

The property sector is one of the least transformed sectors almost 30 years into democracy, says Dr Muriel Mushariwa, MD of EconoBEE, a management consultancy specialising in B-BBEE, skills development and employment equity. The Sanlam Transformation Gauge scores confirm this, with the sector achieving level 4 recognition in 2023, up from level 5 in the two preceding years.

ESD is the biggest mover for property in this year's Sanlam Transformation Gauge, climbing from 62% of target to 85% and skills development jumps from 67% to 80%. Ownership (65%) and management control (32%) are both slightly down from last year while socioeconomic development falls sharply but remains well above target at 116%.

Nigel Adriaanse, CEO and founder of the Enterprise Development Property Fund (EDPF) which empowers black property entrepreneurs through training and incubation, says he does not have sufficient information on the data to determine whether these figures are truly representative of the broader property sector.

The management control scores, he says, are particularly unsatisfactory, especially 30 years after democracy. "This means the sector only reached 32% of its target, it does not refer to actual management control figures," he says. "Surely there are an incredible amount of talented and qualified 'people of colour' who can step into management roles? Yes, we are making some progress, but a great deal more needs to be done in this area."

The jump in ESD, he says, is not unexpected. "This is understandable as the sector has chosen to focus on ESD as it offers the easiest points to score while ownership is very much still lagging. My argument is that increasing your transformed supply base does not, in truth, transform the industry. If you wish to transform the industry you have to lower the barriers to entry so people of colour can own property and not just be suppliers to the sector."

As an example of the lack of transformation within the industry, Mushariwa points to the real estate space where fewer than 10% of registered real estate agents are black. "When one looks at the BEE scorecard of most of the property companies, elements such as ownership and management control – where real empowerment lies – show that transformation is yet to take place." While there

has been improvement in these areas, access to funding for black entrepreneurs is still a considerable obstacle, she says, and key contracts are regularly given to untransformed companies.

What's more, says Adriaanse, Covid-19 wreaked havoc on the market, particularly in the commercial office and retail space. "BEE wasn't a priority for most property companies before and now it's taking even more of a backseat because things are so bad economically post-Covid and with the current Eskom crisis and economic downturn." Yet, he argues, property is a sector critical to reviving economic transformation in the country.

Sthandiwé Msomi, research coordinator at the South African Institute of Black Property Practitioners (SAIBPP), echoes Mushariwa's transformation concerns, saying there's a long way to go in attaining true equitable representation in the sector. The SAIBPP focuses on addressing blockages that impede the property transformation agenda.

The most notable impediment here is access to finance. Traditional and often discriminatory lending practices have long resulted in the marginalisation of black people, doing little to encourage black participation, Msomi argues. "Asset-based secured lending is unsuitable for the majority of black South Africans and particularly black property investors and developers due to the prohibitively high security requirements," she adds.

Adriaanse agrees. Of the four barriers to entry into the market that the EDPF addresses – education, access to market, support services and access to finance – the latter remains the only unbroken barrier. "We need a new model of funding property," he argues. "We cannot rely on the traditional funding model where 70% comes from debt and 30% comes out of your pocket or through leveraging your balance sheet to borrow the other 30%. New entrants don't have these resources, so how can we expect them to come into the sector?"

Adriaanse has therefore proposed a new funding model through an equity scheme for black entrepreneurs but, to date, he's been unable to acquire the requisite funding without a significant capital outlay, something his model seeks to address. "We need a revolution in the funding industry to create an equity fund that will allow black entrepreneurs who have good ideas to access funds by bringing in that equity to facilitate funding," he suggests.

The SAIBPP stresses the need for urgent reform in the commercial banking sector in terms of lending practices and credit risk assessment methodologies. “Lending rates – credit pricing – for first-time buyers and new entrants into the property market must be capped,” says Msomi. “Administrative costs must also be scrapped and legal costs waived partially or in full to enable access.” The SAIBPP itself is set to launch its first Funding Directory this month, which will include financial institutions in South Africa with financial products for practitioners and businesses in the industry.

“Township property development is generally perceived as higher risk,” says Msomi, pointing to another key challenge in the sector. “Therefore developments in these areas attract higher capital requirements, equity and experience.” Yet, argues Adriaanse, the townships as well as rural areas are exactly where property development should be focused as this will have a massive knock-on effect on the economy.

“We could change the property sector significantly just by changing our thinking around where money is spent,” he says. For example, he says, if all the people who lived in Soweto actually worked there, its economy would be revolutionised. Those who live in the cities should focus on their economy, but instead of the demand for land constantly being concentrated in urban areas, we should also create opportunities within our townships and rural areas – in the places we live.”

This creates questions around land reform, a key concern in the property sector and the broader South African economy. “Apartheid was effectively a land grab,” says Adriaanse. “To reverse apartheid, we need to find a way to transform the property sector because property is the basis of all economic activity. To do this we need political and economic will to get financial and support resources.”

He argues that government should institute a mechanism where they can give residents and property developers not just the right of use of the land they live on, but an actual title deed. This will not only instil pride in the people but yield economic benefits, significantly transforming the country in terms of land ownership.

Msomi elaborates, saying that as the largest single property owner in the country, government has an essential role to play in ensuring and enforcing property transformation. “Government departments’ inaction towards prioritising the release of unused state-owned land

that has no prospect for delivering public infrastructure nor provides support for a public purpose is a hurdle,” she says, stressing the need for the implementation of a successful land reform programme. The SAIBPP also argues that 50% of the beneficiaries of this programme must be women and youth.

Indeed, while there has been limited progress here, black women remain the most marginalised group in the sector especially when it comes to ownership and management. “The amendments of the Employment Equity Act will be pivotal in addressing some of these challenges,” says Mushariwa, “specifically for companies doing business with the public sector.” Training and access to finance are also key.

Yet, B-BBEE reporting remains a challenge. “Not enough effort has been put towards improving the BEE reporting in the property sector and sectors at large,” she argues. “Punitive measures should be implemented for companies that are not compliant on the minimum 10% black women ownership and management control. The nature of the market is such that unless we link licensing to transformation goals, it’s unlikely to see any real transformation as those with money will dictate who does and doesn’t get business.”

However, the new Property Practitioners Act which came into effect in February 2022 could yield long-term progress. This aims to better promote procurement of services from property practitioners who can show their compliance with transformation and equity legislation, explains Mushariwa. The act also creates a Property Practitioners Regulatory Authority which has the power to promote a more inclusive and transformed property sector through establishing a Property Sector Transformation Fund. Through facilitating the receipt of grants, this fund aims to fulfil the transformation and empowerment goals within the sector. Notably, affected property practitioners will be required to have a valid B-BBEE certificate to be able to renew their Fidelity Fund certificates, which they require to practice. The introduction of this legislation, she says, has the potential to make the biggest impact on transformation in the sector.