

**Deputy Minister of Public Works
N Kganyago
31 March 2005**

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**The Deputy Minister of Public Works, Mr. Ntopile Kganyago, MP, to Deliver a Keynote Address at the
South African Institute of Black Property Practitioners Convention on Transformation and the
Property Industry**

Venue: Kyalami Castle, Johannesburg

Date: 31 March 2005

- The President of SAIBPP, Ms Oarona Bogopane
- All Executive Members present here today
- All associate businesses and institutions
- Government representatives
- Distinguished guests
- Ladies and Gentlemen

On the eve of its ten year celebrations, it is appropriate for SAIBPP to look back at milestones achieved meanwhile formulating strategies to consolidate its gains and accelerate transformation in the property industry. A milestone does not mean the end of the journey rather it signals the end of one stretch and the beginning of another.

As a government department, we fully understand your aims and objectives and agree with you that interests of commercial black property practitioners should be promoted; that professional working relationships be strengthened between the general government and yourself and that both industry and educational standards be improved and developed, respectively.

I was particularly drawn to the section in your invitation which stated the ultimate challenge of your efforts as “changing the face of the industry”. To me change is fundamental because it is meant to be irreversible.

The New Partnership for Africa's Development (NEPAD) has identified infrastructure development as integral to poverty alleviation and economic growth. Social infrastructure such as houses, local roads, schools and other public buildings improves the quality of communities and reduces poverty. On the other hand, economic infrastructure like airports, commercial roads and accommodation, shopping malls and the hospitality infrastructure stimulate commerce and contribute to economic prosperity.

The construction and property industries are indispensable to infrastructure development and both industries contribute directly to the development goals of the country. Historically government has had a constructive relationship with both industries, relying on them to supply products and services in meeting the demands of development and growth.

Successive apartheid administrations however, usurped this relationship and used it to further advance the system which gave rise to lopsided development with resources accruing to only one section of the population. Racially motivated legislation, such as immigration labour laws, notorious Groups Areas Act, and Land Acts systematically deprived many people access to fixed property and created a population of landless masses. Property ownership as a fundamental right and an important tenet of a free enterprise system was sacrificed at the altar of apartheid.

Ten years ago the whole nation turned its back on apartheid and set out to reverse its negative effects. The transformation of our society and our economy became government's main focus to entrench democracy, cultivate patriotism, alleviate poverty, and promote growth and empowerment.

It was fitting therefore that as the country celebrated its first decade of democracy and freedom in 2004, that the government through the National Department of Public Works, in conjunction with the private sector, should embark on a process to establish initiatives for the transformation charter in the property sector. The charter, accompanied by a score card, will gauge the performance of business against set targets and also serve as a strategic framework for effective transformation over the next decade and beyond.

It is imperative that NDPW plays an active role within the development of the property charter because as a custodian of government's immovable property, the Department is a key player in the property sector. Over the decades government has built an enormous fixed property portfolio through the acquisition of land and

buildings as part of the public infrastructure to execute public service obligations. These fixed assets include, but are not limited to government office accommodation, official residences, and functional accommodation such as prisons, courts, police stations, military basis, hospitals, schools, clinics and libraries. Valuation for this property is ongoing but conservative estimates put the value at one hundred and twenty billion rand (R120 billion).

At the same time, the National Department of Public Works spends more than a billion rand every year on lease agreements with the private sector to acquire mainly office accommodation for other national government departments. More than ninety five percent (95%) of the landlords we are contracted to, are not BEE – compliant. As defined, “BEE is an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and brings about significant increases in the number of black people that manage, own and control the country’s economy, as well as significant decreases in income inequalities”.

We spend a further One billion rand (R1 Billion)procuring services to maintain and manage these assets. This makes us not only the largest owner of fixed assets, but the largest tenant in the country by far. This is the reason why we have an interest in not only participating in the charter process but in driving it as well to ensure that the objectives of transformation are achieved.

Judging from the above, it is apparent that the pace of transformation and change in the property industry is slow. The industry like many is a microcosm of the sometimes unwillingness and resistance by the big capital to embrace transformation and what it stands for.

In 1999 for example, the Gender Commission published the results of a study which concluded that both the mining and construction industries were the least likely to offer opportunities of empowerment to women. Paradoxically, in the same year President Mbeki appointed women ministers at Minerals and Energy and Public Works, to head those industries.

Property industry is a highly capital intensive business and as a result, is characterized by embedded interests, often selfish interests, masqueraded as business imperatives without which ostensibly the country and the industry will suffer capital hemorrhage brought by investors’ uncertainty and anxiety.

Consequently, the industry continues to lag behind as far as transformation is concerned. The industry remains largely white and male dominated. In the Business Day of 2 November 2004, Marius Muller of Kagiso Intaprop was quoted as stating that:

“ the property industry is lagging behind when it comes to transformation...out of 138 directors on the boards of 14 listed property companies he studied at the beginning of the year, only 2 were black and only 3 white females, there were no black females”

This is just one example of how much ground the industry has to cover to transform itself. We are currently conducting a status review of the industry to establish the overall status quo regarding transformation issues. Indications are that there are too many barriers which prevent the entry of new entrants into this industry. These barriers include;

- Lack of capital
- Lack of skills
- Lack of assets
- Inability and in some cases, unwillingness on the part of the industry to recruit, train and mentor new and young entrants into the market

These matters need to be addressed as part of an attempt to transform the sector. There are four key levels that have to be addressed by the charter if real progress is to be realized. These are;

1. Changing ownership patterns
2. Transformation at management level
 - o Non Executive Directors
 - o Executive Directors
 - o Senior, Middle and Junior Management
3. Human Resource Development
 - o Skills Development

o Employment Equity

4. Preferential Procurement and Enterprise Development

There is no reason why we should not see the emergence of more Black and female property fund managers, property developers, estate agents, valuers, facilities management companies as a direct outcome of the transformation process. This is in addition to changing the ownership and equity profiles of existing firms. As government, we would like to see the emergence of new entities that will enter the market in their own rights and not just through acquiring equity in existing firms.

Therefore, changing ownership patterns must be a combination of black and female players acquiring equity in existing enterprises and setting up of new enterprises that could enter the market and compete in their own right.

We hail the efforts of the industry to lead the initiative to draft the property transformation charter that seeks to cultivate an environment that promotes Broad-based BEE. At the same time, we have set a challenge for ourselves as the government to be visible and audible throughout the process.

The role of industry players such as SAIBPP in the transformation of the industry is remarkable. Despite teething problems early in the process, we hope that the likes of SAIBPP are not going to throw in the towel in a demonstration of transformation and dejection.

When at the launch of the process to establish the transformation charter, we were under no illusions about the challenges ahead. In an expression of optimism, we said: "The Property Sector Transformation Charter Committee (of which SAIBPP is a part) acknowledges that there are major challenges but identifies transforming the sector that is complex and yet very fundamental in creation and accumulation of wealth, as paramount"

I wish you well in your deliberations and believe that major decisions and recommendations arrived at during this convention will add yet another arrow in our quiver as we fight the last remaining vestiges of apartheid poor social and economic planning. I thank you

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