MODULE 4

# PACKAGING TOWNSHIP DEVELOPMENT PROJECTS


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## 4.1 INTRODUCTION

Module 3 identified a set of intervention strategies that target the physical transformation of township environments. This module will examine how the inputs for successful township development projects can be mobilised and managed through the course of a project.

Any physical intervention project – be it the establishment of a node, an activity spine or improving an open space system – need four inputs to be mobilised and applied:

1. Land
2. Capital
3. Human resources and skills
4. Statutory approvals and authorisations

To secure these inputs, a fifth condition is required: leadership. Someone needs to drive the complex processes of mobilising and applying these inputs. This is generally the function of the project manager.

This module is written to help project managers/township renewal practitioners explore the processes of mobilising and applying the necessary requirements for success.

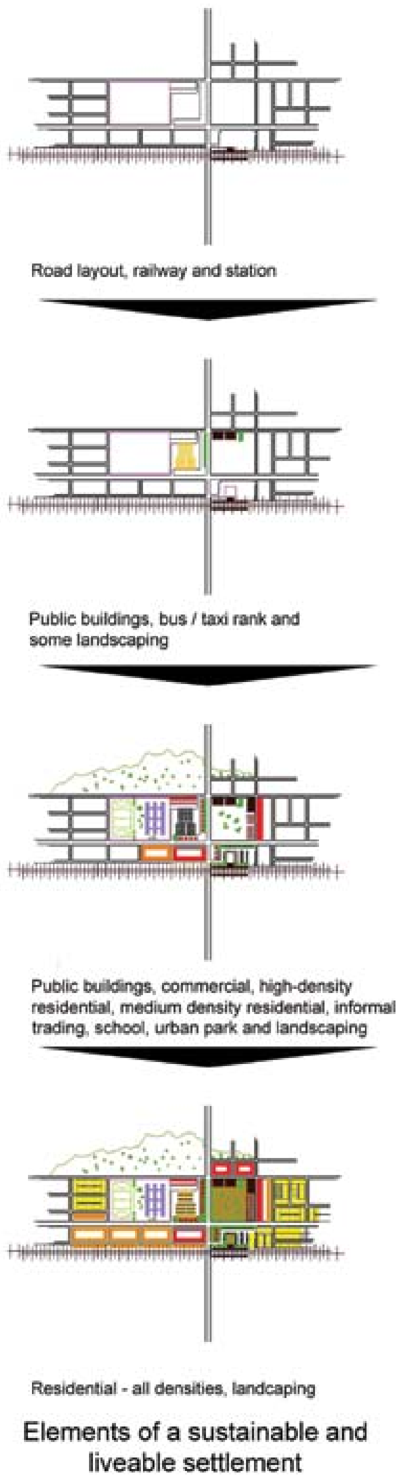
The required inputs will be sourced from the municipality, provincial and national departments, and the private sector (including non-profit groups). The distribution of inputs between institutions in these three sectors often pose the biggest challenge to township project managers.

In most urban renewal environments, including townships, the majority of physical development projects require public-sector intervention in parallel to private investment. So, for example, studies of the successful URP anchor projects (DPLG 2009) demonstrate the success of interventions where the municipality assembles the land input and secures the requisite statutory approvals; as public and municipal capital investment in facilities and the public environment starts the investment ball rolling, this attracts additional private-sector investment, which, in turn, creates opportunities for smaller-scale private investment.

The diagram on the right illustrates this sequence in the context of a nodal development project.

Sections 4.2 and 4.3 of this module examine input challenges and approaches for the public-sector component of a project. Section 4.4 looks at approaches to mobilising private-sector input.

**How to develop a node**




*(Source: MCA Planners)*

**Step 1: Identify node**
Usually located at an intersection or interchange with some evidence of critical potential.

**Step 2: Initial public investment**
The first step to investment should be a public space around which public and private facilities can be clustered. The scale or size of the public space will depend on the position of the node within the hierarchy. Once the public sector has invested in a node the private sector is more likely to respond. The initial investment in the public environment should take this into account and ensure that visible improvements, such as landscaping, are made.

**Step 3: Consolidation**
The consolidation phase includes the first round of private-sector investment and a second round of public-sector investment. Public-sector investment should take the form of public facilities and buildings, high- and medium-density housing (GAP and social housing) and improvements to or expansion of landscaping and public space. Meanwhile, private-sector development is likely to come in the form of commercial or retail development and, in some cases, housing.

*(Western Cape provincial government (2007), Settlement Restructuring: An Explanatory Manual. MCA Planners)*



## 4.2 MOBILISING MUNICIPAL INPUTS

### CHALLENGES

In any township development project the municipality will usually command the following project inputs:

- Land falling within the public environment such as road reserves, public open spaces and allied access and services servitudes. In many cases vacant land set aside for social infrastructure will also vest with the municipality.
- Existing capital assets, including most elements of the engineering and social infrastructure, such as community halls and recreation facilities.
- The finance necessary to modify, extend or install municipal infrastructure will be sourced from (or accessed through) municipal budgets.
- Human resources and skills to oversee design and construction, maintenance and continuing operation of infrastructure will generally be found in municipal departments.
- Statutory approvals and authorisations.

Project managers frequently experience three challenges when mobilising and applying project inputs commanded by the municipality:

- Sourcing the municipal budgets needed for infrastructure. Since the allocation of municipal budgets typically occurs in an environment of contesting priorities, and various line departments may apply different criteria for prioritisation, project managers frequently encounter situations where a key municipal element in the overall package does not have allocated funds. In other cases, political processes introduce 'pork barrel' projects – where spending is intended to benefit the constituents of a specific politician in the hope of future electoral or financial returns for that individual. This may result in capital investment required by the project being redirected to another area on political instruction.
- Silo-based standards: Line departments are typically required to spread their resources. In response they have developed standardised approaches to delivery that allow them to achieve the vertical efficiencies they need to provide their function over a wide domain. In some cases, standardised solutions may impede the achievement of a project objective, and new solutions need to be agreed to by the line departments.
- Synchronising approvals: Many projects are slowed down due to inordinate delays in obtaining required statutory approvals. This is frequently experienced in environmental approvals, procurement requirements, planning and land legal authorisations.

Case studies show that project managers typically use the five techniques described below to overcome these problems.

### TECHNIQUES TO ADDRESS MUNICIPAL INPUT CHALLENGES

#### Inclusive planning

Successful project managers emphasise that one key to success is to ensure that plans for township development are assembled in a way that ensures 'buy-in' by political leaders and senior line department officials. In addition, they emphasise the need to ensure that project plans are consistent with other municipal plans (e.g. integrated development plans) and realistically quantify municipal resource requirements and timeframes (both capital expenditure and future operational costs).

### Leveraging and gearing

Project managers frequently cite the use of leveraging and gearing arguments to secure the necessary commitment of inputs. Success depends on the project manager being able to quantify the short- and long-term contributions of the other project stakeholders in a convincing way, and to demonstrate the extent to which one investment serves to gear a much larger investment. Some project managers also cite using the conditionalities applied by other project stakeholders to leverage municipal inputs.

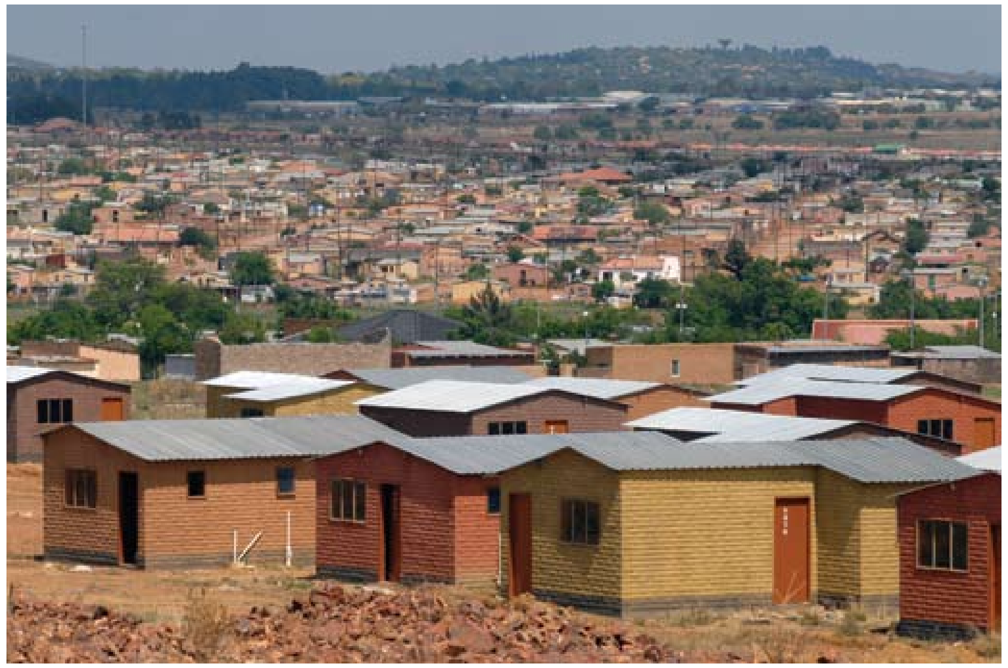
### Political support

Securing higher-level political leadership support, and obtaining the buy-in of political champions for the 'crowding-in of investment' concept and its associated benefits, is cited by most project managers as a key element of success. This can also help to counter 'pork-barrelling' tendencies.

### Early legal compliance planning

It is extremely difficult to negotiate the complex web of requirements and legislation. To prevent major conflicts, delays and stoppages, the following is recommended:

- addressing compliance issues from the very beginning of the project development process
- recruiting the best possible legal expertise at the beginning of the project process
- doing the necessary and legal compliance planning and programming up front, and synchronising other components of the project with this component



### Systems to synchronise and integrate municipal inputs

Practice reviews such as DPLG (2006) reveal that a wide variety of approaches have been used to secure the required synchronisation and integration of municipal inputs, including:

- using existing municipal structures and procedures
- design and development briefs (Cato Manor)
- special area-based coordinating structures (INK area-based management)

**The five basic of ingredients of success:**

1. Agreement on priority
2. Buy-in to a plan/ common objectives
3. Good people
4. The project manager's access to line department management
5. Communication/ proximity/teamwork

## 4.3 MOBILISAING PROVINCIAL AND NATIONAL INPUTS

### CHALLENGES

While much of the public-sector land, capital, human resources and approvals required for township development projects are under municipal authority, national and provincial government command a number of key project inputs. These may include important public infrastructure, such as police stations, health facilities, schools, courts, social welfare services and home affairs facilities. In addition, national and provincial authorities frequently control access to vacant and/or underutilised facilities that need to be redeveloped as part of township renewal.

The challenges associated with input mobilisation at this level mirror the problems described in Section 4.2 related to budget prioritisation, 'silo-based' operations and approval synchronisation.

### TECHNIQUES TO ADDRESS PROVINCIAL AND/OR NATIONAL INPUT MOBILISATION CHALLENGES

### Special project status or prioritisation

Research on Urban Renewal Programme (URP) projects demonstrates some success in the mobilisation of national and provincial government support. These studies confirm that the requirement for line departments to assign budgeting priority to these urban development nodes, and report on their contribution to development programmes, was at least partially successful. Similarly, projects given priority status in municipal integrated development plans and provincial growth and development strategies will be better placed to secure the requisite inputs.

### Shared vision and plan

For projects falling outside the URP, securing national and provincial support is likely to be a longer and more onerous task. In such cases the process of input mobilisation usually starts with identifying key departments at an early stage and drawing them into project planning. Baskin (2007) notes that 'building a shared vision, a simple plan, and plausible and agreed objectives are key ingredients for success, and the tendency for silo-based thinking needs to be balanced by developing an understanding about how specific sectors of intervention can contribute to the broader township based outcomes – and vice versa.'

Some project managers also suggest a parallel process targeting key public agencies to establish their decision-making cycles, identify their investment decision-makers and to sell the project benefits directly to these decision-makers. In this respect, securing the understanding and support of senior politicians is frequently cited as important.

### Legal compliance planning and establishing mechanisms for synchronising interventions

The key approaches here are identical to those used for the legal compliance and synchronisation challenges in municipalities found in Section 4.2.

## 4.4 MOBILISING PRIVATE-SECTOR INVESTMENT IN TOWNSHIP DEVELOPMENT

### BACKGROUND

Private-sector investment in township development projects can be pursued from a wide array of sources, ranging from large institutional investors to the small individual investors who are converting part of a house into business premises. Generating opportunities for a range of private investments at different scales is one of the challenges of development project design, but as the surburban examples in the photos on the right illustrate, large institutional investment projects such as a shopping centre can create the platform for associated smaller-scale investment in the surrounding neighbourhood.

Creating opportunities for capital formation by township residents, and rechannelling some consumption expenditure and externally placed savings into local investment opportunities, are key economic objectives of township development. It follows that the creation of small and medium-scale property investment opportunities should be maximised. Module 2 notes that investment opportunities of this sort will be located mainly in the retail, general commercial and residential sectors.

To understand how development projects can succeed in catalysing private investment, it is useful to discuss the basics of how private property investment typically works. Private-sector investment decisions are typically based on the interplay of four variables: understandability, risk, profitability and timing. These factors are discussed below.

### UNDERSTANDABILITY

The subjective factors related to the perception of risk are major determinants of whether a potential property investment even reaches the feasibility study stage.

To most private investors, unfamiliar or uncharted environments are frequently equated with risk, and there is a tendency to 'follow the pack', sticking to familiar and tested areas. Similarly, untried property investment models are perceived to be risky. The tendency is to want to duplicate a successful model. Until recently, for example, there was an aversion to township-based shopping centres. After a few pioneers demonstrated success, there was a subsequent flurry of such developments.

### RISK

Since property investments are typically based on long-term return periods and because fixed investment cannot simply be packed up and moved elsewhere, sound investment decisions are based on an assessment of the risks involved and a calculation of the trade-off between risk and profitability.

Pre-investment risk assessments generally cover issues such as:

- Crime: What will the trends be? Will the authorities be able to manage it?
- Neighbourhood: Will investors be able to strike up a cooperative relationship with organisations in the neighbourhood?
- Regulation and development control: Will the authorities be willing and able to regulate illegal uses in the surrounding areas? Will the authorities be likely to create a whole new set of rights just down the road and flood the market?

- Maintenance and operation: Will the authorities be able to support, maintain and operate the public spaces and infrastructure around the property? For example, maintaining the water, electricity and sanitation systems, repairing the pavements, fixing the traffic lights, removing the rubbish and mowing the verges?

### PROFITABILITY

The profitability calculation is typically based on the following questions:

- What will it cost to develop the facility for rental?
- What will the land cost?
- What are the building costs?
- What is the cost of capital needed to develop the facility?
- What will it earn? Net income returns will depend on:
  - rental rates and vacancy assumptions
  - running costs (maintenance, rates and utility charges)

The following chart shows a typical research process followed to investigate the feasibility of a property investment.

**The research methodology**

| | | |
|---|---|---|
| Step 1 | Mega trends in the property market | |
| Step 2 | Economic activity and profile | |
| Step 3 | Supply analysis<br>• Existing inventory<br>• Forecast supply | Demand analysis<br>• Existing demand<br>• Forecast demand |
| Step 4 | Equilibrium/gap analysis<br>• Rentals<br>• Vacancies<br>• Type of market | |
| Step 5 | Marketability of the site/development<br>• Characteristics of site/development<br>• Fit of the development in the market<br>• Potential market share<br>• Potential take-up<br>• Size of the development | |

*(Source: F. Viruly for TTRI, 2008)*

### TIMING

Property investments generally follow the business cycle through boom, recession and recovery, as shown in the 'investment clock' below.

Cycles can vary in duration and may be different for the residential, retail and industrial segments of the market.

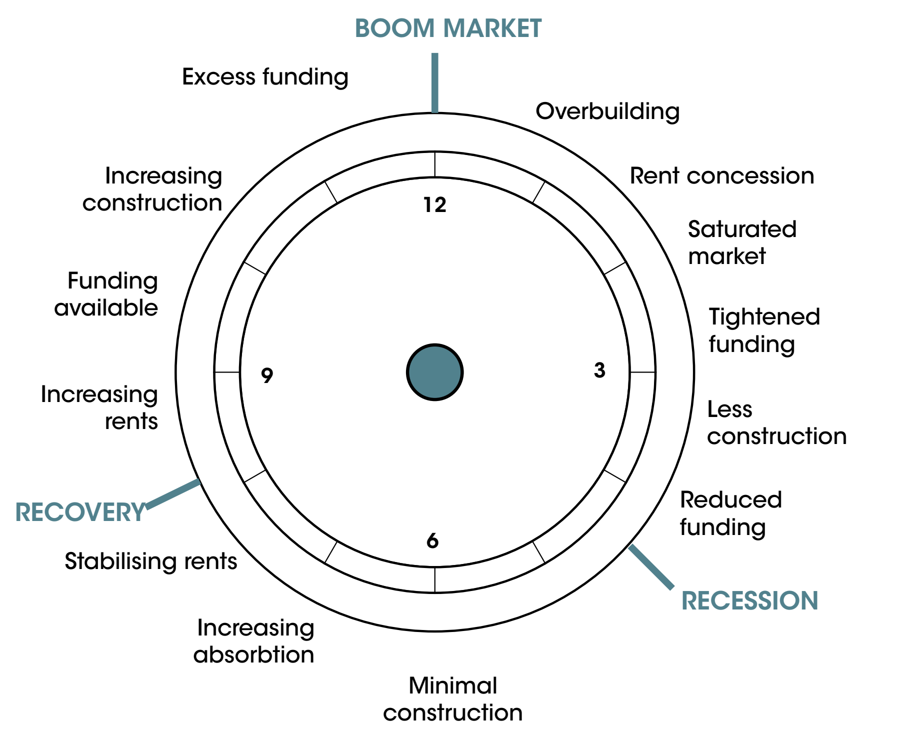
### Partnerships

Ralph Hamann and Fleur Boulogne of the University of Cape Town defined two broad categories of partnerships: implementation partnerships and innovation (or rule-setting) partnerships.

Implementation partnerships are focused on achieving relatively clearly defined, measurable objectives, and have formal institutional arrangements. Innovation partnerships are comparatively informal collaborations that seek to address more open-ended social problems. Sometimes partnerships take the form of a combination of these types. Many township renewal projects involve complex, multi-stakeholder partnerships that are usually a hybrid of these types of partnerships. Project planning partnerships that define project priorities and outcomes can be classified as rule-setting partnerships. On the other hand, project implementation partnerships, like City Improvement District partnerships or infrastructure PPPs, need to be managed in a formal way with binding agreements, a clear definition of roles and responsibilities, assignment of risk, outputs with timeframes, and expected impacts. In managing multi-stakeholder partnerships, township renewal practitioners should be aware of the following risks:

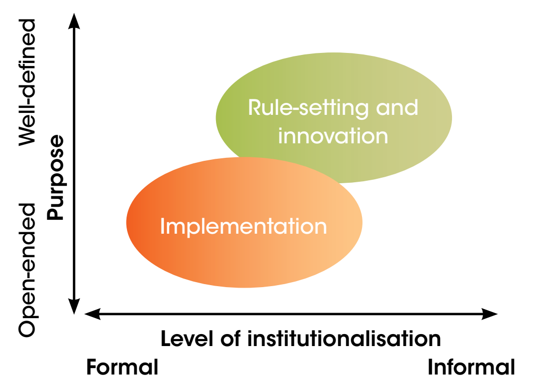
- There is a danger that partnerships can allow companies or interest-groups undue influence over political agenda setting and decision-making, which can entrench elite influence over governance at the expense of representative democracy.
- Partnerships can dilute competition with partnership members enjoying unfair advantages, including reputation benefits, access to markets and influence over governance.
- The proliferation of partnerships that focus on 'quick wins' as solutions, may undermine a more coordinated and long-term response to township development challenges.

#### The investment clock




*(Source: F. Viruly for TTRI, 2008)*

#### The ideal partnership types




*Source: R Hamman and F Boulogne*

### OVERCOMING KEY CHALLENGES TO MOBILISE PRIVATE CAPITAL INVESTMENT

The following table summarises techniques to resolve the four main variables.

| VARIABLE | TECHNIQUE | KEY TASKS FOR PROJECT MANAGERS |
|---|---|---|
| Understandability | Build a shared vision and plan | • Establish a working partnership at the outset.<br>• Base projections on realistic, quantifiable outcomes.<br>• Address why businesses would want to invest in the area.<br>• Develop data-backed understanding of the area's potential, competitive advantages, whether markets work, etc.<br>• Draft basic communications strategy.<br>• Describe markets and opportunities in the targeted areas in a prospectus format. |
| Risk | Reduce risk perception | • Take steps to enhance safety and security.<br>• Show public sector's capacity to broker binding agreements with local stakeholders.<br>• Ensure credibility, consistency and predictability of public processes (e.g. tender processes, statutory approvals).<br>• Ensure sound land use management systems, effective by-laws, effective enforcement agencies.<br>• Maintain and operate public spaces and infrastructure near the investment. |
| Profitability | Support profitability of the desired investment | • Pay attention to pricing of public land and structure of payment terms.<br>• Secure bulk infrastructure provision (e.g. roads, storm water systems).<br>• Secure complementary private investments to draw in additional capital. |
| Timing | Get the timing right | • Be aware of the cylical stages of investment in the specific environment, and design components accordingly.<br>- For example, a recession period can be used for land assembly, securing statutory clearances up front, market research, preparing the investment offering etc.<br>- A pre-recovery period can be used to execute communications with the private sector, engage investors in planning, prepare offerings for the market. |

## 4.5 CONCLUSION

There are no simple solutions for leveraging the project inputs required for the success of township development projects. In most cases, such projects require long planning and implementation periods, the involvement of numerous agencies, and ample persistence and skill.

At the centre of all the successful case studies is a project manager, frequently supported by a project team, committed to seeing the project through to the end. If such leadership cannot be secured, the project will probably fail and should not even be attempted.

'If a platform for investment is to be built, it will require a vision that is rooted in the realities of the area and the budget, and a set of logical interventions aimed at enhancing the functionality and desirability of the area. Most important, it requires alignment of different levels of government and government agencies, and a consensus and partnership with the private sector and (often competing) interest groups within the community.'
*(G. Reid 2007)*

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