



**THE PERFORMANCE OF NON-CORE PROPERTY
ASSETS HELD BY A STATE OWNED ENTERPRISE:
A CASE STUDY OF TRANSNET.**

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DECLARATION

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ACRONYMS AND TERMS

CAPEX	-	Capital Expenditure
CREM	-	Corporate Real Estate Management
CV	-	Capital Value
GDP	-	Gross Domestic Product
DPE	-	Department of Public Enterprises
GLA	-	Gross Leasable Area
IDP	-	Integrated Development Plan
IFRS	-	International Financial Reporting Standards
IPD	-	Investment Property Databank
IR	-	Investment Return
IRR	-	Internal Rate of Return
JSE	-	Johannesburg Stock Exchange
MDS	-	Market Demand Strategy
MPT	-	Modern Portfolio Theory
NOI	-	Net Operating Income
NPM	-	New Public Management
NPV	-	Net Present Value
PFMA	-	Public Finance Management Act
PGI	-	Potential Gross Income
PPP	-	Private Public Partnership
PUT	-	Property Unit Trusts

PV - Present Value

REITS - Real Estate Investment Trusts

SAPOA - South Africa Property Owners Association

SOE - State Owned Enterprise

TR - Total Return

TRE - Transnet Rail Engineering

TFR - Transnet Freight Rail

TNPA - Transnet National Ports Authority

TP - Transnet Property

TPT - Transnet Port Terminals

TPL - Transnet Pipe Lines

WACC - Weighted Average Cost of Capital

Legislation

Broad Based Black Economic Empowerment Act 53 of 2003

Broad - Based Black Economic Empowerment Guidelines (June 2008)".

Companies Act, 2008

Constitution of the Republic of South Africa, 1996 (Act No. 106 of 1996)

Consumer Protection Act 68 of 2008

Government Immovable Asset Management Act No. 19 of 2007

National Heritage Resources Act (No.25 of 1999)

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ABSTRACT

This research looks at Transnet a State owned Enterprise with a key focus on how it manages its non-core property assets that are currently highly dilapidated and in a poor state of repair with resultant sub-optimal returns being derived. The non-core property portfolio of Transnet is immediately visible, by way of comparison, of their deteriorating condition as opposed to those in close proximity or surrounding them that are privately owned. Transnet is a Freight and Logistics state owned company that owns huge tracts of prime and well located land countrywide that are not optimally utilized and also holds a large property portfolio consisting of predominantly 'D' grade buildings that are currently physically, functionally and economically obsolete lacking constant maintenance or engagement in re-developments. Most assets were initially purpose built to support freight and rail logistics operations but have overtime become functionally obsolete due to changes in logistic chains operations, advancements in technology and nature of goods coming unto the railway system.

The current study was aimed at assessing the reasons as to why the non-core property assets are physically deteriorated and achieving below market related returns. The study establishes a framework for optimal management of non-core property assets in Transnet, with literature review establishing the correct approach to issues impacting real estate management such as finance, maintenance and facilities management, property management structure and systems, legislative framework guiding SOE's and corporate governance. Theoretical models have made important contributions to the formalization of certain problems related to management of SOEs and the need to improve corporate governance with a lot of research done in SOEs in China and Europe in general.

The key focus of this study was to establish the causes that have resulted in the non-core property assets being highly neglected and in a poor state of repair resulting in sub-optimal returns being achieved on portfolio. The results of the case study within a survey presented a divergent view of core property assets being better managed than non-core property assets.

The research methodology undertaken was a survey within a case study. The case study is Transnet and the target respondents consisted of personnel involved in the direct management of core and non-core property assets within the company who were interviewed and questionnaires were also used to gather research findings data. The secondary data was analyzed using quarterly asset management data and benchmarked with Investment Property Data (IPD). The research findings present a comprehensive list of challenges faced by Transnet in the management of non-core property assets with the greatest impact being the Public Finance Management Act and National Government Immoveable Assets Management Act which clearly stipulates that when assets no longer serve the core business they must be disposed of. It is also clearly evident that funding cannot be granted for property development projects that are not aligned with the core business of Transnet which is freight and rail logistics.

The study brings to the attention that capital investment and strategic decisions related to management of non-core property assets including legislation need to be reviewed. This will greatly shape the future of the non-core property business and its ability to manage its future operations financially viable and sustainable. Alternative sources of funding such as the Real Estate Investment Trusts on the Johannesburg stock exchange are other avenues that can be explored to raise capital funds for upgrading existing property portfolio or raising funds for property developments. The key focus on how the enterprise should behave, and what should be done is to make non-core property assets financially sustainable and viable for the business to achieve desired returns.

Keywords: Corporate governance, Investment, Performance evaluation, Stakeholders, State-Owned enterprises, Total Returns

Chapter 1 Introduction

1.1 Introduction

Transnet is a state owned company (SOC) wholly owned by the government of the Republic of South Africa (RSA) and is structured to provide transport and handling services through its five operating divisions, namely, Transnet Freight Rail (TFR), Transnet Rail Engineering (TRE), Transnet National Ports Authority (TNPA), Transnet Port Terminals (TPT) and Transnet Pipelines (TPL). State Owned Enterprises (SOEs) form one of the largest sectors of the economy in many African countries, and are important contributors to national development and provision of economic infrastructure. As major owners of large tracts of well-located land, SOEs are also important stakeholders and contributors towards supporting and promoting urban growth and development. Transnet as a SOE is mandated to contribute to the socio-economic development of SA through infrastructure development, job creation, small scale business development and job creation through its Market Demand Strategy (MDS).

Transnet's MDS is aligned to government's development objectives. The MDS is also a strategy to expand and modernise the country's ports, rail and pipelines infrastructure with a view to achieve a significant increase in freight volumes and revenue. The MDS project commenced in 2010 and was planned to run over seven years. As mentioned earlier the MDS is expected to create and sustain 584 000 jobs (Transnet, 2016). The coastline operations alone have a potential to contribute close to R177 billion to the country's GDP while creating up to one million new jobs by 2033, said President Jacob Zuma in the state of nation address (eNCA, 2017). Transnet ensures that its Freight and Logistics business attains more volumes so that it can improve its return on investments. Both volumes and revenue are critical for Transnet to attain its profits from its trains and ship operations. Transnet is a custodian and operator of South Africa's railway and Port infrastructure. The railway system accommodates demand for domestic and export transportation for coal, iron-ore, granite, agricultural products, automotive, container freight and all items requiring freight.

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Within Transnet Group is a Property Management division called Transnet Property (TP) an operating division mandated to manage non-core assets and handle disposals of certain non-strategic property assets to address safety and security risks, and to reduce holding cost associated with the unproductive assets. The commercial property sector is of considerable importance to the South African economy and also plays an important role as a physical and financial asset to investors. Transnet Property currently manages a portfolio of commercial and residential properties amounting to approximately R6.2 billion as at 1st quarter of 2017 (Transnet, 2017). The department also provides property services pertaining to acquisition of strategic sites required for the Transnet's Market Demand Strategy program. The portfolio is spread across South Africa and is currently serviced by regional offices in Johannesburg (inland), Durban (eastern), Cape Town (western), Port Elizabeth (central) and Carlton Centre with the head office of Property located at the Carlton Centre tower, which also accommodates the Transnet Corporate Centre.

The property assets held by Transnet are categorized as core assets (regulated), non-core (non-regulated) and investment Property as defined by the International Financial reporting standards (IFRS). Core assets serve the core mandate of Transnet which is freight and rail logistics with assets not servicing the core function being categorized as non-core assets which includes investment property. In terms of IFRS investment property are assets held by a company for income generation, capital appreciation and where the owner occupies less equal to or less than 25% of the total Gross Leasable Area (GLA). State owned enterprises (SOE's) in South Africa are deeply implicated in several fiscal problems because of their inefficiency, losses, budgetary burdens, and provision of poorly managed properties leased on the open market. SOEs have cost Government billions of Rands over the last five years with several SOC boards being dissolved and Chief Executive Officers being dismissed. "Government needs to retain its ownership of state-owned companies to ensure economic growth and create employment for generations to come, said Public Enterprises Minister Lynne Brown. In her budget speech for 2016-17 financial year, Brown emphasised that South Africa's parastatals, worth R908bn, are key strategic assets that need to be kept intact" (Minister Lynne Brown, Fin 24 April 2016).

Chapter 1 Introduction

Assets held under non-core are deemed to be achieving non-commercial objectives to the business. In general African governments are keen to privatise state owned enterprises because of their losses resulting from their inefficiency. The call for privatisation responds to the same rationale as nationalisation with a goal to introduce new capital in the system to sustain operations of such entities which are underperforming under state ownership. It is expected that privatisation could improve the performance and corporate governance of SOE's as indicated in the research done in SOEs in China. The key focus of the study is set out to best understand the challenges and causes of the poor performance of the non-core property assets held by Transnet that are currently physically deteriorated and achieving suboptimal returns.

1.2 Background to research topic

Transnet's core business of freight and logistics is impacted negatively as a result of the challenging economic conditions with a poor forecast of improvement anytime soon. The global economic outlook has weakened in recent months, led by a sharp slowdown in developing countries. The Outlook for South Africa economy has deteriorated with growth outlook projections at 1.1% for 2018 from 0.8% for 2017 according to RMB BER Business Confidence Index Quarter 1; 2018 report. The SA Economy advanced 0.8 percent year-on-year in the 3rd quarter below upwardly revised 1.3% expansion in the previous period which was the highest rate in two years (Trading Economics; 2018). Globalisation, changing markets and tighter margins has put pressure on assets regarding better management to make those assets work harder. As highlighted earlier in the introduction, the core business of Transnet is freight and rail logistics which has left the real estate component particularly non-core asset to be overlooked in terms of its contributions to the business in general. The non-core property portfolio is presently in a poor state of repair lacking consistent on-going maintenance. A major concern is the lack of upgrades to its existing property portfolio that is leased on the open market to address the issues of functional, economic and Physical obsolescence. The property management division of Transnet lacks a coordinated and consistent approach across the Group supporting operating needs and property lifecycle asset management.

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Transnet Property has no clear strategy on how to manage and maximize the value of its existing non-core property portfolio. Of the five operating divisions of Transnet, each operating division is a custodian to properties and all infrastructure required for their operational needs with varied strategies and mandates which is sometimes conflicting within the company.

Real Estate infrastructure in ports and railway logistic operations provides gates for growth of the company and SA economy in general. In our globalised economy the efficiency of ports and connections to the market they serve both play a decisive role. Transnet property division hardly engages in commercial property developments. Maximising developments of land with freight and logistics infrastructure along the railway line would result in relieving pressure on the Sea Port areas where land mass is fixed. SOEs play an important role as stakeholders and contributors towards supporting and promoting urban growth and development. Transnet is one of the state's largest land holders with land extent ownership measuring approximately 27,359,116.0m² (Transnet Financial report; 2017). Transnet's land uses are governed in terms of Section 13 of Legal Succession to the South African Transport Services Act 9 of 1989. The current slow growth rate in the economy and globally has put extreme pressure to reduce costs on most companies including Transnet. The current poor state of the property portfolio and sub optimal returns do not make it financially sustainable for the business and instead costing the company huge amounts paid on rates and taxes for assets that don't even generate sufficient income.

1.3 Problem statement

Transnet is a Freight and Logistics state owned company that owns huge tracts of prime and well located land countrywide that are not optimally utilized and also holds a large property portfolio consisting of predominantly 'D' grade buildings that are currently physically, functionally and economically obsolete lacking constant maintenance. Most assets were initially purpose built to support freight and rail logistics operations but have overtime become functionally obsolete due to changes in logistic chains operations, advancements in technology and nature of goods coming unto the railway system.

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Infrastructure inefficiencies cost the African continent billions of dollars every year and hamper economic growth and trade (Infrastructure Conference, 2017). The sums required to upgrade the infrastructure in relation to income are huge and has led to most of these properties being neglected. In the case of land this means lack of capital to pursue developments results in the inability to unlock the potential in terms of highest and best use for most of its sites which are strategically located countrywide. SOEs are important stakeholders and contributors towards supporting and promoting urban growth and development. As major owners of large tracts of well-located land, SOEs have significant power in shaping the urban landscape. The sub optimal returns achieved by the current deteriorated property assets represents a huge financial burden for the company. The disposals embarked on to meet the financial shortfalls have on one hand resulted in a shrinking property portfolio. The inefficiency of the property portfolio from a fiscal point of view results in high holding costs, losses and also the poor condition of the non-core property assets possess a safety risk as well as a negative reputation risk to the image of the company. With the challenges of a slowed economic growth there is a strong need to formulate measures to turn around the performance of Transnet's non-core property portfolio which is currently managed on an adhoc and fragmented basis without clear strategic direction or focus.

1.4 Research questions

From the above problem statement above a two-fold research question can be formulated:

- The first part of the question in this research seeks establish the performance and why the current non-core property assets held by Transnet are underperforming and highly neglected?
- Secondly, to uncover in detail and to what extent does Legislation, operational structure, corporate governance and funding models in Transnet impact on the better management of its current existing property portfolio and lack of engagement in property developments on its huge vacant prime sites?

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1.5 Research objectives

The primary objective of the study is to assess the performance and reasons why the non-core property assets are physically deteriorated and achieving below market related returns. To achieve this, the following sub-objectives are pursued.

1. To measure the performance of non-core property portfolio and the resulting sub-optimal returns.
2. Establish source of funding for capital expenditure (CAPEX), Operating Costs (OPEX) related to responsive maintenance and property developments.
3. Determine factors that have led to the highly deteriorated non-core property portfolio.
4. Determine the impact of corporate governance matters and legislative frameworks on the management of non-core property assets.

1.6 Research hypothesis

The research hypothesis tested in this study are:

- The core business of Transnet as a freight & rail logistics company does have a negative impact on the management of non-core property assets.
- Government being a major shareholder in Transnet has goals, mandates, and objectives that impact negatively on the effective management of non-core property assets.

1.7 Research methods

The study has two stages: first, a theoretical literature survey and second, a series of surveys for practical assessment current income returns on currently occupied and leased non-core property assets/investment property in Transnet.

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The above objectives will be achieved by the following research methodology:

- (a) A literature review of the matter pertinent to this study
- (b) Interviews with the National Asset Manager, Regional Managers and Portfolio Managers to establish the performance of their properties in their Region and challenges faced to improve returns of their portfolio under management.
- (c) Select case studies of how alternative structures to be investigated can improve Investment returns on non-core assets and formulate funding models for raising funds for CAPEX and developments.
- (d) A review of the various legislative framework that impact on property and how they affect property holdings in SOEs. Legislation to be reviewed i.e. Heritage Act, Public Finance Management Act (Act 1 of 1999), Prevention of Illegal Eviction from and Unlawful Occupation of Land Act (Act 19 of 1998), Municipal bye-Laws, South African Transport Services Act (of 1989 section 13(2a)), State Land Disposal Act (Act 48 of 1961), Occupational Health & Safety Act and the National Environmental Management Act.
- (e) Analysis and Interpretation of data
- (f) Conclusions and recommendations.

1.8 Significance of study

By way of reviewing the performance of Transnet's non-core property portfolio and causes leading to deteriorating condition of assets, this study will provide recommendations on how to improve the condition of assets and performance. The solutions in this research will greatly help Transnet and all other SOEs with similar property portfolios' to optimize returns on their usually neglected non-core property assets which will also enable their property departments to be financially viable, profitable and sustainable. In the area of financing CAPEX projects, redevelopments and refurbishments, capital raising ventures explored in this research will provide solutions that can enhance the performance of non-core property portfolio's and improve their investment returns.

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The study also aims to mitigate and provide solutions to issues affecting state owned enterprises in South Africa related to good corporate governance and how they impact on corporate real estate management decisions. The result of this study is expected to enhance the knowledge on how state owned enterprises can best manage their non-core property portfolio's and improve on corporate governance issues related to property matters. This research will broaden the knowledge of issues related to corporate real estate management in SOE's who are the largest land holders in South Africa to fully optimize their prime land holdings for developments, improve performance of non-core property assets and create awareness on the role real estate can play towards the financial contribution of the SOEs and economy of South Africa at large.

The study becomes relevant in light of the high level of poorly managed properties in SOEs that lack major upgrades and basic maintenance and large tracts of prime vacant land that are not put to optimal use by engaging in property developments. Public enterprises are seen to be less efficient and less profitable than private enterprises that are highly profit driven. The most obvious comparison and convincing test are the differences in the quality of the property portfolio held by Private Listed Property funds and SOE's in South Africa an area which this research wishes to address.

1.9 Chapter outline

The dissertation was designed to follow the following structure of chapters:

Chapter 1: Introduction

This chapter looked at the introduction on research topic and back ground, with problem statement, research questions, research objectives and questions, and hypothesis test presented in this section.

Chapter 2: Literature Review

This chapter looked at property management theories; these basically comprise the literature and other researches done with findings contributing to the theories and practices of corporate real estate management. This chapter will also look at a discussion of previous studies related to REITs, corporate governance, legislation

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governing SOEs, performance evaluations and management of non-core property assets held by State Owned Enterprises.

Chapter 3: Research Methodology

This chapter is an elaboration of the research methodology adopted for the research study and the aspects of the research that it will cover.

Chapter 4: Findings and Analysis

This is a presentation of the findings from the adopted research methodology and literature review.

Chapter 5: Conclusions

The conclusions and recommendations are drawn from the critical literature review and presented in light of the theoretical literature review. They outline the outcome of the critical analysis too used in the current research.

Chapter 2 Literature review

2.1 Introduction

This chapter looks at the theoretical aspects looking into the property asset management conceptual framework and in that regards, critically analysing the causes of poor performance of the non-core property portfolio held by state owned enterprises a case study of Transnet. The non-core property portfolio of Transnet is immediately visible, by way of comparison, of their deteriorating condition as opposed to those in close proximity or surrounding them. It is argued that SOEs have been unable to motivate the firms in its portfolio to attain competitive standards in terms of efficiency, productivity, innovation, and orientation towards consumer (Estrin, 1994:1). Due to government being a major shareholder, SOEs are often used to serve non-commercial objectives and strategic asset management prove to be less common than we see in the private and listed property sector. There is no credible threat of bankruptcy in SOEs as they are frequently bailed out by government. It must however be acknowledged that asset management and portfolio management have a considerable impact on property portfolio under management.

The literature presented seeks to outlay the importance of constructing measures that can help improve optimal returns of non-core property portfolios held by Transnet. The literature also looks at funding models that would address the needs for capital to engage in property developments, improve conditions of the buildings and contribute to the overall budget of Transnet group. The subject of corporate governance lately has been looming amidst high level of concerns about how poorly most SOEs are managed in South Africa. The literature on corporate governance intends to provide a broad understanding of the general principles that pertain to governance, risk and compliance and how they affect real estate management. The research aim to collaborate research matters related to corporate governance in corporate real estate management in the area of property performance measurement. The literature in this chapter broadly looks at topics closely related property assets under management such as property management theories, sources of finance, maintenance and facilities management, and corporate governance issues in state owned enterprises.

Chapter 2 Literature review

2.2 Key Concepts

Property Management - Property management, is concerned with “daily” administrative, technical and commercial management as well as maintenance activities”

Portfolio Management - Focusses on executing strategy, maximizing returns and enhancing property value.

Asset Management - Asset management focusses on increasing income, reducing expenses, improving property value, in short term maximizing returns and property value.

Property maintenance - Property maintenance is defined as ‘work,’ in order to keep, restore or improve every part of a building fabric and its services and surrounds, to a currently accepted standard and to sustain the utility and value of the building.

Facilities Management - Facilities Management can be defined as the integration and alignment of the non-core services, including those relating to premises, required to operate and maintain a business to fully support the core objectives of the organisation.

2.3 Property Asset Management in State Owned Enterprises

Property assets, that is land and buildings, are a key resource for all types of organizations. In the same way as other resources i.e. human capital, financial and information contribute to the success of these organizations, so does the property resource. Public Asset Management on one hand ensures that immovable property owned and/ or utilized for delivering various government services yields functional, economic and social benefits (Department of Public Works report; 2014). Public Asset Management - Is the discipline of sustaining public infrastructure and facilities such as airports, bridges, waterways, electric grids, parks, ports, mass transit systems, schools, public spaces, railways, roads, waste systems and water supplies. It is further defined as the process of decision-making and implementation relating to the acquisition, use, and disposition of real property (Wikipedia).

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Public sector asset management first came into the spotlight in the early 1980s. Public assets are assets owned by the nation or state and form a large portion of public wealth (Zimmermann, 2008: online). Government entities are constantly seeking for ways to better manage their properties and reduce operating costs. From a broad perspective, the task of a public property asset manager can be likened to that of a private organization holding a mixed portfolio of properties though the general perception is that the private sector is always more efficient and profit driven. According to the Ceri Davies report (1982) on central Government office accommodation and the Audit Commission report on Local Authority property, issues of under-use and a reactive approach to asset management are all highlighted. "Property asset management has been a focus for most governments and in Australia and New Zealand radical public sector reform resulted in significant changes in accounting conventions, reporting practice and ownership flexibility, with a loosening of the hitherto tight controls over the way the public sector managed assets and capital. The reforms changed the control parameters for the cost of capital, ownership of property and management standards, resulting in a 'market' approach to the way public sector operations were managed" (Jones and White, 2008: 71).

These reviews provided a platform for major process of improvement and a search for new and better ways to manage the valuable public sector resource and asset base: property. It is acknowledged that, not only is large amount of capital devoted to these assets, they can also add value to an organization through effective and creative management. It is greatly believed that the real estate management in private companies does greatly differ with SOEs when it comes to property performance management and needs to be molded to specific requirements of organisations requirements. Typically, management of public property is highly fragmented with each category falling within a different jurisdiction or bureaucracy, or even with different policies and procedures within a given bureaucracy. Real estate management seeks to advise on the establishment of an appropriate framework within which to achieve the set out objectives of the property owner/investor and particularly to have regard to the purpose for which the investment in real estate is held.

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Property asset management requires staff experienced in the legal, financial and technical aspects however this is mostly overlooked in government entities as the perception of property management only narrows down to collection of rent. Most of Transnet's property portfolio was purposefully built many years ago to cater for the freight logistics operations but over time these buildings were left abandoned as some rail operations closed up. This led to conversions in use of these buildings and offloading them to lease on the open market. Historically the Public Sector did not place much emphasis on the principle of cost versus benefit, largely due to the system of recording income and expenditure, which accounted only for the movement of cash, which in turn led to the misconception that the use of assets once paid for was "free", or without cost (Public Works Asset Management Framework report; 2004). Partly, this has attributed to the neglect and dilapidated property assets held by government entities.

In the Public Works Asset Management Framework report (2004), it is stated that assets held by the department that have become obsolete as they age due to replacement of in the market by more technologically advanced items, may continue to provide economic service to its user(s) but at a less effective or economic rate than a newer model. For many years in the 1990s, cities municipalities in the former Eastern European bloc, for example, sold off properties they no longer wished to hold or manage (such as restaurants and industrial factories) and redeployed the assets to finance a significant part of their infrastructure capital budgets consisting of water systems, wastewater treatment facilities, and road upgrading (Eleanor, 2001).

According to Eleanor (2001), local governments hold huge portfolios of properties but are unprepared to deal with multiple issues related to the role of property owners and good practice in property asset management due to their diversified roles in provision of public services. According to the a literature review by Glore (2001), the United Kingdom, Canada, New Zealand, Australia, the Netherlands, Sweden, and in some respects, the United State are considered the most advanced implementers of New Public Management (NPM) which has helped better manage public assets. Reforms in property asset management belong to a realm known in public administration literature as New Public Management (NPM) which has emerged over the past two

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decades as the dominant public administration model (Glore 2001, OECE 1995). Much of the impetus for reform has come from recognition of the large amounts of wealth tied up in the public-sector real assets and the income or cost-savings to be obtained by changing management practices. The most commonly identified elements in the literature include the implementation of such key initiatives as;

- Improved performance (especially financial efficiency and cost-effectiveness), supported by performance monitoring and incentives;
- A redefined and reduced role for the public sector in the economy including privatisation or commercialisation of previously public enterprises and services, increased contracting, and application of private-sector management approaches to the public sector;
- Separation of policymaking and service delivery functions;
- Decentralisation or devolution of service delivery functions;
- Decentralisation or devolution of service responsibilities from higher to lower levels of government;
- Greater managerial flexibility in financial management; and
- Greater accountability and transparency in government operations.

There is widespread recognition of the need to better manage state owned property in most cities in the world. Better practice in asset management suggests, for planning purposes, management should have an indication of the future demand on resources for replacement of existing assets.

2.3.1 Relevance of systems approach to real estate management in SOEs

One of the necessities of an exemplary property-management team, is the ability to provide a well deployed structure which is systematic and well documented approach towards provision of property management services. Property Management needs to be performed in a structured and systematic manner so that each element of the property management responsibility is implemented in a comprehensive (that is complete) manner which integrates with other respective elements. Within the process of managing buildings, there are a number of procedures which when reduced to systems, take an uncertainty out of the tasks related to property management and

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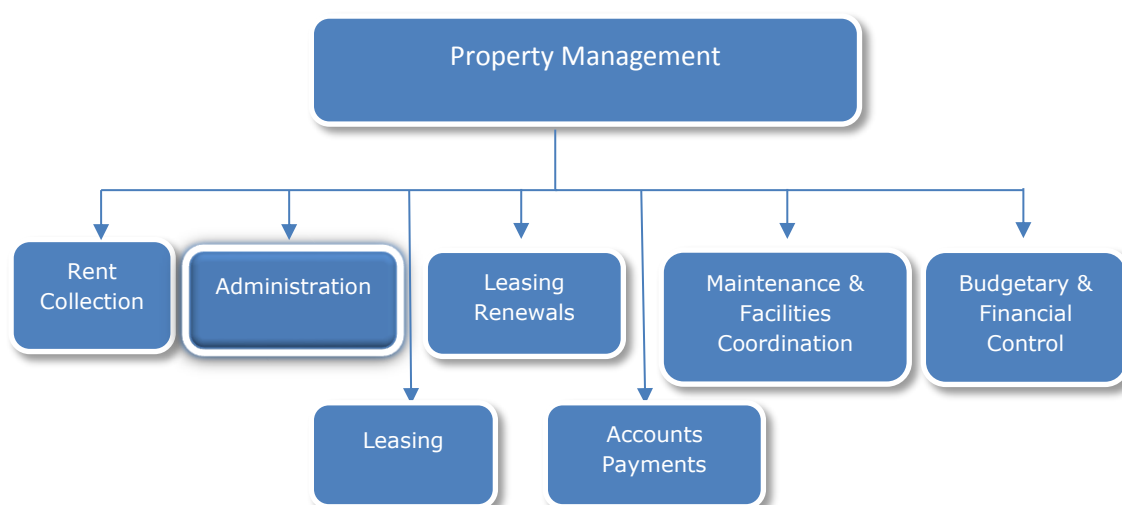
leave more time for property managers to think laterally about enhancing the value of the property portfolio under management. One of the most significant advances in government property asset management resulted from recognition that the methodology used by private-sector, non-real estate corporations (i.e., corporations whose main business is not real estate) for managing their real property offered a valuable prototype for local governments (Simons, 1993). The inherent traditional approach by government entities of rent collection approach to some degree leads to lack of execution of a systems approach.

According to (Courtwell Consulting, 2015: 8), the benefits of systems approach are numerous and include;

- I. Ability to benchmark profitability & service delivery
- II. Appropriate training to personnel
- III. To provide structure, coordination and comprehensiveness to services being provided to property owners and investors
- IV. To ensure and exemplary level of professionalism throughout a property management division.

In accordance to the ideal systematic approach towards property management, the work of a property manager is divided into seven functions as follows;

Figure 2.1: Property Management Functions



Source: Courtwell Consulting (2015: 7)

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The systems approach maintains an overview of short term goals which entail addressing the aspects of day-to-day management, requiring the exercise of good deal of technical, financial and legal knowledge. At the same time it maintains an overview of the longer-term prospects and opportunities of maximising rental and capital growth. Property Management teams in private and government entities will likely display differences in the quality of management due to the uniqueness of their property portfolios' and objectives set, hence there can be no ready template. According to Boshoff and Maletswa (2015) in their research article findings, it is clearly indicated that Department of Public Works (DPW) in their leasing management of their residential portfolio is not in line with best practices. The article further investigated current best practice in leasing of residential property and evaluates the applicability of these practices to the DPW, as the landlord, when letting out surplus residential properties.

In South Africa, the DPW at national level is mandated to be the main custodian of state owned immovable property, which includes functional specialised accommodation, land parcels, office accommodation, and residential accommodation (Boshoff & Chidi, 2013, P3234). Just like non-core property assets, the residential portfolio that no longer services government departments (referred to as user departments) to house their employees is returned DPW and classified as surplus state-owned residential properties in the DPW's portfolio (Boshoff & Maletswa, 2015:P23). The department has a long history of negative audit findings related to weaknesses in the management of state-owned assets. 'Transparency International' in their published report of 2017 have shown that poor state of structures for oversight of SOEs, and weak governance and management systems have led the way for politicians and public officials to intervene improperly in the running of SOEs. As business organisation owned by the government, state-owned enterprises faced with bureaucratic work patterns (Sanushi & Pel, 2016:P19). Benchmarking is a key performance measurement tool that allows organisations to achieve added value and "superior performance" (Camp, 1989). Property can also be examined from three different aspects: as a physical asset, as a financial asset and as a place within which some organisation activity takes place. Each of these views gives rise to different management objectives and issues. Most SOEs in South Africa have adopted the

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approach to property management as merely rent collection and responsive maintenance with not much effort being deployed to manage their assets properly.

2.3.2 Building Maintenance and Facilities management in government entities

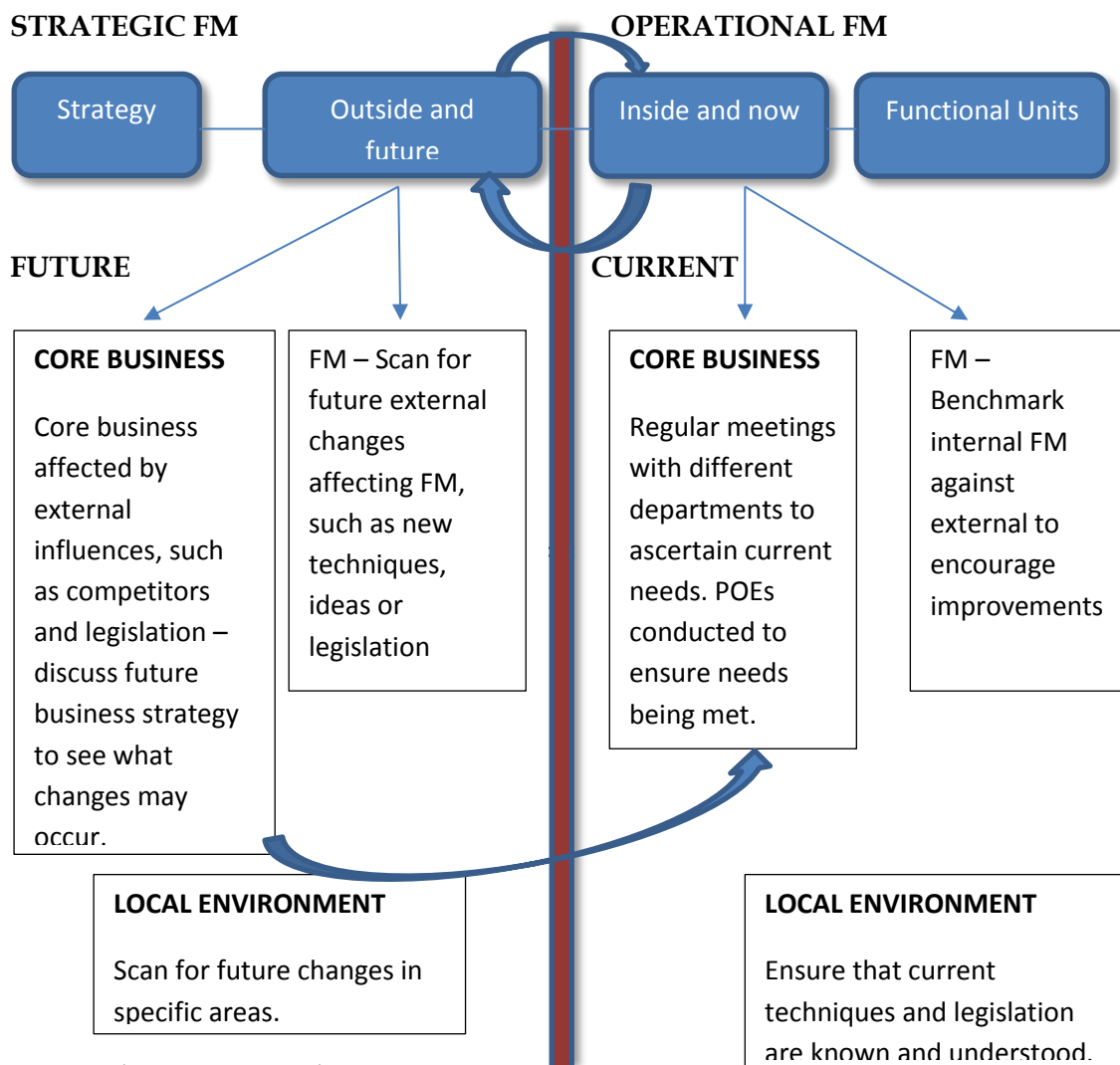
In addition to the initially highlighted definition of property maintenance, (El-Haram, 1997:437) states that, "it includes improvement, refurbishment, upgrading and repair works to the existing facilities". According to Cloete (2001), in his citation of Mcduling (2000), the most persistent and pressing maintenance problems in the South Africa provincial government sector are; a 'lack of accurate and reliable information on the current condition and maintenance requirements of building fabric and elements". He states that accurate information is a requirement for cost-effective building maintenance with regards to the fabric and elements, and these can only be determined through physical condition assessment audits. Planning and managing asset maintenance show particular complexity, since the system to be regulated and controlled is characterised by a multiplicity of subsystems, with their mutual relationships and multiple functions and subjects involving planning and carrying out maintaining actions (Daniela and Michele, 2010:37). Building management is often related to innovative strategy and future sustainability.

Facilities Management can be defined as the integration and alignment of the non-core services, including those relating to premises, required to operate and maintain a business to fully support the core objectives of the organisation. Facilities management has developed from its technical source to become more of a management discipline. Financially sound decisions about assets become more important in protecting the assets and improving its value to corporations. A clear distinction is set out between building maintenance management and facilities management; for example building maintenance management deals with mostly building maintenance or dealing effectively with customer complaints, whereas, facilities management is more recognised to be a strategic business tool. Facilities management ensures costs are reduced, raise quality and therefore productivity in the workplace. Facilities management emerged with the integration of three main strands of activity: property management, property operations and maintenance and office administration (Kincaid, 1994). More significantly it established a focus on the management and

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delivery of the business “outputs” of both these entities; namely the productive use of building assets as workplaces (Varcoe, 2000). Facilities management provides “an umbrella term under which a wide range of property – and user-related functions may be brought together” (Spedding 1991:294). The diagram below shows how facilities department in an organisation interacts with both core business of the organisation as well with the external environment. It is always critical to distinguish between operational facilities management and strategic facilities management.

Figure 2.2: Model for Facilities Management



Source: (Barrett 1995:41)

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2.3.3 Building Maintenance Management

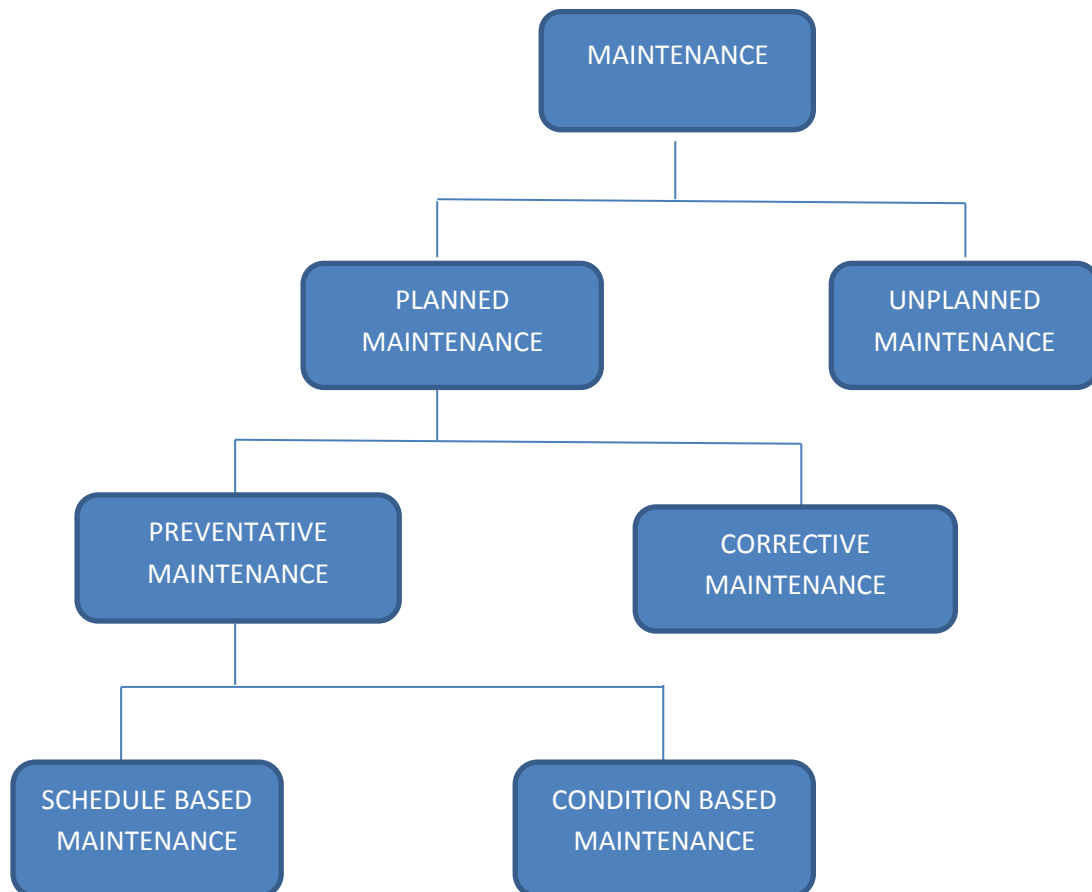
Building maintenance management can be divided into two categories – first, the building itself as tangible assets and secondly, in terms of facility management as intangible asset (Azit, 2009). Both of these require a holistic management, proper planning and budget to realise the company's requirement and to create a conducive working environment. Maintenance can be planned, responsive or ad-hoc. Most organisations use a combination of the three. Planned maintenance is the systematic inspection of buildings, equipment and all assets within an organisation, the objective of which is to maximise their economic life and utility. Planned minor repair or routine maintenance e.g. cyclical maintenance, planned replacement of sub components. A planned maintenance system anticipates failures and sets in place appropriate procedures to prevent or rectify these. As illustrated in figure 2.3, planned maintenance can comprise preventative maintenance and/ or corrective maintenance. Planned preventative maintenance can comprise schedule and /or condition based maintenance. Planned maintenance is subject to a strategic plan and is a process of using strategic plan to replace things before they fail as opposed to correcting them after they have failed. The state of buildings' lifespan can be enhanced through the practical application of appropriate maintenance procedures.

According to (Galpin and Gosden, 1999:8), objectives of planned maintenance can be considered as follows:

- Clear evaluation of condition of the stock.
- Definition of maintenance standard.
- Calculation of a realistic budget plan.
- Definition of resource requirements.
- Establishment of reliable planning and management information.
- Establishment of control of workload.
- Calculation of monitoring performance against targets.
- Calculation of design performance.
- Indication of a logical procurement timetable.

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Figure 2.3: Property Maintenance Schedule



Source: (Galpin and Gosden, 1999)

Responsive or unplanned maintenance is the minor repair or routine maintenance undertaken in response to a request from a tenant. New maintenance techniques and approaches (preventative/proactive maintenance) allow the maintenance to be performed in a more cost effective manner in comparison to the reactive-based maintenance approaches (Kit-fai et al: 2002).

According to Cloete (2001), there are three main benefits of a good maintenance programme.

- I. Preservation and enhancement of property value.
- II. Tenant retention.
- III. Reduced operating costs.

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Neglected maintenance can cause the greatest loss an owner can suffer on a real estate investment (Downs 1991; 154). If, however a comprehensive maintenance programme is established, the property's value will be preserved and enhanced during the course of normal operations' (Cloete, 2001). Cloete (2001), further argues that tenant satisfaction is due to the standard of maintenance of the building which will also result in lower vacancy rate and reduced expenses for turnover of rental space. With regards to reducing operating costs (Cloete,2001), states that apart from reduced maintenance and repair costs of a planned maintenance programme, other operating costs like electricity, insurance premiums, rubbish removal and the like may be reduced. In general, adopting some of the following strategies could reduce maintenance costs according to El-Haram and Horner (2002):

- “reducing the number of maintenance tasks by selecting the most applicable and cost effective maintenance strategy;
- Reducing the duration of maintenance tasks by increasing accessibility, planning maintenance resources in advance and training of maintenance staff;
- Designing new buildings with low maintenance (e.g. taking into account reliability, durability, maintainability and whole life costing at design stage); and
- Reducing or controlling the impact of the factors which have an effect on maintenance costs.”

Maintenance work of a building is often neglected due to lack of understanding of the need for maintenance and of the real long-term effect of maintenance expenditure on the income and expense account of the building. Ring (1967) argues that the managers pride and concern about high-quality service generally invites tenant cooperation and stimulates “proper building use, rather than abuse”. He further states that tenants, by and large, are reasonable in their demands and complaints, and where these are voiced, prompt attention should prevail irrespective of how unworthy the manager may think the request is. In a paper aimed at describing the objectives of building maintenance and the principal elements of housing maintenance cost, a study of which was done in the UK, El-Haram and Horner (2002) state that for many building owners, local authorities and housing associations, building maintenance costs are rising

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rapidly and that the facts that supported the rapid increase in building maintenance costs in the United Kingdom were as follows:

- “total spending on building maintenance in the UK has increased by 66 per cent in the last ten years (BMI, 1996a);
- Repair and maintenance of building stock represented over 5 per cent of Gross Domestic Product, or £36 billion in 1991 (BMI, 1996b); and
- Repair and maintenance output is expected to increase by 43.6 per cent between 1989 and 2001 (University of Reading, 1990).”

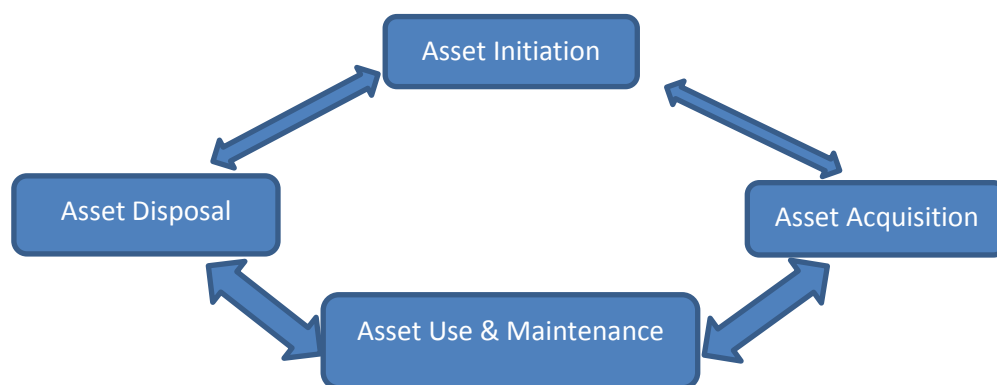
They further explained that the above figures clearly demonstrated that the rate of building repair and maintenance cost in the UK would grow since then and maintained that other countries showed a similar trend. And any significant reduction in these figures would therefore have a desirable effect not only on the construction industry, but also on the national economy. According to Cloete (2001), in his citation of Mcduling (2000), the most persistent and pressing maintenance problems in the South Africa provincial government sector when it comes to budgets, is inaccurate budgeting for and under-funding of maintenance work. Building maintenance budgets are highly underfunded in South Africa, as reflected in the sad state of many of the buildings in their portfolio. Because it is difficult to quantify the costs of neglect and the general belief that preventative maintenance can easily be post-poned until budget constraints may be less tight, maintenance work has always being subject to budget cuts. Economic inefficiencies, including physical and economic underutilisation and insufficient maintenance and repair stem from the fundamental belief, even in capitalist economies, that real property held by government is a “free good,” owned by the taxpayers, and not subject to the same economic rationalisation that occurs in the private sector (Eleanor, 2001). It is always the most difficult exercise to make a building maintenance cost assessment whether it’s for planned or unplanned maintenance. Most research findings shows that maintenance is not carried out according to actual need, but are based on the allocated budget without making a careful evaluation of the actual needs of maintenance work (Abdul-Ghani *et al*; 2011). Poorly managed maintenance costs are a first step towards failure of an investment portfolio. The higher the maintenance cost history can indicate to management how

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fast the asset is deteriorating. A reduction in costs results in an increase in gross profits. Building maintenance has always been short-funded in South Africa, as reflected in the sad state of neglect of many of the buildings particularly the ones held by government and municipalities. Most government entities including SOEs hardly carry out maintenance of all of their buildings in the early stage so that they can reduce the cost of maintenance and to avoid risk of higher maintenance cost due to negligent through time. This is as a result of less attention been given to building maintenance management and it is very rare to see research carried out on the subject of maintenance expenditure, funding, or financial budget of maintenance work. In public sector, it is known as the biggest obstacle and also resistance to change.

Building maintenance management is often being related to innovative strategy and future sustainable. Two things are highlighted here; that is asset management and on the other hand building asset management. Both these two elements need cost assessment and budget allocation in the success of their activities. Asset Management in this instance looks at the process of guiding the initiation, acquisition, use and maintenance and disposal of assets; to make the most of their service delivery potential and manage the related risks and costs over the full life of the assets as illustrated in figure 2.4 below. Asset life cycle behaviour is divided into two key parameters as (i) functionally and (ii) Utilisation (Hameed, 2007). It is essential life-cycle asset management systems of assets under management to overcome the problem of inefficiencies.

Figure 2.4: Asset Life Cycle



Source: (Hameed, 2007)

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2.4 Strategic management of Public Sector Assets

In business theory the “strategic” aspects of asset management can be related to the level in the organization at which the management activities are performed and to the approach that is followed in drawing up policy (Nieboer, 2005:25). Anshoff (1984) defines strategic management as “a systematic approach for managing strategic change”. In his definition for strategic planning, Anshoff defines strategic planning as a systematic procedure for management which anticipates the challenge and prepares its responses in advance, based on examination of novel alternatives”. Strategic management is the continuous planning, monitoring, analysis and assessment of all that is necessary for an organization to meet its goal and objectives. Public asset management goals according to Forrester (1988), is to maximize real estate value, minimize real estate costs, and in the process advance the public good (via better urban design, or creation of jobs through construction or enterprise location, for example).

Awareness of competitive markets and constraints become a necessity as can be seen in approaches and methods such as “strategic business planning”, “portfolio analysis”, “benchmarking” and “balanced scorecards”, which are used to evaluate the performance and assets and to help develop management policy (Nieboer, 2005:23). If organisations are going to attempt to develop a strategic approach, they will need to identify the possible cause or causes of these shortcomings. The boundary between the public and private sectors is neither clear nor permanent. In some cases the boundary is well defined: assets get transferred from the public to the private sector through privatisation; assets that remain in state ownership are clearly public. In this literature the public sector addresses those parts of the economy that are either in state ownership or under contract to the state, plus those parts that are regulated and/ or subsidised in the public interest. Private, commercial property investors have also faced financial and market pressures for a long time hence the need for investment strategies.

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In executing real estate strategies it is essential to establish key portfolio objectives as indicated below;

- Occupancy cost minimisation
- Space planning
- Tenant mix
- Maximise value

2.5 Asset classification of Core and Non-core real properties

According to the Government Immoveable Asset Management Act No. 19 of 2007, Management of core and non-core property assets in state owned enterprises has to be in line with government policies as the state is the custodian of these assets. This legislative Act is further discussed in this chapter under legislation impacting SOE's provides a uniform framework for the management of the immoveable assets held by state organs which includes national and provincial departments (Wendy Ovens and Associates, 2013; P14). Core property assets as defined earlier in the introduction are those assets that support main operations of a business organisation. Property assets that are no longer required for the operation of a business; they are usually sold off when the need for income arises for a specific venture the company wants to embark on or to pay their debt. The Act under section 5 provides some guidance on when property may be deemed non-core by stating that "an immoveable asset must be used efficiently and becomes surplus to a user if it does not support its service delivery objective at an efficient level and if it cannot be upgraded to that level".

Deciding what assets are non-core is subjective, in other words, it differs for different companies depending on the business nature of the company. The main purpose behind real estate core allocations is to buy a real estate that supports core business operations and for institutional investors in real estate to ensure over the long term assets generate stable recurring distribution yield (Mercer Report; 2018. P1). Core property assets for the listed property sector according to Mercers report (2018), consider this category the most defensive-category comprising of high quality properties in the traditional property sectors (office, retail, industrial, and rental apartments) that are generally well-leased (to high quality tenants) and ideally located.

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However, firms are faced with many real estate decisions besides tenure choice (Gibler and Lindholm, 2012. P25). Real estate decisions have direct financial impacts on corporate performance as well as indirect influences through accommodating core business activities (Krumm and De Vries, 2003). According to Kristina Safarova in the Ivey business journal (2013) states that; “Turning around a State-Owned Enterprise (SOE) which is a significant contributor to the national economy would be like fixing an airplane’s engine in mid-flight: the conventional rules do not apply since risks are so high”. Turning around iconic state-owned enterprises has a perennial challenge of governments around the world. In PWC’s CE Pulse survey done in January 2015, private sector CEOs believe that government ownership has advantages in certain circumstances e.g. furthering social outcomes, providing physical infrastructure and creating stability in times of crisis within and across supply chains. SOEs are often used to serve non-commercial objectives and strategic asset management prove to be less common than we see in the private and listed property sector. Discussions about improving SOE performance are not new. If firms want corporate real estate resources to add value to the firm, they must align corporate real estate strategies and decisions with core business strategies (Gibler and Lindholm, 2012. P25).

2.6 Funding State-Owned Enterprises and Financing of real estate investments, and developments.

South Africa’s state –owned enterprises (SOEs) are in a dire state and in urgent need of a lifeline (Mutize, 2018:P1). The Minister of Finance Tito Mboweni in his 2018/19 Budget speech stated that SOEs pose a “very serious risk” to the fiscus of South Africa as a result of the deteriorating financial position of several large SOEs (Fin24,2019). The situation at Eskom and other SOEs has been cited as one of the main reasons for the credit downgrades inflicted upon South Africa (IOL News Article, 2019). There is little doubt that constant government bailouts have not helped the situation to date. The most recent bailout is that of cash strapped South African Airways (SAA) which received a 2 billion rand rescue from state-owned Development Bank of South Africa (DBSA) which was announced on 31st January 2020 (IOL News, 2020).

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The Minister of Finance in his 2018/19 Budget further stated that there is an increase in funding requests for SAA, SABC, Denel, Eskom and other financially challenged state-owned enterprises (Fin24, 2019). By end of 2015/16 combined government guarantees on debts owed by the state owned enterprises had reached R467 billion (equivalent to US\$3.1 billion) and were expected to reach R500 billion by 2020 representing 10 percent of South Africa's GDP (Wikipedia, 2020). Government is also running out of options for funding sources as the demand for parastatal bailouts surge.

SOEs have a long history of non-performance in the delivery of services and faced with lots of budget constraints. However, state support for SOEs should be calibrated to additional cost associated with the related public service obligation due to government being a major shareholder, SOEs are often used to serve non-commercial objectives. In South Africa the Department of Public Enterprises is the shareholder representative of the South African Government with oversight for state-owned enterprises in key sectors. According to the OECD report (2014:P10), this is very challenging for SOEs as it is very difficult to establish a structural separation between commercial and public policy activities. SOEs in South Africa and most other countries worldwide are mandated to contribute to the socio-economic development of their countries through infrastructure development, job creation and small scale business development.

State funding is often provided for SOEs in majority of countries, usually to compensate for public service obligations. "Commercial loans are by far the most prevalent form of debt financing, with a few large SOEs also issuing tradable debt securities. According to the 2018/19 Budget Review, Finance Minister Mboweni stated that government guarantee use increased by R51.5bn with government spending R50bn to power utility Eskom, R1bn to arms manufacturer Denel and R6.2bn to national carrier South African Airways (SAA) (Fin24,2019). In a minority of countries, SOEs can (or must) access debt finance from the state treasury" (OECD Report, 2014: P10).

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In the 2018/19 Budget review Treasury identified five SOE's as posing a fiscal risk (Fin24, 2019).

Top Five SOEs identified by Treasury as posing a fiscal risk

1. Eskom

Eskom had R350bn government guarantee facility of which a total of R255bn had been used by the time the mini budget was delivered. Eskom closed the 2018/19 financial year at R1.7bn loss.

2. Denel

Denel had R3.4bn government guarantee facility of its five years of which a total of R2.8bn had been used by the time the mini budget was delivered. Denel closed the 2018/19 financial year at R20bn loss.

3. SAA

The national airline had R19.1bn government guarantee facility of which a total of R14.5bn had been used by the time the mini budget was delivered. Its debt of R14.2bn was to mature at end of March 2019 and government had allocated R5bn for 2018/19 to help the airline repay its debt, Treasury stated.

4. South African National Roads Agency Limited

Sanral had R38.9bn government guarantee facility but due to the agency's inability to raise revenue from e-tolls, only R5.8bn was offered by government.

5. Road Accident Fund

The fund's operational deficit declined from R35bn in 2016/17 to R26bn in 2017/18 financial year.

As highlighted above there is a significant risk to government and the fiscus of South African economy. The Infrastructure report 2018 for Queensland Australia shows that state and local governments "typically have a more rigid bureaucratic administrative structure and not required to generate profit (www.build.qld.gov.au).

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To maintain competitive neutrality, the conditions of SOEs of which most are monopolistic in nature require recapitalisation from the public budget to be consistent with private sector practices. Good financial governance of SOEs is key to ensuring that they create value for their owners and, ultimately, that they contribute to an efficient allocation of capital resources in the broader economy. Many Southern African economies have placed SOEs at the centre of their national development strategies.

2.6.1 Property Investment funding in state owned entities

Investment decisions in real estate are a function of interest rates, expected returns, risk and the confidence that the investors have in the local economy. With growing concepts of globalisation, diversification of investment portfolios for firms is becoming increasingly crucial to market economies because of its wider contribution to efficiency, growth, employment, innovation and productivity. Property investors often rely on debt to finance their investments (Cloete, 2005: 16). The property portfolio for Transnet is categorized as core assets (regulated), non-core (non-regulated) and investment Property. Core assets serve the core mandate of Transnet which is freight and rail logistics with assets not servicing the core function being categorized as non-core assets which includes investment property. Most assets were initially purpose built to support freight and rail logistics operations but have overtime become functionally obsolete due to changes in logistic chains operations, advancements in technology and nature of goods coming unto the railway system.

SOEs play pivotal role in the economy and its functioning is very much reliant on its own infrastructure, specifically property. Although debatable state infrastructure owned by SOEs can be classified as public infrastructure. SOEs rely on debt and finance to fund basic operations, but this may not be enough to fund capital intensive projects especially rehabilitation and upgrading of infrastructure in the utilities and network industry (OECD Report, 2014: P7). Aschauer (1989) and Munnell (1990) found a positive correlation between public infrastructure and productivity aggregated to the national level. The importance of financial and economic considerations in decision making has grown and become an essential component of real estate management. Property investors often rely on debt to finance their investments (Cloete, 2005: 16).

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Monetary economics suggests that investment spending is a function of interest rates and the confidence that investors have in the local economy (Property24, online: 2013). Financial Leverage is defined as benefits that may result for an investor who borrows money at a rate of interest lower than the expected rate of return on total funds invested in a property (Brueggeman and Fisher, 2011).

Based on the research findings by Boshoff and Chidi (2013:P3244) on investigation into the process of providing office accommodation for national state departments in South Africa, indicate that financial resources are considered by Department of Public Works (DPW) to always be a barrier, as budget allocations by user department are not sufficient. Munnell (1992) investigated the influence of policies with regard to infrastructure investment and economic growth, while Miller (2012) found traces of a negative impact of government spending on private investment, especially in the short run, which could be due to construction activities or unnecessary high costs and ineffective application. According to the Queensland Australia government in their infrastructure report of 2019, governments have often made decisions related to purchasing or disposing of assets based on budgetary rather than business considerations (www.build.qld.gov.za.au). In the research findings by Maboe (2006), on Lesotho Government asset management, a case study of Civil servants dwellings, it is revealed that even though houses are considered as assets, it is of significance to note that the residential properties are in a poor state of repair and neglect for a simple reason that it is not a key resource to government but provides these houses for a fringe benefit. SOEs and many government departments own property assets for operational purposes and not for leveraging on returns.

2.6.2 Property Development funding in state owned entities

SOEs as highlighted earlier heavily rely on debt and finance to fund basic operations, but this may not be enough to fund capital intensive projects especially rehabilitation and upgrading of infrastructure in the utilities and network industry (OECD Report, 2014: P7). The importance of financial and economic considerations in decision making has grown and become an essential component of real estate management. SOEs play a vital role in the provision of public infrastructure. The development system consists of a multitude of complex and collective human process, and physical and legal

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interrelationships which are not necessary linear in nature and all provide a possible source of risks and conflict (Loizou and French, 2012:204). According to Boshoff and Sidi (2013:P3237), capital works are wholly outsourced by Public Works to the private sector. These include construction of government buildings, maintenance, cleaning and security. Due to lack of skills and expertise, government is mostly involved in managing the Service Level Agreements (SLA) most of the times. Transnet and all other government entities own huge tracts of prime and well located land countrywide that are not optimally utilized.

The property development process is complex in the sense that it entails looking at source of funds, materials, labour and expertise within the wider social, economic and political environment. The property development process should be conceptualized as a complex adaptive process. Whether of a commercial or residential nature, the investor in a property development will tend to follow a process that starts with the identification of investor objectives; and then moves through steps, which include the analysis of the investment environment, the development of a financial analysis, the application of decision-making criteria and ultimately the making of the investment decision. The property development process itself begins with an idea. Sites are identified which could either be green field or brown field developments. The identification of sites ideal for developments can stem from, sites in search on an idea or an idea in search of a site.

According to Barrett and Blair (1987:5-9) the key stages in the property development process involve the following;

- Stage 1: Initial planning
- Stage 2: Acquiring the land
- Stage 3: Developing the land
- Stage 4: Construction of the buildings
- Stage 5: Marketing and leasing the space
- Stage 6: Property management and maintenance

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In order to maximise the utilisation and financial returns from the limited resource of land available for development, the Hong Kong Government has adopted a high land cost policy which effectively decrees that high-rise, high density developments should be the norm (Baldwin, 1994:18). The practice of property management and development in Hong Kong follows traditional styles that can be seen in developed countries. In their accord, the Hong Kong Government believes the proliferation of compact and tall buildings highlights the importance of a well-developed property management sector with well improved security, greater usage and efficient cleaning operations. There is a complex dynamic link between rent, yield, investment demand and development activity. According to Baldwin (1994), it is estimated that in Hong Kong the property and construction together account for some 45 per cent of total stock market capitalisation.

2.6.3 Capital raising ventures on Johannesburg Stock Exchange - opportunities for state-owned enterprises

Public entities could be listed on the stock exchange without being privatized (www.jse.co.za). This is done through the realignment of their ownership structure to allow the private sector to invest in these parastatals through buying of share on the stock exchange. The entities would therefore secure funding through public trades on a stock exchange. Listing of SOEs could provide opportunities to raise capital, widen the shareholder base, and maintain fair value of shares with government still retaining control of the operations of the parastatals as they would secure funding through public trades.

The Johannesburg Stock Exchange ("JSE") offers secure, efficient primary and secondary capital markets across a diverse range of securities, supported by our post-trade and regulatory services. The JSE is the frontline regulator for the exchange, setting and enforcing listing and membership requirements and trading rules. Financial markets like the JSE operate in a continuous cycle of moving cash between those who have surplus (the investors), and those who require funding (the borrowing side of the economy). Bonds issued by the JSE play an integral role as part of this continuous cycle. The Johannesburg Stock Exchange has seen the listed property sector grow substantially over the past five years with also a sharp rise in mergers and

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acquisitions and more capital raisings than any other sector. The South African local Property market has always had property loan stocks and property unit trusts (PUTs) before the introduction of the REITs structure on JSE. PUTs have since inception in 1969 generated exceptional returns rarely found in most equity funds. Both types of listed property investment entities were given a chance to convert to a regulatory framework set out by the JSE.

This study seeks to explore alternative capital raising ventures for Transnet and all SOE's that hold a portfolio of poor performing non-core property assets in South Africa. Capital funds raised can perhaps be utilized to raise capital funds for new acquisitions, developments, upgrades and also achieve diversification as highlighted earlier. A property entity seeking a listing, must comply with all applicable Listing Requirements according to section 6 in order to qualify for a listing (JSE Website). In South Africa the listed property sector Property Unit Trust's (PUT's) date back to 1969 when two trusts were established and listed on the JSE Limited. PUT's issued units, while Property Loan Stocks issued linked units (share + debenture). The Taxation legislation Amendment Bill released in February 2013 contained the Section 25BB REIT tax dispensation clearing the way for REITs in South Africa. In March 2013 the JSE released the amended Sec 13 of their listings requirements enabling REITs to list from 1st May 2013. Overall REITs that performed very well showed some level of diversification between office, industrial and retail. Public REITs are listed companies but listed companies are not necessary REITs. In general the REIT designation stems from a special tax status granted when a proportion of net income is distributed back to shareholders.

2.6.4 REITs ownership structure and impact on State Owned Enterprises

According Xu and Wang (2003), a typical listed stock company has a mixed ownership structure, with three predominant groups of shareholders – the state, legal persons (institutions) and individuals. Over 500 companies were listed on the two national stock exchanges at the end of 1996 in China according to Xu and Wang (2003). Their empirical analysis shows that a mix and concentration of stock ownership do indeed significantly affect companies' performance:

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- There is a positive, significant correlation between concentration of ownership and profitability.
- The effect of concentrated ownership is greater with companies dominated by institutions than those with those dominated by the state.
- The firm's profitability is positively correlated with the fraction of legal person (institutional) shares; it is either negatively correlated or uncorrelated with the fraction of state shares and with tradable A-shares held by mostly individuals.
- Labour productivity trends to decline as the proportion of state shares increases.

Since early 1980s China has been seeking to improve SOEs corporate governance, which was then simply articulated in the term of "separation of government from management," trying to form a "modern company system (Qiang, 2003:778). In the late 1980's in China many SOEs were converted into stock companies and subsequently into PLCs in the beginning of 1990s when the national stock exchange was introduced. The main aim was to create modern enterprise system in SOEs with efficient corporate structure, governance and management based on the principle of corporatization, and with provisions for full separation of state's exercise of ownership rights from the enterprise's exercise of legal person property rights. The government introduced stock markets partly as a means of financing for the state sector. For the Chinese economy, Groves et al (1994) survey and 800 SOE's for an assessment of China's partial reforms. It found that profitability retention, performance-based bonuses, and management contracts have increased productivity of SOE's.

In Qiang (2003) research findings, the China state -owned enterprises (SOEs) restructuring into public listed companies raised concern about potential loss of state assets as it made ownership split into three different types of shares, with only a small fraction of A-shares being tradable, and the state kept on holding the controlling share stakes. It is expected that the market could improve the performance and corporate governance of public listed companies (PLCs). This is due to the fact that shares in legally and newly created companies belonged to the state, investment funds, or banks, or were spread among numerous small shareholders.

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The restructuring of SOEs to PLCs was demonstrated as a “model” for the overall reforming of SOE’s. State shares are held by the central and local governments, which are represented by local financial bureaus, state management companies or investment companies. State shares can also be held by the parent of the listed company, typically an SOE. However, Tian (2001) argued that “corporate value increase with increased state shareholding when the government is a larger shareholder”. Xu and Wang (1999) argued on the contrary suggesting that while the state share is negatively related to performance, the large stakeholder of legal persons, or institutional investors, has a positive effect on the performance. In the conclusion, Qiang (2003) states that reform of restructuring SOE into PLCs in China has not yet improved the economic efficiency of state sector.

Qiang in his research (2003) further stated that internal corporate governance structure and external market discipline both weakened by the government overwhelming power in PLCs, with the state remained as controlling shareholder politically and ideologically. The reforming of SOEs to PLCs should be seen as a model for reforming SOEs like Transnet and earmarking to improve performance and enhance good corporate governance structures that would attract private and international investors. In the context of this study, corporate governance is defined as a set of instruments and mechanisms (contractual, legal, and market) available to shareholders for influencing managers to maximize shareholder value and to fixed claimants. In the case of Transnet majority of the shares would be held by the parent of the listed company being Government of South Africa.

For a typical listed SOE in China, there are three major types of shares outstanding: state shares; legal person shares and common A-shares. Each type accounts for about one-third of all shares, entitled to the same cashflow and voting rights. Only A-shares can be publicly traded, while legal person and state shares only transferrable privately or through irregularly scheduled auctions (Qiang 2003:773). The understandings of the fundamental underlying issue in the share structure especially the role of state-owned shares is critical in trying to achieve good corporate governance. Graham (1973), asserted that careful analysis of company fundamentals such as profitability track

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record, earnings stability and balance sheet strength is important in determining an investment's "margin of safety" – that is, ensuring that one buys a stock at an adequate discount to its intrinsic value. The quality of a company can generally be evaluated along five key dimensions. They are financial leverage, Profitability, Earning Quality, Asset Growth and Corporate Governance. Profitability and Earnings Quality are income statement-related measures of quality, while Financial Leverage and Asset Growth are linked to the balance sheet of the company. Finally Corporate Governance goes beyond purely financial measures of quality and takes into account corporate policies.

REITs initial Public Offerings

There is adequate literature on initial public offerings (IPOs) which is documented especially in the United States and Australia. Following the US, Many countries around the world established REIT regimes during the last 40 years plus. The same attributes that have driven the growth of REIT's in the US, - diversification, dividends, transparency, liquidity and performance - are fueling the growth of publicly traded real estate globally. Countries that have adopted REIT like structures range from established financial environments, such as the United Kingdom and Japan, to emerging markets like Taiwan and Malaysia. Brounen and Eicholz (2002) add to the international literature investigating the underpricing of REIT initial public offerings (IPOs), with a study into Australian property trusts. Following the US, Many countries around the world established REIT regimes during the last 40 years plus. In the case of China according to Qiang, in 2001 its unsuccessful policy practice in which government's objective aiming to finance its huge social security fund gap conflicted with that of market. It was realized that there were two major unknowns: the time and the pricing mechanism of the state shares to be reduced, which are crucial to the future of China capital market and economic development.

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2.6.5 Public-private partnership in State Owned in Enterprises

Over the past 10 years, there has been an increase in public private partnership transactions covering a wide range of sectors, including transport, office accommodation, healthcare, eco-tourism, social development and correctional services. Public private partnerships are one avenue for government entities to procure capital projects. There have been a lot of theoretical debates, arguments over the role of Public Private Partnership (PPP's) and the resultant benefits from a capacity planning, corporate governance and efficiency point of view. There are diverging views about why PPP's emerged and gained popularity. It is expected that the Public Private Partnership could improve the performance and corporate governance of public entities. In the context of this study, South African law defines a public partnership as a contract between a public sector institution and a private party assumes a substantial financial, technical and operational risk in the design, financing, building and operation of a project. Public private partnerships are long term contracts between the public and private sector.

The main aim of PPP's is to create modern enterprise system in the public sector with efficient corporate structure, governance and management based on the principle of corporatization, and with provisions for full separation of state's exercise of ownership rights from the enterprise's exercise of legal person property rights. There are usually two fundamental drivers for PPPs. First, PPPs are claimed to enable the public sector to harness the expertise and efficiencies that the private sector can bring to the delivery of certain facilities in this this instance property developments and services traditionally procured and delivered by the public sector. Second, a PPP is structured so that the public sector body seeking to make capital investment does not incur any borrowing. Rather, the PPP borrowing is incurred by the private sector vehicle implementing the project.

Two types of PPPs are specifically defined:

- Where the private party performs an institutional/ municipal function
- Where the private party acquires the use of state/municipal property for its commercial purposes.

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Tests for a PPP

- Affordability
- Value for money
- Risk transfer

The vision of the Gauteng public private partnership unit is to provide regulatory advice to all public private partnership initiatives, contributing to economic growth, development, employment opportunities, and promoting an enabling environment for infrastructure delivery, in both provincial and municipal sphere (Mail & Gaurdian Article; 2012). Public private partnerships speak directly to the strategic goal of the Gauteng provincial government of “an efficient, effective and development oriented public service”. This study considers the model structure of the PPP’s based theories and their linkage to benefits derived from such ventures in the management of non-core property assets and property developments. In order to understand the urban environment, it’s is important to understand how the property market operates and the way it functions.

The main objective of this literature review is to be viewed as an analysis of PPP’s and their contribution to SOE’s including the derived capital funding and economic benefits. The model of PPP’s has gained popularity and suggests that public sector performance is increased by incorporating the private sector. The private sector has much to offer in terms of financial resources, people skills and experience as an investment in public infrastructure and services. In addition to the complexities of urban land use management competencies falling across the departments and spheres of government as mentioned above, there is also limited access to the land asset base of other spheres of government entities who are the largest holders of land in the Country. In many instances it is identified that land available in the open market for real estate developments is highly costly and competitive due to scarcity of well-located sites and is identified as the single biggest barrier to finding affordable real estate development projects in well located areas for the poor.

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The highest levels of frustration currently by private real estate developers occurs with respect to state owned enterprise land (SOE), as not only are there issues of non-cooperation but also the SOE are driven by stringent government policies that mitigate against the effective transformatory use of their land for real estate developments. In some schemes a Government department or State Owned Company like Transnet may own the land to which the developer may acquire on a lease and leaseback arrangement whereby the developer has the opportunity to undertake the development and may share in the rental income from the completed development. It is through partnerships that public and private sectors can both achieve their goals to the benefit of everyone. According to Lombard (2012) in the Mail & Guardian article, it is highlighted that such ventures result bringing certainty, improved efficiency, affordability, reduced risk perception and thus better delivery costs.

This can be possible by leveraging private sector finance and expertise aimed at service delivery. By its nature, a public private partnership entails:

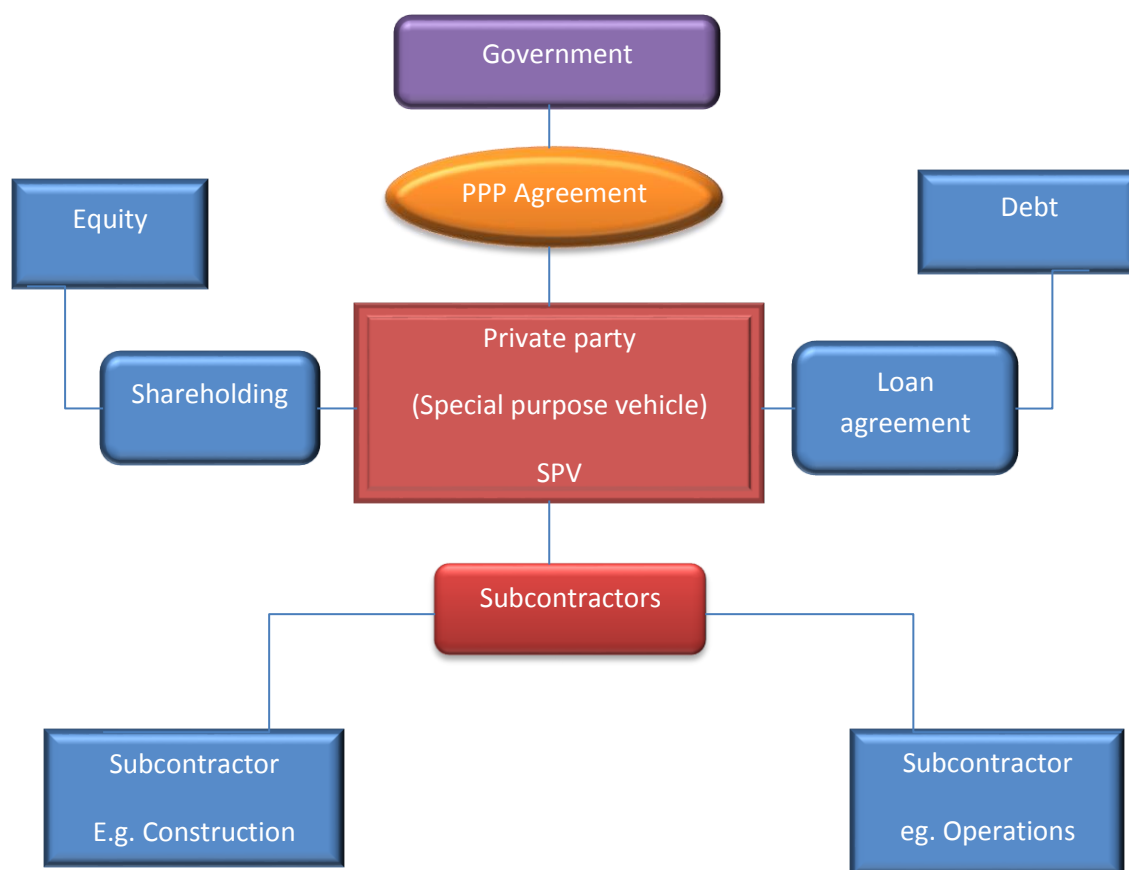
- targeted public spending, principally on outputs to agreed standards;
- leveraging private sector financing and efficiencies;
- allocating risks to the party best able to manage the risk.

The primary function of Governments provincial treasury is to regulate the public private partnership sector and ensure delivery in return for the state's very significant investment. Sometimes the private party's pricing structures may seem more expensive than traditional procurement. A reason for this is that in calculating and designing its pricing, the private party is including the cost of the risks that it will be managing for the entire duration of the project. In traditional procurement, not all the risks and their associated costs are reflected in a contractor/service provider's upfront pricing. These financial investments through public private partnership are critical in meeting the socio-economic needs of the people, which is one of the most important priorities of provincial government. Currently, Governments focus with public private partnership is addressing backlogs and gearing such initiatives towards the following sectors where critical infrastructure needs exist such as health, sanitation, waste treatment, tourism and accommodation projects.

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Chris Hani Baragwanath Hospital upgrade is a project done through public private partnership. Projects like this may involve capital contribution by the institution to the initial cost of project. Some PPP projects do not involve debt finance at all, being initially funded either wholly through corporate finance or by a combination of government funds and private equity. In end-user-pay projects, there may also be some government funding for either or both the capital and operating costs of the project. It is imperative that the public and private sectors move towards a greater shared vision of the role that PPPs can play in delivering infrastructure and services in South Africa.

Figure 2.5: Typical SPV structure for PPPs



Source: National Treasury presentation (2014: 6)

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According to National Treasury report (2014), the following are noted as milestone projects achieved through the public and private partnerships;

- **Gautrain Rapid Rail Link**

With a value of R25 billion (at financial close), Gautrain is the largest infrastructure project in Africa delivered through a PPP. It has transferred significant construction, operational and financial risk to the private sector. Gautrain has shown that there can be a successful mix of public and private capital to achieve a strategic public infrastructure goal.

- **Fleet management**

Another remarkable public and private joint venture involving the fleet management of national departments, including the office of the President. The fleet management was outsourced and finalised in 2006.

- **Western Cape Rehabilitation Centre and Lenteguer Hospital**

The Western Cape Rehabilitation Centre is a physical rehabilitation facility and Lenteguer Hospital is a psychiatric facility. The private party provides hard and soft facilities management to both hospitals. A feature of the PPP agreement is that provincial department knows upfront the financial implications of the potential vacancy rates at the facilities, which is conducive to improved value for money.

- **Polokwane Hospital renal dialysis service**

This is the first health PPP in South Africa in which the private party provides 100 per cent of the clinical services. The private party delivers all services related to renal dialysis, including the provision of specialists and pathologists. Before this project patients had to go to Garankuwa for renal dialysis. This PPP could be used as a model for other projects.

- **Port Alfred and Settlers Hospital**

In this co-location project in Eastern Cape, the private party provides infrastructure and facilities management. The arrangement also has the private

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sector providing some clinical services to the public sector, and public staff providing some clinical services in the private facilities.

2.7 Corporate Governance and Legislation in State Owned Enterprises

State-Owned enterprises, also known as parastatals, generally have one shareholder: the state. In South Africa, the respective cabinet ministers act as shareholders on behalf of the state, thus maintaining political oversight of them. The shareholder is in turn accountable to parliament. The increasing inefficiency in state owned enterprises continues to put pressure on the country's fiscus and on their own financial fiscus. The problems encountered by SOEs came under spotlight in Parliament to which Members of Parliament (MPs) blamed the "corruption and under-performance" of most entities under the department due to weak accountability, lack of clear objectives, over-bureaucratization and unclear objectives. The prevailing economic crisis sweeping through South Africa is a direct result of economic mismanagement largely shaped by the looting of state owned enterprises. State capture has become the most common talk when it comes to issues centering state owned enterprises. State capture is when private interest excessively influence a state decision-making process. It has become common knowledge after recent public parliamentary enquiry hearings that in South Africa SOEs absorb a substantial amount of resources and actually impose a heavy burden on the fiscus. Ms. Deidre Carter of the Congress of People said "the unfortunate reality is that many of South Africa's SOEs are characterized by major corporate governance failures including weak accountability, chronic -performance with poor return on government investments and continuous reliance on government support, whether in the form of explicit government guarantees, subsidies and bailouts.

2.7.1 Corporate Governance in State Owned Enterprises

SOCs play a crucial role in providing economic infrastructure to which real estate plays a crucial role. Growing evidence supports that corruption negatively impacts investment and economic growth in developing countries (Mauro, 1995; World Bank, 1997; Adams and Mengistu, 2008). Corruption and related corporate governance transgressions in SOEs and government are responsible to a greater extent in poor

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economic performance and put a huge strain on government budget for bailouts. A good example is South African airways whose boards have being dissolved several times, operated without a permanent CEO for over 8 years and recently received a bailout in amount of R2.5billion from government on 12th August, 2017 (SABC News; 16th August, 2017). Crawford et al. (2010) notes that the public sector is characterized by “uncertainty, ambiguity, and stakeholder management issues that are multifaceted and complex”. This section looks at ways of improving Corporate Governance of SOCs and its impact on corporate real estate management in government entities. The research in this area also looks at alerting government to potential areas of corporate governance practices in SOEs and how they impact on their operations generally. As SOCs are primarily owned and led by Government, government departments and boards of companies are partners in providing corporate governance to ensure their success. SOCs are this different from the private sector because Corporate Governance includes both Government and boards, with Government making the final decision on allocation of finance and the selection and retention of board members. In SOCs both groups are involved in the governing of companies.

What is ‘Corporate Governance’?

Corporate governance is the system of rules, practices and process by which a company is directed and controlled (Wikipedia).

In the context of this study, corporate governance is defined as a set of instruments and mechanisms (contractual, legal, and market) available to shareholders for influencing managers to maximize shareholder value and to fixed claimants. Corporate governance essentially involves balancing the interest of a company’s stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community (Wikipedia).

It also provides a framework for attaining a company’s objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure. Principles of corporate governance for state owned enterprises is founded on a system of ethics (Young and Thyl, 2008) or “the sets of relatively shared values and norms that are expressed and

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negotiated” (Fleming and McNamee, 2005: 137). Corporate governance interlinks the relationships between the management of the organization, its board and its broad stakeholder groupings through the structuring of objectives and their means of achievement along with the monitoring of performance in ways that “ethically defensible” (Fleming and McNamee, 2005:137). Corporate governors have legal and fiduciary duty to check that all transactions are legal and conform to acceptable corporate governance practice. It is however important to remember that the quality of corporate governance depends on whether corporate governors have the capacity, knowledge, expertise, experience and integrity to make and carry out wise decisions in the interest of the shareholder, company and stakeholders including the public. Bad corporate governance can cast doubt on a company’s reliability, integrity or obligation to shareholders.

Given the underperformance of many SOEs, radical transformation, could be key to improve SOC performance. Improving the Corporate Governance of SOCs will go a long way to help out a plan to manage real estate properly.

It is suggested that for good corporate governance to be practiced according King Code of Governance, five main components need to be present:-

- Structures, systems and process are in place
- The right mix of intelligence, knowledge, experience and expertise
- Regulatory Certainty
- Understanding and principles and practice of sound corporate governance.

Additional to the above, Boards of all SOCs and those in Government involved with running of SOCs, would greatly improve if they practice principles enshrined in the Companies Act.

Key Corporate Governance principles for SOCs. (Companies Act, 2008)

- Transparency
- Accountability
- Efficiency
- Sound business judgement

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- Regulatory certainty – conformance to regulations or good reasons for deviating.

In the article written by McGregor (2013), it is cited that many of the issues aimed at improving Corporate Governance of SOCs include the need to develop sound infrastructure and the need to address the lack of experience and expertise at board level. Companies that have been in trouble over the last five years and have cost Government billions of rands include PRASA, South African Airways, Sasol, PIC, Arscor, Telkom, SABC, Eskom and GEPA. It is clear that corporate governance incompetence causes poor results and massive losses. Gopa Kuma (2010) cites the following key governance challenges for SOEs in India; lack of awareness of the corporate governance framework by government and political leaders, lack of board training in corporate governance, lack of transparency in disclosure of information, fragmented board structures, lack of disclosure of performance evaluations of directors, entrenched self-interest and resistance to change. Sprenger (2010) further notes in his research that SOE directors in Russia often serve as conduits for decisions made at senior government levels and states that the main problems of SOE boards relate to the lack of a unified legal framework within which to operate, unclear responsibilities of board members, adverse incentives for managers, protectionism by government, lack of transparency and blurred boundaries between government as regulator and owner of SOEs.

Examples of poor corporate governance resulting in poor performance of SOE's in South Africa as a result of boards either not knowing what they are doing or fail to pick up problems in time are indicated below in McGregor research article (2013).

Sasol – fined R534 million for charging excessive prices for propylene and polypropylene

Eskom – failed to produce profits. Requested a 16% price hike that was refused, electricity and gas prices amongst, most expensive worldwide. Strategic direction and Capital Expenditure only determined in 2014, years after the problem was known. Nominated in 2013 for worst company in the world in terms of social responsibility. Poor standards resulted in the company being seriously downgraded by Standard and by Fitch which cited it to be having a poor credit rating.

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Armscor – Former defense Minister fired the former chair and deputy for failing to deliver equipment to troops deployed in the continent without going through the process.

One of the most common grievances that SOC boards have against government departments is their selection of board members. Government committees nominate board members and CEOs, supposedly but not always consultation with the board. Boards accuse government ministers of making 'political' appointments without due consideration of the mix of knowledge and expertise needed on the board. The high turnover of directors together with poor company performance is evidence that succession planning, selection, development and retention of board members is well below acceptable standards (Online).

Examples of poor selection of executives in SOCs;

SABC – The Public Protector investigated the permanent appointment of COO as he had already been found guilty of misrepresenting his qualifications. It was later reviewed that this post was never advertised and no candidates were shortlisted in 2014.

GEPP – Great example of imbalanced board, where the board members consists of mostly political appointments which happened in 2014, eight appointed by finance minister and six nominated through public sector bargaining process. Chaired by an ANC Member of Parliament, thus extremely difficult for independent directors to contribute meaningfully or for a CEO to get real value from the board. According McGregor (2013), most of these problems could have been prevented had there been good corporate governance.

In examining issues of corporate governance in SOCs, McGregor highlights the following as similar patterns causing poor performance;

- I. Corporate governance incompetence causes poor results
- II. Poor selection and development of Boards and Executives
- III. Constant turn-over of key players disrupts good practice
- IV. Dysfunctional working relations
- V. Inadequate structures, systems and fragmented processes
- VI. Lack of moral norms resulting in corrupt practices.

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According to Belikov (2009:42), it is suggested that CEOs have to “manipulate rules and relationships” in order to strategically direct these organisations. Further problems indicated include the lack incentives to government officials serving on Russian SOE boards and do not systematically monitor or control the performance of SOE managers (Belikov, 2009). The major functions of the board are delineated including accountability to government involving the annual appraisal of its functioning, fair treatment of all shareholders, monitoring of management, objectivity and independency of judgement, obtaining of unbiased information, the power to appoint and remove the CEO, and the establishment of specialized committees to assist the board in its works.

It apparent in most African countries as to the high degree of intervention in the operational running of SOEs by government. State capture has become the most common talk when it comes to issues centering state owned enterprises. State capture is when private interest excessively influence a state decision-making process. In South Africa private companies are linked to the big groups of companies owned by the Gupta’s that have been accused of controlling and making decisions on behalf of government in its running of its SOEs. The present allegations warrant attention to potential areas of corporate governance practices at South African SOEs. Growing evidence supports the view that corruption negatively impacts investment and economic growth in developing countries (Mauro, 1995; Adams and Mengistu, 2008).

2.7.2 Legislation governing state-owned enterprises

State-owned companies (SOCs) exist in South Africa to drive economic development and improve service delivery to the large population. In order for SOCs to achieve their mandates, as set out by government through their shareholding department, financial assistance and general good support by the state is imperative. SOE’s exist to serve the public interest and play a crucial role in providing economic infrastructure. As SOEs are primarily owned and led by Government, government departments and boards of companies are partners in providing corporate governance to ensure their success. A state-owned company is defined as a “state-owned enterprise” in the Public Finance Management Act 1 of 1999 (PFMA). The PFMA defines a “national public entity” as being the following;

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- “(a) a national government business enterprise; or
- (b) a board , commission, company, corporation, fund or other entity (other than a national government business enterprise) which is –
- I. established in terms of national legislation;
 - II. fully or substantially funded either from the National Revenue Fund, or by virtue of a tax, levy or other money imposed in terms of national legislation; and
 - III. Accountable to Parliament”.

The purpose of the Public Finance Management Act is to “Secure, accountability, and sound management of revenue, expenditure, assets and liabilities” of national and provincial government departments, constitutional institutions, major and other public entities. Government has established what are considered world class regulations and corporate governance guidelines such as the revised Companies Act and Public Services Management Act. The Department of Enterprises at Inter-Ministerial level ensures they work closely with Chairs and CEOs to establish better practice and create a comprehensive shareholder working framework that clarifies their roles and responsibilities as a majority shareholder.

Since 1999, public private partnerships in South Africa have been regulated under the PFMA Act and Treasury Regulation 16, providing a clear and transparent framework for government and its private sector partners to enter into mutually beneficial commercial transactions, for the public good. Treasury Regulation 16 is developed with a wide range of different characteristics. These involve transferring risk to the private party for designing, financing, building, and operating infrastructure and services. The public sector does not always manage risk well. Although public private partnerships are but one avenue for procuring capital projects, the process followed is characterized by diligent planning and transparent bidding – features that should be encouraged for all procurement methods. National Treasury’s PPP unit was established in 2000 and is the lead agency for PPP’s in South Africa.

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2.7.3 Legal and Regulatory framework in management of non-core assets in state-owned enterprises

The primary objective of this area of research is to analyse legislative systems approach in SOEs and how they impact on real estate management. Transnet, as a State Owned Enterprise, is bound by certain statutory and regulatory measures. The following are applicable to property but are not limited to:

- Public Finance Management Act No. 1 of 1999 ("PFMA")
- Government Immovable Asset Management Act No. 19 of 2007
- Broad Based Black Economic Empowerment Act 53 of 2003
- Restitution of Land Act of 1994 (Act 22 of 1994)
- State Land Disposal Act No. 48 of 1961
- National Heritage Resources Act (No.25 of 1999)
- Constitution of the Republic of South Africa, 1996 (Act No. 106 of 1996)
- Consumer Protection Act 68 of 2008
- Regulations - DPE's document "State Owned Enterprises' Non-Core Disposal Policy and Broad - Based Black Economic Empowerment Guidelines (June 2008)".

State Owned Enterprises assets are classified under Section 38 of the PFMA (Section 63 (10) (a) of the MFMA) is all embracing in its reference to "asset" and so is Treasury Regulation 10. The study focusses on the management of non-core property assets and for property assets to meet the non-core criteria it must meet the following conditions:

- Property that is no longer considered core to the business operations of Transnet;
- Property not related to current or future expected operational requirements; and
- Where its disposal or alternative development will not compromise current or expected government requirements.

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The Operating Divisions of Transnet comprising Transnet Freight Rail, Transnet National Port Authority, Transnet Port Terminals, Transnet Rail Engineering and Transnet Pipelines have the responsibility of:

- Identifying property as Non-Core
- Obtaining the required approval from the relevant committees; which have the required delegation of authority;
- Updating their list of Non-Core Property List on at least an annual basis;
- Transferring the Non-Core assets to Transnet Property and removing the assets from their Fixed Asset Register; and
- Advising Transnet Property of any Non-Core Property that has not been disposed of that has been re-designed as core property.

Transnet Property (Manager Disposal & Transfer) will, from time to time, compile lists of Non-Core Property identified for disposal for submission to the Minister for approval in terms of section 54(2) of the PFMA. This process is required prior to the sale process commencing regarding any Non-Core Property. Should Ministerial approval be obtained, the properties on the list will be added to the Disposal Register; this will be the responsibility of Transnet Property (Manager Disposal & Transfer). Transnet has created a Standard Operating Procedure: Immovable Property Disposal Policy with some steps highlighted under figure 3.3.

The Standard Operations Procedure (SOP) is a document to provide procedures to be followed in the applications of Transnet Immoveable Property Disposal Policy which must be read in conjunction with DPE's document "State -Owned Enterprises Non-Core Property Disposal Policy and as highlighted the Broad-Based Black Economic Empowerment guidelines. The National Department of Public Enterprises acknowledges in its policy that "property is a strategic and productive asset, a vehicle for economic development, service delivery and transformation". The National Department of Public Enterprises and Transnet have prepared policies toward the sale of non-core properties by adopting the "State Owned Enterprises Non-Core property Disposal Policy and Broad-based Black Economic Empowerment Guidelines" June 2008. The adoption of the B-BBEE is viewed as an important criteria and opportunity for supporting companies with B-BBEE when SOEs sale property on the open market.

Chapter 2 Literature review

The policy further outlines the core reasons for disposal as contributing to the land reform process and rural development and urban renewal. In the case where an immovable asset is identified for socio-economic purposes in terms of the Integrated Development Plan (IDP) and Spatial Development Framework (SDF) of a municipality, the SOE should consider the transfer of such asset to municipality, subject to Board and, where relevant, Treasury approval. In addition, SOEs are required to consider transferring assets to the Department of Housing if such assets have been identified for affordable or social housing projects or programs.

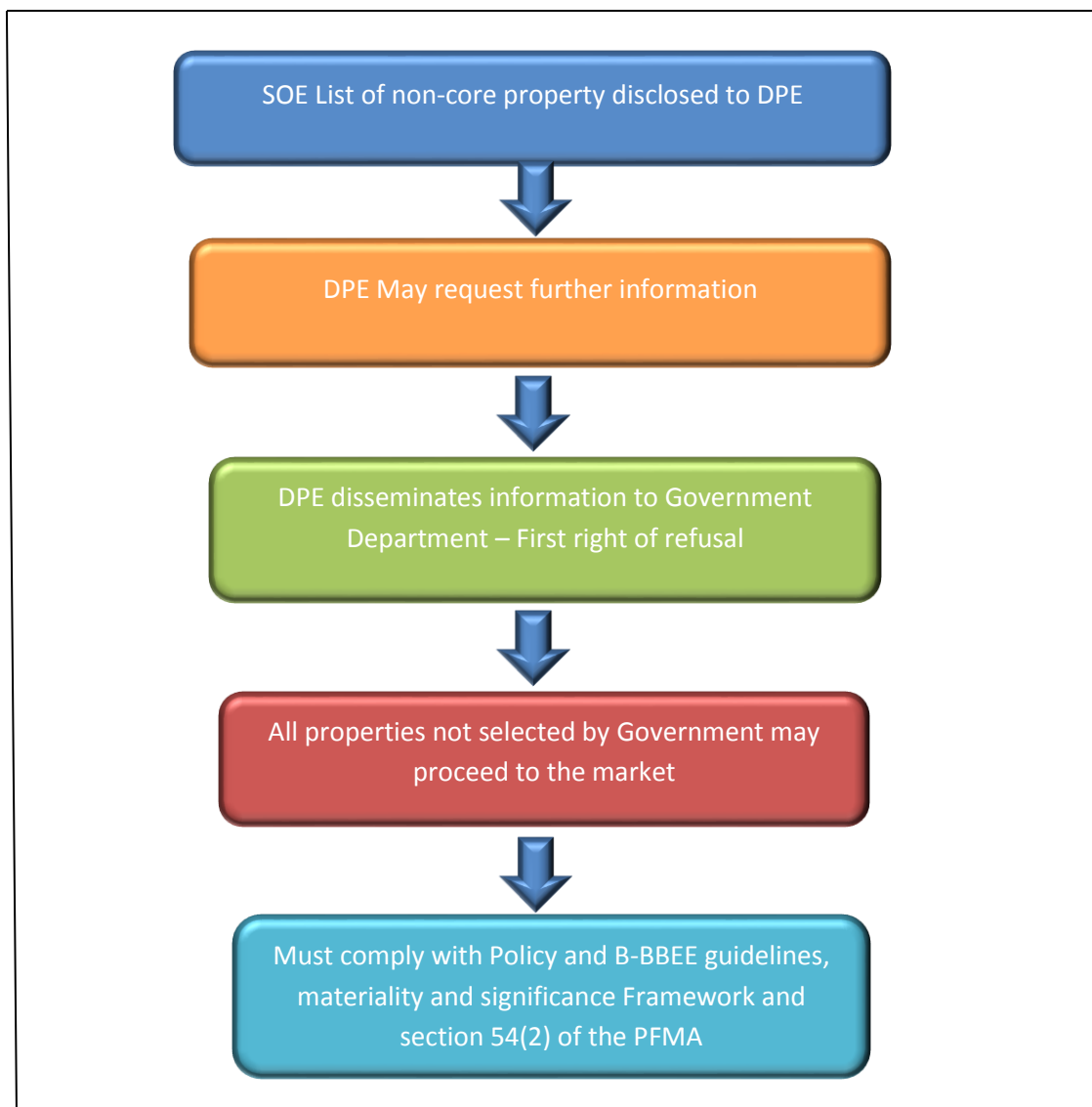
The National Department of Public Enterprises policy notes that “A State Owned Enterprise or a wholly owned subsidiary of a SOE may not dispose of any property unless it has first offered that property for sale to the state and other SOE via the Department of Public Enterprises under the same terms and conditions it is otherwise prepared to dispose of that property. There are limited number of circumstances where Transnet may dispose of a property in the absence of an open market tender process.

The DPE Policy allows under the following circumstances;

- Sale to Organ of State
- Sale to adjoin owner where property is landlocked or not economically viable on its own or insignificant in extent or of a non-commercial nature.
- Sale of property held through Statutory Vesting (Expropriation).

Chapter 2 Literature review

Figure 2.6: Transnet Group: Immovable Property Disposal Process



Source: Transnet Group: Immovable Property Disposal Policy, (2010:16)

The purpose of the Transnet policy is to provide guidelines for disposal of all Transnet non-core immovable property and improvements which comprises residential, retail, office and industrial property. This policy clearly does not address the issue of redeveloping land for non-core purposes of Transnet but emphasis is more on Transfer to another state organ or disposal to the market. The legal framework guiding the disposal of public owned land is extensive as highlighted with the following legislative laws needing to be complied which includes Government Immoveable Asset Management Act No. 19 of 2007, State Land Disposal Act 1961 and the South African Constitution.

Chapter 2 Literature review

Chapter 2 of the Bill of Rights of the Constitution of the Republic of South Africa, 1996 (Act No. 106 of 1996) outlines the provision in relation to Property Rights. Section 25 notes that “no-one may be deprived of property except in terms of Law of general application, and no law may permit arbitrary deprivation of property” while also stating that property may only be expropriated for public purpose or the public interest and must be subject to compensation. Section 25 (3) provides the guidelines for determining compensation by stating that the following aspects must be considered when determining compensation;

- The current use of the property
- The history of acquisition and use of the property
- The market value of the property
- The extent of the direct state investment and subsidy in the acquisition and beneficial capital improvement of the property and
- The purpose of acquisition

In the case of land owned by SOEs which is classified as non-core market value is one of the several considerations when determining compensation. The Expropriation Act, 63 of 1975 provides guidance in relation to possible forms of compensation with “market value” deemed as being the method though there has been recent calls by members of parliament for expropriation without compensation. While the Expropriation Act is currently not being used to gain access to SOE land, there are no clauses within the Act preventing this from occurring.

Government Immoveable Asset Management Act No. 19 of 2007

The Government-wide immovable Asset Management Framework seeks to ensure a code of best practice and good governance supported by PFMA and King II and similar guidelines. In August 2005, Cabinet approved the Government -wide Immoveable Asset Management Policy and the draft Government Immoveable Asset Management Bill for submission to parliament. The Government Immoveable Act No. 19 of 2007 serves three core functions. “The first is to provide a uniform framework for the management of the immovable of assets held or used by national and provincial departments.

Chapter 2 Literature review

The second is to ensure that there is coordination of the use of the immovable assets with the service delivery objectives of a national or provincial department. The third provides guidelines and minimum standards in respect the management of immovable assets. The Act applies to organs of the state including all national and provincial government departments, public entities and constitutional institutions but excludes local government”.

When it comes to disposals and acquisitions, the Acts principles stipulated in Section 5 state that an immovable asset must be disposed of or acquired at best value for money been realized. Best value for money has be defined as “the optimization of the return on investment in respect of an immovable asset in relation to function, financial, economic and social return, wherever possible” and such is not restricted to a “money related” definition only. It is interesting to note that the Act does not mention the need to transact an immovable asset at a “market related value”. Rather, a more comprehensive or multi-dimensional approach has been adopted in the legislation which is thus more suitable for the acquisition of land for purposes of sustainable settlements. The Act provides some guidance on when property may be deemed non-core by stating that “an immovable asset must be used efficiently and becomes surplus to a user if it does not support its service delivery objectives at an efficient level and if cannot be upgraded to that level. Section 5 of the Act further highlights that when disposing of land, the owner must consider whether it can be used;

- By another department or jointly by differing departments;
- For social development initiatives of government, and
- In relation to government’s socio-economic objectives, including:
 - Land reform
 - Black empowerment
 - Alleviation of poverty
 - Job creation and,
 - Redistribution of wealth.

Chapter 2 Literature review

National Heritage Resources Act (No.25 of 1999)

The legislation aims to promote good management of the national estate, and to enable and encourage communities to nurture and conserve their legacy so that it may be bequeathed to future generations. Transnet has a lot of historic buildings which may be impacted from redevelopment as outlined in section 3 (1) of the National Heritage Act which states; “For the purposes of this Act, those heritage resources of South Africa which are of cultural significance or special value for the present community and for future generations must be considered part of the national estate and fall within the sphere of operations of heritage resources authorities”.

Section (2) further states, “Without limiting the generality of subsection (1), the national estate may include –

- (a) Places, buildings, structures and equipment of cultural significance;
- (b) Places to which oral traditions are attached or which are associated with living heritage;
- (c) Historical settlements and townscapes;
- (d) Landscapes and natural features of cultural significance.

It must be acknowledged that section 4 of the National Resources Heritage Act applies throughout the Republic and also includes actions of the state and a local authority. Transnet has a huge portfolio of properties country wide which were built over 60 years ago. The National Heritage Resources Act, 1999 clearly stipulates that no person may alter or demolish any structure older than years without a permit. This may become restrictive to some re-developments if the application is declined in this regards. The discovery of certain objects on Transnet land such as wrecks and paleontological material must be reported to the relevant heritage resources authority and if declared a heritage sites no developments can take place on these portions of land. An MEC may establish a provincial heritage resources authority in terms of section 23 of the SAHRA which shall be responsible for the management of the relevant heritage resources within the province.

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State Land Disposal Act No. 48 of 1961

The state Land Disposal Act No. 48 of 1961 defines state as being “any land over which the right of disposal by virtue of the provisions of section 3 (4) of the Agricultural Holdings (Transvaal) Registration Act, 1919 (Act 22 of 1919), and section 78 (3) and (4) of the Town Planning and Township ordinance, 1965 9Ordinance 25 of 1965) (Transvaal), vests in the State President, and any right in respect of State land. While the Act is short, with two sections having been repealed and amended on five occasions, it remains a powerful piece of legislation for the following reasons;

- “Firstly, the Act allows the disposal of national state land to take place on acentralised basis;
- Secondly, in practice, the disposal of national state land take place primarily in terms of this Act;
- Thirdly, the Act confers on the President the power to amend or cancel any condition registered against any land conferring any right of the state; and,
- Fourthly, the Act prohibits the acquisition if both national state land and provincial state land by means of acquisitive prescription.

It must however be noted that certain provisions within the Act are currently under review as they now obsolete and do not reflect the current system if National and Provincial Government and or the imperatives of a development state.

2.8 Review on studies done on performance of non-core property assets

It is evident that there is a gap in the literature on performance non-core assets as these emanate from production companies that own real estate for operational purposes as Property Plant & Equipment and not for investment per say. Further research is required to determine how government departments and other SOE’s implement strategies towards performance management and sustainability of non-core assets. Further research should focus on specific operational aspects such as collecting relevant data and information to improve management of non-core as well utilise evidence based models to implement in the space of public-sector property management.

Chapter 3 Research methodology

3.1 Introduction

This chapter deals with the research design and strategy, the data collection method and analysis. The purpose of the research design is to connect the research questions to the data of the study. The research design is detailed to include the sampling and data collection methodologies in order to answer the primary and secondary questions of this research. This research's main objective is to illustrate the practices of property management in Transnet and reasons why the non-core property assets are physically deteriorated and achieving below market related returns. The research further seeks to establish reasons as to why its prime green field and brown fields are not being re-developed and fully optimised. The study with Transnet should reveal similar practices in the field of real estate management practised generally by other state owned enterprises and other government entities.

3.2 Research approach

Research approaches are plans and the procedures that span the steps from broad assumptions to detailed methods of data collection, analysis, and interpretation. The selection of a research approach is also based on the nature of the research problem or issue being addressed. According to (Hanson et al, 2005), there are three predominant types of research approaches – qualitative, quantitative and mixed methods approach. Mixed use approach is merely the integration of both quantitative and qualitative methods. A more detailed distinction between qualitative and quantitative approach and justification for approach selected are detailed below.

3.2.1 Qualitative versus Quantitative considerations

The different types of data required for a needs assessment are most easily understood using the descriptive terms: qualitative and quantitative (O'Leary, 2010; Johnson & Onwuegbuzie, 2004). The difference is in the type of information collected, the questions and information requirements that the data is meant to address, and the methods used to analyse it. "The phrase qualitative methodology refers in the broadest sense to research that produces descriptive data, which is people's own written or spoken words and observable behaviour. Qualitative methodology, like quantitative methodology, is more than a set of data-gathering techniques" (Punch, 2005).

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It is a way of approaching the empirical world. Qualitative research is by definition exploratory. It is used when we don't know what to expect, how to define the issues, or lack an understanding of why and how the affected non-core property portfolio held by Transnet is not being fully optimised, redeveloped and highly neglected. Qualitative data like quantitative is based on empiric investigation and evidence. Marshall and Rossman (1999) define this approach as using real-world observations, emerging from the interplay of the researcher's direct experience, tacit theories and interest in practice amongst others.

Qualitative research explores information from the perspective of both groups and individuals and generates case studies and summaries rather than lists of numeric data. Given the systemic nature of most issues under consideration in this particular undertaking, qualitative research also allows a probing of the inner experience of participants and to discover the variables at play (Corbin & Strauss, 2008, p. 12). This approach was also aligned with the research topic that was adopted. According to Denzin and Lincoln (1994), qualitative research focuses on interpretation of phenomena in their natural settings to make sense in terms of the meanings people bring to these settings. Qualitative research involves collecting information about personal experiences, introspection, life story interviews, observations, historical, interactions and visual text which are significant moments and meaningful in people's lives. With regards to qualitative research in particular, consistency of observations between two or more researchers (internal) and the degree of replicability (external) is critical.

Replicability is generally poor due to small sample sizes in qualitative research; however, consistency of observations is generally strong. In the case of the property specialists sampled and the key informants interviewed for this study, observations were all based on a relatively their experience in managing non-core property assets held by Transnet. In this context the consistency of observations should not present an issue. Validity in qualitative studies is often derided by quantitative researchers (Maxwell, 1992). Eisenhart (1992) argue against the purist definition of validity in its application to qualitative research. They assert that such research is essentially an argument and propose various alternate standards for such arguments.

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The issue of validity is understandably vague in such studies and does prove to be an issue specifically in determining whether relationships are causal (if findings are truly about what they appear to deal with). To this end only the repeatability of the relationship from one interview to the next or from one case study to the next can address concerns of validity. Qualitative methods have become important tools in applied research, in large part because they provide valuable insights into local perspectives of the population studied. Qualitative research begins by accepting that there are many different ways of understanding and of making sense of the world.

Quantitative approach may be described as based on positivism while qualitative approach research is based on phenomenology (Benz, and Newman, 1998; Denzin and Lincoln, 1984). According Positivism; reality is stable, observable and can be measured. Positivism has no value judgements, only statements which can be tested scientifically. Phenomenology on the other hand focuses on the process and experiences one goes through. Burns and Grove (1993:777) define quantitative research as a formal, objective, systematic process to describe and test relationships and examine cause and effect interactions among variables. Quantitative data can be quantified and verified, and is amenable to statistical manipulation. The respondent's subjective perceptions form the core data of the study, hence the qualitative method dealt with the issues in an exploratory nature. Leedy (1993) explains that qualitative research is based on the belief that first-hand experience provides the most meaningful data. It is also believed that qualitative data gives large volumes of quality data from a limited number of people. Qualitative data analysis is often constructed around themes and so is the reporting.

3.3 Research Methods

The term methodology refers to the way in which we approach problems and seek answers. Research methodology focusses on the research process and kind of tools and procedures to be used. This section describes the actions to be taken to investigate the research problem and the rationale for the application of specific procedures or techniques used to identify, select, process, and analyse information applied to understanding the problem. The methods presented below have different ways of collecting and analyzing empirical evidence with each following its own logic.

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3.3.1 Case Study

Case study is one of the most frequently used qualitative research methodologies and is focused at providing a detailed account of one or more cases. A case study is an in-depth analysis of people, events, and relationships, bounded by some unifying factor. Case study research, through reports of past studies, allows the exploration and understanding of complex issues (Zainal, 2007). It enables the researcher to closely examine the data within a specific context. A case study research is particularly appropriate for research which deals with practice based problems where the experiences of the respondents are important and the context of action is critical. It is recognized that not all case studies are interpretive.

Case studies are normally associated with qualitative research, but can also be used as a method of inquiry employing a positivist's epistemology and ontology. A qualitative case study is an approach that facilitates exploration of a phenomenon within its context using a variety of data sources. Phenomenology is a form of qualitative research in which the researcher attempts to understand how one or more individuals experience a phenomenon. In this instance, the researcher is trying to establish the causes of Transnet's property portfolio poor performance and suboptimal returns achieved by interviewing the personnel directly involved in managing of real estate and asking them to describe their experiences related to the research topic. Case studies in their true essence, explore and investigate contemporary real-life phenomenon through detailed contextual analysis of a limited number of events or conditions, and their relationships.

When to use a Case Study Approach

According to Yin (2003) a case study design should be considered when: (a) the focus of study is to answer "how" and "why" questions; (b) you cannot manipulate the behaviour of those involved in the study; (c) you want to cover contextual conditions because you believe they are relevant to the phenomenon under study; or (d) the boundaries are not clear between the phenomenon and context. A case study was chosen because the case was based on drawing the views, experience, expertise and opinions of the respondents involved in the direct management of Transnet's property

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portfolio in the various operating divisions. It would have been impossible for the author to have a true picture of the performance and causes that have led to the highly deteriorated property portfolio and suboptimal returns achieved without considering the views of the respondents who are involved in the day-to-day management of these assets.

Categories of Case Studies

There are several categories of case study. Yin (2003) notes three categories, namely exploratory, descriptive and explanatory case studies. First, exploratory case studies are set to explore any phenomenon in the data which serves as point of interest to the researcher. Second, descriptive case studies set to describe the natural phenomena which occur within the data question. A descriptive case study must start with a descriptive theory to support the description of the phenomenon or story (Zainal, 2007:p2). Third, explanatory case studies examine the data closely both at a surface and deep level in order to explain the phenomena in the data.

Explanatory case studies are deployed for casual studies where pattern-matching can be used to investigate certain phenomena in very complex and multivariate cases. Ying and Moore (1987) note that these complex and multivariate cases can be explained by three rival theories; a knowledge-driven theory, a problem-solving theory, and a social-interaction theory. The research conducted best fits the exploratory case study with the researchers aim being to interpret the data obtained from the questionnaires issued to Property personnel's in Transnet, analyse the supporting factors and assumptions in order to draw a conclusion on research questions presented. Case studies are considered useful in research as they enable researchers to examine data at the micro level.

3.3.2 Survey Study

A survey is used to collect original data for describing a population too large to observe directly (Mouton 1996:232). According to (Burns and Grove, 1997), a survey is a non-experimental technique of data collection in which questionnaires or personal interviews are used to collect descriptive data about a phenomenon. A survey obtains information posed by the investigator (Polit and Hungler 1993:148). A survey obtains

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information from a sample of people by means of self-report, that is, the people respond to a series of questions posed by the researcher (Pilot and Hungler 1993:148). The survey instrument used in this research was a questionnaire which had been developed, corrected and verified prior to the actual sending to the respondents. The information was collected through self-administered questionnaires distributed personally to the subjects by the researcher and for respondents outside of Cape Town by means of email. Using direct mail survey method, a self-administered questionnaire was mailed to the target population consisting of property management personnel employed within Transnet Countrywide. The questionnaires were posted with self-addressed envelopes to respondents within Cape Town and surrounds with completed questionnaires to be physically collected thereafter. The research questions used during the survey were deduced from the relevant literature review and key concepts mentioned with relevant qualitative data being collected in order to test the hypothesis and proposition, respectively.

3.3.3 Experimental Study

This approach was first made popular in the natural sciences, but gained much popularity among social researchers, especially in the field of psychology. The main purpose of experimental research study is to establish the cause and effect of relationships. The experimental approach in its simplest form seeks to establish casual links between two variables (Saunders, Lewis, & Thornhill, 2009). It is mostly employed in exploratory and explanatory research. Its defining characteristic is active manipulation of an independent variable (i.e., it is only in experimental research that “manipulation” is present).

The goal is test the hypothesis by reaching valid conclusions about relationships between independent and dependent variables by conducting a number of experiments. To the former, the researcher applies a planned intervention or manipulation and to the later, no such intervention was made. Dependent variables were measured before and after interventions are made and thus casual relationships may be investigated (Saunders, Lewis, & Thornhill, 2009). There are three basic types of experimental research designs. These include pre-experimental designs, true experimental designs, and quasi-experimental designs.

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These three are defined by the following aspects;

- The ability of the researcher to control exposure to the independent variable by comparison groups, thereby indicating that the researcher has full control over the selection of the groups, and /or
- The ability of the researcher to control when to take measurements on the dependent variable in relation to exposure to the independent variable.

The degree to which the researcher assigns subjects to conditions and groups distinguishes the type of experimental design. The problem of validity which arises in quasi-experiment designs can be statistically controlled through the analysis of the instance of covariance. The researcher generally relies on statistical methods to identify relationships through control variable analysis in general and covariance analysis in particular (Punch, 2005).

3.4 Research Design and Strategy

The research questions used during the survey were deduced from the relevant literature review and key concepts mentioned with relevant qualitative data being collected in order to test the hypothesis and proposition, respectively. The Fisher's exact test was used to test categorical outcome according to different groups of staff. There are many ways in which data can be collected. Three of the major research methods are methods are experimental, surveys, and case studies (Hepper; 2004; Jackson, 2008). The research design provides a framework which will guide the research activities by informing on the approach to be adopted, research participants, data collection instruments and analysis of the data (Leacock et al., 2006). Bless et al. (2013) and Saunders et al. (2009) starts the discussion of research design and strategy by focusing on the researcher's objectives or aim in conducting the research. By definition, a research design is most simply meant to provide a framework for collection and analysis of data (Bryman & Bell, 2007, p. 40). Saunders, et al. (2009) state that the research design is a "general plan of how you will go about answering your research question" and specify that it should include clearly stated objectives, sources of data and considerations of the constraints the researcher will experience (Saunders, Lewis, & Thornhill, 2009, pp. 136-137).

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The research design refer to the overall strategy that the researcher chooses to integrate the different components of the study in a coherent and logical way, thereby, ensuring the researcher will effectively address the research problem. The primary questions were informed at first by exploratory research including a literature review and a few exploratory interviews and structured discussions. The research was conducted with respondents working within Transnet who are sufficiently and fully involved in property management to be specific and deemed to be experts on the subject matter. It constitutes the blueprint for the collection, measurement, and analysis of data. According to Brink (1996) the research design depends on the problem, the purpose of study, the objectives and desire to generalize the findings. Research design is the overall plan for connecting the conceptual research problems to the pertinent and achievable empirical research. The research design articulates what data is required, what methods are to be used to collect and analyse this data, and how all of this is going to answer the research question.

3.4.1 Methodology Approach

I have undertaken a case study within a survey and also used Fishers exact test to demonstrate response frequencies and proportions amongst the different six categories of staff presented in the research. The case study is Transnet and the target respondents consist of personnel involved in the direct management of real estate within the company. Fisher's exact test is a statistical test used to determine if there are nonrandom associations between categorical variables (Kim, 2017). The Fisher's exact test is a statistical significance test used in the analysis of contingency tables. The p-value is the level of marginal significance within a statistical hypothesis test representing probability of occurrence of a given event (Wikipedia). The p-value was used in this research as alternative to rejection points to provide the smallest level of significance at which the null hypothesis would be rejected. According to Kim's (2017) research on Chi-squared and Fisher's exact test, it is found in his research that Fisher's exact test is applied practically only in analysis of small samples but is valid for all sample sizes.

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The research has qualitative research methods adopted and is exploratory in nature as it attempts to explore the factors causing Transnet's property portfolio's poor performance and suboptimal returns. Therefore quantitative method was deemed unfit for the following reasons: the research is based on opinions, experience of the respondents and the research produces descriptive data. The Experimental approach was not considered on the basis that it is not practical to put all respondents in one room for the variance tests and makes manipulation of results impossible in this case. The Experimental approach further on relies quantitative data making it not suitable.

3.4.2 Research Sample, Population and Procedure

The selected sample for the study comprised Executives, Managers, Property Technicians and Property Administrators in the whole of Transnet that are directly involved in the managing of real estate, and thus represented the appropriate population group to focus on with a total population size of 134. The survey thus included five regions being Western Cape, Inland, Carlton, Central and Eastern. The three operating divisions within Transnet offering real estate management service being Transnet Property (TP), Transnet National Ports Authority (TNPA) and Transnet Freight Rail (TFR) were analysed. This sample frame is based on OD's that manage public assets, and are responsible for managing, maintaining real estate portfolios. The process of selecting a portion of the population to represent the entire population is known as sampling (Pilot and Hungler, 1999: 95). Sampling includes selecting groups of people, events, behaviours or other elements with which to conduct a study (Burns and Grove, 1997). For the purpose of this study 134 questionnaires were used along with 17 face to face interviews conducted for employees that are based in Cape Town though the initial target was 30. Interviews are the easiest way to get information required for the research. Interviews tend to have a better response rate than the mailed questionnaire (Bailey 1994: 174).

Interviews are flexible and allow the researcher to be specific and probe for answers they are seeking. Depth interviews are described as one-on-one sessions between the researcher and respondent aimed at probing the knowledge and views of the latter. Face to face interviewing allows the researcher to ensure that the respondent completely understands the questions they are about to answer. Interviewees are

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more confident in answering verbally rather than conveying their response in writing. In an interview the interviewer is able to control the flow of questions and to ensure that the structure of the questionnaire is not disturbed. The non-verbal behaviour of the interviewee can often provide an important source of information, which cannot be noted by telephone or mailed questionnaires. Spontaneous answers are often the most informative because respondents may change their answers on paper to suit the circumstances. Interviews also ensure that all the questions are answered whilst insuring that the interviewee does not cheat.

In order to achieve a growth and maximise returns in any property portfolio under management, managers need to understand the main drivers of growth and factors that need to be considered to achieve high yielding assets. The sample targeted senior executives and managers involved in executing strategy with also the aim to ascertain if Transnet can raise capital funds for re-developments and engage in major upgrades of its existing property portfolios by establishing REITs funds in their capital portfolio for the benefit of achieving real growth and value of the funds in the long-term. The questionnaires which were administered in this research composed two sections. Section 1 was administered exclusively to junior staff with both sections 1 and 2 being open to senior manager and executives within Transnet. The questionnaire sought to acquire data on general property management issues, structure and how they contribute to the current prevailing poor status of the property portfolio that is generating suboptimal returns. The interview questionnaire was administered to all the executive's and senior managers. Questions in section 1 of the questionnaire were aimed at obtaining general views on management of property in Transnet. Section 2 questions were targeted at senior managers and executives aimed at obtaining high level financial, facilities, legislative and corporate governance issues impacting the management of non-core assets. The questionnaire also sought to acquire data on whether or not the REITs are feasible in the capital portfolio of Transnet as an SOE with their current prevailing status and structure. Analysis of the sample, including size and any bias, was conducted as part of the data analysis in Chapter 4 and the implications of any biases were considered and discussed in Chapter 5.

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3.4.3 Types of data

The primary data analysis composes of all surveys conducted on non-core and core property assets belonging to Transnet located throughout all the 9 provinces of South Africa. The portfolio as indicated in chapter 1 is spread across South Africa and is currently serviced by regional offices in Johannesburg (inland), Durban (eastern), Cape Town (western), Port Elizabeth (central) and Carlton Centre with the head office of Property located at the Carlton Centre tower, which also accommodates the Transnet Corporate Centre. These properties are strategically located to respond to core business needs of Transnet which aims to migrate freight from road to rail.

These properties were developed in an effort to support the current and future needs of the various business units supporting the freight and rail logistics business. The secondary data analysis was however narrowed down to focus on only Industrial depots and Investment Properties situated in the Western Region. Secondary data for the entire portfolio in the various regions of Transnet could not be analysed due to lack of proper data records over the past years. Data beyond 2010 could also not be obtained as Transnet Property previously called "Propnet" only came into existence in 2010 and prior to this there were no accurate records.

3.4.4 Research Sample, Population and Procedure

The data required for the study was collected by means of a structured questionnaire survey. Face-to-face interviews along with the designed questionnaire were also used as a means to gather data. The method of research as applied in the qualitative approach makes extensive use of questionnaires in order to evaluate the views of the respondents on the research topic under study. Data in this part of study were collected using structured questionnaire with both open-ended questions which required an explanation or comment on a previous question and closed - ended questions with pre-emptive answers to choose from.

When following this method of data collecting, it is essential to distinguish between primary and secondary data. According to Kothari (1985:11) primary data is original information collected for the first time. On the other hand secondary data is

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information that was collected previously and that has been put through statistical means.

The study endeavours to answer two specific research questions:

- The first part of the question in this research seeks establish the performance and why the current non-core property assets held by Transnet are underperforming and highly neglected?
- Secondly, to uncover in detail and to what extent does Legislation, operational structure, corporate governance and funding models in Transnet impact on the better management of its current existing property portfolio and lack of engagement in property developments on its huge vacant prime sites?

In order to answer these questions the primary focus group or research population comprised the Property Management teams within Transnet's various Operating Divisions that manage real estate such as Transnet Property (TP), Transnet Freight Rail Engineering (TFR) and Transnet National Ports Authority (TNPA) in the whole of South Africa. Secondary data, consisting of Investment Properties held by Transnet was obtained from the financial statements and National Asset Manager. Before presenting the results of the empirical study in Chapter 4, it is important to present the basis for determining the correctness of questions set out in the survey and structured interviews.

The following scenarios was presented to participants in line with the research hypothesis to be tested in this study are:

- The ability to improve performance and optimize returns on non-core property assets held by Transnet is significantly dependent on its property management team understanding the complexities of property such as investment strategies, property portfolio performance measurement, corporate governance and facilities management.
- Government being a major shareholder in Transnet has goals, mandates, and objectives that differ greatly with the well managed property portfolios' held by the listed and private property sectors and this greatly impacts negatively

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on the effective management of non-core property assets and prevent property developments and possibilities of seeking alternative funding models.

The case study firstly, was intended to assess the approach that property related skills and understanding property fundamentals are essential for a successful and well managed property portfolio. The first hypothesis relates to the general property management questions were structured with various scenarios set out from property education, property management experience requirements, measurement of property portfolio performance and benchmarking against industry standards. The hypothesis is set out to profile requirements and areas of improvement to focus on in the management of non-core properties in Transnet and represent fairly typical views expressed by respondents to the survey questionnaire that was issued. For the purposes of this study and the type of questionnaire used, the summed scale was considered to be the most appropriate scale for analysis of data collected. A summed scale consisting of statements representing a favourable or unfavourable opinion to which a respondent has to respond by ticking relevant box indicating whether he or she agrees was used as indicated below.

Table 3.1: Representation of the scale code

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

The numeric values 1 and 2 are regarded as negative, 3 as uncertain or neutral and 4 and 5 as positive. The advantages of using the above scale are effective utilisation of space, quick assessment of questionnaires and the facilitation of comparisons between answers.

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3.4.5 Secondary Data Analysis

As indicated both primary and secondary data central to the research question was collected. The latter was collected mainly from annual financial reports, actual valuation reports, commentary, presentations and working documents kept by the Asset Manager in Transnet. The secondary data comprised Investment Property Assets situated in the Western Region. The portfolio comprises predominately of development leases with lease terms exceeding 10 years. In terms of the International Financial Reporting standards (IFRS) all investment properties must have valuations conducted 4 times a respective financial year with records being kept by Asset Managers.

3.5 Research Credibility

With regards to qualitative research in particular, consistency of observations between two or more researchers (internal) and the degree of replicability (external) is critical. Replicability is generally poor due to small sample sizes in qualitative research; however, consistency of observations is generally strong. In the case of the property specialists sampled and the key informants interviewed for this study, observations were all based on a relatively their experience with managing non-core property assets in Transnet.

In this context the consistency of observations should not present an issue. Validity in qualitative studies is often derided by quantitative researchers (Maxwell, 1992). Eisenhart (1992) argue against the purist definition of validity in its application to qualitative research. They assert that such research is essentially an argument and propose various alternate standards for such arguments. The issue of validity is understandably vague in such studies and does prove to be an issue specifically in determining whether relationships are causal (if findings are truly about what they appear to deal with). To this end only the repeatability of the relationship from one interview to the next or from one case study to the next can address concerns of validity.

Chapter 3 Research methodology

3.6 Research Limitations

This project could have been better if there was proper record keeping in the regions with regards to rental incomes for investment property and record of yearly valuations records exceeding 5 years. The accounting software package used by Transnet called SAP system does not offer any or access to historical information on investment properties such as quarterly financial reports, actual lease documents. The operational structure of the operating divisions also greatly hampered the project as certain information could only be obtained from the head offices in Johannesburg and this is all to a limitation of funds and time for travelling.

Further to this, Marshall and Rossman (1999) argue that the limitations of a study are a function of the conceptual framework and research design. The limitations that are expected to arise in the process research can be ascribed to 3 main areas:

- Resource limitations – time and cost factors in the conducting of interviews limited the quantum of primary research. Bryman and Bell (2003) describe issues of generalisation in qualitative research as a result of the often small numbers of interviews conducted and as such this study was subject to this fate.
- Access limitations – while every attempt was made to represent the view of a complete spectrum of all individuals involved in real estate management in the various operating divisions of Transnet in this study, several possible informants were either not able to provide input within the timeframes of the research or declined invitations to respond.
- Data limitations – initial discussions with Financial Managers in Transnet had revealed a lack of data collection and storage using existing programmes like SAP. This was in fact the case and this represents a limitation to the conclusions on the state of poor management of currently non-core property assets offered for leasing on open market. Lastly, some senior managers would not in general, provide information requested as they believed it to be competitively sensitive information despite the assurance of them being kept anonymous. This hampered the effort to present an analysis of the actual content used to some degree.

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3.7 Ethical Considerations

There are no anticipated risks for participants of the research and it does not involve human bodies as part of study. The instruments employed are minimally non-invasive. Additionally, the instruments are completed individually and anonymously, which removes any potential participant concern or anxiety regarding embarrassment of being identified. Participants were fully informed about the nature and requirements of the research before they decide whether to participate, and participation is entirely voluntary. There are no anticipated risks to the researcher. The ethics guidelines and processes prescribed by the University of Cape Town were complied with for this study. As responses are anonymous, there is no risk of the respondents' competency being exposed, which could impact on their standing in the professional community.

3.8 Research Conclusion

This chapter focused on the methodology that was used in this study. An explanation of the qualitative research as a method for data collection and analysis was given. Measures followed during the data collection were discussed in this chapter and the information about the sample was provided. In the next chapter, data analysis and the findings of the study will be presented.

Chapter 4 Research Findings and Analysis

4.1 Introduction

This chapter documents the research findings which was undertaken in support of the research aim and objectives set in this paper. It presents findings around the characteristics, experience, attitudes and approach towards the management of non-core property assets held by Transnet which is perceived to be achieving sub-optimal returns and has most of its portfolio in a dilapidated poor state of repair. In general, it is undesirable to manage property without regards to the value added by the existence of that particular property. In the same way and having taken cognisance of this fact, it would be fitting for the property to be managed by competent skilled personnel in order to preserve the value of the property. The lifespan of the non-core property assets belonging Transnet and any other State Owned Enterprise (SOE) for the purpose which they serve can actually be extended by practice of good property management. It is appropriate in this regard to mention that generally many SOE's with particular reference to Transnet which is the case study are not practising recommended modern methods of property management but slowly getting there as revealed in this research. Chapter 4 deals with the overview of the practices of property management in Transnet and reasons why the non-core property assets are physically deteriorated and achieving below market related returns.

The case study with Transnet should reveal practices in the field of real estate management practised generally by other state owned enterprises and other government entities, their limitations to sources of funding for maintenance, upgrades and lack of engagement in property developments is revealed in this chapter. Furthermore, the surveys conducted within Transnet Property management reveal the impact of government being a major shareholder, legislation and any legislative Acts affecting Transnet Property. A research on corporate governance matters intends to provide a broad understanding of the general principles that pertain to governance, risk and compliance and how they affect real estate management. The results described are segmented into two sections to illustrate findings that support hypothesis 1 and 2 with the use of tables and graphs with key themes discussed within the text.

Chapter 4 Research Findings and Analysis

4.2 Research focus and questions

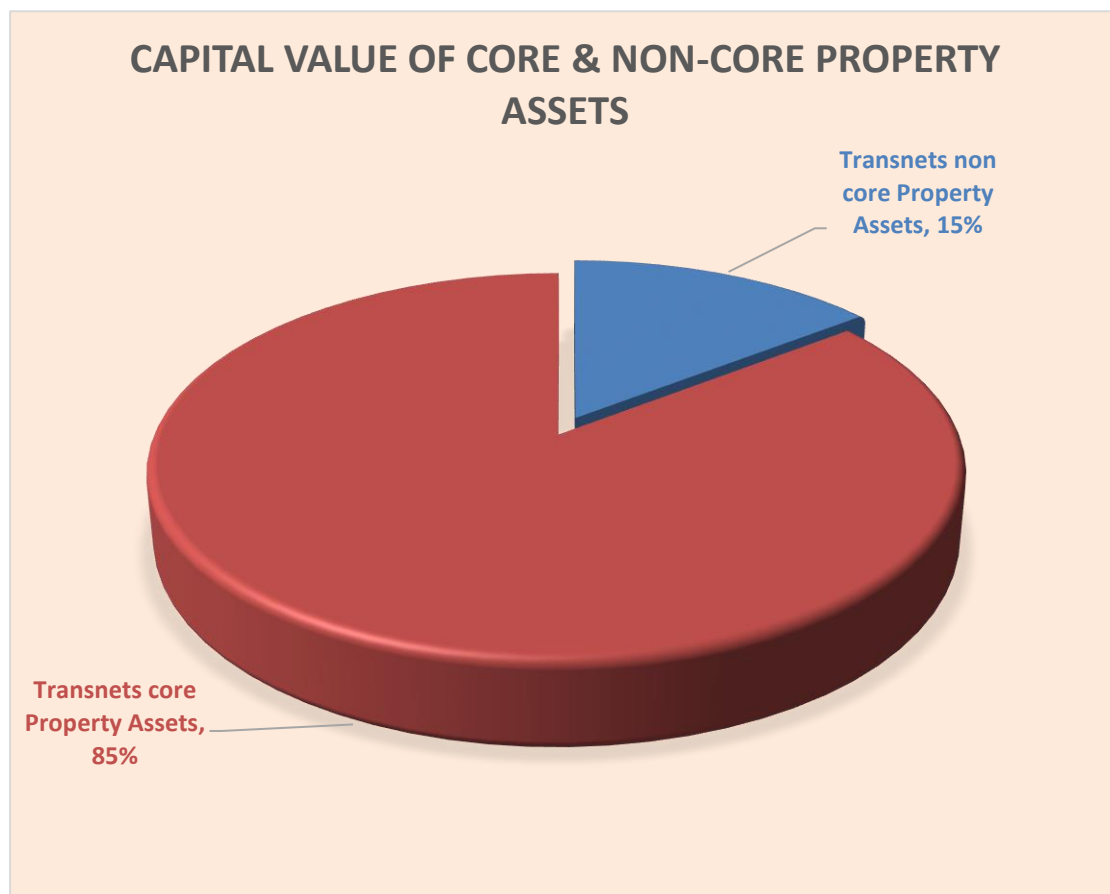
The questions posed to the participants around this case aimed to assess whether the ability to improve performance and optimize returns on non-core property assets held by Transnet is greatly impacted by its key strategic focus on its core business which is freight and rail logistics. The research further looks at how core and non-core property assets are generally managed in the business. The research also aims to demonstrate amongst the many items, the perception of the requirement of education in real estate studies and its impact on managing non-core property assets in Transnet. This research therefore aims to provide first insight in relation to the approach in management of non-core assets and attitudes that the property management team has towards its portfolio under management which is highly dilapidated. The research questions were further posed to answer the question on impact of Government being a major shareholder in Transnet on operational efficiency and effective management of non-core property portfolio.

4.3 Transnet Core & Non-core Property Assets

Transnet property portfolio as indicated in table 4.1 page 76 is worth about R31 billion with R4.5 billion consisting of non-core property assets accounting for 15% of the entire property portfolio and R26.3 billion being core assets that account for 85.0%. Each of the five operating divisions of Transnet, is a custodian to properties and all infrastructure required for their operational requirements with varied needs. Transnet's properties were initially purpose built to support freight and rail logistics operations but have overtime become functionally obsolete due to changes in logistic chains operations, advancements in technology and nature of goods coming unto the railway system. Transnet is one of the state's largest land holders with land extent ownership measuring approximately 27,359,116.0m² (Transnet Finance Records; 2018).

Chapter 4 Research Findings and Analysis

Figure 4.1: Transnet's Core & Non-core Capital Values



Source: Transnet Finance Records (2018)

Table 4.1 consists of assets classified as core and non-core, Plant Property & Equipment (PPE) and Investment Properties (IP). The property assets held by Transnet are categorised as core assets (regulated), non-core (non-regulated) and investment Property as defined by the International Financial reporting standards (IFRS). Core assets are also classified as PPE as they serve the core mandate of Transnet which is freight and rail logistics with assets not servicing the core function being categorized as non-core assets which includes investment property.

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Table 4.1: Transnet’s Core and Non-core Capital Values

Operating Division	Market Value as @ 30 June 2018	
Transnet Properties - Non core	R	4 262 000 000.00
Transnet Freight Rail - Non Core	R	222 000 000.00
Transnet Props - Old DIA Site Core	R	1 900 000 000.00
TNPA	R	12 205 000 000.00
TFR	R	4 648 000 000.00
TE	R	3 014 000 000.00
TPT	R	4 244 000 000.00
Other	R	331 000 000.00
Total	R	30 826 000 000.00

Source: Transnet Finance Records (2018)

The non-core property portfolio managed by TP as indicated in Table 4.2 has its commercial property portfolio with a gross leasable area measuring approximately 7.2million square meters. These properties no-longer serve the core business of Transnet which is freight and rail. These non-core property assets are instead leased on the open market or earmarked for disposal in line with the Government Immoveable Assets Act No. 19 of 2007. The Act provides some guidance on when property may be deemed non-core by stating that “an immovable asset must be used efficiently and becomes surplus to a user if it does not support its service delivery objectives at an efficient level and if cannot be upgraded to that level. The Government Immoveable Asset Management Act of 2007 serves three core purpose functions. “The first is to provide a uniform framework for the management of the immoveable assets held or used by national and provincial departments. The second is to ensure that there is coordination of the use of the immovable assets with the service delivery objectives of a national or provincial department. The third provides guidelines and minimum standards in respect of the management of immovable assets. The Act applies to all organs of state including all national and provincial government departments, public entities and constitutional institutions but excludes local government”.

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Table 4.2: Transnet's non-core Portfolio overview - leasable areas

Commercial Portfolio						
Portfolio Category	Western	Inland	Central	Eastern	Carlton	Total/Category
Office (m ²)	22 976	321 508	61 374	14 379	67 655	487 892
Retail (m ²)	2 510	424 454	43 912	0	53 000	523 876
Industrial (m ²)	211 143	3 697 387	109 265	387 172	0	4 404 967
Recreational (m ²)	10 619	1 358 149	22 089	0	4 515	1 395 372
Education al (m ²)	0	450 207	18 459	0	0	468 666
Average/Region	247 248	6 251 705	255 099	401 551	125 170	7 280 773

Source: Transnet Finance records (2018)

The Western Region as indicated in Table 4.3 has a total of 14 Investment Properties with one office building situated in Cape Town CBD, 2 recreation clubs situated in Beaufort West and Touws River respectively, a retail development lease at Franschoek, 3 industrial precincts being Salt River, Maitland precinct consisting of a warehouse development lease and Culemborg development lease consisting of a mix of light industrial workshops and warehouses, 1 car show room with workshop, and the rest is vacant land held for capital appreciation. The development leases are long term leases stretching from thirty to seventy five years allowing the developers to re-coup their capital outlay and profits on developments done on Transnet's green fields.

The developed assets then revert to Transnet's full ownership on expiry of lease. Property investors often rely on debt to finance their investments (Cloete, 2005: 16). Banks on one hand are only willing to finance development leases if they are registered notarial leases at the deeds office. For any property development project financed by commercial banks in SA from initial construction level to completion, funding is usually secured only once the proposed development is at a minimum of 80% pre-let. The borrower is to use own funds first and is liable for overruns and contingencies. The development loan term periods usually vary from 5 to 10 years being maximum commercial banks can offer. This makes notarial leases attractive for banks as security. A registered lease by law has a minimum of 9 years and 11 months hence the reason why Transnet enters into long term leases for such property development ventures.

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According to most loan contract agreement, banks are entitled to reduce any amount of Principal Debt allocated for development/ building costs in accordance with any reduction in the actual cost incurred and the Transnet lease period sufficiently covers for this. Transnet only provides the land and favourable lease term periods in this instance when it comes to development leases with full benefit only enjoyed when developed assets revert to Asset register on expiry of development leases.

Table 4.3: Investment Properties as at 31st March 2018 – Western Region

No.		Asset Classification	Mar-18
1	1 ADDERLEY	Offices	R 138 371 461.00
2	PAG	Showroom	R 111 748 320.00
3	SALT RIVER	Workshop & Warehouses	R 85 490 639.00
4	MAITLAND	Warehouse Development Lease	R 74 242 977.00
5	ROGGEBAAI SITE	Vacant Land	R 49 530 000.00
6	KENRIDGE	Vacant Land	R 25 676 600.00
7	AKASIA	Vacant Land	R 18 660 806.00
8	CULEMBORG MOTOR CITY	Showroom/Workshop	R 16 021 993.00
9	FRANSCHOEK	Retail Development Lease	R 11 388 628.00
10	PAARDEN EILAND	Vacant Land	R 7 792 000.00
11	PAARL	Vacant Land	R 4 755 831.00
12	BEAUFORT WEST	Recreation Club	R 1 600 000.00
13	LAINGSBURG	Vacant Land	R 485 000.00
14	TOUWSRIVER	Recreation Club	R 268 966.00
TOTAL			R 546 033 221.00

Source: Transnet Finance Records (2018)

4.4 Data Analysis

The data analysis would be a two - legged kind of analysis with questionnaire and interviews being conducted in the research. The total response rate for this study was 62% or 83 responses for the questionnaires out of 134 and 57% or 17 out of 30 for interviews, which is considered to be adequate and high. If a response rate was achieved, there was less chance of significant response bias than with low rate (Babbie, 2007).

Chapter 4 Research Findings and Analysis

The selected sample for the study comprised Executives, Managers, Property Technicians and Property Administrators in the whole of Transnet that are directly involved in the managing of real estate, and thus represents the appropriate population group. The survey thus included five regions being Western Cape, Inland, Carlton, Central and Eastern. The three operating divisions within Transnet offering real estate management service being Transnet Property (TP), Transnet National Ports Authority (TNPA) and Transnet Freight Rail (TFR) were analysed. Based on the literature review, key concepts were identified as being property management, portfolio management, asset management, property maintenance and facilities management which were also used to draft the questionnaire and setting up of interview questions.

4.4.1 Sample Profile and Response Rates

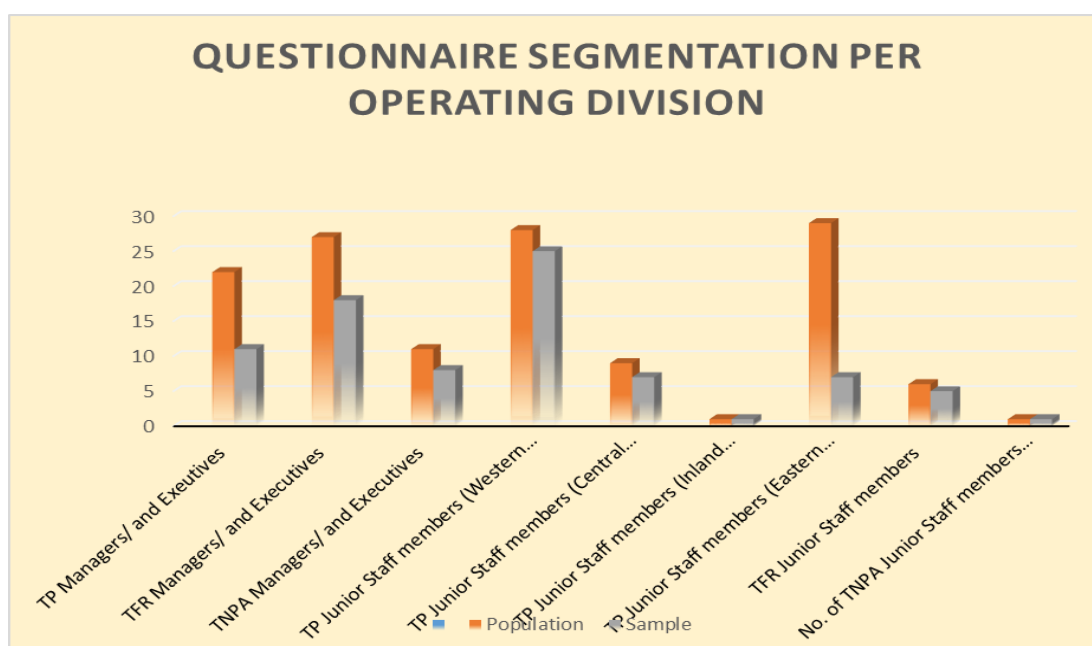
The database used contained 134 Real Estate personnel employed in various operating divisions managing property within Transnet with level of participants varying from Property Administrators, Property Managers, senior Managers to Executives as indicated in Table 4.4 below.

Table 4.4: Response summary

MSc Questionnaire: Statistics	Population	Sample	Response Rate
TP Managers/ and Executives	22	11	50%
TFR Managers/ and Executives	27	18	67%
TNPA Managers/ and Executives	11	8	73%
TP Junior Staff members (Western Region)	28	25	89%
TP Junior Staff members (Central Region)	9	7	78%
TP Junior Staff members (Inland Region)	1	1	100%
TP Junior Staff members (Eastern Region)	29	7	24%
TFR Junior Staff members	6	5	83%
No. of TNPA Junior Staff members respondents	1	1	100%
Total	134	83	62%

Chapter 4 Research Findings and Analysis

Figure 4.2: Sample Profile Segmentation per operating division



As indicated in table 4.2 above, (83, 62%) subsequently participated in the survey out of a total of 134 targeted. Junior staff serving as Property Administrators constituted (74, 55%) and (60, 45%) were Senior Managers and Executives. The various operating divisions illustrated different responses hence the survey was further broken down into segments as illustrated in Table 4.5 and Figure 4.2. Of the 134 participants (11, 13%) were Transnet Property Managers and Executives, (18, 22%) were Transnet Freight Rail Senior Managers and Executives, (8, 10%) were TNPA Senior Managers, (40, 48%) were Transnet Property Administrators, (1, 1%) was TNPA Property Administrator and lastly, (5, 6%) were Transnet Freight Rail Property Administrators. The respondents in the sample represent a fair spread as all regions country wide had had received a response to survey as indicated in Table 4.5. The respondents provide an important basis on which to assess how the non-core property assets are managed as they have experience and great overview of the property portfolio held and managed by Transnet.

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Table 4.5: Sample profile per Operating Division

MSc Questionnaire: Statistics	Population	Sample	Response Rate	Sample Response Rate
TP Managers/ and Executives	22	11	50%	13%
TFR Managers/ and Executives	27	18	67%	22%
TNPA Managers/ and Executives	11	8	73%	10%
TP Junior Staff members (Western Region)	28	25	89%	30%
TP Junior Staff members (Central Region)	9	7	78%	8%
TP Junior Staff members (Inland Region)	1	1	100%	1%
TP Junior Staff members (Eastern Region)	29	7	24%	8%
TFR Junior Staff members	6	5	83%	6%
No. of TNPA Junior Staff members respondents	1	1	100%	1%
Total	134	83	62%	100%

The interview questionnaire was administered to 30 Executive's and Senior Managers with only 17 participating which represents 57% of total sample. 16 were face to face interviews and 1 telephonic interview with an Executive Manager based in Gauteng, Pretoria. The Interview Questionnaire aimed at obtaining general views on management of property in Transnet with high level discussions on financial matters, facilities management, legislation and corporate governance issues impacting the management of non-core assets. The interview also sought to acquire views and opinions from Senior Managers and Executives on whether or not the REITs are feasible in the capital portfolio of Transnet as an SOE with their current prevailing status and structure.

Table 4.6: Interviews response summary

MSc Interview Questionnaire: Responses	Population	Sample	Response Rate
No. of Transnet Managers/ and Executives respondents	30	17	57%
Total	30	17	57%

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4.4.2 Data processing and analysis

All data was coded from the completed questionnaires to address the research objectives and questions by capturing it on an excel spreadsheet and results presented in graphs. The primary objective of the study is to assess the reasons why the non-core property assets are physically deteriorated and achieving below market related returns. To achieve this, the following sub-objectives were pursued.

1. To measure the performance of non-core property portfolio and the resulting sub-optimal returns.
2. Establish source of funding for capital expenditure (CAPEX), operating costs (OPEX) related to responsive maintenance and property developments.
3. Determine factors that have led to the highly deteriorated non-core property portfolio.
4. Determine the impact of corporate governance matters and legislative frameworks on the management of non-core property assets.

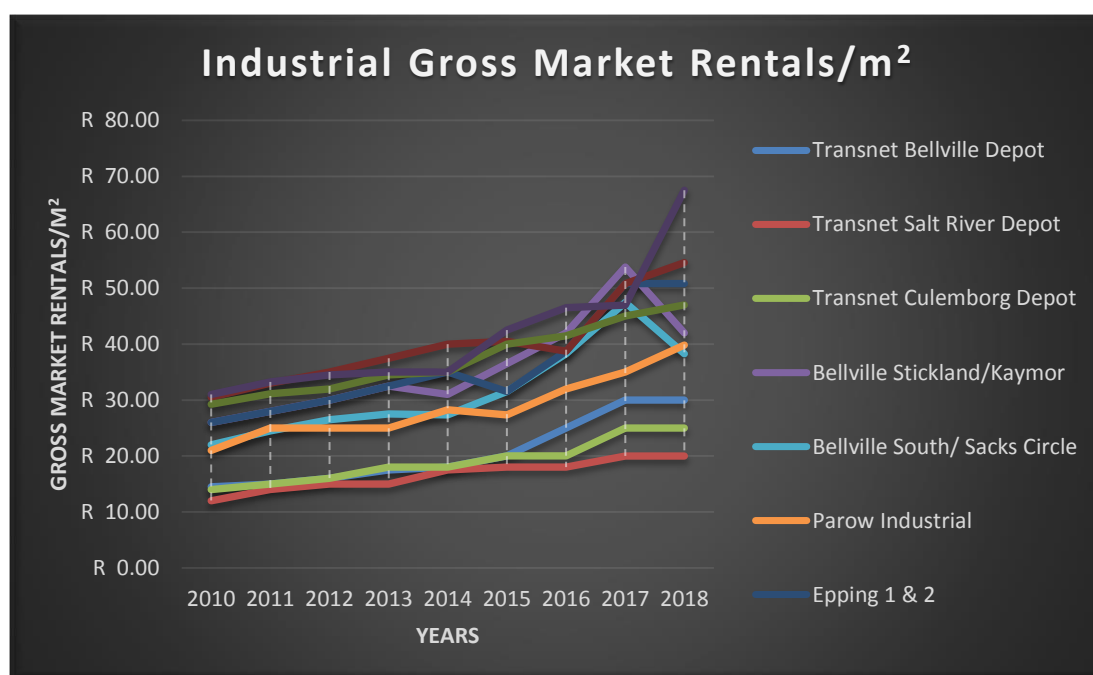
4.5 Performance of Transnet's non-core property portfolio

Over the past recent decades commercial property has played alongside equities, bonds and cash in the portfolios of the investing institutions, it is therefore inevitable that performance measurement techniques are applied to real estate and benchmarked with alternative competing investments. Asset Managers and Property managers use return and risk measurement to analyse investments in their real estate assets and compare this performance to stocks, bonds and other investments. Real Estate is the most commonly held alternative asset class, following only equities and fixed income in size in the typical institutional portfolio according to MSCI-IPD research report 2017. Performance measurement is described as a process of assessing progress towards pre-determined goals, including information on the efficiency by which resources are transformed into goods and services, the quality of those outputs and outcomes, and the effectiveness of organisational operations in terms of their specific operations in terms of their specific contributions to organisation objectives (Kincaid,

Chapter 4 Research Findings and Analysis

1994). Property performance measurement is critical so as to ensure that there is a maintenance match between an organisation's business and property strategies. A property strategy is a long term plan of action designed to achieve a particular goal or set of goals or objectives. SOE's in South Africa which includes government departments do not make data easily available like the listed property sector, making it difficult for public owned property assets to be measured in terms of performance and benchmarked with MSCI-IPD Stats. There is therefore no easy way to analyse performance in detail between private and public assets. Transnet like many other State owned enterprises in South Africa are deeply implicated in several fiscal problems because of their inefficiency, losses, budgetary burdens, and provision of poorly managed properties leased on the open market is a critical concern. In this study under this section we focus primarily on examining and benchmarking market rentals and total returns achieved by Transnet's commercial property portfolio situated in prime industrial nodes of Western Cape against the privately owned industrial properties. The Western Region of Transnet has three major industrial/warehouse depots being Bellville TFR depot, Salt River and Culemborg depots were properties are leased out on the open market.

Figure 4.3: Industrial Gross Market Rentals 2010 - 2018

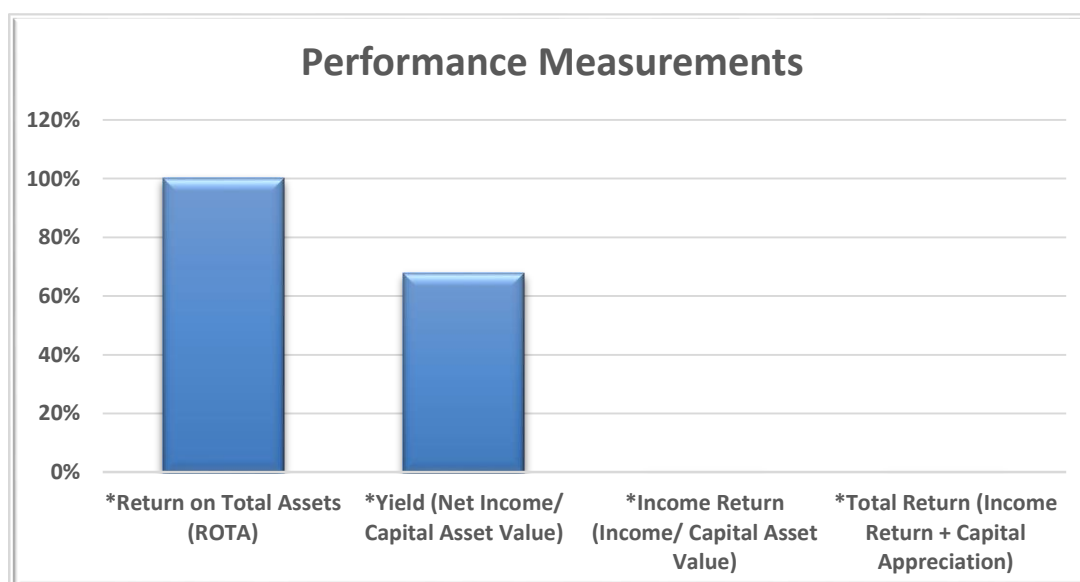


Source: Rode's Market Research reports 2010-2018 and Transnet Asset Management data

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It is well established as indicated in figure 4.3 above that there are significant variations in the rentals achievable on Transnet's prime industrial depots compared to the privately owned industrial property assets situated in similar prime industrial nodes of Cape Town. Transnet's industrial property assets as indicated above are achieving below market related rentals when benchmarked with privately owned industrial parks situated in Cape Town. The current poor state of the non-core property portfolio as revealed in the research and below market related rentals do not make it financially sustainable for the business and instead costing the company huge amounts paid on rates and taxes for assets that don't even generate sufficient income. The literature findings as indicated by (Downs 1991; 154) over neglected buildings that lack maintenance clearly indicate that this causes the greatest loss an owner can suffer on a real estate investment. Making further investments in terms of major capital expenditure to upgrade the existing old portfolio and development of more properties as well as investing in other property avenues is usually characteristics of a company that is doing well in property.

Figure 4.4: Performance measurement tools

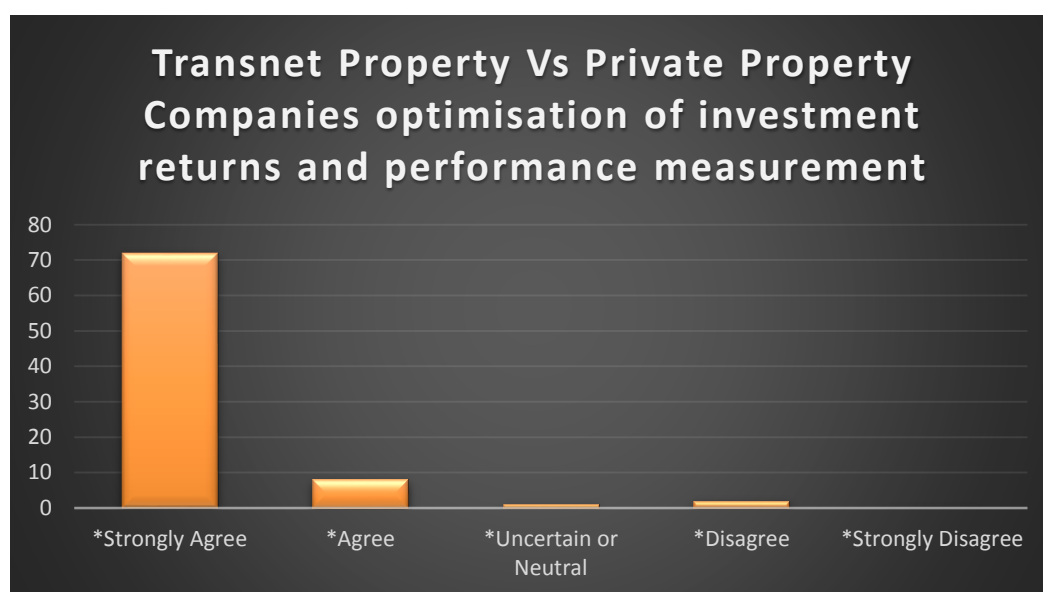


The respondents according to figure 4.4 above indicate that all managers (37,100%) interviewed use ROTA for performance measurement and (25, 67%) use the initial yield measurement. It was further ascertained in the interviews conducted with managers that Transnet's property portfolio is not benchmarked against SAPOA/IPD

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stats or listed property fund performance. In order to understand the performance measurement methods that are currently accepted and used throughout the property industry, it is necessary to understand the development of these methods and the preceding methods which lead up to the ones currently accepted and used by portfolio managers globally and in South Africa. The two methods adopted by Transnet are inherent in the systems adopted by Transnet's finance departments over the past years according to interviews with managers. Asset performance is not measured at property level and instead at depot level where several commercial properties are grouped for cost allocation purposes. This makes it difficult to measure performance of individual assets and worse still total returns are not even calculated.

Figure 4.5: Transnet Property versus Private Sector



The administered questionnaires from survey that was undertaken and through lengthy general observation revealed that the private companies/institutions properties indicate that their property assets are better managed and well looked after in comparison to Transnet's property assets. According to figure 4.5 above, the majority (72, 87%) strongly agree, (8, 10%) agree that there is a difference between private sector and Transnet when it comes to optimizing investment returns and portfolio performance measurement with one respondent being neutral and only (2, 2%) disagreeing. It is greatly believed that the real estate management in private companies does greatly differ with SOEs when it comes to property performance

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management and needs to be molded to specific requirements of organisations requirements. Typically, management of public property which is highly fragmented with each category falling within a different jurisdiction or bureaucracy, or even with different policies and procedures within a given bureaucracy. There is widespread recognition of the need to better manage state owned property in most SOEs as indicated in the literature review. It is best practice in asset management, for planning purposes that management should have an indication of the future demand on resources for replacement of existing assets. The most commonly identified elements in the literature include the implementation of such key initiatives as;

- Improved performance (especially financial efficiency and cost-effectiveness), supported by performance monitoring and incentives;
- A redefined and reduced role for the public sector in the economy including privatisation or commercialisation of previously public enterprises and services, increased contracting, and application of private-sector management approaches to the public sector;
- Separation of policymaking and service delivery functions;
- Decentralisation or devolution of service delivery functions;
- Decentralisation or devolution of service responsibilities from higher to lower levels of government;
- Greater managerial flexibility in financial management; and
- Greater accountability and transparency in government operations.

4.6 Sources of funding for maintenance and property developments

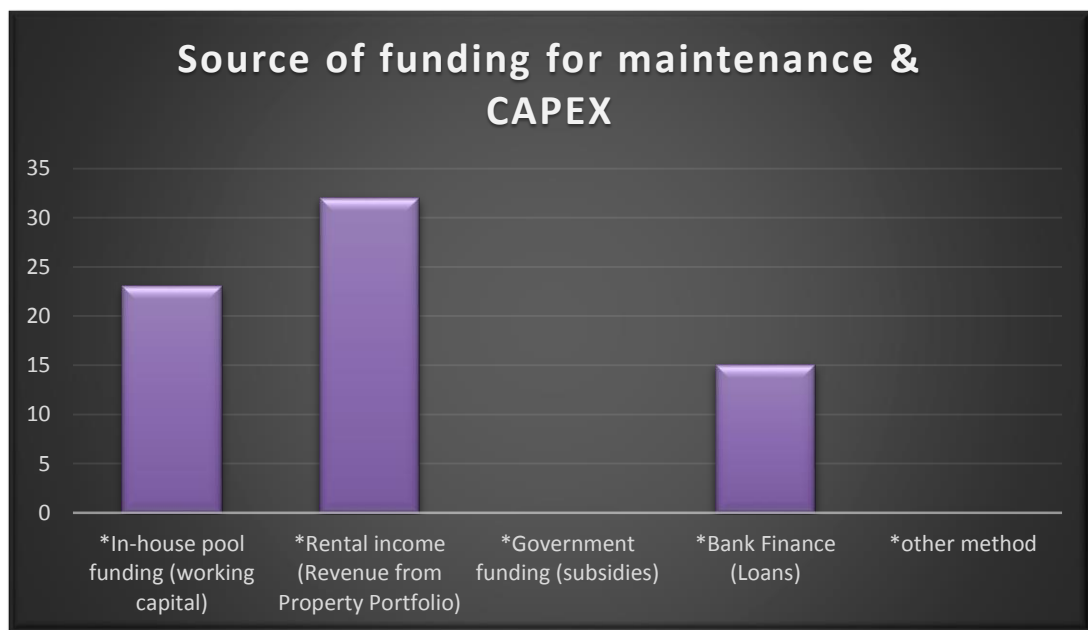
This section looks at sources of funding for maintenance and property developments with key focus on asset management and related questions seeking to address the focus on increasing revenue, improving property value, in short term maximizing returns and property value. The primary objective of the Portfolio Manager/ Property Manager is to manage the fixed assets (buildings or properties) of the representative owners in such a manner so as to add value to the properties under management. The basic financial purpose of an enterprise is maximisation of its value.

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Source of funding for maintenance and CAPEX projects

According to Cloete (2001), in his citation of Mcduling (2000), the most persistent and pressing maintenance problems in the South Africa provincial government sector when it comes to budgets, is inaccurate budgeting for and under-funding of maintenance work. According to managers interviewed, building maintenance budgets is highly underfunded in Transnet and is strongly reflected in the sad state of many of the buildings in their portfolio. It is difficult to quantify the costs of neglect and the general belief that preventative maintenance can easily be postponed until budget constraints are less tight. Maintenance projects have always being subjected to budget cuts in order to meet financial targets for the overall business.

Figure 4.6: Source of funding for maintenance and CAPEX.



Research findings show as illustrated in the above in Figure 4.6 that Transnet's operating divisions managing real estate have the following sources of funding for maintenance and CAPEX projects;

- Rental Income
- In -house pool funding (Working Capital)
- Bank Finance (Loans)

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Further interviews conducted with senior managers and executives on the sources of funding indicate that there is less reliance on bank loans for maintenance projects. Funds that are usually borrowed from the bank of China over the past 10 years are utilised for major CAPEX development projects in the ports and railway lines infrastructure which are aligned to assets that support the core business which is freight and logistics according to Managers interviewed. Non-core assets derive their source of funding for maintenance and CAPEX budget from rental income and Group finance pool funds which is subject to approval by the Transnet board.

Sources of funding for Property Developments

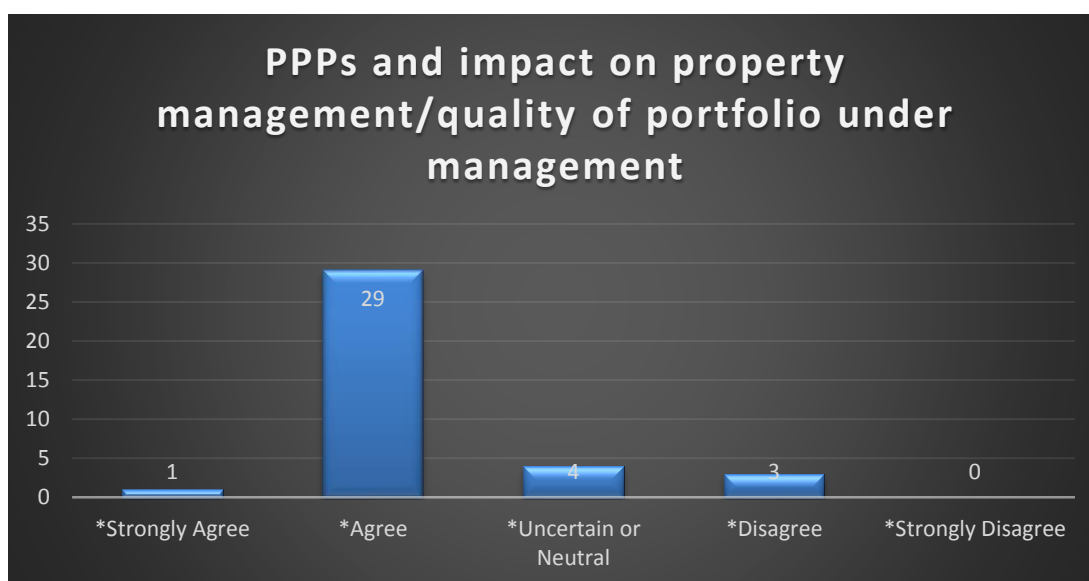
Transnet holds huge tracts of prime and well located land countrywide that are not optimally utilized. This research further reveals that all the three operating divisions (TP, TNPA & TFR) involved in real estate management are not directly involved in property developments that are not aligned to the core business. Public Private Partnership arrangements are engaged in for development of core assets that support the freight and rail logistics business on long term development leases structure according to responses in questionnaire and interviews conducted. The PPP are structured so that Transnet takes the opportunity to raise capital investment on any property developments without incurring any borrowing costs. The PPP borrowing is incurred by the private sector vehicle implementing the property development project.

The private sector has much to offer in terms of financial resources, people skills and experience as an investment in public infrastructure and services. The lack of capital as indicated in the research response to question 13 of questionnaire results in the inability to unlock the potential in terms of highest and best use for most of its sites which are strategically located countrywide. The inefficiency of the property portfolio from a fiscal point of view results in high holding costs and to mitigate this the survey in response to question number 8 indicates that all the operating divisions involved in managing real estate lease out the land to external clients. This however does not fully optimize the returns or use of prime sites. These financial investments through public private partnership are also very critical in meeting governments mandate in delivering public service infrastructure that supports the freight and railway infrastructure. Alternative sources of funding such as the Real Estate Investment

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Trusts on the Johannesburg stock exchange are other avenues that can be explored to raise capital funds for upgrading existing property portfolio or raising funds for property developments. The research conducted reveals such an avenue was not explored before by Transnet however there are talks in future to create a listed property fund. The research survey indicates that the property developments on Transnet non-core sites are only done through development leases in Private Public Partnership structures. The PPP are structured so that Transnet takes the opportunity raise capital investment on any property developments without incurring any borrowing costs. The PPP borrowing is incurred by the private sector vehicle implementing the property development project. The private sector has much to offer in terms of financial resources, people skills and experience as an investment in public infrastructure and services.

Figure 4.7: Public Private Partnerships and impact on real estate management



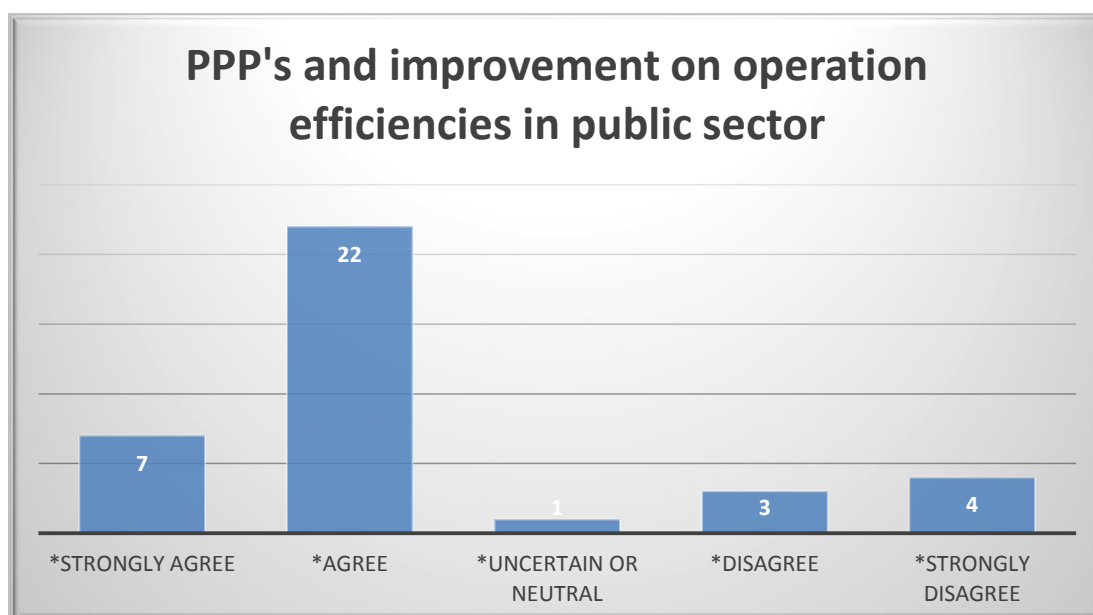
As discussed in chapter two it is often believed that the main purpose of Public Private Partnership (PPPs) in State Owned Enterprises is to create modern enterprise system. There are usually two fundamental drivers for PPPs. First, PPPs are claimed to enable the public sector to harness the expertise and efficiencies that the private sector can bring to the delivery of certain facilities in this instance property management systems in Transnet.

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Second, a PPP is structured so that the public sector body seeking to make capital investment does not incur any borrowing. Rather, the PPP borrowing is incurred by the private sector vehicle implementing the project. Respondents were asked the question with the aim to ascertain as to whether PPPs improve the management of real estate and quality of portfolio under management overtime. Figure 4.7 indicates that the majority of the respondents being managers (30, 81.0%) believed that PPP's do improve real estate management systems in SOE's with (4,11.0%) being neutral or ascertain and (3,8.0%) disagree. These financial investments through public private partnership are also very critical in meeting governments mandate in delivering public service infrastructure that supports the freight and railway infrastructure.

Alternative sources of funding such as the Real Estate Investment Trusts on the Johannesburg stock exchange are other avenues that can be explored to raise capital funds for upgrading existing property portfolio or raising funds for property developments. The research conducted reveals such an avenue has not explored before by Transnet however there are plans in future to create a listed property fund.

Figure 4.8: Public Private Partnerships and impact on real estate management operational efficiencies.



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Further to this, the research with Transnet Managers with regards to PPP's impact on operational efficiencies in real estate management as indicated below in figure 4.8 shows that the majority (29,78%) agree that there would be improvement in operational efficiencies with (1, 3.0%) being neutral and (7,19.0%) disagreeing.

4.7 Corporate Governance and Legislation impacting on management of non-core property assets in Transnet

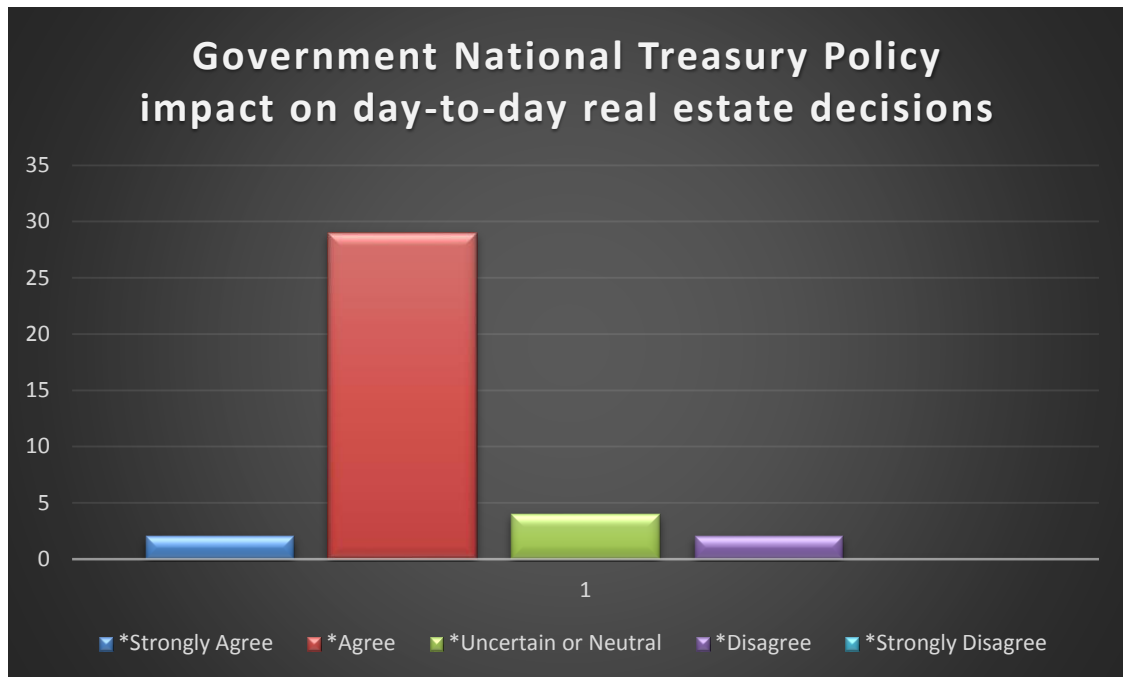
State-owned enterprises are legal entities created by government to undertake commercial activities on its behalf. There exists a legislature intended to govern state owned enterprises, whether a small scale business operation or a large scale operation, some form of administration should be put into effect and usually this is given direction by some written guiding principles of the company policy or legislation. The companies Act in South Africa for example governs the conduct of all companies. The term 'state-owned company' (SOCs) refers to SOEs that are also governed by the Companies Act. The surveys and interviews conducted show the impact government legislature has on the management of non-core property assets in Transnet. The primary objective of this area of research is to analyse legislative systems approach in SOEs and how they impact on real estate management.

The preliminary surveys showed that the legislature that governs state owned enterprises does impact on the management of non-core assets in Transnet and the interviews conducted further ascertained the foregoing observation. Behind a good property management structure is often a good property management policy and or management guidelines. A policy means a plan of action or strategy. A policy may either be the outcome of some process or it may be a plan designed specifically to further a goal (Dwyer, 1993, 4). Transnet does have Standard Operating Procedures Policies and is the first SOE to draft one aligned to management of non-core property assets in South Africa according to the sales managers interviewed. The Standard Operations Procedure (SOP) is a document to provide procedures to be followed in the applications of Transnet Immoveable Property Disposal Policy which must be read in conjunction with DPE's document "State -Owned Enterprises Non-Core Property Disposal Policy and has highlighted the Broad-Based Black Economic Empowerment guidelines.

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It is however important to remember that the quality of corporate governance depends on whether corporate governors have the capacity, knowledge, expertise, experience and integrity to make and carry out wise decisions in the interest of the shareholder, company and stakeholders including the public.

Figure 4.9: Government National Treasury Policy



According to figure 4.9 (31, 84.0%) agree that National Treasury Policy does impact on the day to day decision making in real estate with the following areas indicated by managers in interview questions 18 & 19;

- Disposal of non-core property assets and vacant land
- Leasing
- Development of land classified as non-core
- Refurbishment of non-core property assets
- CAPEX expenditure on non-core assets

National Treasury Policy guides the disposal of public owned land and non-core property assets with legislative laws needing to be complied with Government Immovable Asset Management Act No. 19 of 2007, State Land Disposal Act 1961 and the South African Constitution.

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This policy clearly does not address the issue of redeveloping unutilized land or refurbishing existing dilapidated non-core property assets but emphasis is more on Transfer to another state organ or disposal to the market. The National Department of Public Enterprises policy notes that “A State Owned Enterprise or a wholly owned subsidiary of a SOE may not dispose of any property unless it has first offered that property for sale to the state and other SOE via the Department of Public Enterprises under the same terms and conditions it is otherwise prepared to dispose of that property. Section 5 of the Act further highlights that when disposing of land, the owner must consider whether it can be used;

- By another department or jointly by differing departments;
- For social development initiatives of government, and
- In relation to government’s socio-economic objectives, including:
 - Land reform
 - Black empowerment
 - Alleviation of poverty
 - Job creation and,
 - Redistribution of wealth.

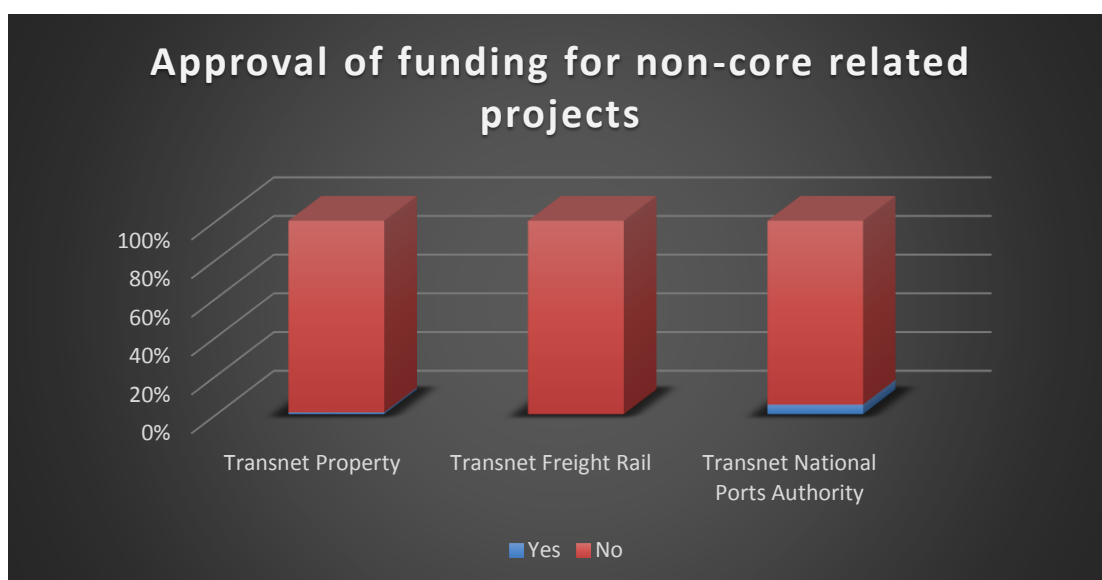
In addition, Transnet together with all other SOEs in South Africa are required to consider transferring assets to the Department of Housing if such assets have been identified for affordable or social housing projects or programs. This clearly shows that any proposed initiatives to improve the quality of the dilapidated non-core property assets in order to improve performance by Transnet would easily be viewed as fruitless and wasteful expenditure as such does not align with the core business and does not comply with the legislative requirements stated above. However, the National Department of Public Enterprises acknowledges in its policy that “property is a strategic and productive asset, a vehicle for economic development, service delivery and transformation.

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Public Finance Management Act 1 of 1999 impact on real estate management

The Public Finance Management Act 1 of 1999 (as amended) is one of the most important legislation governing state owned enterprises. In the case of Transnet, which is listed schedule 2 public entity, the accounting authority will be the one to facilitate the borrowing of money or issuing of guarantees or who enter into any other transaction that binds or may bind that public entity into future financial commitment.

Figure 4.10: Funding of non-core related property development projects.



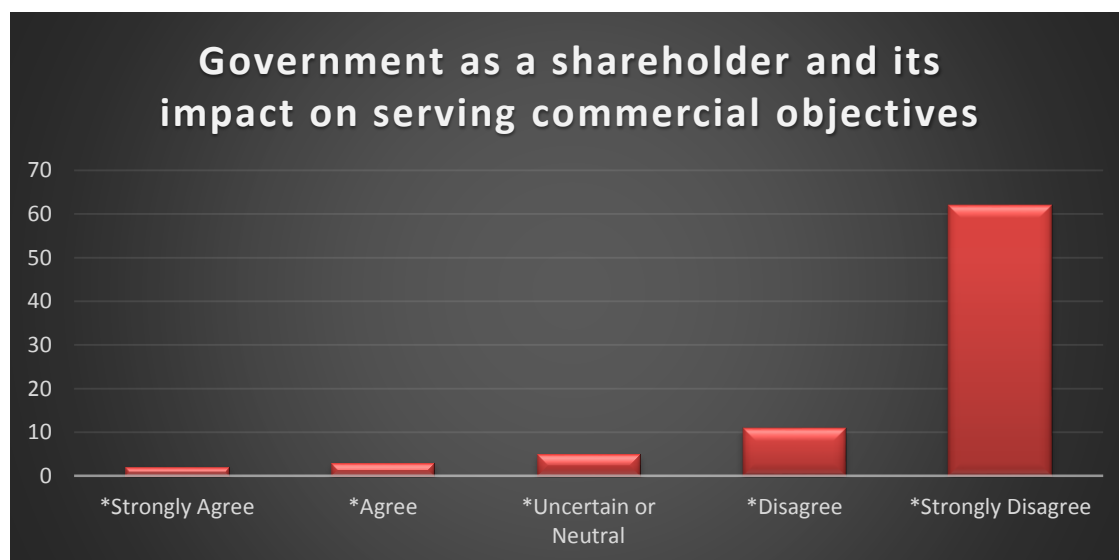
The respondents mainly managers were asked the question under interviews as to whether Transnet can get approval and funding from Government to embark on property developments that are not related to its core freight and rail business. The majority of the managers as indicated in figure 4.10 above shows that such funding cannot be approved with only (1,1.0%) manager in TP and (2,5.0%) in TNPA stating that approval can be granted. For the purpose of this research, there are specific sections in the PFMA that are important and relevant when dealing with SOE funding issues namely 54(1), (2), 66(1), (3), (7)(a)(b) and 70. PFMA clearly stipulates the rules and regulations governing the funding of SOEs and ensuring they borrow on strength of their balance sheets and as part of supporting capital infrastructure programs, government provides cash to SOEs at the lowest possible cost. It is evidently clear that funding cannot be granted for property development projects that are not aligned with the core business of Transnet.

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Government being a major shareholder in Transnet and its impact on serving non-commercial objectives

Transnet is a state owned company (SOC) wholly owned by the government of the government of the Republic of South Africa. Transnet is therefore mandated by government to contribute to the socio-economic development of the country through infrastructure development, small scale business development and job creation. Real Estate infrastructure held by Transnet categorised as core-assets in ports and railway logistic operations provides gates for growth of the company and SA economy in general. Little or no emphasis is made on non-core assets in its mission statements as reviewed in the survey on Transnet's strategy and vision with regards to this portfolio that has reached the end of its economic life to the business and deemed to be financially unsustainable.

Figure 4.11: Government as Shareholder and its impact on serving commercial objectives



Respondents were asked the question with the aim to ascertain if government being a major shareholder in Transnet had an impact on its portfolio serving commercial objectives. The majority of the respondents (73, 88.0%) disagreed to the statement indicating that government being a shareholder does not in any way impact on Transnet serving commercial objectives.

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Further research conducted via interviews with senior managers on the same question indicated that the majority of the managers (14, 84.0%) indicated that Transnet is still able to serve commercial objectives with their property portfolio. (3, 16.0%) felt that Transnet cannot serve commercial objectives like private companies due to government being a major shareholder hence the poor performance realized. This indicates clearly that government does not have a significant impact on Transnet property portfolio meeting commercial objectives despite the socio responsibility task mandated on SOC's in South Africa. Public Asset Management on one hand ensures that immovable property owned and / or utilized for delivering various government services yields functional, economic and social benefits (Public Works report:2014).

Listing of a REITS in Transnet and enabling legislation

Respondents consisting of only senior managers were asked the question as to whether Transnet can list a REITs fund and the majority (22, 59.0%) agreed with (15, 41.0%) stating it could not. Further research conducted via interviews with senior managers on the same question to ascertain reasons why Transnet cannot list a REITs fund gave the following as reasons;

- Transnet's core business which is freight and logistics is not aligned to focus on property hence cannot easily get board approval to list a REITs on JSE,
- National Treasury Policies and the "National Government Immoveable Asset Management Act instructs that non-core assets must be disposed of,
- Poor quality property portfolio that is currently highly neglected in terms of maintenance and achieving suboptimal returns might not qualify for listing.
- Mixed ownership structure, with three predominant groups of shareholders - being the state, legal persons (institutions) and individuals is not favourable for a state owned company mandated to serve public interest and play a crucial role in providing economic infrastructure.

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Corporate governance

Corporate governance is the system of rules, practices and process by which a company is directed and controlled. In the context of this study, corporate governance is defined as a set of instruments and mechanisms (contractual, legal, and market) available to shareholders for influencing managers to maximize shareholder value and to fixed claimants. Corporate governance essentially involves balancing the interest of a company's stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community.

Table 4.7: Government Policies and impact on real estate day to day activities

	n	%
*Strongly Agree	2	5%
*Agree	29	78%
*Uncertain or Neutral	4	11%
*Disagree	2	5%
*Strongly Disagree	0	0%

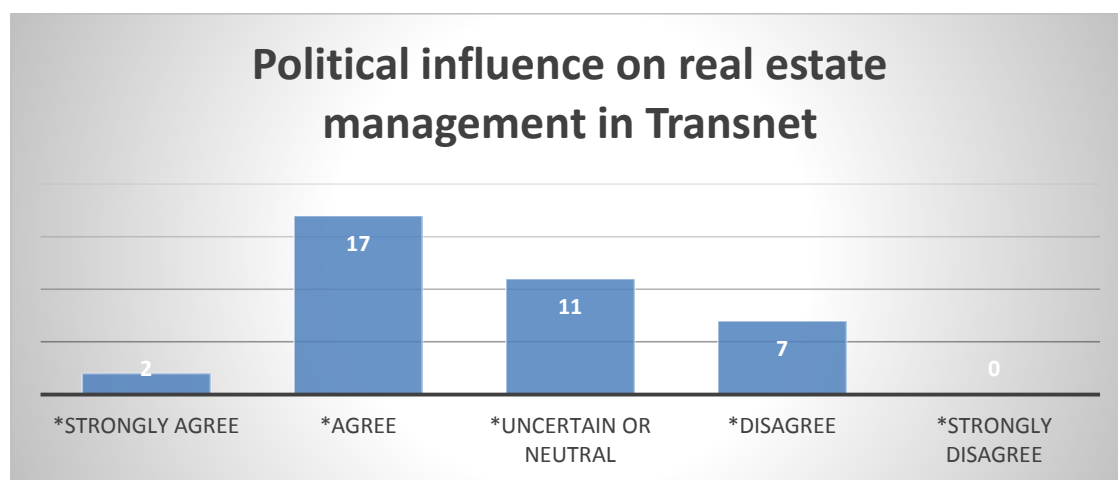
The summary Table 4.7 above further highlights that (33,83%) agree that there is an impact on day to day activities of real estate, (4, 11%) are neutral and feel that National Treasury does not have any impact on the day to day decision making with only (2, 5%) disagreeing that National Treasury Policy does not have any impact. Corporate governors have legal and fiduciary duty to check that all transactions are legal and conform to acceptable corporate governance practice. Some economists in monetary policy hold the view that rules and regulations can reduce policy mistakes, improve transparency and end political influence on policy making (Van Lear, 2009:29). It is important to understand that discretion allows for freedom to act in accordance with one's own judgement whereas a rule or policy involves the exercise of control over discretion in a way that puts restrictions or limitations over the objectives it pursues (Dwyer, 1993:4). Formation of company property policies is moreover necessitated by the absence of legislature as without the governing legislature tenants lose a sense of security and so do the landlords in some cases.

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The availability of adequate systems and clear policies is very important to the ability to manage property efficiently as indicated in the literature review under property management systems and legislation. This further assists in setting clear procedures on how core and non-core property assets may be used and managed within Transnet.

Political Influence on Real Estate Management

Figure 4.12: Political influence on Real Estate Management.



The respondents as per figure 4.12 indicated by (2, 5%) strongly agree, (17, 46%) agree with total summed (19, 51%) reveal a majority in support of the question as to whether Transnet being an SOE has political influence on its real estate management operations. (11, 30%) were uncertain or neutral with (7, 19%) disagreeing to the question. The literature (Qiang, 2003:778) also states that since early 1980s China has been seeking to improve SOEs corporate governance, which was then simply articulated in the term of “separation of government from management,” trying to form a “modern company system. The main aim was to create modern enterprise system in SOEs with efficient corporate structure, governance and management based on the principle of corporatization, and with provisions for full separation of state’s exercise of ownership rights from the enterprise’s exercise of legal person property rights. The decision making processes must be supported by sound policy to simplify the decisions to be taken and provide a strong point of reference for the decisions (Cloete et al., 2006:17). State owned enterprises in South Africa has cost the state billions and billions of Rands from their inefficiencies and alleged state capture allegations according to media.

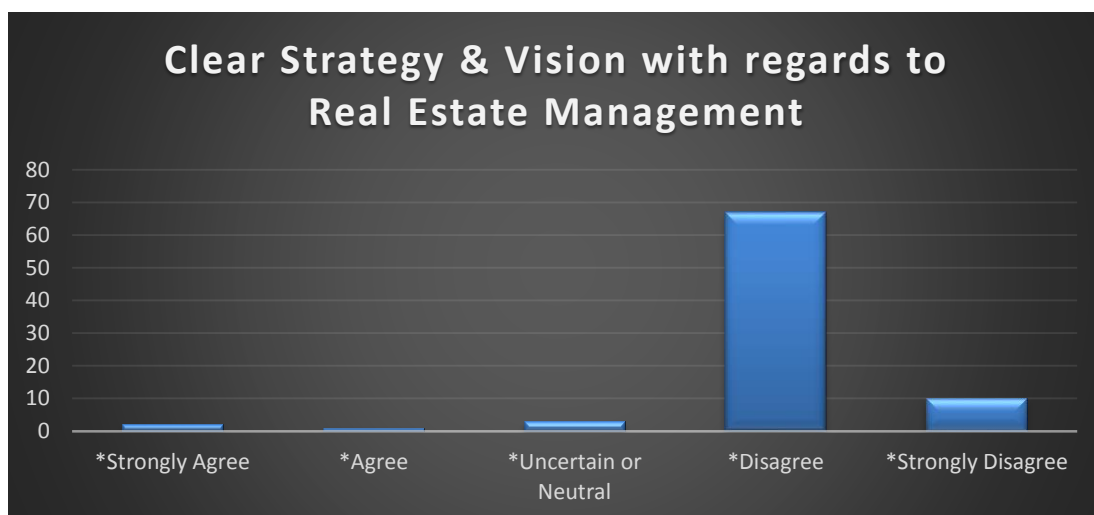
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4.8 Factors attributing to the highly deteriorated non-core property assets held by Transnet

The main objective is to illustrate the approaches to property management practised in Transnet and analyse factors that have caused the property portfolio to be in a poor state of repair and the resultant suboptimal returns and below market rentals as shown in figure 4.3. As discussed under literature review, this section looks at the way Transnet's property management divisions manage the daily administrative, technical and commercial management as well as maintenance activities of their respective property portfolios. In order to adequately address the fourth objective of the research study, information from the selected respondents involved in the managing of the Transnet property portfolio was gathered to obtain their views and provide an insight as to why the portfolio is highly neglected. In order to adequately address the foregoing objectives, the views from all operating divisions were obtained and analysed as illustrated and summarised below.

Business Strategy

Figure 4.13: Strategy & Vision



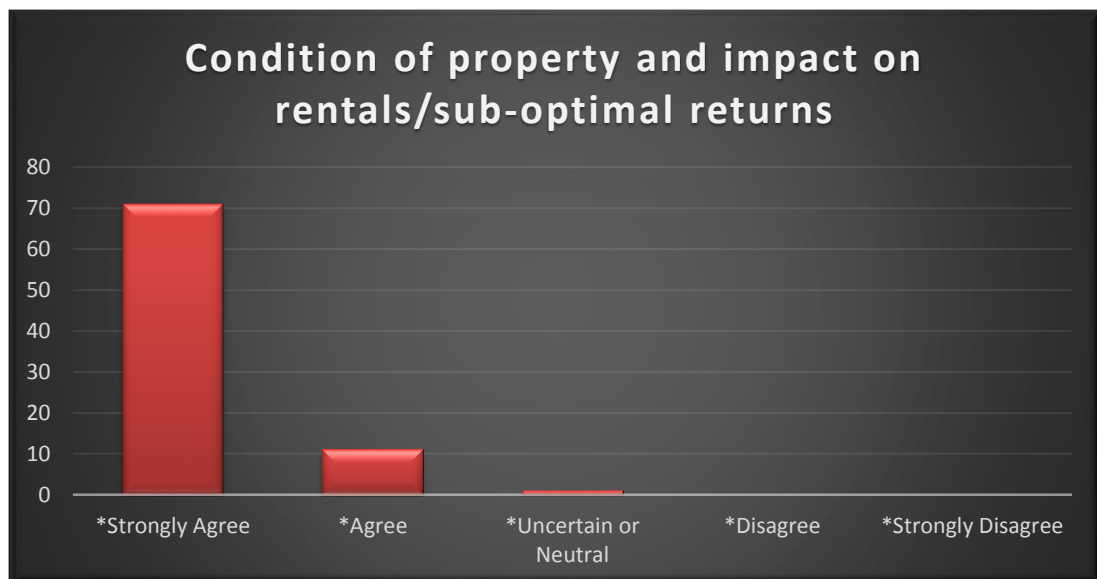
Respondents were asked the question with the aim to ascertain if Transnet Property had a clear strategy and vision with regards to real estate management. The majority of the respondents (77, 93.0%) indicated that Transnet does not have a clear strategy and vision with regards to real estate management. Further research conducted via

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interviews with senior managers on the same question indicated that the majority of the managers (12, 71.0%) indicated that Transnet core business which is freight and logistics is not aligned to focus on property hence no clear strategies are laid out for real estate. (3, 3.0%) felt that Transnet does have a strategy and (3, 4.0%) were neutral. The research reveals that the non-core property assets are currently managed on an adhoc and fragmented basis without clear strategic direction or focus. Assets held under non-core are deemed to be achieving non-commercial objectives to the business. It is evident from the research that Transnet Property does not have a clear strategy on how to manage and maximize the value of its existing non-core property portfolio and prime land.

Condition of buildings

Figure 4.14: Relationship between condition of buildings and its impact on rentals and sub-optimal returns



Respondents were asked in question sixteen of the questionnaire with results presented in figure 4.14 on their position with regards to the condition of non-core property assets and resultant effects on the rentals and returns achieved by the non-core property portfolio. The majority of the respondents (82, 99.0%) indicated that the poor condition of the non-core property portfolio does have a negative impact. Further research conducted via interviews with senior managers on the same question

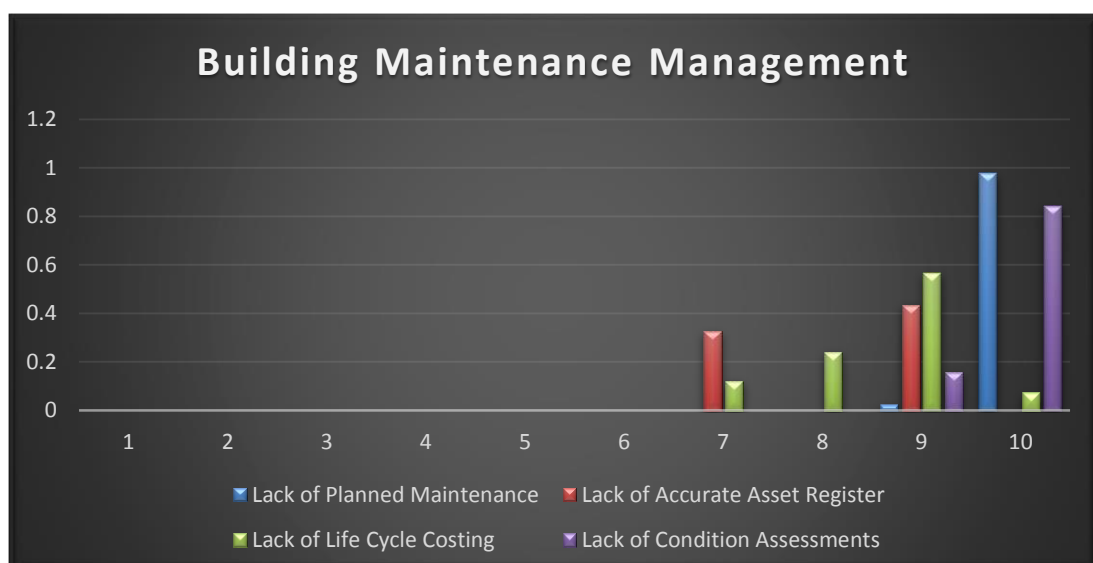
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indicated that Transnet holds a large property portfolio consisting of predominantly 'D' grade buildings that are currently physically, functionally and economically obsolete lacking constant maintenance which results suboptimal returns been achieved.

Facilities Management and Maintenance

This section looks at Transnet's approach to facilities management and property maintenance for its property portfolio under management. One of the most important aspects in property management is property maintenance. The response from the interviews and questionnaires informs the researcher on how maintenance is treated when it comes to non-core assets. The lack of maintenance and upgrades to its existing property portfolio that is leased on the open market has led to it being functionally obsolete, economically obsolete and physically obsolete. Building maintenance management as discussed under literature review in chapter two is divided into two categories – first, the building itself as tangible assets and secondly, in terms of facility management as an intangible asset. Property maintenance, includes improvement, refurbishment, upgrading and repair works to the existing facilities. Facilities Management is involved with the integration and alignment of the non-core services, including those relating to premises, required to operate and maintain a business to fully support the core objectives of the organisation.

Figure 4.15: Building maintenance management.



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Table 4.8: Interviews response summary

	1	2	3	4	5	6	7	8	9	10
Lack of Planned Maintenance									2%	98%
Lack of Accurate Asset Register							33%		43%	
Lack of Life Cycle Costing							12%	24%	57%	7%
Lack of Condition Assessments									16%	84%

Respondents were asked the question to ascertain if the lack of the following; planned maintenance, accurate asset register, life cycle costing, condition assessment had a negative impact on the quality of property portfolio under management and returns generated. The response was measured on a scale of 1-10 with 1-4 being the least likely response, 5 neutral and 6 - 10 most likely. As illustrated in Table 4.8 above, the majority of the respondents represented by a rating scale of 9 (2, 2.0%), and rating scale of 10 (81, 98%) indicated that Transnet does not conduct planned maintenance and this does have a strong negative impact on the quality of the property portfolio and returns generated. The lack of an accurate asset register and its impact on the quality of portfolio and returns generated based on respondents indicate a rating of 7 (27, 33.0%) and a rating of 9 (36, 43%) which strongly shows that it also does have a negative impact.

Table 4.9: Asset Register updates by Transnet's operating divisions

TP		TNPA		TFR	
Annually		Annually	√	Annually	√
Quarterly		Quarterly		Quarterly	√
Monthly		Monthly		Monthly	
Seldom updated	√	Seldom updated		Seldom updated	

Table 4.9 indicates that TP seldom conducts updates on its Asset Register whilst TNPA does annually with TFR conducting the exercise annually and quarterly. The response shows that TNPA and TFR have good record keeping of their property assets under management. An accurate inventory of assets greatly assists with maintenance and forecast budgeting. The lack of Asset Register updates shows that the portfolio is highly neglected, poorly budgeted for and overlooked.

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The respondents as per Table 4.8 also indicate that the lack of life cycle costing which shows a scale rating from 7-10 represented by 7 (10, 12%), 8(20, 24%), 9 (47, 57%), 10 (6, 7%) and condition assessment with scale rating 9-10 represented by 9 (13, 16%), 10 (70, 84%) shows that it does have a negative impact on quality of portfolio and returns generated. Further research conducted via interviews with senior managers on the interview question number one which sought to ascertain the causes of the highly deteriorated non-core property portfolio managers indicated the following as reasons attributable;

- Lack of maintenance over the years due to budget constraints,
- It is not financially justifiable to refurbish the property assets as they are earmarked for disposal once listed as non-core assets,
- The sums required to upgrade the old infrastructure in relation to income are huge and has led to most of these properties being neglected,
- Transnet's core business is freight and logistics is not aligned to focus on property,
- Non-core property assets are currently managed on an adhoc and fragmented basis without clear strategic direction or focus.

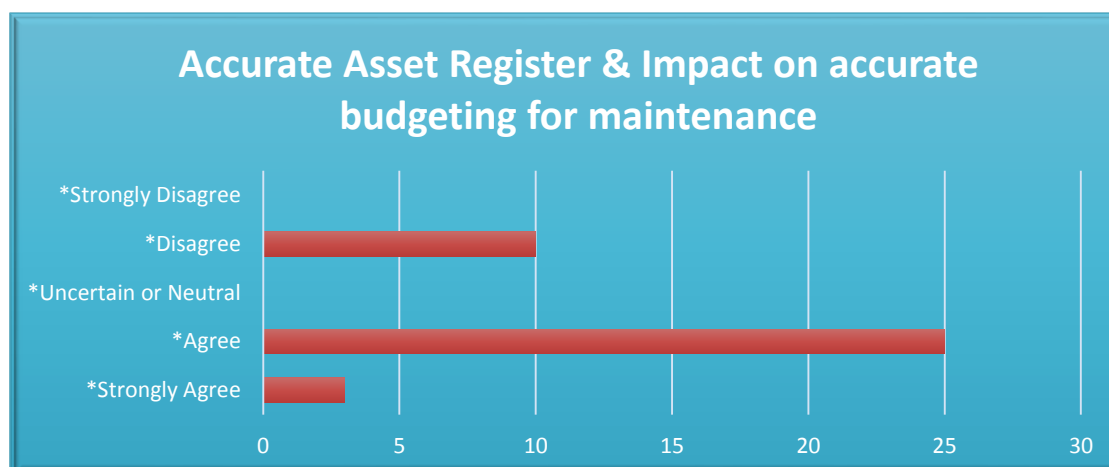
The most persistent and pressing maintenance problems in Transnet as evident above and in figure 4.8 is the 'lack of accurate and reliable information on the current condition and maintenance requirements of building fabric and elements. As indicated under Table 4.10 below, Transnet's operating divisions do not even conduct life cycle costing except TFR. Accurate information is a critical requirement for cost-effective building maintenance with regards to the fabric and elements, and these can only be determined through physical condition assessment audits.

Table 4.10: Life Cycle Costing updates by Transnet's operating divisions

TP		TNPA		TFR	
Annually		Annually		Annually	
Every 2 years		Every 2 years		Every 2 years	√
Every 2-3 years		Every 2-3 years		Every 2-3 years	
Every 5 years		Every 5 years		Every 5 years	
Not done at all	√	Not done at all	√	Not done at all	√

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Figure 4.16: Asset Register & Budgeting



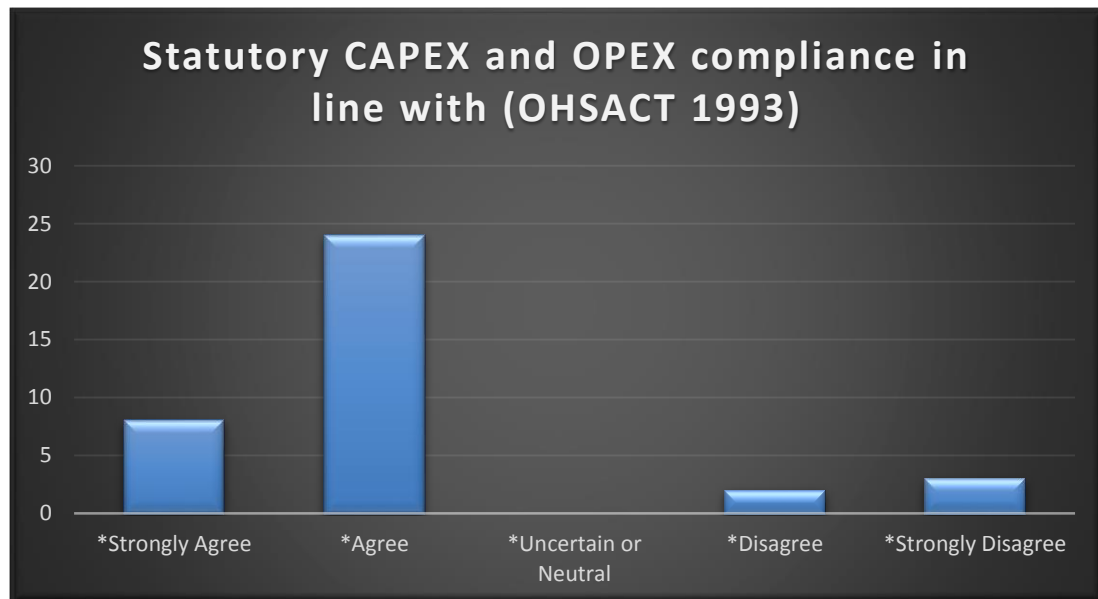
Statutory building maintenance

In terms of the Occupation Health Safety Act 1993 (OHSAct) certain aspects of building maintenance management are done to comply with the law and regulations to ensure safety standards are adhered to and practised by property owners. Often these laws and regulations are contravened by property owners or occupiers of the premises. These regulations were previously made under the repealed Machinery and Occupation Safety Act 1983 and now applicable under the OHSAct of 1993 (GN2362 of 5 October 1990). Interviews conducted with Managers reveal that often compliance is adhered to statutory maintenance to avoid fines and threat of shutting down business operations by relevant authorities which would impact negatively on Port and Railway operations. Based on interviews conducted with Maintenance and Facilities Managers the following were identified as statutory maintenance requirements common to Transnet's property portfolio;

- Lifts maintenance
- Electrical Machinery regulations in industrial, workshop and warehouses
- Fire equipment and hydrants maintenance
- Landscaping and grass/bush fire control
- Plumbing systems
- Building structure
- Facilities regulations

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Figure 4.17: Statutory maintenance and CAPEX projects.



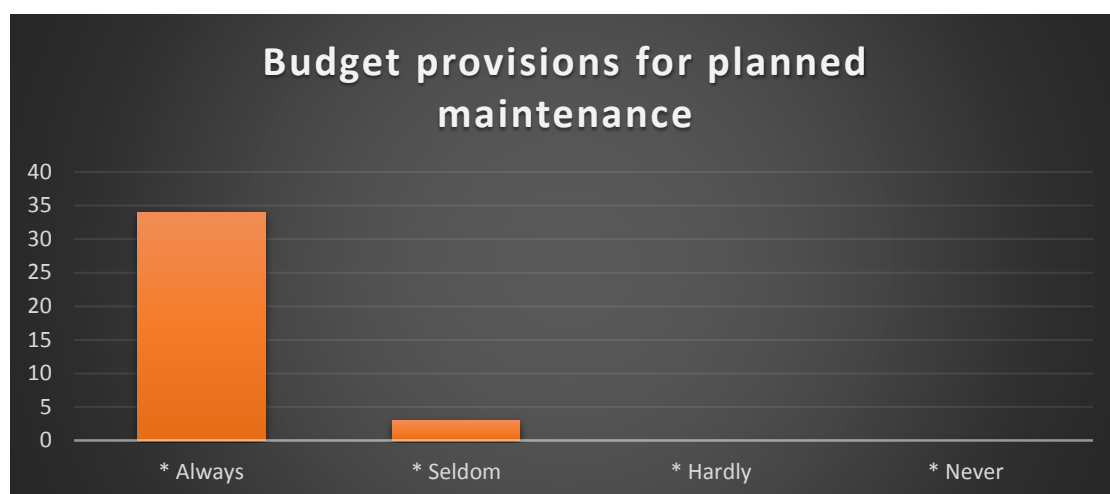
Respondents were asked the question with the aim to ascertain if Transnet Property does prioritise statutory OPEX and CAPEX projects as stipulated under the Occupation Health and Safety Act of 1993. This question was addressed to senior managers and executives. The majority of the respondents (32, 87.0%) from the various operating divisions managing real estate indicated they do comply with the statutory requirements. (5, 13%) indicated that they do not prioritise their spend on OPEX and CAPEX for statutory compliance reasons.

Budget provisions for planned maintenance

As highlighted in chapter 2 planned maintenance is the systematic inspection of buildings, equipment and all assets within an organisation, the objective of which is to maximise their economic life and utility. Planned maintenance system anticipates failures and sets in place appropriate procedures to prevent or rectify these.

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Figure 4.18: Planned Maintenance Budget Forecast.



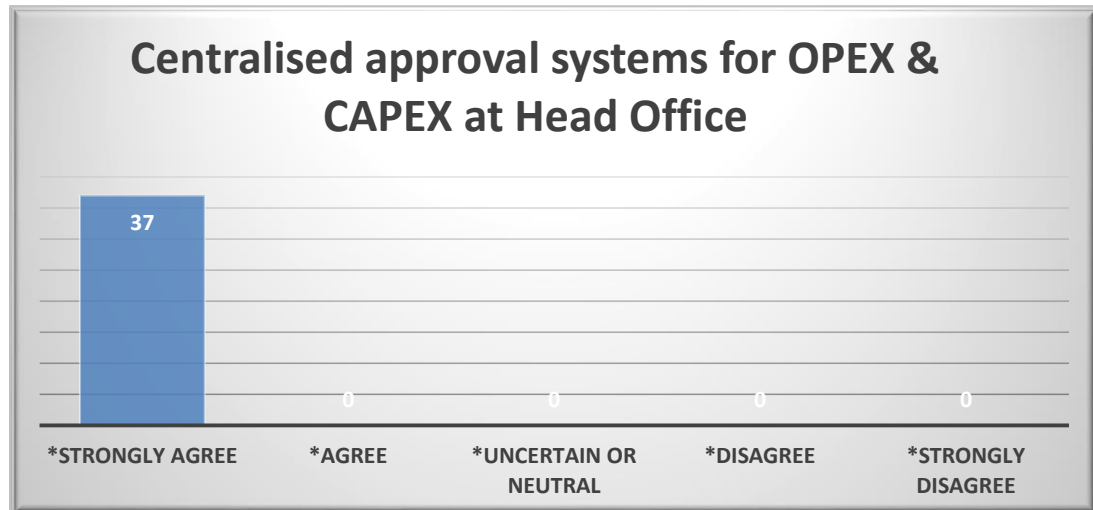
It is evident from figure 4.18 that budget provisions are taken into account for planned maintenance. The majority of the respondents comprising senior managers (34, 92.0%) indicated that they do budget for planned maintenance with (3, 8%) stating that they seldom do planned maintenance budget forecast. Further research conducted via interviews with senior managers however indicated that budget provisions for planned maintenance is one of the items that are quick to cut when it comes to creating savings in order to meet EBIDTA targets which are always stretched.

Centralisation of approval systems for OPEX & CAPEX and its impact on maintenance

Systems in most state owned enterprises are centralized with less delegation of authority being allotted to the regions and all approvals centralized at head office. Transnet has its head office in Johannesburg which does the approval of maintenance, CAPEX and OPEX related projects. The need to centralize approval systems historically was aimed at mitigating risk, control and compliance in order to minimize financial loss. However as the research reveals such systems have their own challenges which have resulted in fruitless and wasteful expenditure, increasing risk and breaching compliance according to managers interviewed. This has also resulted in delays in executing maintenance projects according to most facilities and maintenance managers interviewed.

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Figure 4.19: Approval systems for OPEX & CAPEX and its impact on maintenance projects.



According to table 4.12 above, all managers (37, 100.0%) strongly agreed that the system of having submissions for OPEX and CAPEX at head office does create delays thus negatively impacting on maintenance projects. Interviews with managers further indicated that these projects are not in some instances fully understood in terms of their urgency and importance hence declined in some instances.

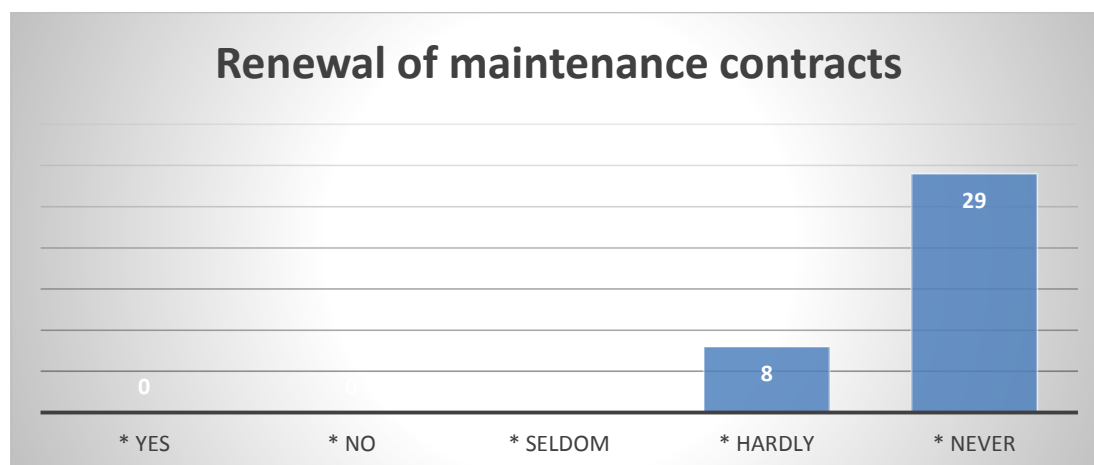
Maintenance contracts

According to the interviews conducted with the Technical and Facilities Managers Transnet Property has the following contracts that are related to property management;

- Security contracts
- Cleaning contract
- Electrical and Plumbing contracts
- Pest Control contracts
- Lifts Maintenance contracts
- Gardening services contracts

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Figure 4.20: Maintenance contracts.



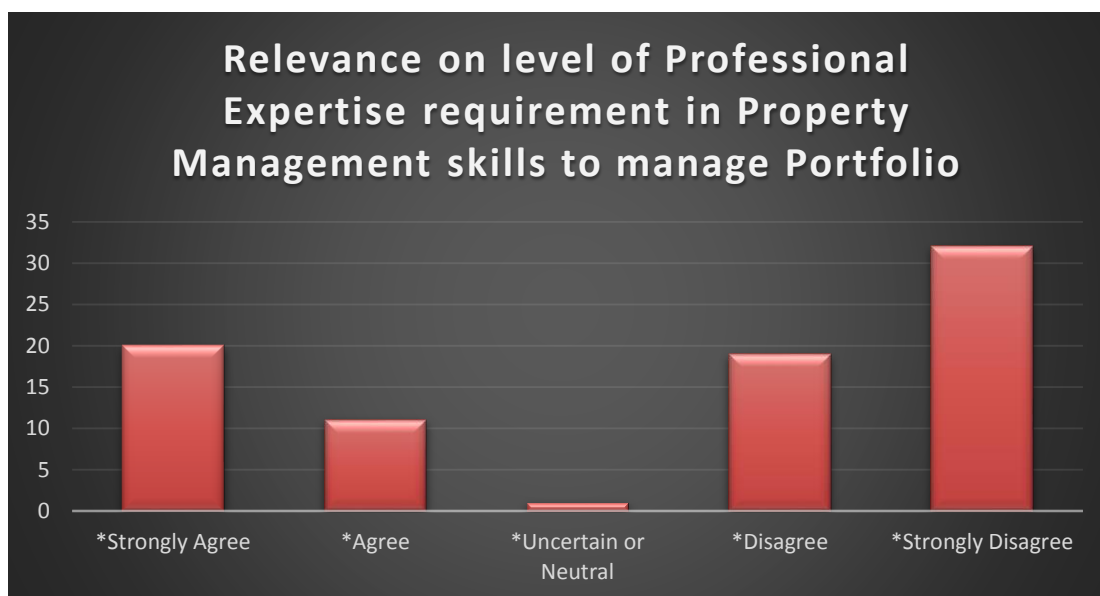
It is evident from figure 4.20 above that maintenance contracts in Transnet are hardly and never renewed timeously. Interviews with managers (8, 22%) indicate that contracts are hardly renewed and (29, 78%) of the managers stated that most if not all contracts are not renewed timeously. Further interviews conducted with Technical and Facilities managers reveal that Transnet Property contracts are currently on month to month and have never been renewed since 2010. The lack of renewals leads to some contracts not being benchmarked against market rates and could lead to fruitless and wasteful expenditure. On the one hand the contractors cannot dedicate their full service to offer quality work as month to month contracts are highly risky for any business due to lack of assurance of continuity of business contract.

This clearly indicates non-compliance with the PFMA requirements and has resulted in a lot of Audit findings over the past 8 years according to interviews with senior managers and media reports.

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Property Education and impact on management of non-core property assets

Figure 4.21: Professional expertise requirements on management of Transnet's non-core assets.



Respondents were asked the question with the aim to ascertain if the neglected non-core property assets actually required skilled and competent real estate professionals to manage the portfolio. The majority of the respondents (51, 61.0%) disagreed to the statement indicating that the non-core property portfolio does not require skilled personnel to manage the portfolio. The research however also indicated (31, 37.0%) that despite the property portfolio being in a poor state of repair it required skilled and competent personnel. Related to this research question is the further research on education and service level requirements addressed in questions five (i) (ii) and six of the questionnaire. Question five seeks to obtain the views on relevance of tertiary education requirements in managing core and non-core property assets. Question six aimed at soliciting views on the relationship between quality of buildings under management and extent property management service levels required.

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Figure 4.22: Real Estate studies requirements in managing core-assets

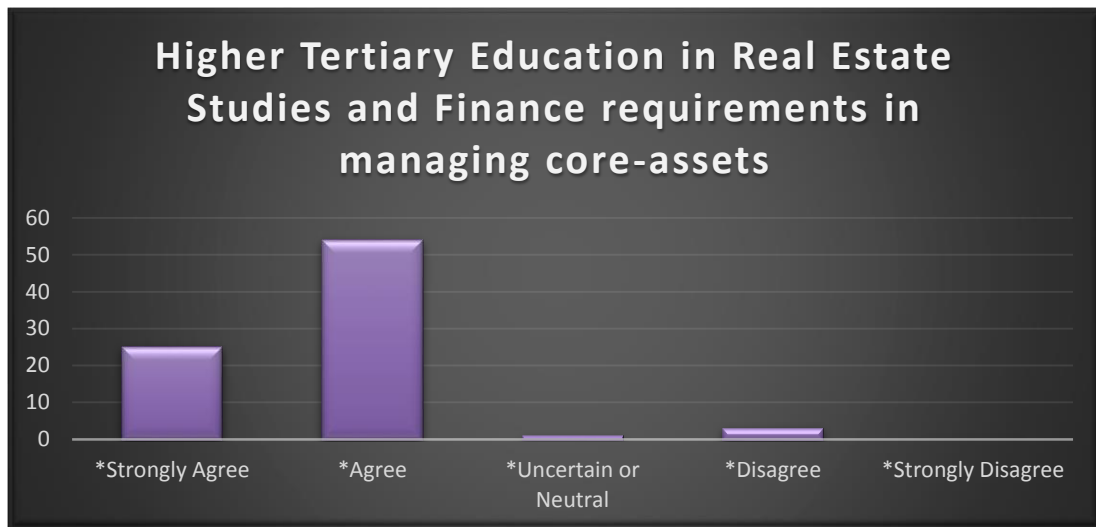
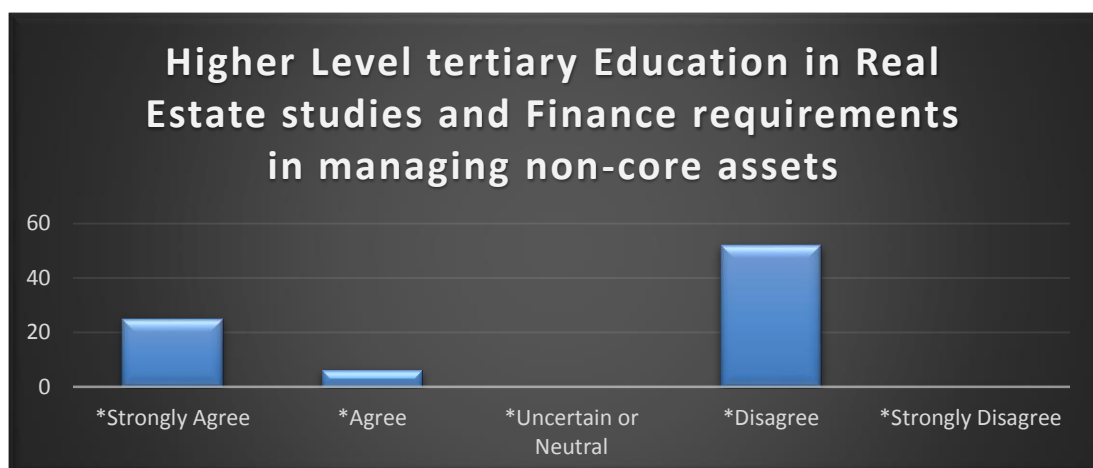


Figure 4.22 indicated that the majority of the respondents (79, 95.0%) believed that Transnet's core property portfolio which has most of its assets in a good state of repair required personnel who are suitably qualified and hold tertiary qualifications in Real Estate studies and finance to manage it. However, (3, 4.0%) felt that Transnet's core assets did not require tertiary qualifications to manage the portfolio. The research survey reveals a culture of belief amongst the Transnet employees on the perception of importance in hiring skilled and educated personnel with strong reference to the quality of assets under management and biasness to those that serve the core business operations.

Figure 4.23: Real Estate studies requirements in managing non-core assets



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Figure 4.23 above shows the opposite in response when it comes to perceptions on tertiary education requirements for assets that serve non-core objectives of the Transnet. Respondents were asked the question with the aim to ascertain if the neglected non-core property assets actually required personnel with Tertiary education in Real Estate studies and Finance to competently manage the non-core property portfolio. The majority of the respondents (52, 63.0%) indicated that the non-core property portfolio does not require tertiary qualifications to manage the portfolio. However, (31, 37.0%) indicated that tertiary skills are required. The research shows different altitudes portrayed when it comes to management of core and non-core property assets.

Little importance is attached to the highly neglected non-core property assets as illustrated in the above outcomes of research questionnaire responses. Interview question one which was addressed to senior managers and executives looked at seeking the causes that have led to Transnet's non-core property portfolio being neglected and the resultant poor state of repair. Majority of the respondents to this question expressed the concern on lack of capital expenditure on maintenance over the years to assets that serve non-core business objectives. The views expressed indicate that it would not make business sense to refurbish assets that don't serve or support the core business of Transnet which is freight and logistics. Non-core assets are earmarked for disposal in line with PFMA and National Immoveable Assets Management Act.

Skills and expertise of management committee members managing property

The Standing Committee on Public Accounts (SCOPA) and state of capture inquiry committees act as Parliaments watchdog over the way taxpayers' money is spent by the executives in SOEs by reviewing the Auditor-Generals (AG) reports. It has become common knowledge after recent public parliamentary enquiry hearings that in South Africa, SOEs absorb a substantial amount of resources and actually impose a heavy burden on the national fiscus. Question 38 of the questionnaire sought to address the question as to whether the various committee members in the approval structure inclined with heavily bureaucratic systems and varied expertise do have an impact on the goals and objectives related to Transnet property which does not serve the core

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business of Transnet group which is freight and rail business. Transnet is structured to provide transport and handling services through its five operating divisions, namely, Transnet Freight Rail (TFR), Transnet Rail Engineering (TRE), Transnet National Ports Authority (TNPA), Transnet Port Terminals (TPT) and Transnet Pipelines (TPL). Transnet Property (TP) as a specialist unit is an operating division mandated to manage non-core assets and handle disposals of certain non-strategic property assets to address safety and security risks, and to reduce holding cost associated with the unproductive assets.

Figure 4.24: Skills and Expertise of committee member's impact on Real Estate transactions.

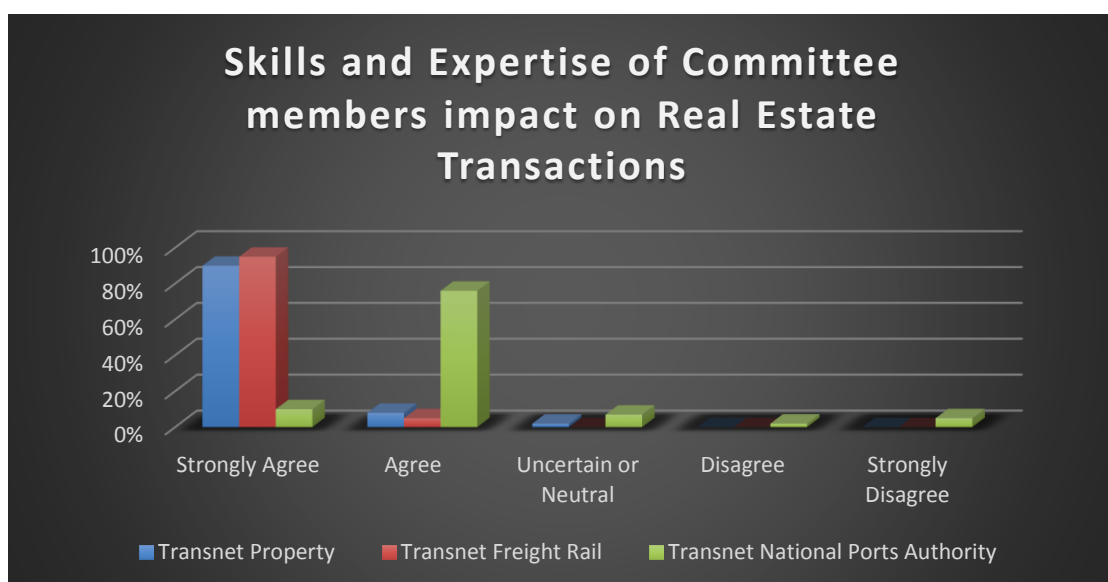


Figure 4.24 indicates that the majority of the respondents consisting of senior managers from TP (36, 98.0%), TFR (37,100.0%) and TNPA (32,86.0%) believed that the various approval committees with varied skills and expertise had a negative impact on the goals and objectives set by Transnet Property a specialist management division of Transnet mandated to manage non-core assets. However, (3, 7.0%) from TNPA indicated this had no impact and (3, 7.0%) disagreed. The research reveals that Transnet's non-core property portfolio management lacks clear strategy and alignment to the bigger core business of Transnet as a freight and logistics company.

Chapter 4 Research Findings and Analysis

4.9 Secondary data analysis

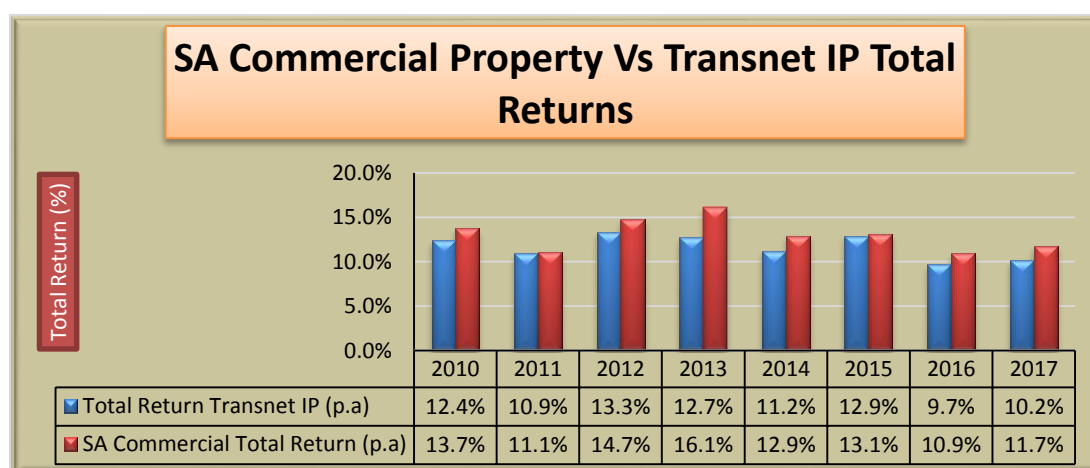
Investment property is re-measured at fair value every quarter, which is the amount which the property could be exchanged between knowledgeable, willing parties in arm’s length transaction (IAS 40.5). Fair value should reflect the actual market state and circumstances as of the balance sheet date. (IAS.38). Gains or losses arising from changes in their fair value of investment property must be included in net profit or loss for the period in which it arises (IAS 40.35). Table 4.1 page 78 consists of assets classified as core and non-core, Plant Property & Equipment (PPE) and Investment Properties (IP). In terms of IFRS IAS 40, **investment property** are assets held by a company for income generation, capital appreciation and where the owner occupies less equal to or less than 25% of the total Gross Leasable Area (GLA).

Examples of investment property: (IAS 40.8)

- land held for long-term capital appreciation
- land held for a currently undetermined future use
- building leased out under an operating lease
- vacant building held to be lease out under an operating lease
- Property that is being constructed or developed for future use as investment property.

Transnet IP and SA Commercial property - Investment Total Returns Analysis

Figure 4.25: Investment Total Returns Analysis



Source: MSCI-IPD Reports and Transnet Asset Management data

Chapter 4 Research Findings and Analysis

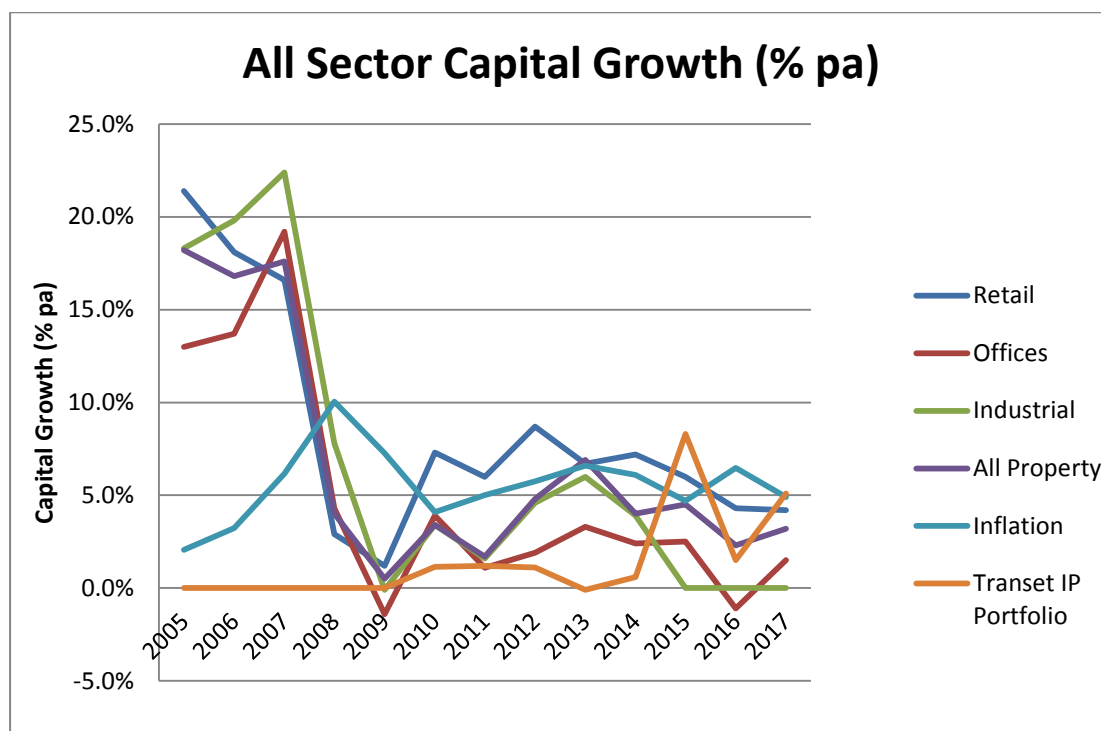
IPD 2017 figures showed that South African commercial property offered an income return of 8.3% with Transnet IP delivering 5.3%. According to IPD reports 2017 IPD figures showed that SA commercial property outperformed the yields of less than 6% in most other countries the research group tracked. Stan Garrun, head of Africa Research MSCI IPD, said landlords actively sweating their assets buoyed the local property sector, providing investors with consistently robust and diversified returns. Over the past seven years the Transnet's Investment property portfolio has achieved below optimal total returns when bench marked with the all SA commercial property sector. In terms of Total returns, the SA commercial market delivered a total return of 11.7% in 2017 with Transnet's IP portfolio underperforming this number by delivering 10.2%. Asset Managers and Property managers use return and risk measurement to analyse investments in their real estate assets and compare this performance to stocks, bonds and other investments. Benchmarking provides a relative measure for the riskiness of a strategy and to make risk/return comparisons. The measurement of return and risk is a fundament function in asset management and critical in the analysis of property investments. Effective allocation to real estate within multi-asset portfolios needs real estate performance and risks to be measured consistently with equity and bond markets. Investments that produce higher returns exhibit greater price volatility and are generally riskier than investments that produce lower returns. The higher the expected risk of an investment, the higher is the required return (ACCA, 2004).

Transnet IP and SA Commercial property - Capital Growth

The commercial property sector has been particularly prone to boom – bust cycle with very destabilizing economic effects. The property market is characterized by alternating periods of hard and soft market phases. Like any cycle, the property cycle can serve as an important tool for buyers, sellers and developers. The cyclical nature of real estate markets has got a profound effect on decisions made by real estate investors. Buyers normally enter the market when the property cycle is still near its trough, simply because the probability of is great on that point on with great indications of high rentals and strong growth on capital values.

Chapter 4 Research Findings and Analysis

Figure 4.26: Transnet IP & All Commercial Property Capital Value growth

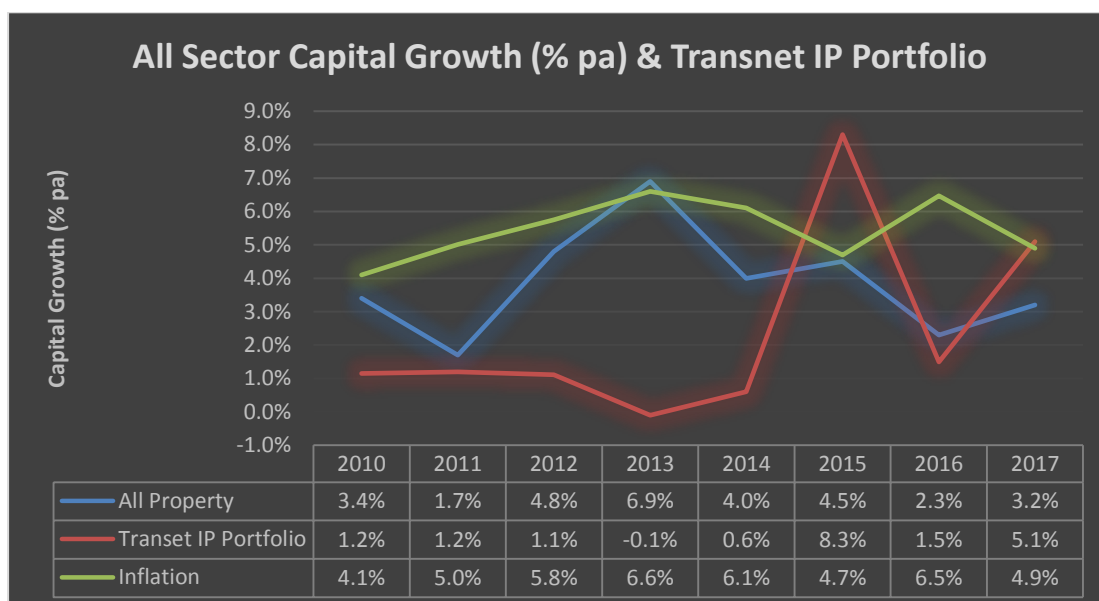


Source: IPD Data

The booms and slumps in the property market are clearly illustrated above by the drop in capital growth rates post 2008 global financial crisis. The timing of an investment is of significance importance to a commercial property investor and developer. For a commercial property investor it is critical to understand the drivers of the property cycles to enable them make better decisions over the long run. The growth in capital value positively correlates with economic growth as indicated above. The period 2005 to 2008 according to figure 4.26 shows high levels of investment in construction of property which is positively associated with growth in capital values as indicated above. The boom period prior to 2008 which experienced rapid growth in capital values also resulted from the property funds aggressively bulking up their portfolios in a historically low interest rate environment that achieved good returns. The low cost of capital encouraged investment trading activity, which had supported property values.

Chapter 4 Research Findings and Analysis

Figure 4.27: Transnet IP & All Commercial Property Capital Value growth



Source: MSCI IPD Data & Transnet records

The negative economic growth of 2008 which led to the global financial crisis has meant property investors need to monitor the possibilities of property cycles closely and align their investment decisions accordingly. According to MSCI IPD figures showed that SA commercial offered a capital growth of 3.2% with Transnet's IP portfolio outperforming by delivering 5.1% growth. The period 2014 -2015 experienced substantial growth in Capital Values due to participation rentals being paid on some development leases like the R6 million paid and assets reverting into Transnet's full ownership such as the Newlyn Industrial and PAG Commercial properties as periods ending 2015-2016. The rapid drop in capital values between 2012 to 2013 was attributed to demolition of assets at Salt River and 2015 to 2016 due to increase in vacancies in the portfolio. Figure 4.27 clearly indicates that Transnet's property portfolio has achieved below market growth rates.

Chapter 4 Research Findings and Analysis

4.10 Research Hypothesis and Evaluation

As indicated in chapter 3 earlier, Fishers exact test was used over Chi-squared because of the low sample size and this was run using the statistics package in Regression to derive results. The inclusion of the hypothetical study was intended to demonstrate frequencies and proportions amongst the six categories of staff as shown in Table's 4.11 to 4.14 below. The numbers in parentheses indicate the column percentages. The classification of categories and frequencies was mainly done to establish an association (contingency) between the responses of managers and junior staff. The Tables 4.11, 4.12, 4.13 and 4.14 demonstrate response frequencies and proportions in survey conducted from questions 2, 3, Q5 (i) and Question 16 as shown below;

Question 2 (Questionnaire extract):

Does Transnet Property have a clear strategy and vision with regards to Real Estate Management?

Table 4.11: Response frequencies and proportions for Q2

	Manager TP	Manager TFR	Manager TNPA	Junior TP	Junior TFR	Junior TNPA
Strongly Agree	2 (13)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Agree	1 (7)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Uncertain	1 (7)	0 (0)	2 (40)	0 (0)	0 (0)	0 (0)
Disagree	10 (67)	16 (94)	3 (60)	30 (83)	7 (78)	1 (100)
Strongly Disagree	1 (7)	1 (6)	0 (0)	6 (17)	2 (22)	0 (0)

Question 3 (Questionnaire extract):

The ability to improve performance and optimize returns on property portfolios is significantly dependent on its property management team level of experience and understanding the complexities of property fundamentals. Does the statement that "non-core property assets held under Transnet that are currently in a poor state of repair and highly dilapidated do not require extensive property management skills and experience of personnel", hold true.

Chapter 4 Research Findings and Analysis

Table 4.12: Response frequencies and proportions for Q3

	Manager TP	Manager TFR	Manager TNPA	Junior TP	Junior TFR	Junior TNPA
Strongly Agree	8 (53)	2 (12)	2 (33)	0 (0)	0 (0)	0 (0)
Agree	4 (27)	3 (19)	1 (17)	0 (0)	0 (0)	0 (0)
Uncertain	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
Disagree	1 (7)	4 (25)	2 (33)	30 (83)	7 (78)	1 (100)
Strongly Disagree	2 (13)	7 (44)	1 (17)	6 (17)	2 (22)	0 (0)

Question 5 (i) (Questionnaire extract):

Does the requirement of higher level tertiary education in Real Estate studies (diploma or degree) and Finance courses improve the understanding and managing of the following property asset categories under management in Transnet?

- (i) *Core property assets (Assets serving the core business of Transnet)*

Table 4.13: Response frequencies and proportions for Q5 (i)

	Manager TP	Manager TFR	Manager TNPA	Junior TP	Junior TFR	Junior TNPA
Strongly Agree	7 (100)	10 (38)	3 (75)	4 (19)	0 (0)	1 (100)
Agree	0 (0)	13 (50)	1 (25)	16 (76)	24 (100)	0 (0)
Uncertain	0 (0)	3 (12)	0 (0)	0 (0)	0 (0)	0 (0)
Disagree	0 (0)	0 (0)	0 (0)	1 (5)	0 (0)	0 (0)
Strongly Disagree	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)

Question 16 (Questionnaire extract):

Does the poor condition of your non-core property portfolio impact negatively on the low rentals and sub-optimal returns achieved by your property portfolio?

Chapter 4 Research Findings and Analysis

Table 4.14: Response frequencies and proportions for Q16

	Manager TP	Manager TFR	Manager TNPA	Junior TP	Junior TFR	Junior TNPA
Strongly Agree	2 (40)	16 (55)	2 (67)	0 (0)	4 (10)	1 (100)
Agree	1 (20)	12 (41)	1 (33)	3 (75)	37 (90)	0 (0)
Uncertain	2 (40)	1 (3)	0 (0)	0 (0)	0 (0)	0 (0)
Disagree	0 (0)	0 (0)	0 (0)	1 (25)	0 (0)	0 (0)
Strongly Disagree	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)

Table 4.15 below shows response frequencies and proportions between managers and junior staff in the respective operating divisions of Transnet. This analysis is further used to derive the probability values of observed data in the various categories.

Table 4.15: Response frequencies and proportions: Managers vs Junior Staff

	Question 2		Question 3		Question 5 (i)		Question (16)	
	Managers	Junior Staff	Managers	Junior Staff	Managers	Junior Staff	Managers	Junior Staff
Strongly Agree	2 (5)	0 (0)	12 (32)	0 (0)	20 (54)	5 (11)	20 (54)	5 (11)
Agree	1 (3)	0 (0)	8 (22)	0 (0)	14 (38)	40 (87)	14 (38)	40 (87)
Uncertain	3 (8)	0 (0)	0 (0)	0 (0)	3 (8)	0 (0)	3 (8)	0 (0)
Disagree	29 (78)	38 (83)	7 (19)	38 (83)	0 (0)	1 (2)	0 (0)	1 (2)
Strongly Disagree	2 (5)	8 (17)	10 (27)	8 (17)	0 (0)	0 (0)	0 (0)	0 (0)

Table 4.16: Response frequencies and proportions for Q2 and Q3: TP vs TFR vs TNPA

	Question 2			Question 3		
	TP	TFR	TNPA	TP	TFR	TNPA
Strongly Agree	2 (4)	0 (0)	0 (0)	8 (16)	2 (8)	2 (29)
Agree	1 (2)	0 (0)	0 (0)	4 (8)	3 (12)	1 (14)
Uncertain	1 (2)	0 (0)	2 (33)	0 (0)	0 (0)	0 (0)
Disagree	40 (78)	23 (88)	4 (67)	31 (61)	11 (44)	3 (43)
Strongly Disagree	7 (14)	3 (12)	0 (0)	8 (16)	9 (36)	1 (14)

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Table 4.17: Response frequencies and proportions for Q5 (i): TP vs TFR vs TNPA

	Question 5 (i)			Question 16		
	TP	TFR	TNPA	TP	TFR	TNPA
Strongly Agree	11 (39)	10 (20)	4 (80)	2 (22)	20 (29)	3 (75)
Agree	16 (57)	37(74)	1 (20)	4 (44)	49 (70)	1 (25)
Uncertain	0 (0)	3 (6)	0 (0)	2 (22)	1 (1)	0 (0)
Disagree	1 (4)	0 (0)	0 (0)	1 (11)	0 (0)	0 (0)
Strngly Disagree	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)

4.10.1 Fisher's exact test data results from responses for all six categories of staff

Fisher's exact test was used on each table for each question. A small p-value (roughly less than 0.05, although 0.05 should not be used as a hard cut-off) indicates a significant association between staff category and response pattern.

H_0 : means there is no association; if $p < 0.05$ reject hypothesis

H_1 : There is an association; if $p > 0.05$ fail to reject hypothesis - there is an association.

Tables 4.18 to 4.20 below demonstrate these results.

Table 4.18: Fisher's exact test p-values for all six staff categories

Q 2	Q 3	Q 5	Q 16
0.0375941	0	1e-07	4e-07

Table 4.18 shows results in relation to Table 4.11 (page 117) above which indicate a p-value = 0.0375941 which is less than 0.05. The result shows that there is no relationship to the responses obtained from all categories of staff with regards to Transnet having a clear strategy and vision. This already shows misalignment in views between the six categories of staff with regards to their view on Transnet having a clear strategy/vision and based on P value result we therefore reject the hypothesis.

Table 4.18 shows results in relation to 4.12 (page 118) above which indicate a p-value = 0 which is far less than 0.05. The p-value result shows that there is no relationship to the responses from all categories of staff with regards to level of experience and improved management of Transnet's property portfolio we reject the hypothesis.

Chapter 4 Research Findings and Analysis

Table 4.18 (page 120) shows results in relation to Table 4.13 (page 118) which indicate a p-value = 0.000 001 which is far less than 0.05. This result shows that there is no relationship to the responses from all categories of staff with regards to improved management of property assets with persons holding tertiary qualifications in real estate studies (degree or diploma). This already shows misalignment in views between from all categories of staff with regards to the relevance of tertiary qualifications in real estate studies and improved management of Transnet's property portfolio hence based on p-value been less than 0.05 we reject the hypothesis.

Table 4.18 (page 120) shows results in relation to 4.14 (page 119) shows a p-value = 0.000 004 which is far less than 0.05. The result shows that there is no relationship to the responses from all categories of staff with regards to the condition of non-core property assets and sub-optimal returns achieved from Transnet's property portfolio hence we reject the hypothesis.

4.10.2 Fisher's exact test data results from responses between managers and junior staff

Table 4.19 shows the way managers and junior staff responded to the questions 2, 3, 5(i) and 16 of the questionnaire.

Table 4.19: Fisher's exact test p-values for manager's vs junior staff

Q 2	Q 3	Q 5	Q 16
0.0146381	0	1.9e-06	1.9e-06

Table 4.19 above shows results in relation to Table 4.15 (page 119) which relate to question 2. The results show a p-value = 0.0146381 which is greater than 0.05 indicating there is a strong relationship to the responses between managers and junior staff with regards to Transnet having a strategy and clear vision hence we accept the hypothesis in this instance. This does not tell us the exact difference when all six categories were earlier combined in the analysis.

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Table 4.19 (page 121) above shows results in relation to Table 4.15 (page 119) which relate to question 3. The results show a p-value = 0 which is far less than 0.05 indicating there is no relationship to the responses between managers and junior staff with regards to improved property management of Transnets property portfolio based on level of experience hence we reject the hypothesis.

Table 4.19 above shows results in relation to Table 4.15 (page 119) which relate to question 5(i). The results show a p-value = 0.000 0019 which is far less than 0.05 indicating there is no relationship to the responses between managers and junior staff with regards to improved understanding of management of core property assets when holding higher tertiary education in real estate hence we reject the hypothesis.

Table 4.19 above shows results in relation to Table 4.15 (page 119) which relate to question 16. The results show a p-value = 0.000 0019 which is far less than 0.05 indicating there is no relationship to the responses between managers and junior staff with regards to the poor condition of non-core property assets and sub-optimal returns achieved by the portfolio held by Transnet hence we reject the hypothesis.

4.10.3 Fisher's exact test data results from responses for TP vs TFR vs TNPA

Table 4.20 below analyses the association between the various operating divisions of Transnet managing real estate and response pattern on questions 2, 3, 5(i) & 16.

Table 4.20: Fisher's exact test p-values for TP vs TFR vs TNPA

Q 2	Q 3	Q 5	Q 16
0.1448519	0.2690468	0.0224949	0.0060385

Table 4.20 above shows results in relation to Table 4.16 (page 119) which relate to question 2. The results show a p-value = 0.1448519 which is greater than 0.05 indicating there is a strong relationship to the responses across all staff of Transnet's operating divisions with regards to Transnet having a strategy and clear vision hence we accept the hypothesis.

Chapter 4 Research Findings and Analysis

Table 4.20 (page 122) above shows results in relation to Table 4.16 (page 119) which relate to question 3. The results show a p-value = 0.2690468 which is far greater than 0.05 indicating there is a strong relationship to the responses across all staff of Transnet' operating divisions with regards to improved property management of Transnet's property portfolio based on level of experience hence we accept the hypothesis.

Table 4.20 above shows results in relation to Table 4.16 which relate to question 5(i). The results show a p-value = 0.0224949 which is greater than 0.05 indicating there is a strong relationship to the responses across all staff members of Transnet' operating divisions with regards to improved understanding of management of core property assets when holding higher tertiary education in real estate hence we accept the hypothesis.

Table 4.20 above shows results in relation to Table 4.16 which relate to question 16. The results show a p-value = 0.0060385 which is greater than 0.05 indicating there is a strong relationship to the responses across all staff of Transnet' operating divisions with regards to the poor condition of non-core property assets and sub-optimal returns achieved by the portfolio held by Transnet hence we accept the hypothesis.

4.10.4 Summary of results and Hypothesis tests

The research was initially designed to be a qualitative study hence the 2 hypothesis below were written in such a manner and after external examiners requests for inferential statistics to be used relationships in the responses were tested using Fischer's exact test.

The research hypothesis tested in this study are:

- (1) The core business of Transnet as a freight & rail logistics company does have a negative impact on the management of non-core property assets.
- (2) Government being a major shareholder in Transnet has goals, mandates, and objectives that impact negatively on the effective management of non-core property assets.

Chapter 4 Research Findings and Analysis

The results presented for the hypothesis test (1) with reference to question 2 indicate clearly that there is no strategy and vision with regards to management of non-core property assets. We therefore accept the statement that there is a negative impact on the management of non-core property assets held by Transnet as the main and key focus is towards management of core assets that support the day to day business of Transnet which is freight and rail. Further to the analysis of hypothesis 1 in relation to question 16, it is clearly indicated in the test results presented above that neglect on the management of non-core property portfolio has negatively impacted the performance of these assets resulting in low rentals and suboptimal returns.

The results for hypothesis test 2 with reference to question 2 also clearly reveal that with government being a major shareholder has objectives and strategies that do not support the effective management of non-core property assets hence we accept the hypothesis results and statement. Question 3 with a p-value greater than 0.05 further supports the statement based on the results that reveal the management of non-core property assets does not require extensive property management skills and experience. This has negatively contributed to the poor state of non-core property assets as the management of these assets is not effective.

4.11 Conclusion

This chapter sought to synthesise the results of in-field data collection, the directions suggested by empirical and theoretical literature and lastly the views of the researcher. In so doing conclusions may be drawn on the key research questions. Generally speaking, the issues affecting the performance of non-core property assets held by Transnet have been addressed in this research. In terms of the studies hypothesis, it is therefore true and evident that Transnet's non-core property portfolio is not fully optimised and is highly neglected resulting in the sub-optimal returns achieved. There is clearly no strategic focus and appreciation of non-core property assets to the core business. Management of the non-core property assets misaligns with the core business of Transnet which is freight and rail logistics. In the next chapter, an overview is given of the previous chapters, but more importantly, recommendations are made and a conclusion will be drawn from discussion pertaining to this research.

Chapter 5 Conclusion and Recommendations

5.1 Introduction

This chapter briefly recapitulate the results and interpretation of the study, the results which were used to establish all hypothesis testing and analysis of the study to give final conclusion and recommendations. The chapter also discusses the recommendation to Transnet on how it can improve the performance of its non-core property assets and returns derived from such a portfolio. The chapter also sets forth a basis of findings that can be used in future studies into this area.

5.2 Overview of the Study

The study has set out to best understand the challenges and causes of the poor performance of the non-core property assets held by Transnet that are currently physically deteriorated and achieving suboptimal returns. The literature presented seeks to outlay the importance of constructing measures that can help improve optimal returns of non-core property portfolios held by Transnet. According to the literature review in chapter 2, one of the necessities of an exemplary property-management team, is the ability to provide a well deployed structure which is systematic and well documented approach towards provision of property management services. Property Management needs to be performed in a structured and systematic manner so that each element of the property management responsibility is implemented in a comprehensive (that is complete) manner.

These procedures which when reduced to systems, take uncertainty out of the tasks related to property management and leave more time for property managers to think laterally about enhancing the value of the property portfolio under management. One of the most significant advances in government property asset management resulted from recognition that the methodology used by private-sector, non-real estate corporations (i.e., corporations whose main business is not real estate) for managing their real property offered a valuable prototype for local governments (Simons, 1993). The study finds that Transnet's inherent traditional approach of rent collection approach to some degree leads to lack of execution of a systems approach. There is little or no appreciation of the value added by the existence of non-core property assets to the portfolio under management.

Chapter 5 Research Conclusion and Recommendation

It is also further revealed that Transnet is not practising recommended modern methods of property management and benchmarking the performance of its assets against MSCI/IPD stats. The literature in chapter 2 also looks at funding models like the REITs that would address the needs for capital to engage in property developments, improve conditions of the existing buildings and contribute to the overall budget of Transnet group. The research aim to collaborate research matters related to corporate governance in corporate real estate management in the area of property performance measurement. Transnet just like any other state owned enterprises and other government entities have huge limitations to sources of capital funding for maintenance, upgrades and cannot easily engage in property developments as revealed in chapter 4 of this study. The legislative and policy framework do not provide a framework for better management of non-core property assets or make a provision for re-development of these assets as revealed in the literature review under chapter 2 and supported by the research findings in chapter 4. The legislative framework and policy instead advocates for the transfer of Transnet's non-core assets to other government entities or dispose them off to the private sector if no other government entities are interested. Chapter 4 clearly highlights the challenges faced by Transnet property management when it comes to management of non-core property assets.

5.3 Recommendations

Having established the factors that hinder Transnet from effectively managing its non-core property assets, the following recommendations are suggested.

- I. Transnet strongly rely on Government policies and legislation which have affected the way real estate is managed. For instance the National Government Immoveable Assets Management Act No. 19 of 2007 states clearly that non-core property assets should be earmarked for transfer to other government entities or disposed of in line with PFMA. There is thus the need to develop amendments to old legislation that would greatly assist Transnet and other SOE's to retain and better manage their non-core assets.
- II. Most of Transnet's buildings do not meet the basic criteria for listing a REITs because of their poor state of repair and Government being a major

Chapter 5 Research Conclusion and Recommendation

shareholder. Transnet's mandate to contribute to South Africa's economic growth through infrastructure development, job creation, small scale business development and job creation through its Market Demand Strategy (MDS) leaves it to focus on the core business which is freight and rail logistics.

A subsidiary company of Transnet with its own independent mandate to manage non-core assets effectively and maximise returns can be set up. In this way a clear strategy and vision relating to real estate investment, management and developments can be focussed on. It is also a well believed fact that government run institutions are mismanaged and also reducing government control will not only enable the subsidiary company acquire finance from the stock exchange, but also improve on management.

- III. There is need to promote joint ventures between Transnet and private property development companies to re-develop non-core properties through Public Private Partnership structures. The need for advanced modern technologically oriented commercial space and management skills can be a special benefits derived by Transnet. The portfolio is also vastly spread around the country making it difficult to manage on a day to day basis therefore out-sourcing the management services with the private property management companies can greatly assist to better manage the portfolio situated in remote outline areas especially.
- IV. Transnet Property management should come up with reliable indices for measuring performance of their non-core properties. Over the years, definite property indices such as the Investment Property Data (I.P.D) and Richard Ellis have been used worldwide but due to the nature of specialized business operations in Transnet, non-core assets have no reliable indices built up for analysis of its Portfolio.

Chapter 5 Research Conclusion and Recommendation

5.4 Suggested Areas of further research

- In view of the up comings of the research, the author suggests a research on the prospects of establishing of a REITs fund in a state owned enterprise in South Africa to manage non-core property assets.
- Detailed review of legislation and policies in State Owned enterprises and to what extent do they impact on the management of non-core property assets.
- Review of Professional expertise and management competencies in State Owned Enterprises and impact on performance of property portfolio under management.
- Impact of disposal of non-core property and land in state owned enterprises.

5.5 Conclusion

Chapter 5 offered a summary of the study and findings established in chapter 4, offered recommendations and areas of further research. Chapter 4 presented the results of the case study which was used to establish all hypothesis testing. The growing concern on how state owned enterprises are managed in South Africa will draw attention to how they also manage their property portfolios which are highly neglected and in a poor state of repair. Transnet and many other SOEs are yet to see aligning their property management approach with regards to non-core property assets with industry best practice and prescribed approach. The study found that Transnet is not yet ready to turn around the non-performing non-core property portfolio due to lack of funds, misalignment of business strategies amongst the various operating divisions, tight and rigid policy and legislative frameworks. The legislative framework on its own compromises the ability to provide better direction towards management of non-core property assets and give direction on how finances can be deployed to improve the portfolio.

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APPENDIX 1

QUESTIONNAIRE

APPENDIX

GRADUATE RESEARCH STUDENT QUESTIONNAIRE

Research topic: The performance of non-core property assets held by a state owned enterprise: A case study of Transnet.

Dear Respondent

As an MSc Property Studies student at the University of Cape Town, I am required to undertake a research thesis. The topic of my thesis seeks to explore the challenges faced by state owned enterprises in South Africa with particular reference to management of their non-core property assets.

The aims and objectives of carrying out this study are to;

5. To measure the performance of non-core property portfolio and the resulting sub-optimal returns.
6. Establish source of funding for capital expenditure (CAPEX), Operating Costs (OPEX) related to responsive maintenance and property developments.
7. Determine the impact of corporate governance matters and legislative frameworks on the management of non-core property assets.
8. Determine factors that have led to the highly deteriorated non-core property portfolio.

The survey once completed can be emailed to the senders address **Abedinego.munsanje@transnet.net**. I have structured the questionnaire in three sections for your convenience with section 3 and parts of section 2 being for senior managers and executives only. The survey has been tested to take between 15 and 20 minutes, with all responses conducted under complete anonymity and confidentiality. Your participation in the study would be both sincerely appreciated and valuable for Transnet as a whole that hold large property portfolios.

APPENDIX

Section 1. (Section to be answered by both Managers & Junior staff)

1. Does government being a major shareholder in state owned enterprises a case of Transnet Property lead to SOEs serving non-commercial objectives?

Strongly Agree	Agree	Uncertain n or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Does Transnet Property have a clear strategy and vision with regards to Real Estate Management?

Strongly Agree	Agree	Uncertain n or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. The ability to improve performance and optimize returns on property portfolios is significantly dependent on its property management team level of experience and understanding the complexities of property fundamentals. Does the statement that “non-core property assets held under Transnet that are currently in a poor state of repair and highly dilapidated do not require extensive property management skills and experience of personnel”, hold true.

Strongly Agree	Agree	Uncertain n or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Does real estate management differ in Transnet with private property companies when it comes to optimizing investment returns and performance measurement?

Strongly Agree	Agree	Uncertain n or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX

5. Does the requirement of higher level tertiary education in Real Estate studies (diploma or degree) and Finance courses improve the understanding and managing of the following property asset categories under management in Transnet?

(ii) Core property assets (Assets serving the core business of Transnet)

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

(iii) Non-Core property assets (Assets not serving the core business of Transnet)

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

6. Buildings of higher quality are ordinarily provided with corresponding higher management and maintenance standards, often entrusted to well qualified and experienced professional property teams. In accordance with this statement, does the poor quality of non-core property assets under management in Transnet determine the extent of management service required?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

7. Are the management functions of your property portfolio in your operating division and region centralized or decentralized as per nodes?

Centralised	Decentralised
<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX

8. Please specify Operating division in which you are employed in within Transnet.

TP TNPA TFR TPT TE Transnet Pipeline

(i) And please indicate if your division does hold non-core property assets
(Assets that are not currently serving the core business of Transnet)?

Yes No

(ii) Does your Operating Division indicated above lease out its non-core properties and land to external clients (If any)?

Yes No

9. Does the following impact negatively on the quality of the property portfolio under management and returns generated in the long run? On a scale of 1 - 10 with '1' being least likely and '10' most likely.

	1	2	3	4	5	6	7	8	9	10
Lack of Tertiary Education in Property -----	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Corporate Governance issues -----	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of Planned Maintenance -----	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of Accurate Asset Register -----	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of Life Cycle Costings -----	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of Condition Assessments -----	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Is the performance of your investment property and non-core property portfolio bench marked against published Investment Property Data (IPD/SAPOA stats)?

Yes No

11. Does your Property management department in your region engage in property development projects that are not aligned to the core function of Transnet as a freight & Logistics operator with its own capital?

Yes No

APPENDIX

*Please also indicate your respective OD by ticking appropriate box below.

TP TNPA TPT TFR TE Transnet Pipeline

12. If the answer is 'Yes' to question (11), is funding readily available for this?

Yes No Not always

13. What source of funding is utilized by your operating division for property developments (if any)?

- (a) In-house pool funding
- (b) Rental income
- (c) Government funding
- (d) Bank finance
- (e) None of the above
- (f) Other method (Specify).....

14. Does your operating division and region engage in Private Public Partnerships for any property development projects?

Yes No

*Please also indicate your respective OD by ticking appropriate box below.

TP TNPA TPT TFR TE Transnet Pipeline

15. Does the reward of bonus incentives to employees managing property impact positively on the improvement of efficiency and management of property performance and returns?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX

16. Does the poor condition of your non-core property portfolio impact negatively on the low rentals and sub-optimal returns achieved by your property portfolio?

Strongly Agree	Agree	Uncertain n or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Section 2. (Section to be answered by Managers & Executives only)

17. Transnet holds a highly fragmented property portfolio Country wide often split into regions for ease of management. In the case of Transnet, do the policies and procedures differ as per jurisdiction of management i.e. Western Region, Eastern, Inland, Carton and Central?

Strongly Agree	Agree	Uncertain n or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. What are the common measures deployed in your region for measuring property assets performance? Please tick ones used.

(a) Return on Total Asset (ROTA) -----	<input type="checkbox"/>
(b) Yield (Net Income/ Capital Asset Value) -----	<input type="checkbox"/>
(c) Income Return (Net Income/ Capital Asset Value) -----	<input type="checkbox"/>
(d) Total Return (Income Return + Capital Appreciation) --	<input type="checkbox"/>
(e) Other methods.....	<input type="checkbox"/>
None of the above.....	<input type="checkbox"/>

19. What source of funding is utilized by your organization for maintenance and CAPEX?

(a) In-house pool funding (working capital)	<input type="checkbox"/>
(b) Rental income (Revenue from Portfolio)	<input type="checkbox"/>
(c) Government funding (Subsidies)	<input type="checkbox"/>
(d) Bank finance (Loans)	<input type="checkbox"/>
(e) Other method (Specify).....	

APPENDIX

20. Does your region prioritise statutory CAPEX and OPEX projects as stipulated under Act 85 of the Occupation Health and Safety Act 1993 (OHSACT 1993)?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

21. Most procurement processes in large companies and state owned entities tends to be centralised at Head Office. Does the approval process for approval of OPEX & CAPEX being centralised hinder property maintenance?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

22. State Owned Companies usually have a vendor's data base in order to comply with PFMA requirements. In your operating division within Transnet are your maintenance contracts revised and renewed timeously?

Yes No Seldom Hardly Never

23. In relation to question (22) above, if answer is "No" what impact does it have on your maintenance operations?

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APPENDIX

24. Transnet just like any other state owned companies have varied procurement procedures and thresholds for approval of CAPEX & OPEX Projects i.e. Regional Managers can approve CAPEX projects up to R2 million in some organisations and above this amount the Delegation of Authority lies with the Chief Executive or Chief Operating Officers for example. Does the DOA thresholds hinder or delay CAPEX projects?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

25. Does your region approve and make sufficient provision for CAPEX & OPEX Budget every financial year?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

26. Does your operating division make budget provisions for projected planned maintenance for its real estate assets under management?

Always	Seldom	Never	Rare
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

27. Do you agree or disagree that management in terms of maintenance for non-core property portfolio is frequently done on a responsive basis in Transnet?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

28. Is Condition Asset Assessment for your property portfolio under management practiced regularly in your region/department?

Annual	Seldom	Never	Adhoc basis
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX

29. Most organizations institute cost cutting measures when “Earnings Before Interest Depreciation Tax and Amortization” (EBIDTA) is below budget forecast. Does your region/ department cut on maintenance budget and postpone it to next financial years to come?

Always	Seldom	Never	Rare
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

30. Does your region have an accurate Asset Management tool?

Yes	No
<input type="checkbox"/>	<input type="checkbox"/>

31. If your region/ department has an Asset Register, how often is it updated?

Annually	Quarterly	Monthly	Seldom updated
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

32. In relation to the above question ‘31’. Does an accurate register assist with accurate budgeting for maintenance of property portfolio?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

33. Does your region/ department conduct Life Cycle Costing for its property assets and if so how often?

Annually	Every 2 years	Every 2 - 3 years	Every 5 years	Not Done at all
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Other (Specify).....

34. Does corporate governance and institutional frameworks differ between State Owned Enterprises and private companies when it comes to real estate management?

Yes	<input type="checkbox"/>	No	<input type="checkbox"/>	Same	<input type="checkbox"/>
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APPENDIX

35. The main purpose of Public Private Partnerships (PPPs) in State Owned Enterprises is to create modern enterprise system. Do PPPs improve the management of real estate and quality of portfolio under management overtime?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

36. Public/Private Partnerships is a relatively new phenomenon in South Africa, which arguably got momentum from around 2000. Based on your experience and opinion, do you agree/disagree that such arrangements provide efficiency to the public sector?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

37. Does Government National Treasury Policy affect real estate day to day decision making?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

38. The standing Committee on Public Accounts (SCOPA) acts as Parliament's watchdog over the way taxpayers' money is spent by the executives in SOE's by reviewing the Auditor-Generals (AG) reports. It has become common knowledge after recent public parliamentary enquiry hearings that in South Africa SOEs absorb a substantial amount of resources and actually impose a heavy burden on the fiscus.

Does the various committee members in the approval structure inclined with a heavily bureaucratic system and varied expertise impact on the goals and objectives related to Transnet Property which does not serve the core business of Transnet group?

APPENDIX

Strongly Agree Agree Uncertain or Neutral Disagree Strongly Disagree

39. Can Transnet Property list a Real Estate Investment Trust (REITs) on the Johannesburg Stock Exchange and if not what could be the reason?

Yes No

Reasons (if not possible)

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40. Is the decision making in management of real estate in government entities a case of Transnet impacted by any Political Influence?

Strongly Agree Agree Uncertain or Neutral Disagree Strongly Disagree

41. Does National Treasury regulations impact on property development projects that are not aligned to Transnet's core business which is freight & rail logistics?

Strongly Agree Agree Uncertain or Neutral Disagree Strongly Disagree

42. Does Transnet appointed Board of directors and chairman influence real estate decisions and if so in which area of property management?

Yes No

APPENDIX

(Tick appropriate box for area of property management if impacted by board decisions and approvals)

Leasing-----	<input type="checkbox"/>
Property Developments-----	<input type="checkbox"/>
CAPEX & Maintenance approval-----	<input type="checkbox"/>
Sales and Acquisitions-----	<input type="checkbox"/>

43. Public Finance Management Act 1 of 1999 stipulates the rules and regulations governing the funding of SOEs and ensuring that they borrow mainly on strength of their balance sheets. Transnet is listed under schedule 2 of the PFMA. As part of supporting capital infrastructural programs, government provides cash to SOEs at the lowest possible cost. Can Transnet get approval and funding to borrow from Government to embark on property developments that are not related to its core freight & rail business?

Yes No

44. If the answer is 'No' to question 43. What government legislation prevents Transnet to venture into non- core property developments?

Answer:.....
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APPENDIX

45. The Government Immovable Asset Management Act No. 19 of 2007 (section 5) provides some guidance on when property may be deemed non-core by stating that “an immovable asset must be used efficiently and becomes surplus to a user if it does not support its service delivery objectives at an efficient level and if cannot be upgraded to that level. Transnet is a freight and Logistics Company does this Act impact Transnet Property as an operating division on engaging in re-developing its run down property portfolio classified as non-core?

Strongly Agree	Agree	Uncertain or Neutral	Disagree	Strongly Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

APPENDIX 2

INTERVIEW QUESTIONNAIRE

APPENDIX

GRADUATE RESEARCH

Research topic: The performance of non-core property assets held by a state owned enterprise: A case study of Transnet.

INTERVIEW QUESTIONS:

Q1. What are the causes of the highly deteriorated non-core property portfolio held by Transnet?

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Q2. What are the main sources of funding for maintenance and CAPEX for property related projects within Transnet Property?

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Q3. Does your region engage in property developments and if “yes” what is the source of funding?

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Q4. Transnet Property holds a large property portfolio and in aligning your assets in the region to SAPOA building classification what is the estimate in percentages in composition of the followings asset grades to total portfolio in your region (Excluding development leases)?

A Grade: % B Grade: % C Grade: % D Grade: %

APPENDIX

Q5. Are there any policies or legislation that prohibit Transnet from engaging into property development projects that are not aligned to its core business which is freight and rail logistics business?

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Q6. Does Transnet measure the performance of its property portfolio and if so what methods are used to measure performance?

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Q7. Does the poor condition of your non-core property portfolio in your region impact negatively on the low rentals and sub-optimal returns achieved by your property portfolio?

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Q8. What is the average of Operating Expenditure as a ratio to total Income in your region? **(Financial Managers and Asset Managers only).**

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Q9. What is the biggest operating expenditure in Transnet Property in line with Q8?

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APPENDIX

Q10. What factors need to be addressed to improve the performance of the highly deteriorated property portfolio considering the current challenges faced by Transnet Property?

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Q11. Human Capital is critical to all operations in any company, is your region adequately staffed to manage its property portfolio in the region and are the property functions properly aligned to the staff's delegated roles?

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Q12. How is the approval structure for maintenance and CAPEX projects aligned in your region and who has the delegation of authority?

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Q13. In line with question 12 what are thresholds for approval of maintenance and CAPEX projects in your region by the delegated persons (Regional Managers/ Portfolio Managers, Financial Managers & Technical/ Facilities Manager?

- I. CAPEX.....
- II. Maintenance (OPEX).....

Q14. In Transnet Property when cutting costs (If done) which budget items are mostly cut in order to create savings?

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APPENDIX

Q15. Is Transnet property management structure centralised or decentralised?

Centralised Decentralised

Q16. What would be perceived as advantages and disadvantages of having a centralised system within Transnet Property which holds a highly fragmented property portfolio Country wide?

Advantages

- i.
- ii.
- iii.
- iv.

Disadvantages

- i.
- ii.
- iii.
- iv.

Q17. Does the centralised system impact on property management and performance and if so in which way?

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Q18. In what ways does Government being a major and only shareholder in Transnet impact the performance and management of its property portfolio?

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Q19. What Government legislations impact negatively on the management of real estate assets in State Owned Enterprises a case of Transnet?

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APPENDIX 3

ETHICS CLEARANCE FROM UNIVERSITY

APPENDIX

Application for Approval of Ethics in Research (EIR) Projects
Faculty of Engineering and the Built Environment, University of Cape Town

APPLICATION FORM

Please Note:

Any person planning to undertake research in the Faculty of Engineering and the Built Environment (EBE) at the University of Cape Town is required to complete this form before collecting or analysing data. The objective of submitting this application prior to embarking on research is to ensure that the highest ethical standards in research, conducted under the auspices of the EBE Faculty, are met. Please ensure that you have read, and understood the EBE Ethics in Research Handbook (available from the UCT EBE, Research Ethics website) prior to completing this application form: <http://www.ebe.uct.ac.za/ebe/research/ethics>

APPLICANT'S DETAILS		
Name of principal researcher, student or external applicant		Abednego Nchimunya Munsanje
Department		Construction Economics and Management
Preferred email address of applicant		Abednego.munsanje@transnet.net
If Student	Your Degree: e.g., MSc, PhD, etc.	MSc Property Studies
	Credit Value of Research: e.g., 60/120/180/360 etc.	60 Credit Course
	Name of Supervisor (if supervised):	Prof. Marys Moysa
If this is a research contract, indicate the source of funding/sponsorship		n/a
Project Title		Evaluating the performance of non-core property assets held by a state owned enterprise: A case study of Transnet

I hereby undertake to carry out my research in such a way that:

- there is no apparent legal objection to the nature or the method of research; and
- the research will not compromise staff or students or the other responsibilities of the University;
- the stated objective will be achieved, and the findings will have a high degree of validity;
- limitations and alternative interpretations will be considered;
- the findings could be subject to peer review and publicly available; and
- I will comply with the conventions of copyright and avoid any practice that would constitute plagiarism.

SIGNED BY	Full name	Signature	Date
Principal Researcher/ Student/External applicant	Abednego Nchimunya Munsanje		01 Nov 2017

APPLICATION APPROVED BY	Full name	Signature	Date
Supervisor (where applicable)	<i>Prof. Marys Moysa</i>	Signature Removed	16/11/2017 Click here to enter a date.
HOD (or delegated nominee) Final authority for all applicants who have answered NO to all questions in Section 1; and for all Undergraduate research (including Honours).	Click here to enter text.	Signature Removed	Click here to enter a date.
Chair: Faculty EIR Committee For applicants other than undergraduate students who have answered YES to any of the above questions.	<i>MIGEN-TSU TUAN</i>	Signature Removed	15 June 2018