

South Africa National Treasury Cities' Support Program (CSP)
Technical Assistance Workshop
Johannesburg, South Africa, 7-9 March 2016
<http://www.csp2016.co.za>

*Summary: Accelerating the Preparation and Implementation of Catalytic Urban
Redevelopment Projects: Institutional and Financial Tools*

Introduction

The World Bank, working closely with the National Treasury Cities' Support Program team, organized a second national workshop for metropolitan municipalities focused on practicable institutional and financial tools related to redeveloping core urban areas. The workshop, titled "Accelerating the Preparation and Implementation of Catalytic Urban (Re)development Projects," took place from March 7-9 in Johannesburg. Its aim was to enhance city decision-makers' knowledge and technical capacity with a conceptual and practical overview of (a) the real estate market, capital market and land economy drivers behind the development process; (b) how cities can promote private investment in the urban core; and (c) global best practices in development processes, partnering and financing to help cities understand and effectively intervene in these processes.

Structured as a working retreat, the workshop was designed for senior planning and land development officials representing each of the eight large metropolitan municipalities (Metros) in South Africa. Participants engaged in team-based dialogue which further developed and refined project strategies on specific themes, *inter alia* such as residential project finance methods, conducting fiscal and social impact analyses, and regulatory frameworks for municipal real estate development.

Forum speakers included South African and international urban planners, developers, investors and other subject matter experts on topics related to urban economic development presenting global and local case studies to advance cities' urban investment projects. The Metros were also tasked with presenting one of their "catalytic" urban development initiatives to the full workshop audience and discussing their implementation challenges in the context of the business models and case studies learned through this and the prior national forum on urban regeneration, held in November 2014.

National Treasury and World Bank representatives opened the workshop by highlighting work done by the Cities Support Program, with Malijeng Ngqaleni emphasizing how the collective expertise of public and private sector representatives, academics and experts gathered can help empower cities and their development processes through this forum. The workshop, according to Ms. Ngqaleni, should aim to get projects off the ground, package them and advance them from concept to implementation. The World Bank's Catherine Tovey mentioned the objective of the technical assistance to transform South African cities and their economy. She noted that projects were now moving towards results and implementation, and the workshop will help by sharing knowledge and providing practical tools and technical capacity.

Project Preparation Process: from concept to execution

The catalytic urban redevelopment projects discussed at the workshop, and supported by the Cities Support Program, aim to strengthen the urban core of South Africa's Metros – promoting efficiency, inclusion and sustainability through the acceleration of cities' priority urban projects that are (i) bankable to the private sector and (ii) which



Francois Viruly, University of Cape Town

address challenges affecting the urban poor. One such project cannot solve all of a city's issues, and thus each of a city's projects should set out to achieve specific objectives – whether they aim to meet economic, social or fiscal goals for the city. Francois Viruly, the workshop moderator, reminded participants that, while aiming for the highest and best use of developments is prudent, city leaders are often required to make tough choices, and weigh social, financial and developmental trade-offs.

South Africa's current economic slowdown and a decline in real estate demand present important macroeconomic factors to consider as city leaders prioritize projects and the timing of those projects. An analysis of relevant market trends – across office, industrial and retail subsectors – is a key part of the project cycle. Participants learned from private sector speakers about the trends in residential markets and how, for example, they can facilitate affordable housing accommodations in the current economic environment. The financing and bankability of residential projects were discussed in terms of anticipated project returns; the overall demand for inner city development; the timing of projects with respect to market trends; and municipal government capacity.

Ultimately, South Africa's Metros want their urban development projects to be implemented and impactful. Project management frameworks and analyses for real estate and infrastructure development projects in particular, can help cities anticipate and achieve social, economic and/or fiscal impacts. Implementing catalytic urban development projects requires committed, agile leadership and significant coordination of stakeholders. There are a wide range of tools that can be used by cities to make informed decisions by accurately measuring fiscal, economic and social impacts of developments – and make trade-offs between these where necessary.

Understanding Regulatory Frameworks

The technical lead from the World Bank team working with the Cities Support Program on municipal real estate finance, Valerie Santos, emphasized a set of conditions that increase the likelihood of redevelopment initiatives being successful. These include: (a) institutional capacity to understanding the market and negotiating the terms of land alienation and/or development with the private sector (b) the regulatory framework (c)



Valerie Santos, Victoria Johnson and Leila McKenna

(d) the political economy (e) real estate market trends (f) the sustainable allocation of risk and reward and (g) sustainability, regardless of site characteristics. Cities worldwide have different ways to get things done for their particular projects. In Puerto Madero in Buenos Aires, Argentina, a quasi-governmental corporation used strategic land sales to fund land use planning and infrastructure

investments. A Public-Public-Private solution in Washington, D.C. aligned

local and national government, as well as developer interests, to implement the Yards redevelopment project. Brooklyn Bridge Park in NY featured an effort to attract private development on site to cross-subsidize public uses, while create a non-profit to plan, construct and operate the park.

In South Africa, redeveloping and/or disposing of publicly-owned land involve the application of numerous laws and regulations, such as the Public Finance Management Act (PFMA), the Municipal Finance Management Act (MFMA) and the Government Immovable Asset Management Act (GIAMA). In instances, however, these regulations can constrain innovations in financing and delivery of projects that are required for Metros to pursue alternative transaction structures for catalytic projects. Partnerships between the public and private sector in South Africa will differ depending on the specific partners involved, intended outputs, nature of the property and existing legal arrangements. Metros should ensure a clean and simple transaction that: (a) identifies outputs that are clear and not rigid, i.e. linked to financial modeling and viability; (b) includes mechanisms to ensure compliance with the regulatory framework; (c) recognizes different roles within a development contract and adherence to those roles; (d) and outlines a detailed legal contract identifying the roles and responsibilities of each party, and which anticipates market changes and creates contractual flexibility.

Project Structuring and Financing

Cities should conduct a proper cost-benefit analysis to make informed decisions on catalytic projects, according to eThekweni's Chief Financial Officer. There is a worldwide trend of tightening fiscal constraints that put pressure on traditional municipal funding sources and call for a proactive response to explore alternative sources to achieve development objectives. Land value capture mechanisms, PPPs and increasing own source revenue are potential alternative sources. Focusing on land value capture

mechanisms, three such financing tools are applicable in South Africa, including: Leveraging Municipal Real Estate, Special Assessment Districts, as well as Tax Increment Financing. In Leveraging Real Estate, governments sell or lease excess or underutilized property to generate positive fiscal and economic impact. In the case of Special Assessment Districts, an additional tax is paid by property owners and used for specific public improvements. Tax Increment Financing (TIF) is currently being investigated by the City of Johannesburg, as it allows local government to pay for investments in infrastructure by borrowing against a designated area's future, anticipated incremental tax revenues.

Development charges are an additional instrument which can be used by South Africa's Metros to finance strategic infrastructure investments. A national policy for development charges is currently in the final stage of drafting.

Conclusion

South Africa's Metropolitan cities were active participants in the workshop, both in their teams and during speaker presentations. The cities were, among other things, keen to understand the process of robust project preparation and implementation, interrogate how TIF and other land value capture instruments work, how they're designed and where they can make a difference to overall city objectives. In addition, fiscal and economic impact tools appealed to Metros that are weighing alternative large scale land developments.

At the closing of the workshop, David Savage from the South Africa National Treasury emphasized that catalytic projects in South Africa's metropolitan cities form the centerpiece of the country's urban transformation agenda. National Treasury will continue to provide opportunities for knowledge sharing, as well as offer project-specific support to Metros in partnership with the World Bank. The city representatives present were tasked with doing their part in personally driving their projects forward, clearing the regulatory and finance hurdles they may face along the way. Through committing to implementation, and utilizing the resources of the Cities Support Program, Metros will gain the upper hand in bringing their projects to implementation and in achieving the impacts they are pursuing.