AN INVESTIGATION ON THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS (DFI) IN BUILDING SMALL EMERGING ENTERPRISES FOR PROPERTY DEVELOPMENT INITIATIVES IN SOUTH AFRICA

ALEX NOHOLOZA

AN INVESTIGATION ON THE ROLE OF DEVELOPMENT FINANCE INSTITUTIONS (DFI) IN BUILDING SMALL EMERGING ENTERPRISES FOR PROPERTY DEVELOPMENT INITIATIVES IN SOUTH AFRICA

ALEX NOHOLOZA

A RESEARCH PROPOSAL SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE

OF

MAGISTER SCIENTIAE IN BUILT ENVIRONMENT SPECIALIZING IN PROPERTY ECONOMICS AND VALUATION IN THE FACULTY OF ENGINEERING, BUILT ENVIRONMENT, AND INFORMATION TECHNOLOGY, NELSON MANDELA METROPOLITAN UNIVERSITY

Promoter: Dr Brink Botha

Co-Promoter: Prof Chris Adendorff

JANUARY 2014

DECLARATION BY STUDENT

I, Alex Noholoza, student number 212461508, hereby declare that the treatise/dissertation/thesis is my own work and that it has not previously been submitted for assessment or completion of any postgraduate qualification to another University or for another qualification.

Alex Noholoza

ABSTRACT

Purpose of this treatise: The aim of this treatise is to identify the challenges facing emerging entrepreneurs in accessing funding for property development initiatives which results in high levels of declined loans thereby limiting participation in the property market as well as the interventions necessary to improve access to finance.

Design / methodology / approach: The questionnaires were emailed to funding institutions and emerging property developers. The questionnaire investigates the respondents' perception of importance and evidence of questions on property development, finance and managerial skills drawn from the literature.

Findings: The findings of this study are consistent with and support the findings of previous local and international literature on constraints that SME's have in accessing finance for various initiatives. The findings indicate that the emerging property developers in South Africa are characterised by insufficient number in representation in the property sector, high risk averse financial institutions that requires collateral to lend. The findings of the study indicate that broader and bolder initiatives aimed at improving the emerging property developer's representation in the market needs a holistic and collaborative approach from the various institutions to aide these entrepreneurs.

Value of paper: The research is of importance to all stakeholders involved in the property sector, financial institutions and economic development of the SME sector. The results of the study will contribute to the understanding of the current financing limitations facing SMEs and will assist funding institutions to better understand the role and importance of effective collaboration in improving access to finance to emerging property developers.

ACKNOWLEDGEMENTS

I would like to acknowledge and express my sincere gratitude to the following people who made it possible for me to achieve the completion of this treatise:

- God almighty for blessing me with the strength, courage and determination to reach for goals I have set myself;
- My wife, Ntuthu and my daughters, Awande and Ahluma for the continual understanding, support and love;
- My promoter, Dr. Brink Botha for his guidance, supervision, knowledge and continual support and encouragement throughout;
- My co-promoter, Professor Chris Adendorff for his support and professional reviews;
- NMMU Statistician, Mr Danie Venter with your statistical assistance in analyzing the data;
- All the participants of the research, particularly the respondents who made the study possible.

TABLE OF CONTENTS

CHAPTER 2

REVIEW OF THE LITERATURE

CHAPTER 3

RESEARCH METHODOLOGY

CHAPTER 4

RESULTS, ANALYSIS AND INTERPRETATION

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

ABBREVIATIONS USED IN THE STUDY

DFI – Development Finance Institution

DTI – Department of Trade and Industry

IDC – Industrial Development Corporation

NGO – Non-Governmental Organization

OECD – Organization for Economic Co-operation and Development

SAMAF – South African Micro-Finance Apex Fund

SMME – Small Medium and Micro Enterprises

LIST OF FIGURES

LIST OF TABLES

LIST OF APPENDICES

CHAPTER 1

1.1 INTRODUCTION

The small, medium and micro enterprises (SMMEs) sector is globally regarded as the driving force in economic growth and job creation. These businesses play a major role in creating jobs and wealth in any economy. Central to the growth of an economy is the development of a vibrant SMME sector which is the key to resolving many societal challenges, including unemployment, Entrepreneur SA,(2005) cited by Chimucheka and Rungani (2011). According to Martin (2012), globally SMEs have been identified as key drivers in creating wealth, reducing poverty and facilitating a growth in jobs. In South Africa, it is reported that SMEs contribute 40% of the country's GDP and employ 60% of the workforce in formal employment. Yet, due to an 80% failure rate within the first two years of starting a business, there is very little support and limited access to finance for small and medium entrepreneurs, especially in the concept or startup phase.

SMMEs are generally defined by revenue, assets (excluding fixed property) or by the number of employees. The cutoff point varies by country and by industry. In terms of South Africa's National Small Business Act (Act 102 of 1996), a small business is a separate and distinct business entity, including cooperatives and non-governmental organizations (NGOs), the size of which lies below specified thresholds, depending on whether the business is micro, very small or medium (Rwigema and Karungu, 1999). According to the DTI (1996), and Chetty (2009), an SMME can be defined as an enterprise, which is owner operated and functions with the primary focus of providing a livelihood for the owner and the immediate employees. An SMME distinguishes itself from 'big business' as it typically has a smaller turnover, marginal asset value, smaller number of employees, simpler organizational structures, generally lower barriers to entry and, less onerous legal obligations and regulative compliance issues (DTI 1996). A further distinguishing element of an SMME, when compared to 'big business', according to the (DTI, 1996), is that often the growth, development and ultimate survival of the SMME hinges on the skills level, morality, innovation and resources applied by its owner.

There is a growing recognition of the important role small and medium enterprises play in economic development. They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers, Mullineux (1997) cited by Abor and Quartey (2010). According to the OECD report, SME development requires a cross cutting strategy that touches upon many areas (e.g. ability of governments to implement sound microeconomic policies, capability of stakeholders to develop conducive microeconomic business environments, inter alia, through simplified legal and regulatory frameworks, good governance, abundant and accessible finance, suitable infrastructure, supportive education, sufficiently healthy and flexible skilled labour as well as capable public and private institutions, and the ability of SMEs to implement competitive operating practices and business strategies).

Rogerson (2008) argues that the significance of issues concerning finance, training and regulation has been a continuous thread in South African policy discussions about the development of the country's small, medium and micro-enterprise economy for more than a decade. Better access to finance, skills and leadership training and more flexible regulations are identified as key strategic elements in supporting the three national pillars of promoting entrepreneurship; strengthening the enabling environment for SMMEs; and enhanced competitiveness and capacity at the enterprise level.

The Constitution of the Republic of South Africa, Act 108 of 1996, in inter alia section 9 on equity (an unfair discrimination) in the Bill of Rights, states the imperative of redressing historical and social inequalities. Despite significant progress since the establishment of a democratic government in 1994, South African society, including the property sector, remains characterized by racially based income and social services inequalities. This is not only unjust but inhibits South Africa's ability to achieve its full economic potential. The South African Property Sector Transformation Charter uncovers the following challenges facing the property sector; property ownership and the complex system that has evolved around it is the foundation of wealth creation in the world today. Historically, property has been viewed as a right. In South Africa, however, black people were denied access to productive land through the Native Land

Act of 1913 and subsequent discriminatory policy and legislation; Black people could not own property nor could they effectively trade on properties. In many cases land was held by Tribal Trusts, which precluded people living on tribal land from obtaining title deeds. These laws affected the ability of black people to create or accumulate wealth; consequently, significant numbers of South Africans have never in the history of their families experienced formal property ownership and its wealth creation benefits. This has had a fundamental impact on the economic potential of South Africa and black people in particular; Despite legislative and policy interventions to eradicate these inequalities, in practice skewed patterns of ownership, participation and benefit remain; Black people continue to be significantly under-represented in ownership of property, whilst administrative, legal and financial constraints restrict the ability of black people to participate in the property market; Commercially, direct property ownership is dominated by institutional investors, large private owners, collective investment schemes, property loan stocks and listed property entities, with government being the largest commercial player. There is limited participation of black people, particularly women, in ownership and control of these entities. The commercially driven activities surrounding property, including development, management and sales rests largely in white owned hands.

According to Beck (2007), access to and cost of finance is often ranked as one of the most constraining feature of the business environment. The Minister of Finance Pravin Gordhan in his 2012 Budget speech says the growing inequalities in income and wealth have undermined economic growth and social well-being. The difficult task of moderating and reversing inequality requires active government intervention. In support for business sector growth, small enterprise financing has been consolidated in a new subsidiary in the Industrial Development Corporation. The Small Enterprise Finance Agency (merger of Khula, SAMAF and IDC) is intended to provide and facilitate access to finance to SMMEs. Their products include business loans, funds and joint ventures as well as non-financial support.

Mahembe (2011), citing Vosloo (1994) states that the value of small business sector is recognized in economies world-wide, irrespective of the economy's developmental stage. The contribution towards growth, job creation and social progress is valued highly and small business is regarded as an essential element in the successful

formula for achieving economic growth. The failure of most SMMEs in South Africa is due to lack of capital which is a lack of own funds and assets which could serve as security to obtain loans and bank overdrafts, education, poor management skills as well as the entrepreneurial culture.

The global financial crisis had a particularly severe effect on developing countries. Even those that were in good financial health were dramatically affected by the sudden withdrawal of foreign investment and the escalating costs of funding worldwide. The effect on their fragile economies was devastating. As the environment grew increasingly risky, banks needed to strengthen their financial positions. This led them to curtail lending, often sharply, leaving firms without access to finance (Thorne, 2011). Governments recognized the need for a countercyclical source of finance that would continue to provide finance to firms during recessionary times. Several of them turned to national development banks – government-owned banks that are tasked with addressing market failures in the financial system. Being supported by the government, they are able to provide countercyclical funding, assisting firms at exactly the time that private banks are forced to curtail their lending (Thorne, 2011).

According to Gumede, Govender, Motshidi, (2011), citing (UN, 2005), Traditionally, development finance can be defined as the provision of finance to those projects, economic sectors or sections of the population that are not well served by the financial system as a whole. Development banks are a form of government intervention in the financial system, with the aim of addressing market failures in the provision of finance. They provide finance to those market segments that are not well served by the financial system. These segments include projects whose social benefits exceed their commercial ones; long term projects or projects with long lead time; new or risky ventures, such as new technologies; projects in poor or distant regions; and small and new borrowers who lack collateral (Thorne, 2011).

Gumede et al (2011) citing (UN, 2005), Development Finance Institutions play at least five crucial roles in terms of addressing market failures. Their roles are as follows; appraise the economic and social development impact of projects seeking financing; accompany investors in the long run through long term loans; offer technical

assistance to sectors essential to growth; attract investors by facilitating financing operations; and alleviate the negative impact of financial crises through countercyclical financing by offering loans, even during downturns, and pooling efforts with regional financing institutions.

DFIs are guided by the need to generate profit for their stakeholders and public policy objectives unlike commercial banks. According to Thorne (2011), government funding is allocated to projects on which no cost recovery is possible, while private funding is allocated to projects that can generate profits.
A commercial bank is a profit seeking business, dealing in money and credit. It is a financial institution which accepts deposits, makes business loans, and offers related services. It offers interest bearing loans to businesses and others who need them for investment or productive uses.

1.2 STATEMENT OF THE RESEARCH PROBLEM

The study was selected mainly due to an identified gap that exists in the involvement of SMMEs in the property market on property development initiatives due to their lack of accessing funding from Funding/Finance Institutions for such initiatives. This is due to various factors where SMMEs are unable to come up with viable proposals that would persuade financial institutions of their viability and sustainability and whilst they are also seen by banks as high risk with a high chance of failure as most could offer no collateral security for such initiatives.

Through this research work the writer hopes to learn more about the problems that SMMEs experience with accessing finance for property development initiatives from Funding/Finance Institutions, which is seen as a major hindrance to their development and success, as SMMEs are seen as drivers of economic growth. As commercial banks are expected to make a profit, they tend to lend to viable initiatives that are aimed at growth and expansion of the respective sectors. It has been argued that DFIs should not be trying to make profits from SMMEs as they are working with taxpayer's money and they should take more risks. DFIs have also been criticized for their lending criteria's, slow turnaround times and that SMMEs were not informed why their

applications had been turned down and were offered no assistance to improve their business plans to ensure they can demonstrate viability that is required.

To identify the challenges facing emerging entrepreneurs in accessing funding for property development initiatives resulting in high levels of declined loans thereby limiting participation in the property market.

In order to proceed with the research study, the proposition that is accepted with the problem statement is that the challenges encountered by emerging entrepreneurs in accessing funding for property development initiatives results in continued under-representation in ownership of commercially driven activities surrounding property, including development, management and sales.

The research objectives of this study are to:

- Analyze the current roles played by DFIs and commercial banks in assisting emerging enterprises in the property development market and identify gaps in the services provided.

- To identify the challenges faced by emerging entrepreneurs in accessing finance for property development initiatives.

- Establish what role DFIs and commercial banks can play in facilitating the development of emerging enterprises in the property development market.

- Examine possible funding/finance instruments that can be used to assist emerging enterprises.

- Determine how government can intervene to improve the accessibility of finance to emerging entrepreneurs in the property development market.

- Investigate the various property development ownership structures and determine how DFIs and commercial banks can support/assist emerging enterprises in the market.

- Identify how the skills gap can be utilized to reduce the risk of investment

- A risk review of the commercial and industrial property market in South Africa

1.3 RESEARCH QUESTIONS

In order to address the research objectives, certain investigative questions need to be incorporated and addressed. These include:

- What impact does the restriction of the DFIs and commercial banks specific mandate in terms of funding different sectors of the economy have in funding SMMEs for property development? Why government has not created a niche fund or DFI that caters for the Property market activities?

- How does the lack of technical and financial attributes required for property development in order to determine the return on investment influence the lending criteria's of DFI's and commercial banks?

- How to manage the risks associated with property development for both the emerging enterprise's and the participating DFIs and Commercial Banks?

- What is the impact of the current role played by DFIs and commercial banks with all the funding instruments that they have for emerging enterprises in property development?

- What are the current constraints experienced by emerging enterprises in obtaining funding for property development?

- What influence do the business models of DFIs and commercial banks have on the existing funding instruments and what is the effect of that?

1.4. PROPOSITIONS

At this stage there is no full picture of what DFIs and commercial banks have as products and funding models, it is therefore premature to advise on what should be done without a thorough analysis of the existing state of affairs in relation to the property development financing.

The following propositions could be assumed:-

- The creation of niche products or funding models by the DFIs and commercial banks can assist in financing viable property developments by emerging enterprises. (Equity Funded)
- The project finance approach to reduction of cost of capital based on project viability and finance term could assist emerging enterprises. (Rather assist with Equity and provide skill)
- A development role that DFIs are supposed to play in uplifting emerging property developers through job creation and economic spin offs from the project is not explored.
- The lack of policy or directive by DFIs that allows for the management of risks to finance property developments results in the lack of funding assistance given to emerging enterprises.

1.5 RESEARCH DESIGN AND METHODOLOGY

This research study will follow the quantitative research approach where the primary data collection will include web based questionnaires survey of the opinions of DFIs in funding emerging enterprises through either personal interviews or email because of the geographical spread of the DFIs and SMME's participating in the property development market. This survey will elicit opinions on which funding criteria is applied when financing emerging enterprises for property development initiatives. Secondary data collection will begin with a review of the relevant academic literature,

previous/current research on how DFIs and commercial banks fund property development initiatives, how SMMEs access finance and their needs and policies pertaining to such funding. Responses to the questionnaire survey will be analysed and evaluated and conclusions and recommendations arising from the above analysis will be formulated.

1.5.1 Population and Sampling

The current fund managers at the existing DFIs, commercial banks and some SMMEs operating in the property development market will represent the population of this research (50 to 100 people estimate). The sample to be selected for study will be from a population of DFI, commercial bank managers and some SMMEs. Due to the small size of the population, the sample size of this research would have to be equal to 100% of the population. The questionnaire will be emailed with a link to a web- based questionnaire to the entire study sample. Cluster sampling will be used, whereby the sample will be divided into three main clusters: National DFIs, Provincial DFIs, Commercial Banks and SMMEs.

1.5.2 Data Collection and Treatment

The Data needed for this study will be from the number of DFI, Commercial Banks Fund Managers and SMME's identified with their contact details as well as information on their job descriptions incorporated in the Web-based questionnaires that will be issued and used for the collection of data.

The data that will be derived from the web based questionnaires and will be captured on a Microsoft Excel® spread sheet. The data will then be analysed and interpreted with reference to the published literature that will be reviewed.
Descriptive statistics will be used to capture the set of observations made. The mean, median and mode will be calculated as a measure of central tendency. The mean can be described as the arithmetic average of scores, whilst the median is used to determine the midpoint of scores. The mode is used in identifying the data set which occurs most frequent. The standard deviation of the responses per question will be calculated to indicate how much variation exists. Large deviations indicate that

responses differ widely, while small deviations indicate that responses are more or less the same.

1.6 DELIMITATIONS

- There has not been much research into the issues of accessing finance by SMME's for property development initiatives in South Africa
- The study will focus on the National and Provincial DFI's, Commercial Banks and some SMME's participating in the property sector.

1.7 DEFENITION OF TERMS

1.7.1 Emerging Enterprises

Emerging – newly formed or just coming into prominence, coming to maturity, "the rising generation", "coming into existence"
Future – "yet to be or coming".

Enterprises – A business organization. A purposeful or industrious undertaking (especially one that requires effort or boldness). An organization created for business ventures. "readiness to embark on bold ventures".

1.7.2 Entrepreneurship

Rwigema and Venter (2004), cited by Mutezo (2005), defines entrepreneurship as "the process of conceptualizing, organizing, launching and through innovation – nurturing a business opportunity into a potentially high growth venture in a complex, unstable environment". Entrepreneurship is thus characterized by the following:

- Creativity and innovation
- Resource gathering and the founding of an economic organization
- The chance for gain (or increase) under risk and uncertainty

Thus, entrepreneurs spot an opportunity, marshal resources and organize these into a venture that offers something new or improved to the market.

1.7.3 Small, Medium and Micro Enterprises (SMMEs)

The National Small Business Act 102 of 1996, defines SMMEs as a separate and distinct business entity, including co-operative enterprises and non-governmental organizations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy. The White Paper on National Strategy for the Development and Promotion of Small Business in South Africa, 1995, describes SMMEs in the following manner:

Survivalist enterprises are activities by people unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far short of even a minimum income standard, with little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business.

Micro-enterprises are very small businesses, often involving only the owner, some family member(s) and at the most one or two paid employees. They usually lack 'formality' in terms of business licenses, value-added tax (VAT) registration, formal business premises, operating permits and accounting procedures. Most of them have a limited capital base and only rudimentary technical or business skills among their operators. However, many micro-enterprises advance into viable small businesses. Earning levels of micro-enterprises differ widely, depending on the particular sector, the growth phase of the business and access to relevant support.

Small enterprises constitute the bulk of the established businesses, with employment ranging between five and about 50. The enterprises will usually be owner-managed or directly controlled by the owner- community. They are likely to operate from business or industrial premises, be tax-registered and meet other formal registration requirements. Classification in terms of assets and turnover is difficult, given the wide differences in various business sectors like retailing, manufacturing, professional services and construction.

Medium enterprises constitute a category difficult to demarcate vis-g-vis the "small" and "big" business categories. It is still viewed as basically owner/manager-controlled,

though the shareholding or community control base could be more complex. The employment of 200 and capital assets (excluding property) of about R5 million are often seen as the upper limit

1.7.4 Development Finance Institutions (DFIs)

Development finance institution (DFI) is generic term used to refer to a range of alternative financial institutions including microfinance institutions, community development financial institution and revolving loan funds. These institutions provide a crucial role in providing credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments in developing countries.

According to Dalberg Global Development Advisers, (2009), it is mandated by its respective government to provide long term financing to the private sector, with specific value added development objectives, but on sustainable commercial basis.

Word by word definition of a DFI

Development – Aims to bridge the gap between commercial investments and government development aid and thereby contribute to sustainable economic growth.

Finance – Role of an investor or co-investor who provides structured commercial financing to foreign or domestic companies and financial institutions.

Institution – Specialized investment fund, usually majority owned by government, with close relations to the national development institutions, but with strong operational independence.

1.8 ASSUMPTIONS

- DFI's and Commercial Banks have sufficient capital to fund property development ventures.
- DFI's like commercial banks have strict lending criteria's
- DFI's mandate requires them to invest in areas that commercial banks don't.
- SMME's do not participate in the property market due to the lack of own capital, education, experience and access to finance.

1.9 THE IMPORTANCE OF STUDY

To investigate how DFIs could contribute in promoting the participation of SMMEs in property development initiatives by providing financial and non-financial support to ensure contribution and participation to job creation and economic growth.

1.10 PROPOSED CHAPTER OUTLINE

Chapter 1 is the introductory chapter, which outlines the challenges small, medium and micro enterprises face in accessing finance for property development initiatives in South Africa. This chapter sets out the purpose and objectives of this research report.

Chapter 2 discusses and provides as comprehensive literature review related to property development process, application of financial management and issues pertaining to SMME development internationally and locally.

Chapter 3 deals with the research methodology applied in this research study as well as the design of the questions for the empirical research that will be formulated and distributed to DFIs Fund managers, commercial banks and participating SMMEs in this sector. The Chapter will also analyse and discuss the findings from the questionnaires distributed to the identified group.

Chapter 4 will summarize the findings and interpret them, using them to test the propositions highlighted.

Chapter 5 will draw conclusions to the findings of the study and propose recommendations to challenges or obstacles faced by SMME's in accessing funding for property development initiatives.

1.11 CONCLUSION

In order to address the limited participation of SMMEs in ownership and control of commercial property in South Africa, it is necessary to identify and address the following issues that cause SMMEs to fail or not participate fully in the property market, namely lack of education, lack of experience and entrepreneurial culture and most importantly the lack of and access to finance.

It is understood that the DFIs' mandate requires them to invest in areas commercial banks do not, hence they face higher risks. DFIs must help markets grow and seek to improve the investment climate, in order to demonstrate that enterprises can develop in economically challenging markets, thus contributing to sustainable development. However, private capital must also be involved and their continued investment in future projects ensured, a commercial return must be achieved.

CHAPTER 2

RIEVIEW OF THE LITERATURE

2.1 Introduction

The economic potential of SMMEs is increasingly being recognized throughout the world. It is internationally accepted that the SMME sector is an essential factor in promoting economic growth and development, and creating wealth and employment (Rwigema and Karungu, 1999).

The Property Sector Transformation Charter, (2010) aims to promote the objectives contained in section 2 of the Broad-Based Black Economic Empowerment Act 53 of 2003 as these relate to the Property Sector and in particular, but without limitation: Promote economic transformation in the property sector in order to enable meaningful participation of black people including women; Unlock obstacles to property ownership and participation in the property market by black people; Promote property development and investment in under-resourced areas which enhances basic infrastructure, encourages investment and supports micro and small enterprises;

Achieve a substantial change in the racial and gender composition of ownership, control and management and enhance the participation of black people, including black women and designated groups in the property sector; Contribute towards increased investment in the skills development and training of existing and new black professionals, particularly women; Enhance entrepreneurial development and increase the number and expertise of BBBEE firms and SMMEs providing services and products to the sector; Facilitate the accessibility of finance for property ownership and property development; Promote investment in the property sector and contribute to growth of the sector.

Beck and Demirguc-Kunt (2006), states that efforts targeted at the SME sector are often based on the premises that (i) SMEs are the engine of growth but (ii) market imperfections and institutional weaknesses impede their growth.

Meagher (2002), citing Meagher and Wilkinson (2001), claims that the governance practices of the apartheid era in South Africa helped to create a highly fragmented financial market. On the one hand, a strong informal system of credit, from traditional moneylenders (the mashonisa) to stokvels (traditional funeral savings societies) and

rotating savings and credit associations existed in parallel to the formal banking system. The informal system was not organized to support entrepreneurial requirements. Instead, it dealt with consumption demands, consistent with the restrictions of property ownership and entrepreneurship to certain groups.

2.2 PROPERTY DEVELOPMENT

Property Development has been defined as ‘a process that involves changing or intensifying the use of land to produce buildings for occupation, Fisher (2010) citing Wilkinson and Reed (2008). Collins and Ghyoot (2012), citing Fletcher (1967), state that, Property development has progressed over the years from the basic needs of man where ‘architecture had a simple origin in the primitive endeavours of mankind to secure protection against the elements and from attack’. These simple needs have evolved into a range of wants and needs spurred on by both economic and personal motives, which include developing property in the followings fields:

- Residential
- Commercial and retail
- Industrial
- Agricultural properties
- Public and specialized uses such as hospitals and schools.

All these sectors are developed for a range of motives, which include:

- Personal consumption and satisfaction
- Development to earn income (rent) on a regular basis
- Development for profit on resale
- Providing a service to the public.

According to Cadman and Topping (2004), property development is a process that involves changing or intensifying the use of land to produce buildings for occupation. Harvard (2002), states that property development can be defined as a process that sees the transformation of real property from one state to another and property development can be:-

New Build	Greenfield – development on a previously undeveloped site
New Build	Brownfield – development on a previously used site
Redevelopment	Demolition – clear and new-build of a functional and similar building
Redevelopment	Partial demolition – partial new build
Refurbishment	Retention of existing structure which is renewed or rebuilt
Conversion/Change of use	Existing structure substantially retained but for different use (e.g. from office to residential use)

Property development according to Millington (2000), can be described in its widest sense as any activity which changes the state of land. Such a change is often evidenced in one of three main ways, namely:

- By erection of new buildings,
- By demolition of existing buildings and their replacement with new buildings, and
- Through the improvement of existing buildings by improving their state of repair, by improving the fixtures and fittings they contain, by improving their design to make them more useful for modern needs, or by enlarging them to make them more useful in terms of size.

Syms (2002), cited by Botha (2013), argues that property development is largely about risk as every development project involves risk to a greater or lesser extent. Millington (2000) states that risk and uncertainty exists in the property development process, no matter how thorough the research of the developer may be. Property development involves a decision to commence a development for use at a future date – that is on completion of the development – and the future being uncertain it is impossible to rid a development scheme of uncertainty. Risk and uncertainty are sometimes differentiated by describing risk as relating to known factors, whilst uncertainty relates to unknown

factors. Jaffe and Sirmans (2001), states that a key factor influencing the investment decision is risk. Real estate investment decisions involve many complex, dynamic, and uncertain elements. The degree of uncertainty can range from deterministic situation where all variables are known to highly probabilistic situations where little information is available about many variables. There are two basic sources of financial returns from owning income producing real estate: the annual cash flow from operations and the cash flow from the disposition of the investment at the end of ownership. Estimates of both the annual income and the receipts from disposition are necessary in order to determine the value of the asset.

Property development is an exciting, at times frustrating, complex activity involving the use of scarce resources. It is a high risk activity which often involves large sums of money tied up in the production process, providing a product which is relatively indivisible, Cadman and Topping (2004). Property development will invariably necessitate financial expenditure, often in large amounts. Those involved in property development will find that an important part of the process is the satisfactory arrangement of finance which will usually entail either the use of the developer's own money (the developer's equity), the use of loan money, or a combination of both, Millington (2000). According to Harvard (2002), property and finance are inextricably linked. Property tends to be expensive and development is particularly capital intensive. Raising funds for development is a vital issue. Many viable schemes have failed to proceed from planning stage for want of financial backing.

The investment decision is essentially a choice between consumption in the present and consumption at the future time. Investment is, in essence, present sacrifice for expected future benefit. Because the present is relatively unknown and the future is uncertain, investment decisions represent certain sacrifices for uncertain benefits, Jaffe and Sirmans (2001).

According to Millington (2000), a developer should seek to satisfy market demand by providing property suitable for potential users and sited in appropriate locations. It should be developed at a cost which enables the completed development to be let or sold at a price which is low enough to attract sufficient would be users to pay that sum

for its us which in turn provides the developer with an adequate net return to reward him or her for their labour, their skill and their professional expertise, and to compensate them for the risks taken in undertaking the development.

2.3 PROPERTY DEVELOPERS

According to Millington (2000), the developer is in essence the person who forms the development concept, who initiates the project, and who remains responsible for financial aspects of the project even though his or her own money may, not be at risk. In classic economic terms the real estate developer is the entrepreneur that combines land, labour and capital to make a profit by creating a finished product whose value is greater than the costs of the component inputs (Botha, 2013 citing Norton, 2002; Walker, 2000).

Developers may fall into different categories with different development objectives, although they will all certainly have the common objective of wishing to complete successful developments, and the types and form of development is likely to vary depending upon which classification a developer falls into, Millington (2000);

Those who build for their own use will have the prime objective of ensuring that the development is ideally suited to their own needs, but even in those circumstances they may be wise to ensure that the design of the property they develop is such that it is likely to have good market appeal and good market value should they in due course decide they no longer need it for their own use. Such developers will include companies which build for their own operational purposes and individuals who build houses for their occupation and, while their activities may form a relatively small proportion of the total development scene, they are nevertheless active players in the market.

Those who build to let to others are likely to be very much influenced by the type of property demanded by the majority of those who rent property, so, depending on specific market circumstances, they might decide to build to a very high standard of design and construction, or alternatively to build to a more basic level of design and construction if those wishing to rent property only have limited resources.

Those who build to sell for profit, rather than retain and let out properties, are naturally hoping to make the maximum possible capital profit from an immediate sale,

and they may be influenced much more by short term considerations rather than long term considerations, the latter being more important to those who retain properties as investments. Developers in this category are likely to be very much aware of the current needs and purchasing ability of those who buy property investments if they are developing properties for office, retail or industrial use, and will accordingly build to satisfy investor needs.

Those who build to create investments for sale to others will have to consider not only the requirements of potential lessees but also the needs of long term investors. They will undertake a development and will let it before selling it to the long term investor and, if they are to attract long term investor, they will have to ensure that the design and quality of construction of the development, the type of tenants to which the property is let, and the terms of which leases are agreed, are all likely to be acceptable to an investor.

Public bodies which develop to satisfy their own operational requirements and social needs may have quite different considerations to take into account. Their major objectives will be to satisfy those requirements or needs, and the profit motive may not enter into the equation, although they are certainly likely to have to develop in a way which ensures that their costs are contained within acceptable budget.

Private sector development firms exist in a variety of forms and sizes from individuals to multinationals. Their purpose is usually clear-cut: to make a direct financial profit from the process of development. The major difference between development firms is whether they operate primarily as traders or investors. Most small firms have to trade, that is to sell properties they develop, as they do not have the capital resources to be able to retain their completed schemes. At the other end of the scale, some of the largest development forms hardly undertake any new development at all, being content to arrange their portfolio and undertake only refurbishment and redevelopment work. Residential developers operate almost solely as traders as the market is heavily biased towards owner occupation, but many become significant landowners during the ‘conversion processes’, Botha (2013) citing Wilkinson et al., 2007; UN, 2010.

2.4 PROPERTY DEVELOPMENT PROCESS

The entire property development process can be regarded as a number of different stages of activity which may be carried on consecutively, but some of which are likely to be undertaken simultaneously, Millington (2000). Collins and Ghyoot (2012) citing Stevens (1991), describes property development process as encompassing two important and inter-connected environments: the physical and the economic environment. The economic environment is of prime importance to the investor while, though inseparable, the economic advantages of the physical environment are more important than the physical product itself. Byrne and Cadman (1984), states that property development is the process by which development agencies, together or on their own, seek to secure their social and economic objectives by the improvement of land and the construction or refurbishment of buildings for occupation by themselves or others.

According to Cadman and Topping (2004), the property development process at its most simple can be linked to any other industrial production process that involves the combination of various inputs in order to achieve an output or product. In property development, the product is a change of land use and/or a new or altered building in a process which combines land, labour, materials and finance. However, in practice the process is complex, often taking place over a considerable time period. The end product is unique, either in terms of its physical characteristics and/or its location.

The key stages in the development process comprise of different stages according to Collins and Ghyoot (2012), as follows:

Stage 1:	Initial Planning stage of the project: Phase 1: Formulating the developer's objectives Phase 2: Conducting market analysis Phase 3: Preparing financial feasibility study Phase 4: Taking a decision on whether to continue with the project, shelve it until a later date, or abort it completely
Stage 2:	Acquiring the land
Stage 3:	Developing the land

Stage 4:	Constructing the building/s
Stage 5:	Marketing and leasing space and/or units
Stage 6:	Setting up a property management and maintenance system

2.4.1.1 Stage 1: Initial Planning stage of the project

Syms (2002), states that this phase includes the initial idea, site identification, preliminary design, tentative demand studies, initial costs and development appraisal, etc. The developer may start off with a specific site or building but equally well may commence with something far less tangible, such as an idea. The developer may have identified a 'gap in the market', possibly from feedback received as a result of other developments. Cadman and Topping (2004) suggest that development is initiated when either a parcel of land (or site) is considered suitable for a different or more intensive use or demand for a particular use leads to a search for a suitable site.

According to Harvard (2002), the fundamental questions that need to be answered during the development inception stage are:

- What makes a site ripe for development?
- How is one use of the site chosen over other competing uses?
- How and why are decisions taken to start the development process?

Development only takes place as a result of the use of imagination and creative thinking, and the visionary who can see what could be, rather than what currently exists, is the stimulus to property development, Millington (2000). The initiative may come from any of the players in the development process seeking appropriate site in anticipation of the demand or alternatively the initiative may stem from any player anticipating a potentially higher value use for an existing site due to changing demographic, economic, social, physical or other circumstances, Cadman and Topping (2004). The developer needs to be able to detect and understand market demand, to locate and evaluate suitable sites for development, to visualize the appropriate scale and style of development for each site, to relate the vision to the environment in which each site is located, and to financially evaluate each possible development, Millington (2000). From these initial concepts a more detailed

development idea will emerge, or the developer will decide to abandon the project, Syms (2002).

Harvard (2002), states that there has to be an individual or company to act as the catalyst for the development to take place and a developer must do a number of things:

- They must identify that the opportunity exists
- They must have the ability, knowledge and resources to take advantage of the opportunity
- They must be willing to take the risk at that point in time.

All these factors must be in place for a development to take place. Even then other factors may conspire to prevent development starting. For this reason, although in time sites will naturally tend towards their highest and best use, the imperfections of the property market tend to mean that, at any one point in time, only a fraction of the sites that are ripe for development are actually developed.

2.4.1.2 Stage 1 Phase 1: Formulating the Developer's objectives

The demand for property is a derived demand that is the demand is derived from the need of people to have property for their own individual use objectives. If there is no potential use for a property it is likely to have no value, so the determination of the range of possible uses for and users of a potential development will be a very important part of the investigatory process carried out before a decision is actually made to convert a development idea into reality, Millington (2000).

Jaffe and Sirmans (2001), define real estate investing as a sacrifice of certain outflows for uncertain inflows. The real estate investing that can satisfy the objectives of the investor includes one, all, or any combination of the following:

- Means of building an estate
- Pride of ownership
- Hedge against inflation
- Desired rate of return on equity invested
- Diversification of investor objectives

The purpose of the investment process is to discover whether a specific investment is feasible. A real estate investment is feasible when the investor determines that there is a reasonable likelihood of satisfying explicit investment objectives, which must be tested against a specific set of constraints. Thus the investment process is simply a structure in which the expected risks and expected returns can be analyzed. The five basic steps according to Jaffe and Sirmans (2001) that lead to the final investment decision can be summarized as follows:

- Identify the goals, objectives and constraints of the various participants in the investment process which an investment must satisfy in order to be acceptable.
- Analyze the overall investment environment – market, legal, financing and tax, in which the investment decision must be made.
- Forecast the expected future benefits and costs (cash flows) arising from the ownership of the investment. This analysis involves four types of decisions: operating, financing, and reversion decisions, as well as tax planning
- Apply appropriate decision making criteria to compare the benefits with the costs of the investment. An analysis must be carefully developed to be relatively certain of the investment's ability to meet the constraints and objectives of all the participants in the investment process.
- Accept or reject the investment under the assumptions of the input variables.

2.4.1.3 Stage 1 Phase 2: Conducting market analysis

Market research according to Harvard (2002), is the process of establishing whether there is a market for the product being developed, at what price it will let or sell for, how long it will take to lease or sell, on what terms and to whom. An understanding of the supply and demand forces that influence the feasibility of a particular investment is extremely important. Market analysis must take into account these forces at the national, state and local levels. The demand for real estate is derived from the demand of goods and services that it provides, Jaffe and Sirmans (2001)

According to Cadman and Topping (2004), property development does not occur in a vacuum. Occupier demand is a reflection of the short and long term changes in the

economy. Many development projects are unlikely to proceed past the development concept stage without early marketing of ‘the concept’ and the early acquisition of prospective lessees or prospective purchasers of the completed accommodation. Such a situation arises primarily because many developments are now so large and take so long to complete that no financial institution will provide loan funding unless the likely market success of the concept has been reasonably clearly indicated by the acquisition of lessees and purchasers who have shown an early and firm intention to lease or to purchase the proposed development, Millington (2000).

Syms (2002), suggest that at its simplest, market research may consists of nothing more than the property developer looking at what is currently on the market, what has sold or let well over the last 12 months and what new developments are proposed. The developer will wish market research to provide information which helps to ensure that any development undertaken is specifically designed to fit in with demand patterns which are likely to be current at the time of completion. This will reduce the developer’s risks and increase the likelihood of successful marketing of the finished product, Millington (2000).

According to Jaffe and Sirmans (2001), the market study analyses the likely present and future demand for an investment and the existing and likely future supply of closely competitive facilities. From this, the investor formulates four conclusions:

- The various prices and their probabilities at which the particular investment (existing or proposed) might be rented and expected future changes in income.
- An estimate of the quantity (occupancy ratio or vacancy ratio) such units or square meters of accommodation space, likely to be sold or rented per year at those prices
- A discussion of the specific conditions such as financing terms, sales techniques, or certain amenities that are required for sale or rental.
- An estimate of the probable future trends in selling price for the type of investment under consideration in its market environment.

2.4.1.4 Stage 1 Phase 3: Preparing Financial Feasibility Study

A feasibility study according to Syms (2002), should consider all aspects of the project, not simply its financial viability. The objective of a feasibility study for property development purposes is quite simply to determine whether a particular type of property is needed in a specific location, and also whether the development of such property is likely to produce a profit in financial terms, Millington (2000).
Collins and Ghyoot (2012) citing Graaskamp (1970), provides the following useful definition of feasibility in the real estate context: 'a real estate project is 'feasible' when the real estate analyst determines that there is a reasonable likelihood of satisfying explicit objectives when a selected course of action is tested for a fit to a context of specific constraints and limited resources'. According to Millington (2000), the depth of any feasibility study will depend to a very large extent upon the size of the proposed project and the amount of money likely to be involved in the development.

The feasibility study should provide information which enables the level of returns from property development and property investment to be adequately considered and to be compared with returns available from other investments, Millington (2000). Property development is largely about risk and all developments involve risk to a greater or lesser extent. In order to compensate for the risks taken a developer will require to make a profit. The profit also has to reimburse the developer in respect of the capital employed on the project, although much of this may be borrowed, and for the entrepreneurialism involved in bringing the development into fruition, Syms (2002).

2.4.1.5 Stage 1 Phase 4: Taking a project decision

Property developments generally require substantial sums of money and many developers would be unable to undertake developments unless they could reasonably contemplate the purchase of their completed developments by someone else. This is so in part because many developments are made possible through the use of borrowed funds which have to be repaid by the developer out of sale proceeds once a development is completed, whilst many developers also need to realize their own

equity in a development once it is completed in order to be able to finance further development activities, Millington (2000).

Cadman and Topping (2004), states that a developer must be satisfied that all the necessary preliminary work has been carried out before any substantial commitment is made relating to the development. Ideally all the appropriate inputs of land, finance, labour and materials, and the acquisition of statutory permissions must be satisfactory negotiated before any agreements are signed making the developer liable for any major outlay of money.

Jaffe and Sirmans (2001, broadly defines the value of an investment as the present worth of the future benefits from owning an investment. Thus value represents the present worth of the income that an investment is expected to generate. According to Millington (2000), a developer or an investor may use a variety of methods to assess the attractiveness or other wise of a particular development project, namely:-

- The *Capital Profit* may be a relevant consideration, particularly if an investor is likely to provide all of the funding for a project, this being the measure of the expected profit when all the costs of development are taken from the anticipated market value of the completed development.
- The *Development Yield* indicates the annual rate of return expected to be received from a development and is found by comparing the anticipated net annual income from a project with the total costs involved in creating the project.
- The *Developer's return* is generally estimated by expressing the capital profit which it is expected the project will produce as a percentage of the total costs involved in creating the development.
- Using the discounted cash flow format, the *internal rate of return* can be calculated to indicate the likely performance of a development project. The rate of interest at which the net present value of the outflows and the net present value of the inflows are equal will be the rate at which a development earns money.

2.4.2 Stage 2: Acquiring the Land

A site is a basic requirement of property development according to Harvard (2002). The developer must acquire an interest over, or the rights to develop a piece of land. The actual purchase of this land must, however, follow a complex path of investigations that are carried out in order to ensure that the development is viable on the site chosen, Harvard (2002). The acquisition of land is usually the developer's first major commitment to a development project. The site acquisition process can be very frustrating and unpredictable as many factors, some outside the developer's control, influence its success, Cadman and Topping (2004). Finding a suitable site according to Syms (2002), may be relatively straightforward, assuming that there is a ready supply of development land on the market. An ample supply may, however, indicate weak demand or alternatively, few of the available sites may be suitable for the proposed development and there may be stiff competition from other developers. Millington (2000), states that properties which are developed will only have value in the marketplace if they are developed in locations which will satisfy the requirements of potential users.

A developer's ability to acquire land is dependent on the availability of land at any particular time. The availability of land is dependent on the state of the market, planning policies and physical factors, and any particular case will also depend on the motives if the particular landowner, Cadman and Topping (2004). Syms (2002), argues that the extent to which developers are prepared to make significant financial commitments to land acquisition will depend on a number of factors including planning permission, the availability of off-site infrastructure and the state of the market. Cadman and Topping (2004), states that although land may be available on the market and is allocated within the development plan for the proposed use, it still might not be suitable for development due to physical factors.

Millington (2000), maintains that the suitability of land for development purposes is even more important than the mere availability of the land. Suitability for development will be determined by a range of site characteristics namely:

- *Accessibility* is very important and proximity to main road networks, railways, local access roads and other forms of communication is likely to increase the development potential of the site.
- The *location* of a potential development site will be a major factor in determining how suitable it is for a particular type of development. Location is a key factor in determining the value of completed developments, and different types of development have different location needs.
- *Site access* is a very important consideration; any development needs to have suitable approach roads and a suitable site entrance for the type of traffic likely to use the completed development.
- The *size and shape* of a development site are important as size is likely to determine the amount of development which can be placed on site, whilst the shape of a site may affect the efficiency of the design of the buildings or buildings, which in turn likely to have an impact on efficiency in use.
- The *soil structure and load bearing capabilities* of a site may determine both the type of development and the quantity of building which can be placed on a piece of land.
- The *topography of land* may well be an important factor in determining its suitability for different types of development, and, for instance all other things being equal, flat or gently sloping land is likely to be more suitable for development than land which has a steep slope.
- *Land drainage characteristics* are important in determining the suitability of land for development, as, unless land has good natural drainage, a developer may be faced with the need to use an expensive type of design and construction.
- The *availability of services* to sites or the ability to provide services within reasonable cost limits are important development considerations.
- The *legal interest available in the land* is of great importance in determining whether land is suitable for development. Generally developers will prefer situations in which the freehold interest in land can be purchased, and that such interests are unencumbered is likely to be another important preference.
- The existence of an *approval to develop* is critical in countries or areas in which development control systems are in force. Without such an approval development cannot legally take place, and until such an approval is in existence it may be

impossible for a potential developer to estimate accurately the amount of development or the type of development which will be permitted on an area of land.

- The precise type of development which will be possible on a site cannot be determined until a *building approval* has been granted.

Harvard (2002), maintains that acquiring the site is perhaps the most important point in the whole development process. It usually marks the point of the start of the development proper and certainly the point where major financial commitments begin. It is thus imperative to carry out investigations into the site diligently and thoroughly.

2.4.3 Stage 3: Developing the Land

The acquisition of a suitable site at an appropriate price can greatly increase the likelihood of a development being financially successful, whilst the acquisition of a less than ideal site, or payment of too high a sum for a site, may reduce the likelihood of such success, Millington (2000). The Feasibility study according to Millington (2000), should carefully investigate the planning situation as a scheme will need to be acceptable to both the relevant public authorities and the public in general and matters to be researched in the feasibility study should include:

- Land use zonings for specific land uses and development categories;
- The existence of and details of any planning guidelines;
- Permitted floor/space ratios;
- Requirements regarding the provision of car parking spaces or financial contributions required in lieu of provision;
- The likelihood of a demand for planning contributions and the likely cost of the same where applicable.

Cadman and Topping (2004), states that the provision of supporting infrastructure is critical to the site acquisition process and local authorities play an important role in its provision. Infrastructure is a term used to describe all the services which are necessary to support development. i.e. roads, sewers, open space, schools. Details of current infrastructure provision should be ascertained for each site considered to be a realistic possibility for development and, if suitable provision does not exist, the ability

to provide adequate water, electricity, sewage services, and telecommunications services and the likely costs of provision should be investigated, as the costs of initial provision or improvement of services may be high, Millington (2000).

2.4.4 Stage 4: Constructing the Building/s

The building development stage represents the last opportunity where the developer can cut his losses and terminate the project if required. However, projects are usually only delayed or abandoned at this stage due to macro influences beyond the control of the developer or financial difficulties resulting from these, Collins and Ghyoot (2012). Harvard (2002), states that the majority of development projects simply do not reach this stage. Most projects that have been started fail to get one or more of the key components in place. The developer may fail to win planning consent, the market may be satisfied by another project or perhaps a financial broker cannot be found.

After the acquisition of the land, the developer's second major financial commitment is the placing of the building contract which finally commits the developer to a particular building design and content. It might be regarded as the point of no return with much of the developer's earlier flexibility gone. The developer's aim in this stage of the development process is to produce good quality building on time and within budget, Cadman and Topping (2004). According to Millington (2000), once building control approval has been obtained, the developer can arrange for the costing of the construction, probably by a quantity surveyor, and the preparation of tender documents and construction contract. Collins and Ghyoot (2012), suggests that it is important to select the right contractor, consultants and form of contract to ensure that the building development period is completed within the planned time period and budget. Syms (2002) highlights that the nature of the professional team employed on a property development project and the individual roles of the consultants will vary according to the size and nature of the project. The basis of fees payable to the consultants will also vary according to the nature of the work and the basis of procurement used in respect of the construction contract.

According to Harvard (2002), there are four general guiding principles that developers should follow in executing a development, and these are to prepare, plan and plan and prepare. It is vitally important for the success of the development that the groundwork is done before the scheme commences and that all the key components to execute the development are in place at the time it commences.

2.4.5 Stage 5: Marketing and leasing space

Promotion of a development scheme in order to achieve its disposal is an essential and integral part of the development process. The disposal of a building, whether through sale or a letting, should be thought about during the evaluation process and not just a few weeks before the completion of the development, Cadman and Topping (2004). According to Millington (2000), the marketing of a project can in fact make or mar its success. Marketing can, and arguably should, be commenced very early in the development process as through market research may in fact identify those to whom a project should eventually be marketed.

The ultimate objective of property development is to find tenants or purchasers for newly constructed or converted buildings and one of the most important aspects of the process is good marketing of the product. Without adequate exposure to the market the developer cannot be assured that the best price or rent has been achieved and indeed the property may even fail to sell or let, Syms (2002). Millington (2000), claims that many projects, particularly those involving big financial commitments, will not begin unless they have, been successfully marketed before the scheme is commenced. Major retail developments or major office developments will unlikely to be started until substantial amounts of space have been ‘pre-let’ and commencement of such schemes is also likely to be dependent upon a purchaser of the completed development also having entered into a contract to purchase. In order for this to occur, marketing must in fact begin at the development concept stage and if lessees and purchasers can be found at this stage the overall risk attached to a project is considerably reduced.

According to Harvard (2002), when to start the marketing phase, who to involve and what form the marketing of the property should take depends upon the type and size of the project being undertaken and there are three main options involved at the end of the development process:

- Sell the building to an owner occupier – this option requires marketing and advertising to be carried out to find occupiers and/or purchasers for the completed scheme.
- Lease the building to an occupier and sell the freehold investment interest onto a third party – this option requires the setting up of an acceptable investment vehicle that will be suitable for occupiers and acceptable investors; marketing and advertising to find occupiers; marketing and advertising to find investors willing to purchase.
- Lease the building to an occupier and retain the freehold as an investment – this option requires the first two options, as above, as well as the creation of an ongoing management system to service the property as an investment. This system will need to cover income collection, tenant monitoring, assessment of maintenance, etc. – all factors necessary to maintain the future value of the investment.

According to Cadman and Topping (2004), the securing of an occupier should be at the forefront of a developer's plans at the start of the development process. Having established during the evaluation stage the existence of occupier demand for the development in the proposed location, further research should be carried out to identify the target occupier market and their requirements in terms of the design and specification.

2.4.6 Stage 6: Property Management and Maintenance

Management is the process of using resources effectively in the attainment of desired objectives. The term property management denotes the management of a property, to achieve the objectives of the owner of the property. The property may have a value to the owner because of functional reasons (e.g. own occupation), economic reasons (as a financial investment) or subjective reasons (aesthetic or status), or a combination of

any or all of these reasons. The basic objective of property management is to maintain these values, Cloete (2001).

Cloete (2001) further states that as property is complex and unique (heterogeneous), and as many property owners either know relatively little about property principles and practices or do not have the time or desire to manage their properties, the management of property has developed as a specialized branch of the property (real estate) business. The basic objective of property management is to maintain (and, hopefully, even to increase) the value of the property. If the reason for property ownership is to provide a financial return on the investment in the property, the objective of the property manager is to ensure that required return as far as it is in his power to do so. If the objective of property ownership is for own use (corporate office) or use by others (school, hospital or a museum) the objective of property management is to maintain the suitability of the property for the required use. In both cases, therefore, the objective of property management is to maintain the value of the property.

The property management of a property held for investment purposes has three broad objectives, Farina (2000) cited by Cloete (2001):

- *Financial objectives* – the maximization of net income, i.e. the maximization of gross income and the limitation of expenses;
- *Operational objectives* – the operation of the property in pursuit of the financial objectives (this may include, but not limited to, the implementation of the owner's maintenance philosophy, risk management, management of tenant mix, etc.), and
- *Communication objectives* – providing the owner with information about the performance of the property and advice about its maximization.

To be more specific, professional property management can therefore include the following advantages to the owner:

- ✓ Property maintenance
- ✓ Increased occupancy
- ✓ Reduced tenant turnover
- ✓ Improved tenant relations

- ✓ Maintenance of property records
- ✓ Expense analysis
- ✓ Financial reporting
- ✓ Management counseling

The need for professional management is becoming more apparent as owners realize that the appreciable investment they have made in a property can be rapidly eroded in an era of rising costs and in times of economic recessions. The cost of maintenance alone exceeds the original cost of a building over its lifetime, while the income of a building is critically dependent on the quality of management of that building. The importance of property management is therefore to be found in the difference professional property management can make to the bottom line of an investment property – the net income of the property. The property manager can add value to the property owner's investment. Asset management has become of increasing importance during the last few decades. By 'asset management' is meant the management of properties or a property portfolio to unlock the fullest potential of the value of properties. Whereas property management is the process of overseeing the operation and maintenance of properties to achieve the objectives of the property owner, asset management is the process of managing a property portfolio to achieve the maximum value, Cloete (2001).

2.5 ACCESS TO FINANCE FOR EMERGING PROPERTY DEVELOPERS

The UNDP, Evaluation office (1999), states that small and medium enterprises (SMEs) and micro enterprises constitute over 95 per cent of all enterprises and account for two thirds to one half of total non-farm employment and gross domestic product (GDP) worldwide. SMEs play pivotal roles in creating dynamic, market oriented economic growth, employing the growing work force in developing countries, alleviating poverty and promoting democratization. Olawale and Garwe (2010), citing Ntsika (2002), state that small and medium enterprises are increasingly seen as playing an important role in the economies of many countries. Thus, governments throughout the world focus on the development of the SME sector to promote economic growth. In South Africa, SMEs contribute 56% of private sector employment and 36% of the gross domestic product. Small Medium and Micro Enterprises in South Africa were operating in the

era of the apartheid regime but were not given enough support and were not a priority in the government of those days. Before democratic transition, the South African government was mainly giving attention to large businesses as well as state owned enterprises. It was only in the late 1970s and the early 1980s that the South African government realized the importance of the small enterprise sector and its contribution to the country's economy, Mathibe and van Zyl (2011).

According to Fjose, Grünfeld and Green (2010), the term SME covers widely different types of firms. Everything is included, from fragile zero growth micro-firms (normally employing up to a couple of workers generating subsistence level revenues) to fast growing medium sized firms with up to 250 employees. The role these firms play for the developing economy and the challenges they face are often completely different. Micro firms struggle with fluctuating revenues, red tape complexity, and lack of knowledge and relevant competencies. For medium sized firm, access to sufficient amounts of risk capital and access to technology may be more of a challenge. Small businesses compared to big business worldwide, face a wide range of constraints and problems, even in effective functioning market economies. These constraints mainly relate to legal and regulatory environment, access to markets, finance and business premises (at affordable rentals), the acquisition of skills and managerial expertise, access to appropriate technology, quality of the business infrastructure in poverty stricken areas and, in some cases, tax burden, Diale (2009). Olawale and Garwe (2010), referring to Cassar (2004) indicate that all businesses require financial resources in order to start trading and to fund growth. Lack of access or availability can be a constraint on business growth. Whether business owners can access adequate and appropriate finance to grow is a particular concern for policy makers. New SMEs can be financed from founder's own wealth and/or by accessing external sources of finance, whether from 'informal' sources such as family and friends or from 'formal', market based sources such as banks, venture capitalists and private equity firms. Once businesses are trading, further development can be financed using retained profits, Olawale and Garwe (2010).

Lack of access to finance can usually be found at the top of any list of problems of small businesses. Businesses generally start with their own resources and are

undercapitalized. This is a major factor in their failure. In developing countries, the financing institutions are usually not able to meet the SME needs for seed money and investment capital as a result of high transaction costs and perceived risks, the lack of collateral and financial data, and negative bank experience in dealing with small asset backed borrowing, The UNDP, Evaluation office (1999). According to Mazanai and Fotoki (2012), access to finance had been singled out as one of the major challenge impeding the survival and growth of startup SMEs in South Africa. The ability of SMEs to grow depends highly on their potential to invest in restructuring and innovation. All these investments require capital and therefore access to finance. Fotoki and Van Aardt Smit (2012), reiterate that various challenges and impediments not only limit the creation of new small and medium enterprises but also contribute to their high failure rates. One of these challenges is the non-availability of formal sector financing. The financing problem of new SMEs is particularly pressing in developing countries. South Africa, for example, does not only have a very low new venture birth rate, but it also suffers from one of the highest failure rates of SMEs in the world.

The financing problem of new SMEs is that of finding funds at the right time, right type and in the right quantities at various stages of development, Fotoki and Van Aardt Smit (2012). According to Demirguc-Kunt, Maksimovic, Beck and Laeven (2006), cited by Fotoki and Van Aardt Smit (2011), the two primary sources of external finance for new SMEs are equity and debt. External equity in the form of venture capital or the stock exchange is usually not available for new SMEs. The lack of external equity makes many new SMEs dependent on bank loans and overdrafts and suppliers credit for early stage financing. Despite the dependence of SMEs on debt finance, paradoxically access to debt finance is very limited for new SMEs, especially in developing countries. Commercial banks and trade creditors hesitate to lend to new SMEs. Fotoki and Van Aardt Smit (2012), citing Timmons and Spinelli (2009) identified the importance of both internal and external sources of financing for successful venture creation. Internal sources refer to equity contributions and savings from the founders and from family and friends while external sources could be divided between venture capital (external equity) and debt. The vast majority of new SMEs depend on internal finance, however internal finance is often inadequate for new SMEs to survive

and grow, especially in a developing country. A large percentage of new SME failure is attributed to inadequate capital structure or resource poverty.

The greater variance in profitability, survival and growth of SMEs compared to larger firms accounts for special problems in financing. SMEs generally tend to be confronted with higher interest rates, as well as credit rationing due to shortage of collateral. The issues that arise in financing differ considerably between existing and new firms, as well as between those which grow slowly and those that grow rapidly. The expansion of private equity markets, including informal markets, has greatly improved the access to venture capital for start-ups and SMEs, but considerable differences remain among countries, OECD (1998).

The variance of both profitability and growth decreases with firm size. Smaller enterprises have a lower probability of survival than large enterprises. Financial institutions assess smaller and medium enterprises as being inherently more risky. Larger firms usually comply with higher disclosure requirements to a greater extent than SMEs because of their access to a broad range of external funds (including bonds, equity and loans). Financial institutions charge higher interest rates to SMEs than to bigger companies in order to compensate for the higher costs of information collection, the smaller volume of external financing and the greater risk of failure. Lending to SMEs is more likely to be based on collateral than is the case for loans to larger firms. This may lead to situations in which lending is not based on expected return but rather upon access to collateral. Collateral reduces or eliminates contract problems such as ‘moral hazard’ and ‘adverse selection’. Many SMEs lacking access to ‘good collateral’ suffer from credit rationing, OECD (1998). Fjose et al., (2010), state that the effect of access to finance varies depending on size. In small and young companies, investment is often risky. Consequently access to low risk collateral is naturally lower than for older and well established companies. Access to finance in normally better in large companies compared to SMEs. OECD (1998), point out that funding method for SMEs include: overdrafts, retained earnings, factoring, leasing, private equity, external equity, bank loans. Wide variations exist among OECD countries in the use of funding methods. For example, German SMEs are more likely to have recourse loan facilities, rather than to overdrafts; loans in foreign exchange

are characteristic of Danish, Italian and Portuguese SMEs but almost totally absent in other EU countries; most than half of US SMEs are using credit in the form of a credit line from a bank or capital lease; in Japan, more than 60 per cent of all bank loans are to SMEs.

Fjose et al., (2010), reports that due to corruption and red tape many SMEs find it more profitable to stay in the informal sector, and by that avoiding heavy taxation and other burdensome regulations. These informal companies are often well adjusted to the conditions in the informal economy, and unless conditions for operating in the formal economy are substantially improved, it remains profitable for them to stay in the informal sector. However, growth opportunities in the informal sector are seriously hampered by reduced access to formal credit, lack of possible expansion out of local markets. According to Ferrando and Griesshaber (2011), access to finance is widely perceived to be a crucial factor for firms – especially for small and medium sized enterprises, in order to maintain their day to day business as well as to achieve long term goals. The experience of major financing obstacles or constraints should present considerable challenges to enterprises and economies in general as they pose a major threat to productivity.

Deakins, North, Baldock and Whittam (2008), suggest that there is evidence that some SMEs may still face difficulties in accessing bank finance from lenders. Their paper reports an in-depth study into demand and supply side issues relating to access to bank finance by Scottish SMEs and whether there is still market failure associated with good, bankable business cases from SMEs that do not receive finance. SMEs facing difficulties in accessing finance can be determined as demand side studies and issues in bank lending practices can be determined as supply side studies. The demand side studies suggest that; whilst overall the majority of SMEs appear not to have difficulties obtaining external finance, there is evidence to indicate that a number of groups and sectors do face distinct challenges in accessing finance. The evidence indicates that dissatisfaction with the availability of loan finance and overdraft finance from banks is greatest among the youngest and smallest firms. The supply side studies, especially on bank finance are relatively rare. This is partly because of access issues and the sensitive and competitive nature of banking sector, where obtaining information on

lending practices may breach business confidentiality. Fan (2003), reports that SMEs in Russia (up to 250 employees) account for about 90% of the total number of firms, provide 45% total employment and 40% of total sales while in China SMEs account for 99.9% of the total number of firms, provide 84% of total employment and account for 71% of total sales. SMEs are essential for a competitive and efficient market. SMEs with high turnover and adaptability play a major role in removing regional and sector imbalances in the economy. Easy entry and exit of SMEs make economies more flexible and more competitive. SMEs also play an essential role as subcontractors in the downsizing, privatization and restructuring of large companies.

Rowlatt (2012), states that SME's are a vital part of the UK economy and a dynamic, growing SME sector is likely to contribute significantly to future economic growth. SMEs play a vital role in raising productivity growth in the UK economy by spurring innovation, by encouraging the process known as 'productive churn', and by stimulating stronger competition. At the start of 2011 there were around 4.5million SMEs forming 99.9 per cent of all businesses by number, accounting for over half of private sector employment and nearly half of all private sector turnover. The ability of SMEs to access finance is important for funding business investment, ensuring businesses reach their growth potential, and for facilitating new business start-up. However, a lack of finance can constrain cash flow and hamper businesses' survival prospects. Expanding access to financial services for small and medium enterprises remains an important policy challenge for Thailand according to Punyasavatsut (2011). In common with other countries, recent Thai policy efforts have focused on both the demand and the supply sides. Policies improving financial access –the demand side- include programs to encourage banks to provide more SME lending via loan guarantees, to provide more financial assistance via subsidized interest rates, innovation funds and micro finance. At the same time, the supply side policies are intended to lessen asymmetric information between banks and investors, to provide information and counseling services to SMEs, to improve loan approvals, and to target minimum levels for SME loans. Punyasavatsut (2011), citing Bank of Thailand (2009) indicate that only 40 percent of Thai domestic firms, which are mostly small enterprises selling locally, gained access to credit from banks and only 58 per cent of small Thai exporters can gain access to bank credits. Evidence indicates gaps

between demand and supply for financial credit among Thai SMEs. Such a financial gap implies that some forms that ought to receive financing are systematically unable to obtain it. So far, Thai government attempts at broadening SME financial access have not achieved the desired results.

According to Koldertsova (2007), in Lebanon, the precise contribution of SMEs to the GDP and employment is difficult to estimate exactly, in part due to the lack of a clear and accepted definition of what constitutes and SME. A variety of definitions are adopted in Lebanon. Kafalat, a Lebanese financial company with a public concern that assists SMEs to access commercial bank funding, uses a threshold of 40 employees to define an SME and no financial criteria. In Lebanon, the consensus seems to point that the environment for enterprise financing more generally and SME financing more specifically is not ideal.

The Indian microfinance sector witnessed tremendous growth over the last five years, during which institutions were subjected to little regulation. Some microfinance institutions were subject to prudent requirements: however no regulation addressed lending practices, pricing or operations. The combination of minimal regulation and rapid sector growth led to an environment where customers were increasingly dissatisfied with microfinance services, culminating in the Andhra Pradesh crisis in the fall of 2010, Kline and Sadhu (2011). Vogel (2012), points out that the term ‘microfinance’ come from a longer phrase, ‘microenterprise finance’, it is in fact not enterprise finance in the way that small and medium enterprises finance is where funding is obtained to facilitate some aspects of the enterprise. Economists (and likewise entrepreneurs) often speak of the key motive of profit maximization, but for the micro entrepreneur the guiding principle is not profit maximization but rather risk minimization. Risk minimization implies diversification, which further implies that the micro household will have a number of different sources of cash inflows to survive, which in turn makes it essential for the potential lender to understand the overall cash flows of the micro household. According to Chetty (2009), citing Hussain (2006), in Pakistan, it was decided to review the role of their banks in order to determine whether or not they were creating hurdles in the way of lending to SMEs and discovered that the same prudential regulations which were applicable to corporate borrowers were

made applicable to SMEs despite the fact that the requirements are very different for each segment. It was then that the Pakistani government made a conscious decision to review such regulations and endeavour to reduce stringent requirements on SMEs. Efforts were being made to improve the offer of financing to SMEs; for example, a separate SME department was established for the purposes of responding specifically to the financing needs of SMEs. This newly established department was tasked with creating an 'environment that is conducive for banks to increase the flow of credit to SMEs, to promote a strategic focus on SMEs on the part of banks and to help banks adopt best practices in the development of their SMEs business lines'.

When Peruvian regulators began to take formal notice of microfinance in 1997, a microloan was defined according to the assets and sales of the entity being finance. However, because of practical difficulties is assuring accuracy of such figures, this was soon changed to the amount borrowed, up to US$30,000, with the risk profile also taken into account in supervision. In Bolivia, the initial microfinance entities were nonprofit (NGOs), but a bank was soon able to enter the field because the Bolivian Financial regulator changed from a traditional focus on institutional type to characteristics of the loan portfolio, while also becoming more flexible in not enforcing rigid requirements for loan collateralization and, later, placing greater reliance on the analysis of borrower cash flows. The Philippines had a long history of subsidized lending and massive government interventions in credit markets for marginalized sectors. Prior to 1997, there were 86 subsidized direct credit programs implemented by more than 20 government non-financial agencies. Recognizing the inefficiencies and ineffectiveness of these programs, in 1997 the government issued its National Strategy for Microfinance, which states clearly the objective of establishing a viable sustainable market for microfinance through the adoption of market based principles of credit markets. This led to several executive orders as well as landmark legislation that mandated the adoption of market based interest rates and the non-participation government non-financial agencies in credit markets, Vogel (2012).

The important role played by Small and Medium Enterprises in African economies has been increasingly realized over the past years. Not only are they important for vitality of the business sector, they also provide new jobs, Kounouwewa and Chao (2011).

According to Kira (2013), access to external finance to SMEs has become more costly and troublesome while their accessibility has done sharply declined. SMEs' financing constraints limit their investment opportunities and stagnant growth. Access to finance is widely perceived to be an essential factor for firms, and especially SMEs, to maintain their daily business operation as well as to achieve long term investment opportunities and development targets. Presence of general limitations on access to capital markets, many East African firms heavily rely on the banking sector for credit. Therefore, a well-functioning banking sector plays an important role in channeling resources to the best firms and investment ventures. Financing constraints crucially limit firm's growth, availability of productive resources resulting to sluggish of a sector which might pose threat to the sector's contribution to the economy.

Small and medium enterprises account for a large share of enterprises and a large share of the private sector of African economies. It is generally accepted that one of the government's major role in promoting economic growth is the creation of an appropriate business environment. This includes trade regime, macro-economic policies, infrastructure investments and the regulatory environment. Many would rightly argue that weak factor markets and institutions in Africa are also to blame and that providing a conducive business environment may not be sufficient to raise the standard of African SMEs. Economic development requires the growth of productive firms, Kounouwewa and Chao (2011). Kira (2013), points out that in Tanzania, SMEs contribution to GDP is estimated to be ranked about one third. It is also estimated about 20% of the labour force in Tanzania which is almost 3 million people are employed in small businesses, in which of these are micro enterprises consisted of 1.7 million businesses operating in the informal sector alone. SME sector play a major role in economic development of Tanzanian economy. In Burundi, most Burundian businesses admitted that access to credit is a serious constraint. However, while the demand for credit is real and pervasive, there are constraints on it. Most small businesses (especially individual entrepreneurs) finance their initial operations primarily with their own funds and capital. Many of these entrepreneurs are suspicious of formal credit and would rather rely solely on their own resources and those of family and friends. In Kenya, the SME sector plays a crucial role to the Kenyan economy. SMEs employed about 5.1 million people representing 74% of the total national

employment and also contribute about 88% of the total job creation at any one time; they also contribute in the Gross Domestic Product of the country, whereby they contribute about 24.5% to the GDP. According to Bowen, Morara and Mureithi (2009), citing Amyx (2005), one of the most significant challenges is the negative perception towards SMEs. Potential clients perceive small businesses as lacking the ability to provide quality services and are unable to satisfy more than one critical project simultaneously. Often larger companies are selected and given business for their clout in the industry and name recognition alone.

In Rwanda, over 90% of Rwanda's workforce is employed in the private sector which makes it a catalytic sector in terms of reforms to ensure inclusive growth. Over 123 000 SMEs operate in the private sector, accounting for 98% of all businesses and 84% of private sector employment. However, 88% of these SMEs are informal and as such, their contribution to total tax revenue, estimated at less than 2% in financial year 2009/2010, remains insufficient. Moreover, improvements in investment climate are yet to translate into private sector development. In Uganda, the SMEs represent a significant part of the economy. There are special linkages promotion programs that are used to promote SMEs sector to keep a fast track vehicle for creating a dynamic SME sector. SMEs comprise over 90% of the private sector in Uganda representing a very significant role in stimulating the economic growth of the country. Ugandan SMEs create productive employment; provide a good source of the tax revenues for social as well as economic development and they also increase export revenues vis-à-vis import substitution and thus balancing the terms of trade. SMEs contribute about 75% of the GDP and employment of approximately 2.5 million people in Uganda, Kira (2013).

Access to finance is reported to be a severe problem for SME's in Africa. Unavailability of finance to SME sector has been viewed as a critical element for the development of SME's. Kira (2013), citing Levy (1993) highlighted the consequences of limited access to financial resources by SMEs. Normally SMEs face higher transaction costs than larger enterprises in obtaining credit and availability of funds to finance working capital. In addition, information asymmetries associated with lending to small scale borrowers have continued to restrict the flow of finances to SMEs. External financing is

more costly to SMEs which led them to rely on internal sources of finance to fund their investments because of asymmetric information problem and the agency costs existence which cement their financing constraint problem. These problems are believed to be severely impacted SMEs because of the following reasons: one, size, SMEs size is small compared to large firms which might influence the quality and the quantity of information available on their records as well as collateral. Smaller firms are often perceived to be more informational opaque than larger firms and monitoring costs weight more heavily on small scale project, Kira (2013). Fotoki and Assah (2011), cited by Kira (2013), suggested that SMEs have to own tangible assets, maintain proper business information and improve their management skills to accelerate access of debt financing from lenders.

South Africa suffers from high unemployment with an official estimate of approximately 24.5% of the economically active population unemployed, Statistics South Africa (2009) cited by Fatoki and Van Aardt Smit (2010). The country also suffers from high levels of poverty and income inequality. One of the best ways to address unemployment is to leverage the employment creation potential of small businesses and to promote small business development, Fatoki and Van Aardt Smit (2010) citing FinMark Trust (2006). According to Fatoki and Van Aardt Smit (2010) citing Van Broembsen et al., (2005), 75% of new SMEs created in South Africa fail within the first two years of operation. Various challenges and impediments prevent the creation of new SMEs and as well cause the high failure rates of new SMEs in South Africa. One of these is the non-availability of formal sector financing, Fatoki and Van Aardt Smit (2010), Herrington et al (2009). Fatoki and Van Aardt Smit (2011), citing Mutenzo (2005) points out that 300 000 new jobs must be created annually in South Africa, if the country is to retain its present unemployment rates, especially taking into consideration high number of new comers into the labour market. Without the creation of new SMEs, South Africa is likely to stagnate and decline economically. Social problems such as crime and corruption are likely to increase. Atieno (2009) cited by Fatoki and Van Aardt Smit (2011), observes that access to external finance is needed for new SMEs to start and expand operations, develop new products, invest in new staff or production facilities. The availability of finance for investment in positive net present value projects is vital to the sustainability and viability of new SMEs. A vast

majority of new SMEs depend on internal finance (contribution from the owners, family and friends). Internal finance is often in adequate for new SMEs to survive and grow. It is increasingly difficult to keep the costs within the constraints of self-financing. Therefore new SMEs need capital from external sources.

According to Mazanai and Fotaki (2012), citing Park et al., (2008), the financial gap, often defined as the difference between the demand for funds by SMEs and the supply of funds, occurs because of various reasons. Some argue that the fundamental reasons behind SMEs lack of access to funds can be found in their peculiar characteristics, while others argue that SMEs suffer from financing gaps because of market imperfections on the supply side. They further argue that SMEs face financing gaps probably because of a combination of reasons originating from both the supply and demand sides. The supply side refers to providers of finance (financial institutions and investors), while the demand side is composed of SMEs who require financing from financial institutions and other providers of finance. The financial gap for SMEs is most prominent in capital market financing. Demirguc-Kunt et al. (2006) cited by Fatoki and Van Aardt Smit (2010), point out that the two primary sources of external finance for new SMEs are equity and debt. External equity in the form of venture capital or the stock exchange is usually not available for new SMEs. The lack of external equity makes many new SMEs dependent on bank loans and trade credit for early stage financing.

Fatoki and Van Aardt Smit (2010), citing Berger and Udell (2006), note that although trade credit is extremely important to SMEs, it has received much less interest than commercial bank lending which provides only slight more credit to SMEs. Since only a limited number of new SMEs have access to loans from financial institutions, trade credit may often be best or only available source of external funding for working capital. New SMEs may prefer trade credit financing during the early years when the risk of default is high. Also, trade credit is a substitute to bank credit for firms that are credit rationed by banks. This suggests that trade credit could be one of the solutions to the credit constraints faced by new SMEs in South Africa. Small businesses, but particularly micro businesses, often do not fulfill the criteria to obtain the required amount of debt finance for longer term growth. Typical problems are the lack of

appropriate collateral, excessive outstanding debt and lack of proven business skills. For business people to obtain an unsecured loan solely on the strength of their character, requires a major leap of faith on the part of the creditor. Usually, such unsecured credit is forthcoming only after some time has passed and against a proven track record of successfully operating one or more small scale business undertakings for the business person's own account, Falkena, Abedian, Blottnitz, Coovadia, Davel, Madungandaba, Masilela and Rees (2001).

Ganbold (2008), states that SMEs are usually more credit constrained than other segments of the economy because of the following reasons: (i) financial sector policy distortions; (ii) lack of know-how on the part of banks; (iii) information asymmetries, for example, lack of audited financial statements; and (iv) high risk inherent in lending to SME. According to the UNDP, Evaluation office (1999), lack of access to finance can usually be found at the top of any list of the problems of small businesses. Businesses generally start with their own resources and are undercapitalized. In developing countries, the financing institutions are usually not able to meet the SME needs for seed money and investment capital as a result of high transaction costs and perceived risks, the lack of collateral and financial data, and negative bank experience in dealing with small asset backed borrowing. Problems are exacerbated in unstable, high inflation environments. SME in developing or emerging countries are more disadvantaged in obtaining external finance than SMEs in developed countries. Developing countries are more likely to have macroeconomic imbalances that lead to excess demand for available domestic savings as well as institutional weakness that encourage large number of individuals to engage in low productivity informal activity. Also financial systems in developing countries are often characterized by less deregulation, openness and reform of ownership, governance and supervision. Further, capital markets do not compensate for deficiencies in the banking sector as they do not have a comparative advantage to deal with opaque and small firms, Ganbold (2008).

2.6 FINANCIAL CONCEPTS IN PROPERTY DEVELOPMENT

Property development has been defined as 'a process that involves changing or intensifying the use of land to produce buildings for occupation, Fischer, (2010) citing

Wilkinson & Reed (2008). According to Fisher (2010), property development displays the hallmarks of a ‘complex adaptive system’ comprising different parts, connected in multiple ways, interacting serially and in parallel. Cadman and Topping (2004), state that there are two forms of finance required for property development; short term finance to pay for the costs of production (i.e. the purchase of land, building costs, professional fees and promotional costs), and long term finance to enable developers to repay their short term borrowing and either retain the property as an investment or realize their profit. Whether a developer retains the property as an investment or sells it to realize profits depends largely on their motivation and the prevailing market conditions. Projects can be funded through the use of ‘equity’ that is a developer’s own money or through ‘debt’ funding that is through money borrowed from a third party such as a bank or other financial institution. The most common arrangement is probably for a combination of ‘equity’ and ‘debt’ funding too be used, Millington (2000).

Many investors make extensive use of borrowed funds to acquire rental properties and to finance building improvements. Borrowing is expected to increase the return on the equity of the investor but it is also believed to add risk. Loan interest rates for many property investments (other than owner occupied residences) are not publicized but are negotiated between the lender and borrower. Rates may vary depending upon the terms of the loan such as the basis of repayment and length of time for which the interest rate is fixed. Rates may also vary with the type of property, its location and the credit rating of the borrower, Rowland (1996).

Griffiths, (2001) states that when structuring a loan, it is vitally important to calculate how much debt can be supported by the contractual income which the security will generate and which amortizes down to nothing or at worst a modest residual position. Debt has a repayment date, therefore when making a loan, if the lender cannot see how they will be repaid without relying upon favourable market conditions at the time of repayment that is not debt: it is equity. It is alright if it is priced as such and the remuneration arrangements give an upside reward, but not if the only return is a front end fee and a margin. Griffiths, (2001) further states that some lenders adopt a different technique rather than cash flow through the expiry of contractual income, they simply require that (i) the property would have a remaining life after the loan maturity,

(ii) that the rental income passing at maturity looks comfortable compared with their view of the value at that time. This is the so called exit yield.

Fischer (2010) points out that developers agreed that, following a pre-let more banks are prepared to lend, giving them increased bargaining power. The loan to value ratio is normally increased, which may eliminate the developer's equity contribution. Other terms such as fees and repayment clauses can be relaxed and even the headline rate may be lowered. Where a developer has a bridging loan, the bank will be consulted on pre-letting and may encourage acceptance. Greater access to external debt finance following a pre-let often means that the development programme can be accelerated or extended. Pressman (2005) argues that from a borrower's point of view, what drives many loan negotiations is a tension between the attractive pricing that the liquidity of the capital markets enables securitizing lenders to offer versus the added up front structuring requirements and increased ongoing 'policy' of and constraints on the borrower's property operations, compounded by the arguably less responsive servicing that borrowers occasionally view as the price of doing real estate mortgage investment conduit destined deals.

Murray (2003) outlines the lender's primary security will be a mortgage on the property. The notarized mortgage deed contains (i) the security itself, (ii) the loan terms and (iii) recitals regarding title and encumbrances. The mortgage documentation should contain core terms (amount of loan, interest rate, repayment, amortization, default interest and covenants regarding the mortgaged property). It is necessary to limit the maximum amount secured by the relevant mortgage. The mortgage may not cover obligations apart from the principal amount of the loan, ordinary and default interest, expenses in relation to foreclosure and other expenses directly related to the property such as insurance and priority rights of third parties. It is doubtful that other rights even if they are related to the loan, may be included as part of the secured obligation. According to Pressman (2005), many borrowers believe that they gain leverage for all subsequent negotiations if they insist on hammering out as many details as possible before the loan application is executed (and while the lender is still in the position of 'pitching' for the borrower's business). Tough minded borrowers often argue that, in order to avoid frittering away the tempting price benefits offered by

commercial mortgage backed securities; it is only fair to expect heavy negotiation at the term sheet stage in order to minimize the big ticket back end costs (both monetary and in terms of lost operational flexibility) that these debt products present as compared with competing portfolio loan products. The greatest leverage is gained by borrowers who prevail upon lenders to agree that any breakup fee will be waived to the extent that the lender's proposed loan documentation is at variance with the terms set forth in the application. Similarly, lenders sometimes agree to return the unexpended expense deposit if the loan fails to close for any reason other than the borrower's willful default, although this benefit disappears as the deal progresses and costs start to run up.

Tyrell and Bostwick (2005), maintain that real estate investments are frequently leveraged. Leverage is an important tool for any real estate investor whose target return exceeds the expected return on core, unleveraged assets since it can increase potential returns, although at the cost of increasing risk. Leverage is borrowing to finance part of the acquisition cost of an asset and repaying the interest and capital on the loan out of the returns from the asset, is a commonly used means of increasing potential returns on investments. Leverage is especially common in real estate investment for two reasons, firstly real estate is a physical asset which generally retains some value, even in worst possible outcomes, and which can be used as security on loans. Secondly real estate investments often generate covenanted fixed or semi fixed income streams which can be used as a reliable source of cash for making interest payments and potentially amortizing loans. For this reason, banks are often prepared to lend at relatively low margins on real estate investments, while investors often perceive little additional risk in taking on loans that can be repaid out of covenanted income.

Newell and Fife (1995) noted that property securitization is expected to offer a number of attractive property investment benefits, including:

- improved tradeability and liquidity
- ability to invest in high quality assets of a value that would otherwise be beyond normal prudent investment criteria;

- ability for investors to achieve better investment mix by diversifying risk in terms of geographic spread and property type;
- greater investment flexibility, with ability to react quickly to changing market conditions;
- partial disposal of an asset while retaining significant management benefits;
- ability for investment managers to reduce costs through economies of scale and specialization;
- enabling investors to develop strategic links with other institutional property investors;
- enabling institutions to reweight property sector exposure, while retaining management control;
- prestige of investing in ‘trophy’ property assets;
- possible reduction in differentiation between fund managers on basis of quantum of funds; and
- redirection of attention to investment performance.

Potential disadvantages of property securitization include thin trading of shares/units, lack of established trading markets, price volatility and lack of directional control over management of the property asset. While the specific property securitization vehicle that is applicable is clearly dependent on the different legal structures, tax regimes and economic circumstances that prevail, the emergence of improved exit options via the use of securitization has seen property securitization receive considerable attention in the financial sector as a viable option for both large and small investors.

Developers often seek ways to minimize capital investment in a project before the property is producing income. This developer desire has created a variety of innovative financing structures, ‘participating’ debt being the most common; leased land is often seen as another innovative financing vehicle. The alternative to a ground lease is the purchase of land with borrowed funds. The rent required in the initial term of a ground lease is; however, often lower than debt service would be, as an incentive to the developer, Konikoff (2004).

2.7 RISK ASSESSMENT

According to Fischer (2010), developers agreed that a pre let normally allows them to forward sell the investment asset either before or during construction. Since the investor shoulders some development risk, the yield for a pre-sale will be higher than the market yield. A developer who accepts a pre-sale offer will accept a lower profit in return for reduced risk. A developer who expects a yield reduction or a rental rise on any unlet space may reject a pre-sale. After the top of the market cycle, pre sales will be less common and be at higher yields.

There are strong forces in the commercial real estate industry pushing banks and investors to take more quantitative approaches in assessing risks. This quantification will affect everything from loan approvals to deal structures and loan pricing, Marrison (2005). Marrison (2005) further states that real estate professionals are quite familiar with assessing risk using gross ratios such as loan to value (LTV) and the debt service coverage ratio (DSCR). The new metrics being introduced to the industry include probability of default (PD), loss given default (LGD) and exposure at default (EAD). These metrics have been used in asset classes such as corporate loans, but have not been widely embraced in the Commercial Real Estate industry because reliable estimates of PD, LGD and EAD were unattainable for the more complex structures prevalent in the Commercial Real Estate lending. The traditional approach to risk measurement has been to create a cash flow model for each loan in a deal, then project net income, debt servicing costs and debt outstanding. The expected loan to value, interest service cover ratio and debt service ratio could then be estimated from the model.

According to Gordon (2003), a development lender's risk can be measured by the types of risks generally inherent in a real estate investment. The two main categories are macro-economic risk and micro-economic or specific risk. Macro-economic is external to the specific investment and results from the operation of the entire market or economy. All investments, regardless of type, are to some extent dependent on the situations of these economic forces. Although, from a portfolio analysis approach, certain steps can be taken to inoculate a portfolio against these market forces, very little can be done to protect an individual investment once it has been made.

Macro-economic risk
New forms of investment taxation
Currency fluctuations affecting foreign investments
Interest rate changes
Inflation
Unemployment

Micro-economic or specific risk tends to be unique to a particular investment in the case of real estate. Each investment has its own risk profile comprised of the following elements, which, with only minor variations, apply across the board to the various types of property, regardless of size

Micro-economic risk
Location
Construction issues
Market strengths and weaknesses
Pre-leasing
Development team's expertise
Developer's financial strength
Loan to value and loan to cost ratios
Degree of total leverage
Exit strategy

To assess the risk of development lending effectively, an institution must first develop a set of underwriting parameters on which the decision to proceed or not will be based. The underwriting of development loan risk before the first advance of funds generally falls within the realm of due diligence and includes a study of the micro-economic risk elements outlined below, Gordon (2003).

2.7.1 Location

Location is probably the most important issue to consider when development loans are underwritten, since it, along with the site's intended use, determines the value of the

land to be developed. To be successful, development projects must include easy access to all forms of public transport. Other location issues that must be resolved are:

- What is the demand for development sites in the immediate area, neighbourhood and region? Is there a sufficient market for the intended product?
- Is the sector homogeneous or is it mixed use? What impact does this factor have on the site's intended use?
- Is the site easily accessible from major highways or main arteries?
- Does the site have excellent visibility and curb appeal?
- How accessible is public transport?
- How far is the project from the city's commercial and financial cores?
- Is the size of the trading area sufficient to support the intended use? For specific projects, does a market exist within the trading area?
- Could any existing situations have a negative influence of the intended use? In addition, could any other developments planned for the immediate area prove detrimental to the intended use?

2.7.2 Construction Issues

Construction issues are an important aspect of development loans, since they can have a major impact on how a project will be perceived once completed. A building that has inefficient heating, ventilation and air conditioning (HVAC) system or functionally deficient design criteria will never achieve the level of tenant acceptance originally contemplated. Unanticipated problems or requirements, if not provided for in the contingency component of the construction budget, may result in substantial cost overruns. Depending on the borrower's financial strength, the ability to complete the project may be affected, Gordon (2003).

- Does the development site meet all environmental requirements?
- Do the geotechnical attributes support the project type and size?
- Will the mechanical systems deliver services commensurate with the quality of the building? Does their location allow for efficient use of floor space?
- How many parking spaces will be provided on the site? Will they meet or surpass the zoning requirements?
- Is the architectural design efficient or does the project risk become functionally obsolete relatively quickly?

- Are the construction contracts on a fixed price basis or a management basis? Will the developer have full control over the trades and sub trades?
- How large is the contingency component of the construction budget? Is the interest reserve allocation sufficient to carry the project to the point of sale or conversion of long term financing?
- What level of value is being created? If little or none, why is the project being undertaken and what incentives remains for the developer to follow through, if unanticipated costs or problems occur?

2.7.3 Market strengths and weaknesses

It is quiet common in the development financing industry to see market strengths and weaknesses described only in terms of vacancy factors at a certain date. Although this information can be useful, this approach provides the square footage or number of units occupied at a given time and does not explore the economic forces at play. To obtain a more precise appreciation of the market forces, the following items should also be analyzed over a one to three year horizon, Gordon (2003):

- *Vacancy factor trends*, are they increasing, decreasing or stable, and if changes are occurring, at what rate? What are the reasons for the changes?
- *Supply tendencies*, what is the estimated number of units or square footage coming to market over the time horizon?
- *Absorption rates*, what factors are at play that could affect the level of absorption or demand for the product?
- *Evolution of capitalization rates*, at what level are they unrealistically low from a lender's perspective? What is the chance of rates increasing and what impact will this have on the risk associated with the development?

2.7.4 Pre-leasing

This item is a crucial aspect of a project pre-development risk. It is not enough to simply analyze the number of units or square footage leased. The lender must know whether the rental rates obtained are at market levels and the extent to which they will cover debt service requirements after pro forma operating expenses are deducted. The project's debt service coverage based on pre-leasing should be calculated and the higher the coverage, the better for the project.

$$\text{Debt service coverage} = \frac{\text{Gross operating income} - (\text{market vacancy} + \text{operating expenses})}{\text{Annual principal debt and interest payments}}$$

2.7.5 Development team's expertise

One of the most important functions a lender must undertake in assessing the risk of development loans is to ensure that the development team, including the developer, is capable of completing the project. To be successful in development, developers must be aggressive and have a high level of confidence. Skilled and prudent managers, however, surround themselves with experienced staff or consultants to counterbalance their weaknesses, Gordon (2003).

- Is the developer a large national corporation with a strong balance sheet or a local firm with limited resources?
- How many years of experience developing projects does the owner or developer have?
- How many projects has the developer completed? What kind?
- What is the value of the projects developed?
- What is the largest project completed?

2.7.6 Developer's financial strength

Gordon (2003), outlines that financial strength is as important as the developer's expertise. Without strong financial backing, the developer may not be able to respond to unanticipated cost overruns resulting in the registration of construction liens, unless the financial institution intervenes. Areas that should be looked at closely are:

- Delays in the payment of trades and the developer's payment reputation
- Number and currency amount of outstanding lawsuits or judgments and the reason for them
- Ratio between the cost of the project and the developer's net worth.

2.7.7 Loan to value and loan to cost ratios

The amount of leverage associated with a project is without doubt one of the most important elements any development lender should be concerned with when underwriting a construction project. The higher the amount of debt associated with the development, the greater the risk. Developers argue that, through leveraging, their return on investments increases to a point where development is encouraged. The development lender should never lose sight of the fact that its profit is fixed as a function of the interest earned and that there is no opportunity to participate in the developer's returns, Gordon (2003).

2.7.8 Degree of total leverage

Gordon (2003) notes that most developments are completed within a stipulate time period, the development lender must have the ability to determine the impact on leverage, given changes in rental levels, operating costs and interest rates. It is important to keep in mind that the higher the leverage, the more pronounced the impact related to changes in the above items and thus the higher the risk.

2.7.9 Exit strategy

For the development lender, the key to success is the ability to have loans repaid upon substantial completion and rental of the project. Although the tendency might be simply to evaluate the project over its relatively short construction and leased up period, it must be stressed that the development of an exit strategy starts with the initial underwriting. The pro forma figures must be reviewed from the long term lender's perspective; as a result the projects suitability for permanent financing will be determined, Gordon (2003).

Many real estate developments do not finish on time or on budget. These risks are passed to the developer by the bank. Banks require a performance guarantee from the developer for delivery of the completed real estate at an agreed cost and at an agreed date. Some developers may have difficulty providing this guarantee for very large projects, Evans (2001).

2.8 FORMS OF CAPITAL AVAILABLE TO EMERGING PROPERTY DEVELOPERS

Evans (2001) describes structured finance as structures developed by banks, to finance real estate developments or investments, which separate the debt and equity components of real estate. The debt component or loan amount is the present value of the leased cash flow. The equity component is the value of the real estate at the end of the lease period. These complex structures incorporate significant tax benefits. In the past in South Africa, banks or institutions would lend on a basis of 70 percent loan to value ratios, requiring investors or developers to provide 30 percent equity funding or possibly more until the initial net cash flow was positive. For tax purposes the borrower would be able to deduct the interest commitment on the loan from the income of the lease but not the capital portion of the repayments. The capital portion would be funded from after tax money. These lending criteria were not affordable in a market where lending rates were considerably higher than the initial yields of the investment. Banks therefore developed financing structures that separate debt and equity components of real estate. Each bank has its own criteria and goals with the particular structures used, each being 'deal specific'. The details of these finance structures are not readily available and seldom revealed to the marketplace. The reason for this is that banks wish to retain their intellectual property which may allow them a competitive edge and draw as little attention as possible to the tax related benefits which form an important part of these structures.

Evans (2001) citing Roberts (2000) outline the aims of structured finance as:

- Raise the capital required for a development or investment.
- Create an avenue to write off capital over the period of the lease with pretax money
- Create losses in the structure which may be written off against the investor's or another entity's tax base.
- Remove the real estate asset and debt from the investor's balance sheet.

Mutezo (2005), citing Smith and Smith (2004), states that there are various sources of business financing where the providers have different objectives, capabilities and constraints. Some like banks seek low involvement, low risk investment, usually of short duration. Others like business angels, seek high risk, high involvement investments of moderate to long duration. Different financing sources protect the value

of their investments in different ways. Others like venture capitalists engage in active monitoring to protect their investments while factoring companies and most lenders rely heavily on collateral.

The ability of SME's to access finance is important for funding business investment, ensuring businesses reach their growth potential, and for facilitating new business startups. However, a lack of finance can constrain cash flow and hamper businesses' survival prospects. Access to finance is important, around half of SME's do not use formal sources of external finance, instead relying on trade credit from their suppliers or retained earnings. Half of SMEs who use at least one form of external finance most commonly use bank funding; either loans, credit cards or overdrafts. A minority use equity finance, from either venture capitalists or business angels. SMEs do not generally access capital or bond markets due to their size and the small amounts of money they are seeking, Rowlatt (2012). The wide variety of different types of finance available reflects the diversity of SME characteristics and their specific finance needs. A new business startup with high growth potential may use grant funding to develop a product before moving onto funding from business angels, venture capitalists or banks once the product is developed. The business may then subsequently move onto private sector venture capital, Rowlatt (2012).

There are a variety of possible sources of finance available to the SMME sector in South Africa; these can be classified as internal and external. Internal sources of finance include the personal equity of the entrepreneur, usually in the form of savings, re-mortgages. Or perhaps money rose from family and friends. After the initial startup, retained profits and earnings provide internal capital. The principal sources of external sources include bank loans, equity capital from venture capitalists and short term credit, Mutezo (2005) citing Longenecker, et.al. (2003).

Debt financing is the most widely used form of finance as it is generally one of the least expensive ways to raise finance. It is most suitable for established lower risk businesses, with stable cash flow in which to repay the debt. Loans and overdrafts are the most common forms of debt finance. Equity finance (especially venture capital) is for higher risk businesses, a number of which have the greatest potential for growth. Venture capital investors take an equity stake in the business, with the objective of

selling the stake in the future at a profit once the business has expanded. These businesses may be at an early stage and lack cash flow and security in order to obtain debt finance. As equity sits behind debt in the event of a default, it is riskier for the investor, Rowlatt (2012). According to Evans (2001) citing Young and Grieg (1995), real estate may be considered in financial terms as a combination of debt and equity, debt being the lease obligations and equity the real estate ownership. Considering the debt and lease obligations, the investment performance of this component is similar to that of government bonds i.e. a fixed cash flow at fixed dates for a fixed period. Banks criteria for structured finance require a triple net lease. The cash flow from the lease is therefore similar to that received from government bonds. Mutezo (2005) describes debt financing as a method that involves a loan, the payment of which is only directly related to the sale and profits of the venture. Typically, debt financing requires that some assets (such as a car, house, plant machine or land) be used as collateral. Equity financing does not require collateral and offers the investor some form of ownership position in the venture. Therefore, choosing between debt and equity involves tradeoff for owners with regard to potential profitability, financial risk and voting control.

According to OECD (1998), venture capital is risk finance, usually provided in the form of a long term equity investment to fund startups, expansion or purchase of private businesses. Venture capital financing is usually provided without collateral or guarantees in the private equity market. The stages of venture capital investing can be classified as follows:

- seed capital for financing the initial concept of the business;
- startup capital for product development and initial marketing;
- expansion capital for financing the growth and expansion of the company;
- mezzanine capital for preparing the company for a public offering;
- buy out or buy in capital for purchasing a firm from its owners.

Mutezo (2005) describes venture capital as a form of private equity that focuses on relatively high risk businesses, in the expectation that the profits will be above average. Venture capital is a professionally managed pool of equity formed from the resources of wealthy limited partners. These are vitally important sources of seed

capital, startup capital, and expansion capital for entrepreneurs who have demonstrated the viability of their ventures but are unable to source funds from the formal banking sector.

Mezzanine finance is a hybrid of debt and equity finance. It is higher risk than debt finance but is lower risk than venture capital as it is typically used by established companies. Mezzanine finance can be structured to the individual financing needs of the business by taking the form of a loan, but with interest payments suspended for the first year or two until the investment is undertaken or may have a levy on turnover or other measure of business performance. The mezzanine deal can also be structured with an equity component or have an option for the investor to convert the investment into an equity stake if the business defaults on the loan payment or is very successful, Rawlatt (2012).

Business Angels provide entrepreneurs with financial capital and a wealth of expertise. Angels play a crucial role in stimulating innovation and growth of early stage companies. Business angel investment is important to fostering an entrepreneurial economy and building future successful companies. The financing provided by business angels fills the gap between founders, family and friends at the lower end of the spectrum and institutional venture capital funds at the higher end of the spectrum. The know-how and expertise of these investors is another crucial complementary asset for the survival and development of small and medium enterprises, Enica (2011). According to Chetty (2009), Business Angel Financing is often viewed as an alternative to bank finance. This type of financing refers to the granting of finance from bigger companies who choose to invest in smaller companies that are not their own. Enica (2011), further states that aside from financial capital, business angels usually bring along with them a wealth of personal expertise and skills in a particular field together with some entrepreneurial know how. Their motivation usually goes beyond financial returns and is often fuelled by altruism and the desire to share some knowledge in an exciting environment with promising entrepreneurs.

2.9 PROVIDERS OF CAPITAL TO EMERGING PROPERTY DEVELOPERS

Businesses require finance for working capital and to invest for future growth. Finance requirements will vary widely for different businesses of different size at different stages of expansion. Cash flow that is generated within the business is the primary source of finance. For many businesses, the ability to raise additional finance from external sources, through debt or equity or a combination of both, can be critical to support their activities. The various sources of business financing where providers have different objectives, capabilities and constraints are as follows:

2.9.1 Own Savings, Family and Friends

Most new start-ups begin with capital infusion from informal sources such as family or friends of the founder, Shaku, (2011) citing Elitzur & Gavious (2003). According to Mutezo (2005), the most important source of funding in all countries is the entrepreneurs themselves. South African entrepreneurs reported that they had used or expected to use their savings and income to fund their businesses. Friends and family are less likely to attach onerous terms to the repayment of the loan. For this reason financing through friends and family is considered to be the next best alternative to self-funding. Thus, institutional finance is less important in financing start-ups than entrepreneurs' own savings and their ability to mobilize finance from their personal network of family, friends.

2.9.2 Commercial Banks

Commercial banks are known to be the major source of credit financing for businesses. However there is less information to support that banks are indeed funding new and small businesses. For an SME to obtain finance from a bank, it must first meet the criteria of that particular bank, Shaku, (2011) citing Scarborough et.al. (2009); Churchill & Lewis (1985). There are a number of perceptions associated with SMEs. A major perception for banks is that assessing the risk associated with SMEs is both difficult and costly, Shaku, (2011) citing Cohan (2006). Inability of commercial banks to support SMEs is due to the high degree of risk involved, high loss and profits associated with SMEs, Shaku, (2011) citing Schoombee (2000). Lending to SMEs is

more costly than lending to large companies as the returns earned on small businesses are low.

Conventional banks in most cases refuse to grant loans to small business applicants. According to Mutezo (2005), citing Schoombee in Rwigema and Venter (2004) there are a number of reasons for this, which includes the following:

- There is a higher risk that entrepreneurs in the SMME sector will default on loan repayments, due to insufficient cash flow.
- As a result of the general conditions of poverty and limited resources, entrepreneurs do not have adequate collateral to secure their loans.
- The administrative costs involved in screening loan applications from entrepreneurs are high.
- Banks face low returns when investing in the SMME sector.
- Entrepreneurs experience language and cultural barriers when accessing banks.

Other factors include: lack of clear business plans and ideas; lack of preceding market research and risk of under-capitalization and/or delays in reaching break even points. These factors can adversely influence profitability, cash flow and the applicant's solvency over the first one or two years.

Besides the skills possessed by SMEs management, there are other aspects that banks consider important before they make capital available. Some of these aspects are, Shaku, (2011):

- The owner's contribution (or capital injection) into the business is an important indicator that banks use. If the SME owner has contributed little or no equity to the business, the banks will be hesitant in granting a loan. Banks do not finance the business owner; they finance operating assets and working capital because these are what generate revenue for the company. Therefore making a small capital contribution to the business is a good start, as it shows that the owners have already covered some of the preliminary expenses, further indicating that the entrepreneur only needs capital to kick-start business operations.

- Small businesses may not have reliable balance sheets, as many SMEs typically do not keep proper books. This is a disadvantage, because banks use fixed assets as collateral.
- SMEs typically do not have strong cash flows. Banks must be satisfied that the business will be able to repay loans but this can prove difficult if they are experiencing cash constraints.

According to Shaku, (2011), banks consider the following financial factors before granting a loan:

- "Owner's contribution: The more initial capital the owner puts into the business, the better his/her chances of getting the loan."
- "Realistic projections: These indicate the likelihood of business success. Financial projections project how much costs and profit the business is likely to incur and generate."
- "Debt carrying capacity: This refers to how much the owner can realistically borrow and pay back."
- "Assets: These can be used as collateral."

Security in the form of collateral is what banks look for before granting a loan. The following forms of securities will be considered:

- "Tangible collateral: Property or Investments."
- "Intangible collateral: Suretyships, for example, by the owners."
- "Personal assets: The owner can use these as security for a loan."
- "Cash Flow: The stronger the cash flow the less risky the business."

Increasing the chances of obtaining a loan from a bank requires a lot of work from SMEs and in most cases entrepreneurs are not willing to go through the set criteria, because this process involves a lot of time, Shaku, (2011). When lending to a small firm, a trading bank is concerned with security linked to the loan, liquidity of assets, firms' past record and to some extent, its future prospects. Bank lending would become even more costly to prospective small business owners if banks assessed in detail the future prospects of each small business that applied for the loan. Small

businesses that have good growth prospects, but have little security, are best handled on an individual basis by specialist financial institutions capable of assessing the risks involved, and are capable of providing technical and managerial advice where appropriate and supplying a suitable mix of equity and loan capital, Shaku, (2011) citing Dushnitsky and Lenox (2006).

2.9.3 Government Institutions

The main role of the public sector in supporting venture capital and other types of risk financing should be to reduce the risk and cost of private equity finance. The government should complement and encourage the development of the private capital industry, including enhancing the skills of the people involved in undertaking this task. The direct government measures and policies to encourage and support the provision of risk capital include: development banks; loan guarantee schemes; fiscal incentives; regulations regarding the treatment of innovations; rules regulating investment by insurance companies and pension funds in equity classes; taxation and regulation of stock options; the provision of loans at preferential rates; and the direct provision of risk capital for particular classes of investment as a catalyst for private financing, OECD (1998).

In recognition of the fact that access to capital is a key constraint to the development of SMEs, the government of South Africa has put into place a number of initiatives designed to leverage greater private and non-governmental sector investment in SMEs. The governments focus on empowerment has resulted in the creation of other providers of equity finance to SMEs. Government currently provides funding through a number of organizations:

- Development Finance Institutions (DFI) is generic term used to refer to a range of alternative financial institutions including microfinance institutions, community development financial institution and revolving loan funds. These institutions provide a crucial role in providing credit in the form of higher risk loans, equity positions and risk guarantee instruments to private sector investments.
- The Industrial Development Corporation (IDC) is a self-financing National Development Finance Institution. Its primary objectives are to contribute to the

generation of balance, sustainable economic growth in Africa and to the economic empowerment of the South African Population.

- The National Empowerment Fund (NEF) was formed to finance and support black managed and black owned businesses.
- Khula Enterprise Finance was formed to facilitate access to credit for SMEs, but has also moved into equity financing.

2.10 Summary

SMEs worldwide rely initially on self-financing by entrepreneurs. Then SMEs move on to debt finance and/or venture capital as they establish business records and expand operations. Generally, SMEs have four key funding requirements: (i) initial infrastructure investments, (ii) lumpy operations costs, (iii) 'next step' expansions, and (iv) unexpected opportunities requiring quick access to funds. SMEs access to external sources of funding depends largely on the development of financial markets, the regulatory environment within which financial institutions operate and their ability to assess, manage and price the risks associated with loan products for SMEs, Falkena et al, (2001).

The small business sector contributes significantly to the South African economy through job creation and income generation and a general improvement in the standard of living of the general population. However, the SMME sector faces a number of obstacles in its effort to access funds for startup and expansion purposes. These constraints include lack of adequate training, lack of adequate support and most important is the lack of access to finance as banks see small businesses as being risky, Mutezo (2005). Most financial Institutions make lending or financing decisions on the basis of criteria such as credit history, past bank account management, entrepreneurial track record, willingness to invest own money and evidence of repayment capability based on the merits of the business or investment proposition, Bakhas (2009) citing HM Treasury (2003).

Shaku, (2011) states that lack of access to capital cannot be regarded as the sole major obstacle to the low rate of SME establishment. Financial providers consider lack

of entrepreneurial skill and other skills such as financial management and marketing as important skills for the proper management of SMEs. Due to the lack of management accounting skills, internal business failure is seen as one of the major problems in speeding up the creation of the SMEs in South Africa. Most of the SMEs at startup phase do not get to the mature phase due to management's failure to take relevant decisions on how to reinvest the profits.

Due to information asymmetries, SMEs often encounter significant shortcomings which increases the risks and transaction costs of SME lending. This in turn results in financiers and lenders placing significant emphasis on the borrower's ability to provide sufficient collateral in order to secure the loan, Bakhas (2009) citing Tagoe et al. (2005). The willingness and ability to provide collateral is not only an indication of the borrower's creditworthiness or confidence in the viability of the business/investment proposition, but also serves as a risk mitigating tool from a lenders perspective, Bakhas (2009) citing OECD, (2006). The provision of collateral ensures that the borrower bears some risk of loss and that the lender is provided with an alternative source of repayment should the borrower not be able to meet its financial obligations or go insolvent, Bakhas (2009) citing Nigrini and Schoombee (2002).

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The intention and purpose of this chapter is to describe the research methodology approach in detail. The areas which will be discussed include the research design and methodology, the data, the target population and sampling, questionnaire design and administration and data analysis. The research process involves the application of various methods and techniques in order to create scientifically obtained knowledge by using objective methods and procedures, Lapan and Quartaroli (2009); Welman & Kruger (2001). According to Denzin (2005), research is a systematic examination intended to discover new information and to expand or verify existing knowledge in an attempt to solve a problem.

3.2 Research Design and Methodology

According to Denzin and Lincoln (2003), a research design is a plan that indicates how the researcher intends to investigate the research problem. Its function is to ensure that evidence is obtained which will be instrumental in answering the research question as unambiguously and accurately as possible, De Vaus (2001). The quantitative research methodology was used in the collection of data. The quantitative method was applied with the purpose of understanding the processes funding institutions use when evaluating finance applications from emerging property developers. The methodology was mostly concerned with exploring reasons what criteria is used by the funding institutions to grant finance to emerging property developers and reasons for their failure and success rate.

Creswell (2003) states that a quantitative approach is one in which the investigator primarily uses strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data. The quantitative approach requires the researcher to be distant and independent from that which is being researched, as any involvement of the researcher in what is being observed would render false results. In this vein, the researcher has to be objective when selecting the data collection methods and when analyzing the data collected during the research

process. Mouton and Prozesky (2001), argue that quantitative research methodology is considered more appropriate in action or applied research.

3.3 The Data

According to Denzin (2000), data present a collection of facts assembled for a particular purpose. Data was collected and used respectively in order to clearly identify the problems and also to test the propositions. The two types of data used in the study: the first of which is the primary data and the second, named secondary data.

3.3.1 Primary Data

The primary data was gathered through questionnaires emailed to respondents. The questionnaires were emailed to fund managers of the various funding institutions as well as emerging property developers in the industry. In the questionnaires, both closed ended and open ended questions were asked. The questionnaires were structured in such a way that quantitative data could be collected.

3.3.2 Secondary Data

The secondary data forms a base for background information on the topic. Data was obtained from various established International and South African literature sources such as academic journals, books, conference papers, reports and Theses. The research process was mostly undertaken in the Nelson Mandela Metropolitan University library and computer facilities.

3.4 Target Population and Sampling

The targeted population consisted of emerging property developers and funding institutions in South Africa. The empirical survey required a representative sample of 100 people from both the property development and funding environment. This sample size was large enough to carry the research although the larger the sample size, the greater the probability that the sample would reflect the general population, Patten (2004). Bryman and Bell (2003) argue that a large sample cannot guarantee the precision of the sample. It would probably be better to say that increasing the size of the sample increases the likely precision of the sample.

A sample is a subset of the population that is drawn to be representative of the whole population in a research project because it reflects characteristics of the entire population, Du Plooy (2001). In this research study, the participants were selected by the researcher, because they were considered to be sufficiently informed and knowledgeable to provide meaningful information, Creswell and Plano Clark (2007). Leedy and Ormrod (2005) citing Gay and Airasian have the following guidelines for the identification of a sufficient sample size:

- For a small population, less than 100 people, there is no need for sampling;
- If the population size is around 500, 50% of the population should be sampled;
- If the population size is around 1500, 20% should be sampled;
- Beyond a certain point (at about 5000 units or more), a sample of 400 people is adequate.

The participants were handpicked, which implies that purposive sampling was employed, Creswell and Plano Clark (2007).

3.5 Questionnaire Design

The questionnaire technique, or research instrument, was chosen on the basis that it would encourage independent thinking by the respondents when answering. It was also envisaged that it would assist the researcher in solving the problem. The two sets of questionnaires were used, the first for emerging property developers and the second for funding institutions. Both these questionnaires were designed in a simple and uncomplicated way. The wording used in the measure was presented in plain, clear, and concise English suitable for the targeted population of Emerging Property Developers and funding Institutions. The questionnaire was structured in a manner that focuses each question upon a single, clearly defined subject. To avoid confusion, care was taken to eliminate all negative or ambiguous expressions from the questionnaire.

De Vos, Strydom, Fouche and Delport (2005), define a questionnaire as a set of questions on a form which is completed by the respondent in respect of a research

project. According to Babbie and Mouton (2001), the term questionnaire suggest a collection of questions, a typical questionnaire will probably contain as many statements as questions, especially if the researcher is interested in determining the extent to which respondents hold a particular view. Leedy and Ormrod (2005) list the following requirements to be taken into account when compiling a questionnaire:

a) Confidentiality should be assured.
b) Wherever possible, a choice of answers should be given on the form.
c) The questionnaire should be well laid out, with adequate space for answers, where necessary.
d) Questions should not be offensive
e) Questions should not give cause for emotive language
f) Questions should not require and calculations; and
g) Questions should be short, simple and to the point.

Leedy and Ormrod (2005) state that a questionnaire should comply with at least the following three objectives:

a) It should be executed within the ambit of available time and resources.
b) It should reflect accurate information regarding the research study.
c) It should meet the aims of the research.

In the present study confidentiality was assured and the questionnaire was not angled so as to influence any particular response. All the above mentioned requirements were therefore taken into account.

The aim of the administered questionnaires was at identifying:

For Funding Institutions

- Identify the most important characteristics needed when accessing applications for property development projects
- Identify the most valued factors required when accessing finance applications for property development projects
- Identify the most important managerial skills of emerging property developers when accessing financial applications for property development projects.

For Emerging Property Developers

- Identify the most important characteristics required when embarking on a property development project.
- Understand financial requirements for emerging property developers.
- Identify the most important managerial skills the emerging property developers possess in ensuring success when accessing finance and execution of property development projects.

Both questionnaires consisted of open and closed ended questions. Frazer and Lawley (2000) suggest that researchers should use fewer open ended questions because they are more time consuming to complete and difficult to analyze. Both questionnaires have an attached covering letter. Ideally the covering letter is the first document examined by the respondent when picking up the questionnaire. A 7 point likert scale was used as a measure of the perceptions of respondents with regards to property development projects evident in both the funding institutions and emerging property developers and those that are important for success. The 7 point likert scale was chosen to ensure a narrower gap between the answers and thereby ensuring more accurate results. An “Unsure” option was also used to allow respondents who were not sure about a variable to have an answer.

3.5.1 Questionnaire for Funding Institutions

The questionnaire for funding institutions consisted four sections:

Section A consisted of eleven questions, covering all the relevant demographic factors such as age, gender, highest qualification and experience. The respondents were asked to simply select their answer from a list of multiple choice boxes. The information gathered was used later to investigate whether the variables had any significant influence on prioritization of property development projects.

Section B consisted of twenty two closed ended questions of property development variables required in the success of property development projects. A likert scale rating the importance of these variables was put besides each variable where the respondents could rate the variables.

Section C consisted of twenty closed ended questions and five open ended questions of financial variables required when accessing finance applications for property

development projects. A likert scale rating the importance of these variables was put besides each variable where the respondents could rate the variables.

Section D consisted of twenty three closed ended questions and two open ended questions of managerial skills for emerging property developers to successfully obtain finance for property development projects. A likert scale was put besides the managerial skills required where each respondent would rate the skills.

3.5.2 Questionnaire for Emerging Property Developers

The questionnaire for emerging property developers consisted four sections:

Section A consisted of fourteen questions, covering all the relevant demographic factors such as age, gender, highest qualification, income and experience. The respondents were asked to simply select their answer from a list of multiple choice boxes. The information gathered was used later to investigate whether the variables had any significant influence on prioritization of property development projects.

Section B consisted of twenty one closed ended questions of property development variables required in the success of property development projects. A likert scale rating the importance of these variables was put besides each variable where the respondents could rate the variables.

Section C consisted of thirteen questions on financial variables required when accessing finance for property development projects. The respondents were asked to simply select their answer from a list of multiple choice boxes. The information gathered was used later to investigate whether the variables had any significant influence on obtaining finance for property development projects.

Section D consisted of twenty three closed ended questions of managerial skills for emerging property developers to successfully obtain finance for property development projects. A likert scale was put besides the managerial skills required where each respondent would rate the skills.

3.6 Questionnaire Administration

The questionnaire was designed and tested before being administered. The pilot questionnaires were sent to some emerging property developers and funding institutions in the Eastern Cape area first to determine whether the respondents would firstly be able to understand the questionnaire and secondly to identify any errors. No

negative feedback was received from the respondents. A web based survey was envisaged but due to time limitations, questionnaires were emailed to the targeted group. Personal emails were sent out with the cover letter and the respective questionnaire for each group of respondents. The respondents were reminded telephonically and via email to return completed questionnaires after every two week period.

3.7 Data Analysis

From the emailed questionnaire, the responses will be captured and exported into an Excel (Microsoft Ltd) spreadsheet. From this document, the responses will be separated to clearly differentiate between the two sample groups. The data for each sample group will then be analyzed individually to indicate descriptive statistics such as the frequency, the mode, mean and standard error for all the responses. The observations of the two sample groups will then be compared and evaluated.

CHAPTER 4

RESULTS, ANALYSIS AND INTERPRETATION

4.1 Introduction

The literature review in Chapter 2 dealt extensively with the subject of property development and finance. The intention of this chapter is to present, discuss and interpret the findings of this research. The data was collected and statistically analyzed using Microsoft Excel.

4.2 Responses

One hundred (100) questionnaires were distributed to funding institutions and emerging property developers who were asked to participate in this study. Responses were received from forty (40) employees working for funding institutions and forty eight (48) emerging property developers. The response rates was thus eighty percent (80%, N=50) and eighty nine percent (89%, N= 50) respectively, with the overall response rate being eighty eight (88%, N=100).

4.3 Demographic Profile

The demographic data is important as it describes the sample of respondent. The results of the demographic profiles of the two sample groups are presented in graphs and will be discussed individually. The demographic data is divided into personal and organizational data.

The personal data that is presented in this this section consists of:

- Age;
- Gender;
- Marital Status; and
- Academic Qualification.

The organizational data that is presented in this section consists of:

- Sector of employment;
- Current employment designation;
- Period of current position at firm / Period Business in operation

- Period involved in Property Development
- Types of Property Development
- Experience
- Form of Business
- Size of practice (No of employees);
- Turnover; and
- Geographic region.

4.3.1 Personal Data

4.3.1.1 Age

Figure 4.1 represents the age distribution of the respondents from the funding institutions. The respondents were mainly from the age categories 25 – 34 (35%), 35 – 44 (23%), <25 (20%), 45 – 54 (13%) and 55 – 64 (10%) respectively.

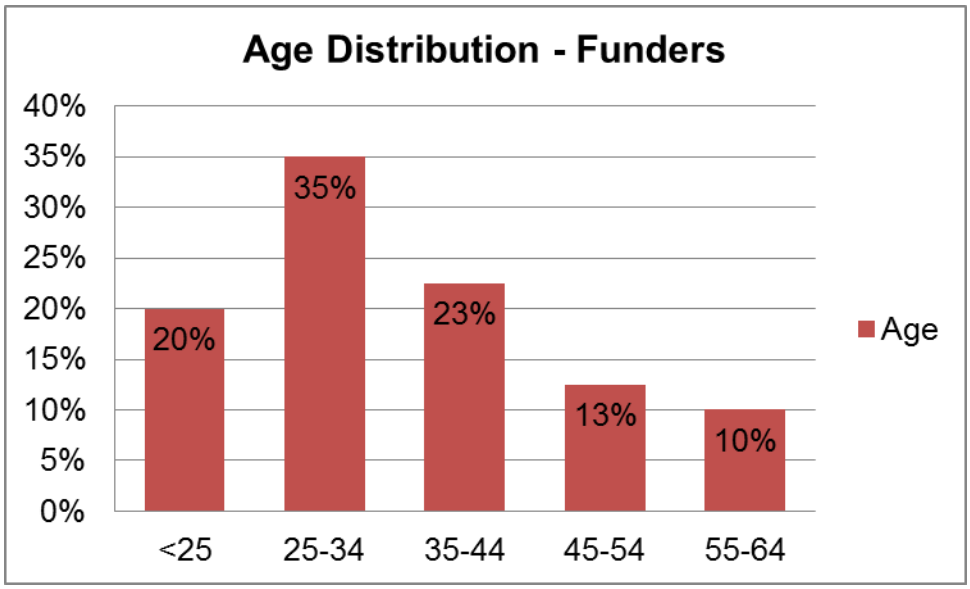

Figure 4.1: Age of Respondents - Funders

Figure 4.2 represents the age distribution of the respondents from emerging property developers (SMME). The respondents were mainly from the age categories 25 – 34 (38%), 35 – 44 (17%), <25 (17%), 45 – 54 (15%), 55 – 64 (10%) and 65+ (4%) respectively.

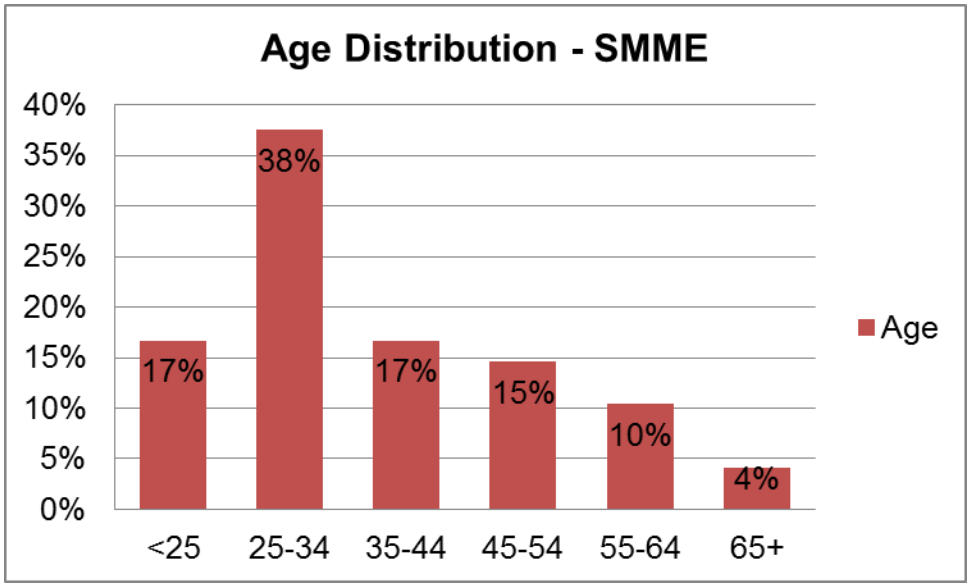

Figure 4.2 – Age of Respondents - SMME

4.3.1.2 Gender

Figure 4.3 represents the gender distribution of respondents from the funding institutions. The most frequently encountered gender is female with fifty eight percent (58%), whilst male representation is forty three percent (43%).

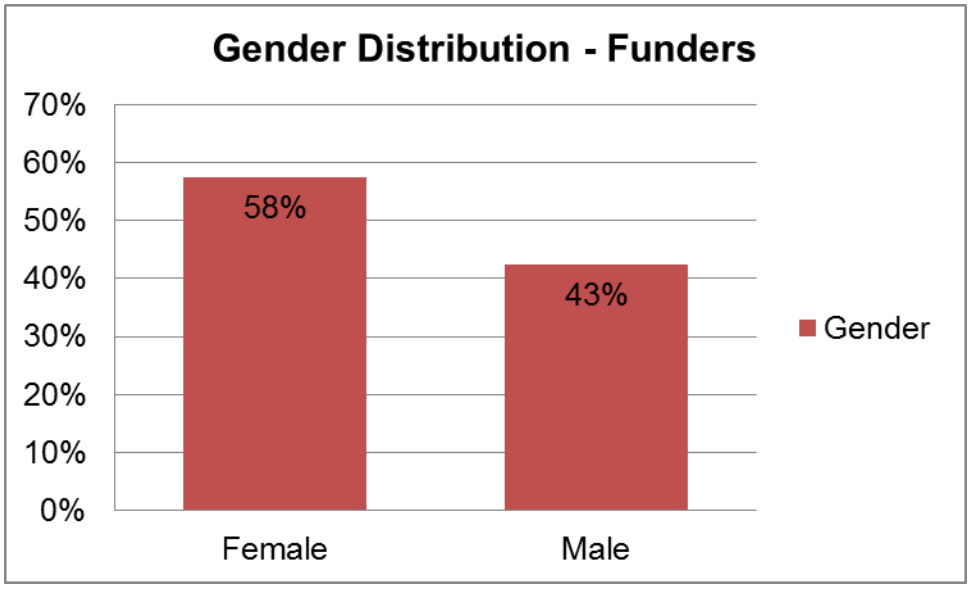

Figure 4.3 – Gender of Respondents - Funders

Figure 4.4 represents the gender distribution of respondents from emerging property developers (SMME). The most frequently encountered gender is female with sixty nine percent (69%), whilst male representation is forty three percent (31%).

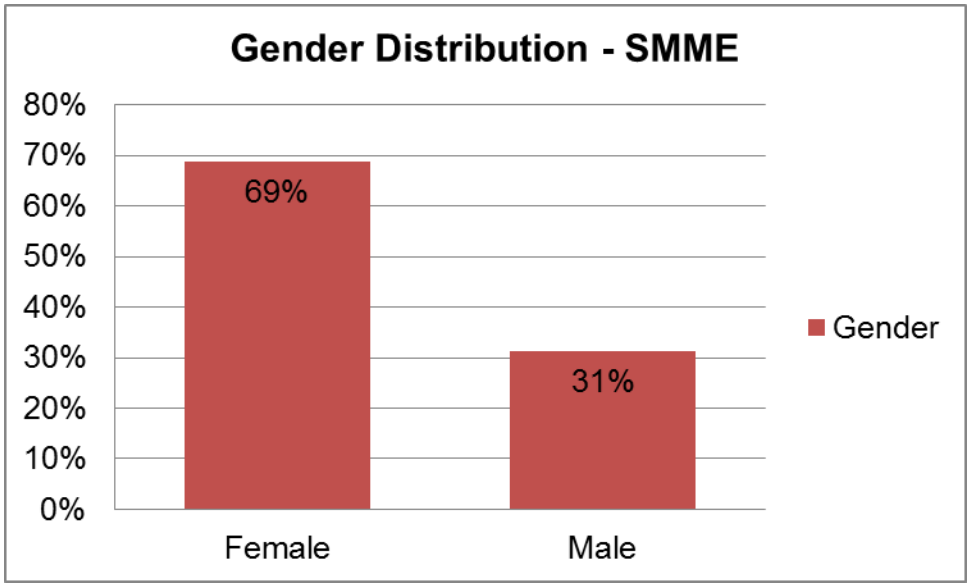

Figure 4.4 – Gender of Respondents - SMME

4.3.1.3 Marital Status

Figure 4.5 the majority of respondents from the funding institutions are married with a fifty five percent (55%) representation and thirty eight percent (38%) are single.

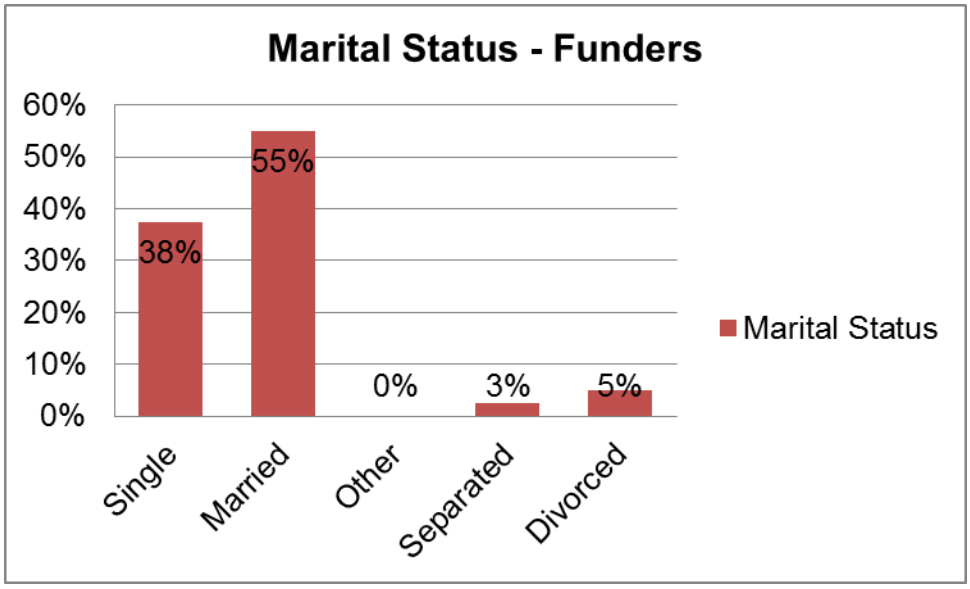

Figure 4.5 – Marital Status of Respondents- Funders

Figure 4.6 the majority of respondents from the emerging property developers (SMME) are married with a forty six percent (46%) representation and twenty nine percent (29%) are single.

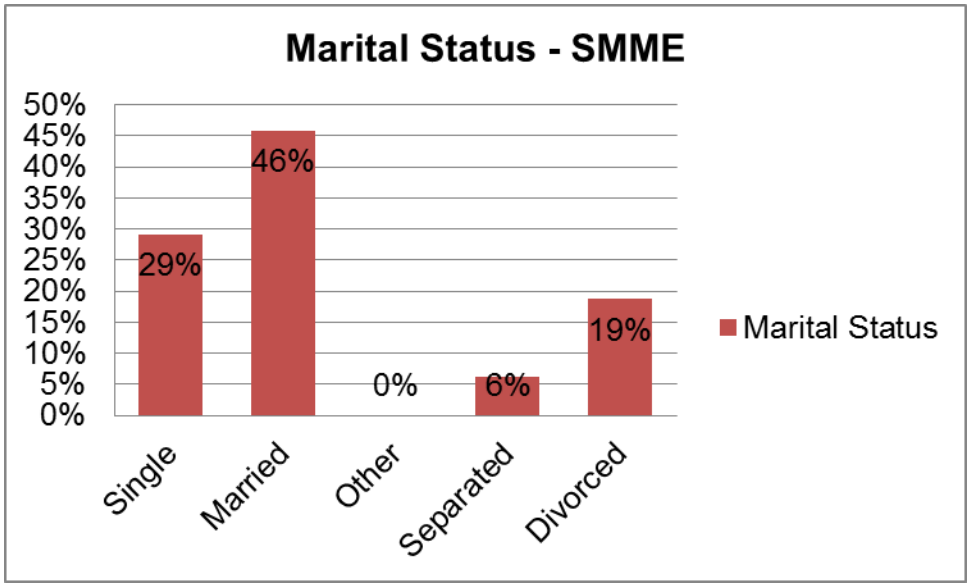

Figure 4. 6 – Marital Status of Respondents - SMME

4.3.1.4 Academic Qualification

Figure 4.7 Thirty eight percent (38%) of the respondents from the funding institutions possess a Bachelors degree. The next most prevalent qualification is an Honours degree with twenty eight percent (28%) of respondents possessing this qualification. Only three percent (3%) of the respondents possess a Masters degree.

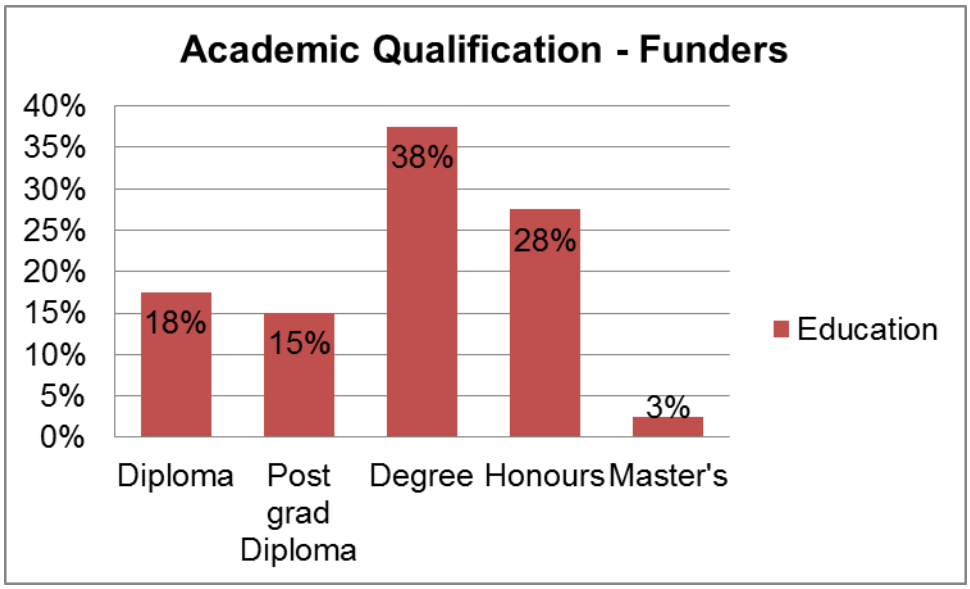

Figure 4.7 – Academic Qualifications - Funders

Figure 4.8 Thirty three percent (33%) of the respondents from the emerging property developers (SMME) possess Diplomas. The next most prevalent qualification is a Post Graduate Diploma with twenty nine percent (29%) of respondents possessing this qualification. Seventeen percent (17%) of respondents possess both a Bachelors degree and Honours degree respectively with only four percent (4%) possessing a Masters degree.

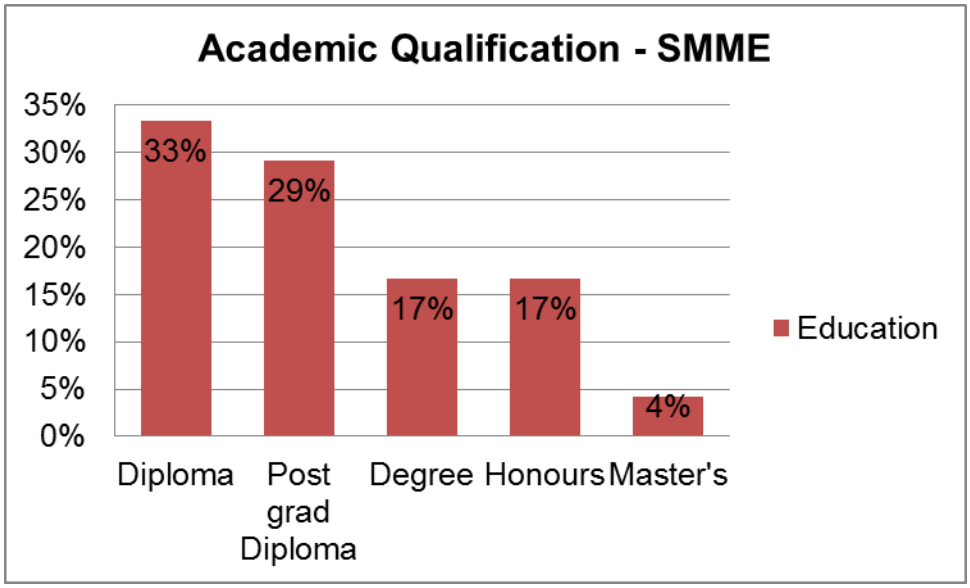

Figure 4.8 – Academic Qualifications - SMME

4.3.2 Organizational Data

4.3.2.1 Sector

Figure 4.9 Fifty three percent (53%) of respondents from funding institutions work in the private sector. Only forty eight percent (48%) work in the public sector.

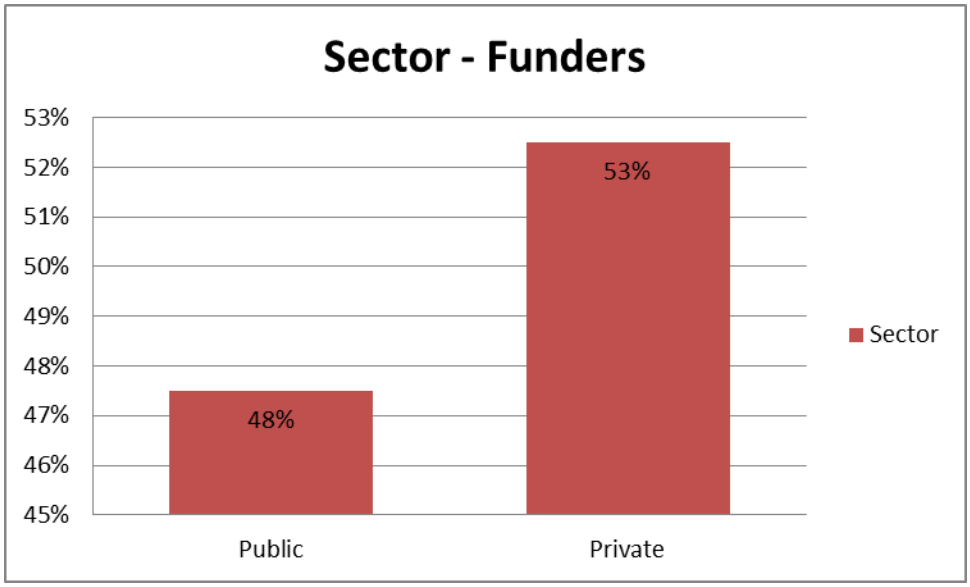

Figure 4.9 – Sector - Funders

Figure 4.10 seventy nine percent (79%) of respondents from emerging property developers (SMME) work in the private sector and only twenty one percent (21%) work in the public sector.

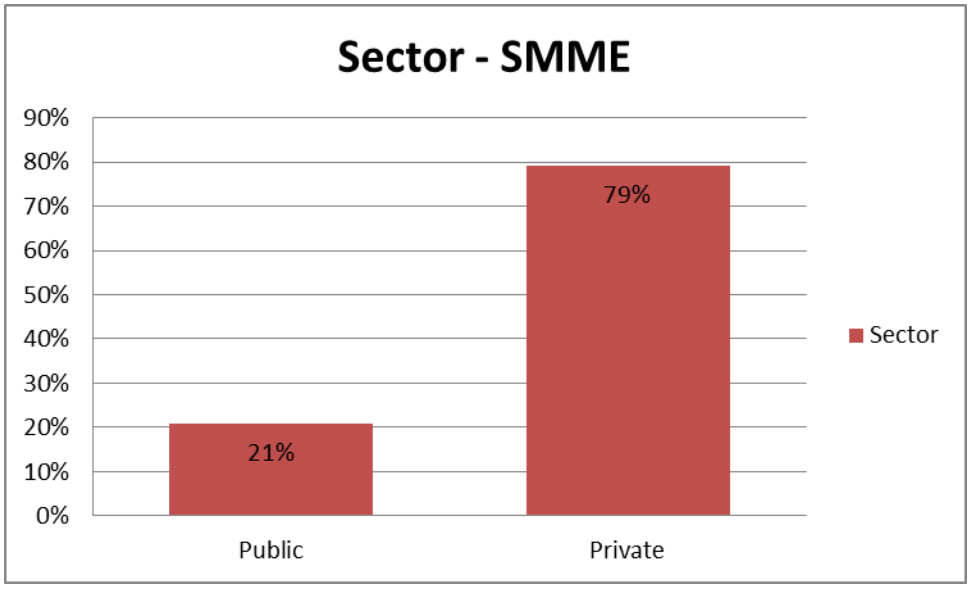

Figure 4.10 – Sector - SMME

4.3.2.2. Position in Organization

Figure 4.11 represents the position that the respondents from funding institutions hold within their respective firms. Forty three percent (43%) are in Finance. Thirty percent (30%) are in Loans. Twenty five percent (25%) are in Investments and only three percent (3%) are in construction.

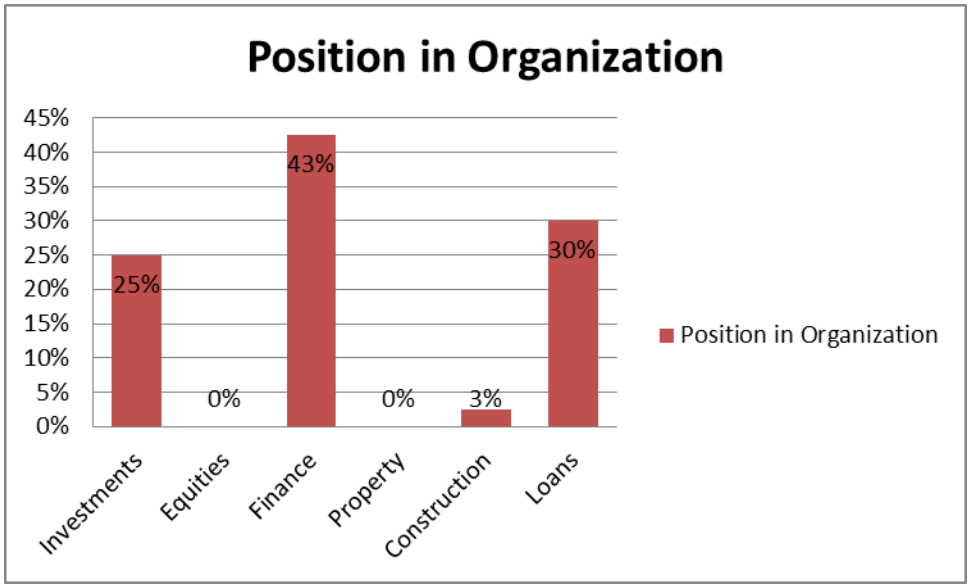

Figure 4.11 – Position in organization – Funders

Figure 4.12 represents the position the respondents from emerging property developers (SMME) hold within their respective firms. Thirty five (35%) are owners of their respective firms. Thirty three percent (33%) are partners. Fifteen percent (15%) are managers, ten percent (10%) are staff members and only six percent (6%) are associates.

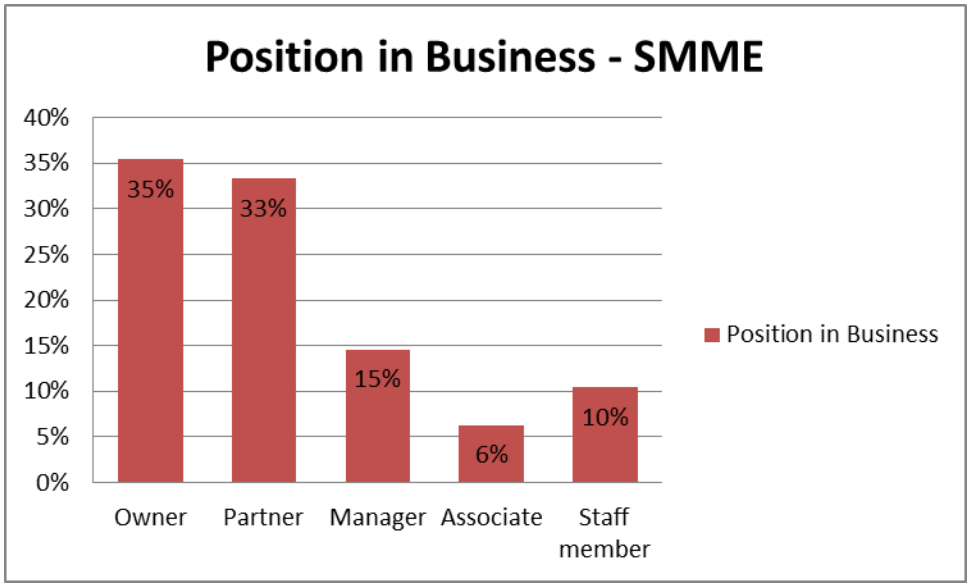

Figure 4.12 – Position in Business – SMME

4.3.2.3 Years in Position / Years in Business

Figure 4.13 represents the years the respondents in the funding institutions hold the position within their respective firms. Forty five percent (45%) of the respondents have been in their positions for 3 – 6 years, twenty eight percent (28%) with 7 – 10 years, twenty three percent < 3 years, and three percent (3%) with 11 – 14 years and 15 to 18 years respectively.

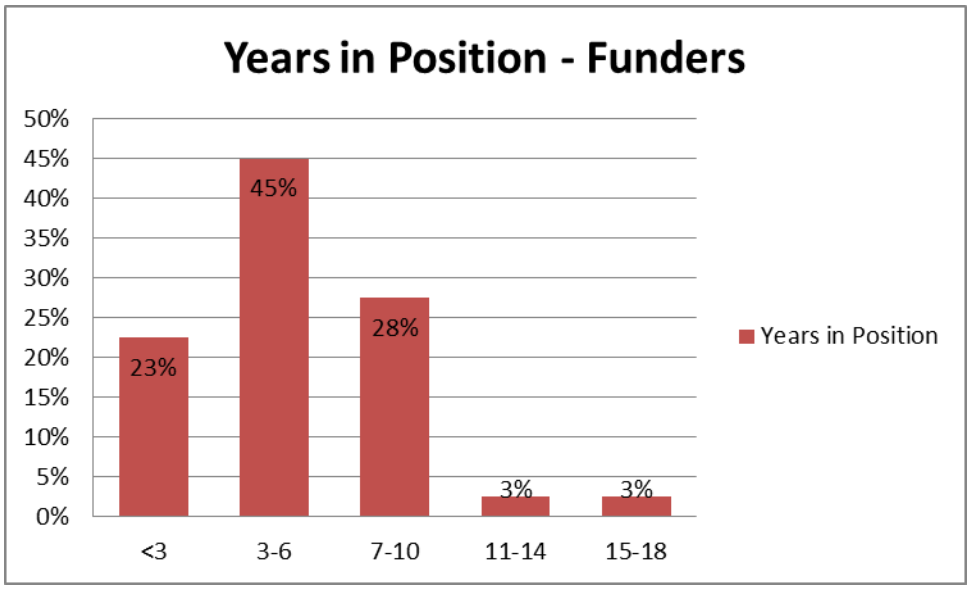

Figure 4.13 – Years in Position - Funders

Figure 4.14 represents the number of years the emerging property developers (SMME) their businesses have been in operation. Thirty one percent (31%) of the respondents have been in operation for 5 – 9 years, twenty seven percent (27%) in operation for < 5 years, nineteen percent (19%) in operation for 15 – 19 years, seventeen percent (17%) in operation for 10 – 14 years and six percent (6%) in operation for 20 – 25 years.

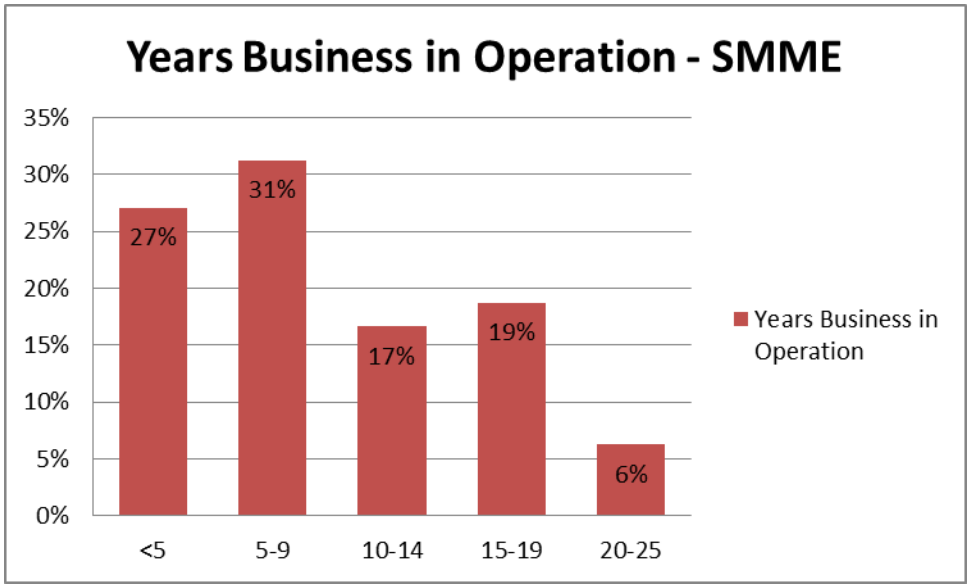

Figure 4.14 – Years Business in Operation - SMME

4.3.2.4 Years in Property Development / Financing

Figure 4.15 represents the number of years the respondents in funding institutions have been involved in financing property developments. Forty three percent (43%) have been financing property developments for 5 – 9 years, twenty five percent (25%) for 10 – 14 years and < 5 years respectively. Eight percent (8%) for 15 – 19 years.

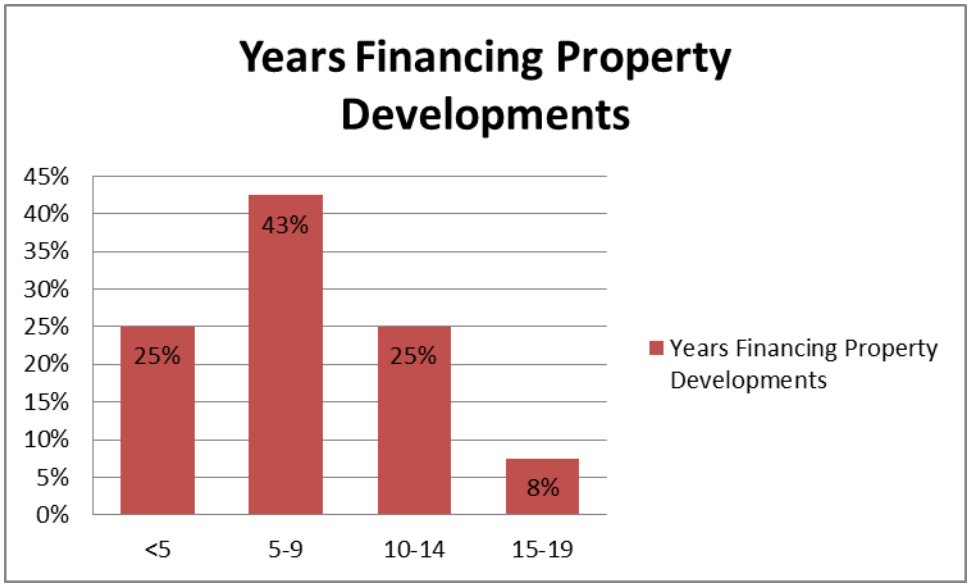

Figure 4.15 – Years financing property developments - funders

Figure 4.16 represents the number of years the emerging property developers (SMME) respondents have been involved in property developments. Thirty eight percent (38%) have been involved property developments for 5 – 9 years, Twenty one percent of the respondents have been involved < 5 years. respectively. Nineteen percent (19%) have been involved for 10 – 14 years. Seventeen percent (17%) have been involved for 15 – 19 years and six percent (6%) for 20 – 25 years.

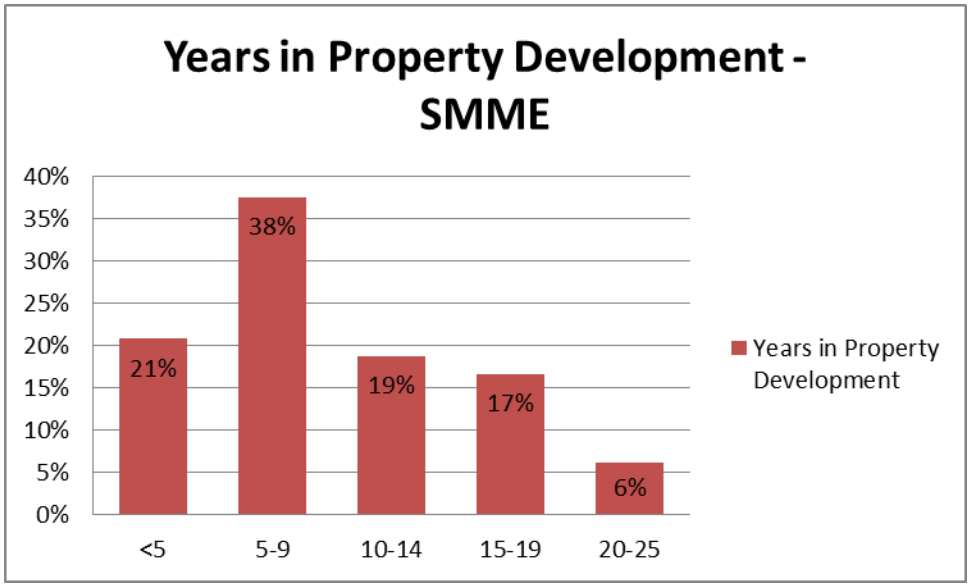

Figure 4.16 – Years in property development – SMME

4.3.2.5 Types of Property Developments

Figure 4.17 represents the type of property developments the respondents from funding institutions are involved in. Thirty eight percent (38%) are involved in residentail developments, twenty eight percent (28%) are in retail and office developments respectively and eight (8%) are in industrial developments.

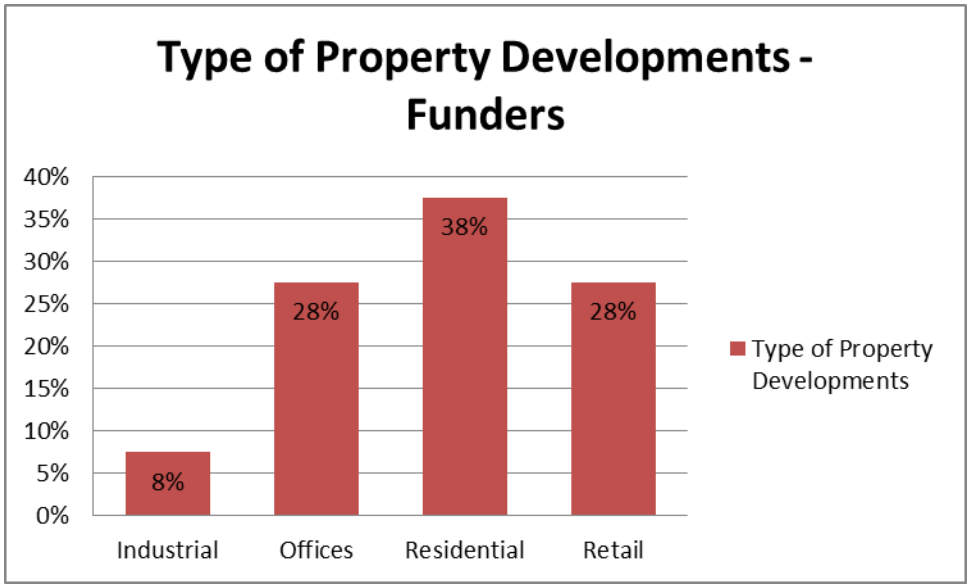

Figure 4.17 – Types of Property Developments - Funders

Figure 4.18 represents the type of property developments the emerging property developers (SMME) respondents are involved in. Forty four (44%) of the respondents are involved in residentail developments. Twenty three percent (23%) of the respondents are involved in retail and office developments respectively and ten percent (10%) are involved in industrial developments.

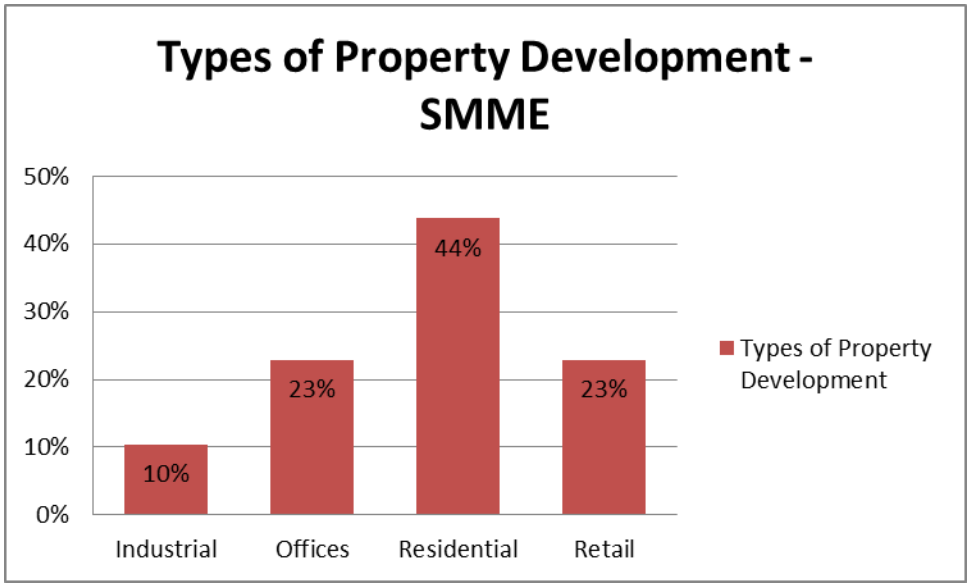

Figure 4.18 – Types of property developments – SMME

4.3.2.6 Experience in Financing / Property Developments

Figure 4.19 Fifty three percent (53%) of respondents from the funding institutions are experienced in financing property development projects. Thirty percent (30%) are moderately experienced and Eighteen percent (18%) are inexperienced.

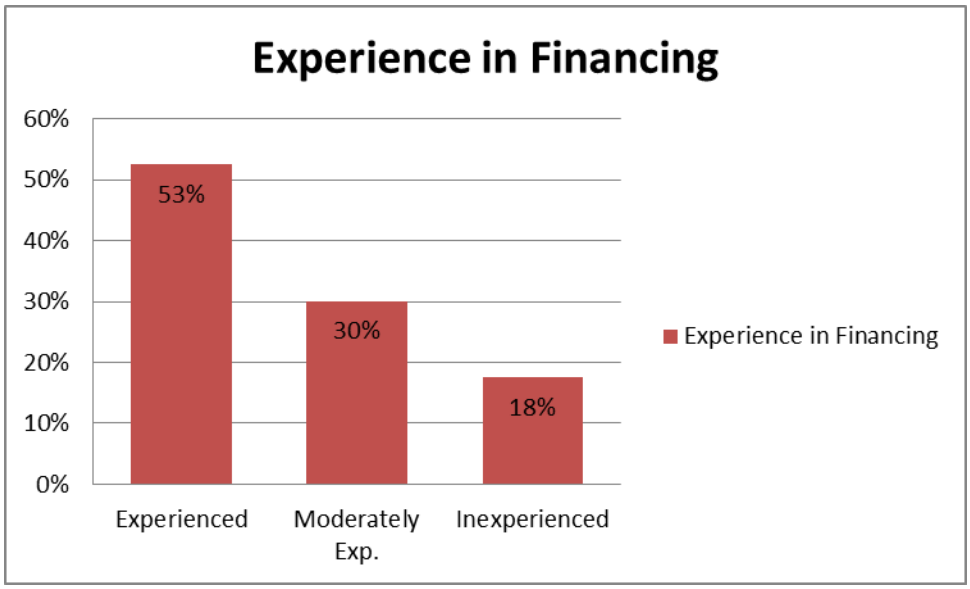

Figure 4.19 – Experience in financing – Funders

Figure 4.20 Fifty six percent (56%) of the emerging property developers (SMME) are experienced in property development projects. Thirty eight percent (38%) are moderately experienced and six percent (6%) are inexperienced.

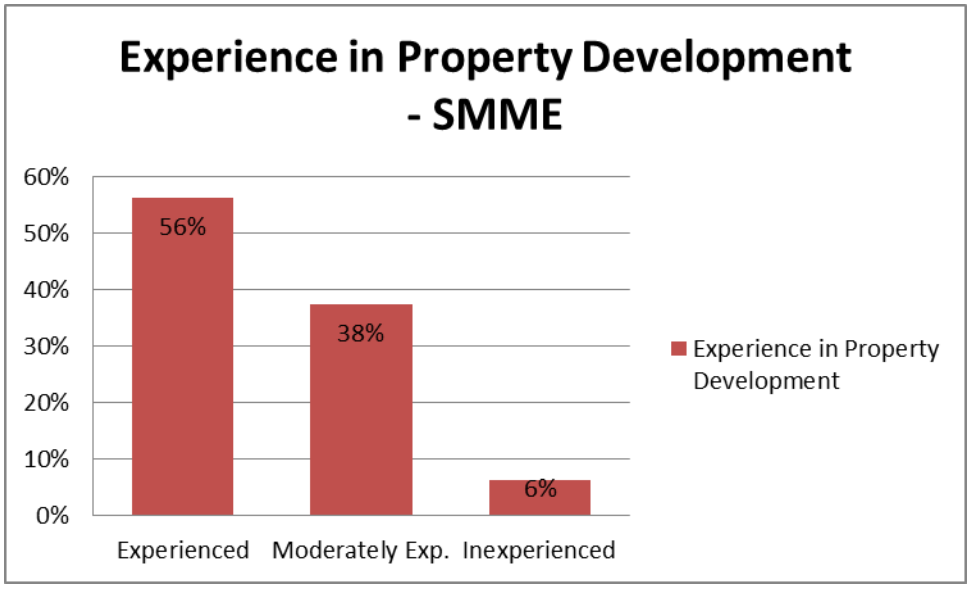

Figure 4.20 – Experience in property development – SMME

4.3.2.7 Business Form

Figure 4.21 represents the type of business form the respondents from emerging property developers (SMME) are part of. Forty four percent (44%) are in a company, Thirty one percent (31%) are in a close corporation. Thirteen percent (13%) are sole proprietor. Ten percent (10%) in partnership and two percent (2%) in a trust.

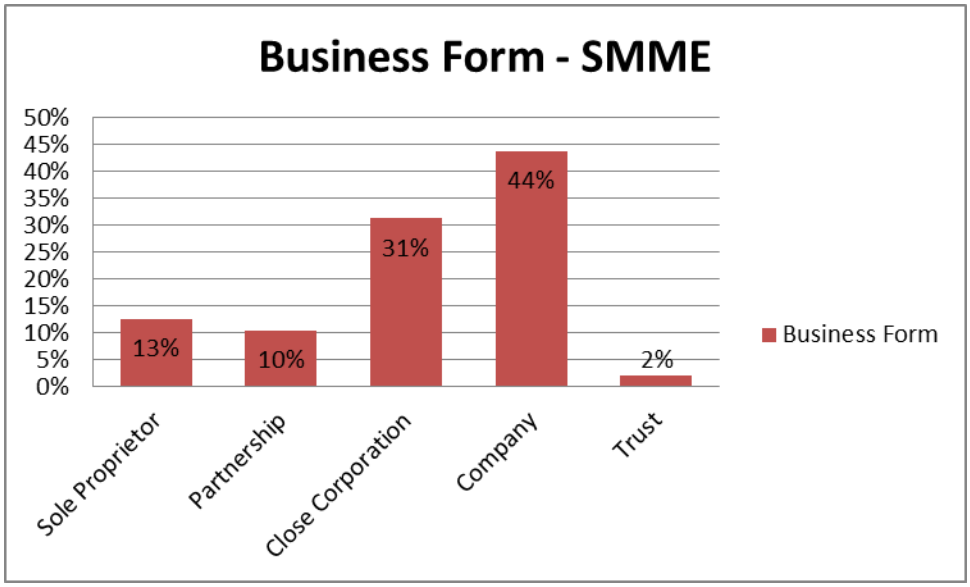

Figure 4.21 – Business Form – SMME

4.3.2.8 No of Employees

Figure 4.22 Forty two percent (42%) of the respondents from the emerging property developers (SMME) employ 6 – 20 employees, thirty five percent (35%) of the respondents employ < 5 employees, ten percent (10%) employ between 20 – 50 and 50 – 200 employees respectively. Two percent (2%) employ > than 200 employees.

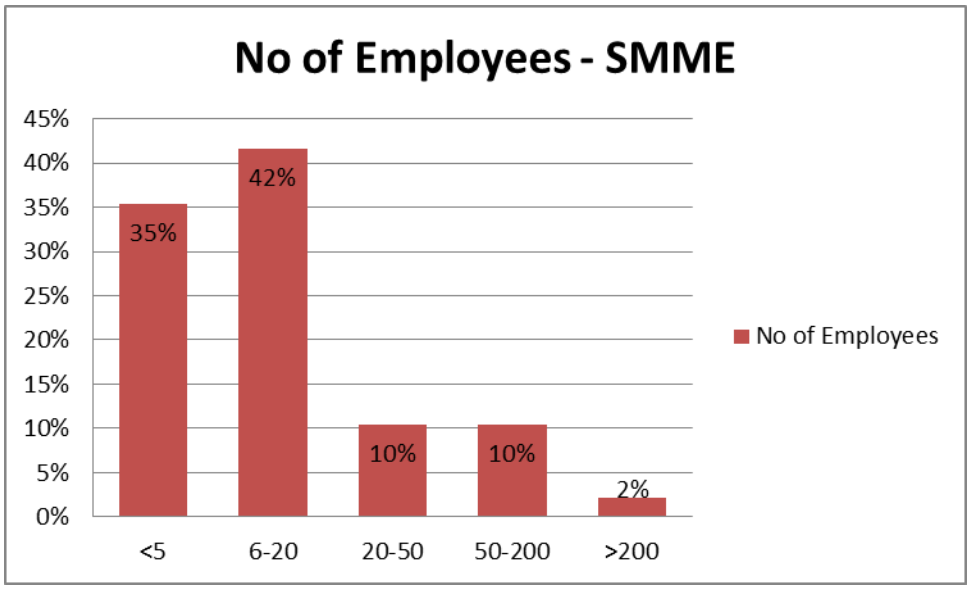

Figure 4.22 – No of employees - SMME

4.3.2.9 Turnover

Figure 4.23 Twenty nine percent (29%) of the emerging property developers (SMME) turnover is < R5m. Seventeen percent (17%) of the respondents turnover is < R10m and R25m respectively. Fifteen percent (15%) of the respondents turnover is <R20m. Thirteen percent (13%) of the respondents turnover is < R 15m and Ten percent (10%) of the respondents turnover is < R30m.

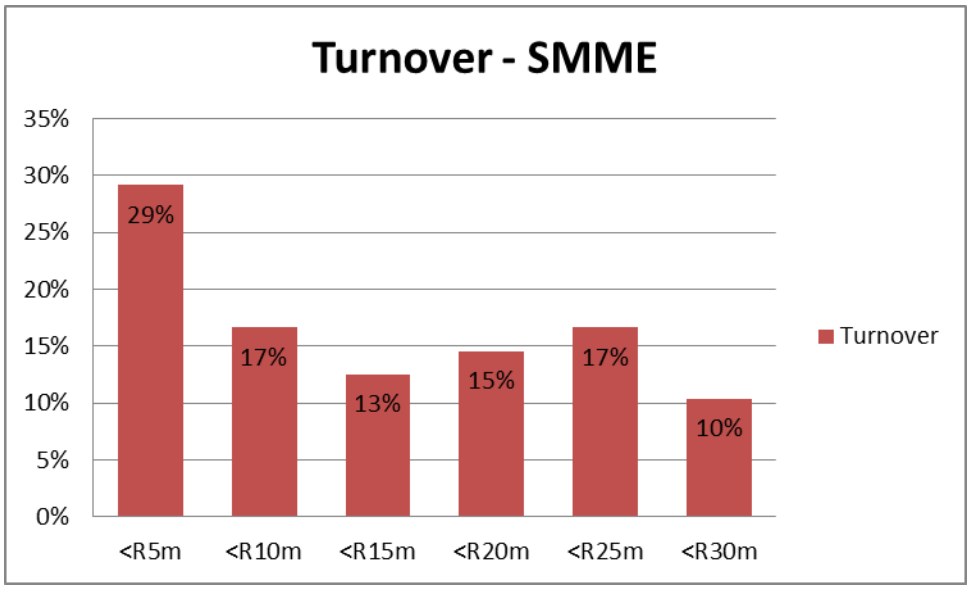

Figure 4.23 – Turnover – SMME

4.3.2.10 Geographic Region

Figure 4.24 represents the geographic distribution the respondents in the funding institutions are located in. Twenty three percent (23%) of the respondents are located in the Eastern Cape. Eighteen percent (18%) of the respondents are located in Gauteng. Thirteen percent (13%) of the respondents are located in Kwazulu Natal, Free State, Limpopo and Western Cape respectively. Ten percent (10%) of the respondents are located in the North West.

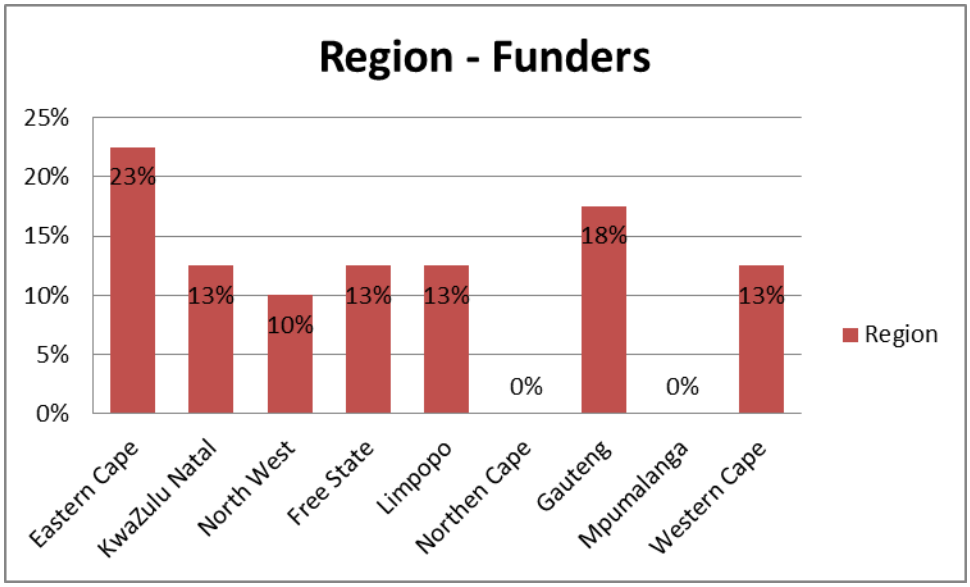

Figure 4.24 – Region - funders

Figure 4.25 represents the geographic distribution the emerging property developers (SMME) respondents are located in. Thirty one percent (31%) of the respondents are located in the Eastern Cape. Seventeen percent (17%) of the respondents are located in Gauteng and Kwazulu Natal respectively. Ten percent (10%) of the respondents are located in the Free State and Western Cape respectively. Eight percent (8%) of the respondents are located in the North West. Six percent (6%) of the respondents are located in Lompopo.

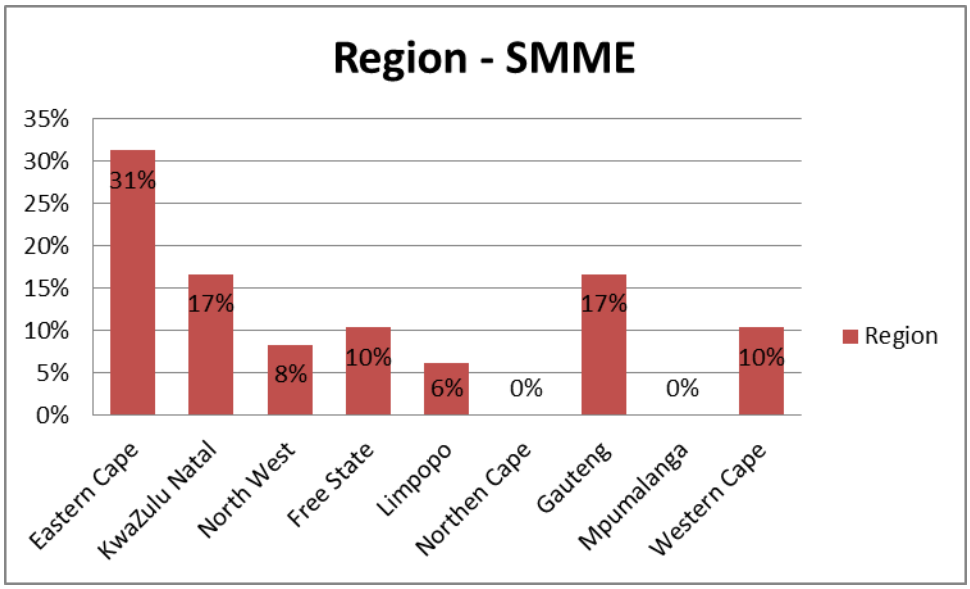

Figure 4.25 – Region – SMME

4.3.15 Summary

4.3.15.1 Funding Institutions Response

The findings indicate that the majority of the respondents are in the age group of 25 – 34 years (35%), are females (58%), married (55%) possess a Bachelors Degree (38%).

The majority of the respondents from the funding institutions are in the private sector (53%) working in Finance (43%) and have been in this position for 3 – 6 years (45%). They have been involved in financing property developments for 5 – 9 years (43%) and the type of property developments are in the residential sector (38%).

The majority of the respondents are experienced (53%) in financing property development projects and are predominately located in the Eastern Cape Province (23%).

4.3.15.2 Emerging Property Developers Response

The findings indicate that the majority of the respondents are in the age group of 25 – 34 years (35%), are females (69%), married (46%) and possess a National Diplomas (33%).

The majority of the respondents from the emerging property developers are in the private sector (79%) working as owners of the business (35%) and their businesses have been in this operation for 5 – 9 years (31%). They have been involved in property developments for 5 – 9 years (38%) and the type of property developments are in the residential sector (44%).

The majority of the respondents are experienced (56%) in property development projects. Most of their businesses operate as a company (44%) which employs 6 – 20 employees. Their business turnover is < R5m and are predominately located in the Eastern Cape Province (23%).

4.4 Analysis of Data

4.4.1 Funding Institutions

This section is for analysing the data. Various methods are used to analyse the data: descriptive analysis, such as the mean and standard deviation will be employed in analysing the responses from this population group.

Section B of the questionnaire asked the respondents to rate the importance of 22 statements when accessing applications for property development projects according to a 7-point Likert scale, where 1 = Not at all important, 2 = Little importance, 3 = Somewhat important, 4 = Important, 5 = Very important, 6 = Extremely important and 7 = Of utmost importance. The respondents also had an option of “Unsure” where they were uncertain.

Section C of the questionnaire asked the respondents to rate the importance of 20 statements when accessing funding applications for property development projects according to a 7-point Likert scale, where 1 = Not at all important, 2 = Little importance, 3 = Somewhat important, 4 = Important, 5 = Very important, 6 = Extremely important and 7 = Of utmost importance. The respondents also had an option of “Unsure” where they were uncertain.

Open ended questions on financing of property developments were also asked from the respondents and their responses will also be analysed

Section D of the questionnaire asked the respondents to rate the importance of 23 managerial skills required by emerging property developers when accessing funding applications for property development projects according to a 7-point Likert scale, where 1 = Not at all important, 2 = Little importance, 3 = Somewhat important, 4 = Important, 5 = Very important, 6 = Extremely important and 7 = Of utmost importance. The respondents also had an option of “Unsure” where they were uncertain.

Open ended questions on managerial skills were also asked from the respondents and their responses will also be analysed.

4.4.1.1 Analysis – Section B

Table 1 indicates the frequency of all the results of the important statements when accessing applications for property development projects, as well as the mean and standard deviation of the data.

Mean

From Section B, it was determined that the average mean of the variables is 5.13 which meant that all the variables above 5.13 were above average and therefore considered important. Therefore, only the top twelve variables will be discussed and interpreted.
The extent of ranges was determined by dividing the number on continuums, which is 6.00, by the 7 relative points. Therefore, the ranges between the relative points equate to 0.85.

Therefore, the ranges relative to the mean scores for importance are defined as follows:

- > 6.15 < 7.00 (Of utmost importance);
- > 5.30 < 6.15 (Extremely important);
- > 4.45 < 5.30 (Very important);
- > 3.60 < 4.45 (Important);
- > 2.75 < 3.60 (Somewhat important);
- > 1.90 < 2.75 (Little importance), and
- > 1.00 < 1.90 (Not important).

Standard Deviation

The standard deviation scale shall be interpreted as follows:

- > 0.00 < 1.00 (Responses extremely closely grouped together);
- > 1.00 < 2.00 (Responses reasonably closely grouped together), and
- > 2.00 < 5.00 (Responses vary and are not closely grouped together).

Section B - Importance of statements when accessing applications for property development projects.

Table 1:			Frequency								Descriptive Statistics	
Ref	**Rank**	**Statement**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Unsure**	**Mean**	**S.D.**
B20	1	Location	0%	0%	0%	5%	33%	33%	30%	0%	5.88	0.91
B10	2	A Feasibility Study for the development is conducted	0%	0%	0%	10%	33%	33%	25%	0%	5.73	0.96
B12	3	The outcome of the development correspond with the projections of the feasibility study	0%	0%	0%	0%	45%	40%	15%	0%	5.70	0.72
B02	4	A needs analysis of the target market is conducted by the developer	0%	0%	0%	13%	33%	45%	10%	0%	5.53	0.85
B11	5	A project viability study is conducted	0%	0%	0%	13%	43%	30%	15%	0%	5.48	0.91
B22	6	Pre-letting	0%	0%	5%	15%	28%	35%	18%	0%	5.45	1.11
B03	7	The market values of the vacant land to be developed are adequately assessed	0%	0%	3%	13%	40%	33%	13%	0%	5.40	0.96
B17	8	The influence of risk elements are forecasted for the project	0%	0%	0%	13%	55%	28%	5%	0%	5.25	0.74
B05	9	Interest rates play a significant role in the development decision stage	0%	0%	0%	20%	43%	30%	8%	0%	5.25	0.87
B15	10	Local authority advice relating to town planning conditions are taken into consideration	0%	0%	0%	20%	48%	28%	5%	0%	5.18	0.81
B16	11	Risk elements associated with the specific development project are identified	0%	0%	0%	23%	45%	25%	8%	0%	5.18	0.87
B06	12	A minimum profit margin is determined before commencement of the project	0%	0%	0%	33%	33%	25%	10%	0%	5.13	0.99
B04	13	Micro economic factors are taken into consideration during the development decision stage	0%	0%	0%	23%	48%	28%	3%	0%	5.10	0.78
B13	14	Legal processes are adequately considered during the feasibility study	0%	0%	0%	25%	45%	25%	5%	0%	5.10	0.84
B01	15	Establishing the demand for the product to be financed	0%	0%	5%	28%	33%	23%	13%	0%	5.10	1.10
B21	16	Marketing	0%	0%	3%	28%	35%	30%	5%	0%	5.08	0.94
B18	17	Relevant legislation governing property development is taken into consideration during the project viability study stage	0%	0%	0%	35%	55%	5%	5%	0%	4.80	0.76
B09	18	Built environment consultants were involved during the feasibility stage of the project	0%	0%	0%	48%	33%	18%	3%	0%	4.75	0.84
B14	19	The objectives of the local authority are taken into consideration during the decision making process	0%	0%	10%	35%	43%	8%	5%	0%	4.63	0.95
B08	20	The property cycle during the planning stages of the development was identified	0%	0%	15%	33%	35%	15%	3%	0%	4.58	1.01
B07	21	Inflation is taken into consideration when profit margins are determined	0%	0%	18%	43%	28%	10%	3%	0%	4.38	0.98
B19	22	The level of stability of the political environment is studied during the project viability study stage	0%	0%	25%	45%	23%	5%	3%	0%	4.15	0.95

Mean: The means of the top seven statements when accessing applications for property development are all above 5.30, which place these variables in the category of “5.30 to 6.15”, indicating that these statements are ranked “Extremely important” on the Likert scale of importance. The next five statements are all above 4.45, which place these variables in the category of 4.45 to 5.30”, indicating that these statements are ranked “Very important” on the Likert scale of importance.

Standard Deviation: The first five statements, together with the seventh to the twelfth statement have a standard deviation below one, which indicates that the responses are extremely grouped together. The sixth statement has a standard deviation of slightly more than one, which indicates that the responses are reasonably closely grouped together. It can however still be concluded that a high percentage of the respondents agreed that the top seven statements are “Extremely important”.

Interpretation: The findings in Table 1 indicate that location ranked the highest indicating that the respondents concurred around the mean of the variable, identifying it as the most important. A feasibility study for the development is conducted ranked second, indicating that the respondents concurred around the mean, identifying this variable as the second most important. The outcome of the development correspond with the projections of the feasibility study ranked third, indicating that the respondents concurred around the mean of the variable, identifying it as the third most important. A needs analysis of the target market is conducted by the developer ranked fourth, indicating that the respondents concurred around the mean of the variable, identifying it as the fourth most important. A project viability study is conducted ranked fifth, indicating that the respondents concurred around the mean of the variable, identifying it as the fifth most important. Pre-letting ranked sixth, indicating that the respondents concurred around the mean of the variable, identifying it as the sixth most important. The market values of the vacant land to be developed are adequately assessed ranked seventh, indicating that the respondents concurred around the mean of the variable, identifying it as the seventh most important. The next two statements ranked equally from eighth to ninth in terms of their mean rating being the influence of risk elements are forecasted for the project and interest rates play a significant role in the development decision stage. The next two statements ranked equally from tenth to

eleventh in terms of their mean rating being local authority advice relating to town planning conditions are taken into consideration and risk elements associated with specific development project. A minimum profit margin is determined before commencement of the project ranked twelfth, indicating that the respondents concurred around the mean of the variable, identifying it as the twelfth most important.

When looking at the standard deviation of the first five statements, the seventh to the twelfth statements, they all indicate that the respondents concurred to a very high degree regarding the importance of the statements when accessing applications for property development. The standard deviation of the sixth statement also indicate that the respondents concurred regarding the importance of the statement, but are slightly above one, which indicates that they reasonably concurred.

4.4.1.2 Section C

Table 2 indicates the frequency of all the results of the important statements when accessing finance applications for property development projects, as well as the mean and standard deviation of the data.

Mean

From Section C, it was determined that the average mean of the variables is 5.27 which meant that all the variables above 5.27 were above average and therefore considered important. Therefore, only the top ten variables will be discussed and interpreted.
The extent of ranges was determined by dividing the number on continuums, which is 6.00, by the 7 relative points. Therefore, the ranges between the relative points equate to 0.85.

Therefore, the ranges relative to the mean scores for importance are defined as follows:

- > 6.15 < 7.00 (Of utmost importance);
- > 5.30 < 6.15 (Extremely important);
- > 4.45 < 5.30 (Very important);
- > 3.60 < 4.45 (Important);
- > 2.75 < 3.60 (Somewhat important);
- > 1.90 < 2.75 (Little importance), and
- > 1.00 < 1.90 (Not important).

Standard Deviation

The standard deviation scale shall be interpreted as follows:

- > 0.00 < 1.00 (Responses extremely closely grouped together);
- > 1.00 < 2.00 (Responses reasonably closely grouped together), and
- > 2.00 < 5.00 (Responses vary and are not closely grouped together).

Section C - Importance of statements when accessing finance applications for property development projects.

Table 2:			Frequency								Descriptive Statistics	
Ref	Rank	Statement	1	2	3	4	5	6	7	Unsure	Mean	S.D.
C19	1	Loan security	0%	0%	0%	0%	18%	43%	40%	0%	6.23	0.73
C02	2	Maximum return on investment	0%	0%	0%	0%	18%	53%	30%	0%	6.13	0.69
C18	3	Demonstrate the purpose of the loan is commercially sound	0%	0%	0%	0%	23%	45%	33%	0%	6.10	0.74
C03	4	Business plan	0%	0%	0%	3%	18%	58%	23%	0%	6.00	0.72
C12	5	A project feasibility study	0%	0%	0%	0%	30%	48%	23%	0%	5.93	0.73
C13	6	Projected cashflow statements	0%	0%	0%	10%	28%	38%	25%	0%	5.78	0.95
C17	7	Risk elements associated with the specific development project	0%	0%	0%	10%	33%	38%	20%	0%	5.68	0.92
C11	8	A project viability study	0%	0%	0%	10%	40%	38%	13%	0%	5.53	0.85
C08	9	Pre-letting or sales	0%	0%	0%	15%	38%	33%	15%	0%	5.48	0.93
C01	10	Total Capital requirements	0%	0%	0%	15%	43%	28%	15%	0%	5.43	0.93
C04	11	Balance sheets	0%	0%	0%	15%	48%	35%	3%	0%	5.25	0.74
C14	12	Contract guarantees	0%	0%	0%	18%	45%	38%	0%	0%	5.20	0.72
C16	13	Economic factors such as inflation and interest rates	0%	0%	0%	18%	45%	38%	0%	0%	5.20	0.72
C05	14	Income statements	0%	0%	0%	30%	43%	25%	3%	0%	5.00	0.82
C10	15	Long term loans commitment	0%	0%	0%	28%	50%	23%	0%	0%	4.95	0.71
C09	16	Own Capital	0%	0%	10%	28%	40%	23%	0%	0%	4.75	0.93
C06	17	Trade credit	0%	0%	15%	40%	25%	20%	0%	0%	4.50	0.99
C20	18	Managerial skills of the applicant	0%	0%	13%	43%	43%	0%	3%	0%	4.38	0.81
C15	19	Financial history of the applicant	0%	0%	20%	45%	28%	5%	3%	0%	4.25	0.93
C07	20	Bank overdraft	0%	10%	30%	48%	13%	0%	0%	0%	3.63	0.84

Mean: The mean of the top statement when accessing applications for property development is above 6.15, which places this variables in the category of “6.15 to 7.00”, indicating that this statements is ranked “Of utmost importance” on the Likert scale of importance. The next nine statements are all above 5.30, which place these variables in the category of 5.30 to 6.15”, indicating that these statements are ranked “Extremely important” on the Likert scale of importance.

Standard Deviation: All the top ten statements have a standard deviation below one, which indicates that the responses are extremely grouped together. It can be

concluded that the high percentage of the respondents agreed that the top ten statements are “Extremely important”.

Interpretation: The findings in Table 2 indicate that loan security ranked the highest indicating that the respondents concurred around the mean of the variable, identifying it as the most important. Maximum return on investment ranked second, indicating that the respondents concurred around the mean, identifying this variable as the second most important. Demonstrate the purpose of the loan is commercially sound ranked third, indicating that the respondents concurred around the mean of the variable, identifying it as the third most important. Business plan ranked fourth, indicating that the respondents concurred around the mean of the variable, identifying it as the fourth most important. A project feasibility study ranked fifth, indicating that the respondents concurred around the mean of the variable, identifying it as the fifth most important. Projected cash flow statements ranked sixth, indicating that the respondents concurred around the mean of the variable, identifying it as the sixth most important. Risk elements associated with the specific development project seventh, indicating that the respondents concurred around the mean of the variable, identifying it as the seventh most important. A project viability study ranked eighth, indicating that the respondents concurred around the mean of the variable, identifying it as the eighth most important. Pre-letting or sales ranked ninth, indicating that the respondents concurred around the mean of the variable, identifying it as the ninth most important. Total capital requirements ranked tenth, indicating that the respondents concurred around the mean of the variable, identifying it as the tenth most important.

When looking at the standard deviation of the all the ten top statements, they all indicate that the respondents concurred to a very high degree regarding the importance of the statements when accessing finance applications for property development.

Open ended questions in Section C asked the respondents the following questions.

a) What sources of debt funding are available within your organization?

Figure 4.26 represents the sources of debt funding available in the organizations of the respondents. Twenty eight percent (28%) of the respondent's organizations utilize business finance as a form of funding. Twenty percent (20%) utilize Equity Loans. Thirteen percent (13%) utilize Bridging Finance. Ten percent (10%) utilizes Start-up capital and Eight percent (8%) utilizes Term loans.

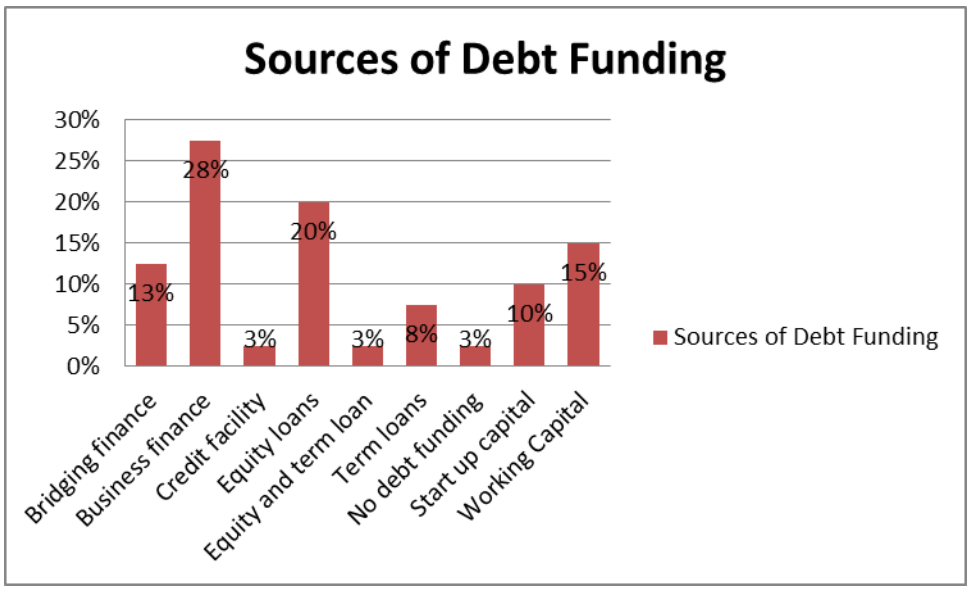

Figure 4.26 – Sources of Debt Funding

b) What is the maturity period of your typical loan term?

Figure 4.27 represents the maturity period of a typical loan term. Fifty percent (50%) of the respondent's organizations have a maturity period of 10 years. Forty percent (40%) have 5 years and Ten percent (10%) 3 years.

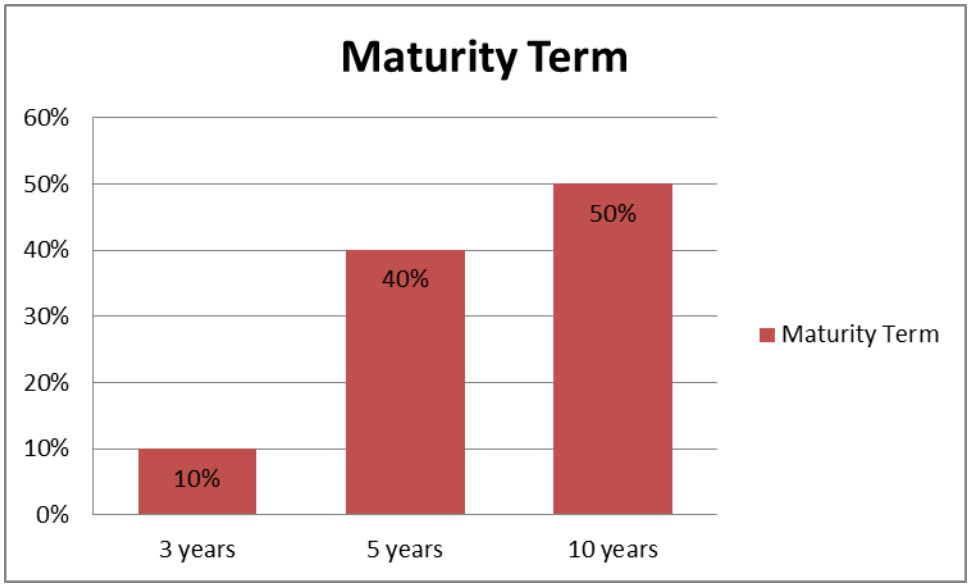

Figure 4.27 – Maturity Term

c) What do you think are the problems encountered by emerging property developers when requiring financial support?

Figure 4.28 represents the responses on the problems encountered by emerging property developers when requiring financial support. Twenty five percent (25%) of the respondent's highlight lack of collateral as a major factor. Twenty percent (20%) points to bad credit record. Thirteen percent (13%) no project viability and no security.

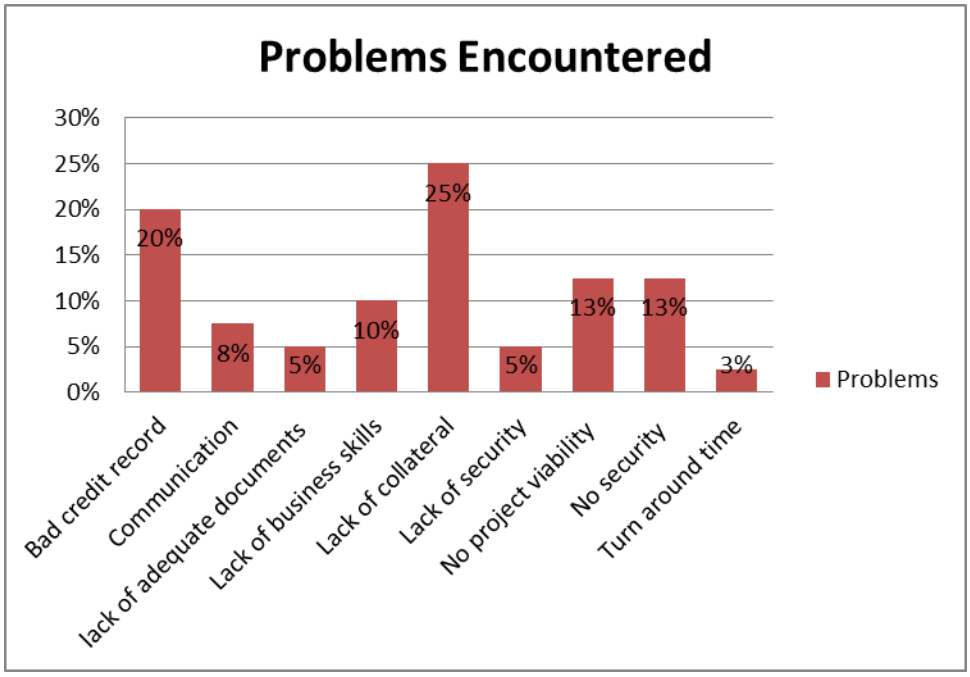

Figure 4.28 – Problems Encountered

d) What obstacles do you think they experience in the application process for finance?

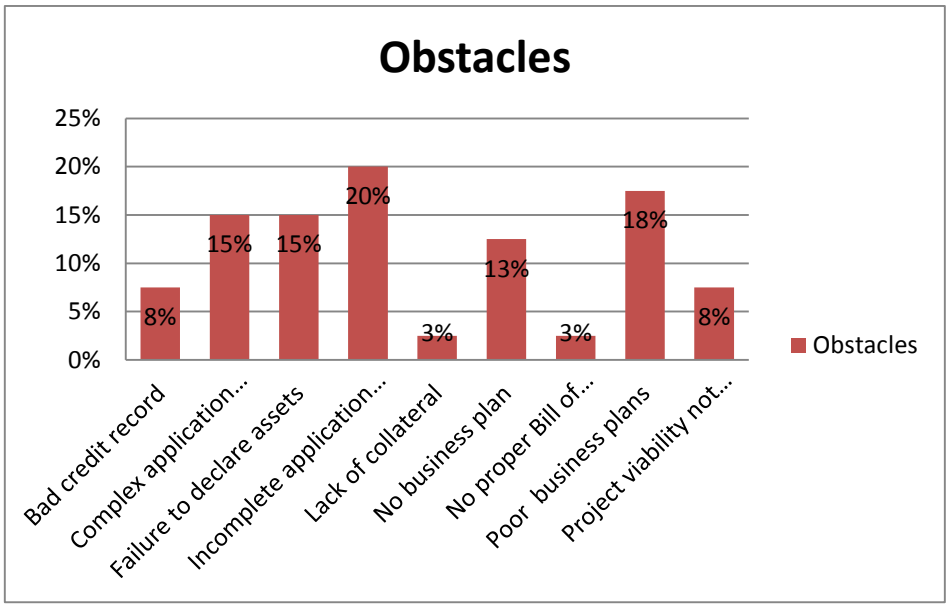

Figure 4.29 – Obstacles experienced

Figure 4.29 represents responses on the obstacles experienced by emerging property developers in the application process for finance. Twenty percent (20%) have incomplete application forms. Eighteen percent submit poor business plans. Fifteen percent (15%) cite complex application forms and failure to declare assets. Thirteen percent have no business plans.

e) What percentages are lending fees typically incurred by emerging property developers when obtaining finance from your institution/organization?

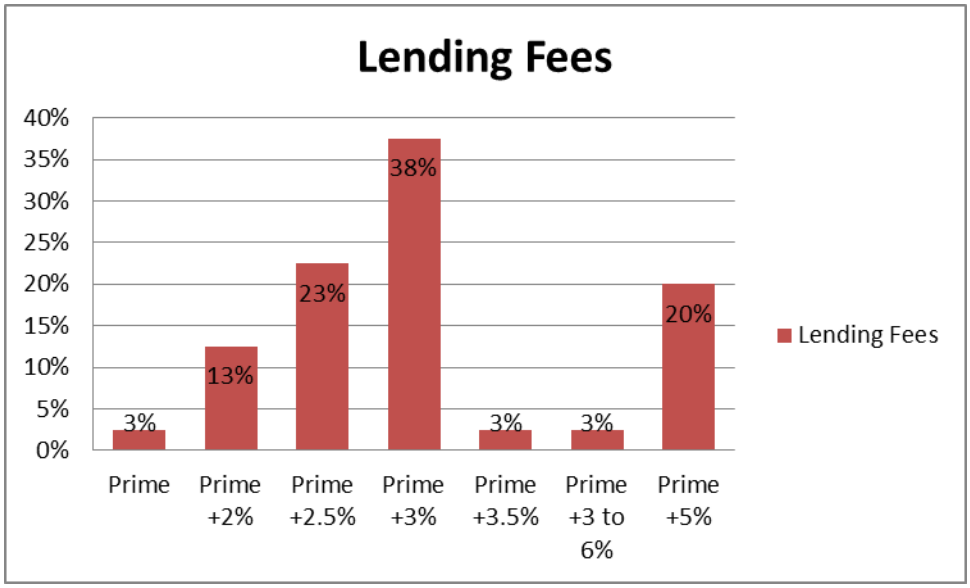

Figure 4.30 – Lending Fees

Figure 4.30 represents the typical lending fees incurred by emerging property developers when obtaining finance from finance institutions. Thirty eight percent (38%) are paying prime +3%. Twenty three percent (23%) are paying prime +2.5%. Twenty percent (20%) pay prime +5% and Thirteen percent (13%) pay prime +2%.

Summary

The findings indicate that the majority of the respondent's organizations use business finance (28%) as a form of debt funding to fund emerging property developers. The majority of the respondent's organizations have a maturity period of 10 years (50%) on their loans. The majority of the respondent's organizations lending fees are prime +3% (38%).

The majority of the respondents highlight lack of collateral (25%) as a major factor or problem encountered by emerging property developers when requiring financial support. The majority of the respondents think incomplete application forms (20%) is the major obstacle experienced by emerging property developers during the application process for finance.

4.4.1.3 Section D

Table 3 indicates the frequency of all the results of the important managerial skills of emerging property developers, as well as the mean and standard deviation of the data.

Mean

From Section D, it was determined that the average mean of the variables is 4.74 which meant that all the variables above 4.74 were above average and therefore considered important. Therefore, only the top fifteen variables will be discussed and interpreted.
The extent of ranges was determined by dividing the number on continuums, which is 6.00, by the 7 relative points. Therefore, the ranges between the relative points equate to 0.85.

Therefore, the ranges relative to the mean scores for importance are defined as follows:

- > 6.15 < 7.00 (Of utmost importance);
- > 5.30 < 6.15 (Extremely important);
- > 4.45 < 5.30 (Very important);
- > 3.60 < 4.45 (Important);
- > 2.75 < 3.60 (Somewhat important);
- > 1.90 < 2.75 (Little importance), and
- > 1.00 < 1.90 (Not important).

Standard Deviation

The standard deviation scale shall be interpreted as follows:

- > 0.00 < 1.00 (Responses extremely closely grouped together);
- > 1.00 < 2.00 (Responses reasonably closely grouped together), and
- > 2.00 < 5.00 (Responses vary and are not closely grouped together).

Section D – Importance of Managerial skills of emerging property developers

Table 3			Frequency								Descriptive Statistics	
Ref	**Rank**	**Statement**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Unsure**	**Mean**	**S.D.**
D13	1	Marketing	0%	0%	0%	13%	33%	33%	23%	0%	5.65	0.98
D05	2	Costing	0%	0%	0%	13%	43%	38%	8%	0%	5.40	0.81
D19	3	Planning	0%	0%	0%	10%	48%	43%	0%	0%	5.33	0.66
D17	4	Oral communication	0%	0%	3%	10%	43%	45%	0%	0%	5.30	0.76
D15	5	Negotiation skills	0%	0%	0%	20%	45%	23%	13%	0%	5.28	0.93
D06	6	Decision making	0%	0%	0%	18%	45%	35%	3%	0%	5.23	0.77
D16	7	Numerical (Mathematics)	0%	0%	0%	23%	48%	30%	0%	0%	5.08	0.73
D12	8	Leadership	0%	0%	0%	30%	43%	28%	0%	0%	4.98	0.77
D01	9	Administration	0%	0%	3%	28%	43%	28%	0%	0%	4.95	0.81
D07	10	Entrepreneurial	0%	0%	3%	30%	43%	23%	3%	0%	4.93	0.86
D09	11	Financial	0%	0%	3%	30%	43%	23%	3%	0%	4.93	0.86
D10	12	Initiating	0%	0%	15%	28%	33%	13%	13%	0%	4.80	1.22
D14	13	Motivating	0%	0%	5%	30%	48%	18%	0%	0%	4.78	0.80
D22	14	Supervisory	0%	0%	3%	38%	43%	15%	3%	0%	4.78	0.83
D20	15	Procurement	0%	0%	3%	35%	48%	15%	0%	0%	4.75	0.74
D04	16	Co-ordinating	0%	0%	8%	38%	35%	18%	3%	0%	4.70	0.94
D23	17	Team building	0%	0%	13%	33%	38%	15%	3%	0%	4.63	0.98
D18	18	Organizing	0%	0%	13%	35%	35%	18%	0%	0%	4.58	0.93
D11	19	Interpersonal	0%	0%	28%	40%	20%	13%	0%	0%	4.18	0.98
D08	20	Estimating	0%	8%	23%	35%	30%	3%	3%	0%	4.05	1.08
D03	21	Computer skills	0%	3%	30%	50%	18%	0%	0%	0%	3.83	0.75
D21	22	Report writing	0%	15%	23%	38%	18%	8%	0%	0%	3.80	1.14
D02	23	Auditing	0%	18%	53%	28%	0%	3%	0%	0%	3.18	0.81

Mean: The means of the top four managerial skills of emerging property developers are all above 5.30, which place these variables in the category of “5.30 to 6.15”, indicating that these statements are ranked “Extremely important” on the Likert scale of importance. The next eleven managerial skills are all above 4.45, which place these variables in the category of 4.45 to 5.30”, indicating that these statements are ranked “Very important” on the Likert scale of importance.

Standard Deviation: The first eleven managerial skills, together with the thirteenth to fifteenth managerial skills have a standard deviation below one, which indicates that the responses are extremely grouped together. The twelfth managerial skill has a standard deviation of slightly more than one, which indicates that the responses are reasonably closely grouped together. It can however still be concluded that a high

percentage of the respondents agreed that the top eleven statements are “Extremely important”.

Interpretation: The findings in Table 3 indicate that Marketing ranked the highest indicating that the respondents concurred around the mean of the variable, identifying it as the most important. Costing ranked second, indicating that the respondents concurred around the mean, identifying this variable as the second most important. The ability to plan (Planning skill) ranked third, indicating that the respondents concurred around the mean of the variable, identifying it as the third most important. The ability to communicate orally (Oral communication) ranked fourth, indicating that the respondents concurred around the mean of the variable, identifying it as the fourth most important. Negotiation skill ranked fifth, indicating that the respondents concurred around the mean of the variable, identifying it as the fifth most important. The ability to make decisions (Decision skill) ranked sixth, indicating that the respondents concurred around the mean of the variable, identifying it as the sixth most important. Numerical (Mathematics) ranked seventh, indicating that the respondents concurred around the mean of the variable, identifying it as the seventh most important. The ability to lead (Leadership skill) ranked eighth, indicating that the respondents concurred around the mean of the variable, identifying it as the eighth most important. Administration ranked ninth, indicating that the respondents concurred around the mean of the variable, identifying it as the ninth most important. The next two statements ranked equally from tenth to eleventh in terms of their mean rating being the Entrepreneurial and Financial Initiation ranked twelfth, indicating that the respondents concurred around the mean of the variable, identifying it as the twelfth most important. The next two statements ranked equally from thirteenth and fourteenth in terms of their mean rating being Motivating and Supervisory. The ability to procure (Procurement skill) ranked fifteenth, indicating that the respondents concurred around the mean of the variable, identifying it as the fifteenth most important.

When looking at the standard deviation of the first eleven statements, the thirteenth to the fifteenth managerial skills, they all indicate that the respondents concurred to a very high degree regarding the importance of the managerial skills. The standard deviation of the twelfth managerial skill also indicate that the respondents concurred

regarding the importance of the statement, but is slightly above one, which indicates that they reasonably concurred.

Open ended questions in Section D asked the respondents the following questions.

(a) Do you think emerging property developers have adequate managerial skills to successfully complete property development projects?

Figure 4.31 represents the responses from the respondents with regards to the above question. Fifty five percent (55%) of the respondents replied no. Twenty five percent (25%) responded yes. Ten percent (10%) responded sometimes and not always.

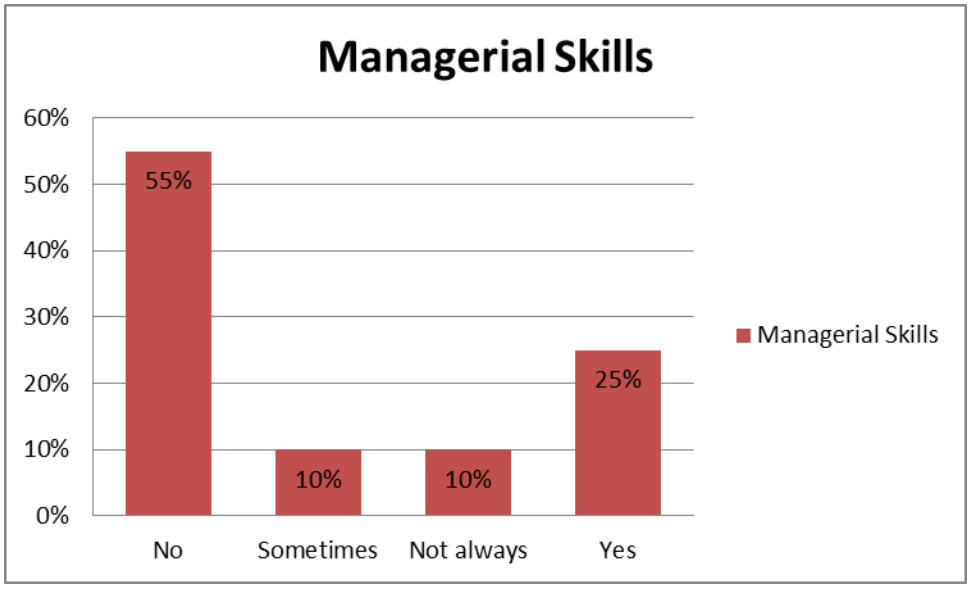

Figure 4.31 – Managerial skills

(b) Do you think emerging property developers have adequate financial skills to successfully complete property development projects?

Figure 4.32 represents the responses from the respondents with regards to the above question. Fifty seven percent (57%) of the respondents replied no. Twenty three percent (23%) responded yes. Ten percent (10%) responded sometimes and not always.

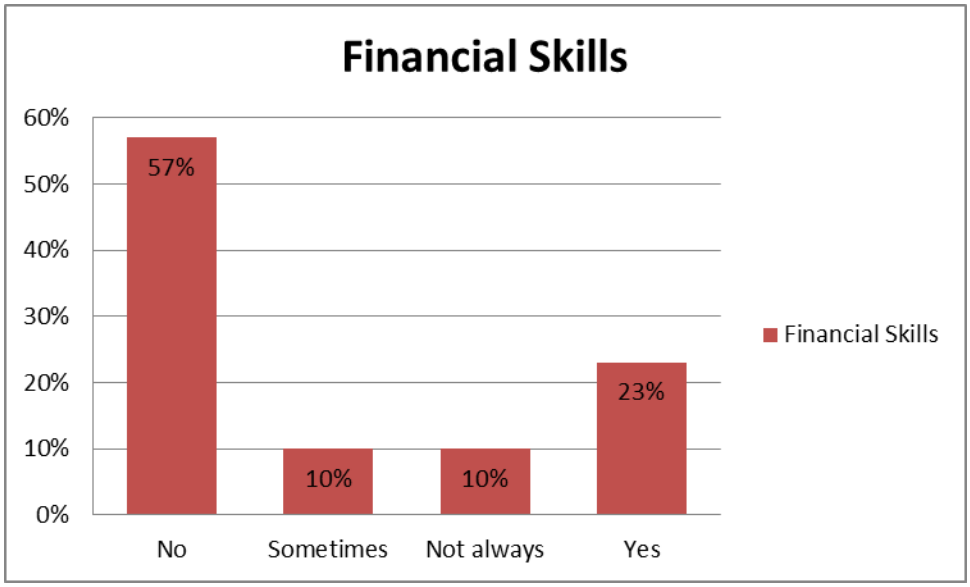

Figure 4.32 – Financial skills

Summary

The findings indicate that the majority of the respondents do not think emerging property developers have adequate managerial skills (55%) to successfully complete property development projects.

The majority of the respondents do not think emerging property developers have adequate financial skills (57%) to successfully complete property development projects.

4.4.2 Emerging Property Developers

This section is for analysing the data. Various methods are used to analyse the data: descriptive analysis, such as the mean and standard deviation will be employed in analysing the responses from this population group.

Section B of the questionnaire asked the respondents to rate the importance of 21 statements when embarking on property development projects according to a 7-point Likert scale, where 1 = Not at all important, 2 = Little importance, 3 = Somewhat important, 4 = Important, 5 = Very important, 6 = Extremely important and 7 = Of utmost importance. The respondents also had an option of “Unsure” where they were uncertain.

Section C of the questionnaire asked the respondents closed ended questions on financing of their property developments and their responses will also be analysed

Section D of the questionnaire asked the respondents to rate the importance of 23 managerial skills they possess in ensuring success when accessing finance and execution of property development projects according to a 7-point Likert scale, where 1 = Not at all important, 2 = Little importance, 3 = Somewhat important, 4 = Important, 5 = Very important, 6 = Extremely important and 7 = Of utmost importance. The respondents also had an option of “Unsure” where they were uncertain.

4.4.2.1 Section B

Table 4 indicates the frequency of all the results of the important statements when embarking on property development projects, as well as the mean and standard deviation of the data.

Mean

From Section B, it was determined that the average mean of the variables is 4.50 which meant that all the variables above 4.50 were above average and therefore considered important. Therefore, only the top twelve variables will be discussed and interpreted.
The extent of ranges was determined by dividing the number on continuums, which is 6.00, by the 7 relative points. Therefore, the ranges between the relative points equate to 0.85.

Therefore, the ranges relative to the mean scores for importance are defined as follows:

- > 6.15 < 7.00 (Of utmost importance);
- > 5.30 < 6.15 (Extremely important);
- > 4.45 < 5.30 (Very important);
- > 3.60 < 4.45 (Important);
- > 2.75 < 3.60 (Somewhat important);
- > 1.90 < 2.75 (Little importance), and
- > 1.00 < 1.90 (Not important).

Standard Deviation

The standard deviation scale shall be interpreted as follows:

- > 0.00 < 1.00 (Responses extremely closely grouped together);
- > 1.00 < 2.00 (Responses reasonably closely grouped together), and
- > 2.00 < 5.00 (Responses vary and are not closely grouped together).

Section B: Importance of statements when embarking on property development projects.

Table 4			Frequency								Descriptive Statistics	
Ref	**Rank**	**Statement**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Unsure**	**Mean**	**S.D.**
B11	1	A project viability study is conducted	0%	2%	6%	23%	29%	27%	13%	0%	5.10	1.21
B06	2	A minimum profit margin is determined before commencement of the project	0%	0%	4%	33%	27%	27%	8%	0%	5.02	1.06
B20	3	Marketing	0%	2%	2%	33%	27%	27%	8%	0%	5.00	1.11
B21	4	Pre-letting	0%	4%	2%	30%	28%	26%	11%	0%	5.00	1.22
B10	5	A Feasibility Study for the development is conducted	0%	0%	10%	31%	21%	25%	13%	0%	4.98	1.23
B12	6	The outcome of the development correspond with the projections of the feasibility study	0%	2%	10%	29%	27%	25%	6%	0%	4.81	1.18
B01	7	Establishing the demand for the product to be financed	2%	0%	17%	23%	26%	21%	11%	0%	4.77	1.37
B02	8	A needs analysis of the target market is conducted by the developer	2%	2%	9%	40%	15%	21%	11%	0%	4.70	1.37
B15	9	Local authority advice relating to town planning conditions are taken into consideration	0%	0%	15%	46%	23%	6%	10%	0%	4.52	1.15
B17	10	The influence of risk elements are forecasted for the project	0%	2%	10%	48%	25%	4%	10%	0%	4.50	1.15
B16	11	Risk elements associated with the specific development project are identified	0%	2%	10%	54%	19%	4%	10%	0%	4.44	1.15
B18	12	Relevant legislation governing property development is taken into consideration during the	0%	0%	21%	49%	13%	9%	9%	0%	4.34	1.17
B13	13	Legal processes are adequately considered during the feasibility study	2%	2%	11%	53%	17%	6%	9%	0%	4.34	1.22
B14	14	The objectives of the local authority are taken into consideration during the decision making process	2%	0%	15%	51%	19%	2%	11%	0%	4.34	1.22
B05	15	Interest rates play a significant role in the development decision stage	2%	2%	19%	42%	19%	8%	8%	0%	4.31	1.29
B03	16	The market values of the vacant land to be developed are adequately assessed	0%	2%	20%	48%	14%	7%	9%	0%	4.30	1.21
B09	17	Built environment consultants were involved during the feasibility stage of the project	0%	4%	15%	50%	21%	6%	4%	0%	4.23	1.06
B07	18	Inflation is taken into consideration when profit margins are determined	0%	0%	23%	53%	13%	6%	4%	0%	4.15	1.00
B04	19	Micro economic factors are taken into consideration during the development decision stage	2%	2%	23%	45%	16%	9%	2%	0%	4.07	1.13
B08	20	The property cycle during the planning stages of the development was identified	2%	4%	31%	33%	16%	9%	4%	0%	4.00	1.28
B19	21	The level of stability of the political environment is studied during the project viability study stage	2%	11%	31%	40%	11%	2%	2%	0%	3.62	1.11

Mean: The means of the top ten statements when embarking on a property development project are all above 4.50, which place these variables in the category of "4.45 to 5.30", indicating that these statements are ranked "Very important" on the Likert scale of importance.

Standard Deviation: The first ten statements, have a standard deviation above one, which indicates that the responses are reasonable closely grouped together. It can however still be concluded that a high percentage of the respondents agreed that the top ten statements are "Very important".

Interpretation: The findings in Table 4 indicate that A project viability study is conducted ranked the highest indicating that the respondents concurred around the mean of the variable, identifying it as the most important. A minimum profit margin is determined before commencement of the project ranked second, indicating that the respondents concurred around the mean, identifying this variable as the second most important. The next two statements ranked equally third and fourth in terms of their mean rating being Marketing and Pre-letting. A feasibility study for the development is conducted ranked fifth, indicating that the respondents concurred around the mean of the variable, identifying it as the fifth most important. The outcome of the development correspond with the projections of the feasibility study ranked sixth, indicating that the respondents concurred around the mean of the variable, identifying it as the sixth most important. Establishing the demand for the product to be financed seventh, indicating that the respondents concurred around the mean of the variable, identifying it as the seventh most important. A needs analysis of the target market is conducted by the developer ranked eighth, indicating that the respondents concurred around the mean of the variable, identifying it as the eighth most important. Local authority advice relating to town planning conditions are taken into consideration ranked ninth, indicating that the respondents concurred around the mean of the variable, identifying it as the ninth most important. The influence of risk elements are forecasted for the project ranked tenth, indicating that the respondents concurred around the mean of the variable, identifying it as the tenth most important.

When looking at the standard deviation of the first ten statements, they all indicate that the respondents concurred to a very high degree regarding the importance of the statements when embarking on property development projects.

4.4.2.2 Section C - Finance

Closed ended questions in Section C asked the respondents the following questions.

(a) How did you raise your start-up capital

Figure 4.33 represents the responses on how emerging property developers raised their start-up capital. Thirty eight percent (38%) of the respondents raised their start-up capital through commercial banks. Thirty one percent (31%) through development finance institutions. Twenty five (25%) through own savings. Twenty one (21%) through inheritance. Six percent (6%) through family and friends.

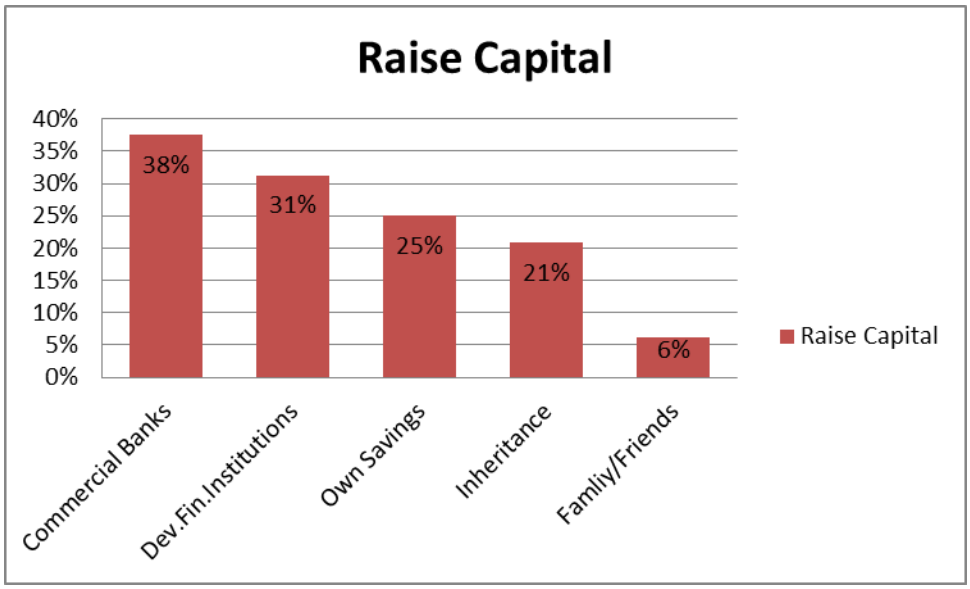

Figure 4.33 – Raise start-up capital

(b) Which of the following problems have you experienced in your business in respect of financial support?

Figure 4.34 represents the responses on the problems they have experienced in their business in respect of financial support.

Twenty seven percent (27%) pointed to credit facility. Twenty three percent (23%) on bridging finance. Twenty one percent (21%) on working capital. Seventeen percent (17%) on funds for growth whilst Ten percent (10%) on establishing funds.

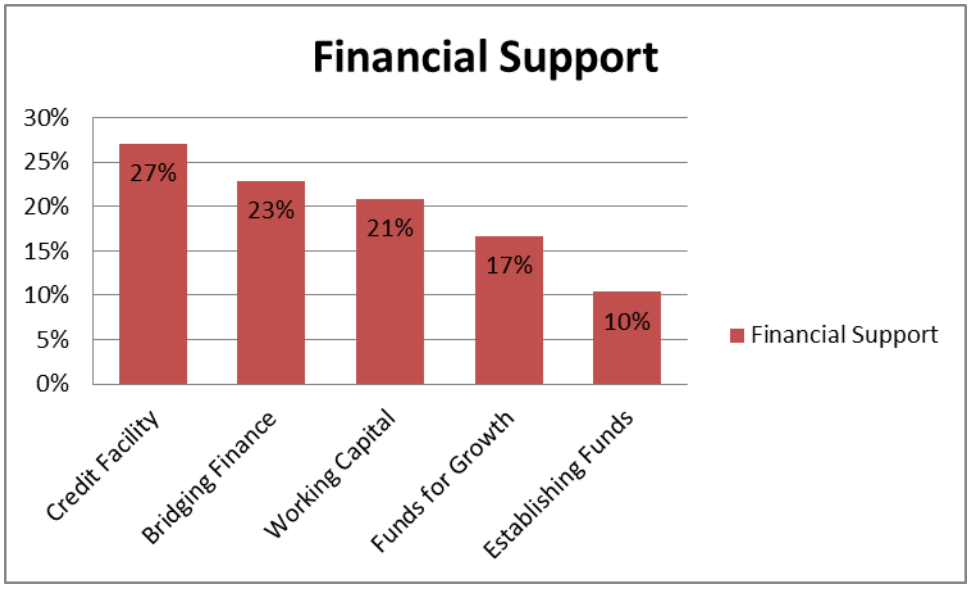

Figure 4.34 – Financial support

(c) At which stage is your business currently in in terms of finance?

Figure 4.35 represents the responses on the stage their businesses are currently in, in terms of finance. Forty three percent (43%) responded to be on expansion capital. Twenty six percent (26%) are on working capital. Nineteen percent (19%) are on start-up capital.

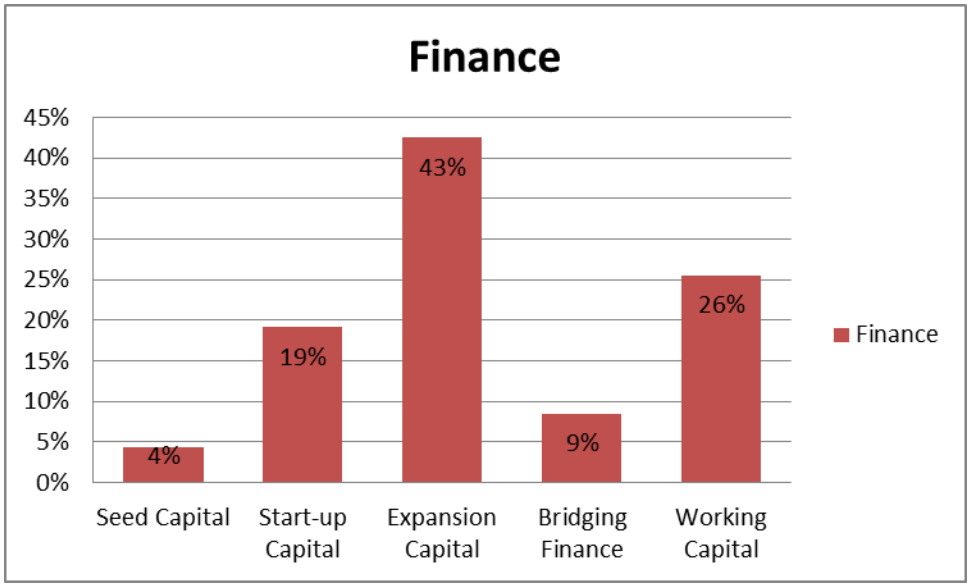

Figure 4.35 – Finance Term

(d) Which of the following financial reports do you use to evaluate the finances of your business?

Figure 4.36 represents the responses on what financial reports are used to evaluate the finances of the business. Sixty percent (60%) utilize the balance sheet. Forty four percent (44%) the cash flow statement. Thirty eight percent (38%) the income statement. Nineteen percent (19%) the funds flow statement.

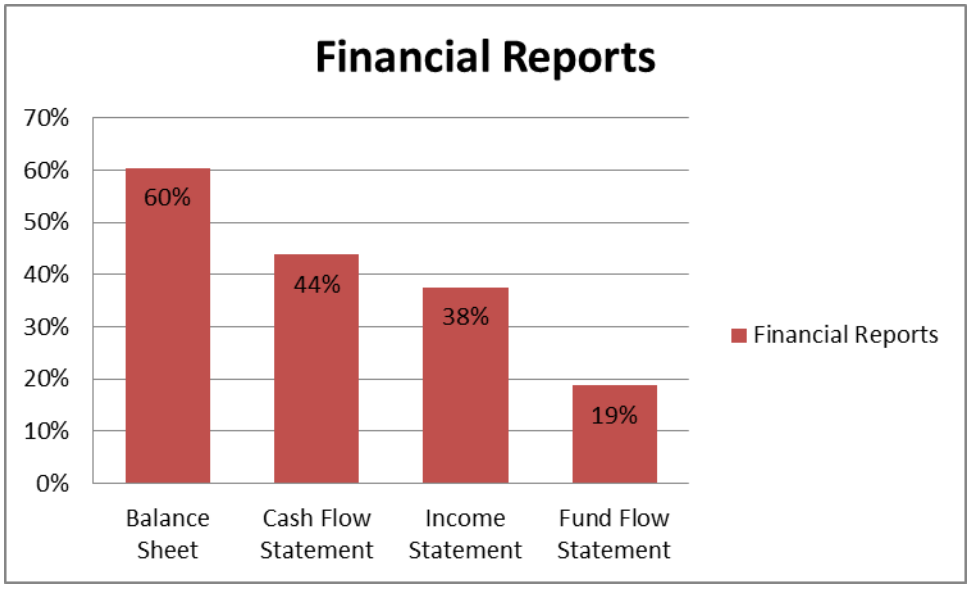

Figure 4.36 – Financial Reports

(e) Which of the following business functions do you spend most of your time on?

Figure 4.37 represents the responses on the business functions they spend most of their time on. Thirty three percent (33%) spend their time on construction management. Twenty nine percent (29%) on general management. Twenty seven percent (27%) on financial management. Nineteen percent (19%) on operational management.

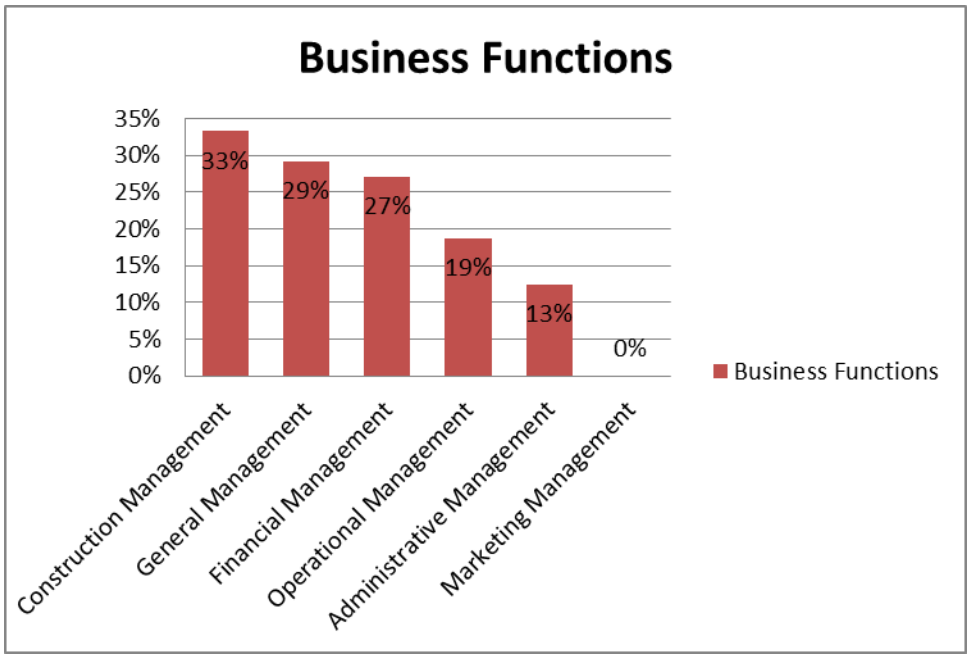

Figure 4.37 – Business Functions

(f) Do you make use of the following accounting expertise?, if so which one

Figure 4.38 represents the responses on the accounting expertise they use in their businesses. Forty percent (40%) use the services of an accountant. Twenty three percent (23%) on bookkeeper. Nineteen percent (19%) on chartered accountant and financial manager respectively. Thirteen percent (13%) on quantity surveyor.

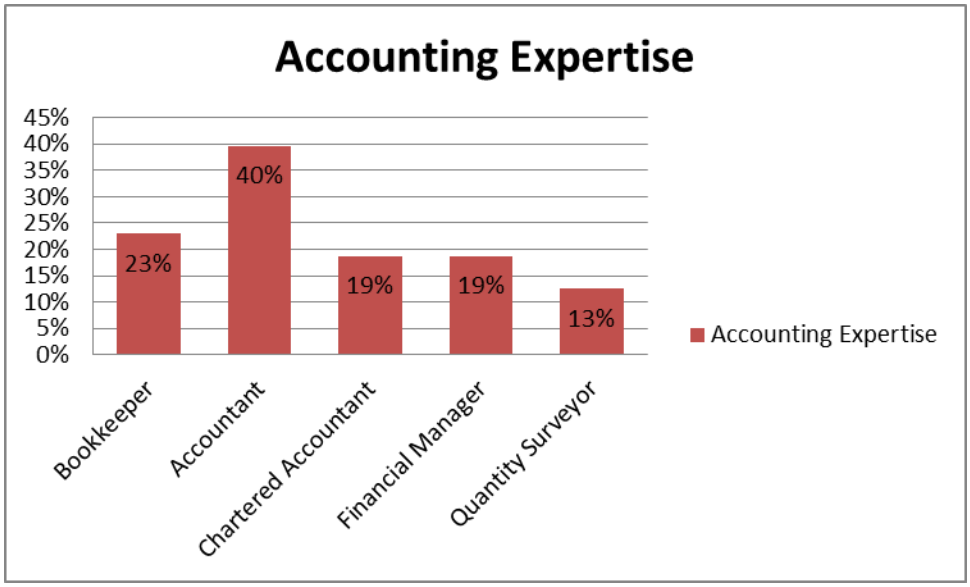

Figure 4.38 – Accounting Expertise

(g) Which of the following budgets do you use for financial planning and control purposes?

Figure 4.39 represents the responses on the budgets used for financial planning and control. Thirty eight percent (38%) of the respondents use the cash flow budget. Thirty one percent (31%) use the operating budget. Twenty seven percent (27%) use the mater budget. Twenty five percent (25%) use the capital expenditure budget. Fifteen percent (15%) use the sales budget.

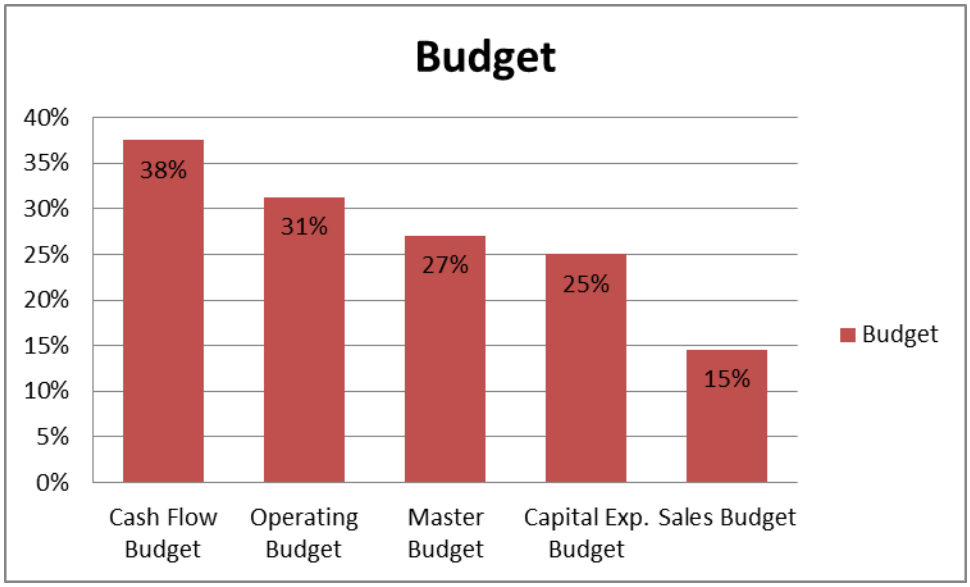

Figure 4.39 – Budgets for Financial planning

(h) Which of the following forms of capital do you make use of?

Figure 4.40 represents the responses on the form of capital they make use of. Twenty nine percent (29%) of the respondents use short term and medium term respectively. Twenty seven percent (27%) use retained earnings. Fifteen percent (15%) use long term and equity capital respectively.

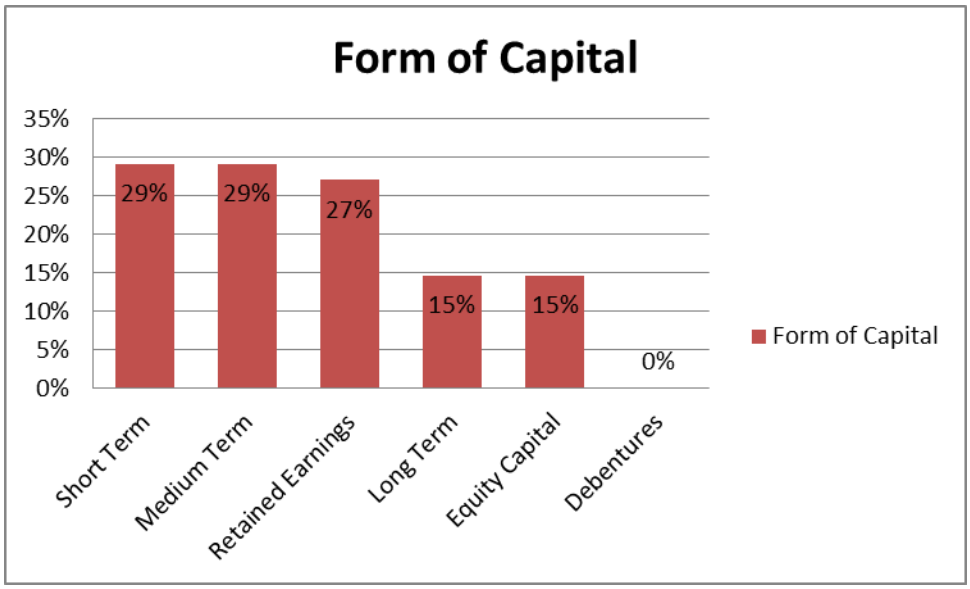

Figure 4.40 – Form of Capital

(i) How do (did) you know which institutions fund emerging business enterprises?

Figure 4.41 represents the responses on how did they know which institutions fund emerging business enterprises. Twenty nine percent (29%) of the respondents knew through marketing material and word of mouth respectively. Twenty seven percent (27%) through local government agencies. Seventeen percent (17%) through family and friends and radio adverts. Four percent (4%) through TV adverts.

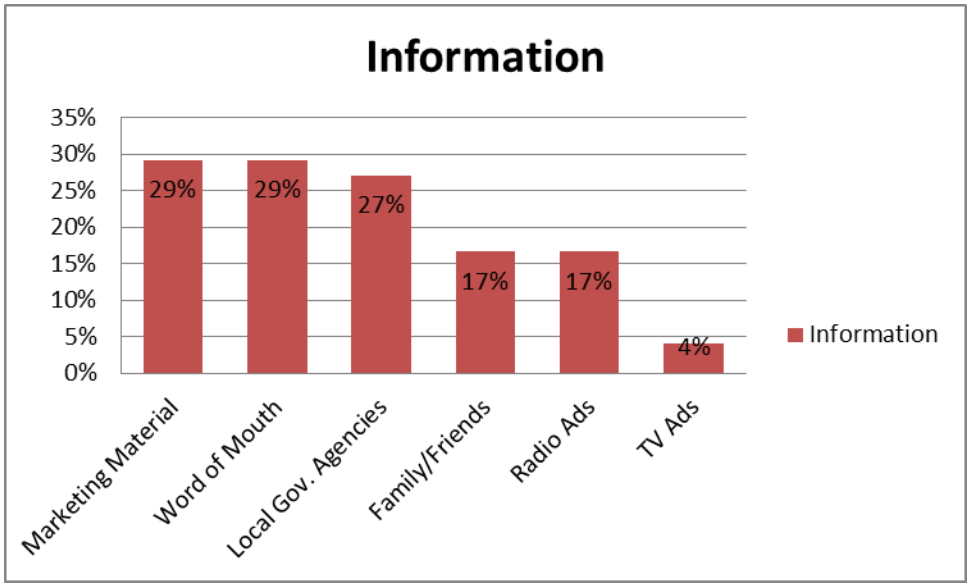

Figure 4.41 – Information on Funding

(j) Which of the following financial entities have you applied to for financial assistance?

Figure 4.42 represents the responses on which financial entities they applied to for financial assistance. Fifty eight percent (58%) of the respondents applied to commercial banks. Fifty four percent (54%) applied to development finance institutions. Nineteen (19%) applied to family and friends. Ten percent (10%) applied to business partners. Eight percent (8%) applied to micro lenders.

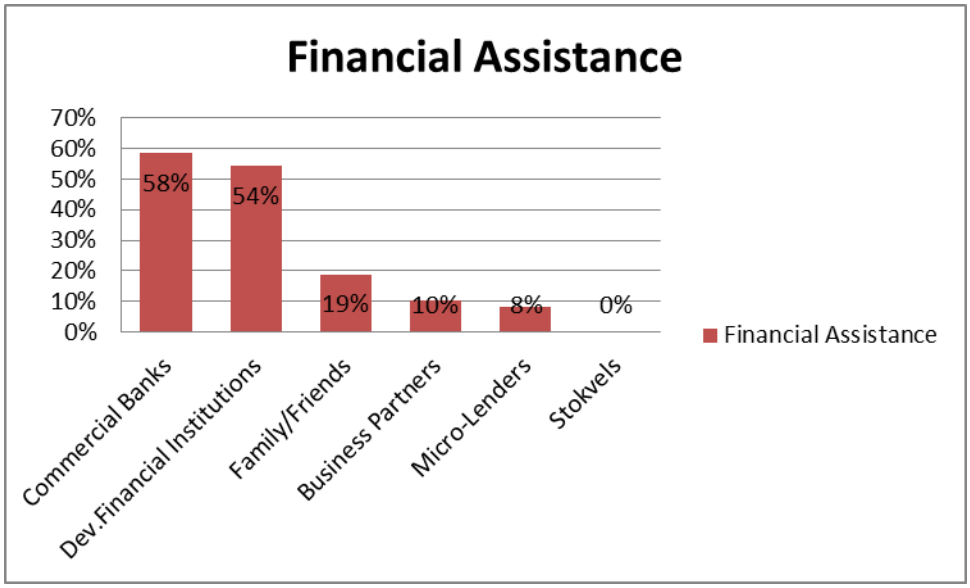

Figure 4.42 – Financial assistance

(k) At which was your application successful/approved?

Figure 4.43 represents the responses where financial assistance application was successful or approved. Fourty six percent (46%) of the respondent's application was successful or approved at development finance institutions. Forty four percent (44%) was approved at commercial banks. Nineteen percent (19%) was approved by friends and family. Eight percent (8%) was approved at business partners. Four percent (4%) was approved by micro lenders.

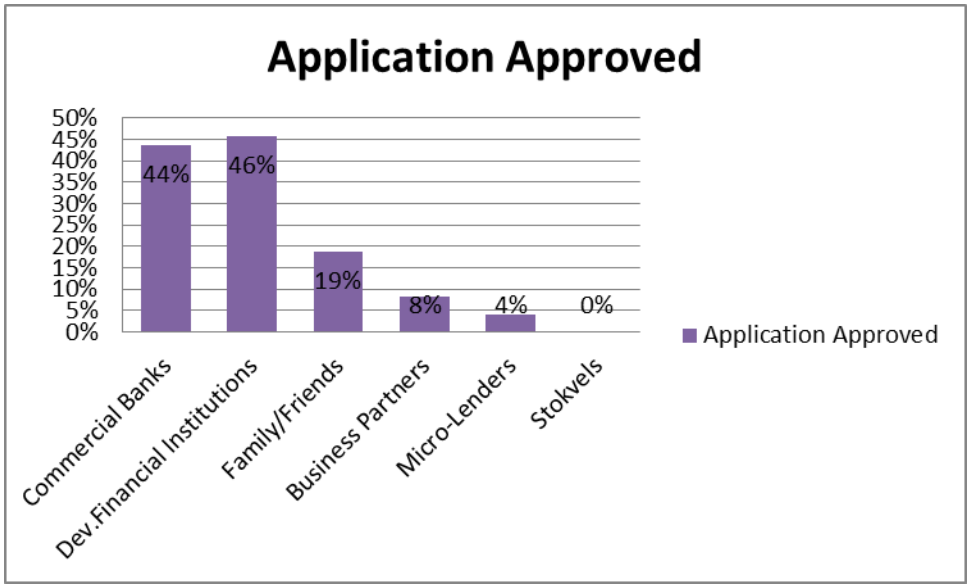

Figure 4.43 – Application approval

(l) What obstacles do (did) you experience during the finance application process?

Figure 4.44 represents the responses on the obstacles experienced during the finance application process. Fifty four percent (54%) of the respondents cite lack of collateral as the major obstacle experienced. Thirty eight percent (38%) said communication. Thirty three percent (33%) said complex application forms. Thirty one percent (31%) said too many forms to fill in. Nineteen percent (19%) said lack of adequate documentation. Fifteen percent (15%) said no assistance in the process and no feedback respectively.

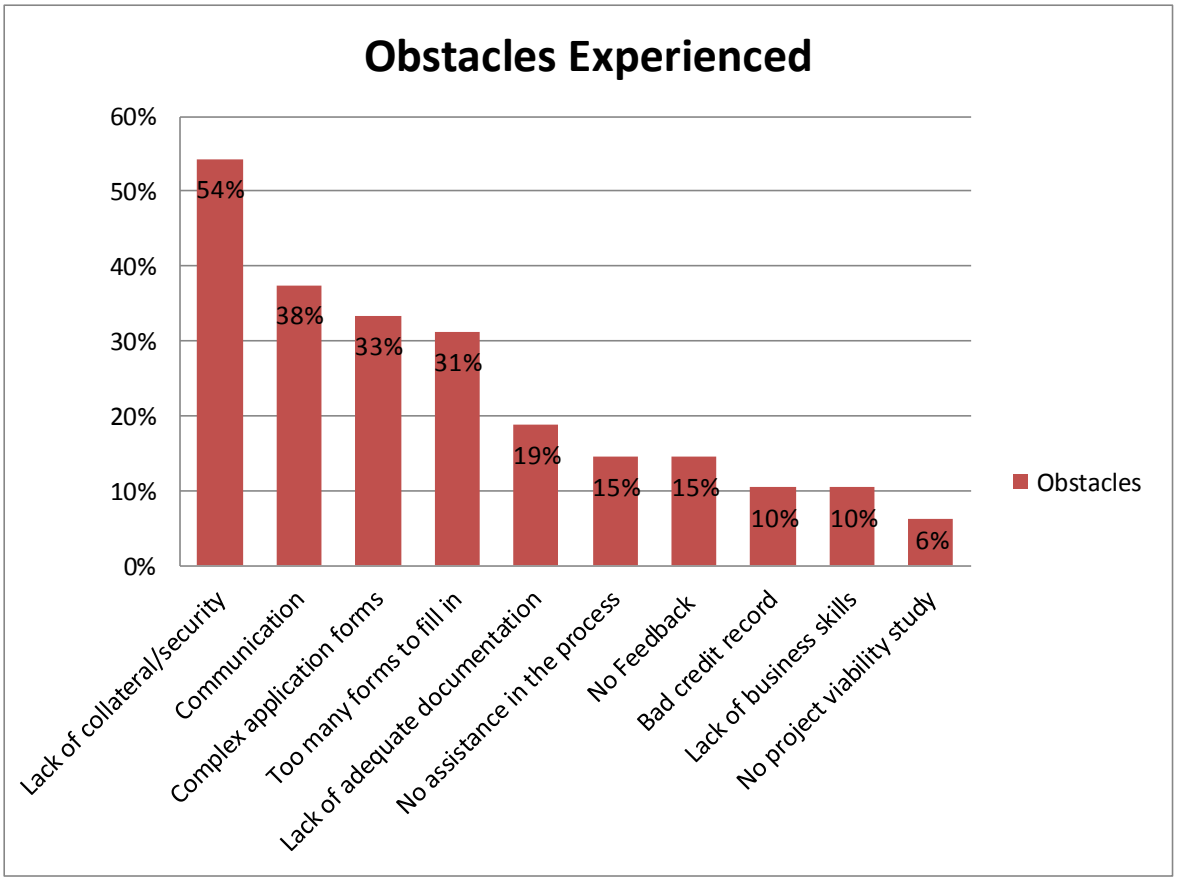

Figure 4.44 – Obstacles in financial application

(m) If your application was rejected, what were the reason/s for the rejection given?

Figure 4.45 represents the responses on reasons why the application was rejected. Seventy nine percent (79%) of the respondents said lack of collateral or security as the major reason. Twenty five percent (25%) said project viability was not suitable. Nineteen percent (19%) said incomplete application forms. Ten percent (10%) said poor business plan.

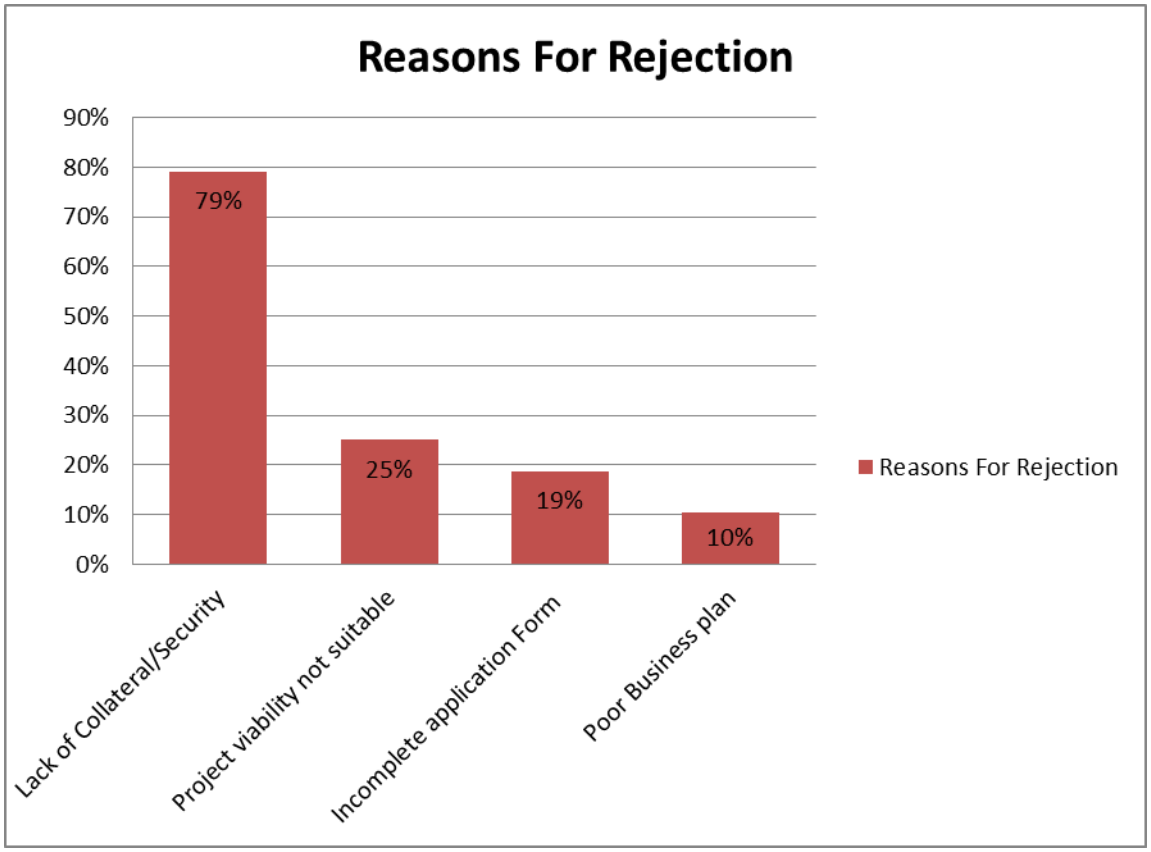

Figure 4.45 – Reasons for rejection of application

Summary

The findings indicate that the majority of the respondents raised their start-up capital through commercial banks (38%). They experienced problems in accessing credit facility (27%) in respect of business financial support. The stage their businesses are currently in, in terms of finance is on expansion capital (43%). The majority of the respondents use the balance sheet (60%) to evaluate the finances of their businesses.

The majority of the respondents from the emerging property developers spend most of their business function time on construction management (33%). They make use of an accountant (40%) for accounting expertise. For financial planning and control purposes they use the cash flow budget (38%).

The majority of the respondents make use of short and medium term (29%) form of capital. They knew through marketing material and word of mouth (29%) as to which

institutions fund emerging business enterprises. They applied to commercial banks (58%) for financial assistance.

The majority of the respondent's application have been successful or approved at development finance institutions (46%). They experienced obstacles during financial application process due to the lack of collateral (54%). The reasons why their applications is rejected for financial assistance is due to lack of collateral (79%).

4.4.2.3 Section D

Table 5 indicates the frequency of all the results of the important managerial skills of emerging property developers, as well as the mean and standard deviation of the data.

Mean

From Section D, it was determined that the average mean of the variables is 4.40 which meant that all the variables above 4.40 were above average and therefore considered important. Therefore, only the top thirteen variables will be discussed and interpreted.
The extent of ranges was determined by dividing the number on continuums, which is 6.00, by the 7 relative points. Therefore, the ranges between the relative points equate to 0.85.

Therefore, the ranges relative to the mean scores for importance are defined as follows:

- > 6.15 < 7.00 (Of utmost importance);
- > 5.30 < 6.15 (Extremely important);
- > 4.45 < 5.30 (Very important);
- > 3.60 < 4.45 (Important);
- > 2.75 < 3.60 (Somewhat important);
- > 1.90 < 2.75 (Little importance), and
- > 1.00 < 1.90 (Not important).

Standard Deviation

The standard deviation scale shall be interpreted as follows:

- > 0.00 < 1.00 (Responses extremely closely grouped together);
- > 1.00 < 2.00 (Responses reasonably closely grouped together), and
- > 2.00 < 5.00 (Responses vary and are not closely grouped together).

Section D – Importance of Managerial skills of emerging property developers

Table 5			Frequency								Descriptive Statistics	
Ref	**Rank**	**Statement**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**Unsure**	**Mean**	**S.D.**
D19	1	Planning	2%	2%	2%	21%	33%	29%	10%	0%	5.10	1.24
D13	2	Marketing	0%	2%	2%	29%	27%	33%	6%	0%	5.06	1.08
D15	3	Negotiation skills	0%	0%	6%	25%	33%	29%	6%	0%	5.04	1.03
D12	4	Leadership	0%	0%	2%	38%	33%	25%	2%	0%	4.88	0.89
D09	5	Financial	0%	4%	4%	36%	32%	17%	6%	0%	4.72	1.14
D06	6	Decision making	0%	0%	2%	50%	31%	10%	6%	0%	4.69	0.93
D14	7	Motivating	0%	0%	6%	46%	29%	15%	4%	0%	4.65	0.96
D18	8	Organizing	0%	0%	4%	44%	40%	10%	2%	0%	4.63	0.82
D20	9	Procurement	2%	6%	6%	29%	27%	27%	2%	0%	4.63	1.30
D07	10	Entrepreneurial	0%	2%	4%	52%	23%	13%	6%	0%	4.58	1.05
D17	11	Oral communication	0%	0%	4%	71%	8%	10%	6%	0%	4.44	0.97
D16	12	Numerical (Mathematics)	0%	0%	8%	58%	21%	8%	4%	0%	4.42	0.92
D10	13	Initiating	0%	2%	10%	46%	31%	6%	4%	0%	4.42	0.99
D05	14	Costing	0%	2%	15%	52%	17%	8%	6%	0%	4.33	1.10
D08	15	Estimating	2%	0%	10%	56%	21%	8%	2%	0%	4.27	0.98
D22	16	Supervisory	2%	2%	17%	52%	15%	6%	6%	0%	4.19	1.18
D01	17	Administration	0%	2%	25%	44%	19%	4%	6%	0%	4.17	1.12
D11	18	Interpersonal	0%	0%	19%	58%	15%	6%	2%	0%	4.15	0.87
D04	19	Co-ordinating	2%	0%	29%	50%	15%	2%	2%	0%	3.90	0.95
D23	20	Team building	0%	4%	41%	39%	7%	4%	4%	0%	3.78	1.09
D21	21	Report writing	0%	8%	42%	33%	10%	2%	4%	0%	3.69	1.11
D03	22	Computer skills	2%	4%	40%	40%	10%	4%	0%	0%	3.65	0.96
D02	23	Auditing	13%	6%	29%	42%	6%	2%	2%	0%	3.38	1.28

Mean: The means of the top ten managerial skills of emerging property developers are all above 4.45, which place these variables in the category of “4.45 to 5.30”, indicating that these statements are ranked “Very important” on the Likert scale of importance. The next three managerial skills are all above 3.60, which place these variables in the category of 3.60 to 4.45”, indicating that these statements are ranked “Important” on the Likert scale of importance.

Standard Deviation: The first three managerial skills, together with the fifth, ninth and tenth managerial skills have a standard deviation slightly above one, which indicates that the responses are reasonably closely grouped together. The fourth, sixth, seventh, eighth, eleventh, twelfth and thirteen managerial skills have a standard deviation below one, which indicates that the responses are extremely closely grouped together. It can however still be concluded that a high percentage of the respondents agreed that the top thirteen statements are “Important”.

Interpretation: The findings in Table 3 indicate that Planning ranked the highest indicating that the respondents concurred around the mean of the variable, identifying it as the most important. Marketing ranked second, indicating that the respondents concurred around the mean, identifying this variable as the second most important. Negotiation skill ranked third, indicating that the respondents concurred around the mean of the variable, identifying it as the third most important. The ability to lead (Leadership skill) ranked fourth, indicating that the respondents concurred around the mean of the variable, identifying it as the fourth most important. Financial skill ranked fifth, indicating that the respondents concurred around the mean of the variable, identifying it as the fifth most important. The ability to make decisions (Decision skill) ranked sixth, indicating that the respondents concurred around the mean of the variable, identifying it as the sixth most important. Motivating ranked seventh, indicating that the respondents concurred around the mean of the variable, identifying it as the seventh most important. The next two statements ranked equally from eighth to ninth in terms of their mean rating being Organization and Procurement. The ability to manage an enterprise (Entrepreneurial skill) ranked tenth, indicating that the respondents concurred around the mean of the variable, identifying it as the tenth most important. The ability to effectively communicate orally (Oral communication)

ranked eleventh, indicating that the respondents concurred around the mean of the variable, identifying it as the eleventh most important. The next two statements ranked equally from twelfth and thirteenth in terms of their mean rating being Numerical (Mathematics) and Initiating.

When looking at the standard deviation of the first three managerial skills, together with the fifth, ninth and tenth managerial skills, they all indicate that the respondent concurred regarding the importance of the statement, but is slightly above one, which indicates that they reasonably concurred. The standard deviation of the fourth, sixth, seventh, eighth, eleventh, twelfth and thirteen managerial skills have a standard deviation below one, they all indicate that the respondents concurred to a very high degree regarding the importance of the managerial skills.

4.5 Summary and Conclusion

This chapter presented the results and findings of the research instrument. A total of 100 questionnaires were distributed and 88 questionnaires were received back (40 from funding institutions and 48 from emerging property developers). The results of the survey was analysed using Microsoft Excel, which presented the statistical results in terms of frequencies, arithmetic means and standard deviation. The data has been analysed using techniques such as tabulation and statistical graphs.

Chapter 5

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The intention of this chapter is to give a summary of the results from chapter 4 compared to the literature review in chapter 2. A conclusion on the research is made, recommendations are given and avenues for further research are suggested.

SMMEs around the world, according to Beck and Demirguc-Kunt (2006), identify access to finance as the single most important challenge experienced to the growth of their business operation. They further indicate that a large number of studies have highlighted the fact that SMMEs are more constrained than large firms and are less likely to have access to finance. Emerging property developers find it difficult to secure formal financing for new property development initiatives unless they have collateral or some form of credit history which serves to mitigate the inherent risks.

SMMEs have a major socio economic role to play in the context of negative growth in employment creation by both large organizations and the government in South Africa. A major factor attributed to the high failure rate in creating employment pertains to the lack of access to finance especially at expansion capital phase as shown in this study. The study also points to the fact that the lack of access to finance by emerging property developers is due to poor managerial skills and poor financial management of the business. The performance and success of any business enterprise depends on the quality of its management and good management is therefore seen as a prerequisite for successful operation. Emerging property developers struggle with access to financial assistance is due to their inability to plan and control their finances properly. They are only aware of their financial position when their financial advisors – in most cases external accountants – reveal the information months after the end of their financial year which often has negative effects for the enterprise.

The study undertakes to create a platform from which further research can be conducted on the role of emerging property developer's involvement in the property sector. It evaluates the current position with respect to problems of accessing finance

for property development initiatives in South Africa. The study will assist potential emerging property developers, government and funding institutions in understanding the problems encountered by emerging property developers in accessing finance.

This chapter discusses the findings in relation to the research questions and the propositions highlighted. A summary and overview of the research is then presented, followed by the shortcomings of the study and recommendations.

5.2 Summary and overview of the research

Chapter 1 presented the background to the research, followed by a problem definition, research questions and research objectives. The chapter was concluded with a research structure and discussion of the chapter layout.

Chapter 2 presented a literature review regarding the problems of accessing finance by SMMEs worldwide and in South Africa. The term property development and the property development process were defined. The financial concepts, forms of capital available to emerging property developers as well as providers of capital were discussed. The study also showed that it is internationally accepted that the SMME sector is an essential factor in promoting and achieving economic growth and development and the widespread development of wealth and employment creation.

Chapter 3 focused on the empirical research phase. The empirical study consisted of primary data collected from a structured questionnaire gathering the quantitative data from the respondents.

Chapter 4 provided a discussion of the results obtained from the empirical investigation conducted on property development, the problems of accessing finance and managerial skills of emerging property developers. Descriptive statistical analysis was predominately used in the presentation of the results.

Chapter 5 of the research study is aimed at applying the information obtained from the literature review and the empirical study as background to provide a solution to the

problems of emerging property developers in accessing finance for property development initiatives.

5.3 Research objectives

- Analyze the current roles played by DFIs and commercial banks in assisting emerging enterprises in the property development market and identify gaps in the services provided.

- To identify the challenges faced by emerging entrepreneurs in accessing finance for property development initiatives.

- Establish what role DFIs and commercial banks can play in facilitating the development of emerging enterprises in the property development market.

- Examine possible funding/finance instruments that can be used to assist emerging enterprises.

- Determine how government can intervene to improve the accessibility of finance to emerging entrepreneurs in the property development market.

- Investigate the various property development ownership structures and determine how DFIs and commercial banks can support/assist emerging enterprises in the market.

- Identify how the skills gap can be utilized to reduce the risk of investment

- A risk review of the commercial and industrial property market in South Africa

In analyzing the research objectives, the study has shown that the problems experienced by emerging property developers in accessing finance include the following:

- Funding institutions provide business finance (28%), equity loans (20%) and working capital (15%) to emerging property developers. The maturity period of their loans is 10 years (50%) and the lending rate is prime +3% (38%).

- Emerging property developers experience problems when requiring credit facility (27%) for their businesses. Their businesses are at the stage of expansion which requires expansion capital (43%) for further success. They currently use short and medium term (29%) form of capital.

- Ownership structures of these emerging property developers are companies which employ 6 – 20 (42%) employees and have a turnover of < R5m.

- From the funding institutions perspective, the challenges faced by emerging property developers in accessing finance are:
  - ✓ Lack of collateral (25%);
  - ✓ Bad credit record (20%);
  - ✓ Incomplete application forms (20%)
  - ✓ Poor business plan (18%)
  - ✓ Managerial skills (55%)
  - ✓ Financial skills (57%)

- The skills gap that the emerging property developers experience is in education as they have Diplomas (33%) and have been in the property development industry for 5 – 9 years (38%).

- The problems experienced by emerging property developers in accessing finance are:
  - ✓ Lack of collateral / security (54%)

- Reasons given for the rejection of their application is:
  - ✓ Lack of collateral / security (79%)

5.4 Testing of Propositions

- The creation of niche products or funding models by the DFIs and commercial banks can assist in financing viable property developments by emerging enterprises. (Equity Funded)

  - ✓ This proposition is accepted based on findings illustrated in figure 4.26 that funding institutions have niche products or funding models that assist in financing viable property developments maybe more specific products need to be developed to cater for property development projects. The products they have are business finance (28%), equity loans (20%), working capital (15%), bridging finance (13%) and startup capital (10%).

- The project finance approach to reduction of cost of capital based on project viability and finance term could assist emerging enterprises. (Rather assist with Equity and provide skill)

  - ✓ This proposition is rejected based on the findings in table 2 where project viability ranked eight as the most important statement when accessing finance applications for property development. Total capital requirements ranked tenth as the most important statement. Figure 4.27 illustrates the finance term of funding provided and most funding institutions maturity term is 10 years (50%) and their lending fees as illustrated in figure 4.30 is prime +3% which means that these statements are not very important to funding institutions due to the fact that the period of funding will generate for them the required interest when granting finance.

- A development role that DFIs are supposed to play in uplifting emerging property developers through job creation and economic spin offs from the project is not explored.

  - ✓ This proposition is rejected based on the findings in figure 4.43, where emerging property developers application for financial assistance have been

more successful with the development finance institutions (46%) even though the majority of emerging property developers have applied for financial assistance with commercial banks (58%).

- The lack of policy or directive by DFIs that allows for the management of risks to finance property developments results in the lack of funding assistance given to emerging enterprises.

  - ✓ This proposition is accepted based on findings from figure 4.44 and figure 4.45, where emerging property developers have experienced the obstacle of lack of collateral (54%) in obtaining finance and have had their applications rejected due to lack of collateral (79%). DFIs are defined as the provision of finance to those projects, economic sectors or sections of the population that are not well served by the financial system. They are a form of government intervention in the financial system, which aims at addressing market failures in the provision of finance. It has been argued that DFIs should not be trying to make profits from SMMEs as they are working with taxpayer's money and that they should take more risks. They have also been criticized for their lending criteria and slow turnaround times hence SMMEs experience rejection due to lack of collateral.

5.5 Shortcomings of the study

There are shortcomings reveled in this study. There has not been much research documented on the problems facing emerging property developers in accessing finance for property development initiatives. One of the initial aims of the study was to explore in great deal the involvement of SMMEs in the property sector but due to the limited number involved, the study was limited to the respondents that responded to the questionnaire. Secondly, the study was to explore from financial institutions especially DFI on their involvement in financing property development initiatives. However this objective could not materialize because of the low response from the DFI as some questionnaires were never returned.

The use of emailed questionnaires was a problem as it was time consuming for the respondents even though most of the questions were closed ended questions. A web based questionnaire would have been easier and less time consuming. This study is therefore intended to act as a platform from which other researchers can work from with specific reference to factors affecting emerging property developers in accessing finance.

5.6 Recommendations

Access to information about SMMEs operating in the property sector should be increased to ensure that all providers and potential providers of finance can have sufficient knowledge to assess the risk of SMME applications for finance. Interventions that can improve the ability of financial institutions to accurately assess the risk of emerging property developers when applying for finance would greatly increase their participation in the property sector.

Effective financial management by emerging property developers would enable them to acquire knowledge of basic financial concepts and understanding financial concepts would assist them in making decisions relating to financial matters easier. Without this knowledge emerging property developers will not be able to effectively execute the financial function of their businesses. Emerging property developers are to get more involved in the management of their businesses ensuring that the managerial skills required to operate their businesses are sound and to have a better understanding of the industry they operate in.

5.7 Conclusion

Fatoki and Van Aardt Smit (2011), observes that access to external finance is needed for new SMEs to start and expand operations, develop new products, invest in staff or production facilities. The availability of finance for investment in positive net present value projects is vital to the sustainability and viability of new SMEs. A vast majority of new SMEs depend on internal finance (contribution from the owners, family and friends). Internal finance is often inadequate for new SMEs to survive and grow. It is

increasingly difficult to keep costs within the constraints of self-financing. Therefore new SMEs need capital from external sources. As highlighted in this study, 19% of emerging property developers obtained finance from family and friends and that is not sustainable if they are to grow their businesses to be major players in the industry and to be successful.

External finance is not readily available as banks and other funding institutions require collateral from emerging property developers in order to finance their projects. Collateral is not always available to them as most are start-up businesses and do not have any assets that they can use as collateral hence they struggle in obtaining finances. The South African government should use the regulatory environment in ensuring that SMEs are helped by funding institutions and that constant monitoring and evaluation is done on the funding institutions on the number of SMEs they fund during any given period. Government should put in place strict policies and institutions that will have a primary role in assisting SMEs with finance.

REFERENCES

Abor, J and Quartey, P. 2010. *"Issues in SMME Development in Ghana and South Africa"*. International Research Journal of Finance and Economics

Babbie, E and Mouton, J. 2001. *"The Practice of social Research"*. Cape Town. Oxford University Press

Bakhas, I.G.H. 2009. *"Improving SME access to finance in the North West Province of South Africa"*. Unpublished MBA. Thesis. North West University

Budget Speech. Minister of Finance. Pravin Gordhan. February 2012.

Beck, T. 2007. *"Financing constraints of SMEs in developing countries: Evidence, Determinants and Solutions"*.

Beck, T. and Dermiguc-Kunt, A. 2006. "*Small and medium sizes enterprises: Access to finance as a growth constraint"*. Journal of Banking and Finance 30.

Botha, B. 2013. *"Property Development: A Business Process Model"*. Ph.D. Thesis. Nelson Mandela Metropolitan University.

Bowen, M., Morara, M and Mureithi, S. 2009. *"Management of Business Challenges among Small and Micro Enterprises in Nairobi-Kenya"*. KCA Journal of Business Management. Vol. 2. Issue 1

Bryman. A and Bell, E. 2003. *"Business Research Methods"*. United Kingdom. Oxford University Press.

Cadman, D and Topping, R. 2004. "*Property Development"*. 4th Edition. London: Spon Press

Chetty, A. 2009 *"A critical analysis of current approaches to SMME development and support within the eThekwini Municipal Area"* Ph.D Thesis. University of KwaZulu Natal.

Chimucheka, T and Rungani E.C. 2011. *"The impact of inaccessibility to bank finance and lack of financial management knowledge to small, medium and micro enterprises in Buffalo City Municipality, South Africa"*

Cloete, C.E. 2001. *"Principles of Property Management"*. 2nd Edition. Pretoria. South African Property Trust.

Collins.T and Ghyoot, V. 2012. *"An introduction to Commercial Property Finance Development and Investment"*. 1st Edition. Pretoria. Unisa Press.

Cresswell, J.W. 2003. *"Research Designs: Qualitative, Quantitative and Mixed Methods Approaches"*. 2nd Edition. California. Sage Publications Inc.

Cresswell, J.W and Plano Clark, V.L. 2007. *"Designing and Conducting Mix Methods Research"*. California. Sage Publications Inc.

Dalberg Global Development Advisors. 2009. *"The Growing Role of the Development Finance Institutions in International Development Policy"*.

Denzin, N.K and Lincoln, Y.S. 2003. *"Collecting and Interpreting Qualitative Materials"*. 2nd Edition. California. Sage Publications Inc.

Denzin, N.K and Lincoln, Y.S. 2005. *"The SAGE Handbook of Qualitative Research"*. 3rd Edition. California. Sage Publications Inc.

De Vaus, D.A. 2001. *"Research Design in Social Research"*. London. Sage Publications.

Du Plooy, G.M. 2001. *"Communication Research: Techniques, Methods and Applications"*. 2nd Edition. Lansdowne. Juta.

DTI. 1996. *" National Small Business Act 102 of 1996"* Department of Trade and Industry. Cape Town

Enica, A. 2011. *" Business Angel Networks: an exploratory study into the value and benefits provided to investors and entrepreneurs"*. MBA Degree. Imperial College Business School. London

Deakins, D., North, D., Baldock, R and Whittam, G. 2008. *"SMEs' Access to Finance: Is there still a debt finance gap?"*. Institute for Small Business & Entrepreneurship.

De Vos, A.S. 2005. *"Qualitative Data Analysis and Interpretation"*. In De Vos, A.S., Strydom, H., Fouchè, C.B. and Delport, C.S.L. " Research at Grass Roots for the Social Sciences and Human Services Professions". 3rd Edition. Pretoria. Van Schaik Publishers.

Diale, A.J. 2009. *"Government Support for Small, Micro and Medium Enterprises (SMME's) as a Venture for Business and Economic Development in South Africa"*. Paper presented at the proceedings of the 10th Annual Conference IAABD.

Evans, K. 2001. *"Structured Finance in the South African Real Estate Market: Who are the Winners – Borrowers or Lenders?".* Briefings in Real Estate Finance. Vol. 2. No. 1 pp 25 - 36

Falkena, H., Abedian, I., Blottnitz, M., Coovadia, C., Davel, G., Madungandaba, J., Masilela, E and Rees, S. 2001. *"SMEs Access to Finance in South Africa – A Supply Side Regulatory Review"*. The Task Group of the Policy Board for Financial Services and Regulation.

Fan, Q. 2003. *"Importance of SMEs and the role of public support in promoting SME Development: Creating a conducive legal and regulatory framework for Small and*

Medium Enterprise development in Russia", Presentation at a Policy Dialogue Workshop, St Petersburg, Russia.

Fatoki, O.O and Van Aardt Smit, A. 2010. *"The impact of the business environment on the availability of trade credit to new SMEs"*. African Journal of Business Management. Vol. 4(9). pp. 1790 – 1799

Fatoki, O.O and Van Aardt Smit, A. 2011. *"Constraints to Credit Access by New SMEs in South Africa: A Supply Side Analysis"*. African Journal of Business Management. Vol. 5(4). pp. 1413 – 1425

Ferrando, A and Griesshaber, N. 2011. *"Financing Obstacles among Euro Area Firms: Who Suffers the Most"*. European Central Bank. Working Paper Series. No 1293

Fisher, P. 2010. *"The role of pre-letting in office property development in the UK".* Planning, Practice and Research. Volume 25, No1.

Fjose, S., Grünfeld, L.A. and Green, C. 2010. *"SMEs and Growth in Sub-Saharan Africa"*. MENON Publication. No 14/2010

Frazer, L and Lawley, M.A. 2000. *"Questionnaire Design and Administration"*. Australia. John Wiley & Sons.

Ganbold, B. 2008. *"Improving Access to Finance for SME: International good experiences and lessons for Mongolia"* No 438

Gordon, K. 2003. *"Risk Assessment in Developing Lending*". Briefings in Business Finance. Vol. 3 No. 1 pp 7 - 26

Griffiths, A. 2001. *"Pricing of risk and the cost of money: How banks are pricing property funding"*. Briefings in Real Estate Finance. Vol. 1 No. 3. pp 214 - 218

Gumede, W. Govender, M. & Motshidi, K. 2011 *"The role of South Africa's state owned development finance institutions in building a democratic development state"*. DBSA Working Paper series No.29. p6.

Harvard, T. 2002. *"Contemporary Property Development".* London: RIBA Enterprises Ltd

Jaffe, A.J and Sirmans, C.F. 2001. *"Fundamentals of Real Estate Investment"* 3rd Edition. United States of America: South Western Thomson Learning.

Kira, A.R. 2013. *"Determinants of Financing Constraints in East African Countries' SMEs"*. International Journal of Business and Management. Vol. 8, No.8

Kline, K and Sadhu, S. 2011. *"Microfinance in India: A New Regulatory Structure".*

Koldertsova, A. 2007. *"Improving the entrepreneurial finance: Venture Capital and access to credit for SMEs".* Lebanon National Investment Reform Agenda Workshop

Konikoff, P.K. 2004. *"Regular features Best practices in commercial real estate financing Ground rent adjustment formulas: The developer's and the lender's point of view"*. Briefings in Real Estate Finance. Vol. 4 No. 1 pp 74 - 85

Kounouwewa, J and Chao, D. 2011. *"Financing Constraints Determinants in African Countries"*. International Journal of Applied Economics and Finance. Vol 5(1). 30 – 45

Lapan, S.D and Quartaroli, M.T. 2009. *"Research Essentials – An Introduction to Design and Practice"*. Hoboken, NJ. John Wiley & Sons

Leedy, P.D and Ormrod, J.E. 2005. *"Practical Research Planning and Design"*. 8th Edition. United States of America. Pearson Education Inc.

Mahembe, E. 2011. *"Literature review on small and medium enterprises' access to credit and support in South Africa"*. National Credit Regulator. P13.

Martin, M. 2012. *"Help is at Hand – Venture Capital Fund Formed"*. Sunday World. October. 14. p. 27

Mathibe, M.S and Van Zyl, J.H. 2011. *"The Impact of Business Support Services to SMMEs in South Africa*". International Business and Economics Research Journal. Volume 10, Number 11

Marrison, C. 2005. *"Advances in Quantifying Risk in Commercial Real Estate Lending"*. Briefings in Real Estate Finance. Vol. 5 pp 135 - 142

Mazanai, M. and Fatoki, O. 2012. *"Access to Finance in the SME Sector: A South African Perspective"*. Asian Journal of Business Management. Vol 4(1). 58 - 67

Meagher,P. 2002. *"Microfinance regulation in South Africa: A comparative perspective"*. IRIS Centre. University of Maryland

Meagher, P and Wilkinson, B. 2001. *"Filling the gap in South Africa's small and micro credit market: An analysis of major policy, legal and regulatory issues*". Mimeo. IRIS Centre, University of Maryland.

Mouton, E.B.J and Prozesky, P.V.B. 2001. *"The Practice of Social Research".* South Africa. Oxford University Press Southern Africa.

Millington, A. 2000, *"Property development"*. London: EG Books

Murray, N. 2003. *"Property Investment and Development Finance in European Jurisdictions Part 3: Spain"*. Briefings in Real Estate Finance. Vol. 3. No 3. pp 245 - 258

Mutezo, T.A. 2005. "*Obstacles in the access of SMME Finance: an empirical perspective on Tshwane"*. Unpublished Thesis. University of South Africa

Newell, G and Fife, A. 1995. *"Major Property Investor attitudes to Property Securitization"*. Journal of Property Finance. Vol. 6 No. 2. pp 8 - 19

Olawale, F. and Garwe, D. 2010. *"Obstacles to the growth of new SMEs in South Africa: A principal component analysis approach*". African Journal of Business Management. Vol. 4(5). pp 729 – 738

OECD. 1998. "*Small Business, Job Creation and Growth: Facts, Obstacles and Best Practices"*

OECD. 2004. *"Promoting Entrepreneurship and innovative SMEs in a Global Economy"*

Patten, S.B. 2004. *"Impact of Antidepressant Treatment on Population Health"*. Synthesis of Data from Two National Data sources in Canada.

Pressman, G.P. 2005. "*Top 10 Securitizable Loan Negotiations"*. Briefings in Real Estate Finance. Vol. 5. pp 155 - 160

Punyasavatsut, C. 2011. *"SMEs Access to Finance in Thailand"*. in Harvie, C.S. Oum, and D. Narjoko (eds), Small and Medium Enterprises (SMEs) Access to Finance in Selected East Asian Economies. ERIA Research Project Report 2010 -14, Jakarta: ERIA. Pp.193 - 230

Republic of South Africa. 1996. *"National Small Business Act, No 102 of 1996"*. Government Gazette. 377, 17612

Republic of South Africa. 2010. *"Property Sector Transformation Charter – Final draft*". Government Gazette. Notice 991 of 2010. No. 33660

Republic of South Africa. 1995. *"White paper on National Strategy for the Development and Promotion of Small Business in South Africa"*. Government Gazette, 357, 16317

Rogerson, C.M. 2008. *"Tracking SMME Development in South Africa: Issues of Finance, Training and the Regulatory Environment"*

Rowland, P. 1996. *"Measuring the effects of borrowing on property investments*". Journal of Property Finance. Vol 7. No 4. pp 98 - 110

Rowlatt, A. 2012. *"SME Acess to External Finance".* BIS Economics Paper No.16

Shaku, M.D. 2011. *"The Gap in Management Accounting Skills required by Venture Capital Providers and those possessed by Small and Medium Enterprises in the Craft Industry".* Unpublished M. Commerce. Thesis. University of South Africa

Syms, P. 2002. *"Land, Development & Design"*. Melbourne: Blackwell Publishing

Thorne, J. 2011. *"A Framework for successful development banks"*. DBSA Working Paper series No.25. p4 & 5.

Tyrrell, N and Bostwick, J. 2005. *"Leverage in Real Estate Investments: An Optimization Approach"*. Briefings in Real Estate Finance. Vol. 5. pp 143 - 154

Rwigema, H & Karungu P. 1999. *"SMME development in Johannesburg's Southern Metropolitan Local Council: an assessment"*. Vol 16, No1 Autumn 1999, p109

UNDP.1999. *"Small and Medium Enterprise Development"*. Evaluation Office. Synthesis of Lessions Learned

Van Aardt Smit, A and Fatoki, O.O. 2012. *"Debt Financing to New Small Ventures in South Africa: The Impact of Collateral, Ethics and the Legal System"*. African Journal of Business Management. Vol. 6(3). pp. 1136 – 1146

Vogel, R.C. 2012. *"Microfinance regulation: Lessons from Bolivia, Peru and Philippines".* Report prepared for the International Seminar on Microfinance in China and Latin America.

Welman, J.C and Kruger, S.J. 2001. *"Research Methodology for Business and Administrative Sciences"*. 2nd edition. Cape Town. Oxford University Press

Wilkinson, S. and Reed, R. 2008. *"Property Development*". 5th edition. London. E&FN Spon

Appendix A – Questionnaire Covering Letter

Nelson Mandela Metropolitan University

for tomorrow

Dear Madam / Sir

Re: Finance for Emerging Property Developers

This survey is part of a research study which is observing the current situation of emerging property developers in accessing finance for property development initiatives and to identify major problem areas that they are facing in accessing finance. The above mentioned research has identified lack of finance as one of the major problems that lead to the large number of emerging property developers not succeeding. The research is in partial fulfilment of the requirements for the degree of Magister Scientiae in Built Environment Specializing in Property Economics and Valuation at the Nelson Mandela Metropolitan University.

The attached questionnaire constitutes the formal survey of the study. To obtain meaningful results, your co-operation is of particular importance. Completing the questionnaire should not take more than ten to fifteen minutes of your time and your contribution will have a significant impact on this research. Please note that no attempt has, or will be made to identify you. Your anonymity is assured and all responses will be treated in the strictest confidence.

Please return the questionnaire via email to anoholoza@ecdc.co.za.

Thanking you in anticipation for your willingness to contribute to the success of this important research project.

Yours faithfully

Alex Noholoza: Researcher

Appendix B – Questionnaire to Finance Institutions

FINANCE FOR EMERGING PROPERTY DEVELOPERS

By Alex Noholoza

DEPARTMENT OF CONSTRUCTION MANAGEMENT, NELSON MANDELA METROPOLITAN UNIVERSITY

1) Please answer questions accurately and as honestly as possible
2) Please read the instructions carefully under each heading and what is expected
3) If you are unsure how to rate a factor, please select the unsure option

SECTION A: DEMOGRAPHIC DATA

A. PERSONAL

1. Please indicate your age?

Less than 25	☐	25 – 34 years	☐	35 – 44 years	☐
45 – 54 years	☐	55 – 64 years	☐	65 years and over	☐

2. Please indicate your gender?

Male	☐	Female	☐

3. Please indicate your marital status?

Single	☐	Married	☐	Other	☐
Separated	☐	Divorced	☐		☐

4. Please indicate your highest formal qualification?

Diploma	☐	Post grad Diploma	☐	Bachelor's Degree	☐
Honours Degree	☐	Master's Degree	☐	Doctoral Degree	☐

Other (Please Specify)	……

5. Please indicate which sector your organization operates in?

Public	☐	Private	☐	Other (Specify)	☐

6. Please indicate your current position in the organization?

Investments	☐	Equities	☐	Finance	☐
Property	☐	Construction	☐	Loans	☐
Other (Please specify):	……				

7. Please indicate how long have you held this position in your organization?

Less than 3 years	☐	3-6 years	☐	7-10 years	☐
11-14 years	☐	15-18 years	☐	More than 18 years	☐

8. Please indicate what type of property developments is your organization predominately involved in?

Industrial	☐	Offices	☐	Residential	☐
Retail	☐				
Other (Please Specify)	……				

9. Please indicate how long you have been involved in financing property development projects?

Less than 5 years	☐	5 – 9 years	☐	10 – 14 years	☐
15 – 19 years	☐	20 – 25 years	☐	more than 25 years	☐
Other (Please Specify)	……				

10. How would you rate your organization in terms of experience in financing property development projects?

Experienced	☐	Moderately experienced	☐	Inexperienced	☐
Other (Please Specify)	……				

11. Please indicate in which geographic region you are based?

Eastern Cape	☐	Kwazulu Natal	☐	North West	☐
Free State	☐	Limpopo	☐	Northern Cape	☐
Gauteng	☐	Mpumalanga	☐	Western Cape	☐

SECTION B: PROPERTY DEVELOPMENT

On a scale of 1 to 7, please indicate the importance of the following statements when accessing applications for property development projects with 1 = Not at all; 2= Little importance; 3= Somewhat important; 4= Important; 5= Very Important; 6= Extremely important; 7= Of utmost importance. If you are unsure how to rate a factor, please circle U:

		Importance								
		Not at all important	Little importance	Somewhat important	important	Very important	Extremely important	Of utmost important		Unsure
	Statement	1	2	3	4	5	6	7		U
1	Establishing the demand for the product to be financed									
2	A needs analysis of the target market is conducted by the developer									
3	The market values of the vacant land to be developed are adequately assessed									
4	Micro economic factors such as gross domestic product, unemployment rates, price indices and inflation are taken into consideration during the development decision stage									
5	Interest rates play a significant role in									

	the development decision stage									
6	A minimum profit margin is determined before commencement of the project									
7	Inflation is taken into consideration when profit margins are determined									
8	The property cycle during the planning stages of the development was identified									
9	Built environment consultants were involved during the feasibility stage of the project									
10	A feasibility study for the development is conducted									
11	A project viability study is conducted									
12	The outcome of the development correspond with the projections of the feasibility study									
13	Legal processes are adequately considered during the feasibility study									
14	The objectives of the local authority holding jurisdiction over the development area are taken into consideration during the decision making process									
15	Local authority advice relating to town planning conditions are taken into consideration									
16	Risk elements associated with the specific development project are identified									
17	The influence of risk elements are forecasted for the project									
18	Relevant legislation governing property development is taken into consideration during the project viability study stage									
19	The level of stability of the political environment is studied during the project viability study stage									
20	Location									
21	Marketing									
22	Pre letting									

SECTION C: FINANCE

On a scale of 1 to 7, please indicate the importance of the following statements when accessing finance applications for property development projects with 1 = Not at all; 2= Little importance; 3= Somewhat important; 4= Important; 5= Very Important; 6= Extremely important; 7= Of utmost importance. If you are unsure how to rate a factor, please circle U:

		Importance								
		Not at all important	Little importance	Somewhat important	important	Very important	Extremely important	Of utmost important		Unsure
	Statement	1	2	3	4	5	6	7		U
1	Total Capital Requirements									
2	Maximum return on investment									
3	Business plans									
4	Balance sheets									
5	Income statements									
6	Trade credit									
7	Bank overdraft									
8	Pre-Leasing or sales									
9	Own Capital									
10	Long term loans commitments									
11	A project viability study									
12	A project feasibility study									
13	Projected Cash Flow Statements									
14	Contract guarantees									
15	Financial history of the applicant									
16	Economic factors such as inflation and interest rates									
17	Risk elements associated with the specific development project									
18	Demonstrate the purpose of the loan is commercially sound									
19	Loan security									
20	Managerial skills of the applicant									

In your opinion, please answer the following short questions?

1.1 What sources of debt funding are available within your organization?

1.2 What is the maturity of your typical term loan?

1.3 What do you think are the problems encountered by emerging property developers when requiring financial support?

1.4 What obstacles do you think they experience in the application process for finance?

1.5 What percentages are lending fees typically incurred by emerging property developers when obtaining finance from your institution/organization?

SECTION D: SMME DEVELOPMENT

On a scale of 1 to 7, please indicate the importance of the following managerial skills of emerging property developers when accessing financing applications for property development projects with 1 = Not at all; 2= Little importance; 3= Somewhat important; 4= Important; 5= Very Important; 6= Extremely important; 7= Of utmost importance. If you are unsure how to rate a factor, please circle U:

		Importance								
		Not at all important	Little importance	Somewhat important	important	Very important	Extremely important	Of utmost important		Unsure
	Managerial Skills	1	2	3	4	5	6	7		U
1	Administration									
2	Auditing									
3	Computer Skills									
4	Coordinating									
5	Costing									
6	Decision making									
7	Entrepreneurial									
8	Estimating									
9	Financial									
10	Initiating									
11	Interpersonal									
12	Leadership									
13	Marketing									
14	Motivating									

15	Negotiation skills									
16	Numerical (Mathematics)									
17	Oral Communication									
18	Organizing									
18	Plan (Drawings) reading									
19	Planning									
20	Procurement									
21	Report writing									
22	Supervisory									
23	Team building									

Please answer the following short questions?

1.1 Do you think emerging property developers have adequate managerial skills to successfully complete property development projects?

1.2 Do you think emerging property developers have adequate financial skills to successfully complete property development projects?

THANK YOU VERY MUCH FOR YOUR PARTICIPATION

Appendix C – Questionnaire to Emerging Property Developers

FINANCE FOR EMERGING PROPERTY DEVELOPERS

By Alex Noholoza

DEPARTMENT OF CONSTRUCTION MANAGEMENT, NELSON MANDELA METROPOLITAN UNIVERSITY

1) Please answer questions accurately and as honestly as possible
2) Please read the instructions carefully under each heading and what is expected
3) If you are unsure how to rate a factor, please select the unsure option

SECTION A: DEMOGRAPHIC DATA

A. PERSONAL

1. Please indicate your age?

Less than 25	☐	25 – 34 years	☐	35 – 44 years	☐
45 – 54 years	☐	55 – 64 years	☐	65 years and over	☐

2. Please indicate your gender?

Male	☐	Female	☐

3. Please indicate your marital status?

Single	☐	Married	☐	Other	☐
Separated	☐	Divorced	☐		☐

4. Please indicate your highest formal qualification?

Diploma	☐	Post grad Diploma	☐	Bachelor's Degree	☐
Honours Degree	☐	Master's Degree	☐	Doctoral Degree	☐
Other (Please Specify)		……			

5. Please indicate which sector your organization operates in?

Public	☐	Private	☐	Other (Specify)	☐

6. Please indicate your how long your business has been operating?

Less than 5 years	☐	5-9 years	☐	10-14 years	☐
15-19 years	☐	20-25 years	☐	More than 25 years	☐

7. What is your role/position in the business?

Owner	☐	Partner	☐	Manager	☐
Associate	☐	Staff member	☐	other	☐

8. Please indicate how which of the following forms of business you employ?

Sole Proprietor	☐	Partnership	☐	Close Corporation	☐
Company	☐	Trust	☐		

9. Please indicate how many people do you employ?

Micro enterprise (< 5)	☐	Very small (6-20)	☐	Small (20-50)	☐
Medium enterprise (50-200)	☐	Large enterprise (>200)	☐		

10. Please indicate what type of property developments is your organization predominately involved in?

Industrial	☐	Offices	☐	Residential	☐
Retail	☐				
Other (Please Specify)	……				

11. Please indicate how long you have been involved in property development projects?

Less than 5 years	☐	5 – 9 years	☐	10 – 14 years	☐
15 – 19 years	☐	20 – 25 years	☐	more than 25 years	☐
Other (Please Specify)	……				

12. How would you rate your organization in terms of experience in property development projects?

Experienced	☐	Moderately experienced	☐	Inexperienced	☐
Other (Please Specify)	……				

13. Please indicate what is your average annual turnover?

Less than R5 million	☐	Less than R10 million	☐	Less than R15 million	☐
Less than R20 million	☐	Less than R25 million	☐	Less than R30 million	☐
Other (Please Specify)	……				

14. Please indicate in which geographic region you are based?

Eastern Cape	☐	Kwazulu Natal	☐	North West	☐
Free State	☐	Limpopo	☐	Northern Cape	☐
Gauteng	☐	Mpumalanga	☐	Western Cape	☐

SECTION B: PROPERTY DEVELOPMENT

On a scale of 1 to 7, please indicate the importance of the following statements when embarking on a property development projects with 1 = Not at all; 2= Little importance; 3= Somewhat important; 4= Important; 5= Very Important; 6= Extremely important; 7= Of utmost importance. If you are unsure how to rate a factor, please circle U:

		Importance								
		Not at all important	Little importance	Somewhat important	important	Very important	Extremely important	Of utmost important		Unsure
	Statement	1	2	3	4	5	6	7		U
1	Establishing the demand for the product									
2	A needs analysis of the target market is conducted									
3	The market values of the vacant land to be developed are adequately assessed									
4	Micro economic factors such as gross domestic product, unemployment rates, price indices and inflation are taken into consideration during the development decision stage									
5	Interest rates play a significant role in the development decision stage									
6	A minimum profit margin is determined before commencement of the project									
7	Inflation is taken into consideration when profit margins are determined									
8	The property cycle during the planning stages of the development is identified									
9	Built environment consultants are involved during the feasibility stage of the project									
10	A feasibility study for the development is conducted									
11	A project viability study is conducted									
12	The outcome of the development correspond with the projections of the feasibility study									
13	Legal processes are adequately considered during the feasibility study									
14	The objectives of the local authority holding jurisdiction over the development area are taken into consideration during the decision making process									

15	Local authority advice relating to town planning conditions are taken into consideration									
16	Risk elements associated with the specific development project are identified									
17	The influence of risk elements are forecasted for the project									
18	Relevant legislation governing property development is taken into consideration during the project viability study stage									
19	The level of stability of the political environment is studied during the project viability study stage									
20	Marketing									
21	Pre letting									

SECTION C: FINANCE

1. How did you raise your start-up capital?

Own savings		Inheritance		Family and Friends	
Commercial Banks		Development Finance Institutions			
Other (Please Specify)	…….				

2. Which of the following problems have you experienced in your business in respect of financial support?

Start-up Capital		Establishing Funds		Credit Facility	
Bridging Finance		Working capital		Funds for growth	
Other (Please Specify)	…….				

3. At which stage is your business currently in in terms of finance?

Seed Capital		Start-up Capital		Expansion Capital	

Bridging Finance		Working Capital			
Other (Please Specify)	…….				

4. Which of the following financial reports do you use to evaluate the finances of your business?

Income Statement		Balance Sheet		Funds Flow Statement	
Cash Flow Statement					
Other (Please Specify)	…….				

5. Which of the following business functions do you spend most of your time on?

General Management		Financial Management		Construction Management	
Administrative Management		Marketing Management		Operational Management	
Other (Please Specify)	…….				

6. Do you make use of the following accounting expertise?, if so which one

Bookkeeper		Accountant		Charted Accountant	
Financial Manager		Quantity Surveyor			
Other (Please Specify)	…….				

7. Which of the following budgets do you use for financial planning and control purposes?

Sales Budget		Operating Budget		Capital Expenditure Budget	

Cash Flow Budget	☐	Master Budget	☐		
Other (Please Specify)		……			

8. Which of the following forms of capital do you make use of?

Short Term	☐	Medium Term	☐	Long Term	☐
Equity Capital	☐	Retained Earnings/Profits	☐	Debentures	☐
Other (Please Specify)		……			

9. How do (did) you know which institutions fund emerging business enterprises?

Family and Friends	☐	Radio Advertisements	☐	Marketing Material	☐
Television Advertisements	☐	Local Government Agencies	☐	Word of mouth	☐
Other (Please Specify)		……			

10. Which of the following financial entities have you applied to for financial assistance?

Commercial Banks	☐	Micro-Lenders	☐	Business Partners	☐
Stokvels	☐	Development Finance Institutions	☐	Family and Friends	☐
Other (Please Specify)		……			

11. At which was your application successful/approved?

Commercial Banks	☐	Micro-Lenders	☐	Business Partners	☐
Stokvels	☐	Development Finance Institutions	☐	Family and Friends	☐
Other (Please Specify)	……				

12. What obstacles do (did) you experience during the finance application process?

Communication	☐	Lack of collateral/security	☐	Bad credit record	☐
Lack of business skills	☐	Lack of adequate documentation	☐	No project viability study	☐
Complex application forms	☐	To many forms to fill in	☐	No assistance in the process	☐
No Feedback	☐	Application forms lost	☐	Business plan required	☐
Other (Please Specify)					

13. If your application was rejected, what were the reason/s for the rejection given?

Bad credit record	☐	Lack of Collateral/Security	☐	Poor Business plan	☐
In complete application Form	☐	Project viability not suitable	☐		
Other (Please Specify)	……				

SECTION D: SMME DEVELOPMENT

On a scale of 1 to 7, please indicate the importance of the following managerial skills that you possess in ensuring success when accessing finance and execution of property development projects with 1 = Not at all; 2= Little importance; 3= Somewhat important; 4= Important; 5= Very Important; 6= Extremely important; 7= Of utmost importance. If you are unsure how to rate a factor, please circle U:

		Importance								
		Not at all important	Little importance	Somewhat important	important	Very important	Extremely important	Of utmost important		Unsure
	Managerial Skills	1	2	3	4	5	6	7		U
1	Administration									
2	Auditing									
3	Computer Skills									
4	Coordinating									
5	Costing									
6	Decision making									
7	Entrepreneurial									
8	Estimating									
9	Financial									
10	Initiating									
11	Interpersonal									
12	Leadership									
13	Marketing									
14	Motivating									
15	Negotiation skills									
16	Numerical (Mathematics)									
17	Oral Communication									
18	Organizing									
18	Plan (Drawings) reading									
19	Planning									
20	Procurement									
21	Report writing									
22	Supervisory									
23	Team building									

THANK YOU VERY MUCH FOR YOUR PARTICIPATION