



SOUTH AFRICAN LOCAL
GOVERNMENT ASSOCIATION

SALGA

Inspiring service delivery

STRUCTURING PROPERTY DEALS FOR EFFECTIVE URBAN DEVELOPMENT – THE ROLE OF THE MUNICIPALITY

**BCMDA INVESTMENT CONFERENCE
28 NOVEMBER 2019**

FOCUS OF PRESENTATION

- Spatial Planning and Land Use Management
- Optimising Revenue Collection From Municipal Properties
- Red Tape Reduction and Ease Of Doing Business
- Public Private Partnerships
- Land Based Financing Models

Theory and facts around investment

- ***Municipality as investors and investment destinations***
- Investment drives economic growth

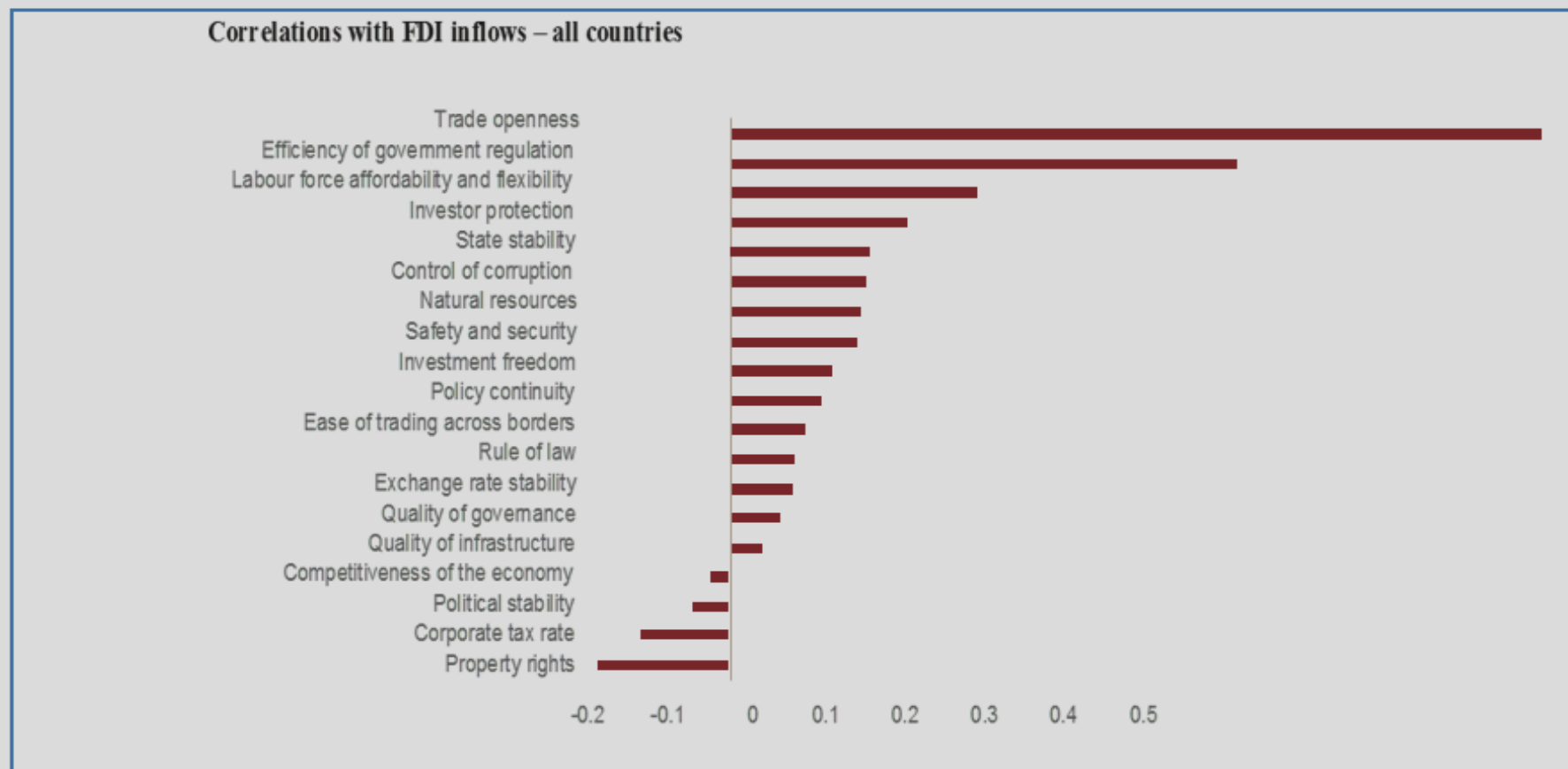
$$GDP = C + G + I + X - M$$

- The mantra “****is open for business is now popular” across the world
- Countries and cities are competing for investors
- Countries are engaging in aggressive marketing to attract investors
- Municipalities are not really active in this space.....yet all investors operate in a municipal area
- Domestic and international investors are all important for creating growth and creation of jobs
- **What factors do investors consider when deciding destinations for investment.....**

Factors potential investors consider to make investment choices – PriceWaterhouseCoopers 2018

FIGURE 1.5

CORRELATIONS WITH FDI INFLOWS 2018 – IN 132 COUNTRIES OF THE WORLD



Source: PWC, 2018

19 key variables that potential investors will consider in their investment decisions in order of correlation



SPATIAL PLANNING & LAND USE MANAGEMENT

Role of Spatial Planning and Land Use Management in Investment Promotion

- Municipalities need to create an enabling environment for public and private sector investment (World Bank Report- Doing Business in South Africa, 2015-2019).
 - Spatial planning and land use management is among the tools used to create that environment.
 - **Spatial planning** (i.e. Identification of future areas for development and investment through the use of long-term strategic plans e.g. Spatial Development Frameworks.)
 - **Land use management** and the regulation of **land development** (i.e. Evaluation of land use and land development applications. Procedures, time and cost to complete all formalities to obtain land use rights. Granting of land use rights and construction permits including quality control and safety mechanisms in the construction permitting system.)

Role of Spatial Planning and Land Use Management in Investment Promotion

- **SPLUMA compliance** is critical in order for municipalities to effectively promote investment:
 - *SDFs* to indicate areas of private sector investment and public sector investment priority.
 - *Land Use Schemes* to grant land use rights.
 - *Authorised officials, Municipal Planning Tribunals and Appeals Authorities* to assess land use applications.
 - *Systems* of receiving and processing applications.
 - *Tariffs* to determine costs of land use and land development applications.
- Without the afore-mentioned components, municipalities cannot effectively and efficiently process land use and land development applications.
 - Implications: Slow down in municipal licencing and permitting process resulting in delays in land development and land use activation.
>>Therefore, economic losses.

Role of Spatial Planning and Land Use Management in Investment Promotion

- Municipalities can also introduce **development incentives** in order to attract and promote investment.
- Examples:
 - Discounts and/or waivers on bulk services contributions.
 - Discounts and/or certain exemptions on property rates.
 - Rebates on property rates.
 - Fast-tracking land use and building application process for investment priority zones:
 - Through automation of the process
 - Set up a fast track investment approval committee (worth R*****)
 - Additional development rights for investment priority zones (incentive zoning)
 - Availing municipal land at nominal values in investment priority zones (land alienation)
- Make sure that the incentive strategies are backed by **cost – benefit analyses to safeguard municipalities from incurring losses**



OPTIMIZING REVENUE COLLECTION FROM MUNICIPAL PROPERTY

Optimizing revenue collection from property

- Municipalities own land and buildings but are they optimising revenue collection from them?
- Cities have the option of **growth by extension** (making new urban land available) or **growth by densification** (redevelopment, upgrading of under developed areas)
- Acknowledge that property rates are the most predictable and accessible source of revenue for municipalities
- Municipalities should ensure that they maintain a **live database** of their asset base (land and properties)
- Optimize revenue from the sale or lease of their properties (land and buildings)


Optimizing revenue collection from property

- Ensure that buildings are **professionally maintained** in order for municipalities to charge market based rentals and sell zoned land at market prices:
 - Plan; budget and implement Repairs and Maintenance
 - Renew and modernize buildings in order to increase market value
 - Professional property management
- In order for municipalities to be able to market/ promote their spaces as investor destinations; municipalities need to undertake a property and land audit which specifies:
 - Size of land/ building
 - Location
 - Ownership
 - Lease period
 - Intended use (residential/ industrial etc)...type of development



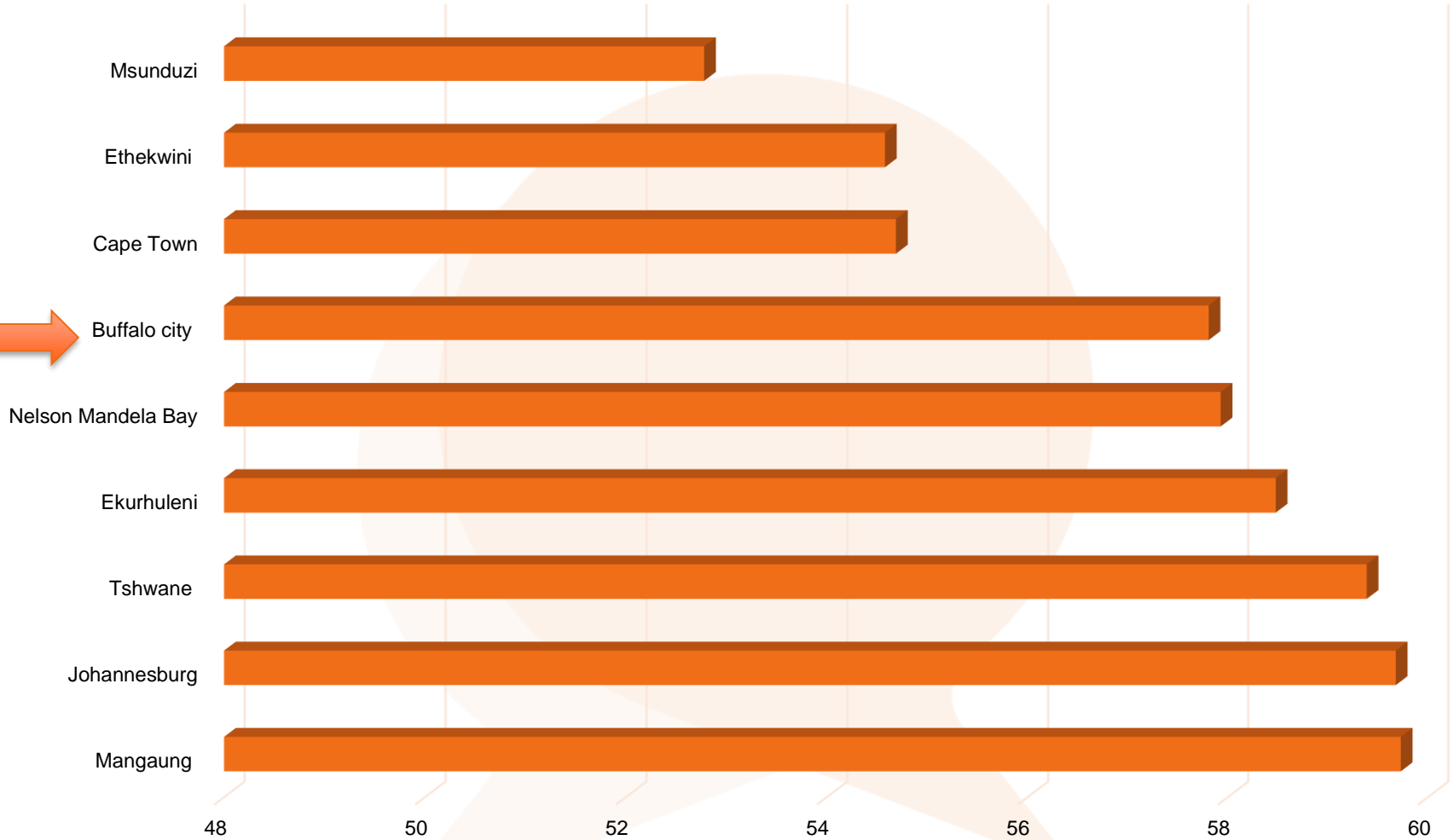
RED TAPE REDUCTION AND EASE OF DOING BUSINESS

Ease of doing business report 2018

- A worldwide survey measuring the ease of doing business in selected countries _Total 190 countries
- In SA SNDB assesses the ease of doing business in 8 metropolitan municipalities plus Msunduzi
- Major stakeholders (World Bank; National Treasury; DTI; Invest SA Swiss; Cities Support Programme; SACN
- Compare municipalities on cost and time taken to complete business set up----ease of doing business indicators
- Comparison can be done across different countries; intra-country;
- Aim is to assess the level/ extent of red tape in municipalities in as far as registration of new businesses is concerned
- **Key indicators include:**
 - Registration of property 
 - Getting electricity
 - Enforcing contracts
 - Dealing with construction permits

Registration of property- Distance from Frontier (0-100)

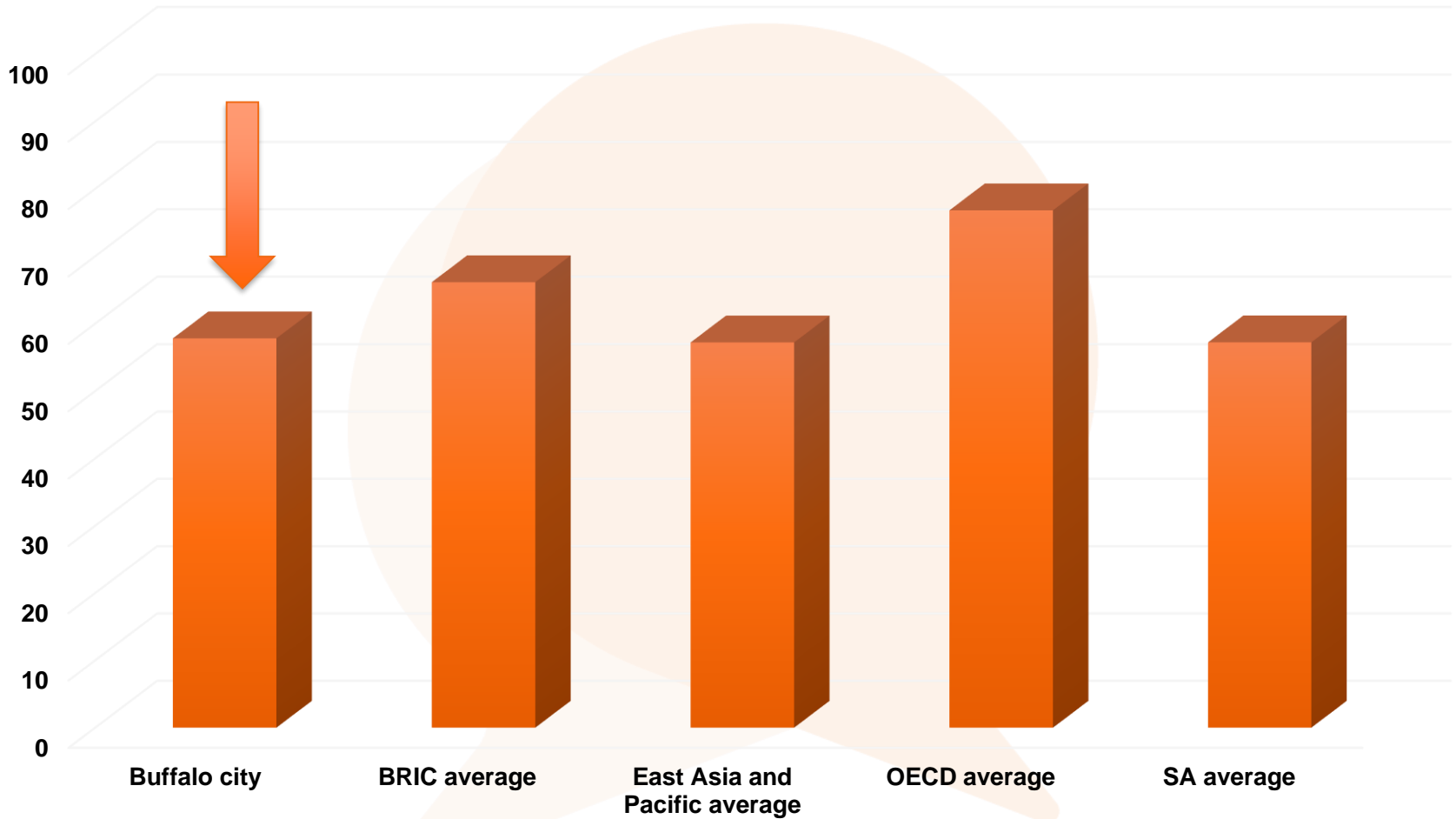
SNDB 2018



Buffalo City Vs Other regional averages

Distance to frontier- SNDB 2018

(0-100)



Registration of Property

- SA's slowest municipality takes 63 days to register property; an average of 31.7 days while the **fastest municipality takes 20 days** to register property
 - **Mangaung** cut time to transfer property through better coordination and automation. They eliminated one step and reduced time to obtain a rates clearance certificate by one month
 - **Buffalo city managed to cut time to file and serve process by 35 days**
 - With respect to registration of property, **Singapore** is the best performer
- There is a lot that municipalities can learn from each other with respect to all 4 indicators. **Buffalo City** has a lot to learn from Mangaung and other cities

National Treasury City Support Programme has a Doing Business Reform Programme aimed at ensuring that municipalities improve on the doing business indicators before the next survey/ report.

Lessons from Ease of Doing business report

- What can your municipality learn from other municipalities
 - Nationally, regionally; internationally
 - Same category
 - Same size
 - Same socio-economic status
- How can my municipality improve on my previous score for each indicator?
- What needs to be improved on in order to cut red tape?
- What strategic partnerships are required to achieve these objectives?
- What other indicators – apart from the 4 do we need to improve on?

Investment attraction and retention

Property Based

As municipalities strategize on investment attraction and retention the following fundamentals are key:

- Ensure that you have a register of zoned parcels of land that are ready and available for investors
- Know your assets (land and buildings) and their market value
- Properties/ land for sale or lease
- Preferred Businesses/ developments to be invested in (size and type)
 - ***Prevent product dumping***
 - ***Avoid illegal businesses***
 - ***Protect infant industry***
- Engage private sector for development and modernization (PPPs)-
- Cut red tape; reduce cost of doing business and improve ease of doing business
- **For investment retention**
 - Always repair and maintain
 - Modernize



FINANCING THE URBAN DEVELOPMENT AGENDA

PPPs and Land Based Financing Tools

PLANNING AND FINANCING THE NEW URBAN DEVELOPMENT AGENDA

- Address the way cities and human settlements are planned, designed, financed, developed, governed and managed
- **PURPOSE:**
 - To reduce inequality, promote sustained, inclusive and sustainable economic growth
 - Foster resilience and protect environment
 - A mutually reinforcing relationship between urbanisation and development

There need to be:

- **Development enablers** – frameworks to harness the forces of urbanisation to promote general growth
- **Operational enablers** – bolster sustainable urban development that results in better outcomes for land use and how resources are managed



Cornubia Integrated Development (Ethekwini Municipality)

- Joint venture between government and Tongaat Hulett Development.
- Mixed use and mixed income development located in Cornubia (25km N of Durban CBD).
- The development includes industrial, commercial, mixed income residential land uses as well as public open spaces.
- Located on 1300ha site.



Tshwane Automotive City (City of Tshwane)

- Joint Venture between government and automotive industry.
- Mixed-use development located in Rosslyn (20km NW of Pretoria CBD).
- The development will include a logistics node, and industrial node, commercial and recreation land uses, a community and civic node, residential land uses and public open spaces.



LAND BASED FINANCING TOOLS

LAND BASED FINANCING TOOLS

Effective leveraging of the value of municipal real estate

The market value of real estate, municipal or otherwise, is determined by establishing the highest and best use of the asset, given existing legal, physical and regulatory constraints and market demand

Land Value Capture

The recovery of profit generated by the increasing value of property as a result of public infrastructure investment.
Land value capture tools include tax levies, the sale of development rights, public land leasing, land acquisition and resale, land sales, and impact fees, among others.

Special Assessment Districts

Entail an additional tax or assessment paid by property owners within a defined geographic area (the “special assessment district”) to fund public improvements.
capital payment occurs in two ways:
i. The municipality pays for the up-front cost of the investment and is repaid over time by the special assessment revenues; or
ii. The assessment revenue cash flow is securitized

Development charges

also known as an impact fee, is a charge that a local government imposes on the developer of a new development project to pay for all or a portion of the costs to the public sector of providing public services to the new development

LAND BASED FINANCING TOOLS

| | |
|-----------------------------------|---|
| Tax Incremental Financing | <p>Tax Increment Financing (TIF) is a mechanism whereby a local government can invest in catalytic infrastructure and other capital investments using funds generated by future, anticipated incremental tax revenues within a defined geographic boundary, a TIF ‘district,’ and are unlocked by the initial catalytic investment.</p> <p>TIF district is financed by debt in anticipation of future increases of property value</p> |
| Sale of development rights | <p>Municipalities are able to monetize the value created by adjusting regulations by, for example, levying fees in exchange for allowing increased density (“up-zoning”) or for rezoning of uses from low-value (e.g., agricultural) to higher value (e.g., commercial office).</p> <p>Municipalities can also raise revenue through selling development rights through an auction system, whereby, for example, the municipality auctions the rights to develop in a specified geographic area to the highest private sector bidder.</p> |
| Density Bonus | <p>A “density bonus” is a zoning tool in which a municipality permits a developer to increase a project’s height and/or bulk greater than the zoned maximum in exchange for the developer providing a specified public good.</p> <p>a density bonus does not generate direct revenue to a municipality</p> |
| Land readjustment scheme | <p>Multiple property owners within a defined geographic boundary pool their properties together in order to enable spatial reconfiguration and unlock higher overall market value for the combined property.</p> |

International case studies

- **China** has led the world on land value capture from extension over the last decade. It showed that growth by extension can work if you harness land value to pay for it.
- There is a limit to how much you can extend
- In the **US** this has been driven by local governments from the 1950s and mainly done through government funding and partnerships with the private sector.
- **In Sao Paolo** they sold building rights to finance redevelopment by setting limits on high rise building and charging for extending the building rights
- Africa has potential for land value capture but new models are needed to finance redevelopment.
- Can we find ways to grow by densification and improve land already developed?



KEY CONSIDERATIONS

- Each mechanism involves specific market, institutional and/ or regulatory pre-conditions;
- Each mechanism has relative advantages and disadvantages depending on the specific project and market circumstances.
- The selection of an appropriate mechanism/ model is dependent on:
 - policy goals,
 - fiscal situation,
 - the ability and willingness to take on risk,
 - real estate market conditions; and
 - The institutional and regulatory capacity to implement each tool

In determining which mechanism to implement; municipalities need to conduct feasibility tests and select the best that suits their socio-economic situation

THANK YOU!