

**SPEAKING POINTS BY DPWI DEPUTY MINISTER BERNICE SWARTS DURING THE RAL ESTATE
MANAGAMENT SERVICES (REMS) ZIVEZE SEMINAR, GALLAGHER CONVENTION CENTRE<
25 JULY 2023**

Programme Director;

Acting Director-General of DPWI, Ms Nyeleti Makhubele;

Senior Managers from Government Departments and Government Entities;

Our Important Guests Today: The Landlords in our midst;

Social Partners;

Distinguished Ladies and Gentlemen;

INTRODUCTION

1. We cannot overemphasise the importance of this engagement between DPWI & its stakeholders in the property sector.
2. To succeed in reducing the triple challenges of poverty, unemployment, and inequality, the National Development Plan (NDP) calls for a social compact between government and the private sector to work together.
3. For our part as the new leadership of DPWI since at least March this year, it was crucial to meet and engage the actors and role players that shape the South African property sector to understand them better. This is an opportunity for us to articulate frankly government's aspirations and policies in the property sector.
4. By saying Ziveze, we were motivated by the need to meet you, to engage with you, to build trust, and to strengthen our partnership to serve our country and industry better, leaving no one behind.
5. We can assure you that we have paid attention to the issues that you have raised and we have no doubt too that you appreciate the service delivery model that the Department is advocating to achieve financial sustainability, impact, and contribute to our vision of a better life for all and a South Africa that belongs to all, black and white.
6. From a history of racial division and economic exclusion, the ANC-led government will continue to implement policies aimed at uniting our nation behind the vision of a South Africa that is truly united, non-racial, non-sexist, equal, and prosperous.
7. The PMTE at DPWI provides for user departments through state-owned assets or leased accommodation.
8. The provision of accommodation for government departments is achieved through a hybrid model where DPWI uses State-Owned Property and Leasing-in from the private sector.

9. At present, there is an over-reliance on the private sector as DPWI spends about R5bn per annum on leasing-in from the private sector whilst receiving less than R100m in revenue from letting out its property.
10. It is crucial for the state/DPWI to negotiate for the lowest possible combination of rentals and escalation.
11. Currently, month-to-month leases are more common than desired.
12. Public-Private Partnerships (PPPs) and other strategies as a way of building better and stronger infrastructure while creating much fiscal room for the Department to address other demands.
13. Investments from these partnerships promise to contribute to higher long-term growth, address inequalities, and contribute to transformation.

SOME FACTS AND PERFORMANCE OF THE PROPERTY SECTOR

14. Compatriots, DPWI is a custodian of the biggest property portfolio in SA. The Immovable Asset Register shows that PMTE has about 77 539 buildings in over 10 000 facilities.
15. Growth Point Properties is the largest listed primary REIT with a market capitalization of R49 billion followed by Redefine properties with R29 billion.
16. If we work together, we can ensure that these assets benefit our nation, are preserved for future generations, and that National Treasury can better utilise these assets when raising bonds in the financial markets- a view that is echoed by our CFO at DPWI.
17. We are aware that COVID-19 has had a negative impact on the property sector, in particular the rental or office space.
18. Despite sluggish economic growth and COVID-19, vacancy rates have remained relatively high in SA. The overall office vacancy rate was recorded as 16.7% and 16.4% in the second and third quarters of 2022. These are still much higher when compared to pre-COVID levels where office vacancy rates were below 11%.
19. The South African Property Owners Association (SAPOA) revealed that the City of Johannesburg has continued to have the highest office vacancy rate standing at 19.1% in September 2022. This has seen the region lose approximately 2.98 billion in income.
20. Nelson Mandela Bay Municipality's vacancy rate remained stagnant at 16%.
21. City of Tshwane and Cape Town are regions that have weathered the COVID 19 storm better than others with office space demands continuing to increase quarter on quarter.
22. Operating costs are a growing challenge for commercial property with SAPOA reporting an increase of 11% in total operating costs.

23. Landlords often pass the rise in operating costs to clients or tenants. The sector faces challenges emanating from load shedding or energy supply constraints, increase in electricity tariff by 18.65% by NERSA this year.
24. There was a mixed performance within the top 5 REITS for 2021, with Growth point (3.8%), Redefine (6.5%) and Fortress registering some positive returns. Equities had the highest decrease amongst the top 5, of 19.4%, whilst Resilient also declined by 2.4%.
25. REITs underperformed during 2020 COVID-19 pandemic. Their performance in 2021 resulting in higher earnings but declined again in 2022.
26. With the exception of 2021, SA REIT has been performing lower than equities and bonds since 2018.

OVERCOMING RELIANCE ON PRIVATE LEASES

27. To address the anomaly on overreliance on private leases, DPWI is:

(a) Precinct Planning and Development

- Plan and integrate accommodation requirements within government precincts, targeting both urban and rural areas. Cabinet memo of 2001 recommended adopted the position that government departments must remain within the Inner City in support of inner regeneration and growth and development.
- The establishment of the Government Estate Development Framework aims to facilitate the development of a further 900 000m² of state-owned development across the following Precincts in Tshwane: Northern Gateway, Civic Precinct, Caledonian Precinct, Government Boulevard, and Ceremonial Boulevard Within the Northern Gateway precinct, and Salvokop.
- Salvokop is a state owned, mixed-use precinct located within the inner city of Tshwane- to develop Head Office Complex for four (4) National Government Departments.

(b) Cost Reduction of Private Leases

- Adoption of the Rhode Report to guide DPWI of rental rates across the country
- Capping of escalation rate at 6% for all lease renewals,
- Identifying Landlords with a National Footprint and negotiating such leases at a central point (Head Office) in order to increase bargaining power to reduce rental rates
- Where there are no immediate plans for alternative accommodation, client departments are encouraged to provide a longer-term mandate of between 5yrs and 9 years, and 11 months long-term mandate on the renewal of leases.
- DPWI saved over R273 million in 2021/22 financial year.
- The Top 20 compliance Q4 Report shows that initial leases were 571 and have been reduced to 132. This translates into 77% reduction.

- During 2022/2023, DPWI achieved a total reduction of R273 million for 330 leases through renegotiation of existing leases with various landlords.
- In the Budget Vote Speech, DPWI Minister S Zikalala mandated the Department to target at least R200 million reduction in this financial year 2023/24.

MAINTANANCE OF FACILITIES/BUILDINGS

28. Presently, maintenance is dominated by reactive maintenance.
29. Movement towards an 80/20 split between planned and unplanned maintenance requires the current facility condition and nature of components in asset to be known and recorded in a system.
30. The department seeks to focus on implementing a mix of maintenance strategies with the aim of moving from Corrective Maintenance to Preventative Maintenance (70/30 ratio).
31. The Total Facilities Management (TFM), provides a comprehensive maintenance and operations solution.
32. TFM is being rolled out in a Phased approach. Facilities with Total Facilities Management contracts in place are Union Buildings, HQ of DPISA (Batho Pele House) HQ of DoH (Civitas Building and 1 Military Hospital. Government is spending over R2 billion for the next 3-5 years for the maintenance of these facilities.
33. The Department's implementation plan encompasses utilisation of TFM, Term Contracts and the department workshop (insourced services).
34. Expansion of Term Contracts for maintenance will be targeting Black Owned SMMEs, targeting at least 50% BBB-EE entities to business in our portfolio and of those 2% people with disabilities, 25% women and 10% youth per annum.

TRANSFORMATION IN THE PROPERTY SECTOR

Property is a powerful socio-economic lever to exert to drive social development and reducing inequality.

There is a need for collaboration and partnerships between established, large, predominantly white-owned operators and emerging black-owned enterprises to grow a sustainable, inclusive sector.

We are concerned as DPWI about the slow pace of transformation in the property sector. Few black property owners and few black owned listed companies.

To address this, DPWI developed the new Property Empowerment Policy (PEP) in 2018.

This new policy is aimed at:

- (i) Improved strategic direction and coordination of the transformation initiatives by the department;

- (ii) Attract, retain and confirm qualifying black-owned enterprises to do business with the government;
- (iii) Direct the structural transformation of the property sector
- (iv) Interventions aimed at increasing participation and growing pool of Black-owned enterprises from doing business and transacting with DPWI.
- (v) Creating a lease tenure model that incentivizes black ownership by giving longer-term leases to qualifying companies.

CONCLUSION

The points I have presented today are not hidden from anyone. They can be accessed from the Departments Annual Performance Plan 2023/2024.

The APP and other policy instruments including the Budget Vote Policy Statements are what we have committed to the people of our country and our government.

We urge the sector to find innovative ways to address our common challenges and to build an inclusive and sustainable property sector for all the people of SA, not just some.

We must prioritise the issue of women empowerment and collectively address the skills challenges that frustrate the empowerment of designated groups, including women.

We look up to you as landlords to be exemplary in client care and not to cheat government clients with your services and accommodation standards.

We urge the sector to remain ethical and to lead by example.

Let us not tolerate corruption.

The same vigour we apply in fighting public sector corruption must be seen in addressing corrupt practices in the private sector.

Together let us be enemies of collusion and price fixing.

Let us expose unscrupulous individuals who seek to over-charge the state and make a quick buck, robbing the citizens of this country of other essential services.

We must not reject property developers who are stealing state land and state properties.

In a month in which we commemorate the legacy of self service and patriotism by our global icon, tata Nelson Mandela, we know that it is in our hands to build an inclusive, transformed property sector that we can all be proud of.

Together Growing South Africa!

I thank you!