

## Inner City Property Scheme

05 April 2011

Statement by the Executive Mayor of the City of Johannesburg, Clr Amos Masondo, on the occasion of the media briefing on progress of the Inner City Property Scheme (Project), Metropolitan Centre, Committee Room C, Braamfontein – Johannesburg

MMC for Economic Development: Clr Oupa Monareng

Members of the Mayoral Committee

City Manager: Mr Mavela Dlamini

Fellow Councillors

Official and Managers

The Media

Ladies and Gentlemen

The Inner-City Property Scheme (ICPS) is an important initiative by the City of Johannesburg, in partnership with the private sector, to address urban decay and accelerate the rejuvenation of the CBD.

Across the world, in most of the big cities, the state and appearance of a Central Business District is an important barometer to determine the ability of a city to attract and retain investment. It is also a reflection of the extent of the advancement to commerce and overall economic development.

At the Inner City Summit, held in 2007, there was a general consensus on the need to stabilise the Inner City of Johannesburg, arrest the tell-tale signs of urban decay, combat crime and grime.

The Summit adopted an Inner City Charter which provides a broad framework for future programmes and actions. Subsequently, specific strategies and programmes have been added to enable the City to meet its objectives of a growing, vibrant, cleaner, greener and safer Inner City. The transformation of Newtown, Brickfields Residential Development, Constitutional Court precinct, Mandela Bridge and the redevelopment of the Ellis Park precinct are some of the examples.

One of the concerns has been the way in which some of the residential buildings in the Inner City have deteriorated over the years showing signs and characteristics of urban decay.

In many instances absentee owners have simply abandoned the buildings without any further investment in the maintenance and upkeep. In other cases, given the high demand for

accommodation, unscrupulous landlords continue to exploit the dire situation by charging exorbitant rentals.

Sometimes buildings are simply "taken over" and appropriated by organised groups and turned into a havens for criminal activity, drug running and prostitution or worse.

For a period, the City responded to this tendency through a strategy known as the Better Buildings Programme. The objective was to focus on the so-called "bad buildings" - where the amount of arrears owed in rates exceeds the market value of the building - with the aim of turning them into "better" buildings.

The City has had to intervene. In some cases expropriating these buildings and offering them to investors who were willing to do the required refurbishment and pay the outstanding rates – mostly through auction.

It has become apparent that the Better Building Programme only achieved moderate success and that it was hamstrung by a number of factors such as the lengthy expropriation process, the screening of participants and the requirements to provide transitional housing to people who have been evicted.

The Inner City Property Scheme is a solution, developed by the Department of Economic Development, to transfer expropriated properties into an Inner City Property Portfolio in the process of passing these onto a new company.

It is expected that Broad Base Black Economic Empowerment (BBBEE) participants will hold the controlling shares in this "Newco". The participating entities were selected through a Request for Proposal (RFP) process, and are required to provide a minimum equity contribution of R5 million. In addition, Newco will also raise debt capital from lenders and other providers of debt.

This makes the Inner City Property Scheme one of the most far-reaching broad-based black economic empowerment transactions yet introduced in South Africa – and definitely the biggest in the property field. One of the outcomes of this intervention will be significant job creation.

The City will be transferring properties that are dilapidated, abandoned, illegally occupied or hijacked as well as vacant pieces of land into Newco through a developmental lease with an option to buy.

It is important to note that the City retains ownership of properties until it is satisfied with the regeneration and rejuvenation of the properties. One of the shortcomings of previous projects was that properties were transferred to third parties who did not honour their obligations.

In terms of the Inner City Property Scheme the City will ensure that the option to buy is only exercised once the dilapidated property has been refurbished.

The properties to be transferred will include neglected buildings currently owned by the City as well as those acquired on a case-by-case basis by way of abandonment agreements with the property owners; sales in executions; and expropriations.

Once transferred, these buildings will be refurbished and brought in line with the building code of the City to turn them into viable and productive economic assets. Down the line these refurbished assets will contribute positive to the City's fiscus through the payment of rates and taxes.

Another, equally important feature of the Inner City Property Scheme is the creation of a panel of Broad Based Black Economic Empowerment service providers that will be responsible for the refurbishment work. This will include, amongst others, builders, carpenters, electricians, security companies, CCTV providers, landscapers and maintenance companies.

Participants in the scheme will be required, as far as possible, to make use of the services of businesses that are on the panel.

The City is also taking steps to provide for transitional housing for current residents of buildings that will be refurbished. A Transitional Housing Trust (THT) has been formed to manage this process. It will enter into an agreement with the City to provide transitional housing beds over the duration of refurbishment work on the selected buildings. The Transitional Housing Trust will also acquire buildings that will be revamped and turned into transitional housing facilities.

Thus far, we have already made substantial progress with the implementation of the Inner City Property Scheme. The following steps have been completed:

The establishment of the panel of service providers;

The appointment of the trustees of the Transitional Housing Trust;

Identification of the property portfolio;

The short listing of preferred investors; and

The preliminary discussions with preferred investors and potential funders.

The Inner City Property Scheme is an original and ground-breaking development that puts Johannesburg at the leading edge of modern thinking on the regeneration of the urban environment.

We are confident that the Inner City Property Scheme will:

Breathe new life in the City's efforts to regenerate and rejuvenate the Inner City and attract new business, investors and tenants;

Help to significantly arrest (add momentum to work already done) and address the decline of the Inner City and combat urban decay and grime;

Create the biggest black-owned Inner City Property Scheme in South Africa and

Empower small- and medium-sized businesses in the construction and maintenance sectors.

This in many ways represents an innovative and creative approach that will take the Inner City Urban Renewal and Regeneration to a new level.

Thank you