



TUHF

Challenges and Opportunities in Property Development in the Inner-City

Paul Jackson

27 – 29 November 2019



TUHF



Photo: Dylan Harbous



TUHF

IMPACT INVESTMENT: IMPACT THROUGH SCALE

Inclusive growth & transformation:

2 Concepts:

- Massive Small
- Ordinary people doing extraordinary things

Paul Jackson

November 2019

1. **BACKING ENTREPRENEURS**
2. **AFFORDABLE HOUSING**
3. **URBAN REGENERATION**
4. **EMPOWERMENT-Changing the
complexion of ownership**

TUHF FOUNDING OBJECTIVES

- Commercial property finance for Inner City entrepreneurs in large cities
- An SME financing company with a housing outcome
- A mortgage bank
 - Hard returns to shareholders
 - Economic & social impact
 - Vital in development terms – passing the “sustainable and replicable” test
- Specialized and unparalleled knowledge of market and rental housing
- Social Distance; invested and embedded
- TUHF catalyzes spatial & economic integration & facilitating urban densification



About TUHF

TRACK RECORD

16 years

8 SA Metros

R4.7 billion total funding

R3.4 billion current loan book

450 entrepreneurs

64% clients PDI

40 000 units financed

598 buildings

98% occupancy rate

**Loan book performance – comparable
with any local financial institutions**



TUHF

What makes us different?



Specialised knowledge of inner city

- Major cities in urban decline
- Municipal improvement programmes (UDZ)
- Convenience - access to schools, transport systems and businesses
- High price sensitivity
- Existing infrastructure

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Specialised approach to risk

- Best practice in loan cycle management
- Unique character and financial assessment model
- Loan appraisal and loan servicing focused on inner city property risks
- Management's deep expertise of inner city



TUHF



Hands on presence

- Unique ability to spot potential in people
- Poised to connect and build relationships
- Street level presence

Our Geographical Footprint

FOCUS AREAS

GAUTENG

- Johannesburg central and surrounds
- Pretoria CBD
- Springs CBD
- Benoni and Brakpan CBD
- Vanderbijlpark CBD
- Germiston CBD
- Southern suburbs
- Windsor East and West
- Roodepoort, Krugersdorp

EASTERN CAPE

- Port Elizabeth central and surrounds
- Uitenhage
- East London central and surrounds

WESTERN CAPE

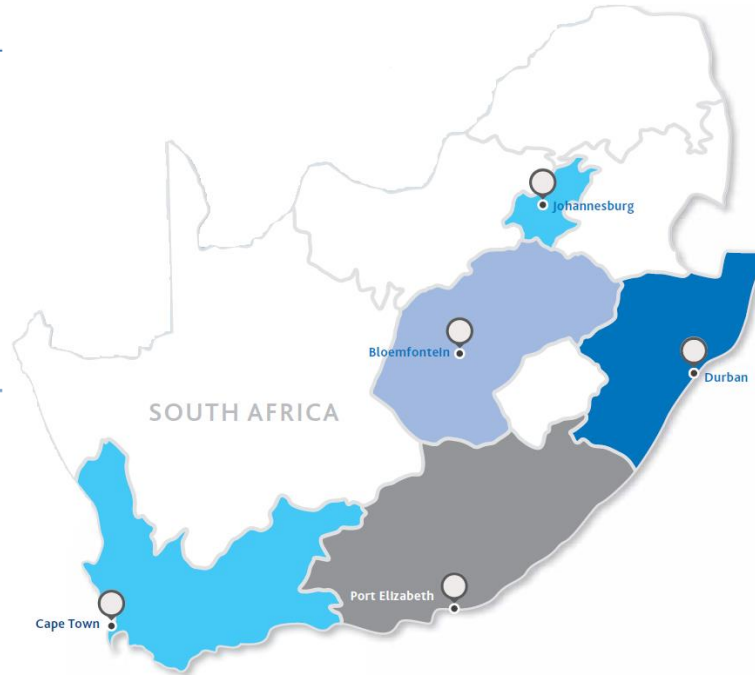
- Voortrekker Corridor (Woodstock – Belleville)
- Observatory, Woodstock, Salt River
- Rugby, Ysterplaat
- Brooklyn

KWAZULU-NATAL

- Durban central and surrounds
- Pietermaritzburg central
- Pinetown central

FREE STATE

- Bloemfontein central and surrounds

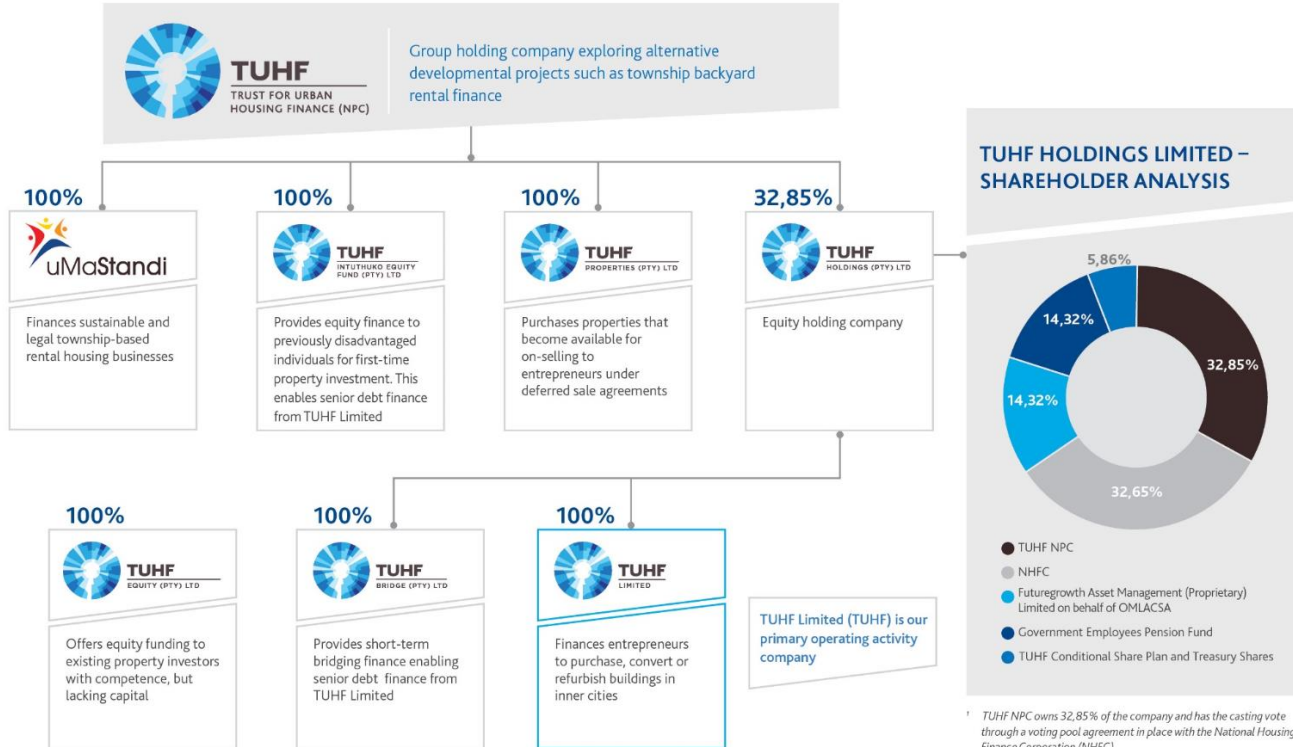


Source: Company Reports

www.tuhf.co.za



Group Structure



Source: Company Reports

Our Business Model

Inputs



Activities

- Financing SMEs in inner city property investment
- Offering experience, knowledge and expertise on property entrepreneurship in the areas TUHF operates in
- Acting as a connector between entrepreneurs and the greater network of role players
- Induction, training and mentoring for starter and emerging entrepreneurs
- Value-added services to clients

Outputs

Property Finance

- Single loan facility of 15 years
- For acquisition and development (refurbishment, conversion and new build)
- Prime linked interest rate
- Once-off raising fee
- No monthly service fees,
- Financial structuring options such as grace periods to accommodate the development and rent-up stages

Supported by



Intuthuko Equity Fund



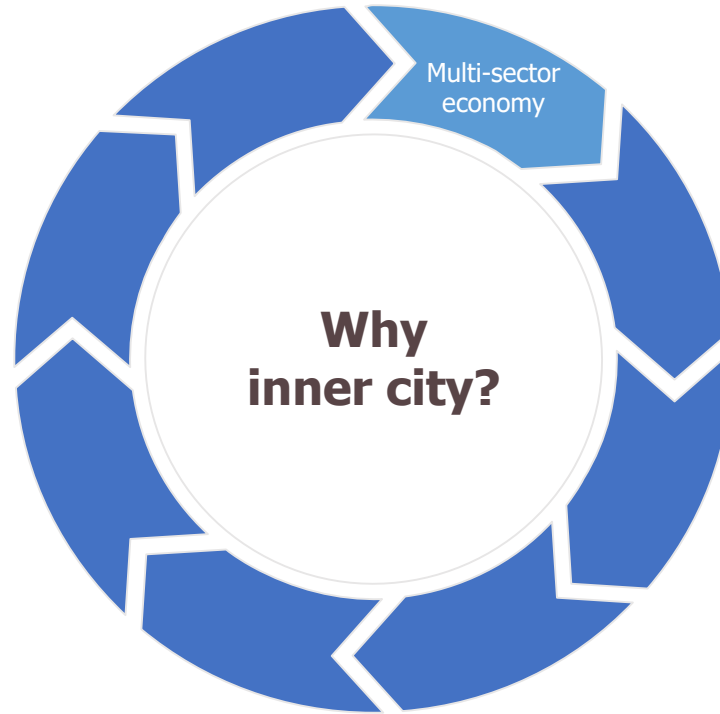
Bridging Finance

Growth Strategy = Brand and Public Profile Opportunity



Our Business Case – Multi Sector Economy

- Many different economic sectors including financial services, mining, manufacturing, tourism, transport, local and provincial government, etc.
- Rental housing demand derived from many different economic sectors



Our Business Case – Urbanisation Trend

- Rural urban migration is a natural demographic trend - not unique to South Africa – it is a global trend
- Africa and Asia are urbanizing faster than the other regions and are projected to become 56% and 64% urbanised by 2050

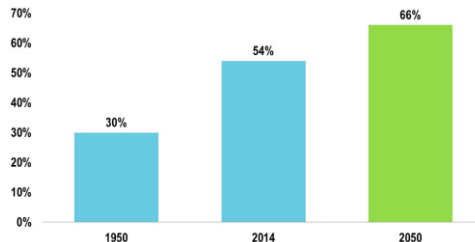


Africa remains mostly rural

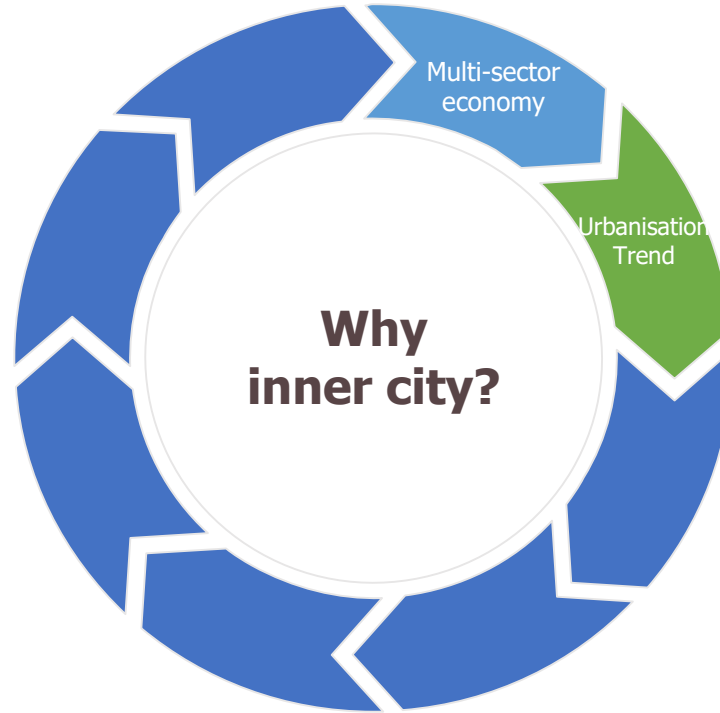
40% of its population lives in urban areas

11x More rapid urban growth rate than that of Europe

Global urbanisation: % living in urban areas



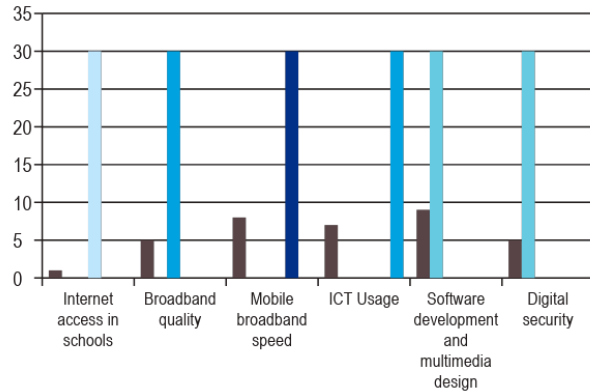
Source: World Urbanisation Prospects – United Nations Report 2014



Our Business Case – Technology Trend

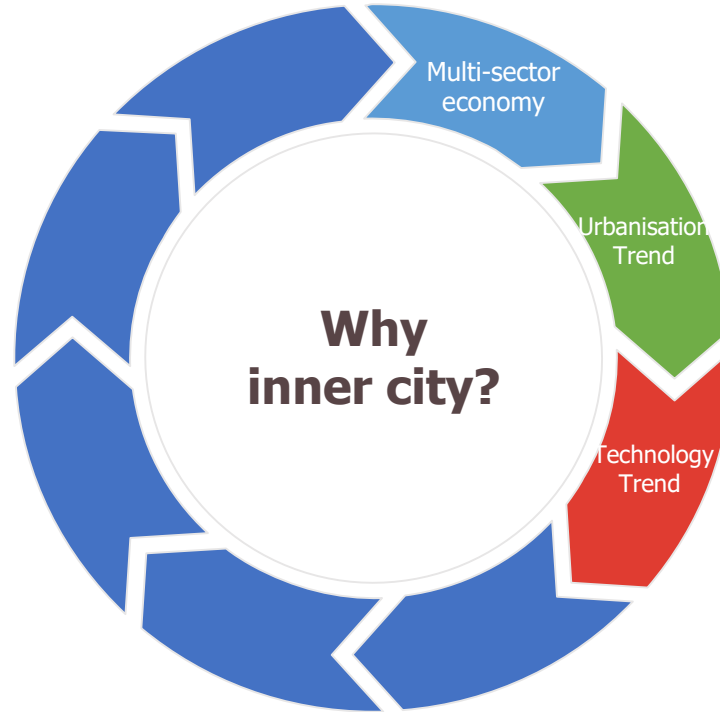
- The days of copper and wireless are numbered
- Fibre Optics is the future
- Access to information/ learning

Technology Readiness – Johannesburg vs Leaders



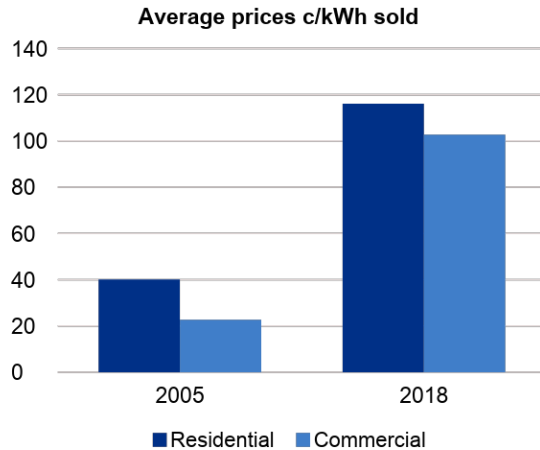
■ Johannesburg
■ Tokyo
■ Hong Kong
■ Singapore

Source: PwC Cities of Opportunity Report 7 - 2016



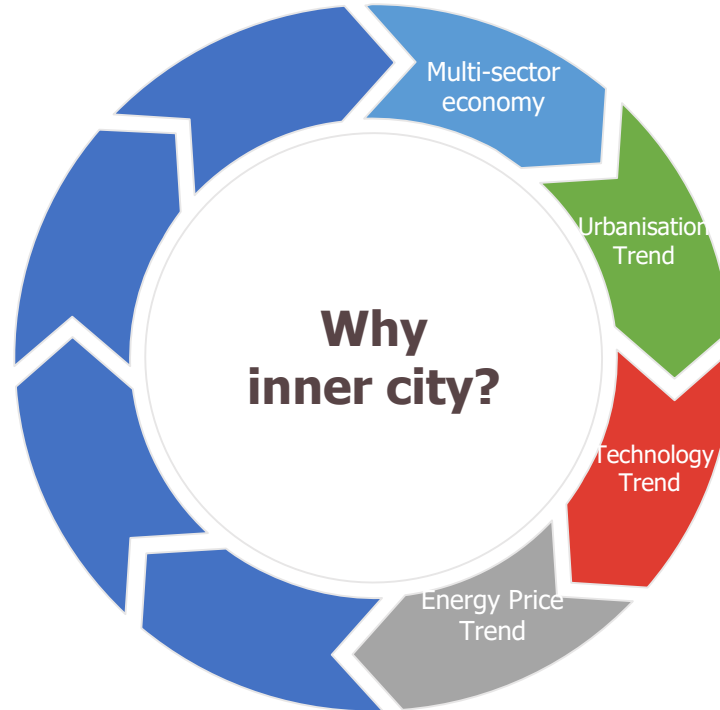
Our Business Case – Energy Price Trend

- Higher prices of fuel and resulting impact on transport costs cause people to shift closer to their place of work



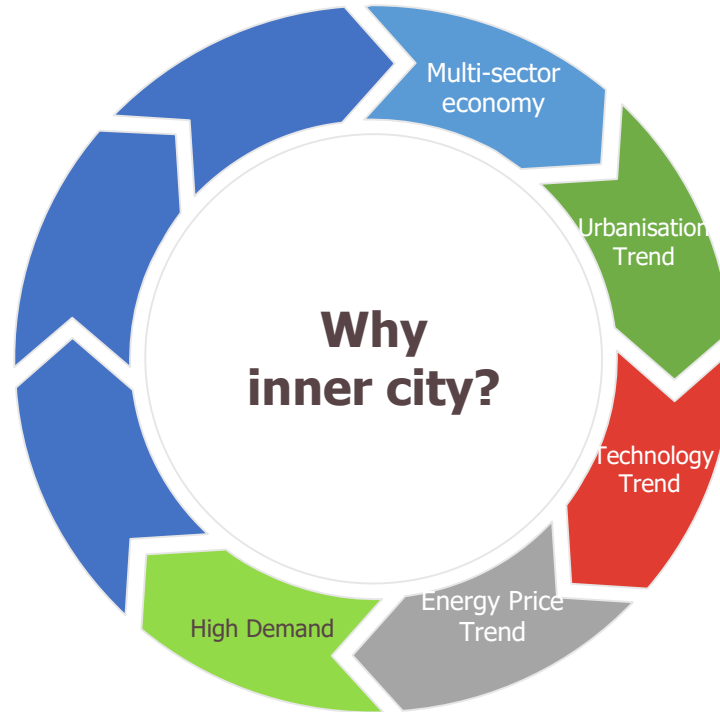
	2005/06 c/kWh	% increase	2017/18 c/kWh
Residential	40.1c	189%	116.16c
Commercial	22.7c	353%	102.781c

Source: http://www.eskom.co.za/CustomerCare/TariffsAndCharges/Pages/Tariff_History.aspx



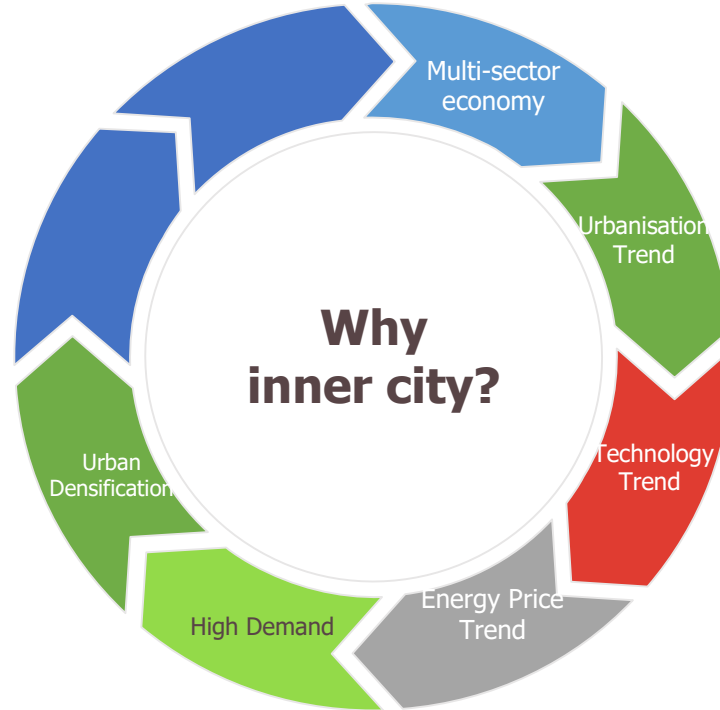
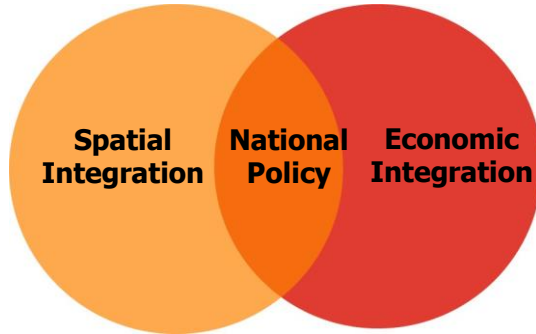
Our Business Case – High Demand

- Convenience - access to social services, schools, transport systems and businesses
- Lack of vacancies



Our Business Case – Urban Density

- Density needed to gain critical mass for economic opportunity
- Densification = combatting urban sprawl
- Prominent in local and provincial government policy
- Spatial, economic and social integration



Our Business Case – Existing Infrastructure

- Physical infrastructure – roads, storm water, sewerage and electricity
- Administrative infrastructure - Better to use existing administrative capacity
- Government infrastructure investment creates a more sustainable leveraging effect to private sector investment – e.g. the Gautrain effect, Corridors, flagship interventions etc.



Our Business Case – Important Nodes for LED

- Urban living is often associated with higher levels of literacy and education, better health, greater access to social services
- Research shows that human settlements on the periphery are more likely to keep that community poor
- Research shows that housing policy and practice has contributed to apartheid spatial planning since 1994
- Research shows that housing development can contribute to local economic development and the fiscus



Our Mandate

Borrower Segmentation

- Starter – First building
- Emerging – 1- 5 buildings
- Established – Largest +- 4000 units
- <R50m TUHF debt

Typology

- Multi-unit residential (>2 units)
- Ancillary commercial and/or retail
- New build, conversion, renovation, extension and any combination

Location

- Large Metros
- Inner city areas
- Municipal improvement programmes (UDZ)

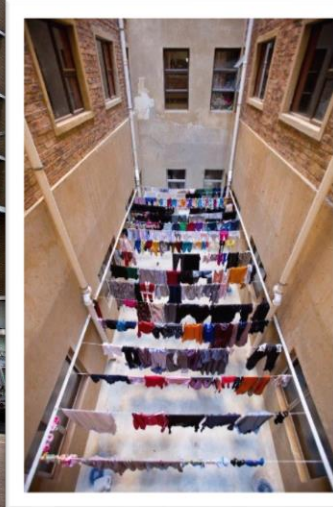
Compliance

- Building plan approvals and Project Review Consultants
- Health and safety compliance (fire, electrical, lift, etc)

Hollywood Centre Before



Hollywood Centre After





Policy confluence in the housing space:
economic, spatial & social integration,
concept of **efficient cities**



MASSIVE SMALL TO COMBAT URBAN SPRAWL

Deliver density to gain critical mass for economic activity

Many small projects all in one city =

1. Lower transactions costs
2. Broad based and inclusive participation
empowerment and urban land reform
3. Increased access to finance for entrepreneurs

AGGLOMERATION ECONOMIES!

Local Economic Development and Fiscal Impact



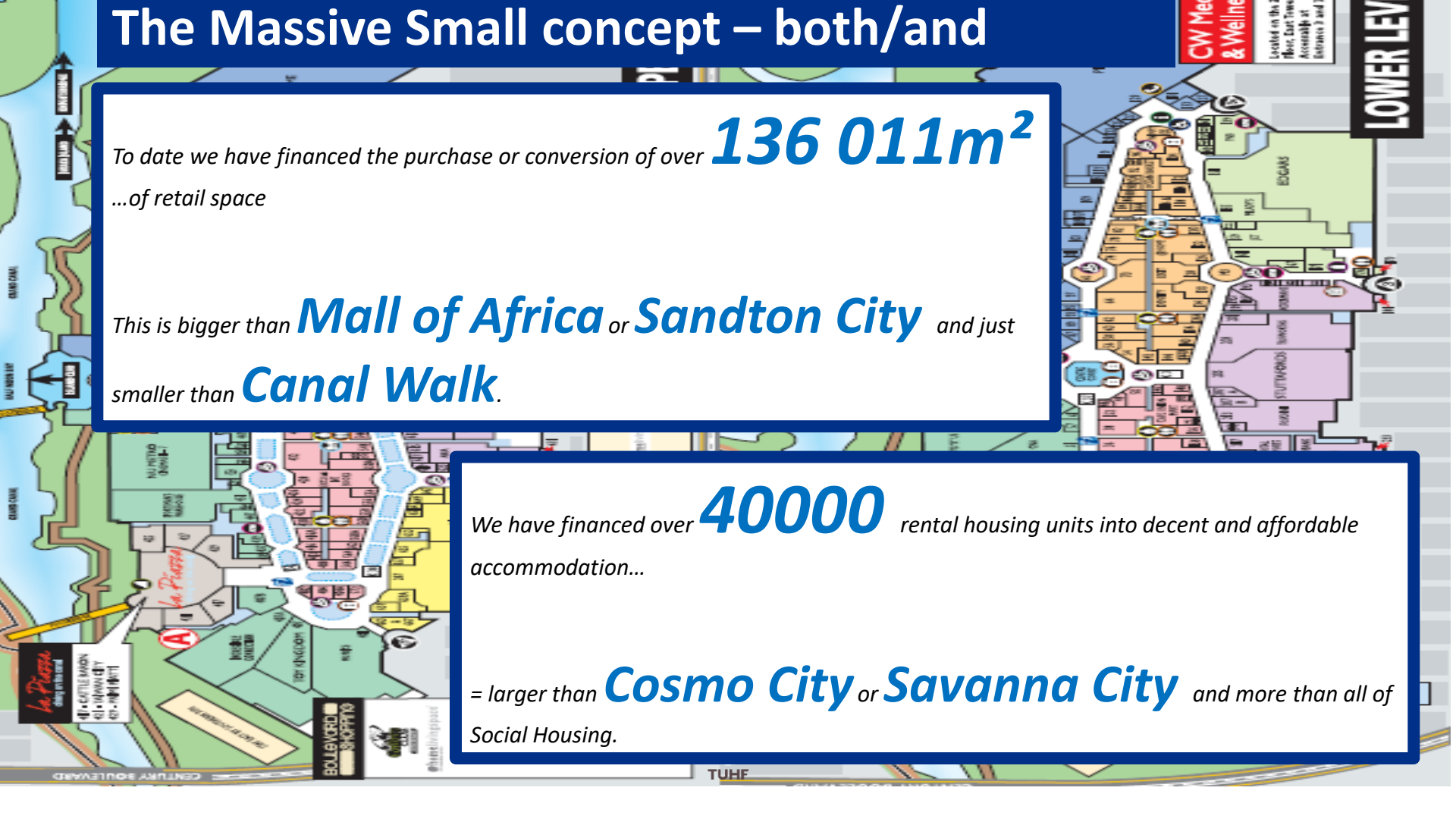
The Massive Small concept – both/and

To date we have financed the purchase or conversion of over **136 011m²**
...of retail space

This is bigger than **Mall of Africa** or **Sandton City** and just
smaller than **Canal Walk**.

We have financed over **40000** rental housing units into decent and affordable
accommodation...

= larger than **Cosmo City** or **Savanna City** and more than all of
Social Housing.





TUHF IMPACT INVESTMENT

INCLUSIVE GROWTH & URBAN LAND REFORM

ENTREPRENEURIAL GROWTH

- SME development with a housing outcome
- The chance of access to finance – any language, any level
- Training & mentoring clients every step of the way

LOCAL ECONOMIC DEVELOPMENT

- Agglomeration economies: influx of talent & increased diversity stimulates local social & economic development

JOB CREATION & SKILLS DEVELOPMENT

- During construction & subsequent property management

URBAN REGENERATION & DENSIFICATION

- Finance refurbishment derelict & hijacked buildings in Inner Cities
- Lazy Infrastructure - maximise use of existing infrastructure

→ Precincts where

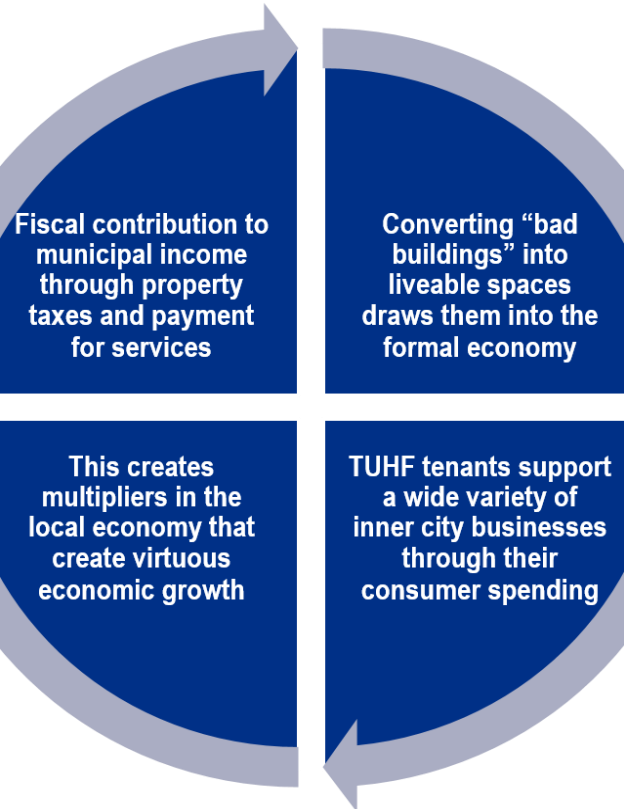
FISCAL IMPACT

- Increasing Inner City property value
- Increased & compliant utilities & rates base
- Allows Govt to focus on productive infrastructure investment

URBAN LAND REFORM

- Empowerment Finance Model – Intuthuko supported by mentoring & training

THE ABSENCE OF FISCAL ANALYSIS!

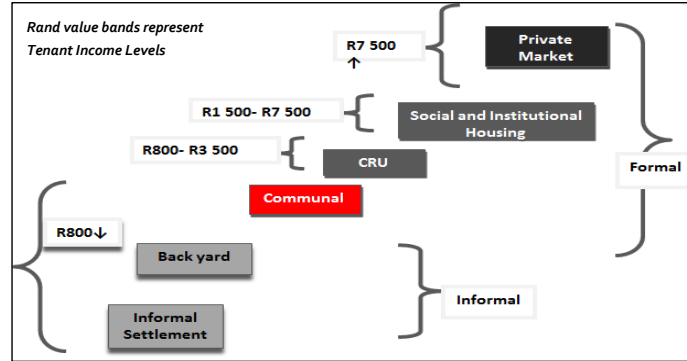


Game changers: Housing delivery by ordinary South Africans



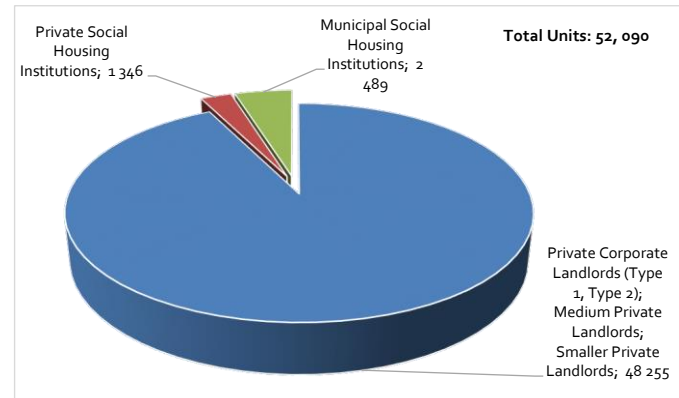
Who Delivers Inner City Rental?

Figure 11: NDoHS Proposed Rental Housing Ladder



Source: RebelGroup

Figure 13: Overall Delivery of Units in the Johannesburg Inner City



Source: Rebel estimates, JPOMA and TUHF

- A range of actors operate in different market segments
- Different financial products (equity, loans, subsidies, savings) are used by different operators
- Inner city is a 'market of segmented players'
- Private sector operators dominate affordable rental provision (CoJ)
- Social Housing Institutions still relatively small operators in comparison

TUHF IMPACT DEVELOPMENT

BELIEF IN THE ORDINARY PERSON



The most important step & the largest hurdle is the [lack of] belief in the ordinary person

A comprehensive program, a multi-year program, a properly resourced program of support

Financial Overview

Funders

FUTUREGROWTH
/ ASSET MANAGEMENT

A Member of **OLD MUTUAL**
INVESTMENT GROUP



STANLIB



Local government policy

Nelson Mandela Bay

- Strategic Spatial Implementation Framework- formally approved
- Active development agency – NMBDA
- Aim is to project-manage regeneration of the Port Elizabeth CBD with a view to promoting economic and tourism development against the backdrop of urban renewal.
- Focus area - central area of the city, including the CBD, as well as the existing harbour.

Buffalo City

- BCM 2030 Plan – formally approved
- Spatial development zones for each area
- #1 Key Project -“Regeneration of the inner city including...efficient transport modes, connected smart city concepts, and efficient government service delivery.”
- 20-year housing need is very large
- BCMM will collaborate with various strategic partnerships, including academic institutions, to plan and implement the inner city renewal programme.



Before



After



Before



After



Murray Court Before



Murray Court After



Ekuphumuleni Before



Ekuphumuleni After



The Effect of Urbanisation

Peripheral Developments
entrench poverty
40 x 40

Efficient cities means urban
densification, functional
transport corridors and
spatial integration

Use existing infrastructure,
physical and administrative

Promote local economic
development with Massive
Small thinking

Above inflation council
charges negatively affect
investment.



We create

MASSIVE

impact through

SMALL

changes in every space we operate

Investors have recognised the opportunities of the inner cities and they include:

- commercial banks,
- private property developers and
- established entrepreneurs

There has been public-private partnership in mixed-used developments that provide social facilities.

The transformation narrative, to grow the economy in an inclusive way, to promote spatial integration and to establish a multi-year program of support for black property entrepreneurs.





SOLUTION – DRIVEN

- ✓ deliver more infrastructure and services to Inner –city areas
- ✓ deal with the challenges of urban management
- ✓ Grow local economies for inclusion and good quality of life
- ✓ Address the complexion of ownership of property and business
- ✓ create environments where people can live, work and play

While bricks and mortar are the hardware that occupy a building, people are the software that is needed to give energy to a space to create a future that envisions cities that are distinct yet livable, vibrant and sustainable.

Thank you

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Case Study: Manhattan

**What did Manhattan
look like in the 70s?**



Case Study: Manhattan

By the mid-'70s, an estimated 200,000 people abused heroin in New York City. Bryant Park became known as "Needle Park," due to the used syringes strewn across the ground.



Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>



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Case Study: Manhattan



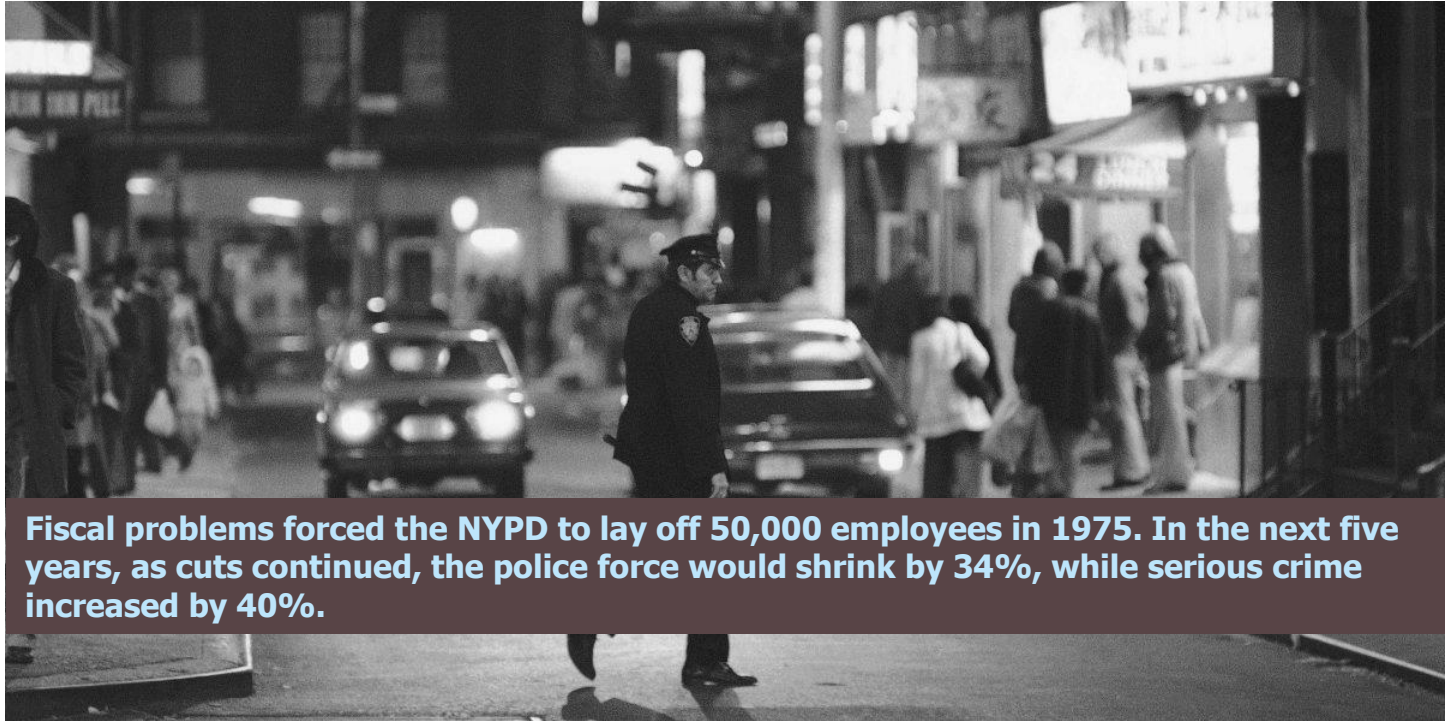
Dysfunction in the NYPD didn't help the city's drug problems. This picture shows detective Frank Serpico (with beard) during his famous 1971 testimony about widespread corruption, as officers bought drugs, took bribes, and paid prostitutes while on duty.

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>



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Case Study: Manhattan



Fiscal problems forced the NYPD to lay off 50,000 employees in 1975. In the next five years, as cuts continued, the police force would shrink by 34%, while serious crime increased by 40%.

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>



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Case Study: Manhattan

The financial crisis coincided with the blackout of 1977, which led to looting and arson throughout the city. 1,000 fires were reported.

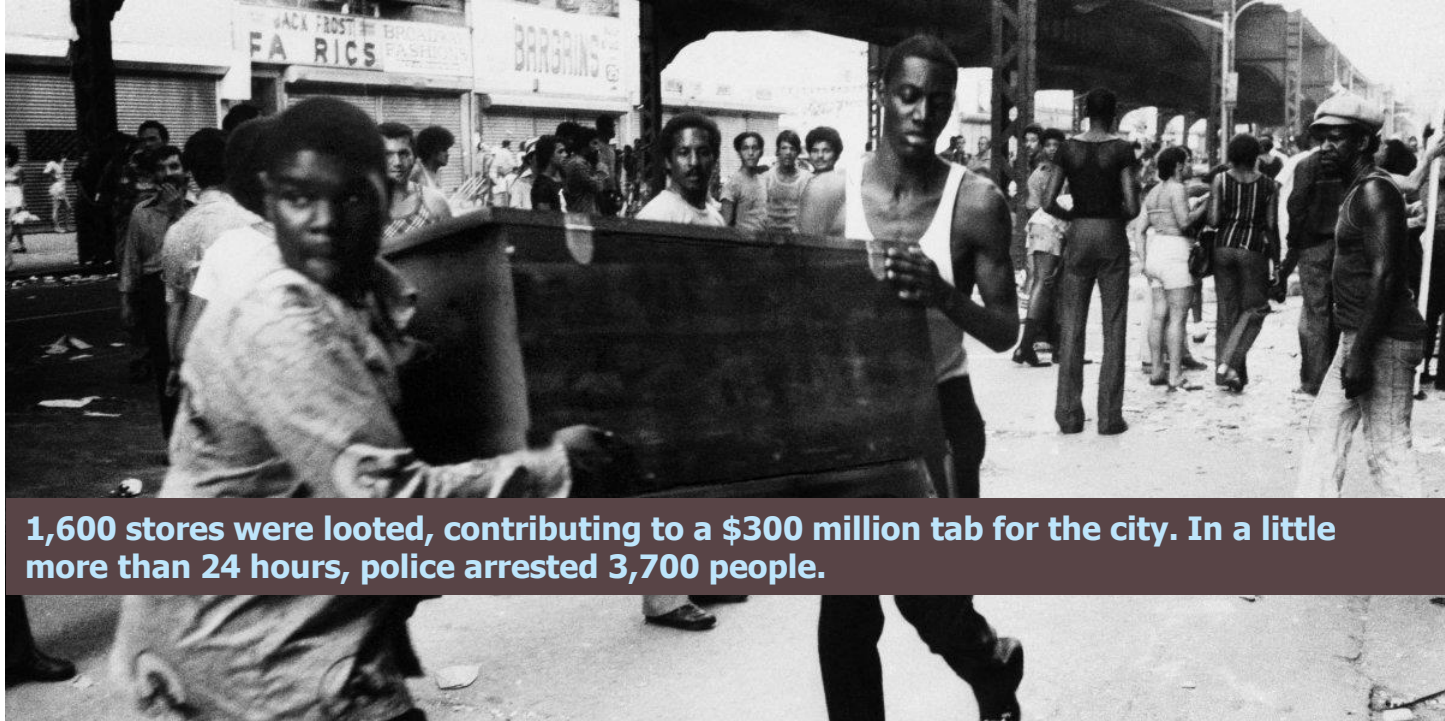


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Case Study: Manhattan



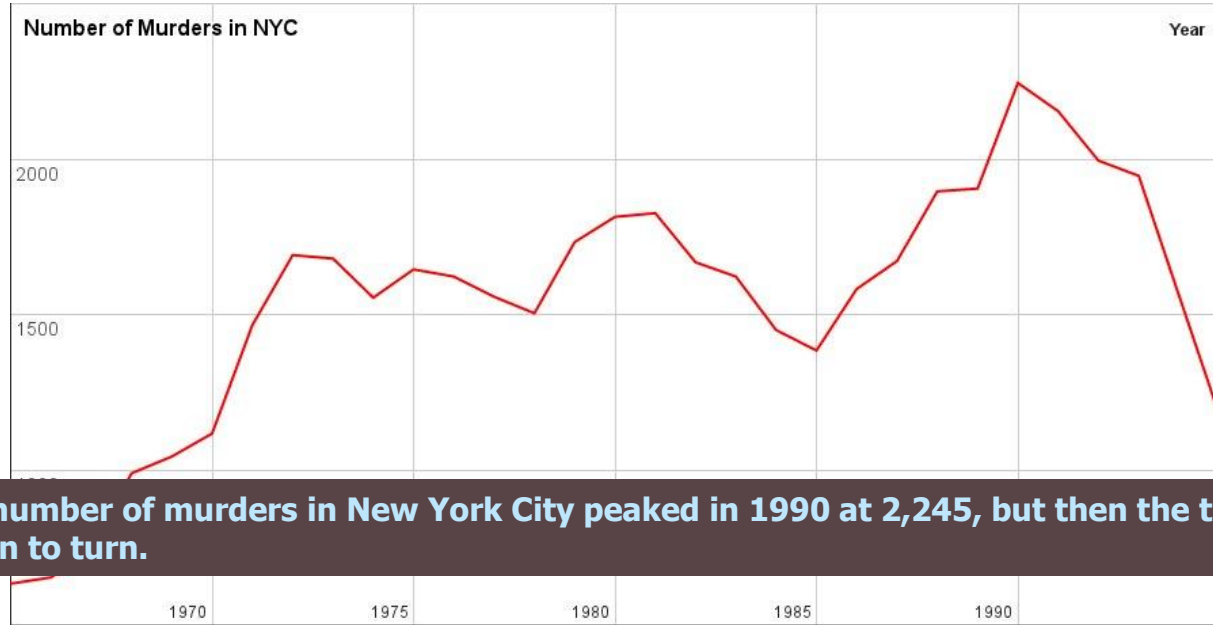
1,600 stores were looted, contributing to a \$300 million tab for the city. In a little more than 24 hours, police arrested 3,700 people.

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>



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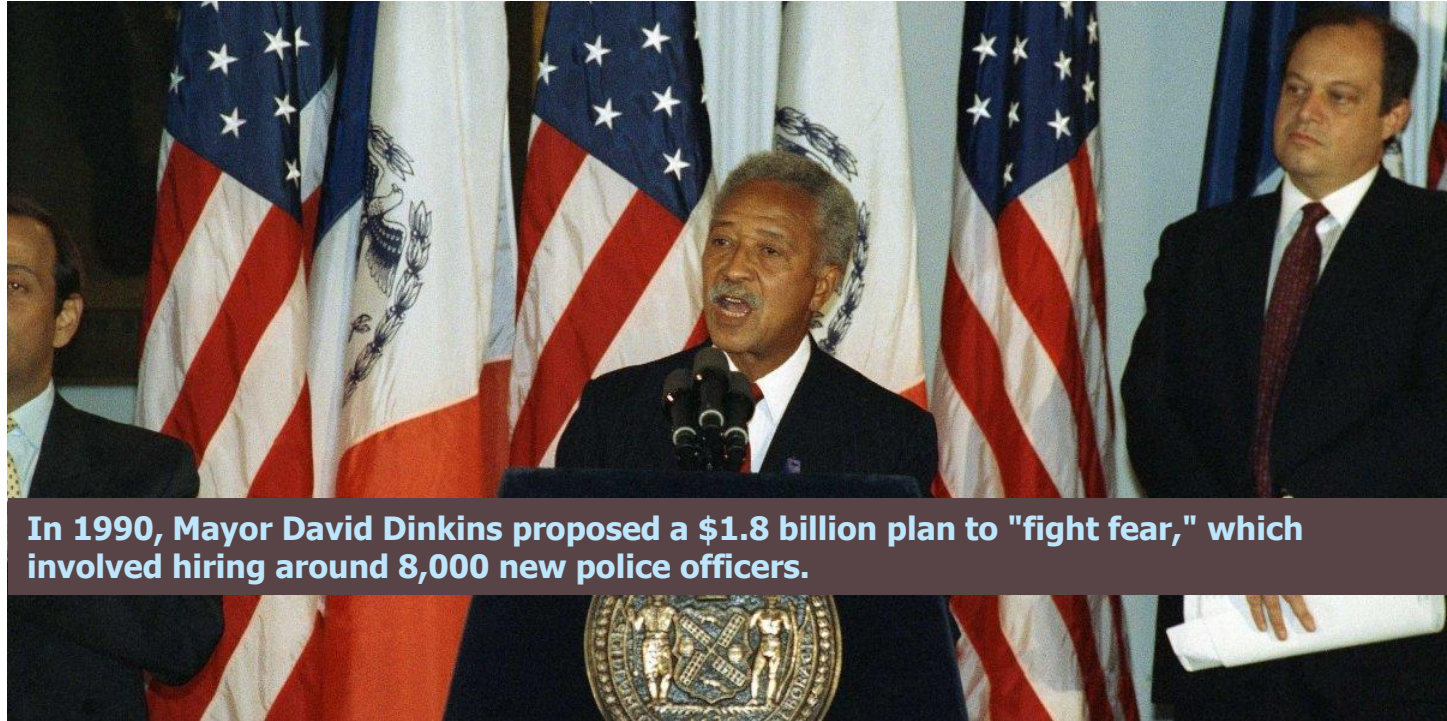
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Case Study: Manhattan

What changed?



Case Study: Manhattan



In 1990, Mayor David Dinkins proposed a \$1.8 billion plan to "fight fear," which involved hiring around 8,000 new police officers.

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>



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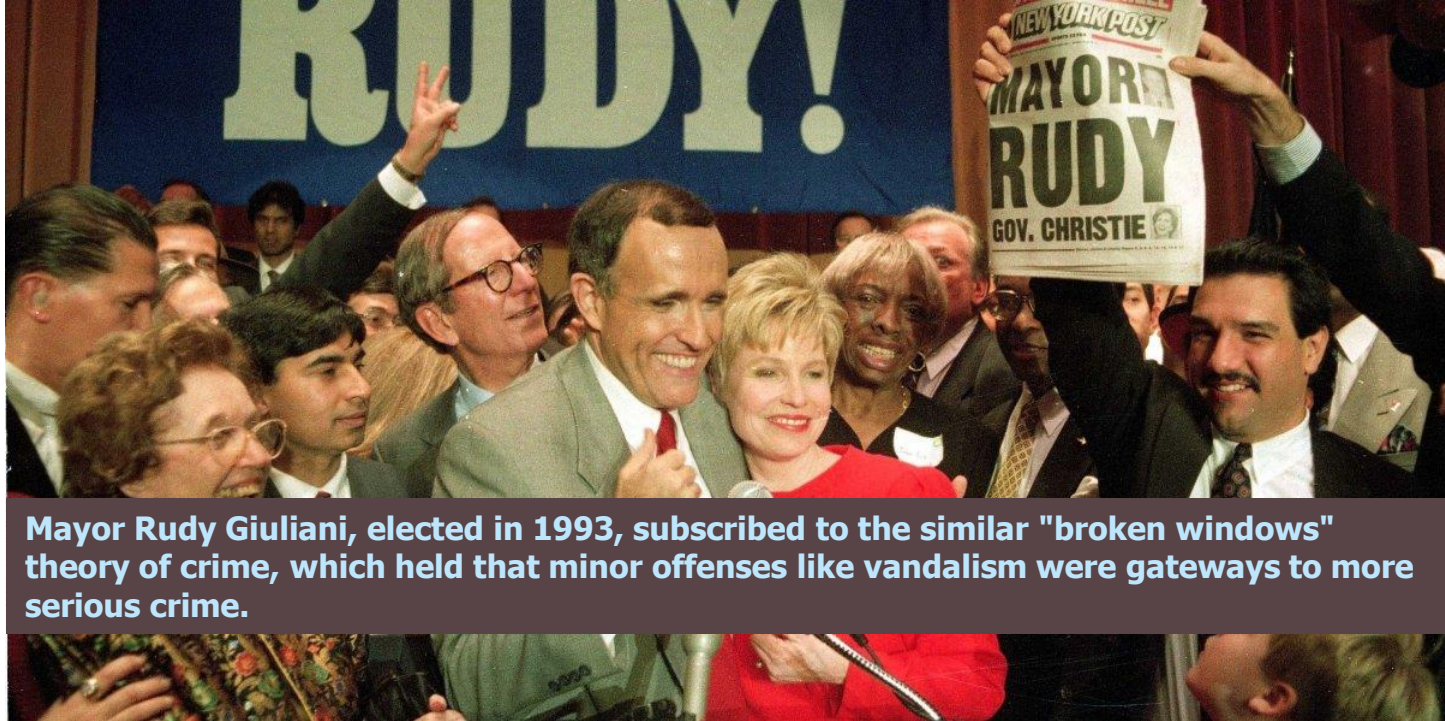
Case Study: Manhattan



Dinkins also hired a police commissioner with a fresh outlook on stopping crime. Lee Brown (left), sworn-in as the city's police commissioner in 1990, subscribed to the idea of "community policing." Brown believed in cops walking the streets, getting to know people, and solving problems — rather than just responding to 911 calls. After one year in his position, crime decreased in every category.

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>

Case Study: Manhattan



Mayor Rudy Giuliani, elected in 1993, subscribed to the similar "broken windows" theory of crime, which held that minor offenses like vandalism were gateways to more serious crime.

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>

Case Study: Manhattan



By 2001, crime had fallen 56% in New York City. More and better policing helped, as did the booming economy and the national decline of hard drugs.

Bryant Park (former "Needle Park") today...

Source: <http://www.businessinsider.com/new-york-city-used-to-be-a-terrifying-place-photos-2013-7>



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