A review of proposed land use scenarios for the Port Elizabeth harbour in relation to current economic trends

Phase 3 – Deliverable 3.5 “Review demographic study, market demand and economic potential of waterfront development”

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<td>Central Business District</td>
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<td>TEU</td>
<td>Twenty-foot Equivalent Unit</td>
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Executive Summary

In the context of the imminent relocation of the Port Elizabeth fuel storage facility and manganese terminal, the Nelson Mandela Metropolitan Municipality (NMMM), Mandela Bay Development Agency (MBDA) and Port Elizabeth Chamber of Commerce and Industry (PERCCI) are currently in negotiation with Transnet and Southernport Developments to determine future land use scenarios for the Port Elizabeth harbour. There are two competing visions for the utilisation of land located in the southern portion of the harbour on the table, one that promotes expanding Transnet’s auto and container freight capacity across the northern and southern portions of the harbour, and one that promotes utilizing the southern portion of the harbour to build a waterfront development.

Stakeholder positions are driven by economic interests, and the projected future income generating potential of different harbour related industries. The history of previous engagements and, at times, conflict and opposing agenda’s, however, has also affected stakeholder positions.

By examining three key industries related to the two land use positions, this report demonstrates the validity of both economic arguments. It outlines the need for an expanded and diversified manufacturing sector, driven by the machinery and auto industries, as well as the need for expanded leisure facilities and additional leisure and residential real estate.

Detailed analysis of the contribution of these industries to the GDPR of the Metro, however, shows that the tertiary sector (tourism, retail, finance, real estate, community services and government services) contributes the majority of the Metro’s GDPR (64%), and is much more stable than the secondary sector (manufacturing, construction, electricity). The tertiary sector is also shown to be more integrated into the regional economy, allowing for a broader range of multiplier effects to be derived from an expansion in its industries.

Given the importance of both sectors, this report suggests alternative options for land use scenarios in the harbour that would allow for expansion in both sectors. These suggestions include consolidating container freight at the port of Ngqura to allow for expansion of the auto freight terminal in the northern portion of the harbour, or building a multi-storey car terminal to limit the land requirements of expansion. Both of these suggestions will allow for some land to be made available for a waterfront development without disadvantaging growth in the freight industries.
1. Introduction

“Economic strategy is a matter of perspective. Society has many competing perspectives. As government our perspectives are inspired by the need to eliminate poverty and create sustainable livelihoods. We seek to find a balance between competing needs and perspectives. The developmental path that we are working on, aims to optimise the resources of the country for the benefit of all our citizens.”

The MEC of DEDEA highlights an important aspect of economic strategy – that it is a matter of perspective. In the matter of land use decisions in the Port Elizabeth harbour, perspective is everything. Multiple economic cases could be compiled to justify any number of potential land use scenarios, each serving the interests of a different stakeholder group. The potential for growth and development exist in a number of harbour related industries, and most cases would justifiably be able to argue that they will contribute significantly to the future economy of the region.

What is important then is to maintain a clear view of stakeholder interests regarding land use scenarios for the harbour, and ensure that decisions are made to serve the broadest possible set of stakeholders - without causing undue disadvantage to other stakeholder groups. The most successful land use scenario will be one that is made in conjunction with broader planning initiatives in the region that allow for expansion and growth in all harbour related industries. The economy of the Eastern Cape is too small for any industries to be disadvantaged.

The debate regarding the future land use scenarios for the Port Elizabeth harbour is currently polarized between two positions – utilising the southern portion of the harbour for expanded freight capacity, or for a waterfront development that makes Port Elizabeth into a significant tourism destination. Attempts are being made to integrate these two positions through a process of negotiated planning able to meet the needs of both parties. In this context, the building of the new port at Ngqura is pivotal to land use decisions in Port Elizabeth. Between the two ports, there is ample opportunity for all industries to thrive; the question just remains as to how to best organize land use planning between them.

This report delivers a summary overview of the current land use debates regarding the Port Elizabeth harbour. It starts by looking at the history of the concept of a waterfront development, outlining the key factors affecting the current stalemate, and pointing towards key stakeholders in the planning process. The two visions currently being debated are then outlined.

In order to review the broader relevance of each vision, economic trends affecting land use scenarios in the harbour are then investigated, with a particular focus on trends in the automotive, real estate and tourism sectors. These sectors are not the only three to be affected by harbour land use scenarios, but they are the most important sectors to be considered when assessing the economic viability of each scenario.

The overview of current economic trends is then used to analyze the findings of the Department of Public Enterprises (DPE) detailed feasibility study concluded in 2006\(^2\). The findings made by the DPE are assessed in relation to the effects of the recent recession and projections for future growth. Some additional projections are made based on this assessment, creating a band of potential economic impact which allows for the negative effects of the recession on the original calculations. This assessment does not provide detailed figures, but rather a general sense of the potential of a waterfront development in the current

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1 The MEC for Finance, Economic Development and Environmental Affairs in the Eastern Cape, Mr. Mcebisi Jonas, EC MEC Economic Conference, 4 February 2010.

2 Department of Public Enterprises, “Integrated Feasibility Report On Proposed NMMM Port Property Development And Relocation of Bulk Handling Facilities to Port of Ngqura”; presentation made to PE task team, March 2006
economic climate. More detailed economic analysis would be needed to examine the exact impact of each scenario on the broader economy of Nelson Mandela Metro and the Eastern Cape, and the multiplier effects thereof.

The report concludes by looking at alternative land use concepts that could be developed based on the economic analysis of existing scenarios. These suggestions attempt to integrate the requirements for each scenario in relation to economic trends affecting the region to find solutions able to meet the needs of all stakeholders. Recommendations regarding the way forward are then made.

2. Port Elizabeth Waterfront

2.1 History of the waterfront development concept 1985 – 2010

The concept of a waterfront development in Port Elizabeth has been part of municipal and port planning processes since 1985, when the Burgraaf Committee (appointed by the then Minister of Transport and Environmental Affairs) reported that SATS (predecessor of Transnet) should release harbour land for leisure, recreational, commercial and residential purposes. The report identified the area around King’s Beach as developable, and suggested that a working harbour could be maintained in conjunction with a mixed-use area, focusing on tourism, commercial and residential development.

Since then, several different port related and government authorities (Portnet, National Ports Authority, Department of Public Enterprises) have conducted feasibility studies on the concept, all of which have made positive recommendations regarding the value of a waterfront development to both the broader municipality and efforts towards consolidating port related properties around core business activities. In the 1990’s, Portnet (Transnet’s previous ports division) planners identified the waterfront development as a feasible option for offsetting the costs of building a deep water harbour at Ngqura and the costs of relocating the ore terminal and tank farm PE to this new port. Portnet MD at the time, Rob Childs, stated: “By moving the berth, tank farm and terminal, we would not only get rid of an eyesore, but create a Waterfront on the 50ha of prime land which would be released on the Port Elizabeth harbour site.”

Portnet then developed plans for what it called the Algoa Marina, a waterfront development including commercial, residential, recreational and marina elements.

Despite these efforts, no concrete waterfront development plans materialized from the Ports Authorities, and in 1998 a private investor company, Tsogo Sun, made the first real attempt to negotiate access to land for a waterfront development with the port authorities. An agreement was signed between Tsogo Sun and Transnet for three parcels of land, totally 35ha, within the harbour boundaries. The proposal included a casino and related tourism and leisure facilities on the Port Elizabeth foreshore. Unfortunately, Tsogo Sun never managed to get the necessary casino license to pursue their development, and the company – along with its agreement regarding land use within the harbour - was sold to Southernport Developments.

Southernport Developments then set about trying to facilitate other waterfront development concepts, but initially failed to hold Transnet to their lease agreement with Tsogo Sun - Transnet claiming that the failure to win a casino license nullified the agreement. This battle continued until 2004, when Southernport Developments instituted a legal process with the high court to force Transnet to uphold the original land agreement they had signed with Tsogo Sun³.

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⁴ Kuiper, M. D., Arbitrator, “Amended procedural directions. In the arbitration between Southernport Developments (Pty) Ltd and Transnet Limited”, April 2007
While these negotiations were going on, the concept of a waterfront development was taken up by the previous Mayor of the metropolitan council, Councillor Nceba Faku, who championed an ambitious plan known as Vision 2020, for the Metropole. Vision 2020 packaged together a number of inner city redevelopment projects with plans to grow the regional economy, boost tourism and create jobs. It included projects such as the Statue of Freedom, the Motherwell Urban Renewal Programme, the Port Elizabeth Harbour redevelopment and the relocation of the elevated highways located adjacent to the harbour.

Based on this vision, the city council commissioned a number of planning studies including a Vision for the Inner City and The Downtown Study, focusing on the Central Business District. These studies recommended that the city establish a development agency to champion the key projects identified by the city. The Mandela Bay Development Agency (MBDA) was accordingly established in 2004, and has since operated within an inner city “Mandate Area” which covers approximately 1039 hectares.

The MBDA commissioned a spatial plan for the 1039ha Mandate Area, and appointed a consortium to undertake market research to find out where investment gaps existed in Port Elizabeth’s property market. The study described as a Strategic Spatial Implementation Framework (SSIF), identified development potential and proposed a number of large capital projects such as a convention centre. The MBDA has championed these projects in order to revitalise Port Elizabeth’s deteriorating central business district and inner city.\(^5\)

While Transnet negotiated with Southernport Developments, and the Municipality and the MBDA investigated development options in and around the harbour and CBD, the Department of Public Enterprises (DPE), which is responsible for all state owned enterprises, including Transnet, began a national project to investigate the development potential of non core properties. By this time (2005), the deep water harbour at Ngqura was in the process of being built, and the DPE identified the southern portion of the Port Elizabeth harbour as a non core property. With the future of both harbours in mind, the DPE conducted a detailed feasibility study into the costs and benefits of relocating the dry and liquid bulk terminals to Ngqura, and opening up land for a waterfront development in Port Elizabeth. In 2006, the feasibility study concluded that the costs associated with relocating the bulk terminals would be offset by the benefits of consolidating port activities at Ngqura, by the income generating potential of a waterfront development, and by the tax benefits to be gained from the construction and operation of a waterfront development.

A broad plan for the waterfront was put forward formally by the DPE, and the MDBA and NMMM began investigating more detailed planning scenarios for the waterfront and its environs. This included the development of a Spatial Development Framework (SDF) to guide planning and development in the Metro.

Subsequently, the arbitration between Transnet and Southernport Developments concluded in 2009, when the high court ruled that Southernport Developments had a legitimate claim to the parcels of land included in the lease agreement Transnet had signed with Tsogo Sun. A process of negotiation led to three slightly different parcels of land being allocated to Southernport Developments, with Transnet being held liable for the remediation of the land prior to handing it over to Southernport Developments. The extent of the environmental damage caused by the operation of the fuel tank farm and manganese ore terminal had not yet been fully assessed, and a process was put in place to determine the costs of remediation. The extent of remediation is directly linked to the future land use of the area, and this process set in place further negotiations regarding land use within the harbour.

Despite recommendations by the DPE, and the negative side effects of the storage facilities on any waterfront developments planned by Southernport Developments, Transnet initially insisted on not moving them. They agreed to build a 5m wall around the facilities, but declined to further investigate relocation

\(^5\) Mandela Bay Development Agency, “Strategic Spatial and implementation Framework for the mandate area”, 2005
options. At this point the Municipality began negotiations with Transnet on behalf of the residents of Port Elizabeth, and mounting public pressure eventually resulted in Transnet agreeing to decommission the storage facilities at the end of their respective lease periods. The Department of Environmental Affairs has increased this pressure by issuing a directive to Transnet in June 2010. The directive is as a result of the facility’s environmental and health impacts to the city and it can be used as legal fulcrum to achieve the result of relocation.

Once Transnet had agreed to relocation, the question of land use within the harbour was again raised, and the NMMM and MBDA have again tried to revive the notion of a waterfront development as a viable land use option. This development opportunity has initiated proposals including: the Kings Beach Precinct Plan and the North End Coastal Development Proposals.

Kings Beach Precinct Plan: Urban Dynamics is currently preparing a local spatial development framework for the MBDA Mandate Area, as part of a LSDF Programme for the broader metro area. It will result in a spatial guideline for development for the Kings Beach Precinct, which includes the area of potential development for a PE waterfront. This plan is due for completion September 2010.

North End Coastal Development Proposals: This is a strategic project aimed at revitalizing the North End Precinct, acting as catalyst to stimulate the redevelopment of the coastline with the result of removing obstacles to the rejuvenation process and, creating linkages and reintegrating the neighboring CBD, the adjacent degraded residential and industrial areas with the coast line. A further aim is to attract international investment into the metro area. This ‘blue sky’ planning has produced some incredible options however there is no momentum to realise any of these plans at present.

Figure 1: Summary of waterfront development related activities 1985 – 2010

- **1985**: Minister Transport & Environmental Affairs establishes Burgoff Commission - Recommends that southern portion of harbour be reallocated for mixed use waterfront development.

- **1990**: Transnet proposes the development of a mixed use waterfront to offset CAPEX costs of building Coega and consolidate port activities.

- **1998**: Transnet enters into an agreement with Tsoga Sun to release 50ha of prime land for a high end casino and hotel development on the waterfront, pending approval of casino license.

- **2000**: Tsoga Sun casino license bid fails, Tsoga Sun sold to Southern Ports Developments.

- **2002**: City Council picks up Portnet's proposal for a waterfront development and integrates it into a vision for the city's redevelopment – Vision 2020.

- **2004**: MBDA established as a dedicated agency to facilitate the regeneration of 1039ha of “inner city” land, including the southern portion of the harbour. SSIF developed as a development framework.

- **2004**: Transnet tries to abrogate on their lease agreement with Tsoga Sun’s new owners – Southern Ports.

- **2005**: Southern Ports takes the case to high court and begins arbitration process to get back the land.

- **2005**: Department of Public Enterprise establishes a rational property project to investigate the reallocation of non-core properties – DPE recommends PE harbour be reallocated for a waterfront development.

- **2009**: Southern Ports wins arbitration agreement and Transnet allocates them 32.8ha (48%) of harbour land.

- **2009**: Negotiations begin between Transnet, Southern Ports & NMMM re relocating dry and liquid bulk terminals.

- **2012**: NMMM & MBDA draft more detailed plans for urban regeneration, including a waterfront development.

- **2013**: Transnet agrees to move dry and liquid bulk terminals, but proposes to expand their auto freight capacity.
2.2 Key stakeholders and their primary concerns

The history of the waterfront development concept identifies several key stakeholders and interests in the Nelson Mandela Metropole. There are three principle land owners within the harbour – Transnet, Southernport Developments and the Nelson Mandela Metropolitan Municipality.

All land within the harbour is subject to port and municipal zoning regulations, as well as the regulations outlined in the Coastal Management Act. As such, landowners must negotiate with zoning regulations, strict environmental regulations and extensive stakeholder consultations before proceeding with any changes in land use, or development. In addition to the landowners, there are several key stakeholders who have a direct interest in the future land use arrangements of the harbour. A brief summary of the principal stakeholders and their primary concerns follows:

Transnet As the port landlord and operating authority, Transnet is responsible for current land use agreements, tenants, and remediation concerns within the harbour. They are also concerned with the maintenance and growth of Transnet’s main business interests - freight logistics and integrated port planning activities between Ngqura and the Port Elizabeth harbour.

Figure 2: Land owners in the southern portion of the Port Elizabeth harbour

Department of Public Enterprises As the national authority and shareholder responsible for all state owned enterprises, the DPE is concerned with the national and regional implications of decisions taken by Transnet. According to their strategic vision 2009-2012, DPE is particularly concerned with the success of Ngqura, the development potential of non core SOE properties, public private partnerships, and the ability of SOE’s to support regional economies.
Coega Development Corporation As the institution responsible for commercial activities in the Coega Industrial Development Zone (IDZ) and the Ngqura deep water harbour, CDC has a direct interest in the integration of the two harbours, and in the relocation of the liquid and dry bulk facilities from Port Elizabeth to the port of Ngqura.

Nelson Mandela Metropolitan Municipality NMMM are responsible for delivery of infrastructure and municipal services, planning and zoning within the municipality, as well as being concerned with social, economic and environmental issues in the Nelson Mandela Metropole, and the future economic development of the Metro. With the interests of the residents in mind, NMMM want to ensure that the best possible economic opportunities are created within the Metro, and that residents are not adversely affected by environmental risks associated with harbour land use decisions. Mandela Bay Development Agency Specifically established to pursue economic development necessary for urban regeneration within its mandate area, MDBA is concerned with an integrated approach to uplifting the central business district, including revitalizing the Kings Beach Precinct.

Port Elizabeth Chamber of Commerce and Industry PERCCI’s role in the Metro is to promote business and industry development, and as such, is concerned with the future of all industry in the Metro.

Southernport Developments Southernport Developments have freehold and lease title over 35ha of harbour land, which they plan to develop commercially. Their development options are limited by the future land use options decided on by Transnet, regulations in the Coastal Management Act and municipal zoning regulations. As such, they are concerned with the development of an integrated waterfront development land use plan that best allows them to develop their portion of the harbour land.

2.3 Divergent visions for the harbour 2006 - 2010

There are currently two broad visions for the future land use in the Port Elizabeth harbour. These visions share a similar outcome of a mixed use development, a combination of waterfront and clean harbour facility, but there is a difference regarding which land is developed for these purposes. The one option is for both NMMM and Southernport Developments’ land to host the waterfront development with the clean harbour industry remaining on existing Transnet land. The other option is to turn the whole southern portion of the harbour into a mixed use waterfront development. The clean harbour industry proposals include an expanded auto freight terminal and fishing industry or a combination of fishing and related industry. Neither of these two visions have yet manifested into concrete plans with detailed cost benefit analyses, although several planning exercises and feasibility studies have been completed with the two scenarios in mind.

Both of these visions originated from government authorities, the broader waterfront development idea having been proposed by the Department of Public Enterprises (DPE) in 2006, and the expanded auto freight concept being proposed by Transnet in 2010. Transnet has suggested that their current position is purely economically motivated, but the overwhelming economic case made by DPE in 2006, as well as a contracting auto industry, suggests that the loss of land to Southernport Developments and acrimonious relations with NMMM and MBDA have also influenced their preferred option. The costs of remediation associated with future land use options have also been noted as a key driver of Transnet’s vision for land use in the harbour.

The details of the two scenarios and their origins are briefly summarized below:

2.3.1. Scenario 1: DPE 2006 Vision – Expanded Waterfront Development

As part of their property project, DPE stated a desire to unlock the value of underutilized or underperforming state owned land assets to optimize SOE returns and maximize their development impact. This included a focus on strategic land holdings adjacent to ports and logistics hubs and the disposal of non-core property. Primarily concerned with revenue generated for the state, as opposed to the specific revenue generated by
individual SOE’s, the DPE took a more holistic view to costs and benefits associated with port planning than Transnet was able to.

As part of their property project investigations in Nelson Mandela Bay, DPE clearly outlined their objectives of boosting employment and trade and investment within NMMM, building and enhancing the tertiary sector – including tourism and leisure; enhancing the value of foreshore land assets and adjacent holdings, thereby improving municipal rates and taxes; enhancing municipal infrastructure and the port-city interface; and more broadly, enhancing the quality of life of residents of Port Elizabeth.

As such, they recommended a change in land use in the port to include a mixed-use waterfront development over the entire southern portion of the harbour (Figure 3).

Figure 3: DPE 2006 Vision: Maritime Commercial

These recommendations were based on a detailed feasibility study, which included four separate studies into 1) land use options, 2) residual land value calculations, 3) multiplier effects of the development, and 4) an investment comparison between three different scenarios. The key findings of these studies are summarized in Figure 4, below.

Based on the findings of the DPE studies and the recommendations included in the SSIF, the MBDA and the NMMM drafted a number of different land use scenarios. This process has been broadly consultative, and has attempted to take into consideration the requirements of all the landowners. The divergent interests of landowners to date, however, has prevented the municipality from finalizing a suggested land use plan.

All of the suggested waterfront development plans, however, incorporate a number of signature developments that were shown by both the DPE and MBDA market assessments to be pivotal to revitalizing the city’s economy. These include an international convention centre, tourism and leisure facilities – including upper and middle market hotels, retail facilities, and residential facilities.
2.3.2. Scenario 2: Transnet’s 2010 Vision – Expanded Auto Freight.

Transnet’s core concerns with regard to land use within the harbour are related to their need to remain a viable state owned enterprise able to generate a profit and provide a competitive freight and port management service to South Africa. Transnet manages 15 cargo terminal operations across 6 ports in South Africa. Port Elizabeth houses two of these ports, both of which are integral to Transnet’s overall business strategy. As a significant employer in the Metro, Transnet's business interests are very important to the local economy, and the residents of the Metro. Theirs is not a labour intensive business, but it nevertheless provides important economic opportunities for the Metro.

Debates regarding future land use scenarios in the harbour have taken place within the context of two parallel processes – both directly affecting Transnet: 1) the signing of a memorandum of understanding (MoU) between Transnet and the NMMM regarding strategic issues of mutual significance in the harbour; and 2) an arbitration agreement between Transnet and Southernport Developments regarding the lease agreement. Both of these processes have put significant pressure on Transnet to engage proactively with long standing environmental and socio-economic concerns in the harbour – at significant cost to the organization.

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6 Transnet Annual Report 2008
The courses of action Transnet has been pressurized to take include decommissioning their primary liquid and dry bulk facilities in the harbour, and handing over 48% of their non-core harbour property to Southernport Developments for development. Both of these results have had serious implications for the future of Transnet’s bottom line in Port Elizabeth, as well as their recent infrastructure expenditure of R181 million on upgrading the manganese ore storage facility.

In an effort to increase income generated from freight activities, Transnet’s suggested land use plan for the harbour includes expanded container and auto freight terminals, and space for an expanded fishing industry. These terminals are anticipated to recover some of the losses incurred by the decommissioning and relocation of the bulk and liquid storage facilities.

Figure 5: Transnet’s 2010 Vision: Expanded Auto Freight
3. Current Economic Trends

When considering the merits of each vision for the future of land use in the harbour, it is important to take into consideration not only the costs and benefits directly associated with each scenario, but how each scenario interacts with broader economic trends and opportunities.

The economic analysis presented in this section is aimed at providing insight into trends in sectors directly affected by a land use decision in the harbour. The analysis includes a brief overview of the Metro’s economy, and a more detailed investigation into key segments of the secondary (auto manufacturing) and tertiary (tourism, and real estate) sectors.

3.1 South Africa

Despite some initial uncertainty following the first democratic election in 1994, South Africa’s economy has shown consistent and overall growth since the political and economic upheavals of the 1990’s. As a developing economy, South Africa has had a characteristically high growth rate average of 5%\(^7\). Growth has not, however, been even or consistent across all sectors, as local and international disturbances have affected sectors differently. The tertiary sector, made up of wholesale and retail, hotels and restaurants, transport, communication, finance, real estate, business services, community and social services and general government services, contributes the highest portion of the country’s GDP. It has also shown the most consistent growth, and the highest resilience to shock. Between 1994 and 2009 the tertiary sector has maintained a positive growth rate where other sectors have seen several periods of negative growth.

Figure 6: Contribution to GDP by sector 1993-2009 (annualized and seasonally adjusted R\(^*\)million)

Figure 7: Average annual percentage change in contribution to SA GDP by sector 1996-2007 (annualized and seasonally adjusted)

The relatively poor performance of the primary (agriculture, forestry, fishing and mining) and secondary (manufacturing, electricity and water, and construction) sectors despite the country’s wealth of raw materials can be attributed to a lack of investment in manufacturing and beneficiation processes. This has resulted in a high degree of raw material export, and an equally high degree of secondary product import. Despite significant progress, South Africa remains a typical post colonial economy and has yet to make the leap of industrialization seen in the Far East which would allow it to move beyond its position in the global economy as primarily a producer of raw materials and importer of manufactured goods.

3.2 The Eastern Cape Province and Nelson Mandela Metro

The Eastern Cape Province as a whole is still one of the most underdeveloped in the country. Historical advantage, however, has seen vibrant secondary and tertiary sectors develop in Nelson Mandela Metro and Buffalo City. As one of only two productive urban economies in the province, and as the largest economic centre in the Eastern Cape, the Nelson Mandela Metro is a vital part of the provinces economic life-blood. Facing the highest provincial unemployment rate of 29.8%, and having some municipalities in the province facing as much as 77% unemployment⁹, the Nelson Mandela Metro provides some of the few sustainable job opportunities in the region.

Mimicking national trends, the Eastern Cape economy is dominated by the tertiary sector, which produces 67.9% of the regional GDP. All sectors in the province show overall growth for the period 1995 – 2007, with the secondary and tertiary sectors performing best.

The recession had a negative effect on the region’s overall growth rate, with it dropping from 5.2% in 2007 to 3.7% in 2008. It dropped further in 2009, and projections are currently expecting only a 2.5% growth rate for 2010¹⁰. There has been no shrinkage yet in the over all regional economy though, with overall GDP maintaining a positive, if low, growth rate. There has however been a decrease in disposable income and an increase in job losses. Credit extension to the private sector has fallen to a 40 year low, dropping by 1.6% in November 2009¹¹. Regional GDP is expected to return to at least 4% by 2011.

There is still scope for expansion within the primary and secondary sectors, but historical trends indicate that the province will continue to rely primarily on finance, real estate, tourism, government and community services in the immediate future. This reliance on the tertiary sector can be be viewed negatively in relation to insufficient agricultural, mining and manufacturing conditions in the province, or positively in relation good tourism, retail and real estate conditions. The economy of the Nelson Mandela Metro follows similar trends.

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¹¹ Port Elizabeth Regional Chamber of Commerce and Industry 2009 Business Review www.percci.co.za
to the province, with the tertiary sector contributing 64% of the GDP, the secondary sector 35% and the primary sector 1%.

Figure 10: % contribution to GDP of Nelson Mandela Metro

Figure 11: Year on year % growth in SA Auto Industry 1996 – 2009 (projected figures 2010 and 2011)

3.2.1. The secondary sector in Nelson Mandela Metro with a focus on the auto industry

Following national trends, Nelson Mandela Metro is dominated by tertiary sector activities (64%), but a strong manufacturing sector in the Metro contributes 31% of the annual GDP. This sector is made up of vibrant industries, including motor vehicles, parts and accessory manufacturing, machinery and equipment manufacturing and textile manufacturing. Machinery and equipment and motor vehicle parts and accessories contribute the most GDPR to the manufacturing sector, and have both witnessed the most significant growth since 1995. Transnet’s vision for the harbour is directly linked to an anticipated growth in these industries.

In 2006 South Africa accounted for 78.7% of Africa's vehicle production. Globally, however, the country is less competitive and accounts for less than 1% of total vehicle production. South Africa produces vehicles for local and domestic markets, but continues to rely heavily on imports to meet local demand.

The global automotive industry has suffered serious setbacks as a result of the economic recession, with negative growth in sales and production in excess of 35% in 2008/9, see Figure 13. There has been some recovery since then, but with growth rates not exceeding 9%, the market is still a long way off a full recovery.

The 2009 global economic crisis is reflected in a sharply lower demand in South Africa’s major export markets, including a substantial decline in new vehicle export sales which, during the first nine months of 2009, fell by 45.0% in aggregate volume, compared to the corresponding period in the previous year.

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There was some improvement in South African new car sales growth during the months of September and October of 2009, largely driven by improved demand from car rental companies. Whilst consumer fundamentals remain under pressure, there are signs of an improvement in certain areas, including, substantial increases in the purchasing manager's index – a key indicator of sentiment in the domestic manufacturing sector. Depleted inventories in the used vehicle market, more accommodative lending criteria by financial institutions and the impact of the substantial interest rate reductions in 2009 should start to filter through the economy and positively influence the auto industry. A good indication of recovery and growth is the increase in jobs by 4% from the end of 2009 till the end of the first quarter of 2010.

The National Association of Automobile Manufacturers of South Africa (NAAMSA) expects a modest recovery in new car sales into 2010, with commercial vehicle sales following suit. Following a decline in new vehicle sales of around 25% in 2009 compared to 2008, an improvement in sales volumes of between 8% and 10% in 2010 is anticipated. The improvement will however be in relation to a very low base. Export sales are also expected to show modest upward momentum during the months ahead, although doubts persist about the sustainability of a recovery in global markets.

These considerations have been factored into the latest vehicle industry sales, export and import projections as reflected in Figure 13.

The Eastern Cape auto industry (Nelson Mandela Metro and Buffalo City) is responsible for 40% of South African vehicle sales and 60% of car exports. With an average throughput capacity of 90 000 units at Port Elizabeth and 84 000 in East London (with expansion capacity of 180 000 units per annum) it seems evident that the ports have more than sufficient capability when considering that total exports out of the PE area was 46 224 and 37487 in East London in 2008 (assuming that VW and GM are the only exporters in PE and Mercedes is the only exporter in East London). This is the only information currently available and needs to

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be verified and updated. It does not include imports, but considering that only half the capacity is used for export in PE there should be sufficient capacity for imports.

The freight capacity of the Port Elizabeth harbour has managed additional capacity requirements from growth in the auto industry to date. For any unexpected exponential growth, Durban has recently increased its auto freight capacity from 400,000 units per annum to 570,000 units per annum. With national export not having reached 300,000 units per annum even in the pre-recession boom, there is no foreseeable need for expanded auto freight capacity in South Africa.

![Figure 10: Export & import trends in the SA Auto Industry 1996 - 2011](image1)

![Figure 11: SA vehicle production and export capacity 1995 - 2011](image2)

With regard to container freight, the port of Ngqura has recently expanded their container freight capacity to 800,000 TEU, which has already tripled the Metro’s freight capacity. Ngqura is set to expand this capacity to an additional 1.5 million TEU by 2015, with a target of reaching 2 million TEU once the port has been fully developed. With increased export capacity in Durban, the total national export capacity has increased to well above the current demand.

Despite the recession, auto industry players in Nelson Mandela Metro have continued to invest in their manufacturing capacity, and General Motors South Africa (GMSA) has invested R150 million in a Vehicle Conversion and Distribution Centre and R250 million in a Pan African Parts Distribution Centre – both in the Coega Industrial Development Zone. Volkswagen South Africa have invested R3 billion in new plant technologies, products and training and development at their plant in Uitenhage.

These efforts are aimed at reducing operational costs and improving efficiency in order to allow South Africa to start to deliver vehicles at globally competitive prices. Current production capacity is significantly higher than export demand, indicating that if a reduction in prices is able to capture greater export demand, the industry will be able to increase production to match demand.

In their 2010 annual business review PERCCI reported that this downturn in the auto industry has highlighted the importance of diversifying the Metro’s manufacturing sector away from a continued reliance on the auto industry. This does not imply a reduced focus on auto industry manufacturing, just an expanded focus on industries that can utilize the skills base developed in this industry to grow a diverse portfolio of industries.

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16 Website: Transnet Port Terminals, Accessed: 6 July 2010, link: http://www.transnetportterminals.net/PortTerminals.asp?terminal=26

17 Port Elizabeth Regional Chamber of Commerce and Industry 2010 Motor Industry Review www.perci.co.za
Diversification of the manufacturing sector is particularly important in relation to employment opportunities in the Metro. An analysis of future employment trends in the auto industry in Nelson Mandela Metro indicated that the combined effect of improved technology, redesigned plants and the recession will have increasingly negative effects on job availability. Between 1995 and 2002 twenty two million manufacturing jobs disappeared globally. In South Africa, 267 000 jobs were lost in the second quarter of 2009. Estimates of job losses in the auto industry vary from 34 000 to 42 000, excluding job losses in related retail and logistics networks. This demonstrates an urgent need to expand the manufacturing sector and hence increase employment opportunities. Skills developed in the auto industry are broadly applicable in other manufacturing industries, but there is only a short window of opportunity before skills are lost, or become redundant.

3.2.2. The tertiary sector with a focus on real estate and tourism

The tertiary sector in the Eastern Cape grew in its annual contribution to GDP from R29 billion in 1995 to R104 billion in 2007. Growth was particularly significant in the finance, real estate and business service industry, the general government service industry, and the wholesale retail trade and hotels and restaurant industry.

The recession negatively affected growth in this sector in 2008 and the first part of 2009, but these affects were less significant than in the secondary sector, and some positive growth was seen in the first quarter of 2010. This is particularly true in the tourism and real estate industries. This recovery could be related to the positive effects of the Metro being selected as 2010 World Cup host city, which led to a number of important real estate and tourism related infrastructure improvements in the Metro in 2008 and 2009.

Figure 15: Tertiary Industry growth in the Eastern Cape

The building of a world class sports stadium, upgrades to the transport infrastructure – including airport renovations, an expanded bus service, and an increase in spending on tourism related marketing have all contributed to the capacity and popularity of these industries. The high demand for World Cup accommodation had a direct effect on the real estate sector, with Nelson Mandela Metro showing the highest year on year percentage change in property prices between 2009 and 2010 nationally. A brief overview of trends in real estate and tourism provide additional detail on the potential for growth in the tertiary sector.

Nationally, the real estate industry has witnessed an overall negative growth trend since 2005, with price indices reaching an all time low in 2009. The industry seems to have bottomed out though, and the last

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quarter of 2009 and first quarter of 2010 indicate signs of a slow but steady recovery. Price indices in middle sector category have shown the quickest recovery, with a year on year nominal price increase of 9% (real price increase of 3%) in the first quarter of 2010. Within the middle sector price category, small houses (40m² -79m²) performed best, with a remarkable 35% change in nominal price indices, and a 30% change in real price indices.

Nationally, coastal, investment and leisure properties have been the hardest hit, with coastal regions experiencing an average nominal rate drop of -8,5% in the third quarter of 2009. This has been attributed to the wide spread lack of disposable income and consumer confidence following the recession. Coastal properties in the Eastern Cape, however, are still priced well below other coastal regions and have fared better. Interestingly, properties in the Southern Cape (Garden Route) are amongst the most highly priced, and yet maintained a marginal positive growth rate (0,2% y/y) when the rest of the sector experienced negative growth.

Consistent negative growth in the number of mortgage loans and disposable income had a more negative impact growth in the house price index than in the rental sector. Overall, grade A office buildings in the CBD showed the most consistent growth. In the last quarter of 2009 flat rentals in all major metropolises remained relatively unchanged, except in Durban (+4%) and Port Elizabeth (-2%). Decentralized offices showed negative growth in Cape Town (-6%) and Johannesburg (-4%), but positive growth in Pretoria (9%) and Durban (10%). In general, the rental sector fared better than property sales and construction.

These findings indicate that despite the negative effects of the recession, Nelson Mandela Metro still shows both a need for additional middle category residential and leisure real estate, and a fertile climate for positive house price indices and growth. A look at the tourism sector provides further evidence for the need for growth in the real estate sector.

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VisaVue® Travel data shows that tourism in South Africa weathered the recession more successfully than most international destinations, with only a 2.7% decrease in spending by international visitors to South Africa. Visa card holders spent R13.8 billion in South Africa in 2008, and R13.43 billion in 2009, while most countries faced double-digit negative growth in inbound tourism spending21.

Tourism in the Eastern Cape has seen steady growth since 2004 and it is now the second most visited province in the country22. Its share of domestic tourism grew substantially in 2007, from being the 6th most visited province in 2006, to the 2nd most visited in 2007. This increase in trips is reflected in the growth of domestic tourism. Between 2004 and the first quarter of 2010 domestic tourist trips to Nelson Mandela Bay increased by 19% (368 700 additional visitors), while foreign tourist trips increased by 30% (113 182 additional visitors)23. These increases were accompanied by a 77% increase in spending per day by domestic and foreign tourists. Domestic tourists spent an average of R1 541 per trip in 2009, while foreign tourists spent an average of R2 467 per day.

Table 1: Accommodation figures for Port Elizabeth

<table>
<thead>
<tr>
<th>Accommodation in Port Elizabeth</th>
<th>Facilities</th>
<th>Rooms</th>
<th>Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotel</td>
<td>29</td>
<td>1837</td>
<td>4930</td>
</tr>
<tr>
<td>Self Catering</td>
<td>85</td>
<td>1867</td>
<td>2319</td>
</tr>
<tr>
<td>B&amp;B</td>
<td>101</td>
<td>685</td>
<td>1448</td>
</tr>
<tr>
<td>Guest House</td>
<td>122</td>
<td>790</td>
<td>1825</td>
</tr>
<tr>
<td>Resorts</td>
<td>9</td>
<td>354</td>
<td>1324</td>
</tr>
<tr>
<td>Camping</td>
<td>4</td>
<td>329</td>
<td>1430</td>
</tr>
<tr>
<td>Lodges</td>
<td>13</td>
<td>156</td>
<td>304</td>
</tr>
<tr>
<td>University</td>
<td>1</td>
<td>1200</td>
<td>1750</td>
</tr>
<tr>
<td>Cottage</td>
<td>6</td>
<td>19</td>
<td>93</td>
</tr>
<tr>
<td>Other</td>
<td>26</td>
<td>302</td>
<td>691</td>
</tr>
<tr>
<td>TOTAL</td>
<td>408</td>
<td>6878</td>
<td>16646</td>
</tr>
</tbody>
</table>


22 Port Elizabeth Regional Chamber of Commerce and Industry 2009 Business Review www.percci.co.za

This means that the total value of tourism to the city increased from R3.5 billion in 2004 to R9.1 billion in 2010. Foreign tourists increased their average length of stay from 3 days in 2004 to 4 days in 2009.

VisaVue® travel data 2010 indicates that retail purchases account for the largest portion of tourist expenditure in South Africa, followed by travel and accommodation expenditure. Transaction volume is greatest for food and clothing related purchases, with restaurant spending increasing 48% and general retail increasing 32% in 2009.

Available accommodation in the Metro has not been able to keep up with an expanding tourism market. A 2010 summary of available accommodation showed only 408 facilities in the city, with a maximum of 6878 available rooms. This includes 1200 University rooms made available for the World Cup, as well as 329 camping ‘rooms’, and 302 ‘other’ rooms – special accommodation made available for the world cup - indicating that actual number of beds available is only 5 047 . This translates into 1 842 155 bed nights per annum. With 2,7 million tourists arriving annually, there is a shortage of leisure accommodation in the city.

3.3 Implications of economic trends for feasibility of the two land use scenarios

It is clear from the analysis of current economic trends in the secondary and tertiary sectors that there is a growing need for careful and co-ordinated economic planning to diversify and expand the secondary sector, and consolidate and expand the tertiary sector in Nelson Mandela Metro. Overall, the tertiary sector weathered the recession better than the secondary or primary sectors, showing more consistent growth and real potential for expansion – particularly in the real estate and tourism industries. There is long term scope for expansion in the auto freight industry, and in isolation of other working ports in South Africa cases could be made for either an expanded container and auto freight terminals, or a waterfront development.

An analysis of changes in rates of change in total new car demand versus rate of change in house prices clearly outlines the risks associated with both real estate and auto manufacturing industries as prices fluctuate. New car prices, however, are far more volatile than house prices, indicating a less stable market with higher risks attached.

Considering the economic importance of the harbour, and its geographical significance to economic growth in the Metro, it is important to look beyond just the individual industries and return to a consideration of the overall economy of the Metro. Percentage contribution to the GDPR of the Metro, potential for growth, and stability of the sector, are the three most important factors affecting the value of an industry to the broader economy.

\[\text{Figure 17: Relationship between rate of change in total new car demand versus rate of change in house prices}\]


The auto industry, as important as it is, contributes only 10 - 15% of the Metro's GDP. Recent positive growth in the industry will have to continue steadily for a number of years before the industry is able to recover its pre-recession demand, and several more before it will be able to expand significantly beyond that.

Economically, the primary risk associated with Transnet's vision for land use within the harbour is its isolationist position in relation to the rest of the urban economy. An expanded car freight terminal across the entire southern portion of the harbour will have no multiplier effects on the Metro's economy, as it does not interact significantly with any industries outside of auto manufacturing. Auto freight is not labour intensive, and is unlikely to create a significant number of additional jobs in the harbour, further isolating itself from the local economy. This inability to interact with surrounding businesses and industries effectively means that an expanded auto freight terminal will directly limit growth in the surrounding economy, and ultimately cost the Metro not only the benefits of a waterfront development, but also the benefits of an expanded CBD and beachfront economy. While additional auto freight capacity may be needed in the future, it would be very risky to dedicate the entire foreshore to an activity with such a narrow range of multiplier effects and such a volatile history. With this in mind the question would be: can auto freight be accommodated with the least use of land possible – are there innovative ways that can be investigated and implemented?

Tourism has proven the least volatile of the three primary industries associated with land use change in the harbour, and despite the recession, has increased on par with projections made in 2006 by Grant Thornton in their analysis of the economic potential of an International Convention Centre. With a current deficit in leisure accommodation and a housing backlog of 80,000 units, the Metro is desperately in need of expanded real estate to support its growing economy. The real estate and tourism sectors contribute 32% of the Metro's GDP between them, and have shown relative stability and growth. The multiplier effects of a waterfront development will not only allow for growth in these sectors, but will positively affect all tourism, leisure, real estate, retail, food, transport, communications and social services sectors in the Metro and the Province. The potential for the Metro to become a gateway city of the same magnitude as Durban or Cape Town depends directly on it being able to keep up with a rapidly expanding tourism industry by offering world class facilities with beautiful attractions in close proximity. Providing both lifestyle and business opportunities is key to attracting top quality business people to the Metro, and developing a lifestyle economy of the same magnitude as the industrial economy set to develop around the Coega IDZ and Ngqura deep water port is critical to the future of the Metro. Without an expanded lifestyle economy, Nelson Mandela Metro is much more likely to go the route of Saldanha than Durban or Cape Town.

3.4 Revisiting earlier projections in the current economic climate

In 2006, property economist Francois Viruly conducted the only existing feasibility study undertaken to calculate the Net Property Return for a waterfront development in Port Elizabeth. This study was commissioned by the Department of Public Enterprises to assist in decision making regarding the future of the liquid and dry bulk facilities located in the southern portion of the harbour. This study has been regularly quoted with regard to the economic potential of a waterfront development. In order to assess the reliability of Viruly's projections in the current economic climate, this section compares figures used by Viruly in 2006 to current prices and economic trends.

The feasibility study was based on the GAPP Architects and Urban Designers conceptual urban design proposals that were prepared for the MBDA. The feasibility was based on the highest and best use Open Market Value (OMV) of the property. It included the sale value of all residential units and the capitalised market value of income producing commercial uses.

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The proposed development consisted of a number of precincts:

- An up-market waterfront development acting as a catalyst for tourism and enhance land values;
- A commercial node serving as a modern extension of the City based on local market demand; and
- The Humewood site with a proposed use of lower middle income housing, with 3 640 units of 60m² having a sales value from R350,000.

The feasibility was based on current market conditions and timing. The project was assessed at the end of a hypothetical 18 month period, and the final result was discounted back 18 months to derive a project NPV. The costs of the development were based on a 2006 current fixed cost basis with an 18 month construction period. The residential sales were based on an assumption of a full sell-out at 2006 current market prices escalated over 18 months. The rentals were based on current net market rentals escalated over 18 months. The project management team costs were not included in the project feasibility, and would be an additional cost that needed to be factored in to the final valuation.

Three key sets of figures were used to estimate the returns from the development – rental prices, building costs and property sales prices. Current 2009 costs are compared with 2005 costs in real terms. This comparison does not take into account the effects of inflation on nominal values, but the point of comparison is to determine whether Viruly’s calculations are still applicable in the current economic climate, not a more general comparison.

3.4.1. Rental values

Rental values used in Viruly’s assessment of the property market in Nelson Mandela Metro were drawn from figures for up market flats in suburbs along the beachfront and surrounding the CBD27. These figures were used to calculate an average expected rental income, which was then adjusted in relation to rental figures for similar developments nationwide. It was assumed that a waterfront development would be able to attract rentals and selling prices above existing ceilings in the city.

A comparison between figures presented by Viruly in 2006 (using 2005 values) and current rentals in the Metro show that despite a volatile and contracting rental market in the Metro (-2.4% growth rate 2008-200928), the real value of rental in the city has increased significantly since 2006. Taking into account the effects of inflation, the nominal values would not show such a dramatic increase, but there has nevertheless been positive growth in the market.

Table 2: Upmarket flat rental 2005 (Rand/month real 2005 prices)

<table>
<thead>
<tr>
<th>Upmarket flat rental 2005 (Rand/month)</th>
<th>Bachelor</th>
<th>1 Bedroom</th>
<th>2 Bedroom</th>
<th>3 Bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summerstrand</td>
<td>1 528</td>
<td>1 873</td>
<td>2 343</td>
<td>3 148</td>
</tr>
<tr>
<td>North End</td>
<td>1 313</td>
<td>1 688</td>
<td>1 988</td>
<td>2 325</td>
</tr>
<tr>
<td>Walmer</td>
<td>1 883</td>
<td>2 213</td>
<td>2 467</td>
<td>3 300</td>
</tr>
<tr>
<td>Relative suburb average</td>
<td>1 575</td>
<td>1 925</td>
<td>2 266</td>
<td>2 924</td>
</tr>
</tbody>
</table>

Table 3: Upmarket flat rental 2009 (Rand/month real)

<table>
<thead>
<tr>
<th>Upmarket flat rental 2009 (Rand/month)</th>
<th>Bachelor</th>
<th>1 Bedroom</th>
<th>2 Bedroom</th>
<th>3 Bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summerstrand</td>
<td>3 000</td>
<td>3 575</td>
<td>4 667</td>
<td>6 700</td>
</tr>
<tr>
<td>North End</td>
<td>2 500</td>
<td>3 000</td>
<td>3 500</td>
<td>3 850</td>
</tr>
<tr>
<td>Walmer</td>
<td>3 300</td>
<td>3 475</td>
<td>3 850</td>
<td>5 000</td>
</tr>
<tr>
<td>Relative suburb average</td>
<td>2 933</td>
<td>3 350</td>
<td>4 006</td>
<td>5 183</td>
</tr>
</tbody>
</table>

Despite rentals showing positive growth, the reported contraction in the rental market, along with the continuing consumer caution resulting from the recession, suggests that luxury apartments may not be the most appropriate choice for the waterfront development - or at least not for its entirety. This is not an overwhelming negative for the feasibility of the development, as standard flat rentals in 2009 were higher in real terms than upmarket flat rentals in 2005 (table 4), indicating that even if apartments are downgraded to standard to accommodate market trends, Viruly’s initial rental income projections will still be valid – albeit in 2009 real terms rather than 2005 real terms.

Table 4: Standard flat rental 2009 (Rand/month)

<table>
<thead>
<tr>
<th>Standard flat rental 2009 (Rand/month)</th>
<th>Bachelor</th>
<th>1 Bedroom</th>
<th>2 Bedroom</th>
<th>3 Bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summerstrand</td>
<td>2 350</td>
<td>2 925</td>
<td>3 500</td>
<td>4 250</td>
</tr>
<tr>
<td>North End</td>
<td>1 350</td>
<td>1 917</td>
<td>2 250</td>
<td>2 675</td>
</tr>
<tr>
<td>Walmer</td>
<td>2 000</td>
<td>2 417</td>
<td>3 150</td>
<td>3 700</td>
</tr>
<tr>
<td>Relative suburb average</td>
<td>1 900</td>
<td>2 420</td>
<td>2 967</td>
<td>3 542</td>
</tr>
</tbody>
</table>

3.4.2. Building Costs

In determining the overall project costs, the cost of the infrastructure was modeled separately from the building construction costs, and two models were used, namely the land model and the building model. The infrastructure costs were estimated to be in aggregate R580m, and were based on quantity surveyor’s estimates for projects with a similar scope and costs. The costs consist of professional fees, township and plan approval costs, a developer’s fee, contingencies and sundries.

Construction costs were estimated to be in aggregate R8.3bn, and were based on average bulk building costs of R5 862/m². Different costs were applied to different land uses, and the costs consisted of professional fees, developer’s profit, marketing and promotion, and contingencies and sundries.

Rising wages saw a dramatic increase in construction costs across South Africa between 2008 and 2009, with some sectors experiencing up to 45% increases (hotels)\(^{29}\). In real terms, however, costs have actually decreased since 2006, with a current average bulk building cost calculated to be R5 450/m² in 2009 real terms, versus R5 862/m² in 2005 real terms. This value was calculated using bulk building costs in the fourth quarter of 2009 for business parks, apartments, large shopping centres, neighbourhood shopping centres, three start hotels and five star hotels.

Table 5: Cost of bulk building 2009 Q4 national averages

<table>
<thead>
<tr>
<th>Type of building</th>
<th>Rand / m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Park</td>
<td>R5 000</td>
</tr>
<tr>
<td>Apartments medium density</td>
<td>R6 000</td>
</tr>
<tr>
<td>Large shopping centre</td>
<td>R7 800</td>
</tr>
<tr>
<td>Neighbourhood shopping centre</td>
<td>R6 800</td>
</tr>
<tr>
<td>Hotel 3*</td>
<td>R8 000</td>
</tr>
<tr>
<td>Hotel 5*</td>
<td>R10 000</td>
</tr>
<tr>
<td><strong>Average Bulk Building Costs</strong></td>
<td><strong>R5 450</strong></td>
</tr>
</tbody>
</table>

3.4.3. Property sales values

In calculating the revenue side of the model, it was assumed that prices and rates would be based on value extraction, with a premium related to the site. A substantial marketing budget was also assumed, contributing to the prices obtained. The prices and rates were projected for completion in 18 months, and were based on freehold ownership and current design. The sale prices include VAT, while the rentals exclude VAT.

The up-market residential prices were based on similar projects nationally. Residential sales were based on R5 000/m² for “social” housing, R8 000/m² for the middle market, and R15 000/m² for up-market units. Average residential sales values in 2010 are very similar in real terms to those in 2005, with affordable housing averaging at R5 375/m², middle market averaging R8 588/m² and luxury housing averaging R15 333m².

Table 6: Residential sales 2010 Q2 national averages

<table>
<thead>
<tr>
<th>Type of housing</th>
<th>National Average</th>
<th>R/m²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Affordable housing - 80m²</td>
<td>430 000</td>
<td>R5 375</td>
</tr>
<tr>
<td>Middle segment housing - 120m²</td>
<td>1 030 600</td>
<td>R8 588</td>
</tr>
<tr>
<td>Luxury housing - 300m²</td>
<td>4 600 000</td>
<td>R15 333</td>
</tr>
</tbody>
</table>

3.4.4. Projected Project income and returns

The methodology followed in this exercise is to determine the highest and best use Open Market Value (“OMV”) of the property, based on the conceptual model provided by GAPP architects. The OMV less the development costs is then taken as the Residual Land Value (“RLV”). RLV less the existing land value gives the net benefit or loss position from undertaking the proposed development.

This feasibility exercise excluded the costs of environmental rehabilitation, and of the railway relocation. To the extent that these costs are borne by Transnet they would need to be deducted from the final RLV. The cost estimates are based on QS rates, and include minimal demolition costs and the costs of a beach cleanup, valued at R50/m². Taking a total capitalised property income of R13.976 billion, the net proposed project return was calculated by subtracting the above infrastructure and development costs, as well as applying a discount of R0.74billion.

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31 Du Toit 2010 ‘Absa housing review: Second Quarter 2010’ www.absa.co.za
Based on these assumptions, the following project revenue and returns estimates were calculated:

This model therefore came up with a residual land value for the properties that were modeled of R4.3 billion, and a net project return of R4.1 billion. It is important to note that these values do not reflect the sale price of the undeveloped land, but the final value obtained after the development and the attendant risks of committing the development capital to this project.

Considering the similarity in real terms between property prices, rentals and construction costs, it can be asserted that these values are still relevant, only in 2010 terms. In other words, if the same calculations were redone today, they would produce similar values because they would use similar values for their basic calculations. Based on this assessment, it can be concluded that the original projections are still valid, despite the recent recession. What it seems the recession has done, is returned us to a similar position in the real estate industry that the Metro was in 2005, so while actual growth may not have been positive, Viruly’s 2006 calculations are still a useful indicator of the economic potential of a waterfront development.

3.4.5. Multiplier effects of a waterfront development

As part of its investigations into the relocation of the manganese terminal and tank farm, the DPE commissioned a study into the economic impact of a major waterfront development and extension to the CBD area in Port Elizabeth. The work was undertaken by Grant Thornton in 2006, and the results were presented to Transnet and the stakeholder group in Port Elizabeth.

The study investigated two major areas of impact, namely construction and operations. All values used in the calculation were in 2006 Rands. The development was assumed to happen from 2014 to around 2030. In this report it was found to be too difficult to judge development speed and take up 15 – 24 years hence, and have based their calculations on the first full year that the development is fully operational.

Given the similar current economic conditions, and the delay in plans to decommission the liquid and dry bulk storage facilities in the harbour, these projections can still be used as rough projections of multiplier effects from 2020 – 2035.

It has been assumed that the waterfront development would take place in a phased fashion over a number of years, in the period 2014 – 2030. The full impact of a developed and operational waterfront was only expected to happen in about 2030. From 2016, some smaller annual impacts were expected, building up to the calculated annual impact over time.
The impact of the development on GDP and jobs was calculated using multipliers applied to direct spend. Multipliers were chosen on the basis of an analysis of the national accounts and the local economic conditions. These figures would need to be re-examined in more detail to establish the exact multiplier effects in the current economic climate, but nevertheless provide ball park figures.

The direct expenditure on the development was calculated by examining the construction and capital spend, the related expenditure, the sales prices of residential units, and the capital expenditure of foreigners and others traveling to Port Elizabeth to purchase, supervise developments and furnish units.

The operations spending included the following amounts:

- Turnover of businesses – fishing, office, retail;
- Spending at hotels;
- Hotel visitor expenditure in the rest of the Metro and surrounding areas;
- Levies at residential developments; and
- Household expenditure of residents.

### Table 7: Multipliers used for calculating economic impact of waterfront development Eastern Cape Nelson Mandela Metro

<table>
<thead>
<tr>
<th>Sector</th>
<th>Eastern Cape</th>
<th>Nelson Mandela Metro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP Multiplier</td>
<td>Jobs Multiplier (jobs per R1m)</td>
</tr>
<tr>
<td>Construction</td>
<td>1.42</td>
<td>8.36</td>
</tr>
<tr>
<td>Trade, catering &amp; wholesale</td>
<td>1.41</td>
<td>6.20</td>
</tr>
<tr>
<td>Office Industries</td>
<td>1.41</td>
<td>3.96</td>
</tr>
<tr>
<td>Fishing</td>
<td>1.41</td>
<td>4.36</td>
</tr>
</tbody>
</table>

By applying the multipliers to their estimates of expenditure, Grant Thornton derived the economic impacts summarised in the following table.

### Table 8: Economic impact of a proposed waterfront development Eastern Cape Nelson Mandela Metro GDP Rm Jobs GDP Rm (2005) Jobs

<table>
<thead>
<tr>
<th></th>
<th>Eastern Cape</th>
<th>Nelson Mandela Metro</th>
<th>Taxes Rm</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>GDP Rm</td>
<td>Jobs</td>
<td>GDP Rm</td>
</tr>
<tr>
<td>Construction impact (2014 - 2030)</td>
<td>19 473</td>
<td>112 314</td>
<td>18 313</td>
</tr>
<tr>
<td>Operations impact in 2030</td>
<td>38 744</td>
<td>143 063</td>
<td>36 487</td>
</tr>
<tr>
<td>Tourism Operations Impact</td>
<td>5 576</td>
<td>24 503</td>
<td>5 251</td>
</tr>
</tbody>
</table>
The results showed that over the whole construction period, a total of R12.7 billion was projected to be directly spent in Nelson Mandela Metro resulting in a total contribution to GGP of R17.1 billion. The direct capital expenditure was projected to support 87,780 annual jobs in the Metro over the construction period. During the construction period, in total salaries of R389 million were projected to be paid in the Metro, with R70 million in personal taxes being paid on these salaries. Companies were projected to generate R1.8 billion in profits and pay R531 million in corporate tax.

The full operational impact was anticipated to be realised from about 2030, although there was also significant projected annual impact building up from 2014. Given the delays with regard to decommissioning the storage facilities, these dates are no longer relevant. At full operation, the development was projected to generate R27.5 billion in direct expenditure per annum, which would have a direct and indirect contribution of R36.5 billion to the GGP of Nelson Mandela Metro.

The scale of the project is significant. Thornton projected that with an annual GDP growth rate of 6%, in 2030 the waterfront and related developments would make up 32% of the GDP of Port Elizabeth, and 49% of jobs in the Metro.

Real estate and leisure related industries in the Metro already contribute 34% of the GDP, indicating that Thornton’s projections were not unrealistic. The recession has taken a serious toll on national and regional GDP’s, with current estimates for 2010 being only 2.5% growth, but future projections expect it to reach 4% by 2011-12.

These impact figures confirm the strategic importance of the waterfront development, and underline the critical importance of unlocking the land to the southern side of the port.

4. Additional options for land use arrangements in the harbour

The land use scenarios being proposed at present point towards an either-or-situation in which, a decision must be made either in favour of expanding the tertiary sector, or in favour of expanding the primary sector. Some investigation into alternative land use scenarios, however, indicates that there is scope for expanding both industries within the constraints presented by harbour availability in the Metro.

Transnet is suggesting expanding auto and container freight capacity in the Port Elizabeth harbour – both of which can be justified in principle. Expanded freight capacity at Ngqura, however, makes it difficult to understand why additional freight capacity is also needed in Port Elizabeth harbour. Strategically, it is also surprising that Transnet is not attempting to consolidate their freight logistics to reduce costs and improve operational efficiency.

Currently, port charges per 40ft container in South Africa are much higher than those in competing developing world economies such as Brazil, China, Korea, Thailand and Argentina. South Africa charges more than double Brazil and Argentina and these high charges have been attributed to lack of efficiency within ports, and a general lack of competitiveness in the South African port industry.

Research into ‘next generation’ freight solutions in the United States suggests that the only way to remain competitive in the freight industry is to consolidate capacity and improve processing efficiency. Using the

![Figure 20: Port Charges ($) per 40ft Container](image-url)
concept of ‘Twin Gateways’, business analyst Eleuteri and Associates\textsuperscript{32} suggest that the future of expanding freight activities in Nelson Mandela Metro lies in developing a twin port system, utilising dry and wet ports to improve freight handling efficiency. Currently, urban congestion and fragmented freight planning activities are directly affecting the ability of South Africa’s ports to improve their efficiency and reduce their costs. This adds to the cost of all imported goods. Eleuteri and Associates consider that developing a transport and logistics hub is the only way to reduce costs and improve efficiency. Ngqura provides ample land and infrastructure to support such a logistics hub, while the Port Elizabeth harbour increasingly has to compete with other land users.

The Port of Ngqura is a mere 20km east of Port Elizabeth, and includes the adjacent Coega Industrial Development Zone (IDZ) of 12 000 hectares\textsuperscript{33} boasting world-class industrial infrastructure, including inter-modal transportation linkages and cost-effective bulk services\textsuperscript{34}. With a planned power generation of 2700MW\textsuperscript{35}, port access, and an established manufacturing sector in the Eastern Cape and South Africa’s wealth of mineral resources - the IDZ has enormous potential to become a cost effective industrial hub.

Ngqura is protected by land from south-westerly winds, allowing it to achieve 330 anchor days per year\textsuperscript{36}. It has a capacity to accommodate vessels carrying up to 80 000 deadweight tonnage or 6500 to 8500 twenty foot equivalent unit (TEU) ships\textsuperscript{37}, two breakwaters and five berths with a capacity for two container and three general bulk cargo berths, each 300 meters in length\textsuperscript{38}. Port Elizabeth and East London have container berths but they are not deep water ports. A Transnet National Ports Authority planning document estimates that all PE, Cape Town and Durban’s container terminals will be under capacitated by 2020 - even if they are expanded, and that Ngqura allows for easy expansion by adding another two berths to the container terminal and one berth to the jetty\textsuperscript{39}.

If container freight were consolidated at Ngqura, there would be sufficient space within the Port Elizabeth harbour to expand and consolidate auto freight in the northern part of the harbour. This would leave sufficient space for a waterfront development and expanded fishing industry activities in the southern portion of the harbour.

\textsuperscript{32} Eleuteri & Associates 2010 ‘Next Generation Inland Ports: Elements of a World Class Logistics Solution’ PowerPoint presentation made to Coega Development Corporation 2010
\textsuperscript{33} Website: Transnet National Ports Authority – The Port of Ngqura, Accessed: 5 July 2010, link: http://www.transnetnationalportsauthority.net/NPA_port_of_ngqura.html
\textsuperscript{34} Website: Coega Development Corporation: Infrastructure, Accessed 7 July 2010, link: http://www.coega.co.za/Content.aspx?objID=52
\textsuperscript{36} Website: Coega Development Corporation: Port of Ngqura, Accessed 7 July 2010, link: http://www.coega.co.za/Content.aspx?objID=53
\textsuperscript{37} Ngqura Fact Sheet, National Ports Authority of South Africa, source: http://www.transnetnationalportsauthority.net/documents/pdf/Ngqura%20fact%20sheet.pdf
\textsuperscript{38} Website: Transnet National Ports Authority – The Port of Ngqura, Accessed: 5 July 2010, link: http://www.transnetnationalportsauthority.net/NPA_port_of_ngqura.html
\textsuperscript{39} Ngqura Fact Sheet, National Ports Authority of South Africa, source: http://www.transnetnationalportsauthority.net/documents/pdf/Ngqura%20fact%20sheet.pdf
Another option for increasing auto freight capacity without decreasing waterfront development options is building a multi-storey auto freight terminal. Both Buffalo City and Durban have built multi-storey car terminals to enable them to expand their freight capacity despite spatial constraints. This option is increasingly popular globally. Singapore’s Pasir Panjang Wharves, one of the world’s busiest auto freight terminals, doubled their car freight capacity in four years by building a high rise car terminal. They were forced to engage creatively with expanding their capacity due to lack of space within the harbour and an urgent need to expand. The terminal now has a capacity of 900 000 vehicles per annum, more than double South Africa’s total auto freight capacity.

5. The Way Forward

A detailed investigation into economic trends associated with land use scenarios in the Port Elizabeth harbour suggests that there is both scope, and need, for a waterfront development and expanded auto freight capacity. A waterfront development will have a broader economic footprint and benefit a wider range of stakeholders, but the importance of the auto manufacturing industry cannot be discounted either. What is needed, then, is a common understanding regarding the future of the Metro in its entirety, and a commitment from all stakeholders to participate in a planning process aimed at facilitating growth in all sectors of the local and regional economy.

Transnet, as a state owned enterprise, must answer to the development goals of its shareholder through the Department of Public Enterprises, but it must also ensure that it is able to grow its business interests and remain a viable ports operator. In order to ensure that Transnet is able to participate in broader land use planning negotiations with an open mind, other stakeholders for instance: auto manufacturers and the Mandela Bay Development Agency, should develop creative solutions to Transnet’s constraints, and pursue an economic model that facilitates growth in all sectors.

Southernport Developments and Transnet are at odds with the Municipality regarding the extent to which they require support or permission from the Municipality to continue with their land use planning. In order to ensure that a collaborative planning process is set in place, high-level support and involvement from the Department of Public Enterprises and the Provincial Government will be required. The combination of creative solutions and high level pressure should facilitate a more responsive planning environment in which all parties agree to pursue a vision that puts the interests of city and province first, as opposed to individual business agendas.

Transnet’s economic argument seems unsustainable when there are two ports available to service the area’s freight needs and the residential development of the waterfront is shown by the DPE to release four times the capital required for relocation of the liquid and dry bulk facilities.

The three principle land owners within the harbour – Transnet, Southernport Developments and the Nelson Mandela Metropolitan Municipality – have established a land owners forum to jointly pursue discussions regarding a waterfront development. This forum can successfully pave the way for the emergence of a commercially viable development, and create a common approach to planning a waterfront. Even though the current Transnet position is restricted to port related activities on the Transnet land to the south of the Port Elizabeth harbour, over time this position may shift as the economic potential and benefits of a waterfront development become apparent. Transnet’s participation on the committee, even within the constraints of

their current mandate, is important to ensure that port related activities do not undermine development proposals on Southernport Developments and NMM land.

The crucial next step is to prepare a detailed feasibility study for the waterfront development, which will include the necessary market studies, infrastructure, land use, transport, environmental and financial plans for a viable waterfront development. Such a study will need to be supported financially by the main stakeholders interested in pursuing such a development, and the MEC for Finance, Economic Development and Environmental Affairs in the Eastern Cape has already made an indicative commitment to such a study.
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