

Module 2

Section 4: Commercial
markets

Introduction

- What do we mean by the goods and services sector ?
 - **Commerce** is a division of trade or production which deals with the exchange of goods and services from producer to final consumer. It comprises the trading of something of economic value such as goods, services, information or money between two or more entities.
 - The township market for goods and services comprises of the following span of elements:
 - Goods (sub division)
 - Services(catering and hospitality, accommodation, personal, financial, real estate and business services, transport and equipment, etc).
- Why are these sectors economically significant ?
 - Curbing unemployment through job creation
 - Poverty alleviation

Introduction

- Two key aspects of commercial markets examined:
 - Small business development
 - Formal retail and commercial development in township areas

Small Business

Development

- FinScope™ Small Business (Gauteng, 2006) found 1 053 818 small businesses operating in the

	Informal street vendors, hawkers etc. (64%) 673 576	Unregistered individuals (18%) 195 250	Registered Business (17%) 184 992	tion:
www.f	<ul style="list-style-type: none">• Survivalist – street market, stall market• Predominantly involved in the sale of goods• Operate in the informal sector of the economy• Won't employ others in the running of their business• Income generation below the poverty line – average of R1 500 per month• No training, high school education• Approximately half have access to a bank account	<ul style="list-style-type: none">• Many involved in sale of goods however activity seen in other sectors such as services or landlords• Not inclined to employ others• More inclined to run business from home• Never registered the business• For 30% income derived from business is not sole sources of income• Average monthly turnover R2 600• 55% banked	<ul style="list-style-type: none">• Part of the formal economy• Registration of business as sole proprietor or a close corporation• 90% banked• Higher predominance of White and Indian business owners• More likely to be professionals• Skills learnt from post matric education or training programmes• Employ approximately 5 other people in the business• R21 500 average turnover of business	

Small Business

Business Sophistication Measure (BSM)

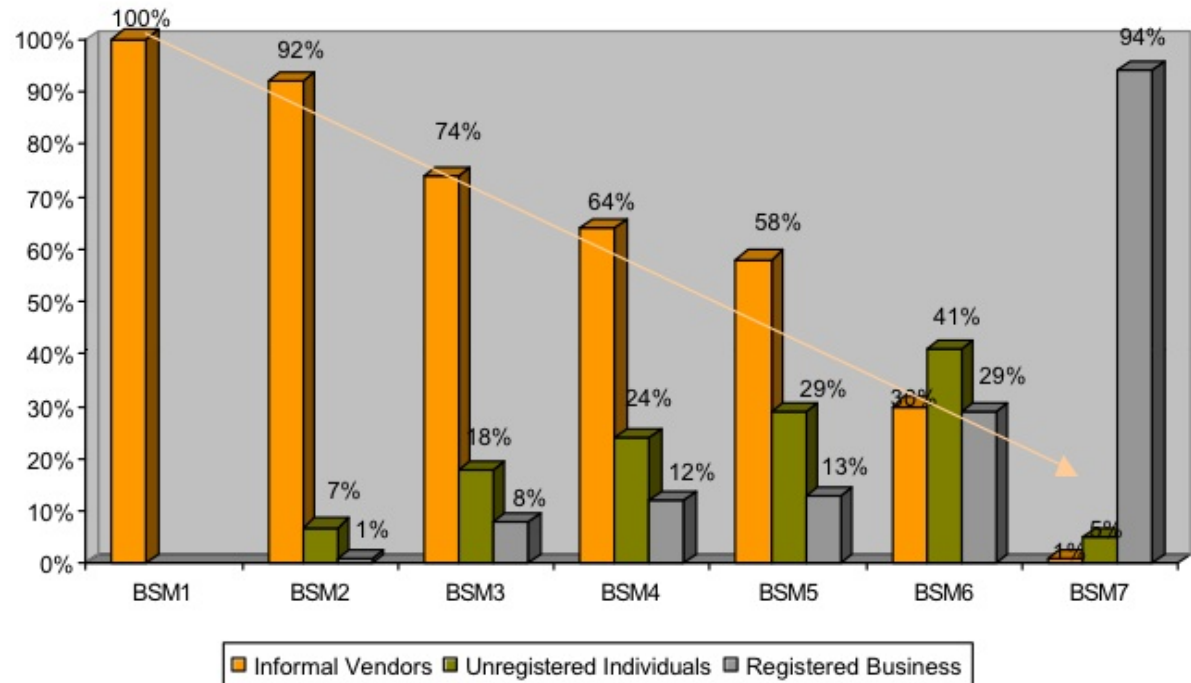


1	2	3	4	5	6	7
12%	9%	26%	23%	10%	10%	9%
123 522	97 370	278 291	247 075	110 512	100 171	96 876

- 1 in 6 adults within the small business development sector

- >50% of small businesses are youth owned

BSM and the formality of the business



Small Business Development

BSM	1	2	3	4	5	6	7
% of total	12%	9%	26%	23%	10%	10%	9%
Informal businesses:	99%	92%	74%	64%	58%	30%	1%
Unregistered indiv.:	1%	7%	18%	24%	29%	41%	5%
Registered businesses:	0%	1%	8%	12%	13%	29%	94%
Average type	Stall trader	Stall trader	Sale of goods / HBE	HBE	Sole propr. / HBE	Sole propr./ HBE	CC, office block, shop
Employees	0.1	0.14	0.23	0.47	0.85	1.78	8.88
<u>Annual</u> turnover	R9 113	R10 723	R16 793	R24 710	R27 841	R66 597	R463 747
% banked	21%	36%	38%	47%	64%	81%	97%

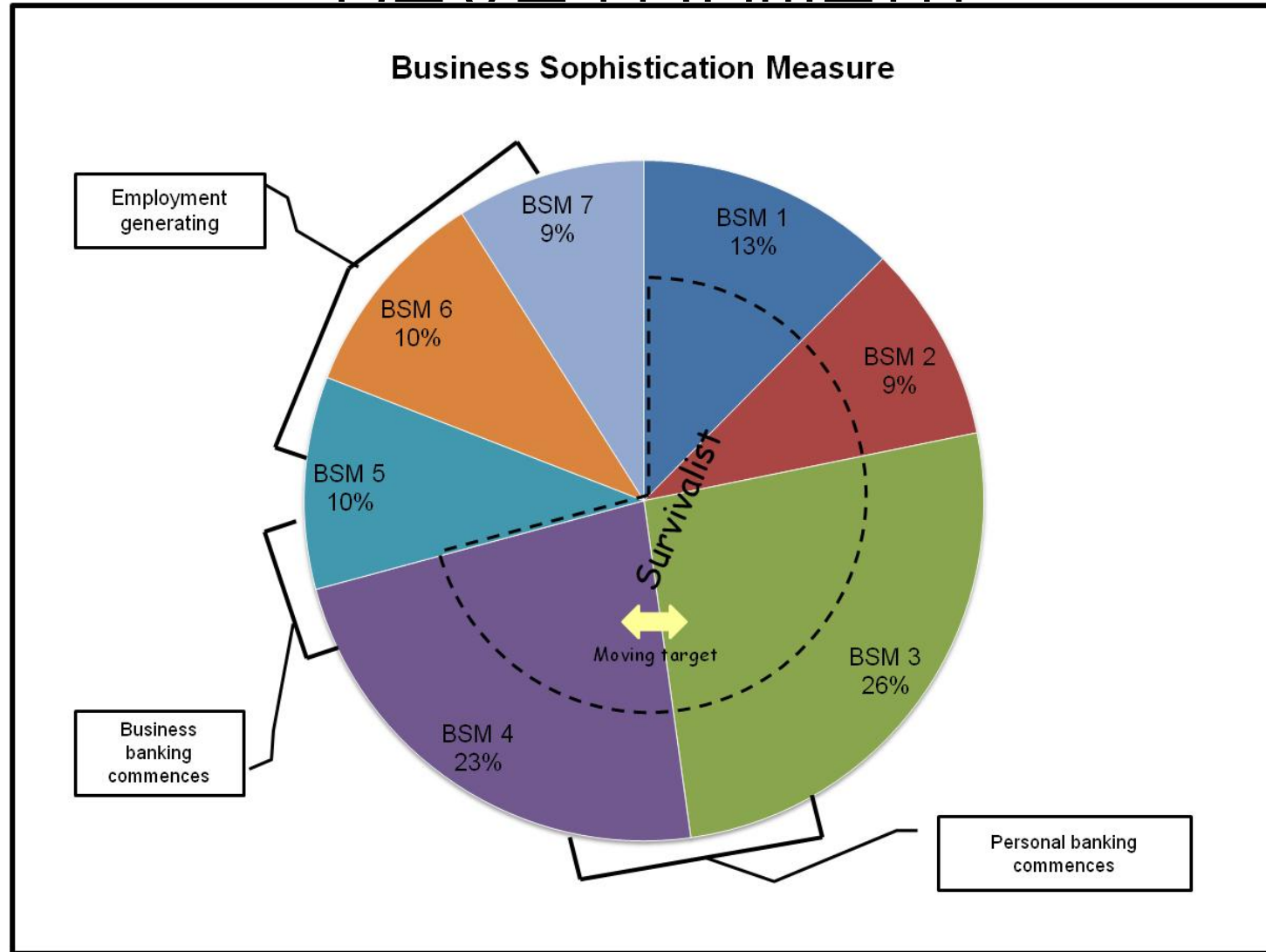
20%

50%

30%

- 22% of the income generated in small businesses is below the poverty line
- 50% of small businesses generate less than R2000 per month
- In 78%, income generated was the only source of income in the household
- 70% of small businesses do not create jobs

Small Business Development



Small Business

Development

- 69% of small businesses operate from home

Financial asset

Small scale landlords

Home based entrepreneurs



Economic asset

Social asset

Small Business Development

Small Scale Landlords

- *“We see as typical the migrant who first builds a one-storey house for his family, then adds a second storey to which he moves, renting the ground floor to tenants; later he builds a slightly better house for himself and the whole of the first house is let; again he might build a new house specifically designed for a few tenants.”*
(Lloyd, 1990:294)



- About 1,85m households rent accommodation provided by small scale landlords:
 - 60% of this is on the landlord's own property
 - 60% is formal accommodation
- Rental accommodation may be a formal or informal unit or a room in the home
- Avg tenant income = R1800
- Rental income = 420m per month or R5bn per year
- Most township landlords are female, majority African
- Unemployment high: many are retired

Data from
2005/06
study

Small Business Development

Home based enterprises

- HBEs are **income generating activities undertaken by residents from their homes**. In low income areas in South Africa they are predominantly informal in nature and survivalist in scale, but often are the only source of income for the household. There are:
 - **Retail oriented:** spaza shops, frozen food retailers, clothing retailers, etc.
 - **Production oriented:** fence and gate manufacturers, food preparation, etc.
 - **Service oriented:** hair salons, mechanics, traditional healers, B&B operators, restaurants
- Home used as an incubator for small business growth, though not all are entrepreneurial
- HBEs suffer from a lack of backward and forward linkages: access to input materials and distribution networks



Small Business

Whether
subsistence

Development

or
entrepreneu
rial

(BSM1-7)

small
businesses
provide a
viable
livelihoods
strategy
that
deserves
(and needs)

support

Small businesses need:

- Appropriate policy & regulations
 - Business reg: registration, reporting, tax
 - Land use & building regs: by-laws, zoning
 - Health & safety
- HBEs & SSLs included in LED strategies
- Planning, infrastructure, services to accommodate increased densities and diverse land usage: UDZ?
- Settlement design to accommodate & stimulate emergence of HBEs and SSL
- Financial products: savings

Commercial Property Markets

- Property markets are influenced by four different markets:
 - User market
 - Financial market
 - Development market
 - Land market

Commercial Property Markets

- Property markets may be affected by the following:
 - General conditions in the economy as demonstrated by the recent recession or economic down turn
 - Increased demand for rentals resulting in higher rental demanded by developers
 - Interest rates - increased rates reduces the rate of return for investors
 - The capitalisation rate
 - Property prices increasing more rapidly than building costs leading to an increased supply
 - A rise in the supply of the space market leading to an over-supply and the associated decline in rentals and property values

A combination of all of the above factors

Commercial Property Markets

- Possible constraints to township retail development
 - Crime: a rise in burglaries, muggings and theft from delivery vehicles
 - Shortage of parking
 - Unstructured and unmanaged street vendors
 - Limited banking facilities
 - Limited business management skills among entrepreneurs
 - Difficulties with rental business space
 - poor building maintenance, low rental take-up and high rents
 - Long queues at retail outlets

Commercial Property Markets

- Possible constraints to township retail development - continued
 - Developers distrust of local government to ensure proper management and maintenance of the proposed development area - municipalities must show commitment
- Urban restructuring and regeneration projects are not

Commercial Property Markets

- Key policies and activities to release the potential of commercial property markets
 - The provision of information
 - Urban regeneration/upgrading - roads, access routes, increased electricity supply
 - Providing incentives - building / tax etc
 - Undertaking a property and retail market analysis - determining the

Commercial Property Markets

- Key policies and activities to release the potential of commercial property markets (Cont)
 - Organising existing businesses
 - negotiating for space for existing enterprises
 - facilitating the development of business networks
 - facilitating bulk buying
 - encouraging mentorship
 - promoting franchising

Commercial Property Markets

- Key policies and activities to release the potential of commercial property markets (Cont)
 - Understanding the market drivers - appropriate policy timing
 - Maintaining the area - commitments may be reflected in the following manner:
 - The municipal urban renewal policy or strategy
 - Funding allocations
 - Targeted service delivery strategies
 - MOUs between the municipality and the developer

Commercial Property Markets

- Key policies and activities to release the potential of commercial property markets (Cont)
 - Addressing safety
 - General crime prevention
 - Public transport nodes
 - Open spaces
 - Public spaces
 - Emergency access
 - Linking the planning and development to wider City/Town strategies
 - Catalytic Projects

Commercial Property Markets

- Key policies and activities to release the potential of commercial property markets (Cont)
 - Managing stakeholders
 - Political champions (national, provincial, city-wide, local)
 - Government officials (national, provincial, city-wide, local)
 - Technical Steering Committees (vertical intergovernmental and horizontal inter-departmental);
 - Community (community structures and leaders)

Commercial Property Markets

- Key policies and activities to release the potential of commercial property markets (Cont)
 - Having a project champion
 - Managing and supporting small traders
 - Mechanisms will need to found to ensure support for small traders while also balancing the needs of the retail developers.
 - These may include initiatives such as

Concluding Remarks

- Township commercial markets experience high levels of competition from elsewhere in the city
- Therefore - township markets must be competitive offering investors specific market advantages
- Commercial markets occur in an institutional environment
- Planning and developing retail space requires
 - Resources
 - Political commitment
 - Ongoing management

Concluding Remarks

- Developing formal commercial and retail sector in townships must secure the interests and growth potential of small businesses through:
 - Training
 - Improved access to credit
 - Maximising BEE opportunities
 - Partnership arrangements between large and small businesses

Concluding Remarks

Understanding Retail and Commercial Township Markets

