no social education. Educating them about basic things such as littering, public conduct and overcrowding is very very important (interview with Dr. Moosa Peer of Skyway cc)

#### *Degenerating neglected buildings and illegal building occupants*

The widespread existence of degenerating neglected buildings creates a perception that the city is not well managed. These buildings also attract illegal occupants or “building hijacking” who overcrowd them, violate city by-laws and engage in illicit activities. The biggest challenge is evicting them:

Perception is the main problem.....that the inner city is dangerous, crime ridden, dirty place characterized by squalor, overcrowding and illegal building occupation. But building hijackers and illegal occupants make this perception even worse. Evicting these people from the dangerous buildings is a challenge that government has been unable to effectively deal with both at policy and practical levels (interview with Herbet Prins, Partner/Co-director at HMJ Prins Architects).

Moreover, illegal occupants create uncertainty for those owners who intend refurbishing their buildings about whether the neighbour will do the same or not. While the ubiquitous practice of “building hijacking” normally affects absentee landlords, it is an even more serious threat to private sector investment when it affects buildings whose owners are present and looking after them<sup>54</sup>. On the other hand the regulatory environment does not seem to help. As discussed in chapter 5 the PIE Act makes provisions for procedures to be followed when

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<sup>54</sup> Some property developers and managers interviewed in this study once had a building they owned or managed forcefully invaded and illegally occupied e.g. Connaught Properties, Itemba Property Trust, Skyway, ADPROP property management.

evicting people. This is often problematic as prospective investors who intend purchasing an illegally occupied building often face problems and potentially high costs in evicting the illegal occupants:

Before refurbishment you have to spend R100 000 to make an application for the eviction order to the high court, then R300 000 for the Red Ants<sup>55</sup> to evict the people, then R500 000 to provide security in the building while planning the refurbishment project and now you have to find alternative accommodation for the evictees. In total you have to spend more than R1mil before you even start refurbishment (interview with Nick Obel, Director of CityNet Property Group).

The City of Johannesburg has been grappling with this problem for some time. However, organizations such as the Wits Law Clinic, the Human Rights Commission and courts have in the past successfully challenged the legality of such actions on the basis of the PIE Act and violation of constitutional and human rights, even though illegal occupants may be in violation of city's by-laws. For instance, in May 2006 the Johannesburg High Court ruled in line with the provision of the Pie Act that no evictions were to take place without providing people with alternative accommodation (Naidoo, 2006).



Photos 7 and 8: Some derelict buildings in Doornfontein (left) and Hillbrow (right). Overcrowding, illegal activities and non-compliance to by-laws is common in these buildings. Evicting illegal occupant is often a major challenge.

The City of Johannesburg successfully appealed this decision to the Supreme Court of Appeal which ruled in its favour on 26 March 2007 (Tromp, 2007),

<sup>55</sup> The Red Ants is a specialised security company that is often utilised by authorities and property owners to undertake eviction operations in the inner city and informal settlements.



sparking fear of mass evictions of about 70 000 illegal building occupants (Mkhize, 2007). This decision was later challenged by the Wits Law Clinic, which acted on behalf poor people and the Johannesburg High Court also ruled on 15 April 2007 that while evictions were not illegal, occupants should not be evicted in one go. In its injunction, the High Courts stated that tenants had to be treated individually and according to individual circumstance (Cox, 2007). This is likely to lead to further delaying prospective refurbishment projects.

The problem of illegal occupants is likely to remain a challenge to private sector investment unless mechanisms are found by stakeholders to harmonise the desire to attract investment with the needs of the community. There is no immediate solution in sight to the problem. Most respondents pointed to the need for a more socially aware regeneration approach focusing on, among other things, the need to provide social housing in the inner city, improve public education, better engagement between the City of Johannesburg, the private sector and Wits Law Clinic, Human Rights Commission and courts so as to address the problem of “building hijacking” and illegal occupation.

#### *Unregulated informal traders*

Unregulated informal traders are generally perceived as an anathema, primarily because they create unsightly environments, run uncoordinated activities, produce large quantities of litter and are seen to be competing with established retailers. In addition, activities such as preparing foodstuff on open fires pose risks to themselves and other users of the inner city.

Hawkers pose a potent fire risk not only to themselves but also to neighbouring buildings and cars. They cook chicken and other foodstuff on open fire next to buildings and make the place very dirty. Others say they compete with retailers...I don't think this is as big a problem as is the first one. We have the so-called by-laws that regulate this activity and others, but there is no enforcement. Metro police and city officials simply turn a blind eye to this serious problem (interview with Jonathan Gimpel, Director of Atlas Studios).

During the 1970s informal trading was largely not permitted in the City of Johannesburg (Emdon, 2003; Tomlinson and Larsen, 2003). As a result there were merely 200 to 250 street traders in the inner city by the end of 1970s (Emdon, 2003; Robinson, 2003). However the abolition of restrictive laws and

the deregulation of informal trading in the 1980s saw an unprecedented proliferation of commercial activities characterized as informal street trading. The subsequent acceleration in population turnover as well as the arrival of large numbers of foreign African immigrants provided economic conditions for new informal activities to flourish on the inner city's crowded streets (Gotz and Simone, 2003).



Photos 9 and 10: While major retailers such as Edgars and JET have intensified their space uptake in the inner city, informal traders are seen as formidable competitors (left). Uncoordinated informal trading is also perceived to creating other problems such as producing litter and the sense that the city is not properly managed. Preparation of food on open fire (right) next to buildings is a serious health and safety risk.

In 1990 alone the number of informal traders in Johannesburg increased to about 15 000 (Rogerson, 2000). The biggest challenge facing the city is to manage this activity which has proliferated in most of its parts as it create a perception that the city is not properly managed. Unregulated informal trading is also perceived as legitimizing by-law infringement and entrenching perceptions of lawlessness in the inner city. While the city has pumped large sums of money into precinct upgrading projects and preparing urban space for formal business, very less has been investing in providing suitable spaces for informal traders, hence they are perceived as outsiders. Addressing concerns around informal trading was identified by respondents as needing urgent attention. Similarly activities such as regular industrial action, marches and regular taxi violence in the inner city are considered to be creating a perception that the city is ungovernable.

It may also be argued that the perceived ‘problem’ of unregulated informal traders is one of many flaws of the preoccupation with the competitive cities and world city approaches that the study identified. These approaches tend to prioritize certain ‘important’ sectors of the economy than others (e.g. formal over informal) (Robinson, 2002). This informal sector is thus trivialised, treated as ‘other’ and largely ignored in city planning, hence its subsequent perception as problematic by the private sector. It will be a useful discipline for the city of Johannesburg to draw policy insight from the ‘ordinary city’ model. This model promotes alternative models of development, sees the connections, rather than conflict, between informal and formal economies, explores links between diversity of economic activities in any ordinary city, and emphasizes the general creative potential of cities, rather than those approaches that support some sectors to the detriment of others (*ibid*).

#### *Crime and ineffective policing*

The perception of high crime and ineffective policing was common among respondents. Crime was also regarded as a key factor influencing investment decisions and changing it overtime is therefore likely to unlock the investment potential of the area. The discussion on crime and its impact on investment decisions continues in paragraph 7.6.5 below.

#### *Accessibility, traffic congestion and lack of parking*

The shortage of parking causes traffic congestion, forces people to park their vehicles in dangerous areas and increase their exposure to crime. The rapid space up-take in the inner city by tenants is likely to make the situation worse. While limited parking and traffic congestion were identified as problems, it is unlikely that they will have major long-term adverse effects on private sector investment. These problems are not unique to the inner city but rather prevail throughout the metropolitan area of Johannesburg. On the other hand, traffic congestion outside the inner city is likely to encourage inner city living or create an advantage for living closer to work for those who work in the area and do not

want to spend hours in traffic. Notwithstanding the above comments, there is a general sense that the City of Johannesburg should look at creative ways of dealing with parking problems, accessibility and traffic congestion challenges.

### *Outmoded building configuration and design*

Building configuration and design was identified as a problem. Due to age, old the design and style, some buildings are incompatible with business needs and technological requirements of today.

Building footprint sometimes discourages business location in the inner city. As production methods and products of different companies have changed, companies' space needs have also changed. Most buildings cannot accommodate such a change. Like now call centre business is growing and the inner city, because of large workforce and public transport, has an advantage to attract this kind of business. But building configuration and infrastructure is not always compatible with today's technology demands (interview with Kura Chihota, National Leasing Manager, Gensec Property Services).

In line with traffic planning policies of the 1960s which restricted access of private vehicle to the inner city, some buildings were designed with little or no provision of parking space. This was identified to be a serious deterrent to investors and tenants alike, as the availability of in-house parking proved to be a major "selling point" especially in commercial buildings<sup>56</sup>. The conversion of buildings from office to residential use may be a solution to the high demand for housing. However this may be marred by service deliver problems in rezoning applications, plans approval, clearance certificates etc. The JHI Report (2003) also warns practitioners against risks associated with the common practice of converting former office buildings into residential quarters:

Though analysts say demand for quality residential stock in the central business district, which has been redlined by banks, exceeds supply, the adoption of residential conversion has spawned some unwelcome practices and a moratorium on business to residential conversions was introduced to help better understand, plan and implement this trend. Zoning restrictions are also limiting cases of conversions. This is occurring simultaneously with a bad building/better building programme where evictions and outright demolition of certain buildings is being undertaken (p. 7).

In response to the problems posed by unsophisticated building designs, some respondents recommended the need to reconfigure existing buildings, relax building regulations and allow for the redesign of certain floors to cater for

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<sup>56</sup> The experience among most property managers was that commercial buildings with in-house parking were likely to get tenants quicker than those that do not.

parking needs of buildings. For instance the City of Johannesburg can review certain building regulations that restricted the number of parking bays per building and allow for the conversion of certain floors to create parking space, where structurally possible.

#### *Lack of social facilities and amenities*

Ideas of promoting private sector investment may have difficulties in the Johannesburg Inner City because the area offers limited social facilities and neighbourhood infrastructure to support family living. Facilities such as public schools, health care facilities, crèches and places of worship and so on are important to support family life and to ensure that inner city residents can lead similar lifestyles as those living in suburbs. Active and passive open spaces as well as parks where people can meet, relax and interact with one another or where children can play safely are equally important. These facilities are essential to draw people into the inner city and improve the consumption of space, goods and services. Currently, such facilities in the inner city are poorly provided<sup>57</sup> or in a state of disrepair. One walks past a façade of windows and bricks and the city operates in a manner that restricts interaction, instead of operating as a network. Interaction is limited to enclaves of entertainment such as shopping centres and not in open spaces.

It may well be argued that the lack of social facilities in the inner city mentioned by some respondents bodes ill for the inner city. It implies that the inner city may not sustain the current demand levels and may not cater for long-term inner city living, under the current circumstances. Instead, the inner city may be best positioned to cater for young, single and footloose segments of population. However, this comes with other challenges as these groups tend to be highly transient, lead fast changing lifestyles and may react to emerging economic opportunities.

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<sup>57</sup> Currently there are two parks in the inner city which constitute less than two percent of the built environment (CoJ, 2007).

The lack of social facilities, and amenities discussed above inexorably flies in the face of the advocates of the New Urbanism or those who support compact cities thinking. It highlights another dimension of limitations of ideas of New Urbanism in the Johannesburg inner city under current conditions and enables this study to contribute to the debate around the concept of urban compaction, based on the private sector perception. The need to provide more social facilities and other supporting amenities was regarded by most respondents as essential in drawing people into the inner city and supporting multiple livelihoods. Some respondents proposed the razing of those buildings that are dilapidated beyond rejuvenation to make way for social facilities such as schools, crèches, public open spaces, public parks, pocket parks and squares.

#### *Lack of night life*

The lack of night life in the inner city was perceived to be affecting the demand for space and other goods and services in the sense that some tenants may not wish to locate in an area that does not provide vibrant night life activities and facilities. This has major implications for private sector investment and patronage of the inner city:

You drive in the CBD after hours and it's just dead quiet....no action, nothing except just a few corner shops opened. Some streets are very dark. I can't imagine living there. I get very concerned about crime when driving in such deserted street. Improving night life in the inner city is definitely something to be looked at (Interview with Simon van der Loo, an independent property developer).

The JDA Report (2006) also cites the reasons such as a lack of large musical events as the cause for low activities in venues such as Standard Bank Arena. The lack of night life has a chain reaction in the sense that it translates into low demand for facilities and services such as restaurants, theatre, art and music as these normally become active at night. The low demand for retail services also translates to poor demand for retail space and subsequent poor performance thereof. The clear sentiment emerging from the interviews is that more efforts should be directed at improving nightlife and creating a 24-hour city. This, it is believed, will not only draw people back to the inner city and evoke idyllic and effervescent moments last seen in the 1960s when the area was economically

prosperous but will also improve the consumption of goods and services and space. Again the lack of night life, from a New Urbanism perspective, reinforces the argument about the limitations of urban compaction discussed above in the current inner city context. It suggests that currently the inner city is incapable of supporting multiple lifestyles.

*Lack of a holistic approach to urban regeneration*

There is a general perception that the urban regeneration has been devoid of credentials of a holistic, visionary and imaginative process. That is because urban regeneration initiatives, especially the precinct upgrading projects, have tended to occur in a few and discrete pockets of the inner city and not the wider area (see Map 5). This has led to “compartmentalised development”:

At the moment there are pockets of improvement. Once those pockets join up, they'll be more visible changes and regeneration would have made an impact in the inner city (interview with Geoff Thompson, CEO of Greenwich Property Management)

Notwithstanding the influence of American urban renewal models which promoted the stimulation of growth in some parts of the inner city with the underlying belief that benefits of investment will trickle down to other areas, in Johannesburg localities that have high economic development potential have been given preference over those that do not. This has resulted in certain parts being developed and others lagging behind, leading to unbalanced pattern of growth, fragmented development and contrasting cityscape.

The net effect of the above dynamics has been the uncertainty about the future of the inner city, increased the volatility of areas left behind and social polarization. This confirms that, as discussed in chapter 3, that the “market-based” approach to urban regeneration approach alters the urban form along the vectors of commercial imperatives and not social concerns. In response to the challenge discussed above, the general sentiment emerging from interviews is that urban regeneration should seek to create an integrated inner city. A more comprehensive urban regeneration approach is touted as important to ensure

that development encompasses the entire inner city and not only some of its part. Similarly, the need to increase government investment/ spending in urban regeneration is seen as essential in ensuring that urban regeneration initiatives occur throughout the inner city rather than in isolated localities.



Photos 11 and 12: Contracting cityscape? Building 101 Jorisen Street in Braamfontein on the left, a recently renovated into luxurious apartments. While this building and many others are symbols of private sector investment into urban regeneration, they have been criticized for being too expensive. On the right is a building in Hillbrow that tells a different story. While the latter area has high demand for residential space, neglected and illegally occupied buildings are prevalent.

### *Overcapitalization of property prices*

The inner city property market, which became very active over the past few years, has engendered unprecedented growth in property values (JDA, 2005; JHI Report, 2004). The market factors as well as urban regeneration initiatives discussed in paragraph 7.3 above have further sparked an investor interest in the inner city never seen in years and set property prices on an upward pace. While this may be a good sign of positive change and growth, high property prices were identified, albeit by a few respondents, to have prohibitive effects to emerging property developers especially. From a tenant perspective, they can potentially lead to space being unaffordable, thus increasing the prospects of space oversupply and high vacancies.

In addition, a new tendency is emerging in the inner city property market of some property players, who tend ask for prices that are perceived to be not market-related:



Not so long ago prices for buildings in the inner city were affordable. But because now people are buying and investors are coming back, prices for buildings have increased significantly. Landlords in Hillbrow, for instance, would battle to sell their buildings, but now even buildings that are falling apart are asking top price. But some landlords ask for unreasonable prices. It's even better now to buy from auction than directly from owners (interview with Mark Tantum, Managing Director of Moonslik Investments).

*Development of retail centres in townships: policy contradictions?*

The recent trend of developing shopping centres in townships around the city such as Soweto was identified to be posing a challenge to both property owners and retailers in the inner city. The new retail facilities, which were approved after it was found that townships such as Soweto had been under-served in terms of retail facilities despite its large population size and rising household incomes (CoJ, 2005), were perceived by respondents as effectively competing with similar outlets in the inner city for consumers, dampening the demand for retail goods and space in the CBD and generally altering the retail landscape. Yet, in an apparent contradiction, the City of Johannesburg seeks to promote the inner city regeneration. Thus the two-pronged and paradoxical strategy is perceived to be threatening inner city regeneration. The JHI Report (2003) also points to this line of argument, stating that 'what remains a challenge for the city is how the twin priorities of supporting the CBD and increasing internal spend within Soweto will pan out' (p. 12).

While this argument emanates from research data and may appear plausible, it lacks market logic. It comes across as simplistic. Empirical evidence and experience in the city suggests that it is unlikely that township shopping centres will cripple the urban regeneration momentum. For instance, the works of Goga (2003), Beall *et al* (2002) and others show that the development of retail and commercial developments in decentralized nodes from 1960s onwards occurred despite stagnating economic growth throughout the metropolitan area.

The economic stagnation had suppressed any meaningful retail demand in the new decentralized suburban nodes leading to acute space oversupply. However, the demand was not shifted from CBD in favour of new suburban shopping

centres. In fact, studies show that retail activity in the inner city remained strong (Beall *et al*, 2002) and ‘the establishment of suburban malls did not lead to the demise of retail in the CBD’ (Tomlinson and Larsen, 2003, p. 47). This was despite the fact that suburban locations were considerably wealthier and had higher economic power than the CBD.

Currently the economy has been showing signs of growth and the townships may have significant purchasing power for retail goods, but such purchasing power is less than that of the CBD<sup>58</sup>. Townships have an even lesser purchasing power than that of former white suburbs and therefore pose an even lesser threat to the CBD than suburban centres potentially did in the 1960s. In addition, the decentralised nodes, due to space shortages, are unlikely to see new major shopping centres which may pose a significant threat to the CBD. Yet the inner city has been, and still is, experiencing high demand for retail facilities. It also has a growth potential for retail facilities due to new opportunities brought by urban regeneration and a high space demand.

Most factors discussed above can be linked largely to most aspects that the City of Johannesburg has been trying to address through urban regeneration interventions (see also Table 8 on page 195). While on one hand they indicate the inadequacy of urban regeneration interventions to address various inner city problems, they, on the other hand, have serious implications for various theoretical constructs that underpin urban regeneration in the city. For instance, it can be construed (although not by first intent of this study) factors featuring in the ‘risk profile of the inner city’ such as the inadequate functioning of everyday municipal services, urban management deficiencies, ineffective policing, poor by-law enforcement and so on, raises serious questions about the plausibility of the competitive cities approach that underpins Johannesburg’s urban regeneration strategy. This indicates that more academic work is required around the

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<sup>58</sup> In 2005 the household disposable income was R10.5 billion for Soweto, R52.8 billion for CBD, and R206 056 billion for the rest of Gauteng (CoJ, 2005).

relevance of the competitive cities approach in the Johannesburg Inner City. While an argument can be made, in the light of the above discussion, about the need for a policy shift away from competitive cities thinking and a focus on the efficient delivery of municipal services, the research results show that there is a great desire, from a private sector perspective, for a well functioning local government to engender higher levels of investment.

The above resonates with Robinson's (2002; 2006) argument for 'ordinary cities' and for moving away from competitive cities approach discussed in chapter 4. In the Johannesburg inner city, the preoccupation with becoming a globally competitive city that attracts investment have resulted in the prioritization of certain sectors of the economy, leaving behind other sectors and service imperatives. It can be a useful discipline for the city authorities to reverse this thinking. Robinson (2002; 2006), for instance, argues for the 'ordinary city' model which is an alternative model for development that emphasizes creativity, encourages connections between economic sectors, and which explores links between diverse economic activities, rather than focusing on only a few sectors of the economy that support the position of competitiveness.

Similarly, the lack of social facilities and social amenities as well as the lack of night life suggest that the inner city is not compatible with the ideas of New Urbanism which support compact, mixed-use and vibrant urban environments. Such ideas in the inner city face limitations caused by the inadequate availability of social amenities necessary to support multiple lifestyles and attract a divergent tenant base. On the other hand, private sector investment in the inner city is showing signs of rapid growth, in spite of the prevalence of risks, hindrances and deterrents discussed above. This indeed supports the assumptions of the modern portfolio theory thesis – that risks can be managed and that higher returns are often accompanied by higher risks as argued emphatically by Bob Litterman (2003). In fact a significant 88% of respondents stated that the

perceived risks would completely thwart their long-term investment ambitions in the area.

## **7.5 URBAN REGENERATION AND SOCIAL ISSUES**

Although social issues were not the primary focus of this study, it was important to look at them as they are as pertinent to the urban regeneration processes as is private sector investment. Some writers argue that it is not enough for urban development to embrace policies of economic growth without illustrating how social issues will be addressed, if development is to benefit all sectors of urban society (Duffy, 1995). Johannesburg's urban regeneration strategy document intimates that urban regeneration will cater for social issues as a by-product of economic objectives (Fraser, 2005a; CoJ, 2004a). In other words, as economic goals are achieved, the benefits of economic growth will spill over to people in the form of new opportunities that will arise. It was against this context and background that the private sector views on social issues were explored.

Social issues in this study depict not-for-profit projects that positively influence the lives of the people especially the poor and less fortunate. Examples include, but not limited to, social housing, education and training, welfare service or any philanthropic work etc. The general perception among respondents in this study is that social issues have not been adequately addressed within the current framework of urban regeneration. This perception accretes among many academic writers and informs most literature on urban regeneration and the Johannesburg Inner City (Chipkins, 2005; Emdon, 2003; Gotz and Simone; 2003; Robinson, 2003; Tomlinson *et al*, 2003; Beall *et al*, 2002). And by the City of Johannesburg's own admission, this has been one of the major failures of the current regeneration strategy (CoJ, 2007). The lack of social housing is seen as reflected negatively through homelessness, social class exclusion, ubiquitous overcrowding and illegal building occupation. An ideological chasm also seems to exist between government and social groups on how social issues should be addressed.

At the same time urban regeneration projects, including those implemented by the state, continue to flagrantly create an environment that caters less for the poor by providing unaffordable facilities that exclude the poor from cycles of consumption. Urban regeneration, which began as grandiose plan to revive the declining inner city and promised to re-create a city to which all belong, has become a source of unremitting skirmishes between the government and civil organizations and a litany of political diatribes from a social front (Rondganger, 2005). This is not unexpected. The regime theory contends that governments are likely to elevate private investment above the social issues because governments in liberal democracies tend to depend on the market to satisfy human needs (Harding, 2000a; Lindblom, 1977).

While in Johannesburg, private sector investment is portrayed as the means for satisfying human needs and business tends to be accorded privileged status in fulfilling the government objectives of urban growth, private investment has not embraced all interests, and has been largely oblivious to community needs. Cases of homelessness and destituteness continue unabated. The current regeneration strategy has been unable to reconcile the private sector needs to make profit whilst meeting the needs of all inner city citizens, especially the poor.

Yet, in spite of the well documented benefits of equitable growth such as the relief from personal constraints thereby reducing poverty and crime (Stone, 2006; Palmary *et al*, 2003; Glaeser and Kahn, 1999), discourses of equity and resource distribution have been trivialized as private sector investment and economic growth have become both the sources and drivers of economic growth and urban change. Private investment has been made, to use Mike Raco's (2003) words, 'an important source of strength in an increasingly fierce climate of competition between places of hierarchical status and prestige' (p. 38). Or, to reflect on the growth machine thesis, 'the activism of entrepreneurs is, and always has been, a critical force in shaping the urban system' (Logan and Molotch, 1987, p. 52).

This form of marginalization and the failure to accommodate all social groups is likely to lead to regeneration products, no matter how shiny and attractive, being rejected by the downtrodden majority of the inner city population. The city is viewed in terms of its use exchange-values as a profit-generating centre for local property developers and not in terms of its use value, thus systematically excluding those who cannot afford products developed by such arrangement. Such principles are also inconsistent with government's popular adage that "South African belongs to all who live in it". The housing schemes such as the Brickfields housing development have attempted to provide housing for lower middle income groups, but they have been grossly inadequate (Cox, 2006).



Photo 13: Completed in 2005 to cater for lower middle income groups, the Brickfields housing development in Newtown has hardly addressed the housing shortage in the inner city, especially for low income groups.

While the private money is highly seductive, the private sector investment may not provide a reliable vehicle to cater for social issues for a number of reasons. *Firstly*, the private sector does not see as its responsibility providing social issues in its involvement in urban regeneration. Social issues are regarded as the primarily responsibility of the government:

You see, you must realize that we are accountable to shareholders of the company and we don't just spend money without showing a return of some sort. Yes, we would like to spend on social projects, but we simply don't have budget for that. To us social issues come second to commercial bottom-line (interview with Sandy Baans, CEO Flatmart/Jozi Housing).

*Secondly*, while the private sector in Johannesburg may have been involved in social issues such as low cost housing, education and training, welfare service or philanthropic activities, the social corporate responsibility of companies involved in urban regeneration is generally low. As illustrated in Table 11 (page 203), only 33% of companies interviewed had contributed towards social projects in their involvement in urban regeneration. Even in cases where some companies contributed to social issues, their contributions tended to be low scale in investment value and number of individuals they reached.

*Thirdly*, the private sector still expect above board returns from projects they regard as “social projects”, claiming that this is necessary for sustainability. While this may be based on business considerations, it is unlikely that the private sector may find social projects such as social housing particularly appealing.

The market under R3500 per month income bracket is not catered for. This is where government should be focusing. As private developers we can provide our services, but government needs to subsidize these developments, otherwise they are not commercially viable to us (interview with Renney Plit, MD of AFCO).

*Fourthly*, as noted above, most property developers involved in urban regeneration are footloose investors with investment interests in many other parts of the country (see also Annexure A). This casts doubt over whether the needs of the people (the poor and disadvantaged) can be provided for by the fleeting private sector investments which are also susceptible to fickle markets and economic trends. The sentiments emerging from research data is that there is a need for the City of Johannesburg to increasingly focus on social issues in general and social housing in particular, at policy level. This also includes attracting private sector investment (through partnerships and incentives) to the provision of low cost housing:

The government must subsidize private sector investment in low income units and should absorb the risk on the side of private investors. Maybe we need the government RDP<sup>59</sup> concept to provide government housing in the inner city (interview with Nick Obel, Director of the Citynet Property Group).

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<sup>59</sup> RDP means the Reconstruction and Development Programme which was crafted after the advent of the democratic dispensation in 1994.

### Box 7.1 Urban regeneration with a focus on social issues (Boston, US)

#### *Case Study 6: The Case of Boston (US)*

Boston held an important mayoral election in 1983. The city's economy was prospering and Raymond L. Flynn was elected with a manifesto "to share the prosperity". Several policies were implemented in order to realize this vision. The strong property market in the early 1980s had led to a shortage of low- and middle-income housing and the rapid growth in property values had displaced low to middle income groups from the market. Flynn introduced a linkage programme through which a fee was levied on downtown development projects to subsidize the construction of housing for the city's low-income residents. His administration negotiated inclusionary zoning agreements with individual housing and property developers to provide below-market rate units in their housing developments or pay an "in lieu" fee into the linkage fund. In late 1983 the Boston Housing Partnership was formed to assist community development corporations in rehabilitating and managing housing units in their neighbourhood and to further alleviate the housing shortage.

Boston also established a resident job policy under which developers and employers were required to target city residents, minorities and women for construction jobs and in the permanent jobs created by these developments. These commitments were applicable to publicly subsidized developments and, in an agreement reached by the mayor's office, the Greater Boston Real Estate Board, the Building Trade Council, and leaders of the minority community, for private developments as well. In addition, public schools agreed to make commitments to improve the school's performance in return for business community's agreement to give hiring preference to their graduates. Arrangements were made with several local employers to provide jobs paying more than a minimum wage and financial assistance for college tuition to students who succeed in public schools. The Flynn administration made conscious efforts towards pursuing balanced development and to bring previously disenfranchised groups into the mainstream development process. The specific focus was on not only housing and jobs, but the broader objective was to share the benefits of development generally throughout the city – an idea that soon spread across most US cities. The CRA required federally regulated banks and savings and loans to assess and be responsive to the credit needs of their service area. Failure to do so would result in lenders being denied charters, new branches, or other corporate changes they intended to make.

Other initiatives included the establishment of the Fair Lending Action Committee (FLAC) in Milwaukee in 1989, which comprised lenders, lending regulators, real estate agents, community organizers, civil right leaders and city. The FLAC was established after a study had found Milwaukee to have the nation's highest racial disparity in mortgage loan rejection rate. In order to increase lending to city's minority community the FLAC recommended that lenders in that area should direct 13 percent (equivalent of minority representation in the population) of all residential, commercial real estate, and business loans to racial minorities by 1991. Several low-interests loans programmes were proposed to be administered and financed by lenders, city officials, and neighbourhood groups. Fair housing training programmes were recommended for all segments of industry including lenders, real estate agents, insurers, and appraisers. Housing counselling centres were also established by lending community to assist first time buyers. The FLAC became so successful such that a permanent FLAC was called for to monitor progress in implementing FLAC in the entire Milwaukee metropolitan area.

*Source: Squires (1997)*

It is important for the City of Johannesburg should seek to achieve revival of areas affected by economic decline and at the same time focus on meeting needs of all its residents, especially the poor:

A well-run city tries to provide for all of its citizens, not only those who will prosper with the consolidation and growth of business in the region. The problems multiply, of course,



when those in need become concentrated in certain districts, and there is no mechanism to make the wealthier part of the area around the city pay towards the cost of special needs...There are no simple solutions, but cities cannot afford to ignore what is happening in the economy at large (Duffy, 1995, p. 4).

The Boston case study discussed above is a good example of how social issues, including social housing, can be addressed within the framework of urban regeneration. While this study does not propose the emulation of measures implemented in the City of Boston, lessons can therefore be drawn (as a matter of principle) from this example in the sense that 1) there were conscious efforts made at policy level to focus on low cost housing, 2) there was a long-term plan for the provision of affordable housing, and 3) both the public and private sectors were involved in effective partnerships to tackle social housing in the inner city.

## **7.6 PERCEPTIONS HELD ABOUT POLICY INSTRUMENTS DESIGNED TO ATTRACT PRIVATE SECTOR INVESTMENT IN THE INNER CITY**

As discussed in chapter 6, instruments such as the UDZ, the JDA, the BBP, CIDs and various crime prevention measures are the pillars of the “market-based” urban regeneration strategy. This study found that these instruments have all been largely welcomed by the private sector. Generally, they are perceived to have a myriad of benefits and play an important role in facilitating investment. However, as discussed in the following paragraphs, these measures also perceived to have limitations both as concepts and in practice.

### **7.6.1 Urban Development Zones (UDZ)**

The findings of this study indicate that the UDZ is perceived to have numerous benefits and advantages in the inner city. It offers an incentive for investment. It enhances the financial viability and profitability of regeneration projects thereby minimizing financial risks. It serves to bridge the gap between the cost of development and the value of the scheme on completion. In other words it makes regeneration schemes work which, without UDZ, would arguably have worked differently or not have worked at all. In doing so, it unlocks the

investment opportunities and the development potential of the inner city and stimulates growth:

The UDZ really improves project feasibility. I can tell you.....some projects we did would not have been successful without the UDZ. We initially did our feasibility studies and did not factor in the UDZ incentive. The project did not fly. But when we discounted the tax incentive, the numbers worked nicely (Interview with Trevor Mkhwanazi of Atterbury properties).

The UDZ is also accredited for making urban regeneration projects relatively self-financing without government having to spend large sums of money improving urban landscape. This benefit of the UDZ is important for markets such as urban regeneration which often have project viability problems due to the problems posed by economic depression of insalubrious environment and perceived risks (Adair *et al*, 2000; 1999). By creating investment opportunities, the UDZ encourages new investors to come to the inner city, those who left to return and motivate existing landlords to refurbish their buildings, thus effectively contributing to the rejuvenation of the large inner city areas. It therefore provides an additional incentive for investment other than the normal windfall gained as regeneration projects becomes profitable. The perceived benefits of the UDZ include its ability to off-set personal tax.

If you are running a property business you can off-set your personal tax against the UDZ tax incentive. In a long run you save as a business and as an individual (Interview with Kura Chihota, National Leasing Manager, Gensec Property)

Because the UDZ is a circumscribed area, it creates an investment focus and clusters investment. From this focus, it is expected that areas will grow and the surrounding areas will benefit from the economies of scale. The benefits of this growth will also spill over to other areas and thereby, to use local lingo, creating “ripple pond investment” (CoJ, 2004a). Another important perceived benefit of the UDZ is that it promotes the inner city or areas in which it is targeted and thus creating awareness about urban regeneration.

It symbolizes government’s commitment to inner city regeneration and sends good sentiments to the market, investors and the public thereby wading off the negative perception and instilling confidence in the inner city. Generally the UDZ

is perceived to be a good policy initiative by the private sector that has engendered commitment from property developers and investors to the urban regeneration process.

### *Perceived shortcomings of the UDZ*

In spite of the fact that the UDZ has received growing support from the private sector, the concept is perceived as having some shortcomings. The administrative processes and registration requirements for the UDZ are perceived to be complicated. For instance, the issuance of the “certificate of location” and “certificate of occupancy” takes time and requires an inordinate amount of paperwork to be completed. This, combined with service delivery deficiencies on the part of municipal administrators (discussed in paragraph 7.4 above e.g. getting occupation certificate takes too long), is perceived as a discouraging element of the UDZ. It therefore not surprising that the general sentiment among respondents was the administrative processes around application, registration and claiming for the UDZ tax incentives should be reviewed. At the same time the underlying belief is that any substantial improvement to the UDZ is unlikely to fast track private investment, unless this is coupled with a significant improvement in the general delivery of municipal services.

In order to benefit from UDZ incentive refurbishments, improvements or extensions have to be carried out in a floor area of at least 1000 square metres (CoJ, 2004b). This is viewed as a flaw in the UDZ in that it seems to only address the needs of large and established property investors who own bigger spaces, leaving smaller investors out of the UDZ threshold. Similarly the UDZ scheme excluded sectional title building owners.

Sectional title investors do not benefit from the UDZ because it requires a minimum 1000sq.m for tax incentives to be granted. The threshold of 1000sq.m required to qualify for tax incentive is not enough and does not address the needs of smaller investors. This must be decreased to at least 60-100sqm. The lack flexibility in this regard renders the UDZ ‘a sugar coated pill’ for most of us (interview with Mr. Ricci Pollack, Director of Lifestyle Loft Apartments).

In addition, investors who wanted to use the scheme to renovate buildings before selling them were initially excluded from the UDZ tax incentive. *Firstly*, the incentive did not apply to purchase prices of buildings, meaning that the tax incentive was unlikely to act as a catalyst for property acquisition. *Secondly*, the UDZ had major flaws from a design point of view. The tax benefit of a refurbished building could not be transferred to a new purchaser or owner as a tax credit if a building was sold. Once a building was sold the tax benefits was lost:

The UDZ concept does not work for developers. The net effect of the UDZ for developers is zero if you sell the property. The concept therefore does not work for us because our schemes are mainly for sale and not for tenanting (interview with Mr. Rodney Weinstein, CEO of ZenProp Properties).

This means that the UDZ was originally designed to target mainly owner-occupiers of buildings or those who let refurbished buildings, a common problem associated with tax incentives as also found by other studies (McGreal, *et al*, 2002; Adair *et al*, 2000; Atkinson and Moon, 1994). While initially the UDZ did not address the latter two problems, the legislation has been recently amended to benefit owners of sectional title buildings and those who partially renovate buildings (Abraham, 2006). The tax benefit can now also be transferred as tax credit to the new owners who purchase renovated buildings in case the regeneration scheme has been sold (Dlamini, 2007). This revision in legislation was as a result of numerous requests during a three-day UDZ exposition in August 2005 to address numerous problems within the UDZ (*ibid*).

The legislation was also amended to allow for partial ownership and purchasing of refurbished building. For instance if investors buy a refurbished building, they can deduct 20% from taxable income for the first year and 5% thereafter. However it was important to reflect on these research findings which were addressed subsequent to the undertaking of this research<sup>60</sup>. Another problem

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<sup>60</sup> Clearly this revision of legislation was effected after some of the interviews in this study were conducted e.g. interviews with Ricci Pollack, Rodney Weinstein etc. who commented on problems that received attention from the government at a later stage. This is because some

identified in the UDZ is that it targets property development and investment as a business. It does little or nothing for other businesses or tenants who consume new spaces. There are no comparable incentives that seek to encourage other businesses to locate in the inner city other than property investors. Therefore, while the UDZ may lead to accelerated rejuvenation of inner city buildings, if that is not accompanied by incentives that seek to encourage tenants to locate in the area, it may potentially attenuate the consumption of space leading to oversupply, especially if there are changes in market that affect space demand such as natural market correction.

Even in catering for property as a business, the UDZ tax incentive only applies to limited types of companies. It does not cater for Public Benefit Organizations (PBO)<sup>61</sup>, loan stock companies, pension funds and section 21 companies. Some of the companies interviewed fell in this category e.g. ApexHi (loan stock company), Metropolitan Life Properties and Badiri Housing (pension fund) and many others. These companies regarded the net effect of the UDZ to their investment in the inner as nil, even though they continued investing in the area. Owing to the fact that the large scale property investments are usually driven by pension funds of large organizations, the UDZ may not serve as an effective motivating factor for this category of investors to locate in the inner city. While the above shortcoming may be in line with the country's tax laws, there may be a need to re-look at the legislation in order to facilitate private sector investment.

The above generally indicates that the UDZ is perceived as not sufficient as an incentive or the main motivating factor for private sector investment. What comes across from the findings of this study is that there is a desire for more, technically diverse and innovative incentive regimes over and above the UDZ.

We need more creative incentives, locally designed incentives such as special zoning and rates rebates for certain areas and penalties for others to encourage investment in the inner city (interview with Neil Fraser, Co-Director of Urban Inc).

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problems with the UDZ were mentioned by respondents without knowing that the government has made attempts to address them.

<sup>61</sup> Public benefit organization (PBO) or section 21 company don't pay income tax and are therefore excluded from the tax incentive.

Additional incentives such as rates rebates and tax holidays are believed to be suitable alternatives to the UDZ for regeneration projects located in specific areas within the inner city. Incentives for other businesses such as tourism, retail, small business development, foreign investment, arts and culture, media etc. are perceived as important as those that seek to stimulate property investment. At the same time, and as stated above, there is an underlying belief that the precinct upgrading projects should be intensified, encompass an integrated approach and should include efforts to strengthen government occupation of inner city space. The latter, it is believed, will attract more business in the inner city that works closely with the government institution, further bolster the momentum of private sector return to the area.

The UDZ is perceived to be contributing to the sharp increase in property values. While it combines well with the market factors to encourage property investment and private sector location in the inner city, it is perceived to be leading to overcapitalization of property values by owners who want to sell the tax benefit as a going concern:

The UDZ is the selling point for inner city buildings. But I've noticed bad tendencies that come with it. You see, the problem is with greedy owners selling their buildings who charge too much for their buildings just because they are in the UDZ. For small guys, especially those who don't carry a lot of money, this can make it difficult to afford properties.....and even if they do, they will take long to see profits because of high initial costs (Interview with Mr. George Palmer, Managing Director of Connaught Properties).

The efficiency of the UDZ is questionable even from a financial perspective. Like any tax incentives, the benefits of the UDZ are only realized if an investment scheme is profitable or makes reasonable income from which the UDZ depreciation tax allowance can be deducted. Property developers must therefore be in the scheme for the full depreciation period to realize the full extent of its benefits. Owing to the assumption that property developers are concerned with an investment class that will yield returns in a long-term and due to the fact that returns on property investments generally takes time to be realized, it may take even longer to see the real benefits of the UDZ tax incentive.

Worse still, if the investment scheme makes a loss, the UDZ will be of little benefit to the investor. That is because the UDZ does little to mitigate real project risks. If the project is struggling to make profit, the UDZ will have little effect on the investor's income stream. A business entity must therefore have conducted comprehensive due diligence before counting on the UDZ tax incentives for enhanced financial returns. Moreover, the UDZ does not provide investors with capital outlay normally required before the commencement of the refurbishment projects. At the same time, one can only apply for a tax rebate provided one has invested. But without capital outlay investors (especially emerging ones) can see no real benefit of the UDZ. It is for this reason that respondents saw the need to introduce upfront financial grants or measures to assist with start-up capital in the baskets of incentive offering available in the Johannesburg Inner City.

Although it can be argued that mobilizing start-up capital is primarily the responsibility of an individual investor, the above suggests that the UDZ is not a catalyst and does not spark regeneration. At best it merely facilitates active participation of established investors who already have capital to invest in building acquisition and refurbishments, enhances their profits margins and make property investment schemes cheaper in a long-term. In doing so the UDZ does little to encourage new and emerging investors, who may not possess substantial capital, to participate in the regeneration process. This has far reaching implications in terms of confining property ownership to established market players.

However, the question remains: is the UDZ really the main driver of major private sector investment in the inner city as sometimes claimed by its advocates? While this study does not have a direct answer to this question, it is difficult to agree with this statement based on the research data collected. For instance, the following comments were made by some respondents (particularly property developers) during the interviews:

The UDZ has no major advantages to us; we could have invested in the inner city even without it (interview with Mr. Scott Jones, General Manager of City Property Administrators).

We don't base our investment decisions on the UDZ tax incentive (interview with Mr. Steven Herring, Director of Herriot Properties).

I was involved in the inner city and regeneration before the UDZ came. I don't rely on the UDZ, I only rely on project profitability (interview with Mr. Gerald Olitsky, Managing Director of Olitsky Property Holding).

I got involved in the inner city before it came. I place no emphasis on the UDZ. No...my investment decisions are not influenced by it (interview with Mr. Adam Levy, Managing Director of Jungle Holdings).

The above comments contain sentiments that tend to impugn the veracity of claims which accord a probably unmerited status to the UDZ as the main facilitator of private sector investment. While the City of Johannesburg claims that the UDZ has engendered R1.1bn worth of private sector investment in the inner city (Abraham, 2006; Abraham, 2005a), it is doubtful (considering the above comments by practitioners) whether such investment, purportedly produced by the UDZ, would not have occurred without it. The results of this study suggest that such claims may be misplaced and their plausibility remains questionable as market factors tend to play a more dominant role in motivating private sector investment. Indeed 88% of property developers and investors interviewed stated that the UDZ initiative was not sufficient as a main motivating factor for their investment in the inner city (see Table 16 on page 209).

What remains a challenge though is to convincingly measure the potency of the UDZ in facilitating private investment. Unfortunately this was beyond the purview of this study. But unless a study is conducted to test the efficiency of the UDZ, claims about the UDZ remain difficult to substantiate. Another problem pertains to the dominant role played by market factors in facilitating private investment in the Johannesburg Inner City. This suggests that property developers in Johannesburg may be enjoying the tax benefits for investment decisions made not on account of the UDZ but other economic considerations.



The area is where UDZ tax incentives are applicable is also perceived to be small. While this may point out the desire to invest in other areas outside the inner city, this concern is worth noting. By focusing in a small circumscribed area and within definitive boundaries, the UDZ creates a shadow effect for other areas and potentially stifles development outside the edges of its boundaries. Although proving this effect scientifically was beyond the bounds of this study, there are merits to this line of argument. Studies have pointed at the effect of tax incentives confining development to discrete localities, thus increasing leading to the fragmentation of areas (Atkinson and Moon, 1994, Barnekov *et al*, 1989).

The UDZ also promotes the refurbishment of old buildings into new, high intensity and higher cost uses. For example old office buildings are converted into luxury loft apartments that compare favourably with suburban properties in terms of market prices (Piliso, 2006). While in the process many buildings may be put back into productive use and their economic lives are extended, some of the new development schemes are too expensive and unaffordable to ordinary citizens. This tends to exclude a large part of people who cannot afford from cycles of consumption and create an impression that the UDZ promotes the process of gentrification or makes the inner city an exclusive area for a few who can afford to buy goods and services.

While gentrification may be beneficial in bringing high income residents into the inner city thereby creating economic benefits such as increased spending and job creation and can be important in markets where households can afford high property prices and rentals necessary to sustain high-quality housing provision, the risk of gentrification is if it creates 'exclusive' locations for the rich without providing alternatives for low income earners in the vicinity of developments. This can effectively lead to the establishment of renewed ghettos with no sense of place or community. In addition, while gentrification may be associated with 'post-modern' differentiation of lifestyles, such 'differentiation may easily slip into

segregation, as groups associate with those with similar lifestyles and seek to defend the environment from intruders' (Couch, 2003, p. 7).

The UDZ tax incentive is criticized for not taking into account money spent by property developers in improving public places. The requirements such as the "occupation certificate" necessary to claim tax rebates make it impossible for property investors to claim tax rebates for money spent in improving pavements, street lighting, minor road works etc. The concept is also perceived to be not extensively promoted and thus is not well known by most investors. As a result the UDZ is perceived as doing little to change negative perceptions about the inner city. However, it is worth noting that the UDZ has received major support from the private sector, in spite of it alone being perceived as insufficient as the main motivator for investment. Indeed 81% of respondents were either registered for tax incentives or planned to do so; or would consider to investing in the UDZ area, given a chance; or would advise someone to do so (see Table 18 on page 212).

### **7.6.2 The Johannesburg Development Agency**

The private sector has generally responded positively to the establishment of the JDA as indicated by 90% of the respondents who believe that the JDA fulfils its mandate effectively and efficiently. The JDA is applauded for its consistent efficiency in managing and executing the identified projects within reasonable timeframes.

The JDA has been efficient in project execution and adherence to project timeframes. In some instances they are even more efficient than our own company in managing large scale projects (interview with Mr. Christo van Zyl of Urban Oceans Property developers).

Projects managed by the JDA are perceived to have contributed to changing the negative perception of the area. They contributed to significant public infrastructure improvement and maintenance, employment creation and poverty alleviation. They aided stabilize the inner city, boosted investor confidence and encouraged follow through private sector investment. As explained earlier,

private sector investment activities have generally occurred in areas where precinct upgrading projects have been implemented. They also played a pivotal role in the retention of blue chip tenants in the inner city such as South African Breweries, Liberty Life and Sappi and attracted new ones such as the Road Accident Fund, Transnet etc. to locate in the inner city (Special Projects Reporter, 2005a).

The JDA is perceived to be effective in mobilizing stakeholders and coordinating various government, non-government and private sector organizations thereby enhancing public–private sector relations.

JDA coordinates various government activities and mingles with a myriad of stakeholders. As a result, it is ‘an all purpose vehicle’ in as far as urban regeneration is concerned (interview with Ms Georgina Jaffee of JTN Consulting Services)

By engaging various stakeholders, the JDA is seen as encouraging dialogue around urban regeneration and the future of the inner city since both government and the private sector have vested interest in the area. The JDA is increasingly seen to be a mouthpiece or a soundboard for the business sector. It is perceived as representing the private sector and often undertakes plans and projects that show sensitivity to private sector needs. For instance, projects such as the infrastructure upgrading of the Gandhi Square and Main Street are seen as preparing the urban landscape for private sector investment. At the same time, the JDA has been, together with the Central Johannesburg Partnership (CJP), instrumental in coordinating activities such as the establishment of CIDs which require meticulous stakeholder mobilization. This latter function of the JDA has since been taken over by Kagiso Urban Management, although the CJP still plays an overseeing role.

The JDA is also seen to be doing a sterling job in positively promoting the inner city and sensitizing the public and investors about urban regeneration. Through numerous campaigns, high-profile projects and activities the agency has marketed the Johannesburg Inner City and attracted property investors from many parts of the country.

JDA has marketed the inner city and sent good stories out there. This changed the public perception of the city as bad and created reasons for people to want to come back to the city (interview with Mr. Simon van der Loo, an independent property developer).

JDA created a hype about regeneration and got a flurry of investors. Somehow this has worked to send a message that the government is serious about inner city revival. We also bought into this story and got involved in inner city rejuvenation projects (interview with Mr. Nick Obel, Director of Citynet Property Group).

### *Perceived limitations and shortfalls of the JDA*

One of the perceived limitations of the JDA is the fact that it is not an independent organization but is under control of the City of Johannesburg. As a result it is perceived as operating under some form of restraint; lacking autonomy in as far as decision making is concerned. Most of its decisions must first be ratified by metropolitan council. The JDA also has to follow similar budget approval and accounting channels as any other structure of City of Johannesburg and is subject to the very bureaucratic procedures associated with the government which it was purportedly established to circumvent. This inadvertently results in the JDA being viewed in the same light as the municipality – subject to the same municipal procedures. In addition, the fact that the agency's operations require council approval suggests it can only finance projects that the council sees as priority and necessary:

The JDA has limited authority. It can't take some important decisions as decisions still need to be first approved by council (interview with Mr. John Lambrou, Director of Re-imagine property).

The involvement of the political element in the operation of the JDA is even more problematic when considering that political office bearers tend to be in office over a fixed term (see also Beauregard *et al*, 2007). The JDA on the other hand is a permanent structure which should set long-term business objectives. The change in the political leadership and the introduction of new political visions may result in the JDA having to alter some of its plans. This has far reaching implications in terms of stability and consistency of the agency and sustainability of its projects.

There is a general belief that the JDA can operate better if it is accorded more independence in some aspects of its operation such as budget allocation for projects, project planning and prioritization etc. or be allowed to devise its own revenue generating mechanisms, raise funds from a wide spectrum of sources (including private sector and international donors) to implement certain projects that cannot be implemented within current budgetary framework. The JDA's "independence", it is believed, can also enable it to commit to long-terms projects without being affected by changes in the political leadership.

The JDA is criticized for the propensity of selecting projects in few isolated locales that appeal to the market and promise high economic returns or investing in urban regeneration schemes which are likely to bring the largest amount of private investment. While this may be because the private sector investments, which the JDA is trying to stimulate, are inherently spatially selective in favour of areas that are likely to generate most profits (Adair *et al*, 2000, Healey, 1995). The JDA's objectives are perceived as parochial and narrowly defined around economic indicators such as growth in rental and property values with little focus on the wider spectrum of societal needs. In doing this the JDA not only embraces the notion of token development but also perpetuates unbalanced development and a fragmented city.

There is a general perception that the JDA is operating under budget constraint reflected negatively in its projects occurring only in parts of the inner city. On the other hand, the efficiency of the JDA projects in facilitating private sector investment is also questionable. While private sector investments may appear to have been largely grouped around areas where the JDA implemented regeneration projects, it is likely that private sector investment would have occurred in these areas anyway and without the implementation of JDA projects. *Firstly*, this study found that market factors tend to play a more significant role in motivating private sector investment than urban regeneration initiatives, including JDA driven precinct upgrading projects.

*Secondly*, areas such as Braamfontein, Financial District, Newtown Cultural Precinct already had numerous intrinsic characteristics and market advantages that were likely to appeal to investors prior to the implementation of JDA precinct upgrading projects. For instance, a number of economic activities existed in these areas and major blue chip tenants such as three of South African four leading banks and other major corporate tenants had their headquarters located in areas where JDA projects focused. Because of their convenient location, intrinsic characteristics, high residential and commercial component and the existence of significant economic activities, it is likely that these areas would have been favoured by the market with little regard to whether precinct upgrading projects had occurred or not. Thus, the JDA may have spent large amounts of money upgrading precincts presumably to induce private sector investment that could have occurred in any case and on the basis of economic considerations, although this was not the focus of the study and was not explored.

To compound matters, the JDA's efficiency is tarnished by the perceived lack of extensive stakeholder consultation and grassroots participation in most of its projects. While it is regarded as efficient in mobilizing stakeholders (mainly government and private sector), its record is perceived as less than impressive when it comes to ordinary people affected by its projects and is thus perceived to be driving a vision that most people do not share. Again this may be attributed to the drive to achieve economic goals rather than broader issues affecting society (see also Beall *et al*, 2002).

However, in terms of the elite theory, such lack of stakeholder consultation by the JDA could be construed as the reflection of a pyramid structure of society that the elite theory posits. While the study did not focus on the JDA *per se*, the JDA may be viewed as one of those organisations which occupy a high position in society which make decisions on behalf of a large number of individuals. The problem is, elite theorists hold, not that the elites [or JDA] exist but rather that the

elite tend to determine the course of action with little or no involvement of the rest of the members of society.

While most shortcomings discussed above generally resonate with findings made by numerous studies in the UK and US particularly in experiences of the Urban Development Corporations (Frazer, 2003; Brownill *et al*, 2000; Atkinson and Moon, 1994; Imrie and Thomas, 1993), there are other locally specific shortcomings that the JDA is perceived to be mired in. Generally the JDA is perceived as lacking capacity to deliver some of the major projects under its management. The recent changes in leadership as well as the exodus of some of key personnel have tarnished its ability to carry out some of large scale and capital intensive projects. The recent practice by the JDA to outsource some of its projects<sup>62</sup> confirms that the agency is under some capacity restraints. At a business level the sustainability of the JDA is questionable owing to the fact that it carries no major business risks on its own and its finances are fully subsidized by the City of Johannesburg.

The JDA is also criticized for poor accountability and running projects seen as wasteful expenditure. For instance, the installation of colourful mosaic tile patterns in the pavements of the Fashion District and other parts of the inner city is seen as an untenable act of profligacy, especially in view of its perceived budget limitations. In addition, the construction of the modern and landmark Nelson Mandela Bridge at a cost of R31million is perceived as an injudicious capital spending given the existence of the Queen Elizabeth Bridge adjacent to it. The latter serves the same purpose as the former of connecting areas north of the CDB and downtown districts.

I don't understand why JDA and Blue IQ wasted so much money building a bridge [i.e. the Nelson Mandela bridge] that serve the same purpose as Queen Elizabeth bridge just next to it and has the same vehicle capacity...Of course it looks nice and welcoming and all that, but to me that money could have been spent better somewhere else (interview with Mr. Paul Wygers, Managing Director of Urban Solutions).

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<sup>62</sup> In an interview with Monica Albonico it transpired that one of the JDA projects, the Braamfontein precinct upgrading project, had been outsourced to Albonico Sack Architects & Urban Designers.



Photos 14 and 15: The Majestic Nelson Mandela Bridge (left) at the entrance of the city centre in Braamfontein named after the legacy of a prominent politician. While the bridge is a befitting statue to the legacy of Nelson Mandela, an important landmark that connects the CBD with northern inner suburbs such as Braamfontein and is a symbol of regeneration, some hold that the construction of the bridge by the JDA was injudicious spending owing to the existence of the Queen Elizabeth Bridge just on the left hand side of the photograph. On the left, the decorative mosaic tile patterns installed by the JDA in Fashion District and in other parts of the city. Some respondents felt projects such as this one were a waste of public funds.

While the JDA is perceived to be effective in marketing the inner city, it is considered to have not done so in promoting itself and its services. It is also seen to be operating in a manner that does not illustrate cohesion with other municipal structures. For instance, it would often implement grand precinct upgrading projects and maintenance of public space. No sooner had it done so than ongoing maintenance and cleaning be left unattended leading to the deterioration of places it had just improved. Also, it can upgrade locations but cannot enforce by-laws. While ongoing maintenance, by-law enforcement and general cleaning of public spaces are functions of other municipal utility agencies (e.g. Pickitup for cleaning and JMPD for by-law enforcement) and are beyond the remit of the JDA, the emerging sentiments from this study is that the JDA can ensure better sustainability of its projects by improving its relationship with its strategic partners such as the municipality, the police and utility agencies.

It is for the above reasons that the agency's effectiveness is perceived to be affected by a limited scope of its functions. Recommendations such as service



level agreements between the JDA and its strategic partners were often made by respondents. It was also difficult for some respondents to justify the existence of the JDA as its mandate and functions are increasingly perceived to be overlapping with those the Johannesburg Property Company (JPC). Both companies are subsidiaries of the City of Johannesburg and have in the past undertaken similar projects (within the framework of urban regeneration) in the inner city and elsewhere. For instance, contrary to its traditional mandate of managing properties under control and ownership of the municipality, the JPC has in the past embarked on major property development projects such as the Orlando Ekhaya mixed-use development. These types of projects are understood to be best suited for and falling within the mandate of the JDA.

The perceived sharing of mandates and functions suggests that resources are not optimally utilized as functions currently performed by the two entities (particularly property developments) can be effectively performed by one organization. The clarification of the JDA's mandate in relation to that of the Johannesburg Property Company (JPC) and streamlining the responsibility of the two entities is regarded as important. All of the above perceived shortcomings of the JDA suggest an ill-defined policy framework or lack of vision in terms of dealing with an array of issues.

### **7.6.3 The Better Building Programme**

The principle behind the Better Building Programme (BBP) is generally touted as a good idea. The programme is perceived to hold a number of benefits both for the inner city and private sector investors. While about 20-30% of inner city buildings are classified as bad buildings or 'sinkholes' (CoJ, 2007), the BBP is perceived as the most potent vehicle for identifying and eradicating these derelict buildings. Most of buildings identified under the BBP are illegally occupied and used for many criminal activities. By evicting illegal occupants, the BBP is perceived as contributing to the overall clean-up of the inner and crime

prevention efforts in the inner city as physically deteriorating buildings tend to have high chances of chances of criminal invasion (Ward, 2006 and Hoyt, 2004).

Therefore by expropriating these buildings and making them available to private property developers for refurbishment, the BBP frees such buildings from illegal occupation, making them available for development. More importantly, the BBP is perceived as important in that it writes-off or writes-down monies owed by derelict buildings. By doing so it improves viability of regeneration projects which, without the programme, would have been too expensive or not viable taking into account utility money owed by these buildings in authority charges.

The BBP is also perceived as the boon for creating investment opportunities in the inner city. The refurbishment of old buildings into new uses under the BBP means that old derelict buildings are brought into productive use and more space is made available for accommodation purposes. It also serves as an incentive for development. It plays a significant role in facilitating urban regeneration in general and stimulating private sector investment in particular. Because most owners of these cannot be traced (i.e. absentee landlord), which makes it difficult for property developers to purchase them in the open market, the BBP, at least in principle, expedites the release of these buildings for development.

#### *Limitations and shortcomings of the Better Building Programme*

The BBP is perceived to have limitations (both as a concept and in practice) which suggest that the programme, in the current format, is not best positioned to facilitate private sector investment. In practice the BBP is perceived as slow and cumbersome (also noted by Fraser, 2005b). This is due to legal procedures and problems associated with the expropriation of property and the transfer of title to new owners. Many buildings under BBP are therefore poised in this “legal limbo” in spite of a high interest from property developers and the demand for space in the inner city. Property investors who purchase buildings from the BBP for

refurbishment and secure tenants through pre-letting arrangements end up losing prospective tenants in the process.

The transfer of these buildings takes too long, about 2 to 3 years. We have bought a building through the Better Building Programme in 2003, but we still have not taken transfer yet... and the tenants we had secured leases with became impatient and cancelled offers (Interview with Mr. Sandy Baan, CEO of Jozi Housing)

Excessive bureaucracy and poor service delivery in BBP administration is also perceived to be playing an important role in these delays. As stated earlier, getting rates clearance certificate takes too long. Inevitably, respondents felt the need for a major review of the current format of the BBP both at policy and implementation levels.

The administrators of the BBP – the Johannesburg Property Company (JPC) – are perceived to have limited capacity to efficiently administer the programme or address problems it faces. Even if innovative ways of dealing with problems exist, the JPC is seen as lacking autonomy to take decision without council approval. This means the JPC itself is seen as ineffective if it cannot independently take certain decisions. For instance, the JPC cannot independently decide on writing-off or writing-down arrears amounts without council approval and such approval also takes time. The recent exodus of key and competent personnel (e.g. Mr Jeff Mendelovich) was cited by many respondents as only compounding matters. Some buildings are in a poor state of repair and are not suitable for refurbishment and should be redeveloped.

Another problem with the BBP pertains to the eviction of people. While the BBP was perceived to present an effective vehicle for evicting illegal building occupants, this comes with certain implications. Basically the negative effects of the evictions are two fold. *Firstly*, in a legally hostile environment, there is an obligation to find evictees alternative space at investor's cost as per legislative requirements. These costs are likely to increase the financial burden to prospective developers and affect project viability, considering that developers intending to evict people have to pay purchase price for a building, pay for

arrears amounts in municipal rates and tax, at times and find and pay for alternative space to accommodate evictees.

*Secondly*, there is a moral dimension to evictions. Evicting people from buildings they have been living together as “community” for a number of years result in disorientation, the breaking down of social bonds and relationships, leading to the disintegration of social fabric. Most people evicted are poor and unlikely to cope with life after eviction:

Just because they are poor does not make them bad people who should be treated unfairly (Interview with Mr. Renney Plit, Managing Director of AFCO)

The BBP, like the Urban Development Zone, is perceived as the most potent vehicle for achieving the gentrification in the inner city. It is at centre of economic regeneration philosophy and is therefore perceived as an inappropriate vehicle for achieving housing for all population groups. The programme is thus perceived to be turning the city into a business entity in which those who can afford live. The BBP is also criticized with regards to the allocation of buildings. There is a general perception that the BBP tends to favour established property development companies and follows clandestine procedures in building sales. While this may be because established property developers are likely to be experienced, efficient and have capital to undertake projects, the programme does little to promote emerging investors. Hence there is a belief that the process of awarding buildings under the BBP should be transparent and open and that the BBP should embrace the objective of promoting diverse property ownership in the inner city:

Some buildings are identified and registered under the Better Building Programme, but you just don't know what happened to them.....The next thing you hear some developer has bought them (interview with Mr. Joel Neuhaus, Director of Framework Property Group).

The above problem is compounded by the fact that the BBP is perceived as not well-marketed and is largely unknown especially by emerging practitioners. Another problem with the BBP, although not emanating from research data, is that the principle behind it is morally unsound. The BBP encourages property

developers to acquire buildings whose owners failed to keep up with the payment of municipal charges. These buildings are purchased at ridiculously low prices and converted into lush apartments to be sold at high prices, thus making the BBP a potent financial multiplier. The BBP shows local government's lack of sensitivity towards the unfortunate property owners who fell victims of circumstances of urban decline, most of which were beyond their control.

The above is even more concerning considering that, as discussed in chapter 5, the municipality itself contributed to urban decline. Ideas such as helping these victims of urban decline through their misfortunes, as done with say the victims of poverty have but fell by. Worse still, the City of Johannesburg in 2004 wrote off R2billion worth of arrears in municipal rates in Soweto. Such relief mechanisms were never considered in the inner city environment. Instead buildings owing in arrears are repossessed. Thus the BBP may represent policies of double standard on the part of the city council, in managing its urban affairs.

#### **7.6.4 City Improvement Districts (CIDs)**

The research findings indicate that the private sector generally holds a favourable view towards the notion of CIDs and their intrinsic purpose. Consequently crime is perceived to be generally lower in CID-areas. This is because most CID-areas coincide with areas where CCTV cameras have been installed<sup>63</sup>, meaning that CID-areas enjoy the multiplicity of crime prevention mechanisms. Secondly, the CIDs are perceived to be adding tremendous value in the inner city life in supplementing the urban management functions of the City of Johannesburg.

In line with the primary purpose for which CIDs were established, CIDs are perceived as effective in precinct cleaning, crime prevention and maintenance of

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<sup>63</sup> Although a map showing the location of CCTV cameras could not be obtained, it was revealed in an interview with Kagiso Urban Management, a company that co-manages the CCTV cameras and CIDs, that the 110 CCTV cameras in the inner city exist in the same areas that have been demarcated as CIDs. This means small areas (mainly commercial) are enjoying multiple crime prevention interventions.

public spaces. Spurred by the underlying belief that the supervision of public space deters criminal activity and in an environment characterized by the perceived collapse in mainstream crime prevention mechanisms, the CIDs enable people to walk freely in the zones where they exist because they feel safe. This because the routine activities such as regular patrols conducted by security guards employed by CID organizations provide a sense of security to visitors of the inner city and residents. Dubbed “safety ambassadors” and “bobbies on the beat”, local security guards act as, to use the words of Jane Jacobs (1961), ‘effective eyes on the street’ (35). This bodes well for private sector investment and promotes the inner city as a safe environment.

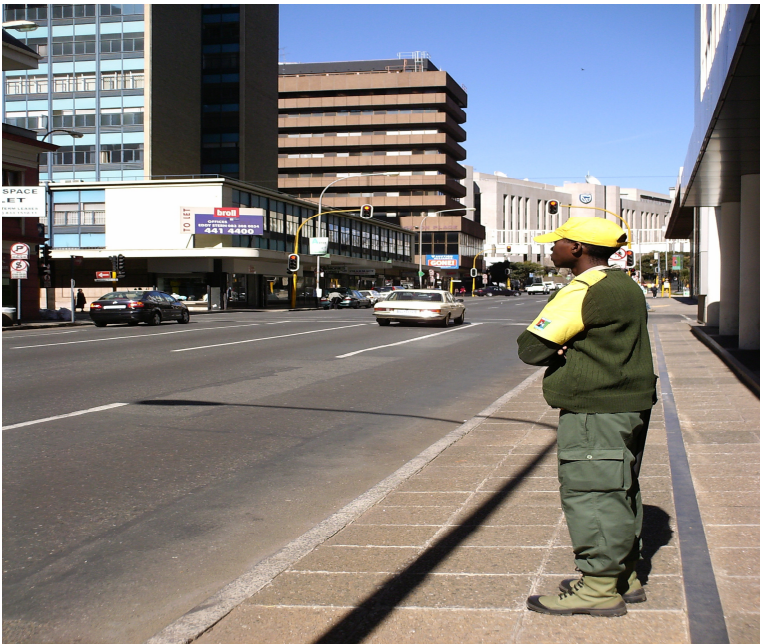


Photo 16: Bobby on the beat! A security guard employed by the City Improvement District (CID) in the Financial District watches carefully at the proceedings in Simmonds street. Due to the work performed by the CID, the area in the background evidently looks clean and inviting. Yet the limited scope of functions is perceived as minimising the efficiency of CIDs.

The organizations coordinating CID activities in the Johannesburg Inner City (e.g. Kagiso Urban Management and Central Johannesburg Partnership) are seen as playing an important role in networking various public and private sector stakeholders. These organizations are perceived as more responsive to private sector needs in that they relay views and matters emanating from the private

sector to the municipality for consideration. CIDs also enable property and business owners to take control of their own security and cleaning. They are perceived as more reliable in service delivery and account better than the government under circumstances where the latter is perceived ineffective.

Sometimes as a business person you don't want the impossible. All you need is just a clean environment where you can do business in and bring clients. The city council has been unable to provide as simple things as clean streets. On the other hand CIDs have done a good job in this regard (interview with Mr. Joel Tollman, Director of Zulberg Estate)

In areas where CIDs exist, the perception is that there is a great deal of improvement. While CIDs focus on areas of shortcoming of city authorities, in most functions they are generally perceived to be outperforming various service delivery structures of municipality which they augment. Their business processes are perceived to be simpler, efficient and have less bureaucracy than government:

CIDs run on their own steam and their processes are much simpler. There is virtually no bureaucratic red tape in CID management that one finds in government. You look outside the window and see a big difference between now and the time when we didn't have CIDs. It's amazing!! (interview with a senior business executive who requested anonymity).

Through their functions, the CIDs create a sense of belonging, community/neighborhood, civic pride and create jobs. They help to restore investor and public confidence in the inner city, attract investment and facilitate the revival of inner city locations. The CIDs also promote certain areas as a clean and safe environment thus contributing to inner city marketing. By creating sanitary pleasant environments, the CIDs improve attractiveness of the inner city, encouraging people and business to locate in the area, thus improving occupancy levels and leading to increased property values in areas where they operate:

The CID initiative is the best approach of saving the city. Through the work of CIDs the economy of the inner city has improved enormously. Big companies such as Transnet have now returned to the CBD. Strengthening the work of CIDs can only produce success (interview with a senior business executive who requested anonymity).

All of the above bode well for property investment in that it influences the market, indirectly stimulating the demand for inner city space thus creating the need to refurbish buildings. And because CIDs operate in circumscribed areas, they are perceived to be creating an area of business focus where most development can take place. The net effect of this is the stimulation of urban regeneration in certain parts of the inner city which, in theory, would subsequently permeate nearby areas. Consequently, CIDs are perceived to be the private sector's way of contributing towards urban regeneration and represent a combined effort of landlords to fight decay:

It's almost the only way in which you can sustain urban regeneration. They [CIDs] are eyes and ears of owners and tenants (interview with Mr. Anton De Leeu, Chief Executive of YDL Property Educationists).

I don't see another solution in a short to medium term [other than CIDs] (interview with Mr. Nick Obel, Director of Citynet Property Group).

#### *Limitations and shortcomings of CIDs*

One of the major perceived limitations of CIDs is the fact that there are a few of them of them and those that exist tend to focus in small circumscribed zones of operation. This is seen as minimizing their impact on a citywide scale. Consequently, increasing the number of the CIDs, increasing their area of focus and spreading them throughout the inner city is believed to an important intervention to ensure that the whole inner city benefits from their services:

The whole inner city should be an improvement district (interview with Professor Francois Viruly, Director of Viruly consulting).

CJP needs to increase the number of [CID] security guards. At the moment guards are few and far between and less effective (interview with Mr. Steven Herring, Director of Heriot Properties).

While making CID affiliation mandatory for all property owners located in the CID boundary is often suggested as a possible model of replicating CIDs throughout the inner city, this may be problematic as it is inconsistent with the principles of democracy which support decision-making by way of majority stakeholder consensus. At the same time the CIDs' scope of function is generally perceived to be limited and they only provide a few services:

There is a gaping hole underneath what we do. Although we are considered effective in main functions we perform, we've come to realize that the extent of challenges is much



wider than the scope of services we provide. But unfortunately we cannot do everything the council's supposed to be doing (interview with Mr. John Spiropoulos, Director of Kagiso Urban Management<sup>64</sup>)

For instance, the CIDs are tasked with regulating order and eradicating incivility, yet they can hardly enforce by-laws and cannot make arrests. The guards are also unarmed and are seen as lacking power to deal with perpetrators or even protect themselves. This, in turn, together with the perception of limited funds, is considered to be hampering the effectiveness of the CIDs by those who desire to see the CIDs doing more. Therefore the general perception is that CIDs should seek to expand or enrich their functions to include other aspects within the urban management framework. It is also believed that CIDs can perform some functions that are traditionally provided by police such as manning control rooms, coordinating information received via CCTV cameras, enforcing by-laws and possibly sub-contracting to the JMPD for certain non-core functions.

The CIDs are seen to be lacking independent power and authority to take decision and their operations are perceived to be largely controlled by business people and local government. Also due to the fact that they focus in a few areas and have the ability to facilitate development in areas where they occur (Heimann, 2007), by focusing in a few areas CIDs encourage and confine development to circumscribed localities thus entrenching the pattern of fragmented development. While this is premised on the notion that growth and development will permeate to other areas, such permeation has been evidently slow. The CIDs have also tended to occur in areas where precinct upgrades have occurred. This creates the perception that CIDs facilitate urban regeneration in discrete pockets of the inner city and further divide the city into compartments of development and underdevelopment.

The problem of a limited number of CIDs is even more concerning with regard to their crime prevention function. By existing in few isolated localities, CIDs leave

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<sup>64</sup> As stated Kagiso Urban Management is the company that coordinates the establishment and management of CIDs in the inner city and other outlying areas.

non-CID areas without service. This has also been found by other studies (e.g. Hoyt, 2004; Lloyd *et al*, 2003):

But a CID has defined borders. What happens on the other side of the borders? (interview with Ms. Kecia Rust an independent consultant and property investor).

This means that while other areas within CID boundaries are enjoying extra surveillance and protection that comes with CIDs, the interstitial non-CID areas are left vulnerable to crime. Worse still, crime can be simply displaced to these areas as found by the study conducted by Lloyd *et al*, (2003) in Los Angeles. The following story<sup>65</sup> was narrated to the researcher during one of the interviews:

A friend of mine came to my office the other day and I was bragging to him about how safe the city is now that we have CIDs and CCTV cameras. He was not convinced that crime had decreased in the inner city. A few minutes later after he had left the office he called me in an anxious state and said “Gerald, I told you that these CIDs are not working, I’ve just been mugged and my briefcase was stolen”. I soon asked where exactly he was mugged. I quickly looked at my map and I realized that the area was actually outside our CID (interview with Mr. Gerald Olitsky, Managing Director of Olitsky Property Holdings).

While the above story suggests the negative effects of few CIDs in spilling over crime to non-CID areas, proving this satisfactorily is often difficult because the possible signs of crime displacement are differently manifested (Hoyt, 2005; Welsh and Farrington, 2003; Braga, 2001) and was also beyond the remit of this study. Save to say that the concern among private sector practitioners is that the few CIDs existing in the inner city are generally seen to be effective in displacing social problems and crime, to other non-CID areas.

Another challenge facing CIDs stems from the amounts of money they impose on business and property owners in order to perform their services. As explained in chapter 6 paragraph 6.4.4 above, respondents identified some of the shortcomings of CIDs as that they are too expensive (23%) or represent a double charge for similar services (24%). The amounts charged by CIDs are thus seen as a surcharge levy over and above normal municipal rates charges. Because of

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<sup>65</sup> The story is an edited version of the discussion. However, sentences in inverted comas are verbatim comments made by the respondent during the interview.

this perceived double charge for comparable services, the establishment of CIDs often faces difficulties in getting a buy-in from property owners.

Sometimes it is difficult to motivate to the board the amount of money paid to the CIDs by value of service received. At the same time there are charges for municipal services [rates and taxes] which are also high. Bringing the two costs together makes a huge amount of money. As owners of a sizeable portfolio we are looking at providing the CIDs service ourselves to minimize costs. In that way we can also negotiate prices with service providers. (interview with Mr. David Rice, Managing Director of ApexHi Properties).

There is a belief that the City of Johannesburg can and should facilitate the establishment of CIDs by applying corresponding adjustment of municipal rates to compensate for monies charged by CIDs or use a fraction of rates and taxes revenues received to facilitate the expansion of CIDs into other areas (such as residential areas). This, it is believed, can minimize the impact of costs associated with the establishment of CIDs. The rule that makes payment of CID levies compulsory for all if 51% of property owners support CID establishment is also perceived to be imposing undue and unplanned for costs to other property owners. Again, this makes the process of establishing a CID an onerous one and may lead to CIDs not being fully supported by the remaining 49% of property owners who may regard the CID levy as a “grudge payment” and boycott it.

The costs associated with establishment and operation of CIDs are an even bigger problem in those sectors of the inner city where low income communities cannot afford the CID levies. This reduces the affiliation to CIDs to simply a financial transaction that is likely to work best in areas where people can afford the CID levies. It is not surprising that 15% of respondents in this study stated that CIDs tended to be business oriented or dominate commercial areas where business and property owners are likely to afford CIDs levies. In stark contrast, residential areas where property owners in sectional title schemes are unlikely to afford CIDs services have been left without CID services. Therefore the CID concept has benefited the business rather than the residential component of the city.

But businesses operate in the inner city only for a defined period of time and the population in these areas is also transient. This means that CIDs focus in the sterile sector of the city which is only active during “business times”. It is for the above reasons that some respondents felt that CIDs were profit-driven rather than socially responsive. In addition, 17% of respondents identified as a limitation of CIDs the fact their operation is time-bound as they maintain their presence only during working hours and are not operational at night. This, combined with poor lighting, makes areas more vulnerable to crime at night and limits any business activity and night life. It also has far reaching effects for commercial activities (e.g. restaurants) as it makes people feel unsafe after working hours and therefore discourages them to visit certain areas. The CIDs are seen to be working in isolation from other stakeholders such as the police and utility entities.

The security guards employed by CIDs tend to discourage people from loitering, relaxing and sitting in some parts of the inner city. However, this is perceived to constitute private sector regulation of public space. While their function also include eradicating incivility and untoward behaviour, this function easily fall into imposing undue public restraint and unjustifiable restrictions in areas perceived as public space or at worst infringing upon individual rights to use public space.

These security guards [employed in the CID] discourage relaxation in town. Sometimes youngsters or even elderly persons, would sit down in a public area whilst waiting to meet someone or just to catch a breath. But these security guards always say “sorry you are not allowed to sit here”. But I say this is public space *mos*. Who give you authority to regulate my movements in the public place unless I am committing an offence? (interview with Mr. Fanuel Motsepe of Motsepe Architects).

By virtue of their establishment and acceptance, CIDs represent a tacit admission of the institutional deficiencies in the traditional service delivery mechanisms of the municipality. It is for this reason that the establishment of CIDs is perceived to be absolving the municipality of its traditional function and justifying its inefficiency. On the other hand CIDs are perceived, due to their competency and efficiency, to be a threat to the very existence of municipality and utility companies operating in the inner city.

Another problem with CIDs as a concept, although not necessarily emanating from research data, is that they are, by nature, a supplementary service and do not provide an extensive urban management problems in the inner city. They therefore do not (at least in the current format) provide a reliable vehicle for addressing wide ranging social problems or providing a comprehensive urban management function. On the other hand the CIDs model used in Johannesburg is also wrong. Owing to the fact that CIDs are, by nature, a supplementary service, it makes little sense that CIDs supplement non-existent or poorly administered service. One cannot start operating supplementary services when the provision of basic services is evidently out of kilter.

The above discussion does not suggest that this study is totally dismissive of the concept of CIDs. This study merely argues, based on research results, that more efforts should be driven at reviving and improving municipality as the traditional vehicle for service delivery in general and urban management in particular, rather than placing much reliance on the engines of urban competitiveness such as CIDs. The CIDs should remain a supplementary service, but the municipality must be the primary vehicle for effective service delivery in the inner city.

#### **7.6.5 Crime and Crime Prevention Measures**

Despite the existence of a comprehensive crime prevention strategy (which was discussed in chapter 5), crime is still perceived to be one of the major social problems in the inner city and a major impediment to private sector investment. But, while the majority of respondents shared this sentiment, a number of concerns are centred around the impact of the perception of crime more than actual crime. Because of its unpleasant history, the inner city is perceived as dangerous and crime ridden as Atterbury Properties' Trevor Mkhwanazi put it: *'the perception of crime is more of a problem than anything else'*. At the same time any crime incident that occurs in the inner city simply works to confirm the perception of crime.

There are many causal ways in which crime is perceived to be affecting private sector investment decisions. Crime has a direct impact on businesses (tenants) which consume inner city space. It forces businesses to operate within certain hours or shortens business working times as crime is perceived to be rife after normal business hours. Crime has a negative impact on market demand as tenants and customers fear to visit the inner city or areas where crime is perceived as rife. In doing this, crime has a directly impact on market activities and nightlife in the inner city.

Crime is a deterrent to business efficiency. One cannot stay in the office after hours or walk in the street. If you have to work for certain hours in town and leave by certain time, this affects your profit margins and your clients (interview with Mr. Hein Du Toit, Partner at Urban-Econ).

Crime affects employers and employees alike. Prospective employees, especially those with skills and can choose between employers, are likely be hesitant to work in an area perceived to have high crime levels. By the same token, employers are likely to lose skilled employees who fear working in the inner city. In economic terms crime imposes negative externalities i.e. uncompensated costs imposed on others, in that it imposes direct costs to businesses through incidents such as theft, stock losses, robbery, break-ins etc. Further, it forces business to incur capital & operating costs through installation and maintenance of security devices.

As you can see that my business is situated in the periphery of town, I incur a lot of costs on security. I spend 10% of my turnover on security every month. That is profit or money that can be used to grow the business further (interview with Mr. Jonathan Gimpel, Director of Atlas Studios)

Even more concerning is that South African businesses are likely to incur more costs due to direct losses to crime (e.g. theft), whereas the costs in other countries costs are likely to be incurred through prevention initiatives by businesses (Stone, 2006). Therefore crime, in one way or another, contributes to increasing the costs of doing business in the inner city. Some property developers interviewed stated that crime discouraged them from investing in certain areas in the inner city. Consequently, such impacts of crime will be expressed in various market trends such depreciation in property values and

increase in vacancy rates. Such areas are likely to fall into recidivism and spiral into further decay unless efforts are made to deal with crime. Crime is thus perceived to be an indictment to efforts to revive the inner city that came with the urban regeneration process.

From a property investment perspective the most concerning impact of crime is building “hi-jacking”. As discussed above, while some respondents once had their buildings ‘hi-jacked’, the biggest challenge is evicting the illegal occupants, given the tough legal landscape. The belief that the South African Police Service (SAPS) and the Johannesburg Metro Police Department (JMPD) are effective and doing a good job is low (see Table 18 on page 212). The collapse of trust in police that has seen the proliferation of a number of policing measures including those made possible by the private sector.

We owners finance private security guards through the [CID] inner city levies. Had SAPS and JMPD been doing their job, this would not have been necessary. This is a clear indication that they [SAPS and JMPD] are ineffective in what they do (interview with Mr. Stuart Entwistle, Managing Director of City Bridge Developers)

The involvement of the private sector in crime prevention is a clear indication of the deficiencies in the public sector-driven mechanisms for dealing with crime. While there is an acknowledgment of strides made by JMPD and SAPS in fighting crime, this is overshadowed by the perception that these organizations are seriously under-resourced and have capacity problems (also found by Charlton and Karam, 2003). The Inner City Regeneration Charter (2007) acknowledges this shortcoming: ‘[police] Staff capacity has not grown to match escalation in the challenge [of crime], which makes regular, everyday enforcement difficult’ (p. 7).

The findings of this study in respect of crime in general as well as the perceived inefficiency of SAPS and JMPD, resonate with findings of other studies on crime. For instance, a recent survey conducted in 2006 by the University of South Africa’s (UNISA) department of criminology on public perception of the efficiency of South African Police Service in relation to private security guards found that

the public has more faith in private security guards than police. Although not focusing in the Johannesburg Inner City, the study stated that security officers were generally better able to respond to public requests for assistance than police. The study concluded that 'in the public's opinion, the security industry was more efficient in their crime control duties than the South African Police' (*cited in* Olifant, 2006, p. 1).

Similarly, surveys conducted by the Institute for Security Studies in 2003 and by the National Prosecutions Authority in 2005 (*cited in* Stone, 2006) found that the belief that police are doing a good job is lower [in South Africa] than typically found in rich countries, although higher than developing countries. However, police services in Johannesburg are likely to be seen as generally ineffective in any way. Johannesburg has the highest crime rate than any other South African city (SAPS, 2007) and crime is regarded as the single most important deterrent to investment (CDE, 2002). Additionally, people living in cities and countries 'experiencing high levels of crime are likely to perceive higher levels of police incompetence' (Sung, 2006, p. 11).

In stark contrast, the private sector initiated crime prevention interventions such as the CCTV cameras and CIDs are perceived to be more effective in fighting crime than police. While the respondents were members of the private sector community and were perhaps likely to be biased in favour of its private sector-driven interventions, crime in the Johannesburg Inner City is, by City of Johannesburg's own admission, still a major problem (CoJ, 2007). At the same time it may be problematic to place a lot of reliance on crime combating measures such as the CCTV cameras and CIDs. These measures exist only in small and isolated pockets of the inner city leaving other areas prone to crime.

While this study concedes that crime is perceived to be a major problem in the inner city and that crime prevention strategy has been generally as less effective, it is unlikely that crime will pulverize private sector interest in the inner city due to



the following reasons. *Firstly*, the majority of respondents interviewed in this study (88%) and a significant number of property developers and investors (90%), stated that hindrances to private sector investment prevailing in the inner city, of which crime is one, would not deter private sector's long-term investment ambitions in the inner city (see Table 9 on page 197).

*Secondly*, the inner city generally appeals to business due to mainly intrinsic factors and locational advantages discussed above. For instance the CBD Perception Survey conducted in 2003, found that 92% of business entrepreneurs, city workers and residents consider relocating to or reinvesting in the CBD, despite the perception of the area as having high crime rate (*cited in* Majola, 2003). *Thirdly*, crime statistics (2006) indicate that crime is generally decreasing in the inner city, albeit slowly. *Fourthly*, there are strong indications that the fight against crime will be intensified in the near future (CoJ, 2007). Major capacity increases are reportedly in the offing within the both the SAPS and JMPD particularly in preparation for the imminent 2010 soccer world cup:

Resources for both the SAPS and JMPD will be systematically increased over the next three years, so that by 2010 a highly visible 'bobby on the beat' policing system can be institutionalized in the Inner City (CoJ, 2007, p. 10).

There are a number of interventions that were perceived by respondents in this study to be necessary to address crime. Increasing police visibility and capacity, providing more resources to police, improving street lighting, increasing the number of CCTV cameras and creating more CIDs are all believed to be an important measure in this regard.

Currently there is more reactive policing. The city needs proactive policing system and more police visibility is just part of it. This should be accompanied by sealing-off alleyways, active patrolling and so on (interview with Neil Fraser, Director of Urban Inc.)

Crime is perpetrated by cowards. By increasing police visibility on streets, crime can be reduced because police presence serves as a deterrent to would-be criminals (interview with Hein Du Toit, Partner at Urban Econ)

Policing methods such the "zero tolerance" approach and "broken windows theory" have achieved some levels of success in cities such as the New York

City (Ward, 2006; Glaeser and Kahn, 1999; Greene, 1999). In this study, policing methods informed by these concepts appear to have received favour from the private sector. This is reflected in a desire to focus policing efforts on “small crimes”, “crime hot spots” and “mete severe punishment of crime offenders” – practices which are underpinned by principles of “zero tolerance” approach and “broken windows theory”.

Targeting organized crime is perceived to be an important intervention, including dovetailing policing efforts with those of intelligent agencies to apprehend high-profile criminals. There is also an underlying belief that crime prevention efforts should seek greater involvement and participation of the private sector and communities. In this way, crime prevention is viewed as more than just law enforcement but includes aspects such as strategic relationships building with key stakeholders.

At the same time the City of Johannesburg is often challenged to seek effective ways to eradicate negative perception of the Johannesburg Inner City as crime-ridden. Interventions such as positive marketing of the inner city and improving media portrayal of crime are believed to be important in changing the negative perception of the area. This, it is believed, does not translate to the prevarication of crime records, but entails promoting the inner city in the media as a place where plans are being put in place to fight crime. This perceived intervention resonates with other proponents in the field of crime prevention.

What makes it difficult to manage the perception is that there is no automatic link between the isolated victories that police and justice officials can achieve and the broader perception of crime (Stone 2006, p. 14).

Similarly, Sung (2006) argues for ‘the need for police to deal not only with crime in the streets but also the portrayal of crime in the media and to produce security and justice through means more consistent with democratic values’ (p.15).

## 7.7 Synopsis

The City of Johannesburg's urban regeneration strategy has been clear in seeking to encourage the flow of private sector investment in the inner city (Bremner, 2004; Lipietz, 2004; Beall *et al*, 2002). Yet little has been known about the private sector perception of urban regeneration, its attitude towards the current strategy or its response to a variety of initiatives aimed at attracting investment in the Johannesburg Inner City. In addressing this research problem, the study sought to explore the perceptions held by major private sector actors that have been actively involved in the urban regeneration process. The study broadly explained the philosophical rationale for promoting private sector investment in an urban regeneration environment, measures that have been implemented in countries such as the US, UK and East Asian cities to entice investment as well as the implications of such a strategy. The study also discussed how Johannesburg has bought into the notion of "market-based" urban regeneration approach by embracing policy instruments such as precinct upgrading projects, UDZ, BBP, CIDs and so on.

The theoretical framework chapter provided the lens through which urban regeneration can be construed or how certain urban dynamics can be interpreted. For instance, the competitive cities theory posits as an important ingredient for economic success the need for cities to improve local conditions and make themselves attractive to investment (Percy, 2003; Harrison, 2002; Adair *et al*, 2000; Duffy, 1995). It locates urban regeneration at the apex of achieving this normative requirement. However, the findings of this study indicate that the City of Johannesburg, while spending large sums of money trying to improve local conditions of competitiveness, has not adequately made the inner city attractive to private capital. Factors discussed under the "risk profile" section above (paragraph 7.4) such as service delivery deficiencies, high crime and lax by-law enforcement, poorly maintained public infrastructure, unregulated informal trading and so on suggest that Johannesburg has not fully positioned itself to capture maximum investment opportunities. This, some may

argue, impugns the plausibility of the competitive cities approach as the model for engendering economic growth in the city.

While the World Cities Theory prescribes that cities need to achieve a certain level of economic competitiveness and be attractive to investment in order to occupy a better position in the hierarchy of world cities (Robinson, 2002; Flynn, 2000; Sassen 2000; Friedman, 1995), the research findings suggests that there are limitations to this approach. It may be beneficial for the city to seek new creative and imaginary policies for espousing urban regeneration. Lessons can be drawn from Jennifer Robinson's (2006) concept of 'ordinary cities' model which requires that a city should create ways of providing everyday needs of city life. This may require a shift from the current obsession with ideas of competitiveness.

The above argument is strengthened by the limitations of various instruments designed to attract investment discussed earlier in this chapter. While instruments such as the CIDs, UDZ, BBP, JDA, crime prevention measures are an integral part of the current urban regeneration strategy, their shortcomings add to the limitations of the competitive cities approach. The role of these instruments in improving competitive position of the city of Johannesburg is therefore limited and there can be many benefits if the city authorities can seek to improve the basics of everyday life in the city, rather than depending on these private sector-driven measures. For instance, the city would not be so dependent on CIDs, CCTV cameras etc. in the provision of urban management functions if there was an efficient delivery of municipal services.

Similarly the City of Johannesburg faces some challenges from a New Urbanism theory perspective. This theory advocates for compact, integrated, mixed-use and vibrant spaces for community life and despises urban sprawl and suburban living (Grant, 2006; Harrison, 2002; Breheny, 1997). Yet the findings of this study in terms of lack of social facilities, lack of nightlife as well as outmoded design of some buildings, which pose challenges to urban regeneration, suggest that the

Johannesburg Inner City, or some of its part, is not compatible with ideas of New Urbanism.

The regime theory offers an insightful perspective into understanding the variety of responses to urban change. It argues that the involvement of the private sector in urban regeneration is the outcome the shift in the dynamics of urban governance and the emergence of neo-liberal approaches of managing a post-industrial city (Stoker, 1995). The private sector, because of resources it possesses, is often invoked to help in solving urban problems (Harding, 2000; Stone, 1993). Indeed the regime theory thinking is reflected in Johannesburg Inner City through the workings of organisations such as POMA, JDA, JICBC and CJP which have a profound interest in urban regeneration and show strong private sector dominance.

But while the regime theory often emphasizes a mutually symbiotic and interdependent relationship between private and public sectors, this view is reflected differently in Johannesburg. The private sector tends to project a more independent and critical stance from government mainstream thinking. The negative comments made by most respondents, some of which were cited from various interviews, indicate not only the private sector's critical perspective of the government's regeneration policies but also suggest, and contrary to regime theory's line of argument, a polarised rather than unified thinking.

This varies notably from the dominant assumptions that inform regime theorists and suggests that more work and analysis still need to be done in as far as this theory is concerned. Also in Johannesburg the government has initiated numerous urban regeneration projects (e.g. government Precinct, Constitution Hill etc.) almost entirely on its own. This is in contradiction to the assertion made by regime theorists that business and business groups effectively shape the agenda and actions of government and that elected leaders are compelled to support business interests (Harding, 2000s, Stocker, 1995).

The elite theory thinking is reflected in perceptions held about failure of urban regeneration initiatives to tackle social issues and that community needs have been hardly addressed in the process. This, the elite theorists hold, is the outcome of societal function. The elite theorists would argue that those in positions of power tend to decide the course of action on behalf of the powerless and community needs are always viewed as trivial compared with those of business sector (Harding, 1995).

Theories on crime, particularly the “broken windows” theory, posit that areas of neglect and decay invite crime and incivility. The proliferation of urban regeneration initiatives in only a few areas and the prevalence of derelict buildings and insalubrious spaces in downtown Johannesburg indicate that some areas are likely to continue experiencing high rates of crime. It comes as no surprise that crime in the inner city is perceived to be one of the major problems to private sector investment. Interventions such as CCTV cameras and CIDs are perceived to be effective in fighting crime where they exist, although their impact is dampened by these interventions existing in only a few parts of the inner city.

But where is the Johannesburg Inner City heading to? Certainly it is on the road to economic recovery and will be spurred by market factors and urban regeneration initiatives combined. It is likely that the inner city will continue to see more businesses and tenants from all income levels converging in its quarters. The persistent strengthening of the inner city property market, continuing demand for space, efforts made by the City (particularly those informed by the Inner City Regeneration charter), the impact of activities such as the 2010 Soccer World Cup are all likely to continue to bolster the positive future of the inner city despite the prevalence of market risks and the rise in the interest rates since June 2006. Mabin (2007) writes that such events ‘parallel a general freeing-up of markets and massively increase interaction with the wider world’ (p. 39). While this study has been critical of the Johannesburg’s urban regeneration strategy, it is not dismissive of the impact made by the urban regeneration

strategy in bringing about urban change. The impact of these initiatives cannot be discounted as trivial. These initiatives have produced significant and visible positive outcomes which are likely to entice more private sector investment in the future.

## **7.8 CONCLUSION**

The chapter has illustrated that the urban regeneration programme has been met with mixed feelings by the private sector. While urban regeneration initiatives are believed to have produced significant and noticeable changes in the inner city, they are perceived to have played a secondary role in facilitating private sector investment. Market factors on the other hand are seen to have acted as primary determinants of private sector investment in the inner city. Factors such as high demand for space, low property costs, perceived financial returns, favourable economic climate, risk diversification, protecting own investment and so on have been playing a significant role in this regard.

At the same time there are serious challenges, hindrances and business risks on the urban regeneration front which, by the City of Johannesburg's own admission, still need to be addressed. Challenges in areas of service delivery, urban management, crime, poor provision of social facilities, lack of night life, informal trading, lack of parking and traffic congestion and so on all beset urban regeneration process. Ironically, most of these hindrances relate to what the City of Johannesburg has been trying to address through various urban regeneration initiatives. The study makes a case for a need of shift away from the competitive cities approach to the ordinary cities' model.

The private sector has also responded with scepticism to policy interventions designed to attract investment in the inner city. Although interventions such as the UDZ, CIDs, JDA, BBP and crime prevention measures are each generally perceived to have yielded significant benefits and advantages in the inner city, they are also seen as having limitations both as concepts and in practice. While



this may be the case, it should be acknowledged that such problems and limitations are only based on available evidence emanating from interviews with private sector actors. A different point of view could emerge from other stakeholder including the public sector, commercial or residential users/tenants.