

Property sector nears deadline to keep its transformation charter

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Mr Marius Muller – CEO, Pareto

The property sector is running out of time to align its transformation charter with the DTI's revised B-BBEE act and codes.

If the sector doesn't make the April 2015 deadline, the charter will fall away and the property industry will automatically adopt the revised BEE codes. This will place it under immense pressure to speed up transformation, says Marius Muller, CEO of Pareto.

"With the new codes there's a great opportunity to re-look how the property sector achieves BEE and ensure it is done in a sustainable way," says Muller. "In general, the sector has made slow transformation progress. After 20 years of democracy, we should be seeing more change. There's more that we can do. We should want to do better."

The first BEE codes were introduced in 2007, after which the Property Sector Transformation Charter was separately legislated but, following a review, the South African Government revised the BEE codes in October 2013. The sector has to the end of April 2015 to ensure its charter is compliant with the new codes.

Muller notes that much work was done by the sector to legislate its own transformation charter, so it makes sense to align it and comply with the new standards set out by the DTI, and move forward as an industry.

He explains the property charter allows for more gradual implementation of BEE, compared with the revised BEE codes, which would result in greater transformation, faster.

The big change in the revised codes is the adherence to a minimum score in three areas: ownership, skills development, and enterprise and supply development. A business must score a minimum of 40% of their target in the each of these areas, or it will drop a BEE level.

However, the implications for the property sector go beyond this.

"The real challenge for the property sector is that it enjoyed certain concessions previously, which translated into lower transformation targets and this manifested in slower implementation of BEE," says Muller. He points out that even with these lower targets, the sector is making sluggish progress.

And, should the alignment of the Property Charter fail to meet its deadline, it could leave the listed property sector, in particular, scrambling to make up ground.

For most companies outside of the property sector, black ownership must be over 25% for transformation to have taken place. In the case of most listed companies, 40% of ownership is mandated because of shareholding by pension funds, which have a broad base of policyholders. So, listed companies are required to achieve 25% black ownership of the remaining 60% shareholding, or 15% black ownership. Yet for listed property companies, the level of mandated investment is 70%. So they only need 7.5% black ownership to be transformed.

Business outside of the property sector has generally been given 10 years to reach their 15% black ownership targets, whereas listed property companies have 20 years to achieve their targets, i.e. the reduced 7.5%. "Given that, nearly 10 years down the line, the property sector is nowhere near its halfway mark of 3.75% of black ownership, it is clear there is a lack of transformation in the sector. From a sustainability perspective, this puts the sector at a disadvantage," says Muller.

"It's not the principle that's the problem. It's the application."

"There are companies that have been successful with their transformation and I acknowledge their efforts, so we need to consider why it isn't happening in the property sector and how we can do it differently to make it work in future," adds Muller. "As an industry we really do have a responsibility to openly and honestly discuss our contribution to transformation, particularly given the sensitivity and legacy of property ownership in South Africa."

Muller is passionate that transformation starts with the people driving the process. Pareto has a Level One BEE rating - all members of its executive team are black and Pareto also has female and disabled representivity.

He points out that in the listed property sector today, there is little transformation in executive teams. A recent IPD study, which excluded dual listed and internationally domiciled companies, revealed that only 11 of the 78 listed property executive director positions are filled by black persons and only one is female. Dig a little deeper and you'll discover only two of these black directors have risen to their positions as part of an established business, all the others have come from black business and most of them on the basis of government backed initiatives.

"Transformation is about changing the status quo rather than diluting it," says Muller. "Black leadership is the most economical and effective way of achieving transformation, we should be seeing more."

While the future of transformation in the property sector is a big issue, Muller is adamant it shouldn't be an emotive issue. "We need to look at the facts and figures and ensure they make sense," says

Muller. "What is crystal clear is that we're running out of time to ensure compliance with the revised BEE codes for the sector. Given the lack of progress in our sector, it may be of greater National interest for us to rather, as a sector, revert to the generic BEE codes."