

**URBAN DEVELOPMENT ZONES (UDZS): AN INVESTIGATION OF  
THE PERCEPTIONS OF STAKE HOLDERS ON THE IMPACTS OF  
THE UDZ TAX INCENTIVE ON PROPERTY DEVELOPMENT IN  
JOHANNESBURG INNER CITY**

**MWANGALA ELHAM SIBUTU**

A research report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, in fulfilment of the requirements of Master of Science in Building.

Johannesburg 2010

## Declaration

I, Mwangala Elham Sibutu, hereby declare that this research report is my own original work and it has never been previously produced or submitted at this University or any other institution. It is being submitted in partial fulfilment of the degree of Master of Science in Building to the University of the Witwatersrand, Johannesburg. All sources of information have been duly acknowledged.

.....

Mwangala E Sibutu

.....

Date

## **Abstract**

South Africa, like most countries world over, has undergone and continues to suffer from urban decay in varying stages. The inner city of Johannesburg is considered as one of the most decayed cities in South Africa. To this end, urban regeneration strategies based primarily on international models have been introduced and implemented in South Africa. The Urban Development Zone (UDZ) tax incentive is one such strategy. It was introduced as a post apartheid strategy to regenerate the inner cities of 16 municipalities, Johannesburg being one of them, by enhancing private investment. This study sought to investigate the perceptions of the stakeholders on the impacts of the UDZ tax incentive on property development in Johannesburg inner city. Data was collected from a purposively selected group of policy makers (officials from Johannesburg Development Agency, JDA, Johannesburg Property Company, JPC and Johannesburg Metropolitan Municipality) and property developers active in Johannesburg inner city. The findings of the research indicated that property developers were profit driven and the demand for built up space in the inner city and potential for rental growth have been the major driving force of property development. Since the study sought to explore the views, opinions, perceptions and attitudes of the stake holders, the survey research strategy was considered the most appropriate method to collect and analyse primary and secondary data. The main finding of the survey was that, the stake holders did not consider the UDZ tax incentive as an adequately motivating factor to encourage property development in the inner city.

## Acknowledgements

Special thanks go to the following people who helped me make this research a reality.

Professor Francois Viruly and Professor Dave Root, my supervisors who helped me to shape this work. Mr Edward Baleni and Louis Taderera, who tirelessly read through my work, criticised and encouraged me. Thank you very much.

To my Father (deceased) and Mother words cannot express my gratitude for the love and encouragement.

Victor, Saied, Sepo, Malambo and Subulwa, you are the best brothers any sister could ask for.

My fiancée, Elaston, thanks for the love, support, prayers and encouragement. It's finally submitted so you don't have to read through all my drafts.

Friends are treasures of time; many thanks go to all my friends, Evie, Felicia, Chi Chi, Muti, Pauline, Tawila, Kazumba and Betwell. To my work colleagues, thanks for the support and bearing with me when I needed to do my research.

To all the respondents who participated in my survey; private developers and policy makers from various institutions.

Lord, Your grace has seen me through once again. I ask not for the light but the grace to see You in the darkness.

Thank you.

## Dedication

*"I am like a dwarf sitting on the shoulders of giants. I see more, than they did, not because my sight is superior or because I am taller than they, but because they raise me up, and by their great stature add to mine."*

Isaac Newton 1685

I dedicate this work to the best parents that any daughter can wish for. Dad (we started this together and I know you still watch over me from heaven, R.I.P) and Mum, this I dedicate to you, for all the times that you have lovingly believed in me, prayed with and for me to enable me to stand tall. I love you both!

## Table of Contents

Declaration.....	i
Abstract .....	ii
Acknowledgements.....	iii
Dedication .....	iv
List of Figures .....	vii
List of Tables .....	viii
Acronyms.....	ix
Chapter One - Introduction.....	1
1.1 Background .....	1
1.2 Problem Statement .....	4
1.3 Research Questions .....	4
1.4 Hypothesis.....	5
1.5 Aim and Objectives.....	5
1.6 Scope and Limitations.....	5
1.7 Research Methods .....	6
1.8 Structure of the Research Report .....	6
Chapter Two –Literature Review.....	8
2.1 Introduction.....	8
2.2 The Phenomenon of Urban Decay and Regeneration.....	8
2.3 Regeneration Strategies .....	10
2.3.1 Improvement Districts (ID's).....	10
2.3.2 Tax Incentives.....	12
2.4 Evolutionary Context of Johannesburg.....	19
2.5 Johannesburg Inner City Regeneration Strategy.....	21
2.5.1 ID's in South Africa.....	22
2.5.2 The Bad Buildings Programme (BBP) .....	25
2.5.3 The Urban Development Zone (UDZ) Tax Incentive .....	27
2.6 Summary .....	36
Chapter Three – Research Design and Methodology .....	38
3.1 Introduction.....	38
3.2 Research Strategy.....	38
3.2.1 Survey Strategy.....	39
3.3 Methods of data collection.....	39
3.4 Data Analysis .....	41
3.4.1 Quantitative Research .....	41
3.4.2 Qualitative Research .....	41
3.4.3 Descriptive Statistics Techniques.....	42
3.4.4 Survey Monkey.....	42
3.5 Population.....	43
3.6 Sample.....	43
3.7 Limitations of Study .....	44
3.8 Summary .....	45
Chapter Four – Research Findings and Analysis.....	46
4.1 Introduction.....	46
4.2 Research Findings.....	46
4.2.1 Research Sample.....	47

4.2.2	Justification of Sample Size.....	47
4.2.3	Challenges of Research.....	48
4.2.4	Developments Undertaken.....	48
4.2.5	Rand value of development projects undertaken.....	49
4.2.6	Eligibility to claim for UDZ Tax Incentive .....	50
4.2.7	Tools that can be Used to Measure the Effectiveness of the UDZ Tax Incentive ... .....	50
4.2.8	Reasons for Investing in an Area.....	52
4.2.9	Shortcomings of the UDZ Tax Incentive.....	53
4.2.10	Advantages or benefits of the UDZ Tax Incentive .....	54
4.2.11	UDZ tax incentive as a motivating factor to encourage property development in the inner city .....	55
4.2.12	Other Regeneration Incentives.....	57
4.2.13	Time Period of UDZ Tax Incentive .....	58
4.3	Chapter Concluding Remarks .....	58
Chapter Five – Conclusions .....		59
5.1	Introduction.....	59
5.2	Synopsis of Research .....	59
5.3	Restatement of Aim and Objectives of the Study.....	60
5.4	Evaluation of the Research Questions .....	60
5.5	Conclusion about Research Findings.....	62
5.6	Hypothesis of the Study .....	63
5.7	Limitations .....	64
5.8	Suggested Areas of Further Research .....	64
Bibliography .....		66

## **List of Figures**

Figure 2.1: Johannesburg Udz boundary.....	29
Figure 2.2: Six requirements necessary to qualify for the Udz tax incentive.....	33
Figure 2.3: Udz application process.....	35
Figure 4.1: Development projects undertaken.....	49
Figure 4.2: Total cost of development projects.....	49
Figure 4.3: Eligibility to claim for the Udz tax incentive.....	50
Figure 4.4: Developers' perception of whether the Udz tax incentive is an adequately motivating factor to encourage property development in the inner city.....	55
Figure 4.5: Property consultants' perception of whether the Udz tax incentive is an adequately motivating factor for property development.....	56



## **List of Tables**

Table 2.1: Claimable and non claimable costs.....	36
Table 4.1: Sample size of respondents.....	47
Table 4.2: Tools that can be used to measure the effectiveness of the UDZ tax incentive..	51
Table 4.3: Factors that compel developers to invest/develop in an area.....	53
Table 4.4: Shortcomings of the UDZ tax incentive.....	53
Table 4.5: Advantages of the UDZ tax incentive.....	54

## Acronyms

UDZ	Urban Development Zone
ID	Improvement Districts
BBP	Bad Buildings Project
SARS	South African Revenue Services
JDA	Johannesburg Development Agency
POMA	Property Owners Management Association
SACITIES	South African Cities Network
JPC	Johannesburg Property Company
IPF	Investment Property Forum

## Chapter One- Introduction

---

*“We cannot solve our problems with the same level of thinking that we had when we created them”*

Albert Einstein

### 1.1 Background

The city is a dynamic and ever changing environment. According to Bourne & Simmons (1976), the urban system is more than a set of interdependent cities: it creates, transmits, alters and reflects changes in society as a whole. This can be said to hold true for most cities in all economies regardless of their stage of development, it be in developed or less developed market based economies. To a large extent, South African cities as with all urban areas elsewhere in the world are strategically important as they are the most productive sites in the national economy as well areas that accommodate the largest number of poor people, (South African Cities Network, n.d.). In this respect, it becomes necessary to ensure that urban areas and inner cities are fully functioning and well managed.

Williams (2006) suggests that economic restructuring, suburbanisation of land uses and inappropriate policy structures are the main sources of inner-city decline. Power's 1997 study (Williams, 2006) adds that weak planning and development policies are a common problem leading to urban decay in most European cities. This can be said to hold true for African cities as well. In a study carried out by the City of Johannesburg (2006), it was found that big global cities with extensive investment in infrastructure, were being adversely affected economically by considerable urban decay, dereliction of buildings and impoverishment partly caused by increased urban migration (City of Johannesburg, 2006). Urban decay or urban decline is a major problem in most cities in the world and as put by Hui, Wong and Wan (2006) it is an urban problem that affects the physical, economic and social growth of an area. Urban decay can be said to refer to the deterioration of buildings and older areas of large cities due to a number of reasons such as neglect, crime, change in policies or lack of economic support. To a large extent urban decay has no single cause but results from inter-related socio-economic conditions (UN Habitat, 2010).

South African provincial cities have not been immune to this decline. According to Trevor Manuel in his 2003 budget address to the nation (National Treasury, 2003) many urban areas in South Africa suffer from inadequate infrastructure maintenance and environmental decay. Manuel went on to stress that urban renewal requires greater business investment in the regeneration of inner city areas (*ibid.*). According to a research carried out by the Royal Institution of Chartered Surveyors (RICS), urban regeneration seeks ways to improve disadvantaged places and the lives of people who live and work in a particular area (RICS, 2003). In this respect, regeneration activities can be varied and may reflect joined-up holistic or relatively less integrated programmes of physical, social and economic change (*ibid.*).

Johannesburg also known as 'Igoli, the city of gold' is one of the fastest growing cities in Southern Africa. It also has over the years, encountered movements of capital and migration, social changes and new innovations. Johannesburg is home to approximately 3.4 million people ([www.statssa.co.za](http://www.statssa.co.za)) and 200 000 (5.88%) of these inhabitants reside in the inner city, ([www.sacities.net](http://www.sacities.net)) Despite Johannesburg being the largest city in South Africa, its inner city is the most decayed (Cox, 2000; Fraser, 2008). The concept of urban decay is however not foreign to other South African cities (Fraser, 2008). It is widely held by many that urban decay in South African cities can be closely tied to the change in political landscape. A research carried out by Silimela Development Services (2008) attests that the urban cities of South Africa show a considerable amount of inequality and inefficient built environments resulting in urban decay. This inequality can be seen in the manner that Johannesburg developed initially as a mining town then into an apartheid city and eventually into the economic powerhouse of South Africa (Cox, 2000).

During the colonial period prior to 1948, Johannesburg was faced with influences from English, German, French and Dutch immigrants as clearly seen in the construction of buildings, (Ramadobu, Kotze & Verster, 2007). The apartheid era (1948 to 1994) had an enormous effect on the manner in which the inner city developed (Fraser, 2008). Aspects of discrimination were seemingly evident in almost all spheres of life, as certain places and facilities were reserved solely for one race. The advent of democracy in 1994 saw a change in this design and in turn led to the once favoured minority (white population) leaving the inner city in an effort to prevent inclusion of all races. According to Fraser (2008), many white landlords deserted their buildings. This

migration of businesses from the inner city had a negative effect on the income base of the municipality as landlords abandoned their buildings and were unwilling to pay rates and taxes (Fraser, 2008). This in turn led to banks redlining most of the inner city as landlords defaulted on their mortgage repayments. It is believed that this migration was the beginning of the inner city decline as businesses moved their offices out of town to satellite locations such as Sandton where urban management was well maintained and provided by relevant authorities. With reduced income, municipalities were increasingly unable to provide much needed services and embark on capital infrastructure projects (*ibid.*).

To reverse the effects of inner city decline and to maximize efficient utilization of the existing infrastructure, the South African government has followed international practice and intervened through the introduction of various regeneration strategies (City of Johannesburg, 2006). Urban regeneration can be said to refer to the renewal or rebirth of an area or location. The concept of urban regeneration includes the perception of urban decline in inner city economies, quality of the environment and in social life and incorporates the process of renewal to establish the basis for economic growth and social well being, (McGreal, Adair, Berry, Deddis and Hirst., 2000; Adair, Berry, McGreal, Hutchison, Watkins and Gibb, 2003). McGreal and Berry (2004) agree with this and confirm that regeneration concerns the physical and economic renewal of locations with development and investment in property a fundamental part of the process and product. McGreal *et al.*, (2000) contends that the focus of urban regeneration is therefore a response to both the problems and the new demands created by economic, social and physical change.

Some of the regeneration strategies that have been employed in Johannesburg inner city include: Improvement Districts (ID's), the Better Buildings Project (BBP) and the Urban Development Zone (UDZ) tax incentive. These strategies can be used collectively or as independent regeneration strategies. This is evident in the manner in which these strategies have been employed in South Africa. The whole inner city is a designated UDZ area. Located within this area, are discreet ID's where tenants and owners pay an additional amount for the provision of services not provided by the Municipality. The BBP is a South African innovation to 'better' the 'bad' buildings located within the inner city. The premise of this initiative is that buildings are sold at the price owed in rates and taxes or below market value to property investors.

This research describes these regeneration strategies but focuses on the UDZ tax incentive. The UDZ tax incentive was first introduced during the 2003 National Budget and formally legislated in December 2003. This is a tax incentive in respect of the erection, extension, addition or improvement of buildings demarcated within Urban Development Zones (UDZs) in 16 municipalities in South Africa, including Johannesburg. The Income Tax Act (No. 58 of 1962) permits owners or developers to write off costs of refurbishment and or new development in demarcated UDZs areas (South African Revenue Services, n.d.)

The UDZ tax incentive has certain features that make it a unique regeneration strategy. Firstly, only tax payers who own or refurbish property within the boundaries of the zone can claim for it. This has a direct impact on other property owners such as Non-Governmental Organisations, (NGO's) and government bodies. Secondly, an investor must have developed or refurbished a minimum area of 1000m<sup>2</sup> before he is eligible to claim the tax benefit. These features of the tax incentive may pose certain challenges that may act as a barrier in encouraging inner city regeneration through private property development.

## **1.2 Problem Statement**

South African cities have developed and undergone urban decay in a unique context, from colonial to apartheid and finally to democratic rule. Owing to this, regeneration strategies such as the UDZ tax incentive that has certain distinctive applicability requirements may not necessarily be an effective mechanism to redevelop or redress the problems of urban decay faced in the inner cities in South Africa such as Johannesburg.

## **1.3 Research Questions**

The questions that follow on from the problem statement are:

- What were the objectives of the introduction of the UDZ tax incentive?
- What type of property has been developed or refurbished in Johannesburg inner city since the introduction of this tax incentive?
- What indicators are appropriate to investigate or measure the impact of the introduction of the tax incentive on property development in Johannesburg inner city?

- Can these indicators show whether the objectives of the UDZ tax incentive been met?

## 1.4 Hypothesis

The study seeks to test the following hypothesis:

*The introduction of the UDZ tax incentive has had no positive impact on property development in Johannesburg inner city.*

## 1.5 Aim and Objectives

The aim of this research is to ascertain the perceptions of the impacts and challenges in the introduction of the UDZ tax incentive with a view of making it more responsive to its objectives. In line with the aim, the following objectives were formulated:

- To assess the objectives of the UDZ tax incentive and the creation of the urban development zones.
- To investigate what indicators that can be used to assess the impact of the UDZ tax incentive.
- To investigate the types of property development in the inner city as a result of the introduction of the UDZ tax incentive.
- To examine whether the UDZ tax incentive is a motivating factor in the property development decision

## 1.6 Scope and Limitations

Stake as cited in Denscombe (2008) indicates that time and access for fieldwork are almost always limited. Denscombe (2008) agrees with this assertion and indicates that ‘if two or more clusters are equally suitable as research sites, it would be crazy to pot for ones that were the furthest away without some good reason to do so’. UDZs were introduced to revitalise the urban areas of sixteen (16) of the municipalities in South Africa, Johannesburg Metropolitan Municipality being one of them. The Johannesburg inner city is the only demarcated UDZ area within the Johannesburg Metropolitan Municipality area of jurisdiction.

Johannesburg is considered the economic capital of South Africa and in line with this, the study focuses only on Johannesburg inner city and not any of the other UDZ

designated areas in South Africa. Whilst there are a number of regeneration strategies that have been employed to curb the problem of urban decay in Johannesburg inner city such as BBP, ID's and UDZ tax incentive, this research focuses primarily on the UDZ tax incentive owing to its unique nature of application. Further, urban regeneration strategies are said to promote economic, social and physical enhancement. This study is limited to the impacts of the UDZ tax incentive on property development (the physical enhancement) and does not take economic or social enhancements into account.

## **1.7 Research Methods**

The aim of the research methodology employed was to answer the research questions highlighted earlier. Qualitative research which is subjective in nature and emphasises on meanings, experiences, opinions and descriptions was deemed as the most appropriate for this research. This is because qualitative research seeks to discover, explain, understand or explore a process and describe the experiences of a particular concept, idea or theory.

In line with this methodology, both primary and secondary data collection instruments were used such as expert interviews, structured questionnaires consultations with officials knowledgeable in the area of research, desktop survey of documents, journals and other published articles. Two survey groups formed the set of interviewees. This included officials or policy makers from relevant institutions such as the City of Johannesburg & Johannesburg Development Agency and property developers who have been active in the inner city since the introduction of the UDZ tax incentive in Johannesburg inner city.

## **1.8 Structure of the Research Report**

The research report is structured in the following manner:

- Chapter 1: Introduction: This chapter introduces the research by giving the background to the study. It highlights the problem statement, shows the aim and objectives, defines the scope and limitations in which the study is carried out and lastly highlights the research methods to be employed
- Chapter 2: Literature Review: This chapter reviews literature on the phenomenon of urban decay, history of the renewal or regeneration strategies that has been



used in globally and in Johannesburg. The chapter discusses the UDZ tax incentive in detail highlighting its history, aims, objectives and manner of application.

- Chapter 3: Research Design and Methodology; Owing to the time of research undertaken, a qualitative research approach was adopted. This chapter discusses this research approach and justifies the methods uses, the sample size in line with the data sought.
- Chapter 4: Research Findings and Analysis: The data collected is collated and presented in this chapter. This data is presented in line with the objectives and research questions.
- Chapter 5: Conclusions: Here conclusions are drawn from the data presented in the preceding chapter (chapter 4). Shortcomings of the research and areas of further research are highlighted.

## Chapter Two –Literature Review

---

*“The inner city revival is a tribute to the past, the celebration of the present and an investment in the future”,* (Star News Paper, 23 March 2006).

### 2.1 Introduction

This chapter reviews the published literature on the phenomenon of urban decay, the history of urban renewal strategies, such as improvement districts and tax incentives, which have been used internationally. This is followed by a brief synopsis of the evolution of Johannesburg as a City and the concept of urban decay. The chapter then discusses the regeneration strategies that have been used in Johannesburg inner city such as Improvement Districts (ID's), Bad Buildings Programme (BBP) and the UDZ tax incentive. The UDZ tax incentive as a regeneration strategy is the thrust of this research and in this respect it is discussed in detail reviewing literature on its background, its aims and objectives and manner of application. The tax incentive is discussed in light of the South African government's vision of providing an inclusive non-racial city.

### 2.2 The Phenomenon of Urban Decay and Regeneration

Cities, neighbourhoods and city centres are important areas and spaces because they offer human beings the potential to share urban spaces, participate in public and private events and exercise both their duties and their rights, (UN Habitant, 2010). Decay is the process of falling into disrepair or deterioration (Oxford Advanced Learners Online Dictionary). Urban decay can therefore be said to be the process by which a city or a part of a city falls into a state of disrepair and the area may show signs of population loss, housing stock deterioration and increases in crime, (Wallace and Wallace, 1990). According to Hui *et al.* (2008) urban decay has been a significant problem for many cities worldwide. Williams (2006) suggests that economic restructuring, suburbanisation of land uses, and weak planning and development policies are the main sources of this inner-city decline.

Regeneration can be said to refer to the rebirth, renewal, renovation or rejuvenation of an area (Oxford Advanced Learners Online Dictionary and Thesaurus). The concept of

urban regeneration embodies the recognition of urban decline in inner-city economies, decline in the quality of the environment and of social life and incorporates the process of renewal to establish the basis for economic growth and social well-being (McGreal *et al.*, 2000; Adair *et al.*, 2003).

McGreal (2004) argues that regeneration concerns the physical and economic renewal of locations with development and investment in property as a fundamental part of the process and product. In contrast, some other regeneration proponents hold the view that the success of regeneration should not be measured by development outputs but how the quality of life is enhanced in the areas undergoing regeneration, (Research Findings: Investment Property Forum, IPF 2009).

Williams (2006) contends that the ideal conditions for implementation of urban renewal strategies would include a strong economy, adequate public resources and a determined commitment to solving urban dereliction problems while achieving social and economic progress. It is likened to a three-legged stool that addresses the physical environment, local economy and most importantly the community around it, (IPF, 2009). Therefore any urban renewal strategy cannot be viewed in isolation. It is a collective effort by all major stakeholders. In such circumstances planned improvements to infrastructure, transportation and environment should coincide with renewal and new development that has the support of all social and economic partners. Therefore, for regeneration to be successful, it requires a strategic, broad and long-term approach (IPF, 2009).

Regeneration often arises where real estate markets are fragile, the private sector is cautious about investing and the level of economic activity is in state of decline (Amin and Thrift 1995, cited in McGreal and Berry, 2004). This view is shared by McGreal, *et al.* (2000) where the authors contend that the focus of urban regeneration is a response to both the problems and the new demands created by economic, social and physical change. It has been argued by many that the success of urban regeneration from a private perspective has to be supported and facilitated by the public sector (*ibid.*). In these areas of perceived risk and uncertainty, investors require a form of public sector intervention to stimulate market activity (McGreal and Berry, 2004). That is to say the private sector cannot operate in isolation but needs a public sector framework. Whereas the public sector views urban regeneration as an important and vital phenomenon the

private sector perceives urban regeneration projects and inner cities to carry considerable risk compared to prime property locations (McGreal, *et al.*, 2000).

## **2.3 Regeneration Strategies**

Around the world, various strategies have been implemented to regenerate inner cities. The selection or choice of strategies used in any country may depend on a number of factors such as government policy, social and economic objectives. The literature reviewed below will discuss two of the widely used regeneration strategies, namely; Improvement Districts (ID's) and tax incentives.

### **2.3.1 Improvement Districts (ID's)**

The concept of Improvement Districts (ID's) was initiated in North America in the late 1960's as a response to declining levels of municipal service (Cox, 2000). This to a greater extent means that ID's are seen as an ideal reaction to supplement municipal services. ID's can take the form of City Improvement Districts, (CID's) or Business Improvement Districts (BID's). A BID is defined as follows:

“A public-private partnership in which businesses in a defined area pay an additional tax or fee in order to fund improvements within the district's boundaries” (Ottawa Business Journal, n.d.).

This view is shared by Cox (*ibid.*,p.2) who defines an ID as a 'geographic area in which property owners and/or tenants agree to pay for certain services which are supplementary to those supplied by local government and which enhance the physical, economic and social environment of the area'. Hogg *et al.* (2003, p.466) defines BID's as 'companies permitted to levy a tax on businesses and property owners within a specific urban boundary in order that the services in that area may be improved'.

These two definitions above identify the basic concepts of ID's or BID's as being the enhancement or improvement of an area principally funded by the property owners or businesses within that specific area.

Guy (2001, in Hogg *et al.* 2003) indicates that BID's were initiated when local governments were perceived as not providing sufficient basic services such as cleaning, safety initiatives and road maintenance. Hogg *et al.* (2003) goes on to describe BID's as

a business-led response to the decline of down-town areas. BIDs may go by other names, such as business improvement area, business revitalization zone, community improvement district, special services area, or special improvement district but simply put, they are tools or platforms to fund additional services, which improve the vitality of urban areas. The property owners or tenants within the area determine the type and scope of services that are required (Cox, 2000).

These services can range from security, cleaning, maintenance, marketing, litter collection, maintenance of public space, removal of illegal posters, physical improvements and special programmes to address aspects of transportation, access, parking, greening and homelessness. The services provided by IDs are supplemental to those already provided by the municipality.

ID's are viewed as self sustaining instruments that help to maintain, manage and market investment in the inner city by addressing physical, environmental, social and economic factors. They can be as modest or as ambitious as the businesses want it to be (Hogg, *et al.*, 2003).

#### **2.3.1.1 ID's in America & the UK**

As previously mentioned, the concept of ID's has its origin in North America in the early 1960's. One of the earliest established ID is the San Diego programme which originated in 1970 and presently includes about 18 individual BID's and over 11 000 business partners (Jones *et al.*, 2003).

In the UK, ID's were formally legislated in the Labour Government's Modernising of Government White Paper (2001). They were defined in the white paper as partnership arrangements through which the local authorities and the local business community could benefit (Jones *et al.*, 2003). Jones contends that this was seen as a workable tool because ratepayers would be able to decide in advance on the way in which such money is spent and how much they are prepared to pay in addition to their rates bill.

#### **2.3.1.2 Creation of ID's**

The creation of ID's should adhere to set standards and is governed by legislative framework. According to Hogg, *et al.* (2003) the standard prerequisite conditions for the creation of ID's are:

- A prior agreement by a simple majority of business owners who control the commercial space within an area;
- A decision regarding the ID's boundary, (the size is variable);
- A vote by all businesses within the ID to indicate whether they are willing to be involved or not.

### **2.3.1.3 Advantages of ID's**

The key advantages of ID's summarised by Cox, (2000) are: concerted efforts are directed towards investigating and addressing all issues affecting the neighbourhood; enhancement of the environment and strengthening investor confidence by addressing safety, cleanliness, economic vitality and strengthening retail and commercial nodes; promoting a positive identity of the area; providing private sector management and accountability through the establishment of a section 21 (non-profit making) management company; continuous monitoring of new developments or interventions that affect the area and engaging in continuous consultation with the municipality on matters that affect the area. In summary, the main purpose of establishing ID's is to promote the inner city as an attractive investment destination to prospective investors.

For Cox, (2000) some of the sustainable benefits of ID's from the perspective of local government include:

- Creation of self sustaining mechanism to maintain, manage and market new investments in civic infrastructure for example street scaping or environmental upgrade projects;
- Formation of a unified private sector voice for the ID area;
- Help in leveraging supplemental services to mitigate declining municipal budgets; and
- ID's advance revitalisation areas and lead to an increase in sales revenue, property values and ultimately municipal budgets.

### **2.3.2 Tax Incentives**

One of the primary virtues of tax incentives is that they are seen as the most effective means to bridge the gap between the initial estimated cost of development and the actual cost of development on completion (Healey, 1995; McGreal, S.W & Berry, N.J., 2004; Investment Property Forum (IPF), 2009). This is because the cost of

development on completion is offset by the tax benefits provided by the incentive. Ngwabi (2009) agrees and adds that a tax incentive is a vital tool that is able to simultaneously benefit both the private and public sectors.

An incentive is defined as follows:

”The direct or indirect cost or benefit that changes behaviour by motivating a decision or action by consumers, businesses or other participants in the economy which would not have otherwise taken place in order to achieve some objective”, Wolpe, Solomon, and Rabe, (2008, pg 5).

Incentives are seen as desirable regeneration strategies as they make property investment more attractive, improve property investor confidence, lower property investment risks, ensure viable returns on property investment and prescribe desirable land uses, (Wolpe, *et al.*, 2008).

To the private sector, a tax incentive means undertaking urban regeneration projects in discrete zones of decline at discounted costs thus achieving the commercial objectives and contributing to the social objectives of government. It should be noted though that the private sector will not commit to the additional responsibilities that come with regeneration projects unless there is sufficient reward (IPF, 2009). Ngwabi (2009) goes on to argue that although applying a tax incentive means that the public sector is compromising a portion of potential tax revenue that would have accrued to its income base, it has a long-term benefit to the public sector by enhancing and encouraging urban regeneration.

Tax incentives can take various forms and be called by various names in different countries. The more commonly used names are empowerment zones, enterprise zones or urban development zones. In essence there is no fundamental difference in the underlying model of regenerating an area by reducing taxes or providing tax benefits to businesses or tax payers. Enterprise zones programs, for instance, designate specific areas as “zones” that qualify for lower taxes and in some cases less government regulation (Hirasuma and Michael, 2005). The theory behind enterprise zones is that allowing free uninterrupted enterprise within a zone creates economic growth (*ibid.*). Empowerment zones are designated areas that receive tax incentives and grants from

the American federal government under the Empowerment Zones and Enterprise Communities Act of 1993, (*ibid.*). Enterprise zones are a state engineered and managed program whereas empowerment zones fall under the auspices of federal government (O’Keefe and Dunstan, 2001). Urban development zones on the other hand are designated areas where tax payers who invest within the zone receive tax allowances (City of Johannesburg, n.d).

Ngwabi (2009) refers to tax incentives as ‘pull factors and self-financing tools’ as they encourage exogenous investment to locations and encourage owners of private buildings to renovate them. Hirasuma and Michael (2005) comment that areas that are designated as requiring tax incentive intervention are usually those areas with high rates of unemployment, lower incomes, fewer jobs or fewer good paying jobs, unused land and blighted structures.

#### **2.3.2.1 The Economic Theory of Enterprise Zones**

Economic theory suggests that lowering taxes will raise aggregate income (Hirasuma and Michael, 2005) hence reducing the state’s revenue base. The reverse side of providing zone incentives is that this reduction in tax revenue could result in cut -backs in the provision of public services or assets (*ibid.*). Ngwabi (2009) contends that the theory of enterprise zones is built on the justifiable assumption that the provision of tax incentives within a particular zone is a more cost effective way of regenerating the area. Therefore, the benefit of regeneration out-weighs the cost of the reduction in expected income for the exchequer.

The tax incentives need to be large enough to induce the desired investment behaviour. In deciding whether to invest or locate in a particular zone, a business will weigh the value of the tax incentive against the higher cost of investing and operating within a zone location (Hirasuma and Michael, 2005). In other words, businesses will weigh location factors against the tax incentives within a zone before they can decide whether or not to locate within a particular area.

#### **2.3.2.2 Enterprise Zones (EZ) in the United Kingdom (UK)**

The idea for the use of enterprise zones in the UK can be credited to Peter Hall. Hall (Hirasuma and Michael, 2005) attributed the rapid economic growth of the free ports of Asia, (Hong Kong, Singapore and Taiwan) to low taxes and government intervention,



and proposed the use of this model in poor neighbourhoods in an effort to resurrect them (*ibid.*). This saw the enactment of the first enterprise zone in 1981 in the Isle of Dogs in London's Docklands (*ibid.*). The enactment of these zones encouraged new investors or occupiers to locate in deprived areas by offering exemption from business rates, 100% allowances for corporation and income tax purposes for capital expenditure on new and unused industrial and commercial buildings and simplified planning regime, (IPF, 2009). From their inception in 1981 till their end in 2006, approximately 38 enterprise zones were enacted in the UK, (*ibid.*). The management of each zone was administered by a zone authority, (local authority) or development corporation (Potter and Moore, 2000).

### **2.3.2.3 Features of Enterprise Zones (EZ) in the United Kingdom (UK)**

With the background of attracting private sector investment in deprived areas, enterprise zones were created to with the following specific features (Potter and Moore, 2000):

- Exemptions of property from local business rates;
- Enhanced capital allowances against corporation and income tax liabilities for investment in property;
- Exemption from Development Land Tax (this was levied until March 1985 on the development value realised from disposals of land in an EZ);
- Exemption from Industrial Training Board levies;
- Simplified planning regime (setting out the types of development for which planning permission is deemed to be granted);
- Faster administration of planning and other decisions;
- Relaxed criteria for applications for customs facilities (which exempt businesses from customs duties on re-exported goods); and
- A reduction in requirements to respond to government statistical enquiries.

Enterprise zones were primarily enacted to attract inward investment, create jobs and facilitate physical and economic regeneration of deprived areas. Each of the 38 zones was created to achieve specific regeneration results, for example in Telford the emphasis was to attract inward manufacturing investment; in Dudley and Newcastle there was a strong focus on new retailing and leisure activity; and in the Isle of Dogs

(London) commercial activity was encouraged; the Tyneside EZ on the other hand was created to attract mobile investment (Tyler, 1993 in Potter and Moore, 2000).

Two separate studies carried out by PA Cambridge Economic Consultants in 1987 and 1995 respectively indicate that enactment of EZ's in the UK was a successful regeneration strategy and contributed to increase in economic activity and job creation (Potter and Moore, 2000). This study was carried out using survey data from a government sponsored national evaluation and the results showed that job creation in EZ's was approximately one-third higher compared to other areas. However, the research also pointed out that in the long run, the zones could not be conclusively said to contribute to sustained inward investment (*ibid.*).

#### **2.3.2.4 Enterprise Zones in the United States of America (USA)**

The driving force of urban poverty in the USA was believed to be caused by the flight of influential families and businesses from the inner city to the suburbs. This flight led to pockets of blight or decay being left in the inner city. In the USA, the theory behind the introduction of enterprise zones as a regeneration strategy is similar to that in the UK. In the USA, it was assumed that blighted neighbourhoods could be saved by the resuscitation of small businesses via reduction in taxes and lesser government control. This would in turn have a spiral effect in that the businesses would be revived and would be able to offer employment to the local community and this in turn would lift the livelihood of the community. To counter the problem of urban decay, enterprise zones were introduced through the enactment of the Urban Development and Enterprise Zone Act in 1981. This Act was enacted principally to attract new business into the inner cities. According to Butler (1982), EZ's were seen as a tool to save blighted neighbourhoods by stimulating businesses and economic activity through the reduction of taxes and government regulation. From 1980 to 1984 over 14 enterprise zone bills, each with its' own version of tax incentives and regulatory reductions were introduced in the USA Congress, (Hirasuma and Michael, 2005).

Similar to the EZ in the UK, the zones are managed by a designated authority, for example California's enterprise zone program is overseen by the Technology, Trade and Commerce Agency, (O'Keefe and Dunstan, 2001). Further this agency formed the California Association of Enterprise Zones (CAEZ) in which the state and participating businesses cooperate to find ways to enhance the overall effectiveness of the zone

program, (*ibid.*). This integration of the public and private sector to improve an EZ area is a feature that is unique to the USA concept. For an area to be designated as an EZ, it must show signs of general distress (population decline, poor health and safety conditions), high unemployment rates, underdevelopment (lack of building permits and licenses) and general blight, (O'Keefe and Dunstan, 2001).

Some of the enacted enterprise zones include: Michigan's Renaissance Zone, Pennsylvania's Keystone Opportunity Zone, Minnesota's Job Opportunity Building Zone and California Enterprise Zone, (Hirasuma and Michael, 2005; O'Keefe and Dunstan, 2001).

In an effort to investigate the impact of the introduction of EZ's, Bondonio and Engberg (1999) used local employment creation as a measure. In this study, five states were taken as case studies: California, Kentucky, New York, Pennsylvania and Virginia respectively. The findings of this research indicated that there was no marked increase in local employment in the selected five states. The researchers pointed out that this can be attributed to a number of factors and should not be viewed as implying that EZ's have not been successful. The main contributory factor to this finding was that EZ's promote new business start-ups and resuscitation of old businesses but might not necessarily result in growth in local employment as most of these businesses might not be labour intensive.

#### **2.3.2.5 Features of EZs in the USA**

O'Keefe and Dunstan (2001) cite the following as benefits that accrue to businesses that are located within an EZ:

- Tax credit for sales and use tax paid on manufacturing equipment purchased during the tax year,
- Tax credit for hiring qualified employees;
- Carryover of 100% of the net operating loss for losses associated with operations within the zone;
- Deduction of interest earned by lenders who loan money to zone businesses;
- Expensing rather than amortizing equipment used within the zone. This allows full deduction within a single year rather than over useful life of the equipment and;

- Preference selection is given to businesses located within an EZ when they bid on state contracts

Unlike in the UK, EZ's are still being actively used in the USA as a regeneration strategy to curb urban decay.

#### **2.3.2.6 Enterprise Zones in Ireland**

In Dublin a similar tax incentive was used to reduce the negative effects of urban decay. This was done under two pieces of legislation: The Urban Renewal Act of 1986 and the Finance Act of 1986 (Berry and McGreal, 1996; Williams, 2006). According to Williams (2006), the main outline of the Urban Renewal Act was to establish the designation of areas for special incentives with the aim of revitalisation of those parts of the city, the stimulation of investment in the construction industry and expansion of employment. The Finance Act on the other hand enabled investors, owners and occupiers of new and refurbished commercial and residential developments undertaken within a specified time frame to qualify for a range of fiscal incentives (Berry and McGreal, 1996). Collectively these Acts aimed at improving the physical fabric, promoting economic development and facilitating job creation (*ibid.*).

The incentive was tailored to offer benefits for development and occupation of property. Williams (2006) summaries the main provisions of the incentive as follows:

- Taxation allowances in respect of expenditure of a capital nature for the construction or reconstruction of commercial buildings to be set off against income or corporation tax;
- A double rent allowance, which occupiers could set off against trading income for a period of 10 years for new leases on commercial buildings;
- Remission of rates for a 10-year period;
- Income tax relief for owner-occupiers of residential units newly built or refurbished;
- Taxation relief for investors in rented residential property within specified lot sizes; and
- A reduced corporation tax of 10%, which would apply to licensed companies involved in international financial services located in the International Financial Services Centre (IFSC).

Two of the areas where the implementation of this incentive has been successful are Customs House Docks (Gathan, 1993 in Berry and McGreal, 1996) and the Temple Bar Quarter (Davies and Prendergast, 1995 in Berry and McGreal, 1996).

A study to investigate the impact of EZ's in Dublin indicated that the lowered taxes in designated zones contributed to increase in physical improvement of the areas and increase in site and rental values (Williams, 2006). The view that tax incentives have been successful in Dublin is echoed in the 1996 study carried out by Berry and McGreal though no conclusive parallel was drawn between tax incentives and job creation (Berry and McGreal, 1996).

## **2.4 Evolutionary Context of Johannesburg**

Johannesburg, commonly called 'The City of Gold – Igoli' is the provincial capital of Gauteng, the major industrial hub of South Africa contributing some 16-20% of the National Gross Product and remains a city alive with an array of possibilities (City of Johannesburg, n.d) It is the financial and economic capital and is viewed as the powerhouse of South Africa (City of Johannesburg, 2004). The Census of 2001 estimated the City's population at 3.2 million, growing at an average of 4,1% per year (City of Johannesburg; IDP Draft 2010).

Johannesburg was established around 1886 with the discovery of gold in the Witwatersrand reef. Prior to that it was a bushveld inhabited by approximately 200 inhabitants (Fraser, 2008). The discovery of gold led to the 'Gold Rush' a term commonly used to refer to mass migration of companies and people to different parts of the country and neighbouring countries in search of gold and people to provide labour. The population explosion in Johannesburg resulted in the establishment of human settlements around the gold mines.

The first 'unofficial township', Marshalltown, was laid out in late September 1886 by the pioneer Henry Brown Marshall (Fraser, 2008). The first mining camp was laid out on the adjacent farm, Randjeslaagte, consisting of two separate strips of blocks each with its own grid plan (*ibid.*). This sparked the use of the grid system in the laying of Johannesburg CBD. Although not the intended purpose, the use of the grid system in the laying of Johannesburg city became the cornerstone of some of the country's modern urban planning.

The discovery of gold meant that large mining corporations such as Anglo Gold and De Beers Consolidated Mines lead by Cecil John Rhodes and Barney Barnato had to set up headquarters and offices in Johannesburg. These were accompanied by large insurance and pension fund institutions to provide financial support. This establishment of commerce and trade aided Johannesburg to emerge as the largest financial capital in Southern Africa.

The growth of Johannesburg was based on the orthodox town planning principles of the early 20<sup>th</sup> Century as practised in Europe and America's cities. Sound land-use management was introduced in the 1970's to complement the planning regulations administered by the Johannesburg Municipality. It is important to note that the practice of racial exclusivity through the various legislative instruments impacted on the physical and socio-economic development of the City and may well have predicated its post-apartheid city development trends, in particular the demographic shifts and racial profile of suburbs including that of the Central Business District. A number of planning regulative frameworks such as parking controls were promulgated and put in place to control orderly spatial development of the inner city.

The advent of multi-racial democracy in 1994 which brought with it freedom of movement was viewed by many corporations with pessimism. This historic evolution led to an influx of people in the CBD leading to traffic congestion, lack of adequate and secure parking, poor urban management, deregulation and high levels of crime (City of Johannesburg, 2004). Effectively the unintended consequences of democracy resulted in an exodus of large businesses to satellite areas/towns located on the fringe of Johannesburg such as Sandton, Rosebank, Parktown, Randburg, Midrand. This exodus included the development of Sandton, which has since evolved as the financial capital of South Africa. Most of the major institutions including insurance companies, pension funds and investment banks now have headquarters in this up-market financial conurbation.

The exodus from the inner city resulted in high vacancies or voids in inner city office, residential and retail space; increase in slums and bad buildings and increase in crime. This in turn reduced the municipality's revenue base and made it difficult for them to use their police powers to enforce or demand rates collection. This negative consequence was echoed by Reid (2005), as quoted by Fraser (2008, p.180):

“In the residential areas and the business district of the inner city, enforcement of by-laws ceased, and building control, land-use management and other planning regulations, along with credit control, were all but abandoned. The inner-city housing environment became increasingly unstable, with white landlords and the new black tenants in contestation over rentals, obligations and rights. Many landlords milked their properties, and abandoned them. Banks, facing increased default and a breakdown in public service delivery, responded by massive redlining of most of the inner city, causing more disinvestment and the self-fulfilment of the banks’ prophecy of urban decay”

This ignited the long process of urban decay, as the Municipality was unable to collect rates since the landlords had abandoned the properties and hence was unable to provide much needed services and facilitate the provision of an enabling environment for the inner city inhabitants and investors. This, in turn, encouraged more investors and businesses to leave the inner city and locate to more conducive suburbs or out of town locations that were safer and had more reliable public services.

## **2.5 Johannesburg Inner City Regeneration Strategy**

South African cities as with urban areas elsewhere in the world are strategically important as they are the most productive sites and house the largest number of people (South African Cities Network SACN, n.d). However, these urban areas are impoverished and suffer from extensive urban decay (South African Revenue Services (SARS), 2008). The primary aim of the City of Johannesburg is to make Johannesburg a 24-hour lifestyle, world class city by 2030, (Sunday Times 2004; City of Johannesburg, 2006). The regeneration of the Johannesburg inner city therefore plays a pivotal role in achieving this goal as it is viewed as a major productive economic asset (City of Johannesburg, 2004). The introduction of the inner-city regeneration strategy in Johannesburg is Government’s effort to curb the effects of urban decay and to raise and sustain private investment in Johannesburg inner city, leading to a rise in property values (*ibid.*). The components of the strategy are provided on the City of Johannesburg website (n.d) as follows:

- Intensive urban management, including improvements to service quality, strict enforcement of by-laws, management of taxis and informal traders, and sound credit control;
- Upgrading and maintenance of infrastructure to create an environment attractive to both residents and business;
- Support for those economic sectors that have the potential to thrive in the inner city, and encourage growth in those sectors;
- Discourage "sinkholes", meaning properties that are abandoned, overcrowded or poorly maintained, and which in turn "pull down" the value of entire city blocks by discouraging investment; and,
- Encourage "ripple effect" investments that can lift an entire area.

To this end, there have been a number of initiatives that have been broadly used to address the concept of urban regeneration in South Africa. These include:

- Improvement Districts (IDs)
- Bad Buildings Project (BBP); and
- Urban Development Zone (UDZ) Tax Incentive.

### **2.5.1 ID's in South Africa**

Hogg, *et al.* (2003, p.469) summarises the importance of ID's as follows:

“whether a district centres, a town centre periphery or a shopping street in a village, the advantage of having sustainable funds to spend on local issues could be instrumental in changing the fortunes of an area.”

#### **2.5.1.1 Creation of ID's**

In Gauteng ID applications to local authorities are considered in terms of the Gauteng City Improvement District Act No. 12 of 1997 which was approved by the Gauteng Provincial Legislature on 9 December 1997. In some other provinces ID's are established in terms of local authority by-laws.

Under the Gauteng City Improvement Act No. 12 of 1997, the following are the preconditions for the creation of ID's:



- All property owners and major tenants within a defined area must be identified and exposed to the proposed intervention;
- A referendum has to be held and a pre-determined majority must be achieved in order to legally establish an ID;
- Whilst the application to the local authority to establish an ID may be made by 25% of property owners, final approval will not be considered unless more than 50% of relevant property owners are in agreement;
- Once a district is authorised, 100% of property owners within a district have to contribute financially;
- Once legally constituted the ID authorises the council to levy an additional tax on ID members who are required to pay them. The levy is mandatory and is based on the land value of the individual stands. It is important to note that unlike rates, funds contributed by the property owners may only be spent in the area in which they are collected;
- The council collects the levy on behalf of the ID and pays the money received directly over to the ID without deduction or gives agency status to an approved agency to collect levies on its behalf;
- Each district has its own board of directors elected from the contributors and they effectively control the district within the terms of their original ID business plan. Annual activities and budgets are developed by the CID management company who provides a full set of monthly management accounts which are overseen by the board. This ensures that the ID is directly accountable to those in the business community who pay the levy;
- The services to be provided by the ID reflect the actual needs of the area and are negotiated with the local authority; and lastly
- An agreement as to the level to which the local authority will be providing services out of the normal rates base has to be negotiated.

The above conditions to a large extent ensure that the ID remains a self sustained and independent entity which has the authority to select the level of services above and beyond those that are provided by the Municipality. Membership or involvement in an ID is solely dependent on location within a particular area. This is an important feature of this regeneration strategy as it makes it open to all individuals; small and big

businesses, tax payers and non tax payers as long as they decide to create an ID. This fosters the government's plan of fair franchise to all races.

The ID is established for an initial period of three years but its life can continue indefinitely unless members move for material changes to the original business plan.

#### **2.5.1.2 ID's Within Johannesburg Inner City**

There are currently five ID's in the inner city namely, Braamfontein Improvement District (BID), Central Improvement District (CID), Retail Improvement District (RID), Benrose Improvement District (BENID), South-Western Improvement District (SWID) and Mall Street Mall Improvement District. Some of these ID's will be discussed in turn below:

- **Bramfontein Improvement District (BID):** The main objective for the creation of the BID was to re-establish Braamfontein as an area that is well-managed, vibrant, physically attractive and well-lit with a growing evening economy offering an excellent public environment to the number of corporate head offices clustered in the area as well as to the commercial, residential, hotel and restaurant sectors. Secondary to the above was the objective of persuading and enhancing private investment in the area.
- **Retail Improvement District (RID):** This was the third city ID to be established in Johannesburg. The RID has been in operation since 1 June 1997 and was finally legislated in 2005. It consists of five city blocks in the main retail area of the inner city. The RID was established to make this part of the city safe, clean, friendly and attractive, particularly for shoppers. The RID includes outlets such as Edgars, Woolworths, Game, Truworths, Foschini, Markhams, Green and Richards, Lewis Stores, Cuthberts and many smaller retail outlets.
- **The South-Western Improvement District (SWID):** This was the second ID to be established in Johannesburg. It was established as a voluntary city improvement district in September 1996 and was legislated in January 2004. It covers 24 blocks in the South-Western part of the city and incorporates the Standard Bank Superblock Complex and the head offices of various organisations including the Chamber of Mines, BHP Billiton, and SA Eagle. Other organisations within the district include the African National Congress in the Walter Sisulu House, the Rand Club, Samancor, Anglo Platinum, Anglo

Operations, South African Revenue Services, National Union of Mine Workers, National Government, Provincial Government, Engineer Industries Pension Fund, Peoples Bank Head Office, Johnnic, and many others.

- **Main Street Mall:** This ID was initiated by property owners to see this section of the inner city become a real tourist attraction. Firstly, Anglo American pedestrianised a section of the street from West to Maclaren. The creation of a pedestrian friendly Main Street Mall running from Maclaren to Rissik Street was funded by the private sector and the City of Johannesburg. Secondly, additional trees were planted and flower beds created in an effort to enhance a 'green space' environment in an already extremely built up area. The Main Street Mall is characterized by the predominance of mining houses that occupy the street. A theme reflecting the history of mining in South Africa has been achieved by transforming coco pans into water features and having a permanent display of a mining train, mining headgear and a steel stamp mill.

The change in the physical appeal of the above mentioned ID's shows the commitment of the owners and tenants located in the respective areas to improvement and regeneration.

### 2.5.2 The Bad Buildings Programme (BBP)

In 1996, the City of Johannesburg Metropolitan Municipality approved a programme on Bad Buildings and Other Buildings in Arrears located within the Johannesburg inner city. The rationale behind this programme was to provide a mechanism for dealing with buildings that were classified as "bad" for a variety of reasons. Buildings were classified as "bad" if:

- They had been abandoned by their owners;
- They were derelict;
- They were in a deplorable state;
- They were invaded by crime lords and squatters;
- They were overcrowded;
- They were contravened various by-laws and other legislation;
- Market value of the building was below the debt owed to the City; and
- They were the seat of criminal activities, (City of Johannesburg, 2010).

These bad buildings were owned by owners whose priority was rent collection and not building maintenance. In 2004, approximately 52 buildings located in the inner city, were identified as bad buildings under this programme (Johannesburg Property Company, 2004). According to Fraser (2010), less than 10% of these buildings were actually made better.

#### **2.5.2.1 Objectives of the BBP**

The objective of this programme was to facilitate urban regeneration and improve the quality of life of inner city residents by making “bad” buildings ‘better’ (Davie, 2004). To achieve this objective the Municipality tried to recover the debts owed by acquiring these bad buildings and selling them to developers and investors at prices that were equivalent to the debt owed but, where appropriate, discounted to the market value of the property. The driving force of this campaign and the Municipality’s main concern was that the owners of such buildings were heavily indebted to assessment rates and service charges.

#### **2.5.2.2 Building Rehabilitation Process under BBP**

The Trafalgar Inner City Report (2004) identified the following six steps as the building rehabilitation process under the BBP:

- Identification of buildings to create a database of bad buildings that were to form the basis of the programme;
- Availability of building for investors to tender and make offers;
- Adjudication of applications received;
- Signing of agreement with the potential investor;
- Acquisition of building from owner and transfer into new owner’s name; and
- Ridding the building of illegal tenants, write off of debt (rates, water and electricity) and beginning of refurbishment process.

The steps listed above proved to be time consuming, costly and was the causes of the challenges that the programme faced

#### **2.5.2.3 Challenges Encountered**

A number of difficulties were encountered in the implementation of this programme. Firstly, the litigation involved in acquiring these buildings and ridding them of illegal

tenants was lengthy, costly and time consuming. Secondly there was conflict between the objectives of the BBP and other Municipal departments that did not agree with the concept of selling the buildings at below market and writing off the debt owed. Lastly, the objective of the BBP was at variance with the private developers whose objective was to obtain a fair return on their investment. To a large extent, the focus of the BBP on debt recovery was theoretically sound but proved a milestone to execute. This programme has since been discontinued.

### **2.5.3 The Urban Development Zone (UDZ) Tax Incentive**

The South African version of the enterprise or empowerment zone is the UDZ tax incentive. This tax incentive was first introduced by Trevor Manuel (Minister of Finance) during his 2003 National Budget Speech. In his budget speech Manuel argued that:

“Many urban areas in South Africa suffer from inadequate infrastructure maintenance and environmental decay. Urban renewal requires greater business investment in the regeneration of inner city areas. With this in mind, it is proposed that investment in refurbishment or construction of buildings in certain urban areas receive special treatment. Taxpayers refurbishing a building within designated zones will receive a 20 per cent straight-line depreciation allowance over a 5-year period. Construction of new buildings within such a zone will receive a 20 per cent write-off in the first year and 5 per cent a year for a further 16 years. This benefit will be available to owners as users of the building or as lessors/financiers of these investments” (2003 National Budget Speech).

This announcement saw the birth of UDZ's and the UDZ tax incentive. This tax incentive was initially available until 31<sup>st</sup> March 2009 but this period was extended for a further five years until 31<sup>st</sup> March 2014, in order to encourage and promote more investment within the demarcated zones (City of Johannesburg, 2004). The first municipalities to be legislated with the UDZ status were Johannesburg and Cape Town Metropolitan Municipalities in October 2004 (City of Johannesburg, 2004; Government Gazette, 2004).

### **2.5.3.1 Tools to Measure the Effectiveness of Tax Incentives such as the UDZ**

Incentives are seen as desirable regeneration strategies as they make property investment more attractive, improve property investor confidence, lower property investment risks, ensure viable returns on property investment and prescribe desirable land uses, (Wolpe, *et al.*, 2008).

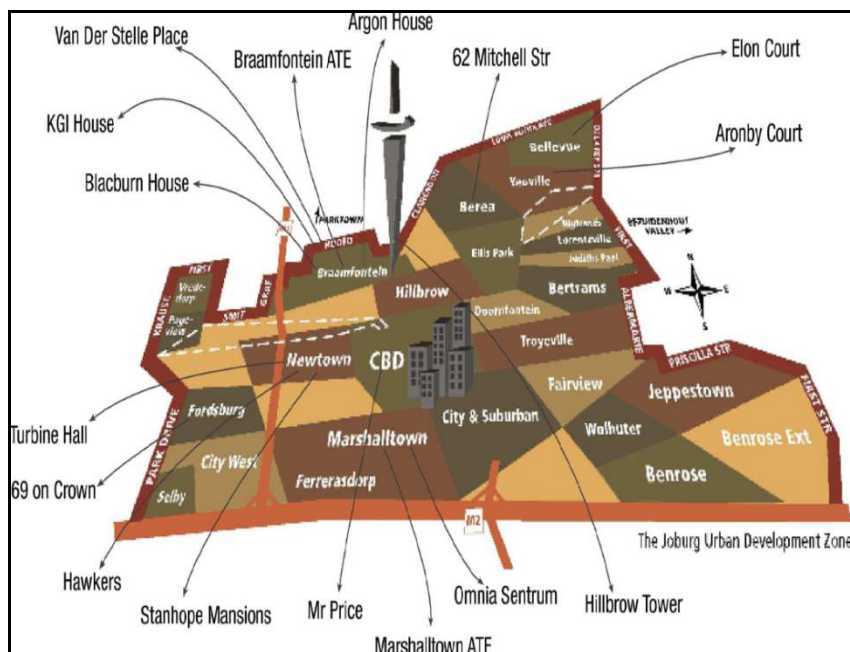
Emphasis has been placed on conducting research to investigate the effectiveness of the introduction of interventions, such as the UDZ tax incentive (Wolpe *et al.*, 2008). Various researchers have indicated that the measurement of the effectiveness of tax incentives that are used in urban renewal programmes pose serious challenges. The most challenging aspect being what would have happened in the area if the zone had not been created, (O’Keefe and Dunsan, 2001; Hirasuna and Michael, 2005). This is because the effects of the zone must be isolated from back ground effects, (Hirasuna and Michael, 2005.) and this becomes very challenging. It is of considerable importance to realise the challenges involved in separating the effects of the zone from back ground effects as it is very difficult to create a ‘control environment’. Hence it is easier to investigate the presence or absence of the expected outcomes or effects and use these to assess the effectiveness of the tax incentive.

Literature reviewed has revealed that a number of indicators can be used to measure the effectiveness of tax incentives in an area. Firstly, rental growth within a ‘tax incentive designated’ area is one of the prominent indicators, (Trafalgar Inner City Report, 2004; JDA Progress Report, 2004). Secondly, rental growth is considered to be strongly backed by the presence of good quality tenants and vacancy reduction. This view is supported by Ngwabi (2009) who attests that there has been an influx of tenants and investors to the inner city as a result of change in perception and increase of investor confidence. Thirdly, counting the number of building plans passed for alterations and new developments within an area can be a useful indicator, (JDA Progress Report, 2004). However, merely counting the number of building plans approved does not necessarily translate into real development in an area so these statistics may not be inaccurate.

### 2.5.3.2 Boundaries of the Johannesburg UDZ

The urban development zone of Johannesburg, in terms of the urban development zone tax incentive (Section 13 (8) of the Income Tax Act, 1962 (Act No. 58 of 1962)) is a contiguous polygon comprising broadly of four 'sides' (i.e. a northern; eastern; southern and western edge). The demarcated boundaries of the Johannesburg UDZ inner city as illustrated in fig. 2.1 below are:

- South boundary: M2 highway;
- West boundaries: Park Drive, Krause Street & Clarendon Place;
- East boundaries: De la Rey Street, 1st Street, Albemarle Street & First Street; and,
- North boundaries: First & Hoofd Streets, Louis Botha Avenue & Pricilla Street.



**Figure 2.1: Johannesburg UDZ boundary**

Source: [www.joburg.org.za/udz](http://www.joburg.org.za/udz)

The most important components that provide a vital basis of claiming the UDZ tax incentive are:

- The building in question must be located within a designated UDZ area;
- The development must be a refurbishment or a new construction; and
- The costs can only be deducted (the benefits of the incentive) on completion of the development.

### **2.5.3.3 Objectives of the UDZ Tax Incentive**

The UDZ tax incentive was introduced with following objectives in mind. Firstly, to address core dereliction and dilapidation in South Africa's largest cities and secondly to promote urban renewal and development by promoting investment by the private sector in the construction and/or improvement of commercial and residential buildings, including low-cost housing units, which are used for purposes of trade (SARS, 2009).

In addition to addressing urban decay, the introduction of the incentive was seen as a supportive tool in implementing the objectives of the Department of Housing's comprehensive plan for the development of sustainable human settlements by encouraging private investment in affordable rental housing in the inner city ([www.eprop.co.za](http://www.eprop.co.za)). Further, it was seen as a possible catalyst for public-private partnerships in mixed-used developments that provide social facilities that are integrated into new commercial and residential developments (*ibid.*).

### **2.5.3.4 Provisions of the UDZ Tax Incentive**

The main provision of the tax incentive is that it allows for an accelerated depreciation allowance for a taxpayer.

“There shall be allowed to be deducted from the income of the taxpayer an allowance determined in terms of subsection (3), in respect of the cost of the erection, extension, addition or improvement of any commercial or residential building within an urban development zone to be used solely for purposes of that taxpayer's trade”, (Revenue Laws Amendment , Act 45 of 2003).

When claimed, the tax incentive reduces the taxable income if the taxpayer meets a set of development criteria.

### **2.5.3.5 Features of the UDZ Tax Incentive**

The tax incentive differentiates between new building construction and refurbishment of existing buildings in the manner in which the deductible amounts are commutated as follows:



- **For the improvement of an existing building or part of a building:**

The tax incentive provides for the following deductible amounts in respect of the improvement of an existing building:

- (i) Equivalent to 5 year straight-line depreciation or;
- (ii) 20% of the cost of improvement of the building in the year of assessment during which the building is brought into use by the taxpayer solely for the purposes of trade; and
- (iii) An amount equal to 20% of the cost in each of the four succeeding years of assessment, provided that the person does not cease to use the building or that part of the building solely for the purposes of trade.

- **For the erection or extension of or addition to a building:**

In respect of the erection of a new building or part of a building or the extension of or addition to an existing building, the deductions are computed as follows:

- (i) 20% of the cost of either the erection or extension of or addition to the building in the year of assessment during which the building is brought into use by the taxpayer solely for the purposes of trade; and
- (ii) 5% of the cost in each of the 16 subsequent years of assessment provided that the person does not cease to use the building or that part of the building solely for purpose of trade (City of Johannesburg, 2004; 2006).

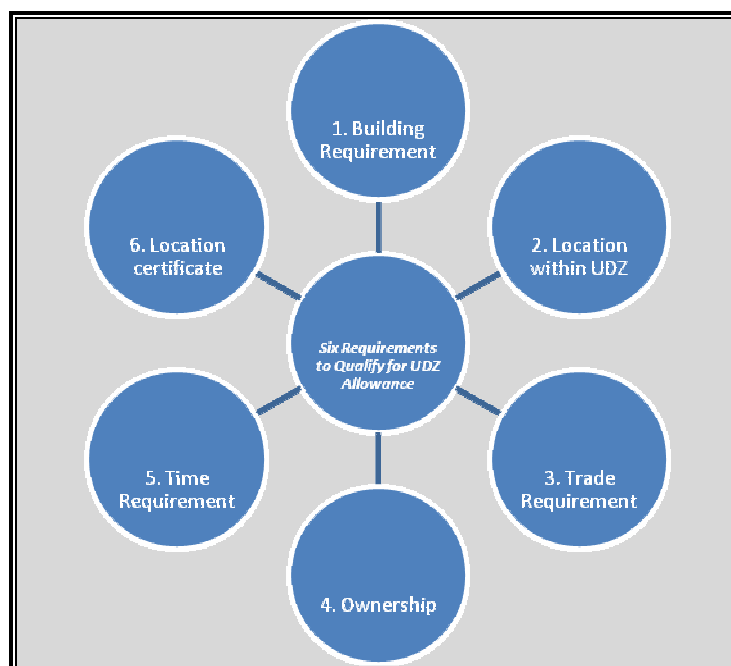
#### **2.5.3.6 UDZ Tax Incentive Requirements**

There are six requirements that must be complied with in order for a person to qualify for the UDZ allowance in respect of a building or part of a building, (SARS Guidelines, 2009). These are:

- **Building requirement:** This requirement entails that a person must have erected an entirely new building, extended, added to or improved an existing building or such a building representing a floor area of at least 1 000 m<sup>2</sup>; or purchased such a building directly from a developer. For properties that have been purchased from a developer the following three requirements have to be complied with:

- (i) The developer erected, extended, added to or improved the entire building or a part thereof representing a floor area of at least 1 000 m<sup>2</sup>;
  - (ii) The developer did not claim any UDZ allowance in respect of the building or that part of the building; and
  - (iii) In the improvement of a building or part of a building, the developer has incurred expenditure in respect of these improvements which is equal to at least 20% of the purchase price paid by the person for the building or part of the building.
- **Location within UDZ:** The building or part of the building that was constructed, improved or purchased from a developer must be located within a UDZ. The demarcation of the UDZ area is vital in ensuring that the impact of the tax incentive is maximised.
  - **Trade requirement:** This refers to the use to which the building is or will be put to. The person who constructed or improved a building or part of a building within a UDZ or purchased such a building directly from a developer, must use it solely for the purposes of trade and can only qualify for the allowance once the building has been brought into use on or before 31 March 2014.
  - **Ownership:** The building or part of the building that has been constructed or improved must be owned by the person claiming the allowance. This means that a lessee that constructed or improved a building or part of a building on leased property will not be able to qualify for a UDZ allowance in respect of that building.
  - **Time requirements:** Time requirement refers to two dates; namely the commencement and trade dates respectively. Development or refurbishment of a new building must have commenced on or after the date on which the Minister had published the particulars of the relevant demarcated area within which the building is located in the Gazette. Where a formal contract is required it must have been signed by all parties on or after that date. A further requirement is that the purchase agreement must have been concluded on or after 8 November 2005.
  - **Location certificate:** Lastly, the person claiming the allowance must obtain a location certificate from the relevant municipality or a UDZ 3 certificate from a

developer where applicable. The location certificate is a confirmation from the municipality that the building is located within a UDZ. In addition to the aforementioned, the UDZ 3 certificate must confirm that the developer has not claimed any benefits in terms of tax incentive. The figure below summaries the 6 steps highlighted above.



**Figure 2.2: Six requirements necessary to qualify for UDZ tax incentive**

Source: SARS Guidelines, 2009

The Investors Guide (2006) provides further criteria for the conditions which would entitle the developer or investor to qualify for tax incentives. However, these are materially similar to the six conditions identified above.

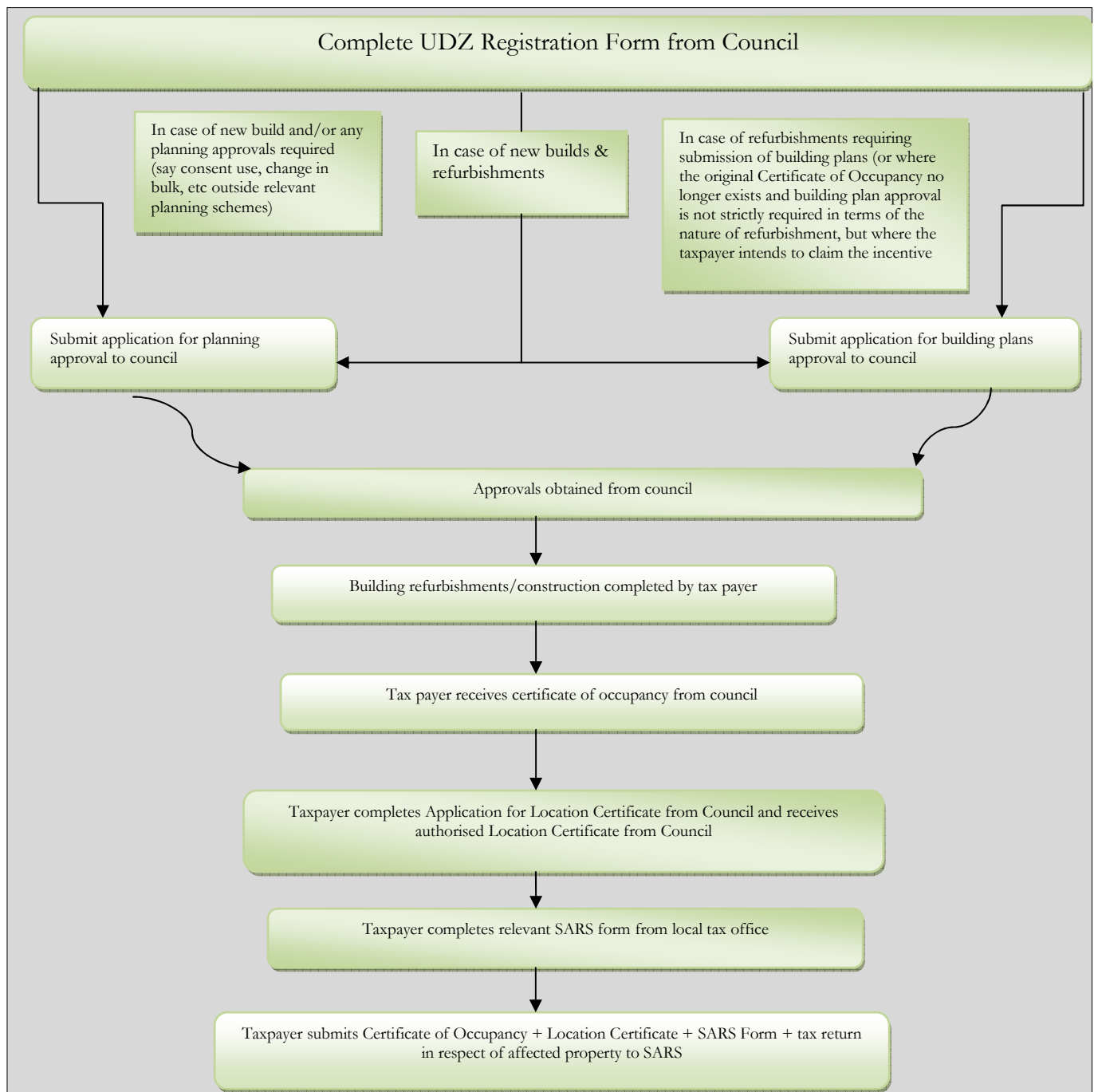
#### **2.5.3.7 UDZ Application Process**

The process that a taxpayer will have to follow once he/she has met the requirements as set out in the preceding paragraphs is illustrated in the figure 2.3 below:

#### **2.5.3.8 Ineligibility to Claim for UDZ Allowance**

A person will not be eligible for the UDZ allowance in respect of a building or part of a building if:

- Any of the six requirements are not complied with;
- The person ceased to use the building or part thereof solely for purposes of that person's trade during a previous year of assessment;
- The building or part of a building has been disposed of by the person during any previous year of assessment, or
- The notice in which the particulars of an area demarcated by a municipality were published has been withdrawn by the Minister.



**Figure: 2.3 UDZ Application Process**

Source: City of Johannesburg, n.d

### 2.5.3.9 Claimable Costs versus Non-Claimable Costs

There are various costs related to a new construction and or refurbishment, however not all of these costs can be claimed under the UDZ allowance, (Investor's Guide, 2006). Table 2.1 shows the claimable and the non- claimable costs.

**Table 2.1: Claimable and non-claimable costs**

Costs which can be claimed	Costs which cannot be claimed
Construction work	Purchase price of land
Architect & approval fees	Transfer duties
Demolishing of existing building/part of an old building	Borrowing or financing charges
Structures to provide: water, power, sewerage, drainage, waste disposal, access to building, parking or security	Transfer and related costs
Sidewalks	
Landscaping as part of the development	

## 2.6 Summary

It is clear from the literature reviewed that urban decay is not unique to South Africa but is a common problem worldwide. Governments have implemented various strategies aimed at curbing and regenerating areas that have fallen prey to this vice. ID's and tax incentives are the major strategies that have been employed worldwide and these are discussed in this chapter.

The influence of apartheid had an effect on the evolution of South African cities and Johannesburg in particular. Johannesburg developed from a mining town, to an apartheid city and now the economic powerhouse of the country. Regeneration of the inner city of Johannesburg is an important aspect in the Municipality's goal of being a '24-hour lifestyle city' (City of Johannesburg, 2004). This is because the inner city is viewed as an economic asset that contributes considerably to Johannesburg's gross domestic product (*ibid*).

In this respect, a number of strategies have been used to regenerate the inner city. This research discusses three of these strategies: ID's, BBP and UDZ tax incentive. In light of the literature reviewed, it is evident that despite having specific implementation methodologies, these strategies are not mutually exclusive and can be used collectively to regenerate the inner city. The Johannesburg inner city is a designated urban

development zone. Within this zone are improvement districts in which desolate buildings have been targeted for improvement.

The literature reviewed shows that ID's as a regeneration concept entail that the property owners in a particular area pay an extra amount of money to cater for services not provided for by the local authority. One major advantage of ID's is that they provide a positive identity to an area. There are approximately five ID's in Johannesburg inner city. These are Retail ID, Braamfontein ID, Main Street ID, South Western Benrose ID and Central ID respectively.

The implementation of BBP was twofold: to change the physical outlook of desolate buildings and for the local authority to recover monies owed by heavily indebted buildings. These buildings were identified and sold to potential investors at discounted prices. This exercise proved to be a highly challenging venture owing to the litigation involved in the process of writing off the debts and selling the buildings.

The UDZ tax incentive was legislated by way of insertion of section 13 (8) of the Income Tax Act, 1962 (Act No. 58 of 1962) to provide for the accelerated depreciation allowance provided for developers who develop or refurbish buildings within a UDZ area. When claimed, the tax incentive reduces the taxable income if the taxpayer meets a set of development criteria as stipulated in the SARS Guidelines.

Literature reviewed showed that it is difficult to assess the impacts or effects of the introduction of a tax incentive such as the UDZ in an area. This is because it is difficult to separate the effects of the zone from 'background' effects within the area. The main challenging question being how do we differentiate what would have happened in the zone had the incentive not been introduced.

The next chapter discusses the research methodology used to achieve the research questions set out in chapter 1. This is done by discussing the specific research strategy used, the methods of research and finally the tools and techniques of data collection and analysis.

## Chapter Three – Research Design and Methodology

---

*“A study has to be involving, it has to be fun and it has to exercise your creative thinking”,* Richard Branson

### 3.1 Introduction

This chapter discusses the research strategy, the research methods, the tools and techniques of data collection and data analysis used to test the hypotheses. The hypothesis of the research is:

‘The introduction of the UDZ tax incentive has had no positive impact on property development in Johannesburg inner city.’

In addition, this chapter explains the benefits of the particular research strategy selected giving reasons why this strategy is considered appropriate for the study. Further, the chapter also discusses how primary and secondary data was collected, the criterion used in selecting the research sample, the method used in data analysis and lastly highlights the limitations of the study.

### 3.2 Research Strategy

A research strategy is defined by Naoum (2008) as the way in which the research objectives can be questioned. There are eight types of research strategy that can be used. Denscombe (2008) highlights these strategies as follows:

- Surveys;
- Case studies;
- Experiments;
- Ethnography;
- Phenomenology;
- Grounded theory;
- Mixed methods; and
- Action research.

These approaches have their own strengths and weaknesses and may be applied in different situations depending on the research objectives and strategy. The choice of the



research strategy depends on the type of the research and availability of information. For instance the experiment approach is most appropriate in scientific enquiry where the researcher is carrying out an in-depth study under a controlled environment. Since the study is aimed at sourcing views, opinions, perceptions and attitudes expressed by respondents, survey was considered the most appropriate research strategy.

### **3.2.1 Survey Strategy**

Surveys are the most popular research strategy and offer a particular approach to research. Denscombe (2008) highlights the following as characteristics of the survey strategy:

- Wide and inclusive: This means a survey should take a holistic view to the research;
- Specific point in time: This entails that all aspects being investigated should be within the same time frame and should relate to the present state of affairs; and lastly
- Empirical research: This is the requirement for a set of details and facts that have to be verified.

This study seeks to investigate the perceptions of stakeholders of the concept of the UDZ tax incentive paying particular attention to its objectives and method of application. Johannesburg being the economic powerhouse of South Africa ranks itself as an important city with regeneration of its inner city being of crucial importance, hence the introduction of various regenerations strategies. The UDZ tax incentive is one of these strategies. This incentive aims at regenerating the inner city by enhancing and encouraging private sector development. The data reviewed in the preceding chapter highlights certain aspects of the applicability of the tax incentive that may act as barriers to entry hence preventing certain groups from taking full advantage of this tax allowance.

### **3.3 Methods of data collection**

There are two primary sources of data and these are secondary data and primary data. Secondary data is a form of desktop survey and refers to documented data sourced from books, journals, government publications and official statistics, municipality records, publications by professional bodies, company records, newspapers and

magazines, website pages and the internet. One of the main advantages of a desktop study is that data sources are easily accessible and available in the public domain except for company reports that are prepared for in-house use. In contrast primary data is collected first hand from the respondents. Primary data can be collected principally by means of postal questionnaires, internet surveys, face to face interviews, telephone interviews and observations.

The methods of data collection that were used in this study were:

- Documentary sources;
- Expert opinion interviews; and
- Structured questionnaires.

Expert opinion interviews involve interaction between the researcher and the sampling frame and are used to collect both qualitative and quantitative data.

Denscombe (2008) and Naoum (2008) have identified three forms of interviews: These are: structured, semi-structured and unstructured. Semi-structured interviews were used as the preferred method of sourcing information. This type of interview uses 'open' and 'closed-ended' questions and permits the researcher to collect more in-depth responses, (Denscombe, 2008). Telephone interviews were avoided as they prevent the close interaction between the researcher and the sampling unit.

The main distinguishing feature between interviews, documents, questionnaires and even observation is that 'questionnaires rely on written information supplied directly by people in response to questions asked by the researcher (Denscombe,2008). The questions within the questionnaires were split into two broad categories: factual questions and opinions. The factual questions in the questionnaire required the respondents to select from a range of opinions supplied while open questions enabled the respondents to express their opinions. In the words of Denscombe (2008, p. 166), the main advantage of open questions is that 'the response is more likely to reflect the full richness and complexity of the views held by the respondent'.

The risk of open-ended questions is that respondents tend to easily drift away from the question. To keep them on track, the interviewer used prompts and props to guide the respondents to provide more information whilst preventing them from diverging away

from the question. In contrast, closed-ended questions provide parameters within which the respondent can make a selection from a set of probable answers.

### **3.4 Data Analysis**

Data can be analysed either qualitatively or quantitatively depending on the type of data required and collected. These two methods of data analysis are described below:

#### **3.4.1 Quantitative Research**

Quantitative research is objective in nature and seeks to make an inquiry into social or human problems. Creswell (1994, cited in Naoum, 2008) defines a quantitative research as one that is based on testing a hypothesis or theory which is composed of variables, measured with numbers and analysed with statistical procedures. This is done in order to establish whether the hypothesis or theory holds true. Bouma and Atkinson (1995 cited in Naoum, 2008) point out that quantitative data comprises of hard and reliable measurements of tangible, countable, senate features of the world. Therefore, quantitative data is not abstract. When a researcher seeks to find facts about a concept, a question or an attribute or to collect factual evidence and study relationships between certain facts in order to test a particular theory or hypothesis, the most appropriate research strategy to use is quantitative strategy.

Quantitative research is associated with numbers as the unit of analysis whereas qualitative strategy is associated with words or images as units of analysis, (Denscombe, 2008). This definition is shared by Naoum (2008) who adds that qualitative research is subjective and emphasises on meanings, experiences and description.

#### **3.4.2 Qualitative Research**

Qualitative research on the other hand is subjective in nature and emphasises meanings, experiences, opinions and descriptions. In this respect, qualitative research seeks to discover, explain, understand or explore a process and describe the experiences of a particular concept, idea or theory.

This study seeks to investigate the concept of the UDZ tax incentive paying particular attention to the perceptions of stakeholders. In this respect, the data collected will be based on the opinions, observations, views and experiences of the identified research groups. Therefore the data will be analysed using descriptive statistics techniques.

### **3.4.3 Descriptive Statistics Techniques**

Descriptive statistics is the simplest form of analysis which provides a general overview of the results (Naoum, 2007). It entails recording of all data collected, coding of the data in broad general themes, categorize these codes, identify themes and relationships among the codes, develop concepts and arrive at some generalized statements (Naoum, 2007; Denscombe, 2007). This grouping of data makes it easier to present it in a concise and logical manner.

Descriptive statistics entails the analysis of data in three main forms:

- Frequency distribution;
- Measurement of central tendency; and
- Measurement of dispersion.

Naoum (2007) describes these three forms as follows: frequency distribution involves the classification of data and presentation in the form of tabulations, bar charts, pie charts or graphs. Measurements of central tendency, on the other hand entails finding the most typical value for the group and can be done in form of the mean, median or mode. Lastly the measurement of dispersion shows how numerical data tends to spread about an average value.

Owing to the type of research and the type of data required, frequency distribution and measurement of central tendency will be the main forms of data analysis used.

### **3.4.4 Survey Monkey**

An internet-based collector and analysis tool called Survey Monkey was used to structure the questions and collect responses from respondents who were not available for face- to- face interviews. This software programme is available in the public domain and accommodates open-ended and closed-ended questions, rating and Likert Scales. The Survey Monkey uses information collected from respondents and codes it according to common themes and ideas and classifies it in terms of numerical scores. This programme can be used to generate descriptive statistics, i.e. percentiles, mean, standard deviations, variance, etc that can be used to analyse and interpret the findings.

This internet based software was used because it provided a fast and convenient method of getting responses from interviewees. To boost the response rate, interviewees were contacted in advance and those that were not willing to meet for face-to-face interviews were given the option of completing the questionnaire via survey monkey.

### **3.5 Population**

The population for this research includes individuals who work for property development companies and officials who work for policy making institutions such as local authorities, JDA, JPC and other institutions. These individuals form the two research groups: property developers and policy makers. These stakeholders are individuals who are knowledgeable about the tax incentive. In addition, the property developers group includes those who have benefited from the tax incentive and those who have not.

The aspects being investigated relate to the UDZ tax incentive that was introduced in 2004 and the developers to be interviewed include those developers who have been active in the inner city since the inception of this tax incentive and who have undertaken developments between 2004 to 2010.

### **3.6 Sample**

Naoum (2008) defines a sample as a specimen or a part of the whole population which is drawn to show that the whole is alike. Qualitative research makes use of non-probability sampling strategies such as, 'purposive sampling; snowballing and theoretical sampling while quantitative research makes use of samples based on principles of randomness and probability (*ibid.*).

A sampling frame of the possible respondents was constructed. Denscombe (2008) defines a sampling frame as an objective list of 'the population' from which the researcher can make his or her selection. In this respect, it is important that a sampling frame contains an up to date list that comprises the population for research, (*ibid.*). The sampling frame was purposively selected. Purposive sampling refers to the 'hand picking' of the sample, (Denscombe, 2008). This type of sampling is used when the researcher already knows something about the specific people and deliberately selects

particular individuals because they are likely to produce the most valuable data, (*ibid*). The respondents were chosen deliberately, based on the following criteria:

- The special contribution they will make;
- Their expertise; and
- The position they hold.

Purposive sampling was selected because the researcher already knows the target group of the research. Since most institutional properties in the inner city are held by private individuals and developers, certain challenges such as confidentiality of information and access to data were foreseen. To overcome these challenges, the researcher negotiated to access a sample of individuals and buildings deliberately selected from institutions with whom the researcher has a working relationship.

Therefore the research sample included:

- Officials from Johannesburg Metropolitan Municipality, Johannesburg Property Company (JPC), Johannesburg Development Agency, (JDA) (Policy makers); and
- Private developers who have refurbished or developed buildings in Johannesburg inner city. This group included both developers who have benefited from the UDZ tax incentive and those who have not.

### **3.7 Limitations of Study**

This enquiry is subject to some limitations as highlighted below:

Firstly, UDZs were introduced to revitalise the urban areas of sixteen (16) of the municipalities in South Africa, Johannesburg Metropolitan Municipality being one of them. The UDZ area within this jurisdiction is known as Johannesburg inner city UDZ area and covers an area of approximately 18 km<sup>2</sup>. Johannesburg was specifically chosen owing to its high economic contribution to the gross domestic product of the country and potential for growth. Johannesburg inner city is said to have the most decayed buildings in the country. In this respect, the limitation of the study to Johannesburg inner city was viewed to be adequately characteristic of the other towns in South Africa.

Secondly, urban regeneration initiatives have cross cutting effects or benefits including social, economic and physical dimensions. The broad range of social and economic

issues that would need to be studied to measure the impact of the UDZ tax incentive as a regeneration strategies are outside the scope of this dissertation. This study solely focuses on the physical improvement on the area;

This study is based on opinions, views, observations and experiences of individuals. And although care was taken to avoid biasedness, accuracy of information cannot be guaranteed. Further, access to certain information such as financials was deemed confidential and could not be obtained.

### **3.8 Summary**

The nature and type of research dictates the strategy to be employed. The aim of this study is to investigate the perceptions of stakeholders of the impacts of the UDZ tax incentive on property development in Johannesburg inner city. To achieve this, the survey research strategy was employed. This strategy was considered appropriate owing to the nature of the study (to explore the views, opinions, perceptions and attitudes of the sample unit towards the tax incentive). Both primary and secondary data was collected to answer the research objectives. Primary data was collected by means of expert opinion interviews and semi-structured questionnaires and internet survey by use of survey monkey. Secondary data on the other hand included a desktop study of documentary sources. The sample was purposively selected and included officials from JDA, Johannesburg Metropolitan Municipality (policy makers) and developers active in the inner city who have benefitted from the tax incentive. The data to be collected is qualitative in nature and will be analysed using descriptive statistics techniques. This will include frequency distribution in the form of histograms, pie charts and graphs, measurement of central tendency in the form of mean, mode and median and lastly measurement of dispersion in the form of standard deviation and variance. The following chapter is concerned with the type of data that was collected, analysis of the data collected and the challenges that were faced by the researcher in collecting the information.

## Chapter Four – Research Findings and Analysis

---

*“Knowledge is of two kinds; we know a subject ourselves or we know where we can find information about it” Samuel Jackson*

### 4.1 Introduction

Chapter four presents the findings and analysis of the research, the challenges that were faced in collecting the research data and the measures that were put in place to overcome such challenges. The data for the research was obtained firstly by means of desktop survey through the review of secondary data and secondly primary data was collected by means of expert opinion interviews and questionnaires. The Survey Monkey which is a professional software package was used to design the questionnaires, collect and analyse the responses. The same set of questions contained in the questionnaire were posed to the respondents who participated in the expert opinion interviews to get more depth and breadth to test the hypothesis as set out in chapter one.

### 4.2 Research Findings

Survey Monkey, an internet based software programme was largely used in the survey. It was used to construct the questionnaires, to collect responses and finally to analyse the responses received.

One major advantage of using a web based survey is that it is a fast and convenient method, however if not controlled it can cause delays as people may not be willing to answer questionnaires that they know nothing about. In an effort to counter this disadvantage and in keeping with the premise of this study, which was to have as much personal contact with the interviewees as possible, internet based questionnaires were only sent out to respondents who had declined face to face interviews and had indicated that they preferred an online questionnaire. A follow up telephone call was usually made after a day or so to either remind the respondent or to thank them for completing the questionnaire and to clarify any outstanding information.



### 4.2.1 Research Sample

The sample of respondents used in the survey was drawn from two groups; property developers and policy makers. The sample in each case was taken to represent at least 75% or more of the population size.

**Table 4.1 Sample size of respondents**

Institution	Population Size	Sample Size	Respondents	Response Rate
Property developers	20	18	14	78%
Policy makers	12	8	7	88%

**Source:** Field survey, October-November 2010

### 4.2.2 Justification of Sample Size

The sample size for the above groups was chosen for various reasons:

- **Property developers:** This group comprises developers who are active in the inner city and have carried out developments between 2004 and 2010. The data on the number of developers or investors active in the inner city was obtained from South African Cities Network and the Property Owners Management Association, (POWA). These two interest groups deal directly with the developers and act as a united voice to represent the concerns of the respective members to local authority and other statutory agencies.
- **Policy makers:** This group refers to individuals from the City of Johannesburg Metropolitan Municipality, Johannesburg Development Agency, (JDA), Johannesburg Region F, Property Owners Management Association, (POMA) and the South African Cities Network. This group comprises the major stakeholders involved in regeneration strategies at both policy and implementation levels.

As indicated in Table 4.1 above, the sampled population included a size of 18 property developers and 8 policy makers. The number of respondents who were actually interviewed was 14 and 7 respectively. This resulted in a response rate of 78% for the developers group and 88% for the policy makers. The questionnaires that were used have been attached.

The data collected from the groups identified in Table 4.1 was analysed under the following themes:

- Perceptions of policy makers of the UDZ tax incentive.
- Property developers' perception of the UDZ tax incentive: The UDZ tax incentive was designed to enhance regeneration of the inner city by providing a tax allowance for the development of property within the UDZ designated area. This first part of the analysis of data is concerned with obtaining the perceptions of the probable users of the tax incentive.

### **4.2.3 Challenges of Research**

A number of challenges were encountered that prevented a 100% response rate. These include: interviewees declining interview requests when approached, others accepted and ended up changing appointment times and later not being available. Certain valuable information could not be obtained especially from SARS owing to strict access to information regulations. Time and monetary constraints created a major challenge in conducting this research. However, the response rates of 78% and 88% were considered adequate to carry the study further.

### **4.2.4 Developments Undertaken**

The UDZ tax incentive was introduced in 2004, approximately six (6) years ago. The data collected indicated that the developments that have been undertaken in the inner city in the last 6 years have primarily been refurbishments with only one new office development. Of the interviewed developers, 9 had undertaken residential refurbishments, 4 had undertaken office refurbishments, 1 new office development and 1 industrial refurbishment.

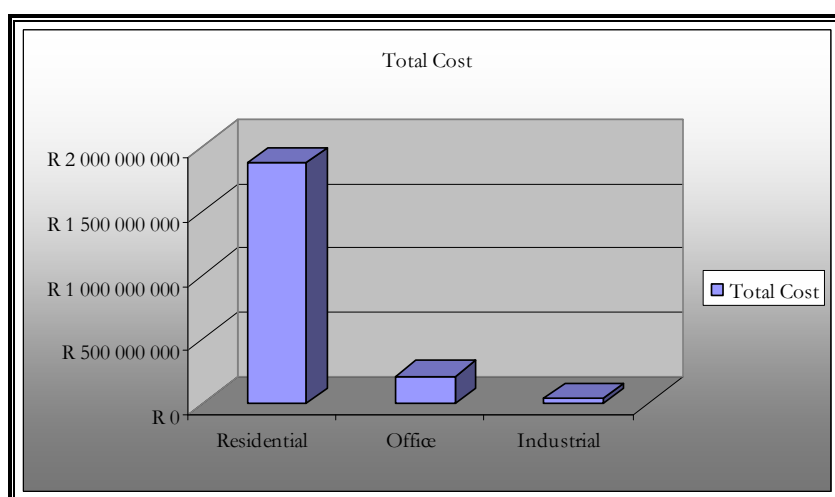


**Figure 4.1: Development projects undertaken**

Source: Field survey 2010

#### 4.2.5 Rand value of development projects undertaken

The respondents were asked (Figure 4.2) to indicate in Rand value the cost of the development projects undertaken. The majority of developments undertaken comprised of residential developments with a total cost of development of approximately R2 billion. The developers' active involvement in residential developments suggests that high demand for residential stock in the inner city was the driving force behind their developments.

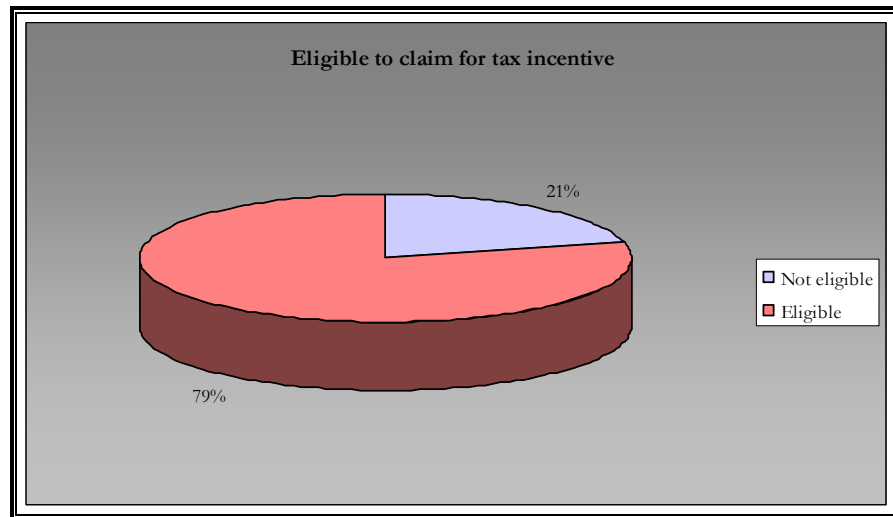


**Figure 4.2: Total cost of development projects**

Source: Field survey August to November 2010

#### 4.2.6 Eligibility to claim for UDZ Tax Incentive

Out of the 14 property developers who were interviewed, 11 (79%) indicated that they were eligible to claim for the tax incentive while 3 (21%) indicated that they were not eligible to claim for the UDZ tax incentive.



**Figure 4.3 Eligibility to claim for tax incentive**

Source: Field survey August to November 2010

The developers who are not eligible to claim for the tax incentive were primarily those whose business strategy involves developing purely for disposal. They do not hold or use the properties for investment purposes.

#### 4.2.7 Tools that can be Used to Measure the Effectiveness of the UDZ Tax Incentive

Investigating the effectiveness of a tax incentive is considered a challenging task, (Hirasuma and Michael 2005). The main task is to assume what would have happened in the area had the zone not been created, (ibid). In effect, this entails isolating the changes that have occurred from any background effects.

The 'tools table' below was presented to the respondents (developers and policy makers). The main tools for the measurement of tax incentives were identified as: rental growth, increase in capital values, low yields, strong lease covenants, vacancy reduction, increase in the number of building plans passed and improvement of physical appeal of buildings in the inner city (Ngwabi, 2009; JDA Progress Report, 2004; Trafalgar Inner

City Report, 2004). Respondents were asked to express their opinions about the tools in terms of: most effective, effective, does not matter much and does not matter at all. Their responses are presented in Table 4.2 below. From the results, fifty percent (50%) of both groups indicated that checking the aesthetics of the buildings and the general environment within the inner city would be the most effective tool to use. Property developers (75%) and policy makers (71%) both indicated that reduction in vacancy levels is an effective tool to measure the impacts of the tax incentive. Both groups (property developers 75% and policy makers 71%) rated increase in capital values as another effective tool that can also be used. The developers strongly rated low yields as another effective tool that can be used whereas only 43% of the policy makers rated this tool as effective.

Seventy one percent of the policy makers rated 'increase in the number of building plans passed as an effective tool to use. This assertion was dismissed by developers with the majority of the respondents (67%) indicating that this tool did not matter much. One primary reason given by the developers to dismiss this tool (increase in number of building plans passed) is that sometimes buildings are approved but the developer may not actually proceed with the development. Instead the common view held by property developers was that counting the number of completed projects would be a better tool to use.

**Table 4.2: Tools that can be used to measure effectiveness of UDZ incentive**

Tools	Developers				Policy makers			
	Most Effective	Effective	Does not matter much	Does not matter at all	Most Effective	Effective	Does not matter much	Does not matter at all
Rental growth	33%	50%	17%	0%	14%	29%	43%	14%
Increase in capital values	8%	75%	17%	0%	14%	71%	14%	0%
Low yields	0%	75%	17%	8%	14%	43%	43%	0%
Strong lease covenants	17%	58%	17%	8%	14%	43%	29%	14%
Good quality tenants	17%	68%	8%	8%	14%	57%	14%	14%
Vacancy reduction	0%	75%	25%	0%	0%	71%	29%	0%
Increase in the number of building plans passed	0%	8%	25%	67%	14%	71%	14%	29%
Physical appeal of the buildings in the inner city	50%	25%	17%	8%	50%	17%	33%	0%

Source: Field survey August to November 2010

In summary the respondents consider the following as effective or most effective tools that can be used to measure the effectiveness of the UDZ tax incentive:

- Aesthetics of buildings in the inner city;
- Increase in capital values;
- Good quality tenants; and
- Vacancy reduction.

Furthermore, the respondents proposed the following as possible tools that can be used to measure the impact of the tax incentive:

- Checking the number of private people who have bought property in the inner city and claimed for the tax incentive; and
- Checking the number of completed projects that have occurred and making a clear distinction between refurbishments and new builds.

#### **4.2.8 Reasons for Investing in an Area**

The researcher sought to investigate what reasons compelled developers to invest in a particular area (Table 4.3). Approximately 92% of the respondents ranked land costs and rental growth or occupier demand as the most compelling factors that make them invest or develop property in a particular area. The cost of the land or property is usually the largest component of the total capital outlay in either a green or brown field development. In this respect, a well-negotiated purchase price in essence means a lower capital outlay. Also capital growth and quality of proposed development were ranked as extremely important factors behind investing in any area. The quality of the proposed development will influence the quality of tenants and this will invariably influence the cash flows of the development. Good quality tenants, rental growth and perceived level of risk will result in increased capital values. Long term sustainability of projects and tax allowance were both ranked as important factors. Only 8% of the respondents ranked the UDZ tax incentive as an extremely important factor in their development decision making process.

**Table 4.3: Factors that compel developers to invest/develop in a particular area**

Factors	Extremely important	Important
Capital growth/investor growth	67%	33%
Employment potential/quality of labour force	8%	8%
Land/property costs	92%	8%
Long term sustainability of project	58%	42%
Perceived level of risk	60%	40%
Quality of neighbouring environment	50%	50%
Quality of proposed development	67%	33%
Rental growth/occupier demand	92%	8%
UDZ tax Incentive	8%	92%

Source: Field survey August to November 2010

#### 4.2.9 Shortcomings of the UDZ Tax Incentive

Like all initiatives, the UDZ tax incentive is not without short comings. The developers and property consultants interviewed strongly agreed that the major shortcomings of the tax incentive were: the tedious and complicated administrative process involved in claiming the incentive and the inability to investigate the effectiveness of the introduction of the tax incentive (Table 4.4).

**Table 4.4: Shortcomings of the UDZ tax incentive**

Shortcomings	Developers			Policy makers		
	Strongly agree	Agree	Do not agree at all	Strongly agree	Agree	Do not agree at all
Complicated administrative process	67%	17%	16%	71%	0%	29%
Unrealistic minim threshold of 1000 m <sup>2</sup>	42%	33%	25%	43%	14%	43%
Targets only property as a business	33%	67%	0%	29%	57%	14%
Does not initiate investment	33%	58%	9%	14%	57%	29%
Area outside UDZ is still undeveloped	17%	83%	0%	0%	71%	29%
People still ignorant of tax incentive	25%	50%	25%	43%	43%	14%
Works if investor makes a profit	50%	50%	0%	29%	71%	0%
Does not encourage private sector to develop public spaces	58%	33%	9%	71%	29%	0%
Does not cater for social needs	50%	42%	8%	71%	14%	15%
UDZ area is too small	8%	42%	50%	0%	57%	43%
Does not encourage new developers or investors into inner city	42%	42%	16%	57%	0%	43%
Difficult to measure success or failure of UDZ tax incentive	75%	8%	17%	71%	14%	15%

Source: Field survey August to November 2010

Further, both groups agreed that the areas outside the UDZ demarcated area were still undeveloped and the incentive only works if the developer makes a profit. The respondents were asked to comment on the extent of area demarcated as the UDZ . Forty-two percent (42%) of the developers indicated that they felt that the area was too small while 43% of the policy makers felt that this area was adequate. Policy makers argued that a large UDZ demarcated area posed administration and management problems. Further, it was indicated by the policy makers that the South African Revenue Services (SARS) actually felt that the UDZ area is already too large. This comment was not verified with SARS officials due to SARS stringent access to information regulations. Strategies to regenerate an area have to encompass economic, physical and social benefits. Appropriately, 71% of the property consultants strongly agreed that the UDZ tax incentive does not cater for social needs versus 50% of the developer's group who did not share this view.

#### 4.2.10 Advantages or benefits of the UDZ Tax Incentive

Various literature points to different benefits or advantages of the UDZ tax incentive. The respondents were asked to rank these benefits. The developers' group indicated that the most important benefit was that the tax incentive aided in eliminating derelict buildings (67%) whereas the property consultants' cohort indicated that the most important benefit was 'the tax incentive for investment' (43%). However, 50% acknowledged that it encourages property refurbishment and development. Although property developers held the view that tax incentive is not the sole driver for investing in the inner city they are in agreement with property consultants (71%) that it encourages refurbishment and development of buildings.

**Table 4.5: Advantages of the UDZ tax incentive**

Advantage/Benefit	Developers		Property Consultants	
	Important	Not Important	Important	Not Important
Tax incentive for investment	50%	50%	86%	14%
Encourages refurbishments & new developments	67%	33%	100%	0%
Encourages inner city regeneration	75%	25%	58%	42%
Enhances project feasibility	41%	59%	58%	42%
Encourages confidence in the inner city	58%	42%	71%	29%
Eliminates derelict buildings	75%	25%	86%	14%

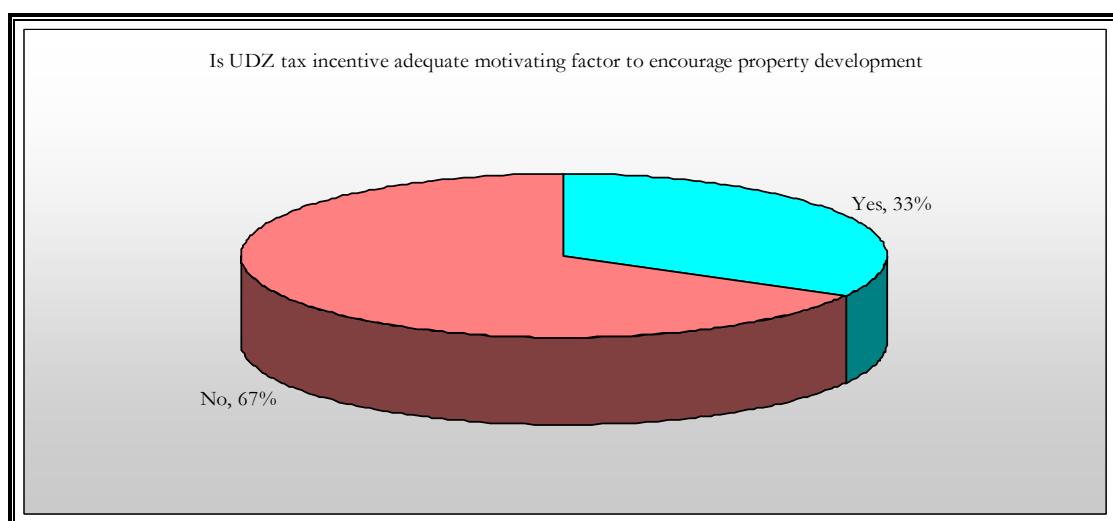


Minimises financial risks	42%	58%	28%	72%
Creates opportunity for emerging developers	33%	67%	43%	57%

Source: Field survey August to November 2010

#### 4.2.11 UDZ tax incentive as a motivating factor to encourage property development in the inner city

The two research groups were asked to give their perception of whether they considered the tax incentive to be adequately motivating factor to encourage property development. Both groups indicated that they did not consider the incentive to be an adequately motivating factor to encourage property development. This is represented in the 67% of the developers who indicated that it was not important versus 33% who indicated that it was important. This is shown in the Figure 4.4 below.



**Figure 4.4: Developers perceptions of whether the UDZ tax incentive is an adequate motivating factor to encourage property development in the inner city**

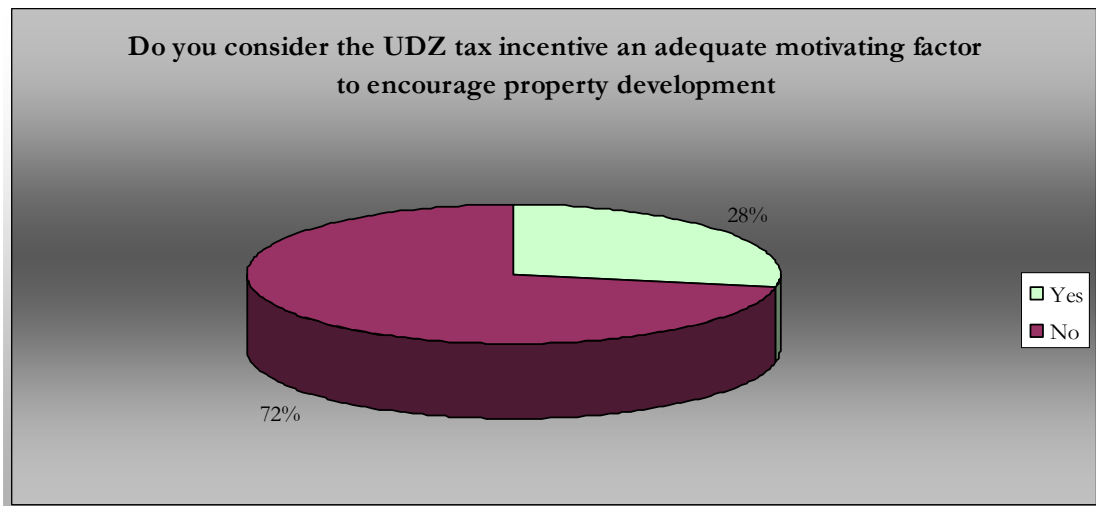
Source: Filed survey August to November 2010

Notwithstanding this, from the views collected during the survey, it was noted that the developers fully acknowledged that the tax incentive has potential to encourage and aid property development. They felt however, that it could be structured in a better way so as to ensure that the benefit of tax allowance is enjoyed during the time when it is needed most, for example when the developer is making a loss. The developers thus

indicated that the UDZ tax incentive was not an adequately motivating factor to encourage property development in the inner city as currently structured.

According to the developers, the ideal structuring of the tax incentive would be to increase the depreciation percentage and reduce the recoupment period. This implies that the developers would be able to write off a larger amount of their taxable income over a shorter period of time.

Regarding policy makers, a total of 72% of these indicated in the negative with only 28% indicating that they considered the tax incentive as an adequate motivating factor to encourage property development. See Figure 4.5 below.



**Figure 4.5: Property consultants' opinion of whether the UDZ is an adequate motivating factor for property development.**

**Source: Field survey August to November 2010**

The reasons given for this assertion are as follows:

- Firstly, although it is a good value added incentive for developers, it is not primarily a driving factor. Other things are needed before the UDZ tax incentive can be considered as a motivating factor such as: service delivery, urban management, economic development, safety and security.
- Secondly, cognisance should be taken of the fact that most developments usually incur losses in the initial years of trade. According to the provisions of the UDZ tax incentive, the tax allowance can only be claimed once a profit is made.

Developers need an incentive that can 'float' them over the first couple of years of loss. An incentive such as rates reductions benefit during the development period and in the initial period of trade is considered a more lucrative and motivating incentive. This would aid in lowering the development cost.

- Thirdly, developers decision making process is profit driven and hence they will choose an area based mainly on their expected returns and not necessarily on a tax incentive.
- Lastly, the incentive is viewed as a 'nice to have benefit' but it is not a driving force and therefore the allowances accruable are not included when undertaking a financial feasibility study.

To a large extent, both groups agreed that the UDZ tax incentive is a good policy to have but it was not adequate to promote or encourage property development. The tax incentive did not make property development feasible especially since it is only a benefit when the developer is making a profit.

#### **4.2.12 Other Regeneration Incentives**

The respondents indicated the following as possible incentives that could be used to regenerate the inner city:

- Reduce municipal rates and taxes payable.
- Rates holidays for 12 months during pre construction phase, (for example plan approval phase).
- Rebates for certain developments especially inner city developments and social housing.
- Give developers concessions on electricity by enabling them to buy it in bulk and be able to control consumption in their buildings.
- Relax planning restrictions.
- A more inclusive incentive that would help emerging developers.
- An incentive that encourages developers to develop public spaces.
- More involvement of public sector to improve infrastructure.
- Improve urban planning for example traffic and parking in the inner city.
- Rationalise service charges for low income properties.
- Public sector to promote safety and security.

#### **4.2.13 Time Period of UDZ Tax Incentive**

The UDZ tax incentive was legislated to run from 2004 to 2010. In 2008 this period was extended to 2014. The policy makers were asked to comment on this time extension. Some 14% indicated that they felt the time extension was adequate for more developers to benefit from the incentive whereas 86% felt that this period should be extended further. The consensus amongst the proponents of an extension of the period indicated that the development process (cycle) is lengthy and there is a time lag between project inception and completion. In this respect they felt that more time should be given to allow for those projects still in the pipeline.

### **4.3 Chapter Concluding Remarks**

Chapter 4 has presented the research findings, the challenges faced in data collection and identified the Survey Monkey package as the means of online data collection and analysis that was used. The research sample comprised two groups: property developers and policy makers (refer to annexure 1). The population of developers active in the inner city was established to be approximately 20. In order to achieve a representative response rate, the sampling frame was designed to target about 18 developers. In the survey, the actual number of developers interviewed was 14. Despite this number being lower than the target number, it is considered adequately sufficient to provide representative views on which to base conclusions. From the policy markers side, a target sample of 8 was selected, however only 7 were interviewed. This response rate was also considered sufficient.

The next chapter discusses the conclusions that can be drawn from the research and highlights areas for further research.

## Chapter Five – Conclusions

---

*“Real knowledge is to know the extent of one’s ignorance” Confucius*

### 5.1 Introduction

This concluding chapter is presented in the following manner. Firstly a synopsis of the research detailing the problem statement is presented, secondly the aims and objectives of the study are restated, followed by the research questions highlighting the principal findings of the study. Thirdly, the hypothesis as stated in Chapter one is tested and conclusions drawn. The limitations of the study are also addressed and possible areas in which the study could have been improved are discussed. Finally areas for further research are highlighted.

### 5.2 Synopsis of Research

Urban cities world over are viewed as important spaces for production and economic growth. These spaces have to be managed and developed in a sustained manner. Urban decay is a vice that threatens the core of most urban spaces and is a problem that is not foreign to any country. Cities such as New York, London, Hong Kong and Dublin continue to strive to control urban decay. South African cities are not foreign to urban decay with Johannesburg inner city having the most decayed buildings. Johannesburg is known as ‘the place of gold’, and is the economic capital of the country as it contributes significantly to the country’s gross domestic product. The regeneration of its inner city is therefore an aspect of utmost importance.

In an effort to curb urban decay, various regeneration strategies based on international models have been implemented in Johannesburg inner city such as the ID’s, BBP and UDZ tax incentive. The study discusses all three strategies paying particular attention to the UDZ tax incentive. This tax incentive was introduced in 2004 as a post apartheid regeneration strategy to curb urban decay, enhance development and investment in the inner city, (City of Johannesburg, 2006)..

### 5.3 Restatement of Aim and Objectives of the Study

The aim of this research is to ascertain the perceptions of the impacts and challenges in the introduction of the UDZ tax incentive with a view of making it more responsive to its objectives. From this aim, the following objectives were formulated:

- To assess the objectives of the UDZ tax incentive and the creation of the urban development zones.
- To investigate what indicators that can be used to assess the impact of the UDZ tax incentive.
- To investigate the types of property development in the inner city as a result of the introduction of the UDZ tax incentive.
- To examine whether the UDZ tax incentive is a motivating factor in the property development decision

The above aim and objectives were achieved by way of literature review and the collection of primary data.

### 5.4 Evaluation of the Research Questions

In line with the objectives, the following research questions were formulated in Chapter One. These are now evaluated based on the research findings.

- *What were the objectives of the introduction of the UDZ tax incentive?*

The objectives of the introduction of the UDZ tax incentive were as follows: to address core dereliction and dilapidation in South Africa's largest cities, to promote urban renewal and development by promoting investment by the private sector in the construction and/or improvement of commercial and residential buildings, including low-cost housing units, which are used for purposes of trade (SARS, 2009), to develop sustainable human settlements by encouraging private investment in affordable rental housing in the inner city ([www.eprop.co.za](http://www.eprop.co.za)) and finally to act as a possible catalyst for public-private partnerships in mixed-used developments that provide social facilities that are integrated into new commercial and residential developments (*ibid.*).

- *What type of property has been developed or refurbished in Johannesburg inner city since the introduction of this tax incentive?*

The data collected indicates that the developments that have been undertaken in the inner city in the last 6 years (since the introduction of the tax incentive) have primarily been refurbishments with only one new office building. Of the interviewed developers, 9 had undertaken residential refurbishments, 4 had undertaken office refurbishments with one new development and 1 industrial refurbishment. This trend indicates an increase in the demand for residential space within the inner city.

- *What indicators are appropriate to investigate or measure the impact of the introduction of the tax incentive on property development in Johannesburg inner city?*

Respondents were asked to rank the following as possible measuring tools to investigate the impact of the UDZ tax incentive on property development:

- (i) Rental growth;
- (ii) Increase in capital values;
- (iii) Low yields;
- (iv) Strong lease covenants;
- (v) Good quality tenants;
- (vi) Vacancy reduction;
- (vii) Increase in number of building plans passed; and,
- (viii) Physical appeal or aesthetics of buildings in the inner city.

The respondents ranked the following as being the most effective tools to measure the impact of the tax incentive:

- Increase in capital values;
- Vacancy reduction;
- Good quality tenants and,
- Physical appeal or aesthetics of buildings in the inner city.

In addition, the respondents suggested the following as appropriate measures that could be used:

1. Checking the number of private people who have bought property within the inner city and have claimed for the tax allowance; and
  2. Counting the number of completed projects and make a clear distinction between refurbishments and new builds.
- *Can these indicators show whether the objectives of the UDZ tax incentive been met?*

The core objective of the UDZ tax incentive was to foster urban regeneration in the inner city by way of enhancing private investment. Since its introduction, there have been a number of private developers who have bought and invested in the city and in so doing this has improved the physical appeal of the buildings in the inner city. Regeneration is viewed as a three legged stool encompassing physical, economic and social upliftment. This research has primarily looked at the physical upliftment of the buildings in the inner city and has not taken the economic and social issue into consideration. In this respect, the indicators show that the objectives of the UDZ tax incentive have been met, however this cannot be conclusively stated as the other aspects of urban regeneration have not been investigated.

## 5.5 Conclusion about Research Findings

The research reviewed that developers' decision whether to invest in an area or not is profit driven and is based on the prospect of maximum return or rental growth. Further, it was noted that the tools to investigate the impact of the UDZ tax incentive are in line with the developer's profit driven decision making process of whether to invest in an area or not. These tools or indicators include improvement in aesthetics of an area and vacancy reduction. These will invariably lead to increase in capital values, which will have a positive ripple effect hence increasing the developer's profit margins.

The second set of questions asked the respondents to express their opinions about the UDZ tax incentive.

The research findings established that although the developers who are active in the inner city have claimed for the UDZ tax allowance, the net effect of the depreciated allowance was not considered adequate to initiate development of buildings. Further, the developers indicated that they would have undertaken the same developments in the inner city even with the absence of the tax incentive. In other words they did not



consider the tax incentive as an adequately motivating factor to encourage property development in the inner city. Developers are profit driven and the demand for built up space in the inner city and potential for rental growth have been the major driving force of property development.

The research established that the factors motivating developers to develop in a particular area are largely economic and profit based. Most developers prefer to buy buildings in distressed areas as buildings can be purchased for low amounts hence a reduced initial capital out-lay, which translates to increased profit margins for the developers. The primary benefit of the UDZ tax incentive is that it allows the taxpayer to increase his profits by reducing his taxable income. This allowance however is only achievable in the years that the taxpayer or developer is making a profit. This is one of the major shortcomings of the incentive.

The respondents also indicated the need for public commitment in the form of infrastructure development, security and urban management as factors that would make the tax incentive more beneficial. The view was held that in order for a tax incentive to be beneficial, the public service has to provide not only the policy but the infrastructure framework.

## **5.6 Hypothesis of the Study**

The hypothesis formulated for this research was tested in light of the literature reviewed and the findings presented in the preceding chapters. The hypothesis of the research was stated as:

*The introduction of the UDZ tax incentive has had no positive impact on property development in Johannesburg inner city.*

The research undertaken has shown that property development is profit driven and the development undertaken in the inner city of Johannesburg would have been undertaken with or without the UDZ tax incentive. In this respect, we accept the hypothesis and conclude that the introduction of the UDZ tax incentive has had no positive impact on property development in the Johannesburg inner city.

## **5.7 Limitations**

The study was not carried without any limitations. Some of the major challenges encountered that prevented a 100% response rate include: certain respondents did not respond to interview requests and sometimes declined after having initially accepted the request. Time was also a major constraint as some of the developers were busy finishing off projects before the end of year and hence were not available.

The researcher realises that the findings are based on a limited sample consisting of developers and property consultants located in Johannesburg. Further, the study is geographically limited to Johannesburg inner city and excludes the other metropolitan cities in South Africa. It is therefore difficult to claim that the results of the study can be generalised to the whole country without carrying out similar studies in the other four metropolitan cities. In hindsight, the findings of this research could have been improved by doing a comparative study on the other cities that have used the UDZ tax incentive such as Durban and Cape Town. This would have generally increased the sample size and provided a more representative consensus of the perceptions of the tax incentive.

In view of the responses obtained, it is felt that the questions posed were adequate to answer the hypothesis. However, the researcher acknowledges that further and more refined questions could have been included in the questionnaire that would have benefitted the study. Two additional possible measuring tools that were not in the initial questionnaire were suggested by the respondents and these are:

- Checking the number of private people who have bought property within the inner city and have claimed for the tax allowance; and
- Counting the number of completed projects and make a clear distinction between refurbishments and new builds.

## **5.8 Suggested Areas of Further Research**

As with all research work, there are areas of this survey that still remain to be researched and observed. Further research should be undertaken to investigate the effectiveness of the UDZ tax incentive by drawing a correlation if any between the allowances expended to developers by SARS and the actual amount of investment that these developers have pumped into the inner city. The main shortcoming of the

incentive as outlined by developers is that they can only claim it once they have starting making a profit. This pushes the benefit further into the future.

A further area of research would be to investigate the impact of the UDZ tax incentive in Johannesburg inner city while drawing a correlation between Johannesburg inner city and another city that shares similar demographic, social and economic characteristics as Johannesburg.

## Bibliography

Adair, A., Berry, J., McGreal, S., Deddis, B., Hirst, S. (2000). The Financing of Urban Regeneration. *Land use Policy*, 17(2000), pp.147-156

Adair, A., Berry, J., McGreal, S., Hutchison, N., Watkins, C. and Gibb, K. (2003) Urban Regeneration and Property Investment Performance. *The Journal of Property Research*, 20(4), pp.371-386

Berry, N. and McGreal, S.W. (1996) Taxation Allowance: Implications for Property Investment and Development in Dublin and Berlin. *Journal of Property Finance*, 7 (3), pp.71-80

Bondonio, D. (2000).Evaluating Decentralized Policies: How to Compare the Performance of State and Local Economic Development Programs Across Different Regions.In.Heinz School of Public Policy and Management, 4<sup>th</sup> EES Conference. Lausanne, USA 12-14 October 2000. Pittsburgh.

Bondonio, D. and Engberg, J. (1999) Enterprise Zones and Local Employment: Evidence from the States' Program, In. Heinz School of Public Policy and Management, 20<sup>th</sup> APPAM Annual Research Conference. Pittsburgh, June 1999. Pittsburgh.

Boraine, A., Crankshaw, O., Engelbrecht, C., Gotz, G., Mbanga, S., Narsoo, M. and Parnell, S., (2006) The State of South African Cities a Decade after democracy. *Journal of Urban Studies*, 43(2), pp.259-284.

Bourne L. S., & Simmons J.W. (1976) Systems of Cities. Readings on Structure, Growth, and Policy. Oxford University Press New York

Business Day., October 2004: 'Treasury launches Urban Renewal Tax Incentive' [Internet] Available at [www.eservices.gov.za/news/article.aspx?idArticle=4659](http://www.eservices.gov.za/news/article.aspx?idArticle=4659) Accessed 17th March 2010

City of Johannesburg website: [www.eservices.gov.za](http://www.eservices.gov.za)

City of Johannesburg. (2010) IDP Draft. <http://www.joburg.org.za/>

City of Johannesburg. (2000): <http://www.joburg.org.za/>

City of Johannesburg. (2005) The Urban Development Zone (UDZ) Conference. Johannesburg. 18-20 August 2005.

City of Johannesburg. (2006) <http://www.joburg.org.za/>

City of Johannesburg. (2004) City Guide to Johannesburg Inner City Urban Development Zone.

Cox K., 2000. *Proceedings: Strategies for a Sustainable Built Environment*, Pretoria 23-25<sup>th</sup> August 2000.

Davie, L. (2004) 'Better Buildings await Better Days' [Internet] [http://www.sadelivery.co.za/index.php?option=com\\_content&view=article&id=1108:bad-better-buildings-and-new-bins-dont-make-a-clean-city](http://www.sadelivery.co.za/index.php?option=com_content&view=article&id=1108:bad-better-buildings-and-new-bins-dont-make-a-clean-city) Accessed 28<sup>th</sup> May 2010

- Denscombe M. (2008) *The Good research Guide*. England: Open University Press England.
- Fraser, N. (2008) The Contestation for, and Management of, Public Places in Johannesburg, South Africa. *Journal of Place Management and Development* [Online]. 1 (2), pp 177-198. Available at [www.emeraldinsight.com/1753-8335.htm](http://www.emeraldinsight.com/1753-8335.htm) [Accessed 15th March 2010].
- Fraser, N. (2010). 'Bad? Better? New Bins don't make a Clean City' CitiChat No1/2010
- Hirasuna, D. and Michael, J. (2003) Enterprise Zones: A review of the Economic Theory & Empirical evidence. House Research Department, pp.3-16
- Hogg, S., Medway, D. and Warnaby, G. (2003) Business Improvement Districts: an Opportunity for SME Retailing. *International Journal of Retail & Distribution Management*, 31(9), pp.466-469.
- Hoyt, L. and Goppal-Agge, D. (2007) The Business Improvement District Model: A balanced Review of Contemporary Debates. *Journal Compilation*, Massachusetts Institute of Technology pp. 946-958
- Hui, J.T.Y., Wong, J.T.Y and Wan, J.K.M. (2008) A Review of the Effectiveness of Urban Renewal in Hong Kong. *Property Management*, 26(1), pp. 25-42
- Investment Property Forum. (2009) *Urban Regeneration: Opportunities for Property Investment*, August 2009 Report, London: IPF
- Johannesburg Development Agency (2007) Annual Report, Johannesburg.
- Jones, P., Hillier, D. and Comfort, D. (2003) Business Improvement District in Town & City Centres in the UK. *Management Research News*, 26(8), pp.50-59.
- McGreal, S.W & Berry, N.J. (2004). Urban Regeneration, Property Performance and Office Markets in Dublin. *Journal of Property Investment & Finance*, 22(2), pp162-172.
- McGreal, S., Adair, A., Berry, J., Deddis, B. and Hirst, S. (2000) Accessing Private Sector Finance in Urban Regeneration: Investor & Non Investor Perspectives. *Journal of Property Research*, 17(2), pp.109-131
- Mendes da Silva, J., Vicente, R. and Subtil, N.C.A. (2010) Buildings in the Old Town of Coimbra: Knowledge and Action to Promote their Rehabilitation. *Structural Survey*, 28(1), pp.28-45.
- Naoum, S.G. (2008) *Dissertation Research and Writing for Construction Students*. 2<sup>nd</sup> ed. UK: Elsevier Ltd.
- Ng, I. (1998) Urban Redevelopment in Hong Kong: The Partnership Experience. *International Journal of Public Sector Management*, 11(5), pp.412-420
- Ngwabi, S. (2009) *Urban Regeneration & Private Sector Investment: Exploring Private Sector Perception of Urban Regeneration Initiatives in the Johannesburg Inner City*. Ph.D. South Africa: University of Pretoria.

O'Keefe, S. and Dunstan, R. (2001) Evaluation of California Enterprise Zones. California Research Bureau, California State Library.

Ottawa Business Journal, n.d. <http://www.ottawabusinessjournal.com>

Potter, J. and Moore, B. (2000) UK Enterprise Zones and the Attraction of Inward Investment. *Journal of Urban Studies*, 37(2), pp1279-1312

Ramadobu, M.S., Kotze, B.G. and Verster, J.J.P. (2007) Diversity of Value in Africa's Real Estate: Challenges Facing Property Development in South Africa. *Journal of Property Investment and Finance*, 25 (1), pp.7-22

Revenue Laws Amendment Act 2003. South Africa: Government Printers.

Statistics South Africa. n.d. Available at [www.statssa.co.za](http://www.statssa.co.za). [Accessed] 10<sup>th</sup> October 2010

South African Cities Network. n.d Available at [www.sacities.net](http://www.sacities.net). [Accessed] 10<sup>th</sup> October 2010

UDZ Tax Incentive Guide. (2009) SARS Legal & Policy Division 3<sup>rd</sup> Issue

UDZ Tax Incentive. n.d. [www.joburg-achive.co.za/udz/legislation.pdf](http://www.joburg-achive.co.za/udz/legislation.pdf)

Urban Development Zone Workshop. (2008) EProp Commercial Property. 23<sup>rd</sup> January 2008. eThekweni

UN Habitat. 2010. 'State of the World's Cities 2010/2011'. Earthscan London. [Internet] Available at <http://www.scribd.com/doc/43849056/State-of-the-World-Cities-2010-2011-Bridging-the-Urban-Divide> Accessed 8th February 2011

South African Revenue Authority. (2009) *Guide to the Urban Development Tax Incentive*. Johannesburg.

The Trafalgar Inner City Report (2004) Johannesburg

The Trafalgar Inner City Report (2005) Johannesburg

Wallace, D., and Wallace, R. (1990) Origins of Public Health Collapse in New York City: The Dynamics of Planned Shrinkage, Contagious Urban Decay and Social Disintegration. In. Committee on Public Health of the New York Academy of Medicine, *Workshop on Housing and Health, Interrelationship and Community Impact*. New York, USA 17-18 1989. New York

Williams, B. (2006). Fiscal Incentives and Urban Regeneration in Dublin 1986 – 2005. *Journal of Property Investment and Finance*, 24 (6), pp 542-558.

Wolpe, R., Solomon, S., Rabe, C. (2008). Report on The Impacts and Effectiveness of Urban Development Incentives in Selected South African Cities 2008, South Africa: Silimela Development Services.