Department of Construction Economics and Management

MSc Property Studies

Minor Dissertation

Challenges Faced by Small Real Estate Entrepreneurs in the Johannesburg Central Business District

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Executive Summary

The challenges which entrepreneurs in general face have been well documented over the years, however, challenges specific to real estate entrepreneurs have not adequately been identified. In a developing country like South Africa, the impact of entrepreneurs in the growth of the economy and in its transformation objective, cannot be underestimated. The challenges in the real estate sector in which developers provide affordable housing, are of crucial importance to identify as doing so will promote further development which will aid in reducing the high unemployment and poverty rate. These challenges have not yet been adequately identified. The aim of this research paper is to identify them, to rank them in order of importance and to provide in depth analysis as to how they affect real estate entrepreneurs in completing their developments.

The focus will be on small medium and micro-enterprise (SMME) developers as entrepreneurs in an urban context, namely in the Johannesburg central business district. The impact of these developments is higher; thus, the challenges experienced by these developers are of significance. Literature on entrepreneurship was reviewed to ascertain the definition of an entrepreneur, their mindsets and what drives them. This was used to define a real estate entrepreneur which in the context of this research paper is someone who purchases land or buildings to develop them into residential housing for the purpose of a return (both social and economic).

In the research methodology a phenomenographic approach was used, appropriate for a qualitative research approach, as it sought to identify challenges through the developers’ experiences. The developers selected, all had prior experience in the field. The researcher interviewed them in person. Their responses were recorded, transcribed and evaluated.

Seven challenges in order of importance were identified namely:

1) Apartheid
2) Education, Experience, Competencies and Mentorship
3) Land
4) Municipalities
5) Equity
6) Time Delays
7) Professional Team

The legacy of apartheid has a negative effect on the real estate development industry as it is largely and experience-based profession of which many previously disadvantaged people were previously denied access to. The result of this is that many highly educated, first time developers enter the market with the support of funders but the lack of experience in development thus making many costly mistakes which could have been avoided had they had the right mentors and experience within the field. This has proven to be difficult to receive as those with the skills and experience are often reluctant to pass it on to those whom they may be unfamiliar with.

It was found that SMME entrepreneurs lack the basic competencies to complete developments due to their lack of experience, which they in turn rely heavily on a professional team which is either too costly for the feasibility of the development or has limited experience, due to similar reasons pertaining to apartheid.
The concern of gaining access to the best prime land at reasonable prices was great as it was found that this land, mostly government owned, was often sold to established private developers who had access to quick funding due to their track record and experience. This left the less desirable land to SMME developers who would in turn reap lower returns.

Challenges related to the inefficient municipalities in the approval of development plans, the lack of access to affordable finance and equity, and the time delays from the approval of financing and building plans to those due to the contractors and professional teams, were identified as the three largest challenges. This is because they have cascading adverse effects on the rising cost of the developments, possibly rendering them unprofitable on completion, if they eventually reach this point.

Solutions proposed include intervention by the government, private institutions and experienced mentors to guide first time developers in gaining the required skills to become successful and to pass on to other developers. Such interventions include incubation programs for entrepreneurs with a mentoring aspect from industry veterans who wish to share their networks and experience in paying it forward. Once these entrepreneurs have completed successful developments they would be mandated to become a mentor to other entrepreneurs as a way to continue closing the experiential gap for SMME real estate entrepreneurs.
Introduction

Entrepreneurship has become a well-documented field of study by academics over the past five decades, mainly owing to the impact entrepreneurs have had in sculpting society, growing countries’ economies and in changing the world as we know it. Literature defines an entrepreneur as, “… a person who has created something of value and assumed the risk of establishing and managing the business around it” (Ahmed and Seymour, 2008, p. 2). Linneman (2005, p. 51) identifies the characteristics of an entrepreneur, which include being a deal maker, risk taker, creator, opportunist and a dreamer, among others. This is because “… entrepreneurs see how things could be and not as they are” (Linneman, 2005, p. 46). Although academics agree that entrepreneurship is not an exact science, investigation into further the field of studies in the field is vast and their researchers’ opinions as to what makes entrepreneurs, what motivates them and their specific characteristics they have; differ significantly. Despite this, the acknowledgement it has been made known that understanding entrepreneurs allows for their incubation and growth; which in turn helps to alleviate poverty, reduce unemployment and increase the national gross domestic product (GDP) of a country. This view is significant in setting the context in which this research paper is based.

Such findings are important as they help to direct the resources made available by stakeholders such as government to sectors of growth and by investors through capital injection into the economy. One of these sectors, which forms an integral part of the South African economy, is the real estate sector, namely residential real estate. In a country with many challenges, including low economic growth of 0,5% in 2016 (World Bank, 2017), a high poverty rate of 21,81% in 2015 (Nicholson, 2015) and poor access to affordable housing, among others, the focus on residential real estate is an important one, as it accounts for over 60% of the value of the property market (Gordon, 2016). Because of this, residential real estate entrepreneurship is a crucial factor in aiding the growth of South Africa’s economy, as it provides accommodation to the country’s residents, reduces its housing shortage, provides employment, reduces crime and poverty and enhances its GDP growth. The focus on real estate entrepreneurship in relation to the residential market pertains to the development of residential property by SMME entrepreneurs in the pursuit of both economic and social returns.

Entrepreneurs in the real estate sector face many challenges, especially those who are considered to operate small, medium and micro enterprises (SMME). The main challenges these entrepreneurs face have not been identified adequately in the available literature. Failure to do this results in a sector where the want for entrepreneurship, improvement, growth or change is there; but the tools to support this are not. This sector therefore lags in growth or may be dominated by institutional developers or more established developers, rather than by smaller developers. Addressing the challenges may assist the entrepreneurs in dealing with the issues mentioned above, which are of critical importance in a developing economy such as that of South Africa by reducing unemployment and by offering housing to its people.
Background to the Study

“Property development is the process by which buildings are erected for occupation or for sale. It takes place in the context of partnerships between organizations from the public, private and voluntary sectors” (Isaac et al., 2002, p.1). It is essentially a basic economic process of supply and demand where the developer would choose to continue with the development if “… the demand for the development would produce a development value higher than all the costs involved” (Isaac et al., 2002, p. 2). The main purpose of this is to become profitable thus increasing their wealth. There is a substantial amount of literature on real estate developers, which focuses on developers as corporates, wealthy individuals or government institutions. Perhaps this is a reflection on the development of the current market?

As a whole, little is written on developers as entrepreneurs, let alone on developers as SMME individuals. This could be because the data on these entrepreneurs may be scarce perhaps due to current market conditions; however, understanding them and the challenges they face in South Africa is of great interest to the real estate body of knowledge and possibly to the broader business body of knowledge.

As a result of this, the success that real estate entrepreneurs have achieved and the way in which they have gone about their ventures, as well as the obstacles they have faced, can be used as a learning tool for other entrepreneurs in a similar position. This objective is important to learn and to replicate in future if significant impact in the industry is to be achieved. The thinking behind this is that despite the sector in which they operate, entrepreneurs may face similar challenges and may therefore already have practical solutions for these challenges proposed previously in other studies, in sectors other than in real estate. As a basis, this information can also be used by investors and institutions supporting these entrepreneurs’ growth and their real estate developments in order to further the institutions’ interests and mandates, especially in the formulation of policy.

It has been stated that “… most entrepreneurs succeed by doing something better, cheaper and faster” (Linneman, 2005, p. 52). Arguably, as the main or most important player in real estate development, the developer plays a crucial role in bringing together resources and relevant suppliers in putting together a development. Isaac et al (2002, p. 11) state that the other players are the landowner, the community, the professional team, the local planning authority, the development partners, the client, the funding institutions and the main contractor. Research has shown that the “… financing of entrepreneurs plays a large role in entrepreneurial activity and economic growth” (Seth, 2017). One has to investigate the other factors that contribute to the challenges South African SMME real estate entrepreneurs face, in addition to the sourcing of financing, in order to gain a truly comprehensive picture of the environment in which they operate. This would be in the hope of possibly improving their business environment to aid them in becoming more economically successful and socially impactful. A brief study on the types of entrepreneurs, their characteristics and what makes them unique will be presented to gain better understanding of the psychological and behavioural background they come from in order to comprehend their drive to do what they do.

Given that, the timing when these entrepreneurs enter into the property cycle is of critical value in comprehending the severity of the challenges and pressures under which they operate in a developing economy. This is because challenges will be amplified or minimized at different stages due to the experience of the developer.
Because of the economic and reputational losses these real estate entrepreneurs suffer, their challenges may be perceived to constitute higher risks than those in more developed economies, on the basis of the potential social gain and of the societal impact of their successful developments. Delays in developments cause an opportunity cost to entrepreneurs. SMME developers who may not have required resources and capital to address these challenges are most affected by such delays, which have a negative impact on a developing economy such as that in South Africa. The inability to adequately identify these challenges further exacerbates this issue because when real estate entrepreneurs struggle to complete their developments, few solutions which they are aware of, are made available to them.

The specific challenges identified in literature that South African entrepreneurs in general face include “… overcoming the legacies of Apartheid, containing crime, fostering an acceptable business ethic, dealing with diversity and facilitating reconciliation between ethnic groups” (Robinson, 2004, p. 173). Robinson continues to state that, “South African entrepreneurs are faced with complexities arising from historical injustices, economic sanctions and radical political change” (Robinson, 2004, p. 174) Other literature evaluating entrepreneurs in developing economies in Eastern Europe identifies challenges faced by real estate entrepreneurs as including a “… bureaucratic business culture, undeveloped legal and financial infrastructure, corruption, restrictive taxation, high interest rates, inflation and the lack of management expertise and skills” (Luthans et al., 2000, p. 102). These may indeed be found to be true in the real estate industry which is what this research paper aims to investigate. Perhaps other challenges in addition to the ones mentioned above may be identified?

Further research proposes that even though the South African government has stated that it is committed to growing and improving the number of entrepreneurs in the country by providing grants and various programmes, it has failed to produce the targeted number of entrepreneurs and economic growth on an impactful scale, owing to its ineffective execution of these initiatives.

This is a crucial point of concern, as it furthers understanding of the environment in which real estate entrepreneurs operate; they are often dependent on the provision of financial resources by the government or other financial institutions among other support, perhaps not limited to financial. These entrepreneurs often do not have the necessary educational and work experience background or financial security required to source financing, mainly because of historical injustices. The playing field for SMME entrepreneurs is therefore not levelled, compared to their institutional counterparts. It can be argued that these SMME real estate entrepreneurs could possibly have a bigger impact on the residential development market, as they do not have as many internal corporate, governance, bureaucratic and financial restrictions as their institutional developer counterparts. They are therefore often more adaptable and have higher risk-taking profiles in order to provide much needed affordable real estate to the people of South Africa. The result of this is the limitation of the types of development projects they may choose to undertake. It then becomes a matter of addressing the social needs of society through capitalistic ventures by these entrepreneurs to make a significant contribution to the economy. The question is why the country has not yet seen sizable growth and impact made by these real estate entrepreneurs in an urban residential real estate context? This points to the lack of understanding of the specific challenges they may face.
According to Robinson (2004, p. 175), entrepreneurial activity in South Africa is observed to be higher in urban centres. The focus of this research will be on entrepreneurs in an urban area, namely the Johannesburg central business district (CBD), and to identify their challenges. This is because Johannesburg is the largest metropolitan area in South Africa, therefore the assumption is that the impact the entrepreneurs who operate in the area may have is significant and the sample of entrepreneurs is also larger than those in other metropolitan areas. This could help to yield a more objective result.

Research by Gore and Nicholson (1991) has shown that urban development processes are mainly based on four approaches, namely the agency model, production-based approach, institutional model and event-sequencing approach. The results of this research state that, “… the size of the initial city plays a significant role in constraining development opportunities. This trait is especially prevalent when levels of competition are high and there are no developers with a level of capital large enough to fragment the landscape into smaller more affordable parcels for other developers” (Morgan and O’Sullivan, 2014, p. 4). Entrepreneurs from different ethnic backgrounds were interviewed in order to gain a better perspective of the differences and similarities in the challenges they may face, possibly due to their ethnicities.

The question of whether addressing these challenges will in practice increase the number of affordable dwellings in the Johannesburg CBD, made available by SMME entrepreneurs, has yet to be answered.

**Problem Statement**

The problem to be examined in the study may be stated as:

*General challenges entrepreneurs face have been identified however; specific challenges that SMME entrepreneurs in the real estate sector in South Africa face have not been sufficiently researched. These challenges may be industry specific and need individual solutions by the various stakeholders. Practical solutions have not been proposed to assist these in successfully completing profitable real estate developments timeously which slows down the transformation within and growth of the industry. In identifying and addressing these challenges in a developing economy such as South Africa, it may aid to promote higher employment levels, lower poverty levels and a provision of much needed housing to its citizens. Little attention has been given to the growth and transformation of the real estate development industry by SMME entrepreneurs; despite their impact possible being larger than that of larger firms in the industry due to their ability to serve less scalable and profitable markets.*
Research Questions

The research questions to be addressed may be stated as:
(a) What are the main challenges SMME entrepreneurs face in the real estate sector in a South African urban context, namely in the Johannesburg CBD?
(b) How have these SMME entrepreneurs attempted to overcome these challenges?
(c) Why do these challenges face SMME entrepreneurs in particular?
(d) Are these challenges the same to all SMME entrepreneurs in South Africa or are they unique to SMME real estate development entrepreneurs?
(e) What specific challenges do South African entrepreneurs face in general, given the history of the country and its economy?

Research Aim

The intended aim of this research is as stated below:

The aim of this research is to provide deep understanding of the environment in which entrepreneurial real estate development in South Africa functions.

Research Proposition

The research proposition to be tested in this study is:

There are specific challenges that are characterised and faced by real estate developers as entrepreneurs in South Africa.

Research Objectives

The research objectives to be achieved are to:
(a) Identify the main five challenges SMME real estate entrepreneurs face in the Johannesburg CBD.
(b) Determine the cause of these challenges.
(c) Establish the influence of apartheid and race in the main challenges identified.
(d) Propose practical solutions for the challenges identified.
(e) Establish whether these solutions are realistic and how they can be implemented.
(f) Identify the relevant parties who can assist in implementing the solutions.

Research Method

The above objectives will be achieved by adopting the following research method:
(a) A literature review to gain more in-depth understanding of the subject matter
(b) Face-to-face/telephonic interviews with active real estate SMME entrepreneurs in the Johannesburg CBD to establish the challenges they face
(c) Analysis and interpretation of the data
(d) Conclusion and recommendations.
Limitations

(a) The fact that case study is based in the Johannesburg CBD
(b) Difficulty in identifying the specific challenges experienced by SMME entrepreneurs
(c) Difficulty in determining the impact or severity of these challenges on their development performance
(d) Challenges in identifying the institutions that can solve the challenges, the extent to which they can do so and their willingness to assist in solving the challenges.

Structure of Research Report

The research report will be structured into the following five chapters:

Chapter 1: This chapter aims to provide and introduction and a background to the study in outlining the importance of the research paper at hand. It aims to present the problem statement and clearly articulate why it is of interest to the research body of knowledge to undertake. In addition, it will outline the research questions, aim, objectives, method and limitations.

Chapter 2: This chapter will comprise of a critical literature review. This review will be of literature found on entrepreneurship, namely identifying entrepreneurial motives, traits and drivers behind entrepreneurs’ success by reviewing the available data and research. A review of real estate development and developers will be done parallel to this in order to combine the two to allow identification of the risks and challenges of real estate entrepreneurs in general. The purpose of this is to contextualize the research at hand and to provide evidence of the research available on this or on a similar topic. This will aid identifying the gaps in literature which this research aims to fill.

Chapter 3: This chapter will examine the detail of the methodology to be used to execute the research proposal, the chosen interview process, questions asked and the research design. It will detail why the phenomenography approach was chosen over other approaches. In addition to this it will examine how the interview process will be executed, it will detail the questions to be asked and it will explain the logic of the sample size chosen, the ethical considerations and the data analysis strategy using NVivo as a research tool.

Chapter 4: The chapter will detail the research findings and draw out the challenges in rank order identified through the interviews. The aim of this is to specify the seven major challenges experienced by SMME entrepreneurs and explain in detail the impact they have on these developers and on their developments. It will separate them into key themes and draw on what the knock-on effects are of each challenge on the next.

Chapter 5: This chapter will summarise the research findings in relation to the problem statement and research objectives to ascertain whether these were congruent with the results obtained. It aims to identify how the research was successful and to point to areas of further improvement. It will also present practical solutions to the challenges identified, offer limitations to the study and present recommendations.
Chapter 2: Critical Literature Review

Introduction

The availability of literature on the integration of entrepreneurship and real estate development is limited. Much has been written about these two concepts separately, yet despite many similarities between real estate developers and entrepreneurs, academics have not fully ventured into exploring a comparison of the two to distinguish differences and similarities. This research report aims to aid in reducing the gap. The purpose of this literature review is to analyse academic literature on entrepreneurship critically, specifically looking at what makes an entrepreneur, the South African entrepreneurial landscape, the entrepreneurial mind-set and the challenges entrepreneurs face.

This will be done in order to determine whether all entrepreneurs, despite their different fields of expertise, face similar challenges or whether the challenges they face are industry or country specific or due to other probable causes. This is of interest to the real estate body of knowledge, as determining these challenges will assist entrepreneurs and those who support them in dealing with the challenges, which will in future allow them to be more efficient in their businesses. Such research is of importance in developing countries, as entrepreneurs form an integral part of their economic growth, particularly in South Africa where the real estate industry contributed 1.63% to GDP in 2016 (PriceWaterhouseCoopers, 2015).

The framework of this literature review therefore encompasses a developing nation context, mainly in Africa, with the focus on urban and inner-city entrepreneurship. Urban entrepreneurship has been described as, “… those engaged in entrepreneurship in such contexts can be called ‘urban entrepreneurs’ These urban entrepreneurs may be divided in two groups: entrepreneurial ventures located in urban spaces and entrepreneurial ventures located outside urban spaces yet serving the needs of urban dwellers. Despite the prevalence of urban entrepreneurs, theories for understanding the nexus of urban contexts and entrepreneurial processes remain underdeveloped” (Osorio & Özkazanç-Pan, 2014).

The purpose of this review is to draw on similar continental challenges faced by other African nations, which may be similar to those experienced by entrepreneurs in South Africa. Literature on entrepreneurship considered ranges from the 1960s until 2017, as concepts developed then on the subject still hold true today. Analysing the development of entrepreneurial literature is relevant in order to observe whether entrepreneurs face the same or similar challenges over time despite technological and economic advancements. It poses the question whether all entrepreneurs should expect always to encounter such challenges when starting a business or whether there are methods to improve these challenges to encourage the participation of people in entrepreneurial ventures. The focus is on SMMEs.

Both academic journal articles and industry reports were analysed. Journal articles gave an academic perspective on relevant concepts as well as a deeper, sometimes historical background to them, whereas the industry reports gave a more current overview of the state of entrepreneurship and of real estate.

Both source types were seen to form an integral part of the literature review, as they enhanced the author’s understanding of the subject to convey arguments better and dispute points of view proposed by various academics.
Defining Entrepreneurship

The term ‘entrepreneurship’ or ‘entrepreneur’ has been widely developed and refined over the decades as a new phenomenon and occupation. Definitions vary from an entrepreneur being “… an individual who establishes and manages a business for the principal purpose of profit and growth” (Tobora, 2015, p. 34) to “An entrepreneur is one who contributes significantly more than others to the economy by virtue of innovation and realising new combinations which involve creation of a new product, a new method of production, the opening of a new market, the capture of a new source of supply or a new organization of industry” (Tobora, 2015, p. 35). The similarities between these two definitions include consensus that an entrepreneur is a natural person or individual and not a juristic person who creates something, whether a business or product.

The distinction between creation and improving upon an existing product, service, business, methodology or industry is an important one, as many have confused being an entrepreneur with being a business person or manager. This mistake has been observed in earlier literature on entrepreneurship owing to the similarities in tasks entrepreneurs may have to do when starting out in their ventures; tight budgets force them to do virtually everything themselves, which managers and other people might subsequently do when the business is more established.

The view of entrepreneurs solely starting businesses to make a profit is limited, as it neglects to acknowledge other types of entrepreneurship, such as social entrepreneurship and other non-financial factors, for example starting a business or venture for the purpose of effecting change and contributing positively to society. Although entrepreneurship is important, the claim that entrepreneurs contribute significantly more than others (professions) to the economy is baseless, as it assumes that entrepreneurial activities alone are the source of most economic activity. This limited view is false, as other professions, such as public servants and professionals in general, also contribute significantly to promoting positive economic activity. This view also undermines other professions.

Literature goes further to state, “It is the entrepreneur who undertakes the risk of the enterprise in search of profit and who seeks opportunities by satisfying as yet unsatisfied needs. Entrepreneurship is the process through which individuals identify opportunities, allocate resources and create value. Entrepreneurs solve problems and make money from them. It is a person who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods” (Kaburi et al., 2013, p. 265). The element of risk is introduced to add another dimension to entrepreneurship, as it is seen as a comparatively uncertain profession, since the rewards of profit, impact and change are not guaranteed.

The concept of value is mentioned, which is an important aspect of entrepreneurship, as it is widely accepted that entrepreneurs aim to create something of value in order to reap profits from it.

Value is not limited to the invention, service or creation of a business, but rather to the entity which the entrepreneur creates as a whole due to the chain effect of employment opportunities, growth, improved ways of living and other externalities gained by society through entrepreneurial endeavours. This is supported by the view that “Entrepreneurs are catalysts for social, economic and technological change” (Nyanga, 2013).
The idea of change and improvement is reconsidered as a fundamental element of the purpose of entrepreneurship. Literature assumes factors and elements of entrepreneurship to be positive rather than negative, but the truth is that some entrepreneurs get involved in questionable or criminal activities yet share the same traits as ethical entrepreneurs. This paper will not engage in debating the difference between the two types of entrepreneurs and will focus on ethical entrepreneurship for the positive furtherance of society as a whole.

According to Nyanga (2013), in developing nations entrepreneurs usually start businesses to create wealth and are forced to do so through poverty or job losses, among other factors. These factors are no different to those found in developed nations; however, the number of people ‘forced’ into entrepreneurship through job losses and poverty seems to be higher in developing nations. Their main goal is survival: to take care of themselves and their families rather than to create wealth, therefore their businesses tend to be more informal in nature. This brings into question whether the challenges these entrepreneurs face are different or similar to those faced by entrepreneurs who start formal businesses to create wealth and effect growth. The real estate industry in South Africa is a formalised sector, therefore entrepreneurship for building wealth and creating social change and innovation will be the focal point of this paper. In addition to this, it has been found that entrepreneurs in general possess similar traits or mind-sets, to be discussed at a later stage.

Entrepreneurs have been found to have “… capabilities of innovating, introducing new technologies, increasing efficiency and productivity or generating new products or services. These are characteristic qualities of entrepreneurs” (Nyanga, 2013). The same sentiment of entrepreneurship is shared by various authors, although expressed in different words. The main school of thought is that entrepreneurship aims to effect positive change, innovate and create value in society through business ventures.

The concept of innovation in relation to entrepreneurship was introduced into earlier literature stating that, “Before there can be entrepreneurship there must be the potential for entrepreneurship whether in a community seeking to develop or in a large organization seeking to innovate” (Kreuger and Brazeal, 1994, p. 91). This view further expands entrepreneurship into a way of thinking rather than just a profession limited to someone starting a business, as it leads into the idea that entrepreneurship can take place within organisations to improve their current state. This leads one to consider the mind-sets that make entrepreneurs unique and different from business people or managers.

In the context of this research paper, a real estate entrepreneur is an SMME developer who acts on their own or with other SMME developers to purchase land and buildings, improve them and sell or lease them to consumers in the pursuit of a return on their investment.

**Entrepreneurial Mind-Sets**

“Entrepreneurial mind-set refers to a specific state of mind which orientates human conduct towards entrepreneurial activities and outcomes. Individuals with entrepreneurial mind-sets are often drawn to opportunities, innovation and new value creation. It is an individual’s ability to turn ideas into action. It includes creativity, innovation, showing initiative and risk taking as well as the ability to plan and manage projects in order to achieve objectives” (Times, 2017). In grasping the challenges entrepreneurs face, one should understand what makes entrepreneurs, more specifically in relation to their mind-sets.
To comprehend how they think, one aims to discern the importance of the challenges they face in achieving their goals and outcomes.

Some of the character traits of entrepreneurs include having “… enough self-belief and belief in those around them to resist the knocks that will usually come and still pursue their vision. The fear of failure in entrepreneurship must be suppressed and educated out. Self-awareness, as in the person has a clear understanding of their skills and their limitations. As a result, they are willing to work with others, to listen to others and to modify their vision in light of such decisions” (Richert-Każmierska & Lechman, 2014). These were identified as critical personality traits of successful entrepreneurs by one author. In addition to this, another author states that, “Successful entrepreneurs are adept at selecting the right industry and time to start new ventures” (Kaburi, Mobegi, Kombo, Omari, & Sewe, 2013).

The path of entrepreneurship is often seen as a lonesome one where an individual or individuals start a business when few people believe in them or support them, in addition to the normal challenges one would face in starting a business. This is why the self-belief aspect was pointed out as an important one, because it has been found that in order to be a successful entrepreneur, one has to stick to the plan and to the business despite the circumstances. Adding to this, it is well known that traditional entrepreneurship is based on a long and hard road to success; one should rather look at seasoned entrepreneurs such as Henry Ford, Pam Golding and Richard Maponya; not at technological overnight successes such as Mark Zuckerberg.

Because it is human nature to fear failure, this trait is often heightened in the entrepreneurial pursuit based on the consistent lack of certainty and the high-risk nature of the profession. Whether the fear of failure can be ‘educated out’ is yet to be proven or determined.

Because of the notoriously tough road of entrepreneurship, it is important for entrepreneurs to know themselves well, because in understanding their strengths and weaknesses they are better able to cultivate the right team and working environment to take their businesses to the next level. Although the literature points to an element of skill in relation to entrepreneurship and choosing the right industry and venture, there is still an element of luck in being in the right place at the right time. What is also not mentioned in the literature is the number of times entrepreneurs may fail before their businesses succeed, which often creates the resilience they possess to make their businesses work (Richert-Każmierska & Lechman, 2014).

This leads into the topic of identifying specific entrepreneurial mind-sets from the literature, gained through extensive and rigorous interviews with entrepreneurs over some years. Different sources have identified what they believe to be entrepreneurial mind-sets. Some overlap, yet others are different. The source chosen to be included in this literature review provides for an in-depth understanding of the different entrepreneurial mind-sets identified in the most prominent literature on the subject.

According to the journal on Entrepreneurial Motivation, Shane, Locke and Collins (2003) identified the following entrepreneurial mind-sets:

Locus of Control
“This refers to the belief held by individuals that they can largely determine their fate through their own behaviour” (Brockhaus, 1982).
Risk Taking
“Refers to the willingness to commit significant resources to some uncertain opportunities” (Brenton-Miller, & Miller, 2006). “Entrepreneurs differ in their level of risk aversion. More risk averse individuals become workers while the less risk averse become entrepreneurs” (Kihlstrom and Laffont, 1979).

Need for Achievement
“Subsequent research has not validated a link between a high need for achievement and the decision to start a business. The need for achievement remains a key force in entrepreneurial success” (Sexton and Bowman, 1985). “McClelland (1987) argued that need for achievement is culturally acquired and is a key psychological characteristic for an entrepreneur” (Shane, Locke, & Collins, 2003).

Creativity/Innovativeness
“Whatever new venture an entrepreneur takes on must not only be creative but must add on value” (Shane et al., 2003).

Autonomy
“People with a high need for autonomy are more likely to engage in entrepreneurship” (Yun & Park, 2006).

Persistence/Perseverance
“They work hard and are driven by an immense commitment and determined perseverance. They see the cup as half full rather than as half empty. They strive for integrity, they burn with the competitive desire to excel and win. They are dissatisfied with the status quo and seek opportunities to improve almost any situation they encounter. They use failure as a tool for learning and eschew perfection in favour of effectiveness. They believe they can personally make an enormous difference in the final outcome of ventures and in their lives” (McDougall & Oviatt, 2000).

Ethnicity
No conclusive evidence was found on differences in entrepreneurial activity between different ethnic groups.

It is interesting to note that many of the mind-sets identified by Kaburi (2013), Shane et al. (2003) Baum and Locke (2004) and Richert-Kaźmierska and Lechman (2014) are over 14 years old, which could mean that further research into this area has come to similar conclusions. Is this an indication that entrepreneurial mind-sets have not changed over the years despite technological advancements? If this is the case, then academics must be quite certain which mind-sets are intrinsic to entrepreneurs. This does not mean that all entrepreneurs possess every mind-set listed; however, it rather points to the fact successful entrepreneurs have a combination of most of the mind-sets listed. Entrepreneurship can therefore be looked at as a state of being rather than just a profession.

Research into the field, such as that undertaken by Katz and Gartner (1988), has concluded that many of these traits can be taught, hence the initiation of entrepreneurial courses at universities and in schools in general. Arguments against this have been proposed, suggesting that entrepreneurs are born, not made. Evidence has been given against this, showing that successful entrepreneurs can in fact be taught, guided and ‘made’, given the right setting and support; hence entrepreneurial incubation initiatives.
It is interesting to note that no conclusive evidence has been found on differences in the level of entrepreneurial activity among different races and ethnicities. This point may be one of contention in South Africa, given its past with regard to apartheid, as it may be found to be one of the main factors influencing the level of entrepreneurial activity in the country and the trajectory of the success of these entrepreneurs. It is a matter of interest to the real estate body of knowledge whether these mind-sets also hold for real estate development entrepreneurs, as such research tends to have a broad scope over many industries.

Hampton, 2015 has noted that entrepreneurial mind-sets have been found to propose a gradual shift towards the following:

1) Capabilities (How do I run a business?)
2) Entrepreneurial status (Am I running a business?)
3) Entrepreneurial performance (How is my business performing?)

In summary, entrepreneurial mind-sets form the basis in understanding the nature of entrepreneurs in order to comprehend the challenges they face. Although not all entrepreneurs possess all of the mind-sets listed, they give a general overview of what successful entrepreneurs should be competent in. Further research needs to be done to determine whether these mind-sets are applicable to entrepreneurs in both developed and developing nations, as some differences may be noted. This brings one to question the landscape in which entrepreneurs in South Africa operate to gain better understanding of the proposed challenges they may face.

**South African Entrepreneurial Landscape**

Tobora (2015) noted that, “Economic growth generated by entrepreneurs forms a core part of an economy. Successful entrepreneurs through their breakthrough technologies and rapidly growing businesses create new wealth that can generate even longer economic growth.” Despite this coming from a paper in Nigeria, the same holds true in South Africa. The unemployment rate in the country in 2016 was recorded at 26.6% (Economics, 2017). It has been proposed that entrepreneurship could form part of the solution by reducing the unemployment rate in the country.

Statistics of the percentage of early stage entrepreneurial activity in the world in 2016 are as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>South Africa</strong></td>
<td>6.9%</td>
</tr>
<tr>
<td>Brazil</td>
<td>19.6%</td>
</tr>
<tr>
<td>China</td>
<td>10.3%</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>33.5%</td>
</tr>
<tr>
<td>Cameroon</td>
<td>27.6%</td>
</tr>
<tr>
<td>Egypt</td>
<td>14.3%</td>
</tr>
<tr>
<td>Morocco</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

*Table 1. Total Entrepreneurial Activity, GEM Report 2016 (Herrington, Kew & Mwanga, 2016)*
Although dated, this table’s results are still relevant in illustrating the point that South Africa is one of the developing nations with the lowest entrepreneurial rates. This is of concern, because it is the second largest economy in Africa behind Nigeria according to GDP and arguably the most developed economy in Africa, yet it has dismally low levels of entrepreneurship. This may be due to the country’s past historical injustices caused by apartheid, as one of the newly independent nations in Africa; however, this cannot be the full picture.

Because this is an area of concern, the solution proposed for this issue has been that of entrepreneurial education, as the level of this in South Africa is low. “Entrepreneurship education is essential for developing the human capital necessary for the society of the future. It is not enough to add entrepreneurship on the perimeter. It needs to be central to the way education operates” (Wilson, Vyakarnam, Volkmann, Mariotti, & Rabuzzi, 2009).

In contrast to this proposal, the Kauffman Firm survey reveals that, “The higher the level of education one obtains the more likely they are to be entrepreneurs. The highest level of entrepreneurship is among those with technical, trade or vocational degrees. Fairly well-educated people are moderately likely to be entrepreneurs. Most of these people would have never started a business before” (Marion, 2015).

This therefore presupposes that an increase in the level of entrepreneurial education may produce more entrepreneurs, but too much education on the matter may reduce the number of entrepreneurs (Marion, 2015). It seems like an oxymoron, but one may reason that the element of risk in entrepreneurship needs actually to be taken and not taught; exposing entrepreneurs to all the likely risks they may face could dissuade them from even entering the field and instead using the entrepreneurial skills they learnt in school to work as salaried employees in organizations.

Focusing on entrepreneurial activity in the real estate industry, literature has stated that, “A robust real estate sector is therefore critical for the enthronement of economic growth and social development of any nation” (Kumo, 2014). The impact of a robust real estate sector has been identified as follows:

- Improvement in socio-economic life
- Wealth creation
- Fostering the development of capital markets by enhancing the availability of investible financial instruments
- Creation of employment opportunities
- Attraction of foreign investment

(Kumo, 2014).

It is therefore important to acknowledge that the growth of entrepreneurial activity in the real estate sector in South Africa will not only aid economic growth; it will also help to reduce poverty and to increase employment, thus improving the socio-economic landscape of the country. Given this, one has to dig deeper to determine why the level of economic activity in the country is so low. The challenges entrepreneurs in general encounter that have been reported in literature should be identified in order to distinguish differences and similarities in the final research results of this study.

This is proposed to be most effectively done through SMME vehicles: “Small firms are the vehicle in which entrepreneurship thrives” (Welter, 2005).
This research paper goes further to state that, “SMEs are able to provide economic benefits beyond the boundary of the individual enterprise in terms of experimentation, learning and adaptability. SMEs reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled yet unemployed workers.”

It is argued that, “… although the SME sector can be much more responsive and flexible to changes in the marketplace; it is also much less able to influence such developments” (Welter, 2005). The argument here points to scale and hints that small businesses do not have the same impact on the economy as larger corporations.

**Entrepreneurial Challenges Identified**

Okeke (2014) found that in nations across the world, similar challenges were identified, such as lack of access to financing and capital, stringent finance application processes, high cost of finance, financiers’ lack of understanding of what it takes to run a successful business, lack of infrastructure or access to appropriate technology and a strict regulatory environment. Across all industries these were the main challenges identified.

What is interesting to note is that despite the maturity of the industry or the perceived availability of funds, as in the technology industry, entrepreneurs still experience similar challenges in having funds actually distributed to their ventures. Funders have identified the reasons for not distributing financing to entrepreneurs, including entrepreneurs lacking skills in:

- Qualities of devotion
- Capabilities of management, marketing and control.

Moreover, the education system does not provide them with the right entrepreneurial skills (Nyanga, 2013).

It is obvious why the financiers would point to lack of understanding of what it truly takes to run a successful business, as they distribute funds based on the certainty of being able to predict businesses’ cash flows in order to pay them back. Although it has been mentioned that many entrepreneurs have commercial educational backgrounds, these do not necessarily translate into being able to run a successful business; hence the proposition of teaching entrepreneurial educational programmes in schools and universities.

One has to question the practicality of this in developing nations such as in South Africa, where many informal entrepreneurs are often ‘forced’ into the profession by poverty, job loss or desperate circumstances.

Do they have the time or resources to attend these classes to improve their businesses in order to create wealth for themselves (assuming this is what their goal is) or are they satisfied with merely being able to survive? This leads one to question the separation of the different types of entrepreneurs and their goals. Research has proven time and again that despite this, most entrepreneurs encounter similar challenges.

According to Nyanga (2013), in developing nations the challenges extend to historical ethnic predispositions, high crime rates, corruption, underdeveloped legal frameworks and technology systems, inefficient processes and systems, tax-related issues, lack of basic business skills or education and uncertain economic conditions, among others.
These challenges are important to note, as South Africa falls into this category. Understanding the challenges could possibly form a basis for understanding the challenges real estate entrepreneurs may face in the country. The industry is quite mature and requires high levels of access to capital in order even to enter it if one is the land owner, developer or both. Access to financing can be quite difficult to obtain because of the high collateral requirements of the financiers of the developers, as well as the high cost of financing.

Many entrepreneurs in this sector may feel that it has high barriers to entry and may be discriminatory in that regard, supported by the view that, “Discriminatory laws or practices related to finance and credit also hinders young peoples’ access to business loans” (Awosika, 1997). The perception of youth tends to create lack of trust among financiers, since young people have limited experience in the field, thus posing a perceived risk to financiers.

**Conclusion**

There is a wealth of opportunity for South African SMME entrepreneurs to start and grow real estate development businesses in the country, specifically in urban areas. “Pressures of increased urban density will start to present regeneration opportunities such as in areas within the Johannesburg Central Business District (CBD) where old commercial office buildings are being transformed into residential premises with varying levels of success. This regeneration in Johannesburg has begun to attract residents back into the city centre. This demand for space will lead to an increase in brownfield developments together with the regeneration and repurposing of existing premises” (PriceWaterhouseCoopers, 2015).

The World Bank’s South African real estate industry forecasts revealed the following:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Urban Population</td>
<td>64,80%</td>
<td>65,30%</td>
<td>65,80%</td>
</tr>
<tr>
<td>Real Estate Industry Valuation in $ Billions</td>
<td>6,66</td>
<td>8,07</td>
<td>9,31</td>
</tr>
<tr>
<td>Industry Growth Rate</td>
<td>4,50%</td>
<td>2,96%</td>
<td>4,07%</td>
</tr>
<tr>
<td>Real Estate % of GDP</td>
<td>1,63%</td>
<td>1,63%</td>
<td>1,64%</td>
</tr>
</tbody>
</table>

(PriceWaterhouseCoopers, 2015)

Entrepreneurs in general face many challenges in relation to financing, infrastructure concerns, lack of entrepreneurial training and lack of capital to start and run successful businesses. In addition, they need to develop the right mind-set to weather the challenging road of entrepreneurship. Further research needs to be done into the specific challenges SMME real estate entrepreneurs in South Africa face in order to identify such challenges in an effort to reach solutions. As literature states, “The essence of entrepreneurial venturing can therefore be summarized as the identification, evaluation and pursuit of the opportunity” (McGrath & MacMillan, 2000).

The definition of an entrepreneur has changed over the years from a person who is more of a manager to having a standalone description of someone who starts a business and displays the above-mentioned entrepreneurial and management traits.
Having considered the literature, there are two schools of thought. The first is that the challenges entrepreneurs face are internal, due to a lack of training and education, therefore if these are addressed and skills are taught, it will promote higher levels of entrepreneurship (Katz & Gartner, 1988; Marion, 2015; Wilson et al., 2009).

The second school of thought is that these challenges are external. They are a result of their environment, therefore the responsible bodies that have influence to address the system in which they operate, such as the government or large corporates, should aid in reducing the cost of funding, for instance, and in improving legislation relating to SMME activity (Kaburi et al., 2013; Nyanga, 2013; Tichaona, 2013; Tichaona & Nyaruwata, 2016). Lack of access to funding was found to be a pertinent issue faced by many entrepreneurs. Funders noted the reason for this to be a lack of education (more specifically entrepreneurial education), lack of management skills and lack of devotion by entrepreneurs. This particular piece of work aims to fill the gap in the literature.

Entrepreneurs are seen as visionaries who intend to create businesses or ventures in an attempt to increase their wealth. They do this by taking risks and are deemed to have a combination of the following mind-sets, enabling them to become successful:

- Locus of control
- Risk taking
- Need for achievement
- Creativity/innovativeness
- Autonomy
- Persistence/perseverance.

In developing nations it is suggested that the most successful entrepreneurs are those who intrinsically display entrepreneurial traits such as risk-taking, locus of control, creativity and perseverance (Kaburi et al., 2013). The literature states that the business environment in which entrepreneurs operate is essential for determining their success, therefore the policies and business practices concerned need to be developed and regulated (Nyanga, 2013).

Over the years, the literature on entrepreneurship has evolved to group similar challenges into broader categories. It has also determined that entrepreneurial mind-sets can be taught and proposes that through teaching entrepreneurial skills, there will be a rise in the number of entrepreneurs and entrepreneurial activity overall (Marion, 2015; Shane, Locke, & Collins, 2003).

Given that this may be the case, the truth is that little has been written about what causes the challenges identified by real estate entrepreneurs in an urban landscape in order to validate whether these are mainly externally afflicted or internally inflicted, as this would give guidance on how best to address them. This paper aims to fill this gap in the literature partly.
Chapter 3: Methodology

Introduction

In an attempt to investigate the challenges SMME real estate entrepreneurs face in urban areas in South Africa, the appropriate methodology chosen to gain insight into the topic is the qualitative approach. The qualitative methodology was chosen over the quantitative methodology in this study, as it was viewed as the better way of gaining insight from real estate entrepreneurs with regard to their personal entrepreneurial journeys and experiences, in the hope that the results gained from them would be of interest to the industry. Quantitative methods in this case would not be appropriate, as they would limit the scope of the results, thus weakening the aim of the research. The reason for this is that the depth of the reasons for the characteristics identified would not be available in a quantitative approach. Explanations play a significant role in this research, as they add richness and depth to the results that would not be gained through quantitative methods, as they provide a more detailed picture of the reasons for the results.

The quantitative analysis of data would therefore not answer the research questions proposed. This is because it would merely identify characteristics that have been proposed in previous research as justified by the number of participants who agree to them, rather than proposing new and unique characteristics identified by them. Previous studies, such as those conducted by Morrish, Levy and Dong (2009), titled The Role of Property on an Entrepreneur’s SME Portfolio and by Corradin and Popov in (2013), titled House Prices, Home Equity and Entrepreneurship, all used the qualitative approach.

The aim in studying the topic is to gain descriptive insights into the challenges real estate entrepreneurs face and not solely to quantify the significance of their challenges. The researcher hopes that by giving a descriptive analysis of the results gained by the participants in this study, further action may be taken by other researchers or influential bodies who would assist in reducing the likelihood of the challenges experienced by real estate entrepreneurs. Having said that, a combination of quantitative and qualitative methods will not be used, as the researcher believes that more value and insights will be gained from using purely qualitative methods. Quantitative methods would not be appropriate to the research, as they do not provide the detail needed to support the results presented. The qualitative approach provides better context and detail to the results gained, being supported by direct quotations from the participants, explaining the views expressed.

As stated by Wyse (2011), qualitative research, “is primarily exploratory research. It is used to gain an understanding of underlying reasons, opinions, and motivations. It provides insights into the problem or helps to develop ideas or hypotheses for potential quantitative research. Qualitative research is also used to uncover trends in thought and opinions, and dive deeper into the problem.”

This is of critical importance, as this research aims to understand the overall challenges pertaining to real estate entrepreneurship in an urban context from the views of entrepreneurs themselves and not to draw conclusions about the entrepreneurs as individuals. The unit of analysis is the groups or schools of thought in which the entrepreneurs define the challenges identified and their views on why the challenges present themselves.
The qualitative method permits the researcher to investigate the personal views of the participants further to ascertain what they perceive to be true and why they perceive it to be so. The purpose of this research paper is to gain an in-depth view, through the eyes of real estate entrepreneurs, of the daily challenges they face every day in the pursuit of making a success of themselves and their ventures. More specifically, it aims to observe and analyse their behaviour in response to the environment in which they operate. As a result, the phenomenography approach was chosen as the most appropriate to gain these answers, mainly through detailed, face-to-face, in-depth interviews with a select few real estate entrepreneurs who operate in the Johannesburg CBD.

Yates et al explained that this approach, “… seeks to understand a variation in peoples’ experiences of different phenomena or aspects of the world” It also offers “… a focus on an experience which offers a holistic approach to understanding peoples’ engagement.”

“As a research approach, it has historically been concerned with exploring questions related to learning and understanding how people learn and how they see knowledge within a particular context” (Yates, Partridge, & Bruce, 2012). “It is underpinned by the notion that people collectively experience and understand phenomena in a number of qualitatively different but interrelated ways” (Manton, 1986).

Other qualitative research approaches were initially considered for this paper but later found not to be as appropriate as the phenomenography approach. These include the narrative approach, which relies “on the written or spoken words or visual representation of individuals. This approach typically focuses on the lives of individuals as told through their own stories. The emphasis in such an approach is on the story, typically both what and how is narrated” (Atlasti, 2002). This approach was not entirely appropriate for this research paper, as it tends to be more unstructured than the phenomenography approach, thus giving a more biased view of an experience as told solely from the point of view of the interviewee. It would therefore focus on the individual entrepreneur and not on identifying challenges in urban real estate entrepreneurship as a whole, which is of value to the real estate body of knowledge. The outcome of this was seen to be less reliable, as specific guided questions to identify challenges, some of which have already been identified in the literature, may not be appropriate in this approach.

The second comparative approach that was considered was of a phenomenological nature. This approach is described as “… the focus of what people experience in regard to some phenomenon or other and how they interpret those experiences. A phenomenological research study is a study that attempts to understand people's perceptions, perspectives and understandings of a particular situation” (Manen, 1997).

This approach was deemed unsuitable for this paper, as it is mainly used in psychological research where the focus is on the interviewee’s interpretation of a very specific phenomenon or concept. The focus of this paper is of a broader nature, where no specific phenomenon in considered, but rather a variety of phenomena or possibilities that could be plausible outcomes of the research.
Phenomenography Approach

According to Marton and Pang (2008), the epistemological stance of phenomenography is based on the principle of intentionality. This principle embodies a non-dualist view of human consciousness whereby experience is depicted as an internal relationship between human beings of the world.

“It is in turn conceptualized as a human-world relationship” (Yates et al., 2012). This distinction is an important one in this research, as the researcher aims to ascertain how the entrepreneurs have interacted with the world, faced the challenges and responded to them. The interest is in the implication of this for the market and on how it reacts to entrepreneurial activity, followed by the decisions made by stakeholders in response to this.

This approach was used by Morrish, Levy and Dong (2009) in a paper titled *The Role of Property in an Entrepreneur’s SME Portfolio*, in which the researchers interviewed 15 entrepreneurs who used property as a diversification tool in their business portfolios. Understanding the internal depiction of the challenge by the entrepreneur is important, as literature has externalised these challenges objectively, usually from the point of view of a non-entrepreneur, thus possibly underestimating the severity of the challenges identified.

For instance, it is proposed that because a large sample of entrepreneurs may have identified something as a challenge, researchers may have prioritised the severity of this challenge and thus highlighted it in detail in their papers as being referenced by other researchers, but the impact of the challenge on the entrepreneurs may not be as severe as a less noted one. It is these discrepancies or differences that this paper aims to highlight in real estate development, particularly in an urban setting in South Africa.

The literature continues to state that, “A non-dualist stance therefore assumes that there is an inseparable relationship between people and aspects of their world and exploring this relationship is the focal point of phenomenographic research” (Yates et al., 2012). This is essentially the focal point of this research paper, as it is assumed that the entrepreneurs interviewed are involved in their real estate ventures on a full-time basis and therefore the challenges they experience are part of their everyday lives and existence, thus giving them more credibility, seriousness and weight. The result of this is that they are fully engaged in the real estate development process, therefore their experiences concerning the challenges they face are of interest to the research proposition. They provide the context and detail required to justify the results proposed.

Research Questions

The researcher acknowledges that the challenges identified by the research participants may be subjective, as they may possibly be influenced by their personal views of life, business, the country and the environment in which they live and operate; however, this does not discount the validity of their views. The questions posed to the entrepreneurs are semi-structured and furthered the aim to obtain an in-depth perspective from them as to what the challenges are and whether these are external challenges or self-perceived/self-created ones, in order to test the validity of the challenges identified.
Given this framework, the researcher aims firstly to identify the most crucial challenges that affect SMME real estate entrepreneurs operating in the City of Johannesburg, secondly to determine why these challenges affect them to the extent that they do and thirdly, to evaluate how these challenges have arisen by assessing the entrepreneurs’ individual journeys.

The researcher conducted this research by means of reading published journal articles and reports on entrepreneurial and real estate development matters in order to gain deeper understanding of the background to the research paper. Through this analysis, it was concluded that not enough literature on the challenges facing SMME real estate entrepreneurs in an urban setting was available; therefore, this research is important in trying to understand the environment in which they operate. The main proposition of this research paper is therefore the following: *If the main challenges SMME entrepreneurs face in the real estate sector are addressed, this will lead to a rise in their ability to provide affordable yet profitable real estate in the Johannesburg CBD.*

The sample was chosen from a group of SMME real estate development entrepreneurs who are involved in incubation programmes, specifically for real estate, to assist them in completing their respective first developments. Willing participants were chosen by a prominent mentor who oversees the whole programme and who has access to all of their projects, backgrounds and experience to propose the most relevant ones for the research, according to their experience.

The research questions below were asked of the participants in order to identify the challenges they face and the reasons for these challenges, as well as the magnitude and the effect of the challenge experienced on their development. The questions also probed the experience and background of the entrepreneurs to ascertain their respective capabilities before they embarked on property development in an attempt to understand how well the participant was equipped to handle the challenges, in effect gauging the magnitude of the challenges from their personal points of view. These questions also aided in establishing the participants’ relative perspectives and points of view in establishing why some things they experienced were seen as challenges and how they handled them.

**Research Question 1**
How would you describe the current entrepreneurial landscape in which you operate, in particular with reference to the economic climate, your entrepreneurial background and skill set, and lastly in relation to the real estate development environment?

*Proposition 1*
The challenges the entrepreneur faces may be mainly due to internal or external factors, so determining which ones are most prominent will allow the researcher to assess the framework and point of view of the interviewee as to the robustness or subjectivity of the challenges they claim to face.

**Research Question 2**
Kindly describe the process you would typically go through in completing a successful development in the Johannesburg CBD, the time it would take to complete each stage and the requirements (resources) needed at each stage.
Proposition 2
The challenges experienced by the entrepreneurs are stage-specific and resource-specific. Having them identify the stages that delay the process most, as well as the reasons for this, will assist the researcher in identifying the severity of the challenges experienced, as time delays are a material factor of real estate development in relation to property cycles.

Research Question 3
Identify the main setbacks you may encounter at each stage of the development process, indicate how often they occur and specify the cause of the setbacks.

Proposition 3
The identified cause of the setbacks will assist in determining the main challenges faced by the entrepreneurs, their perception of why those challenges occur, which will point to whether they are in fact externally or internally induced, thus indicating how these challenges could be addressed.

Research Question 4
What differences in the process of real estate development, as an SMME entrepreneur, can you identify between development in an urban CBD setting versus in the outskirts of the city? How do you think this approach differs from that used in the formal sector by larger entities?

Proposition 4
Urban real estate entrepreneurs face more challenges than those who develop outside the CBD.

Research Question 5
Identify the competitive environment you work in, who your competitors are and how you all work together.

Proposition 5
The biggest real estate developers in the Johannesburg CBD are large corporations with a higher level of capital and access to more resources to complete developments timeously and in a more cost-effective manner.

The purpose of the questions above is to allow the researcher to create a framework for the identified challenges that occur, the instances in which they occur, the impact they have on the real estate development process of SMME entrepreneurs and the extent to which they are externally or internally founded.

Setting

Potential participants were sourced through the Trust for Urban Housing Finance (TUHF) organisation, which is a government-affiliated initiative that provides financing to SMME entrepreneurs focused on refurbishing buildings in inner city areas in South Africa. They offer loans of up to R50 million per entrepreneur over a 15-year term and have less stringent requirements to access the funding than traditional banks.

They are also Black Economic Empowerment- (BEE) compliant and offer more favourable terms to high BEE-compliant vendors. This organisation is an appropriate one to source participants from for the research paper, as it meets the criteria and framework of the paper, as active SMME real estate entrepreneurs operating in the Johannesburg CBD could be chosen.
The participants are of a range of ages, races and levels of experience, which allows the researcher a range of objective choices to conduct the study in order to obtain defensible results. The sample was selected firstly according to an accurate representation of the racial profile of the country, then by the range of experience of the applicant and lastly by a fair gender spread according to industry norms.

**Population / Sample**

This researcher originally intended to interview voluntary participants who were over 18 years old, were of various races (one black, one white and one other) and had completed at least one successful real estate development in the past. They would be recruited via email by the researcher and this was to be followed up by a telephone call to gain a more personable introduction. The population of TUHF participants in this study is 120-150. It was decided to choose at least three participants (maximum five) to be interviewed. “Such small studies enable the researcher to gain a deeper understanding of participant experience and to develop a thick, rich description of that experience” (Creswell, 2009). In-depth face-to-face interviews eventually took place in a public location suitable to the participants (such as a coffee shop) where the environment was relaxed. The participant was asked permission to record the interview and the researcher proceeded to make an audio recording of the interview if permitted.

The researcher aimed to create a friendly atmosphere by asking the participants to share their background and experience, both personal and business-related, to gain understanding of their background. In doing so the researcher attempted to make the participant feel comfortable and confident to speak freely, as the interview was semi-structured.

**Ethical Considerations**

The participants were required to answer the questions posed to them truthfully; however, full disclosure of the particulars of deals and sensitive information was not required. It was intended to interview a range of races, weighed more towards people considered to be black South African citizens in order to represent the demographics of the country accurately. Only South African citizens were interviewed, as it was assumed that there might be bias against foreign nationals engaged in entrepreneurial real estate activities in the country, which might skew the results.

The participants had the right to withhold sensitive information. They also had the right to ask the researcher to clarify the questions asked and to question the relevance of the questions posed, if necessary. They had the right to ask the researcher more details of her educational background and further details of her studies in order to gauge the direction in which the research paper was heading.

The participants had the right to opt not to have the interview audio-recorded and not to state their personal names or details, which might reveal their identity. They had the right to request a copy of the recording of their personal interview for their records.
The participants ran the risk of disclosing sensitive information to the researcher; however, the researcher allowed them to sign a confidentiality agreement, stating that all information they shared would be kept confidential and would only be used for academic purposes and not for commercial purposes. The benefit to the participants was having their experiences and knowledge assist the researcher in adding to the real estate body of knowledge. None of the participants was paid; all were chosen on a voluntary basis with no prejudice to gender.

**Research Design**

The researcher sent an email from her University of Cape Town (UCT) email address, with her supervisor copied on the email, to the members of a current SMME entrepreneurial TUHF study group, requesting voluntary participants for the research paper. The researcher waited for positive responses from the participants and narrowed the group to between three and five participants, based on experience, race and age, to obtain an objective sample of participants. A telephone call was scheduled with them to allow the researcher to introduce herself formally and to confirm an appropriate day and time to schedule the interview, which would take between one and two hours. Confirmation of the interview was sent to the participants via email and they had to accept it.

The interview took place in a convenient public setting of the participants’ choice and was a one-on-one, face-to-face interview, which was audio-recorded with their permission. The semi-structured interview was conducted as per the research questions above. Once completed, the recorded interviews were transcribed, and a written copy will be made available to the researcher, from which she could analyse the respective themes and findings. Structural explanations of these results will be presented by the researcher.

**Data Analysis Strategy**

Once the transcribed interviews had been returned to the researcher, a qualitative research program, NVivo, was used to analyse the responses. The researcher entered each interview into the program, read through them individually, then grouped the responses given into major topics to be discussed in detail in this chapter. Word frequency tables and a word picture chart were generated by the program to represent the words used most frequently by the interviewees visually. Unimportant frequently used words were automatically filtered out by the program. Further selected unimportant words were filtered out by the researcher to retain only the relevant topics of interest.

A list of the 200 most frequently used words was compiled. This was used to illustrate word tree diagrams of the most frequently discussed topics, which added more context related to which sentences and phrases were most commonly used. It proved to be an important tool of analysis because similar topics, words or phrases were grouped to ascertain the most pertinent themes discussed. These were later used as a guideline in compiling the topics discussed in this chapter. Each interview was read by the researcher in full to gain further context of the topics and themes mentioned. The top seven themes transpired after thorough analysis of the interviews. These will be discussed in the generally accepted development order framework from the beginning to the end of real estate development.
The main strategy for the data analysis was to identify themes and common trends of thought of the participants relating to one another to categorise into the various challenges. They were grouped according to the frequency mentioned by the entrepreneurs on the basis of similar words being repeated. These were analysed to identify what they were, how they had come about and what contributed to their existence. The results were categorised into external versus internal challenges to determine their subjectivity and validity. Once this had been done, the reasons why these challenges had been identified were explored in order to ascertain the severity of the challenge. The challenges were then ranked according to the entrepreneurs’ identification of the impact they had on the success or failure of their ventures.

An overall overview was given of the most pertinent challenges identified and the reasons why the participants believed these to be the most important challenges. A list of fewer than 10 was compiled by the researcher, describing the challenges in detail.

The qualitative data analysis NVivo was used to process the interviews in order to identify the most frequently used words and themes to create word trees, diagrams and tables used to analyse the data. The themes identified on page 29 as challenges were obtained from the interviews and processed through the NVivo program. As the interviewees spoke, they used specific words, and these were grouped into similes, which resulted in themes when patterns of similar words were used consistently. The themes were explored and overarching challenges were identified, referring to those mentioned in the literature referred to in the first three chapters, while others were created from the best theme words that emerged. The purpose of these themes is to give a broader view of the smaller challenges identified in the context of the larger challenges or the theme, to give the reader perspective of the depth of the challenge experienced by the participant.

An example of the output given by NVivo may be found in the Annexure on page 78.

Summary

This chapter covered the researcher’s qualitative approach to the paper in the framework of a phenomenographic analysis. The phenomenography approach describes the way in which a participant experiences an event and uses that description to conclude something about the event as a whole. In this case entrepreneurs were interviewed in order to gain an understanding of their views of the challenges SMME entrepreneurs face in an urban context in the Johannesburg CBD.

This approach is the most relevant one, as it distances itself from making observations on individual entrepreneurs, as this would not add to the real estate body of knowledge in the way the researcher intended, since there is lack of understanding of the role of entrepreneurship as a whole in real estate. The participants were recruited voluntarily from TUHF and narrowed to four to six South African citizen participants from different races and experiences, all above 18 years of age.

These participants took part in in-depth face-to-face interviews lasting between one and two hours with the researcher directly, which were recorded with their permission to establish the challenges they had faced as SMME real estate entrepreneurs. The interviews were transcribed and analysed by the researcher to be grouped into common themes or schools of thoughts between the entrepreneurs to establish whether challenges were externally or internally generated to determine the objectivity of the challenge.
These were summarised and interpreted by the researcher to narrow the most pertinent challenges identified by the participants to fewer than 10. The challenges were explained in detail, analysed by the researcher and presented in the paper.
Chapter 4: Research Findings

Introduction

Specific challenges that SMME entrepreneurs in the real estate sector in South Africa face have not been sufficiently identified. Practical solutions have not been proposed in order to assist them in successfully completing profitable real estate developments timeously. This may have a positive social impact in urban areas, namely in the Johannesburg CBD, through the reduction of crime levels and poverty and a rise in employment, although it is not a critical focus of the research. The purpose of the study is to identify the main challenges SMME real estate entrepreneurs face in urban areas in South Africa. The research proposition to be tested in the study is whether the main challenges identified by SMME entrepreneurs are addressed and whether this will improve their ability to provide affordable yet profitable real estate.

The main research questions posed to the interviewees were as follows:

a) What are the main challenges SMME entrepreneurs face in the real estate sector in a South African urban context, namely in the Johannesburg CBD?
b) How have these SMME entrepreneurs attempted to overcome these challenges?
c) Why do these challenges face SMME real estate entrepreneurs in particular?
d) Are these challenges the same to all SMME entrepreneurs in South Africa or are they unique to SMME real estate entrepreneurs?
e) What specific challenges do South African entrepreneurs face in general, given the history of the country and its economy?

The purpose of this chapter is to provide an in-depth discussion of the responses given by the six SMME real estate developer entrepreneurs during their respective face-to-face interviews conducted by the researcher. Their responses will be grouped into important themes in relation to the research questions, providing insightful analysis as to their views of the state of entrepreneurship in the property development sector. The aim is to capture the true essence of the challenges they face, to add to the existing literature and body of knowledge as a whole. It also aims to provide a realistic picture of what becoming an SMME real estate entrepreneur in a South African urban context entails. It aims to provide stakeholders in the industry with an honest depiction of the everyday realities faced by these entrepreneurs, in an attempt to improve the circumstances in which they operate. It also aims to afford future SMME real estate developer entrepreneurs a sobering view of what may be required of them, to allow them to prepare themselves adequately before entering the industry.

The research design method chosen was the phenomenography approach, which focuses on the analysis of interviewees’ experiences in attempting to understand the differences in the variation of their responses. This is mainly due to knowledge they have gained through learning and improving their responses to various situations encountered. The basis of this approach is that interviewees’ experiences of a particular subject of interest may differ but could be interrelated.

The narrative of the interviewees’ stories and perspectives is of great importance in this approach, as their frame of reference provides for significant insight into the data collected, as it assists in contextualising their responses.
The sample of interviewees was made up of two females (33%) and four males (66%).

Figure 1

*Summary of the Number of Interviewees Separated by Gender*

<table>
<thead>
<tr>
<th>COUNT OF INTERVIEWEES</th>
</tr>
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<tbody>
<tr>
<td>Male</td>
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<tr>
<td>4</td>
</tr>
</tbody>
</table>

All of the interviewees were black South Africans.

Figure 2

*Summary of Race of Interviewees*

<table>
<thead>
<tr>
<th>RACE OF INTERVIEWEES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black</td>
</tr>
<tr>
<td>100%</td>
</tr>
</tbody>
</table>

They were between the ages of 30 and 70 years old, with no prior successful real estate developments completed. This is generally a representation of the demographic and profile of the participants within the TUHF program. They did all however have formal tertiary education in finance, accounting, engineering, information technology and in communications. This distinctly propels them to an educational advantage over those SMME developers who are previously disadvantaged, but without any formal education. That sample of individuals will not be discussed in this research paper.

The interviewees were interviewed in person by the researcher for one to two hours each. Five of the six interviewees chose to be audio-recorded, whereas one of the interviewees preferred the researcher to note down her responses on a laptop. The five audio-recorded interviews were sent to be independently transcribed in Microsoft Word format by Top Transcriptions.
The analysis of the challenges identified begins with giving context to the South African real estate sector and its injustices through explaining the effects of apartheid on the industry. The next overarching theme under which numerous sub-topic challenges fall is that of the financial aspects concerning real estate development. Among all the interviewees, this revealed itself as the biggest challenge they experienced. The third overarching theme was that related to the government and many associated sub-topics. These are very closely related to the financial theme.

Because of the interrelation of the themes, the researcher used careful planning to determine the order in which they would appear to provide an all-encompassing view of how they were all connected and how they affected the developer.

At each stage of the development process, coping mechanisms the developers instituted or suggested to mitigate the challenges they faced were proposed and these will be explored in the text. The interviews were scrutinised by the researcher, who only included themes mentioned by at least two of the interviewees to justify relevance.

Because the phenomenography approach considers interviewees’ thoughts, feelings and recollections, the validity of these could only be verified if mentioned by two different interviewees independently. Matters that were stressed in detail by more than one interviewee were considered by the researcher as more important.

The more respondents who mentioned the same matter in detail prioritised the challenges, which will be discussed at length. A summary of the order of priority of challenges will be mentioned in the conclusion of this chapter to highlight their order of importance. It is important to note that many of the challenges or themes discussed were interrelated and agreed with the literature. This chapter aims to draw parallels to the literature and to add further detail under the challenges to the existing body of knowledge that were identified.

The seven themes and challenges which were identified in rank order of importance are as follows:

Table 1

Challenges which SMME Entrepreneurs Face in Rank Order

<table>
<thead>
<tr>
<th>Rank / Position</th>
<th>Challenge</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Apartheid</td>
</tr>
<tr>
<td>2</td>
<td>Education, Experience Competencies and Mentorship</td>
</tr>
<tr>
<td>3</td>
<td>Land</td>
</tr>
<tr>
<td>4</td>
<td>Municipalities</td>
</tr>
<tr>
<td>5</td>
<td>Equity</td>
</tr>
<tr>
<td>6</td>
<td>Time Delays</td>
</tr>
<tr>
<td>7</td>
<td>Professional Team</td>
</tr>
</tbody>
</table>
Apartheid

A discussion of the role apartheid played in the South African economy, more specifically in the real estate sector, is still relevant, despite the country having experienced over 23 years of democracy. This is because the effects of the regime are still prevalent and present numerous challenges to SMME real estate entrepreneurs. It provides contextual understanding of why the previously disadvantaged category of people (who represent the majority of the South African population), more specifically previously disadvantaged real estate entrepreneurs, encounter these issues, as opposed to what is referred to as their previously advantaged counterparts under the apartheid regime.

All the interviewees agreed that the nature of the real estate development industry is cemented in experience. This experience is often gained through working with other developers, training and completing developments, starting from small ones and growing to larger projects, with the aid or assistance of a seasoned experienced real estate developer as a mentor throughout. As an interviewee proposed:

DE1: Now blacks don’t have parents who are experienced in opportunities like property development. They don’t have experience, so it becomes quite a challenge because effectively you don’t have mentors.

The proposition is that there are numerous components and aspects of real estate development that cannot be taught in a formal setting, such as in an educational programme or entrepreneurial incubator; they are rather learnt in a hands-on manner of being on site and learning each aspect of the development through various projects, as the nuances of each differ. This adds an additional view to the literature, which proposes that entrepreneurial skills may be taught in a formal or educational setting.

This lack of experience and industry knowledge has been attributed to the fact that the nature of the real estate development requires specialist trade knowledge, which is often passed down through generations to family members or close acquaintances. An interviewee attested to this by saying:

DE4: A lot of our generation and black entrepreneurs, you’ll find that the first person within your family to pursue the entrepreneur route and with that, if you are surrounded by people working in corporate jobs throughout their lives, they don’t really feel comfortable with the risk involved in entrepreneurship.

Another interviewee stated that having his father’s knowledge and support of over 30 years’ in the real estate industry was:

DE3: ...incredibly priceless. I cannot underplay that. I was able to avoid a lot of stupid mistakes. There is still stuff today that I am still learning. How do you quantify 30 years’ experience of putting together land use? It is priceless.
This is a barrier of entry to many previously disadvantaged real estate entrepreneurs because during the apartheid regime, participation in real estate by anybody who was not white was limited. This means that previously disadvantaged real estate developer entrepreneurs do not have wide networks of real estate developers who are knowledgeable in the field and who are willing to teach and train them. It has resulted in a situation that is quite prevalent today where many of the successful real estate developers in the country are white and tend to pass their knowledge on to their ‘own kind’ (DE1). It was stated by DE1, DE3 and DE5 that white developers are often reluctant to train or to pass on their industry knowledge to previously disadvantaged real estate developers, thus, limiting the sharing of knowledge. A reason for this proposed by an interviewee was:

DE3: ...because they want to keep it to themselves.

This is an important aspect to note, as the real estate developers interviewed (DE2, DE3, DE4 and DE5) stated that in order to gain experience in the industry they have often had to work for corporate property companies.

The work experience assisted them in acquiring some real estate trade skills. They (DE1, DE2, DE3, DE4 and DE5) also joined various government initiatives, such as the Gauteng Partnership Fund (GPF), TUHF or the National Housing Finance Corporation (NHFC). Their experience was often limited to the specific corporations’ mandates for what the job specifications require one to do, focusing on real estate finance and valuations, rather than on the practical development of hands-on trade skills. As one of the interviewees mentioned:

DE1: ... you could have worked for a property development company for 20 years and you have been learning the wrong things.

Another interviewee (DE5) mentioned that she could have gained more skills in property development before embarking on the first venture:

DE5: ... by staying longer at the company I was working for and learning from the older experienced development managers and from the professional team. So, having a greater technical understanding also helps you. Spending more time in the technical side of things with the financial background is a good thing.

The same interviewee (DE5) later proceeded to admit that:

DE5: ... experience does not necessarily mean you are not going to have problems or probably have lesser problems; but there are always problems.

These revelations shed light on how far behind previously disadvantaged real estate entrepreneurs are in the industry with regard to lack of knowledge, experience and networks to reach out to, to assist them.
The value of this cannot be denied because these entrepreneurs (DE1, DE2, DE3, DE4, DE5 and DE6) have observed that because it is the nature of the industry to pass on skills and knowledge over generations, creating generational wealth, a culture or generation among previously disadvantaged real estate entrepreneurs needs to be fostered. As stated by an interviewee:

**DE2: Elitist black property entrepreneurs don’t assist smaller ones.**

From the interviews conducted, it appeared as if the general consensus among the interviewees (DE1, DE2 and DE4) was that among black South Africans there was a cultural disparity of not passing on trade knowledge to their children and family members to learn from them, especially from the few successful black real estate entrepreneurs. Instead, it was observed that among this group of people, there was a higher push toward obtaining formal (tertiary) education and working at corporate firms rather than learning trade skills such as those needed in real estate development (DE2, DE3 and DE4). A proposed reason for this could be the high unemployment rate in the country and the lack of job security among black South Africans, which is the highest among all the races.

This in turn hindered the growth of entrepreneurs in the real estate sector because the interviewees (DE3, DE4, DE5 and DE6) believed that lack of support from the entrepreneurs’ families owing to lack of understanding of the industry among black South Africans introduced a further risk element among black real estate developer entrepreneurs when embarking on their ventures.

Support was cited as a crucial element to the success of real estate entrepreneurs by the interviewees. One of the interviewees stated that:

**DE1: Previously disadvantaged property developers lack the basic skills, know-how, networks and industry knowledge to begin to succeed and therefore fall susceptible to ‘being taken for a ride’ and to avoidable mistakes by other opportunists and experienced players in the game.**

On a positive note, many of the interviewees (DE2, DE3, DE4, DE5 and DE6) committed to assisting future property developers through mentorship to aid them in avoiding some of the pitfalls they experienced in order to begin and continue to grow the passing on of generational wealth, knowledge and experience in the real estate industry.

Because of previously disadvantaged entrepreneurs’ lack of understanding of what it truly takes to be a successful real estate developer, many enter the industry unprepared, with insufficient knowledge and trade skills, coupled with few networks and limited financial resources to sustain them, as property development is seen as a

**DE3: ... long-term game.**

Many resign from their jobs in the hope of making millions within a relatively short period, after having worked for corporate firms and witnessing similar entrepreneurs making a success of their various developments. This point feeds into the literature, which states that entrepreneurs enter into ventures to make a profit or to create wealth for themselves. Making money was the intention of all the entrepreneurs interviewed when entering the real estate industry.
One of the crucial factors the interviewees (DE3, DE4, DE5 and DE6) were not made aware of before embarking on their various journeys was the need for financial support to take care of their daily living expenses, as they still had financial commitments and obligations, often to their families as well.

This point is critical, as it relates to the illustration above of lack of support to SMME real estate entrepreneurs, as many enter the industry not comprehending that the successful entrepreneurs they had witnessed while working at their corporate jobs were often previously advantaged and perhaps had the necessary financial support from their families to take care of their daily living expenses while they embarked on their real estate development training and projects. As a result of this, some interviewees (DE3, DE4 and DE6) returned to formal employment during the completion of their various developments in order to gain financial stability to support their personal lives. This delayed their individual development timelines, as they were unable to dedicate their full time and efforts to their projects.

It was not just a matter of having a passion for real estate coupled with the relevant financial and technical knowledge of the real estate development stages and feasibility studies; it rather became a question of, ‘how do I live day to day?’ for the majority of them, as they were unprepared for the long-term journey. This will be discussed in further detail in the following sections.

The legacy of apartheid has been witnessed by some interviewees (DE4 and DE6) in what is referred to as ‘Black Tax’, which relates to previously disadvantaged individuals who become ‘successful’, but need to support their families financially and therefore do not prosper as much as their previously advantaged counterparts or those who do not have to support their families financially. This makes it more challenging for them to embark on entrepreneurial ventures in the real estate sector, which has such high barriers to entry owing to the legacy of apartheid, among other factors.

Many of the interviewees (DE1, DE3 and DE4) have accepted the effects apartheid has had on the real estate industry and have worked to mitigate them by partnering with other, often previously disadvantaged, entrepreneurs in the industry with different skill sets in order to complete successful developments. The value of partnership in the industry was pointed out by some of the interviewees (DE3, DE4 and DE5) as ‘crucial’ or ‘paramount’ because of the understanding that none of them had the years of experience needed to address every aspect of real estate development, which the previously advantaged developers had gained by creating all-encompassing real estate development companies and networks. This coping mechanism was witnessed time and time again by the interviewees, as they saw value in working with entrepreneurs in a similar position to themselves in order to aid one another in becoming successful.

The lesson learned by the interviewees was that despite having some real estate experience and educational knowledge, they lacked practical hands-on experience in completing successful developments. All of the interviewees admitted that this experience could only be gained through full-time engagement in carrying out a development from beginning to end and by having the right mentors and support along the way.

The next topic of discussion will be the various educational backgrounds of the entrepreneurs prior to becoming a developer and the skills they gained while working. This is important in understanding their skills or expertise and how these assisted them in their developments.
It is also meant to highlight the skills they did not have, which may have presented challenges that could have been mitigated had they possessed the necessary skills prior to them becoming developers. The purpose of this is to provide the reader with an overview of the practical skills needed to become a successful property developer in a South African urban context.

**Education, Experience, Competencies and Mentorship**

The educational backgrounds of the interviewees varied. Four of them (DE2, DE3 and DE4) had tertiary backgrounds in finance or accounting, one (DE5) had a combination of a finance and engineering tertiary background and two of them (DE1 and DE6) had formal tertiary education in telecommunications and in information technology respectively.

Figure 3

*Summary of Tertiary Education of Interviewees*

| TERTIARY DEGREES OF INTERVIEWEES |
|------------------|------------------|------------------|------------------|
| Finance or Accounting | Information Technology | Telecommunications | Engineering and Finance |
| Series1 | 3 | 1 | 1 | 1 |

This forms a significant starting point in relation to their educational backgrounds, as it aided the researcher in understanding the various challenges each of them reported. Over time it became evident that these challenges were not skills that the entrepreneurs had either formally learned in a tertiary setting or in a work environment setting, but skills they needed and did not possess. Instead, all of the interviewees reported having worked within their various tertiary fields of study in a corporate environment before transitioning to a property-focused corporate role at a later stage in their careers.

All of them argued that education plays a vital role in aiding property developers to become more successful in their ventures. An interviewee mentioned that he:

*DE3: ... did corporate finance for two years. The modelling, the valuations, it is all pretty much similar. That was very, very helpful.*

His argument was based on the fact that the more knowledge one has of property development and of the various aspects pertaining to the field, the easier it would be to handle the numerous challenges and risks that present themselves along the way. This same argument was proposed in the literature discussed and is therefore in accord with the views of the interviewee.
Four interviewees (DE2, DE3, DE4 and DE5), notably the participants with finance backgrounds, insisted on the importance of having financial understanding of a development in relation to the feasibility study, scenario analysis (stress tests), valuations, cost inputs and variations, among other factors. They argued that this field of expertise was the most important for new property developers to know before embarking on a development. It was explained that the feasibility study, coupled with due diligence, is a preliminary requirement to ascertain whether a property development has value or is worth pursuing, before any commitments are made by the various stakeholders.

As an interviewee mentioned:

DE4: You need to be able to sit down and analyse a bill and be comfortable and be able to interpret what the outcomes of your analysis is telling you. It also involves writing business plans.

In this case it involved being able to write development proposals. One of the interviewees (DE6) argued that such skills should be obtained by aspiring developers through formal education such as in an undergraduate or a masters’ programme in property development or through mentorship or entrepreneurially directed property development programmes. All the other interviewees (DE1, DE2, DE3, DE4 and DE5) agreed to this proposition separately. Again, this point was mentioned in the literature in support of the concept. In line with this, an interviewee added:

DE4: I think education helps you to be able to apply your mind, do research, put together worthwhile business plans and be able to articulate your story.

Another interviewee contested this view by saying:

DE2: Look, I think the most important thing for me before education, you must have a passion for it (real estate development). … Yes, education is important as it is with everything; but the most educated people can have made the most stupid mistakes that you have ever seen. So, it is no guarantee to success.

This poses the question of whether there is a guarantee to real estate development success. The answer is that there is not. The reason for this reverts to the industry being highly entrenched in one’s experience. The value of experience was placed a lot higher than that of education among the interviewees. The rationale behind this thinking was that there are too many nuances within the property development process that cannot be taught in a formal classroom, tertiary or incubation setting. The list of things that could go wrong is endless. The most practical measure the interviewees proposed to combat the risks in the development process was experience, i.e. actually completing a full property development from the beginning to the end (DE1).

It is imperative to understand that the interviewees (DE1, DE2, DE3, DE4 and DE5) previously worked either for property companies or in a property-related division of the companies for which they worked. The only exposure one of the interviewees (DE6) had to the property industry was purchasing investment property in the Johannesburg CBD, which she rented out, thus discovering the demand and supply elements of property development in that area, where she eventually began her development.
The interviewees’ work experience is important to note, as it possibly contextualises the transition that enabled them to leave formal employment in pursuance of full-time property development. The assumption was that they believed that they had learned enough from their educational background coupled with their work experience to begin their first developments; however, all experienced a rude awakening when they realised that this was not the case. The fact remained that none of them had ever completed a property development before, nor had any of them trained under a property developer to work on a development from its beginning stages to the end, in order to learn from an experienced property developer through hands-on work.

Many assumed that because they had assisted through their corporate positions in possibly approving finance to property developers and tracking their progress for years, they were equipped with the necessary skills to complete a successful property development. All conceded that this was in fact not the case.

In property development, there is a distinct difference between conceptualising a development proposal, perfecting the feasibility study, building designs and other plans in order to obtain the funding, and actually having the technical trade skills to complete a successful property development in close accordance with the initial proposal. The reason for this is that the technicalities related to the various aspects of the project are vast and are mainly gained through experience. A seasoned property developer may easily become aware of possible costly pitfalls of the development before they occur and attend to rectifying them. Another reason for this is that no two developments are ever the same in relation to the variables they face, from dealing with service providers who can often be unreliable, to structural and weather conditions, to political and economic conditions, to financial constraints. The list is endless and often unpredictable.

It was for these reasons all the interviewees (DE1, DE2, DE3, DE4, DE5 and DE6) cited the need and importance of mentors, namely seasoned real estate developers who would be able to:

DE4: ... guide you through the different phases and paint a realistic picture of what is most likely to happen and how long it is going to take.

As another interviewee proposed:

DE: ... I am saying that if you don’t hold them by the hand and walk with them at early stages they are not assisting the cause, because where else do they get that knowledge?

This brings the discussion to the key competencies one may need to complete a successful property development. The component of understanding the financial element, projections and development proposal has already been discussed. One of the interviewees mentioned the following skills:
DE5: I think financial skills are definitely important. You have got to understand what property means from an asset aspect. What does it mean in terms of structuring the transaction? Why should you buy this building? Because you have to be able to do a quick calculation on the back of a cigarette box just like that. ... dealing with professional teams, being on site, learning the whole process; and then coupled with that, then moving to a more deal structuring, a deal origination space where I had to engage with the markets. Finding land and finding buildings.

At what price to buy it at in order to present it to credit committee. ... because of the experience it does not necessarily mean that you are not going to have problems or probably have lesser problems. But there are always problems.

Given that this may be the case, the idea of mentorship, which was raised by all the interviewees, plays a crucial role in real estate developers’ individual development. When asked about mentorship, one of the interviewees said that she would have liked to have spent more time in corporate learning:

DE5: ... from the older experienced development managers and from the professional team. As a developer, you know a little about everything, but you rely heavily on your professional team; so, having greater technical understanding also helps you. Spending more time in the technical side of things with the financial background is a good thing.

One cannot underplay the value of mentorship in property development. One of the interviewees (DE4) argued that mentors need to be equally as invested in the developers’ progress and genuinely want to see them succeed. Another interviewee (DE1) proposed that mentors be incentivised either through financial payment or through equity of a project to be more engaged in the development of the developer, as they would have a stake in the success or failure of the project. This reverts to the question of why mentors are scarce within the property development industry to assist inexperienced developers. It could be a matter of the apartheid legacy, a difference in cultural values or a matter of incentive.

The effects of lack of experience and understanding of the real estate development industry cannot be underplayed. The effects of this are often catastrophic, as they may render a development unfeasible and unprofitable, thus leaving the developer with limited options. It is these pitfalls of real estate development of which many inexperienced developers may be unaware, because of lack of the right knowledge and technical skills.

The proposition by the interviewees (DE1, DE2, DE3 and DE6) was that the government should support and fund more real estate development-related programmes that have mentors who are compensated for their time and efforts. The role the government plays in real estate development will be discussed in a later theme; however, the acquisition of land precedes the government’s role in real estate development and will be addressed first.
Land

The first step many aspiring real estate developers take is the search for the most suitable land and or building(s) to begin their developments. In this case the word land will encapsulate a site with land and/or buildings, i.e. greenfield or brownfield, to be used interchangeably. This is arguably the concrete start of the real estate development journey after the developer has conceptualised a possible development, done rough calculations of its feasibility, made a decision to go ahead with the development and begun searching for land.

The first aspect the developer may take into consideration is the location of the land (DE1, DE2, DE3 and DE4). An interviewee stated:

DE3: Location is very important as they say in property ‘location, location, location!’ If you understand the market that you are targeting, and you locate your property accordingly you stand a much better chance of being successful. … Now what does that mean? You need to have other complementary services around. Transport infrastructure, access to schooling, hospital facilities, issues of availability of shopping facilities, everything that makes the development habitable; it cannot be an island on its own.

His point is an interesting one, as it leads back to basic economics of supply and demand. The location of the land (supply) will only be valuable if it meets or is less than the demand for the land; therefore, the surrounding features of the land and its inherent location and amenities satisfy the need of the demand in the area. Land that is not suitably located for the purpose for which it is intended can be rendered worthless to the developer.

The challenge many of the interviewees faced was exactly that: finding suitable land. In this case it meant finding land that was zoned according to the intended use of the developer or finding land that could easily be rezoned within a reasonable period of time to allow for the intended usage, at a feasible cost. On the note of cost, another interviewee added:

DE2: There was a challenge of finding land at affordable levels. If you are not careful land can make or break the viability of your project. Finding a property, I don’t think that is a problem; it is finding it at the right price or the right qualities in terms of location and all of these things.

Other interviewees (DE1 and DE5) agreed, adding that there is an element of secrecy in obtaining the most suitable land for development. Both noted that the best land owned by the government, private individuals or companies and various financial institutions was often not advertised on the open market and was sold to seasoned developers who had large cash reserves or quick access to financing to acquire the land, making for a smooth sales transaction.

The concern here is the lack of transparency in the market of land acquisition and the inability of smaller property developers to enter the market to develop a feasible development, which is also comparably profitable. It seems as if the playing field is not levelled, as the ‘best’ land is often given to seasoned developers who have economies of scale, more efficient networks and systems to complete a successful property development effectively at a lower cost than a smaller property developer would. This cycle tends to promote the larger developers’ portfolios growing at an exponential rate compared to giving smaller developers the opportunity to enter the market, thus further raising the barriers to entry into the real estate development industry.
Another concern raised regarding the acquisition of land by the interviewees was that of the time lag between making an offer to purchase the land and obtaining the necessary funds to complete the transaction by an institution, as all did not have the full cash component to purchase the land outright. Their individual experiences were that the funding institutions often took an excessive amount of time to approve their applications (between three and six months on average) during which time private buyers with cash or better access to finance would purchase the land from the seller after the expiration of the suspensive condition of obtaining financing. Many could also not negotiate an exclusive purchase agreement clause with the sellers to hold the property for them indefinitely until they obtained financing, which is understandable. This brings about the challenge of smaller developers who do not have the necessary cash reserves to purchase the property outright being placed at risk of losing an opportunity while waiting to have their funding approved, after having paid the necessary professionals to complete their aspects of the due diligence and of the development proposal.

Another point that was raised regarding the land purchased was the lack of transparency of conditions imposed on the land, such as the zoning, possible heritage issues and illegal occupants, among others (DE5 and DE6). The South African legal system appears to be very stringent regarding addressing these issues, as the onus lies upon the owner of the land to adhere to them. New property developers often find gaining access to such information challenging, as the systems used to do so are expensive and owned by corporates or professionals; therefore, getting the right information before going through the purchase of the land proves to be a costly and time-consuming process.

Given that this is the case, many entrepreneurs tend to lean toward joining government funding interventions such as the GPF, TUHF and NHFC, as they provide funding and mentorship to guide them through the process. One of the caveats of these programmes is that real estate developers should already have located land they intend to purchase and should often have already placed an offer on the land and committed some of their personal unencumbered funds to the project, averaging in the region of R400 000 upward. This in itself is a barrier to many new entrants who simply do not have access to the cash required.

Once the land is purchased by the property developer, all costs attributed to owning the land, such as municipal charges, accrue to the owner and are payable on a monthly basis. These costs are often not funded by financial institutions and need to be factored in by developers to pay in their personal capacity until the development is complete and being sold or rented out. All interviewees agree that the capital requirements of the property development industry are high and new developers are often not made aware of this and thus do not complete their developments because of this.
Municipalities

Another pertinent challenge in relation to land acquisition and preparation is that of the delay in the municipal system. This was nominated as the second highest rated challenge experienced by all the interviewees. As an interviewee phrased it:

DE2: 80% of your problems are at early stage approvals of whatever you are trying to do.

To put this into context, once the land is purchased it may need to be rezoned and the building or improvement plans for the land have to be approved by the local municipality. Should a developer continue with the construction of the development without obtaining municipal council plan approval first, the developer could be liable to pay significant fines and have the whole development temporarily halted until approval is gained. Because of this, it is considered good business practice among developers to obtain municipal approval for their developments before they break ground.

According to three of the interviewees (DE3 DE4 and DE5), the current municipal plan approval system requires the building or improvement plans to be passed through numerous departments, surveyed and stamped for approval, should the professionals in the departments agree with the proposed development. Should they not, notes of changes to be made to the plans will be advised by the municipal representatives and the developer would have to address those changes and resubmit the plans for approval until the plans are fully approved. As one interviewee recalls:

DE5: … you go and get fire stamped, water stamped, sewer stamped, roads, parks and town planning. Everyone is happy with your project. Then you submit it and then it goes for final approval.

Four of the interviewees conceded that the system is dated and inefficient for the increased number of applications the municipalities receive for development plans. There seems to be accordance among the interviewees (DE1, DE2, DE4, DE5 and DE6) that the backlog in the system causes further delays in receiving plan approvals by the municipality.

This in turn affects development feasibility studies and scenario analyses unfavourably, as the time delay presents cost overruns due to escalation in market prices for input development costs. The time delay attributed to this process varied among developers from six weeks to three years. One interviewee expressed his concerns as follows:

DE2: … the City of Johannesburg in terms of the way it looks at rezoning applications still follows the same model they have been using for the last 50 years. It is a very linear sequential model where your application comes in, it must be assessed by City Power then it moves from City Power to Pick It Up then it goes to Johannesburg Water and the entire circulation process has got a time defined to which is supposedly six weeks which turns out to be six months at best, right? That was a model that was developed at a time when Johannesburg was receiving 50 applications a month. Today when you are receiving 400 applications a month you cannot be following that kind of model and system. So, in my view I would restructure the whole thing. Firstly, classify developments in terms of size because the smaller, they are less complex.
Another interviewee echoed this notion by saying:

DE1: You just need people to work, I mean I cannot have a document in the inbox which sits there for three months before anybody has done anything about it, and they tell you, “Sorry we have a lot of plans to deal with.” Well then it means that because your planner comes at a cost to you. It means that whomever is running the department doesn’t understand that they can actually employ more people. They will pass out more plans and they will get more revenue, create more jobs and for every plan they pass it is an economic activity that will be created. The system needs to be overhauled completely.

Two of the interviewees (DE1 and DE2) provided an explanation for why the system was so inefficient. In addition to the general sentiment that the government employees in the municipality are incompetent, the consensus was that they seemed to be overworked and not given enough manpower and incentives to speed up the process of approving plans. According to three of the interviewees (DE1, DE3 and DE5), there also seemed to be a level of bureaucracy in the municipality approval departments. The examples that were given pertained to a misalignment of understanding of external professionals such as architects and engineers following the municipalities’ guidelines for the development proposals, to be rejected later by the municipality because of technical professionals’ interpretations of what the guidelines convey.

One interviewee (DE3) stated that when he went directly to the municipality to inquire why the engineering aspect of his plans had been rejected, he was told by a senior in the relevant municipal department that the developer’s engineer’s interpretation of the municipal guidelines was in fact correct, but because the municipality had rejected a similar aspect of a project of a larger developer recently for other internal reasons, it would bring into question the consistency of the approval process.

The result of this would not make the department look good and would threaten the security of the employees’ jobs, as the approval of this SMME developer’s plan would set a precedent for all similar developments going forward, which the municipality could not risk.

The lack of concern among the government employees within the municipality about approving plans more speedily is of great concern to many developers, especially SMME developers, many of whom have committed large portions of their personal funds to these projects. There seems to be an overall lack of empathy by these employees, which has resulted in many of the interviewees (DE3, DE4, DE5 and DE6) physically going to the municipalities to sit in each department and wait for their plans to be approved, then physically take them to the next department to be approved.

Two of the interviewees (DE3 and DE5) reported having done this after waiting an extended period for their development plans to be approved, which threatened the expiration their respective offer to purchase in conjunction with their funding commitment time lapses. They reported that on average, doing it themselves, it took about a week to get their plans approved. As an interviewee recalled:

DE5: Because there is a lot they have to do, and no one is going to prioritize your project. No one is going to prioritize you.
It is quite evident that being more hands-on with one’s development could prove to be beneficial to the developer. To add to the proposal of speeding up the council approval process, all the interviewees agreed that they suspected that there was some level of corruption and bribery of government officials to speed up development plan approvals by private developers; although none had experienced it first-hand, they had encountered reports of such activities among other developers. As one interviewee recalled:

**DE5:** Take out corruption and let things be straightforward … because it is not an equal playing field … as some people go from zero to hero overnight.

Should this claim be proven to be true, it reveals inefficiencies in the development process, as it favours those who have access to additional funds to encourage faster development approvals. It furthermore does not speak well of the ethics of the government employees involved, some of whom, according to two of the interviewees, were believed to be underpaid for the level of work they had to do and were therefore discouraged from being more productive. One interviewee (DE6) pointed to an ‘inefficient legal system’ causing the delays. Another interviewee (DE2) attributed the delays to lack of engagement between the government employees and the developers regarding the progress of their plan approvals. He then went on to add that:

**DE2:** … your more powerful developers get preferential treatment.

When asked to compare the efficiency of the Johannesburg municipality to the Pretoria municipality, all interviewees seemed to believe that the Pretoria municipality was more efficient than that of Johannesburg. The overall sentiment among the interviewees was that the municipal plan approval process was among their biggest challenges encountered in the whole development process, as they had little or no control over it but had to bear all the risks and costs associated with the delays.

There was general consensus among them that the government needs to improve this system with immediate effect if it intends to promote development activity, especially among SMME developers in its cities.

**Equity**

The SMME developers interviewed all described not having unencumbered cash reserves to begin, develop and complete a project as the biggest challenge they had faced, one they were never really prepared for. Because none of them had previously completed a development, they were not fully aware of the cash requirements needed from them personally in addition to the initial equity contribution required by funders, usually ranging between 5% and 20% of the total value of the development, to be provided directly by the developer upfront. From what the interviewees experienced, they needed to have made an offer to purchase a property, after which they would take it to various funders, coupled with a development proposal to request funding to firstly purchase the property, then to develop it. The initial funder approached is usually what is referred to as a junior debt funding institution, which typically provides between 25% and 45% of the total development value, including the purchase of the property. The developer would then source what is referred to as senior debt funding for the balance of the development value from another institution.
The challenge most of the interviewees (DE3, DE4, DE5 and DE6) faced when approaching the junior debt funding institutions was that they did not have the 5% - 20% of the total development cost readily available in cash. This was problematic, as the junior debt funders often did not consider the value of illiquid assets to pledge as a notional value for the equity contribution required by the developer; it had to be liquid funds, i.e. cash. As the development values between the interviewees varied between R10 million and R45 million, the reported funds they required varied between R475 000 and R2 million before the junior debt funders would even consider their proposals. This is what many of them referred to as ‘skin in the game’ (DE2 and DE3) or some form of commitment. Although they all complained that getting access to these funds was among their biggest challenges, they admitted that the financial commitment was a constant reminder of how much they had to lose personally, as they knew how hard they had worked for their money.

When asked how they funded the initial equity contribution, the general sources ranged from selling personal property to cashing out investments and pension funds. Because all of the interviewees were previously disadvantaged, all seemed to have personally worked to save up the money over a period of time.

The pressure of raising junior debt funding proved to be high among all the interviewees, as the offers they had placed on the various properties had on average a 90-day expiration period. This proved to be unrealistic, as many of the funding institutions catering for residential real estate development in the inner city reportedly took between three and six months to approve a deal, during which time the offer to purchase may have lapsed.

The delay in funding approvals proved to be an opportunity cost, as four of the six interviewees (DE1, DE2, DE3 and DE4) reported having placed offers on many sites before receiving funding because of the time delay of approval. The consensus among the interviewees was that the funding approval process seemed to be somewhat non-transparent, such that there was no perceived way for the interviewees to intervene, as they had done with the municipalities to speed up the process.

As one of the interviewees phrased it:

DE3: The funders also have funders, up the value chain they had delays and it just flows downhill.

There was no clear explanation why this happens, compared to the explanations given for delays in the municipalities. There were also a limited number of funding institutions they qualified to go to for their proposed developments, which they reported to be the GPF, TUHF and NHFC.

The reason for this is that the major banks they visited, which fund residential real estate developments, often require the developer to have a track record of developing similar projects, in addition to larger equity contributions, which all the interviewees simply did not have. This subtle yet significant barrier to entry of lack of experience in the industry has proven to be a challenge to many new developers who cannot prove a track record of completing a development, even if they worked for a corporate that developed real estate and were an integral part of the team.
One of the interviewees (DE2) claimed that it seemed as if the 20 years he had served in the corporate real estate division of a major bank had been discounted and not considered by any of the traditional real estate funders, which is why he turned to more government-based funding, which prioritised developers such as himself. The interviewees reported that the major banks tended to be more efficient in the time they took to grant funding for real estate developments; this happened within a matter of six weeks, one interviewee reported, compared to the months the government funders took.

Time Delays

Time was cited by all the interviewees as one of the largest opportunity costs and challenges in real estate development. The reason given for this was that delays in approving funding and getting municipal plans approved resulted in an increase in development input costs, which were often subject to inflation-linked bi-annual escalation as per market observations; in this case three of the interviewees reported a bi-annual increase of 6%. Such uncontrollable increases in input costs could render a development unfeasible, as happened in the case of three of the interviewees, one (DE3) of whom decided to continue his development at a known loss because he had invested R700 000 of his personal funds into it and was not prepared simply to walk away, whereas other interviewees (DE2 and DE4) abandoned their projects.

The time delays place the developers in an unfavourable position, as they are often faced with the choice of either leaving the development because it is unfeasible and having their equity contributions taken by the junior funders to recover any losses incurred or finding other ways to make it work. All of those who continued with their developments reported that having something to lose motivated them to think outside the box to source feasible solutions for the challenges that presented themselves.

This being the case, the fact remains that many of the time delays experienced were out of the developers’ hands yet had a direct impact on their developments and in turn on their personal financial wellbeing.

An escalation in the costs of the development are sometimes covered in what is referred to as a contingency, which is factored into the initial feasibility of the development. This was reported by the interviewees to be between 2% and 4% of the total development value. As one of the interviewees explained:

DE3: The contingency is a provision which is a percentage of your total development cost. What that is used for is any unexpected or unforeseen events that may happen; which translates into extra costs.

The practical meaning of this contingency was to account for any unforeseen cost overruns by the developer to be provided by the funders. If the development costs, for some reason, rose above the projected costs in the initial feasibility studies with the contingencies, then the developers would be liable to provide the needed funds from their own pockets. The main concern here was that all the interviewees incurred costs above the contingency factor owing to unforeseen and uncontrollable events, which they had never prepared for. One of interviewees echoed that:
DE2: … timing the property market … to plan for the cycles,

Was an important factor which he had no experience of doing.

Many of their initial feasibility studies were rendered dated and of little relevance at the time of construction because of delays they had experienced. This resulted in numerous market changes and consequently adjusting crucial factors such as the supply and demand in their areas as rental prices changed unfavourably and input costs rose above the rise in rental prices. One of the interviewees said:

DE3: Our forecast on rentals were not realistic. Cost inflation is always going to outrun rental escalations.

Many based their initial feasibility studies on best-case, middle-case and worst-case scenario analyses. When questioned which case the interviewees ended their developments on, four of the six reported to be on the worst-case scenario and two reported to be on the middle-case scenario.

The challenge here is that because the interviewees initially entered into property development to build wealth for themselves without understanding the true nature of it, several were unable to draw funds from their completed developments to pay themselves back or to support their livelihoods, as they were required to service the debt from both the junior and senior funders immediately. One of the interviewees (DE4) reported that many SMME property developers are not aware that a development is seldom cash flow positive from the beginning. He echoed the sentiment that property development is a long-term game, which is capital-intensive and requires the developer to have a high level of liquidity before reaping returns in the long run.

Two of the interviewees (DE3 and DE5) expressed the view that the most successful developers seemed to have their own development team in-house, where they could control the building costs and also employed full-time managing agents in their companies to do the same. The move toward building their own development team was a sentiment echoed among the interviewees; however, some noted that this would take time and experience.

Four of the six interviewees (DE3, DE4, DE5 and DE6) mentioned that they wished they had prepared better financially for the commitment the development process took and should perhaps have saved more money over a period of time or worked longer to gain more experience in property development while saving money. Other interviewees (DE2, DE3, DE4, DE5 and DE6) alluded to the fact that they had left formal employment prematurely without being ‘adequately prepared’ for the journey, not having done enough research about property development. This is ironic because all the interviewees agreed that the only way to get such experience was to be hands-on and to complete a successful property development. This often requires one to be on it full-time; however, one of the interviewees (DE5) communicated that she wished she had taken these opportunities through her former employer by asking to be placed on similar projects.

Needless to say, time delays still prove to be one of the most fundamental factors in the challenges experienced by property developers, as their input costs, including the cost of materials and labour, rise at a faster rate than the increase in rental charged.
As labour, namely contractors, is notoriously known to be unreliable in real estate development, all the interviewees mentioned the importance of having an ethical and dependable professional team.

**Professional Team**

The word often used to describe the role professional teams play in the success of a development was 'crucial'. An interviewee described the professional team as follows:

*DE3: A residential development requires at least a minimum of six professional disciplines: structural engineer, civil engineer, fire engineer, quantity surveyor, architect and builder.*

Two interviewees (*DE5* and *DE6*) added that a good lawyer is also an important member of the team, as the real estate development industry in South Africa is prone to be heavily governed legally. Other interviewees (*DE3* and *DE4*) agreed that the professional team could either make or break a development’s success. As another interviewee said:

*DE4: ... it all starts with the professional team. If your professional team is not right; it’s a huge risk. ... Your architect has to be on the ball because he also has to almost be able to help you anticipate where the next problem is going to come from. The quantity surveyor is all the upfront work making sure of the real cost down to the tee. He is more prudent than optimistic.*

Besides the architect and the quantity surveyor, all the interviewees agreed that the most important team member is the builder, who is often referred to as the contractor. Contractors are known for causing building delays, not sticking to the schedule agreed upon, going over budget with material and labour costs, absconding and running out of personal funds to complete each phase of the development before the funders release cash to reimburse them for their work upon inspection of the building, among other complaints.

Other challenges contractors presented were sub-contracting their work, which often left developers with no control over the labour and standard of work performed. They seemed to lack basic people management skills.

Although the interviewees agreed that being hands-on and on site daily to manage the contractors was crucial, it seemed as if there was no real consensus about how to ascertain whether a contractor was trustworthy or not, apart from having experienced working with him first-hand or paying additional fees to use experienced and well-known firms to complete the job. The issue with that proposal was the limited funds the developers had because of the challenges mentioned previously; therefore, their pick of reliable contractors was limited.

Choosing a reliable contractor was deemed to be an important factor by all the interviewees, as the practicality of completing a development relies solely on the contractor. Other professionals, such as the quantity surveyor and the architect, merely assist on site in an attempt to motivate a speedy yet compliant development structure.

Apart from a rise in development costs, the direct impact of having an unreliable contractor for the developer would cause a further delay in completing the development, which would in turn delay the ability to either sell or rent it out to service the compounding interest-bearing debt to the junior and senior funders.
Many funders require developers to submit their professional teams’ profiles in the development proposals to verify the legitimacy and reliability of the team involved. The interviewees found it challenging for professionals to commit to a project and submit their profiles without a guarantee or financial commitment by the developer that they would receive the funding to pay them for their work. If the developer did not have any funds to compensate the various professionals for their respective parts in the development plan, many of the professionals refused to work with them, based on risk. If the developer did not receive funding, it would mean that the professionals’ work would have been in vain, without compensation. Sourcing a willing, yet experienced and reliable professional team that did not require large upfront cash contributions for its part in the development proposal was among the biggest challenges all the interviewees faced. One interviewee stated:

DE5: ... choosing professionals that you have a relationship with and know that they can do the work. Sometimes you do not know if they can do the work and you are met with a lot of stumbling blocks. If there is one thing I was to tell young people who are getting into this is: your professional team is paramount because they can make or break your project. You can run into all sorts of problems of public liability that is stressed on you as the developer. They can also get you into a financial mess if you don’t know what you are doing.

Conclusion

The reported challenges faced by the interviewees are numerous. Seven groups of these were identified, namely the legacy of apartheid in the real estate development sector, new developers’ lack of the required education and experience to succeed, the costs needed to acquire the land and to carry the development through until funding is released, the ability to manage time delays imposed mainly by funders, municipalities and contractors, as well as the ability to manage a reliable and experienced professional team. Each of these aspects was documented as a crucial element of real estate development for SMME developers.

Despite efforts to combat the effects of these challenges, the industry still remains favourably inclined to the larger players who have higher liquidity, cash reserves and better access to financing, as many of the dealings are reportedly secretive.

It is a highly capital-intensive industry favouring those with experience in the trade, which may be achieved partly through formal education, but most of it requires the developer to be involved full-time in the project and learn from an experienced mentor.

Private and government institutions need to come together to assist SMME developers in these challenges; this is important for the future of real estate development in South Africa and for SMME developers to service markets that may be unfeasible for larger developers or may simply not meet their development mandates.

South Africa is still a developing nation with high poverty and unemployment rates, therefore the provision of affordable residential real estate is important. It seems as if SMME developers are willing and passionate about entering the industry and expand it; however, the barriers to entry are still quite high and off-putting to many who would perhaps opt to remain in formal corporate employment. It is clear that before embarking on real estate development as an SMME developer, one has to be fully prepared for the all-encompassing requirements to complete a successful real estate development. It is not for the faint-hearted.
Chapter 5: Conclusion

Introduction

The aim of this chapter is to present a summary of the findings of the dissertation in relation to the initial research question and proposition, to discuss an interpretation of the findings and to frame a contextualisation of them. It will also outline the implications of the findings obtained, present the limitations of the study and finally conclude on the findings with suggestions for further research.

Research Summary

The focus of this research paper was to identify the challenges SMME entrepreneurs as developers face in the Johannesburg CBD when trying to carry out successful real estate development. Entrepreneurship has become a well-documented field of study in academia over the past five decades, mainly because of the impact entrepreneurs have had in sculpting society, growing countries’ economies and changing the world as we know it. Such findings are important, as they enhance the resources provided by government to sectors of growth and by investors through capital injection into the economy. The main challenges these entrepreneurs face have been identified in literature but have not been discussed in detail. Addressing these challenges may assist the entrepreneurs in solving the numerous issues mentioned above, which are of critical importance in a developing economy such as South Africa.

In addition to this, the success of the entrepreneurs and how they have gone about their ventures, as well as the obstacles they have faced, can be used as a learning tool for other entrepreneurs in a similar position. The thinking behind this is that despite the sector in which they operate, entrepreneurs may face similar challenges and may therefore already have practical solutions for these challenges proposed previously in other studies, in sectors other than real estate. As a basis, this research can also be used by investors and institutions supporting these entrepreneurs’ growth and their real estate developments in order to further the institutions’ interests and mandates.

The problem statement was as follows:

*Specific challenges that SMME entrepreneurs in the real estate sector in South Africa face have not been sufficiently identified. Practical solutions have not been proposed in order to assist them in successfully completing profitable real estate developments timeously. This may have a positive social impact in urban areas, namely in the Johannesburg CBD through the reduction of crime levels, poverty and a rise in employment.*

The proposition is as follows:

*There are specific challenges that are characterised and faced by real estate developers as entrepreneurs in South Africa.*

Through this research paper, seven challenges were identified from the responses of the interviewees and some solutions were proposed. The paper did not venture to explore whether the effects of successful real estate developments will in fact reduce crime levels and poverty, as this was not the area of focus; however, the research participants referred to a rise in employment through their development activities.
What was interesting to discover was that none of the interviewees’ developments was completed on time. They were in fact delayed by numerous factors to be discussed below. Not all the developments proved to be profitable either. What transpired after interviewing the developers was that there was a general belief among them that real estate development is a ‘long-term game’, which is highly capital-intensive, and the success of a development is often reliant on the experience of the developer and of the professional team involved.

The researcher interviewed six SMME real estate developer entrepreneurs in depth. These entrepreneurs operated in Gauteng and none of them had ever previously completed a successful real estate development; they were either about to complete or had just completed their first developments. All were black South African residents between the ages of 30 and 70 years of age and were considered to be previously disadvantaged. Each was interviewed by the researcher in person for a period of between one and two hours and their responses were either audio-recorded and later transcribed independently or recorded manually on a laptop by the researcher.

All the interviewees agreed that the nature of the real estate development industry is cemented in experience. This experience is often gained through working with other developers, training and completing developments, starting from small ones and growing to larger projects, with the assistance of a seasoned experienced real estate developer as a mentor throughout. The proposition in the literature was that real estate development could be taught in a formal setting, such as in tertiary education and in entrepreneurial incubation centres. Numerous components and aspects comprising real estate development cannot be taught in a formal setting, such as an educational programme or entrepreneurial incubator; they are rather learnt in a hands-on manner by being on site and learning each aspect of the development through various projects, as the nuances of each differ.

The research objectives were as follows:

Identify the main five challenges SMME real estate entrepreneurs face in the Johannesburg CBD.

Seven themes were identified from the responses of the interviewees as the main challenges they faced in completing their real estate developments. The themes were categorised according to the stages real estate developers go through from inception of the development to completion, in an attempt to understand the magnitude of the effects of the relative challenges identified.

The first challenge discussed was that of apartheid and the legacy it had left in the real estate development sector. According to literature, the background to this is that during the apartheid era, many previously disadvantaged people had limited rights to participate in the real estate industry, let alone in real estate development. Because of this, there are currently few experienced previously disadvantaged real estate developers, compared to previously advantaged real estate developers.

This creates a gap within the industry, as the previously disadvantaged developers encounter higher barriers to entry in not having the necessary support, technical training and mentorship in assisting them to complete a development, whereas the previously advantaged do.
Many of the previously disadvantaged developers do not have access to the required knowledge, often gained through networks of developers, which can be closely knit and resistant to sharing or mentoring new entrants into the market. Some of the interviewees have committed to mentoring future SMME developers once they have gained enough experience. The literature presented in Chapter 2 also discussed this briefly; however, the findings above add to the existing body of knowledge.

The second challenge experienced was that of education, experience, competencies and mentorship. These topics complemented the apartheid topic, as they spoke of the fact that previously disadvantaged real estate entrepreneurs were often taught by their families to obtain a marketable tertiary education first, then to secure a well-paying job at a corporate firm as their career paths. They were not necessarily encouraged to become entrepreneurs, as it was seen as a risk by their families, friends and acquaintances. Therefore, when they decided to venture into real estate, many experienced lack of support due to the lack of understanding among previously disadvantaged people in South Africa, firstly of the industry and secondly of all the risks and requirements inherent to it. Most of them had educational and work backgrounds of a financial nature, which the entrepreneurs agreed assisted them in preparing their development proposals and in projecting the outcomes of their feasibility studies; however, they still believed that they lacked practical on-site experience, which was agreed to be more valuable.

This finding was in line with the literature, which states that entrepreneurs who had previously failed to complete ventures successfully were more likely to be successful in the future. This attests to experience and risk-taking. As several of the interviewees mentioned, the success of real estate developers in South Africa is cemented in their experience in the field, as well as in the experience of their mentors and professional teams. One cannot underplay the high risk involved in real estate development, which can be partly mitigated through education. Literature also mentioned that a high number of people with tertiary education become entrepreneurs; however, a higher ratio of people with trade skills become entrepreneurs. This point is valid in real estate development, as the interviewees stated that developers with trade skills in the industry are more likely to be successful in real estate development. As all participants aim to be successful, reviewing one’s educational background before entering real estate development could form a relevant starting point in being able to predict one’s chance of completing a successful development.

The third challenge experienced was that of access to land. The entrepreneurs revealed that they encountered many obstacles in obtaining the right site for their proposed developments because of a number of factors. The first was that public information is not available on all land or property for sale and such properties are often sold to more established developers who have better access to capital to complete a transaction more quickly. If one is not connected to the right networks of people who have a supply of land at reasonable prices, the developer is left to access land on the open market, which has its own challenges. The second reason is that the land that is available on the open market may be overpriced, which would render the development unfeasible, or it could be highly competitive if located in the right place for a specific development, which would result in the person with the fastest access to capital securing the land as the owner. None of the developers interviewed had access to the capital required to purchase land upfront and they often relied on getting funding from government institutions, which proved to be a lengthy process, during which another purchaser would often purchase the land from the owner instead.
The fourth challenge was that of inefficiency in the local municipality that had to approve development plans. This had a knock-on effect of delaying development schedules and timelines, which often resulted in bi-annual price increases of input materials at rates higher than the projected rise in rent, thus making the developments less profitable over time. Municipal delays were attributed to the rise in the amount of work the municipal employees had, coupled with lack of infrastructure or a process to deal with it. Others cited an inadequate level of competency of municipal employees, coupled with the presence of corruption and an inefficient legal system to govern this process. Literature on the occurrence of corruption in the entrepreneurial process makes this finding evident. It was noted that in developing countries, the occurrence of corruption is higher. The developers interviewed agreed with this notion, proposing that because of the lack of efficient infrastructure and remuneration within the municipalities, employees were more likely to engage in illegal activities with developers to approve their plans more quickly.

The fifth challenge identified was that of access to equity. This reinforces the argument that many previously disadvantaged people in South Africa do not have appropriate access to capital required to enter the real estate development industry, which presents a barrier to entry. They further lack the networks and resources to provide them with this capital. The result is that even if they have the knowledge and passion to enter the industry, if they do not have the equity to do so (which is estimated at between 4% and 20% of the total development value) they may not be able to begin a development. Access to funding for these developers is limited to three government funders, namely GPF, TUHF and NHFC. SMME entrepreneurs often see it as more difficult to obtain funding from the larger banks, as they do not have the necessary experience, background and capital to access this funding, hence their reliance on government institutions for funding. These institutions often follow a long process in approving the financing for a development (reported at between three and six months), compared to the banks, which could take a matter of weeks.

Entrepreneurs’ lack of access to capital is well documented in literature across all industries. It was found to be the largest barrier to entry in any industry by entrepreneurs, as all required capital to start and to finish their ventures. Although the capital requirements in each industry differed, literature noted that the basic need for capital did not. The effect of this was that entrepreneurs might be discouraged from starting ventures owing to their lack of access to capital, thus potentially hindering economic growth. This sentiment was shared by all the interviewees. The stringent requirements and delayed time to access capital by developers in South Africa introduces another element to the literature: lack of access to capital.

This leads one to discuss the sixth challenge, which was identified as time delay. It is seen as a significant challenge, as it has knock-on effects discussed above, which relate to the rise in the overall costs in the development, which could render it unprofitable or unfeasible. The main causes of time delays are related to the approval of financing, municipal delays, construction delays and other unforeseen factors. Many of these are out of the control of developers, which often frustrates them; therefore, more attention needs to be paid to resolving these delays. This was briefly mentioned in the literature as of importance in understanding the risks of each entrepreneurial venture beforehand. It adds a more detailed element regarding risks encountered in real estate development, specifically in the Johannesburg CBD.
The seventh challenge identified was that related to the appointed professional team, from the architect, quantity surveyor, engineer, builder/contractor and project manager to other suppliers. The concerns raised were in relation to miscommunication between the suppliers and the developer, resulting in delays in completion of the development.

Some suppliers were found to be reluctant to agree to being part of a development initially, as they might not have been compensated for their work until the developer received funding; therefore, securing reliable suppliers was found to be a challenge. In addition to this, the biggest risk concerning suppliers was agreed to be the builder or contractor, as these people were notoriously known to be unreliable in respect of construction time lines and controlling building costs. An interesting point that the entrepreneurs noted was that because they struggled to secure reliable contractors, another challenge faced was that the contractors often ran out of funds to continue the construction until the funders paid what was owed. This process often caused further time delays. The literature on access to capital discussed above is in agreement with this point.

The seven challenges identified are somewhat interrelated and possible have further knock-on effects. The influence of apartheid and the effect it had on not giving previously disadvantaged real estate developers the opportunity to gain experience and knowledge must not be undermined. It feeds directly into the second challenge of a lack of experience and education as the pool of experienced developers, often white, appear to be reluctant to pass on their knowledge. This exacerbates the issue of lack of experience and slows growth and transformation within the industry, including that with the selection a professional team limited to those with experience, who may not be previously disadvantaged due to the same reasons identified.

Experience of developers speaks to tenure in the real estate industry and their ability to grow and to build economies of scale over time. This would place them in a position to access prime land at favourable rates and funding options. This land is often not made available to the general market and is sourced through their connections and networks built over time. The inability for SMME entrepreneurs to access this land further limits their ability to scale their businesses in order to aid other SMME entrepreneurs in the long run. The argument of lack of experience is directly related to that of lack of access to equity as funders often seek a track record of SMME developers within similar projects; which they often do not have. It further delays and possibly discourages many real estate entrepreneurs in beginning and completing developments due to a historic factor, namely apartheid, which may take time to rectify. The time delay factor of all of these interrelated challenges should not be minimised as it is a crucial element in predicting the success or failure of a development. It appears that the delays within the municipality may be due to inefficient systems and work processes within the government.

All of the challenges identified are interrelated and need to be analysed together to fully understand the overall environment in which these real estate entrepreneurs operate.

**Determine the Cause of these Challenges**

The entrepreneurs who were interviewed seemed to perceive the cause of the lack of experience of SMME real estate entrepreneurs as lack of support of mentors, as well as lack of variation in funded entrepreneurial incubators, such as the one offered by the GPF program. There was general consensus that the government and private institutions should come together to do more to right the effects of past injustices still prevalent today in the real estate development industry.
This fed into the notion that previously disadvantaged SMME real estate developers, although equipped with the necessary tertiary education, often lacked the experience to complete a successful development.

The cause of the lack of availability of affordable, commercially viable land for development was attributed to the level of secrecy within the industry, coupled with inefficiency in government systems to release state-owned land to real estate developers. Access to this land often depended on the developers’ ability to access financing. The interviewees did not have the required access to finance and had to save for years, sell their assets or cash in their pensions, in order to contribute an equity portion to the development. It became apparent from their interviews that although technically funding for real estate developments was available through banks, private institutions and through the government, most required the developer to have experience and the necessary capital to access funding, which many did not have.

The cause of the inefficiencies in municipalities were attributed to bureaucracy, an inefficient infrastructure or system used to process development proposals, which was viewed as dated and unsuitable for the increased volume of applications received monthly. These deficiencies caused delays in addition to the human aspect of real estate and controlling the professional team appointed, which may delay developments.

Establish the Extent to which Apartheid and Race Influence the Main Challenges Identified

The legacy of apartheid was found to have significant negative effects on the real estate development industry, mainly in relation to previously disadvantaged entrepreneurs’ lack of experience, networks and access to capital.

The aspect of race, although not explored in literature, appears to play a large role in real estate development in the Johannesburg CBD, in relation to the entrepreneurs’ access to financing and mentors based on their experience in the industry, which can be explained by the effects of apartheid.

Propose Practical Solutions for the Challenges Identified

The solution that was proposed by nearly all the entrepreneurs was to have more real estate development incubators supported by private institutions and by the government, which would practically take SMME developers through developments and teach them the nuances of development before they ventured out on their own. This would cover being able to identify appropriate land and to estimate its value in order to make a realistic offer for it, managing costs and cash flow, financial projections and feasibility studies, managing a professional team and navigating around the municipality, among other factors. The general consensus was that there needs to be more support from experienced developers and other stakeholders to ‘walk’ with the SMME developers and to ‘hold their hands’ throughout the process until they were competent to be on their own and to assist other SMME developers.

Establish whether these Solutions are Realistic and how they can be Implemented

This aspect was not addressed, as more attention was paid to identifying the most pertinent challenges that affected the entrepreneurs. It was not an area of focus either. Further research needs to be done in this area.
Identify the Relevant Parties who can Assist in Implementing the Solutions

The main parties identified by the entrepreneurs was the South African government, private banking institutions and experienced real estate developers to act as mentors. The particular departments or aspects of the government expected to become involved were not mentioned. Some of the interviewees agreed that private banking institutions needed to be more considerate of SMME developers and their lack of capital and real estate development experience; they should rather consider their professional work experience on a higher level. In essence, they pleaded for more lenience in the banking lending requirements to include SMME developers.

Limitations

The research was conducted among a limited number of participants, namely six in total. The reason for so few interviewees was to be able to gain a richer perspective from each individual, to get a comprehensive view of the challenges they experienced and the reasons why they experienced them. By interviewing each of the participants for an extended period of time, the researcher was able to obtain this information by asking detailed questions and by probing their responses to gain more detail, as is required in the phenomenography approach. The interviewees’ knowledge of the industry, coupled with their individual experience, added depth to their responses, which may not have been gained had the researcher interviewed more participants over a shorter period of time. Each interviewee in turn became a case study from which the researcher obtained results, thus adding to their richness.

Two of the participants were female and four were male. The interviewees with the most relevant background to the study were chosen over equal gender splits in order to gain relevant detail in the results. Participants enrolled in the GPF program were interviewed. The reason for this was that these participants added the relevant knowledge needed for the research paper. One of the participants opted not to be audio-recorded; this option was allowed by the researcher to give the interviewees freedom of choice in their chosen response method. Not all the participants were involved in developments in the Johannesburg CBD, nor within the Johannesburg municipality. One of the participants’ development was located in Pretoria; the others however were all located within the Johannesburg metropolitan area. All of them were therefore located within an urban context in Gauteng. This was not a point of contention, as the findings are still relevant because it is possible to generalise them to a degree, because of the similar threads of challenges experienced by all the interviewees.

Recommendations

Further research needs to be undertaken into what practical solutions may be proposed to assist the SMME entrepreneurs with the challenges they face. The government needs to investigate why the Johannesburg municipality is inefficient in registering development plans and a realistic solution needs to be proposed and implemented. SMME entrepreneurs who have not had practical technical experience in completing a development should seek out a mentor who is willing to invest time and effort in them to learn what it takes to be a successful developer before embarking on the journey and committing funds they may not have enough of, as the risk is high, and a long-term view is required. They should also equip themselves with the right knowledge and tools before embarking on a development. More funds, programmes and incubators need to be made available by the private sector and the government to support SMME entrepreneurs in their learning process.
Further attention needs to be paid to how land or property is made available on the open market rather than to private buyers, as the process needs to be made more transparent and government land needs to be released to property developers in a more effective manner.

**Personal Reflection**

On reflection after interviewing the developers, I have a sense that the property development industry for SMME entrepreneurs still has a long way to go in supporting previously disadvantaged individuals to give them the best opportunity to succeed. Currently the industry favours those who have the resources and knowledge, and who have acquired it generationally. There is lack of understanding of the real estate industry involving previously disadvantaged developers, which results in budding entrepreneurs from this group who want to enter the market experiencing lack of support, thus hindering their success.

The question remains how many generations of previously disadvantaged real estate entrepreneurs it will take for the current state to change. Will they give back and teach what they have learned to other SMME developer entrepreneurs to end the cycle, or will it remain an elitist industry for the wealthy?

I think that entrepreneurs need to continue finding creative ways to overcome the challenges in South Africa to succeed in their developments. This may mean that they will have to have a higher sense of determination, purpose and resilience than in other industries, but if they do not, they will revert to working for corporates as employees when it gets too difficult for them to continue.

If more SMME developer entrepreneurs were made aware of these challenges before entering the industry, they would be in a better position to question whether it is indeed for them and to prepare the necessary resources to ensure their success in the industry. In short, South Africa would have more determined, prepared and well-equipped developers who would complete successful developments and aid in providing employment, providing housing and buildings for occupation and contributing to the GDP of the country.

**Conclusion**

Many challenges are prevalent in the field of SMME real estate development, as the barriers to entry into the industry found by the research are high and the objectives are long-term. These challenges are frequently out of the control of the developer and often rely on third parties to make decisions on approval, which may delay the development process. SMME developers need to be realistic when entering the industry, in respect of the capital requirements to secure the land initially and to develop it fully. They also need to be aware of the technical skills required to complete a successful development and seek the right information, support and mentors before embarking on the journey.

Besides being passionate about real estate, they need to be fully invested and have ‘skin in the game’ in order to commit to making their developments feasible and profitable in order to recover their personal investments.
Inefficiencies still exist within the system in relation to approval of plans, the possibility of corruption, the apartheid legacy and lack of access to funding; however, in a country with high poverty and unemployment rates, increased activity in the real estate sector is imperative to assist economic growth in South Africa.

The research proposition was:

*If the main challenges SMME entrepreneurs face in the real estate sector are addressed, this will lead to a rise in the ability to provide affordable yet profitable real estate in the Johannesburg CBD.*

This proposition is accepted based on the work, because all the participants agreed that if the challenges they mentioned were addressed, they would be more successful in their real estate developments and in turn would be able to assist other SMME developers, thus creating a chain of future developers who would complete successful developments.

The research objectives were achieved, as the seven challenges faced by SMME real estate developers as entrepreneurs operating in the Johannesburg CBD were identified. Some of these challenges were identified within the literature and others were new, extending the existing body of knowledge on the subject. They add more depth to the results of prior research and provide the relevant stakeholders with actionable areas of interest to provide solutions for real estate entrepreneurs as proposed by the interviewees, which is what the research aimed to achieve.
References


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Annexure

Questionnaire Sample

1) Welcome and greetings. May you kindly introduce yourself?

2) How would you describe the current entrepreneurial landscape in which you operate, in particular reference to the economic climate, your entrepreneurial background and skill set, and lastly in relation to the real estate development environment?

3) Kindly describe the process you would typically go through in completing a successful development in the Johannesburg CBD, the time it would take to complete each stage and the requirements (resources) needed at each stage?

4) Identify the main setbacks in which you may encounter at each stage of the development process, how often they occur and specify the cause of the setbacks?

5) What differences in the process of real estate development, as an SMME entrepreneur can you identify between developing in an urban CBD setting versus in the outskirts of the City? How do you think this approach differs from that used in the formal sector by larger entities?

6) Identify the competitive environment you work in, who are your competitors and how do you all work together?

7) Kindly summarize what you have taken away as lessons from your experience of being an SMME entrepreneur in the Johannesburg CBD to date?

8) Looking back, what would you have done differently?

9) How would you envisage the entrepreneurial landscape changing in the future and what would you hope to see improve?

10) Thank you for your time. Do you have any questions for me?
Interview with DE3

RESEARCHER: I’d like to begin the interview with DE3 and Researcher for the dissertation on SMME Entrepreneurs and the challenges they face as small developers within Johannesburg on the 4th of July 2017 at 5:57PM. DE3, could you please just give us a brief background of your study experience and work experience and background?

DE3: My name is DE3, my background is financial accounting. I hold an honours degree in B. Com Accounting. Went on to qualify as a CA. I worked mostly for the past 10 years in the financial industry. I’ve also worked for 2 years in residential development company. The is me in a nutshell.

RESEARCHER: Just give us a background of your CA experience. What were you specialising in when you trained and when you worked?

DE3: I think, traditionally we know becoming a CA entails going through the auditing route. But, I think, in the early 2000’s a lot of commerce in the industry companies were giving accreditation to start training future CA’s. My interest was mostly in commerce. I chose to do my training in a bank which is known as a top training article. It basically means that you qualify as a CA, but you are not recognised as an Auditor which I was comfortable with. I believe that the training that I got from Investment banking perspective was very extensive and it has helped me understand a lot of how capital markets work, investments work. How financing of properties, investments work.

RESEARCHER: Talking about financing of properties, did you ever work in a property division within the bank, if so, what did you do there?

DE3: Not necessarily within a property department within a bank but I had consultations with them. I remember in my previous employer, I was a financial manager and some of the deals that I looked at involved an aspect of property finance. From that perspective, that is how I got introduced to property and I think I developed a keen interest in investing in property. That is when I started taking it seriously, doing research and just learning more about how the industry works.

RESEARCHER: Take me through the step of how you jumped from being a CA, which you still are, but to property development, can you take me through that step?

DE3: I think, for me the opportunity, was I started investing in property just like most people start out. Where after a few years of renting, you get tired of renting and you want to put that money into good use. I started with a 2 bedroom flat. This was in Northriding. A year later, I bought another 3-bedroom flat. This was in Ruimsig. A year later I bought another 1 bedroom flat around Ruimsig.

Through that process, one of the lessons that I learnt is that property is one of those asset classes where you can use leverage to your advantage. From an investors perspective, you still need to put down some money for you to be able to access that leverage. It was for me, in its nature, long term investment. I think there’s one article in particular that I read which eluded to the fact that half of the wealth in the world reside in real estate.
I believe that it is a worthwhile investment and a passion for me. That is how it started for me and then I started research around, looking where can one get assistance where you can start investing in property in a larger scale rather than just buying one property here and there. I came across an article on, I think it was the Sowetan, there was an add placed by Gauteng Partnership Fund in Johannesburg.

What was interesting about it was it allowed entrepreneurs to look for an opportunity, a sizeable opportunity, of a minimum of 12 units up to 30 units, at that time. Because of the budget that they placed as a cap investment that they’ll be interested in. For me, it opened up my mind to say, you know what, you can play at a bigger scale in this property development. I started investing time. I went to the entity, got the business framework. I started working on that, it took a couple of months.

I got assistance from other people. It was during that time that I realised that property is a very collaborative industry in its nature. It involves a lot of professionals that contribute to the final product. There’s extensive consultation that you need to do. There’s a lot of work that you need to put in. I believe when they say it is not for the faint hearted, that is absolutely true. There’s a lot of difficulties, challenges that you come across along the way. If you are not really in it for the long haul, you will be easy to just give up and never look back.

RESEARCHER: How long would you say have you been in property development?

DE3: For now, it has been a solid 4 years. I’ve looked at a couple of investments. I am glad, looking back, that I haven’t yet invested heavily. Because there is a lot of lessons that I’ve learned. One of the things that I realised is that having a passion in something doesn’t really mean that you understand the ins and out until you start working on it. As we all know that experiences build over a time period.

I am glad that I spent the past 4 years learning the ins and outs of the industry. I am in a much better position now, in terms of how I understand how everything comes together. Going forward, I am well positioned to make real sound investment decisions.

RESEARCHER: Are you a full-time developer or do you currently work at the same time?

DE3: I started working full-time again last year November, before that I took a 16-month gap. Just for causing and pursuing the property development interest. I think during that time, I realised things that I let. Importantly were the partners that I had at the time, they were not really in it for the long term. I realised that it is very important that you find partners that will be invested in you. That would like to walk the journey alongside you.

Help you through the challenging times and help you navigate the complexities that property development brings about.

RESEARCHER: These partners, were they business partners and were they financially invested as well?
DE3: They were looking for more of a way to make money and not necessarily that they understood property. When they didn’t really full countable about, the time it takes, the effort that you need to put in, they got cold feet. I realised then that it is very important to find somebody within the industry who can walk the journey with you and help you navigate the complexities and think my current partners are very much invested in property. They are excited about this new venture that we are starting now, and they are in it for the long term.

RESEARCHER: Your previous venture, can you just explain it? Why did it fail or succeed? Did you complete it? What happened and what was it, where was it?

DE3: The previous venture, it was a good failure in a sense that, from an investment perspective, I think it didn’t offer a good return. We were not entirely in charge of the creative aspect. When I say the creative aspect, we were not in charge or acquiring the land and designing the units ourselves. We didn’t have much influence in choosing the location that were desired. It is one of these mega developments that are happening all around Gauteng. We also realised that the competition was going to be very stiff in that development.

The rentals that we projected were not going to sustain the business. If we had gone ahead with it, we would have needed to contribute more money into the business to just keep it afloat and we decided it is not a worthwhile investment. Hence, we walked away from it and looked for an opportunity where we would control from A to Z of the development. Here’s a great opportunity to learn the small aspects from A to Z of what it means to develop a property.

RESEARCHER: Where was the development? What was it? Was it a residential?

DE3: For now, I am mostly interested, I want to build my track record and build up a bit of capital in the residential space. The development that we walked away from was in the Florida area. Specifically, in a mega project called Flair Off Development. As we all know that the developer there in charge is Cargo. The opportunity involved negotiations with Cargo back and forth.

RESEARCHER: How many units were there?

DE3: We were looking at about 108 units. With a plus/minus development cost of R 45 000 000,00. In terms of the funding structure, I would’ve been required to chip in roughly 10 to 15% as equity, into the development.

RESEARCHER: At what stage did you walk away? At the diligence stage or what stage did you walk away? Did you contribute towards anything?

DE3: We are lucky in a sense that we didn’t contribute financially but the land of time we spent chasing and hoping that, that bill will come into fruition, it took plus/minus 18 months. I think one of the challenges with financing where you are not entirely in charge of the development, doing negotiations with somebody else. You constantly try and balance the timing between having your funding process finalised which will then allow you to deliver a guarantee to the developer.
At times, it can be a very tricky balance to get right. On the other hand, the developer is looking to sell as much as they can, and they cannot reserve an opportunity for you, for any amount of time because as you know, the funding process, it can also be unpredictable. You can find that the finances are stalled on their side because there is certain things that they are not happy with and that could take a considerable amount of time to be resolved.

Generally, that has taught me as well that with property deals you need to be patient. Things generally take time to come together.

**RESEARCHER:** Talking about this time aspect. It has been mentioned a lot that time delays can result in a failure or success of a development. Can you indicate or pin point with this failed transaction, what caused the time delays and what direct impact that had on your development? Both cost wise and social impacts besides cost impacts? How significant were the time delays and what were those time delays?

**DE3:** With property transactions, specifically this one, we had a junior partner. The structure of the transaction is, as a property entrepreneur you need to chip in between 10 to 15% of the required total project cost and then you engage a junior financer who will be interested in chipping in anything between 35% and 40% of the total development cost. Over and above that you still need a senior funder.

One of the challenges is that you’ve got a junior partner and a senior funder, both their friends financing houses which have different process that you need to satisfy. Funding doesn’t happen overnight, it takes a couple of months. There could be different views in terms of how best to approach the structure from both these financing houses that you need to be patient with and co-ordinate as much as you can to try and find common ground between the two. On the other hand, as I have mentioned, that the developer is in the business of selling houses, they would like to sell as much as possible to whoever brings the cash first or delivers the guarantee first. You are not going to have something reserved for you forever. From the developer’s point of view or just generally in construction, we all understand that there are bi-annual price increases which are linked to inflation rates. Prevailing inflation rates at the time which if you are looking at a deal of R 4 000 000,00 to R 5 000 000,00, a 6% inflation adjustment, which happens bi-annually, it could amount to …

**RESEARCHER:** 2.4

**DE3:** How much is it?

**RESEARCHER:** 2.4.

**DE3:** R 2 400 000,00, which is a significant amount from an emerging entrepreneur. To suddenly raise that, it could just put pay to the whole transaction.

**RESEARCHER:** I hear you. Would you attribute that time delay to the funder’s inefficiency or funder’s process in approving funds? In your failed transaction?

**DE3:** I wouldn’t necessarily say it was the funder’s internal processes. From a developer’s point of view, it will also help if from the word GO, you have this amount of cash lying in the bank. Say for a typical development of this magnitude, R 45 000 000,00, you are required to raise R 5 000 000,00 for example.
It would help from day 1 if you have that amount sitting in a bank account or if you had investible assets that could easily be pledged to raise that amount of money.

We find that in most cases as emerging entrepreneurs while you are running with the funding process, you concurrently trying to put in place an arrangement that will cater to the funding requirement.

**RESEARCHER:** That unencumbered cash component, where were you planning on getting it from?

**DE3:** Another challenge in unencumbered cash, is quite a challenge in itself. Not a lot of people, the ones that I know, can walk into a bank or any financial institution and come up with the R 5 000 000,00 unencumbered cash. That in itself is a challenge. What I realised at the time was it was burst to partner up with somebody who is experienced in business. Somebody who understands the industry. Somebody who’s interested in investing in property. To partner up with them in terms of being co-owners of the business.

**RESEARCHER:** Where did you find this person and what were their credentials in general?

**DE3:** Having spent the past 4 years in the industry, I’ve done a lot of research. Especially in the affordable space to find who are the major players in that space. I’ve been to a lot of seminars where you try and network with people and you discuss your challenges with people. To just get a feel who might be interested in a partnership where you go 50/50 on a project. Somebody who will be in a position to help with a large chunk of the financial injection, unencumbered financial injection. I came across a well experienced property developer who does have the balance sheet to support the equity that is required by finances in deals of this nature.

**RESEARCHER:** Is this developer black, white, Indian, coloured?

**DE3:** In this case, this developer is white.

**RESEARCHER:** How much of the unencumbered R 5 000 000,00 did you put down and how much did he put down?

**DE3:** At this stage the deal is still in process. What that means, that deal we had to walk away, the R 45 000 000,00 deal. We had to walk away from. The 10% is a durative of total project cost.

**RESEARCHER:** How much did you put down and how much did he put down?

**DE3:** In my case, I am in a position to put 20% of the estimated R 5 000 000,00 and the other 80% would rest on him.

**RESEARCHER:** From you, where did that come from? Did it come from savings, pension, how did you have access to that money?
DE3: It is a mix. In the process I had to sell the 3 properties that I told you about earlier on. Over the past 4 years, as much I’ve been required to spend money to pursue this passion of mine, I’ve also had to have a saving plan to ensure that I am able to put money aside, so, that when I need to pay these monies across, I am in a position to contribute financially as well.

RESEARCHER: During the 18 months, you were self-funded to live.

DE3: Yes.

RESEARCHER: Because you weren’t working, you were working on the development full-time, is that correct?

DE3: Yes, that is fine.

RESEARCHER: There’s literature that basically speaks to the fact that there aren’t many black or previously disadvantaged property developers in the country. How that impacts the market is because they aren’t able to further put down finances or assist financially with other previously disadvantaged developers in being able to successfully execute their development. From an expertise point of view and a financing point of view.

Why asked what colour your financier was because it brings up that literature that a lot of the people still holding the finances in order to support the developments are not previously disadvantaged. Now I want to hear your view as to how you have found the SMME development landscape with regards to race, being previously disadvantaged, categorised as black and how this has impacted your journey.

DE3: Just going back to what I said earlier. Starting out in this industry doesn’t really mean that you understand the ins and outs of it. What awaits a lot of entrepreneurs when starting out is that realisation of the harsh truth that your passion alone doesn’t guarantee success in this industry. It is very important that you partner up, you look around you, black or white, other experienced property developers to help you along the way, to ensure that you don’t have unrealistic expectations.

Especially if you are not coming from the build environment or construction environment. Like in my case, I was totally from a different industry. I was coming from banking, being an Accountant. A barely understood the technicalities that are involved in property development. From that perspective, I think it is very important to look around you, find a mentor who will be committed. Find people who are genuinely interested in investing and committing in financial means to your business.

RESEARCHER: That’s where the research further went to say that usually family members or people genuinely interested in your development would assist in your development progress. Those are usually found within your immediate networks. The challenge was that most previously disadvantaged entrepreneurs don’t have those networks. That is why I wanted to ask from your experience, did you find that to be true and do you believe that, what are your beliefs with regards to developing our networks?
DE3: That is true. A lot of our generation and black entrepreneurs, you’ll find that the first person within your family to pursue the entrepreneur route and with that, if you are surrounded by people working corporate jobs throughout their lives, they don’t really feel comfortable with the risk that are involved in entrepreneurship.

Quite frankly, it is true that you can lose it all or you can make a success of it. I’ve hear horrible stories of people who invested their lifetime savings into an entrepreneurial venture, post-retirement and everything just went up in smoke. Entrepreneurship, the development of entrepreneurs requires different aspects to it. The financial support but also the learning of ins and out of the path that you want to pursue.

There’s a lot of learning that awaits a lot of entrepreneurs. I’ve also realised that in recent entrepreneurial reality shows, they often ask entrepreneurs, have you ever had a venture that failed because they do believe that you learn something from a venture that has failed, especially if you have invested your own money into it.

RESEARCHER: Do you believe that?

DE3: I absolutely believe that. When I am in a position as well to start supporting other up and coming entrepreneurs, that will be a trait that carries a lot of weight.

RESEARCHER: One would argue that you have more experience than a lot of SMME entrepreneurs going into development, giving your corporate and academic experience. How do you think this has helped you, if it has or if it hasn’t, you can say if it hasn’t helped you, with regards to being a property developer? In what aspect and also, what are the skills that you would list, one would need to be a successful property developer? First question, do you think your academic and other working experience helped you in property development, if so, how or how not?

DE3: To a great extent it did. Being an entrepreneur, especially if you want to play in the big league, you need to understand your finances. You need to be able to sit and down and analyse a bill and be comfortable and be able to interpret what the outcomes of your analysis is telling you. It also involves writing business plans. I’ve came across business plans that you don’t really get much of it, but I came across business plans as well that are very convincing. That you are able to tell that the person who sat down and wrote that, really has taken time to research and understand what he is trying to get to. That doesn’t mean that you must have experience. I think education helps you to be able to apply your mind, do research, put together worthwhile business plans and be able to articulate your story.

RESEARCHER: Can I just pause for a moment? Going back, how do you think your CA qualification has helped you in property development? If it has or if it hasn’t.

DE3: It has definitely helped. I am able to do the financial models on my own and be able to gage what the returns in that investment will be like. What is the impact of our contribution whether the 10% we might be holding in a trust somewhere will be sufficient for that development. What tends to happen, the finances have minimum financial ratios. One of the most important ones is your debt service cover ratio.
With some finances we look for a minimum of 1 debt services cover ratio in year 3. Some finances will look for 1.3 minimum debt services cover ratio. All of that talks to how much capital you need to contribute upfront to be able to achieve that debt service cover ratio.

**RESEARCHER:** What other skills do you think are needed for property development and to become a successful property developer that you have found you did not have?

**DE3:** From my side it is understanding. How the property development process works. Breaking it down into pieces, starting with the acquisition of the land. What does it really mean when they say the land is fully zoned, what do they really mean that the services are in place and also being a rookie in the industry, a lot of estate agents will take advantage of you because you don’t know the technical part of it.

I remember one time I once approached a real estate, there was a nice piece of land in Krugersdorp, which I was told that it is fully zoned, all the rights are in place, but luckily did I know that the estate agents were managing the process of what information he tells me at what stage so that I start committing financially. By the time I realised that, that wasn’t the case, I’ve already paid R 20 000, 00 into the transaction and only to realise that all of those services and zoning he has been saying is in place, is a load of bullshit.

**RESEARCHER:** Looking back, where could you have learned that information from and what interventions do you think any stakeholder should introduce for property developers to learn that type of information?

**DE3:** It is a great thing for us as entrepreneurs to go out there and research and look for opportunities, but, once you have the information, you need to have somebody who helps you do a proper due diligence on what the estate agents are telling you or whoever else is telling you. Have this man do a proper diligence which is to verify that whatever you’ve been told, is in fact what has taken place to save you money, to save you time, to save you heartache.

**RESEARCHER:** Is this mentorship offered in GPF?

**DE3:** Yes, GPF does offer mentorship. In the pursuit of a project that works, at times as an entrepreneur, you might not listen to everything that your mentor…

**RESEARCHER:** I just want to go to your successful development which you are busy now or have you finished?

**DE3:** We are in the process of funding. We are quite positive that this one will definitely work.

**RESEARCHER:** Where is this project? What type of project is it? How many units does it have?

**DE3:** This is still a residential property development. We are looking at about 150 units in a town of Nigel, which is situated in the South of Springs town. What is great about the location, it is very close to the army base, to the Dunnottar Army Base. It is also very close to, it is within 5 kilometres drive from the Prasa Ke Bella, R 1 000 000 000,00 manufacturing factory that is currently under construction.
Which will be finished in phases. I understand the first phase will be completed towards end of this year. The next phase will be finished towards end of 2018 and then the third and the last phase will be finished in 2019. They expect that it will employ plus minus 1 500 people upon its completion. It is our intention to approach the factory to try and secure yourself a corporate list from them.

**RESEARCHER:** Now, with this development. I just want to go back to the one that didn’t work. How much money did you lose?

**DE3:** On that one?

**RESEARCHER:** Yes.

**DE3:** I wouldn’t say that it was a lot of money but what I did lose was time that I could’ve spent looking for another development. Like I said, I worked on it for plus minus 18 months. Financially, there was a lot of drives, petrol, meetings and me quitting my full-time employment to work on this thing. My living expenses as well. Maybe I could count towards that.

**RESEARCHER:** What were your key lessons that you learned from that one?

**DE3:** The key lesson is that things take time in property.

**RESEARCHER:** How do you mitigate the time?

**DE3:** I think you just have to be patient. You just have to be realistic about the nature of the business that you are dealing with. That is where experience, mentors or partners will be able to put things into perspective for you. As emerging entrepreneurs, at times we are very anxious, we want to see results now. We want to do this now, but it is not always the right approach.

**RESEARCHER:** I wasn’t able to ascertain specifically what you can pin point took the longest time or you could attribute the biggest time delays to. If you could just list them for me. In the failed property development. Is it an experience with the delay, what was it?

**DE3:** To break it down, when I quit my job and went on it full-time it took about 4 months for me to get to a point where we have agreed. The package of the dill with the developer. I then took it to the junior funder, there was a delay from the junior funder’s perspective. At the time I expected the junior funder to fully finance the dill. It was only 3 months later that I was informed that I’ll have to go out to the market and find a senior funder.

That it its own add up to 7 months. It took another 2 months for things to get going with the senior funder. If you include your December holidays as well, that easily pushed it to over a year.

**RESEARCHER:** Who was your senior funder?

**DE3:** In this case the senior funder, that was recommended by the Junior funder, NHFC – National Housing Finance Corporation.
RESEARCHER: After that year, what took the additional 8 months, you said it was 18 months. 6 Months, sorry.

DE3: 6 months yes which all adds up to 18 months. The other 6 months, you find that the developer informs you of the price escalations and the fact that the opportunity that you’ve been pushing through is no longer available in the market, that has been sold to somebody else.

RESEARCHER: Let’s look at this opportunity cost and actual costs of the development due to time delay. Can you please go into detail about this?

DE3: Can you rephrase the question?

RESEARCHER: The opportunity cost and physical costs of the development attributable to time delay in relation to your development that you experienced. So, you experienced a loss of opportunity of developing because of funders, is that correct? An escalation in cost because of funders, can you go through the escalation and cost? What cost escalations did you experience because of the time delay?

DE3: If I am selling you a property now.

RESEARCHER: Talk about your property.

DE3: I say to you today, total project cost is R 45 000 000,00, after months I have my normal price adjustments.

RESEARCHER: So, the developer cost went up?

DE3: The developer cost went up.

RESEARCHER: Of the purchase of the land?

DE3: No, in this case it was a 10 key project where you buy the land together with the top structure that will be built on it. You can now split the 2. You cannot buy the land separately and then go find somebody else to develop it. You but it as a package.

RESEARCHER: The construction and land cost went up in that period?

DE3: Yes.

RESEARCHER: What other costs went up?

DE3: It is basically sold as a package, the R 45 000 000,00 is all inclusive, everything is accounted there.

RESEARCHER: By what percentage did it go up? 6%?

DE3: It goes up by 6% on average every 6 months. That is roughly R 2 700 000,00 on a R 45 000 000,00 deal. If you negotiated or in this case 10% of R 45 000 000,00 is R 4 500 000,00. Now, you must add another plus/minus R 300 000,00 on top of that.
RESEARCHER: Can I summarise you. If your contribution had to up, right?

DE3: That’s right.

RESEARCHER: The total project cost would to go up. Did that render the development unfeasible after that? Because of the time delay which led to the cost increase, is that correct?

DE3: Yes, but throughout that process, one thing that I learned was at that point, when you go back to the drawing board and re-start the whole process. You will need to go tell the funders that, that project that you have been analysing for the past 4/5 months is no longer on the table. I am now bringing in a new project for you guys to start analysing it. You are effectively starting the process from scratch.

RESEARCHER: Yes, which is a further time delay.

DE3: Which is a further time delay, which in itself could take another 6 months which by the time you finished they analysis, everyone is done, you could be slapped with another cost increase.

RESEARCHER: I hear you. Now, let’s go dig deeper into time delay. Some developers have mentioned that the time delay aspect is significantly attributed to municipalities, the rezoning, the registration of the plans and all of that. Have you experienced that? If so, what have you experienced?

DE3: Throughout that process, that can take a considerable amount of time. Personally, I haven’t had to deal with the municipality approvals and stuff. I think on this current development that we are putting through financing process, I was lucky in a sense that we found an opportunity that has already been taken through that municipal approval process. When I look back at how long did it take the guys to get those approvals in place, it took plus/minus 3 years for everything to be in place. From that perspective, I do realise the time that it takes in practice to take a barren land and take it through all the zoning processes, it does take a considerable amount of time.

RESEARCHER: Besides time, what other challenges have you experienced in property development in getting the development up? Whether it was your previous one or the one you are with now, that you said looks successful. What other challenges besides time, cost delays, funding delays, capital requirements upfront and equity, a lack of knowledge which you’ve touched on, what other challenges have you experienced?

DE3: A residential development requires at least a minimum of 6 professional disciplines. From your structural engineer, your civil engineer, your fire engineer, your architect.

RESEARCHER: The professional team?

DE3: The professional team. It really tests your organisational skills as well as how well you negotiate with people. I’ll come to you, I’ll tell you about this development that I am still going to take through funding, but I will like you to be part of this development. I am asking for your credentials. To be part of this funding submission so that it boosts my chances of it being approved.
A lot of people in the industry call that, I don’t have the right term for it, but it is basically taking a risk on a project that you are not really sure if I will be successful or not.

**RESEARCHER:** Did you have trouble signing them to the project?

**DE3:** There are people who are supportive but there are professionals who it takes a lot of convincing for them to be part.

**RESEARCHER:** But for you yourself, with your development, do you find it an issue to sign a professional team on?

**DE3:** Absolutely, there are professionals that I had to send e-mails every 2 days and follow up with them and all I got was, I forgot about it, I will send it tonight. Eventually it didn’t come through. I wasted time on them and I had to go find other people.

**RESEARCHER:** It was another time delay.

**DE3:** Yes.

**RESEARCHER:** The reasons they gave for not wanting to commit, was?

**DE3:** There’s a lot of people out there who attempt to do developments who have approached these professionals previously and those developments, for one reason or the other, they were not successful. From their perspective, they felt that they were being used in the process. Their profiles, their track records were being used in vein. I am sure there is other people out there who take these profiles and use it for their dubious reasons. I think people are generally protective of their professional image and rightfully so.

**RESEARCHER:** Did you have to pay these professionals?

**DE3:** Fortunately, not.

**RESEARCHER:** They were doing work pro-bono based on the fact that you’d potentially get funding, is that correct?

**DE3:** The only professional who have done work pro-bono in this case is the architect.

**RESEARCHER:** In general, the other professionals who sign on, signed on pending funding?

**DE3:** At this stage, you don’t sign a contract committing to hiring. It is basically an understanding that should it be successful, they are the preferred professional team.

**RESEARCHER:** I am talking about that understanding.

**DE3:** Absolutely.

**RESEARCHER:** Based on that understanding, how important is your professional team to the success of the development?

**DE3:** It either makes or breaks the project.
RESEARCHER: In what way?

DE3: You need a professional team that is experiencing this industry. A professional team that has a very good track record. You need to do your due diligence on who you want on board as a professional team and obviously you want somebody with a good track record. Somebody that has undertaken successful projects in the past. Which goes well for this potential success of your project. You want the tried and tested.

RESEARCHER: If you were to weigh up the challenges that you have listed throughout this interview and just give them a level of significance or ranking as to which are the biggest challenges which have the biggest negative impact on your development? From time delays to the municipality to lack of knowledge to your professional team. Another thing you have mentioned was access to funding and the initial equity. Those challenges, if you were to rank the top 3 as in the top 3 challenges that could lead to the detriment of your development, what would you say those would be?

DE3: At the top of the list, starting out, is an entrepreneur. Capital would be at the top of your list because property, especially if, like the project I’ve done and after, if you are looking at R 45 000 000,00, that is quite a sizeable project.

RESEARCHER: So, access to capital?

DE3: Access to capital you are able to do things much quicker. A lot of people are also keen to help you out. Second to that, the first one, it could be mitigated though by finding partners that are interested in investing in you as a person in the long term. It mostly boils down to, can I trust you as an individual.

RESEARCHER: The second challenge?

DE3: The second challenge is lack of experience which speak to lack of knowledge of the industry. At times we underestimate how much of a role that plays into how soon you are able to completer your project.

RESEARCHER: How can that be mitigated?

DE3: It is also finding somebody who is well experienced in a project. To mentor you and guide you through the different phases and paint a realistic picture of what mostly you would like to happen and how long is that going to take.

RESEARCHER: Thirdly, what is the other challenge?

DE3: The other challenge is time and patience. I will say time in that as an emerging entrepreneur, in the beginning you have unrealistic expectations of what is about to unfold. Which could lead to you making hasty decisions like quitting your job and going to do this thing full time. You might expect that things within a year will be up and running. It could take 2/3 years for things to start working.

RESEARCHER: Do you think that time delay is because of a lack of knowledge in the industry?
DE3: There’s inherit time delay in the process. The processing itself, there’s a minimum time. Even if you had land that is ready for zoning, today. Let’s just say the funding process could on its own, take 6 months. For you to be able to deliver guarantees. That is inherent.

RESEARCHER: Is the proposition that other people overcome this time delay through criminal activities such as bribery, have you witnessed this in the industry as in the reason why some property developments are successful over others. Because they know who to pay at the right time to speed up this time delay. What is your opinion of it and have you seen it in the industry?

DE3: At a personal level, I haven’t experienced that. Where I have been required to cough up money to fast track things. Generally, from the news people do say such things. I will be naïve to think that is not prevalent in the industry.

RESEARCHER: If you could identify your competitors? Who would you think your competitors are? Your main competitors?

DE3: There’s a lot of players in this industry. There’s us, the emerging guys, the small landlords and there’s other big players in the industry. In my case, it is a mix of both, the other emerging entrepreneurs and the other big players in the industry. The biggest challenge in the residential space has been the introduction of listed residential property funds.

Those funds are playing in the very same space and we are all gunning for the same opportunity but the difference with them is that they got deeper pockets. They are able to sit down the developers and have a plan for the next 10 years and sign some big cheques, sign some guarantees, put them on the table, and I think in a way it has contributed to the acceleration of the price.

RESEARCHER: How do you overcome that, as a small developer?

DE3: As a small developer, we need to realise that collaborations and coming together not trying to do things on your own, is what will help us be more successful going forward.

RESEARCHER: Looking back, what would you have done differently?

DE3: Looking back I would have, when I started working, I would’ve saved more money, invested more money in property and partnered up with the right people but you never know that you are partnering up with the right people until things unravel.

RESEARCHER: What is interesting with your interview, you mentioned people and partnering up quite a lot. Is that correct to say that you’d find that was one of your significant challenges throughout the processes. Finding the right people to partner up with to make the property development process easier and a success? Is that correct?

DE3: That is absolutely right.

RESEARCHER: The right people, does that mean the funders, professionals, mentors, what does that mean? As in the “right people”?
DE3: It means everybody but most importantly, financial backers from your perspective and somebody that has knowledge of the industry that will hold your hand and help you navigate the landscape.

RESEARCHER: How do you envisage the entrepreneurial landscape changing in future? How do you hope to see it improve within the development space, SMME developers? What would you like to see more of?

DE3: More and more collaborations from the entrepreneurs. Some entrepreneurs tend to do things in silence. There’s no 1 person that has all the skills that are required to pull off a development. More collaboration from a skills perspective, from an idea’s perspective. Because my ideas alone cannot be better than 2 other people’s ideas. I think you’d be able to analyse and dissect the industry differently and be bolder and have more financial muscle to take on bigger projects. Build critical scales over time.

RESEARCHER: How in general do you overcome the setbacks that you encounter in development?

DE3: It is inherent in business that you are not going to be smooth sailing, there are ups and downs. Just like the economy. We experience recession, we experience recovery. It is part of the journey and you must enjoy every cycle because without the tough times, you probably won’t be in a good position to take advantage of the good times.

RESEARCHER: Let’s go back to useless, the challenges you have experienced, how did you overcome them?

DE3: Every time I encountered a difficult phase, it asked me to start questions some of the decisions that I’ve made, whether did I make the right decisions, did I have the right resources surrounding me? What do I lack? Where do I need to lift up in terms of knowledge, mentorship? Did I do a good enough research?

RESEARCHER: Did you go and seek that information? Did you go seek the right people? I am trying to find out what did you actually do?

DE3: What I will do is I will go back to my mentor and table what I am going through, the challenges that I am facing and what was my line of thought in taking those decisions. He will share his experiences and give advice. One of the things I say is you can never have 1 mentor that is all accomplishing. There are different aspects to property development which, mentors that you have, maybe not 2, not 3 but a couple of mentors.

RESEARCHER: Kindly summarise the key lessons that you’ve taken away?

DE3: From the whole experience?

RESEARCHER: Yes.
DE3: Throughout the challenging and the good times, one thing that you mustn’t forget to do is to enjoy the journey. That is what makes you a better entrepreneur. I believe that every entrepreneur had to start somewhere. You have to start where you are. The greatest thing that I’ve proven to myself is being able to take a decision and follow it through and not give up when times get hard. I look back now, it has been a good journey, the part 4 years I’ve really learned a great deal about property development. It has prepared me for the times I had.

RESEARCHER: Do you have any closing remarks or questions for me?

DE3: To all the other aspiring property entrepreneurs, don’t expect it to be easy. Expect to be thrown in the deep end. It is a difficult industry to break into, but I can assure you it is worth every tear and sweat. At the end of the rainbow there’s always that pot of gold.

RESEARCHER: Thank you very much for your time. I’d like to end the interview at 7:02PM.

[01:02:43]
NVivo Diagram Example