DEMACON
market studies

PHILIPPI HIGHEST AND BEST USE MARKET STUDY

DRAFT REPORT

MARKET RESEARCH FINDINGS & RECOMMENDATIONS

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Demacon is a member of

SOUTH AFRICAN PROPERTY OWNERS ASSOCIATION (SAPOA)

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The information contained in this report has been compiled with the utmost care and accuracy within the parameters specified in this document. Any decision based on the contents of this report is, however, the sole responsibility of the decision maker.

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EXECUTIVE SUMMARY

➢ PROJECT BRIEF

Demacon Market Studies were commissioned by **Philippi Economic Development Initiative (PEDI)** to perform in-depth market research to assess the highest and best use of the proposed mixed use development in order to inform the relevant parties with regards to the full and optimum development potential of the Philippi area (especially in terms of the Philippi East area) in terms of strategic planning, investment and marketing decisions.

The **Market Potential Analysis** should especially identify industrial/manufacturing opportunities available within the Philippi area which could act as a marketing tool to attract investors into the area. The objective is therefore to expand the manufacturing/industrial sector by increasing its production base and to ensure that the area reaches its industrial and related potential - including linking Philippi industrial with the Airport industrial area.

In terms of the various markets analysed, two growth scenarios were generated, namely a baseline and somewhat more optimistic/high road scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey interventions, such as better sight value and improved address value, accessibility from the N2, more exposure, better infrastructure, improved security etc. Improvement in these conditions will invariably raise the expected level of take up within the area.

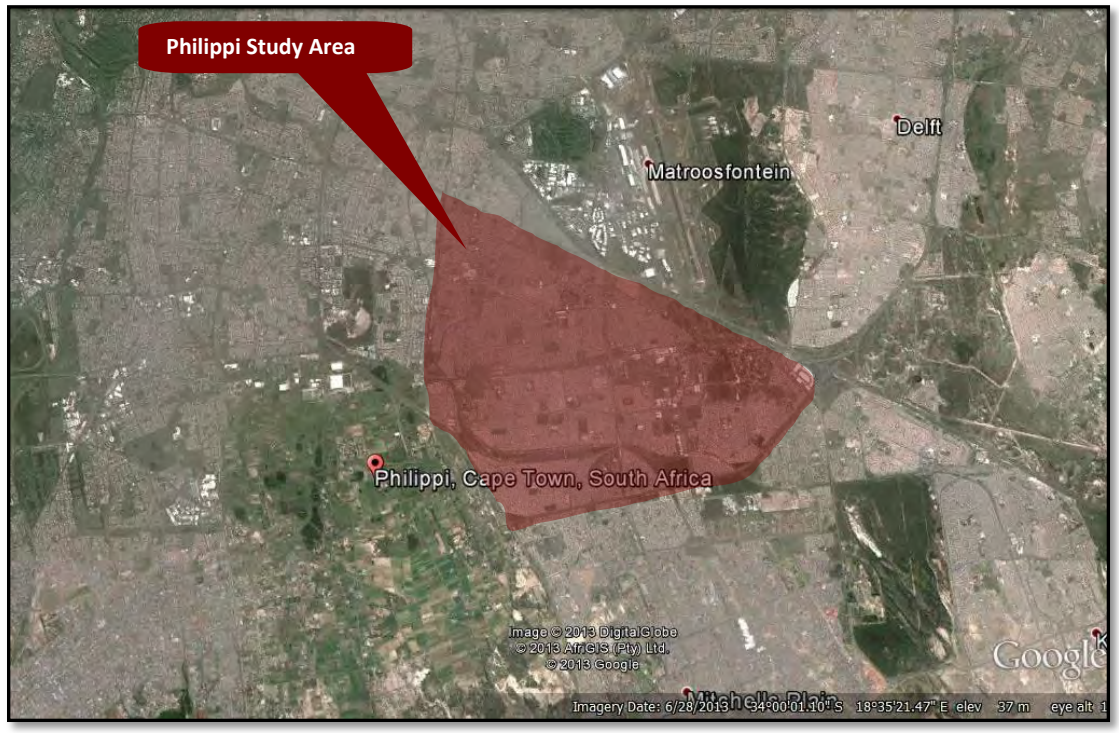
The purpose of the market analysis was also to identify what other development potential the Philippi area has which is non-manufacturing in nature. The industrial market is typically slower and lacks behind the retail and office markets. In terms of the industrial market, it is often difficult to find investment partners, it has an extended take-up rate, phasing is always required, it has a complex cash-flow and there is often investment return challenges that are linked with the industrial market. For this reason other markets was also explored, which could have better investment returns for Philippi, such as the residential market, retail market and the office market. Other markets (e.g. Agri-processing and the fresh produce market) were also briefly analysed.

➢ STUDY AREA DELINEATION

The study area is located within the City of Cape Town Metropolitan Municipal area, situated within the Western Cape. The Philippi area encompasses a unique and distinctive landscape, as well as the last remaining agricultural area in the Cape Town City Metropolitan area.

Philippi also forms part of District G (Cape Flats District) and District F (Mitchells Plain/Khayelitsha District) within the City of Cape Town context. The map below (Map 1) indicates the proposed development area within Philippi.

Map 1: Aerial Photo of the Proposed Philippi Study Area



➢ LOCATION ANALYSIS

South Africa - Global Competitiveness Index: the Positives

South Africa's ranking: 53 out of 148 countries

"South Africa was ranked as the 53rd most competitive country out of 148 surveyed in the 2013/14 World Economic Forum's Global Competitiveness Index, making it the second highest ranked country in Africa after Mauritius (45th).

It took over Brazil to take second place among the BRICS' economies, with China at 29 and Brazil dropping to 56th place (from 48).

Conducted by the World Economic Forum (WEF) in partnership with leading academics and a global network of research institutes, the index calculates its rankings from publicly available data and a poll of business leaders in 148 economies. The main goal of the report is to evaluate countries' economic environment and their ability to achieve sustained levels of prosperity and growth.

According to the report, South Africa does well on measures of the quality of its institutions (41st), including intellectual property protection (18th), property rights (20th), and in the efficiency of the legal framework in challenging and settling disputes (13th and 12th, respectively).

The high accountability of its private institutions (2nd) further supports the institutional framework.

South Africa's financial market development "remains impressive" at 3rd place, the report says. The country also has an efficient market for goods and services (28th), and it does "reasonably well" in more complex areas such as business sophistication (35th) and innovation (39th).

However, South Africa's strong ties to advanced economies, notably the euro area, make it more vulnerable to their economic slowdown and likely have contributed to the deterioration of fiscal indicators: its performance in the macroeconomic environment has dropped sharply (from 69th to 95th)."(*Source: World Economic Forum, September 2013*)

'FDI' Global Competitiveness Index

The Global Competitiveness Index 2013–2014 rankings and 2012–2013 comparisons (South Africa extract)	
Ranking (out of 148 countries):	**RSA - 53**
Overall Score (1–7):	**RSA - 4.37**

Basic Requirements	**Out of 148**	**Scale of 1-7**
Overall	**95**	**4.2**
Institutions	41	4.5
Infrastructure	66	4.1
Macroeconomic Environment	95	4.4
Health and Primary Education	135	3.9
Efficiency Enhancers		
Overall	**34**	**4.5**
Higher Education and Training	89	3.9
Goods Market Efficiency	28	4.8
Labour Market Efficiency	116	3.9
Financial Market Development	3	5.8
Technological Readiness	62	3.9
Market Size	25	4.9
Innovation and Sophistication Factors		
Overall	**37**	**4.1**
Business Sophistication	35	4.5
Innovation	39	3.6

The Most Problematic Factors for Doing Business in South Afirca	
• Inadequately Educated Workforce	
• Restrictive Labour Regulations	
• Inefficient Government Bureaucracy	***The Reality***
• Corruption	
• Poor Work Ethic in National Labour Force	
• Inadequate Supply of Infrastructure	

Philippi:

Philippi has potential to provide economic opportunities and infill development within the industrial and greater Philippi area. Philippi is strategically positioned, through its location next to the airport, its proximity to horticultural land and the city – all of which have made the land valuable. However, it faces issues of density, crowding, housing shortages, etc. that are not being addressed quickly enough for people's needs.

- ✓ The Philippi area is located in close proximity to major road transport routes, such as the N2, R300 Motorway, Lansdowne Road and Klipfontein Road.
- ✓ It is in close proximity to the Cape Town International Airport
- ✓ 20 Minutes from Cape Town Harbour
- ✓ Served by two Metropolitan Rail Stations
- ✓ Proximity to a substantial labour supply
- ✓ Eastern node of the Wetton-Lansdowne-Philippi Corridor
- ✓ Low land cost
- ✓ However, some critical factors are lacking which could possibly be addressed in future, such as site value from the N2, direct accessibility from the N2 and exposure. If these conditions and prerequisites are in place, development in Philippi will increase which will be economically beneficial for Philippi and surrounding areas.

The population of Philippi consists of a number of disparate groups who settled in the locality at different times and through very different processes. As a settlement, Philippi presents both potential and a range of challenges. It is strategically located in close proximity to transport nodes and economic opportunities, such as the Cape Town International Airport, the Philippi Industrial Area and the Philippi Horticultural Area. Yet, the area still faces serious development challenges in the form of poverty, unemployment, overcrowding, food insecurity, crime and exposure to environmental hazards such as flooding and fire.

Overall, it is evident that the proposed development is in line with current and future spatial development guidelines set out in the Spatial Development Framework of the City as well as the District Plans. The proposed development will provide a supportive / complimentary industrial function towards the node and the Cape Town International Airport, and in such manner expand the industrial hierarchy of the area. The proposed development will also act on the potential generated by the N2. The development will contribute to the expansion and development of the local economy as well as the local rates and tax base of the city. Overall, the development is in line with the spatial development guidelines.

Table 1 summarises the **current** findings of the urban property market location assessment and Table 2 summarises the **future** findings of the urban property market location assessment

Table 1: Summary of Site Evaluation Results - CURRENT

Development Site	Rating
Industrial/Warehousing/Distribution/Mini Storage	69.4%
Retail	70.2%
Residential	62.5%
Office	45.8%

Source: Demacon, 2013

** Note: 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful property market development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

Table 2: Summary of Site Evaluation Results - FUTURE

Development Site	Rating
Industrial/Warehousing/Distribution/Mini Storage	76.3%
Retail	76.4%
Residential	72.2%
Office	74.2%

Source: Demacon, 2013

** Note: 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful property market development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

The most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

➢ AIRPORT ECONOMICS

Development opportunities near Cape Town International Airport

- ✓ **Activities** that could gain a **comparative advantage from the airport location** should be **encouraged** – this would include economic activities with **high volume / seasonal and low-weight / high value properties**.
- ✓ Encourage the development of **high-tech industries** as they have low-weight / high value properties and are proven to be successful in increasing airport-industry linkages.
- ✓ Encourage the **processing of perishable goods** to locate near the Cape Town International Airport, due to the time sensitive nature of the goods produced by this industry.
- ✓ **Headquarter offices** should be encouraged to locate near the airport to take advantage of the airport location and to be close to their manufacturing / distribution functions.

Economic Clusters attracted to airport locations:

- ✓ Primary Airport Services (including, inter alia, air transportation, terminal services and oil, gas and petrochemicals for aviation)
- ✓ Secondary Airport Services (including inter alia, restaurants, retail stores, accommodation, car rental and parking services)
- ✓ Transportation Equipment and related manufacturing (including, inter alia, aircraft, aircraft engines and parts, aviation instruments, industrial trailers, elevators, escalators, refrigeration and related service equipment manufacturing)
- ✓ Warehousing and distribution (including inter alia, trucking services, warehousing, postal services, grocery stores, electronic and electrical equipment, food and beverages)

- ✓ Computer and Electronics (including inter alia, computers, electronic equipment, semiconductors, magnetic and optical media as well as electrical machinery and equipment)
- ✓ Computer related services (including inter alia, pre-packaged software, data processing, computer maintenance and repair)
- ✓ Marketing and fulfilment services (including inter alia, direct mail advertising, catalogue and mail order houses, printing and publishing, advertising and telemarketing.
- ✓ Telecommunications (including, inter alia, telephone companies and computer related services).
- ✓ Finance, Insurance and Real Estate (including, inter alia, banks, currency exchanges, brokers and real estate agents).
- ✓ Health and Medical Services (including, inter alia, medical laboratories, medical and optical instruments as well as hospitals.

The highest impact core area of influence falls within a 5km to 10km radius from the airport. It is recommended that the proposed Philippi Development take advantage of its proximity to the Cape Town International Airport.

Philippi gap and concentration analysis:

Table 3: Philippi gap and concentration analysis

Land Use	Concentration (Existing in Market)	Market Gap
Manufacturing / Warehousing / Distribution / Storage etc.		√
Industrial Parks		√
Residential development		√
Gap & Subsidy Housing		√
Retail / Wholesale Facilities		√
Business Parks / Offices		√
Agri-processing		√
Logistics		√
Transport		√
Research / Technology Park		√

➢ ECONOMIC OVERVIEW

The Composite Leading Business Cycle Indicator

The ***composite leading business cycle indicator decreased*** by 0.3% in September 2013 compared with the preceding month. Five of the eleven component time series that were available for September 2013 decreased, while five increased and one remained unchanged. The latest Leading Indicator (a good indicator of near term moves in both the economy as well as the residential mortgage market) data point to appear, that of September 2013, indicated a further acceleration, on a month-on-month basis - the value going to a **current value of 101.1.**

Table 4: Key Economic Indicators of the Market Area

Variable	Characteristics
Size of the Sub-Regional Economy (2011)	✓ City of Cape Town Metropolitan municipal economy contributes **73.5%** to the Western Cape Provincial economy.
Dominant Economic Contributions (2011)	✓ CoCT Economic Profile: 1. Finance, insurance, real estate and business services -**36.1%** 2. Manufacturing – **15.9%** 3. Wholesale and retail trade, catering and accommodation **– 15.2%**

Variable	Characteristics
	4. Transport, storage and communication – **10.9%** 5. General government – **9.8%**
Economic Growth Performance – Time Period 1996 - 2011	✓ The City of Cape Town Metropolitan municipal economy recorded an average growth rate of approximately **3.7%** over the long-term period (1995 – 2011). The short to medium term (2006 – 2011) recorded an average growth rate of approximately **3.1%.** ✓ Western Cape Province recorded an average growth rate of approximately **3.7%** over the long-term period (1995 – 2011). The short to medium term (2006 – 2011) recorded an average growth rate of approximately **3.2%.**
Manufacturing Sector Performance & Growth Time Period 2007 - 2011	✓ The Petroleum products, chemicals, rubber and plastic sector is the largest sector within the Manufacturing sector with a contribution of **23.7%** in 2011, followed by the Food, beverages and tobacco sector with a **17.3%** contribution. ✓ The manufacturing sector produced a negative growth rate of -**7.7%** during 2009 to 2010 followed by a growth rate of **4.2%** between 2010 and 2011.
Final Consumption Expenditure and Disposable Income Growth Performance Time Period 1996 - 2011	✓ Final consumption expenditure of the local economy obtained an average annual growth rate of **3.7%** over this time period and an average annual growth rate of **3.5%** in terms of disposable income. ✓ The short-term (1996 to 2011) average growth rate reveals an average of **3.7%** and **3.4%** for final consumption expenditure and disposable income respectively.
Dominant Household Expenditure per Category (2011)	✓ Food, beverages and tobacco is the largest sector of the sections, with growth of **42.8%** in 2011 for City of Cape Town Metropolitan Municipal economy, ✓ The second largest sector is clothing and footwear **10.8%** and personal transport equipment sector with growth of **8.4%** in 2011.
Location Quotient – Comparative Advantage 2011	High: ✓ Manufacturing – 1.41 Medium: ✓ Agriculture sector – 0.97 ✓ Utilities – 1.05 ✓ Construction – 1.08 ✓ Trade – 1.15 ✓ Transport – 1.16 ✓ Finance and Business Services – 0.91 ✓ Community services, Social and Personal Services sector – 0.85 ✓ General Government Services Sector – 1.05 Low: ✓ Mining – 0.58
Location Quotient	Medium to High
Carvalho Classification:	✓ The Utilities, Trade, Transport, Finance, Community services and General Government sectors are regarded as **accelerating sectors**. These sectors could be considered as successful in the local economy. ✓ The Construction Sector is regarded as a **vulnerable sector**. This sector has an average concentration of employment. They are regarded as vulnerable due to the fact that an important source of employment may be declining.

Variable	Characteristics
	✓ The Mining sector is regarded as a **modest sector**. This sector has relatively low specialisation which grew at a metropolitan level; local growth was slower than metropolitan growth in this sector. ✓ The Agricultural sector is regarded as a **transitional sector**. There is average specialisation in this sector which grew at a metropolitan level at a slower rate than overall growth, local growth exceeded metropolitan growth in this sector. ✓ The Manufacturing sector is regarded as a **challenging sector**. Industries have a relatively high concentration of employment in the community, which suggests that they play a prominent role in overall employment in the community and should be monitored carefully.
Industry Target Classification	✓ Four of the main sectors are regarded as **current strengths** – Utilities, Finance, Community Services and General Government Services. ✓ The Agricultural, Trade and Transport Sector's **prospects are limited by external trends.** ✓ The Mining Sector's prospects are **limited by weak base and declining competitiveness.** ✓ The Manufacturing and Construction Sector's prospects are **limited by external trends and declining competitiveness.**

* ***Note:*** *2011 is the latest data available from Stats SA.*

The economic indicators of an area form the basis for current demand for residential and commercial product offering and also serve as drivers for future growth in demand. An improving economy has positive implications for disposable income growth and thus residential purchasing power in the near term. In this context the demand side reflects signs of recovery in terms of retail sales and house price growth albeit the supply side is still lagging – these are classical signs of economic recovery after a recession. During this period development tends to be demand driven (followed in subsequent boom years by an increasing amount of supply led development).

➢ DEMOGRAPHIC MARKET OVERVIEW

Table 5 provides a summary of the key socio-economic variables characterising the primary and secondary consumer market.

Table 5: Key socio-economic variables of the source market, 2013

Variable	Primary Market
Number of people	✓ 2 019 913
Number of households	✓ 520 837
Household Size	✓ 4.0
Age profile	✓ 0-14: 27.4% ✓ 15-19: 8.8% ✓ 20-34: 30.1 % ✓ 35-59: 27.3% ✓ 60+: 6.3%
Highest level of education (aged 20 and older)	✓ Grade 12 and Higher: 34.3% ✓ Some Secondary: 47.4% ✓ None: 2.1%
Level of employment	✓ EAP: 66.5% Of which: ✓ Employed: 68.5% ✓ Unemployed: 31.5%
Weighted Average household income	Total market earning an income (All LSMs): ✓ R98 690/annum

Variable	Primary Market
	✓ R8 224/month LSM 4 to 10+: ✓ R110 216/annum ✓ R9 185/month
LSM Profile	✓ LSM 1-3: 30.1% ✓ LSM 4-10+: 69.9%
Dwelling Type	✓ House or brick structure on a separate stand or yard: 53.4% ✓ Informal dwelling/shack not in back yard: 18.6% ✓ Semi-detached house: 10.4% ✓ Informal dwelling/shack in back yard : 9.1% ✓ Flat or apartment in block of flats: 5.1%
Tenure Status	✓ Rented: 21.5% ✓ Owned but not yet paid off: 24.1% ✓ Occupied rent free: 14.5% ✓ Owned and fully paid off: 39.9%

The consumer market profile reveals the following pertinent characteristics:

- ✓ At least **2 019 913 people** within the primary market area and **520 837 households**
- ✓ **Moderate to higher living standards – 69.9%** of primary households in **LSM 4 – 10+ brackets.**
- ✓ Weighted average annual household income for households **LSM 4 to 10+**: **R110 216 per annum / R9 185 per month.**
- ✓ Demand for a spectrum of middle- to upper-end convenience, destination and speciality products and services**.**

➢ DEVELOPMENT ANALYSIS AND RECOMMENDATIONS

GAP ANALYSIS:

Development Type	Effective Market Gap	Development Prospects
Industrial Development	Yes	Medium to High
Credit-linked and bonded residential units	Yes	Medium to High
Subsidy Housing	Yes	Medium to High
Regional Centre	Yes	Medium to High
Offices / Commercial	Yes	Low to Medium

SUMMARY OF MAIN FINDINGS

INDUSTRIAL MARKET ANALYSIS

This chapter outlined the industrial market including the latest trends, local indicators and the industrial space demand modelling – **2 scenarios (baseline and optimistic scenario) for the Philippi market area** were investigated and modelled.

The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey interventions, such as better sight value and improved address value, accessibility from the N2, more exposure, better infrastructure, improved security etc. Improvement in these conditions will invariably raise the expected level of take up within the area.

SCENARIO 1: BASELINE SCENARIO

Table 6: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R694 207 390
Size of industrial (sqm)	73 074
Employment opportunities	1 329
Parking bays	1 461
Parking infrastructure & landscaping cost	R32 737 359
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

- ✓ The development potential for the site up to 2018 amounts to approximately **5.22 hectares** increasing cumulatively to **27.08 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **1 329 employment opportunities** on site.

SCENARIO 2: OPTIMISTIC SCENARIO

Table 7: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R2 082 622 171
Size of industrial (sqm)	219 223
Employment opportunities	3 986
Parking bays	4 384
Parking infrastructure & landscaping cost	R98 212 077
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

- ✓ The development potential for the site up to 2018 amounts to approximately **15.66 hectares** increasing cumulatively to **81.23 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **3 986 employment opportunities** on site.

In the context of the above, two growth scenarios were generated – a baseline and somewhat more optimistic scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey intervention, such as the N2 accessibility etc.

As mentioned before, the most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2

- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

RESIDENTIAL MARKET ANALYSIS

Table 8 indicates the number of credit linked and bonded units that can be absorbed by the market over a ten year period.

Table 8: Summary of Market Recommendations

	TOTAL MARKET		
A	**Additional HH: base yr + 5yrs**		19 826
B	**Annualised Market growth (full housing spectrum)**		3 965
C	**Credit-linked and Bonded Segment**		40.7%
D	**Credit-linked and Bonded Segment take-up per annum**		1 614
E	**Annual secondary market contribution (units / annum)**	**Min**	3 180
F		**Max**	4 240
G	**Total annual Credit-linked and Bonded demand**	**Min**	4 794
H		**Max**	5 854
	PROJECT SPECIFIC		
I	**Project Credit-linked and Bonded Segment Units**		12 500
J	**Forecast market share of total market sales**	**Min**	20%
K		**Max**	30%
L		**Min**	959
M	**Project forecast total annual take-up rate (units / annum)**	**Max**	1 756
N	**Years to 80% take-up (Credit-linked and bonded segment units)**	**Min**	7.1
O		**Max**	13.0
P		**Avg**	**10.1**
Q	**OPME**		**2014+**

Source: Demacon, 2013

Explanatory Notes:

A = increase in demand for new housing units (i.e. new household formation in the market area)
B = Annualised market growth, i.e. of A/5
D = B x C
E & F = Annual secondary market contribution (i.e. the contribution made by re-sales in the target affordability income brackets)
G & H = Annual new credit-linked and bonded demand; D + E and D + F
I = Project credit-linked and bonded units
J & K = assumed market share of market area
L = G x J
M = H x K
N = I / L
O = I / M

- ✓ The modelling portrays demand and take-up based on market growth trends.
- ✓ Table 8 shows two sections, 1) total market and 2) project specific. Between 2013 and the next 10 years an estimated 19 826 new households will seek accommodation in the target geographic market area, resulting in an annual growth in demand of approximately 3 965 units per annum (across the full housing spectrum, including informal and subsidy). Under present market conditions, the credit-linked and bonded segment (40.7%) will yield a take-up rate of 1 614 units per annum.
- ✓ Given an ideal take up rate of 10 years, it is estimated that **12 500 credit-linked and bonded units** and approximately **8 333 subsidy units** could be absorbed within the Philippi market area within the **first phase** of the development.
- ✓ Point of market entry: 2014 and beyond

- ✓ Credit-linked and Bonded Units should be priced from **R210k upwards.**

RETAIL MARKET ANALYSIS

Table 9: Recommended Centre Options

Recommended Centre Options	
Total annual growth in market demand (sqm/a)	6 331
Centre share of growth (sqm/a)	791
Point of market entry (OPME)	2017:2018
Additional growth in demand for centre (sqm)	2 374
Retail GLA at OPME	80 911
Services GLA at OPME	20 228
Cinemas & entertainment	3 500
OPME Centre size (sqm)	**104 638**
On-site job creation	3 488
Retail Sales potential (R 2013 value)	2 336 448 831
Total capital investment - buildings (R 2013 value)	1 360 299 918
Additional Parking bays required	6 278
Parking infrastructure & landscaping cost (R 2013 value)	149 423 714

Source: Demacon Retail Demand Model, 2013

Centre size and recommendations:

- ✓ Note that in the context of net effective demand calculations, indications suggest, that the retail component should ideally measure no more than **104 638m² GLA**.
- ✓ The optimum point of market entry will be **2017/2018**.
- ✓ The centre will have an annual sales potential of approximately *R2 336 million* and could create *±3 488 permanent on-site jobs*.
- ✓ Paved parking should be provided at a ratio of *6 bays per 100m² retail GLA*.
- ✓ Performance will be dependent on, *inter alia*, appropriate tenant composition.
- ✓ After interviews with brokers and developers, it was determined that most developers that want to develop within the Philippi area tend to "westernise" retail (such as developing a big mall), which does not work within the specific area (due to cultural/race preferences).
- ✓ It was found that there is a huge retail component in the area, namely wholesale.
- ✓ It was also stated that the safety of the Philippi area also lies within the hands of the corner traders. Suggestions were made that zoning should take place to allow erven of 5m²-50m² to be sold to unstructured corner traders to make their businesses legal and provide them with licenses, since this is the type of retail that is especially unique to Philippi. The idea is to regulate these corner shops, just as government did with all the shebeens in the area.

OFFICE MARKET ANALYSIS

Table 10 summarise the space demand modelling results – reflecting the office development potential for 2018 to 2033. This space includes GLA for offices and related facilities, but excludes parking and basements. Modular design is recommended to facilitate flexibility and adjustment in accordance with user requirements specifications.

Table 10: Synthesis of Space Demand Modelling Results – m^2 GLA

Cumulative Additional Space Demand	Up to 2018	2023	2028	2033
Finance & Insurance *(sqm GLA)*	180 411	313 188	504 450	731 256
Business services *(sqm GLA)*	1 492 582	4 024 603	7 078 538	8 640 691

Cumulative Additional Space Demand	Up to 2018	2023	2028	2033
Total: City of Cape Town	**1 672 993**	**4 337 790**	**7 582 989**	**9 371 947**
Total: Nodal share - Min	**16 730**	**43 378**	**75 830**	**93 719**
Total: Nodal share - Max	**33 460**	**86 756**	**151 660**	**187 439**
Average*	**25 095**	**65 067**	**113 745**	**140 579**

Source: Demacon, 2013

* *Note: the nodal shares and the average figures are cumulative*

Table 11: Recommended Sizes

Cumulative Additional Space Demand	Rand per annum / m²
Size of Office (sqm)	65 067
Capital investment (2013 constant values)	748 268 856
Employment opportunities	3 253
Parking	2 603
Parking infrastructure & landscaping cost (2013 constant values)	61 943 648
OPME	**Post 2020**

Source: Demacon, 2013

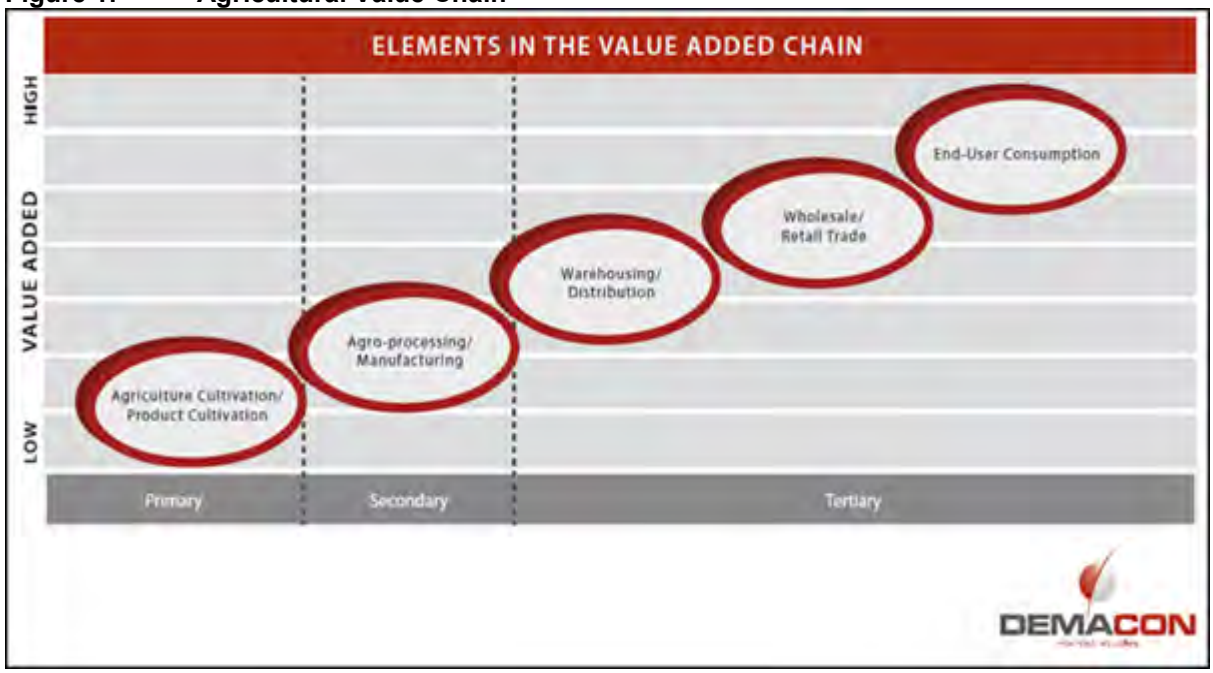
- ✓ Dominant sub-sector: **Business services sector**
- ✓ Recommended type of office development: **Low rise, medium density, suburban lifestyle offices**
- ✓ Total office demand in the City of Cape Town is forecast to be approximately 1 672 993m² office GLA (2018). This figure will cumulatively escalate to 7 582 989m² GLA in 2028. This space includes GLA for offices and related facilities, but excludes parking and basements.
- ✓ Project specific demand for the Philippi market area is forecast to be approximately **25 000m² over the short to medium term** and **65 000m² over the medium to longer term.**
- ✓ Provisions should ideally be made to accommodate future expansion.
- ✓ **OPME: Post 2020**
- ✓ In order for office development to be viable in the Philippi market area, various locational prerequisites (as discussed in previous sections) need to be in place. Office developments will only follow after all other developments and locational prerequisites are in place.

AGRI-PROCESSING & FRESH PRODUCE MARKET

It is evident that the agriculture sector in Philippi relies on the production of primary products such as vegetables, but no significant value is being added to these products currently. Value adding to primary products could expand the market and create economic opportunities for both the investor (monetary return on exports of beneficiated goods) as well as the job market for those who are unemployed within the local area.

The value chain represents the process as products moves from the primary to secondary to tertiary market segment as value is added to the product. Value adding to agricultural products varies between basic and complex, depending on the end-user focus of the product. In general, the value chain for agriculture is more complex than mining.

Figure 1: Agricultural Value Chain



Basic vegetable production centres around a primary, low value-added product during the **Agricultural Cultivation / Product Cultivation** stages of the value chain. As value is added by means of **Agro-processing / Manufacturing** processes, the product moves into the secondary economic sectors, which has greater multiplier potential. If further value is added to the product, it moves into the tertiary sectors, where **Warehousing / Distribution** and **Wholesale / Retail Trad**e occur. This chain optimises access to **End-user Consumption markets.**

As we can see from the above diagram, opportunities exist within the wider agribusiness framework for the Philippi area to take advantage of its latent strengths and comparative advantages. This can help with the development of a support base for emerging farmers.

In terms of the quantity of the labour force in the agricultural sector, the Philippi area does not have a shortage in labourers. But in terms of the quality of the labour force, the labourers in the agricultural sector are in need of education, skills and training.

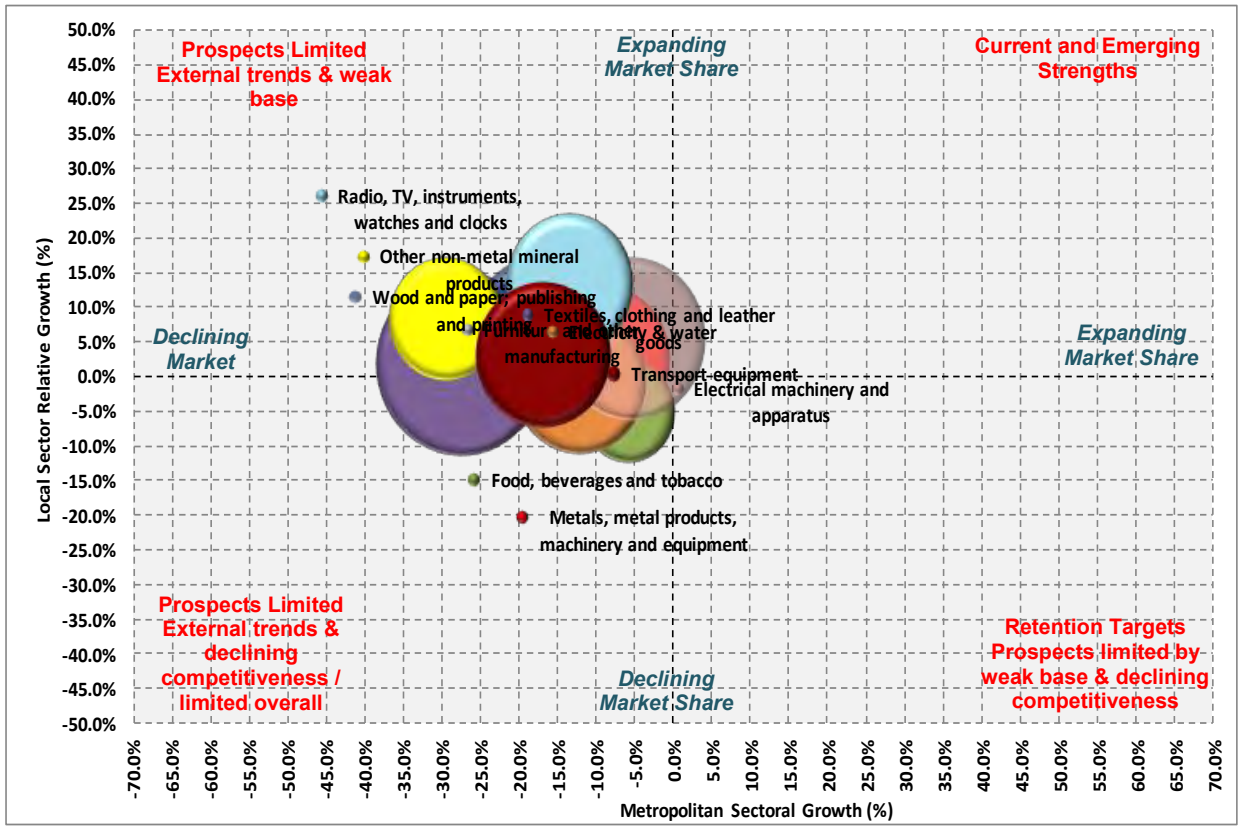
In terms of the Carvalho Classification (refer to Chapter 4) it was established that the agricultural sector within Philippi is a "leading" sector where local growth exceeded metropolitan growth. (The Carvalho Classification provides a multi-dimensional indication of the suitability of sectors, supported by tools and instruments that could be utilised in the development of these sectors).

In terms of the manufacturing sector and the downstream possibilities; the manufacturing sub-sectors which was identified as the leading sectors within Philippi which could possibly be further developed (according to Carvalho) in terms of agri-processing possibilities are as follows:

- ✓ Textiles, clothing and leather goods
- ✓ Wood, paper, publishing and printing
- ✓ Other non-metal mineral products
- ✓ Metals, metal products, machinery and equipment

- ✓ Electrical machinery and apparatus
- ✓ Radio, TV, instruments, watches and clocks
- ✓ Transport equipment
- ✓ Furniture and other manufacturing

Figure 2: Industry Classification System of Manufacturing sub-sectors, 2006 to 2011



Source: Demacon, 2013

Philippi is seen as an ideal place for agro-processing. It is situated next to the rail link, right next to the N2, and in very close proximity to the airport. There is also a direct link to the port as well as a line through to the produce developing areas through the Winelands. It is strategically placed with regards to agri-processing.

As seen from the above, the agricultural potential within Philippi is enormous. Agro-processing in terms of value adding is a better option than the fresh produce market, although the fresh produce market will add value only in terms of trade (and no additional value adding) within the area. Based on the findings, it is clear that all indications are that agri-processing would be feasible and economically beneficial to the area, **subject to full feasibility analysis of the agricultural sector/market**. As indicated throughout the study, Philippi already has various significant assets that make it an ideal location for various types of development.

In terms of agricultural development within Philippi, it is suggested that all local associations and interested parties, such as Abalimi, Philippi Worx, the Business Place Philippi, and Government etc. start to work together and form networks in order to understand where they can assist one another and to establish one path/vision forward. Certain functions and programmes do not appear to be aligned between these various associations. Likewise the services offered by the City of Cape Town and the Provincial Department of Agriculture also

seem in some respects to overlap which can also contribute to confusion. Co-ordination, networking and interaction between various parties need to be supported.

➢ CONCLUDING REMARKS

Market research affirms healthy demand for the various projects components – present and over the short to medium term. Ultimate project composition will, however, be a product of the actual point of market entry.

The following table provides a summary of the Philippi Development Potential:

Table 12: Summary of Project

Development Type	Industrial	Retail	Residential	Office	Agri-processing & Fresh produce market
Size -Baseline Scenario	73 074m²	104 638m²	12 500 credit-linked and bonded units 8 333 subsidy units	65 067m²	-
Size – Optimistic Scenario	219 223m²	313 914m²	15 000 credit-linked and bonded units	113 745m²	-
Site rating	Current: 69.4% Future: 76.3%	Current: 70.2% Future: 76.4%	Current: 62.5% Future: 72.2%	Current: 45.8% Future: 74.2%	-
Market Gap	Yes	Yes	Yes	Yes	Yes
Configuration compatibility	Medium to High	Medium to High	Medium to High	Low to Medium	Medium to High
Recommended for project – Yes/No	Yes	Yes	Yes	Yes	Yes
OPME	2014/2015	2017/2018	2014 and beyond	Post 2020	Over long-term

Table 13: Land use requirements – Baseline Scenario

Land use	Hectare	Surplus buffer (30%)	With Roads & public open spaces, etc. (20%)	Composition
Offices	5.42	8.46	6.51	2%
Light Industrial-Baseline	18.27	28.50	21.92	6%
Residential	250.00	390.00	300.00	82%
Retail	29.90	46.64	35.88	10%
Hectare Take-up	**303.59**	**473.60**	**364.30**	**100%**

Source: Demacon, 2013

Table 14: Land use requirements – High Road Scenario

Land use	Hectare	Surplus buffer (30%)	With Roads & public open spaces, etc. (20%)	Composition
Offices	9.48	14.79	11.37	2%
Light Industrial-High Road	48.72	76.00	58.46	11%
Residential	300.00	468.00	360.00	67%
Retail	89.69	139.92	107.63	20%
Hectare Take-up	**447.88**	**698.70**	**537.46**	**100%**

Source: Demacon, 2013

➢ ECONOMIC IMPACT ASSESSMENT

This section described the potential economic impact that the proposed Philippi development will induce on the local, district and provincial economies and communities during both the construction and operational phases.

Table 15 summarises the findings of the Economic Impact Assessment as described in preceding sections **(baseline scenario).**

Table 15: Synthesis of Economic Impact Modelling Results of Philippi development – *Baseline Scenario*

VARIABLE	INPUT VALUE	TOTAL IMPACT
Construction Phase (Once-off)		
Additional Business Sales	±R6.7 billion	R15.5 billion
Additional GGP		R5.5 billion
Additional Employment		36 500 jobs
Operational Phase (Sustained Annually)		
Additional Business Sales	±R5.7 billion	R12.9 billion
Additional GGP		R6.1 billion
Additional Employment		21 050 jobs

Table 16 summarises the findings of the Economic Impact Assessment as described in preceding sections **(high road scenario).**

Table 16: Synthesis of Economic Impact Modelling Results of Philippi development – *High Road Scenario*

VARIABLE	INPUT VALUE	TOTAL IMPACT
Construction Phase (Once-off)		
Additional Business Sales	±R10.9 billion	R25.0 billion
Additional GGP		R8.8 billion
Additional Employment		58 900 jobs
Operational Phase (Sustained Annually)		
Additional Business Sales	±R14.3 billion	R32.1 billion
Additional GGP		R15.1 billion
Additional Employment		51 750 jobs

The proposed Philippi development **(baseline scenario)** could also contribute the following in terms of payable rates and taxes per annum (refer to Table 17 below).

Table 17: Forecast Future Additional Rates & Taxes Payable per Land use – *Baseline Scenario*

LAND USE	RATES & TAXES / ANNUM	PERCENTAGE SHARE
Offices	R66 038 450	19,7%
Light Industrial - Baseline	R38 730 608	11,6%
Residential	R115 212 240	34,4%
Retail	R114 460 264	34,2%
TOTAL	**R334 441 563**	**100,0%**

The proposed Philippi development **(high road scenario)** could also contribute the following in terms of payable rates and taxes per annum (refer to Table 18 below).

Table 18: Forecast Future Additional Rates & Taxes Payable per Land use – *High Road Scenario*

LAND USE	RATES & TAXES / ANNUM	PERCENTAGE SHARE
Offices	R115 443 213	16,2%
Light Industrial – High Road	R116 192 355	16,3%
Residential	R138 254 688	19,4%
Retail & related	R343 380 793	48,1%
TOTAL	R713 271 049	100,0%

The above table illustrates that the retail component of the proposed Philippi development is anticipated to be the dominant contributor (48.1%) with regard to forecast future rates & taxes payable to the local fiscus.

The proposed development could also contribute the following in terms of payable VAT, company tax and PAYE per annum **(baseline scenario):**

Table 19: Forecast Future Additional VAT, Company Tax & PAYE Payable – *Baseline Scenario*

Tax Payable	Construction Phase	Operational Phase (sustained annually)
VAT	R2 175 913 460	R1 812 247 080
Company Tax	R1 305 548 076	R1 087 348 248
PAYE	R648 393 300	R373 936 410
TOTAL	R4 129 854 836	R3 273 531 738

The proposed development could also contribute the following in terms of payable VAT, company tax and PAYE per annum **(high road scenario):**

Table 20: Forecast Future Additional VAT, Company Tax & PAYE Payable – *High Road Scenario*

Tax Payable	Construction Phase	Operational Phase (sustained annually)
VAT	R3 503 580 920	R4 490 324 300
Company Tax	R2 102 148 552	R2 694 194 580
PAYE	R1 046 311 380	R919 297 350
TOTAL	R6 652 040 852	R8 103 816 230

If the **proposed Philippi development were not to occur**, the **above benefits** in terms of additional business sales, GGP, employment, as well as various rates and taxes payable to the local and national fiscus, would be **lost to the local, district, provincial and national economies.**

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND

Chapter one provides an introduction and concise roadmap of the ***proposed Philippi Development.*** The chapter also provides concise background to the project, a study area description as well as a report outline.

1.2 PROJECT BRIEF

Demacon Market Studies were commissioned by **Philippi Economic Development Initiative (PEDI)** to perform in-depth market research to assess the highest and best use of the proposed mixed use development in order to inform the relevant parties with regards to the full and optimum development potential of the Philippi area (especially in terms of the Philippi East area) in terms of strategic planning, investment and marketing decisions.

The **Market Potential Analysis** should especially identify industrial/manufacturing opportunities available within the Philippi area which could act as a marketing tool to attract investors into the area. The objective is therefore to expand the manufacturing/industrial sector by increasing its production base and to ensure that the area reaches its industrial and related potential - including linking Philippi industrial with the Airport industrial area.

In terms of the various markets analysed, two growth scenarios were generated, namely a baseline and somewhat more optimistic/high road scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey interventions, such as better sight value and improved address value, accessibility from the N2, more exposure, better infrastructure, improved security etc. Improvement in these conditions will invariably raise the expected level of take up within the area.

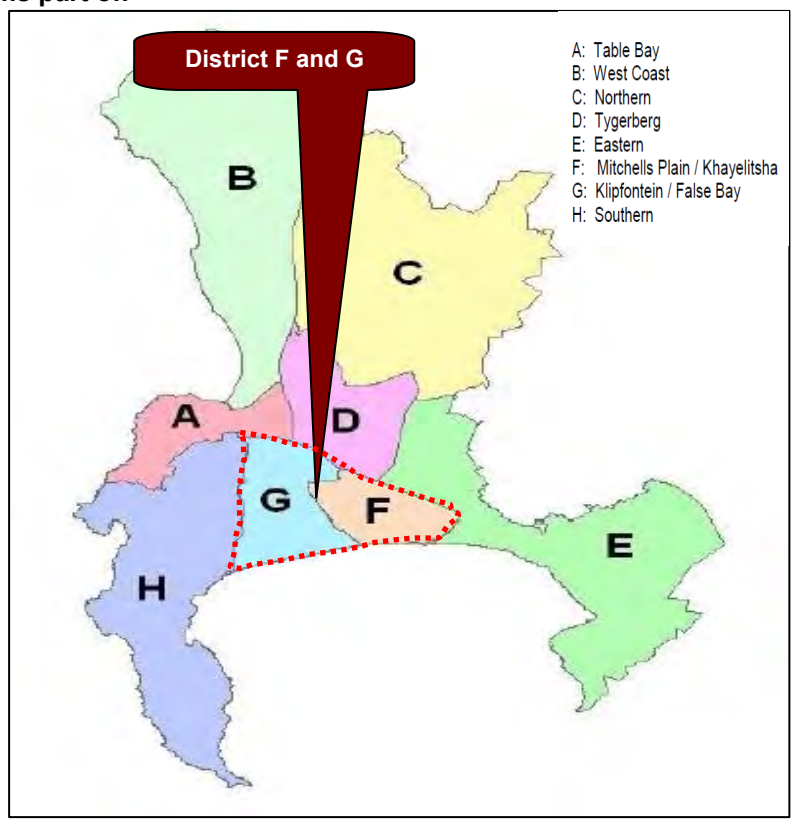
The purpose of the market analysis was also to identify what other development potential the Philippi area has which is non-manufacturing in nature. The industrial market is typically slower and lacks behind the retail and office markets. In terms of the industrial market, it is often difficult to find investment partners, it has an extended take-up rate, phasing is always required, it has a complex cash-flow and there is often investment return challenges that are linked with the industrial market. For this reason other markets was also explored, which could have better investment returns for Philippi, such as the residential market, retail market and the office market. Other markets (e.g. Agri-processing and the fresh produce market) were also briefly analysed.

1.3 STUDY AREA DELINEATION

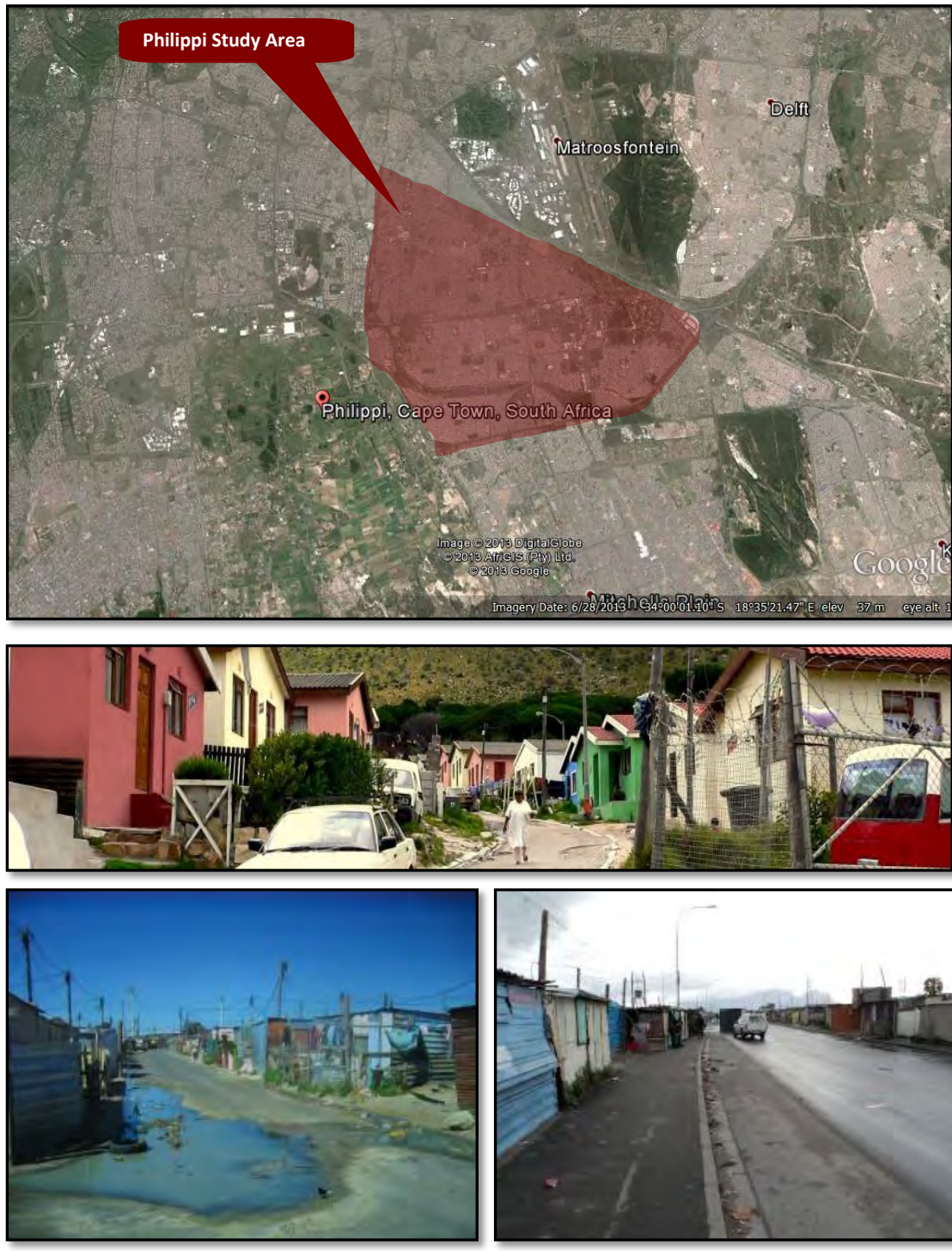
The study area is located within the City of Cape Town Metropolitan Municipal area, situated within the Western Cape. The Philippi area encompasses a unique and distinctive landscape, as well as the last remaining agricultural area in the Cape Town City Metropolitan area.

Philippi also forms part of District G (Cape Flats District) and District F (Mitchells Plain/Khayelitsha District) within the City of Cape Town context. The map below (Map 1.1) shows the location of District G and District F followed by a more detailed map (Map 1.2) indicating the proposed development area within Philippi.

Map 1.1: **Location of District G (Cape Flats District) and District F (Mitchells Plain/Khayelitsha District) in the City of Cape Town Context of which Philippi forms part of.**



Map 1.2: Aerial Photo of the Proposed Philippi Study Area



1.4 METHODOLOGY

In the context of the project brief, market research for the **proposed Philippi Development Market Study** is structured in terms of the **following main steps**:

- ✓ Phase 1: Project Inception
- ✓ Phase 2: Macro and Micro Analysis (Economic and Demographic)
- ✓ Phase 3: Supply / Competitor Analysis
- ✓ Phase 4: Market potential assessment and implications

- ✓ Phase 5: Economic Impact Modelling
- ✓ Phase 6: Development Recommendations.

Step 1: **Project inception** entails a refinement of the project brief, timeframe and deliverables. Relevant base data and documents will be collated and site-specific detail acquired from the client.

Step 2: Macro & Micro Market Analysis analyse relevant development dynamics and drivers in the Philippi area in terms of selected key indicators, including economic profile and growth trends (business cycle), trade area based demographics, including income & LSM profiling.

The local **Spatial Development Framework** will be analysed in terms of its vision for the project area. Trade area based growth trends and residential expansion proposals were factored into a *5 and 10 year market demand forecast*. **The objective** was to analyse the market in the context of regional nodal development trends and to provide strategic input with regard to forecast market growth, nodal expansion potential and growth in optimum consumer demand thresholds.

Step 3: **Supply / Competitor Analysis** – Based on the initial development proposal and anticipated trade area, relevant competitors will be identified and analysed in terms of aspects such as size, composition, classification (role and function), performance (age, vacancy rates), etc. The supply analysis entailed an assessment of competing facilities in the immediately surrounding market. The objective of this analysis will be to identify relevant supply-side competition and to assess the potential market gap in terms of specific performance indicators including, *inter alia*:

- ✓ Geographic location and distribution patterns
- ✓ Competing Floor Space (gross leasable floor space in square metres)
- ✓ Nature, size and quality of facilities and services provided
- ✓ Tenure profiles
- ✓ Rentals commanded (gross monthly rent in Rand per square metre, excluding VAT).

Step 4: Market Based potential assessment and implications - Real Estate Sub-Sector-specific instruments will be applied to estimate future growth, take-up rates and market potential (with emphasis on unit typologies and marketability of units, *given prevalent interest rate and credit extension cyclical* trends) taking due cognisance of strategic location and sub-regional economic drivers. Based on the above target market analysis, commercial *effective demand* and take-up / sales rates will be forecasted, including the optimum point of market entry and indicative incremental phasing.

Step 5: Economic Impact Modelling - To illustrate the anticipated economic impact (direct, indirect and induced – i.e. the multiplier or cascading effect) of a proposed capital investment, such as a turnkey, mixed use precinct, to the relevant local municipality, and environmental and related decision making authorities, DEMACON will model the impact of the proposed development by making use of the internationally acclaimed Input-Output (I/O) modelling technique. Municipalities and environmental authorities in South Africa are increasingly concerned with the economic impact of a new development. In this context, the objective is to perform an empirical assessment of the proposed development's potential future contribution to the region's economy. The impact modelling technique, known as Input-Output Modelling is aligned with international best practice.

Step 6: Market based development recommendations will be made with regard to market potential for each component of the proposed development, including, *inter alia*, highest and best uses, optimum point of market entry and concomitant size, niche role and function (strategic positioning), tenant composition, future expansion / remerchandising potential, etc.

As part of Demacon's comprehensive approach, the firm employs multi-variant economic and demographic techniques – as opposed to singular dimensional demographic analyses. Hence, the report commences with a concise overview of local and regional economic trends, the objective being to identify regional growth trends and development 'hot spots'.

1.5 REPORT OUTLINE

The remainder of the report is structured in terms of the following main chapters:

Chapter 2: Location and Development Context
Chapter 3: Airport Economics
Chapter 4: Economic Market Overview
Chapter 5: Demographic Market Overview
Chapter 6: Industrial Market Analysis
Chapter 7 Downstream Demand Market Analysis
- ✓ Residential
- ✓ Retail
- ✓ Office
- ✓ Agri-Processing

Chapter 8: Economic Impact Modelling
Chapter 9: Development Recommendations

The following Chapter provides the development context in which the proposed Philippi Development is located, supported by an assessment of the site.

CHAPTER 2: LOCATION AND DEVELOPMENT CONTEXT

2.1 INTRODUCTION

The purpose of this chapter is twofold; firstly to provide an assessment of the proposed location within a regional context. Secondly, to assess the suitability of the proposed location with reference to the proposed basket of land uses based on a set of urban property market location criteria. Subsequent paragraphs provide information in terms of the Local Development Trends of the area:

- ✓ District Plans
- ✓ Area Growth
- ✓ Industrial Development Site Assessment
- ✓ Synthesis

2.2 DISTRICT PLANS

This District Spatial Development Plan (SDP) forms one of 8 plans developed for each of the planning district of the City of Cape Town (CoCT), all of them informed by the draft city-wide Cape town Spatial Development Framework (CTSDF). Whilst this plan is grounded in a sense of the relevance to a wide range of stakeholders including communities and interest groups, the divers of development and regulatory decision makers who all play a role in shaping the form of urban development. As such the district plan comprises of a number of elements, which include a discussion of the context and informants to the plan, the objectives of the plan, the plan itself and associated development guidelines and related to this, a set of implementation tools that are targeted at taking the broad proposals of the plan to a greater level of detail and action.

The Philippi Horticultural Area forms part of the **Cape Flats District Plan** and Philippi East forms part of the **Mitchells Plain/Khayelitsha/Greater Blue Downs District**.

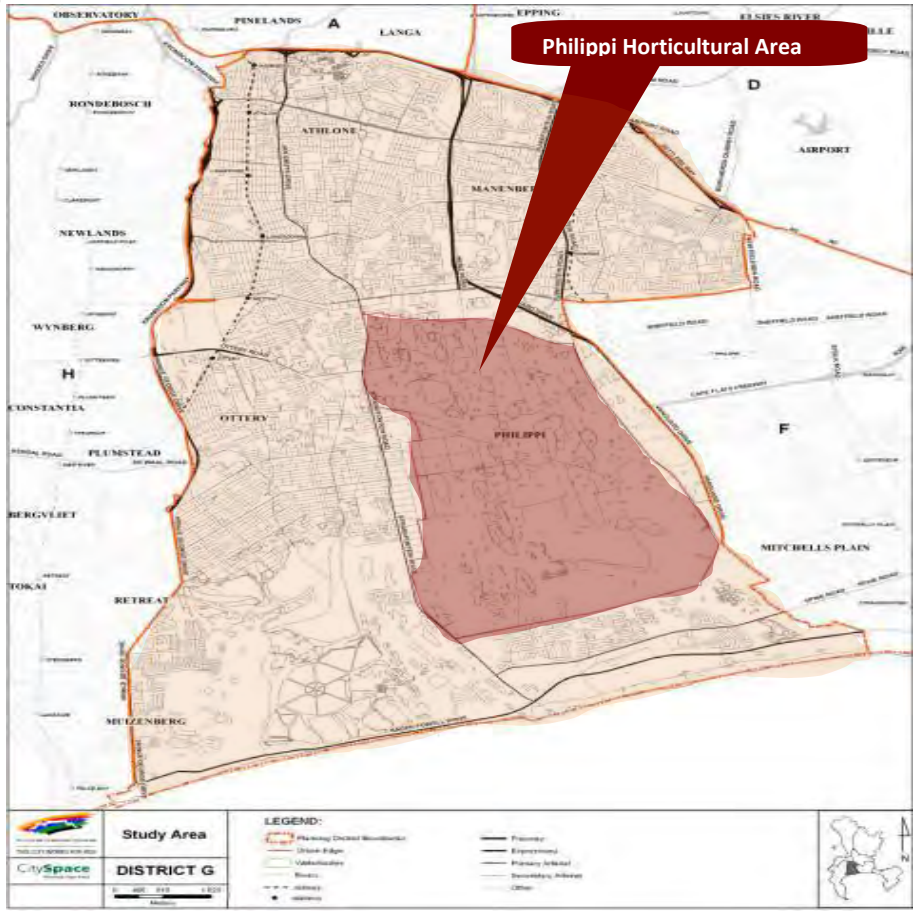
2.3 STUDY AREA

The **Cape Flats District** is located in the southern part of the City of Cape Town metropolitan area and covers approximately 13 200 ha (132 km2). It comprises a significant part of the Cape Flats, and is bounded by the M5 in the west, N2 freeway to the north, Lansdowne Road and Weltevreden Road in the east and the False Bay coastline to the south.

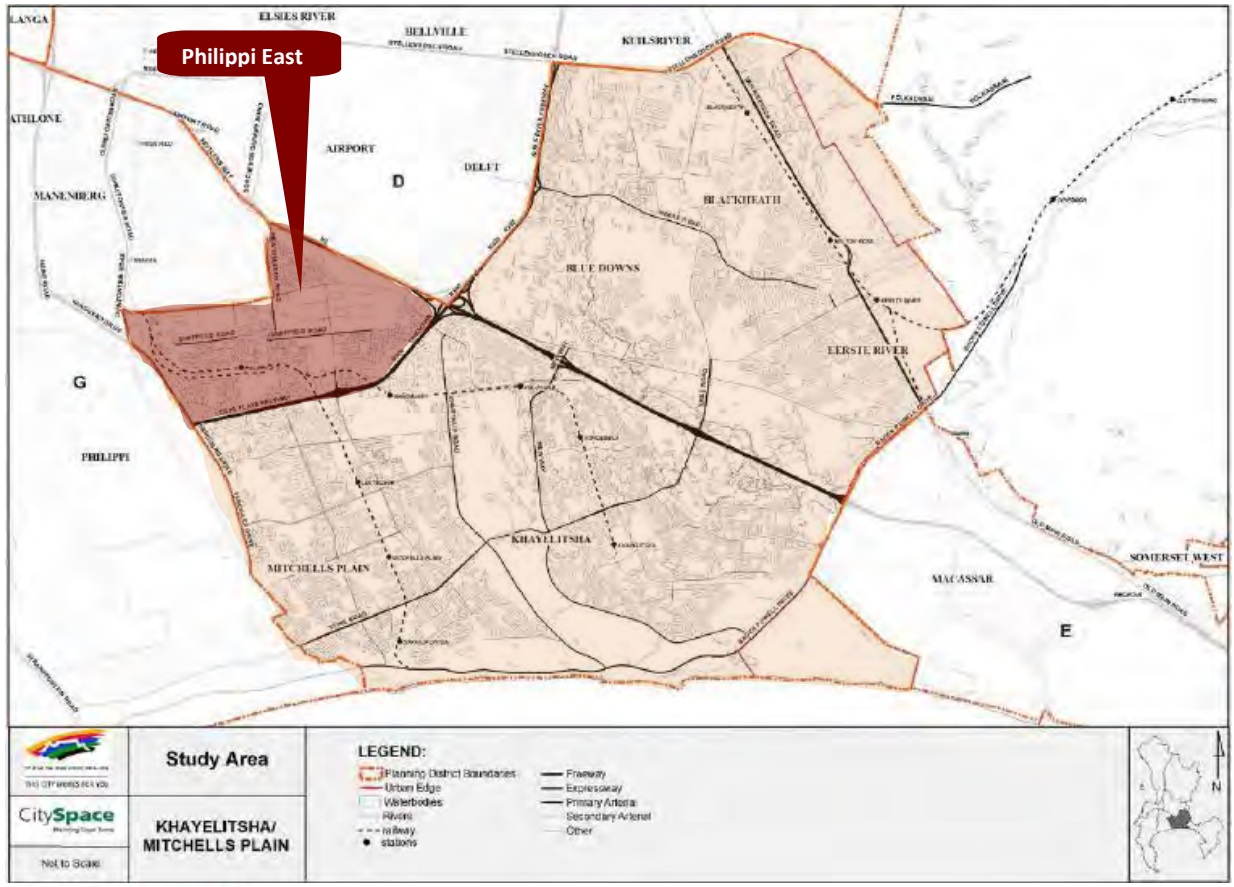
It includes also areas such as, the greater Athlone and Lansdowne areas, Gugulethu and Nyanga, Ottery, **Philippi Horticultural Area**, Fairways, Parkwood, Grassy Park, Lotus River, Lavender Hill, Zeekoevlei, Capricorn, Pelican Park, Strandfontein, Rondebosch East and a small portion of the south-western portion of Mitchells Plain.

The **Mitchells Plain/Khayelitsha/Greater Blue Downs District** includes Khayelitsha, Mitchells Plain, Blue Downs, Blackheath and Eersterivier and is bounded by the R300 (east of Blue Downs), Stellenbosch Arterial (north of Blackheath), Baden Powell (east of Eersterivier), Vanguard Drive (west of Mitchells Plain) and sections of Lansdowne Road, New Eisleben Road and the N2.

Map 2.1: Cape Flats District



Map 2.2: Mitchells Plain/Khayelitsha/Greater Blue Downs District



2.4 CAPE FLATS DISTRICT PLAN, MARCH 2011

2.4.1. BACKGROUND

This section identifies the key challenges in respect of the economic activity and employment in the Cape Flats District, giving consideration to the form and functioning of economic activity, the relationship between transport systems and (economic) land use, and reflecting on accessibility of economic opportunities in the district.

A number of issues require consideration in respect of the Cape Flats District in relation to the City of Cape Town as a whole. These include the following:

Population:
The district has an approximate population of 550 000 (2011 data). While accommodating 15% of the City's population, has the second highest rate of unemployment (31%). The low percentage of economic property (3.5% - of which commercial properties equal 8.3% and industrial 11.6%) in relation to the rest of the City, means that a large percentage of those people within the district that are employed, have to travel outside the district to access employment, often at great cost.

Socio-economic issues:
It is a district characterised by predominantly middle to lower income development, both residentially and commercially. There are a number of pockets of extremely poor communities within the district.

Among the poorest communities in the district reside in numerous informal settlements scattered across the district, as well as formal areas such as, inter alia, Nyanga, Manenberg, Hanover Park, Lavender Hill and Parkwood.

Economy and Development:
There is concentration of established employment centres in the northern areas of the District, associated with east west movement routes. The larger and commercial areas are located along Klipfontein Rd and the western portions of Lansdowne Rd.

Emerging economic centres are beginning to gain momentum in the central parts of the district, again associated with key east west movement routes such as Ottery Rd and Wetton Rd. However, there is a clear pattern of fewer economic activities and opportunities being present in the southern portions of the district, where east west connectivity across the district is constrained (Pelikan Park, Strandfontein).

The agricultural economy within the Cape Flats district, largely accommodated within the **Philippi Horticultural Area (PHA)** is under significant threat as a result of a combination of limited land use management, systematic degradation of the rural environment and speculative land banking.

A significant component (whist difficult to quantify) of the Cape Flats economy is undoubtedly made up of informal economic activity and small business. However, there are significant limitations on small businesses and the informal economy. For example, little provision is made in terms of allocation of appropriate space for informal traders operating at numerous transport interchanges. Similarly **small scale spray painters and panel beaters (among**

other small business operators) operate out of garages in residential areas rather than within formal business or industrial areas, resulting in conflicting land use relationships, as well as limiting possibilities for business growth.

Within the PHA, there are a number of conflicting economic land uses, namely agriculture and horticulture existing alongside illegal service industries such as motor mechanics, transportation companies and panel beaters/spray painters. As a result the core farming area is being degraded and rural economy being further undermined.

In some areas (such as the greater Strandfontein area), there is land zoned for commercial/retail which is poorly located in terms being off major movement routes, and having insufficient residential thresholds to support those land uses. This has resulted in poor take up of that land, as well as failure of businesses that do locate there.

Unrealised latent economic potential is common in parts of the district, particularly in the southern parts, where features of the natural environment with latent economic potential (e.g. False Bay Coastline, Zeekoevlei) are not capitalised upon as a result of a range of factors such as poor accessibility, limited investor confidence, safety and insufficient thresholds for viable economic activities.

Movement:

The limited employment opportunities in the district, means there are many who travel to outside the district to access employment. Whilst Jan Smuts/Strandfontein, as well as Vanguard Drive and Duinefontein Road offer reasonable north-south access between adjacent districts, east west travel, particularly in southern reaches of the district is a significant challenge. Despite reasonable east west accessibility in the northern reaches of the district via Klipfontein Road and Wetton/Lansdowne Road, east west movement is constrained by the railway line, as well as limited east west linkage across the Philippi Horticultural Area and False Bay Ecology Park.

Many people in the district are reliant on public transport and the public transport system in particular requires development.

What action is needed?

The following spatial objectives are aimed at addressing key spatial challenges and are relevant to the district in relation to the economy and movement networks of the City as a whole. They include:

- ✓ **Maximise nodal and corridor opportunities:** reinforce and support established concentrations of district economic activity within the Cape Flats District which hold competitive advantages, particularly along the Klipfontein Rd and Jan Smuts Drive/Strandfontein where they can be accessed via key movement routes / public transport routes.
- ✓ **Facilitate better access:** improve access to economic and other opportunities in other parts of the City by facilitating efficient movement into other district's economic centres.
- ✓ **Improve public transport:** support the development of an efficient, integrated and complementary non-motorised and public transport network within and across the district.
- ✓ **Intensify development around nodes:** intensify development in proximity to the accessible existing economic centres to facilitate thresholds to support them. Also

support greater social inclusion and more equitable access to economic and other (e.g., health, education, and recreation) opportunities by facilitating the development of a wider range, and greater number, of living opportunities.

- ✓ **Facilitate development of a range of economic opportunities:** encourage creation of new economic opportunities at locations with economic viability. Encourage diversity and integration of economic activity by facilitating and creating the space for greater interaction and synergy between formal business, small business and the informal economy in locations to which it is suited.

2.4.2 TRANSPORT INFRASTRUCTURE

The prioritisation of interventions in relation to transport infrastructure requires a fundamental shift from the historical approach to movement infrastructure development in this district. Key principles informing intervention around transport infrastructure include:

- ✓ Prioritisation of public transport over private mobility;
- ✓ Prioritisation of interventions to support non-motorised transport above mobility;
- ✓ Prioritising interventions that will release economic development associated with the accessibility and opportunity grid.

New Road links:

Several route connections are necessary to promote more efficient movement within and through the district. Proposals include:

- ✓ **R300 extension** to facilitate east west linkage and to address the significant east west movement challenges currently faced in the district and also at a City wide level.
- ✓ **Sheffield Road extension** to the west onto Ottery Rd to facilitate east west movement across the district which is currently a key challenge. The implementation of this route should be prioritised over the implementation of the R300 extension as a result of a number of practical and operational benefits that would result. From a land use perspective, these include;
  - improved functioning of Lansdowne Rd as and activity corridor given the release of mobility pressure on this route,
  - clear and defensible boundary between the PHA and the Lansdowne Rd Industrial Area,
  - the significantly higher cost associated with the implementation of the R300 extension
- ✓ **Princessvlei parkway:** a mobility connection between the M5 (Grassy Park) and Baden Powell Drive which is proposed between the Capricorn Park extension and the False Bay landfill site.
- ✓ **Zandvlei expressway:** a mobility connection between the M5 (Steenberg/Lavender Hill) and the proposed Princessvlei Parkway.
- ✓ **Baden Powell extension/re-alignment:** and east west mobility route (re-alignment of the existing Baden Powell Drive) further north in order to position it north (behind) frontal dune system.
- ✓ **Strandfontein arterial:** an east west mobility connection between Mitchells Plain (proposed Vanguard extension) and Pelikan Park.
- ✓ **Vanguard extension:** a mobility connection between the southernmost point of Vanguard Drive and Baden Powell Drive, to facilitate uninterrupted mobility to the southern areas of the Cape Flats District.

- ✓ **De Wet Rd extension:** including a north south connection between an existing portion of De Wet Road (Ottery) and Plantation Road, as well as an east west connection onto Strandfontein Road.
- ✓ **College Rd:** an east west route connection between Kromboom Road (at the intersection with Belgravia Road) to meet College Road to facilitate better east west movement between Athlone/Crawford/Belgravia and Rylands/Gatesville.

Public transport infrastructure:
Proposed priority station upgrades to support the heightened role of these places within the area include:

- ✓ Athlone
- ✓ Heideveld

2.4.3 ELECTRICITY (BULK AND RETICULATION)

Notwithstanding a national energy generation capacity and power transmission crisis, and consequent load-shedding, sufficient bulk electricity capacity exists within the district to cater for existing and proposed development. The focus of electricity infrastructure upgrading is to be focussed on upgrading existing major substations to increase footprints, as well as to focus on distribution and reinforcement interventions to alleviate areas with problematic substation loading. They include Gugulethu, Heideveld, greater Lansdowne, **Philippi**, Ottery and Grassy

2.4.4 CONCLUDING REMARKS

The Cape Flats district is a strategic part of the City as it has grown to be well located in terms of proximity to various economic opportunities and facilities in the City (e.g. the coast, the mountain and rail line to the west). As such this area, despite its relatively limited areas of undeveloped land is an area where infill, densification and the associated upgrading of infrastructure should be prioritised to support this growth.

The district is also home to certain critical though unrealised assets of metropolitan importance including the **Philippi Horticultural Area**, the False Bay Ecology Park and potential Cape Flats metropolitan park. The future safeguarding and enhancement of these assets is crucial to the future role of the district in the City. The district also presents a set of developmental challenges, with a number of areas suffering from a lack of investment and access to social opportunities.

The Wetton/Lansdowne Road Corridor: The movement and access roles of the Wetton Lansdowne Road corridor are central to the functioning of the district. The corridor reflects the primary means of east west movement within and across the district, supporting and providing access to employment and social opportunities. Its role should be reinforced and emphasis placed on strengthening its public transport function, intensifying land uses along it and improving the quality of the public environment (road-based public transport and NMT improvements, public space upgrading).

The Wetton/Lansdowne Road corridor is also seen as the primary area for intensification of land uses in the district. This will support public transport in the corridor and build on existing positive patterns of development.

2.5 KHAYELITSHA/MITCHELLS PLAIN/GREATER BLUE DOWNS DISTRICT PLAN, 2012

2.5.1. BACKGROUND

This section identifies the key challenges in respect of the economic activity and employment in the District, giving consideration to the form and functioning of economic activity, the relationship between transport systems and (economic) land use and reflecting on accessibility of economic opportunities in the District.

A number of issues require consideration in respect of the District in relation to the City of Cape Town as a whole. These include the following:

Population and socio-economic issues

The district represents some of the most marginalised areas in the city with very limited economic activity and with 42.8% of the District's population unemployed (the highest level of unemployment in the City of Cape Town – 2012 data).

A drastic increase in the population of this District, especially the Greater Blue Downs (which is anticipated as a major growth area because of development opportunities represented by large tracts of vacant land) is expected. The potential growth of the District has implications for an increase in the need for community facilities, public transport infrastructure and employment opportunities.

Economy and development

- ✓ The preconditions for investment and economic development in this District have historically been poor. The attractiveness of the area as a location for investment has been limited by:
  - The broad locational issue (the area is spatially dislocated from the economic drivers in Cape Town, which include major concentrations of employment)
  - The poor structure of connections with surrounding areas and the rest of the metro (e.g. lack of north-south links/connections and **lack of direct access to the Philippi Industrial Area**).
  - The concentration of poverty in what were planned as dormitory suburban areas.
  - Perceptions of 'risk' associated with the area. As a result the District suffers from a lack of investment and lacks in economic property, with **very low commercial and industrial property values**.
- ✓ The low percentage of economic property in relation to the rest of the City requires a large percentage of people within the District to travel outside the District to access employment, often at great cost.
- ✓ Unemployment within the District is further increased by unrealised latent economic potential common in parts of the District, particularly in the **Philippi industrial area** and within the False Bay coastal nodes. The features of the natural environment with economic potential are not capitalised upon as a result of a range of factors such as poor accessibility, limited investor confidence, safety and insufficient thresholds for viable economic activities.
- ✓ Recent investments that have occurred (which reflect both changing perceptions of the area and recognition of the opportunity reflected by the local market), have often been in the form of shopping mall development and the extension of chain stores rather than a mix of economic activity with greater job creation potential (including industrial and other commercial activity). As such, most employed residents in the area continue to travel to

other areas of the City to access employment, often at significant costs due to the distances and changes of transport mode required.

- ✓ A significant component (whilst difficult to quantify) of the District's economy is made up of informal economic activity. Small and micro enterprises also reflect a level of vibrancy in the District.
- ✓ Informal activity reflects a dominance of retail functions mainly concentrated around the main public transport interchanges and along heavily utilised pedestrian routes. Much of this activity operate on limited margins and is based dominantly on narrow retail functions.
- ✓ The ability of the informal sector to grow and generate further employment is limited by a range of factors. Some of these factors are associated with the physical environment.
  - Generally, the spatial structure of the area does not support small business activity. Movement routes are generally focussed on maximising mobility and do not support the agglomeration of business activity in response to flows of energy.
  - Little provision in made in terms of allocation of appropriate space for informal traders operating at numerous transport interchanges.
  - Small formal business centres have, in many cases, been planned in a neighbourhood manner, with local businesses being poorly located in terms of capturing passing flows.
- ✓ Informal activity has, in some cases, overcome this by operating in exposed road reserve locations, though this has led to a certain conflict of use of these areas. With more recent formal business activity seeking out the limited number of exposed locations (particularly at transport interchanges), conflicting imperatives for economic activity in these areas has become evident.

Movement

- ✓ As a result of limited local job opportunities within the District, there is significant demand for movement (particularly work-related travel) to areas outside the District. Pedestrian movement is the most significant mode of movement with high foot movement zones located around the transport interchange generators. For both work and non-work travel, there is also strong reliance on public transport (particularly rail in Khayelitsha, although bus and taxi use are significant in all areas).
- ✓ The strong reliance on public transport is reflected by the fact that several public transport facilities in the District are amongst the busiest in the City, with Mitchells Plain public transport interchange (PTI), Nolungile PTI, **Philippi Station** and Nonkqubela PTI all reflect more than 30 000 passenger trips per day.
- ✓ The District is relatively well served by passenger rail with 14 rail stations. Several of these stations form significant interchanges with road based public transport including **Philippi Station**, Mitchells Plain PTI, Nolungile PTI, Eerste Rivier station and Nonkqubela PTI.
- ✓ The Blue Downs rail link proposed between the Khayelitsha rail line and the Strand rail line through Mfuleni and Blue Downs has been prioritized by the Western Cape Regional Rail Plan (2006).
- ✓ It is an important link currently missing from the Cape Metropolitan rail network as it will enable the restructuring of Cape Town's rail network from a radial system into a circular system, thereby providing more efficient rapid transit and facilitate the strong movement desire line between the Bellville area and the Metro South-east.
- ✓ Metro South East – to Cape Town Corridor is potentially one of two priority Integration Zones being looked at for Cape Town.
- ✓ Connection of the District with the north and north eastern metro remains a constraint. Planned links will assist in addressing this including the Saxdowne Road connection north

of Old Faure Road. East west connection is limited due to the Philippi Horticultural Area (PHA).

What action is needed?

The following spatial objectives are aimed at addressing key spatial challenges and are relevant to the district in relation to the economy and movement networks of the City as a whole. They include:

- ✓ **Maximise corridor opportunities:** Reinforce and support established concentrations of economic activity within the District which hold competitive advantage, particularly where they can be accessed via key movement routes/public transport routes.
- ✓ **Intensify development around nodes:** Encourage attraction of further investment into the
- ✓ District's established economic areas (Khayelitsha Business District, Nolungile/N2 axis, Mitchells Plain Town Centre and the Promenade) and emerging economic areas (Blue Downs
- ✓ CBD, Mfuleni and Eerste Rivier), as well as into **areas with latent economic potential such as Philippi Industrial area** and the Kapteinsklip/Mnandi nodal area.
- ✓ **Facilitate better access to economic opportunities:** Facilitate better access to economic opportunities in other parts of the City by facilitating efficient movement through the District towards metropolitan economic centres and improving transport links between the metro south east and the main economic centres of the city. Key opportunities include a focus on improving public transport to the west via Lansdowne Road and north via Symphony Way.
- ✓ **Improving public transport:** Support the development of an efficient, integrated and complementary non-motorised and public transport network within and across the District.
- ✓ **Provision for NMT facilities must be prioritised:** NMT Pedestrian access is a priority in this District and as such investment in NMT facilities and infrastructure must be prioritised to ensure safe pedestrian access. NMT intervention should focus on:
  - Main movement generators (including public transport interchange/station areas)
  - Critical public links which connect to destination places and movement generators and
  - Linked internal open spaces.
- ✓ **Create a more sustainable economy:** Reinforce and support a hierarchy and range of economic areas which hold competitive advantages within the district;
  - Encourage economic development to locate on, or adjacent to, the accessibility grid, along identified activity routes and development corridors.
  - Transformation of townships and informal settlements into economically integrated residential neighbourhoods through urban upgrading and renewal.
  - Encourage expansion and infill of existing industrial areas.
  - Safeguarding, enhancing and improving access to the coast to take advantage of the unrealised potential of Monwabisi and Mnandi coastal resorts and the crucial recreational and economic development role of these assets.
- ✓ Intensify development in proximity to the accessible existing economic centres to facilitate thresholds to support them.
- ✓ Encourage the creation of new economic opportunities at locations with economic viability within the District by carefully considering the location and the form of such activity, as well as encouraging the requisite thresholds/ residential development to support them.
- ✓ Facilitate integration of economic activity by facilitating and creating the space for greater interaction and synergy between formal business, small business and the informal economy in locations to which it is suited.

- ✓ Ensure the informal sector and small businesses are not excluded from economic centres.

2.5.2 TRANSPORT INFRASTRUCTURE

The prioritisation of interventions in relation to transport infrastructure requires a fundamental shift from the historical approach to movement infrastructure development in the District. Key principles informing intervention around transport infrastructure include:

- ✓ Prioritisation of public transport over private mobility;
- ✓ Prioritisation of interventions to support non-motorised transport above mobility;
- ✓ Prioritising interventions that will release economic development associated with the accessibility and opportunity grid.

New Road links

Several route connections are necessary to promote more efficient movement within and through the District. Proposals include:

Philippi area - The following route connections are necessary to promote integration:

- ✓ Extension of **Sheffield Road** west and across the railway line to Ottery Road. This will improve access to the industrial and commercial complex.
- ✓ Development of a central structuring route through the Philippi / Browns Farm area which should promote connectivity and structure local activity. This should link **Colorado / Bristol Road** through the "old cement factory" site to Stock Road and beyond this follow the existing road reserve through the industrial area.
- ✓ Extension of a new road to the east of the "old cement factory" site, across Sheffield to link to **Ngqwangi Drive**.
- ✓ Investigating the feasibility of linkage of **Nondlwana** across the R300 to link with Auber Avenue.

Public transport infrastructure

Proposed new rail infrastructure includes:

- ✓ In **Philippi**, a new station on the line nearby the proposed extension of Sheffield Road.
- ✓ The Blue Downs rail link between the Khayelitsha/Mitchells Plain and Strand-Bellville railway lines and stations along its length (Mfuleni, Blue Downs CBD, Blackheath).

Proposed priority rail station upgrades to support the heightened role of these places within the District include:

- ✓ Kapteinsklip Station
- ✓ Nolungile Station
- ✓ **Philippi station** (southern forecourt and pedestrian access across the rail)
- ✓ Blue Downs Station
- ✓ Lentegeur Station

Existing transport interchanges at stations throughout the District should be upgraded where necessary and equipped with station park and ride facilities including non-motorised transport (NMT) facilities (paths, underways or bridges, bicycle facilities).

2.5.3 ELECTRICITY (BULK AND RETICULATION)

- ✓ Electricity infrastructure upgrading is to be focussed on upgrading existing major substations to increase footprint and alleviate areas with problematic substation loading.
- ✓ To add capacity to the existing network, Eskom is currently busy with EIA plans for the following:
  - upgrade of the existing Philippi substations.
  - proposal of a new substation in Mitchells Plain.
  - construction of a 400kV single circuit transmission power line
  - construction of a 400Kv double circuit transmission power line from the proposed
- ✓ new Mitchell's Plain substation to one of the following locations:
  - the existing Firgrove Substation,
  - the existing Stikland substation, or
  - a proposed switching station close to the existing 400kV transmission power line from the Palmiet substation to the Stikland substation in order to integrate the latter into this project.

2.5.4 GUIDELINES FOR LAND USE DECISION MAKING

The purpose of this section is to provide land use decision-making on a more localised scale, hereafter called "sub-districts". The various sub-districts within the District have been demarcated according to several criteria:

- ✓ Spatial demarcation based on clear management boundaries
- ✓ Urban form and character
- ✓ Pressure for land use change

Sub-district 1: Philippi

Philippi sub-district is bounded by a number of fast-moving roads and freeways, namely Vanguard, R300, N2 and Lansdowne. These routes form barriers around the sub-district; effectively creating an island which includes the suburbs of Crossroads, Philippi Industrial Area, Browns Farm, Philippi Park, Philippi East, Moonwood (including Sections 1 and 2), Island, Village 4, 2b and 3, Heinz Park, Samora Machel, Better Life and Kosovo.

The railway, another major barrier, further divides the sub-district into northern and southern zones.

The sub-district contains one of only three Sub-metropolitan nodes for the District as indicated on the CTSDF. The establishment of this sub-metropolitan node is not limited to intersection of Sheffield and Stock Roads and the conceptual node includes the intersection of New Eisleben and Lansdowne (containing the old cement factory which has been identified for urban civic upgrades).

Spatial development objectives - Unlock the latent potential of Philippi Industrial:

- ✓ Provide direct access to the Industrial hub;
- ✓ Promote integration of Philippi to surrounding area;
- ✓ Allow for the integration of Philippi Industrial to Airport Industrial.

Philippi New Development Areas:

- ✓ **Stock, Lansdowne and Sheffield Road Precinct -** Promote a range of mixed use development along Stock -, Lansdowne – and Sheffield Roads
- ✓ **Stock Road Site -** Promote mixed use development on Stock Road site
- ✓ **Philippi Industrial Area -** New Industrial Infill must be supported where appropriate. New general industrial uses are proposed on undeveloped land within the heart of the Philippi Industrial area including the area impacted by the airport noise contour to the east of Stock Road.
- ✓ **Philippi Station and Joe Gqabi / Stock Road Station –** Development of land around station areas. Encourage development of station areas that facilitates the integration of the different modes of transport that meets in these areas.

2.5.4 CONCLUDING REMARKS

Philippi has potential to provide economic opportunities and infill development within the industrial and greater Philippi area.

Philippi is strategically positioned, through its location next to the airport, its proximity to horticultural land and the city – all of which have made the land valuable. However, it faces issues of density, crowding, housing shortages, etc. that are not being addressed quickly enough for people's needs.

2.6 AREA GROWTH

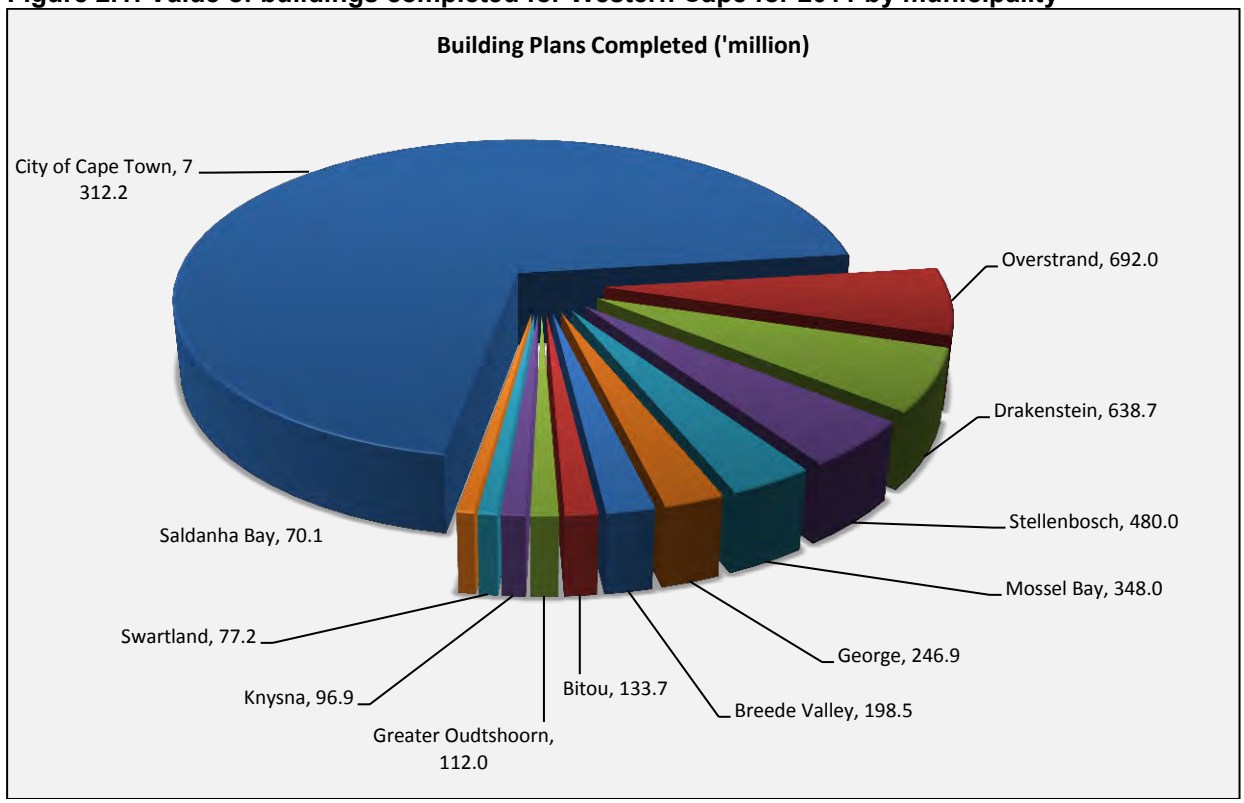
2.6.1 KEY FINDINGS REGARDING BUILDINGS COMPLETED FOR THE WESTERN CAPE FOR 2011

The metropolitan area of City of Cape Town had the largest contribution (70.3% or R7 312,2 million) to the total value of buildings reported as completed in Western Cape for 2011 (R10 406,3 million). Overstrand Municipality followed with 6.6% (R692,0 million), Drakenstein Municipality with 6.1% (R638,7 million) and Stellenbosch Municipality with 4.6% (R480,0 million).

Residential buildings constituted the largest portion of the value of buildings completed, contributing 45.1% or R4 695,4 million. The largest portion of residential buildings was recorded for dwelling-houses (33.7% or R3 504,3 million), of which R2 994,3 million was for dwelling-houses equal to or larger than 80 square metres. The highest value for these larger dwelling-houses was recorded for City of Cape Town (R1 724,6 million), followed by Overstrand Municipality (R323,8 million), Drakenstein Municipality (R194,0 million) and Stellenbosch Municipality (R183,6 million).

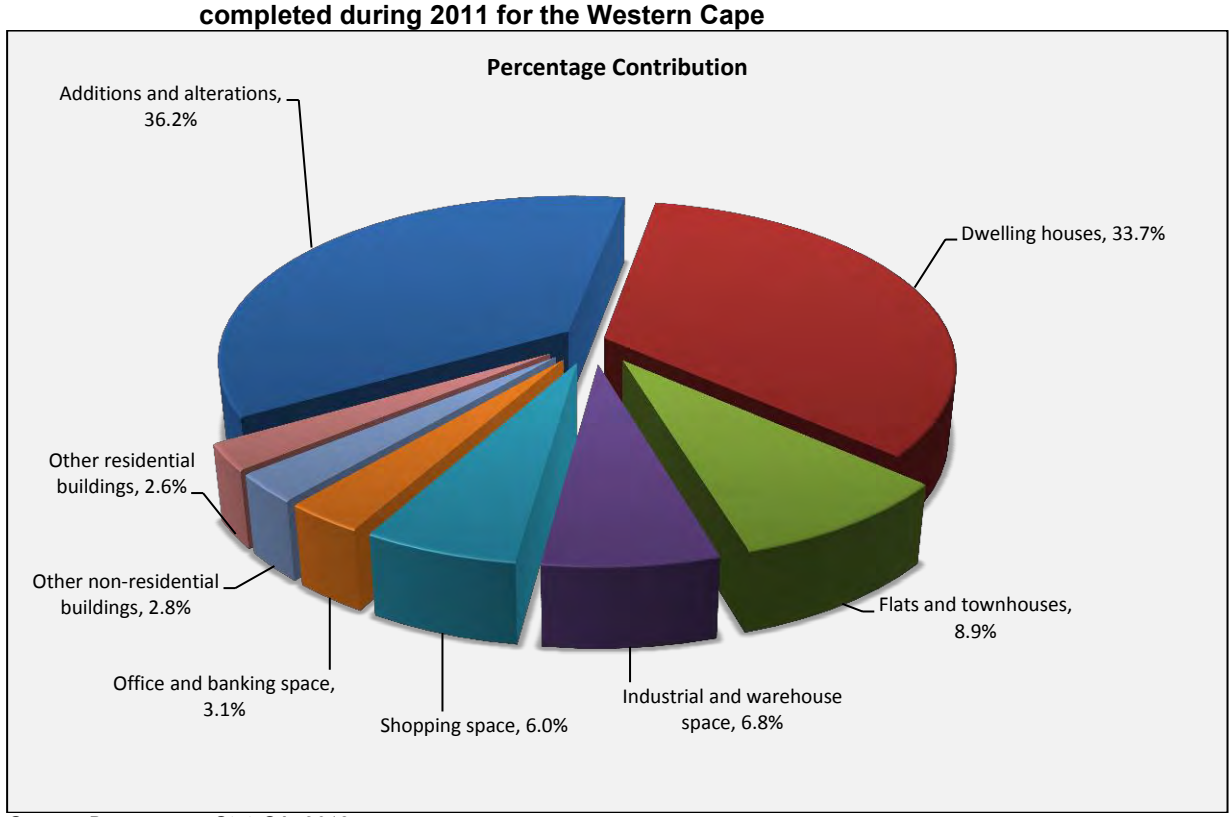
Flats and townhouses contributed 8.9% or R924,5 million to the total value of buildings reported as completed. Regarding non-residential buildings completed, the largest contributions to the total value of buildings completed were recorded for industrial and warehouse space, contributing 6.8% or R706,8 million and shopping space, contributing 6.0% or R620,2 million.

Figure 2.1: Value of buildings completed for Western Cape for 2011 by municipality



Source: Demacon ex StatsSA, 2013

Figure 2.2: Percentage contribution by type of building to the total value of buildings completed during 2011 for the Western Cape



Source: Demacon ex StatsSA, 2013

2.6.2 BUILDING PLANS REPORTED AS COMPLETED FOR THE CAPE FLATS DISTRICT AND THE MITCHELLS PLAIN/KHAYELITSHA DISTRICT, 2010 - 2011

Buildings Completed: Cape Flats District

Table 2.1: Buildings completed

	Residential buildings	Non-residential buildings		Additions and alterations		Buildings reported as completed
Year	Total square metres	No of buildings	Total square metres	No of plans	Total square metres	Total square metres
2010	49 243	28	27 426	1 472	112 371	189 040
2011	34 381	26	16 182	1 227	85 417	135 980

Source: Demacon ex StatsSA, 2013

Buildings Completed: Mitchells Plain/Khayelitsha District

Table 2.2: Buildings completed

	Residential buildings	Non-residential buildings		Additions and alterations		Buildings reported as completed
Year	Total square metres	No of buildings	Total square metres	No of plans	Total square metres	Total square metres
2010	139 069	47	57 126	1 402	85 596	281 791
2011	85 098	29	46 011	610	41 245	172 354

Source: Demacon ex StatsSA, 2013

Residential Buildings Completed: Cape Flats District

Table 2.3: Residential buildings completed by size of dwelling house

Year	Equal or Smaller than 30 Square Metres	Larger than 30 sqm and smaller than 80sqm	Equal to or larger than 80 square metres	Total Number of Dwellings
2010	10	249	206	465
2011	2	261	101	364
Average per annum				**415**

Source: Demacon ex StatsSA, 2013

Residential Buildings Completed: Mitchells Plain/Khayelitsha District

Table 2.4: Residential buildings completed by size of dwelling house

Year	Equal or Smaller than 30 Square Metres	Larger than 30 sqm and smaller than 80sqm	Equal to or larger than 80 square metres	Total Number of Dwellings
2010	31	2 714	145	2 890
2011	9	1 411	123	1 543
Average per annum				**2 217**

Source: Demacon ex StatsSA, 2013

In terms of total number of dwellings completed, the rate decreased from 2010 (2 890 units) to 1 543 in 2011. The majority of completed buildings fall within the category larger than 30sqm and smaller than 80sqm.

Non-Residential Buildings Completed

The following table provides an overview of the non-residential buildings completed in the Cape Flats District and the Mitchells Plain/Khayelitsha District from 2004 to 2011. The non-residential category includes:

- ✓ Office and banking space
- ✓ Shopping space
- ✓ Industrial and warehouse space

Non-Residential Buildings Completed: Cape Flats District

Table 2.5: Non Residential Building Completions

Year	Office and Banking Space		Shopping Space		Industrial and Warehouse Space	
	Number of Buildings	m^2	Number of Buildings	m^2	Number of Buildings	m^2
2010	4	1 790	3	7 516	12	14 506
2011	3	1 706	3	2 787	6	7 767

Source: Demacon ex StatsSA, 2013

From the preceding table it is reflected that the completion of office and banking space, shopping space as well as industrial and warehouse space were all higher than that of 2011.

Non-Residential Buildings Completed: Mitchells Plain/Khayelitsha District

Table 2.6: Non Residential Building Completions

Year	Office and Banking Space		Shopping Space		Industrial and Warehouse Space	
	Number of Buildings	m^2	Number of Buildings	m^2	Number of Buildings	m^2
2010	2	1 752	1	453	25	44 487
2011	1	55	0	0	13	18 010

Source: Demacon ex StatsSA, 2013

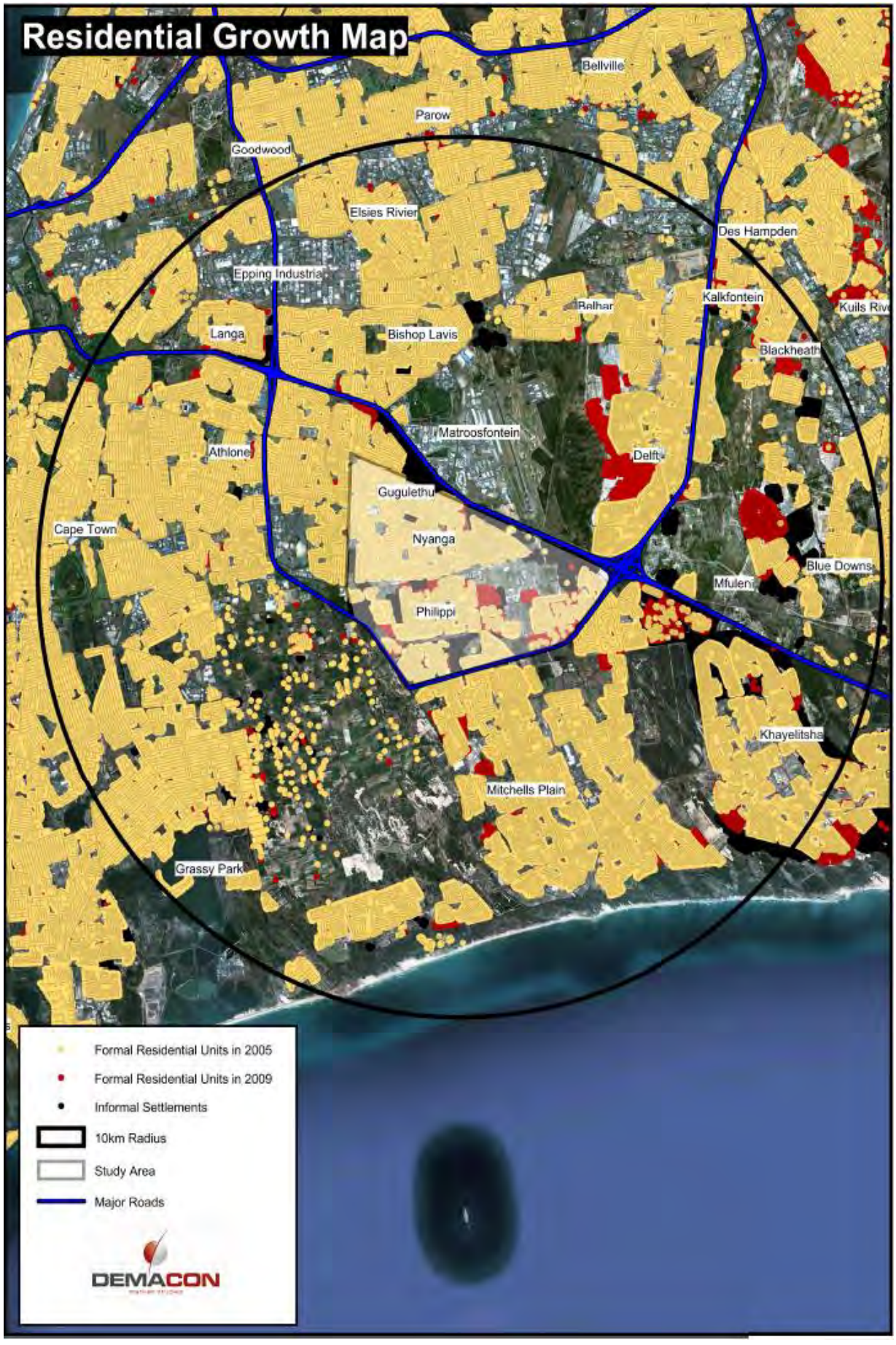
From the preceding table it is reflected that the completion of office and banking space, shopping space as well as industrial and warehouse space were all significantly higher than that of 2011.

*(*Note – Only data for 2010 and 2011 is available on District/Local Level. The data for previous years are only available for the whole City of Cape Town and no breakdown is given per district/local area.)*

2.6.3 FORMAL & INFORMAL RESIDENTIAL GROWTH

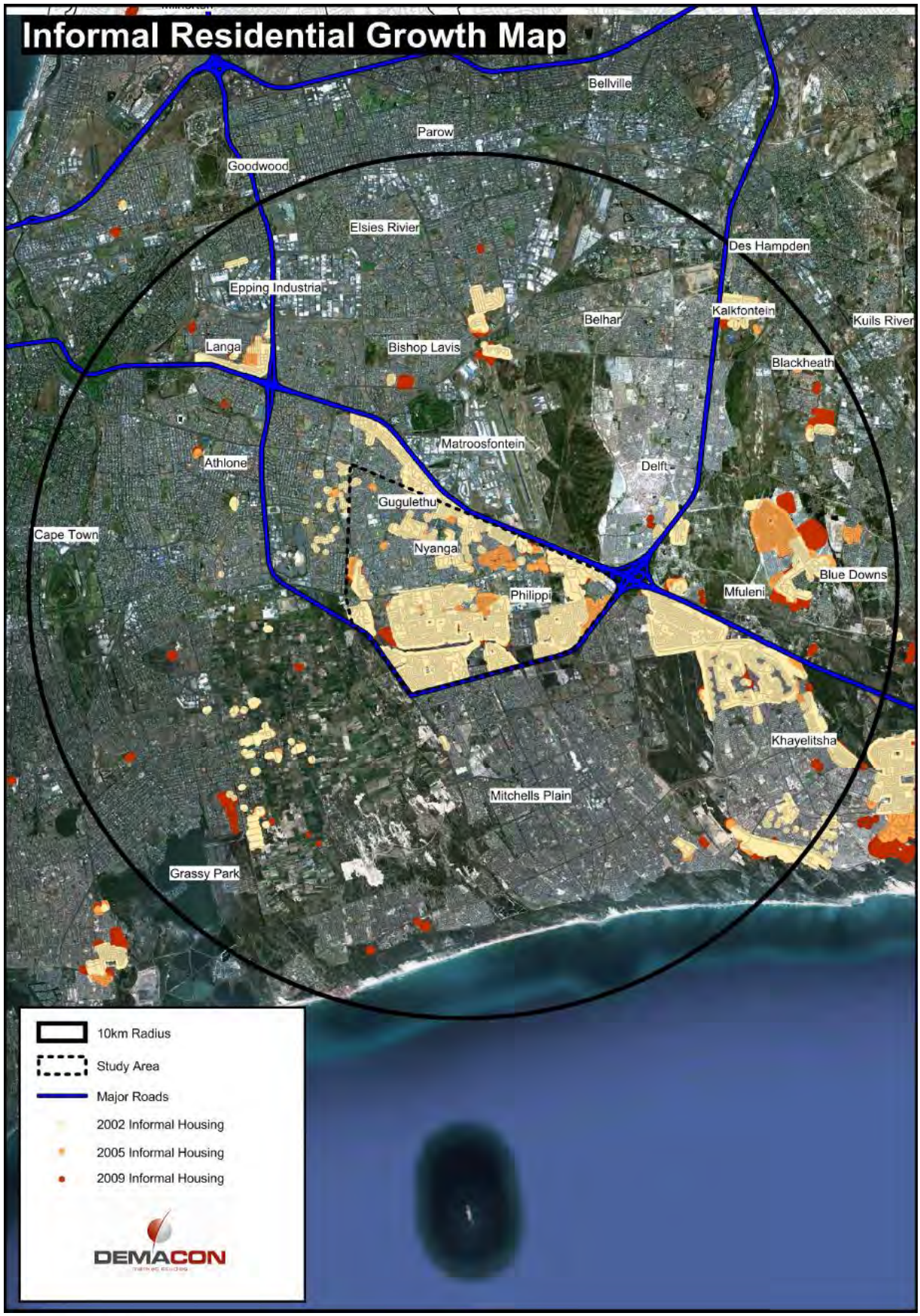
Map 2.3 illustrates the Formal Residential growth from 2005 to 2009 within the trade market area (10km radius).

Map 2.3 Formal Residential Growth, 2005 to 2009



Map 2.4 illustrates the Informal Residential growth from 2002 to 2009 within the trade market area (10km radius).

Map 2.4 Informal Residential Growth, 2002 to 2009



2.6.4 CURRENT & PLANNED DEVELOPMENTS & PROJECTS WITHIN THE PHILIPPI AREA – Source PEDI:

Table 2.7 Current and Planned projects and developments within the Philippi and surrounding areas

Current & planned projects	
✓ **R3 Billion in projects currently earmarked**	
✓ **Infrastructure development to support growth**	
✓ **Road Widening to support growth**	
✓ **IRT Node and Major Transport Hub**	
✓ **Fibre-optic Network Communications**	
✓ **Housing developments (Watergate, Thembokwezi)**	
Philippi Produce Market	✓ Established to serve local emerging farmers ✓ Junior Farmer training on site ✓ Vegetable Processing and Packing ✓ Chilling and Cold Storage Facility ✓ Easy access to N2 for shipping
PUFS - Philippi Urban Food Security	✓ Covered Farming Training Facility ✓ 100 Trainees per year ✓ Hectare with 40 tunnels ✓ Project value: R 5,000,000 ✓ Netherlands Funds, CoCT, Cordaid & PEDI
Vermicompost Project	✓ Food Waste to Compost Processing ✓ 1 Hectare Worm Farm Training Facility ✓ 100 Trainees per year ✓ Project Value: R 2,000,000 ✓ Closing the Loop, Pick n Pay, PEDI
Philippi Agricultural Project	✓ Ha established farm (immediately available) potential for addition to PUFS programme ✓ Prototype digester producing Biogas ✓ Additional 500 Ha still to be identified for PUFS ✓ Job Fund, MJC, Dept Agri, CoCT, PEDI
Beautiful Gate	✓ Family Resource Centre ✓ Child Place of Safety ✓ Hospice and Medical Services ✓ Employment Resource Centre ✓ Soccer & Sports Programs
Crossroads Café	✓ 'Locally Grown' Training Facility ✓ Chef Training ✓ Catering and Hospitality Training ✓ Restaurant and Catering ✓ 100 Students per year
iThemba Labantu	✓ Community Center & Hospice ✓ Mechanic & Solar Installer Training ✓ Craft & Handwork Workshops ✓ Soccer, Drama & After School Activities ✓ German Funds, Lutheran Church
Philipp Lahm Foundation	✓ Sports, Education and Life skills Training ✓ Retention Pond Rehabilitation ✓ Upliftment and Community Development ✓ Project Value: R 10,000,000 ✓ Philipp Lahm, iThemba Labantu, CoCT, PEDI
The Business Place	✓ Development of Business Skills ✓ Entrepreneur Development Program ✓ Business Resource Centre ✓ Business Incubator ✓ Research & Development of New Ideas

Current & planned projects	
Cape Flats Business Hub	✓ Major rehab of existing structure ✓ Business Services and Lecture Halls ✓ Theatre and Cultural Resources ✓ Project Value: R 160,000,000 ✓ Job Creation: ± 500
Teguka Industrial Park	✓ 83,000 m2 Industrial Park ✓ 70 Warehouses and offices for rent ✓ Manufacturing, Repair and Warehousing ✓ Project Value: R 250,000,000 ✓ Job Creation: ± 3,000
Philippi Plaza	✓ Philippi's 1st Shopping Center ✓ Employment Opportunities ✓ 50 Shops, currently 60% occupancy ✓ Project Value: R 125,000,000 ✓ Jobs Created: ± 211 total; 119 local
Airport Corridor Mall	✓ 38,000 m2 of retail space ✓ Pick n Pay ✓ Massmart ✓ R 450 Million investment ✓ Job Creation: ±1,500
Cape Town Aerotropolis	✓ Major Airport Development ✓ Export/Import Services ✓ Manufacturing, Processing and Warehousing ✓ Project Value: R2 Billion ✓ Job Creation: +6,000
Proposed Philippi N2 Access	✓ Philippi Industrial direct link to the N2 ✓ Links Philippi Industrial to Airport Industrial ✓ N2 access to E side of ACSA Property ✓ Cape Town Aerotropolis access to N2
Expansion of the Cape Town International airport to accommodate two runways	✓ To meet ACSA's long-term strategic objectives for Cape Town International Airport, an Airport Master Plan was developed with the objective of maximising utilisation at the airport in its current location assuming the future expansion of the airport to accommodate two runways. ✓ Airport Noise Contour: ○ New general industrial uses are proposed on undeveloped land within the heart of the Philippi Industrial area including the area impacted by the airport noise contour. ○ However, further residential development will not be supported on land falling within the 65db airport noise contour.

2.7 IN-DEPTH INDUSTRIAL LOCATIONAL FACTOR ANALYSIS

Due to the idiosyncratic demands that exist with regards to generic opportunities, the choice regarding the most suitable location for a specific type of economic activity does not take place at random. It involves the application of decision criteria that combines the knowledge of economic resources and markets with the financial principles of cost-benefit analysis. The unique characteristics of the Philippi area combined with the size and location of product markets suggest that the area is suitable for very specific types of economic activities. Furthermore, the alignment of policies to national policies and initiatives also has an effect on the location of economic activities and provides for a need for intervention.

The purpose of this section is to identify the major factors that influence the location of economic activities and to interpret the findings into specific implications for the location of economic activity for the development within the Philippi area.

The theory of **industrial location** identifies five major factors that influence the choice of the location of individual economic activity, namely:

1. Labour Orientation
2. Market Orientation
3. Resource Orientation
4. Agglomerative Economy Orientation
5. Logistics Orientation

Subsequent sections of this section discuss each of these factors with cross-referencing being made to the Philippi area.

1. Labour Orientation

A firm is said to be labour-oriented if it chooses its location in such a way as to take advantage of favourable labour conditions in that location. Labour-orientation can be taken in two ways, that is, either the cost of labour in the area is lower or they have no effect at all. Labour-orientation is influenced by a number of interrelated factors such as:

- ✓ Wage levels
- ✓ Productivity
- ✓ Turnover and work stoppage rates
- ✓ Supply of adequately skilled labour
- ✓ Labour laws

The Philippi market area and the type of occupation within the area indicate relatively low to medium skills levels in the area. The area is however situated in close proximity to the Cape Town City Centre, to various businesses, the airport, train station etc., which makes it easily accessible for labourers in the surrounding areas. This indicates that labour is within 30 minutes of the Philippi area.

2. Market Orientation

Market orientation is the traditional explanation for industrial location with a firm being market oriented if it attempts to reduce the cost of transporting output, be it final or intermediate, by locating in proximity to the market where these goods are sold.

The criteria normally utilised to determine these growth points are:

- ✓ Population concentrations
- ✓ Level of economic activity
- ✓ Availability of infrastructure
- ✓ Strategic location of developmental corridors
- ✓ Economic development potential

The Philippi market area has some of the attributes described above and the local economy is made up of ten economic sectors that make up the national economy. According to the Cape Flats District Plan the movement and access roles of the Philippi/Lansdowne Road corridor is central to the functioning of the district. The corridor reflects the primary means of east west movement within and across the district, supporting and providing access to employment and

social opportunities. It's role should be reinforced and emphasis placed on strengthening its public transport function, intensifying land uses along it and improving the quality of the public environment (road-based public transport and NMT improvements, public space upgrading).
The Wetton/Lansdowne Road corridor is seen as the primary area for intensification of land uses in the district. This will support public transport in the corridor and build on existing positive patterns of development. There are also planned upgrades of strategic road sections which could directly benefit the Philippi area and there are relatively good accessibility and connectivity to the area.

3. Resource Orientation

Resource orientation refers to a situation when firms locate near firms in the primary resource extracting sector mainly mining. The objective being to reduce the transportation costs of primary inputs as they are extraordinary bulk loads which are costly. Typical examples in this category include food processing, lumber processing, and primary metal industries. The use of primary resources often results in a net weight loss in the manufacturing process from primary inputs to final product. Hence cost savings incurred on the processed product provide motivation for a firm to locate in the proximity of its source of primary resources. Industrial activities that benefit from primary resource extractors are called first stage resource users. Firms with a resource orientation also include producers that utilise products of first stage resource users.

The Philippi market area is in close proximity to various other industrial areas within Cape Town and is also in close proximity to the Airport Industria area. This could also give them a competitive advantage and contribute to cost savings. The area has relatively good accessibility and connectivity and is in close proximity to other businesses, the airport and industrial clusters.

4. Agglomerative Economy Orientation

Agglomeration refers to the spatial concentration of related and inter-dependent economic activities. Due to the relationship between these firms and the spatial proximity to one another, strong inter-industrial linkages develop which enables the respective firms to maximise profits and become more effective. There are two prominent and distinct types of agglomeration and these are:

- ✓ **Localisation economies**: Applies to all firms in a particular industry that tend to locate together. This is motivated by factors such as factor input/output materials source and forward and backward linkages with auxiliary industries in the same locality.
- ✓ **Urban concentration economies**: These benefit all firms in all industries as a result of the following:
  - Large market
  - Large pool of skilled labour
  - Commercial and financial services and other support services.

Agglomeration economies in the Philippi and surrounding areas can be identified in the localisation economies with potential opportunities for forward and backward linkages. It is anticipated that the area could possibly attract new development that are related to forward or backward linkages within various sectors.

5. Logistics Orientation

Logistics can be defined as an organisation of movement and relates to an integrated network of transportation, communications, distribution and auxiliary facilities and institutional arrangements that facilitate investment and the movement of goods and services. The networks include roads, bridges, railways, and air links.

As mentioned earlier, the Wetton/Lansdowne Road corridor is central to the functioning of the district. The corridor reflects the primary means of east west movement within and across the district, supporting and providing access to employment and social opportunities. It's role should be reinforced and emphasis placed on strengthening its public transport function, intensifying land uses along it and improving the quality of the public environment (road-based public transport and NMT improvements, public space upgrading). The Philippi area is also in:

- ✓ Close proximity to Cape Town City Centre,
- ✓ Close proximity to business, airport and industrial clusters,
- ✓ Relatively good accessibility to regional and national routes,
- ✓ Planned upgrades of strategic road sections which could directly benefit the Philippi area,
- ✓ And has relatively good accessibility and connectivity, etc.

With regards to the above mentioned there are various opportunities available within the Philippi area, especially in terms of the industrial market. The market potential analysis could act as a marketing tool to attract investors into the area. The objective is therefore to expand the manufacturing/industrial sector by increasing its production base and to ensure that the area reaches its full industrial and related potential.

2.8 MOST CRITICAL PRE-CONDITIONS ACCORDING TO MARKET ROLE-PLAYERS

The following was identified as the most critical pre-conditions according to market role-players:

Table 2.8: Most critical pre-conditions according to market role-players (survey)

Locational factors	
✓ Adequate Access	✓ Sensible Land Costs (10% - 15% of total capital costs)
✓ Adequate Infrastructure	✓ Viable Site Assembly
✓ Financial Feasibility	✓ Flexible Zoning
✓ Catalytic Projects	✓ Government Support

Source: Demacon Survey, 2013 – Old Mutual, Capicol, Improvon, ICE Finance, Resilient etc.

2.9 LOCATION ASSESSMENT

South Africa - Global Competitiveness Index: the Positives

South Africa's ranking: 53 out of 148 countries

"South Africa was ranked as the 53rd most competitive country out of 148 surveyed in the 2013/14 World Economic Forum's Global Competitiveness Index, making it the second highest ranked country in Africa after Mauritius (45th).

It took over Brazil to take second place among the BRICS' economies, with China at 29 and Brazil dropping to 56th place (from 48).

Conducted by the World Economic Forum (WEF) in partnership with leading academics and a global network of research institutes, the index calculates its rankings from publicly available data and a poll of business leaders in 148 economies. The main goal of the report is to evaluate countries' economic environment and their ability to achieve sustained levels of prosperity and growth.

According to the report, South Africa does well on measures of the quality of its institutions (41st), including intellectual property protection (18th), property rights (20th), and in the efficiency of the legal framework in challenging and settling disputes (13th and 12th, respectively).

The high accountability of its private institutions (2nd) further supports the institutional framework.

South Africa's financial market development "remains impressive" at 3rd place, the report says. The country also has an efficient market for goods and services (28th), and it does "reasonably well" in more complex areas such as business sophistication (35th) and innovation (39th).

However, South Africa's strong ties to advanced economies, notably the euro area, make it more vulnerable to their economic slowdown and likely have contributed to the deterioration of fiscal indicators: its performance in the macroeconomic environment has dropped sharply (from 69th to 95th)."(*Source: World Economic Forum, September 2013*)

'fDi' Global Competitiveness Index

The Global Competitiveness Index 2013–2014 rankings and 2012–2013 comparisons (South Africa extract)	
Ranking (out of 148 countries):	**RSA - 53**
Overall Score (1–7):	**RSA - 4.37**

Basic Requirements	**Out of 148**	**Scale of 1-7**
Overall	**95**	**4.2**
Institutions	41	4.5
Infrastructure	66	4.1
Macroeconomic Environment	95	4.4
Health and Primary Education	135	3.9
Efficiency Enhancers		
Overall	**34**	**4.5**
Higher Education and Training	89	3.9
Goods Market Efficiency	28	4.8
Labour Market Efficiency	116	3.9
Financial Market Development	3	5.8
Technological Readiness	62	3.9
Market Size	25	4.9
Innovation and Sophistication Factors		
Overall	**37**	**4.1**
Business Sophistication	35	4.5
Innovation	39	3.6

The Most Problematic Factors for Doing Business in South Afirca
• Inadequately Educated Workforce
• Restrictive Labour Regulations
• Inefficient Government Bureaucracy
• Corruption
• Poor Work Ethic in National Labour Force
• Inadequate Supply of Infrastructure

The Reality

Philippi

- ✓ The Philippi area is located in close proximity to major road transport routes, such as the N2, R300 Motorway, Lansdowne Road and Klipfontein Road.
- ✓ It is in close proximity to the Cape Town International Airport
- ✓ 20 Minutes from Cape Town Harbour
- ✓ Served by two Metropolitan Rail Stations
- ✓ Proximity to a substantial labour supply
- ✓ Eastern node of the Wetton-Lansdowne-Philippi Corridor
- ✓ Low land cost
- ✓ However, some critical factors are lacking which could possibly be addressed in future, such as site value from the N2, direct accessibility from the N2 and exposure. If these conditions and prerequisites are in place, development in Philippi will increase which will be economically beneficial for Philippi and surrounding areas.

Market potential is influenced not only by consumer income and expenditure, but in particular also by the characteristics of the specific location under consideration. Urban property markets have specific location requirements and should subsequently be assessed in terms of selected location criteria.

To this effect, **DEMACON Site Evaluation Models © are utilised.** The DEMACON models are pragmatic and are based on the assignment of values to various location factors. Firstly, the site is evaluated on a ten-point scale, with ten being the highest. Secondly, weights are attached to these factors, in order of importance (1 to 5, with 5 being the most important).

The location assessment models were also investigated in terms of the two scenarios for each of the property markets, namely the **current (baseline) and future (optimistic) market potential**.

The **baseline scenario** assesses the location in terms of the locational criteria which is currently available within the study area. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey interventions, such as better sight value and improved address value, accessibility from the N2, more exposure, better infrastructure, improved security etc., which is then assessed in terms of the future potential. Improvement in these conditions will invariably raise the expected level of take up within the area.

The most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

INDUSTRIAL LOCATION ASSESSMENT:

CURRENT/BASELINE SCENARIO

Table 2.9: Industrial / Warehousing / Distribution / Mini Storage Location Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Address Value	3	3	9
Accessibility	6	5	30
Visibility	8	4	32
Proximity to Key Transport Infrastructure - Airport, Port, Railway	9	5	45
Proximity to freeways	9	5	45
Centrality to Market Area	9	5	45
New / Emerging Industrial Node / Corridor	9	4	36
Functional and Complimentary Uses	6	4	24
Absence of Competitive Products - Market Gap	6	4	24
Proximity to Labour Force - unskilled, semi-skilled and skilled	8	4	32
Available Infrastructure	5	4	20
Availability of Land	8	3	24
Future Expansion Potential	7	4	28
Perceived Level of Security	2	4	8
Located in Direct Line of Growth	7	4	28
Total			**430**
Score			**69.4%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful industrial development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

FUTURE/OPTIMISTIC SCENARIO

Table 2.10: Industrial / Warehousing / Distribution / Mini Storage Location Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Address Value	6	3	18
Accessibility	8	5	40
Visibility	8	4	32
Proximity to Key Transport Infrastructure - Airport, Port, Railway	9	5	45
Proximity to freeways	9	5	45
Centrality to Market Area	9	5	45
New / Emerging Industrial Node / Corridor	9	4	36
Functional and Complimentary Uses	6	4	24
Absence of Competitive Products - Market Gap	6	4	24
Proximity to Labour Force - unskilled, semi-skilled and skilled	8	4	32
Available Infrastructure	7	4	28
Availability of Land	8	3	24
Future Expansion Potential	7	4	28
Perceived Level of Security	6	4	24
Located in Direct Line of Growth	7	4	28
Total			**473**
Score			**76.3%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful industrial development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

As can be seen within the current industrial location model the rating for industrial development **(69.4%)** indicates that some critical factors are lacking, but it could be addressed in the future. Important locational prerequisites (such as address value, accessibility, available infrastructure, level of security etc.) need to be in place first in order for the rating to increase to **76.3%** in future, which will make a successful industrial development possible.

RETAIL LOCATION ASSESSMENT

CURRENT/BASELINE SCENARIO

Table 2.11: Retail Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Consumer Volumes	9	5	45
Income / LSM profile	6	5	30
Population Growth	8	4	32
Visibility	8	4	32
Accessibility	8	4	32
Functional & Complimentary Uses	6	3	18
Effective Market Gap	8	4	32
Proximity to Intermodal Facilities, e.g. BRT Route, Gautrain, Rail/Taxi/Bus terminus	8	3	24
Address Value	5	4	20
Availability of Land	7	4	28
Future Expansion Potential	8	4	32
Directional Growth of Area	7	4	28
Proximity to Labour	7	3	21
Proximity to Suppliers	7	3	21
Perceived Level of Security	3	4	12
Total			**407**
Score			**70.2%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful retail development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

FUTURE/OPTIMISTIC SCENARIO

Table 2.12: Retail Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Consumer Volumes	9	5	45
Income / LSM profile	6	5	30
Population Growth	8	4	32
Visibility	9	4	36
Accessibility	9	4	36
Functional & Complimentary Uses	6	3	18
Effective Market Gap	8	4	32
Proximity to Intermodal Facilities, e.g. BRT Route, Gautrain, Rail/Taxi/Bus terminus	8	3	24
Address Value	8	4	32
Availability of Land	7	4	28
Future Expansion Potential	8	4	32
Directional Growth of Area	7	4	28
Proximity to Labour	7	3	21
Proximity to Suppliers	7	3	21
Perceived Level of Security	7	4	28

Location Factors	Grade 1-10	Weight 1-5	Points
Total			**443**
Score			**76.4%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful retail development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

CURRENT/BASELINE SCENARIO

Table 2.13: Residential Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Perceived Level of Safety and Security	3	5	15
Area Price Profile	6	4	24
Address Value	5	4	20
LSM Profile	6	5	30
Perceived Quality of Residential Environment	6	4	24
Tempo of Residential Growth	7	5	35
Within direction of Current & Future Growth	8	5	40
Perceived investment value	5	4	20
Access to main roads	8	3	24
Proximity to work place	6	3	18
Proximity to schools	6	4	24
Proximity to retail facilities	8	4	32
Proximity to social amenities	6	3	18
Proximity to public transport	8	3	24
Availability of Land	7	3	21
Total			**369**
Score			**62.5%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful residential development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

FUTURE/OPTIMISTIC SCENARIO

Table 2.14: Residential Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Perceived Level of Safety and Security	7	5	35
Area Price Profile	6	4	24
Address Value	8	4	32
LSM Profile	6	5	30
Perceived Quality of Residential Environment	7	4	28
Tempo of Residential Growth	7	5	35
Within direction of Current & Future Growth	8	5	40
Perceived investment value	8	4	32
Access to main roads	9	3	27
Proximity to work place	7	3	21
Proximity to schools	6	4	24
Proximity to retail facilities	8	4	32
Proximity to social amenities	7	3	21
Proximity to public transport	8	3	24
Availability of Land	7	3	21
Total			**426**
Score			**72.2%**

Source: Demacon, 2013

CURRENT/BASELINE SCENARIO

Table 2.15: Office Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Accessibility	7	3	21
Visibility	7	5	35
Address Value	2	4	8
Moderate to Higher LSM Profile	2	4	8
Proximity to Educated Labour Force	2	4	8
Established Office Address / Monitored Node	0	4	0
Functional and Complimentary Uses	5	4	20
Emerging Commercial Node	5	4	20
Proximity to Freeways / Major Provincial Routes	7	4	28
Proximity to Intermodal Facilities, e.g. BRT, Gautrain, Rail/Taxi/Bus terminus	7	3	21
Availability of Land	7	3	21
Future Expansion Potential	5	3	15
Perceived Level of Security	3	4	12
Directional Growth of Area	7	3	21
Total			**238**
Score			**45.8%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful office development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

FUTURE/OPTIMISTIC SCENARIO

Table 2.16: Office Assessment

Location Factors	Grade 1-10	Weight 1-5	Points
Accessibility	9	3	27
Visibility	9	5	45
Address Value	8	4	32
Moderate to Higher LSM Profile	6	4	24
Proximity to Educated Labour Force	6	4	24
Established Office Address / Monitored Node	7	4	28
Functional and Complimentary Uses	6	4	24
Emerging Commercial Node	7	4	28
Proximity to Freeways / Major Provincial Routes	9	4	36
Proximity to Intermodal Facilities, e.g. BRT, Gautrain, Rail/Taxi/Bus terminus	8	3	24
Availability of Land	7	3	21
Future Expansion Potential	8	3	24
Perceived Level of Security	7	4	28
Directional Growth of Area	7	3	21
Total			**386**
Score			**74.2%**

Source: Demacon, 2013

** **Note:** 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for a successful office development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

- ✓ In terms of retail development (70.2%), a site rating of 70% – 80% is high and indicates that most important fundamentals for a successful retail development are in place.
- ✓ In Terms of residential development (62.5%), a rating of 60% – 70% indicates some critical factors may be lacking, but could possibly be addressed in future.

- ✓ In terms of office development (45.8%), projects with a sub 60% rating are not recommended for consideration.

However, if certain important conditions (as mentioned below) are in place then the rating for each property market will significantly increase (refer to Table 2.18).

2.10 SYNTHESIS

The population of Philippi consists of a number of disparate groups who settled in the locality at different times and through very different processes. As a settlement, Philippi presents both potential and a range of challenges. It is strategically located in close proximity to transport nodes and economic opportunities, such as the Cape Town International Airport, the Philippi Industrial Area and the Philippi Horticultural Area. Yet, the area still faces serious development challenges in the form of poverty, unemployment, overcrowding, food insecurity, crime and exposure to environmental hazards such as flooding and fire.

Overall, it is evident that the proposed development is in line with current and future spatial development guidelines set out in the Spatial Development Framework of the City as well as the District Plans. The proposed development will provide a supportive / complimentary industrial function towards the node and the Cape Town International Airport, and in such manner expand the industrial hierarchy of the area. The proposed development will also act on the potential generated by the N2. The development will contribute to the expansion and development of the local economy as well as the local rates and tax base of the city. Overall, the development is in line with the spatial development guidelines.

Table 2.17 summarises the **current** findings of the urban property market location assessment and Table 2.18 summarises the **future** findings of the urban property market location assessment

Table 2.17: Summary of Site Evaluation Results - CURRENT

Development Site	Rating
Industrial/Warehousing/Distribution/Mini Storage	69.4%
Retail	70.2%
Residential	62.5%
Office	45.8%

Source: Demacon, 2013

** Note: 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful property market development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

Table 2.18: Summary of Site Evaluation Results - FUTURE

Development Site	Rating
Industrial/Warehousing/Distribution/Mini Storage	76.3%
Retail	76.4%
Residential	72.2%
Office	74.2%

Source: Demacon, 2013

** Note: 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful property market development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

The most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas.

CHAPTER 3: AIRPORT ECONOMICS

3.1 INTRODUCTION

Given the proximity of the Philippi study area to the Cape Town International Airport this chapter provides an overview on macro location decision drivers, airports economics and specific sectoral preferences. Case study examples illustrate development drivers and various land uses and activities surrounding airport nodes. Subsequent paragraphs provide information in terms of the following headings:

- ✓ Macro Location Decision Drivers
- ✓ Airport Cities & Economics
- ✓ Principles of Airport Economics
  - Airport Statistics
  - National Airport Development Opportunities
- ✓ Freight Villages
- ✓ Synthesis.

3.2 MACRO LOCATION DECISION DRIVERS

Sustainable local economic development does not necessarily result from fast track procedures. The retention, expansion and attraction of businesses and industries are one of the most productive ways of stimulating local economy and creating new employment opportunities. For most industries, the decision to expand local operations or to relocate to a new area is influences by a number of factors. The following table indicates the ten most important factors influencing the decision making process of relocating to a specific region and sub-region.

Table 3.1: Influencing factors with respect to the location decision process

Factors influencing selection of a specific region	Factors influencing selection of a specific sub-region
Financial incentives	Site / premises availability
Labour availability	Cost to rent site
Development agency activity	Air transport
Labour Costs	Labour availability
Site / premises availability	Road transport
Government attitudes	Development agency activity
Overall costs	Proximity to markets
Availability of specific skills	Transport costs
Transport costs	Financial incentives
Labour quality	Labour quality

Source: Demacon Ex. Cooper & Brandt

Airports and infrastructure growth play critical roles in the national economy. A recent University of Johannesburg survey showed that the economic impact of O.R. Tambo, Cape Town and Durban international airports was significant, with a combined contribution towards GDP of R85 billion. Furthermore, the three airports generated 33 700 direct, on airport jobs and 227 600 indirect jobs which drives economic development and trade of a country.

3.3 AIRPORT CITIES & ECONOMICS

Airports and economic relation:

- ✓ Major airports – **key nodes** for global production and enterprise systems
- ✓ Stimulate local economic development by **attracting aviation-linked businesses**
- ✓ **For example**: time-sensitive (JIT) **manufacturing and distribution; hotel,** entertainment, retail, and exhibition complexes; office buildings that house regional corporate headquarters and air-travel intensive professionals, etc.
- ✓ Similar in shape to the traditional metropolis made up of a central city core and its commuter-linked suburbs - Aerotropolis consists of an **airport city core** and **outlying corridors and clusters** of aviation-linked businesses
- ✓ Dedicated airport expressway links (aeroplanes) and high-speed airport express trains (aerotrains) should efficiently **connect airports to business and residential clusters**, near and far.

The following are typical land uses surrounding major airports:

- ✓ Business Parks
- ✓ Offices
- ✓ Manufacturing
- ✓ Industrial Parks
- ✓ Warehousing
- ✓ Distribution
- ✓ Logistics & Free Trade Zone
- ✓ ICT Corridor
- ✓ Research / Technology Park
- ✓ Medical & Wellness Clusters
- ✓ Retail / Wholesale Facilities
- ✓ Exhibition Complex
- ✓ Conference Facilities
- ✓ Hotels
- ✓ Entertainment District
- ✓ Residential.

Philippi gap and concentration analysis in terms of the abovementioned land uses:

Table 3.2: Philippi gap and concentration analysis

Land Use	Concentration (Existing in Market)	Market Gap
Manufacturing / Warehousing / Distribution / Storage etc.		√
Industrial Parks		√
Residential development		√
Gap & Subsidy Housing		√
Retail / Wholesale Facilities		√
Business Parks / Offices		√
Agri-processing		√
Logistics		√
Transport		√
Research / Technology Park		√

The following was also derived from the **Detroit Region Aerotropolis Case Study**:

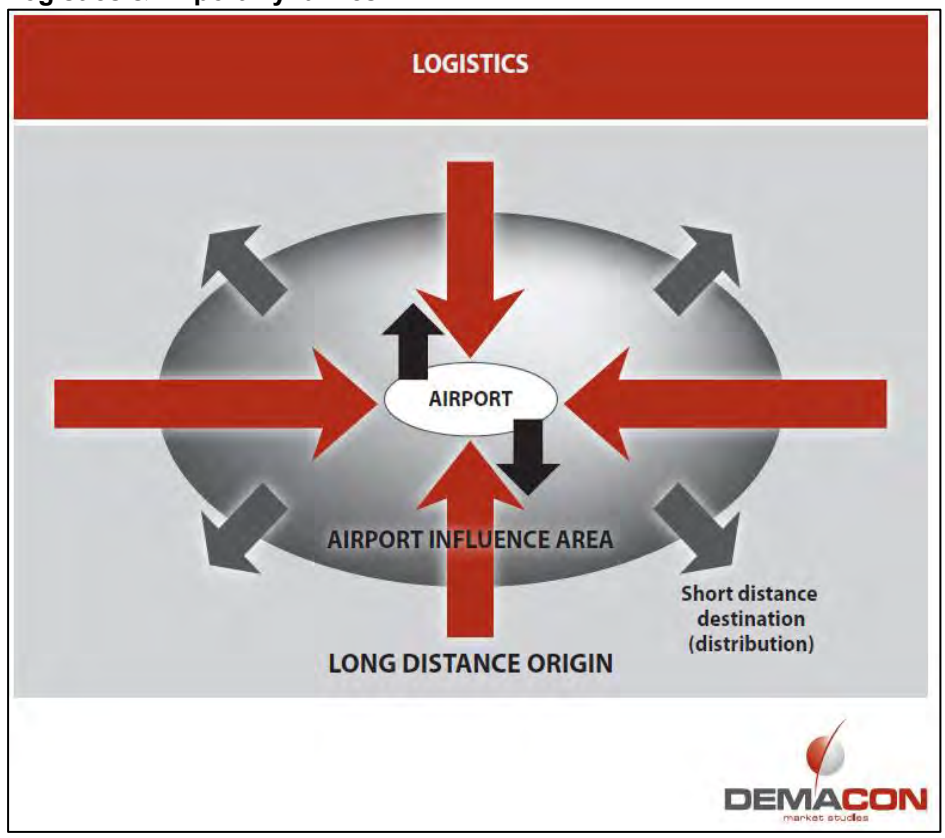
- ✓ Dual airport system consisting of Detroit Metropolitan and Willow Run airports
- ✓ Strategically located along the North American trade corridor, centrally located between Toronto and Chicago
- ✓ All modes of transportation (air, sea, rail and highway) can be accessed within a ten-mile radius
- ✓ Further pertinent characteristics include: manufacturing expertise, skilled employee base, world renowned universities, attractively priced available space for development and collaborative governmental partners.

The following areas of **development opportunity** could therefore be derived:

- ✓ **Activities** that could gain a **comparative advantage from an airport location** should be **encouraged** – this would include economic activities with **high volume / seasonal and low-weight / high value properties**.
- ✓ Encourage the development of **high-tech industries** as they have low-weight / high value properties and are proven to be successful in increasing airport-industry linkages.
- ✓ Encourage the **processing of perishable goods** to locate near the airport, due to the time sensitive nature of the goods produced by this industry.
- ✓ **Headquarter offices** should be encouraged to locate near the airport to take advantage of the airport location and to be close to their manufacturing / distribution functions.

The following figure provides an illustration of logistics and airport dynamics. This implies that the highest impact core area of influence falls within a 5km to 10km radius from the airport.

Figure 3.1: Logistics & Airport Dynamics



3.4 PRINCIPLES OF AIRPORT ECONOMICS

The following section provides an overview of the principles to airport economics.

Table 3.2: Principles of airport economics

ENVELOPE 1: THE PRINCIPLES OF AIRPORT ECONOMICS
The concept of airport economics is based on the philosophy that there is an increasing preference for certain economic activities (basic as well as non-basic) to locate in proximity to an international airport in order to optimise economic efficiency. The principles on which successful airport economies are based are summarised below: ✓ The term *airport economy* refers to a geographical area of influence that develops as a result of economic linkages. ✓ An international airport economy is largely *tertiary sector orientated,* i.e. trade, financial services, transport, storage, warehousing and distribution (905 in the case of Dalles-Fort Worth International in the US) ✓ Very little primary production takes place in an airport-related economy (7% in DFW International) ✓ Manufacturing that do take place is focused on *small, lightweight units* such as computer chips, electronic equipment, medical instruments, pharmaceutical products and aircraft components. ✓ High-technology manufacturing concerns and multinational corporations (MNC's) are mainly attracted to *new industrial precincts.* ✓ *Just in time* requirements force many producers to use air freight over alternative modes. ✓ Due to the exponential relationship between airfreight volume and transportation costs, landlocked airport locations become more viable for business and industrial enterprises if it forms part of a so-called *tax-exempt free-trade zone* (also referred to as economic development zones or industrial development zones) ✓ Stable, internationally competitive and less regulated *labour conditions* are non-negotiable prerequisites to attract foreign companies to an airport location. ✓ Specific *economic clusters* are attracted to airport locations: These includes: • Primary Airport Services (including, *inter alia,* air transportation, terminal services and oil, gas and petrochemicals for aviation) • Secondary Airport Services (including *inter alia,* restaurants, retail stores, accommodation, car rental and parking services) • Transportation Equipment and related manufacturing (including, *inter alia*, aircraft, aircraft engines and parts, aviation instruments, industrial trailers, elevators, escalators, refrigeration and related service equipment manufacturing) • Warehousing and distribution (including *inter alia,* trucking services, warehousing, postal services, grocery stores, electronic and electrical equipment, food and beverages) • Computer and Electronics (including *inter alia,* computers, electronic equipment, semiconductors, magnetic and optical media as well as electrical machinery and equipment) • Computer related services (including *inter alia,* pre-packaged software, data processing, computer maintenance and repair) • Marketing and fulfilment services (including *inter alia,* direct mail advertising, catalogue and mail order houses, printing and publishing, advertising and telemarketing. • Telecommunications (including, *inter alia*, telephone companies and computer related services). • Finance, Insurance and Real Estate (including, *inter alia,* banks, currency exchanges, brokers and real estate agents). • Health and Medical Services (including, *inter alia,* medical laboratories, medical and optical instruments as well as hospitals.

ENVELOPE 1: THE PRINCIPLES OF AIRPORT ECONOMICS

- ✓ The airport is not situated within the area of jurisdiction of a local authority but in a so-called "*unincorporated area*" which is owned and operated through a joint agreement between various local authorities and the airports company.
- ✓ In the case of DFW, the airport economy was boosted by the immensely successful privately financed *mixed use development* of Las Colinas, comprising high quality office and residential development.

3.5 AIRPORT STATISTICS

The following information was obtained from the 2012/13 ACSA financial report. Total revenue achieved for the company was R6 660 billion. Departing passenger number achieved was 17.4 million.
The following table provides airport statistics of the handling capacity of various airports within South Africa.

Table 3.3: Airport handling capacity

	O.R. TAMBO INTERNATIONAL AIRPORT	KING SHAKA INTERNATIONAL AIRPORT	CAPE TOWN INTERNATIONAL AIRPORT	GEORGE AIRPORT	KIMBERLEY AIRPORT	EAST LONDON AIRPORT
Passenger throughput	18 621 259	4 668 467	**8 434 799**	544 306	151 405	644 520
Total air traffic movements	199 803	49 673	**89 073**	39 664	11 556	30 501
International flight departures	30 903	869	**2 454**	-	-	-
Hourly runway capacity (air traffic movements)	62	24	**30**	20	12	30
Annual passenger handling capacity	28 000 000	7 500 000	**14 000 000**	900 000	200 000	1 200 000
Public parking bays	16 300	4 500	**6 080**	415	90	550

Source: ACSA, 2012/13

Airports and infrastructure growth play critical roles in the national economy. A recent University of Johannesburg survey showed that the economic impact of O.R. Tambo, Cape Town and Durban international airports was significant, with a combined contribution towards GDP of R85 billion. Furthermore, the three airports generated 33 700 direct, on airport jobs and 227 600 indirect jobs.

3.6 NATIONAL AIRPORT DEVELOPMENT OPPORTUNITIES

The following information is extracted from an article featuring in the SA Property Review, August 2010 titled Airports as Economic Engine Rooms of the future.

In 2010 Airports Company South Africa (ACSA) held a function to introduce SAPOA members to many of the potential property development opportunities available on ACSA owned land. As the largest airports authority in South Africa, ACSA owns three international airports (OR Tambo International Airport, Cape Town International Airport and King Shaka International Airport), six domestic airports (in George, Port Elizabeth, East London, Bloemfontein, Upington and Kimberley), and has a management contract for the Pilanesberg Airport.

Opportunities for property development exist at many of these airports around the country, and at their largest and most developed airport, OR Tambo International Airport (ORTIA), the long term strategic plan takes its cue from current urban design thinking around a new kind of urban form – the **Aerotropolis, or airport city**.

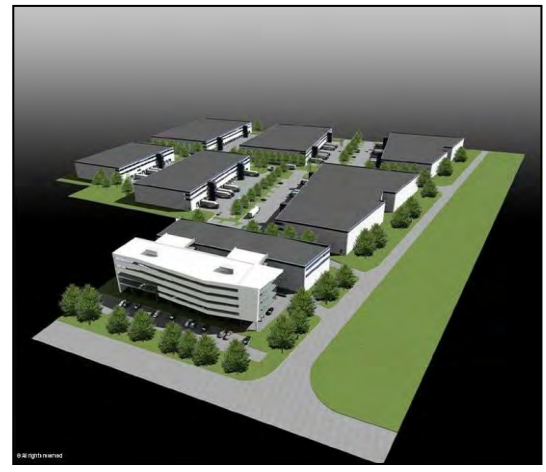
"*Major airports have become key nodes in global production and enterprise systems offering them speed, agility, and connectivity. They are also powerful engines of local economic development, attracting aviation-linked businesses of all types to their environs. These include, among others,* ***time-sensitive manufacturing and distribution; hotel****, entertainment, retail, convention, trade and exhibition complexes; and office buildings that house air-travel intensive executives and professionals*".

"*The rapid expansion of airport-linked commercial facilities is making today's air gateways anchors of 21st century metropolitan development where distant travellers and locals alike can conduct business, exchange knowledge, shop, eat, sleep, and be entertained* ***without going more than 15 minutes from the airport****. This functional and spatial evolution is transforming many city airports into airport cities*."

The success of the Aerotropolis concept is that it provides a highly time-efficient precinct. Businesses located in such precincts can more easily target multinational companies as clients and businesses which are familiar with the Aerotropolis concept tend to show keen interest in such areas as possible locations for their offices. The need to travel away from the airport for business purposes is minimised, and as mixed use environments develop around them, airport cities can become hosts for a number of other urban functions including shopping, entertainment and living.

3.7 FREIGHT VILLAGES

The term "Freight Village" emerged in Europe over 40 years ago to describe a new form of logistics centre development that combined freight transportation, warehouses/distribution centres and commercial services in one site. In 1967, Sogaris developed a logistics platform in Rungis, located seven kilometers from Paris, France. The location, according to the company, is also five minutes from Paris Orly airport; adjacent to both the Novatrans combined transport site and the Rungis International Market (one of the largest fresh produce wholesale markets in the world); and with direct access to three major roadways.



Defining Freight Villages

A freight village is a planned zone composed of distribution centres and light manufacturing activities. It is an integrated cluster of support activities for freight distribution such as office space, retail and restaurants. A freight village mostly focuses on the service and transactional dimensions of freight distribution and could exist in a context where limited freight distribution is taking place. It does not require an adjacent intermodal terminal, but this terminal is commonly in vicinity. A freight village can also be linked with an airport terminal since this type

of high value freight is intensive in transactions. The level of functional integration between the distribution activities located within a cluster varies from small where they simply share a location and its accessibility to significant where activities have a high level of integration.

Freight Villages Development Concept

A "*Freight Village*", also known as an "*Integrated Logistics Centre*", is a complex where the following activities occur:

- ✓ Modal shifting – goods are moved between two or more forms of freight transportation.
- ✓ Active distribution centers and industrial activities are located adjacent to the modal shift facilities within the clearly demarcated development to generate vibrant economic activity, jobs for the immediate area.
- ✓ No passive activity or container storage occurs on the sites.
- ✓ The distribution centers tend to serve multi-state market areas.
- ✓ An active relationship exists between the modal facilities and distribution centers/industrial activities in the complex.
- ✓ Support activities, such as office space, retail (restaurants, banking), and hotels are generally part of the development.
- ✓ One or no more than two entities generally manage the development.
- ✓ The support activities, serve as a bridge land use between the development and the surrounding community – serving both the workforce and the local community.
- ✓ The support activities can connect the community to the development, providing valuable services and a broader range to local areas. The support activities improve the desirability of the development.

EXAMPLES OF TENANTS IN RARITAN CENTER

Source: A. Strauss-Wieder, Inc.

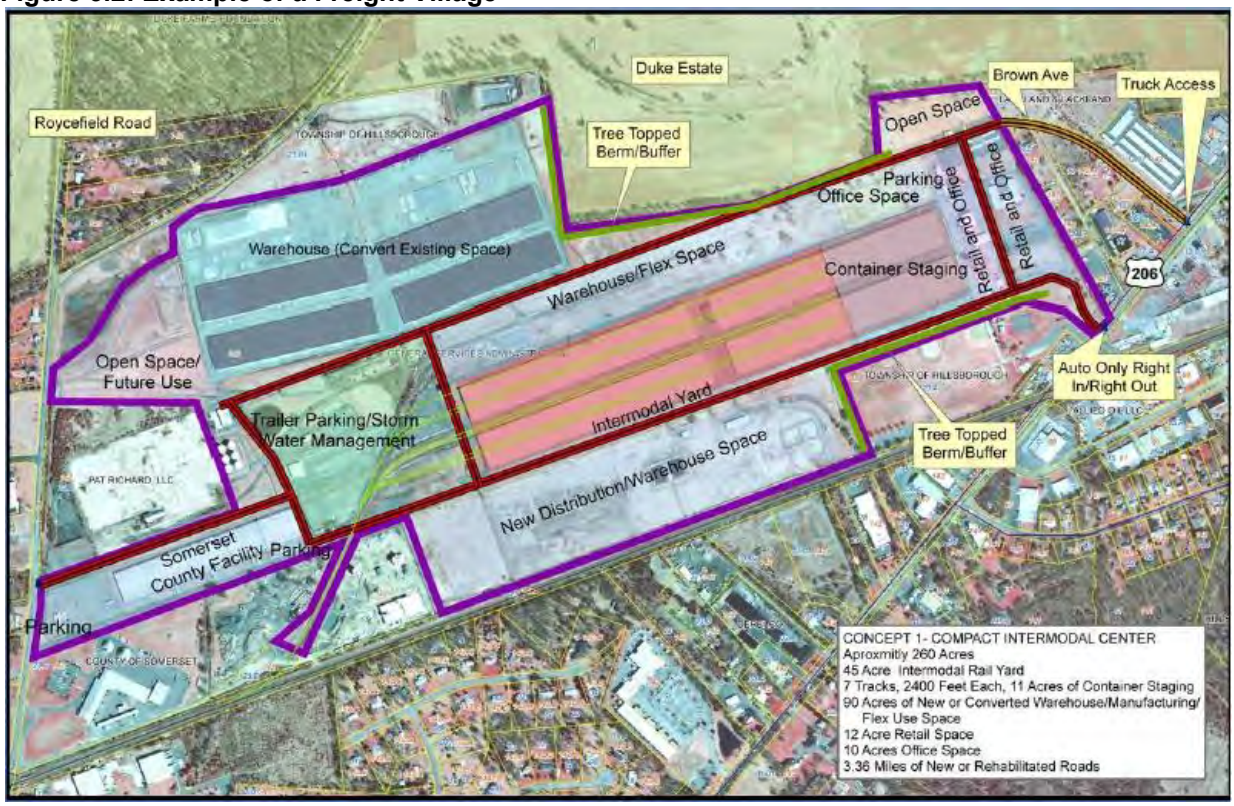
The Freight Village is therefore a value proposition for freight distribution that goes well beyond the function of warehousing with distinct economic benefits, such as job creation and capital investment. An array of services are required as they support the functions of a logistics zone and provide employment. The goal is often to create a service market within a logistics zone since it strengthens local expertise and improve the performance of freight distribution. This market is related to three main categories of services:

- ✓ **Freight services**. Specialised services that are rarely found outside the freight distribution industry. They include freight transportation, warehousing and light

fabrication services. They also include an array of freight operations taking place in a distribution center that can be subcontracted.

- ✓ **Corporate services**. General services that focus on the operation of enterprises. Several of these services can be specialised since logistics enterprises have specific needs. Much of these services are performed within the corporation, a growing share are being subcontracted (lower costs and higher quality through specialisation). A freight village thus offers the possibility to develop a specialised service market.
- ✓ **Personal services**. An array of services for the concentration of workers in a village. While they are unrelated to freight distribution they are complimentary since they contribute qualitatively to the performance of a village i.e. restaurants, insurance and banking services, offices, retail etc.

Figure 3.2: Example of a Freight Village



3.8 SYNTHESIS

Development opportunities near Cape Town International Airport

- ✓ **Activities** that could gain a **comparative advantage from the airport location** should be **encouraged** – this would include economic activities with **high volume / seasonal and low-weight / high value properties**.
- ✓ Encourage the development of **high-tech industries** as they have low-weight / high value properties and are proven to be successful in increasing airport-industry linkages.
- ✓ Encourage the **processing of perishable goods** to locate near the Cape Town International Airport, due to the time sensitive nature of the goods produced by this industry.
- ✓ **Headquarter offices** should be encouraged to locate near the airport to take advantage of the airport location and to be close to their manufacturing / distribution functions.

Economic Clusters attracted to airport locations:

- ✓ Primary Airport Services (including, inter alia, air transportation, terminal services and oil, gas and petrochemicals for aviation)
- ✓ Secondary Airport Services (including inter alia, restaurants, retail stores, accommodation, car rental and parking services)
- ✓ Transportation Equipment and related manufacturing (including, inter alia, aircraft, aircraft engines and parts, aviation instruments, industrial trailers, elevators, escalators, refrigeration and related service equipment manufacturing)
- ✓ Warehousing and distribution (including inter alia, trucking services, warehousing, postal services, grocery stores, electronic and electrical equipment, food and beverages)
- ✓ Computer and Electronics (including inter alia, computers, electronic equipment, semiconductors, magnetic and optical media as well as electrical machinery and equipment)
- ✓ Computer related services (including inter alia, pre-packaged software, data processing, computer maintenance and repair)
- ✓ Marketing and fulfilment services (including inter alia, direct mail advertising, catalogue and mail order houses, printing and publishing, advertising and telemarketing.
- ✓ Telecommunications (including, inter alia, telephone companies and computer related services).
- ✓ Finance, Insurance and Real Estate (including, inter alia, banks, currency exchanges, brokers and real estate agents).
- ✓ Health and Medical Services (including, inter alia, medical laboratories, medical and optical instruments as well as hospitals.

The highest impact core area of influence falls within a 5km to 10km radius from the airport. It is recommended that the proposed Philippi Development take advantage of its proximity to the Cape Town International Airport.

A freight village is a planned zone composed of distribution centres and light manufacturing activities. It is an integrated cluster of support activities for freight distribution such as office space, retail and restaurants. The Freight Village is a value proposition for freight distribution that goes well beyond the function of warehousing with distinct economic benefits, such as job creation and capital investment. The advantages of such villages include the following:

- ✓ **Environmentally friendly.** Provide for a '*clean industry'* site
- ✓ **Addressing the space problem.** The lack of suitable property within the city makes the Freight Village an obvious option for developers and end-users;
- ✓ **Access to the entire transport system** – one of the clearest indicators of future growth. The site is located opposite the airport, and close to the road and rail network.
- ✓ **Air traveller convenience.** The proximity of the airport allows key executives to fly in and do business quickly.

The economic indicators of an area form the basis for current demand for property product offering and also serve as drivers for future growth in demand. Therefore the subsequent chapter provides an overview of the local economy in which the proposed development will be located.

CHAPTER 4 ECONOMIC PROFILE

4.1 INTRODUCTION

An intricate, though well-defined relationship exist between the economy and urban real estate markets. The performance of specific economic sectors serves as proxy for the performance of these real estate markets. The purpose of this chapter is to outline the salient features of the market area economy (reference is made to the ***City of Cape Town Metropolitan Municipal Economy***) in terms of selected time series economic indicators; most notably the economic profile and growth trends within the local economy.

As such, this chapter provides insight into the composition and stability of the sub-region economy and hence, provides a more comprehensive assessment of medium- to long-term investment prospects than the conventional demographic analysis.

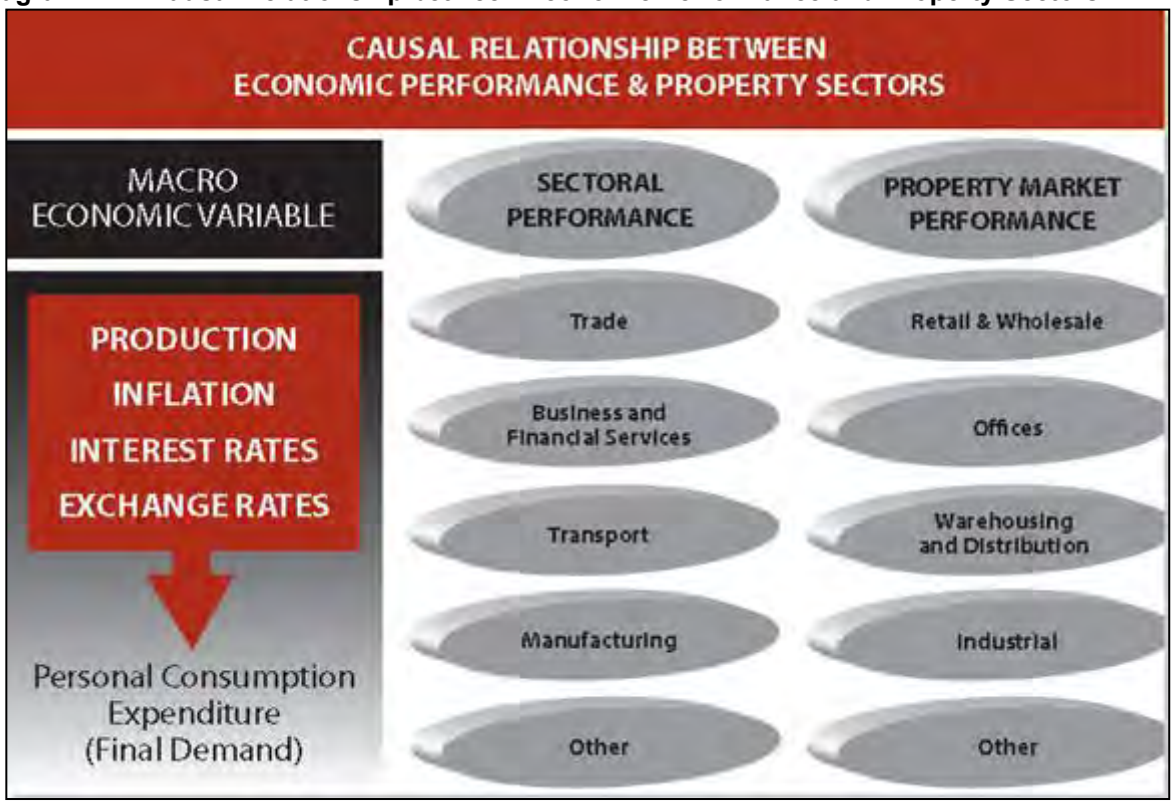
Subsequent sub-sections provide a concise overview of the local economy in terms of the following aspects:

✓ Reference Framework	✓ Sub-Region Economic Trends
✓ Macroeconomic Fundamentals	✓ Synthesis

4.2 REFERENCE FRAMEWORK

The causal relationship between economic sector performance and property market performance is illustrated in Diagram 4.1.

Diagram 4.1: Causal Relationship between Economic Performance and Property Sectors



Indicators such as production, inflation, interest rates and exchange rates influence Personal Consumption Expenditure (PCE). PCE is a major demand driver for a broad spectrum of economic goods and services, including retail and accommodation. Gross Geographic Product (GGP), in turn, serves as leading indicator for property market performance.

4.3 MACRO-ECONOMIC FUNDAMENTALS

In terms of broad macroeconomic trends, the following are some of the dominant trends regarding the national economy and the impact of macroeconomic indicators on the property sector.

Table 4.1: Macroeconomic Fundamentals

Economic Indicator	2013 forecast	Change on Previous Year	Implications
GDP	2.8%	↑	✓ The growth forecast for 2014 remained unchanged at 4,1%. Risks to these projections are to the downside given fragile conditions in the global economy.
CPI	6.1%	↑	✓ Average inflation of 6.1% in 2013, up from an estimated 5.7% in 2012. This incorporates a steady appreciating currency over the course of this year and upward treading oil prices (to $120/bbl end-2013). Commodity prices, the rand and administered prices all pose a risk to the forecast, as does the introduction of the new CPI basket.
Repo Rate	5.0%	↓	✓ Despite the expected inflation target breach, repo rate will remain at 5.0% until late-2014 as core inflation remains relatively contained and the SARB continues to focus on a wide output gap.
Prime Rate	8.5%	↓	✓ Anticipated that banks will respond to changes within the repo rate.
USD/ ZAR	8.20	↑	✓ ZAR is expected to gradually strengthen during 2013. Improved international sentiment coupled with a persistently accommodative global monetary policy environment and a steep ZAR yield curve should ensure SA continues to attract capital inflows.
House Price Growth	Nominal 2% Real -3%	→	✓ In view of current conditions in and prospects for the economy, the household sector and the residential property market, house price growth is forecast to remain relatively low in 2013 compared with growth of a few years ago.

4.3.1 Q 3 2013 SA QUARTERLY PERSPECTIVES – ABSA CAPITAL[1]

Headlines –South Africa at a critical juncture

- ✓ Absa have trimmed the growth forecasts to 2.3% (from 2.7%) for 2013 and to 3.2% (from 3.4%) for 2014. Growth was surprisingly weak, at 0.9% q/q saar, in Q1 13 but this was because of the unusual timing of Easter plus some supply shocks in the manufacturing sector. Manufactured output in April points to some recovery, but with household consumption and private investment both stagnant, faster growth rates are unlikely in the absence of major structural reforms.
- ✓ So far inflation has been surprisingly muted, despite the rand's 11% depreciation against a trade-weighted basket (in the year to end-April), but the further 10% fall since then will likely cause headline CPI inflation to breach the 6% upper bound of the SARB's target range. Pass-through will be limited, however, by the weakness of demand. The SARB will likely keep interest rates on hold until Q3 14, even if headline CPI inflation temporarily deviates from the target range.
- ✓ Mining sector issues, softening commodity prices, and weak global demand are dragging on exports, while vital imports of oil and capital equipment are swelling imports. Consequently, big current account deficits are likely to continue. Portfolio capital inflows may prove scarcer now, given the looming end of QE. Moreover, the dollar looks set for a generalised rise and, hence, expect USD/ZAR to rise further, peaking at 10.50 in August, before retracing somewhat towards the year end.
- ✓ Fiscal policy could also prove a major concern, especially if growth shortfalls undermine tax receipts. The credit rating agencies will be watching to see if South Africa sticks to its fiscal targets, and the period after the Medium-Term Budget Policy Statement in October will be critical.
- ✓ The political temperature is heating up noticeably. General elections are due in Q2 14, and the ANC is facing intense criticism about its governance record from the official opposition and also from two new political parties/movements. Furthermore, the ANC is also engaged in a fierce ideological debate with its alliance partners over important segments of the National Development Plan, especially those relating to the labour market.

Table 4.2: Key South African Forecasts – Q3:2013

	2013F				2014F						
	Q1F	Q2F	Q3F	Q4F	Q1	Q2	Q3F	Q4F	2012	2013F	2014F
GDP (% q/q)	0.9	3.4	3.6	3.6	3.1	3.0	2.9	3.0	2.5	2.3	3.2
CPI (%)	5.7	5.8	6.7	6.2	6.1	6.0	5.5	5.3	5.7	6.1	5.7
Repo (eop %)	5.0	5.0	5.0	5.0	5.0	5.0	5.5	5.5	5.0	5.0	5.5
Prime (eop %)	8.5	8.5	8.5	8.5	8.5	8.5	9.0	9.0	8.5	8.5	9.0
USD/ZAR (avg)	9.0	9.6	10.5	10.3	10.2	10.0	9.9	9.8	9.8	10.0	9.6

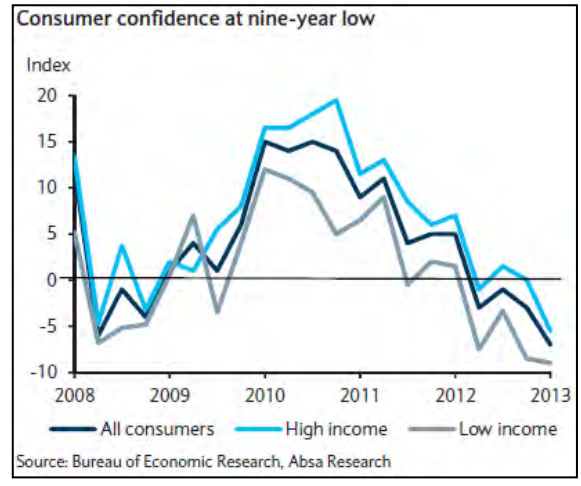
Source: StatsSA, SARB, Absa Capital

[1] *Source: Absa Capital, July Q3-2013 South Africa Quarterly Perspective*

4.3.2 GDP OUTLOOK

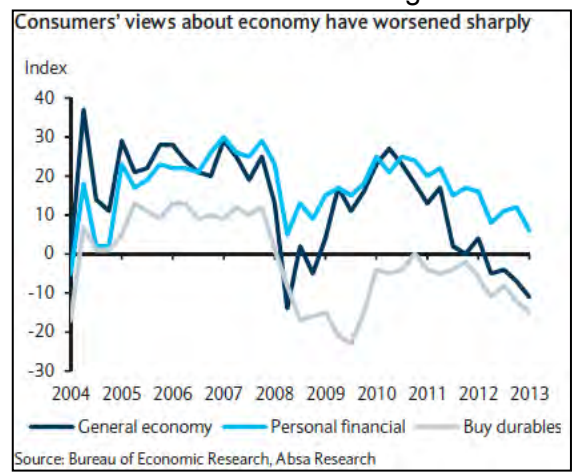
Weak domestic demand holding back growth

- ✓ GDP growth was just 0.9% q/q saar (secondly adjusted annualized rate) in Q1 13, but this was largely due to the unusual timing of Easter this year (part of which fell in March) and some factory disruptions in the ferrous metals and petrochemical manufacturing sectors. Indeed, the 8.4% m/m sa rise in manufactured output in April points to a Q2 rebound. However, growth prospects overall this year remain tepid, given the weakness of domestic and international demand and the downward drift of commodity prices.
- ✓ Revised growth forecasts down from to 2.3% (previously 2.7%) for 2013 and to 3.2% (previously 3.5%) for 2014.
- ✓ In particular, household consumption has slowed markedly from its halcyon days to just 2.3% q/q saar (secondly adjusted annualized rate) in Q1 13, with spending on durable goods falling steadily since end-2011 to just 5.4% q/q saar (secondly adjusted annualized rate). This trend seems to have continued in Q2. Although car sales have remained robust, real retail sales contracted by 0.6% m/m sa in April, and the March print was revised weaker too.
- ✓ Several factors lie behind the slowdown in household consumption spending. The lack of job growth is the most important factor by far. The latest quarterly employment statistics data show a surprising gain in non-farm payrolls of 0.1% q/q and 1.0% y/y in Q1 13. Nevertheless, since the end-2008 economic crisis, the private sector has shed 289,000 jobs (130,000 in the manufacturing sector alone) while the public sector has added 240,000 jobs.
- ✓ However, the need to bring South Africa's budget deficits under control will work against further expansion of the public payroll, even as private sector hiring remains on the defensive due to an uncertain economic climate and weak business confidence. Pay increases have not provided much of a boost either. Andrew Levy's Wage Settlement Survey points to an average wage gain of 7.9% y/y in Q1 13, but StatsSA data show gains in remuneration per worker slowing to 6.4% y/y in Q1 13 from 8.2% in Q4 12. As a result, aggregate nominal disposable incomes rose just 6.9% y/y in Q1 13, and the relatively elevated rate of inflation has eroded the real purchasing power of these incomes.
- ✓ Weaker credit take-up by households has also likely curbed spending. SARB data show that household debt-to-disposable income remained stable at 74.3% in Q1 13, but the pace of bank credit extension to households is tapering off – despite interest rates remaining at historically low levels. SARB data for May show that growth in bank credit to households was pretty much unchanged in May at 9.4% y/y, but underlying month-on-month changes augur faster deceleration soon.
- ✓ In the recent Ernst & Young/BER Financial Services survey, financial institutions indicated that their credit standards for approving loans tightened during Q2 2013, which, in part, may explain the weakening growth in credit extension. In particular, the boom in unsecured lending since the National Credit Act in mid-2007 appears to have topped out and is now slowing. For example, SARB data on unsecured lending (defined as general loans and advances,



credit cards, and overdrafts) posted a year-on- year rate of growth of 24.5% in May, down from its peak of 31.8% in November 2012.

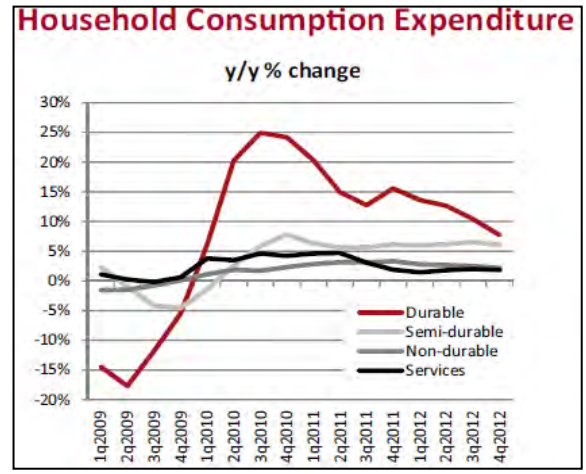
- ✓ Against this backdrop, consumer confidence has deteriorated sharply. The FNB/BER consumer confidence index deteriorated to a 9-year low of -7 during the first quarter of 2013.
- ✓ In particular, higher-income consumers (defined as those with an income greater than R5000 month) recorded a particularly sharp drop in their sentiment about their own financial positions, despite SARB data pointing to an increase in household net wealth as a result of stock market and house price gains.



- ✓ Consumer sentiment about the prospects for the economy in general has tumbled sharply since 2010. The sum of these factors points towards muted household spending growth this year. As such, weak consumer spending will continue to drag on growth in the coming quarters.
- ✓ Nor is government consumption likely to lift overall domestic demand in the foreseeable future, even though it rebounded in Q1 13, with growth of 3.0% q/q saar following a contraction of 0.7% q/q saar in Q4 12. However, the government is going to have to apply the fiscal brakes if it wants to meet its fiscal targets for the 2013/14 fiscal year (ie, a consolidated budget deficit of 4.6% of GDP) and stem the rise in debt to GDP.
- ✓ The government understands that failure to achieve fiscal consolidation could well elicit a downgrade from the credit rating agencies. Nonetheless, it is going to be a very challenging year, especially since growth is likely to be lower than budgeted and tax revenues tend to be more elastic than growth. (Forecast real GDP growth of 2.6% in FY 2013/14 compared with the National Budget assumption of 3.0%.)

4.3.3 HOUSEHOLD CONSUMPTION EXPENDITURE[2]

- ✓ Growth in real final consumption expenditure by households decelerated from 4,8% y/y in 2011 to 3,5% in 2012. Growth also dropped off throughout last year, starting at 3,7% y/y in the first quarter and ending the year at 3,1% y/y in the final quarter.
- ✓ Spending on durable goods was again the fastest growing major household consumption category in 2012 with growth of **11% y/y**. However, spending growth in this category did taper off during the course of 2012 to 7,7% y/y in the fourth quarter compared with a rise of 13,6% y/y which was recorded in the first quarter of last year.



- ✓ Measured in real terms, households stepped up spending on computers and related equipment the most in the fourth quarter of 2012 with sales rising by **26% y/y**, followed by

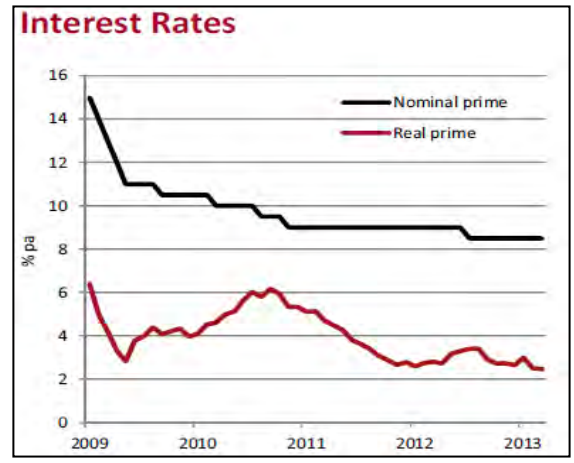
[2] *SACSC_Economic Overview, May 2013*

spending on transport equipment (**10% y/y**). Spending on furniture again showed no growth on a year-on-year basis.

- ✓ Real spending on semi-durable goods came to 5,9% y/y in 2011 while 2012 saw a very similar rise of **6,2% y/y**. Growth in outlays on most of the semi-durable goods categories slowed during the course of 2012, with the exception being recreational and entertainment goods which registered growth of **10% y/y** in the fourth quarter.
- ✓ Spending on non-durable goods rose by 3,1% y/y in 2011 but tapered off to only 2,5% y/y in 2012. Growth in real spending on petroleum products declined by 2,8% in the fourth quarter following a few steep petrol price increases throughout 2012. Services, the largest portion of expenditure by households, also slowed significantly—from 3,5% y/y in 2011 to only 1,8% y/y in 2012.

4.3.4 INTEREST RATES

Interest rates: unchanged until late 2014 with some chance of a cut



- ✓ The Reserve Bank last lowered its repo rate in July 2012 which means that the predominant prime interest rate is still at **8,5% p.a**.— *its lowest level since 1970.*
- ✓ The Reserve Bank's Monetary Policy Committee (MPC) indicated at their most recent meeting that the domestic inflation outlook had deteriorated slightly. According to the MPC, risks posed by the depreciation of the rand exchange rate have overshadowed the more favourable developments, including lower electricity price increases and some moderation in food price inflation. They nevertheless expect inflation to remain contained within the target range of 3% to 6% apart from a temporary breach in the third quarter of 2013.
- ✓ However, forecasts show that this breach may well continue into the fourth quarter of this year.
- ✓ The MPC noted that the global economy is still characterised by a multispeed recovery while uncertainty in Europe has the potential to reignite the banking and sovereign debt crisis and undermine growth prospects further. The global outlook is also clouded by the fiscal gridlock in the United States that remains unresolved. These factors could also negatively affect South Africa's growth prospects.
- ✓ The result is that job creation is occurring at a slow pace—especially in the private sector—and this may entice the Reserve Bank to hold out even longer with its current interest rate stance than anticipated earlier. Inflationary pressures are expected to build enough to force the Bank to increase its policy rate by 0,5% towards the end of the second quarter of 2014.

4.3.5 COMPOSITE BUSINESS CYCLE INDICATORS – SARB, September 2013[3]

Demacon is of the opinion that the composite leading business cycle indicator is one of ***the most*** useful indicators to follow for the following reasons:

[3] *Source: South African Reserve Bank, 25 September 2013: Composite Business Cycle*

- ✓ It is a composite indicator – consists of various sub-indicators, including;
  - Job advertisement space in the Sunday Times newspaper: Percentage change over twelve months
  - Number of residential building plans passed for flats, townhouses and houses larger than 80m^2
  - Interest rate spread: 10-year government bonds less 91-day Treasury bills
  - Index of prices of all classes of shares traded on the JSE
  - Real M1 money supply (deflated with CPI): Six month smoothed growth rate
  - Index of commodity prices in US dollar for a basket of South Africa's export commodities
  - Composite leading business cycle indicator of South Africa's major trading-partner countries: percentage change over twelve months
  - Gross operating surplus as a percentage of gross domestic product
  - Opinion survey of business confidence: Manufacturing, construction and trade
  - Net balance of manufacturers observing an increase in the average number of hours worked per factory worker (half weight)
  - Net balance of manufacturers observing an increase in the volume of orders received (half weight)
  - Number of new passenger vehicles sold: Percentage change over 12 months.
- ✓ Forward looking – i.e. indicative of future growth expected to materialise over the short to medium term, i.e. the next 12-18 months.

Note: The composite business cycle indicators were rebased to 2010=100.

The ***composite leading business cycle indicator decreased*** by 0.3% in September 2013 compared with the preceding month. Five of the eleven component time series that were available for September 2013 decreased, while five increased and one remained unchanged. The major negative contributions in September came from a decrease in the number of residential building plans passed, followed by a decline in the export commodity price index. The largest positive contributions to the movement in the composite leading indicator in September came from an increase in the prices of all classes of shares traded on the JSE, as well as an acceleration in the twelve-month percentage change in the number of new passenger vehicles sold.

The ***composite coincident business cycle indicator decreased*** by 0.5% on a month-to-month basis in August 2013.

The ***composite lagging business cycle indicator increased*** by 0.5% on a month-to-month basis in August 2013.

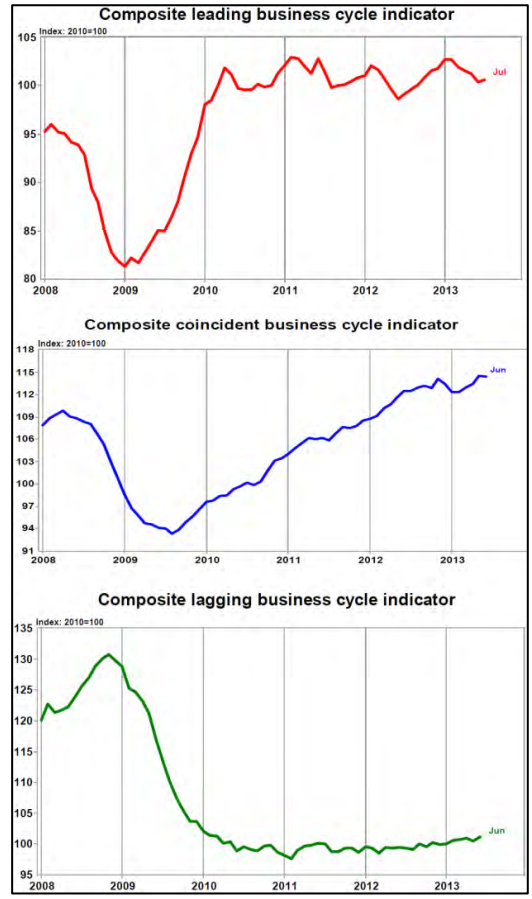


Table 4.3: Composite Business Cycle Indicators

Description	Sept 2012*	Oct 2012*	Nov 2012*	Dec 2012*	Jan 2013*	Feb 2013*	Mar 2013*	April 2013*	May 2013*	June 2013*	July 2013	Aug 2013	Sept 2013
Leading indicator (2000=100)	100.1	100.8	101.5	101.8	102.8	102.8	101.8	102.0	101.6	100.4	100.7	101.4	101.1
Coincident indicator (2000=100)	113.2	112.9	114.1	113.4	112.7	112.6	112.6	113.8	114.8	114.5	114.7	114.1	
Lagging indicator (2000=100)	100.0	99.6	100.3	99.9	100.2	100.9	101.3	101.6	101.0	101.2	102.0	102.5	

Source: SARB, November 2013

Note: From September 2012 to September 2013 the composite business cycle indicators were rebased to 2010. Indices: 2010=100

The latest Leading Indicator (a good indicator of near term moves in both the economy as well as the residential mortgage market) data point to appear, that of September 2013, indicated a further acceleration, on a month-on-month basis - the value going to a **current value of 101.1.**

The new Economic Growth Path: Focus on Employment

Everyone agrees on the need to generate many more jobs, but finding common policy ground remains elusive Economic Development Minister Patel unveiled the government's New Growth Path (NGP) blueprint for South Africa recently. The NGP puts job creation at the centre of government policy making. Through a combination of coordinated macro- and microeconomic policies, supported by a social pact between the main role players in the economy, the government hopes to create around five million jobs by 2020 and reduce the unemployment rate from 25% currently to about 15%.

Though much detail is yet to be released, the NGP targets six main areas for job creation. Infrastructure is given a prominent position, both in its ability to directly create jobs through construction (particularly housing), the provision of equipment, through operation and maintenance, but also by helping to reduce bottlenecks that have restrained growth and employment elsewhere in the economy. Agriculture, both in terms of smallholder schemes for those working the land in terms of agro processing are highlighted as important ways of creating employment in rural areas.

The promotion of mining is sought, with a particular focus on increased beneficiation as a way of encouraging fabrication and not just smelting, through the introduction of targeted export taxes, and through the setting up of a state-owned mining company to co-exist with the private sector. The manufacturing sector too is discussed, as is tourism and, of course, public sector employment. Just as critical as the actual ideas and policies are for the success of the NGP, any successful implementation will require generating the necessary buy-in within the various factions within the ANC, between the ANC's political partners, and from business and from civil society. Once the discussion moves from the overview of where jobs might be created, to the micro and macro framework that would support the NGP, things become much more difficult.

4.3.6 SHOPPING CENTRE PERFORMANCE INDICATORS

STATE OF THE RETAIL PROPERTY MARKET – RODE'S REPORT 2013 Q2

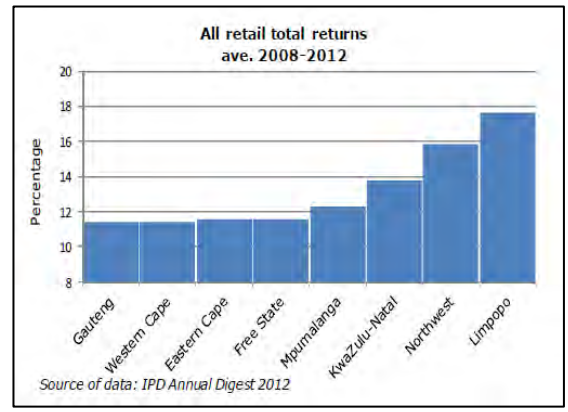
In a nutshell:

- ✓ Retail sales surprise
- ✓ Disposable income cooling sharply
- ✓ Consumer credit health deteriorating
- ✓ Consumer confidence at nine-year low

- ✓ New developments still booming

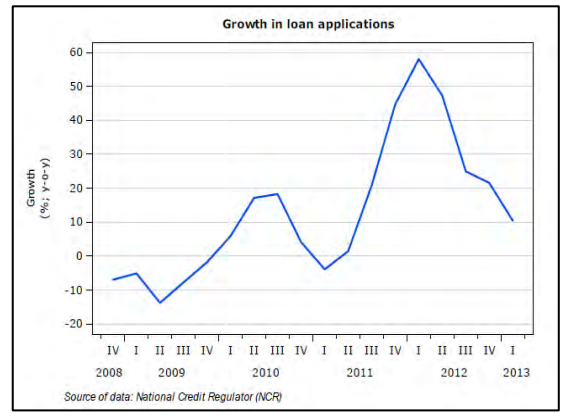
❖ PROGNOSIS FOR THE ECONOMY

Surprising to most analysts was the impressive growth in retail sales volumes in May 2013. For the year ended May 2013, **real retail sales** recorded **growth** of **6%,** up from 2% in the previous month. Breaking down sales by type of retailer (see Table 3.4) shows strong growth in the sales volumes of general dealers (+6%) and retailers selling clothing and footwear (+13%). These two categories account for close to 60% of the total retail sales.



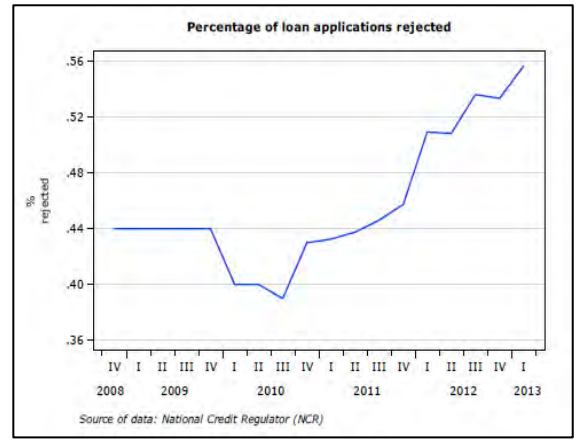
However, retailers and shopping-centre owners are warned to remain **cautiously optimistic** given that these growth rates are highly volatile. What's more, indicators of households' ability and possible willingness to spend continue to signal the likelihood of weaker growth in spending.

The most obvious indicator has been the loss of vigour in the growth of disposable incomes. In the first quarter of 2013, nominal disposable income showed yearly growth of **7%**; this is compared to a year ago when it was growing at an unsustainable and mind-boggling rate of almost 13%.



Nonetheless, the graph which follows shows that about 60% of consumption spending can be explained by changes in income after tax. Hence, the **cooling in the growth of disposable** income is likely to result in slower growth in household spending.

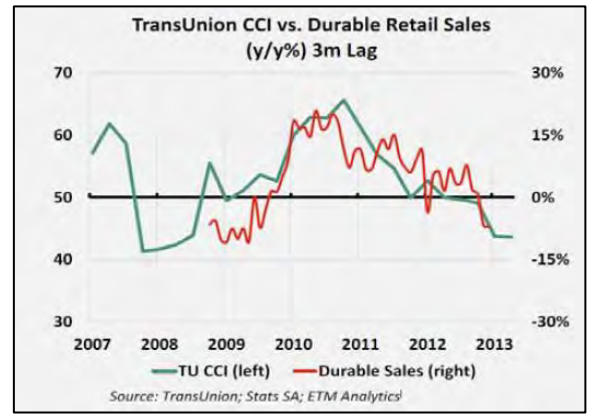
Growth in unsecured credit has also shown sharp decelerations. After still growing by 22% in the third quarter of 2012, the growth in unsecured credit has waned to such an extent that in the first quarter of 2013, growth slumped to 3%.



Cooling growth in loan applications received and a steady increase in the percentage of loans being rejected — see corresponding charts — might explain the deceleration in unsecured credit growth.

Consumers' credit health continues to deteriorate. In the second quarter of 2013, the SA Consumer Credit Index dropped below its 'break-even' level of 50 for the fourth consecutive quarter. Compiled by TransUnion SA, the Index combines actual consumer borrowing and repayment behaviour with key macroeconomic variables that impact on household finances. The Index is based on a 100-point scale, with levels above 50 indicating improving consumer credit health and levels below 50 indicating declining consumer credit health.

From the graph it seems that more downward pressure should be expected on durable retail sales volumes. This is so, given the correlation between consumer credit health and retail sales of durable goods. In fact, amongst the different retailer types, those selling household furniture, appliances and equipment were the only ones that in May 2013 experienced yearly contractions in their sales volumes (see Table 3.4). Shrinking durable sales volumes — notable since the beginning of the year — might also be a sign of the times, as consumers choose to cut back on, or postpone, the purchases of nonessential durable consumer items when feeling the economic pinch.



Regarding the likely **willingness of consumers to spend**, the corresponding chart shows how confidence levels have been trekking south since 2010. The slump in consumer sentiment has been so severe that in the first quarter of 2013, the Consumer Confidence Index (CCI) fell to a nine-year low level of -7 index points. The danger here is that ***continued weak sentiment might lead to households starting to cut back on consumption, even if disposable income levels and the interest rate remain unchanged***. The correlation between changes in consumer confidence levels and growth in household consumption expenditure is shown in the graph. For now, sharply rising utility and fuel prices — and no near-term relief from lower interest rates — are likely to further dent confidence levels.

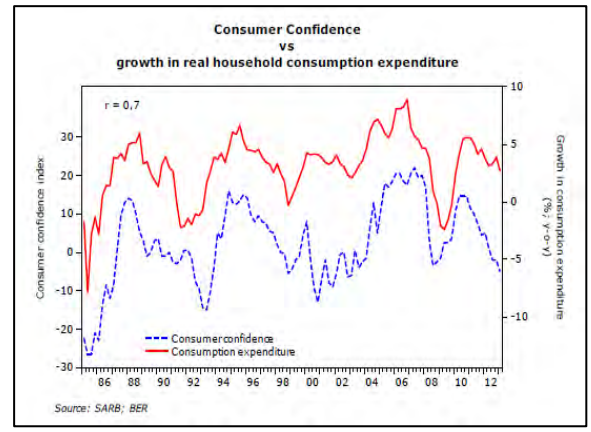


Table 4.4: Real retail sales by type of retailer – growth as at May 2013

	Growth in sales volumes	Growth in price deflator*
General Dealers	5.9	4.6
Food, beverages & tobacco in specialised stores	2.9	6.6
Pharmaceutical & medical goods, cosmetic & toiletries	0.4	3.5
Textiles, clothing, footwear & leather goods	12.9	3.2
Household furniture, appliances & equipment	-2.5	0.2
Hardware, paint & glass	5.6	4.4
All other retail	5.6	3.7
TOTAL	**6.2**	**4.1**

Source: Demacon, ex StatsSA 2013
**The yearly growth in the price deflators used to deflate nominal retail sales figures.*

❖ *NEW SHOPPING CENTRES*

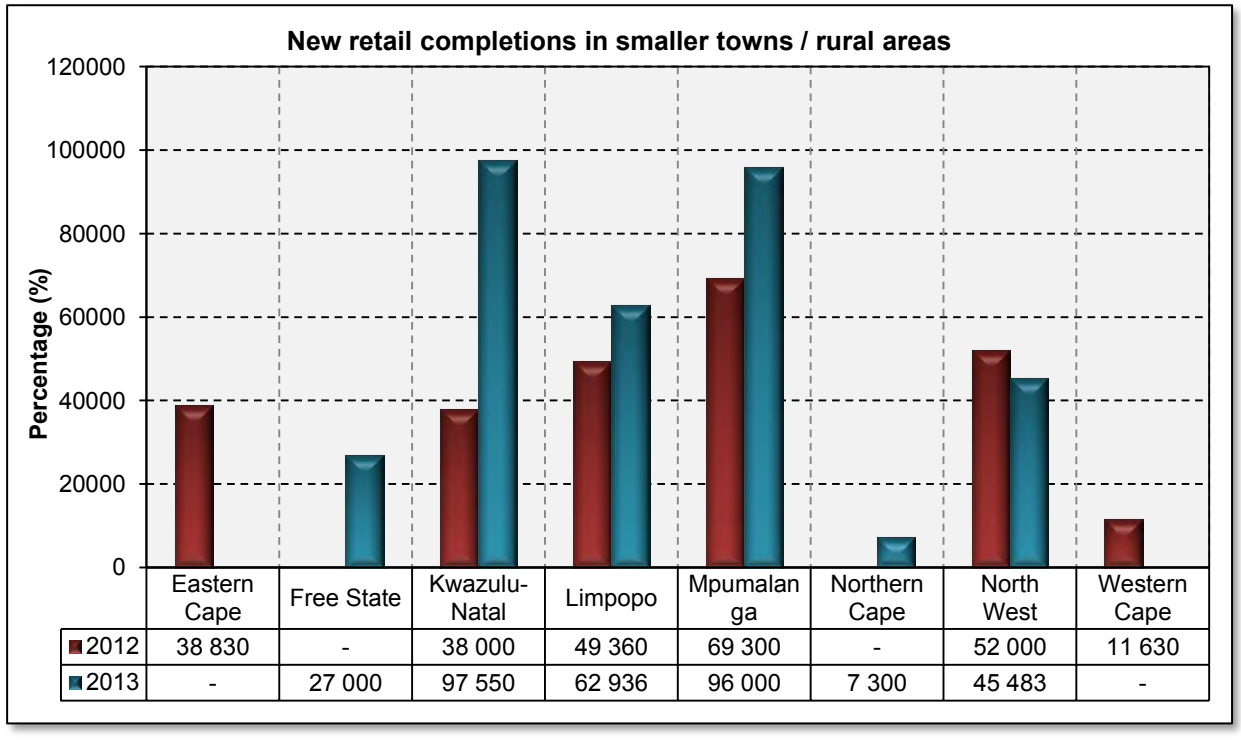
As for the supply side of the retail property market, Table 4.5 shows a breakdown by geographic area of new shopping centres larger than 5.000 m² that have either been completed or are under construction. Major extensions are also included.

Table 4.5: New Shopping Centre Completions

Excluding refurbishments and minor extensions to centre smaller than 5,000m^2				
	2010	**2011**	**2012**	**2013***
Cape Peninsula	9 700	74 870	94 840	27 000
Reef	132 065	72 000	85 000	221 218
Pretoria	28 900	64 750	16 000	31 500
Durban	0	0	0	0
Pietermaritzburg	0	32 000	8 500	8 500
Port Elizabeth	0	0	0	20 000
Nelspruit	47 400	16 500	0	0
Polokwane	15 000	92 000	0	0
Bloemfontein	0	0	23 000	0
Kimberley	0	0	0	0
Cities	**233 065**	**352 120**	**227 340**	**308 218**
Smaller towns / rural areas in :				
Eastern Cape			38 830	0
Free State			0	27 000
Kwazulu-Natal			38 000	97 550
Limpopo			49 360	62 936
Mpumalanga			69 300	96 000
Northern Cape			0	7 300
North West			52 000	45 483
Western Cape			11 630	0
Smaller towns / rural areas	**164 823**	**45 100**	**259 120**	**336 269**
TOTAL	**397 888**	**397 220**	**486 460**	**644 487**

**Tentative*
Source: Demacon, ex Rode's Shopping Centre Database, 2013

Figure 4.1: New retail completions in smaller towns / rural areas



Source: Demacon, ex Rode's Shopping Centre Database, 2013

Evident from the table is that there is a lot of development in the smaller towns and rural areas.

The following section provides an overview of local economic trends in the market area.

4.4 LOCAL ECONOMIC TRENDS

Subsequent economic indicators provide insight to the performance of **City of Cape Town Metropolitan Municipal Economy.** The assessment serves to highlight sub-regional **growth trends** in the market. Future investment opportunities will be informed by this sub-regional assessment.

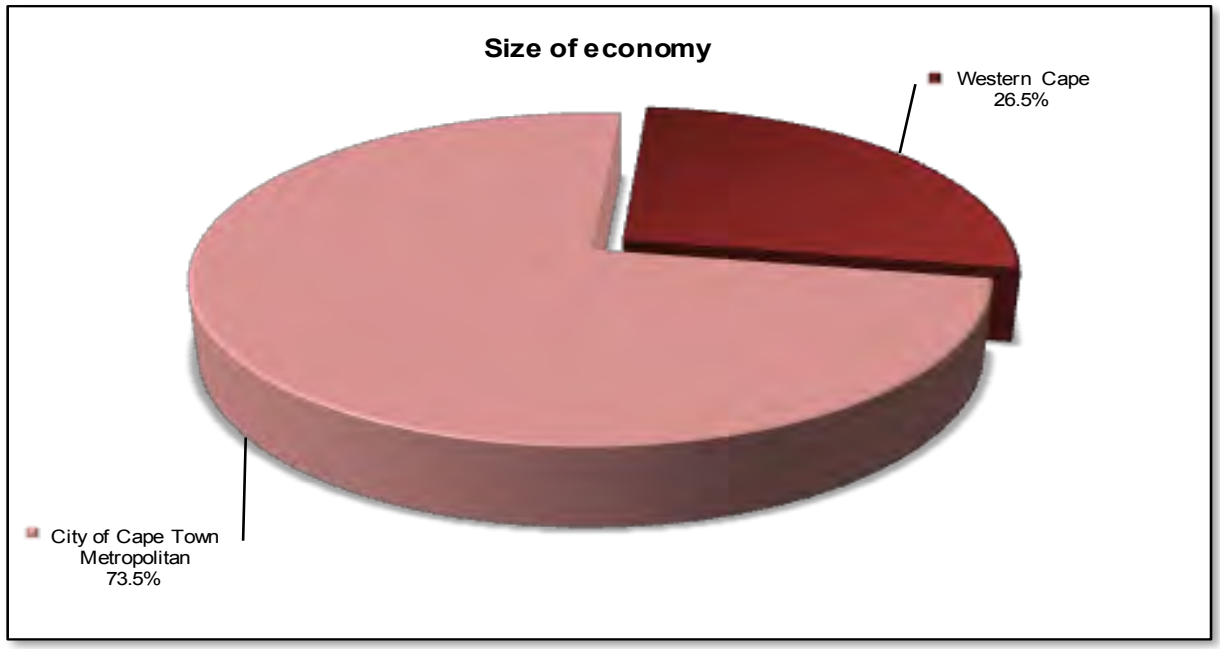
These ten sectors are:

- ✓ General government services
- ✓ Community, social and other personal services
- ✓ Finance and business services
- ✓ Transport and communication
- ✓ Trade sector (Wholesale and retail; catering and accommodation)
- ✓ Construction
- ✓ Electricity and water
- ✓ Manufacturing
- ✓ Mining
- ✓ Agriculture, forestry and fishing.

4.4.1 SIZE OF ECONOMY

Figure 4.2 indicates the size of the City of Cape Town Metropolitan municipal economy in relation to the Western Cape Provincial economy.

Figure 4.2: Size of the economy, 2011 (*at basic prices*) – GVA



Source: Demacon ex StatsSA, 2013

Findings: (Figure 4.2)

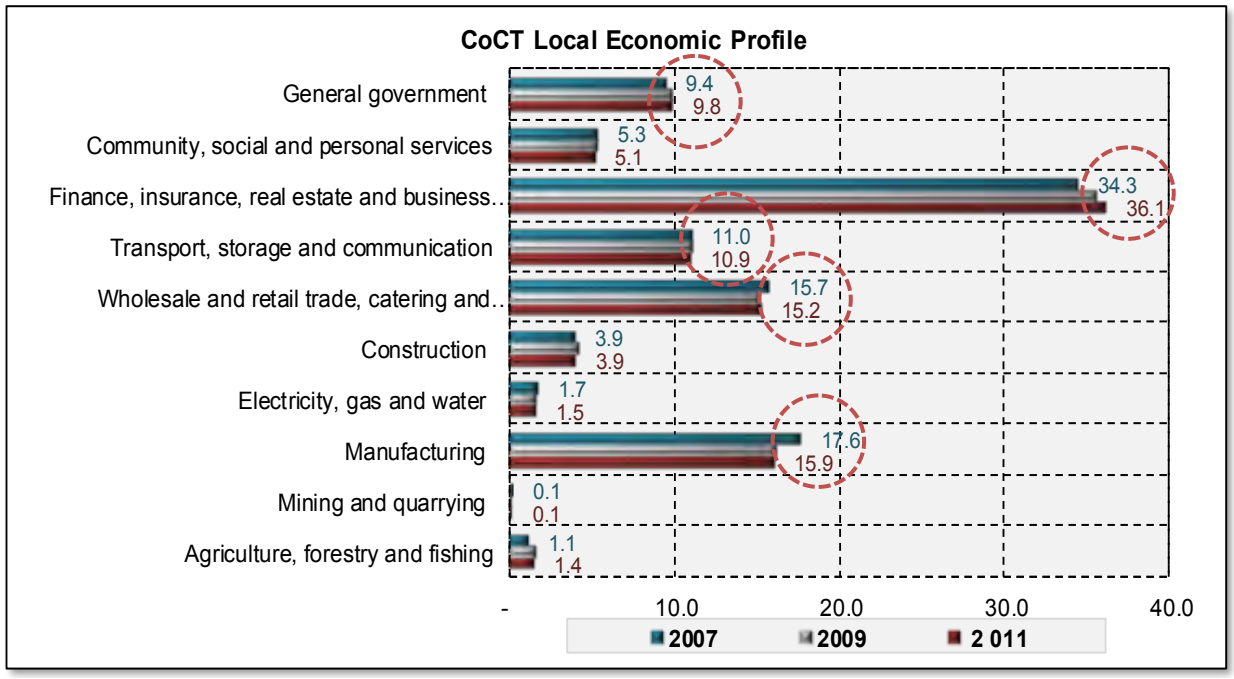
- ✓ From the preceding figures it is reflected that the City of Cape Town Metropolitan municipal economy contributes **73.5%** to the Western Cape Provincial Economy.

4.4.2 ECONOMIC PROFILE

Subsequent economic indicators provide insight to the performance of the **City of Cape Town Metropolitan municipal economy.** The data indicate the dominant economic sectors, growth sectors as well as the comparative advantages of all the local economies.

Figure 4.3 indicates the contribution of the ten major economic sectors to the total economic production of **City of Cape Town Metropolitan municipal economy** for the time period 2007 to 2011.

Figure 4.3: Economic Profile of City of Cape Town Metropolitan municipal economy, 2007 – 2011 (GVA)



Source: Demacon ex StatsSA, 2013

Findings: (Figure 4.3)

The five dominant contributors to the **City of Cape Town Metropolitan municipal economy** in 2011 are the following:

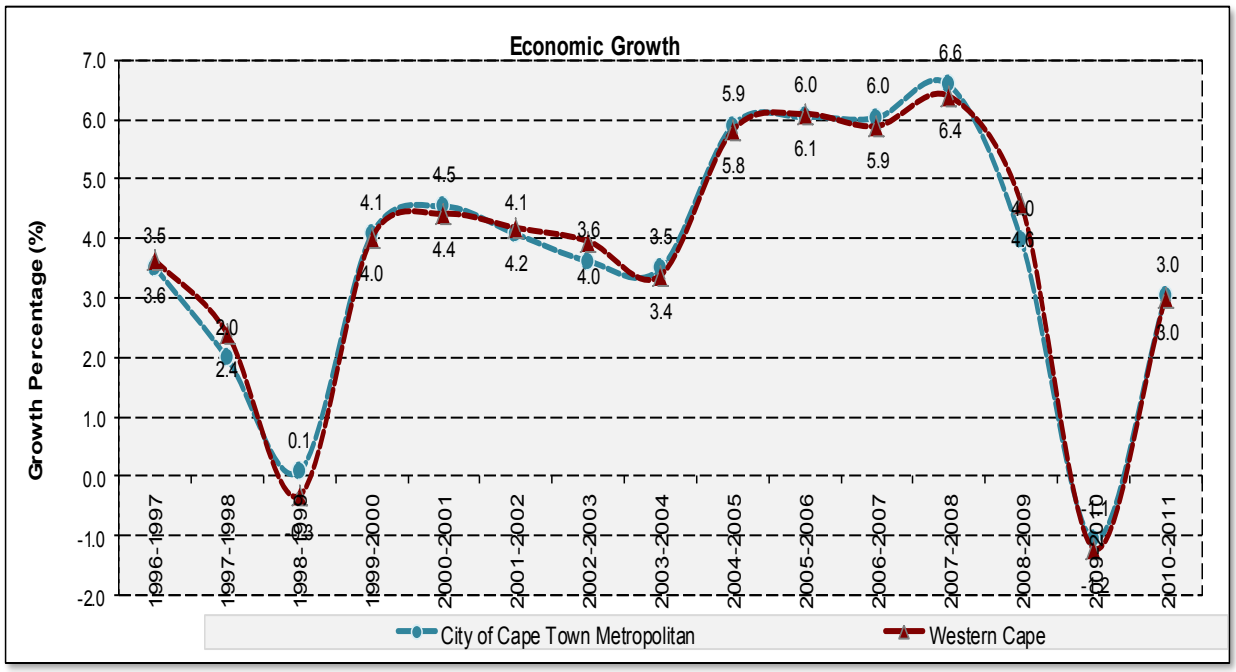
- ✓ Finance, insurance, real estate and business services -***36.1%***
- ✓ Manufacturing – ***15.9%***
- ✓ Wholesale and retail trade, catering and accommodation – ***15.2%***
- ✓ Transport, storage and communication – ***10.9%***
- ✓ General government – ***9.8%***

Subsequent economic indicator provides insight to the economic growth performance of the **City of Cape Town Metropolitan municipal economy.**

4.4.3 ECONOMIC GROWTH

Figure 4.4 provides detail on the growth performance of City of Cape Town Metropolitan municipal economy and Western Cape since 1995 and the degree of correlation in economic up- and downturns between the regional and national business cycle.

Figure 4.4: Economic Growth Performance, 1995 – 2011 (constant 2005 prices) - GVA



Source: Demacon ex StatsSA, 2013

Findings: (Figure 4.4)

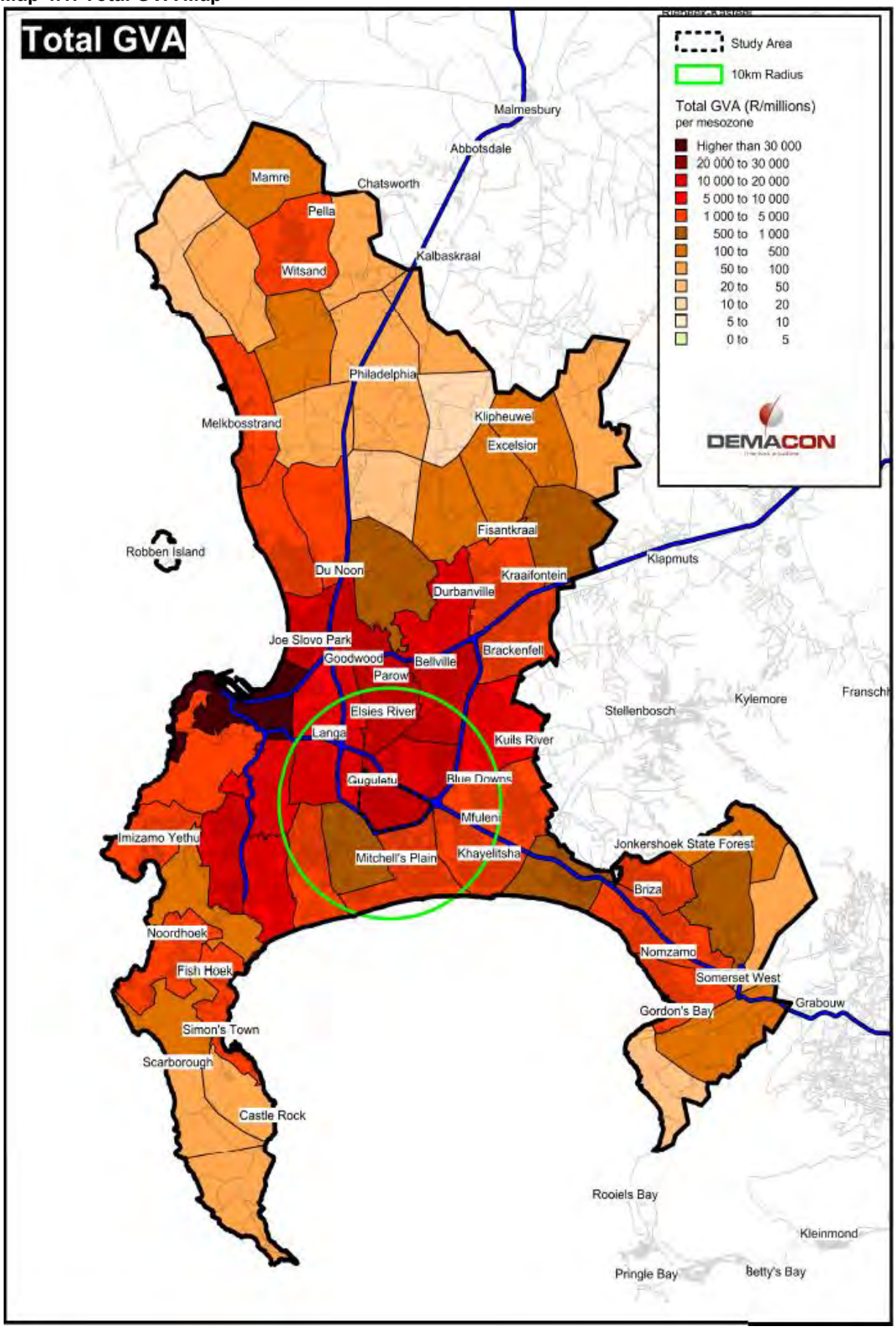
- ✓ The metropolitan and provincial economies reflect similar growth patterns with coinciding peaks and declines.
- ✓ The lowest growth rates were recorded during 1998 to 1999 where the metropolitan economic growth rate reached 0.1% and Western Cape -0.3%.
- ✓ The highest local economic growth rate was recorded in 2006-2007 where the metropolitan economic growth rate reached 6.6% and the provincial economy 6.4%
- ✓ The average metropolitan economic growth rate and the provincial growth rates for the entire time period 1995 to 2011 is the same with 3.7%.
- ✓ The **City of Cape Town Metropolitan municipal economy** recorded an average growth rate of approximately 3.7% over the long-term period (1995 – 2011). The short to medium term (2006 – 2011) recorded an average growth rate of approximately 3.1%.
- ✓ **Western Cape Province** recorded an average growth rate of approximately 3.7% over the long-term period (1995 – 2011). The short to medium term (2006 – 2011) recorded an average growth rate of approximately 3.2%.

Note: the latest local area economic data is only available up to 2011. The local business cycle follows the provincial cycle closely. In the context of the national recovery – including economic growth and retail sales – local economic growth and growth in disposable income is expected to reveal a similar trend since 2011.

Development Implications
✓ Economic growth in the local and regional economy reflects a similar cyclical trend that correlates with growth trends experienced in the SA domestic economy over the same period of time.
✓ Most notable negative impacts that had a lagged effect on domestic demand and consumer expenditure include the 1997/1998 Asian Crisis (more commonly referred to as the Asian Flu), followed by record high prime lending rates of 25.5% in August 1998 and all time high exchange rates in January 2002 (R16.64:1£ and R11.61:1$).

- ✓ The global financial crisis that erupted in 2007 and progressively spread to the real economy resulted in world output growth slowing to 3% in 2008, from 5.2% the previous year. Economic conditions continued deteriorating well into 2009, with output estimated by the International Monetary Fund (IMF) to have declined by 0.6%. As global demand waned and production levels were curtailed, world trade registered a staggering 12% contraction in 2009, according to the World Trade Organisation (WTO). This followed a dismal 2% growth in the volume of world trade in 2008.
- ✓ The global economy emerged from recession in 2010, although the pace of recovery has varied substantially across regions, and particularly at country level. Certain emerging and developing economies, especially those that managed to side-step a recession quite effectively, such as China and India, have seen a visible improvement in their growth momentum. Nevertheless, a number of emerging economies continue experiencing difficulties in resuming and sustaining higher growth trajectories.
- ✓ In South Africa, signs of recovery from the economy's first recession in 17 years gradually emerged during the last six months of 2009. Gross domestic product (GDP) expanded in real terms by 3.1% (on a quarter-on-quarter basis) in the fourth quarter of 2009, accelerating to 4.6% in the first quarter of 2010. However, economic growth slowed to 2.8% and 2.6% in the subsequent two quarters of 2010 respectively.
- ✓ Although the global economic recovery has been swifter than initially anticipated, its multi-speed characteristics have become more pronounced and the momentum has lost some steam in several advanced economies. Fiscal austerity measures in several countries, particularly in Europe, high unemployment rates and yet excessive household indebtedness underpin expectations of a slowdown, particularly in the industrialised nations, and rising concerns over the sustainability of the global economic recovery. Recently announced by the United States authorities, the second round of quantitative easing (known as QE2 and amounting to a massive US$600 billion) reflects this uneasiness.
- ✓ The South African economy continued to report growth in economic activity during the opening six months of 2010, although there have been signs of the momentum being weaker than initially anticipated. The recovery in demand has been slow, especially from the household segment, as well as externally. After reducing inventory levels during the recession, companies eventually started rebuilding them, resulting in an upturn in production, albeit still at levels below those reached in 2008 for most economic sectors.
- ✓ The local business cycle reflects a negative trend with reference to 2007 to 2009. The local business cycle follows the national cycle closely. In the context of the national recovery - including economic growth and retail sales - local economic growth and growth in disposable income is expected to reveal a similar recovery trend since 2009.
- ✓ The domestic growth outlook remains subdued and below-trend growth is expected to persist. The forecast of the National Reserve Bank pertaining to GDP growth remained at 2.8 per cent for 2010, a slight recovery is however expected towards 2011 and 2012 with average estimated growth rates of 3.3 per cent and 3.6 per cent respectively. This bodes well towards the metropolitan regions of the national economy, which in general leads the economic recovery curve and in general reflects economic growth rates exceeding that of the national average.

Map 4.1: Total GVA Map

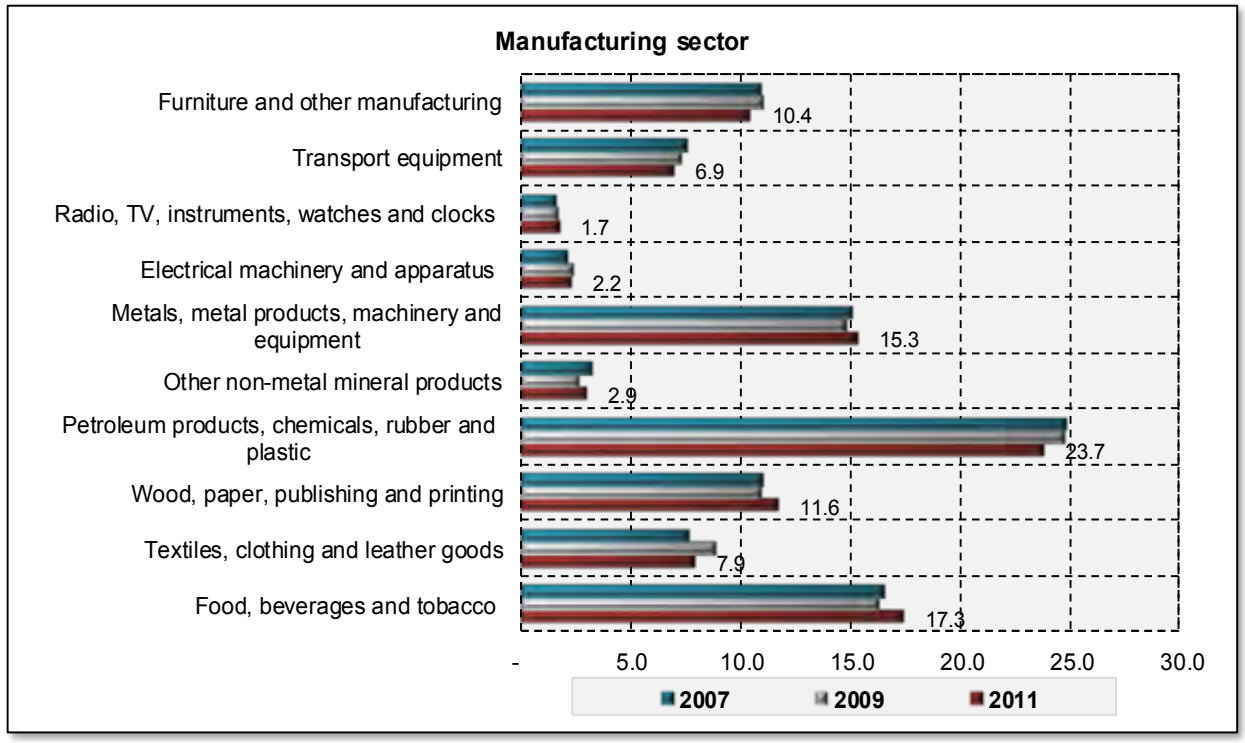


4.4.4 MANUFACTURING SECTOR PERFORMANCE

Subsequent figures indicate the performance and growth of the manufacturing sector within the City of Cape Town Metropolitan Municipal area.

Figure 4.5 illustrates the manufacturing sector performance in the market area from 2007 to 2011.

Figure 4.5: Manufacturing Sector Performance of the City of Cape Town Metropolitan Municipality, 2007 to 2011 (GVA at basic prices)



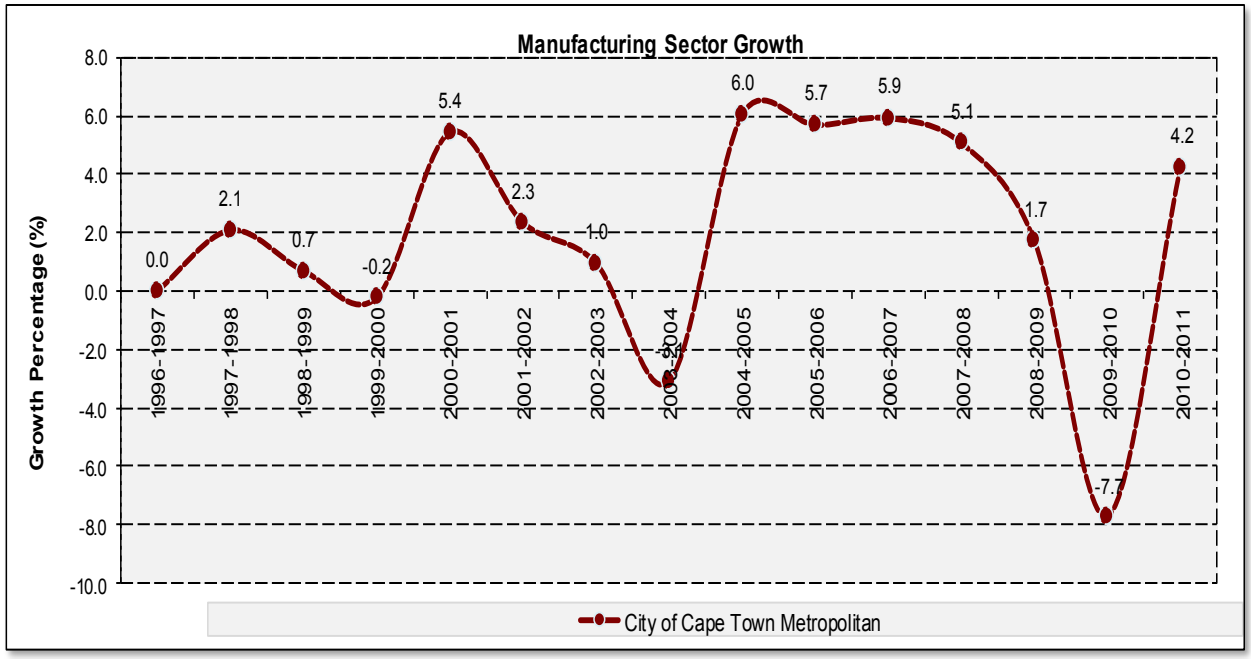
Source: Demacon ex StatsSA, 2013

Findings (Figure 4.5)

- ✓ The Petroleum products, chemicals, rubber and plastic sector is the largest sector within the Manufacturing sector with a contribution of 23.7% in 2011, followed by the Food, beverages and tobacco sector with a 17.3% contribution.

Figure 4.6 illustrates the manufacturing sector growth in the market area since 1996.

Figure 4.6: Manufacturing Sector Growth of the City of Cape Town Metropolitan Municipality, 1996 to 2011 (GVA at basic prices)



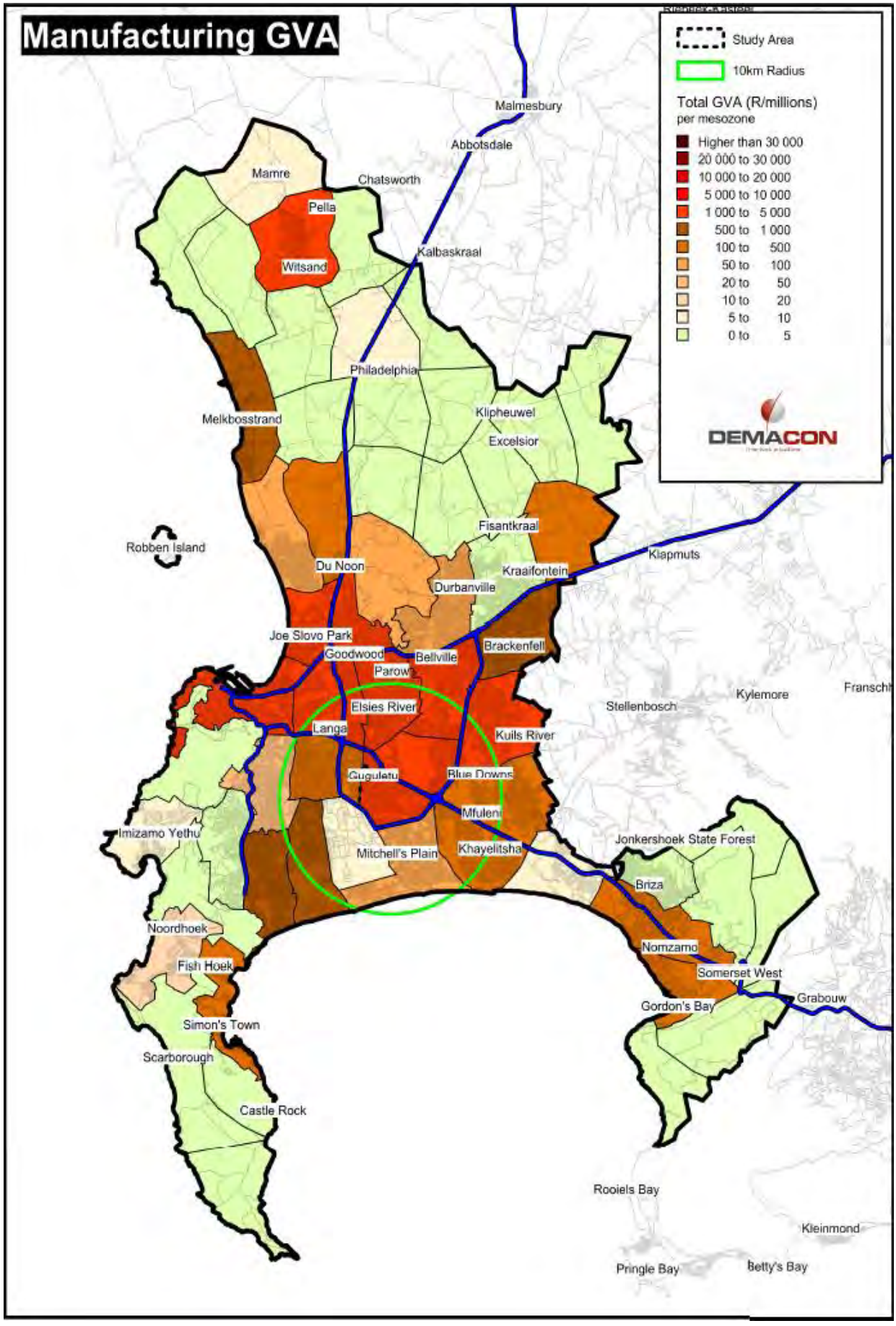
Source: Demacon ex StatsSA, 2013

Findings (Figure 4.6)

- ✓ The manufacturing sector produced a negative growth rate of -7.7% during 2009 to 2010 followed by a growth rate of 4.2% between 2010 and 2011.

Refer to Map 4.2 – Manufacturing GVA within City of Cape Town Metropolitan Municipal area.

Map 4.2 Manufacturing GVA - City of Cape Town Metropolitan Municipal area

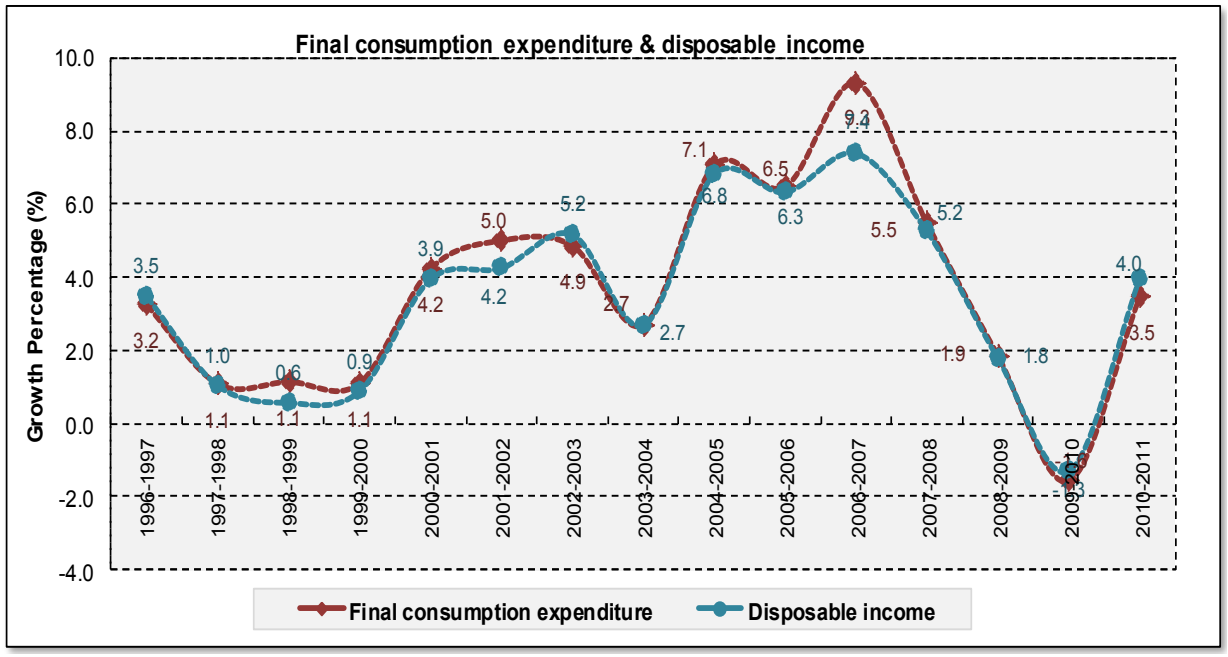


4.4.5 GROWTH IN FINAL CONSUMPTION EXPENDITURE AND DISPOSABLE INCOME

Figures in subsequent paragraphs illustrate the rate of ***growth of final consumptions expenditure*** (on all goods and services) in relation to ***growth in disposable household income***. The graph reveals a high degree of positive correlation between the two variables, which in turn reveals similar up- and downturns to the business cycle as a whole.

Figure 4.7 illustrates growth in final consumption expenditure in relation to annual growth in disposable household income in **City of Cape Town Metropolitan Municipal economy.**

Figure 4.7: Growth in final consumption expenditure and disposable income (constant 2005 prices)



Source: Demacon ex StatsSA, 2013

Findings: (Figure 4.7)

- ✓ The cyclical trend observed in the above figure correlates with the business cycle trend, i.e. a follow through on the 2001 weakening of the Rand and subsequent growth to record high levels in 2004 (continuing into 2005 and the first quarter of 2006)
- ✓ It reached an ultimate low in 2009-2010 as a result of the global economic recession.
- ✓ **Final consumption expenditure** of the local economy obtained an average annual growth rate of **3.7%** over this time period and an average annual growth rate of **3.5%** in terms of **disposable income**.
- ✓ The short-term (1996 to 2011) average growth rate reveals an average of 3.7% and 3.4% for final consumption expenditure and disposable income respectively.

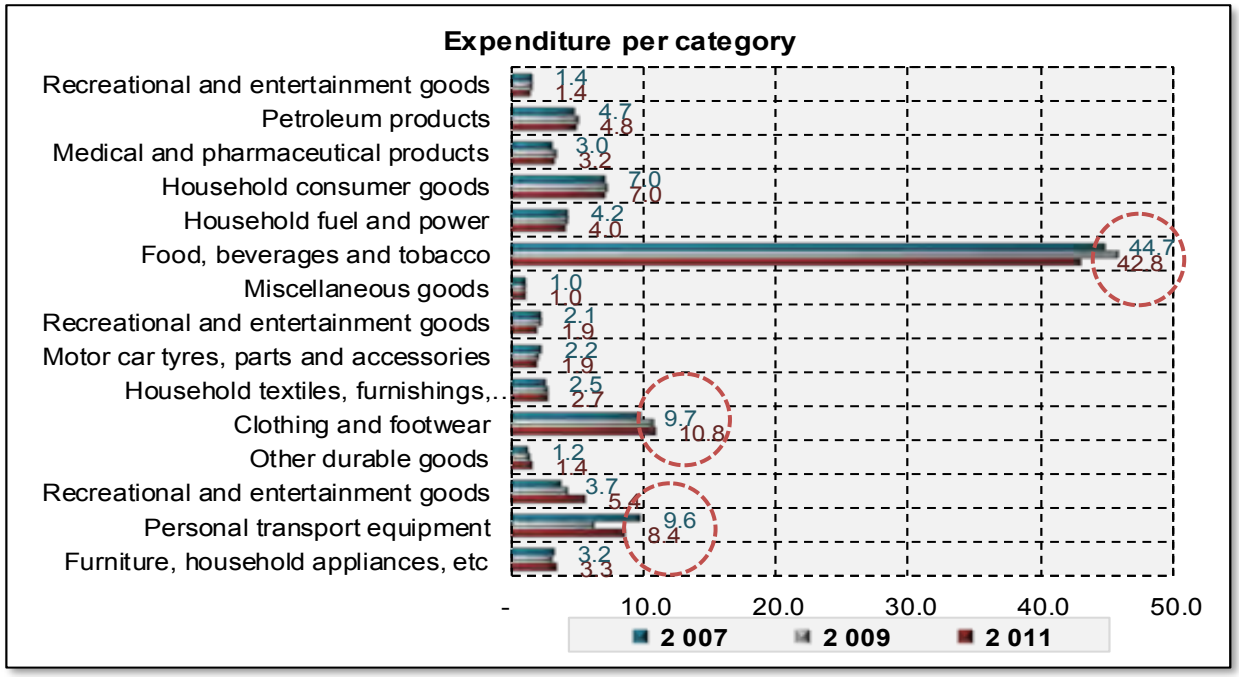
4.4.6 HOUSEHOLD EXPENDITURE PER CATEGORY

The trade sector is accounted for by a spectrum of consumer types, including private households, other businesses, government and exports. The household sector is by far the largest of these consumer markets, especially in the retail sub-sector. Retail sales refer to the amount of money spent on a variety of consumer goods. This includes for example non-

perishable products, footwear, jewellery and hardware. Retail sales serve as an indication of the expenditure in certain categories. Retail sales figures provide an indication of current demand for specific categories of consumer goods, which can be divided into three broad groupings, namely:

1. Durable goods	Durable goods include goods such as furniture, household appliances and personal transport equipment.
2. Semi-durable goods	Semi-durable goods include products such as footwear, clothing and household textiles.
3. Non-durable goods	Non-durable goods include food, beverages, and tobacco, and household consumer goods, medical and pharmaceutical products.

Figure 4.8: Household expenditure per category (constant 2005 prices)



Source: Demacon ex StatsSA, 2013

Findings: (Figure 4.8)

- ✓ A general urban South African trend indicates that the increase in expenditure directed towards non-durable groceries is increasing year-on-year with a similar rise in consumption expenditure on semi durables including clothes and footwear. These trends can be ascribed to, *inter alia*, the high rate of inflation on non-durables (especially meat) and unabated clothing and footwear deflation (mainly fuelled by imports from China). Bear in mind that the above reflects ***relative*** values. Under present market conditions, which include low interest rates and inflation, households are prone to spend ***relatively*** more on non-durables.
- ✓ Figure 4.8 discloses that food, beverages and tobacco is the largest sector of the sections, with growth of ***42.8%*** in 2011 for City of Cape Town Metropolitan Municipal economy,
- ✓ The second largest sector is clothing and footwear ***10.8%*** and personal transport equipment sector with growth of ***8.4%*** in 2011.

4.5 COMPETITIVE AND COMPARATIVE ADVANTAGE ANALYSIS

Competitive Advantage Analysis (CAA) is an assessment of the structure and performance of the economy of an area, to identify local strengths ("competitive advantages") and potential for economic development. Actually, a full competitive advantage analysis would include an examination of local infrastructure, markets, labour force, amenities, access to transportation routes, etc. The approach outlined here doesn't go that far. Instead, it focuses on examining local industries/sectors to identify leading and lagging sectors and their prospects for employment growth.

4.5.1 LOCATION QUOTIENT

A location quotient identifies the level of specialisation in a geographic region. In simple terms it measures the concentration of certain industry sectors in the region relative to the aggregate / reference economy[4].

LQ = (Local Employment in Industry/Total Local Employment) / (Metropolitan Employment in Industry/Total Metropolitan Employment)[5].

The interpretation of location quotients is not particularly complex; we are simply measuring employment concentration in the region. Industry groups that dominate in the region will have higher location quotients and ones that are relatively scarce will have lower location quotients.

Table 4.6 shows the range of possible location quotients arising from the formula and their suggested interpretation. Note that a low (or high) location quotient doesn't necessarily mean the industry group is small (or large), unimportant (or important) in the region, just that it is less so (or more so) than in the reference economy as a whole.

Table 4.6: Interpretation of Location Quotient

Location Quotient	Label	Interpretation
Less than 0.75	Low	Local needs are not being met and goods and services are imported
0.75 to 1.24	Medium	Most local needs are being met by the sector. The region will probably be both importing and exporting goods and services in this sector.
1.25 to 4.99	High	Sector is serving the needs that extend beyond the boundaries of the municipality - likely to export goods and services
More than 5.00	Very High	High level of local dependence on the sector – typically a single industry community.

Source: Sask Trends Monitor, March 2007

Table 4.7 indicates the Location Quotient for the Combined Regional Local Economy with reference to the City of Cape Town Metropolitan Municipal Economy and the Local Economy for 2006 and 2011. It is evident that merely the Manufacturing sector is classified as high in 2011. The Agriculture sector, Utilities, Construction, Trade, Transport, Finance and Business Services, Community services, Social and Personal Services sector and General Government Services Sector are classified as medium. The Mining sector is the only sector classified as low.

[4] *Source: www.citiesalliance.org/doc/resources/led*
[5] *Source: Florida State University Department of Urban and Regional Planning. Planning Methods III: Forecasting*

Table 4.7: Location Quotients, 2006 and 2011

	2006	Classification	2011	Classification	Change
PA: Agriculture, forestry and fishing [SIC: 1]	0.96	Medium	0.97	Medium	Increase
PB: Mining and quarrying [SIC: 2]	0.75	Medium	0.58	Low	Decline
SC: Manufacturing [SIC: 3]	1.29	High	1.41	High	Increase
SC03: Food, beverages and tobacco [SIC: 301-306]	1.07	Medium	0.69	Low	Decline
SC04: Textiles, clothing and leather goods [SIC: 311-317]	1.69	High	2.32	High	Increase
SC05: Wood, paper, publishing and printing [SIC: 321-326]	1.35	High	1.69	High	Increase
SC06: Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	1.11	Medium	1.42	High	Increase
SC07: Other non-metal mineral products [SIC: 341-342]	1.04	Medium	1.02	Medium	Decline
SC08: Metals, metal products, machinery and equipment [SIC: 351-359]	1.14	Medium	1.40	High	Increase
SC09: Electrical machinery and apparatus [SIC: 361-363]	1.44	High	1.77	High	Increase
SC10: Radio, TV, instruments, watches and clocks [SIC: 371-376]	0.98	Medium	1.30	High	Increase
SC11: Transport equipment [SIC: 381-387]	1.10	Medium	1.39	High	Increase
SC12: Furniture and other manufacturing [SIC: 391-392]	1.25	Medium	1.50	High	Increase
SD: Electricity, gas and water [SIC: 4]	0.94	Medium	1.05	Medium	Increase
SD13: Electricity [SIC: 41]	0.74	Low	0.92	Medium	Increase
SD14: Water [SIC: 42]	1.98	High	1.69	High	Decline
SE: Construction [SIC: 5]	1.17	Medium	1.08	Medium	Decline
TF: Wholesale and retail trade, catering and accommodation [SIC: 6]	1.07	Medium	1.15	Medium	Increase
TF16: Wholesale and retail trade [SIC: 61-62]	1.10	Medium	1.21	Medium	Increase
TF17: Catering and accommodation services [SIC: 63]	0.87	Medium	0.80	Medium	Decline
TG: Transport, storage and communication [SIC: 7]	1.00	Medium	1.16	Medium	Increase
TG18: Transport and storage [SIC: 71]	1.03	Medium	1.16	Medium	Increase
TG19: Communication [SIC: 72]	0.90	Medium	1.16	Medium	Increase
TH: Finance, insurance, real estate and business services [SIC: 8]	0.77	Medium	0.91	Medium	Increase
TH20: Finance and insurance [SIC: 81-82]	0.79	Medium	0.99	Medium	Increase
TH21: Business services [SIC: 83]	0.77	Medium	0.90	Medium	Increase
TI: Community, social and personal services [SIC: 92, 95-6, 99, 0]	0.83	Medium	0.85	Medium	Increase
TJ: General government [SIC: 91, 94]	0.98	Medium	1.05	Medium	Increase

Source: Demacon, 2013

In terms of changes between 2006 and 2011 it is evident that eight of the main sectors experienced an increase in their location quotients – namely Agriculture, Manufacturing, Utilities, Trade, Transport, Finance, Community Services and General Government sectors. The other two of the main sectors experienced a decline in their location quotients – Mining and Construction sectors.

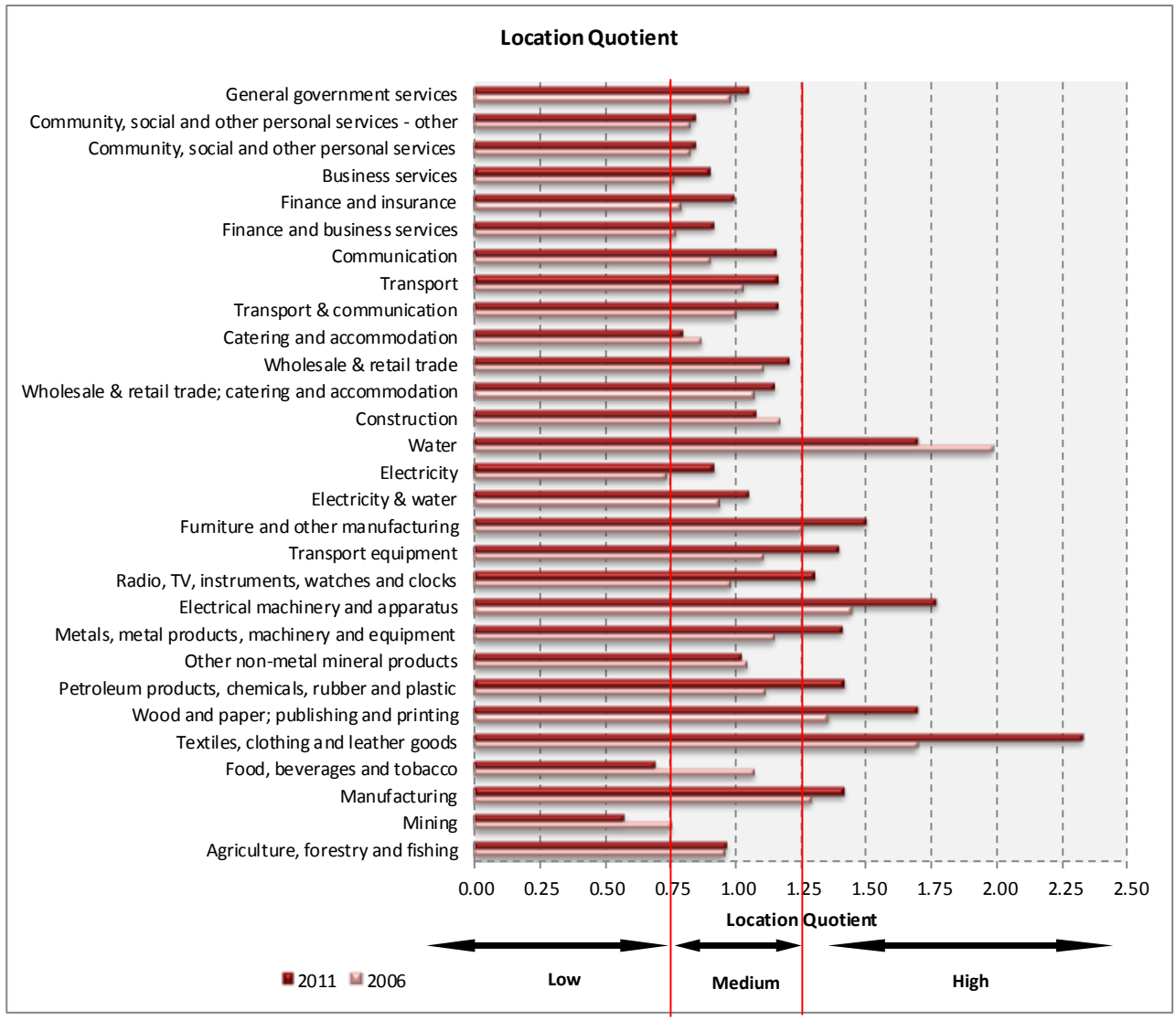
In terms of the Manufacturing Sub-Sectors it is evident that only one sector is classified as medium – the other non-metal mineral products sub-sector. The classifications of two of the sub-sectors declined over the specified time period, whereas eight of the sub-sectors experienced an increase.

4.5.2 SHIFT-SHARE ANALYSIS

Shift-Share analysis is used to account for the competitiveness of a region's industries and to analyse the local base. The analysis calculates how much of the employment growth experienced by a local economy in a specific time period can be accounted for by[6]:

1. The economy's mix of sectors – because different sectors grow at different rates
2. Metropolitan growth rate – because a certain similarity between metropolitan and local employment growth is a reasonable expectation
3. Local factors – because a local economy may possess a competitive advantage in certain sectors. If a city's employment in a sector is growing at a faster rate than the regional economy's employment growth in that sector it would suggest that the local economy has a competitive advantage in that sector.

Figure 4.9: Location Quotient, 2006 and 2011



Source: Demacon, 2013

The shift-share analysis decomposes local industry employment change into three components[7]:

[6] *Source: www.citiesalliance.org/doc/resources/led*
[7] *Source: http://cecd.aers.psu.edu/using_employment_data_to_better.htm*

1. **Metropolitan Growth Share** – refers to local job growth that is attributed to regional economic growth.

MGS = Industry Employment x Metropolitan Average Growth Rate of Total Employment Growth = (employment in 2009- employment in 2004)/ employment in 2004

2. **Industrial Mix Share** – reflects the differences in industry mix between the local and metropolitan levels. The mix-factor examines how metropolitan growth or decline of a particular industry translates into local growth or decline of that industry.

IMS = Local Industry Employment x (Metropolitan Industry Growth Rate – Metropolitan Average Growth Rate)

3. **Local Share** – describes the extent to which unique local factors relate to regional industrial employment growth or decline. The local component aids in identifying a local area's economic strengths and represents how a region's competitive position can contribute to regional job growth.

LS = Local Industry Employment x (Local Industry Growth Rate – Provincial Industry Growth Rate)
Total Employment Change = MGS + IMS + LS.

Table 4.8 summarises the findings of the shift share analysis. Figures 4.10 and 4.11 illustrate the Local Share Effect of the Local Economy between 2006 and 2011.

Table 4.8: Shift Share Analysis – Local Economy versus City of Cape Town Metropolitan Municipal Economy, 2006 to 2011

		Shares of Employment Change				
	Local Economy Employment in 2004	Metropolitan Growth Share	Industry Mix Share	Local Share	Total	Combined Regional Local Employment in 2009
PA: Agriculture, forestry and fishing [SIC: 1]	4 785	(191)	(1 309)	4	(1 495)	3 290
PB: Mining and quarrying [SIC: 2]	122	(5)	150	(7)	138	260
SC: Manufacturing [SIC: 3]	31 715	(1 264)	(4 518)	613	(5 169)	26 547
SC03: Food, beverages and tobacco [SIC: 301-306]	3 427	(137)	(268)	31	(374)	3 053
SC04: Textiles, clothing and leather goods [SIC: 311-317]	9 322	(371)	(2 264)	244	(2 392)	6 931
SC05: Wood, paper, publishing and printing [SIC: 321-326]	4 138	(165)	(448)	159	(454)	3 684
SC06: Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	2 916	(116)	(281)	22	(376)	2 540
SC07: Other non-metal mineral products [SIC: 341-342]	1 104	(44)	(258)	68	(234)	871
SC08: Metals, metal products, machinery and equipment [SIC: 351-359]	5 092	(203)	(317)	192	(328)	4 764
SC09: Electrical machinery and apparatus [SIC: 361-363]	625	(25)	(21)	20	(26)	599
SC10: Radio, TV, instruments, watches and clocks [SIC: 371-376]	328	(13)	(37)	14	(36)	293
SC11: Transport equipment [SIC:	1 590	(63)	(216)	56	(223)	1 367

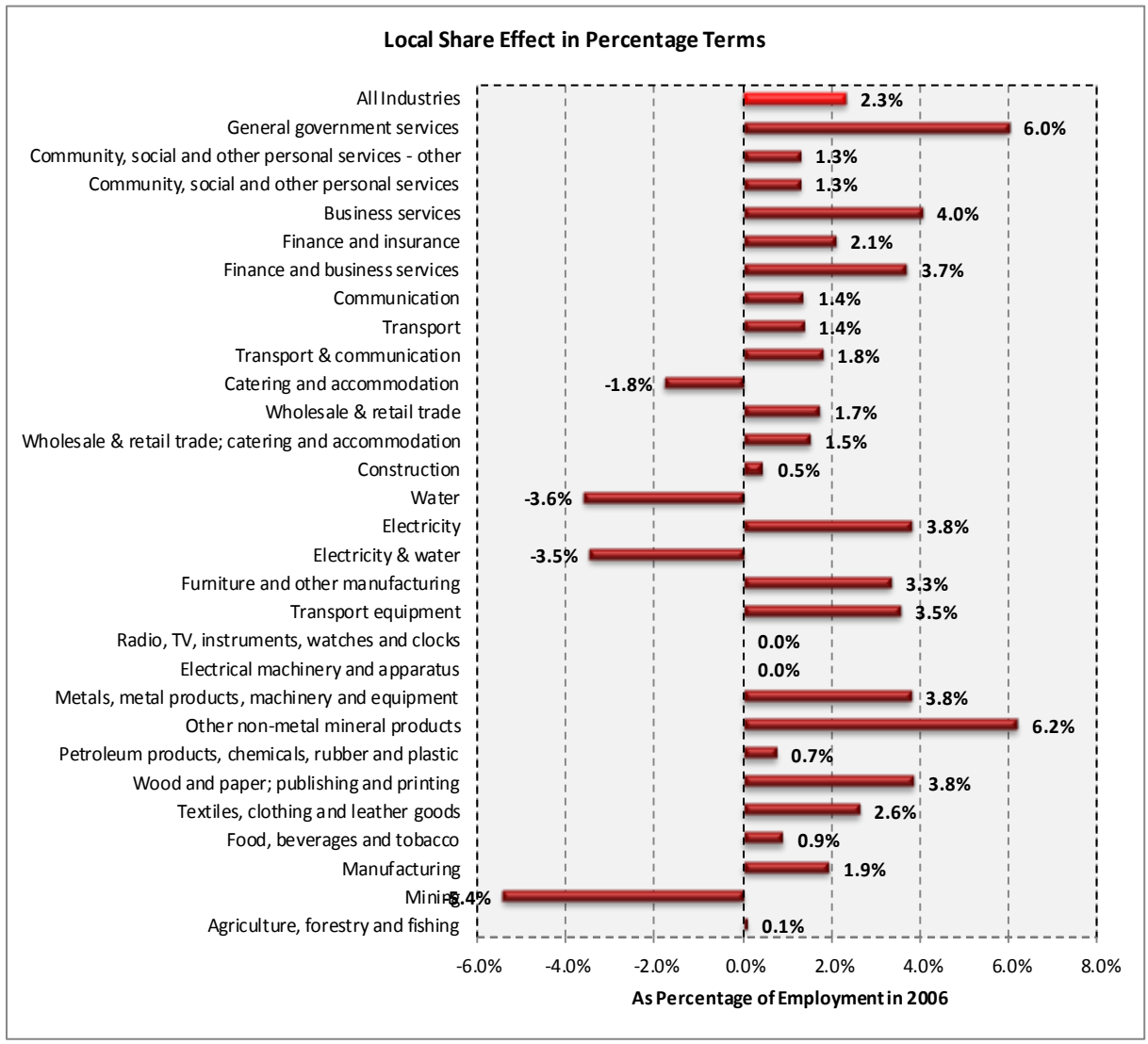
		Shares of Employment Change				
	Local Economy Employment in 2004	Metropolitan Growth Share	Industry Mix Share	Local Share	Total	Combined Regional Local Employment in 2009
381-387]						
SC12: Furniture and other manufacturing [SIC: 391-392]	3 174	(126)	(707)	106	(728)	2 446
SD: Electricity, gas and water [SIC: 4]	538	(21)	52	(19)	12	549
SD13: Electricity [SIC: 41]	354	(14)	49	13	48	402
SD14: Water [SIC: 42]	184	(7)	(23)	(7)	(37)	147
SE: Construction [SIC: 5]	12 749	(508)	(2 203)	58	(2 653)	10 096
TF: Wholesale and retail trade, catering and accommodation [SIC: 6]	35 362	(1 409)	1 223	535	349	35 711
TF16: Wholesale and retail trade [SIC: 61-62]	31 615	(1 260)	1 343	548	632	32 247
TF17: Catering and accommodation services [SIC: 63]	3 747	(149)	(67)	(67)	(283)	3 465
TG: Transport, storage and communication [SIC: 7]	6 380	(254)	106	114	(34)	6 346
TG18: Transport and storage [SIC: 71]	4 883	(195)	298	67	171	5 054
TG19: Communication [SIC: 72]	1 496	(60)	(165)	20	(204)	1 292
TH: Finance, insurance, real estate and business services [SIC: 8]	24 608	(981)	322	907	249	24 857
TH20: Finance and insurance [SIC: 81-82]	3 602	(144)	(373)	75	(441)	3 161
TH21: Business services [SIC: 83]	21 006	(837)	680	847	690	21 695
TI: Community, social and personal services [SIC: 92, 95-6, 99, 0]	16 054	(640)	945	208	513	16 567
TJ: General government [SIC: 91, 94]	17 555	(699)	3 644	1 051	3 995	21 551
Total	**149 868**	**(5 971)**	**(1 587)**	**3 464**	**(4 095)**	**145 773**

Source: Demacon, 2013

Interpretations:

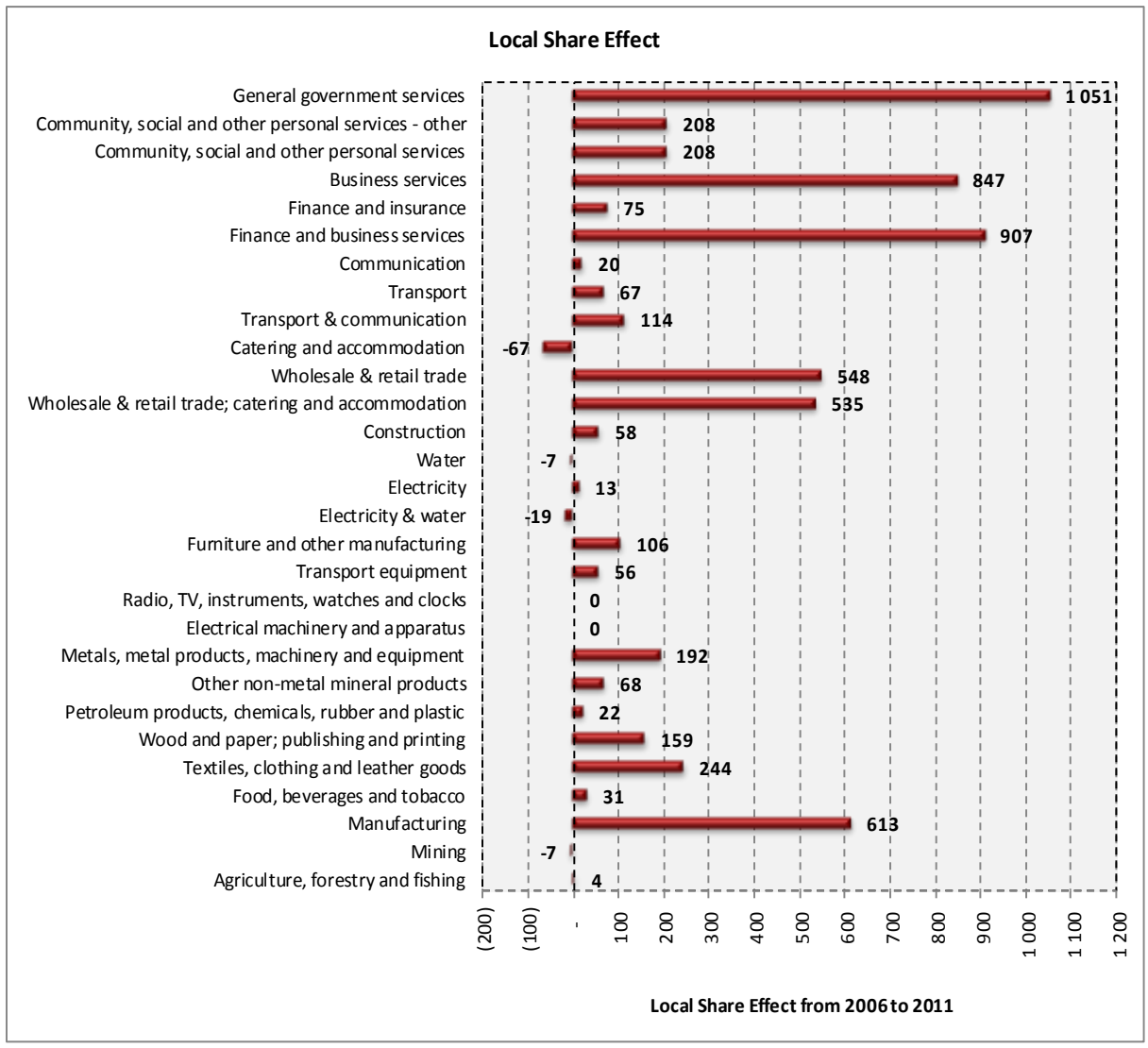
- ✓ **Metropolitan Growth Share** – If the combined local economy was identical to the metropolitan economy then the combined local economy should have decreased by 5971 jobs between 2006 and 20011. However, it is evident that the local economy decreased with only 4 095 jobs. This suggests that the combined regional local economy is performing stronger than the metropolitan economy.
- ✓ **Industry Mix Share** - The overall industrial growth component of (1 587) means that the local economy has 1 587 less jobs than it would have if its structure was identical to the metropolitan economy. If the sector's employment is positive it means that that sector's employment is growing faster than the metropolitan average, and where negative slower than the metropolitan average. Seven of the main economic sectors grew faster than the metropolitan average, whereas the remainder of the main economic sectors grew slower than the metropolitan average. The dominant growth sectors include – Mining, Utilities, Trade, Transport, Finance, Community and General Government Services Sectors.
- ✓ **Local Share** - According to the local share component the increase of 3 464 jobs can be attributed to its competitive position. Eight of the main sectors had positive local shares. Keeping in mind it is a descriptive tool rather than diagnostic is important - it does not tell us why some local industries are more competitive and some are less competitive - differences may be due to technology, management, worker productivity etc.

Figure 4.10: Local Share Effect in Percentage Terms, Local Economy, 2006-2011



Source: Demacon, 2013

Figure 4.11: Local Share Effect of the Local Economy, 2006 to 2011



Source: Demacon, 2013

4.5.3 ECONOMIC BASE ANALYSIS

Economic base analysis is designed to analyse the broad economic structure of the local economy. It does this by dividing the economy into two sectors:

1. **Basic or export sectors** (which includes all output – goods and services – sold outside the borders of the local economy.
2. **Non-basic sectors** (which includes all output that is sold within the local economy).

A local region's export industries are its economic foundation, and all other industries thrive by servicing the export industries and one another. A change in the basic sector will automatically lead to a change in the same direction in the non-basic sector. The ratio of non-basic to basic activity is reasonably stable over the long term.

Overall, if a region can increase the level of basic employment, it can increase total employment by that amount times the multiplier[8].

[8] *Source: Georgia Tech, taken from Avrom Bendavid-Val.*

Basic Multiplier = Change in Total Employment/Change in Basic Employment

Change in Total Employment = Change in Basic Employment x the Basic Multiplier.

Another of methods can be utilised to estimate the economic base of the area:

- ✓ Judgemental Approach
- ✓ Survey method
- ✓ Location Quotient
- ✓ Minimum Requirements.

For the purpose of this study the *location quotient method* is applied. It is important to understand that not all of a basic industry is 'basic'. Only that part of the industry that serves the export market is considered basic. It is the part of the industry that raises the location quotient above 1.0. Any employment below an LQ of 1.0 is Non-Basic – those jobs serve local demand.

A second formula must be applied to the location quotient to determine the number of Basic Sector Jobs – this is only applied to industries with LQ exceeding 1.0.

Basic Sector Employment = (Local Employment Industry/Metropolitan employment Industry) – (Total Local Employment/ Total Metropolitan Employment) X Metropolitan Employment Industry[9]

Table 4.9: Basic Sector Multiplier, Local Economy, 2011

	LQ	Basic sector Employment	BM Multiplier
PA: Agriculture, forestry and fishing [SIC: 1]	0.95	0.0	0.0
PB: Mining and quarrying [SIC: 2]	0.72	0.0	0.0
SC: Manufacturing [SIC: 3]	1.30	6 242.9	4.3
SC03: Food, beverages and tobacco [SIC: 301-306]	1.07	206.4	14.8
SC04: Textiles, clothing and leather goods [SIC: 311-317]	1.73	2 945.8	2.4
SC05: Wood, paper, publishing and printing [SIC: 321-326]	1.40	1 061.1	3.5
SC06: Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	1.11	255.8	9.9
SC07: Other non-metal mineral products [SIC: 341-342]	1.12	95.5	9.1
SC08: Metals, metal products, machinery and equipment [SIC: 351-359]	1.18	741.8	6.4
SC09: Electrical machinery and apparatus [SIC: 361-363]	1.47	193.9	3.1
SC10: Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.02	7.2	40.8
SC11: Transport equipment [SIC: 381-387]	1.14	171.2	8.0
SC12: Furniture and other manufacturing [SIC: 391-392]	1.29	564.2	4.3
SD: Electricity, gas and water [SIC: 4]	0.90	0.0	0.0
SD13: Electricity [SIC: 41]	0.75	0.0	0.0
SD14: Water [SIC: 42]	1.87	68.7	2.1
SE: Construction [SIC: 5]	1.16	1 440.8	7.0
TF: Wholesale and retail trade, catering and accommodation [SIC: 6]	1.08	2 710.6	13.2
TF16: Wholesale and retail trade [SIC: 61-62]	1.11	3 344.8	9.6
TF17: Catering and accommodation services [SIC: 63]	0.84	0.0	0.0
TG: Transport, storage and communication [SIC: 7]	1.00	53.6	118.3
TG18: Transport and storage [SIC: 71]	1.03	179.2	28.2
TG19: Communication [SIC: 72]	0.91	0.0	0.0
TH: Finance, insurance, real estate and business services [SIC: 8]	0.79	0.0	0.0

[9] *Source: http: mailer su edu tchapin garnet-tchapin/urp5261/topics/econbase/lq.htm*

	LQ	Basic sector Employment	BM Multiplier
TH20: Finance and insurance [SIC: 81-82]	0.80	0.0	0.0
TH21: Business services [SIC: 83]	0.79	0.0	0.0
TI: Community, social and personal services [SIC: 92, 95-6, 99, 0]	0.83	0.0	0.0
TI22: Community, social and personal services [SIC: 92, 95-6]	0.83	0.0	0.0
TJ: General government [SIC: 91, 94]	1.02	547.8	39.3
Total Industry Multiplier		**20 831.4**	**12.3**

Source: Demacon, 2013

Interpretation:

- ✓ Overall, the Basic Multiplier for the local economy amounts to **12.3** – reflecting that for every job created in the basic sector, 12.3 jobs could be created in the non-basic sectors of the local economy.

4.5.4 LEADING-LAGGING ANALYSIS

This analysis aims to examine the employment growth of the combined regional local economy in terms of the aggregate economy. This analysis uses sector employment growth rates to produce two key values: Metropolitan Sector Relative Growth (MSRG) and Local Sector Relative Growth (LSRG)[10].

MSRG = Metropolitan Employment Growth in a Sector – Metropolitan Employment Growth Overall

The results indicates whether the selected sector's growth at metropolitan (or reference economy) level was higher or lower than metropolitan (or reference economy) growth overall.

Three possible results:

Leading	Sector exceeds growth of aggregate economy
Lagging	Sector either declined in employment or grew at slower rate than aggregate economy
Even	The sector's growth equals aggregate economy growth overall

LSRG = Local Employment Growth in the Sector – Metropolitan (or Reference Economy) Employment Growth in the Sector

Three possible results:

Leading	The local sector grew faster or declined at a slower rate than the aggregate economy's sector
Lagging	The local sector grew at a slower rate, or declined at a greater rate than the aggregate economy's sector
Even	Local sector growth equalled growth in the sector of the aggregate economy

This should be interpreted together with a positive, negative or constant industry growth:

- ✓ Positive Growth – Sector grew in employment
- ✓ Negative Growth – Sector declined in employment
- ✓ Constant Growth – Employment was constant over the time of the analysis.

Table 4.10 indicates the Leading-Lagging Analysis of Local Economy, supported by Figure 4.12 illustrating it graphically.

[10] *Source: www.laverentianvalleytwsp.oh.ca*

Table 4.10: Leading Lagging Analysis, Local Economy, 2006 to 2011

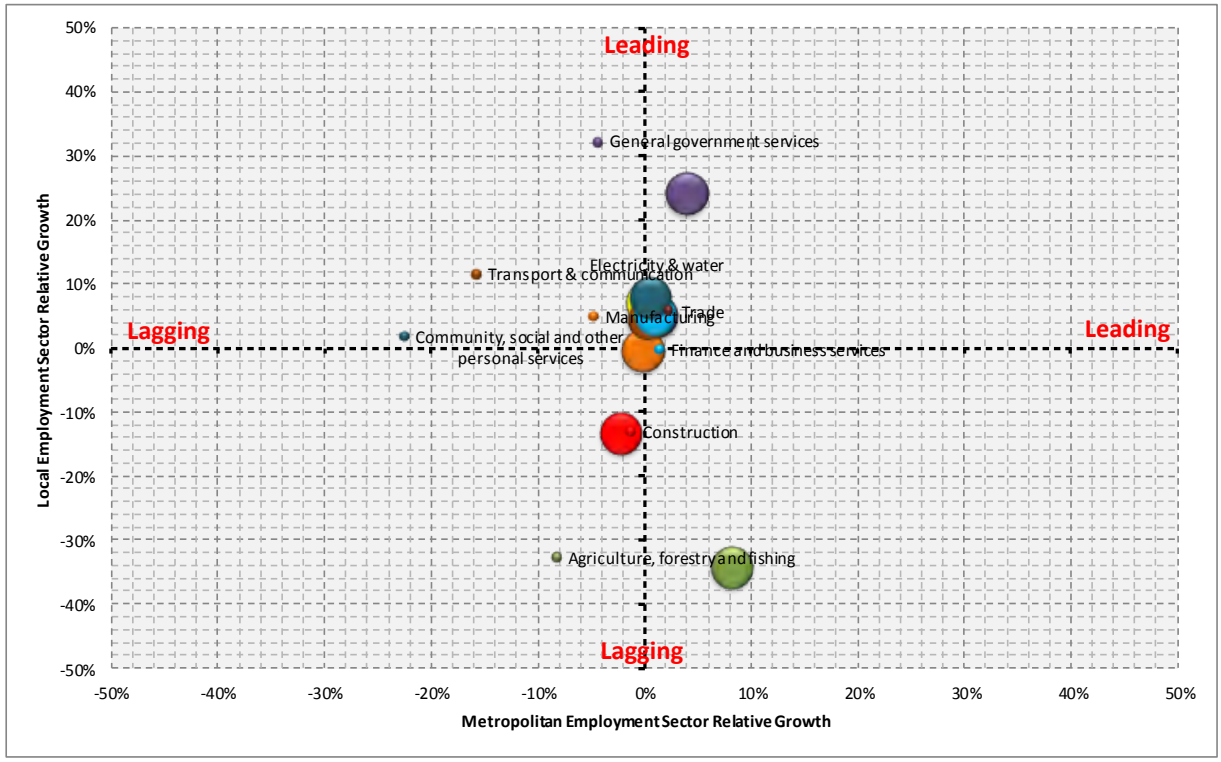
	MSRG	Leading/ Lagging Analysis	Industry Growth	LSRG	Leading/ Lagging Analysis	Local Industry Growth
PA: Agriculture, forestry and fishing [SIC: 1]	-34.0%	Lagging	Negative	-31.2%	Leading	Negative
PB: Mining and quarrying [SIC: 2]	122.4%	Leading	Positive	113.3%	Lagging	Positive
SC: Manufacturing [SIC: 3]	-10.7%	Lagging	Negative	-16.3%	Lagging	Negative
SC03: Food, beverages and tobacco [SIC: 301-306]	-0.6%	Lagging	Negative	-10.9%	Lagging	Negative
SC04: Textiles, clothing and leather goods [SIC: 311-317]	-22.2%	Lagging	Negative	-25.7%	Leading	Negative
SC05: Wood, paper, publishing and printing [SIC: 321-326]	-11.8%	Lagging	Negative	-11.0%	Leading	Negative
SC06: Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	-7.0%	Lagging	Negative	-12.9%	Lagging	Negative
SC07: Other non-metal mineral products [SIC: 341-342]	-24.2%	Lagging	Negative	-21.1%	Leading	Negative
SC08: Metals, metal products, machinery and equipment [SIC: 351-359]	-3.9%	Lagging	Negative	-6.4%	Leading	Negative
SC09: Electrical machinery and apparatus [SIC: 361-363]	-0.2%	Lagging	Negative	0.0%	Leading	Positive
SC10: Radio, TV, instruments, watches and clocks [SIC: 371-376]	-8.2%	Lagging	Negative	0.0%	Leading	Positive
SC11: Transport equipment [SIC: 381-387]	-11.6%	Lagging	Negative	-14.0%	Leading	Negative
SC12: Furniture and other manufacturing [SIC: 391-392]	-19.1%	Lagging	Negative	-22.9%	Leading	Negative
SD: Electricity, gas and water [SIC: 4]	7.3%	Leading	Positive	2.1%	Leading	Positive
SD13: Electricity [SIC: 41]	13.0%	Leading	Positive	13.7%	Leading	Positive
SD14: Water [SIC: 42]	-14.4%	Lagging	Negative	-20.1%	Lagging	Negative
SE: Construction [SIC: 5]	-13.2%	Lagging	Negative	-20.8%	Lagging	Negative
TF: Wholesale and retail trade, catering and accommodation [SIC: 6]	5.2%	Leading	Negative	1.0%	Leading	Positive
TF16: Wholesale and retail trade [SIC: 61-62]	5.6%	Leading	Positive	2.0%	Leading	Positive
TF17: Catering and accommodation services [SIC: 63]	3.2%	Leading	Negative	-7.5%	Lagging	Negative
TG: Transport, storage and communication [SIC: 7]	4.6%	Leading	Negative	-0.5%	Leading	Negative
TG18: Transport and storage [SIC: 71]	8.8%	Leading	Positive	3.5%	Leading	Positive
TG19: Communication [SIC: 72]	-9.0%	Lagging	Negative	-13.7%	Leading	Negative
TH: Finance, insurance, real estate and business services [SIC: 8]	5.4%	Leading	Positive	1.0%	Leading	Positive
TH20: Finance and insurance [SIC: 81-82]	-7.3%	Lagging	Negative	-12.2%	Leading	Negative
TH21: Business services [SIC: 83]	7.4%	Leading	Positive	3.3%	Leading	Positive

	MSRG	Leading/ Lagging Analysis	Industry Growth	LSRG	Leading/ Lagging Analysis	Local Industry Growth
TI: Community, social and personal services [SIC: 92, 95-6, 99, 0]	8.1%	Leading	Positive	3.2%	Leading	Positive
TJ: General government [SIC: 91, 94]	24.2%	Leading	Positive	22.8%	Leading	Positive

Source: Demacon, 2013

Interpreting leading and lagging results: The MSRG and LSRG is merely a way of describing the relative growth dynamics of the various sectors. It is provided to compliment the shift share analysis numerical results, by describing the dynamics in words. These values should be considered when looking at the Carvalho and Industry Targeting Classifications.

Figure 4.12: Leading/Lagging Analysis - Local Economy Main Sectors, 2006 to 2011



Source: Demacon, 2013

4.5.5 CARVALHO CLASSIFICATION

The Carvalho Classification has been developed in 2000 by Dr. Emanuel Carvalho from the University of Waterloo in collaboration with OMAFRA CED Unit staff. Three values are combined in the classification – LQ, N/PRSG and LRSG.

There are 12 classifications, from 'driving' (for sectors that ere leading in DSRG and LSRG and had high location quotients) to 'marginal' (for sectors that were lagging in DSRG and LSRG and had low location quotients). It is important to note that these categories are descriptive and not prescriptive. It provides a multi-dimensional indication of the suitability of sectors, supported by tools and instruments that could be utilised in the development of these sectors.

Table 4.11: Classification, Interpretation and Definition

Classification	Interpretation	Definition
Driving	DSRG and LSRG leading LQ > 1.25	Community is highly specialised in this sector, which is growing nationally/provincially and growing at an even higher rate locally
Accelerating	DSRG and LSRG leading LQ 0.75 to 1.24	Community is neither highly specialised nor under-specialised in this sector, which is growing nationally/provincially and growing at an even higher rate locally
Rising	DSRG and LSRG leading LQ <0.74	Relatively low proportion of local employment, but will likely increase due to growth in this sector, which is growing on a metropolitan level and growing at an even higher rate locally
Evolving	DSRG lagging and LSRG leading LQ > 1.25	High local specialisation in a sector which grew at a provincial level at a slower rate than overall growth, local growth exceeded metropolitan growth in this sector
Transitional	DSRG lagging and LSRG leading LQ 0.75 to 1.24	Average specialisation in a sector which grew at a metropolitan level at a slower rate than overall growth, local growth exceeded metropolitan growth in this sector
Moderate	DSRG lagging and LSRG leading LQ <0.74	Relatively underrepresented in a sector which grew at a metropolitan level at a slower rate than overall growth; local growth exceeded metropolitan growth in this sector
Promising	DSRG leading and LSRG lagging LQ > 1.25	High local specialisation in a sector which grew at a metropolitan level, local growth was slower than metropolitan growth in this sector
Yielding	DSRG leading and LSRG lagging LQ 0.75 to 1.24	Average specialisation in a sector which grew at a metropolitan level, local growth was slower than metropolitan growth in this sector
Modest	DSRG leading and LSRG lagging LQ <0.74	Relatively low specialisation in a sector which grew at a metropolitan level; local growth was slower than metropolitan growth in this sector
Challenging	DSRG lagging and LSRG lagging LQ > 1.25	Industries have a relatively high concentration of employment in the community, which suggests that they play a prominent role in overall employment in the community and should be monitored carefully
Vulnerable	DSRG lagging and LSRG lagging LQ 0.75 to 1.24	Industries have an average concentration of employment
Marginal	DSRG lagging and LSRG lagging LQ <0.74	Industries are under-represented in the community

Source: Demacon based on www.reddi.gov.on.ca/cea_carvalho.htm

Table 4.12: Carvalho Classification of Local Economy versus City of Cape Town Metropolitan Economy, 2006 to 2011

	Location Quotient	MSRG	LSRG	Carvalho Classification
PA: Agriculture, forestry and fishing [SIC: 1]	0.97	Lagging	Leading	Transitional
PB: Mining and quarrying [SIC: 2]	0.58	Leading	Lagging	Modest
SC: Manufacturing [SIC: 3]	1.41	Lagging	Lagging	Challenging
SC03: Food, beverages and tobacco [SIC: 301-306]	0.69	Lagging	Lagging	Marginal
SC04: Textiles, clothing and leather goods [SIC: 311-317]	2.32	Lagging	Leading	Evolving
SC05: Wood, paper, publishing and printing [SIC: 321-326]	1.69	Lagging	Leading	Evolving
SC06: Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	1.42	Lagging	Lagging	Challenging
SC07: Other non-metal mineral products [SIC: 341-342]	1.02	Lagging	Leading	Transitional
SC08: Metals, metal products, machinery and equipment [SIC: 351-359]	1.40	Lagging	Leading	Evolving
SC09: Electrical machinery and apparatus [SIC: 361-363]	1.77	Lagging	Leading	Evolving

	Location Quotient	MSRG	LSRG	Carvalho Classification
SC10: Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.30	Lagging	Leading	Evolving
SC11: Transport equipment [SIC: 381-387]	1.39	Lagging	Leading	Evolving
SC12: Furniture and other manufacturing [SIC: 391-392]	1.50	Lagging	Leading	Evolving
SD: Electricity, gas and water [SIC: 4]	1.05	Leading	Leading	Accelerating
SD13: Electricity [SIC: 41]	0.92	Leading	Leading	Accelerating
SD14: Water [SIC: 42]	1.69	Lagging	Lagging	Challenging
SE: Construction [SIC: 5]	1.08	Lagging	Lagging	Vulnerable
TF: Wholesale and retail trade, catering and accommodation [SIC: 6]	1.15	Leading	Leading	Accelerating
TF16: Wholesale and retail trade [SIC: 61-62]	1.21	Leading	Leading	Accelerating
TF17: Catering and accommodation services [SIC: 63]	0.80	Leading	Lagging	Yielding
TG: Transport, storage and communication [SIC: 7]	1.16	Leading	Leading	Accelerating
TG18: Transport and storage [SIC: 71]	1.16	Leading	Leading	Accelerating
TG19: Communication [SIC: 72]	1.16	Lagging	Leading	Transitional
TH: Finance, insurance, real estate and business services [SIC: 8]	0.91	Leading	Leading	Accelerating
TH20: Finance and insurance [SIC: 81-82]	0.99	Lagging	Leading	Transitional
TH21: Business services [SIC: 83]	0.90	Leading	Leading	Accelerating
TI: Community, social and personal services [SIC: 92, 95-6, 99, 0]	0.85	Leading	Leading	Accelerating
TJ: General government [SIC: 91, 94]	1.05	Leading	Leading	Accelerating

Source: Demacon, 2013

The Utilities, Trade, Transport, Finance, Community services and General Government sectors are regarded as **accelerating sectors**. These sectors could be considered as successful in the local economy.

The Construction Sector is regarded as a **vulnerable sector**. This sector has an average concentration of employment. They are regarded as vulnerable due to the fact that an important source of employment may be declining.

The Mining sector is regarded as a **modest sector**. This sector has relatively low specialisation which grew at a metropolitan level; local growth was slower than metropolitan growth in this sector.

The Agricultural sector is regarded as a **transitional sector**. There is average specialisation in this sector which grew at a metropolitan level at a slower rate than overall growth, local growth exceeded metropolitan growth in this sector.

The Manufacturing sector is regarded as a **challenging sector**. Industries have a relatively high concentration of employment in the community, which suggests that they play a prominent role in overall employment in the community and should be monitored carefully.

4.5.6 INDUSTRY TARGET CLASSIFICATION

This classification is similar to that of the Carvalho Model in that it is based on a combination of the location quotient, District Sector Growth and LSRG values and it is expressed qualitative not quantitative. It is somewhat different in the way that it classifies the sectors, the categories are phrases that suggest the kind of prospects for growth that could be expected and in some cases, whether the sector should be a retention target.

There are eight categories in this classification system:

DSRG	National Growth	Location Quotient	Classification	Definition
Leading	Positive	Medium or High (> 0.75)	Current Strength	Sector currently growing strong
		Low (<0.75)	Emerging Strength	Indication that a sector is experiencing growth and can be classified as having definite development potential
	Negative	Medium or High (> 0.75)	Prospects limited by external trends	External trends represent a multitude of elements that strain development and growth and include competitiveness, exchange rate, fluctuations, performance of international economies, oil prices etc.
		Low (<0.75)	Prospects limited by external trends and weak base	A weak base is an indication that the sector is structurally not particularly strong and limited in its diversification. This along with external trends strain the development prospects
Lagging	Positive	Medium or High (> 0.75)	High priority retention target	Indication of a previously dominant or economically important sector that needs to retain its positive economic position – making it a priority for growth and development.
		Low (<0.75)	Prospects limited by weak base and declining competitiveness	A week base indicate a need for diversification and declining competitiveness reflects that it might not be structural as strong as is needed for development potential
	Negative	Medium or High (> 0.75)	Prospects limited by external trends and declining competitiveness	External trends hinder development, supported by declining levels of competitiveness.
		Low (<0.75)	Prospects limited overall	Growth prospects are limited to a minimum for this sector and the economy should rather focus on other economic sectors.

Source: Sask Trends Monitor, 2007

Table 4.13: Local Economy Industry Targeting Classification, 2006 to 2011

	LQ		Metropolitan Sector % Growth		LSRG		Industry Targeting
	Value	Class	Value	Class	Value	Class	
PA: Agriculture, forestry and fishing [SIC: 1]	1.0	Medium	-39.4%	Negative	8.2%	Leading	Prospects limited by external trends
PB: Mining and quarrying [SIC: 2]	0.6	Low	117.0%	Positive	-3.7%	Lagging	Prospects limited by weak base and declining competitiveness
SC: Manufacturing [SIC: 3]	1.4	High	-16.1%	Negative	-0.2%	Lagging	Prospects limited by external trends and declining

	LQ		Metropolitan Sector % Growth		LSRG		Industry Targeting
	Value	Class	Value	Class	Value	Class	
							competitiveness
SC03: Food, beverages and tobacco [SIC: 301-306]	0.7	Low	-6.0%	Negative	-4.9%	Lagging	Prospects limited overall
SC04: Textiles, clothing and leather goods [SIC: 311-317]	2.3	High	-27.6%	Negative	1.9%	Leading	Prospects limited by external trends
SC05: Wood, paper, publishing and printing [SIC: 321-326]	1.7	High	-17.1%	Negative	6.2%	Leading	Prospects limited by external trends
SC06: Petroleum products, chemicals, rubber and plastic [SIC: 331-338]	1.4	High	-12.4%	Negative	-0.5%	Lagging	Prospects limited by external trends and declining competitiveness
SC07: Other non-metal mineral products [SIC: 341-342]	1.0	Medium	-29.6%	Negative	8.4%	Leading	Prospects limited by external trends
SC08: Metals, metal products, machinery and equipment [SIC: 351-359]	1.4	High	-9.2%	Negative	2.8%	Leading	Prospects limited by external trends
SC09: Electrical machinery and apparatus [SIC: 361-363]	1.8	High	-5.6%	Negative	5.6%	Leading	Prospects limited by external trends
SC10: Radio, TV, instruments, watches and clocks [SIC: 371-376]	1.3	High	-13.5%	Negative	13.5%	Leading	Prospects limited by external trends
SC11: Transport equipment [SIC: 381-387]	1.4	High	-17.0%	Negative	2.9%	Leading	Prospects limited by external trends
SC12: Furniture and other manufacturing [SIC: 391-392]	1.5	High	-24.5%	Negative	1.5%	Leading	Prospects limited by external trends
SD: Electricity, gas and water [SIC: 4]	1.0	Medium	1.9%	Positive	0.3%	Leading	Current Strength
SD13: Electricity [SIC: 41]	0.9	Medium	7.7%	Positive	6.0%	Leading	Current Strength
SD14: Water [SIC: 42]	1.7	High	-19.8%	Negative	-0.3%	Lagging	Prospects limited by external trends and declining competitiveness
SE: Construction [SIC: 5]	1.1	Medium	-18.6%	Negative	-2.2%	Lagging	Prospects limited by external trends and declining competitiveness
TF: Wholesale and retail trade, catering and accommodation [SIC: 6]	1.1	Medium	-0.2%	Negative	1.1%	Leading	Prospects limited by external trends
TF16: Wholesale and retail trade [SIC: 61-62]	1.2	Medium	0.2%	Positive	1.8%	Leading	Current Strength
TF17: Catering and accommodation services [SIC: 63]	0.8	Medium	-2.1%	Negative	-5.4%	Lagging	Prospects limited by external trends and declining competitiveness
TG: Transport,	1.2	Medium	-0.8%	Negative	0.3%	Leading	Prospects limited by

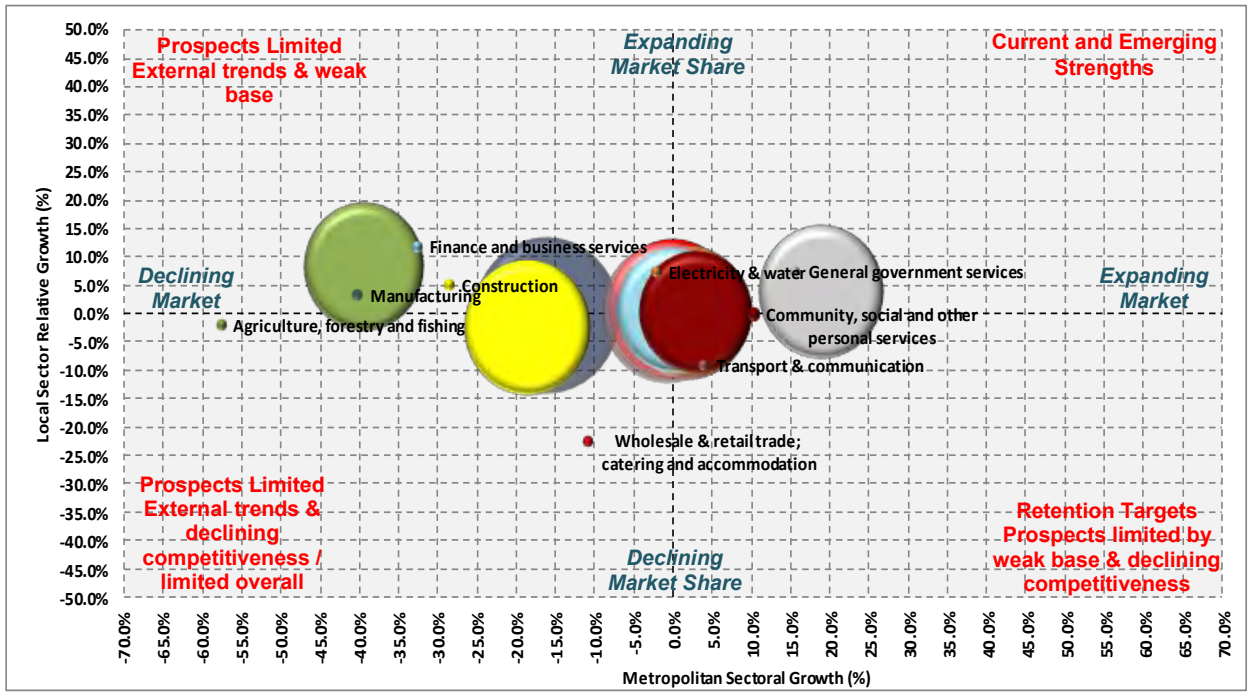
	LQ		Metropolitan Sector % Growth		LSRG		Industry Targeting
	Value	Class	Value	Class	Value	Class	
storage and communication [SIC: 7]							external trends
TG18: Transport and storage [SIC: 71]	1.2	Medium	3.4%	Positive	0.1%	Leading	Current Strength
TG19: Communication [SIC: 72]	1.2	Medium	-14.4%	Negative	0.8%	Leading	Prospects limited by external trends
TH: Finance, insurance, real estate and business services [SIC: 8]	0.9	Medium	0.0%	Positive	1.0%	Leading	Current Strength
TH20: Finance and insurance [SIC: 81-82]	1.0	Medium	-12.7%	Negative	0.4%	Leading	Prospects limited by external trends
TH21: Business services [SIC: 83]	0.9	Medium	2.0%	Positive	1.3%	Leading	Current Strength
TI: Community, social and personal services [SIC: 92, 95-6, 99, 0]	0.8	Medium	2.7%	Positive	0.5%	Leading	Current Strength
TJ: General government [SIC: 91, 94]	1.0	Medium	18.8%	Positive	3.9%	Leading	Current Strength

Source: Demacon, 2013

- ✓ Four of the main sectors are regarded as current strengths – Utilities, Finance, Community Services and General Government Services.
- ✓ The Agricultural, Trade and Transport Sector's prospects are limited by external trends.
- ✓ The Mining Sector's prospects are limited by weak base and declining competitiveness.
- ✓ The Manufacturing and Construction Sector's prospects are limited by external trends and declining competitiveness.

The industry target classification is displayed graphically in Figure 4.13. The size of the circles represents the location quotient, that is, the relative size of the sector.

Figure 4.13: Industry Classification System, Local Economy, 2006 to 2011



Source: Demacon, 2013

Sectors located in the top and bottom left quadrants are considered having limited prospects because these industries are declining in the aggregate economy. If they are small they have additional challenges and if they are within the negative range in terms of LSRG, they also suffer from declining competitiveness.

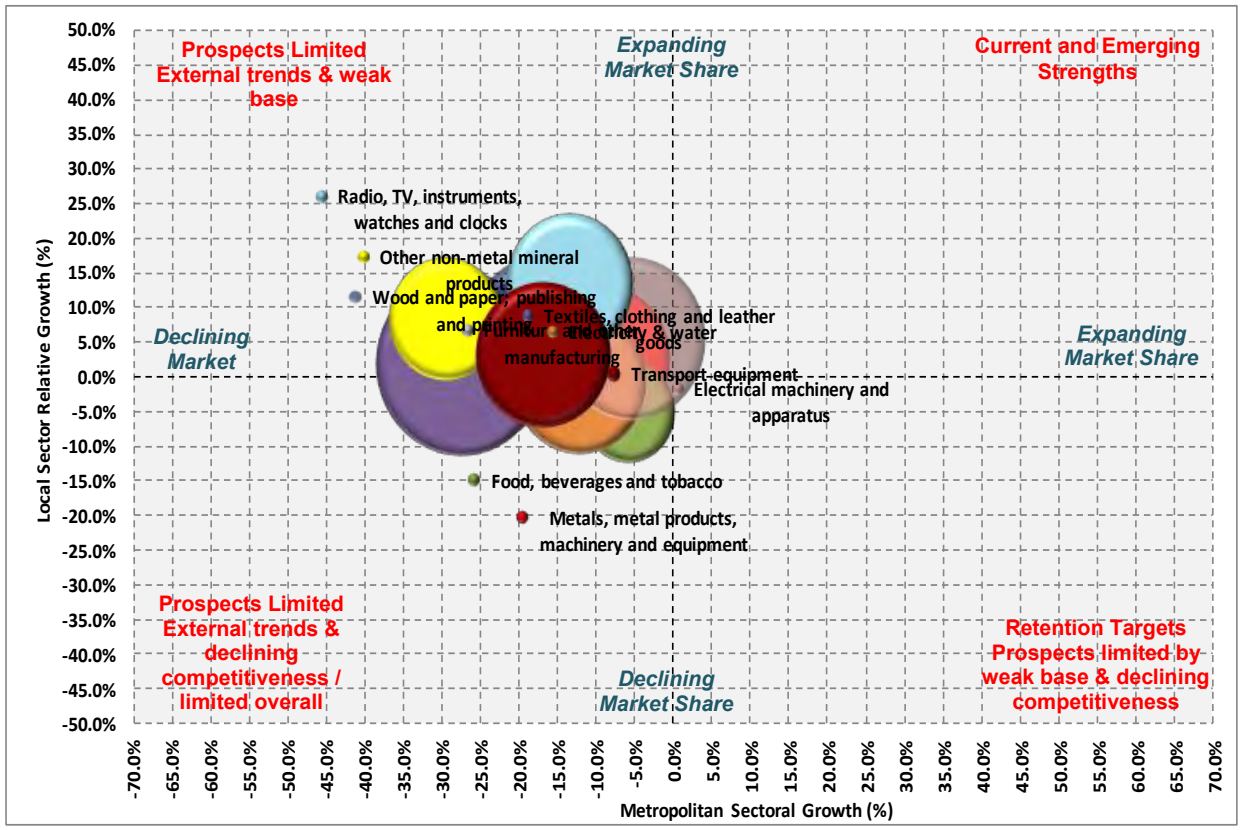
In business terminology the upper left quadrant reflect industry groups that are increasing their market share in a declining market, industries in the lower left quadrant represents industries that are losing market share in a declining market.

Sectors falling within the lower right quadrant are classified as retention targets (if large enough) because they are growing in the aggregate economy but more slowly locally. Smaller industry groups in this quadrant are deemed to have limited prospects.

Sectors within the upper right quadrant are growing in the aggregate economy and locally. These industries represent the strengths and emerging strengths of the local economy. If the circles are large it represents current strengths and if the circles are smaller then it reflects emerging strengths.

In business terminology industries in the upper right quadrant are increasing their market share in an expanding market, whereas the industries in the lower right quadrant are losing market share in an expanding market.

Figure 4.14: Industry Classification System of Manufacturing sub-sectors, 2006 to 2011



Source: Demacon, 2013

4.6 SYNTHESIS

The economic indicators for an area form the basis of consumer demand for miscellaneous residential and commercial product offerings – it furthermore serves as driver for future growth in demand. Subsequent paragraphs highlight the main indicators for the market area under investigation.

National economic trends

- ✓ ABSA's growth forecast is virtually unchanged at 2.7% for 2013 and 3.4% for 2014. The economy has regained some ground after the strikes in the mining and transport sectors last year, but it faces powerful headwinds this year as consumption weakens. Consumer spending, in particular, is decelerating as job growth remains anaemic and lower income households bump into credit constraints.
- ✓ The public sector's infrastructure program still has legs, and this will provide direct demand-side support to growth, as well as, indirect supply-side support by unblocking key bottlenecks, particularly in the transport and energy sectors. However, private-sector fixed investment spending remains muted due to generally weak confidence levels, and the mining sector faces some specific problems.
- ✓ PPI inflation has been easing, but CPI inflation has been drifting upwards. The rand's depreciation will likely cause CPI inflation to breach the upper 6% limit of the target range fairly soon to reach a peak of nearly 7% in Q3, and then track only gradually down. But because of weak domestic demand, the continued large output gap, and relatively contained core inflation, the SARB will likely sit tight on interest rates until the third quarter of 2014 when the economy should have normalised.

- ✓ Mining sector issues, flat commodity prices, and weak global demand are dragging on exports, while vital imports of oil and capital equipment are swelling imports. As a result, large current account deficits are likely to continue. A possible paucity of capital inflows to finance these deficits may keep the rand on the back foot, although plentiful global liquidity and the steep domestic yield curve should ensure that any weakness is transitory and limited. ABSA forecast USD/ZAR at 9.60 by June.
- ✓ They do not expect electricity blackouts or widespread labour unrest, but these are clearly two key potential downside risks to our outlook. And although in general they think that the worst of the global risks have abated and that the supportive policy regime will remain in place for some time, an unexpected shock from abroad cannot be completely ruled out.

Inflation Trends

- ✓ Weighing up the positive and negative factors, and taking account of our forecast that USDZAR will rise to 9.60 by June (equivalent to a further 2.8% depreciation of the effective exchange rate) we feel fairly confident that CPI inflation will rise in the months to come.
- ✓ At the March Monetary Policy Committee meeting, the SARB acknowledged this outlook, stating that according to its quarterly inflation forecasting model it expects CPI inflation to temporarily breach the 6% upper target limit in Q3 this year. ABSA think the breach will happen in Q2, go higher and last for longer.
- ✓ The SARB believes that CPI inflation will top out at an average of 6.3% y/y in Q3. ABSA also think Q3 will prove to be the peak but ABSA forecast CPI inflation to approach close to 7% in August before retracing very slowly.
- ✓ ABSA expect headline CPI inflation to average 6.2% in 2013 and 5.7% in 2014, while average core inflation will come in at 5.6% y/y average this year and 5.8% y/y in 2014. Obviously, if the rand does not weaken as ABSA are currently forecasting, then we would have to revisit these projections.
- ✓ ABSA think the SARB will stay on hold until late 2014 and then will normalise rates fairly quickly. The SARB is clearly caught in a bind between slowing growth and rising inflation. But currently it appears to believe the breach will be temporary, the output gap is large and inflation expectations are well anchored.
- ✓ Given that the inflationary impetus is cost-push rather than demand-pull and that demand is already slowing sharply, it is not clear what anti-inflationary benefit would be achieved by a rate hike. For that reason ABSA believe the SARB will sit –perhaps a bit uncomfortably –on hold until Q3 14. By that point, assuming no further big shocks to either the South African or global economies (i.e., they have both recovered more or less fully), then the SARB can move to normalise rates fairly quickly. We expect a further 100bp of tightening in 2015.

Housing Sector

- ✓ The end of the major strike disruptions of late-2012 should lead to some better economic growth quarters early in 2013. However, the reality is that we have approached and gone into 2013 on a very weak economic footing, suggesting that the early stages of this year could be a relatively soft period for house price growth.
- ✓ As such, house price growth for the year 2013 as a whole is expected to be slightly more subdued than 2012, and pencil in nominal average rise of 2.5% for the year.
- ✓ Given that consumer price inflation looks set to be more around 5 to 6% this year on average, that would imply further “downward correction” in real price terms (when house prices are adjusted for CPI inflation).

The Composite Leading Business Cycle Indicator

The **composite leading business** cycle indicator decreased by 0.3% in September 2013 compared with the preceding month. Five of the eleven component time series that were available for September 2013 decreased, while five increased and one remained unchanged. The latest Leading Indicator (a good indicator of near term moves in both the economy as well as the residential mortgage market) data point to appear, that of September 2013, indicated a further acceleration, on a month-on-month basis - the value going to a **current value of 101.1**.

Table 4.14: Key Economic Indicators of the Market Area

Variable	Characteristics
Size of the Sub-Regional Economy (2011)	✓ City of Cape Town Metropolitan municipal economy contributes **73.5%** to the Western Cape Provincial economy.
Dominant Economic Contributions (2011)	✓ CoCT Economic Profile: 1. Finance, insurance, real estate and business services -**36.1%** 2. Manufacturing – **15.9%** 3. Wholesale and retail trade, catering and accommodation **– 15.2%** **4.** Transport, storage and communication – **10.9%** 5. General government – **9.8%**
Economic Growth Performance – Time Period 1996 - 2011	✓ The City of Cape Town Metropolitan municipal economy recorded an average growth rate of approximately **3.7%** over the long-term period (1995 – 2011). The short to medium term (2006 – 2011) recorded an average growth rate of approximately **3.1%.** ✓ Western Cape Province recorded an average growth rate of approximately **3.7%** over the long-term period (1995 – 2011). The short to medium term (2006 – 2011) recorded an average growth rate of approximately **3.2%.**
Manufacturing Sector Performance & Growth Time Period 2007 - 2011	✓ The Petroleum products, chemicals, rubber and plastic sector is the largest sector within the Manufacturing sector with a contribution of **23.7%** in 2011, followed by the Food, beverages and tobacco sector with a **17.3%** contribution. ✓ The manufacturing sector produced a negative growth rate of -**7.7%** during 2009 to 2010 followed by a growth rate of **4.2%** between 2010 and 2011.
Final Consumption Expenditure and Disposable Income Growth Performance Time Period 1996 - 2011	✓ Final consumption expenditure of the local economy obtained an average annual growth rate of **3.7%** over this time period and an average annual growth rate of **3.5%** in terms of disposable income. ✓ The short-term (1996 to 2011) average growth rate reveals an average of **3.7%** and **3.4%** for final consumption expenditure and disposable income respectively.
Dominant Household Expenditure per Category (2011)	✓ Food, beverages and tobacco is the largest sector of the sections, with growth of **42.8%** in 2011 for City of Cape Town Metropolitan Municipal economy, ✓ The second largest sector is clothing and footwear **10.8%** and personal transport equipment sector with growth of **8.4%** in 2011.
Location Quotient – Comparative Advantage 2011	High: ✓ Manufacturing – 1.41 Medium: ✓ Agriculture sector – 0.97 ✓ Utilities – 1.05

Variable	Characteristics
	✓ Construction – 1.08 ✓ Trade – 1.15 ✓ Transport – 1.16 ✓ Finance and Business Services – 0.91 ✓ Community services, Social and Personal Services sector – 0.85 ✓ General Government Services Sector – 1.05 Low: ✓ Mining – 0.58
Location Quotient	Medium to High
Carvalho Classification:	✓ The Utilities, Trade, Transport, Finance, Community services and General Government sectors are regarded as **accelerating sectors**. These sectors could be considered as successful in the local economy. ✓ The Construction Sector is regarded as a **vulnerable sector**. This sector has an average concentration of employment. They are regarded as vulnerable due to the fact that an important source of employment may be declining. ✓ The Mining sector is regarded as a **modest sector**. This sector has relatively low specialisation which grew at a metropolitan level; local growth was slower than metropolitan growth in this sector. ✓ The Agricultural sector is regarded as a **transitional sector**. There is average specialisation in this sector which grew at a metropolitan level at a slower rate than overall growth, local growth exceeded metropolitan growth in this sector. ✓ The Manufacturing sector is regarded as a **challenging sector**. Industries have a relatively high concentration of employment in the community, which suggests that they play a prominent role in overall employment in the community and should be monitored carefully.
Industry Target Classification	✓ Four of the main sectors are regarded as **current strengths** – Utilities, Finance, Community Services and General Government Services. ✓ The Agricultural, Trade and Transport Sector's **prospects are limited by external trends.** ✓ The Mining Sector's prospects are **limited by weak base and declining competitiveness.** ✓ The Manufacturing and Construction Sector's prospects are **limited by external trends and declining competitiveness.**

Source: Demacon ex StatsSA, 2013

* ***Note:*** *2011 is the latest data available from Stats SA.*

The economic indicators of an area form the basis for current demand for residential and commercial product offering and also serve as drivers for future growth in demand. An improving economy has positive implications for disposable income growth and thus residential purchasing power in the near term. In this context the demand side reflects signs of recovery in terms of retail sales and house price growth albeit the supply side is still lagging – these are classical signs of economic recovery after a recession. During this period development tends to be demand driven (followed in subsequent boom years by an increasing amount of supply led development).

Market potential is not influenced by economic and demographic trends alone, but also by macro and micro area dynamics. In the context of the above, Chapter Five provides a demographic profile of the study area under consideration.

CHAPTER 5: DEMOGRAPHIC MARKET OVERVIEW

5.1 INTRODUCTION

The demand for commercial and industrial activities is a derived demand. Hence, the current level and depth, as well as anticipated future growth in demand are a function of the local consumer market profile. The purpose of this chapter is to delineate the trade area and to provide a concise overview of the demographic profile of the primary consumer market.

The consumer market profile is outlined in terms of the following headings:

- ✓ Market area delineation and population size
- ✓ Age profile
- ✓ Level of education
- ✓ Employment status
- ✓ Average annual household income
- ✓ Living standard measurement
- ✓ Type of Tenure
- ✓ Synthesis.

Subsequent paragraphs provide an overview of the trade area delineation and demographic characteristics of the primary and secondary markets.

5.2 TRADE AREA DELINEATION AND POPULATION SIZE

The primary market area delineation is illustrated in Map 5.1 and Table 5.1. This is also supported by a drive time map (Map 5.2) and a population density map (Map 5.3).

The trade areas for the proposed project were informed by a number of factors:

- ✓ The general SACSC criteria
- ✓ Consumer market behaviour and expenditure trends
- ✓ Regional and sub-regional levels of accessibility
- ✓ Geographic barriers
- ✓ General consumer mobility patterns and drive times
- ✓ Presence of dominant centres on the outskirts of the town.

Table 5.1: Trade area population indicators, Census 2011 (10km radius)

Sub-places	Population	Households	Average household size
Primary Market			
P1D01M01C007S007: Diepwater	15 537	3 565	4.4
P1D01M01C007S002: Blue Downs SP1	20	4	5.0
P1D01M01C007S004: Brentwood Park(Blue Downs)	1 380	359	3.8
P1D01M01C007S008: Fairdale	11 995	3 946	3.0
P1D01M01C007S019: Malibu Village	7 411	1 662	4.5
P1D01M01C001S009: Gleemoor	1 348	378	3.6
P1D01M01C001S025: Silvertown	6 652	1 609	4.1
P1D01M01C001S002: Belgravia(Athlone)	5 300	1 471	3.6
P1D01M01C001S026: Sunnyside	623	155	4.0
P1D01M01C001S031: Zwartdam	1 348	315	4.3
P1D01M01C001S022: Rustdale	754	186	4.1
P1D01M01C001S016: Lochiel	490	127	3.9
P1D01M01C001S006: Forbes	731	167	4.4
P1D01M01C001S015: Lincoln	318	74	4.3

Sub-places	Population	Households	Average household size
P1D01M01C001S020: Penlyn Estate	2 879	755	3.8
P1D01M01C001S023: Rylands	3 902	947	4.1
P1D01M01C001S007: Gatesville	3 522	834	4.2
P1D01M01C001S029: Vanguard	2 294	540	4.3
P1D01M01C001S030: Welcome	1 606	383	4.2
P1D01M01C001S013: Heideveld	17 388	3 580	4.9
P1D01M01C001S027: Surrey	7 167	1 595	4.5
P1D01M01C049S025: Parow Valley	6 351	1 749	3.6
P1D01M01C049S002: Beaconvale	72	22	3.3
P1D01M01C049S029: Ravensmead	18 325	4 088	4.5
P1D01M01C049S011: Florida	8 245	1 873	4.4
P1D01M01C049S006: Cravenby	4 185	1 002	4.2
P1D01M01C049S005: Connaught	7 200	1 431	5.0
P1D01M01C049S031: Uitsig	13 374	3 017	4.4
P1D01M01C049S022: Parow Industrial	53	13	4.1
P1D01M01C049S016: Modderdam	2 492	823	3.0
P1D01M01C049S009: Eureka	7 411	1 350	5.5
P1D01M01C004S092: Transnet	4 045	876	4.6
P1D01M01C004S075: Sacks Circle Industrial	15	6	2.5
P1D01M01C004S015: Bellville South Ext 14	686	186	3.7
P1D01M01C004S007: Bellville Lot 1	2 239	528	4.2
P1D01M01C004S043: Green Lands	0	0	0
P1D01M01C004S081: Steel Park	0	0	0
P1D01M01C004S068: Peninsula Technikon	2 236	11	203.3
P1D01M01C004S095: Univerity of The Western Cape	2 475	3	825.0
P1D01M01C004S016: Bellville South Industrial	42	7	6.0
P1D01M01C003S015: Belhar 23	4 534	1 055	4.3
P1D01M01C003S020: Belhar 8	370	12	30.8
P1D01M01C003S009: Belhar 17	1 544	464	3.3
P1D01M01C003S023: Erica Township	2 191	641	3.4
P1D01M01C003S001: Belhar 1	2 575	665	3.9
P1D01M01C003S017: Belhar 4	2 413	569	4.2
P1D01M01C003S012: Belhar 2	1 543	366	4.2
P1D01M01C003S016: Belhar 3	3 419	668	5.1
P1D01M01C003S018: Belhar 6	1 679	437	3.8
P1D01M01C003S019: Belhar 7	3 235	770	4.2
P1D01M01C003S006: Belhar 14	1 906	429	4.4
P1D01M01C003S002: Belhar 10	2 365	447	5.3
P1D01M01C003S014: Belhar 21	3 290	738	4.5
P1D01M01C003S022: Belhar N.T.	2 468	559	4.4
P1D01M01C003S013: Belhar 20	2 180	518	4.2
P1D01M01C003S011: Belhar 19	3 668	826	4.4
P1D01M01C003S008: Belhar 16	2 701	567	4.8
P1D01M01C003S007: Belhar 15	341	62	5.5
P1D01M01C003S021: Belhar 9	1 602	341	4.7
P1D01M01C003S004: Belhar 12	3 927	727	5.4
P1D01M01C003S003: Belhar 11	2 337	435	5.4
P1D01M01C003S005: Belhar 13	3 669	758	4.8
P1D01M01C003S010: Belhar 18	2 276	545	4.2
P1D01M01C005S005: Gersham	1 117	309	3.6
P1D01M01C005S013: Kalkfontein 2	14 613	3 496	4.2
P1D01M01C005S012: Kalkfontein 1	257	50	5.1
P1D01M01C005S011: Highbury Park	2 877	814	3.5
P1D01M01C005S019: Wembley Park	444	111	4.0
P1D01M01C005S006: Hagley 1	1 747	600	2.9
P1D01M01C005S009: Happy Valley	4 709	1 404	3.4
P1D01M01C005S008: Hagley 3	294	79	3.7
P1D01M01C005S003: Camelot	664	161	4.1
P1D01M01C005S017: Sunbird Park	2 700	700	3.9
P1D01M01C005S018: Vogelvlei	13 151	3 084	4.3
P1D01M01C005S007: Hagley 2	0	0	0
P1D01M01C016S005: The Hague	9 631	2 075	4.6

Sub-places	Population	Households	Average household size
P1D01M01C016S004: Roosendal	14 324	2 949	4.9
P1D01M01C016S002: Delft SP	72 390	20 556	3.5
P1D01M01C016S006: Voorbrug	12 498	2 673	4.7
P1D01M01C016S003: Eindhoven	7 081	1 431	4.9
P1D01M01C016S001: Delft South	36 105	9 890	3.7
P1D01M01C040S006: Clarkes	5 432	1 151	4.7
P1D01M01C040S010: Matroosfontein	4 288	1 107	3.9
P1D01M01C040S002: Bishop Lavis	26 482	5 788	4.6
P1D01M01C040S001: Adriaanse	8 000	1 493	5.4
P1D01M01C040S008: Kalksteenfontein	5 772	1 063	5.4
P1D01M01C040S014: Valhalla Park	15 458	2 576	6.0
P1D01M01C040S013: Nooitgedacht	4 995	963	5.2
P1D01M01C040S011: Montana	2 783	777	3.6
P1D01M01C040S005: Charlesville	1 216	290	4.2
P1D01M01C040S007: Freedom Park Airport	1 861	669	2.8
P1D01M01C040S004: Cape Town International Airport	0	0	0
P1D01M01C040S003: Boquinar Industrial Area	0	0	0
P1D01M01C040S009: King David Country Club	21	0	0
P1D01M01C040S012: Montevideo SP2	812	157	5.2
P1D01M01C020S004: Elsies River Industrial	587	162	3.6
P1D01M01C020S009: Riverton	2 302	576	4.0
P1D01M01C020S001: Avon	4 537	979	4.6
P1D01M01C020S007: Leonsdale	6 329	1 185	5.3
P1D01M01C020S002: Avonwood	5 091	909	5.6
P1D01M01C020S008: Norwood	3 472	914	3.8
P1D01M01C020S012: Valhalla	534	135	4.0
P1D01M01C020S010: Salberau	5 346	1 261	4.2
P1D01M01C020S003: Balvenie	4 459	997	4.5
P1D01M01C020S005: Elsies Rivier	1 395	343	4.1
P1D01M01C020S006: Epping Forest	5 375	1 084	5.0
P1D01M01C020S011: The Range	3 052	663	4.6
P1D01M01C024S008: Ruyterwacht	8 993	2 454	3.7
P1D01M01C024S015: WP Park	0	0	0
P1D01M01C024S002: Epping Garden Village	1 780	451	3.9
P1D01M01C021S001: Epping Industria SP1	50	0	0
P1D01M01C021S002: Epping Industria SP2	0	0	0
P1D01M01C037S001: Langa SP	52 401	17 402	3.0
P1D01M01C001S004: Bonteheuwel	45 967	9 685	4.7
P1D01M01C001S005: Bridgetown	12 120	2 766	4.4
P1D01M01C001S014: Kewtown	8 373	1 791	4.7
P1D01M01C001S012: Hazendal(Athlone)	4 995	1 094	4.6
P1D01M01C001S028: Sybrandpark	1 613	471	3.4
P1D01M01C001S001: Athlone SP	8 893	2 302	3.9
P1D01M01C001S011: Hatton	0	0	0
P1D01M01C001S008: Gatesville Informal	567	177	3.2
P1D01M01C001S003: Belthorn Estate	3 738	1 051	3.6
P1D01M01C001S021: Primrose Park	1 571	357	4.4
P1D01M01C001S019: Newfields	3 538	792	4.5
P1D01M01C001S018: Mountview	2 211	449	4.9
P1D01M01C001S010: Hanover Park	34 625	6 962	5.0
P1D01M01C001S024: Sand Industria	0	0	0
P1D01M01C001S017: Manenberg	52 877	10 881	4.9
P1D01M01C027S006: New Rest	5 425	1 817	3.0
P1D01M01C027S004: Kanana	7 830	3 177	2.5
P1D01M01C027S001: Barcelona	9 575	2 571	3.7
P1D01M01C027S002: Europe	3 275	921	3.6
P1D01M01C027S008: Vukuzenzele	570	248	2.3
P1D01M01C027S005: Lusaka	2 008	876	2.3
P1D01M01C027S003: Gugulethu SP	55 264	13 756	4.0
P1D01M01C027S009: Zondi	9 143	4 052	2.3
P1D01M01C027S007: Phola Park(Gugulethu)	5 378	2 159	2.5
P1D01M01C048S004: Nyanga SP	26 278	7 782	3.4

Sub-places	Population	Households	Average household size
P1D01M01C048S002: KTC Informal	3 577	1 286	2.8
P1D01M01C048S001: Black City	730	202	3.6
P1D01M01C048S003: New Crossroads	27 411	6 724	4.1
P1D01M01C015S003: Gqobasi Informal	810	294	2.8
P1D01M01C015S001: Boys Town	5 157	1 874	2.8
P1D01M01C015S002: Crossroads SP	26 077	7 027	3.7
P1D01M01C015S004: Klipfontein Glebe	3 999	1 462	2.7
P1D01M01C052S007: Philippi SP1	5 485	1 285	4.3
P1D01M01C052S006: Philippi Park	5 407	1 600	3.4
P1D01M01C052S001: Browns Farms	71 518	24 507	2.9
P1D01M01C052S009: Sweet Home	7 837	3 208	2.4
P1D01M01C052S010: Weltevreden Valley North 1	30 545	9 902	3.1
P1D01M01C052S004: Kosovo Informal	15 011	6 124	2.5
P1D01M01C052S005: Philippi East	45 389	13 350	3.4
P1D01M01C052S002: Heinz Park	7 735	1 514	5.1
P1D01M01C052S011: Weltevreden Valley North 2	2 098	308	6.8
P1D01M01C052S003: Knole Park	2 961	823	3.6
P1D01M01C052S008: Philippi SP2	6 618	1 790	3.7
P1D01M01C042S001: Mfuleni SP	52 274	16 804	3.1
P1D01M01C007S014: Highgate	665	150	4.4
P1D01M01C007S025: Silversands	4 872	1 336	3.6
P1D01M01C007S026: Sunset Glen	0	0	0
P1D01M01C007S017: Hindle Park	636	156	4.1
P1D01M01C007S005: Delro	285	68	4.2
P1D01M01C007S011: Fountain Village	794	208	3.8
P1D01M01C007S027: The Connifers	1 777	432	4.1
P1D01M01C032S007: Ikwezi Park	52 184	15 272	3.4
P1D01M01C032S028: Washington Square	329	81	4.1
P1D01M01C032S019: Tembani	828	220	3.8
P1D01M01C032S002: Bongweni	1 791	473	3.8
P1D01M01C032S001: Bongani TR Section	8 330	3 074	2.7
P1D01M01C032S016: RR Section	1 503	650	2.3
P1D01M01C032S022: Victoria Merge	26 845	7 869	3.4
P1D01M01C032S026: Village V3 North	41 816	12 698	3.3
P1D01M01C032S021: Trevor Vilakazi	2 181	718	3.0
P1D01M01C032S018: Solomon Mahlangu	2 512	665	3.8
P1D01M01C032S008: Khayelitsha SP	11 251	4 039	2.8
P1D01M01C032S025: Village V2 North	12 587	3 178	4.0
P1D01M01C032S027: Village V4 North	13 073	3 930	3.3
P1D01M01C032S023: Village V1 North	15 104	3 876	3.9
P1D01M01C032S003: Ekuphumleni	1 739	477	3.6
P1D01M01C032S004: Graceland	872	241	3.6
P1D01M01C032S005: Griffiths Mxenge	8 710	2 161	4.0
P1D01M01C032S024: Village V1 South	14 822	4 077	3.6
P1D01M01C032S015: Monwabisi	2 185	872	2.5
P1D01M01C032S006: Harare/Holimisa	26 670	7 524	3.5
P1D01M01C044S006: Mandalay	8 839	2 324	3.8
P1D01M01C044S005: Lentegeur	40 341	8 088	5.0
P1D01M01C044S019: Woodlands(Mitchells Plain)	23 213	4 991	4.7
P1D01M01C044S003: Colorado	1 442	351	4.1
P1D01M01C044S015: Weltevreden Valley	12 221	3 002	4.1
P1D01M01C044S016: Westgate	3 361	797	4.2
P1D01M01C044S017: Westridge(Mitchells Plain)	19 373	4 659	4.2
P1D01M01C044S008: Portland	24 156	5 651	4.3
P1D01M01C044S007: Mitchells Plain Town Centre	192	35	5.5
P1D01M01C044S002: Beacon Valley	28 884	5 604	5.2
P1D01M01C044S004: Eastridge	28 482	5 953	4.8
P1D01M01C044S013: Tafelsig	61 757	12 861	4.8
P1D01M01C044S009: Rocklands	29 782	6 487	4.6
P1D01M01C044S011: Strandfontein	758	207	3.7
P1D01M01C044S010: San Remo	2 556	632	4.0
P1D01M01C044S001: Bay View	6 339	1 677	3.8

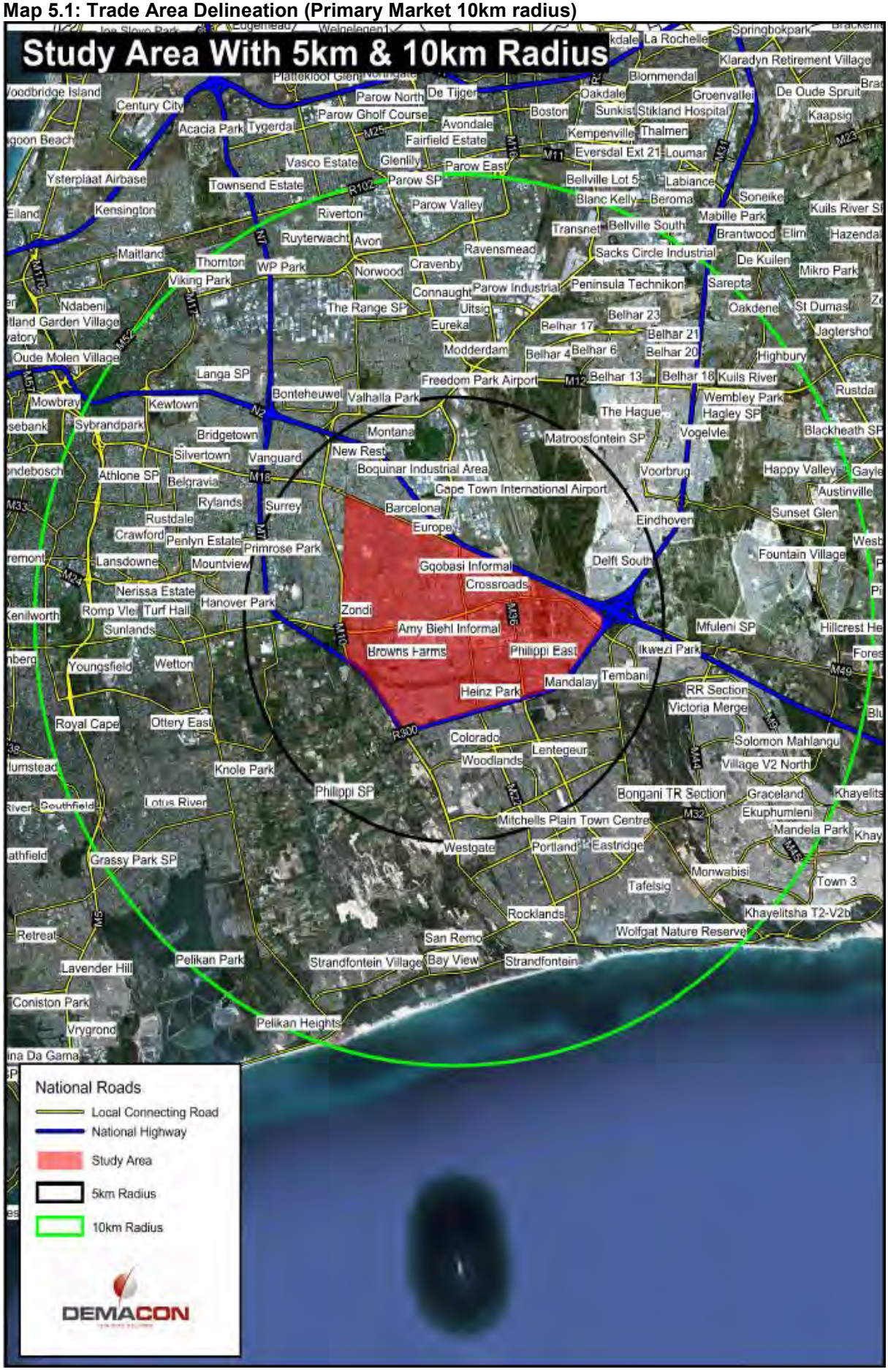
Sub-places	Population	Households	Average household size
P1D01M01C044S012: Strandfontein Village	16 965	4 204	4.0
P1D01M01C044S014: Wavecrest	1 826	471	3.9
P1D01M01C044S018: Wolfgat Nature Reserve	0	0	0
P1D01M01C026S002: Lotus River	38 143	8 893	4.3
P1D01M01C026S003: Parkwood	11 870	2 461	4.8
P1D01M01C026S001: Grassy Park SP	19 212	4 707	4.1
P1D01M01C026S005: Pelikan Park	11 381	3 003	3.8
P1D01M01C011S083: Rondebosch East	4 633	1 253	3.7
P1D01M01C011S023: Crawford	3 979	985	4.0
P1D01M01C011S044: Glen View	689	199	3.5
P1D01M01C011S043: Glen Valley	250	60	4.2
P1D01M01C011S039: Frere Estate	1 081	305	3.5
P1D01M01C011S081: Romp Vallei	6 352	1 708	3.7
P1D01M01C011S056: Lansdowne	5 853	1 596	3.7
P1D01M01C011S064: Nerissa Estate	371	89	4.2
P1D01M01C011S075: Pinati	5 122	1 172	4.4
P1D01M01C011S031: Eden Klein	270	73	3.7
P1D01M01C011S107: Turf Hall	848	208	4.1
P1D01M01C011S010: Buckingham	361	79	4.6
P1D01M01C011S099: Sunlands	1 540	397	3.9
P1D01M01C011S120: Yorkshire Estate	3 056	712	4.3
P1D01M01C011S115: Wetton	3 300	863	3.8
P1D01M01C011S108: Turf Hall Estate	3 933	1 062	3.7
P1D01M01C011S070: Ottery	5 089	1 458	3.5
P1D01M01C011S121: Youngsfield	231	13	17.8
P1D01M01C011S085: Royal Cape	656	197	3.3
P1D01M01C011S034: Fairways	2 952	850	3.5
P1D01M01C011S035: Ferness	2 561	657	3.9
P1D01M01C011S071: Ottery East	2 874	747	3.8
P1D01M01C011S072: Otyhouse Estate	37	7	5.3
P1D01M01C011S032: Edward	148	36	4.1
Total 2011	**1 933 886**	**500 613**	**3.9**
TOTAL 2013	**2 019 913**	**520 837**	**4.0**

Source: Demacon Ex. Quantec, 2013

Findings: (Table 5.1)

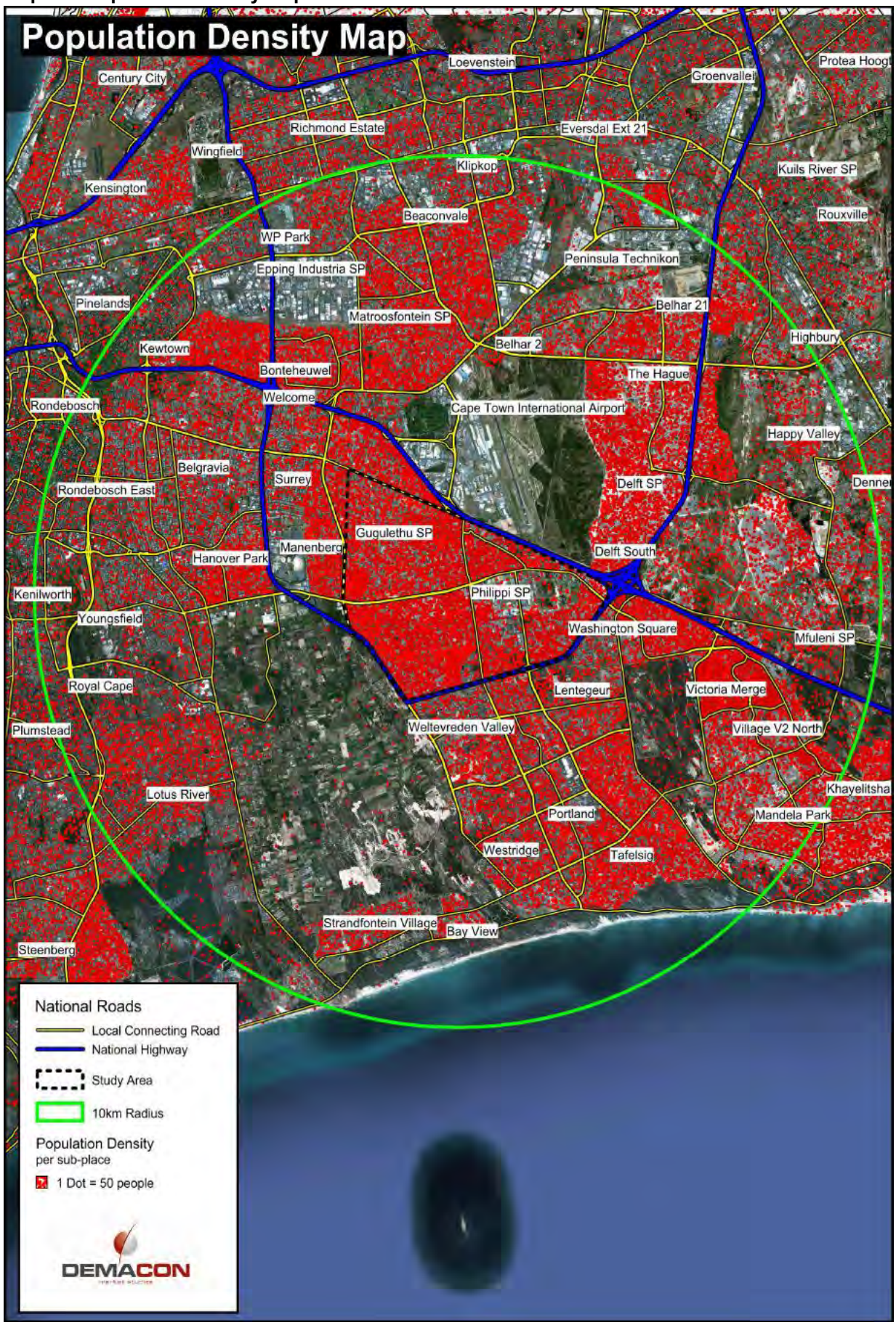
- ✓ The primary trade market area in 2013 is characterised by a population figure of approximately **2 019 913 people** translated into a total of **520 837 households,** with an average household size of **4.0 persons per household**.

Map 5.1: Trade Area Delineation (Primary Market 10km radius)



Map 5.2: Drive Time Map

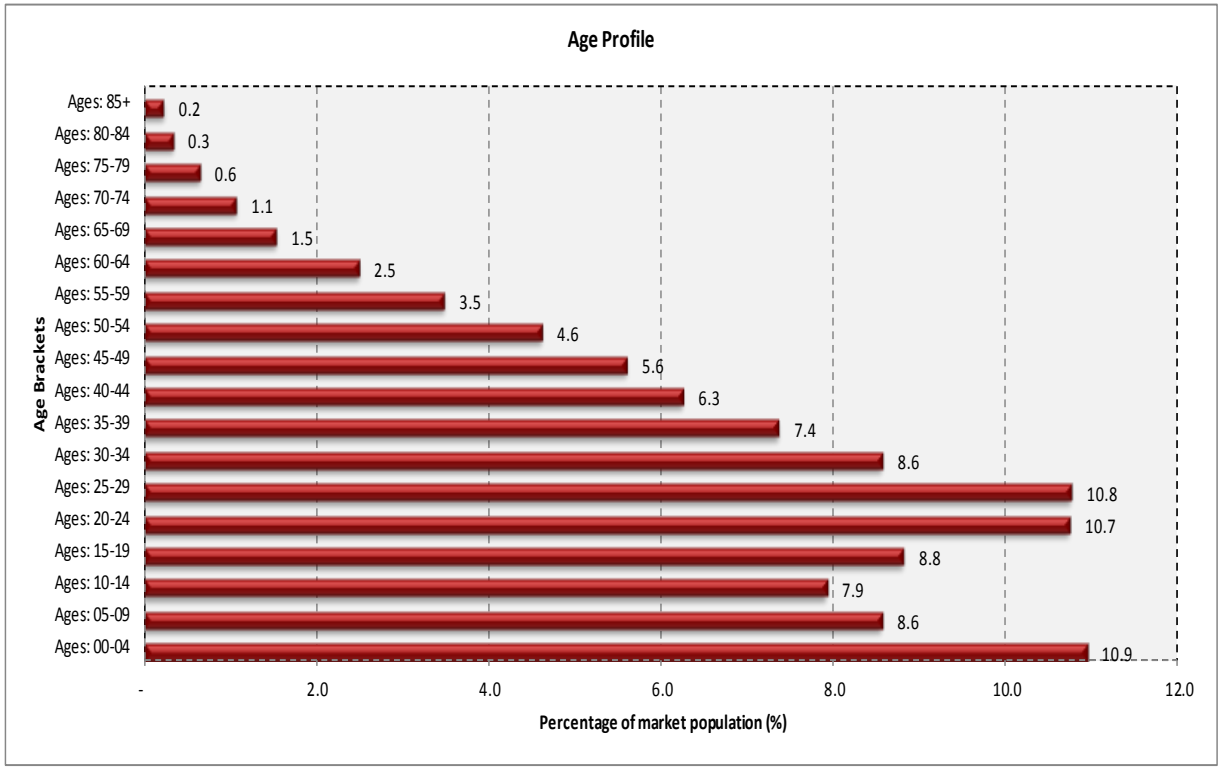
Map 5.3: Population Density Map



5.3 AGE PROFILE

The age distribution of a specific area serves as an important indicator, with reference to consumer demand behaviour and preferences - in particular the dominant age groups. Figure 5.1 illustrates the age profile of the market population.

Figure 5.1: Age profile, 2013 estimates



Source: Demacon, 2013

Findings: (Figure 5.1)

- ✓ The market population is characterised by a relative large segment of children and youth **(0-14 years, 27.4%),** supported by a smaller segment of teenagers **(15 – 19 years, 8.8%).**
- ✓ The primary consumer market is also characterised by a large segment of the young and up-coming population segment aged between 20 and 34 years **(30.1%)**
- ✓ This young and up-coming segment is also supported by an older more stable population segment aged between 35 and 59 years of age **(27.3%)**
- ✓ A mere **6.3%** of the market population is aged above 60 years.

Development implications

The market segment reflects a dominant segment of young and upcoming adults aged between 20 and 34 years, as well as a large segment of children and youth. This is supported by a moderate segment of mature adults aged above 35 years.

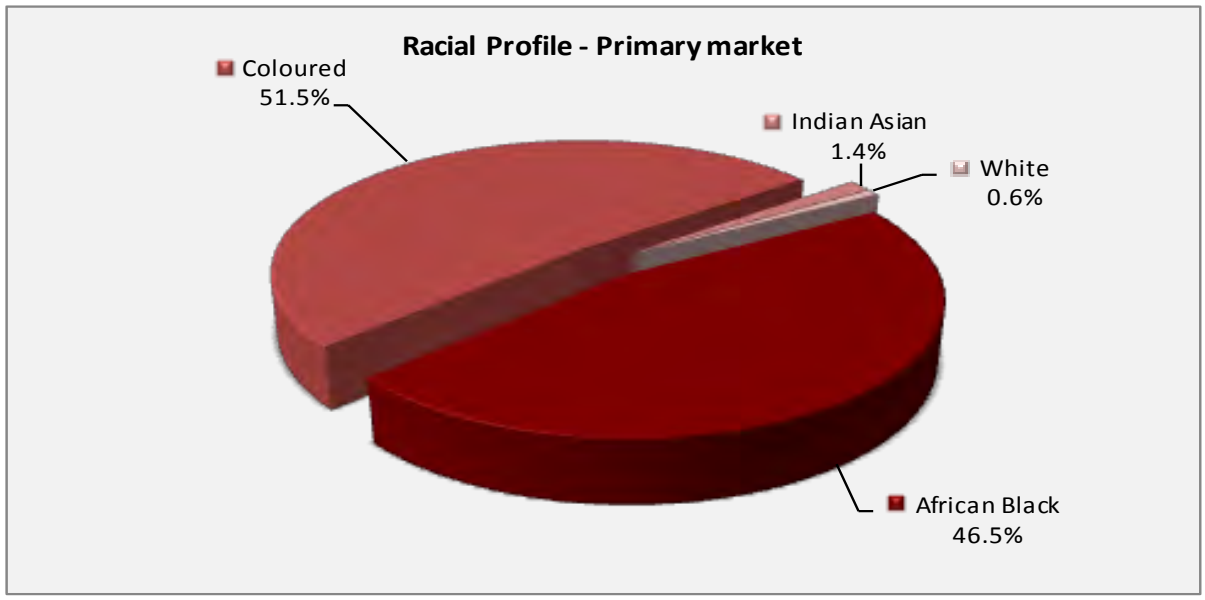
The mature population has specific mind-sets in terms of residential demand, retail behaviour, and a preference towards specific products and services. The younger up-coming market, on the other hand, has well defined aspirational values, preference towards home ownership and a high level of brand consciousness. These two market segments will drive the demand for commercial products and services within the area. However, based on the segment of

children and youth it is anticipated that they will also directly influence the decisions of these market segments.

5.4 RACIAL DISTRIBUTION

Figure 5.2 indicates the racial distribution of the trade area population. The racial distribution will also influence the retail behavior of the consumer market and will influence the preferences and demand for retail products and services.

Figure 5.2: Racial Distribution, 2013 estimates



Source: Demacon, 2013

Findings: (Figure 5.2)

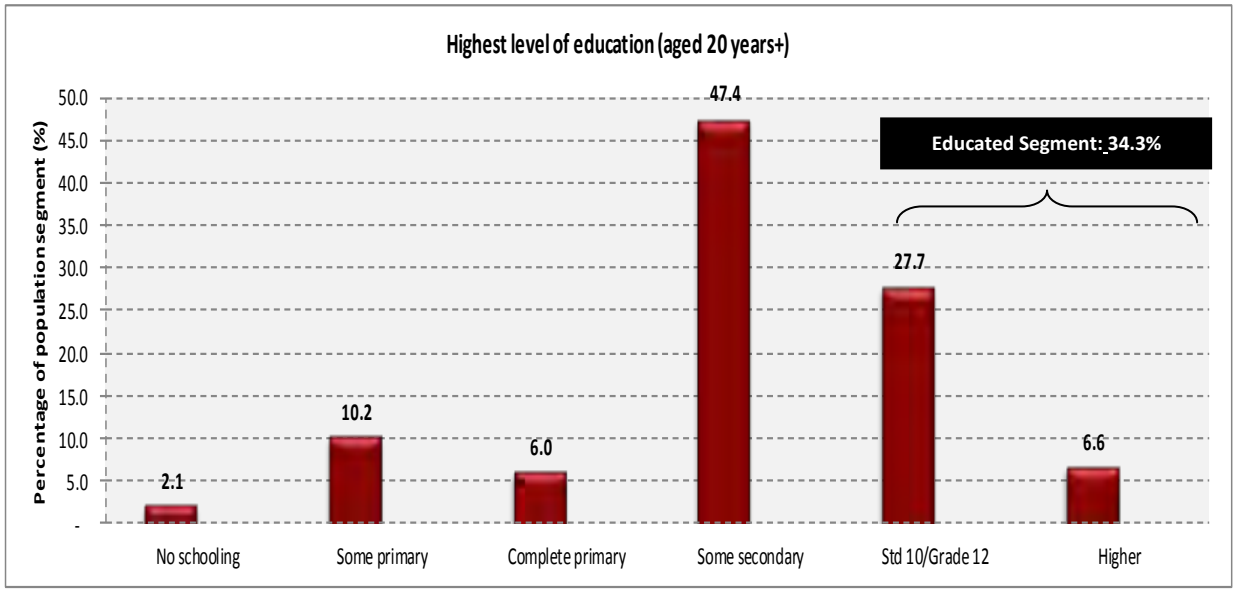
- ✓ It is evident that the dominant segment of the primary market area population is represented by Coloureds (51.5%), followed by a relatively large segment of African Blacks (46.5%) and a very small segment of Indian Asians (1.4%) and Whites (0.6%)

5.5 LEVEL OF EDUCATION

The level of education is indicative of the level of human development – with emphasis on the highest level of education. It furthermore serves as proxy for the potential to be absorbed in the local labour force. The attendance of youth at educational institutions is therefore indicative of the anticipated future absorption rate of the market population within the local economy.

Figure 5.3 indicates the highest level of education for the consumer market aged 20 years and older.

Figure 5.3: Highest level of education – population aged 20 years and older, 2013 estimates



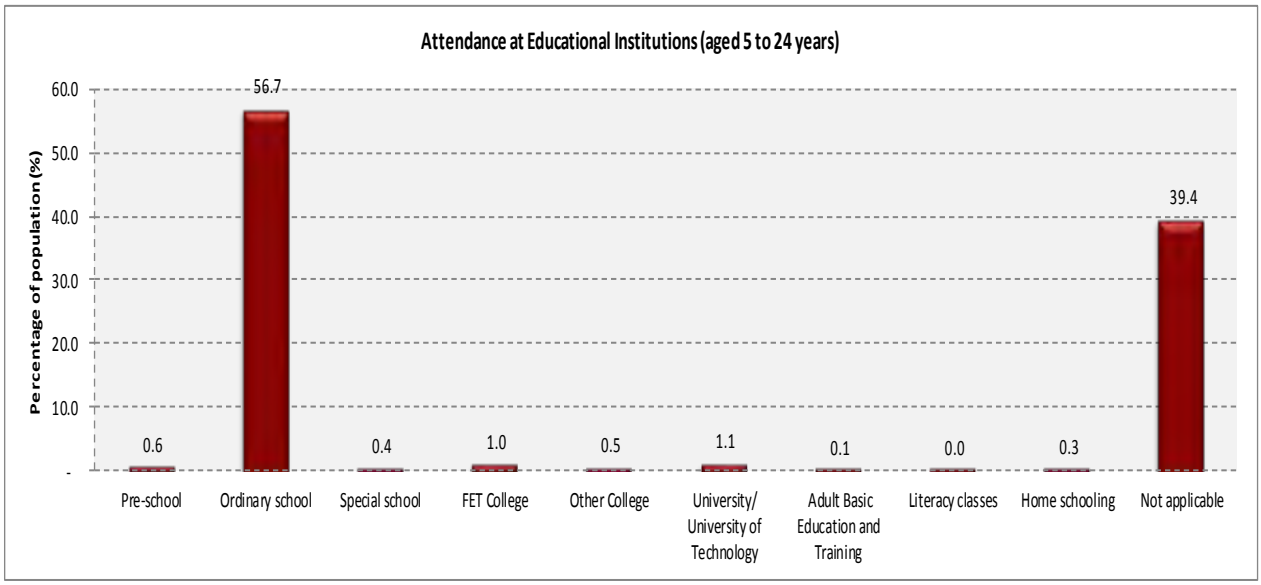
Source: Demacon, 2013

Findings: (Figure 5.3)

- ✓ Figure 5.3 indicates that a large segment of the market population aged 20 years and older is educated – Grade 12/ higher education **(34.3%).**
- ✓ This is supported by a large segment of the population segment aged 20 years and older that has obtained some level of secondary education (47.4%).
- ✓ A mere total of 2.1% of the market population segment aged 20 years and older have not obtained any form of formal schooling.

Figure 5.4 indicates the educational attendance of the population segment aged 5 years to 24 years for the Philippi area only.

Figure 5.4: Educational Attendance (Age 5 to 24 years), 2013 estimates



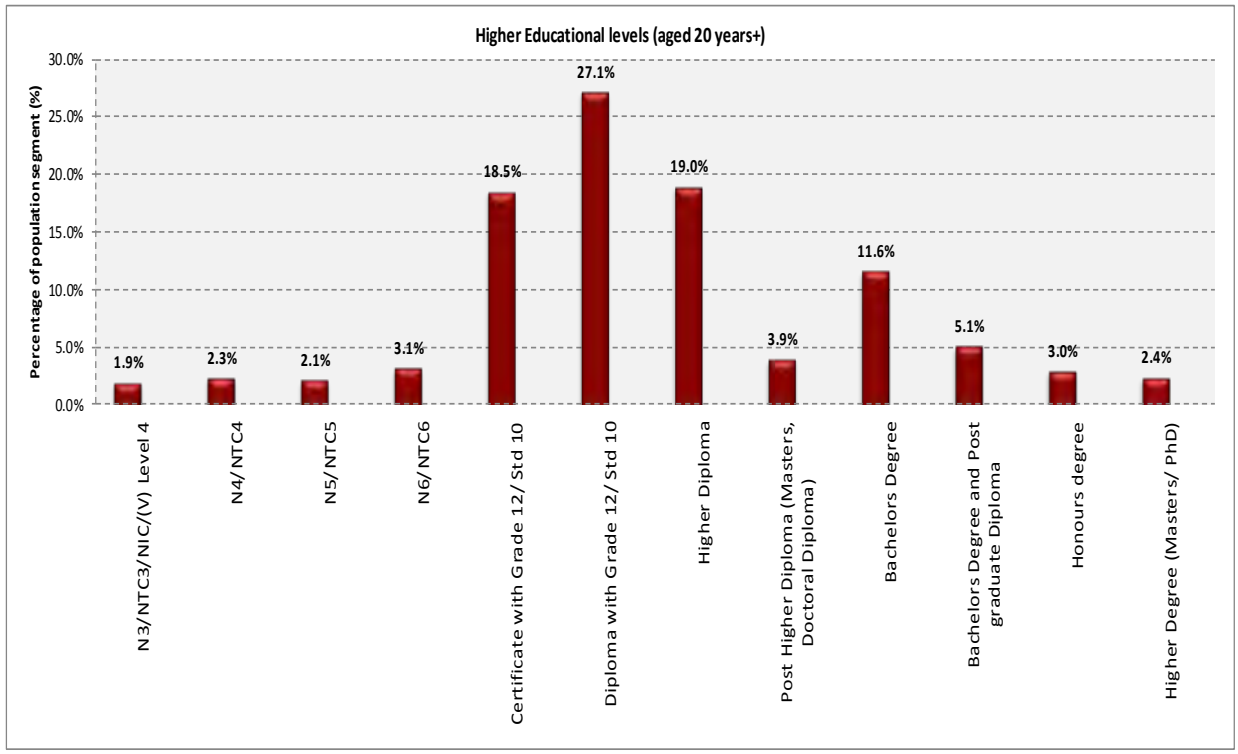
Source: Demacon, 2013

Findings: (Figure 5.4)

- ✓ Figure 5.4 indicates that the largest segment of the Philippi area (56.7%) - aged between 5 and 24 years – attended an ordinary school.
- ✓ Only a mere 2.71% attended a college, university or adult basic education and training centres.

Figure 5.5 indicates the higher educational levels of the population segment aged 20 years and older for the Philippi area only.

Figure 5.5: Higher Education levels (Age 20 years+), 2013 estimates



Source: Demacon, 2013

Findings: (Figure 5.5)

- ✓ Figure 5.5 indicates that the largest segment of the Philippi area (27.1%) has obtained a diploma with Grade 12/Std 10 and 19% of the market obtained a higher diploma.
- ✓ Only a mere 3% obtained an Honours degree and 2.4% obtained a higher degree such as a Masters/PhD.

Development Implications

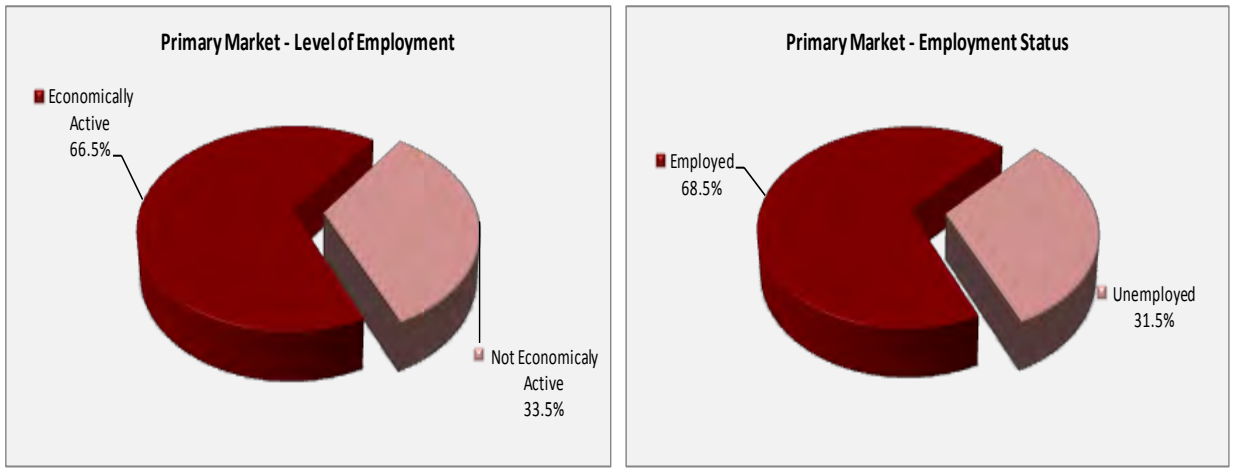
A number of factors contribute to the general property development climate in a specific geographical area. Of the socio-economic factors that provide an initial indication of market potential are levels of education and standards of living. A large segment of the primary market population is educated. It is anticipated that this will be reflected in the employment and overall living standard profile of the market area. This will have an impact on the type of retail and commercial development demanded within the market area.

5.6 EMPLOYMENT STATUS

The level of employment reflects employment and unemployment levels in the consumer market, which impacts on disposable income patterns. Level of employment, coupled to household size is also indicative of dependency ratios (Refer to Figures 5.6).

Note: The employment rate refers to those economically active people who are unemployed and looking for work as well as persons who are unemployed and not looking for work but would accept work if it was offered to them. This category also includes the not economically active population, which are people who are not working, but are housewives, scholars/full-time students, pensioners, disabled people and people not wishing to work.

Figure 5.6: Employment status and level of employment, 2013 estimates



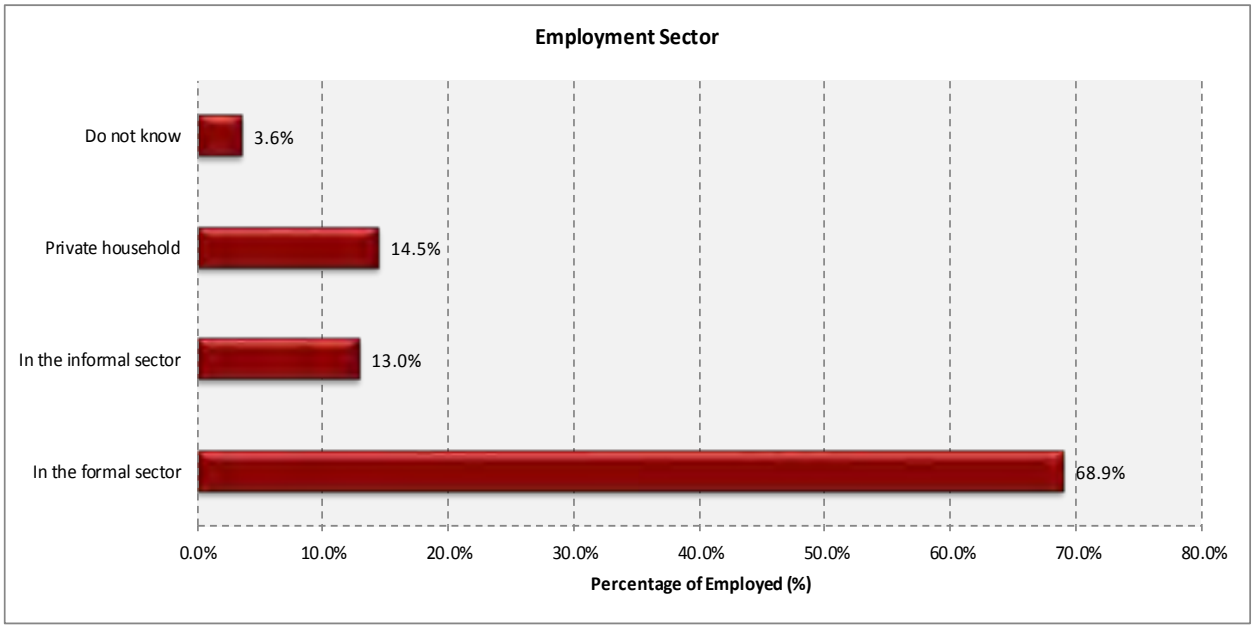
Source: Demacon, 2013

Findings: (Figure 5.6)

- ✓ The largest segment of the primary market population is **economically active (66.5%), of which the majority is employed – 68.5%.**

Figure 5.7 indicates the employment sector of the population segment aged 15 years to 64 years for the Philippi area only.

Figure 5.7: Employment sector (employed age 15-64), 2013 estimates



Source: Demacon, 2013

Findings: (Figure 5.7)

- ✓ The largest segment of the Philippi population (68.9%) is employed within the formal sector and 13% is employed within the informal sector.

Development implications

The consumer market is characterised by a relatively large economically active market segment of which the largest segment is employed, reflecting relatively low dependency ratios.

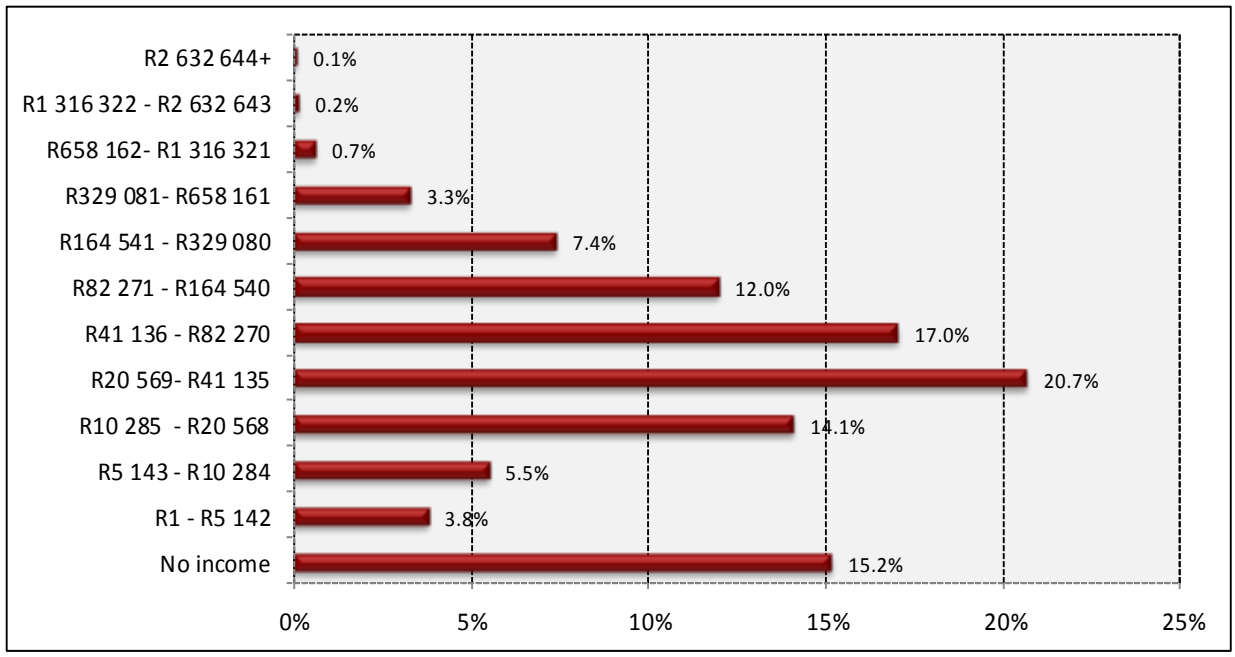
The low unemployment level in conjunction with the moderate levels of education reflects a sophisticated primary consumer market. Overall, it is anticipated that the consumer market will reflect a demand focused more towards middle- to higher-end spectrum of products and services.

5.7 AVERAGE ANNUAL HOUSEHOLD INCOME

Average household income is a direct indicator of consumer demand for a broad spectrum of economic goods and services – such as housing and the quantity of additional floor space that could be sustained by a given consumer market.

Average household income, to an extent, also reflects the living standard of a household, and influences aspects such as asset ownership. Figure 5.8 illustrates the annual household income profile of the market area.

Figure 5.8: Average annual household income, 2013 estimates



Source: Demacon, 2013

Findings: (Figure 5.8)

- ✓ **38.6%** of households in the market area earn annual incomes below **R20 568** (less than R1 720.0 per month) – of which 15.2% of households earn no income at all
- ✓ **37.7%** of households earn annual household incomes between **R20 569 and R82 270**
- ✓ **22.7%** of households earn annual household incomes between R82 271 and R658 161
- ✓ A total of 0.9% of households earns annual household incomes above R658 162 per annum.
- ✓ The **weighted average annual household income** in the market area (for households earning an income) amounts to **R98 690 per annum**, which translates into **R8 224 per month** *(2013 values).*
- ✓ The **weighted average annual household income** in the market area (for households within the LSM 4 to 10+ target segment) amounts to **R110 216 per annum**, which translates into **R9 185 per month** *(2013 values).*

Development implications

This indicates that the market areas are characterised by *middle to low and middle to higher income earning* community, representing pockets of wealth and poverty. Overall, the income profile affirms a consumer market with a predominant demand profile for **middle to higher-end goods and services**.

5.8 LIVING STANDARD MEASUREMENT

The LSM index is an internationally recognised instrument designed to profile a market in terms of a continuum of progressively more developed and sophisticated market segments. The LSM system is based on a set of marketing differentiators, which group consumers according to their standard of living, using criteria such as degree of urbanisation and ownership of assets (predominantly luxury goods).

Essentially, the LSM system is a wealth measure based on standard of living, rather than income alone. The market segmentation continuum is divided into ten LSM segments, where LSM 1 signifies the lowest living standard and LSM 10+ signifies the highest living standard. The LSM categories are defined and weighted in terms of the following 29 variables (Refer to Table 5.2).

Table 5.2: Living Standard Measurement (LSM) Variables

1	Hot running water	16	Less than 2 radio sets/household
2	Fridge/freezer	17	Hi-Fi/music centre
3	Microwave oven	18	Rural outside
4	Flush toilet in/outside house	19	Built-in kitchen sink
5	No domestic in household	20	Home security service
6	VCR	21	Deep freezer
7	Vacuum cleaner/floor polisher	22	Water in home/plot
8	No cell phone in household	23	M-net/DSTV subscription
9	Traditional hut	24	Dishwasher
10	Washing machine	25	Electricity
11	PC in home	26	Sewing machine
12	Electric stove	27	DVD player
13	TV set	28	1 cell phone per household
14	Tumble dryer	29	Motor vehicle in household
15	Home telephone		

It is important to note that the LSM system is widely applied internationally for marketing and branding purposes, and that it is therefore not an instrument developed locally to label or stereotype certain market segments.

Table 5.3 summarises the status of the consumer market in terms of the LSM index within the market area. Essentially, the LSM index summarises the net result of market indicators discussed in preceding paragraphs.

Table 5.3: Living Standard Measurement Indicator (% of households per bracket)

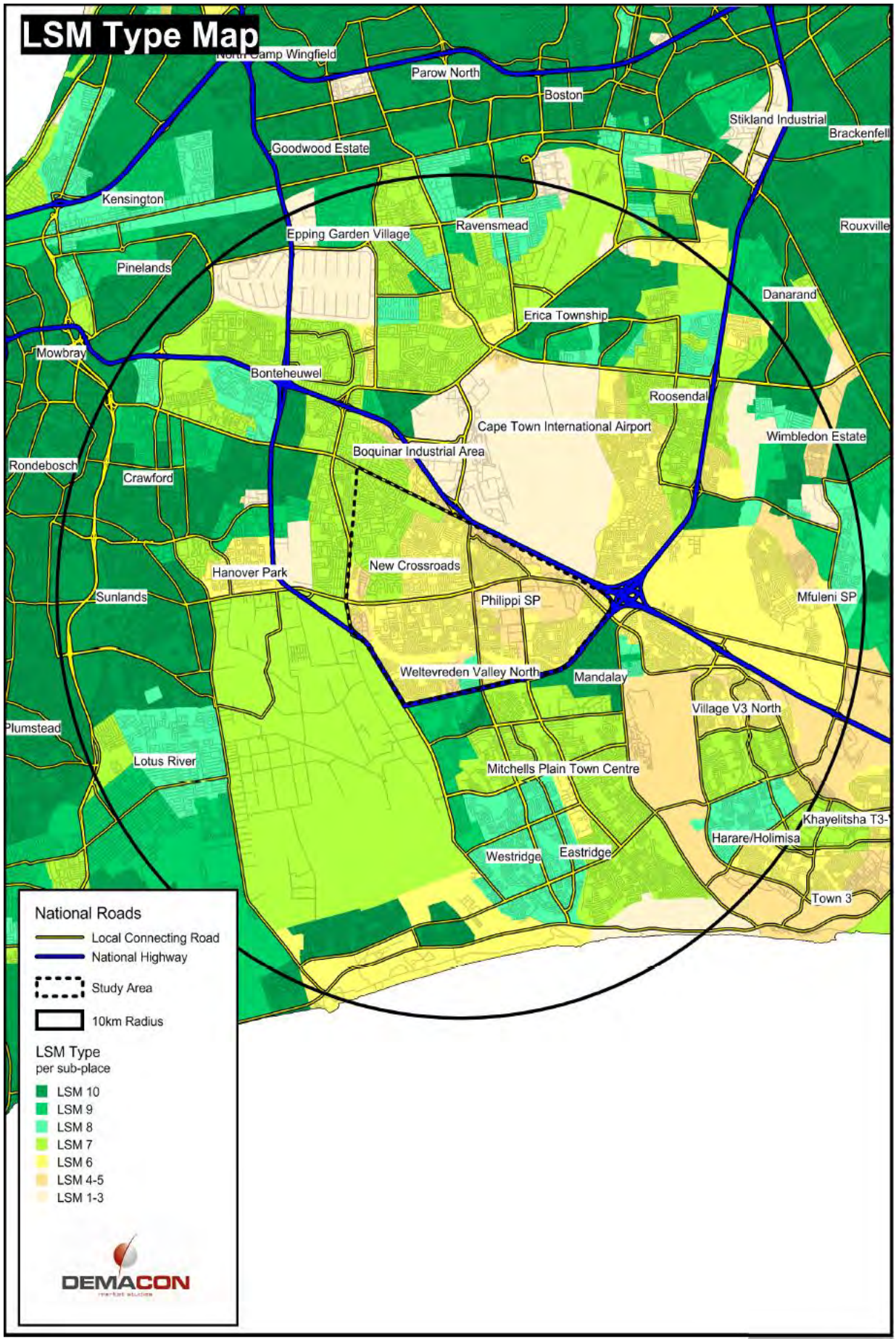
LSM Bracket	Primary Market Area
LSM 1 to 3	30.1
LSM 4	8.5
LSM 5	6.2
LSM 6	10.4
LSM 7 LOW	7.5
LSM 7 HIGH	10.2
LSM 8 LOW	3.4
LSM 8 HIGH	1.2
LSM 9 LOW	3.6
LSM 9 HIGH	6.0
LSM 10	1.2
LSM 10+	11.7

Source: Demacon ex StatsSA, 2013

Development implications

The *target market LSM 4 to 10+* represents the larger segment of households within the primary market (69.9%). This bodes well towards the support of middle to higher end commercial products and services in the market.

Map 5.4: LSM Type Map



5.9 DWELLING TYPE

The following table indicates the different dwelling types of the population in the market area.

Table 5.4: Dwelling Type

Dwelling Type	Percentage
House or brick structure on a separate stand or yard	53.4%
Traditional dwelling/hut/structure made of traditional materials	0.3%
Flat or apartment in block of flats	5.1%
Cluster house in complex	0.3%
Townhouse/Semi-detached house	0.3%
Semi-detached house	10.4%
House/flat/room in back yard	1.5%
Informal dwelling/shack in back yard	9.1%
Informal dwelling/shack NOT in back yard	18.6%
Room/flatlet on a property	1.1%
Caravan or tent	0.1%

Source: Demacon ex StatsSA, 2013

Findings: (Table 5.4)

- ✓ The majority of the population (***53.4%***) in the market area is occupying a house or brick structure on a separate stand or yard.
- ✓ The second largest group (***18.6%***) is in an informal dwelling/shack not in back yard, whereas ***10.4%*** is occupying a semi-detached house
- ✓ ***9.1%*** of the population in the market is occupying an informal dwelling/shack in back yard
- ✓ ***5.1%*** of the population is occupying a flat or apartment in block of flats

5.10 TENURE STATUS

The following figure indicates the type of tenure of the population in the market area in terms of a residence that is owned and fully paid off, a residence owned but not yet paid off, rented and occupied rent free.

Table 5.5: Tenure Status

Tenure	Percentage
Rented	21.5%
Owned but not yet paid off	24.1%
Occupied rent free	14.5%
Owned and fully paid off	39.9%

Source: Demacon ex StatsSA, 2013

Findings: (Figure 4.5)

- ✓ The majority of the population (***39.9%***) in the market area owns their house, which is fully paid off.
- ✓ ***24.1%*** of the population owns their house, which is not yet paid off.
- ✓ ***21.5%*** is renting and ***14.5%*** is occupying a house without paying rent.

5.11 SYNTHESIS

Table 5.6 provides a summary of the key socio-economic variables characterising the primary and secondary consumer market.

Table 5.6: Key socio-economic variables of the source market, 2013

Variable	Primary Market
Number of people	✓ 2 019 913
Number of households	✓ 520 837
Household Size	✓ 4.0
Age profile	✓ 0-14: 27.4% ✓ 15-19: 8.8% ✓ 20-34: 30.1 % ✓ 35-59: 27.3% ✓ 60+: 6.3%
Highest level of education (aged 20 and older)	✓ Grade 12 and Higher: 34.3% ✓ Some Secondary: 47.4% ✓ None: 2.1%
Level of employment	✓ EAP: 66.5% Of which: ✓ Employed: 68.5% ✓ Unemployed: 31.5%
Weighted Average household income	Total market earning an income (All LSMs): ✓ R98 690/annum ✓ R8 224/month LSM 4 to 10+: ✓ R110 216/annum ✓ R9 185/month
LSM Profile	✓ LSM 1-3: 30.1% ✓ LSM 4-10+: 69.9%
Dwelling Type	✓ House or brick structure on a separate stand or yard: 53.4% ✓ Informal dwelling/shack not in back yard: 18.6% ✓ Semi-detached house: 10.4% ✓ Informal dwelling/shack in back yard : 9.1% ✓ Flat or apartment in block of flats: 5.1%
Tenure Status	✓ Rented: 21.5% ✓ Owned but not yet paid off: 24.1% ✓ Occupied rent free: 14.5% ✓ Owned and fully paid off: 39.9%

Source: Demacon ex StatsSA, 2013

The consumer market profile reveals the following pertinent characteristics:

- ✓ At least **2 019 913 people** within the primary market area and **520 837 households**
- ✓ **Moderate to higher living standards – 69.9%** of primary households in **LSM 4 – 10+ brackets.**
- ✓ Weighted average annual household income for households **LSM 4 to 10+**: **R110 216 per annum / R9 185 per month.**
- ✓ Demand for a spectrum of middle- to upper-end convenience, destination and speciality products and services**.**

The following chapter provides an overview of industrial demand and supply in the market area.

CHAPTER 6: INDUSTRIAL / WAREHOUSING / MINI STORAGE MARKET ANALYSIS

6.1 INTRODUCTION

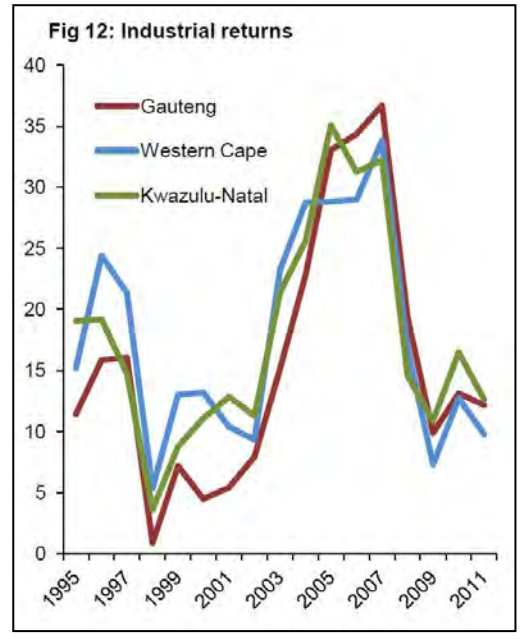
This section of the report focuses on the industrial market, with the objective of estimating the development potential within the designated area. In order to reach this objective, the demand for development within the market area should be identified and assessed in light of current trends.

Subsequent sections provide a concise overview of the industrial market in terms of the following aspects:

- ✓ South African Manufacturing and Industrial Sector
- ✓ Local Market Indicators
- ✓ General Industrial Market Trends
- ✓ Industrial Net Space Demand Modelling
- ✓ Synthesis.

6.2 SOUTH AFRICAN PROPERTY MARKET TRENDS[11]

Industrial was the best performer of the three main commercial property sectors. The current state of the manufacturing industry, though, does not bode well for the sector. Certain dynamics of industrial property, however, make it more flexible and resilient to adverse market conditions, quicker construction periods and a development tap that can be stopped and started relatively easily.



If the government's planned interventions for the manufacturing industry materialise, they will have the potential to provide a significant boost to industrial property. These interventions would do much for the competitiveness of our manufacturers and perhaps also be a catalyst for new manufacturing ventures, all of which would lead to increased demand for space as well as development opportunities.

At the moment, anecdotal evidence is suggesting improved demand in and around Cape Town. Further up the coast, Durban and surrounds is set for significant infrastructure development in ports and rail which will contribute to already strong demand exacerbated by limited stock due to a shortage of development land. The topology of the general Durban area does not lend to massive, flat industrial parks where the cost of earthworks hinders the feasibility of projects. Should demand reach a sufficient level, however, we may see some new stock, especially in and around the old airport which may be set for significant development.

Johannesburg remains the industrial hub of South Africa and contains the most industrial space by far. Due to the larger market, vacancies are higher, but then again so is the natural

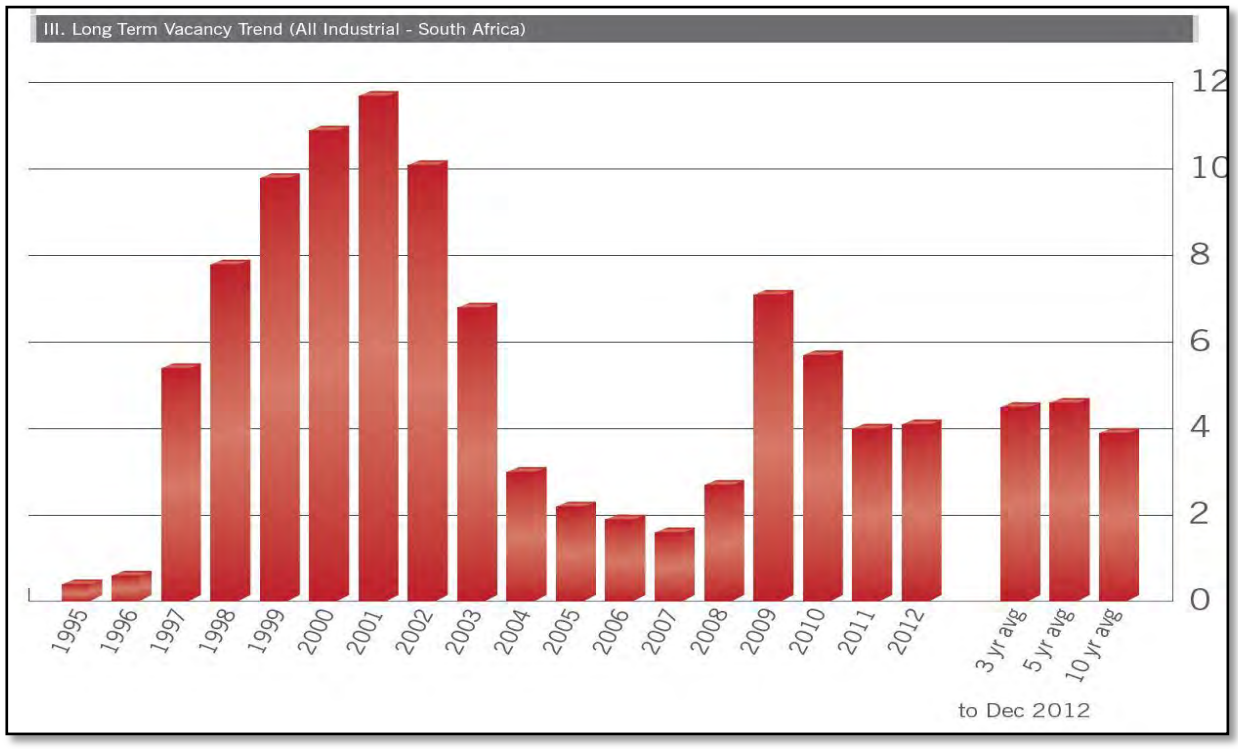
[11] *Source: South African Property Market Trends 2nd Quarter, June 2012. IPD.*

vacancy rate. Overall industrial property has been a solid performer, due in part to the sector's ability to start and stop development much more easily than in the office and retail sector.

INDUSTRIAL PROPERTY PERFORMS WELL DESPITE SOFTER FUNDAMENTALS, 2nd Quarter of 2012 – SAPOA/IPD Industrial Vacancy Survey

Summary Points:

- ✓ The second half of 2012 marks the first vacancy increase in industrial property since 2009. The national industrial vacancy figure rose from 4.1% in June 2012 to 4.4% in December 2012.
- ✓ Industrial property in KwaZulu Natal continues to enjoy the lowest vacancies; however, this is also where the greatest vacancy increase occurred. Western Cape industrial, conversely, showed some degree of improvement over 2012.
- ✓ These results are based on a sample of 634 industrial assets covering 6.6 million m² of lettable area.



WAREHOUSING	
Warehousing	Eaves height greater than 6 metres with good circulation and docking space and multiple access portals
HIGH-TECH/HIGH GRADE INDUSTRIALS ARE INCLUSIVE OF:	
High-Tech Industrial	Modern construction with office content between 25% - 50% of the gross market rental.
High Grade Industrial	Eaves height greater than 6 metres with good yard/circulation space
LIGHT MANUFACTURING	
Light Manufacturing	Office content less than 15% of market rental. Eaves height <6m or limited yard/circulation space or restricted accessibility.
STANDARD UNITS ARE INCLUSIVE OF:	
Mini Units	Modular units with a majority of rentable areas being less than 500 m2 per unit
Midi Units	Modular units with a majority of rentable areas being between 500 and 1000m2 per unit.
Maxi Units	Modular units with a majority of rentable areas being greater than 1000m2 per unit.

- ✓ The national vacancy rate for all industrial property as at the end of December 2012 was 4.4%. This marks an increase over the June 2012 figure of 4.1% as well as over the December 2011 figure of 4.2%.
- ✓ Although the 2012 industrial vacancy rate remains below the three year and five year averages of 4.7% and 4.8% respectively, it is still above the longer ten year average of 3.9%. This ten year average is heavily influenced by the extremely low vacancies experienced by the sector between 2004 and 2008.
- ✓ The upturn in vacancies in the second half of 2012 is the first instance of rising vacancies in the industrial market since 2009. While this certainly represents a shift in momentum, it is probably too early to tell whether a significant turning point in the cycle has been reached.
- ✓ Despite the slight increase in vacancies, the industrial sector still enjoys the lowest overall vacancy level of the three main commercial property sectors. Retail vacancies as at December 2012 were 5.5%, while office vacancies remain stubbornly high at 12.5%.
- ✓ Industrial property still maintained solid performance in terms of returns to investors in 2012. In line with the overall market, 2012 delivered an improved set of industrial returns compared to the previous year.
- ✓ Returns improved on both the income return and capital growth components. The 2012 income return increased from 10.3% to 10.6%, while capital growth jumped from 1.7% to 4.8%.
- ✓ Underlying fundamentals, however, suggest some softening in the market. Rental growth, although still positive and above inflation, moderated for the fourth straight year. Yields also continued to soften as they have done since the cyclical low in 2007. In 2007 the industrial rental yield was 9.4%, whereas by the end of 2012 it was 11.0%.
- ✓ Compared to the same point in the previous year, warehouses were the only segment of the industrial market to record an improvement in vacancies, from 3.7% in December 2011 to 2.5% in December 2012.
- ✓ The relative strength of some parts of the retail sector, the influence of international and local retailers, plus the slowly taking-off online shopping industry, all combine to drive demand for warehousing space, particularly those with good transport linkages.
- ✓ The industrial segment which saw the highest increase in vacancies was the high-tech industrial section of the market, where vacancies increased from 2.2% to 3.1% over the year.
- ✓ Given the large office component of many of these properties (generally between 25%-50% by rental value) it is unsurprising that they are being affected by some of the same dynamics as the lagging office sector.
- ✓ Light manufacturing and low grade industrial properties, as well as standard units and workshop, both experienced rising vacancies and remain the segments with the highest overall vacancies.
- ✓ Light manufacturing vacancies increased from 5.9% at the end of 2011 to 6.2% at the end of 2012, while standard unit vacancies increased from 4.7% to 5.3% over the same period.
- ✓ Although there was some slight degree of improvement over the second half of the year, manufacturing confidence remained in negative territory in 2012.
- ✓ The net income received for all types of industrial property nevertheless grew over the year, in each case at a rate above inflation despite ongoing cost pressures.
- ✓ Significant operating cost inflation is still concerning the industrial sector, however the majority of the impact is being felt by tenants rather than landlords.
- ✓ Recoveries are increasing at a faster rate than rentals, and the structure of these recoveries is tending more and more towards variable rather than fixed recoveries. This is

primarily driven by the significant electricity component which is almost entirely recovered on a variable or usage basis.

- ✓ Of the three main industrial provinces – Gauteng, Western Cape and KwaZulu Natal – it is KZN that continues to produce the best industrial performance. Its vacancies are the lowest of the three provinces, at 3.4%, and at the same time commands the highest net income at an average of R34.0/m2/month. The annual rate of net income growth was also the highest of the three provinces.
- ✓ Recently, however, the industrial market in the Western Cape seems to have shown a degree of improvement over the year. It was the only province where overall vacancies actually decreased, with a 39 basis point decrease over the 12 months. This is in contrast to the 20bp vacancy increase in Gauteng and the 79bp increase in KZN.
- ✓ In addition, Western Cape industrial managed to grow its annual base rentals at a double digit rate of 10.0%, while the rate in KZN was 7.5% and Gauteng could only manage 6.7%. Operating cost ratios, measured as gross costs as a percentage of base rent plus fixed recoveries, were also much lower in the Western Cape.
- ✓ Some of the nodes around the country with the lowest vacancy rates include: N14 Centurion corridor, R21 north of ORTIA, Alberton/Alrode basin (Gauteng); Umgeni River node (KZN); N7 corridor (Western Cape).
- ✓ Conversely, areas with some of the highest vacancies include: R512 Strijdom Park corridor, M2 east/west corridor, and Main Reef corridor (all Gauteng).

6.3 LOCAL MARKET INDICATORS – RODE, Q1:2013

A poorly performing manufacturing sector poses the biggest threat to strong growth in industrial rentals. In the first quarter of 2013, the output produced by the manufacturing sector showed no year-on-year growth. When compared to the previous quarter, the performance was even worse, with output contracting by an annualised rate of almost 8%. Maybe as a consequence, the yearly growth in Rode's national industrial rental index also cooled slightly to a growth rate of only 4%.

As for the major industrial conurbations, nominal industrial rentals in Port Elizabeth and Durban were able to show yearly growth of 9%. This was in line with the expected growth rate of building costs. The Central Witwatersrand followed with rental growth of 6%, while on the East Rand and in the Cape Peninsula, rentals were up by a mere 3%.

Given the prevailing weak and uncertain global economic conditions (a proxy for possible foreign demand for locally manufactured goods) and the uninspiring performances of domestic wholesale and retail trade volumes (a proxy for domestic demand for manufactured goods), the short to medium-term outlook for the manufacturing sector continues to seem dull. By implication this may lead to weak demand for industrial space and lacklustre growth in rentals.

Pioneer Rental Rates

Table 6.1: Pioneer Rental Rates for New State of the Art Office Developments (highest gross rentals for 1 000m^2 units), R/m^2/month

	Pioneer	Normal Prime	Difference
Central Witwatersrand	59.00	35.83	65.00
West Rand	52.00	31.80	64.00
East Rand	53.00	35.70	48.00
Durban	60.00	39.80	51.00
Nelspruit	72.00	43.25	66.00
Cape Peninsula	**46.00**	**31.41**	**46.00**

Port Elizabeth	42.00	26.83	57.00
Bloemfontein	40.00	26.25	52.00

Source: Demacon Ex. Rode, 2013

Mean Prime Industrial Market Rentals (R/m^2/month)

Table 6.2: Mean Prime Industrial Market Rentals (R/m^2/month), 2013:Q1

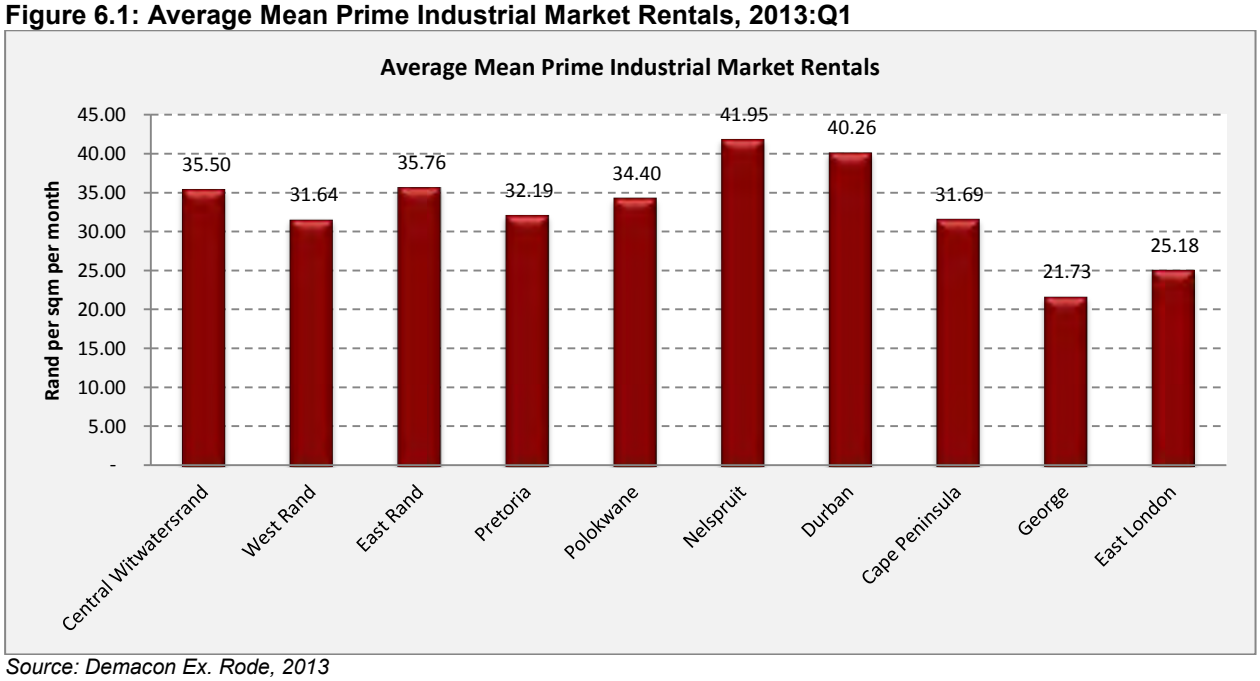
	Average size leased					Vacancy Factor
	250.0	500.0	1 000.0	2 500.0	5 000.0	
Central Witwatersrand	37.21	36.91	35.83	34.10	33.44	2.40
West Rand	33.81	33.52	31.80	30.26	28.80	1.90
East Rand	36.86	36.83	35.70	34.98	34.45	2.10
Pretoria	35.79	34.55	33.63	31.13	25.83	2.90
Polokwane	42.50	36.62	33.25	25.21	-	2.00
Nelspruit	47.75	44.50	43.25	40.50	33.75	2.30
Durban	42.60	41.66	39.80	39.34	37.91	3.10
Cape Peninsula	**36.09**	**33.53**	**31.41**	**29.49**	**27.94**	**2.80**
George	22.67	24.67	22.00	20.33	19.00	3.30
East London	32.47	28.50	25.00	21.60	18.33	1.20

Source: Demacon Ex. Rode, 2013

Note 1: The vacancy figures in the table above are not actual vacancy percentages, but rather graduations on a 0-9 vacancy scale.

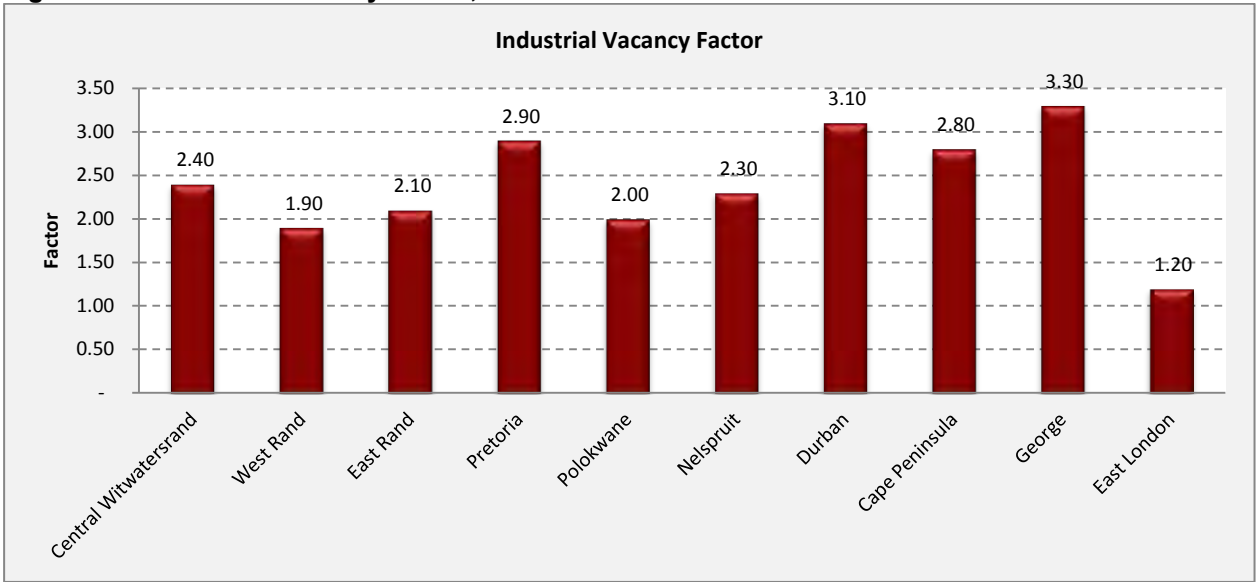
Vacancy scale for industrial townships									
	<10%			10 – 20%			>20%		
0	1	2	3	4	5	6	7	8	9
Nil	Low			Medium			High		

Figure 6.1: Average Mean Prime Industrial Market Rentals, 2013:Q1



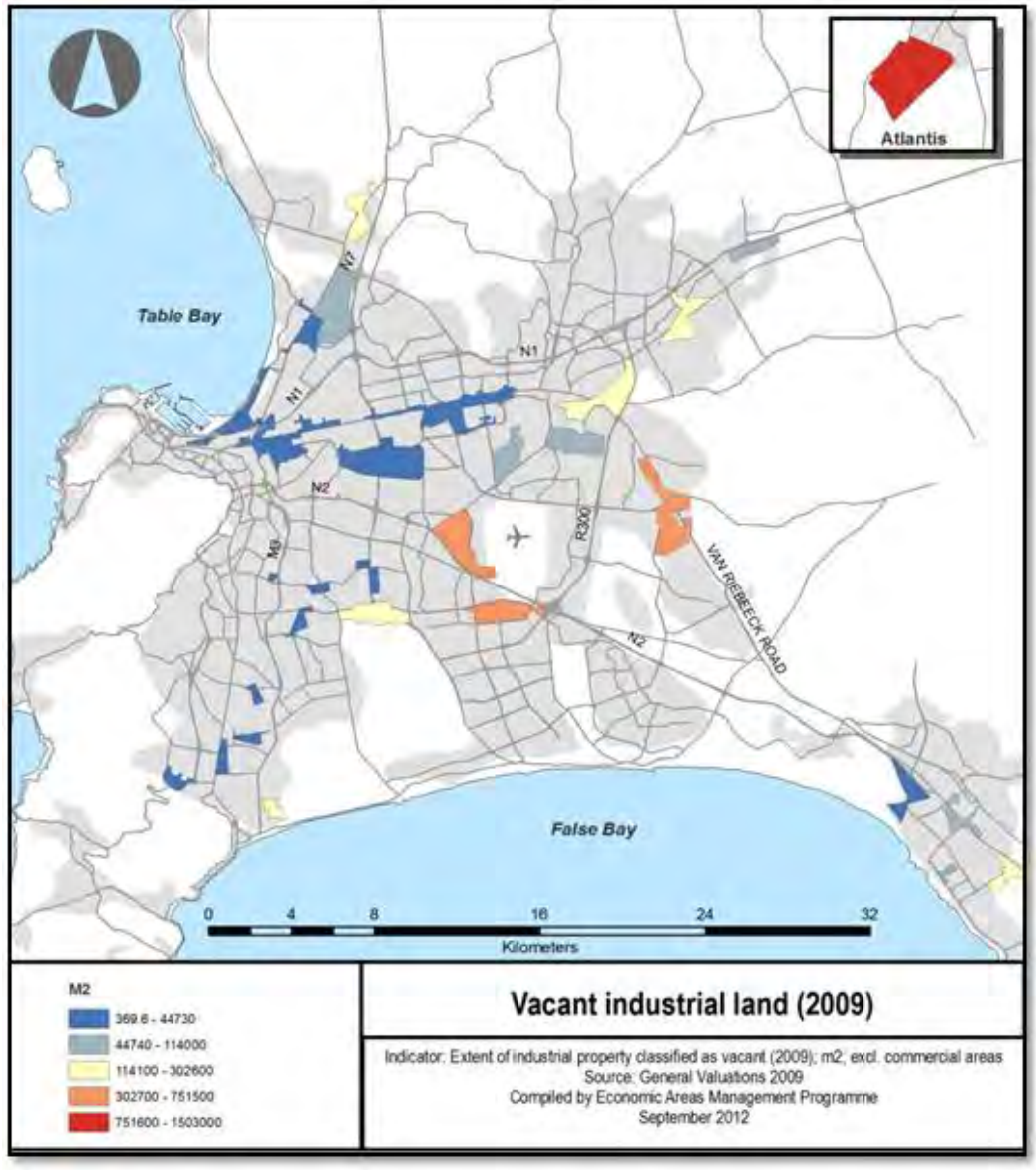
Source: Demacon Ex. Rode, 2013

Figure 6.2: Industrial Vacancy Factor, 2013:Q1



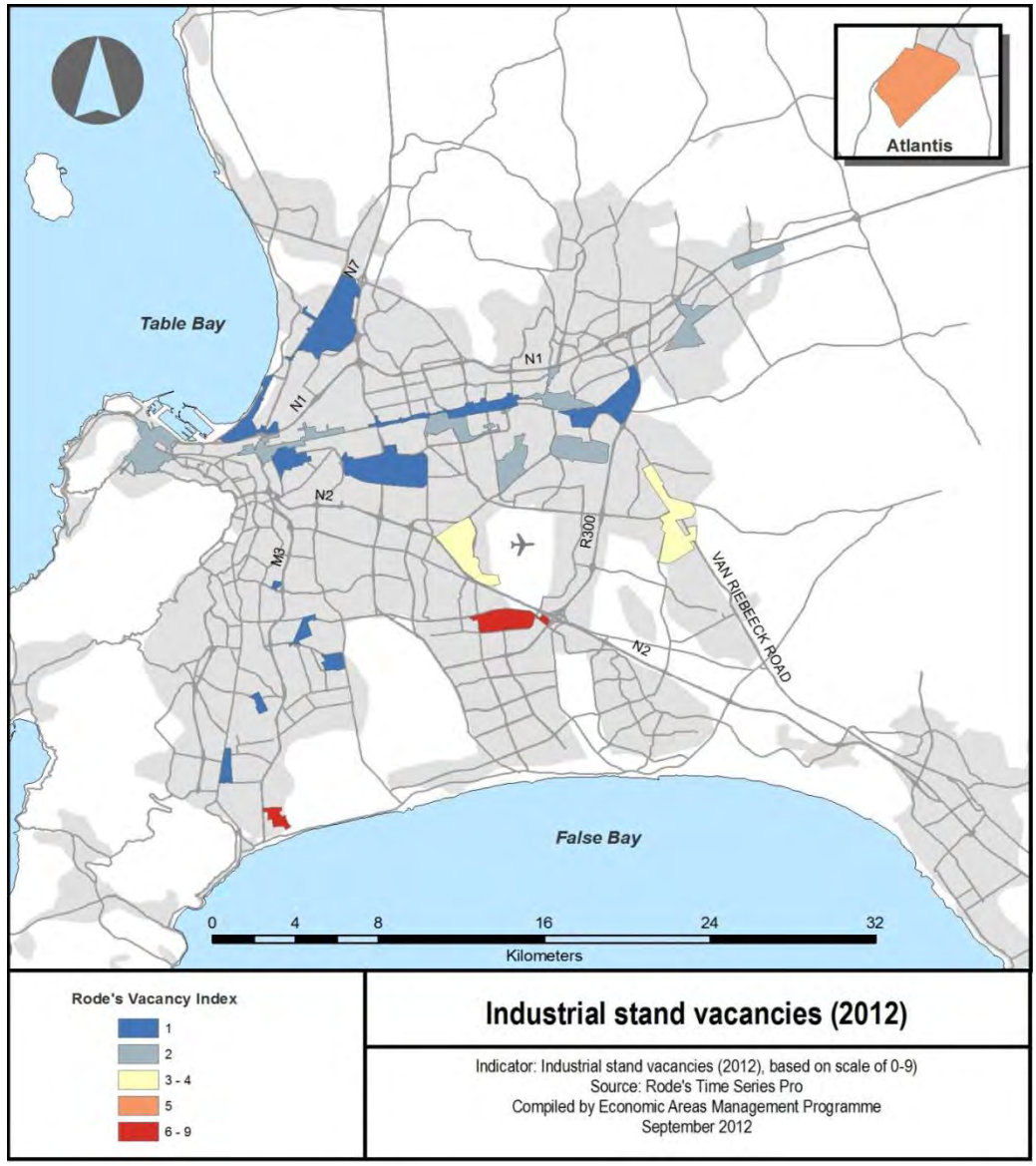
Source: Demacon Ex. Rode, 2013

Map 6.1 Vacant Industrial Land, 2009



Source: City o Cape Town's Spatial Planning and Urban Design Department, 2013

Map 6.2 Industrial Stand Vacancies, 2012



Source: City o Cape Town's Spatial Planning and Urban Design Department, 2013

Cape Peninsula Nodes - Mean Prime Industrial Market Rentals (R/m^2/month)

Table 6.3: Cape Peninsula Nodes - Mean Prime Industrial Market Rentals (R/m^2/month), 2013:Q1

	Average size leased					Vacancy Factor
	250.0	500.0	1 000.0	2 500.0	5 000.0	
Viking Place	36.80	34.00	30.75	25.50	23.50	2.0
Glosderry	44.50	41.00	45.00	38.00	35.00	3.0
Paarden Eiland/ Metro	41.00	37.50	36.50	35.00	35.00	3.0
Montague Gardens	40.25	36.00	35.00	31.67	31.00	3.3
Marconi Beam	41.25	40.00	38.00	37.50	32.00	1.7
Killarney Gardens	32.67	31.00	29.00	28.00	25.50	3.5
Racing Park	30.00	30.00	26.67	26.67	23.00	4.7
Atlantis	22.00	22.00	35.00	30.00	-	-
Woodstock/ Salt River/ Observatory	41.50	35.00	30.00	30.00	25.00	2.5
Athlone	30.00	30.00	30.00	30.00	-	5.0
Lansdowne Nerissa	30.00	30.00	30.00	30.00	-	5.0
Sand Industria	32.00	30.00	30.00	-	-	-
Ottery Hillstar	35.00	35.00	35.00	35.00	-	3.0
Ottery Sunset	35.00	35.00	35.00	35.00	-	3.0
Diep River	45.00	45.00	40.00	40.00	-	3.0
Elfindale	45.00	45.00	40.00	40.00	-	3.0

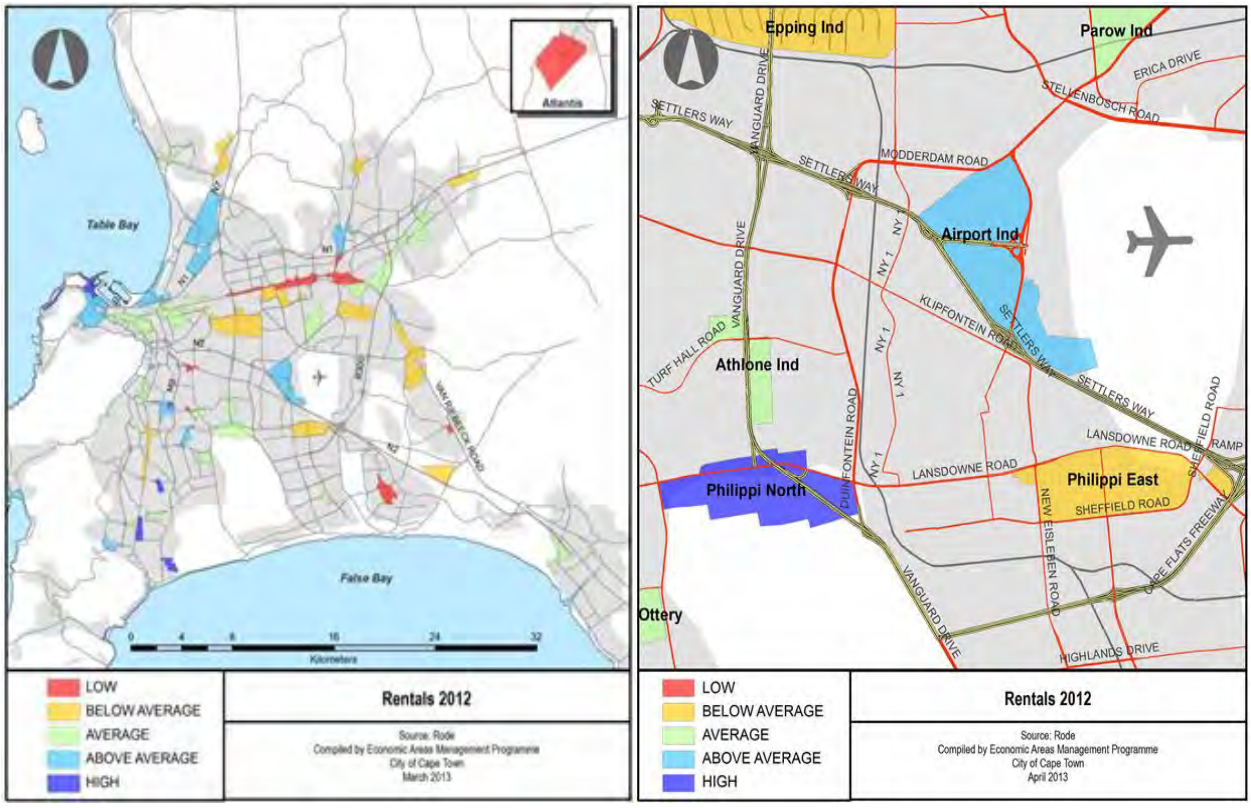
Monwood/ Philippi East	**25.00**	**25.00**	**25.00**	**25.00**	**-**	**6.0**
Retreat/ Steenberg	45.00	45.00	40.00	40.00	-	3.0
Capricorn Park	45.00	45.00	45.00	42.00	-	7.0
Maitland	38.60	34.80	27.50	27.67	25.00	3.3
Ndabeni	45.00	35.33	30.00	29.00	26.33	2.5
Airport	**44.00**	**37.00**	**36.00**	**32.00**	**38.50**	**2.8**
Epping 1 & 2	35.80	33.25	26.75	25.40	23.80	3.8
WP Park	39.60	37.25	33.00	29.00	29.00	2.0
Elsies River (excl, Central Park)	33.50	32.50	30.75	20.00	20.00	3.3
Parow Beaconvale	36.75	35.50	35.33	33.00	33.67	3.0
Tygerberg Business Park	38.75	36.75	34.25	33.00	32.00	2.0
Parow Industria	36.33	31.00	30.50	29.25	27.50	3.6
Parow East	33.50	30.00	26.00	25.50	24.00	2.5
Bellville Oakdale	35.00	25.00	30.00	30.00	-	1.0
Bellville Stikland/ Kaymor	36.33	35.33	34.33	31.00	30.33	2.3
Bellville Triangle	31.67	29.33	28.00	25.67	25.00	2.0
Bellville South/ Sacks Circle	32.50	28.00	25.33	24.33	23.33	2.3
Kraaifontein	32.00	30.00	29.50	29.00	27.50	1.5
Brackenfell Industria	33.50	31.75	29.67	29.33	29.50	2.3
Everite Brackenfell	34.33	34.00	30.00	29.25	30.00	2.3
Kuils River	32.33	28.67	28.67	27.33	28.50	2.0
Blackheath	30.50	29.50	29.00	27.50	27.00	2.5
Saxenburg Industrial Park 3	30.00	28.67	28.00	26.33	27.50	2.3
Okavango Park	34.00	30.67	28.67	27.33	27.00	2.0
Firgrove	-	-	-	-	-	-
The Interchange (Somerset)	30.00	30.00	30.00	-	-	-
Strand Halt	-	-	-	-	-	-
Broadlands	29.00	25.00	25.00	-	-	-

Source: Demacon Ex. Rode, 2013

Note 1: The vacancy figures in the table above are not actual vacancy percentages, but rather graduations on a 0-9 vacancy scale.

Vacancy scale for industrial townships									
	<10%			10 – 20%			>20%		
0	1	2	3	4	5	6	7	8	9
Nil	Low			Medium			High		

Map 6.3 Industrial Rentals, 2012



Source: City o Cape Town's Spatial Planning and Urban Design Department, 2013

Predominant Market Escalation Rates for Industrial Leases

Table 6.4: Predominant Market Escalation Rates for Industrial Leases, 2013:Q1

	5 year leases	
	Mean	SD
Central Witwatersrand	8.7	0.4
West Rand	8.9	1.1
East Rand	9.1	1.0
Pretoria	8.7	0.9
Polokwane	8.2	0.2
Nelspruit	8.0	-
Durban	9.0	0.3
Cape Peninsula	**8.2**	**0.4**
George	7.0	-
Port Elizabeth	8.0	-
East London	8.0	-
Bloemfontein	8.5	0.5

Source: Demacon Ex. Rode, 2013

Indicative Operating Expenses – Rands per sqm per month, 2013:Q1

Table 6.5: Indicative Operating Expenses, 2013:Q1

	Stand-alone	Park
Central Witwatersrand	5.29	7.43
West Rand	3.55	6.10
East Rand	5.00	7.31
Pretoria	3.50	9.30
Polokwane	6.50	8.00
Nelspruit	8.50	12.00
Durban	11.62	15.67
Cape Peninsula	**6.12**	**8.40**
George	2.88	6.18
Port Elizabeth	5.00	6.00
Bloemfontein	3.25	3.25

Source: Demacon Ex. Rode, 2013

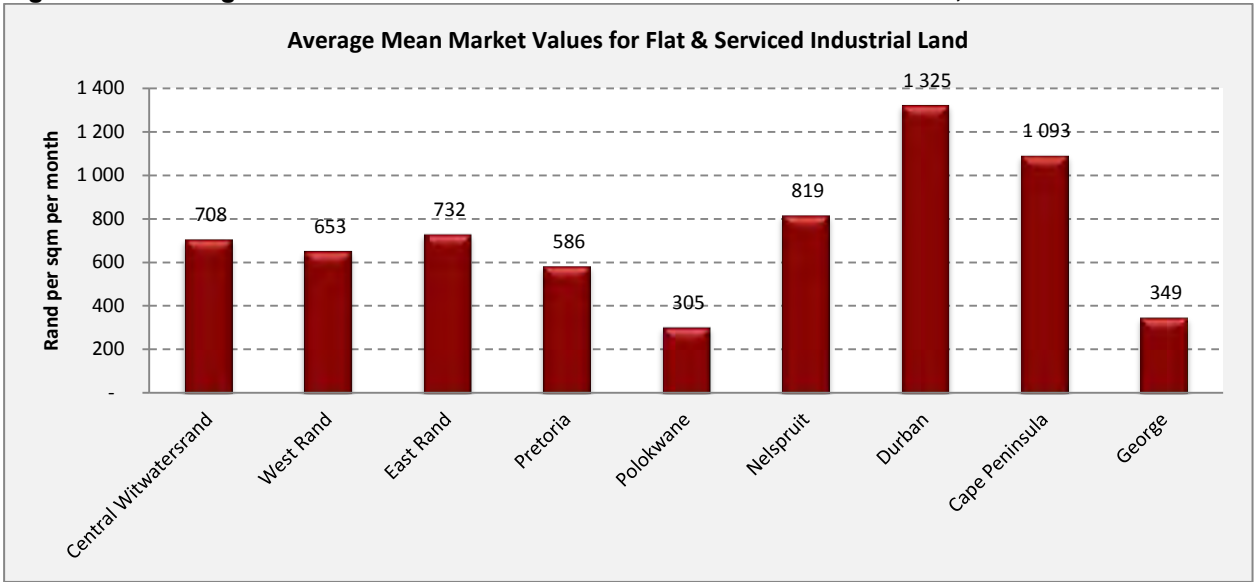
Mean Market Values for Serviced Level Industrial Land – Rand/sqm (excl. VAT)

Table 6.6: Mean Market Values for Serviced Level Industrial Land, R/sqm, 2013:Q1

	Area (sqm)				
	1 000	2 000	5 000	10 000	Average
Central Witwatersrand	735	715	708	675	708
West Rand	695	668	638	612	653
East Rand	770	750	729	679	732
Pretoria	600	614	562	568	586
Polokwane	-	508	413	300	305
Nelspruit	900	900	750	725	819
Durban	1 554	1 391	1 224	1 129	1 325
Cape Peninsula	**1 198**	**1 127**	**1 056**	**989**	**1 093**
George	373	360	337	327	349

Source: Demacon Ex. Rode, 2013

Figure 6.3: Average Mean Market Values for Flat & Serviced Industrial Land, 2013:Q1



Source: Demacon Ex. Rode, 2013

Table 6.7: Cape Peninsula Nodes - Mean Market Values for Serviced and Level Industrial Stands, R/sqm excl. VAT, 2013:Q1

	Area (sqm)				
	1.000	2.000	5.000	10.000	Vacancy Grade
Viking Place	1.000	900	800	800	1.0
Glosderry	1.500	1.500	1.500	1.500	0.0
Paarden Eiland/ Metro	2.000	1.750	1.750	1.500	0.0
Montague Gardens	1.600	1.575	1.500	1.500	0.5
Marconi Beam	1.800	1.800	1.500	1.500	1.0
Killarney Gardens	1.450	1.100	1.250	1.100	1.3
Racing Park	1.050	1.000	1.000	850	4.0
Atlantis	-	-	-	-	-
Woodstock/ Salt River/ Observatory	2.000	1.800	1.800	1.800	1.0
Athlone	-	-	-	-	-
Lansdowne Nerissa	-	-	-	-	-
Sand Industria	-	-	-	-	-
Ottery Hillstar	1.000	1.000	1.000	-	1.0
Ottery Sunset	1.000	1.000	1.000	-	1.0
Diep River	1.000	1.000	1.000	-	1.0
Elfindale	1.000	1.000	1.000	-	1.0
Monwood/ Philippi East	**450**	**450**	**450**	**300**	**9.0**
Retreat/ Steenberg	1.000	1.000	950	950	-
Capricorn Park	700	700	700	-	7.0
Maitland	1.217	1.117	1.150	900	1.0
Ndabeni	1.875	1.475	1.400	1.150	0.8
Airport	**1.283**	**1.258**	**1.250**	**1.200**	**3.0**
Epping 1 & 2	1.075	1.017	1.083	983	1.5
WP Park	1.463	1.450	1.200	1.100	1.7
Elsies River (excl, Central Park)	800	775	700	683	1.7
Parow Beaconvale	1.200	1.125	1.000	950	2.2
Tygerberg Business Park	1.300	1.200	1.000	1.000	2.2
Parow Industria	1.125	1.113	963	950	2.2
Parow East	1.500	1.500	1.000	1.000	1.0
Bellville Oakdale	-	-	-	-	-
Bellville Stikland/ Kaymor	1.450	1.200	1.200	1.100	3.0
Bellville Triangle	925	925	1.000	1.000	-
Bellville South/ Sacks Circle	1.000	1.000	900	850	-
Kraaifontein	900	875	738	725	2.0
Brackenfell Industria	1.000	1.000	900	875	2.0
Everite Brackenfell	1.200	1.200	1.000	1.000	1.0
Kuils River	875	850	725	675	1.0

Blackheath	650	725	500	425	3.3
Saxenburg Industrial Park 3	1.200	1.000	975	850	3.3
Okavango Park	1.100	1.100	1.050	950	1.0
Firgrove	-	-	-	-	-
The Interchange (Somerset)	-	-	-	-	-
Strand Halt	-	-	-	-	-
Broadlands	-	-	-	-	-

Source: Demacon Ex. Rode, 2013

6.4 GENERAL INDUSTRIAL MARKET TRENDS

6.4.1 TYPES OF COMMERCIAL / INDUSTRIAL PARKS

General or Composite Uses - The least specialised type of industrial park in which non-industrial uses are permitted and often encouraged. In some cases some of the occupiers of the industrial park, like filling stations, retailers and catering facilities. However, if other uses are allowed unchecked, the unique character in the area park may be lost.

Exclusive Industrial Parks - Industrial parks exclusively occupied by industries are the most common and a rule the most attractive developer. They do not compete with commercial developments in the area, for instance, and offer the greatest possible basis for industrial development.

Single Use Industrial Parks - The accommodation of only one type of manufacturing or distributive operation offers the potential of greater possible returns as a result of specialisation. On the other hand, they are exposed to greater risks, since changes in the specific industry's operation, standards or even preferences may take the whole park obsolete. A specialised variant of the single use industrial park is the single industry park, which accommodates only one industrial enterprise. Since it does not house a community of industries, it is not strictly definable as an industrial park. However, it does not illustrate the importance of aesthetics and compatibility with the environment for modern industries.

Office / Mixed Use Parks - Office parks are based on the same principles of developments as industrial parks, with the difference that office uses only are allowed (e.g. at Barlow Park in Sandton). As a result of the need for office accommodation in the immediate vicinity of industries, an office park may be developed directly next to an industrial park (e.g. at City Deep, Johannesburg). Office accommodation may of course also be developed in an industrial park, if the rights allow for this. Besides limited offices inside the factory building or warehouse, office buildings as such may be placed inside the industrial park (e.g. the Isando Industrial Park in Kempton Park or Kya Sands Business Park, Randburg).

Research / Technology Parks - A research park or technology park is an industrial park closely connected with local universities or other research bodies, so far that technology, and especially high-level technology, can be conveyed and commercially applied. The first and probably the best known example is the Stanford Research, sometimes also known as Science parks, are also found in Britain, France, Israel, Australia and Taiwan.

Airport Industrial Parks - The facilities offered by airports for transport, as well as international and national travelers, create attractive possibilities for industrial parks in the immediate vicinity of an airport (especially for industrial exhibition space).

6.4.2 ADVANTAGES AND LIMITATIONS OF COMMERCIAL / INDUSTRIAL PARKS

Advantages and Limitations for the Developer:

- ✓ The development of an industrial site increases the value of adjacent sites. In an industrial park the developer owns the adjacent sites and therefore enjoys the advantage of appreciation in value.
- ✓ The developer hopes for greater returns from the development of an industrial park than from sales of the underdeveloped land.
- ✓ The industrial park offers the possibility of scale advantages from a planning and cost viewpoint.
- ✓ Sites and buildings in an industrial park are usually easier to market than individual sites or buildings.
- ✓ Financing an industrial park may be easier and better terms may possibly be obtained.
- ✓ The developer can determine the pace of development by phasing. The development success of an earlier phase also affects the success of later phases-he therefore controls his own future to a great extent.
- ✓ The developer of an industrial park requires exceptional skill and high capital cost. Capital often has to be invested for long periods before a return is obtained.
- ✓ The cost of improvements may be higher than in the case of individual sites, which are often served by existing roads and services.
- ✓ Requirements set by local authorities may be more restrictive than in the individual sites.
- ✓ If certain services (like access roads) must be provided by the local authorities it may happen that they are not provided according to schedule with the accompanying embarrassments and costs to the developer.
- ✓ The sustained enforcement of park standards and control measures is time-consuming and expensive. The developer is not involved in the short-term, but remains involved until the whole industrial park is completed and often afterwards as well.
- ✓ The developer cannot adjust easily to changing market circumstances.

Advantages and Limitations for the Industrialist/Occupier:

- ✓ Immediate availability of a variety of full-equipped spaces
- ✓ Possible scale benefits of development costs, as well as operating costs
- ✓ A choice of different site sizes, shapes and locations is usually possible in the industrial park.
- ✓ A wide variety of services (e.g. security, landscaping) is usually available.
- ✓ Pleasant working conditions and usually nearby-situated eating and recreation facilities for employees.
- ✓ Stability of environment and character
- ✓ Sites and buildings in an industrial park are usually easier to market, lease or sublet in the future, than individual sites or buildings.
- ✓ High cost. In spite of possible scale benefits, a specific industrialist may not always need all the services supplied in the industrial park.
- ✓ Control measures which were initially acceptable, may later prove to be unnecessarily restrictive.
- ✓ Industrial parks are not suitable or acceptable for all industries (e.g. large chemical, steel or cement factories)
- ✓ Possible loss identity, especially in the case of large, nationally known enterprises.
- ✓ Traffic problems may arise if access roads prove to be insufficient.

Advantages and Limitations for the Community:

- ✓ Increased job opportunities, income and taxes.
- ✓ Orderly industrial development, with the least negative effort on the community.
- ✓ Diversification of the local economy.
- ✓ More economic utilization of municipal infrastructure.
- ✓ Insufficient planning of access roads may cause traffic problems
- ✓ Future growth of the industrial park may cause an overloading of municipal services.

6.4.3 SELECTION OF THE SITE

Location considerations

A desirable location for an industrial park is of course where a concentration of exists or can develop-probably a metropolitan location. It should be close to and accessible to labour markets, sources of materials (in terms of type, quantity and delivery costs) and product markets.

The location requirements for an industrial park are therefore the same as the location requirements for industries. The site must be immediately accessibility of product from the main transport routes (savings on transport, increased labour market, accessibility of product and visibility), while a location near rail facilities, an airport and harbour, would be an asset.

Site requirements

The site under construction must be carefully analysed to ascertain whether it complies with the requirements for the development of an industrial park, It is useful to investigate the site by means of a checklist for site features (Site selection checklist), during the analysis process.
Ideally the site will have the following features:

- ✓ It should be an even, well-drained piece of land, rectangular in shape and of good soil structure.
- ✓ It should be accessible for private as well as public transport.
- ✓ It should be easily offer space for expansion.
- ✓ It must be fully serviced (water, electricity, telephone, drainage, etc.)
- ✓ It should be zoned for industries or a rezoning should be possible

6.4.4 INDUSTRIAL PARKS

Subsequent table provides case study examples of recent industrial park developments as listed in the Samco Report.

Table 6.8: Industrial Parks

Project	Description
Growthpoint Industrial Estate 	**Location:** 1 Bell St, Meadowdale, Edenvale **Classification:** A Grade, Mini, Midi & Maxi Units plus development to date **Total size:** 59,166m^2 developed to date **Description:** • High end estate with close access to OR Tambo

Project	Description
	Airport and major highways • 24 hour access controlled security • Mini-units customisable and range in size from 200sqm – 2,500sqm
Samrand Industrial Estate  	**Location:** Located along the N1 highway.  **Description:** • Opportunity for the development of commercial and industrial stands • Enjoys excellent access to the N1 highway which links the two centres and offers high visibility and good exposure • Large variety of stand sizes are available, ranging in size from 5,000sqm up to 60,000sqm • Zoning allows for light industries, warehouses, offices, laboratories, building yards, computer centres, distribution centres, wholesale trade, transport depots and cafeteria. 

Project	Description
West Rand Development 	**Location:** Florida area, West Rand **Description:** • The Stormill Extensions have focussed on major new development in the area. • 15,000sqm Swartland Group head office • Distribution and warehousing (4,600sqm warehouse with 2,500sqm of double storey offices for Alpret) • Single factories and mini-unit developments • The site offers a total bulk of approximately 3,300sqm • To be developed as single unit or as 4 individual units • Approximately 900sqm each selling from R5,500 / sqm • Renting from R45 / sqm for warehousing and R85 / sqm for offices 
Firgrove Industrial Estate 	**Location:** Occupies the former Del Monte Deep Freeze site adjacent to Denel just of the N2 at the Firgrove / Macassar off ramp (Exit 38). **Description:** • Private estate which offers an electrified perimeter fence with a single entry point with 24 hour security • 27 hectares of developable land • Fully serviced and ready for construction • Site range in size from 1,900sqm • Priced at R990 / sqm to sites in excess of 1 hectares priced form R750 / sqm • A number of sites can be consolidated to offer much larger sites if required.

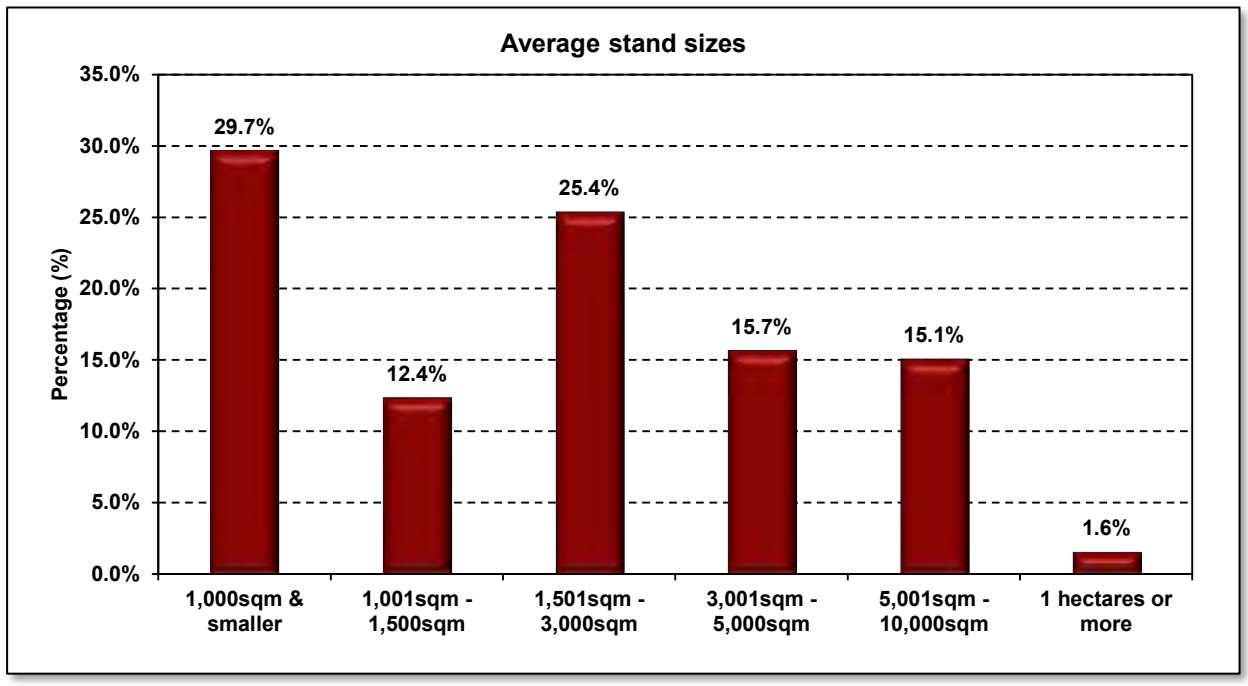
The following table indicates the average industrial stand sizes within a development such as R21 Corporate Park.

Table 6.9: Schedule of stands

Schedule of stands	Number of stands	Percentage
1,000m^2 & smaller	55	29.7%
1001m^2 – 1,500m^2	23	12.4%

Schedule of stands	Number of stands	Percentage
1501m^2 – 3,000m^2	47	25.4%
3001m^2 – 5,000m^2	29	15.7%
5,001m^2 – 10,000m^2	28	15.1%
1 hectares or more	3	1.6%

Figure 6.4: Stand Sizes



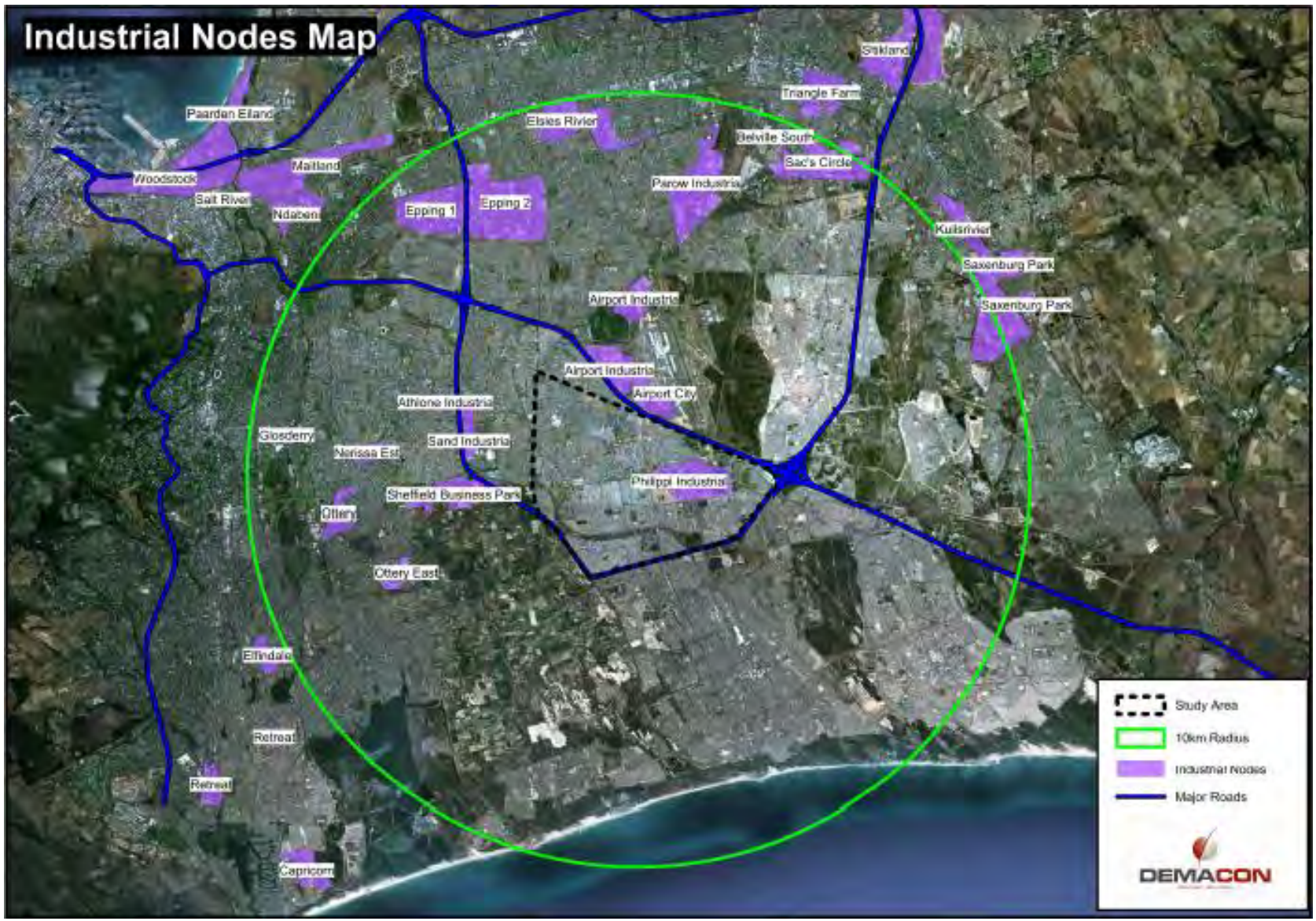
Source: Demacon, 2013

As seen from the above, stands range from **1,000m^2 and smaller stands** to **1 hectare** and more. The table indicates that the greatest percentage (***29.7%***) of stands developed in R21 Corporate Park is **1,000m^2 and less** and ***25.4%*** of the stands are ranging from **1,501m^2 – 3,000m^2**.

To conclude, the above case study examples indicated layouts which reflect the largest stands situated adjacent to major arterial / freeway with direct exposure and visibility. Stand sizes decrease with distance from the arterial.

Map 6.4 indicates the Industrial Nodes within a 10km radius of the primary market area.

Map 6.4: Industrial Nodes within a 10km radius of the primary market area.



6.5 INDUSTRIAL NET SPACE DEMAND MODELING

The following paragraphs provide definitions of respectively demand and supply for the industrial and commercial market.

Definition

Wholesale and distribution refers to storage and wholesale facilities from where products (usually in large quantities) are distributed. This does not necessarily include an industrial or manufacturing function. Wholesalers do have a buying and selling function – products are usually sold in large quantities. An example is such as wholesale trade in agricultural materials and livestock.

Defining Demand

The demand in the industrial and commercial market is dependent on the following aspects:

$$D_{whol} = f\{P_o, P_{\%}, Q_w, R, T_x, Y; R_s; R_{s\%}\}$$

Where:

P_o	=	Population size
$P_{\%}$	=	Population growth
Q_w	=	Quality of existing facilities
R	=	Rental levels
T_x	=	Property rates and taxes
Y	=	Household income
R_s	=	Retail sales
$R_{s\%}$	=	Retail sales growth

Defining Supply

The supply of industrial and commercial land users can be described as being the following:

$$S_{whol} = f\{D_{whole}, C_w, V_w, L_u, I_a, GLA_w, C_c\}$$

Where:

D_{whole}	=	Demand
C_w	=	Competition
V_w	=	Vacancies
L_u	=	Surrounding land uses
I_a	=	Infrastructure availability
GLA_w	=	Current usable / rentable area
C_c	=	Construction cost

Space Demand Modelling

It is known that the demand for industrial / commercial space depends on the production of goods within a specified area. The following figure illustrates cumulative additional land demand for the specified area. Subsequent demand modelling indicators provide insight to the performance of current and future demand of the industrial market of the **Philippi Local Economy.** Figure 6.5 illustrates forecast land take-up. It is evident that the greater percentage of take-up will be by warehousing, which indicates that this sector is the dominant sector in the market area.

➢ TWO SCENARIOS FOR PHILIPPI

In the following figures two growth scenarios were generated – a baseline and somewhat more optimistic scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey intervention, such as the N2 accessibility etc.

The most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

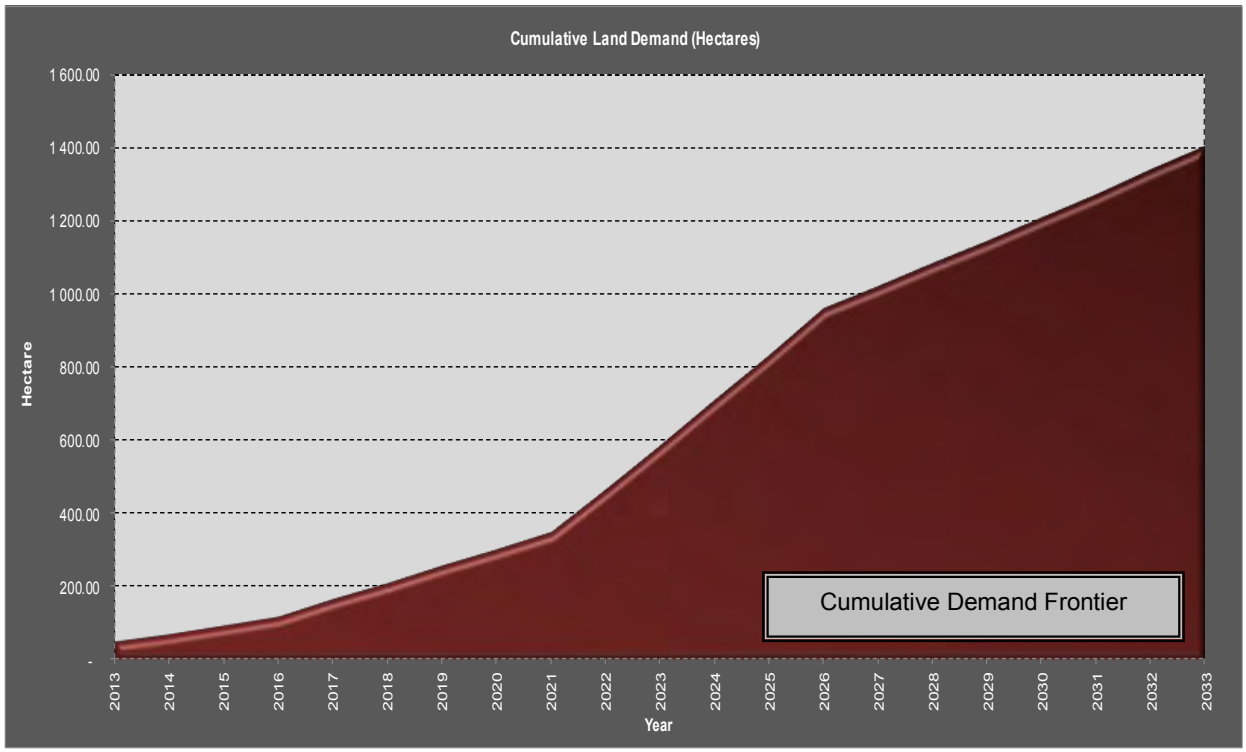
- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

Both of these scenarios will be discussed in the next section below.

It is known that the demand for industrial / commercial space depends on the production of goods within a specified area. The following figure illustrates cumulative additional land demand for the specified area. Subsequent demand modelling indicators provide insight to the performance of current and future demand of the industrial market of the **Philippi area.**

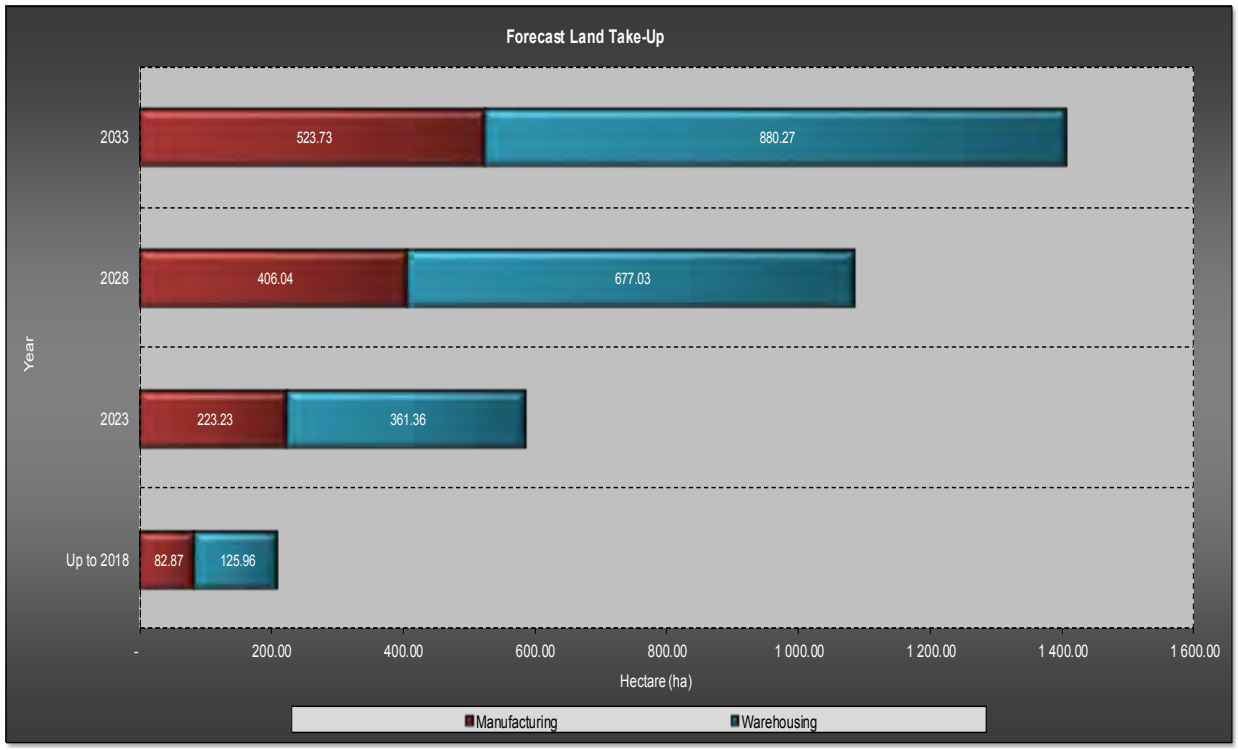
Figure 6.5: Cumulative Additional Land Demand (hectare)



Source: Demacon Space Demand Model, 2013

The following figure illustrates forecast land take-up. It is evident that the greater proportion of take-up will be by warehousing, which indicates that this sector is the dominant sector in the market area.

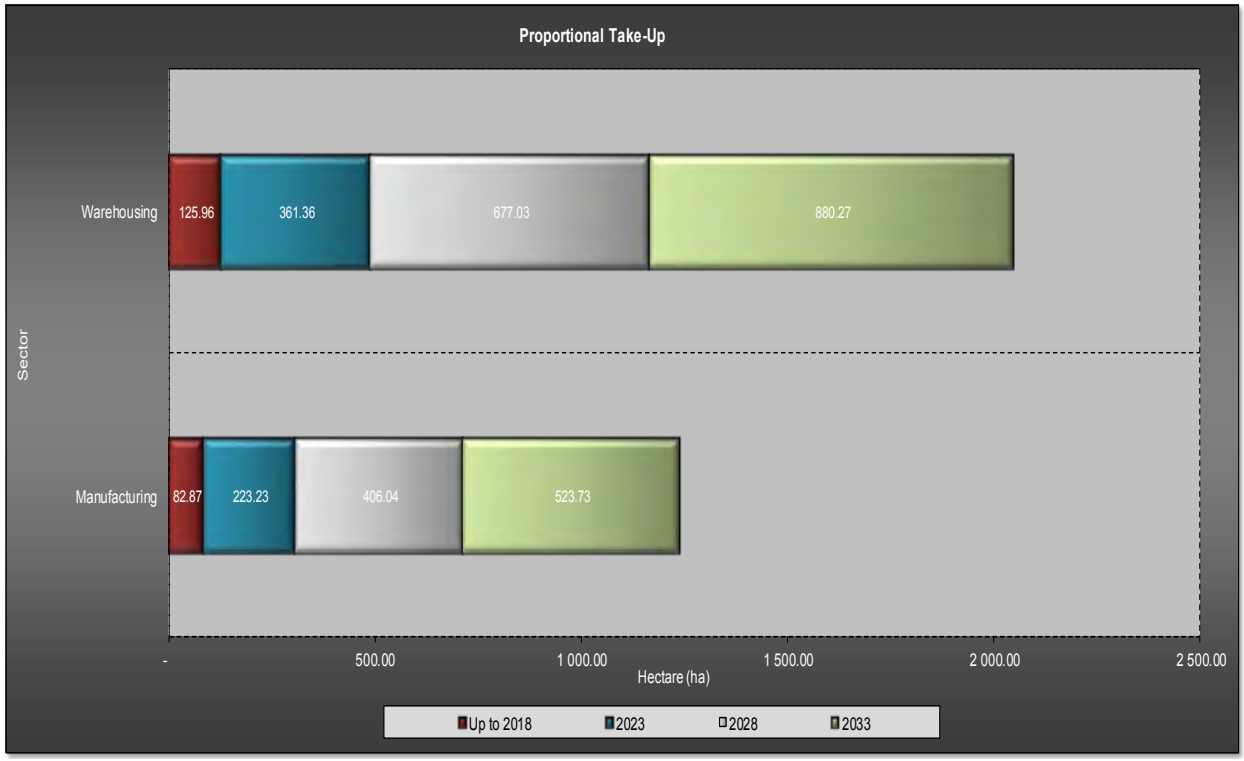
Figure 6.6: Forecast Land Take-Up (hectare)



Source: Demacon Space Demand Model, 2013

Figure 6.7 indicates that the greatest proportion of take-up in warehousing will be up to 2026.

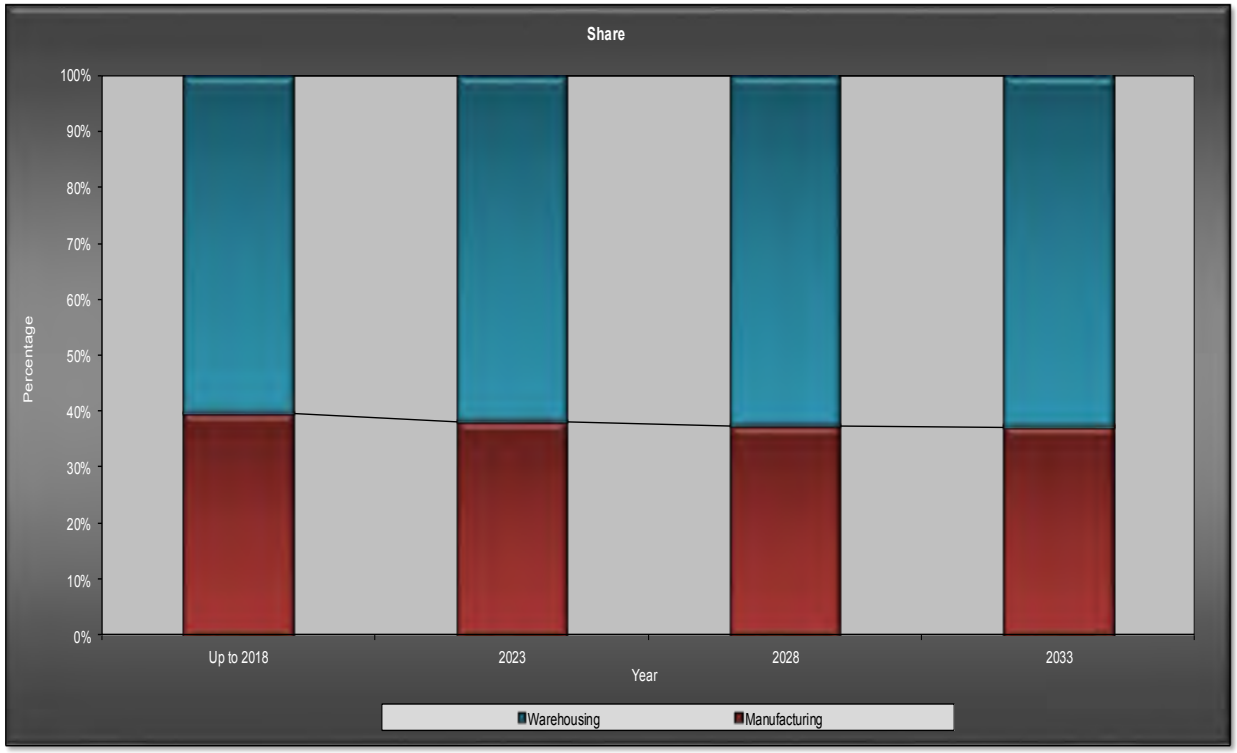
Figure 6.7: Proportional Land Take-Up (hectare)



Source: Demacon Space Demand Model, 2013

Figure 6.8 illustrates the respective share of manufacturing and warehousing for the specified area.

Figure 6.8: Share - Manufacturing & Warehousing (percentage)



Source: Demacon Space Demand Model, 2013

The modelling can be summarised in the tables below.

✓ SCENARIO 1: BASELINE SCENARIO

Table 6.10: Industrial Space Demand Modelling results (nodal potential) – m^2 GLA (constant values)

Cumulative Additional Land Demand	Up to 2018	2018-2023	2023-2028	2028 - 2033
Total Manufacturing (Hectares)	82.87	223.23	406.04	523.73
Total Warehousing (Hectares)	125.96	361.36	677.03	880.27
Total: City of Cape Town Metropolitan Municipality	208.83	584.60	1 083.07	1 404.00
Philippi Project market share (average development potential (Ha)	**5.22**	**14.61**	**27.08**	**35.10**

Source: Demacon Industrial Space Demand Model, 2013

Table 6.11: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R694 207 390
Size of industrial (sqm)	73 074
Employment opportunities	1 329
Parking bays	1 461
Parking infrastructure & landscaping cost	R32 737 359
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

The following is evident from Table 6.10 and Table 6.11:

- ✓ The development potential for the site up to 2018 amounts to approximately **5.22 hectares** increasing cumulatively to **27.08 hectares** in 2023 – 2028.

- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **1 329 employment opportunities** on site.
- ✓ Recommended industrial stand sizes as seen from the case studies: stands ranging from 1,000m^2 and smaller, to 1 hectare and more. Layouts reflect largest stands to major arterial / freeway with direct exposure and visibility. Stand size decrease with distance from the arterial.

✓ SCENARIO 2: OPTIMISTIC SCENARIO

Table 6.12: Industrial Space Demand Modelling results (nodal potential) – m^2 GLA (constant values)

Cumulative Additional Land Demand	Up to 2018	2018-2023	2023-2028	2028 - 2033
Total Manufacturing (Hectares)	82.87	223.23	406.04	523.73
Total Warehousing (Hectares)	125.96	361.36	677.03	880.27
Total: City of Cape Town Metropolitan Municipality	208.83	584.60	1 083.07	1 404.00
Philippi Project market share (average development potential (Ha)	**15.66**	**43.84**	**81.23**	**105.30**

Source: Demacon Industrial Space Demand Model, 2013

Table 6.13: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R2 082 622 171
Size of industrial (sqm)	219 223
Employment opportunities	3 986
Parking bays	4 384
Parking infrastructure & landscaping cost	R98 212 077
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

The following is evident from Table 6.12 and Table 6.13:

- ✓ The development potential for the site up to 2018 amounts to approximately **15.66 hectares** increasing cumulatively to **81.23 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **3 986 employment opportunities** on site.
- ✓ Recommended industrial stand sizes as seen from the case studies: stands ranging from 1,000m^2 and smaller, to 1 hectare and more. Layouts reflect largest stands to major arterial / freeway with direct exposure and visibility. Stand size decrease with distance from the arterial.

In the context of the above, two growth scenarios were generated – a baseline and somewhat more optimistic scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey intervention, such as the N2 accessibility, more exposure etc. Improvement in the conditions mentioned below will invariably raise the expected level of take up within the area.

The most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

After **interviews with brokers and developers** within the Philippi area, the following was indicated as important in terms of industrial development to be successful within the area:

- ✓ Philippi is seen as an area where crime, muggings and theft is high, especially in terms of the industrial equipment that is often stolen.
- ✓ Social interaction is needed – due to the fact that with political unrest and strikes etc., the people from Philippi is often involved in this and then properties especially industrial properties are often destroyed. Some developers are this weary to invest and develop within the area due to this.
- ✓ Suggestions were made that road buffers, access nodes and industrial corridors should be developed in order for people to feel safe to come to work – which is situated away from the residential areas – in order to reduce the crime and theft at various industries.
- ✓ Developers such as Mr Oscar Saunders, stated that for industrial development to be successful within Philippi, the only way is to develop big business/industrial parks, which is privatised, fenced off with controlled access, 24h-security, CCTV cameras etc.
- ✓ It should be an exclusive area were workers and people feel safe to come to.
- ✓ Safety is the most important factor that should be addressed within the area.
- ✓ Corridors of retail could rather be developed around these business parks, instead of residential areas – to keep crime to a minimum.
- ✓ Suggestions were made that footpaths is necessary for workers to have direct access to the workplace/industries, as well as for footpaths that does not pass through the industries and the industrial areas, but rather pass through the residential areas in order to keep the thieves and muggers away from the industries.
- ✓ Currently there are no lighting, no security, which is a major problem in the area.

With regard to market potential (demand), the overriding demand drivers are the **industrial location factors** - (refer to Chapter 2).

In an international context, SA is not a prime, attractive international industrial investment location, due to *inter alia* the high cost of labour, labour instability / proneness to industrial action, etc. Those companies, who will perhaps consider SA, are furthermore bound to look at heavily **incentivised locations (*refer to Annexure A – Investment Incentives*)** - more specifically, the various IDZ's with their newly promulgated incentives - as opposed to peripheral locations. Our forecast is also that the new toll road strategy will amplify these location preferences. In major metropolitan regions (such as the Cape Town City Region), the revealed preference is clearly towards more centrally located sites (especially “greener”, i.e. more capital intensive, high value added industries demand central locations due to rapidly increasing logistics costs).

6.6 SYNTHESIS

This chapter outlined the industrial market including the latest trends, local indicators and the industrial space demand modelling – 2 scenarios (baseline and optimistic) for the Philippi market area.

✓ SCENARIO 1: BASELINE SCENARIO

Table 6.14: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R694 207 390
Size of industrial (sqm)	73 074
Employment opportunities	1 329
Parking bays	1 461
Parking infrastructure & landscaping cost	R32 737 359
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

The following is evident from Table 6.14:

- ✓ The development potential for the site up to 2018 amounts to approximately **5.22 hectares** increasing cumulatively to **27.08 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **1 329 employment opportunities** on site.

✓ SCENARIO 2: OPTIMISTIC SCENARIO

Table 6.15: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R2 082 622 171
Size of industrial (sqm)	219 223
Employment opportunities	3 986
Parking bays	4 384
Parking infrastructure & landscaping cost	R98 212 077
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

The following is evident from Table 6.15:

- ✓ The development potential for the site up to 2018 amounts to approximately **15.66 hectares** increasing cumulatively to **81.23 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **3 986 employment opportunities** on site.

In the context of the above, two growth scenarios were generated – a baseline and somewhat more optimistic scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey intervention, such as the N2 accessibility etc.

The most **important conditions** that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

CHAPTER 7: DOWNSTREAM DEMAND MARKET ANALYSIS

7.1 INTRODUCTION

The purpose of this chapter is to identify what other development potential the Philippi area has which is non-manufacturing in nature. The industrial market is typically slower and lacks behind the retail and office markets. In terms of the industrial market, it is often difficult to find investment partners, it has an extended take-up rate, phasing is always required, it has a complex cash-flow and there is often investment return challenges that are linked with the industrial market. For this reason other markets will be explored in this section, which might have better investment returns for Philippi, such as the residential market, retail market and the office market. Other markets (e.g. Agri-processing and the fresh produce market) will briefly be analysed in this section. The residential market will be investigated first.

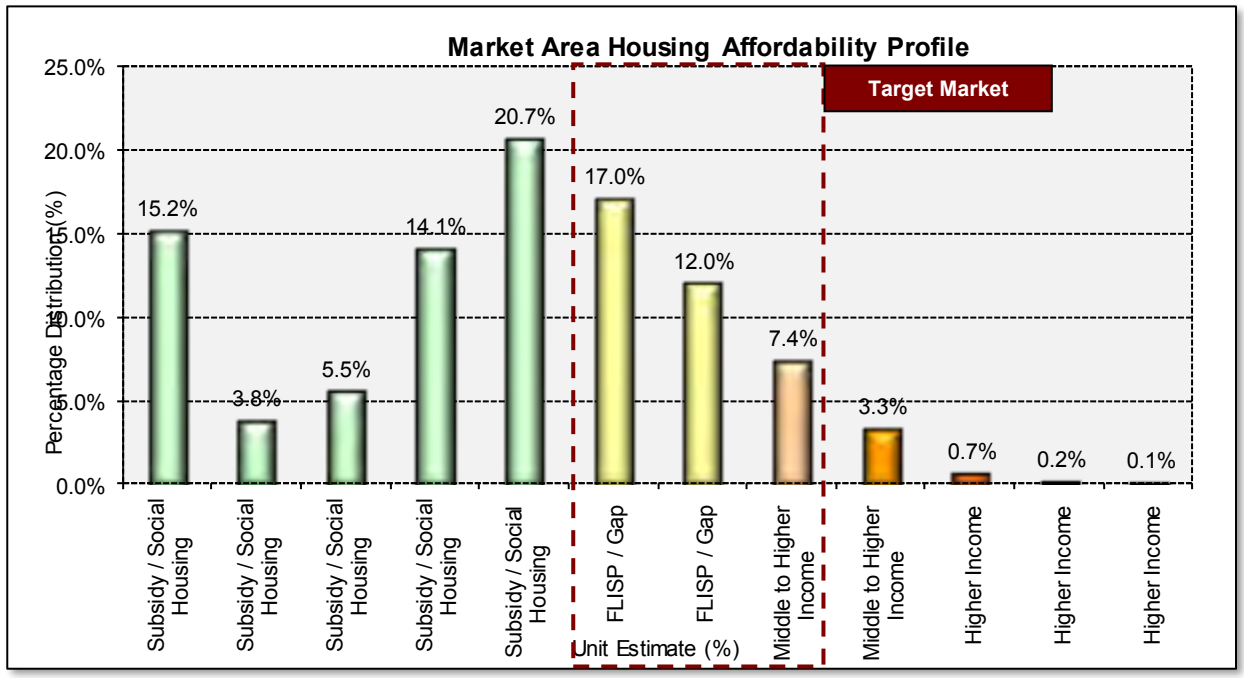
7.2 RESIDENTIAL MARKET

✓ Residential demand modelling

Development Type	Effective Market Gap	Development Prospects
Credit-linked and bonded residential units	Yes	Medium to High
Subsidy Housing	Yes	Medium to High

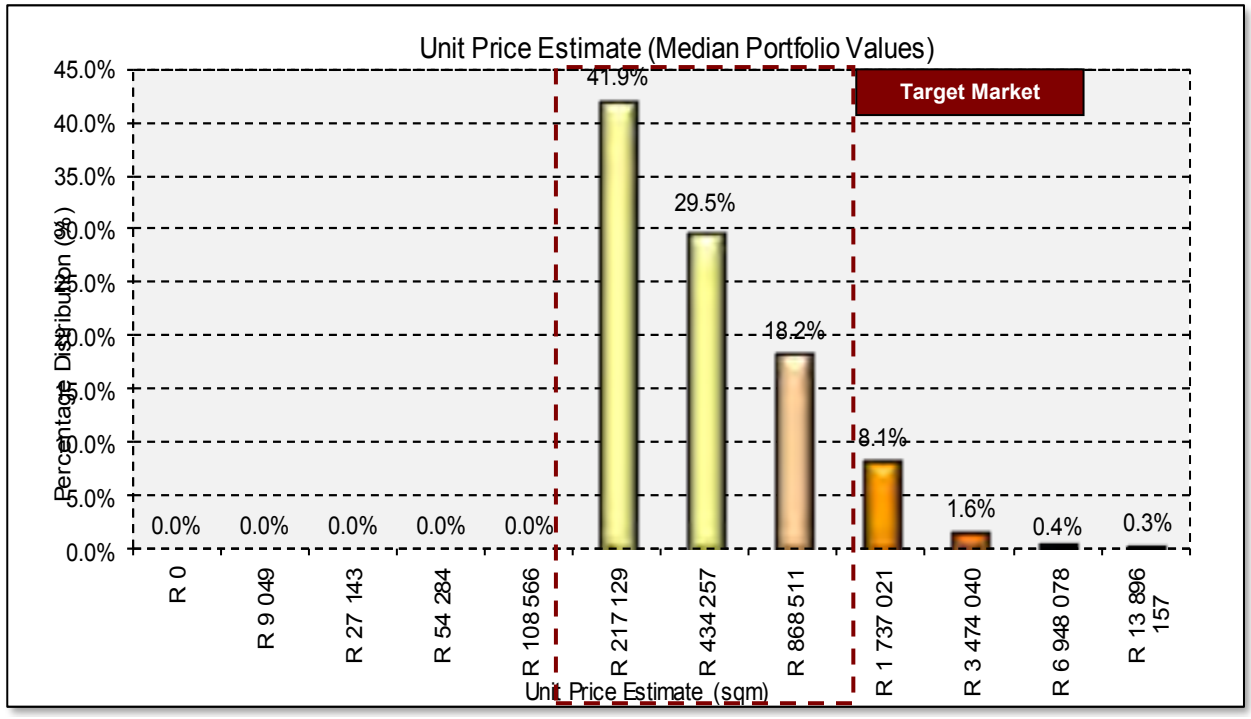
Residential Market Development Potential:

Figure 7.1: Target Market Housing Profile



Source: Demacon, 2013

Figure 7.2: Unit Price Estimate



Source: Demacon, 2013

Table 7.1: Residential Affordability Profile

Income Midpoint 2013 (R)	House Price	Distribution (%)	Classification
R 0	R 0	59.3%	Subsidy / Social Housing
R 2 807	R 9 049		Subsidy / Social Housing
R 8 419	R 27 143		Subsidy / Social Housing
R 16 837	R 54 284		Subsidy / Social Housing
R 33 674	R 108 566		Subsidy / Social Housing
R 67 347	R 217 129	17.0%	FLISP / Gap
R 134 693	R 434 257	12.0%	FLISP / Gap
R 269 385	R 868 511	7.4%	Middle to Higher Income
R 538 769	R 1 737 021	3.3%	Middle to Higher Income
R 1 077 538	R 3 474 040	0.7%	Higher Income
R 2 155 076	R 6 948 078	0.3%	Higher Income
R 4 310 151	R 13 896 157		Higher Income

Target Market

Source: Demacon, 2013

Project Size and Anticipated Take-Up

Table 7.2 indicates the number of credit linked and bonded units that can be absorbed by the market over a ten year period.

Table 7.2: Summary of Market Recommendations

	TOTAL MARKET		
A	**Additional HH: base yr + 5yrs**		19 826
B	**Annualised Market growth (full housing spectrum)**		3 965
C	**Credit-linked and Bonded Segment**		40.7%
D	**Credit-linked and Bonded Segment take-up per annum**		1 614
E	**Annual secondary market contribution (units / annum)**	**Min**	3 180
F		**Max**	4 240
G	**Total annual Credit-linked and Bonded demand**	**Min**	4 794
H		**Max**	5 854
	PROJECT SPECIFIC		
I	**Project Credit-linked and Bonded Segment Units**		12 500
J	**Forecast market share of total market sales**	**Min**	20%

K		**Max**	30%
L		**Min**	959
M	**Project forecast total annual take-up rate (units / annum)**	**Max**	1 756
N	**Years to 80% take-up (Credit-linked and bonded segment units)**	**Min**	7.1
O		**Max**	13.0
P		**Avg**	**10.1**
Q	**OPME**		**2014+**

Source: Demacon, 2013

Explanatory Notes:

A = increase in demand for new housing units (i.e. new household formation in the market area)
B = Annualised market growth, i.e. of A/5
D = B x C
E & F = Annual secondary market contribution (i.e. the contribution made by re-sales in the target affordability income brackets)
G & H = Annual new credit-linked and bonded demand; D + E and D + F
I = Project credit-linked and bonded units
J & K = assumed market share of market area
L = G x J
M = H x K
N = I / L
O = I / M

- ✓ The modelling portrays demand and take-up based on market growth trends.
- ✓ Table 7.2 shows two sections, 1) total market and 2) project specific. Between 2013 and the next 10 years an estimated 19 826 new households will seek accommodation in the target geographic market area, resulting in an annual growth in demand of approximately 3 965 units per annum (across the full housing spectrum, including informal and subsidy). Under present market conditions, the credit-linked and bonded segment (40.7%) will yield a take-up rate of 1 614 units per annum.
- ✓ Given an ideal take up rate of 10 years, it is estimated that **12 500 credit-linked and bonded units** and approximately **8 333 subsidy units** could be absorbed within the Philippi market area within the **first phase** of the development.
- ✓ Point of market entry: 2014 and beyond
- ✓ Credit-linked and Bonded Units should be priced from **R210k upwards.**

7.3 RETAIL MARKET

- ✓ **Current Retail Supply in the market**

Table 7.3 provides a description of retail centres within and around the market area, in terms of its size as well as its centre classification.

Table 7.3: Shopping Centres (existing & proposed) within and around the market area (supply within 10km radius)

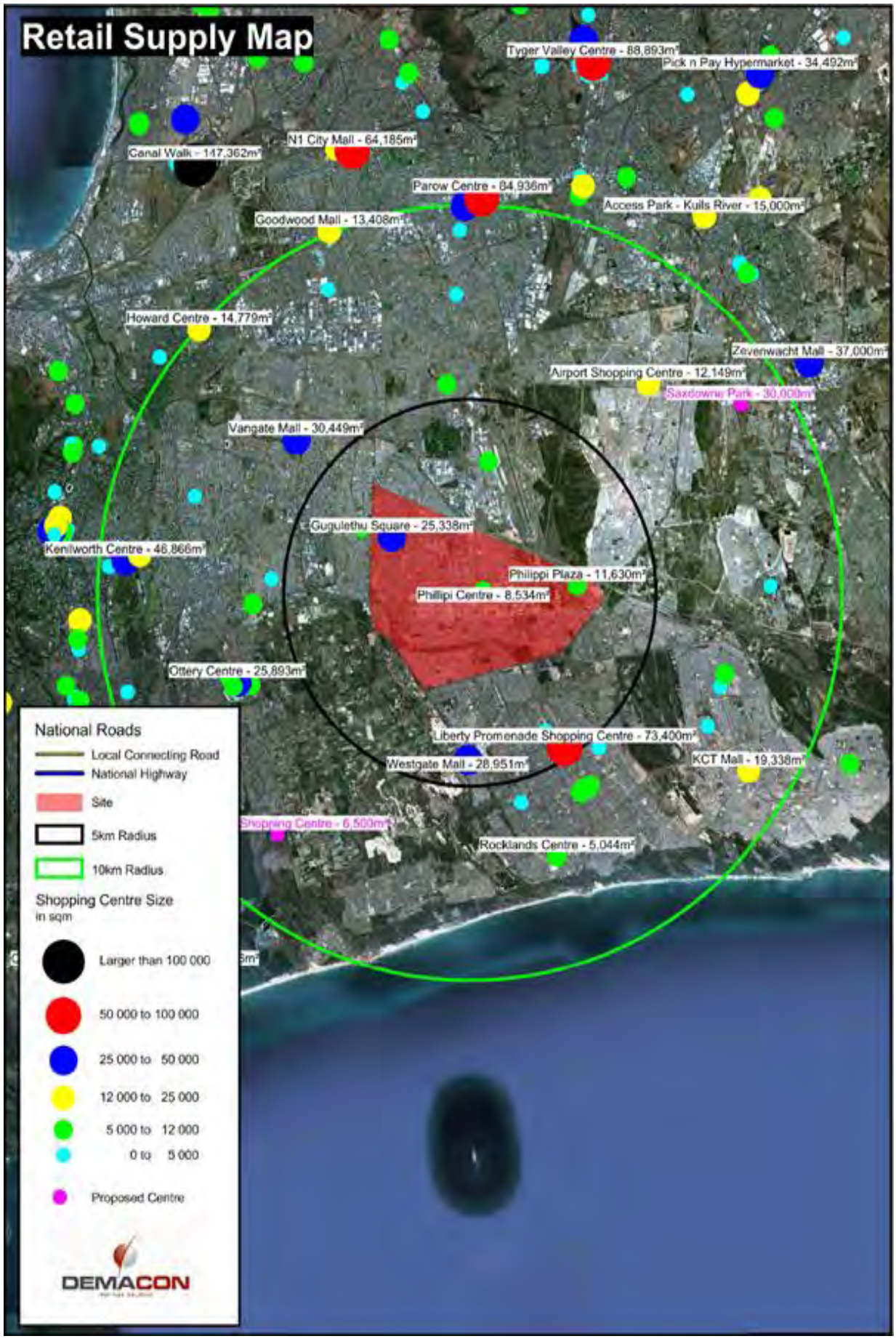
Name of Retail Centre	Classification	Size (GLA m²)	Location	Nr of shops	Anchor Tenants
EXISTING					
Cape Town International Airport	Airport Retail	8720	Airport Industria	74	Big Five Duty Free, Out Of Africa, Woolworths
Makro - Ottery	Big Box Retailers	10000	Ottery	1	Makro
Airport Shopping Centre	Community Centre	12149	Belhar	70	Shoprite, Pepkor, ABSA, Nedbank
KCT Mall	Community Centre	19338		62	Shoprite, Spar
Nyanga Junction	Neighbourhood Centre	10071	Manenberg	110	Pick n Pay, Campwell Hardware
Ottery Centre	Hyper Centre	25893	Ottery	45	Pick n Pay Hypermarket
Gugulethu Square	Large Community Centre	25338	Gugulethu	85	Shoprite, Spar

Name of Retail Centre	Classification	Size (GLA m²)	Location	Nr of shops	Anchor Tenants
Vangate Mall	Large Community Centre	30449	Athlone	180	Edgars, Pick n Pay, Woolworths, Elite
Westgate Mall	Large Community Centre	28 952	Weltevreden Valley	80	Checkers, Woolworths, Edgars.
Beacon Valley Shopping Centre	Local Convenience Centre	2 058	Beacon Valley	9	Rania's Cash and Carry
Foodprop Centre - Cravenby	Local Convenience Centre	3 095	Cravenby	9	Shoprite, Pep,
Foodprop Centre - Hanover Park	Local Convenience Centre	2 934	Hanover Park	6	Shoprite
Krombroom Shopping Centre	Local Convenience Centre	1 760	Crawford	11	Woolworths
Lansdowne Corner	Neighbourhood Centre	7 000	Lansdowne	25	Shoprite, Clicks
Lentegeur Shopping Centre	Local Convenience Centre	2 174	Lentegeur	16	Shoprite
Mutual Plain - Symphony Walk	Local Convenience Centre	4 069	Town Centre	11	Ackermans, ABSA, Choice Clothing
Nonquabela Shopping Centre	Local Convenience Centre	2 911	Nonqubela	16	Pick n Pay
Opera Place	Local Convenience Centre	2 246	Town Centre	12	Nedbank
Parow Valley Centre	Local Convenience Centre	3 000	Parow Valley	10	Spar
Shoprite Centre - Mfuleni	Local Convenience Centre	4 539	Mfuleni	15	Shoprite
Sonata Lane	Local Convenience Centre	2 158	Town Centre	10	Discom, Morkels
Unity Centre	Local Convenience Centre	1 745	Town Centre	2	
Viking Business Park	Local Convenience Centre	3 500	Epping	38	Standard Bank, Nedbank, ABSA, FNB, Post Office
Village One Shopping Centre	Local Convenience Centre	1 120		7	Small Shops
Westridge Shopping Centre	Local Convenience Centre	4 126	Westridge	26	Shoprite
Liberty Promenade Shopping Centre	Major Regional Centre	73 400	Beacon Valley	175	Edgars, Woolworths, Game, Pick n Pay, Ster-Kinekor, Foschini
Kenilworth Centre	Minor Regional Centre	46 866	Kenilworth	108	Pick n Pay, Woolworths, Edgars, Checkers, Clicks, Virgin Active, Ster-Kinekor, Game
China City	Neighbourhood Centre	8 227	Ottery	51	
Foodprop Centre - Bishop Lavis	Neighbourhood Centre	7 009	Bishop Lavis	25	Shoprite, Pep, Post Office, KFC
Nonquabela Mall	Neighbourhood Centre	8 227	Nonqubela	15	Shoprite
OK Bazaars - Mitchell's Plain	Neighbourhood Centre	10 428	Town Centre	30	Shoprite, Jet, Legit
Ottery Value Centre	Neighbourhood Centre	5 720	Ottery	44	Home upgrade stores
Philippi Plaza	Neighbourhood Centre	11 630	Phillipi	40	Spar
Phillipi Centre	Neighbourhood Centre	8 534	Phillipi	14	Shoprite
Pick n Pay Town Centre - Mitchell's Plain	Neighbourhood Centre	5 142	Town Centre	2	Pick n Pay Family, Multiserve
Rocklands Centre	Neighbourhood	5 044	Rocklands	18	Shoprite Checkers

Name of Retail Centre	Classification	Size (GLA m²)	Location	Nr of shops	Anchor Tenants
	Centre				
Shoprite Centre - Mitchell's Plain	Neighbourhood Centre	8 167	Town Centre	9	Shoprite, Hungry Lion
Station Plaza	Neighbourhood Centre	9 154	Town Centre	88	Shoprite
Access Park - Kenilworth	Value Centre	19 670	Kenilworth	125	Fruit & Veg City
PROPOSED					
Pelican Park Shopping Centre	-	6 500	Pelican Park	-	-
Saxdowne Park	Community Centre	30 000	Hagley	-	-

Source: Demacon based on South Africa Shopping Centres Directory, 2013

Map 7.1: Retail Supply within the market area (10km radius)



✓ **Retail Market Development Potential**

Development Type	Effective Market Gap	Development Prospects
Regional Centre	Yes	Medium to High

Table 7.4: Recommended Centre Options

Recommended Centre Options	
Total annual growth in market demand (sqm/a)	6 331
Centre share of growth (sqm/a)	791
Point of market entry (OPME)	2017:2018
Additional growth in demand for centre (sqm)	2 374
Retail GLA at OPME	80 911
Services GLA at OPME	20 228
Cinemas & entertainment	3 500
OPME Centre size (sqm)	**104 638**
On-site job creation	3 488
Retail Sales potential (R 2013 value)	2 336 448 831
Total capital investment - buildings (R 2013 value)	1 360 299 918
Additional Parking bays required	6 278
Parking infrastructure & landscaping cost (R 2013 value)	149 423 714

Source: Demacon Retail Demand Model, 2013

Centre size and recommendations:

- ✓ Note that in the context of net effective demand calculations, indications suggest, that the retail component should ideally measure no more than **104 638m² GLA**.
- ✓ The optimum point of market entry will be **2017/2018**.
- ✓ The centre will have an annual sales potential of approximately *R2 336 million* and could create *±3 488 permanent on-site jobs*.
- ✓ Paved parking should be provided at a ratio of *6 bays per 100m² retail GLA*.
- ✓ Performance will be dependent on, *inter alia*, appropriate tenant composition.
- ✓ After interviews with brokers and developers, it was determined that most developers that want to develop within the Philippi area tend to "westernise" retail (such as developing a big mall), which does not work within the specific area (due to cultural/race preferences).
- ✓ It was found that there is a huge retail component in the area, namely wholesale.
- ✓ It was also stated that the safety of the Philippi area also lies within the hands of the corner traders. Suggestions were made that zoning should take place to allow erven of 5m²-50m² to be sold to unstructured corner traders to make their businesses legal and provide them with licenses, since this is the type of retail that is especially unique to Philippi. The idea is to regulate these corner shops, just as government did with all the shebeens in the area.

7.4 OFFICE MARKET

Office demand modelling has become increasingly specialized. One particular aspect that has changed is a notable shift away from broad based supply-demand estimations to multivariate, differentiated models. In the context of preceding chapters, the development potential for a business park in the market is subsequently determined, based on a specialist econometric model. It is known that the demand office space depends on the production function of a market area. To develop a model, *inter alia* three data sets are required in time series format. They are:

- ✓ Total employment of the market area,
- ✓ Finance and business services employment,
- ✓ Finance and business services productivity indicator.

Related property market indicators, together with the four data series were used in the following formula.

FORMULA:

The following equation is used to determine office space absorption:

$$AB_t = {}^*CO)\tilde{l}_t - OC_{t-1})$$
$$=\tilde{l}(\alpha_0 + \alpha_1 EM_1 + \alpha_2 EW_t + \alpha_3 Q_t - \alpha_4 R_{t-2}) - \tilde{l}_1\, OC_{t-1}$$

Key:

AB	=	Net absorption of space
OC	=	Occupied Space
EM	=	Employment in Finance sector
EW	=	Employment in Business sector
Q	=	Finance and Business Output per Worker
R	=	Rental Rate for Office Space

RATIONALE

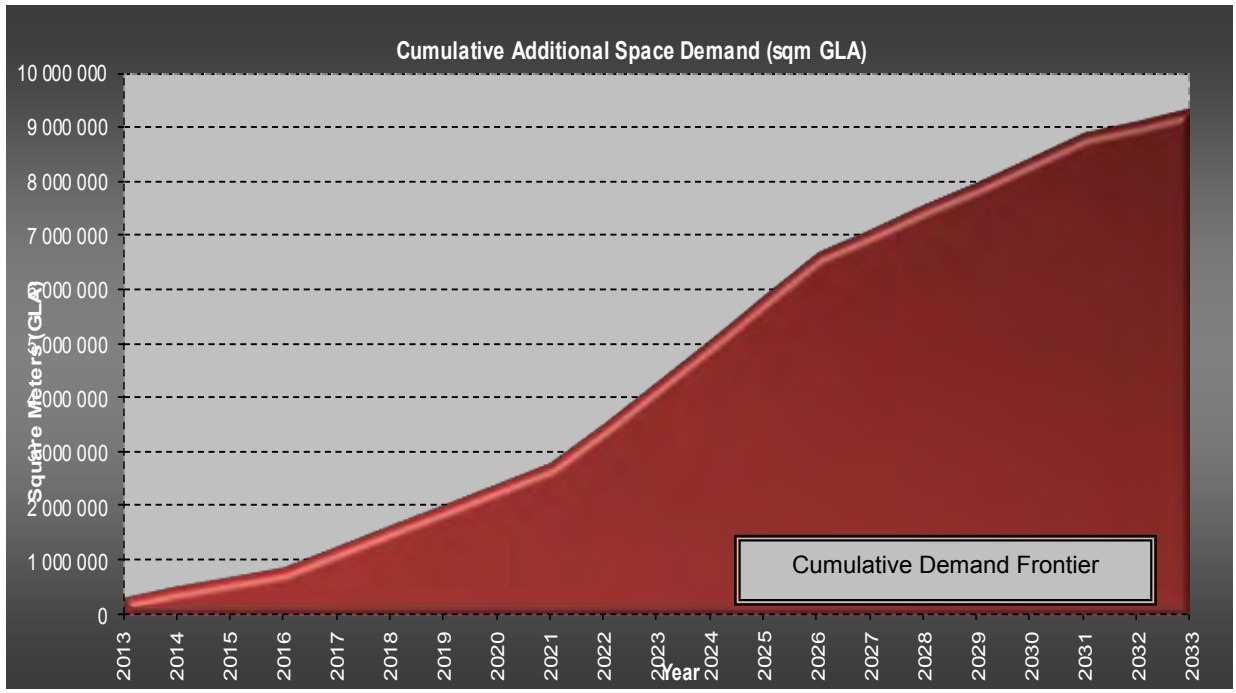
The net absorption of space, AB_t will be an adjustment between the desired amount of occupied space, OC^*_t and that used last period, OC_{t-1}. The desired amount of space will be a linear function of current lagged employment in the finance and business sectors (EW_t, EM_t) together with the level of office output per worker (Q).

Finance employment and output per worker is used as separate variables (instead of total office production), recognizing that the space demand, which originates from more workers can be quite different from that arising when firms use more capital and knowledge to generate additional output. To estimate an office rental elasticity of space demand, the rental rate for office space (R_t) is entered directly into the equation for the desired stock of space.

(The long-term square metre demanded per finance and business workers are the parameters α_1, α_2 in the Equation above. The actual estimated statistical coefficients on finance and business employment are the parameters multiplied by the estimated parameters multiplied by the estimated parameter on the lagged occupied stock).

The aim of the following is to determine whether there would be a demand for certain types of floor space in the future and if so, how much. This can be determined by taking into account GGP, employment and output per worker. The following figure illustrates cumulative additional office space demand for the **Philippi market area**.

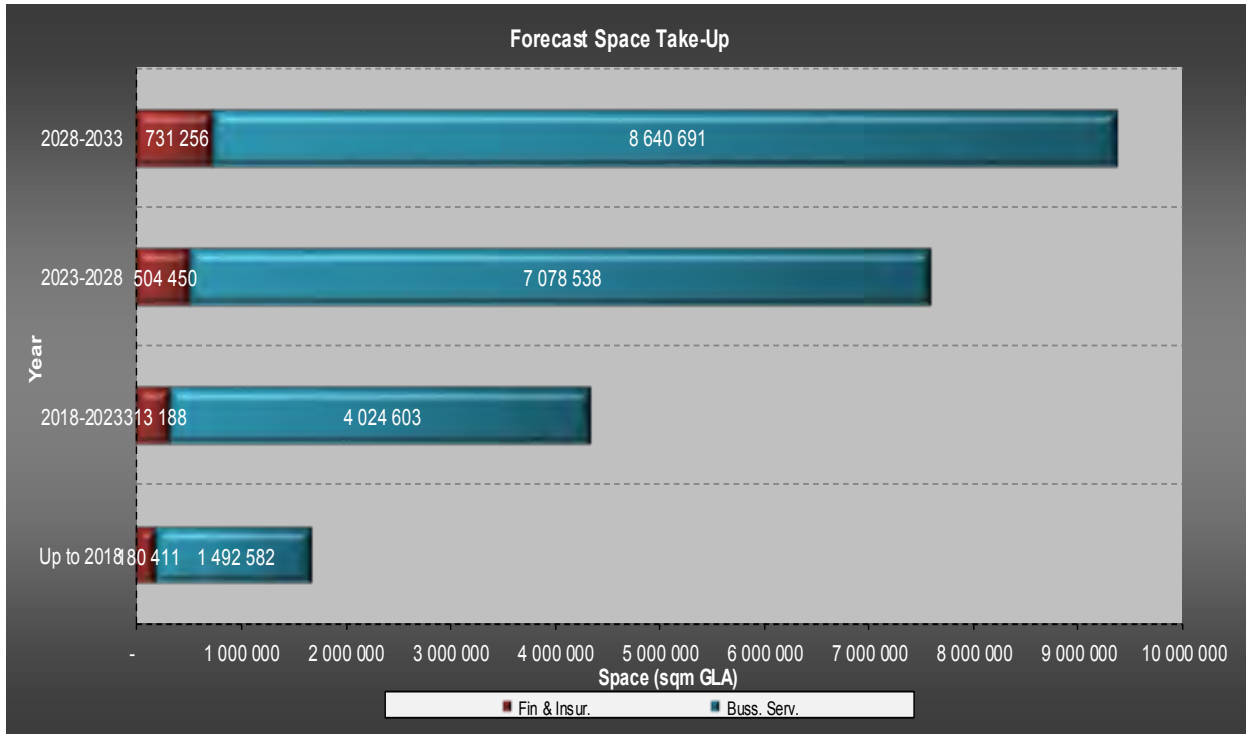
Figure 7.3: Cumulative Additional Office Space Demand



Source: Demacon, 2013

The following figure illustrates forecast take-up for office space. It is evident that the greater percentage of office space take-up up to 2033 will be by *business services*, which is an indication that this sector is the dominant sector in the Philippi market area.

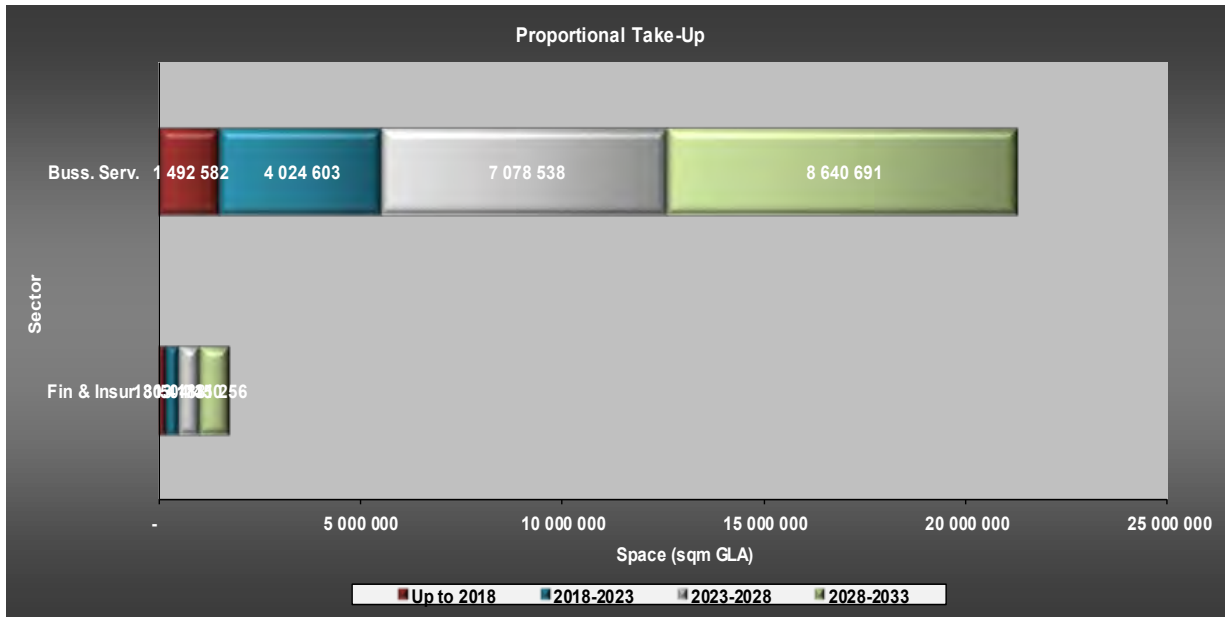
Figure 7.4: Forecast Office Space Take-Up



Source: Demacon, 2013

Figure 7.5 indicates the proportional take-up for the *business services* sector.

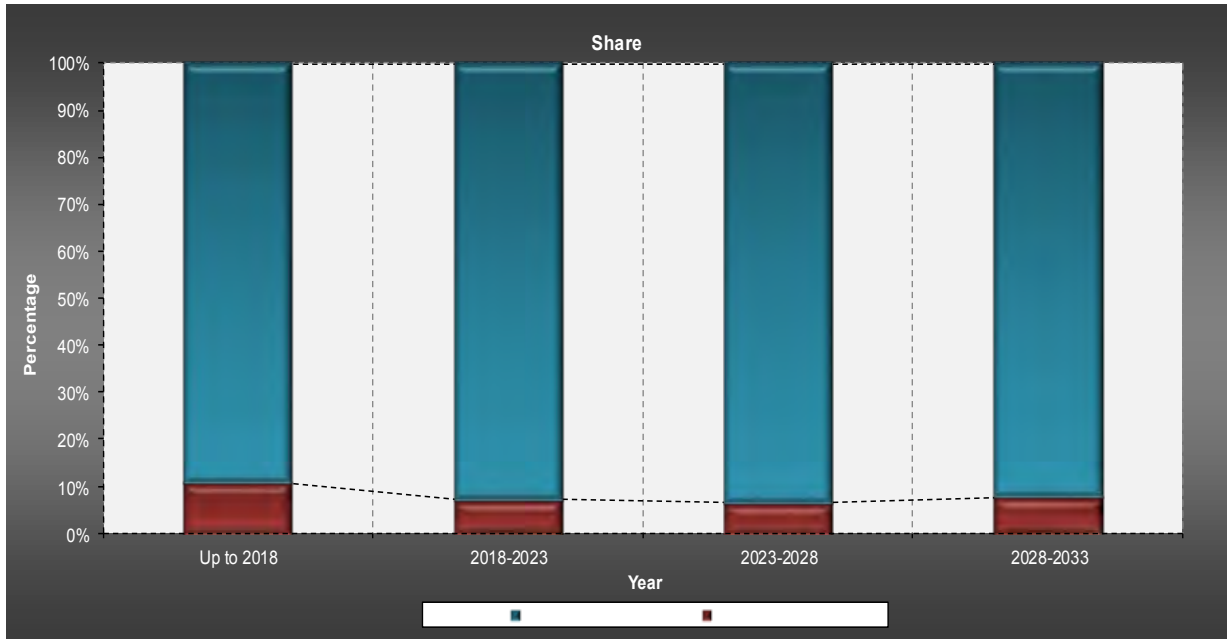
Figure 7.5: Proportional Take-Up



Source: Demacon, 2013

Figure 7.6 illustrates the respective share of finance & insurance and business services.

Figure 7.6: Share - Finance & Business Services



Source: Demacon, 2013

Gap Analysis:

Development Type	Effective Market Gap	Development Prospects
Offices / Commercial	Yes	Low to Medium

Table 7.5 summarise the space demand modelling results – reflecting the office development potential for 2018 to 2033. This space includes GLA for offices and related facilities, but excludes parking and basements. Modular design is recommended to facilitate flexibility and adjustment in accordance with user requirements specifications.

Table 7.5: Synthesis of Space Demand Modelling Results – m² GLA

Cumulative Additional Space Demand	Up to 2018	2023	2028	2033
Finance & Insurance *(sqm GLA)*	180 411	313 188	504 450	731 256
Business services *(sqm GLA)*	1 492 582	4 024 603	7 078 538	8 640 691
Total: City of Cape Town	**1 672 993**	**4 337 790**	**7 582 989**	**9 371 947**
Total: Nodal share - Min	**16 730**	**43 378**	**75 830**	**93 719**
Total: Nodal share - Max	**33 460**	**86 756**	**151 660**	**187 439**
Average*	**25 095**	**65 067**	**113 745**	**140 579**

Source: Demacon, 2013

* *Note: the nodal shares and the average figures are cumulative*

Table 7.6: Recommended Sizes

Cumulative Additional Space Demand	Rand per annum / m²
Size of Office (sqm)	65 067
Capital investment (2013 constant values)	748 268 856
Employment opportunities	3 253
Parking	2 603
Parking infrastructure & landscaping cost (2013 constant values)	61 943 648
OPME	**Post 2020**

Source: Demacon, 2013

- ✓ Dominant sub-sector: **Business services sector**
- ✓ Recommended type of office development: **Low rise, medium density, suburban lifestyle offices**
- ✓ Total office demand in the City of Cape Town is forecast to be approximately 1 672 993m² office GLA (2018). This figure will cumulatively escalate to 7 582 989m² GLA in 2028. This space includes GLA for offices and related facilities, but excludes parking and basements.
- ✓ Project specific demand for the Philippi market area is forecast to be approximately **25 000m² over the short to medium term** and **65 000m² over the medium to longer term.**
- ✓ Provisions should ideally be made to accommodate future expansion.
- ✓ **OPME: Post 2020**
- ✓ In order for office development to be viable in the Philippi market area, various locational prerequisites (as discussed in previous sections) need to be in place. Office developments will only follow after all other developments and locational prerequisites are in place.

7.5 FRESH PRODUCE MARKET & AGRI-PROCESSING

This section of the report focuses on the Philippi Horticultural Area, with the objective of estimating the development potential within the designated area, such as Agri-processing, Fresh Produce Market etc.

Philippi Horticultural Area (PHA)

The Philippi Horticultural Area has historically been very important to the City's food system and ecological stability. The PHA produces over 50% of the fresh produce consumed in Cape Town. The area also serves as an important recharge function for the Cape Flats Aquifer and is the green lungs for the Cape Flats. The PHA has been reduced in size through development pressure over the years and the remaining part is under immense pressure right now.

The Horticultural area is the most valuable land within the Philippi area. This agricultural/rural landscape is both vivid and intact and reveals continuity in terms of land use and response to the terrain. It is a product of a dynamic, creative and cultural interaction between the natural environment and its inhabitants over time. The response of the cultural landscape to the natural landscape is a function, in part, of the carrying capacity of the land and changing agricultural patterns. Farm buildings respond to the natural demands of the context and are placed comfortably in the landscape in terms of scale and form.

The Philippi Horticulture Area totals 3073.9ha in extent. The area produces well over 50 different horticultural crops and many farmers are also active in livestock production. The farmers have realigned their production to new markets and market systems and are now actively selling direct to the major retailers, retailer agents and other sources such as restaurants and speciality stores. Farmers are also actively involved in on-farm value addition.

While estimating production figures is arguably subjective, it was estimated that just under 100 000 tonnes of fresh produce is grown in the PHA annually. This included an estimated figure of over 2 000 tonnes of produce that is given free to farm workers in a year - a flow of food that plays a critical role in the broader food access of the communities in the vicinity of the PHA.

Currently only 60% (1 800ha) of the potentially productive land in the PHA is used to produce vegetables. Growers mainly supply the Epping Market and or grow on contract to chain stores. PHA agriculture supports 2000 jobs and this increases by 40% in summer. It also supports vulnerable groups such as illiterate women, hawkers, spaza shops and small business. Because of its close proximity to the low income market on the Cape Flats, the cost of access (transport, etc.) is cheap which keeps the price of fresh produce low. There is some 600ha that can be made available for cultivating food crops by emerging farmers which can increase the PHA's contribution to the market from 50% to more than 80%.

The Horticultural Area performs a number of significant roles:

- ✓ It serves as the interface between the city and farmland. The area is a large green lung for the surrounding residential area.
- ✓ It provides an ecological link to the False Bay coast via Strandfontein and Weltevreden Expressway.
- ✓ It exhibits a range of conservation-worthy qualities, namely historical, aesthetic, social and scientific.
- ✓ It provides amenity spaces for the urban environment in the form of nurseries, riding schools as well as being an educational environment.
- ✓ The historical fabric associated with earlier rural land uses, is embedded within the area: the homesteads, the landforms generated by farming requirements such as the water dams and the use of long rows of branches and bushes as windbreaks. The large clumps

of gum trees soften the edges and create distinctly different sub-spaces within the larger whole.
- ✓ The characteristic tendency to plant clumps of blue-gum trees for shade and wind protection, further accentuate their significant landscape value.

The Philippi horticultural area comprises several features which are integral to the various components of the city-wide 'green space':

- ✓ Major component of the ecological conservation areas and green corridors as per CMOSS (Cape Metropolitan Open Space System)
- ✓ It is part of an integrated green web system, such as the Lotus River storm water relief system and detention system.
- ✓ Abuts open space systems such as the Strandfontein sewer plant which is a direct link to the False Bay coast contributes to a unique and special public open space.
- ✓ Contains dune thicket in southern portion.
- ✓ It has the Varkensvlei Forest Reserve.
- ✓ Contains the Edith Stephan Wetland Nature Park as part of the Cape Flats Nature Reserve.

Where does your food come from?

Philippi Horticultural Area (PHA) produces 48 vegetable types including herbs and flowers totalling 50% of fresh vegetables consumed in Cape Town. PHA farmers employ 3 000 workers- vulnerable groups including illiterate women, youth and unskilled workers.

Agriculture within the PHA is healthy and needs land to expand. Food security is the no 1 challenge for cities. Food security is achieved when all members of a household have enough food to eat at all times. 80% of Capetonians are food insecure because of poverty, unemployment and inequality.

PHA is important and should not be lost; otherwise food will need to be trucked in from outside Cape Town at high cost. The PHA is seen as Cape Town's insurance policy against high food prices. Cape Town's market garden (PHA) produces 50% of the city's vegetables. Only 30% reaches the poor.

A review was carried out in 2012, interviewing a number of food sales outlets selling fresh produce in the vicinity of the PHA. These outlets included street traders, spaza shops, farm stalls, small wholesalers and traders operating outside established retail stores. For certain stores, specifically the farm stalls and certain street traders, the PHA is the primary source of vegetable produce. However, for many of the other retail outlets, food travels from the PHA, through various other market mechanisms (such as the People's Market in Epping) before being sold by these stores. This reflects the complexity of the food system but research found that the PHA played a key role in these processes.

Contribution of Agricultural Production in Philippi - Vegetables (Botfontein, Joostenbergvlakte, PHA):

- ✓ Type: mainly highly perishable products with a short shelf life and frequent delivery requirement (e.g. lettuce)

- ✓ Quality: high soft vegetable quality due to short travelling time to the market compared to other production areas located further away from the market (i.e. outside the City boundaries)
- ✓ Affordability: low transport cost due to close proximity to the market.
- ✓ Alternative production areas outside the City's boundaries will bring extensive logistical and probably environmental challenges, as well as a higher cost of production

Philippi Fresh Produce Market

The City of Cape Town and the Provincial Department of Agriculture have invested millions in the construction of the Philippi Fresh Produce Market. It seems that while there is a role for infrastructure investment in creating an enabling environment for small producers that on its own it is not sufficient to bring new smallholders into production and the market place.
The Philippi market garden is still active. It produces tons of vegetables and flowers annually for local consumption and export. It is labour-intensive and a source of employment for the communities in the vicinity.

This distinctive farming landscape is unique in the city. It forms a large green lung within a dense urban environment. It provides a valuable resource for diverse employment opportunities, recreational enjoyment and cultural activities.

The market is currently about 70 % occupied, and combines food processors, a bakery, fresh produce traders, a fresh produce wholesaler, a fresh produce pack house (focusing on procuring produce from small farmers), a banana ripening and fresh produce exporter, and a dairy outlet. Furthermore, the market is in the process of establishing fresh produce production on site for supplying the market, as well as a vermiculture composting unit to compost organic waste generated on-site into compost for small farmers.

The market is still a new venture which is in a building and marketing phase – people of the surrounding area rather buy their produce from where they bought it for the past decade then at the new market. The low number of customers coming to the market relates to low volumes kept by the traders, which increase the prices which results in less people buying from the market. The market has to secure a larger volume of customers to buy produce to increase the volume that can be kept on hand to improve the profitability of the tenants.

The construction of the Fresh Produce Market does not appear to have been preceded by an in depth study of existing smallholder agricultural production in Cape Town and has proceeded on the basis of assumptions about what would constitute an effective stimulus to this sector. Without other measures being put in place the Fresh Produce Market may end up as an expensive white elephant.

Agri-processing:

The role of agro-industries: Agriculture and agro-processing (especially foods, clothing, leather and leather products) tend to lead to a more equitable distribution of per capita income, also boosting trade and transportation. Moreover, these sectors also tend to create more low-skilled jobs.

High employment generators in the economy are also found in the agro-industrial sector. They are: tobacco products, oils and fats, basic chemicals, meat products, animal feeds, other foods, dairy products, grain milling, sugar products, paper products and canning.

The vital role of the agricultural and agro-processing industry sector indicates that agricultural investment is necessary for industrial, urban and regional development and to achieve food security, create jobs for all, generate and redistribute income and improve the quality of life of all.

The agricultural and agro-processing sector shares some overlapping components with other sectors, such as biodiversity, manufacturing, and the environment. The proposed main focus for this sector is:

- ✓ crops (field crops and horticulture);
- ✓ animals (including health, nutrition and range-land utilisation);
- ✓ fisheries;
- ✓ forestry; and
- ✓ natural resources.

The agricultural sector priority areas are:

- ✓ Production, which can be divided into three categories:
  - use of physical resources (soils, water etc.);
  - use of inputs (feeds, remedies, fertilisers, seeds, chemicals, etc.); and
  - production practices (management).
- ✓ Conservation and utilisation of natural resources.
- ✓ Processing, recognising three levels:
  - beneficiation
  - manufacturing and
  - manufacturing discrete products.
- ✓ Support activities (marketing; extension; financing; information and institutional organisation), which will help to sense and respond to market needs.

A number of cross-cutting areas affecting development have to be taken into account. They are as follows:

- ✓ training (with a focus on end-user needs).
- ✓ marketing, which needs to consider the following three types:
  - informal;
  - formal; and
  - export.
- ✓ industrial products (edible and inedible).
- ✓ infrastructure development to support agriculture and agro-processing.
- ✓ indigenous technology development and knowledge.
- ✓ business development in agriculture and agro-processing.
- ✓ poverty alleviation and food security.
- ✓ job creation.
- ✓ technology transfer
- ✓ support Industries.

As illustrated from the above, agri-processing is a multifaceted sector that overlaps other sectors such as manufacturing etc. There are strong backward linkages with various sectors, such as the manufacturing sector for the production of machinery and fertilisers, the transport sector for the transport of inputs, as well as the electricity and water sector for the provision of adequate water supplies to farmlands for irrigation and other processes. Other backward linkages include inputs from labourers, most of which have fairly low levels of education and generally earn low wages.

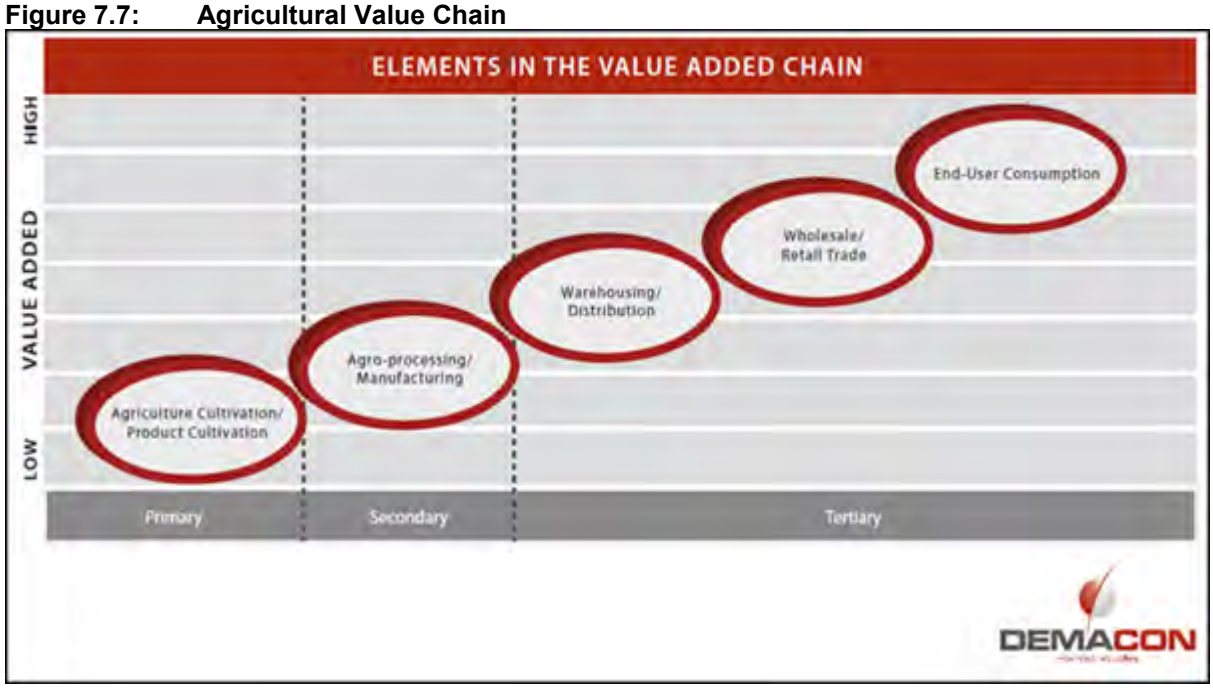
Forward linkages differ from area to area, depending on whether processing and packaging occurs on the farms or not, the close proximity of the farms to their different markets, and whether there are strong transport links or not between the farms and these markets. Farms in the southern agricultural region (such as Philippi) generally have stronger links to the Cape Metropolitan Area markets, due to closer proximity, than those northern agricultural areas.

Although the agricultural economic linkages within Philippi seem to be fairly well developed, there are possibilities to improve the existing economic linkages and establish new linkages. Stronger linkages between agriculture and tourism can also be created, by not only expanding on existing situations, but also in creating new opportunities.

It is evident that the agriculture sector in Philippi relies on the production of primary products such as vegetables, but no significant value is being added to these products currently. Value adding to primary products could expand the market and create economic opportunities for both the investor (monetary return on exports of beneficiated goods) as well as the job market for those who are unemployed within the local area.

The value chain represents the process as products moves from the primary to secondary to tertiary market segment as value is added to the product. Value adding to agricultural products varies between basic and complex, depending on the end-user focus of the product. In general, the value chain for agriculture is more complex than mining.

Figure 7.7: Agricultural Value Chain



Basic vegetable production centres around a primary, low value-added product during the **Agricultural Cultivation / Product Cultivation** stages of the value chain. As value is added by means of **Agro-processing / Manufacturing** processes, the product moves into the secondary economic sectors, which has greater multiplier potential. If further value is added to the product, it moves into the tertiary sectors, where **Warehousing / Distribution** and **Wholesale / Retail Trad**e occur. This chain optimises access to **End-user Consumption markets.**

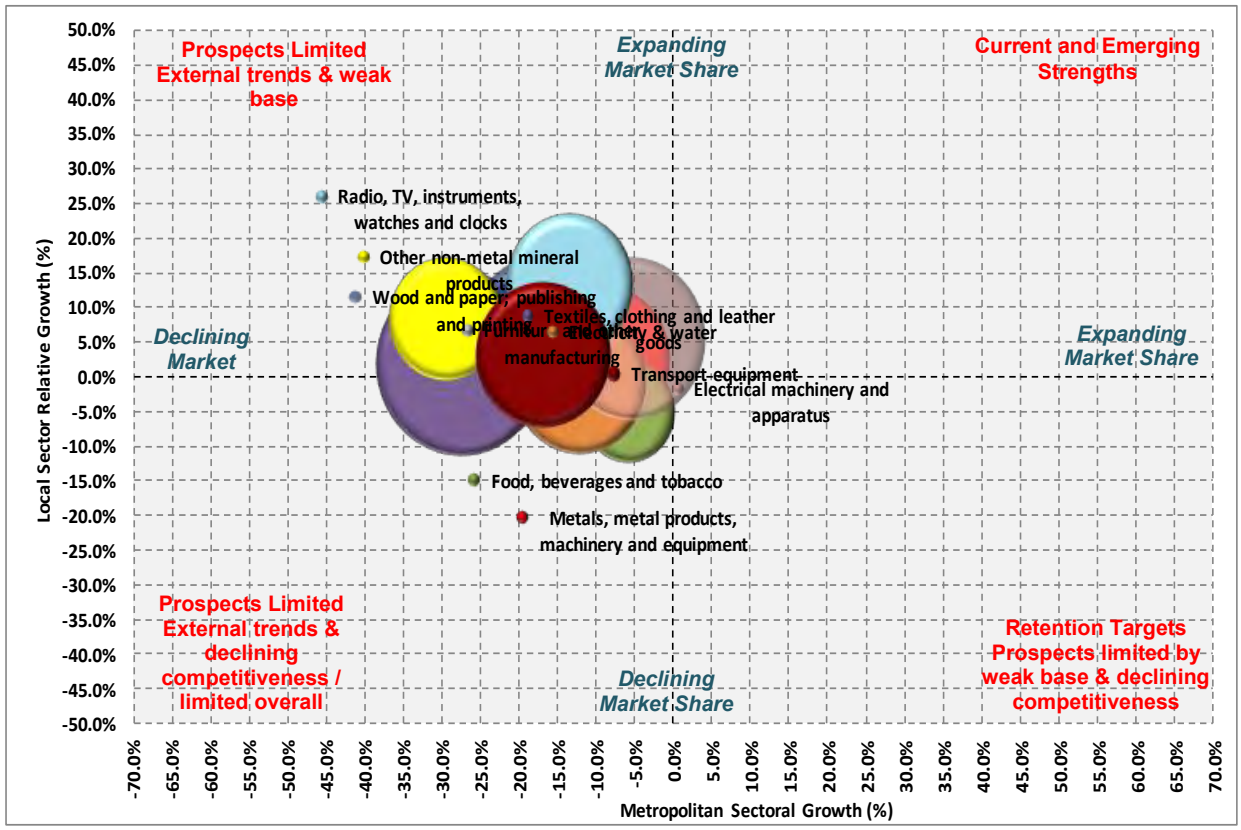
As we can see from the above diagram, opportunities exist within the wider agribusiness framework for the Philippi area to take advantage of its latent strengths and comparative advantages. This can help with the development of a support base for emerging farmers.

In terms of the quantity of the labour force in the agricultural sector, the Philippi area does not have a shortage in labourers. But in terms of the quality of the labour force, the labourers in the agricultural sector are in need of education, skills and training. In terms of the Carvalho Classification (refer to Chapter 4) it was established that the agricultural sector within Philippi is a "leading" sector where local growth exceeded metropolitan growth. (The Carvalho Classification provides a multi-dimensional indication of the suitability of sectors, supported by tools and instruments that could be utilised in the development of these sectors).

In terms of the manufacturing sector and the downstream possibilities; the manufacturing sub-sectors which was identified as the leading sectors within Philippi which could possibly be further developed (according to Carvalho) in terms of agri-processing possibilities are as follows:

- ✓ Textiles, clothing and leather goods
- ✓ Wood, paper, publishing and printing
- ✓ Other non-metal mineral products
- ✓ Metals, metal products, machinery and equipment
- ✓ Electrical machinery and apparatus
- ✓ Radio, TV, instruments, watches and clocks
- ✓ Transport equipment
- ✓ Furniture and other manufacturing

Figure 7.8: Industry Classification System of Manufacturing sub-sectors, 2006 to 2011



Source: Demacon, 2013

Philippi is seen as an ideal place for agro-processing. It is situated next to the rail link, right next to the N2, and in very close proximity to the airport. There is also a direct link to the port as well as a line through to the produce developing areas through the Winelands. It is strategically placed with regards to agri-processing.

Problems/challenges encountered in the transitional urban / rural areas of the Horticultural area

The area is characterised by a range of issues and concerns:

- ✓ Farmsteads and their associated lands have a visual-spatial and historical relationship with the area. Disused farmhouses are being vandalised and should rather play a positive role in upgrading the surrounding landscape.
- ✓ The area must be carefully managed and controlled to prevent urban encroachment and unsympathetic development. There is a lack of adherence to land use regulations.
- ✓ Conflicting land uses without a clear distinction between urban and rural activities could lead to the total loss of this unique area.
- ✓ Public utilities and infrastructure, such as sewage and water processing facilities and cemeteries, have a negative impact on the character of the area.
- ✓ Industrial activity including car scrap yards, storage of large construction vehicles, have a negative impact on the area.

- ✓ Practical difficulties of farming adjacent to urban area, such as crime is degrading the area and agricultural land is under-utilised.
- ✓ Illegal and informal settlements accelerate loss of farming area.
- ✓ The area has poor levels of security.
- ✓ Incorrect perception that land is earmarked for urban development.
- ✓ In the south the silica mining and urban intrusion threatens the dune system.
- ✓ There is a lack of protection of agricultural land for development. An appropriate relationship between urban, rural and natural environments needs to be implemented by the City.
- ✓ Large Scale illegal dumping along roads is creating environmental impact.

While the farmers are generally positive about the opportunities in the PHA, there is significant frustration at the confusion about the future of the area. This frustration is compounded by a real challenge of continuous theft of farming infrastructure and increasingly large scale theft of produce. The challenge of theft is made worse by ineffective control in the area, aggravated by reports, from all farmers, of ineffective and selective police services in the area. These challenges are further aggravated by the constant debate as to the future of the PHA, and as a result the future of the farms and all support operations. Regardless of these challenges, farmers remain active and engaged in the business of farming. While the general views of the PHA are positive, these are constrained by extreme frustration at the fact that the area is not protected, secured and resourced as an agricultural zone.

Agricultural land in Cape Town is also increasingly threatened by a mix of illegal dumping and occupation of public and private land to establish informal settlements. A number of constraints have been identified which currently limit the growth and livelihood potential of urban horticulture and livestock keeping. These include:

- ✓ Conflicts of interest between livestock keepers and city officials: Livestock keepers benefit from grazing their livestock on open land adjacent to where they stay in that they do not pay grazing fees and remain in close proximity to local markets;
- ✓ Lack of data on urban farming activities in the area;
- ✓ Insufficient agricultural knowledge and skills amongst urban farmers;
- ✓ Lack of access to and affordability of water;
- ✓ Availability of suitable land;
- ✓ Very weak linkages to the commercial agricultural sector in terms of supplies, marketing and sharing of opportunities;
- ✓ Low level of alignment and coordination between all main role-players;
- ✓ Lack of tools and production inputs (seeds, compost, etc.).

Interviews held with locals and developers within the Philippi area:

The overall sentiment within the area is that there are major opportunities and development potential within the Philippi area. However, there are so many different associations and institutions that are working hard within the area to develop and uplift the area without taking notice of one another, instead of working together to accomplish a common goal.

Some of the locals stated that the PHA has no structure, no vision, no control. It was also suggested that a City Improvement District be created in order to better the area. Security and safety (especially theft) is a big problem within the PHA area, and it was suggested that the area be fenced off. Farmers should be able to pay for land or land should be available to rent.

The PHA is a high density employment area, where building control is needed. Squatters are growing and infiltrating the area, thus the need for an in fenced agricultural area.

It was also stated that new projects within Philippi (such as fish farms etc.) has the tendency to fail after a while and that developers and locals should rather focus on what works within the area, such as equipping the current farmers and industries. It was suggested that government should rather try and assist local farmers to get work/become successful and try and attract industrialists to establish within Philippi. Government should:

- ✓ Put small-scale farmers, the people who distribute and consume food at the centre of the food system.
- ✓ Turning growing food into a profitable small business.
- ✓ Improving livelihoods, creating jobs and improving food security.
- ✓ the importance of protecting established and emerging farming areas in and around the city, and the opening up of opportunities for new and emergent farmers.

In terms of agri-processing it was also suggested that agri-processing is not seen as being natural to the area. Agri-processing will need to be established in a very unique way in order to be successful within the Philippi area, as it is not something that is already there. Developers stated that most of the products for agri-processing will have to come from other areas and will not really be from Philippi itself – which will again be costly. They stated that agri-processing is not a potential within Philippi that "stands out" currently, and other developments that could make a huge impact on Philippi should rather be focussed on. Although n terms of agri-processing, it was stated that transport, logistics and warehousing will be suitable for development within Philippi.

It was also mentioned that business in the Philippi area has not followed the government pace in terms of investment in the area. The current industries and businesses that are in Philippi do not sufficiently meet people's needs.

Oscar Saunders, a local developer within Philippi, also stated that they have plans to develop a Fruit & Veg within Stock Road. He mentioned that the local farmers mainly produce carrots and lettuce within the area and that other vegetables such as potatoes etc. are needed within the area, which will be brought into the Philippi area from outside.

Way forward

As seen from the above, the agricultural potential within Philippi is enormous. Agro-processing in terms of value adding is a better option than the fresh produce market, although the fresh produce market will add value only in terms of trade (and no additional value adding) within the area. Based on the findings, it is clear that all indications are that agri-processing would be feasible and economically beneficial to the area, **subject to full feasibility analysis of the agricultural sector/market**. As indicated throughout the study, Philippi already has various significant assets that make it an ideal location for various types of development.

In terms of agricultural development within Philippi, it is suggested that all local associations and interested parties, such as Abalimi, Philippi Worx, the Business Place Philippi, and Government etc. start to work together and form networks in order to understand where they can assist one another and to establish one path/vision forward. Certain functions and programmes do not appear to be aligned between these various associations. Likewise the

services offered by the City of Cape Town and the Provincial Department of Agriculture also seem in some respects to overlap which can also contribute to confusion. Co-ordination, networking and interaction between various parties need to be supported.

Agricultural Projects planned for the Philippi area:

- ✓ Philippi Produce Market - Established to serve local emerging farmers
- ✓ PUFS - Philippi Urban Food Security - Covered Farming Training Facility
- ✓ Vermicompost Project - Food Waste to Compost Processing
- ✓ Philippi Agricultural Project
- ✓ Fruit & Veg retail development in Stock Road

7.6 SYNTHESIS

Preceding paragraphs analysed the site in terms of its non-manufacturing development potential – i.e. residential, retail, office potential as well as a brief analysis regarding agri-prcessing. The development poses investment benefits and challenges which should be addressed. Herewith a summary of all the findings:

Residential Market:

- ✓ The modelling portrays demand and take-up based on market growth trends.
- ✓ Table 7.2 shows two sections, 1) total market and 2) project specific. Between 2013 and the next 10 years an estimated 19 826 new households will seek accommodation in the target geographic market area, resulting in an annual growth in demand of approximately 3 965 units per annum (across the full housing spectrum, including informal and subsidy). Under present market conditions, the credit-linked and bonded segment (40.7%) will yield a take-up rate of 1 614 units per annum.
- ✓ Given an ideal take up rate of 10 years, it is estimated that **12 500 credit-linked and bonded units** and approximately **8 333 subsidy units** could be absorbed within the Philippi market area within the **first phase** of the development.
- ✓ Point of market entry: 2014 and beyond
- ✓ Credit-linked and Bonded Units should be priced from **R210k upwards.**
- ✓ However, the relevant framework of restrictions set by the National Department of Transport to guide development in the vicinity of the airport is important and should be consulted in terms of residential development.
- ✓ Residential development will not be supported on land falling within the 65db airport noise contour.
- ✓ Given that the airport noise contours will shift in future, residential land use would need to be re-evaluated.

Retail Market:

- ✓ Note that in the context of net effective demand calculations, indications suggest, that the retail component should ideally measure no more than **104 638m² GLA**.
- ✓ The optimum point of market entry will be **2017/2018**.
- ✓ The centre will have an annual sales potential of approximately *R2 336 million* and could create *±3 488 permanent on-site jobs*.
- ✓ Paved parking should be provided at a ratio of *6 bays per 100m² retail GLA*.
- ✓ Performance will be dependent on, *inter alia*, appropriate tenant composition.

- ✓ After interviews with brokers and developers, it was determined that most developers that want to develop within the Philippi area tend to "Westernise" retail (such as developing a big mall), which does not work within the specific area (due to cultural/race preferences).
- ✓ It was found that there is a huge retail component in the area, namely wholesale.
- ✓ It was also stated that the safety of the Philippi area also lies within the hands of the corner traders. Suggestions were made that zoning should take place to allow erven of 5m²-50m² to be sold to unstructured corner traders to make their businesses legal and provide them with licenses, since this is the type of retail that is especially unique to Philippi. The idea is to regulate these corner shops, just as government did with all the shebeens in the area.

Office Market:

- ✓ Dominant sub-sector: **Business services sector**
- ✓ Recommended type of office development: **Low rise, medium density, suburban lifestyle offices**
- ✓ Total office demand in the City of Cape Town is forecast to be approximately 1 672 993m² office GLA (2018). This figure will cumulatively escalate to 7 582 989m² GLA in 2028. This space includes GLA for offices and related facilities, but excludes parking and basements.
- ✓ Project specific demand for the Philippi market area is forecast to be approximately **25 000m² over the short to medium term** and **65 000m² over the medium to longer term.**
- ✓ Provisions should ideally be made to accommodate future expansion.
- ✓ **OPME: Post 2020**
- ✓ In order for office development to be viable in the Philippi market area, various locational prerequisites (as discussed in previous sections) need to be in place. Office developments will only follow after all other developments and locational prerequisites are in place.

Agri-Processing:

In terms of the Carvalho Classification (refer to Chapter 4) it was established that the agricultural sector within Philippi is a "leading" sector where local growth exceeded metropolitan growth. (The Carvalho Classification provides a multi-dimensional indication of the suitability of sectors, supported by tools and instruments that could be utilised in the development of these sectors).

In terms of the manufacturing sector and the downstream possibilities; the manufacturing sub-sectors which was identified as the leading sectors within Philippi which could possibly be further developed (according to Carvalho) in terms of agri-processing possibilities are as follows:

- ✓ Textiles, clothing and leather goods
- ✓ Wood, paper, publishing and printing
- ✓ Other non-metal mineral products
- ✓ Metals, metal products, machinery and equipment
- ✓ Electrical machinery and apparatus
- ✓ Radio, TV, instruments, watches and clocks
- ✓ Transport equipment
- ✓ Furniture and other manufacturing

Philippi is seen as an ideal place for agro-processing. It is situated next to the rail link, right next to the N2, and in very close proximity to the airport. There is also a direct link to the port as well as a line through to the produce developing areas through the Winelands. It is strategically placed with regards to agri-processing.

As seen from the above, the agricultural potential within Philippi is enormous. Agro-processing in terms of value adding is a better option than the fresh produce market, although the fresh produce market will add value only in terms of trade (and no additional value adding) within the area. Based on the findings, it is clear that all indications are that agri-processing would be feasible and economically beneficial to the area, **subject to full feasibility analysis of the agricultural sector/market**. As indicated throughout the study, Philippi already has various significant assets that make it an ideal location for various types of development.

CHAPTER 8: ECONOMIC IMPACT ASSESSMENT

8.1 INTRODUCTION

The purpose of this chapter is to assess the anticipated economic impact that will be generated by the proposed Philippi development. Capital investment and operational expenditure that will be associated with the proposed development are used as basis to quantify the potential impact that will result from the proposed Philippi development on the local, metropolitan and provincial economies.

The impact refers to the ripple effect throughout the economy caused by investment in a specific economic sector. This economic impact stretches beyond the jobs and income generated by the original project. In order to estimate the total economic impact the input-output model is employed.

The following section provides an overview of the aforementioned development concept that will be associated with the proposed Philippi development (on which the impact assessment is based).

8.2 PHILIPPI DEVELOPMENT CONCEPT

Table 8.1 summarises the proposed development concept serving as basis for the quantitative assessment of the construction as well as operational phases of the proposed project, as described and quantified in preceding chapters.

Table 8.1: Philippi Development Concept (on which impact is based)

Land Use	Proposed Development Size – Baseline Scenario	Proposed Development Size – High Road Scenario
Offices	65 067m^2	113 745m^2
Light Industrial	73 074m^2	219 223m^2
Residential (credit-linked and bonded)	12 500 units	15 000 units
Retail	104 638m^2	313 914m^2

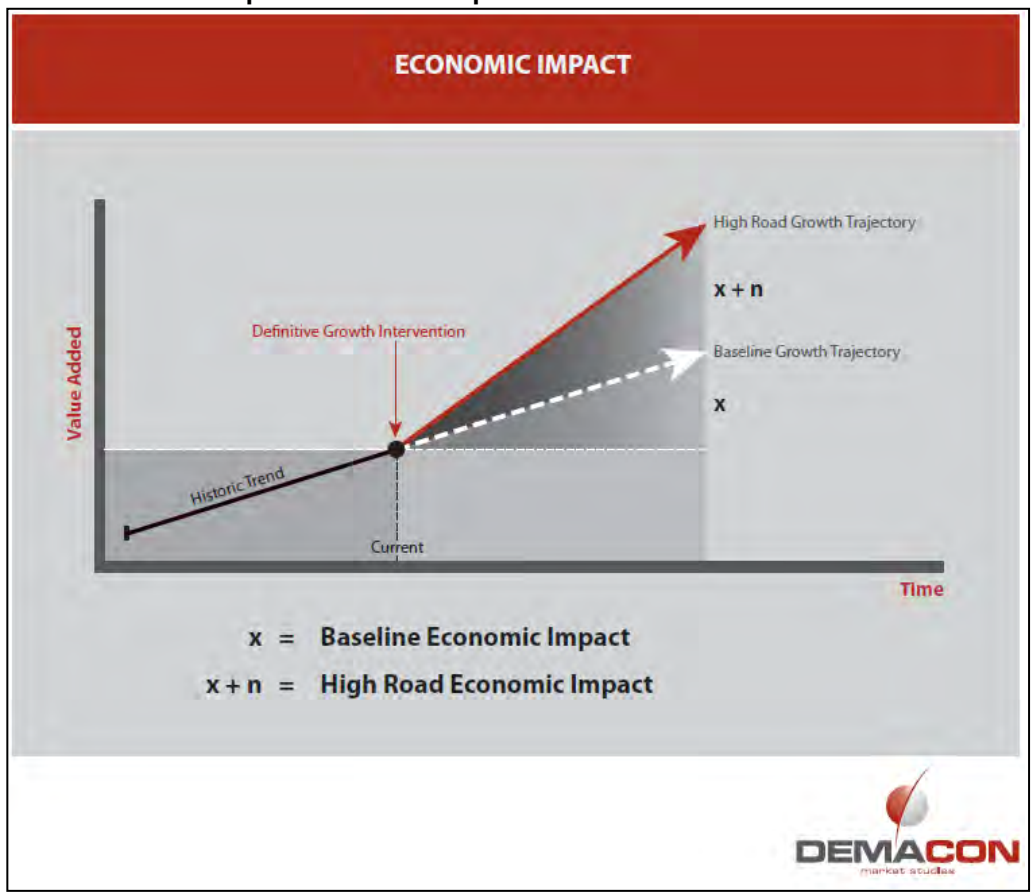
Source: Demacon Estimates, 2013

However, before the findings of the quantitative assessment of the proposed project can be addressed, the model utilised for this purpose is discussed in more depth in the following section.

8.3 INPUT-OUTPUT MODEL

The following figure conceptually illustrates the economic impact that the proposed Philippi development could have on the local economy in terms of additional GGP.

Diagram 8.1: Economic impact of the development



Before the input-output model is discussed it is necessary to understand the community economic system and underlying interrelationships (Refer to Diagram 8.2).

It is evident that there is a strong interrelationship and interdependence between the three dominant sectors of the local economy: Basic industry, households and services. These interrelationships refer to sectors purchasing from other sectors, sectors selling to other sectors, sectors selling outside of the local economy and sectors buying outside of the local economy.

This results in the flow of labour, inputs, goods and services as well as money within and beyond the local economy. The input output analysis creates a picture of a regional economy describing the flows to and from industries and institutions. In other words it provides a description of the local economy and predicts the estimated impacts resulting from a change in the local economy.

The Input-Output Model depicts economic relationships between different components of an economy by identifying monetary flows (expenditures, receipts) between various units. The relationship between the initial spending and the total effects generated by the spending is known as the multiplier effect of the sector, or more generally as the impact of the sector on the economy as a whole. The input-output table represents the nucleus of the Inset-Output Model – as reflected in Diagram 8.3.

Diagram 8.2: Community Economic System

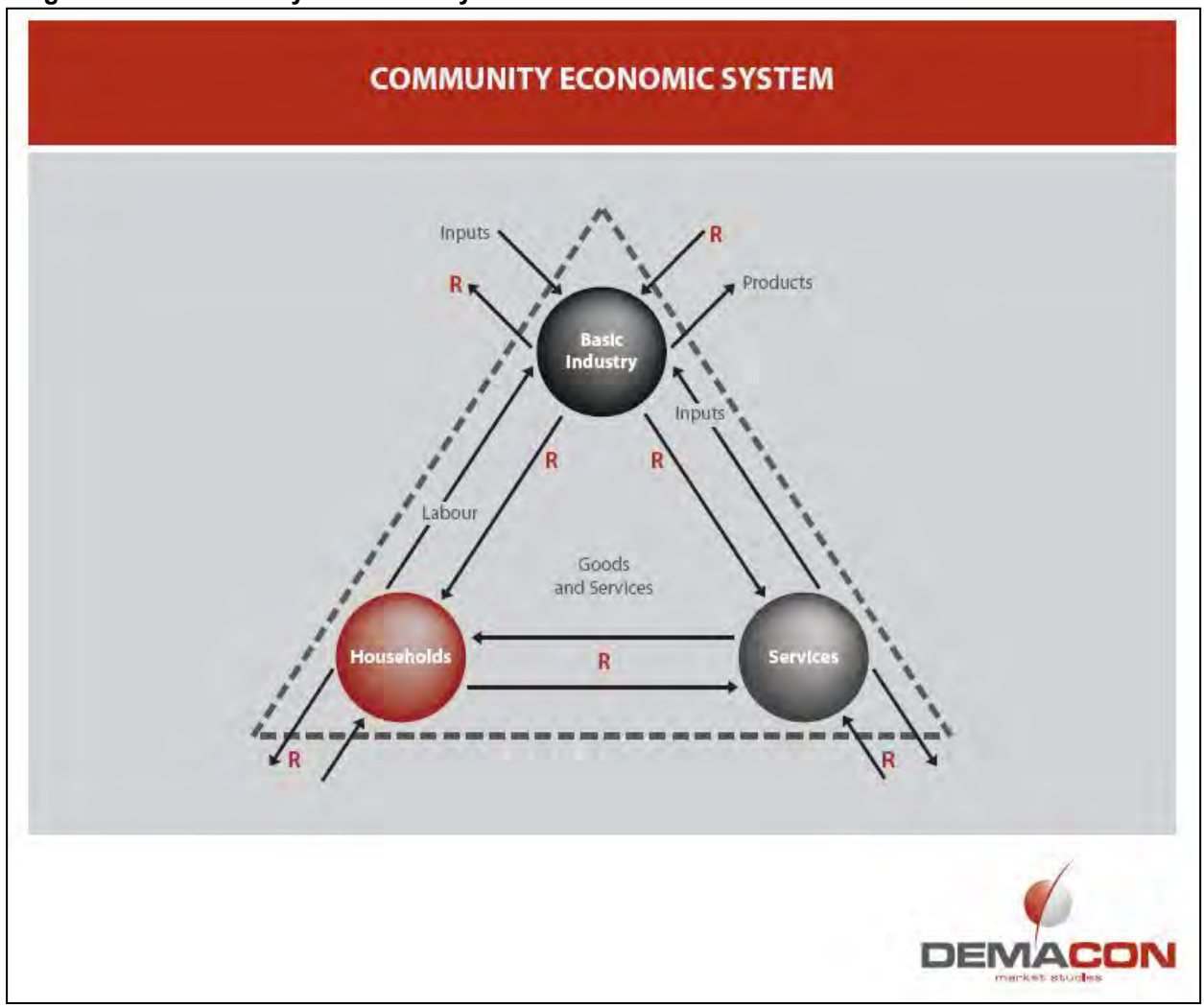


Diagram 8.3: Schematic presentation of the Input-Output table

	Intermediate Outputs	Final Demand	Total Production
Intermediate Inputs	**Quadrant I** x11x12 x21x22 xn1xn2 M11 M12	**Quadrant II** C1 G1 I1 IC1E1 C2 G2 I2 IC2 E2 Cn Gn In ICn En MC MG	X1 X2 Xn Mn
Primary Inputs	**Quadrant III** A1A2 B1B T1T2	**Quadrant IV** VC VG VI $_{VIC}$ VE	A B T
Total Production	X1 X2 Xn	C I G (X – M)	Z

Final demand (Y) can be presented by the following formula:

Y = C + I + G + (X - Z) where:

C: Private consumption expenditure
I: Gross domestic fixed investment
G: Government consumption expenditure
X: Exports
Z: Imports

Both the intermediate inputs as well as intermediate outputs for the different production sectors are shown in **Quadrant I.** This quadrant is usually referred to as the transaction table or transaction matrix and is an indication of the transfer of goods and services between the industrial sectors for production purposes.

The different final demand components as applied in the input-output table are shown in **Quadrant II**. Components of final demand are private consumption expenditure (C), government consumption expenditure (G), gross domestic fixed investment (I), change in inventories (IC) and total exports (E).

Quadrant III represents the demand for primary inputs by industrial sector. The elements of primary input, which are referred to are remuneration of employees (A), the gross operating surplus (B) as well as net indirect taxes (T).

Quadrant IV is that portion of primary input, which is part of final demand.

The linkage effects between the various sectors in the transaction matrix can be presented by$_{xij,}$ which shows the flow of goods from sector i to sector j.

The input-output model consists of three basic components:

- ✓ **Transaction Table**: illustrate the monetary flows of goods and services in a local economy for a given time period.
- ✓ **Direct Requirements Table**: indicates the purchases of resources (inputs) by a sector from all sectors to produce one Rand of output (creating a production recipe).
- ✓ **Total Requirements Table**: indicates the indirect and induced transactions caused by the purchases of resources (inputs) by a sector from all sectors.

The input-output table is also based on certain basic assumptions:

- ✓ It is possible to group the different production activities in homogeneous industries
- ✓ The demand for intermediates by a particular sector will change in direct proportions to the specific sectors change in output
- ✓ No substitution of intermediates is possible due to price changes
- ✓ No technological change takes place
- ✓ Each sector produces only on primary product.

It should be noted that:

- ✓ All the rand values in the report represents 2013 current prices
- ✓ The different measure of economic impact cannot be added together and should be interpreted separately

- ✓ The model quantifies the economic impacts for a specific amount of time and it is not derived gradually over time.

Impacts are traced through the regional economy in terms of the application of a set of multipliers derived from regional economic accounts (only local transactions are used to create the multiplier effect).

A multiplier summarises the total impact that can be expected throughout the economy from one unit change for a given sector.

There are four types of multipliers:

- ✓ **Output multipliers (Business revenue or sales)**: it estimates the total change in local sales volume.
- ✓ **Employment multipliers**: measures the total change in employment resulting from an initial change in employment of a specific industry.
- ✓ **Value added multiplier (GGP)**: provides an estimate of the additional value added to the products as result of this economic activity. Value added includes employee compensations, indirect business taxes, and proprietary and other property income.
- ✓ **Income multiplier**: measures the total increase in income in the local economy resulting from a 1 Rand increase in income received by workers in the specific industry.

Difference between multipliers and turnover:

Turnover refers to the number of times some of the initial Rand that is received from outside the community, changes hands within the community. Example: 1 Rand received from a new investment changes hands five times within the local economy. The multiplier is 1.66, although some portion of the initial Rand turns over five times. During each exchange of money for goods or services, some of the original Rand leaves the local economy, which reduces the amount spent locally during the next exchange. Multipliers measure the full impact of a Rand on the local economy, whereas turnover merely indicates the number of times some of the initial Rand is spent locally.

The economic impact can be measured in terms of three effects:

- ✓ **Direct effects**: those economic effects caused by the new investment or proposed project.
- ✓ **Indirect effects**: occurs to industries in the backward linked industries that supply goods and services to the proposed development. Economic activity triggered by the purchases made as a result of the initial round of project expenditure.
- ✓ **Induced effects**: result from households spending some of the additional income they receive on goods and services within the local, regional and provincial economies.

There are two types of multipliers:

- ✓ **Type 1 multipliers**: Include direct or initial spending, as well as indirect spending or business buying and selling to each other.
- ✓ **Type 2 multipliers**: Include Type 1 multiplier effects, plus household spending based on the income earned from the direct and indirect effects – the induced effects.

In summary: Economic impacts represent the positive or negative effects caused by the expansion or contraction of an area's economy, resulting from the changes in a facility or

project. In the case of the proposed project it will represent the impacts caused by the proposed Philippi development.

Subsequent sections provide an overview of the estimated economic impacts caused by the implementation of the **Philippi development (including a baseline as well as a high road scenario, pertaining to the various components of the development)**.

The impact will also be estimated in terms of two project phases – the **construction and the operational phases**, commencing with the construction phase impacts in the following section.

8.4 CONSTRUCTION PHASE IMPACTS – BASELINE SCENARIO

This section indicates the anticipated economic impacts (direct, indirect and induced) that will result from the construction phase of the Philippi development (baseline scenario). It is important to note that these impacts are ***once off and not sustained annual impacts***. The impacts will fade away after the construction of the project.

The following table provides an illustration of the anticipated **additional business sales (baseline scenario)** generated by each proposed land use during the construction phase of the proposed Philippi development.

Table 8.2: Construction Phase - Additional Business Sales per Land Use (2013 NPV)

ADDITIONAL BUSINESS SALES	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	854 609 000	159 537 000	335 428 000	1 349 574 000	8,7%
Light Industrial	501 216 000	93 566 000	196 724 000	791 506 000	5,1%
Residential	7 004 955 000	1 307 674 000	2 749 399 000	11 062 028 000	71,2%
Retail	1 481 239 000	276 515 000	581 377 000	2 339 131 000	15,1%
TOTAL (RAND)	**9 842 019 000**	**1 837 292 000**	**3 862 928 000**	**15 542 239 000**	**100,0%**

The following table provides an illustration of the anticipated **additional GGP (baseline scenario)** generated by each proposed land use during the construction phase of the proposed Philippi development.

Table 8.3: Construction Phase - Additional GGP per Land Use (2013 NPV)

ADDITIONAL GGP	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	266 034 000	62 249 000	148 757 000	477 040 000	8,7%
Light Industrial	156 025 000	36 508 000	87 244 000	279 777 000	5,1%
Residential	2 180 599 000	510 236 000	1 219 316 000	3 910 151 000	71,2%
Retail	461 101 000	107 892 000	257 832 000	826 825 000	15,1%
TOTAL (RAND)	**3 063 759 000**	**716 885 000**	**1 713 149 000**	**5 493 793 000**	**100,0%**

The following table provides an illustration of the anticipated **additional employment opportunities (baseline scenario)** generated by each proposed land use during the construction phase of the proposed Philippi development.

Table 8.4: Construction Phase - Additional Employment per Land Use (2013 NPV)

ADDITIONAL EMPLOYMENT	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	1 900	300	900	3 100	8,5%
Light Industrial	1 100	200	500	1 800	4,9%
Residential	15 800	2 800	7 500	26 100	71,5%
Retail	3 300	600	1 600	5 500	15,1%
TOTAL (JOBS)	**22 100**	**3 900**	**10 500**	**36 500**	**100,0%**

The following table provides a synthesis of the abovementioned economic impacts, in terms of additional business sales, additional GGP as well as additional employment, with regard to the entire proposed Philippi development **(baseline scenario).**

Table 8.5: Economic Impact of Proposed Philippi development – Construction Phase

VARIABLE	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT
Additional Business Sales	9 842 019 000	1 837 292 000	3 862 928 000	15 542 239 000
Additional GGP	3 063 759 000	716 885 000	1 713 149 000	5 493 793 000
Additional Employment	22 100	3 900	10 500	36 500

VARIABLE	CAPITAL EXPENDITURE	TOTAL IMPACT
Additional Business Sales	±R6.7 billion	R15.5 billion
Additional GGP		R5.5 billion
Additional Employment		36 500 jobs

Table 8.5 illustrates that the envisaged total investment in construction costs of approximately R6.7 billion, could create an additional R15.5 billion in new business sales, R5.5 billion in additional GGP, as well as an additional 36 500 once-off employment opportunities. Total impact includes direct, indirect as well as induced effects.

The following section provides an overview of the anticipated economic impact of the proposed Philippi development during its construction phase, if the high road scenario prevails.

8.5 CONSTRUCTION PHASE IMPACTS – HIGH ROAD SCENARIO

This section indicates the anticipated economic impacts (direct, indirect and induced) that will result from the construction phase of the Philippi development (high road scenario). It is important to note that these impacts are ***once off and not sustained annual impacts***. The impacts will fade away after the construction of the project.

The following table provides an illustration of the anticipated **additional business sales (high road scenario)** generated by each proposed land use during the construction phase of the proposed Philippi development.

Table 8.6: Construction Phase - Additional Business Sales per Land Use (2013 NPV)

ADDITIONAL BUSINESS SALES	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	1 493 960 000	278 890 000	586 370 000	2 359 220 000	9,4%
Light Industrial	1 503 655 000	280 700 000	590 175 000	2 374 530 000	9,5%
Residential	8 405 946 000	1 569 208 000	3 299 279 000	13 274 433 000	53,0%
Retail & related	4 443 718 000	829 546 000	1 744 131 000	7 017 395 000	28,0%
TOTAL (RAND)	**15 847 279 000**	**2 958 344 000**	**6 219 955 000**	**25 025 578 000**	**100,0%**

The following table provides an illustration of the anticipated **additional GGP (high road scenario)** generated by each proposed land use during the construction phase of the proposed Philippi development.

Table 8.7: Construction Phase - Additional GGP per Land Use (2013 NPV)

ADDITIONAL GGP	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	465 061 000	108 819 000	260 046 000	833 926 000	9,4%
Light Industrial	468 078 000	109 525 000	261 733 000	839 336 000	9,5%
Residential	2 616 719 000	612 283 000	1 463 179 000	4 692 181 000	53,0%
Retail & related	1 383 302 000	323 677 000	773 495 000	2 480 474 000	28,0%
TOTAL (RAND)	**4 933 160 000**	**1 154 304 000**	**2 758 453 000**	**8 845 917 000**	**100,0%**

The following table provides an illustration of the anticipated **additional employment (high road scenario) opportunities** generated by each proposed land use during the construction phase of the proposed Philippi development.

Table 8.8: Construction Phase - Additional Employment per Land Use (2013 NPV)

ADDITIONAL EMPLOYMENT	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	3 400	600	1 600	5 600	9,5%
Light Industrial	3 400	600	1 600	5 600	9,5%
Residential	18 900	3 300	9 000	31 200	53,0%
Retail & related	10 000	1 800	4 700	16 500	28,0%
TOTAL (JOBS)	**35 700**	**6 300**	**16 900**	**58 900**	**100,0%**

The following table provides a synthesis of the abovementioned economic impacts, in terms of additional business sales, additional GGP as well as additional employment, with regard to the entire proposed Philippi development **(high road scenario).**

Table 8.9: Economic Impact of Proposed Philippi development – Construction Phase

VARIABLE	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT
Additional Business Sales	15 847 279 000	2 958 344 000	6 219 955 000	25 025 578 000
Additional GGP	4 933 160 000	1 154 304 000	2 758 453 000	8 845 917 000
Additional Employment	35 700	6 300	16 900	58 900

VARIABLE	CAPITAL EXPENDITURE	TOTAL IMPACT
Additional Business Sales	±R10.9 billion	R25.0 billion
Additional GGP		R8.8 billion
Additional Employment		58 900 jobs

Table 8.9 illustrates that the envisaged total investment in construction costs of approximately R10.9 billion, could create an additional R25.0 billion in new business sales, R8.8 billion in additional GGP, as well as an additional 58 900 once-off employment opportunities. Total impact includes direct, indirect as well as induced effects.

The following section provides an overview of the anticipated economic impact of the proposed Philippi development, during its operational phase (at maturity), if the baseline scenario prevails.

8.6 OPERATIONAL PHASE IMPACTS – BASELINE SCENARIO

The subsequent paragraphs indicate the anticipated sustained economic impacts (direct, indirect and induced) that will result during the operational phase of the Philippi development, ***once the project is fully operational (i.e. sustained annual impacts).***

The following table provides an illustration of the anticipated **additional business sales (baseline scenario)** generated by each proposed land use during the operational phase of the proposed Philippi development.

Table 8.10: Operational Phase - Additional Business Sales per Land Use *(Sustained Annually)*

ADDITIONAL BUSINESS SALES	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	2 797 519 000	498 336 000	1 481 226 000	4 777 081 000	36,9%
Light Industrial	1 504 510 000	115 461 000	625 695 000	2 245 666 000	17,3%
Residential	253 710 000	45 195 000	134 334 000	433 239 000	3,3%
Retail	3 104 194 000	542 531 000	1 841 911 000	5 488 636 000	42,4%
TOTAL (RAND)	**7 659 933 000**	**1 201 523 000**	**4 083 166 000**	**12 944 622 000**	**100,0%**

The following table provides an illustration of the anticipated **additional GGP (baseline scenario)** generated by each proposed land use during the operational phase of the proposed Philippi development.

Table 8.11: Operational Phase - Additional GGP per Land Use *(Sustained Annually)*

ADDITIONAL GGP	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	1 389 941 000	230 475 000	659 534 000	2 279 950 000	37,2%
Light Industrial	590 874 000	48 982 000	276 033 000	915 889 000	15,0%
Residential	126 055 000	20 902 000	59 814 000	206 771 000	3,4%
Retail	1 654 891 000	247 208 000	820 641 000	2 722 740 000	44,5%
TOTAL (RAND)	**3 761 761 000**	**547 567 000**	**1 816 022 000**	**6 125 350 000**	**100,0%**

The following table provides an illustration of the anticipated **additional employment opportunities (baseline scenario)** generated by each proposed land use during the operational phase of the proposed Philippi development.

Table 8.12: Operational Phase - Additional Employment per Land Use *(Sustained Annually)*

ADDITIONAL EMPLOYMENT	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	3 000	1 020	4 030	8 050	38,2%
Light Industrial	640	240	1 700	2 580	12,3%
Residential	270	90	370	730	3,5%
Retail	3 560	1 120	5 010	9 690	46,0%
TOTAL (JOBS)	**7 470**	**2 470**	**11 110**	**21 050**	**100,0%**

The following table provides a synthesis of the abovementioned economic impacts, in terms of additional business sales, additional GGP as well as additional employment, with regard to the entire proposed Philippi development **(baseline scenario).**

Table 8.13: Economic Impact of Proposed Philippi development – Operational Phase

VARIABLE	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT
Additional Business Sales	7 659 933 000	1 201 523 000	4 083 166 000	12 944 622 000
Additional GGP	3 761 761 000	547 567 000	1 816 022 000	6 125 350 000
Additional Employment	7 470	2 470	11 110	21 050

VARIABLE	OPERATIONAL EXPENDITURE	TOTAL IMPACT
Additional Business Sales	±R5.7 billion	R12.9 billion
Additional GGP		R6.1 billion
Additional Employment		21 050 jobs

Table 8.13 illustrates that the estimated total annual operational expenditure of approximately R5.7 billion, could create an additional R12.9 billion in new business sales, R6.1 billion in additional GGP, as well as 21 050 sustained employment opportunities *(at project maturity).* Total impact includes direct, indirect as well as induced effects.

The following section provides an overview of the anticipated economic impact of the proposed Philippi development, during its operational phase (at maturity), if the high road scenario prevails.

8.7 OPERATIONAL PHASE IMPACTS – HIGH ROAD SCENARIO

The subsequent paragraphs indicate the anticipated sustained economic impacts (direct, indirect and induced) that will result during the operational phase of the Philippi development, ***once the project is fully operational (i.e. sustained annual impacts).***

The following table provides an illustration of the anticipated **additional business sales (high road scenario)** generated by each proposed land use during the operational phase of the proposed Philippi development.

Table 8.14: Operational Phase - Additional Business Sales per Land Use *(Sustained Annually)*

ADDITIONAL BUSINESS SALES	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	4 890 402 000	871 152 000	2 589 363 000	8 350 917 000	26,0%
Light Industrial	4 513 551 000	346 385 000	1 877 095 000	6 737 031 000	21,0%
Residential	304 452 000	54 234 000	161 201 000	519 887 000	1,6%
Retail & related	9 312 582 000	1 627 594 000	5 525 734 000	16 465 910 000	51,3%
TOTAL (RAND)	**19 020 987 000**	**2 899 365 000**	**10 153 393 000**	**32 073 745 000**	**100,0%**

The following table provides an illustration of the anticipated **additional GGP (high road scenario)** generated by each proposed land use during the operational phase of the proposed Philippi development.

Table 8.15: Operational Phase - Additional GGP per Land Use *(Sustained Annually)*

ADDITIONAL GGP	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	2 429 786 000	402 897 000	1 152 945 000	3 985 628 000	26,3%
Light Industrial	1 772 631 000	146 948 000	828 104 000	2 747 683 000	18,1%
Residential	151 266 000	25 082 000	71 777 000	248 125 000	1,6%
Retail & related	4 964 672 000	741 624 000	2 461 922 000	8 168 218 000	53,9%
TOTAL (RAND)	**9 318 355 000**	**1 316 551 000**	**4 514 748 000**	**15 149 654 000**	**100,0%**

The following table provides an illustration of the anticipated **additional employment opportunities (high road scenario)** generated by each proposed land use during the operational phase of the proposed Philippi development.

Table 8.16: Operational Phase - Additional Employment per Land Use *(Sustained Annually)*

ADDITIONAL EMPLOYMENT	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT	PERCENTAGE SHARE
Offices	5 240	1 790	7 040	14 070	27,2%
Light Industrial	1 930	730	5 090	7 750	15,0%
Residential	330	110	440	880	1,7%
Retail & related	10 670	3 350	15 030	29 050	56,1%
TOTAL (JOBS)	**18 170**	**5 980**	**27 600**	**51 750**	**100,0%**

The following table provides a synthesis of the abovementioned economic impacts, in terms of additional business sales, additional GGP as well as additional employment, with regard to the entire proposed Philippi development **(high road scenario).**

Table 8.17: Economic Impact of Proposed Philippi development – Operational Phase

VARIABLE	DIRECT IMPACT	INDIRECT IMPACT	INDUCED IMPACT	TOTAL IMPACT
Additional Business Sales	19 020 987 000	2 899 365 000	10 153 393 000	32 073 745 000
Additional GGP	9 318 355 000	1 316 551 000	4 514 748 000	15 149 654 000
Additional Employment	18 170	5 980	27 600	51 750

VARIABLE	OPERATIONAL EXPENDITURE	TOTAL IMPACT
Additional Business Sales	±R14.3 billion	R32.1 billion
Additional GGP		R15.1 billion
Additional Employment		51 750 jobs

Table 8.17 illustrates that the estimated total annual operational expenditure of approximately R14.3 billion, could create an additional R32.1 billion in new business sales, R15.1 billion in additional GGP, as well as 51 750 sustained employment opportunities (at project maturity). Total impact includes direct, indirect as well as induced effects.

The following section provides a synthesis of preceding sections, pertaining to the anticipated economic impact of the proposed Philippi development (construction and operational phases).

8.8 SYNTHESIS

This chapter described the potential economic impact that the proposed Philippi development will induce on the local, district and provincial economies and communities during both the construction and operational phases.

Table 8.18 summarises the findings of the Economic Impact Assessment as described in preceding sections **(baseline scenario).**

Table 8.18: Synthesis of Economic Impact Modelling Results of Philippi development – *Baseline Scenario*

VARIABLE	INPUT VALUE	TOTAL IMPACT
Construction Phase (Once-off)		
Additional Business Sales	±R6.7 billion	R15.5 billion
Additional GGP		R5.5 billion
Additional Employment		36 500 jobs
Operational Phase (Sustained Annually)		
Additional Business Sales	±R5.7 billion	R12.9 billion
Additional GGP		R6.1 billion
Additional Employment		21 050 jobs

Table 8.19 summarises the findings of the Economic Impact Assessment as described in preceding sections **(high road scenario).**

Table 8.19: Synthesis of Economic Impact Modelling Results of Philippi development – *High Road Scenario*

VARIABLE	INPUT VALUE	TOTAL IMPACT
Construction Phase (Once-off)		
Additional Business Sales	±R10.9 billion	R25.0 billion
Additional GGP		R8.8 billion
Additional Employment		58 900 jobs
Operational Phase (Sustained Annually)		
Additional Business Sales	±R14.3 billion	R32.1 billion
Additional GGP		R15.1 billion
Additional Employment		51 750 jobs

The proposed Philippi development **(baseline scenario)** could also contribute the following in terms of payable rates and taxes per annum (refer to Table 8.20 below).

Table 8.20: Forecast Future Additional Rates & Taxes Payable per Land use – *Baseline Scenario*

LAND USE	RATES & TAXES / ANNUM	PERCENTAGE SHARE
Offices	R66 038 450	19,7%
Light Industrial - Baseline	R38 730 608	11,6%
Residential	R115 212 240	34,4%
Retail	R114 460 264	34,2%
TOTAL	R334 441 563	100,0%

The proposed Philippi development **(high road scenario)** could also contribute the following in terms of payable rates and taxes per annum (refer to Table 8.21 below).

Table 8.21: Forecast Future Additional Rates & Taxes Payable per Land use – *High Road Scenario*

LAND USE	RATES & TAXES / ANNUM	PERCENTAGE SHARE
Offices	R115 443 213	16,2%
Light Industrial – High Road	R116 192 355	16,3%
Residential	R138 254 688	19,4%
Retail & related	R343 380 793	48,1%
TOTAL	R713 271 049	100,0%

The above table illustrates that the retail component of the proposed Philippi development is anticipated to be the dominant contributor (48.1%) with regard to forecast future rates & taxes payable to the local fiscus.

The proposed development could also contribute the following in terms of payable VAT, company tax and PAYE per annum **(baseline scenario):**

Table 8.22: Forecast Future Additional VAT, Company Tax & PAYE Payable – *Baseline Scenario*

Tax Payable	Construction Phase	Operational Phase (sustained annually)
VAT	R2 175 913 460	R1 812 247 080
Company Tax	R1 305 548 076	R1 087 348 248
PAYE	R648 393 300	R373 936 410
TOTAL	R4 129 854 836	R3 273 531 738

The proposed development could also contribute the following in terms of payable VAT, company tax and PAYE per annum **(high road scenario):**

Table 8.23: Forecast Future Additional VAT, Company Tax & PAYE Payable – *High Road Scenario*

Tax Payable	Construction Phase	Operational Phase (sustained annually)
VAT	R3 503 580 920	R4 490 324 300
Company Tax	R2 102 148 552	R2 694 194 580
PAYE	R1 046 311 380	R919 297 350
TOTAL	R6 652 040 852	R8 103 816 230

If the **proposed Philippi development were not to occur**, the **above benefits** in terms of additional business sales, GGP, employment, as well as various rates and taxes payable to the local and national fiscus, would be **lost to the local, district, provincial and national economies.**

CHAPTER 9: DEVELOPMENT RECOMMENDATIONS

9.1 INTRODUCTION

This chapter provides development recommendations and guidelines for the proposed development, as well as a synthesis of the main research findings, and factors that influence consumer behaviour.

9.2 SUMMARY OF THE MAIN FINDINGS

- ✓ At least **2 019 913 people** within the primary market area and **520 837 households**
- ✓ The largest segment of the primary market population is **economically active (66.5%), of which the majority is employed – 68.5%.**
- ✓ **Moderate to higher living standards – 69.9%** of primary households in **LSM 4 – 10+ brackets.**
- ✓ Weighted average annual household income for households **LSM 4 to 10+**: **R110 216 per annum / R9 185 per month.**
- ✓ Demand for a spectrum of middle- to upper-end convenience, destination and speciality products and services**.**

The market area population can be summarised as follow:

Table 9.1: Living Standard Measurement Indicator (% of households per bracket)

LSM Bracket	Primary Market Area
LSM 1 to 3	30.1
LSM 4	8.5
LSM 5	6.2
LSM 6	10.4
LSM 7 LOW	7.5
LSM 7 HIGH	10.2
LSM 8 LOW	3.4
LSM 8 HIGH	1.2
LSM 9 LOW	3.6
LSM 9 HIGH	6.0
LSM 10	1.2
LSM 10+	11.7

Source: Demacon calculations, 2013

Table 9.2 summarises the **current** findings of the urban property market location assessment and Table 9.3 summarises the **future** findings of the urban property market location assessment

Table 9.2: Summary of Site Evaluation Results - CURRENT

Development Site	Rating
Industrial/Warehousing/Distribution/Mini Storage	69.4%
Retail	70.2%
Residential	62.5%
Office	45.8%

Source: Demacon, 2013

** Note: 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful property market development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

Table 9.3: Summary of Site Evaluation Results - FUTURE

Development Site	Rating
Industrial/Warehousing/Distribution/Mini Storage	76.3%
Retail	76.4%
Residential	72.2%
Office	74.2%

Source: Demacon, 2013

** Note: 80%+ indicates an exceptional site rating; a site rating of 70 – 80% is high and indicates that most important fundamentals for successful property market development are in place; a rating of 60 – 70% indicates some critical factors may be lacking but could possibly be addressed; projects with a sub 60% rating are not recommended for consideration.*

The population of Philippi consists of a number of disparate groups who settled in the locality at different times and through very different processes. As a settlement, Philippi presents both potential and a range of challenges. It is strategically located in close proximity to transport nodes and economic opportunities, such as the Cape Town International Airport, the Philippi Industrial Area and the Philippi Horticultural Area. Yet, the area still faces serious development challenges in the form of poverty, unemployment, overcrowding, food insecurity, crime and exposure to environmental hazards such as flooding and fire.

Overall, it is evident that the proposed development is in line with current and future spatial development guidelines set out in the Spatial Development Framework of the City as well as the District Plans. The proposed development will provide a supportive / complimentary industrial function towards the node and the Cape Town International Airport, and in such manner expand the industrial hierarchy of the area. The proposed development will also act on the potential generated by the N2. The development will contribute to the expansion and development of the local economy as well as the local rates and tax base of the city. Overall, the development is in line with the spatial development guidelines.

As mentioned above, the most important conditions that have to be in place for commercial and other markets to thrive within Philippi are as follows:

- ✓ Optimised / enhanced sight value from the N2
- ✓ Improved accessibility – directly to and from the N2
- ✓ Improved infrastructure capacity
- ✓ Improved security and safety
- ✓ Improved address value
- ✓ Improved branding / rebranding.

If these conditions and prerequisites are in place, development in Philippi will increase significantly which will be economically beneficial for Philippi and surrounding areas. Only then will the future/optimistic scenarios be possible.

9.3 DEVELOPMENT ANALYSIS AND RECOMMENDATIONS

➢ GAP ANALYSIS:

Development Type	Effective Market Gap	Development Prospects
Industrial Development	Yes	Medium to High
Credit-linked and bonded residential units	Yes	Medium to High

Subsidy Housing	Yes	Medium to High
Regional Centre	Yes	Medium to High
Offices / Commercial	Yes	Low to Medium

- **SUMMARY OF MAIN FINDINGS**

INDUSTRIAL MARKET ANALYSIS

This chapter outlined the industrial market including the latest trends, local indicators and the industrial space demand modelling – **2 scenarios (baseline and optimistic scenario) for the Philippi market area** were investigated and modelled.

SCENARIO 1: BASELINE SCENARIO

Table 9.4: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R694 207 390
Size of industrial (sqm)	73 074
Employment opportunities	1 329
Parking bays	1 461
Parking infrastructure & landscaping cost	R32 737 359
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

- ✓ The development potential for the site up to 2018 amounts to approximately **5.22 hectares** increasing cumulatively to **27.08 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **1 329 employment opportunities** on site.

SCENARIO 2: OPTIMISTIC SCENARIO

Table 9.5: Recommended space options

Variables	Rand per annum / m^2 GLA
Capital Investment (2013 constant values)	R2 082 622 171
Size of industrial (sqm)	219 223
Employment opportunities	3 986
Parking bays	4 384
Parking infrastructure & landscaping cost	R98 212 077
OPME	2014/2015

Source: Demacon Space Demand Model, 2013

- ✓ The development potential for the site up to 2018 amounts to approximately **15.66 hectares** increasing cumulatively to **81.23 hectares** in 2023 – 2028.
- ✓ The recommended type of development: **Light industrial / warehousing / distribution / storage**
- ✓ The optimum point of market entry (OPME) is in **2014/2015**.
- ✓ This development will create up to **3 986 employment opportunities** on site.

In the context of the above, two growth scenarios were generated – a baseline and somewhat more optimistic scenario. The **baseline scenario** essentially forecasts growth over the next 10-20 years, based on historic trends. The **optimistic scenario**, on the other hand, assumes positive growth with major turnkey intervention, such as the N2 accessibility etc, as mentioned above.

RESIDENTIAL MARKET ANALYSIS

Table 9.6 indicates the number of credit linked and bonded units that can be absorbed by the market over a ten year period.

Table 9.6: Summary of Market Recommendations

	TOTAL MARKET		
A	**Additional HH: base yr + 5yrs**		19 826
B	**Annualised Market growth (full housing spectrum)**		3 965
C	**Credit-linked and Bonded Segment**		40.7%
D	**Credit-linked and Bonded Segment take-up per annum**		1 614
E	**Annual secondary market contribution (units / annum)**	**Min**	3 180
F		**Max**	4 240
G	**Total annual Credit-linked and Bonded demand**	**Min**	4 794
H		**Max**	5 854
	PROJECT SPECIFIC		
I	**Project Credit-linked and Bonded Segment Units**		12 500
J	**Forecast market share of total market sales**	**Min**	20%
K		**Max**	30%
L		**Min**	959
M	**Project forecast total annual take-up rate (units / annum)**	**Max**	1 756
N	**Years to 80% take-up (Credit-linked and bonded segment units)**	**Min**	7.1
O		**Max**	13.0
P		**Avg**	**10.1**
Q	**OPME**		**2014+**

Source: Demacon, 2013

Explanatory Notes:

A = increase in demand for new housing units (i.e. new household formation in the market area)
B = Annualised market growth, i.e. of A/5
D = B x C
E & F = Annual secondary market contribution (i.e. the contribution made by re-sales in the target affordability income brackets)
G & H = Annual new credit-linked and bonded demand; D + E and D + F
I = Project credit-linked and bonded units
J & K = assumed market share of market area
L = G x J
M = H x K
N = I / L
O = I / M

- ✓ The modelling portrays demand and take-up based on market growth trends.
- ✓ Table 9.6 shows two sections, 1) total market and 2) project specific. Between 2013 and the next 10 years an estimated 19 826 new households will seek accommodation in the target geographic market area, resulting in an annual growth in demand of approximately 3 965 units per annum (across the full housing spectrum, including informal and subsidy). Under present market conditions, the credit-linked and bonded segment (40.7%) will yield a take-up rate of 1 614 units per annum.
- ✓ Given an ideal take up rate of 10 years, it is estimated that **12 500 credit-linked and bonded units** and approximately **8 333 subsidy units** could be absorbed within the Philippi market area within the **first phase** of the development.
- ✓ Point of market entry: 2014 and beyond
- ✓ Credit-linked and Bonded Units should be priced from **R210k upwards.**

RETAIL MARKET ANALYSIS

Table 9.7: Recommended Centre Options

Recommended Centre Options	
Total annual growth in market demand (sqm/a)	6 331
Centre share of growth (sqm/a)	791
Point of market entry (OPME)	2017:2018
Additional growth in demand for centre (sqm)	2 374
Retail GLA at OPME	80 911
Services GLA at OPME	20 228
Cinemas & entertainment	3 500
OPME Centre size (sqm)	**104 638**
On-site job creation	3 488
Retail Sales potential (R 2013 value)	2 336 448 831
Total capital investment - buildings (R 2013 value)	1 360 299 918
Additional Parking bays required	6 278
Parking infrastructure & landscaping cost (R 2013 value)	149 423 714

Source: Demacon Retail Demand Model, 2013

Centre size and recommendations:

- ✓ Note that in the context of net effective demand calculations, indications suggest, that the retail component should ideally measure no more than **104 638m² GLA**.
- ✓ The optimum point of market entry will be **2017/2018**.
- ✓ The centre will have an annual sales potential of approximately *R2 336 million* and could create *±3 488 permanent on-site jobs*.
- ✓ Paved parking should be provided at a ratio of *6 bays per 100m² retail GLA*.
- ✓ Performance will be dependent on, *inter alia*, appropriate tenant composition.
- ✓ After interviews with brokers and developers, it was determined that most developers that want to develop within the Philippi area tend to "westernise" retail (such as developing a big mall), which does not work within the specific area (due to cultural/race preferences).
- ✓ It was found that there is a huge retail component in the area, namely wholesale.
- ✓ It was also stated that the safety of the Philippi area also lies within the hands of the corner traders. Suggestions were made that zoning should take place to allow erven of 5m²-50m² to be sold to unstructured corner traders to make their businesses legal and provide them with licenses, since this is the type of retail that is especially unique to Philippi. The idea is to regulate these corner shops, just as government did with all the shebeens in the area.

OFFICE MARKET ANALYSIS

Table 9.8 summarise the space demand modelling results – reflecting the office development potential for 2018 to 2033. This space includes GLA for offices and related facilities, but excludes parking and basements. Modular design is recommended to facilitate flexibility and adjustment in accordance with user requirements specifications.

Table 9.8: Synthesis of Space Demand Modelling Results – m^2 GLA

Cumulative Additional Space Demand	Up to 2018	2023	2028	2033
Finance & Insurance *(sqm GLA)*	180 411	313 188	504 450	731 256
Business services *(sqm GLA)*	1 492 582	4 024 603	7 078 538	8 640 691
Total: City of Cape Town	**1 672 993**	**4 337 790**	**7 582 989**	**9 371 947**

Cumulative Additional Space Demand	Up to 2018	2023	2028	2033
Total: Nodal share - Min	**16 730**	**43 378**	**75 830**	**93 719**
Total: Nodal share - Max	**33 460**	**86 756**	**151 660**	**187 439**
Average*	**25 095**	**65 067**	**113 745**	**140 579**

Source: Demacon, 2013

* *Note: the nodal shares and the average figures are cumulative*

Table 9.9: Recommended Sizes

Cumulative Additional Space Demand	Rand per annum / m²
Size of Office (sqm)	65 067
Capital investment (2013 constant values)	748 268 856
Employment opportunities	3 253
Parking	2 603
Parking infrastructure & landscaping cost (2013 constant values)	61 943 648
OPME	**Post 2020**

Source: Demacon, 2013

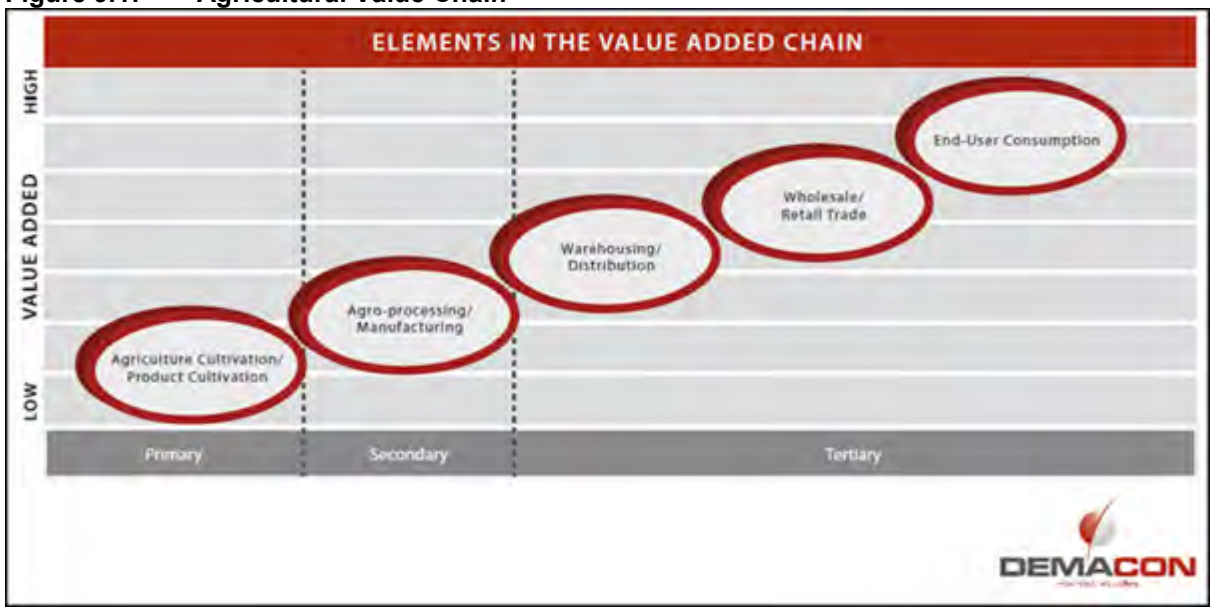
- ✓ Dominant sub-sector: **Business services sector**
- ✓ Recommended type of office development: **Low rise, medium density, suburban lifestyle offices**
- ✓ Total office demand in the City of Cape Town is forecast to be approximately 1 672 993m² office GLA (2018). This figure will cumulatively escalate to 7 582 989m² GLA in 2028. This space includes GLA for offices and related facilities, but excludes parking and basements.
- ✓ Project specific demand for the Philippi market area is forecast to be approximately **25 000m² over the short to medium term** and **65 000m² over the medium to longer term.**
- ✓ Provisions should ideally be made to accommodate future expansion.
- ✓ **OPME: Post 2020**
- ✓ In order for office development to be viable in the Philippi market area, various locational prerequisites (as discussed in previous sections) need to be in place. Office developments will only follow after all other developments and locational prerequisites are in place.

AGRI-PROCESSING & FRESH PRODUCE MARKET

It is evident that the agriculture sector in Philippi relies on the production of primary products such as vegetables, but no significant value is being added to these products currently. Value adding to primary products could expand the market and create economic opportunities for both the investor (monetary return on exports of beneficiated goods) as well as the job market for those who are unemployed within the local area.

The value chain represents the process as products moves from the primary to secondary to tertiary market segment as value is added to the product. Value adding to agricultural products varies between basic and complex, depending on the end-user focus of the product. In general, the value chain for agriculture is more complex than mining.

Figure 9.1: Agricultural Value Chain



Basic vegetable production centres around a primary, low value-added product during the **Agricultural Cultivation / Product Cultivation** stages of the value chain. As value is added by means of **Agro-processing / Manufacturing** processes, the product moves into the secondary economic sectors, which has greater multiplier potential. If further value is added to the product, it moves into the tertiary sectors, where **Warehousing / Distribution** and **Wholesale / Retail Trad**e occur. This chain optimises access to **End-user Consumption markets.**

As we can see from the above diagram, opportunities exist within the wider agribusiness framework for the Philippi area to take advantage of its latent strengths and comparative advantages. This can help with the development of a support base for emerging farmers.

In terms of the quantity of the labour force in the agricultural sector, the Philippi area does not have a shortage in labourers. But in terms of the quality of the labour force, the labourers in the agricultural sector are in need of education, skills and training.

In terms of the Carvalho Classification (refer to Chapter 4) it was established that the agricultural sector within Philippi is a "leading" sector where local growth exceeded metropolitan growth. (The Carvalho Classification provides a multi-dimensional indication of the suitability of sectors, supported by tools and instruments that could be utilised in the development of these sectors).

In terms of the manufacturing sector and the downstream possibilities; the manufacturing sub-sectors which was identified as the leading sectors within Philippi which could possibly be further developed (according to Carvalho) in terms of agri-processing possibilities are as follows:

- ✓ Textiles, clothing and leather goods
- ✓ Wood, paper, publishing and printing
- ✓ Other non-metal mineral products
- ✓ Metals, metal products, machinery and equipment
- ✓ Electrical machinery and apparatus
- ✓ Radio, TV, instruments, watches and clocks

- ✓ Transport equipment
- ✓ Furniture and other manufacturing

Philippi is seen as an ideal place for agro-processing. It is situated next to the rail link, right next to the N2, and in very close proximity to the airport. There is also a direct link to the port as well as a line through to the produce developing areas through the Winelands. It is strategically placed with regards to agri-processing.

As seen from the above, the agricultural potential within Philippi is enormous. Agro-processing in terms of value adding is a better option than the fresh produce market, although the fresh produce market will add value only in terms of trade (and no additional value adding) within the area. Based on the findings, it is clear that all indications are that agri-processing would be feasible and economically beneficial to the area, **subject to full feasibility analysis of the agricultural sector/market**. As indicated throughout the study, Philippi already has various significant assets that make it an ideal location for various types of development.

In terms of agricultural development within Philippi, it is suggested that all local associations and interested parties, such as Abalimi, Philippi Worx, the Business Place Philippi, and Government etc. start to work together and form networks in order to understand where they can assist one another and to establish one path/vision forward. Certain functions and programmes do not appear to be aligned between these various associations. Likewise the services offered by the City of Cape Town and the Provincial Department of Agriculture also seem in some respects to overlap which can also contribute to confusion. Co-ordination, networking and interaction between various parties need to be supported.

9.4 CONCLUSION

Market research affirms healthy demand for the various projects components – present and over the short to medium term. Ultimate project composition will, however, be a product of the actual point of market entry.

The following table provides a summary of the Philippi Development Potential:

Table 9.10: Summary of Project

Development Type	Industrial	Retail	Residential	Office	Agri-processing & Fresh produce market
Size -Baseline Scenario	73 074m²	104 638m²	12 500 credit-linked and bonded units 8 333 subsidy units	65 067m²	-
Size – Optimistic Scenario	219 223m²	313 914m²	15 000 credit-linked and bonded units	113 745m²	-
Site rating	Current: 69.4% Future: 76.3%	Current: 70.2% Future: 76.4%	Current: 62.5% Future: 72.2%	Current: 45.8% Future: 74.2%	-
Market Gap	Yes	Yes	Yes	Yes	Yes
Configuration compatibility	Medium to High	Medium to High	Medium to High	Low to Medium	Medium to High
Recommended for project – Yes/No	Yes	Yes	Yes	Yes	Yes

OPME	2014/2015	2017/2018	2014 and beyond	Post 2020	Over long-term

Table 9.11: Land use requirements – Baseline Scenario

Land use	Hectare	Surplus buffer (30%)	With Roads & public open spaces, etc. (20%)	Composition
Offices	5.42	8.46	6.51	2%
Light Industrial-Baseline	18.27	28.50	21.92	6%
Residential	250.00	390.00	300.00	82%
Retail	29.90	46.64	35.88	10%
Hectare Take-up	**303.59**	**473.60**	**364.30**	**100%**

Source: Demacon, 2013

Table 9.12: Land use requirements – High Road Scenario

Land use	Hectare	Surplus buffer (30%)	With Roads & public open spaces, etc. (20%)	Composition
Offices	9.48	14.79	11.37	2%
Light Industrial-High Road	48.72	76.00	58.46	11%
Residential	300.00	468.00	360.00	67%
Retail	89.69	139.92	107.63	20%
Hectare Take-up	**447.88**	**698.70**	**537.46**	**100%**

Source: Demacon, 2013

9.5 ECONOMIC IMPACT ASSESSMENT

This section described the potential economic impact that the proposed Philippi development will induce on the local, district and provincial economies and communities during both the construction and operational phases.

Table 9.13 summarises the findings of the Economic Impact Assessment as described in preceding sections **(baseline scenario).**

Table 9.13: Synthesis of Economic Impact Modelling Results of Philippi development – *Baseline Scenario*

VARIABLE	INPUT VALUE	TOTAL IMPACT
Construction Phase (Once-off)		
Additional Business Sales	±R6.7 billion	R15.5 billion
Additional GGP		R5.5 billion
Additional Employment		36 500 jobs
Operational Phase (Sustained Annually)		
Additional Business Sales	±R5.7 billion	R12.9 billion
Additional GGP		R6.1 billion
Additional Employment		21 050 jobs

Table 9.14 summarises the findings of the Economic Impact Assessment as described in preceding sections **(high road scenario).**

Table 9.14: Synthesis of Economic Impact Modelling Results of Philippi development – *High Road Scenario*

VARIABLE	INPUT VALUE	TOTAL IMPACT
Construction Phase (Once-off)		
Additional Business Sales	±R10.9 billion	R25.0 billion
Additional GGP		R8.8 billion
Additional Employment		58 900 jobs
Operational Phase (Sustained Annually)		
Additional Business Sales	±R14.3 billion	R32.1 billion
Additional GGP		R15.1 billion
Additional Employment		51 750 jobs

The proposed Philippi development **(baseline scenario)** could also contribute the following in terms of payable rates and taxes per annum (refer to Table 9.14 below).

Table 9.15: Forecast Future Additional Rates & Taxes Payable per Land use – *Baseline Scenario*

LAND USE	RATES & TAXES / ANNUM	PERCENTAGE SHARE
Offices	R66 038 450	19,7%
Light Industrial - Baseline	R38 730 608	11,6%
Residential	R115 212 240	34,4%
Retail	R114 460 264	34,2%
TOTAL	**R334 441 563**	**100,0%**

The proposed Philippi development **(high road scenario)** could also contribute the following in terms of payable rates and taxes per annum (refer to Table 9.15 below).

Table 9.16: Forecast Future Additional Rates & Taxes Payable per Land use – *High Road Scenario*

LAND USE	RATES & TAXES / ANNUM	PERCENTAGE SHARE
Offices	R115 443 213	16,2%
Light Industrial – High Road	R116 192 355	16,3%
Residential	R138 254 688	19,4%
Retail & related	R343 380 793	48,1%
TOTAL	**R713 271 049**	**100,0%**

The above table illustrates that the retail component of the proposed Philippi development is anticipated to be the dominant contributor (48.1%) with regard to forecast future rates & taxes payable to the local fiscus.

The proposed development could also contribute the following in terms of payable VAT, company tax and PAYE per annum **(baseline scenario):**

Table 9.17: Forecast Future Additional VAT, Company Tax & PAYE Payable – *Baseline Scenario*

Tax Payable	Construction Phase	Operational Phase (sustained annually)
VAT	R2 175 913 460	R1 812 247 080
Company Tax	R1 305 548 076	R1 087 348 248
PAYE	R648 393 300	R373 936 410
TOTAL	**R4 129 854 836**	**R3 273 531 738**

The proposed development could also contribute the following in terms of payable VAT, company tax and PAYE per annum **(high road scenario):**

Table 9.18: Forecast Future Additional VAT, Company Tax & PAYE Payable – *High Road Scenario*

Tax Payable	Construction Phase	Operational Phase (sustained annually)
VAT	R3 503 580 920	R4 490 324 300
Company Tax	R2 102 148 552	R2 694 194 580
PAYE	R1 046 311 380	R919 297 350
TOTAL	**R6 652 040 852**	**R8 103 816 230**

If the **proposed Philippi development were not to occur**, the **above benefits** in terms of additional business sales, GGP, employment, as well as various rates and taxes payable to the local and national fiscus, would be **lost to the local, district, provincial and national economies.**