

MEMO

**SPEECH TO THE 45TH “CELEBRATION” SAPOA INTERNATIONAL CONVENTION AND
PROPERTY EXHIBITION
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by

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Celebration of New Challenge?

INTRODUCTION

It gives me great pleasure to be standing here and be part of a body of prominent people, celebrating a milestone. 45 years is no easy feat, particularly in the property sector which has always been characterised by structural imbalances brought about by decades of mismatch and lack of focus, on the needs of the people. As we celebrate, it behoves us to take stock of how far we have come and how long a road lies ahead of us. If we do not do this, we stand a big risk of celebrating for the wrong reasons.

Therefore, the plea is for a “celebration with context”.

Some of you may already be asking themselves, what is the context?

There is no doubt that, we will each appreciate this context from our various perspectives. I will share our perspective as the PIC. In doing so, I will restrict myself to what I see as the most pertinent part of the property industry, namely residential housing.

Yes, to many of us here, this may not be sexy enough. To us, at the PIC, it is an imperative. It is key for sustainability. Not being far from Marikana, it makes a national priority.

The African continent and the rest of the developing world are faced with a multiplicity of challenges in addressing sustainable development. These include political, social, economic and environmental forces that shape each country. Poverty, economic marginalization, environmental degradation and the development of decent human settlements are persistent challenges that the developing world is trying to overcome. Central to some of these challenges are property rights and property itself. This forms much of the bedrock of society

whether it be merely for subsistence farming, for residential housing or for commercial property purposes.

Housing, though not the entire scope of property activity, remains key in the South African context. Though much has been done by government to attack the housing backlog since 1994, a huge amount of work still remains. However, it is instructive, at this early point, to note that this challenge is not government's alone, but falls on the private sector participants too. Together we need to, and we are, making a tangible difference to millions of people who do not have satisfactory housing.

Housing's importance as a fundamental bedrock to a better and improved quality of life cannot be under-estimated. The establishment of formal housing also naturally brings with it over time, better opportunities for commerce around those housing settlements, schools for children who grow up in those neighbourhoods, infrastructure in terms of electricity and water, and so on. In other words, formal housing can act as an essential catalyst to aid development and growth.

Furthermore, it is essential in the capital accumulation of any economy, thus aiding it to develop a requisite base which gives it its necessarily ability to grow faster and serve society in its quest for wealth creation.

It is also simply a basic human right.

Having, as part of our mandate, the delivery on property, these characteristics obtain simultaneously in every decision we make. Achieving only good commercial returns is never adequate.

Affordable housing is a central piece in the third pillar of our developmental investment programme.

ECONOMIC CHALLENGES IN HOUSING

The right to adequate housing as a basic human right and is enshrined in the UN International Convention on Economic, Social and Cultural rights. It is also acutely inaccessible to many of the members of the GEPI, who are members of the majority of the funds that the PIC manages.

It is estimated that at the present time, at least 1 billion people worldwide do not have access to safe and healthy shelter and that if appropriate action is not taken, this number will increase dramatically over the decades to come.

“UN-HABITAT estimates that, worldwide, close to three billion people will need access to housing and basic infrastructure services over the next 25 years. This will require 35.1 million housing units per year or 96 150 per day or 4000 per hour in order to meet demand.”

[Source: United Nations Habitat, www.unhabitat.org; reported in *Housing challenges and opportunities (2007)* by Stephen Giddings].

The Department of Human Settlements has recognised that the backlog in South Africa is not being reduced fast enough and has committed to increasing the rate of delivery with a view to wiping out the backlog by 2030. At current levels, over R26 billion is earmarked by Government for housing each year. But still this is not enough to completely wipe out the backlog. [Figure of R26 billion will increase to R30.5 billion in the next three years. Budget Speech 2013].

Due to the massive growing demands, on the one hand, and decades of degradation of housing conditions, on the other hand, the backlog remains difficult to eradicate. Current estimates of the backlog stand at about 2,1 to 2,5 million units. As at September 2011, it was estimated that approximately 12 million people were still without adequate housing. Looking at the Census which uses end 2011 data, there were 14 450 161 households in SA. Out of those 13.6% were classified as living in an informal dwelling. 13.6% of 14 million households is about 1.97 million units. The census also has an “other” category – undefined, and a “traditional dwelling” category. These are excluded from the 13.6%.

The gap is big. It is just one of the major barometer for social instability, in the country.

Though consistent and reliable statistics on housing are somewhat patchy, according to the 2011 General Household Survey, 15.3% of South African households lived in a RDP or State-subsidized dwelling and 13.3% of households have at least one member of the household on a demand database or waiting list for State subsidized housing.

In terms of the prices in the existing housing market, the effects of the 2007/8 financial crisis are still being felt. However, the corner it seems has been turned: During 2012, the house price index for medium-sized houses rose by 9.53% (3.57% in real terms), the highest year-on-year increase since February 2008, based on figures released by ABSA. House prices increased by 2.93% (1.63% in real terms) during the latest quarter.

As at March 2013:

- The average price of small homes (80-140 sq. m) was R752 400 (US\$83 600)
- The average price of medium-sized homes (141-220 sq. m) was R1,079,500 (about US\$120 000)
- The average price of large homes (221-400 sq. m) was R1,609, 600 (about US\$180,000).

Most commentators predict that nominal house prices will rise in 2013, but these rises will remain in single digits in view of a slowing economy. Real house price growth will remain under pressure, given continuing increases in inflation. (see for example, ABSA commentary, January and March 2013).

Whilst I may have sounded very comfortable quoting these statistics, in truth, I am very timid. Timid because this is not what drives the thinking of the average South African worker. Ironically, it is not the statistic that drives the average American worker. The challenge we are faced with is to be able to talk about the tangible numbers that bridge the gap between the demand and supply of houses, as well as the gap between expectations and quality of houses we deliver. Sitting in Pretoria, we are unable to respond to these expectations. It is you, the people in this room, who are players on the ground. You interact daily with the South Africans that make these demands and you, in turn, should be the ones to be able to respond appropriately to obtaining needs.

We, on the other end, shall be your trusted cheerleaders. However, if the expected response is not observed, we shall be your harshest critics.

Unfortunately, the state of imbalance is not static. To make it worse, it traces a deteriorating trajectory. There are numerous factors that contribute to this, one being urbanisation and purchasing power.

HUMAN SETTLEMENT

Urbanisation continues in South Africa and indeed across the rest of the African continent. Cities continue to grow at a rapid pace. This process places increased pressure on the resources available in South African cities and on the country's ability to provide for shelter and service needs. African cities will have to accommodate more than 300 million new residents by 2030.

The overall human settlement objective is to improve the social, economic and environmental quality of human settlements and the living and working environments of all people, in particular the urban and rural poor. Human settlement conditions in many parts of

the world, but particularly the developing countries, are deteriorating mainly as a result of the comparatively low levels of investment in the sector.

Without investment in infrastructure, water, electricity and housing, urban centres are not geared to keep pace with the rate of urbanization. In this lies both threat and opportunity.

The threat is clear: without proper investment and planning, increased squalor and informal settlements will result as urbanization continues. Development will be further retarded and countries already behind in terms of development versus peers will fall further behind.

The opportunity presents itself too: proper planning, good governance and oversight, and sound management of urban planning and the formation of proper housing, office and commercial properties can provide the 300 million or so people Africa who will join urban centres, with a base from which to work, educate themselves, seek opportunity, and start businesses.

In thinking about these scenarios, it is essential to remember that we are not trying to find answers or solutions to today's South Africa. We are dealing with expectations that are cross-generational. Therefore, we cannot be short-termist in our thinking, actions and interventions, lest we handover an undesired inheritance to those who come after us.

At this particular juncture in our country, when we talk about planning, we cannot do so without drawing on what now is a key reference document, the National Development Plan, unveiled in 2012.

National Development Plan

Whilst a lot has been said about the NDP earlier today, I would like to share with you a slightly different perspective of this national agenda.

It is a call to

- action, to all South Africans;
- structurally change the way in which the economy functions;
- undergo a psychological and behavioural change;
- take responsibility and ownership to deal with our challenges;
- making growth inclusive;
- realising a decent standard of living for all our people;

It forces us to be long term. One of the key objectives of the NDP is realisation of decent human settlement. There is no better industry to help us achieve this goal, than the people in this room today. We all have an obligation to take a cue from the NDP. At the PIC, we

anticipated this noble intention and extended our outlook from a three year outlook to a 10 year outlook, a year before the NDP was unveiled.

In this regard, in our 10 Year Strategy, we have specific goals of :

- Facilitating the biggest empowered property services provider to be amongst the Top 3 in the country; and
- Facilitating the biggest empowered Investor/construction company to be amongst the Top 3 in the country.

This is with the long term intent of integrating the economy.

Let us briefly recap the main themes of the NDP, which is a diagnostic of South Africa including proposed solutions to what as South Africans can think about and implement: The NDP's primary goal is to eliminate poverty and reduce inequality by 2030 by expanding economic opportunity for all. This can be achieved by:

- Investing in and improving infrastructure, as well as supporting industries such as mining and agriculture;
- Diversifying exports;
- Strengthening links to faster-growing economies;
- Enacting reforms to lower the cost of doing business;
- Reducing constraints to growth in various sectors;
- Moving to more efficient and climate-friendly production systems; and
- Encouraging entrepreneurship and innovation.

Complementary to these key macro-themes, is the important micro-economic theme of the transformation of human settlements and spatial development. Urgently addressing the needs of the “gap housing market” is also a central part of the process, as well as constructing decent housing in order to eradicate poorly serviced informal settlements.

The “gap” – or affordable market – refers to people who earn too much to qualify for government-subsidised housing but not quite enough for homes in the traditional private market. Additional to the funding problem, there is major lack of available housing stock in this sector. The government-subsidised housing programme has provided housing opportunities to over 20 per cent of the population. The 2012 Census confirms that the home ownership rate is 53 per cent. It also confirmed that the lowest home ownership rates are among households who have no income and those that have a monthly income between R3 200 and R6 300 per month. It is crucial therefore, that the housing challenge is not only

addressed at the lowest income levels, but also at income levels in this type of market segment.

The PIC is currently refining its strategy on affordable housing, but already has invested in entities that provide housing solutions to the very poor and those of low-income. The amount committed by the PIC currently stands at R2.6 billion and includes:

- Investment in low cost housing;
- Private equity investment in housing development projects;
- Bridging finance for developers of affordable houses;
- Mortgage finance for the development and refurbishment of residential accommodation in the inner city; and
- Investment into intermediary organisations dealing with affordable housing.

OTHER BENEFITS OF PROPERTY & PIC ACTIVITY

The housing problem has been focussed on thus far since it is so central to everything else that an individual does as part of their daily lives. It matters to all of us at a micro-economic level and without it we struggle to function.

In a broader or macro-economic sense, investment in property assists with capital accumulation, and holds long-term value as a good hedge against inflation. Housing, commercial and office development are all social enhancers. The PIC as the asset manager of the GEPP as well as 22 other clients, are significant investors in the properties space. Of course, we see properties as one of the asset classes we invest in as part of a good, diversified investment strategy for our clients.

In the properties space, the PIC portfolio is currently the following size:

In the Retail space: R22.6 Billion

Office: R7.2 Billion

Industrial / Specialized: R 4.8 Billion

Total Portfolio at March 2013: R62 Billion, which includes the Listed Property portfolio.

The PIC currently has an interest in 47 shopping centres country wide, most prominent of which is a 50% interest in the V&A Waterfront and 25% ownership of the Sandton City Precinct.

But we truly pride ourselves with those shopping centres in the townships and outlying areas of the country, such as Central City and Rankuwa shopping centres. The socio-economic impact of these malls far outperforms those in urban centres. These are held by the GEPP

through a 60% interest in the Community Property Fund. That fund is invested in 25 shopping centres in townships and rural areas.

Our investments therefore span the breadth of South Africa, but we are certainly not thinking that we are at the end of the road in terms of property development.

Key Properties achievement in the 2012/13 financial year:

The Property Portfolio grew by R12 Billion (22%) from R51 Billion in March 2012 to R62 Billion in March 2013. There was also approximately R800 million spent on developments, refurbishments, redevelopments and expansion projects throughout the unlisted property portfolio.

The GEPF joined the Global Real Estate Sustainability Benchmark (GRESB) becoming the first South African member. The Benchmark's mission is to enhance and protect shareholder value by evaluating and improving sustainability best practices in the global real estate sector. This accords with the broad PIC strategy to improve sustainability practices of both ourselves and investee companies.

Empowerment in the Properties space

In the properties space, the PIC BBBEE policy strives to promote comprehensive and deep transformation in the Property industry through procurement and retailer development programs. Through Retailer development programs we will allocate space in our shopping centres to franchises owned by BBBEE or HDI owned and managed entities or individuals. We will also create a kiosk program that shall drive the development of new retail concepts that could evolve into complete retail stores.

The PIC has also taken the view that we need to also co-invest and develop partnerships with BBBEE entities in opportunities that align with our investment strategy. Outsourcing the management of smaller properties to BBBEE entities that demonstrate capacity and capability to increase the value of assets, is also part of our strategy. These developments can and should enhance transformation in the properties space.

So it is not only about a race to develop units. It is also, integrally, a quest to integrate property investing into South Africa's developmental path.

Challenges to leave you with ...

As the NDP challenges us to play our respective roles, if we are to realise our long-term goals, we cannot leave this challenge only to government or the GEPPF.

In the remaining five years to your half century, as an industry you need to challenge yourselves. We will help you ... by leaving you a list of 7 challenges you should ponder, a list that is by no means meant to be exhaustive. You may choose to see it as 7 years of drought or 7 years of a bumper harvest. IN the PIC, we see it as the latter:

- (1) Individually, review the NDP and assess what it means for your business and your property development programme;
- (2) Give access to decent housing to the average South African;
- (3) Match supply and demand;
- (4) Help deal with access and affordability, by reducing unit costs;
- (5) Develop financing institutions for target markets
- (6) Invest in the right areas and right quality
- (7) Help us mind and close the gap, by ensuring that no South African is left out in the cold.

So, we implore you to empower responsibly and for the sustainability of your business.

Ladies and Gentlemen, a celebration that includes a jointly formulated programme such as the one spelt out by this list, is a celebration worth hoisting to the mountain tops, for the world to not only envy, but join in.

It is our future, make it work for us.

I thank you.