Revitalising property markets through inner-city investment and refurbishment

By Paul Jackson

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South Africa's property sector, in general, has shown poor performance during the Covid-19 pandemic. Property stocks have taken a significant hit, where retail and commercial office space have been hit hardest and even some industrial property holdings have been affected. And none of these markets are showing signs of recovery yet.

Paul Jackson, CEO, TUHF

Lower-income affordable housing – and inner-city housing in particular – has performed better than most other property markets in South Africa over the same period. Residential property as an asset class in South Africa, when compared with other international markets such as the US and Europe, is a very small sector. Hence, its performance in the face of the pandemic speaks to the resilience of inner cities, and the opportunities that lie in urban densification.

The urban densification imperative

Urban densification is a national imperative. It is happening, as part of a natural demographic trend that happens as countries develop. It happened in Europe in the 1700s, and in America in the 1800s, as people flocked to cities for better access to food, security, entertainment and services. It is now happening in Africa and South Africa is no exception. But South Africa's urban development, and its approach to making housing investments in particular, have contributed to enormous and unsustainable urban sprawl as people continue to flock to urban areas and inner cities.

Urban densification is also happening at a much larger scale than people may believe. According to the Centre for Development and Enterprise (CDE), 70% of South Africa will be urbanised by 2030, with more than 60% of the country's population urbanised already. However, it must be managed carefully to avoid creating urban decay in the process.

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Meeting this challenge cannot be done with the traditional property development approach of building single, large scale and often comparatively expensive projects on the periphery of our cities. Due to space pressures within the existing urban landscape of most inner cities, urban densification must take the form of many less expansive projects that rely on ordinary people with local knowledge for their success. We are seeing small and medium-sized developers taking up opportunities to develop projects between R1m and R100m, and we expect this phenomenon will continue.

This means that metros will have to change their processes and redirect their capacities if they are to play a role in managing this trend and ensuring it happens in a way that enables and uplifts communities. Urban management and collaboration with private investors, and the communities themselves will be key to successful urban densification. Such collaboration can also free government resources up to focus on infrastructure development and town planning for these regenerated areas.

In this way, urban regeneration contributes to making better use of existing physical and social infrastructure, as well as promoting local economic development and thus inclusive economic growth.

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Access to goods and services

Inner cities are multi-sector economies that, when managed well, attract pedestrians, commercial activity and reliable tenants and stimulate new businesses. Urban densification in South Africa continues to increase as people seek affordable, decent accommodation with access to physical and social infrastructure, as well as reduced commuting time and costs. The daily commute, for example, sees 20% to 40% of South Africans spending 2-3 hours of their day and 30% of their monthly income on getting to and from work.

As people increasingly move to the inner cities to reduce their living costs and/or gain access to better facilities and amenities, the opportunity to invest in inner-city rejuvenation and refurbishment projects increases. There’s room for smaller players in this space to take advantage of this trend by investing in multiple small projects – around 20 units at a time – and refurbish or repurpose existing buildings rather than investing in large-scale green fields projects that require sizeable tracts of open land to build.

A positive fiscal impact

The final driver behind inner-city investment is the knock-on effect on the greater economy. To put this into context, while RDP housing developments certainly serve an important purpose, these developments often have a net negative fiscal impact. They require additional services and ancillary infrastructure development in areas that have none, and people living in these developments often struggle to pay for services such as utilities, rates and taxes.

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In contrast, a certain level of urban densification is necessary for economic and social action. It contributes to economic development at a micro level, which is by its nature inclusive. Stimulating the economy in localised spaces – one city block at a time – is critical to uplifting people from poverty. This is what we refer to as impact through scale – developments that bode real benefits in transformation through diversity, accessibility and economic inclusion. We, therefore, expect to see more investment in mixed-use developments in inner cities that are underpinned by this ethos and include retail, entertainment, educational and faith-based facilities rather than purely housing-focused developments.

This approach stimulates micro-economies in the immediate surroundings of a development so that urban densification largely has a net positive fiscal impact. It not only stimulates economic growth but attracts people that are more likely to be able to pay for services, rates and taxes. These projects also require less upfront investment, as they make use of existing infrastructure that can be refurbished or improved.

People are already investing in inner cities, financing important urban development to create urban densification projects. It is a phenomenon that is already shaping our urban areas. The market trend is extraordinarily positive, and for government and private investors, the opportunity lies in helping to ensure that these investments are regularised and contribute to inclusive wealth creation.

ABOUT THE AUTHOR

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