

# **Retail Development in Rural and Underdeveloped Areas**

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## **Abstract**

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This research will determine it is possible to pursue turnkey retail development in rural and underdeveloped areas in South Africa, which is sustainable and satisfies the needs of the community, the tenants and the investor. The areas of difficulty that have been experienced by developers who have pursued retail development in these areas will be discussed and solutions offered. The problems experienced in land acquisition will be identified and discussed, the associated problems with leasing and tenant coordination will be addressed, the processes and difficulties in obtaining finance, and finally appropriate design and construction of the developments

## **Table of Contents**

	<b>pg.</b>
<b>Chapter 1 – Introduction</b>	<b>1</b>
1.1 Background	1
1.2 Statement of Main Problem	2
1.3 Statement of Sub-Problems	2
1.3.1 Land Acquisition	2
1.3.2 Leasing and Tenant Co-ordination	2
1.3.3 Finance and Budget Control	3
1.3.4 Design and Construction	3
1.4 Statement of Hypothesis	3
1.4.1 Land Acquisition	3
1.4.2 Leasing and Tenant Co-ordination	3
1.4.3 Finance and Budget Control	4
1.4.4 Design and Construction	4
1.5 Delimitations	4
1.6 Definition of Terms	4
1.7 Importance of Study	4
1.8 Research Methodology	5
1.8.1 Case studies	5
1.8.2 Tenant Studies	5
1.8.3 Financial Studies	5
1.8.4 Design and Construction Studies	5
1.8.5 Publications	5
<b>Chapter 2 – Land Acquisition</b>	<b>7</b>
2.1 Introduction	7
2.2 Location	8
2.2.1 Linkage	8
2.2.2 Exposure	10
2.2.3 Site Requirements	10
2.3 Cost	10

2.4 Obtaining Land	12
2.4.1 State Owned Land / Tribal Authority	12
2.4.2 Municipal Owned Land	14
2.4.3 Privately Owned Land	14
2.5 Conclusion	15
2.6 Testing of Hypothesis	15
<b>Chapter 3 – Leasing and Tenant Co-ordination</b>	<b>16</b>
3.1 Introduction	16
3.1.1 Leasing	16
3.1.2 Tenant Co-ordination	16
3.2 Tenant Mix	17
3.2.1 Why design a Tenant Mix	17
3.2.2 Tenant Mix in Practice	18
3.3 Leasing Difficulties	20
3.3.1 Difficulties That Are Being Experienced	20
3.3.2 Dealing With the Leasing Difficulties	20
3.4 National Tenants	21
3.5 Local Tenants	23
3.6 Summary	24
3.7 Testing of Hypothesis	25
<b>Chapter 4 – Finance and Budget Control</b>	<b>26</b>
4.1 Introduction	26
4.2 Equity	27
4.2.1 What is Equity	27
4.2.2 How to Obtain Equity	28
4.2.3 Equity Survey	29
4.2.4 Why is Equity Required	32
4.3 Finance	33
4.3.1 Obtaining Finance	34
4.4 Budget Control	36
4.4.1 Controlling the Costs & Maximizing the Budget	37
4.5 Cash Flow	40
4.6 Summary	42
4.7 Statement of Hypothesis	43

<b>Chapter 5 – Design and Construction</b>	<b>45</b>
5,1 Introduction	45
5.2 Building Practices	45
5.3 Skills Development	47
5.4 Design	49
5.4.1 Supporting Activities	49
5.4.2 Material Selection	51
5.5 Summary	54
5.6 Statement of Hypothesis	54
<b>Chapter 6 – Conclusions</b>	<b>56</b>
6.1 Main Problem	56
6.2 Land Acquisition	57
6.2.1 Sub Problem	57
6.2.2 Statement of Hypothesis	57
6.2.3 Conclusions	57
6.3 Leasing and Tenant Co-ordination	58
6.3.1 Sub Problem	58
6.3.2 Statement of Hypothesis	58
6.3.3 Conclusions	58
6.4 Finance and Budget Control	59
6.4.1 Sub Problem	59
6.4.2 Statement of Hypothesis	59
6.4.3 Conclusions	59
6.5 Design and Construction	60
6.5.1 Sub Problem	60
6.5.2 Statement of Hypothesis	61
6.5.3 Conclusions	61
6.6 Solving of the Main Problem	62
6.7 Recommendations	62

<b>Bibliography</b>	<b>63</b>
<b>Annexure 1</b>	<b>65</b>
Questionnaire Regarding Patron Perceptions And Usage of the Nzhelele Valley Shopping Centre.	
<b>Annexure 2</b>	<b>67</b>
Questionnaire Regarding Patron Perceptions And Usage of the Hubyeni Shopping Centre.	
<b>Annexure 3</b>	<b>69</b>
Questionnaire Regarding Equity Investment in Property	
<b>Annexure 4</b>	<b>71</b>
Case Study 1 – Hubyeni Mall	
<b>Annexure 5</b>	<b>73</b>
Case Study 2 – Nzhelele Valley Shopping Centre	
<b>Annexure 6</b>	<b>75</b>
Case Study 3 – Phangami Mall	
 <b>List of Figures</b>	
	<b>pg.</b>
Figure 1: Savings as a Result of Linkage	9
Figure 2: Phases of Obtaining State Owned Land	14
Figure 3: Patrons Feelings With Regards to Tenant Mix	19
Figure 4: Patrons Travelling Requirements	19
Figure 5: Hubyeni Occupancy Currently	22
Figure 6: Hubyeni Occupancy 2007	22
Figure 7: Nzhelele Occupancy Currently	23
Figure 8: Nzhelele Occupancy 2007	23

Figure 9: Total Capital Costs	26
Figure 10: Information Investors Rely On	30
Figure 11: Reasons Persons Invest in Property	31
Figure 12: Have Persons Invested in Property in Rural and Underdeveloped Areas	32
Figure 13: Finance Costs	34
Figure 14: Typical Cash Flow Curve for a Property Development	42
Figure 15: Community Steering Council Diagram	48
Figure 16: Elim Taxi Rank and Hawker Stalls	51
Figure 17: Hubyeni Mall Taxi Rank and Hawker Stalls	51
Figure 18: Clay Tiles	53
Figure 19: Locally Sourced Natural Stone	53

### **List of Tables**

Table 1: FICA Requirements	36
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## **Chapter 1 - Introduction**

### **1.1 Background**

South Africa has had a rich, troublesome and often violent history. This saw our country divided along racial lines. Peoples of different races were kept apart from one another, resulting in areas where “whites” only lived and “blacks” only lived. In turn economic and urban generation and development also took place along these racial lines. The government at the time was not concerned with the quality of life and basic services that was provided to the black people, and it was not popular for private investors to provide these amenities to the black people either. As a result almost all property development took place in the so-called “white areas”. Very little or no development took place in the so-called “black areas”.

A large part of the “black areas” consisted of rural and tribal land. The lack of income in these rural and tribal areas made it difficult for developers who were willing to defy the government to justify investing money in these areas. However, with the demise of apartheid these areas have received an increase in income per capita. This increase has been caused by various factors such as increased government spending in these areas, money being brought back into the areas from the larger economic centres by migrant workers, as well as some limited local economic development. Even though the income per capita in these areas is still extremely low compared to income per capita in the large economic centres, the sheer number of “feet” that can be provided to a retail centre in these areas can be sufficient reason for a retail development to succeed financially.

These rural and tribal areas have, for the large part, remained underdeveloped and are still experiencing a shortage of basic retail services. Thus there is a need for private investors and developers



to provide the necessary services to the people. Development in these areas will in return create a wealth of local economic spin-offs that can greatly enhance a community's quality of life.

The economic spinoffs include

- Temporary employment during construction.
- Permanent employment after construction.
- Creating business opportunities.
- Skills transfer, during construction, as well as through the ongoing life cycle of the centre.

Retaining income within communities and the economic benefits that a retail centre development can provide to an underdeveloped area could assist in creating a sustainable economic environment for the residents of these communities.

The land is available, the people are there, a product is required which is aesthetically pleasing, economically viable, and suitable for its intended purpose.

## **1.2 Statement of the Main Problem**

How to deliver a feasible, sustainable "turnkey" retail development in underdeveloped areas that satisfies the needs of the client, tenants, community and the investor.

## **1.3 Statement of the Sub-Problems**

*1.3.1 Is it Possible to Acquire Land in Rural and Underdeveloped Areas for Turnkey Retail Development?*

How to go about acquiring land that will be suitable in location and cost for the development. The difficulties that are involved in obtaining state/tribal land and converting it into private land. Dealing with Local Government institutions and officials to obtain state/tribal owned land for development and making use of existing private land in established townships.

1.3.2 *Is it Possible to Let a Retail Centre, and Manage the Tenants in a Rural and Underdeveloped Area?*

Leasing of the centres can be difficult. Many national tenants are unwilling to take the risk in these areas; they also harbour concerns about the size of the centres' GLA. The quality of the local tenants could also be a deterrent for national tenants. How can these difficulties be overcome?

1.3.3 *Can the Developer Obtain Finance, and Control the Costs and Budget for a Retail Centre in a Rural and Underdeveloped Area?*

How can equity and finance be obtained from investors and financial institutions? Can tight control of the project budget and cash flow set the project on a path to financial success? Ensuring that all the stakeholders of the project consider the venture a financial success will be major consideration in the parties becoming involved in similar projects later.

1.3.4 *Can a Retail Centre be Designed and Built in a Rural and Underdeveloped Area, which would not be Amiss in a Up Market Suburb?*

Can a centre be created which is aesthetically pleasing, of sound construction and incorporates the use of local materials? How does the contractor make use of all the local labour and skills that are available to him/her, and furthermore developing skills that are required instead of importing skills.

## **1.4 Statement of Hypothesis**

### *1.4.1 Land Acquisition*

Acquiring land in rural and underdeveloped areas for development is possible and an alternative for developers to consider as opposed to development in established developed urban areas.

### *1.4.2 Leasing and Tenant Co-ordination*

It is possible to convince national tenants that they should be interested in establishing themselves in these areas. The combination of careful selection and “coaching” of the local tenants, combined with a good mix of shops appropriate to the area, can provide an interesting product for investors.

### *1.4.3 Finance and Budget Control*

Obtaining equity, securing finance and tight budget control, can ensure the overall financial success of the venture.

### *1.4.4 Design and Construction*

Through appropriate design and careful material selection, as well as skills development and skills transfer, it is possible to construct a retail development of a very high quality and standard, which will not be amiss in the most prominent suburbs of the larger economic centres.

## **1.5 Delimitations**

The direct research area is limited to the Limpopo Province, as that is where the case studies are situated. Furthermore, the Limpopo Province is significantly underdeveloped in comparison to Gauteng.

## **1.6 Definition of Terms**

DFA	Developments Facilitation Act
DPLG	Department of Local Government and Housing
Feet	Unit of measurement to track number of patrons that frequent a particular store or centre
GLA	Gross Lettable Area
NBR	National Building Regulations
POPSA	Population of South Africa
Turnkey	Ready to use - complete and ready to use upon delivery

## **1.7 Importance of Study**

All South Africans should be allowed to enjoy basic retail services if they so desire. It is also necessary for individuals to feel morally and socially obliged to assist with the economic growth of our country and its people. If developers move outside of their comfort zones they could have a real impact in the lives of the people that they seek to make an income from.

## **1.8 Research Methodology**

In determining whether a suitable, sustainable retail development can be delivered in rural and underdeveloped areas various research facilities and techniques, will be utilised to test the hypotheses that have been put forward.

*1.8.1* Four different case studies will be utilised. These studies will be conducted on four different retail developments that took place in the Limpopo Province. The group of companies, which were involved in the conceptualization, design and construction on all these developments have made available studies, which they have conducted as well as information, for the purpose of this treatise. The developments are all in varying stages of life cycle, ranging from conceptual to trading for a few years.

- 1.8.2 Liaising with national and local tenants to determine what their perceptions are regarding development in these underdeveloped areas. Determining their willingness to change their requirements to enable these developments to succeed. This research will take place in the form of interviews and electronic correspondence. Interviewing persons in the fields of property brokering and tenant co-ordination.
- 1.8.3 To determine what is required to ensure the financial success of such developments, interviews and electronic communication with various stakeholders in the development process who hold a financial interest in the development.
- 1.8.4 In researching the design and construction of these centres consultation with building professionals who have been involved in the case studies will take place, as well as the contractors and the domestic and nominated contractors that have been involved. This research will take place in the form of interviews and electronic correspondence.
- 1.8.5 Publications, journals and web based information as well as published print to assist in establishing my opinion and supporting my hypothesis.

## **Chapter 2 - Land Acquisition**

### **2.1 Introduction**

Once a developer has recognized a need in a certain area for retail services, and he or she wishes to potentially invest in a development in that specific area, steps must be taken to identify the correct site and then acquire ownership or control thereof.

The cost and location of property is always at the forefront of a developers' mind when determining the feasibility of retail projects. When considering rural and underdeveloped areas for development, these two factors need to be considered slightly differently than when considering them for property in an already developed area. The main reason being that the public do not necessarily have the same means at their disposal, in comparison with the public in urban and city areas. (Sloan 2009).

Sites in rural areas will present themselves in different forms, and if a developer wishes to secure sites that are in prime locations then he/she will have to deal with tribal authorities to obtain tribal/state land, deal with Government officials to obtain land that has been transferred to Provincial Government and Municipalities and deal with private individuals and organizations to obtain privately owned land.

When acquiring land for development there are many factors to consider. (Cloete 2006:23)

#### a) Site Characteristics

- Site Description
- Services
- Subsoil Conditions
- Topography
- Vegetation

- b) Environmental Factors
  - Climatic Influences
  - Adjacent and Neighbouring Site uses
  - Environmental Impact of the Proposed Development
  - Community Support
- c) Location
  - Linkage
  - Exposure of site and Topography
  - Vegetation

## **2.2 Location**

The most important consideration regarding land in property development is location. Sloan (2009) says location, location and location will always be the most important determinant when choosing a site as he feels that it is not worth developing a site from which he cannot reap maximum reward, both economically and socially. His sentiments are enhanced by Cloete (2006:23) who states the importance of location, especially in retail feasibility studies, is stressed by the Urban Land Institute which warns that a site should be developed only if it is the best possible location, otherwise a competitor will eventually develop the best site.

### **2.2.1 Linkage**

Linkage relates to the accessibility of a site and is normally expressed in relation to time and money, and thus in a low-income rural area it is a very real concern of the public, that developers need to consider. A great deal of the clientele that will frequent the centre rely on public grants and little or other income, which needs to be drawn from banks at major centres, intercepting these feet so that they spend less on transport and more money in the stores is an important consideration. Ideally a site should be located in an area which has a higher density of residents than other surrounding settlements, and should be on a transport hub, such as a taxi and

bus rank and if at all possible rail - a site which is located merely on a transport hub, will invariably fail as the people which the development wishes to attract will always be in transit and never stopping. Upgrading of the existing transit hub or incorporating it into the centre also offers the developer an easy way to involve the community and begin creating a sense of ownership (Watts 2009). In Case Study 1 and 2 there were already a well-established transport hub situated adjacent to the sites. The hubs were incorporated into the development, which ensures a constant stream of feet through the centres. In Case Study 1, commuters who terminated at the centre were saved R40, as that was the cost of a taxi into the closest established town with adequate shops and banks. As pointed out by Sloan (2009) R40 may not seem a lot, but if you multiply it by the 60,000 baskets that pass through the anchor store on a monthly basis, it adds up to a very large sum of money.

Figure 1 below shows the average savings, which patrons of Case Study 1 and Case Study 2 experience monthly as a result of not having to travel to experience basic retail services. The results show that respondents did experience an average saving of R150 per month on transport.

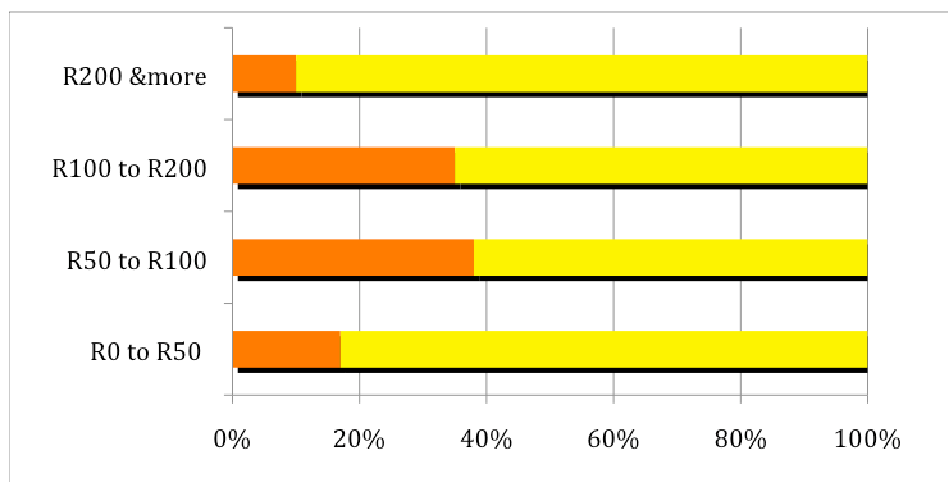


Figure 1: Savings as a result of Linkage

Source: Results of Question 2 Questionnaire to Patrons of Case Study 1 and 2



### 2.2.2 *Exposure*

Exposure of the site and the intended structure is another important consideration. It is natural that in a rural, or underdeveloped area that any large structure will be imposing. However it is still important that a site is situated at a main intersection and clearly visible from any major roads that may pass close by. Watts (2009) says that the most important impression that he wishes to create with these centres is that they would not be amiss in the most expensive and “fashionable” suburbs in the largest South African cities. Therefore when a site is considered it should have maximum exposure so that the public can feel the full effect of the centre, and a feeling of pride instilled in the community, as their involvement will ultimately decide the social and therefore the financial success of the centre.

### 2.2.3 *Site Requirements*

Lastly the site needs to meet all the requirements in terms of the intended design of the centre.

- Area
- Access
- Orientation
- Infrastructure
- Geography

## 2.3 **Cost**

Feasibility is defined in Cloete (2006:4) by Anthony Downs as, “any study aimed at determining whether a proposed development on a particular site can be successfully executed”. Therefore, what is required for the development to be successful needs to be determined early on by the developer so that the feasibility study reflects the developer’s vision and informed decisions regarding the development can be decided upon.

The purpose of the financial feasibility study is to determine if the financial requirements of the developer are met. “There are many reasons why land is developed, but in the private sector the most common and significant reason is to create wealth” Sloan (2009).

According to Watts (2009) “when developing turnkey operations the financial feasibility is the last step in the process before commencing with detail design. The reason for this is that the financial feasibility is based on the cumulative effects of other feasibility studies”. This is backed up by Cloete (2006:27) who states that the results of the socio-economic, physical, legal and marketing feasibility studies are incorporated in the parameters of the financial feasibility analysis, which can be regarded as the culmination of the feasibility analysis procedure.

The land costs are only a very small part of the feasibility study as they only entertain a portion of the total capital outlay. However, it is important to note that land can often be obtained at agricultural market related value rates as that is what the land currently is used for or un-serviced. But after dealing with all the processes of upgrading and changing of the property the new market related value is much higher. But according to Sloan (2009) this increase in land value comes at a cost, which cannot be ignored when considering the purchase price of a particular property.

Quite significantly that when dealing with rural and underdeveloped land it could be difficult to determine the market related land value, and therefore the price that a developer would be willing to pay for a parcel of land. A financial feasibility would assist in determining a suitable price. One of the tools available in the financial feasibility is the residual land value, which can be employed to determine the price that a developer is willing to pay.

The most common method of determining the residual land value is the initial return method. This calculation is very sensitive to changes in the total capital outlay, or the net income and should be used therefore with care (Cloete 2006:218).

## **2.4 Obtaining Land**

### **2.4.1 *State Owned Land / Tribal Authority***

Land in rural areas will often present itself as land that is state owned and has a tribal authority, which resides on the land. In this instance the state is the legal owner, however, the tribal authority has a landowner's right over the land. This right is granted by the Interim Protection of Informal Land Rights Act 1996. The aim of this Act is to provide for the temporary protection of certain rights to and interests in land, which is not otherwise adequately protected by law and to provide for matters connected therewith. This means that any prospective development would have to obtain the permission of the person who has the landholder's right and the developer would have to make a payment to the landholder, and not the state for the acquisition of the land.

The state has provided a few mechanisms for obtaining this land, however, according to Honeyborne (2009) the best route to take in such an instance would be to make use of the Development Facilitation Act no. 67 of 1995. This act allows for the facilitation of reconstruction and development programs and successful and rapid implementation thereof. The main purpose of the act is to prescribe land development procedures with regards to land use that includes and excludes small scale farming. Importantly, the act sets out general principles that are applicable nationally for land development.

They include principles that policy, administrative, practice and law should incorporate such as:

- Effective integrated planning
- Optimal use of existing resources
- Promotion of sustainable development
- The requirement that land use be judged upon its merits

The process of obtaining state owned land could be separated into three different phases:

- Information that must be collected
- Information that must be sourced
- Procedures which are to be followed

In Case Study 1 the land in question was state owned at a provincial level, and the Elim Tribal Authority held the landowner's right. The process of obtaining the land and converting it into usable developable land took approximately 2 years.

The phases are broken down in Figure 2 on the following page. It should be noted that the process can be very fragmented and officials who are responsible for certain processes in some instances are not completely aware of the correct internal procedures themselves. It would be wise to entertain a certain degree of patience.



Figure 2: Phases of obtaining State owned land.  
Source: Kerr Company Documents

#### 2.4.2 *Municipal Owned Land*

Occasionally in rural areas municipalities have identified land which they would like to be developed. However, often the municipalities require assistance in the finalization of the steps and procedures as they have very little experience and a high turnover of staff. This was evident in Case Study 3 where the land had already been transferred to the Municipality and a township established, but they still required assistance to finalize the matter, with regards to zoning and transfer of the land to the developer.

### 2.4.3 *Privately Owned Land*

If private individuals own land that is suitable for development and wish to sell it, the initial cost is often higher and could be a deterrent for prospective developers. In Case Study 2 the land was privately purchased, and as a result it was more difficult to involve the community, and as mentioned by Sloan (2009) it is very important to involve the community and be seen to be giving back.

## 2.5 **Conclusion**

Finding suitable, developable land in rural and underdeveloped areas is possible. The land will often be in a format which needs to have the rights converted so that the development can take place. The process that needs to be undertaken to convert the land will depend on the format in which the land is represented.

There is legislation in South Africa which facilitates the procurement process of state owned land, which is under tribal authority control, and if the developer is patient, and willing to follow the procedures, he stands to make a certain profit from the process when he sells the property.

The normal studies have to be conducted to determine the feasibility of the venture. The most significant reason that private property development takes place is, the developers and investors wish to make profit, and this should and can be the instance in developing land in rural and underdeveloped areas.

## 2.6 **Testing of Hypothesis**

*“Acquiring land in rural and underdeveloped areas for development is possible and an alternative for developers to consider as opposed to development in established areas.”*

It is possible to obtain suitable land in rural and underdeveloped areas and convert it to usable developable land. Therefore the hypothesis can be accepted.

## **Chapter 3 - Leasing and Tenant Co-ordination**

### **3.1 Introduction**

#### *3.1.1 Leasing*

Leasing of a centre in rural areas can be very difficult. It requires a sound sales strategy and motivated, experienced leasing agents (Krige 2009). Difficulties that brokers often experience are convincing national tenants that the centre is a viable proposition for them to consider, obtaining local tenants that will run businesses that are of a sufficient standard for the centre and obtaining the correct mix. Krige (2009) says that the most important factor for her when leasing, is to understand exactly what she is selling, and being excited about what she is selling. If she can transfer her excitement to a tenant then she is halfway to convincing the tenant that the centre is viable.

#### *3.1.2 Tenant Co-ordination*

Another process, which goes hand in hand with leasing, is tenant co-ordination. (Sloan 2009). Tenant co-ordination is an often overlooked aspect of retail development. It is essential that, once a shop has been let to a tenant, the lines of communication between the tenant and the design team are kept open.

Watts (2009) states that the reasons for this are as follows:

- Both the tenant and the developer will have criteria, which need to be aligned.
- There may be design work which the tenant has to undertake that the design team would have to approve.
- Working in conjunction with the tenants to ensure a fluid flow of

information between the parties will enable the developer to closely control the quality of the tenants shop fit.

## **3.2 Tenant Mix**

### **3.2.1 *Why design a Tenant Mix?***

The tenant mix of a shopping centre is recognized widely as a critical determinant of marketing and financial success (Fowler 2009). Fowlers' sentiments are further emphasized by McGoldrick (1992), who states that the tenant mix is a critical determinant in the success or failure of planned shopping centres. For new shopping centres the early development of a strong tenant line-up is particularly crucial as these centres endeavour to establish their market position and market share. 'One of the brokers' greatest advantages when letting in rural areas is that there is an unsaturated market for them to advertise to prospective tenants.' (Krige 2009).

From the above it can be established that the tenant mix design is critically important not only to the developer, but the brokers, design professionals and the tenants themselves. Thus it is extremely important that from the beginning of a project the tenant mix is considered by all parties. The tenant mix can be described using a measurement-orientated approach, which combines a number of factors. These factors are the proportion of space or number of units occupied by different retail and service types, and the relative position of these services and retail types (Kirkup & Rafiq, 1994).

Krige (2009) indicates that when developing a tenant mix for shopping centres in rural and underdeveloped areas the allocation of GLA to national and local tenants needs to be addressed as "Anchor" tenant often stipulates what ratio they require for the fulfilment of the terms of their lease. She further states that



providing service tenants for the patrons is crucial, as a critical marketing element and intended purpose of the centre is denouncing the need of the local community to travel into the larger economic centres to conduct their daily business and personal activities.

Cloete (2006: Annexure 5,2) states that the factors crucial to determining an appropriate tenant mix are:

- Current population
- Population development and growth
- Current retail
- Other retail
- Other developments (current and future)

These factors, and the consequent design resulting from them, used in conjunction with demographic information obtained from the feasibility studies, a basis can be formed, which the brokers can approach prospective tenants.

Sloan (2009) says that in his experience the benefits derived from designing and implementing a solid tenant mix, together with the effective implementation thereof will continue to be evident financially to the building owner and to the tenants in the form of feet, for a significant period of time, and thus justifies spending time and money on obtaining an effective tenant mix.

### 3.2.2 *Tenant mix in practice?*

Upon conducting research amongst the patrons of Case Study 1 and 2, with regards to their personal feelings about tenant mix it was found that 63 out of 80 respondents were satisfied with the selection of services and retail outlets, which the centres provided.

This is illustrated by the Figure 3 below.

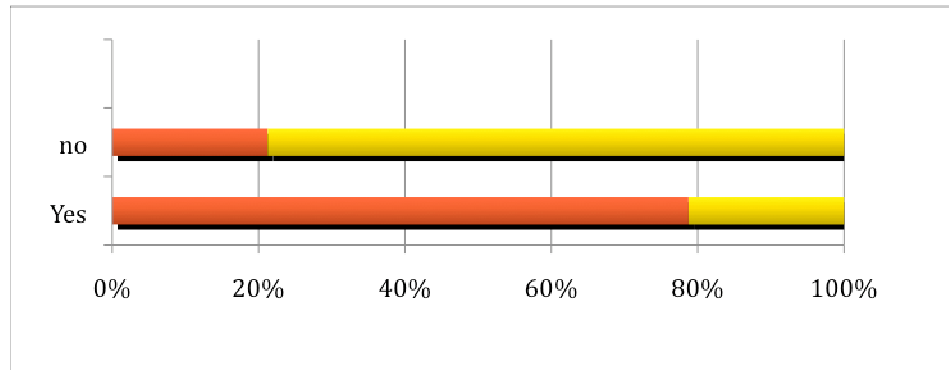


Figure 3: Patrons' feelings with regards to tenant mix

Source: Results of Question 1 Questionnaire to Patrons of Case Study 1 and 2.

In rural and underdeveloped areas, it is essential for a development to maintain a tenant mix that ensures the clientele do not need to travel into the larger economic centres. Thus the customer satisfaction with regards to choice is extremely important. It would seem that, clientele in the areas of Case Study 1 and 2 are sufficiently satisfied with the amount of choice available to them.

However, in contrast to this result, 37 out of 80 respondents indicated that they still need to travel into the closest town (Makhado) to conduct shopping activities. The result is illustrated by the Figure below.

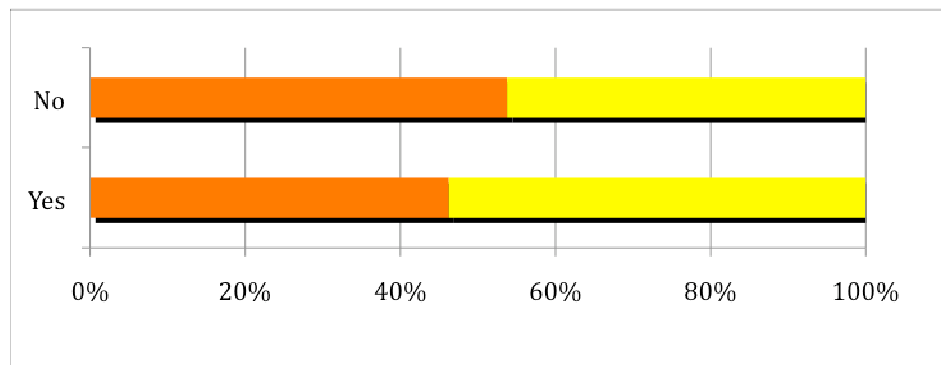


Figure 4: Patrons travelling requirements

Source: Results of Question 5 Questionnaire to Patrons of Case Study 1 and 2

The results of Question 5, which asked respondents if they still required to travel to experience basic services would indicate that, even though the majority of the respondents were satisfied by the diversity of services and retailers available to them, the tenant mix has failed in Case Study 1 and 2 because almost 50% of the respondents were still travelling into the larger economic centres to conduct shopping activities.

### **3.3 Leasing Difficulties**

#### *3.3.1 Difficulties that are being experienced*

Recent environmental changes, specifically the global economic environment, are having a major impact on lettings and are presenting significant problems for the development and management of tenant mix in new centres. This further highlights the importance of tenant mix.

All four of the Case Studies (Shopping Centres) have been struggling recently to secure the desired quantity and quality of lettings. Amongst the daily challenges that they encounter the brokers are experiencing:

- Increased competition from other developers who are also attempting to get a foot in the door in the areas that they are working.
- Reduced demands in property as national tenants are increasingly feeling financial strain.
- In one instance, the failure of the schemes designs.

#### *3.3.2 Dealing with the leasing difficulties*

However Sloan (2009) says that by utilizing the difficulties that the brokers are experiencing a leasing strategy can be developed and implemented which addresses these issues and then be used to the advantage of the development. For example when experienced with a competitive market, getting a head start is the most effective

way of dealing with the competition – once tenants see that a new development has broken ground they are more prone to pursue a new store there than in a development which is still at concept stage. The only way for vendors and franchisors to grow, is by expanding, therefore if presented with a viable opportunity they will still consider opening new stores – even in the current economic environment.

### **3.4 National Tenants**

Krige (2009) indicated that the anchor tenant in case studies 1,2 and 3 required a national tenant component of 70% of the GLA for the fulfilment of the conditions of their lease. This she states is a complicated task for various reasons:

- The centres in question often have a smaller GLA than the national tenants require
- National tenants are unwilling to take on the risk of a centres in rural and underdeveloped areas
- National tenants are currently experiencing financial difficulties and are therefore even more circumspect about expanding into areas, which have a low income.

Therefore, for Brokers to achieve the required 70% national component, strategies have to be devised to counter the current feeling of national tenants.

Fowler (2009) says that the most effective manner of convincing national tenants that the centres in rural and underdeveloped areas are feasible investment options, is by taking the prospective tenants on a tour of the existing centres in the area, and then comparing them with Case studies 1 and 2 which are all currently trading, and have the tenants see how the centres operate in comparison with possible opposition.

Below are Figures, which show Case Studies 1 and 2's occupation rates at their commencement of trading and their current occupancy Figures.

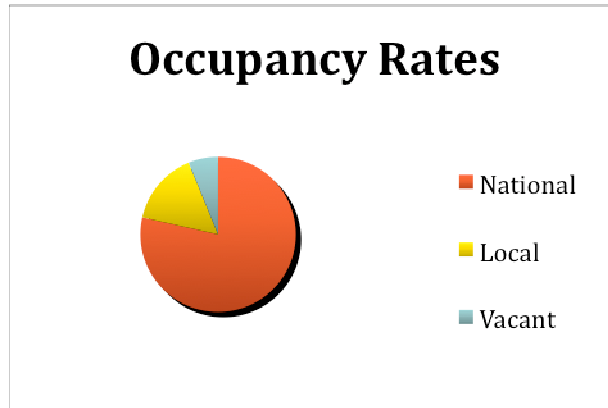


Figure 5: Hubenyi occupancy currently  
Source: Kerr Company Documents

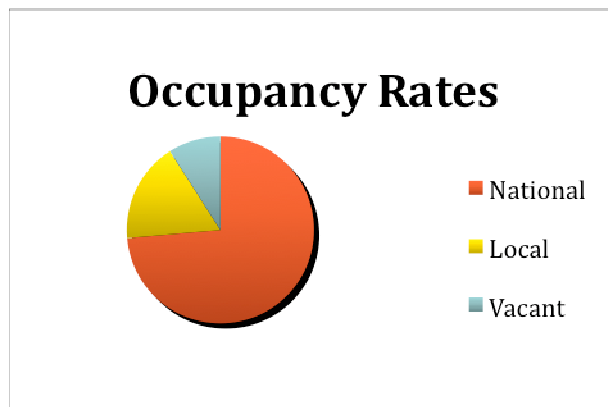


Figure 6: Hubenyi occupancy 2007  
Source: Kerr Company Documents

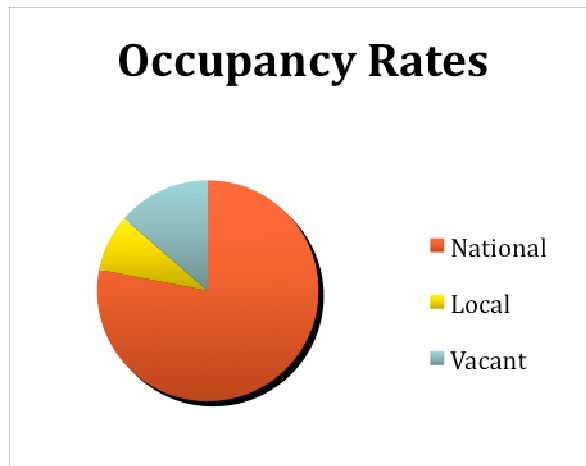


Figure 7. Nzhelele occupancy currently  
Source: Kerr Company Documents

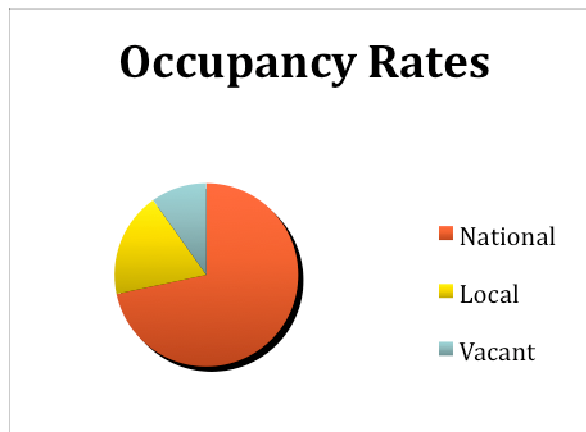


Figure 8. Nzhelele occupancy 2007  
Source: Kerr company Documents

From these Figures it is quite clear that it is possible to achieve the correct ratio of tenants that are required. However the percentage of vacant stores could be a mitigating factor in the argument.

### 3.5 Local Tenants

Watts (2009) says that according to him ensuring that local tenants design and fit a store which complement the centre is paramount to not only enhancing the quality of centre, but also its “attractiveness” to potential investors.

The easiest and most effective way of managing local tenants and therefore the quality of the store that they produce is through the tenant co-ordination process. This requires a dedicated tenant coordinator on each centre. (Honeyborne 2009).

The tenant coordinator should first and foremost develop a process which allows for the free flow of information, is flexible enough to accommodate the various tenants, and allows for the timely approval of all information which is to be submitted by the tenants (Sloan 2009).

The tenant coordinator should consider the following when dealing with local tenants in rural and underdeveloped areas.

- Meeting with all the tenants personally to explain what is required.
- Value engineering the developers' criteria to maximise what budget is available to the local tenant.
- Making available lists of approved designers and contractors to the local tenants.
- Regular checks with the local tenants to ensure that they are still on track.
- Explain to the tenants the value of marketing themselves and their store through proper shop fitting.

Honeyborne (2009) states that if the tenant coordinator follows the above steps he/she will assist the tenant in producing a store, which complements the centre.

### **3.6 Summary**

The difficulties that a developer experiences during the leasing process of a shopping centre in rural and underdeveloped areas can be dealt with.

Correct design of the tenant mix, in conjunction with managing the tenants effectively, and using disadvantages that the brokers may be experiencing to as positive influences all play a role in the eventual success of a project from a leasing perspective.

Integrating the leasing team, as well as the tenant co-ordination process into the professional team is extremely important to ensure that all the design aspects, which affect the tenants, are taken into consideration.

### **3.7 Testing of Hypothesis**

“Leasing of the centre’s can be difficult. Many national tenants are unwilling to take the risk in these areas; they are also harbour concerns about the size of the centre’s GLA. The quality of the local tenants could also be a deterrent for national tenants.”

It is possible to reach the required ratios of tenants. Obtaining local tenants of sufficient quality is possible, however they do require to be managed. Therefore the hypothesis can be accepted.



## Chapter 4 - Finance and Budget Control

### 4.1. Introduction

The most common reason why property development takes place is “business”. All the parties, which are involved, wish to earn money, or make a profit on their investment (Watts 2009). Cloete (2006:219) states that the objectives, of commercial property development are to maximise the return on equity.

For example the developer wishes to make a profit on the resale of the property or obtain sustainable income through rentals. Investors wish to see a return on their investment. The building professionals involved wish to earn professional fees, and the contractor wants to be remunerated for his services. Thus it can be discerned that most of the participants involved in the process of a particular property development will describe the success or failure of a property development in financial terms.

The financial basics of property development are always the same. To make a profit the developer must: (www.diversefinance.co.uk 2009/08/18)

- Understand all the costs involved in both the acquisition and build phases. The Figure below illustrates the components of total capital costs that a developer needs to control throughout a property development.

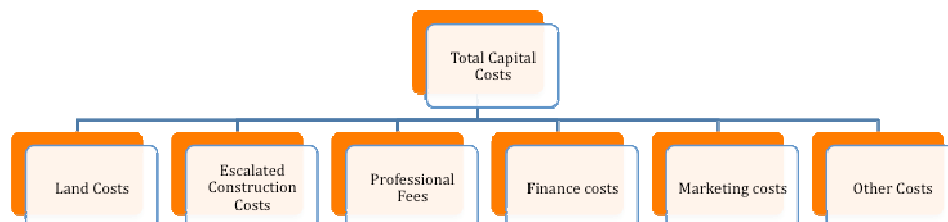


Figure 9: Total Capital Costs

Source: Cloete (2006:198)

- Accurately assess the potential sales price
- Manage the finances to project completion

“The means which that the developer employs to obtain and control the funds for a development will ultimately ensure the success of the project.” Sloan (2009)

## **4.2 Equity**

### *4.2.1 What is equity*

Equity is a form of financing that comes from investors. It is not money that will have to be paid back to the investor, rather the investors will expect a high rate of return or part ownership for investing in a development. ([www.womeninbusiness.about.com](http://www.womeninbusiness.about.com) 2009/08/18).

The sources of equity financing vary, examples are:

- The developers’ private funds.
- Angel investors, these are individuals who invest in businesses looking for a higher return than what they would yield from a more traditional type of investment  
([www.smallbusinessnotes.com](http://www.smallbusinessnotes.com) 2009/08/18).
- Family and business associates.
- Stock sold to shareholders.

Sloan (2009) says that when developing property he always tries to maximise the owners’ equity in the development, as experience has taught him that the more he has personally invested in a development the easier it has been to obtain the outstanding equity from other investors.

Another reason for maximizing the owners' equity is for the developer to ensure that he has control of the project. Because angel investors are investing for profit they can be very vocal about the developers' practices, strategies and performance. The developer should therefore always consider with whom he is going into business with when searching for additional equity ([www.womeninbusiness.about.com](http://www.womeninbusiness.about.com) 2009/08/18).

#### 4.2.2 *How to obtain equity*

To obtain equity a developer will need, a comprehensive business plan, which incorporates a detailed marketing plan and realistic financial projections. The business plan will ask the developer questions of the proposed project which he might not have considered and enable the developer to answer questions and issues that potential investors might raise. Most investors will be looking for the following core issues with a business plan ([www.businesslink.gov.uk](http://www.businesslink.gov.uk) 2009/08/18).

- What are the funding requirements of the proposed development?
- Are the plans for the development realistic?
- Is the development appropriate for external development?

Pitching of the proposal to potential investors is equally as important as the preparation thereof. The developer should try to anticipate the concerns that the investor could have and in turn show the investor the advantages of becoming involved in the development. Emphasis should be placed on:

- The investment required.
- The terms that the developer is proposing.
- The ability of the developer to proceed with the project.
- The likely return of the investment.

The business plan should be adapted according to the particular investor that the developer approaches. This will ensure that the presentation is relevant, informative and engaging. Investors are also interested in your own personality and values, they will be more likely to invest their money with people that trust, and whom they feel are reliable ([www.businesslink.gov.uk](http://www.businesslink.gov.uk)).

Great care must be taken not to alter the information, as only one the true and realistic information must be represented at all times. Cloete (2006:196) states that financial feasibility studies should never be manipulated to show the desired result. Botha (2009) also states that presenting accurate information at all times enhances a developers reputation as a business person of integrity and honesty, which is vital to a person's sustainability in the property development industry. Botha (2009) further states that in his experience, investors are much more likely to repeatedly invest with a particular developer if the experience has been enjoyable and transparent.

#### 4.2.3 *Equity Survey*

To establish what potential investors' feelings are regarding property development a questionnaire was circulated to various individuals, and venture capitalists ("angel" investors), which have invested in property developments. The questions attempt to establish what importance the investors place on information, which assists them in making a decision whether or not to invest, and the various reasons why they invest.

The Figure below illustrates the emphasis that investors placed on specific types of information.

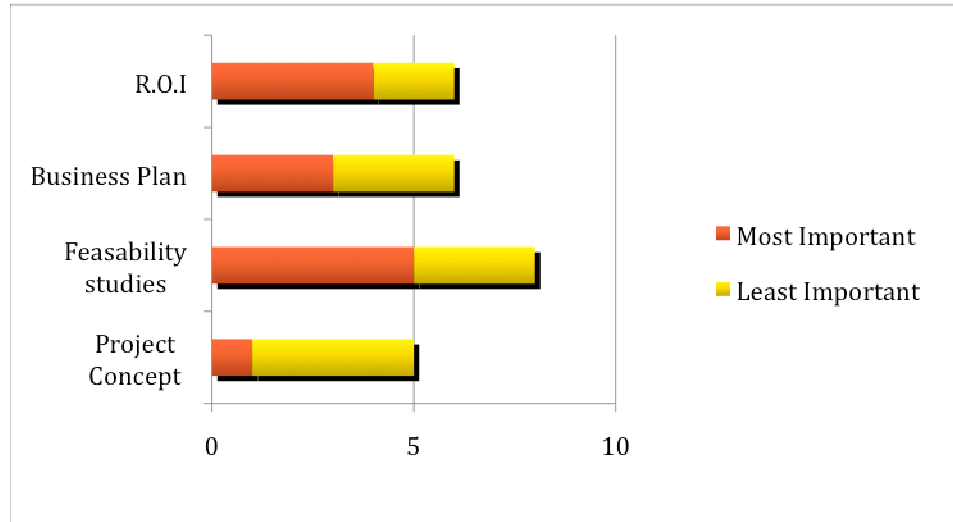


Figure 10: Information investors rely on

Source: Results of Question 3 Questionnaire to business persons & property investors

Of the 13 respondents 5 indicated that their decision to invest in a development would be based on the feasibility studies, whilst 4 of the respondents showed that the ROI would be the determining factor.

5 of the respondents indicated that the project concept was the least important factor in making their decision. These findings indicate that persons wishing to invest in property are mainly concerned with financial considerations when making decisions. This would suggest that when a developer seeks to obtain investors, the financial information and the presentation of the Figures would go a long way in determining the success of the pitch.

The reasons why people invest in property are also of interest to developers as this will also assist in preparing a proposal for potential investors. The graph below illustrates why investors invest in property development schemes.

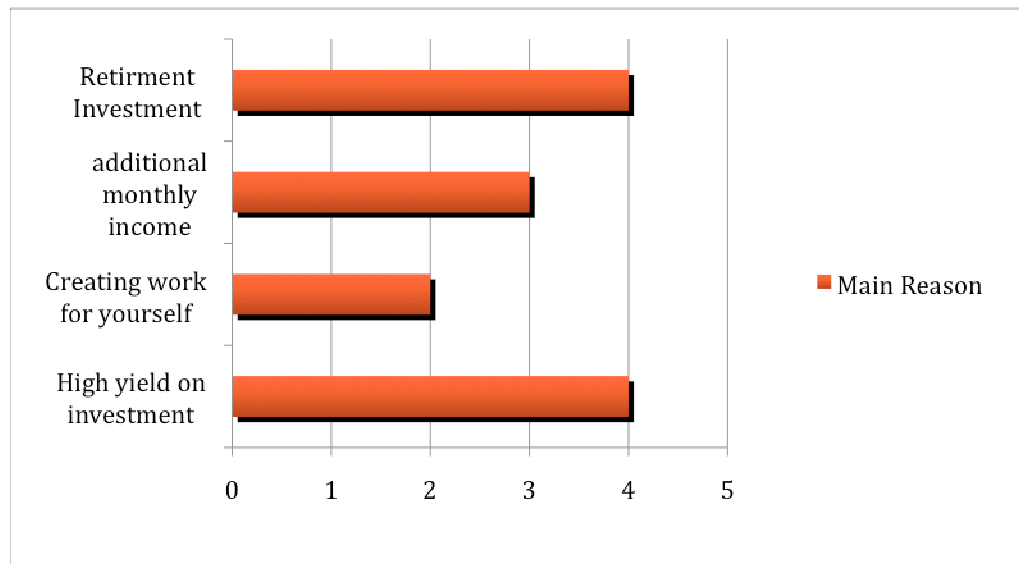


Figure 11: Reasons persons invest in property.

Source: Results of Question 4 Questionnaire to business persons & property investors

The results show that the main reasons why investors pursue property development, is to receive a higher yield on income than is available elsewhere, and for retirement purposes. This indicates that when preparing proposals for investors developers should clearly show the growth potential of the investment, as this is what the investors are pursuing.

Question 1 of the survey to businesspersons and property investors asked, if the respondents had invested in a property development in a rural and underdeveloped area. The results were that only two of the respondents had. The result is illustrated by Figure 12.

Question 2 of the survey to businesspersons and property investors asked if the respondents were willing to invest money in a development situated in a rural and underdeveloped area. The response was overwhelmingly positive, 12 of the 13 respondents indicated that they would invest. This is illustrated by Figure 12. Sloan (2009) states that the result does not surprise him, as a venture capitalist by nature will invest his/her money in a scheme, which is well presented, and shows potential for a high return on investment.

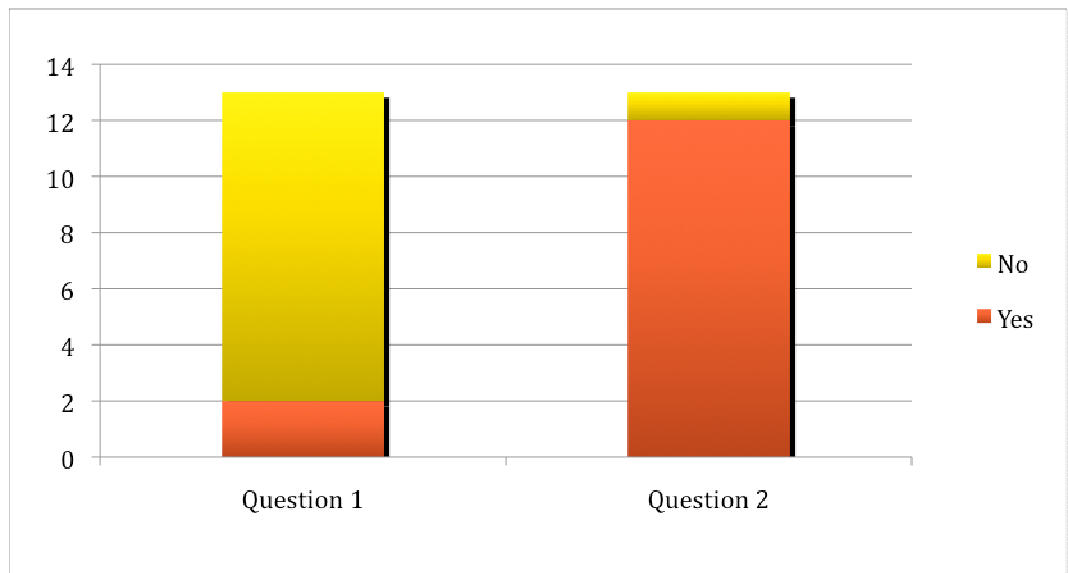


Figure 12: Have persons invested in property in rural and underdeveloped areas?

Source: Results of Questions 1&2 Questionnaire to businesspersons & property investors.

#### 4.2.4 *Why is equity required*

Property development typically comprises a large total capital outlay. The outlay breakdown as illustrated in Figure 5, shows the dispersion of funds on a typical property development. Very few individuals or organizations have the financial capacity to fund a property development without obtaining finance from an institution, which specializes in financing property development. As financiers

carry a certain degree of risk in lending money towards a project, they require the owners of the development to carry a certain degree of risk as well. Financiers require the owners to carry this risk in the form of an equity provision, sometimes also referred to as a deposit (Beyers 2009).

In times of good economic growth the finance institutions typically required a twenty percent equity contribution of the financed amount. This is evident in Case Study 1 & 2, where de Kok (2009) states that in each instance the financier - Standard Bank – required the owners of the developments to provide twenty percent of the financed amount. However more recently obtaining finance has become more difficult, largely due to the National Credit Act, market uncertainties and the global economic situation.

Beyers (2009) stated that most financiers currently require a forty percent equity contribution on the financed amount of a retail property development. This shows a hundred percent increase on the financial demands of obtaining equity, to obtain finance, to fund a development. Sloan (2009) states that this represents a very real problem to most small to medium enterprises that are typically involved in developing in rural and underdeveloped areas. They are struggling to obtain finance based on the equity requirements that the financiers are placing on them.

Watts (2009) states further, that if it were not for the pre agreed sale of Case Study 3, on which construction commenced in 2009, it would not have been possible to obtain the necessary equity, and therefore the finance for the project. “It should be noted, that even in times of economic difficulty, it has still been possible to develop a shopping centre in a rural and underdeveloped area” (Sloan 2009).



### 4.3 Finance

Finance can be defined as the commercial activity of providing funds and capital ([www.worldnetweb.princeton.edu/perl/webwn](http://www.worldnetweb.princeton.edu/perl/webwn) 2009/08/18). Finance is necessary to facilitate the relatively high total capital outlay that is associated with property development. The acquisition of finance will also mean that a cost is incurred. This cost is represented in the total capital outlay, as illustrated in Figure 5. The components, which represent the cost of finance, are illustrated below in Figure 13, and are namely (Cloete 2006:204-205).

- Mortgage registration fee – this fee is calculated if a mortgage is applicable and the fee is a percentage of the mortgaged amount.
- Mortgage raising fee – this fee is included if a fee was incurred in the process of raising a mortgage.
- Cost of capital and/or interim interest on mortgage – this covers the finance fee and the cost of capital, during the construction period.

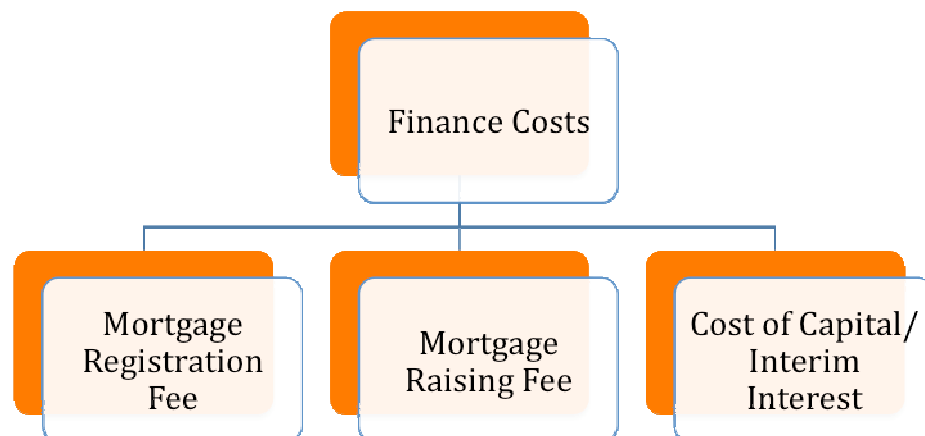


Figure 13: Finance Costs

Source: Adapted from (Cloete 2006:204-205)

#### 4.3.1 *Obtaining finance*

To minimize the cost of finance and therefore maximise the profitability of a development the following steps can be taken (Cloete 2006:221):

- Obtain the best interest rate
- Shorten the building period
- Delay large payments

Watts (2009) says that like anything that you wish to purchase, the asking price for finance is negotiable. Therefore one should always “shop around” for the very best possible deal when obtaining finance for a development. Beyers (2009) states, that the most effective technique of obtaining the best finance deal is to have a good business relationship with the financier, and to submit all required information timorously and accurately.

The information that is typically required by financiers for retail development is (Beyers 2009):

- a) Copy of the Title deed & Purchase agreement of land (if applicable)
- b) Borrowing company
  - Financial statements
  - Banking detail
  - Background on the group and list of projects completed
- c) Shareholders
  - Statements of assets and liabilities for individuals/directors/other entity involved
  - Banking detail for each director

d) The development

- Copy of the proposed site development plan, and preliminary building plans
- Approved building plans will be required before the disbursement of building draws
- Detailed development cost and feasibility study
- Proposed rent roll (specify area, rate/m<sup>2</sup>, operational costs, period of lease and escalations)
- Specifications & finishes
- Names, contact number, CV of professional team (company & contact name)
- Zoning certificate (if the stand is in process of being zoned please furnish the bank with a copy of the zoning application)
- Copy of a demographic and retail study
- Location map

e) FICA requirements - Financial Intelligence Centre Act (see Table 1 below)

- The Financier will require that the Borrower provides the Bank with information to satisfy the compliance requirements of FICA, see Table 1 below.

<b>The Borrower and the sureties, if the surety/ies are legal entities</b>	<b>Surety - if the surety is a person</b>
<p>A certified copy of the following detailing the name of the entity and registration number:</p> <ul style="list-style-type: none"> <li>➤ In respect of a Close Corporation, the CK1 and CK2 or;</li> <li>➤ In respect of a Company the CM1 and CM22 or;</li> <li>➤ In respect of a Trust, the Trust Deed or Letters of Authority or;</li> <li>➤ In respect of a listed Company, a print out from the relevant Stock Exchange's website confirming the listing.</li> <li>➤ A certified copy of 1 (One) of the following documents reflecting the physical business address and trading name, if applicable:               <ul style="list-style-type: none"> <li>• An original letterhead;</li> <li>• Electricity or water bill;</li> <li>• A bank statement;</li> <li>• A recent lease or rental agreement;</li> <li>• Municipal rates and taxes invoice;</li> <li>• Telkom account;</li> </ul> </li> </ul>	<p>A certified copy of the person's identity document.</p> <p>A certified copy of 1 (One) of the following documents reflecting the person's name and residential address:</p> <ul style="list-style-type: none"> <li>• Electricity or water bill;</li> <li>• A bank/mortgage bond statement;</li> <li>• Recent lease or rental agreement;</li> <li>• Municipal rates and taxes invoice;</li> <li>• Telkom account;</li> <li>• SARS tax return;</li> <li>• Pay slip or salary advice;</li> <li>• A life, or short term insurance policy;</li> <li>• Recent correspondence from a body corporate or a share block association.</li> </ul>

<ul style="list-style-type: none"> <li>• SARS tax return.</li> </ul>	
Except for the tax return, the above may not be older than 3 (Three) months.	Except for the tax return, the above may not be older than 3 (Three) months.

Table 1: FICA requirements.

Source: Financial intelligence centre act.

#### 4.4. Budget Control

“The most important thing to understand about cost control of a project in any property development, is that each and every person involved in the project, from the developer to the labourers’ have a impact on the final cost of the project. This impact can be positive or negative, and the effects will be felt by various stakeholders, depending on the attitudes and the extent of involvement of the particular person.” (Honeyborne 2009)

As illustrated in Figure 9 the total capital costs of a project are typically represented by 6 costs namely:

- Land costs
- Escalated construction costs
- Professional fees
- Finance costs
- Marketing costs
- Other costs

According to Watts (2009) it is easiest to manage the different costs separately and show the accumulative effect of the costs when reporting. His reasons are as follows:

- The various costs can be determined to varying degrees of accuracy at different stages of a project.
- In any organization there would be different personnel who will be responsible for different facets of the project.
- The costs have an accumulative effect but they can still represented singularly on their own.

The estimated costs of a development need to be established for these costs to be controlled. The costs are typically established in a financial feasibility study and reported on in a cost report as a project progresses. It must be noted that any study, which is undertaken, and report that is submitted is only as reliable as the information, which goes into it. Information should always be used with care and natural intuition so as to ensure that decisions are not based on inaccurate information.

#### 4.4.1. *Controlling the Costs and Maximising the Profit*

Controlling the costs to maximise profit has a far greater impact at concept stage than it does towards the end of a project. Therefore great care should be taken from the very beginning of a project to maximise profit through applying cost control from the very the onset of a project

##### a) **Land Costs**

The costs, which contribute towards obtaining land and converting it into usable developable land, are collectively referred to as land costs.

They are as follows (Cloete 2006:199-200):

- Value of the land
- Transfer costs
- Soil tests
- Bulk service charges
- Interim tax on land or improvements

These costs can be identified and estimated fairly accurately early on in a development. Apart from the purchase price of the land and tests done on the land, the costs on the land will largely be non negotiable. Sloan (2009) says that when developing in rural and

underdeveloped areas, the difficulty that is experienced when converting the land to usable land, cannot be ignored, and must be considered as a cost to the development.

**b) Escalated Construction Costs**

Estimated construction costs can be calculated using different techniques. In feasibility studies the estimate is usually based on an elemental analysis, or on a square meter basis. The elements of escalated construction cost are the following (Cloete 2006:201-202):

- Escalated current building cost
- Pre-tender escalation
- Post tender escalation

As the project progresses and designs are streamlined and the project goes out on tender, the final construction cost can be more clearly estimated. The best possible method of controlling building costs according to Watts (2009) is to ensure that the administration of the building contract is done correctly, and to manage the design development in such a way that all items are carefully considered from a cost perspective before finalizing the designs.

**c) Professional Fees**

These are fees, which are due to the design and construction professionals for services and disbursements. The fees are usually calculated on a percentage of the construction cost.

Sloan (2009) says that when developing retail space in rural and underdeveloped areas it is beneficial to make use of a project manager, who has experience working in the environment as his input and administration of the project, enables further savings. Cloete (2006:204) states that a partially compensating saving of the project management fee can be effected by in reducing fees paid to other consultants as the project manager assumes responsibilities that these consultants would normally assume.

In terms of turnkey development, making use of “in house” project management services enables the developer to generate a stream of income throughout a project, as well as ensuring that the developer maintains a further degree of control on the project (Watts 2009).

**d) Finance Costs**

Finance costs have already been discussed in Point 4.3, and are illustrated in Figure 9. The costs involved represent costs, which are incurred when securing and maintaining the finance.

Finance costs are directly influenced by other costs of a project. For example, the building costs will affect the interim interest charges. Therefore project control and savings will represent a saving in finance costs.

e) **Marketing Costs**

Marketing costs typically comprise of the following (Cloete 2006:206):

- Marketing and promotional costs
- Leasing commissions

In retail centres the marketing and promotional costs could be a substantial Figure (Cloete 2006:206). Sloan (2009) says that a great marketing feature of retail centres in rural and underdeveloped areas is that the centre is self-marketing. The shopping centre from the onset of construction involves many members of the surrounding communities. It becomes a prominent landmark in the area and generates interest through labour desks. Thus much of the marketing costs can be minimized.

**4.5 Cash Flow**

“All the money in the world is useless, unless you can access it” (Richard Branson).

In broad terms cash flow refers to a period of time for which specific amounts of money are utilised. Cash flow predictions are made on the project period and utilizing milestone dates (de KOK (2009).

Accurately forecasting a project’s construction time and cost is critical to the development process as the anticipated time and cost forms a basis for financing, planning and monitoring a project. It can mean the success or failure of a project and is therefore in the financier’s and developers’ best interest to forecast accurately. Generally speaking, construction projects tend to use funds slowly at first, then as additional trades commence on site, expenditure tends to increase sharply and then tail off towards the end of the



project as major trades finish up. This pattern of expenditure is illustrated by an S-curve, is shown in Figure 12 below. This curve provides a good tool to monitor a project's progress and rate of expenditure against time and budget (<http://www.bmtqs.com.au/bmtqs/Articles/bmtqs24.htm> 2009/08/18).

When actual monthly expenditures are applied against the forecast curve, progress, can be assessed against the forecasted cash flows. Generally speaking, projects tracking below the line indicate they are expending funds faster than anticipated and are perceived to be ahead of schedule and those below the line are falling behind expected expenditure.

Combined with other forecasting methods as well as manual assessments, the Cash Flow forecast and actual expenditure graph can give an early indication of a project's progress and forecast anticipated completion dates well in advance (<http://www.bmtqs.com.au/bmtqs/Articles/bmtqs24.htm> 2009/08/18).

The consequences of poor cashflow predictions are:

- Delays in planning and construction due to lack of funds;
- Exhausting funds before the end of the project – leaving the project unfinished and with no money to complete it; and
- Reduced quality of workmanship due to having to cut corners to make cash go further than expected.

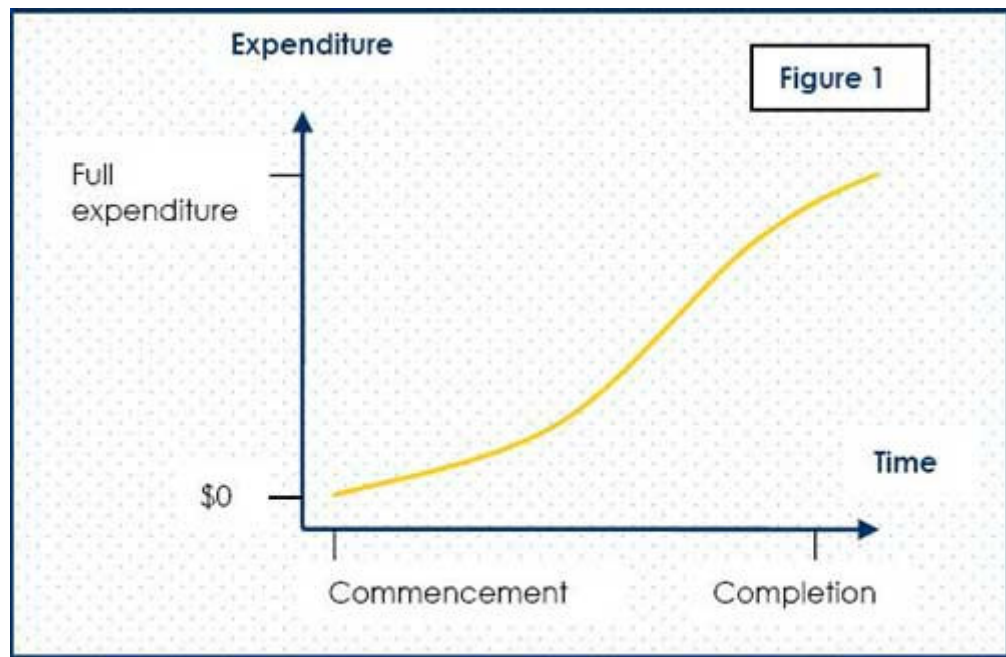


Figure 14: Typical Cash flow curve for a Property Development

Source: [www.bmtqs.com.au/bmtqs/Articles/bmtqs24.htm](http://www.bmtqs.com.au/bmtqs/Articles/bmtqs24.htm) 2009/08/18

In Case Study 2 and 3 there were payments made to the contractor, which were late. In both instances it resulted in the contractor being awarded default interest and an extension of time. The result was that the contractor was also paid an acceleration fee. The reason that the payments were late was because of inaccessible funds. The resultant penalty and additional fees had to be absorbed by the developments, decreasing the profitability of the developments.

Sloan (2009) states that most developers do not appreciate the importance, of tracking cash flow, and monitoring it. It is a procedure that all developers should undertake on a daily basis to ensure that funds are available when needed.

#### 4.6 Summary

Most stakeholders in a property development will base their opinion on the success of a project from a financial perspective. Investors wish to make a high return on their investment, the developer

wishes to earn intermediate income and profit on the sale, building professionals wish to earn fees for their services.

For a property development even to take place equity has to be acquired in order for finance to be secured. It is possible to obtain equity, though in the process of securing the equity developers should be selective of the sources of equity, and never mislead potential investors by any means, but especially by deliberately misrepresenting information.

Without finance there would be very few individuals or organizations that would be able to participate in retail development in rural and underdeveloped areas. The steps that are to be undertaken when obtaining finance are necessary to ease the mind of the financiers, however no developer should ever accept terms that are stipulated by a financier, as there is always a possibility of obtaining better terms from other financiers.

Through exercising control of the projects capital costs it is possible to ensure that a project stays within its budget, and the potential income from the project is maximised. However, where there is no control of the costs, the developer and the investors could potentially lose money, or not realize a return on their investment.

The cash flow predictions, and realities need to be carefully planned and managed so that the developer always has sufficient funds, which are accessible to ensure that progress on a project does not halt due to inaccessible funds.

#### **4.7 Statement of Hypothesis**

“Obtaining equity, securing finance and tight Budget control, can ensure the overall financial success of the venture.”

It is possible to obtain equity and finance. Proper budget control will assist in controlling costs. Therefore the hypothesis can be accepted.

## **Chapter 5 - Design and Construction**

### **5.1 Introduction**

When designing and constructing any structure the professional team, together with the contractor should strive to deliver a product, which is within the brief and built to a quality and standard, of which they can be proud (Watts 2009). This is especially relevant in rural and underdeveloped areas, where there is a tendency for developments to appear “second rate”. Sloan (2009) says that an important part of obtaining the required rentals, finance and land is the ability to deliver a product, which is aesthetically pleasing, structurally safe and built according to best building practices.

Amongst the difficulties that are experienced when working in rural and underdeveloped areas are appropriate design, skills shortages and material selection. These issues can be addressed early on and solutions should be implemented at all stages of the project, to ensure the quality of the build and the end product.

### **5.2 Building Practices**

Regulatory Affairs promotes uniformity in the understanding and implementation of NBR's made in terms of the National Building Regulations & Building Standards Act 103 of 1977 ([www.sabs.co.za](http://www.sabs.co.za) 2009/09/12). The erection of buildings however generally falls within the regulatory jurisdiction of local authorities and local government.

The NBR's set standards for the technical performance for all buildings constructed in South Africa, to ensure the health and safety of occupants. The NBR's have been reprinted in the SABS 0400:1990 - The code of practice for the application of the National Building Regulations ([www.sabs.co.za](http://www.sabs.co.za) 2009/09/12).

The JBCC suite of contracts is the most commonly used suite of contracts used in the building industry in South Africa (Watts 2009).

According to the JBCC principal building agreement, contractors are not responsible for building design or specifications. They can however be held accountable by owners for quality of workmanship, adhering to specifications. Ensuring that contractors adhere to this is according to Watts (2009), one of the essential ongoing duties of the professional team in turnkey projects. Reasons for ensuring that quality of workmanship and specifications are adhered to are as follows (Honeyborne 2009):

- Ensuring that the building will be fit for occupation
- Ensuring that the, building, is allowed to be occupied on commencement of trading.
- Preventing delays due to re-work.
- Delivering a product of which all involved can be proud of.

Goosen (2009) says that in his experience as a Main Contractor working in rural and underdeveloped areas, obtaining the necessary skills required to ensure the building is of the standard desired is the biggest problem that he is faced with. There are basically two options available to the contractor, either import the required skills, or develop the existing skills in the area.

Sloan (2009) states that often in the negotiations in the process of obtaining land it is necessary to submit a plan, which indicates how the local economy will benefit. It is also a key concern of local governments that if development happens in their areas, then the wealth is retained in the area. Therefore if a developer wishes to have longevity in the industry, then the developer must be seen to be effective in enhancing the local economic benefit of the areas surrounding the development. Thus a contractor only has one option available to him if he wishes to ensure that best building practices are adhered to, and that is developing the skills that are locally available.

### **5.3 Skills Development**

To facilitate the skills development and ensure the employment of locals on developments in rural areas in Limpopo, Sloan has developed a model, which incorporates the local community – The Project Steering Council. The project steering council system is made available to the main contractor, and he is encouraged to make use of it through a benefit scheme. The project steering council system is implemented prior to construction beginning and is facilitated by the developer.

The system aims to ensure that local labour is utilised during construction and later by the tenants. It identifies available skills, suppliers and materials, which are indigenous to the area. It takes cognizance of shortages in the previously mentioned fields, and allows the professional team to alter designs, to accommodate the available skills (Sloan 2009).

The project steering council is made up of representatives from various stakeholders in the project, most prominently the developer, the contractor, local leaders, and major tenants - at a later stage, and domestic sub-contractors.

The Steering Council's first order of operation is to establish a labour desk. A community liaison officer, who is appointed by the steering council and who is paid for his services by the developer and is responsible to the council, operates the labour desk.

The labour desks duties include:

- Sourcing local labour and CV's.
- Sourcing local suppliers.
- Maintaining relations with the community.
- Advising the steering council on local representation in the project.

- Running skills development workshops when required.

Sloan (2009) states that the most perceivable and noticeable benefit of utilizing the project steering council system is that the developer is visibly seen to be active in community upliftment and involved in local economic development.

The function of the council needs to be carefully managed to ensure that it, is a successful endeavour, and not just a farce (Honeyborne 2009). The council needs to be educated in their purpose so that they do not hamper the building process, and interfere with the daily business of the contractor and professional team. The members of the council will by nature very often be local political Figures, and their objectives will differ greatly from the developers, and thus the process can be exhaustive, however the benefit that is derived from it exceeds the negative aspects (Sloan 2009). Below is a Figure, which shows the compilation of a typical project steering council, and shows how the benefits flow of the system flows back to the developer.

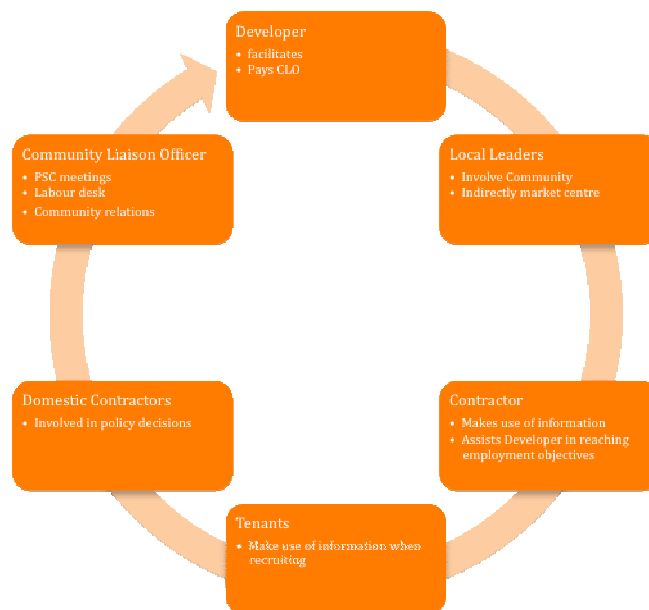


Figure 15: Community Steering Council Diagram  
Source: Author's own



Mukhari (2009) a domestic sub-contractor on Case Study 2 and 3, states that his personal knowledge with regards to construction as well as that of his employees has greatly increased with the developments. He further says that his teams' productivity has increased, and the quality of their workmanship has evolved to a point, where his company is now being considered for an up-market residence in Louis Trichardt. This illustrates how the skills development workshops, and exposure to projects where the professional team has taken an uncompromising stance on quality has provided a domestic sub-contractor the opportunity to employ more persons, and develop his product delivery.

#### **5.4 Design**

The design of structures in rural and underdeveloped areas in Limpopo province is extremely modular, and in the majority of the existing buildings incorporate very little of the surrounds and the culture of the people. There is very little in the built environment, which evokes an emotion in one when you enter the space occupied by the building (Botha 2009). An important concept in developing shopping centres in rural and underdeveloped areas is that the design must create a feeling of community the shopping centre must become a place of meeting for the community, a place which they call their own (Sloan 2009). To accomplish this it is necessary for the designers to consider the communities' needs and wants. They should consider activities, which are already taking place in the area and incorporate them into the design. Materials, which are locally available, must be incorporated into the design. Amenities, which will be available in any shopping centre, should be provided.

#### 5.4.1 *Supporting activities*

The most common supporting activities of a shopping centre in a rural and underdeveloped area are taxi ranks, bus stops, hawker stores and schools. Instead of being repulsed by them as many developers would in the larger economic centres, they should be embraced and incorporated into the centre, to increase the community feel (Sloan 2009).

In Case Study 1 the site is situated on an area, which was used for sports fields by the neighbouring school. Adjacent to the site was a taxi rank, which was a stop for taxis travelling in several directions and a drop off point for busses, which commuted to the closest town. Surrounding the taxi rank were approximately 67 hawker stalls. To incorporate these supporting activities into the centre the designers incorporated a new transport system, which incorporated busses and taxis which in appearance is similar to a train station.

The system was developed in conjunction with the bus operators and taxi association to bring the people in and out of the centre directly. New hawker stalls were built – some with built in cooking facilities – and the hawkers from the taxi rank were given an opportunity to move their businesses into the centre. In the opinion of Watts (2009) these measures even though costly at the time, are now an integral feature of the shopping centre, and in large are responsible for the acceptance of the centre by the community, and prevented any backlash from local businesses. Below are Figures which depict the new taxi rank, and hawker stall area at the centre. There are before and after shots to illustrate the difference.



Figure 16: Elim taxi rank and Hawker Stalls  
Source: Author's own



Figure 17: Hubyeni Mall taxi rank and hawker stalls  
Source: Author's own

#### 5.4.2 *Material selection*

Material selection plays an important role in design (Botha 2009). It impacts the aesthetics and cost of the building. Both these factors are of significance to the developer, as they both play a role in the appeal of the building as an investment. Goosen (2009) states that some of the problems that are faced with, when obtaining materials in rural areas are:

- High transport costs.

- Longer than average lead times.
- Availability
- Quality

It is easier to compensate for these problems in the design of the building than to, attempt to rectify them during construction. Utilizing the project steering council system it is possible to determine, what is available in the area in terms of standard building material, and finishing materials. Making use of locally available materials assists with local economic development, as well as, enhancing the feelings of ownership in the community. In Case Study 1, the architect made use of a clay tile on the façade, which was manufactured by the local pottery ladies. The tiles caught the attention of a local businessman who now distributes their ware. In Case Study 2 the architect wished to use a natural stone finish on the entrance towers and there was an abundance of loose rock in the area. Locals were paid to bring the rocks to the site for rework, creating further spin-of opportunities for wealth creation within the area.

Building materials, which may seem readily available in the large economic areas such as aggregate and stock bricks are not always available in the quantity required. Therefore careful planning and management of the builders' resources is necessary (Goosen 2009). Below are Figures, which illustrate the use of locally available materials.



Figure 18: Clay Tiles (visible on the column to the left)  
Source: Author's own



Figure 19: Locally sourced Natural Stone  
Source: Author's own

## **5.5 Summary**

The developers need to be seen to be actively involved in the community is most visible through his attempts to make use of local labour and stimulate local economic development. The design and construction phase of the project allows the developer to meet his obligations in this regard. The design and construction of shopping centres in rural and underdeveloped areas, does not need to be of a sub-standard, and through applying themselves the professional team can deliver a product, which is of superior quality and standard.

The project steering council system that Sloan has developed and applied to projects in rural and underdeveloped areas, allows the developer to make use of local resources and labour. The system is effective because it incorporates the community on a certain level of decision making, without compromising the projects ability to be financially successful. The spin-off enterprises that can result from the system further enhance the status of the project, as a community-benefitting venture.

The skills that the local domestic contractors, amass during the construction of the projects, allows them to develop their businesses to the point where they are able to participate in a wider variety of projects, as their quality and productivity are increased.

There are materials, which are locally available and aesthetically pleasing, and extra effort required to source them is advantageous to all the stakeholders involved from a reputation and cost perspective.

## **5.6 Statement of Hypothesis**

“Through appropriate design and careful material selection, as well as skills development and skills transfer, it is possible, to construct

a retail development of a very high quality and standard, which will not be amiss in the most prominent suburbs of the larger economic centres.”

The hypothesis can be accepted.

## **Chapter 6 - Conclusions**

### **6.1 Main Problem**

“How to deliver a feasible, sustainable “turnkey” retail development in underdeveloped areas that satisfies the needs of the client, tenants, community and the investor.”

This problem was investigated under 4 sub-problems. The four sub problems were namely:

- Is it possible to acquire land in rural and underdeveloped areas for turnkey retail development?
- Is it possible to let a retail centre, and manage the tenants in a rural and underdeveloped area?
- Can the developer obtain finance, and control the costs and budget for a retail centre in a rural and underdeveloped Area?
- Can a retail centre be designed and built in a rural and underdeveloped area, which would not be amiss in an up market suburb?

In discussing and determining solutions for the problems research was conducted on 3 case studies. Initially 4 case studies were planned, however the, fourth was cancelled by the developer for private reasons, and therefore there was insufficient material to consider the information for inclusion.

Surveys were conducted on patrons of the case studies, as well as known property investors to determine whether statements made by the developer were realistic.

Interviews were conducted with the staff of the developer of the developer of the 3 case studies, to determine procedures that they followed and constraints that they experienced.



An interview with a member of a prominent South African finance house was conducted to ascertain the requirements of financiers in the development of retail property.

Various publications – in print and Internet based – were utilised to support theories and statements made during the interviewing process.

## **6.2 Land Acquisition**

### *6.2.1 Sub problem*

How to go about acquiring land that will be suitable in location and cost for the development. The difficulties that are involved in obtaining state/tribal land and converting it into private land. Dealing with local government institutions and officials to obtain state/tribal owned land for development and making use of existing private land in established townships.

### *6.2.2 Statement of hypothesis*

Acquiring land in rural and underdeveloped areas for development is possible and an alternative for developers to consider to development in established developed urban areas.

### *6.2.3 Conclusions*

When obtaining land for development in rural and underdeveloped areas the factors that make a site suitable for developments alike to the factors which would make a suitable site in a larger economic centre. The location of a site is the most important determining factor of the projects potential success.

Land in rural and underdeveloped areas will be found in different forms, namely state owned under a tribal authority, municipal owned land and privately owned land. The status of the lands ownership, and the rights associated with the property will have an influence on the cost of the land. There is legislation in South Africa

which facilitates the development of land in rural and underdeveloped areas, namely the Interim Protection of Informal Land Rights Act of 1996, which protects the interests of persons residing on state owned land and the Development Facilitation Act no. 67 of 1995, which allows private individuals and organizations to obtain control of this land.

It was shown that it is possible to obtain the land and develop it irrespective of the format in which it is found in, as the three case studies were initially each found in one of the aforementioned formats.

On this basis the hypothesis for land acquisition was accepted.

### **6.3 Leasing and Tenant Co-ordination**

#### *6.3.1 Sub problem*

Convincing national tenants that they should be interested in establishing themselves in these areas, is possible. The combination of careful selection and “coaching” of the local tenants combined with a good mix of shops appropriate to the area can provide an interesting product for investors.

#### *6.3.2 Statement of hypothesis*

Convincing national tenants that they should be interested in establishing themselves in these areas, is possible. The combination of careful selection and “coaching” of the local tenants combined with a good mix of shops appropriate to the area can provide an interesting product for investors.

#### *6.3.3 Conclusions*

Leasing and tenant co-ordination are two of the development processes, which are interrelated and crucial to the success of the development. The lines of communication between the representatives of the two disciplines must be maintained at all

times. The tenant coordinator serves as a link between the design team and the leasing agents, which is vital to the flow that stems from brokers negotiations and the tenants' requirements.

The importance of designing and obtaining the correct tenant mix will have an effect on the cost of the development, its potential yield, obtaining finance and the marketability of a shopping centre. Even though the results of questionnaire 1 and 2 showed that the patrons of the centres were satisfied with the tenant mix, a overwhelming majority of the patrons still travelled to the closest large economic centre to conduct activities. These results are contradictory however not much should be read into them.

Utilizing the tenant co-ordination process, and careful selection it is possible to educate the local tenants, and ensure that they produce a store of significant quality so that it their stores do not degrade the centre.

On this basis the hypothesis for leasing and tenant co-ordination was accepted.

## **6.4 Finance and Budget Control**

### *6.4.1 Sub problem*

How can equity and finance be obtained from investors and financial institutions? Can tight control of the project budget and cash flow set the project on a path to financial success? Ensuring that all the stakeholders of the project consider the venture a financial success will be major consideration in the parties becoming involved in similar projects later.

### *6.4.2 Statement of hypothesis*

Obtaining equity, securing finance and tight budget control, can ensure the overall financial success of the venture.

### 6.4.3 *Conclusions*

Obtaining equity for property development is possible. The reasons that investors will invest in a development vary, however they are always interested in the financial reward for the investment. The developers ability to fit all the relevant information of the development into a comprehensive business plan and pitch it to potential investors, will determine whether investors are interested or not. The reason that equity is required in property development is mainly to obtain finance.

Finance is necessary in property development to facilitate the high capital costs that is associated with the industry. When obtaining finance the developer should always consider his/her options, as the cost of finance will impact heavily on the potential profit of the scheme should the terms of the deal be un-favourable. The requirements of the financial institution, and the applicable legislation – namely the financial intelligence act - will have to be met before finance can be accessed.

To ensure the ultimate financial success of a property development, there needs to be a high degree of control over the budget. For the development to be financially successful, all the stakeholders' financial objectives should be met. The most efficient means of meeting all these objectives is through managing the budget. Budget control will ensure that there are sufficient funds to complete the project, and that the investors returns are realized.

On this basis the hypothesis for finance and budget control was accepted.

## 6.5 **Design and Construction**

### 6.5.1 *Sub problem*

Can a centre be created which is aesthetically pleasing, of sound construction and incorporates the use of local materials? How does

the contractor make use of all the local labour and skills that are available to him/her, and further more developing skills that are required instead of importing them.

#### 6.5.2 *Statement of hypothesis*

Through appropriate design and careful material selection, as well as skills development and skills transfer, it is possible to construct a retail development of a very high quality and standard, which will not be amiss in the most prominent suburbs of the larger economic centres.

#### 6.5.3 *Conclusions*

If the particular needs and requirements of a community in a rural and underdeveloped area that is being considered for a potential retail development are addressed during the design development phase of a project are considered then the project will benefit from community support, which is vital to the project's success. If the design incorporates features such as public transport, hawker stalls, and community areas then the centre can become a natural congregation area for the community.

The project steering council system is an effective tool to facilitate skills development and skills transfer, as well as a invaluable source of labour and materials to the development. The project steering council also integrates certain stakeholders in a mutually beneficial relationship where issues and policies can be discussed. The developer's facilitation of such a system also further enhances his status as a socially responsible developer, whose interests lie not only in personal wealth creation.

Through diligence and use of available resources the project will also result in a centre, which can be associated with much wealthier areas. This factor is very important for the potential future

sale of the development, as well as the longevity of a developer concentrating in a particular area.

On this basis the hypothesis for design and construction was accepted.

#### **6.6 Solving of the Main Problem**

Based on the conclusions reached in the four sub problems, the practical application of the three case studies and the research conducted the main problem has been solved, within the delimitations set out in Chapter 1.

#### **6.7 Recommendations**

Further studies on similar developments in other provinces within South Africa, to determine whether the conclusions reached for the sub problems hold true across the country, and within different sets of social groups would enhance the value of this study.

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**Annexure 1**

**Questionnaire Regarding Patron Perceptions and Usage of  
the Nzhelele Valley Shopping Centre:**

## Nzhelele Valley Shopping Centre



### Questionnaire Regarding Patron Perceptions and Usage:

Please indicate in the box provided what your answer to the question is.

1. Are you satisfied with the diversity of services and retailers that the centre currently provides?

Yes		No	
-----	--	----	--

2. What transport and other related savings do experience as a result of the centre's location?

R0 – R50	
R50 - R100	
R100 – R200	
R200 & more	

3. Do you feel that the shopping centre has benefited and involved the community through its life cycle thus far?

Yes		No	
-----	--	----	--

4. Please order the benefits by importance, that the centre has provided to the community, as you perceive them to be 1 being the most important.

Temporary job creation & Skills transfer	
Permanent job creation	
Convenient shopping	
Competitively priced goods and produce	
Reduced transport costs	

5. Do you still experience the need to travel into Makhado to conduct monthly shopping activities?

Yes		No	
-----	--	----	--

**Annexure 2**

**Questionnaire Regarding Patron Perceptions and Usage of  
the Hubyeni Shopping Centre:**

## Hubyeni Shopping Centre



### Questionnaire Regarding Patron Perceptions and Usage:

Please indicate in the box provided what your answer to the question is.

1. Are you satisfied with the diversity of services and retailers that the centre currently provides?

Yes		No	
-----	--	----	--

2. What transport and other related savings do you experience as a result of the centre's location?

R0 – R50	
R50 - R100	
R100 – R200	
R200 & more	

3. Do you feel that the shopping centre has benefited and involved the community through its life cycle thus far?

Yes		No	
-----	--	----	--

4. Please order the benefits by importance, that the centre has provided to the community, as you perceive them to be 1 being the most important.

Temporary job creation & Skills transfer	
Permanent job creation	
Convenient shopping	
Competitively priced goods and produce	
Reduced transport costs	

5. Do you still experience the need to travel into Makhado to conduct monthly shopping activities?

Yes		No	
-----	--	----	--

**Annexure 3**

**Questionnaire Regarding Equity Investment in Property**



## Business Persons and Property Investors

### Questionnaire Regarding Equity Investment in Property

Please indicate in the box provided what your answer to the question is.

1. Have you invested in a property development in a rural and underdeveloped area previously?

Yes		No	
-----	--	----	--

2. Are you willing to invest in a property development provided that is situated in a rural and underdeveloped area?

Yes		No	
-----	--	----	--

3. Please number the following information in order of importance, on which you would base a decision on to invest in a project.

Project Concept	
Feasibility Studies	
Business Plan	
Return on Investment	

4. Please indicate for which reason you became involved in, investing in a property development.

To obtain a higher yield of your investment, than through more traditional methods of investment	
Creating work for yourself	
Obtaining additional monthly income	
Building a property portfolio	
Retirement investment	

**Annexure 4**

**Case Study 1 – Hubyeni Mall**



## **Hubyeni Shopping Centre**

### **Professional Team:**

Developer:	Kerr Limpopo Property Investments (Pty) Ltd
Project Manager:	Kerr Developments (Pty) Ltd
Architect:	Studio 3 Architects (Pty) Ltd
Quantity Surveyor:	Storm Sciocatti (Pty) Ltd
Civil Engineer:	Dekker & Gelderblom (Pty) Ltd
Structural Engineer:	Dekker & Gelderblom (Pty) Ltd
Electrical Engineer:	Wood & Associates (Pty) Ltd
Mechanical Engineer:	Q-Mech (Pty) Ltd
Tenant Coordinator:	Kerr Developments (Pty) Ltd
Leasing Agent:	The Property Practice (Pty) Ltd

### **Main Contractor:**

GD Irons (Pty) Ltd

### **Community Liaison Officer:**

Samuel Mbhombi



**Annexure 5**

**Case Study 2 – Nzhelele Valley Shopping Centre**



## **Nzhelele Valley Shopping Centre**

### **Professional Team:**

Developer:	Kerr Limpopo Property Investments (Pty) Ltd
Project Manager:	Kerr Developments (Pty) Ltd
Architect:	3 – Point Architects (Pty) Ltd
Quantity Surveyor:	Storm Sciocatti (Pty) Ltd
Civil Engineer:	Dekker & Gelderblom (Pty) Ltd
Structural Engineer:	Dekker & Gelderblom (Pty) Ltd
Electrical Engineer:	Wood & Associates (Pty) Ltd
Mechanical Engineer:	Q-Mech (Pty) Ltd
Tenant Coordinator:	Kerr Developments (Pty) Ltd
Leasing Agent:	The Property Practice (Pty) Ltd

### **Main Contractor:**

Platinum Mile Investments (Pty) Ltd. t/a Vision Construction – Frik Goosen

### **Community Liaison Officer:**

Lucas Ramathavana

Annexure 6

Case Study 3 – Phangami Mall



## **Phangami Mall**

### **Professional Team:**

Developer:	Omigpi Kerr Property Investments (Pty) Ltd
Project Manager:	Kerr Property Investments (Pty) Ltd
Architect:	Boogertman & Partners (Pty) Ltd
Quantity Surveyor:	GK Projects (Pty) Ltd
Civil Engineer:	Dekker & Gelderblom (Pty) Ltd
Structural Engineer:	Dekker & Gelderblom (Pty) Ltd
Electrical Engineer:	Wood & Associates (Pty) Ltd
Mechanical Engineer:	Q-Mech (Pty) Ltd
Tenant Coordinator:	Kerr & Walker Property Developers (Pty) Ltd
Leasing Agent:	The Property Practice (Pty) Ltd

### **Main Contractor:**

Platinum Mile Investments (Pty) Ltd. t/a Vision Construction – Frik Goosen

### **Community Liaison Officer:**

Margaret Ndu