

https://dspace.org/

# Alternative funding models for redeveloping inner-city Brownfield real estate in South Africa

**Marsden, Elliot Manuel**

**2016**

http://hdl.handle.net/10539/23705

Marsden, Elliot Manual (2016) Alternative funding models for redeveloping inner-city Brownfield real estate in South Africa, University of the Witwatersrand, Johannesburg, <http://hdl.handle.net/10539/23705>

Downloaded from a DSpace repository. https://dspace.org/

**Name**: Elliot Marsden

**Student Number**: 380596

**Degree:** MMFI 2015/2016

**Report Title**: *Alternative Funding Models for Redeveloping Inner-City Brownfield Real Estate in South Africa*

**Abstract**

South African inner-cities, through a series of political cycles, social transformations and shifts in local government structures, have undergone significant physical change in a deteriorating direction. This change has largely manifested in the dilapidation of inner-city real estate stock, in that brownfield buildings, or buildings with former residential, commercial and industrial functions, have been re-appropriated for alternative (often illegal) uses that have potential consequences for redevelopment efforts. Many of these buildings, however, have implicit potential for redevelopment and, through the sourcing of necessary capital, may be restored and rehabilitated to better serve inner-city inhabitants and stakeholders.

Despite this, the South African real estate financing methodology has largely remained unchanged, with the purchase of physical property being governed by typical pro-rata equity requirements and debt provision. Such a model predominantly protects the interests of large financial institutions and disqualifies certain projects from these institutions' scope of lending. Consequently, this scope excludes higher-risk projects, such as those located within the inner-city, from obtaining the funds required for redevelopment. Moreover, 'everyday' investors have conventionally been excluded from higher-yielding and larger real estate opportunities due to equity requirements and surety obligations, which only these same institutions can meet.

What if, however, an alternative funding model could be identified and applied to inner-city real estate redevelopment? Functioning as a platform that democratises real estate funding, this alternative would not only provide previously disadvantaged upstart developers necessary capital, but also afford lower-capitalised investors an opportunity to invest in higher-yield real estate opportunities that were previously inaccessible. Moreover, this platform, which can serve as an intermediary for the exchange of capital funds between developers and investors, will accelerate the redevelopment of inner-city real estate as a social investment catalyst.

The report's literature review encompasses an exploration into the South African inner-city condition, as well as the notion of 'brownfield' real estate. It extends to address South African real estate finance conventions and the processes/protocols that have long governed lending practices. Furthermore, and critically, the review continues by analysing the practice of crowdfunding, and its appropriateness as an alternative real estate financing mechanism. Lastly, an analysis of two precedents provides a working basis from which to evolve a potential equity or debt crowdfunding model for funding inner-city redevelopment ventures.

For a qualitative source of data around the feasibility of such an alternative funding mechanism, a survey and series of interviews were conducted. The interviews allowed for an engagement with individuals within the South African built environment industry regarding their views around the proposed alternative. The survey presented, through a series of multiple-choice and paragraph inputs, respondents' willingness to invest into such a financing mechanism, potential capital amounts to be deployed, and broader sentiments towards inner-city redevelopment. For a

quantitative analysis of data pertinent to this study's thrusts, a series of simple simulations explored the equity and debt structuring potential for this study's alternative financing model - crowdfunding.

The findings of this study suggest that crowdfunding, as alternative financing mechanism, could be successful in resurrecting inner-city real estate stock in South Africa's inner-cities, and thus contribute to the municipalities' social awakening and economic development.

Recommendations for future development that derive from this study include: the extension of market research, engagement with additional city development stakeholders and further simulation of potential crowd-financing models to innovate and/or establish better-suited products and markets for inner-city brownfield real estate.