
Development Business Plan

JDA 009

Fashion District Development

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Section A

1. Development Description

1.1 Location

The physical location of the Fashion District Development is to the east of the Johannesburg central business district falling within the boundaries of Jeppe St (northern edge), Von Weilligh St (western edge), Market St (southern edge) and End St. (eastern edge)



Figure 1: The Physical location of the Fashion District

The Fashion District does not include the Sanlam Building (erwin 5120 and 5121). As such the district is comprised of 26 full city blocks as well as the erwin comprising the eastern edge of End Street.

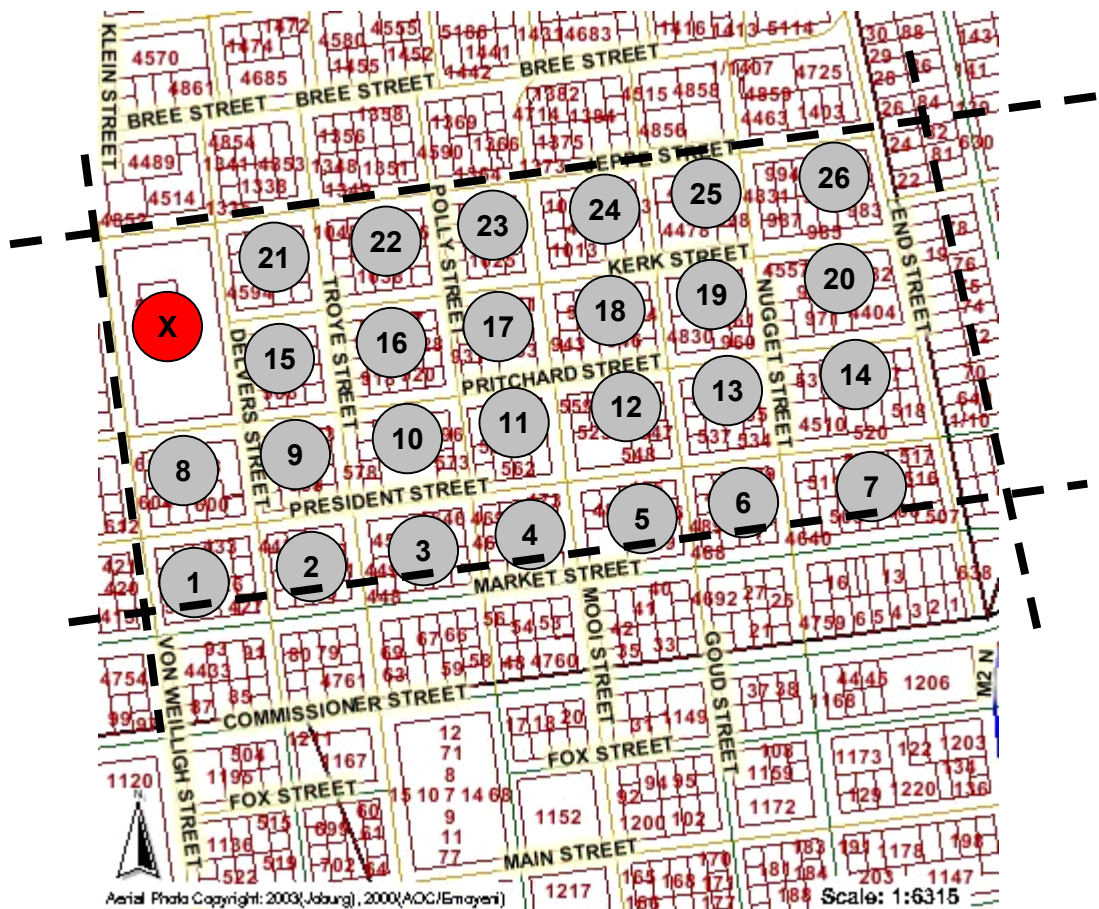


Figure 2: City Blocks comprising the Fashion District

1.2 Locational Rationale

A number of considerations underpin the choice of the development's boundaries, these include:

Consideration of surrounding (planned and operational) CIDs, and optimal CID size. Alignment to the SAPS sector: the Development district aligns with the southern, eastern and western SAPS sector boundaries, but does not include the northern half of the SAPS sector which extends to the residential area North of the district up to Noord St.

The defined district includes much of the area that the traditional garment industry occupied from its inception in the 1930s. This is reflected in that much of the buildings in the area are industrial stock that was developed specifically to house the garment industry although current usage does not on the whole reflect the original intentions of building design.

Studies of current business usage in the area have identified a fashion cluster of significant size within the area comprising of a mix of design, manufacturing, sales and supply components.

End Street provides a physical boarder to the East of the District that limits movement and therefore articulation with the Greater Ellis Park area and further East to Jeppestown. Beyond Jeppe St to the north, the characteristics shift to that of primarily residential use. The area beyond Market to the south does not have any significant fashion related activity and use shifts to unrelated light industrial commercial activity.

1.3 Broader Relationships and Articulations with Surrounding Areas

As much as the Fashion District Development has a focus within the physical boundaries defined and justified above, it is important to acknowledge that the economic relationships of fashion cluster are not static.

The FD certainly has a concentration of suppliers (fabric, machinery, retail display equipment, haberdashery, specialist finishing services, and transportation providers) as well as designers, manufactures and sales outlets. Nevertheless, there are smaller concentrations of fashion activity in surrounding areas, of importance are the design and manufacturing points around the Carlton Center, and Ghandi Square, the supply outlets and manufactures in the Fordsburg area and the residentially-based operators in Hillbrow, Berea and Yoeville. On a broader level the FD has economic links to the fashion industry in Rosebank, Durban, Cape Town as well as with international supply locations.

- 2 The intention is not to exclude the areas that fall outside the Development boundaries, but rather to acknowledge and foster the competitive relationships, supply links and other articulations they have with the FD, to the benefit of the sub-sector as a whole.

3 Goal

- 4 The goal of the Fashion District Development is to build a sustainable, viable, fashionable and functional Fashion District as a hub of economic growth and jobs in the emerging fashion cluster.

5 The Development Vision

- 6 The Development understands fashion as a broad concept. Although, clothing design, production and sales form the core of the Fashion District, defining its predominant use and character, there are a range of associated aspects of fashion that can add to a wider mix of compatible uses and social support amenities building an exciting, vibey and a productive area. In this regard, fashion relating to a broader set of lifestyle choices can also find a home and support in the Fashion District, ranging from DJ bars and restaurants to furniture, furnishings and décor. Central to this vision has been the notion of promoting the “Urban Edge of African Fashion”, capturing the spirit and vision of a fashion-orientated, trend-setting and outward-looking district.
- 7 In meeting these challenges the Fashion District must evolve from its present status of a relatively undifferentiated, unaffiliated and unassisted cluster of low level operators to a dynamic fashion cluster with strong niche products, developed market linkages.

- 8 A successful future will depend on significant added value being incorporated into the value chain dependent on creative design and quality production. The district needs to develop as a focal point, recognized by all relevant role-players and stakeholders in the sector, both locally and beyond, as the place where one chooses to do business. In doing so the district needs to focus on becoming synonymous with a centre of excellence.

9 Strategy

- 10 To achieve the Development Goal in an integrated and sustained manner, the development pursues the following 2 strategies:
- 11 To create a Fashion District that is safe, secure, attractive, functional and well managed.
- 12 To maximise economic and social opportunities within the emerging fashion cluster by addressing market failures.
- 13 Each development strategy will be delivered by a single or set of discrete projects. The table below summaries these and the operating plan in the later section provides further detail:

| 14 ELEMENT | 15 DETAIL |
|---------------|--|
| 16 STRATEGY 1 | 17 To create a Fashion District that is safe, secure, attractive, functional and well-managed. |
| 18 Project 1 | 19 Sustainability Fashion District Institution |
| 20 Project 2 | 21 Property |
| 22 Project 3 | 23 Urban Upgrade |
| 24 Project 4 | 25 Urban Management |
| 26 STRATEGY 2 | 27 To maximise economic and social opportunities within the emerging fashion cluster by addressing market failures |
| 28 Project 5 | 29 Economic |
| 30 Project 6 | 31 Marketing |

32 Outcomes and Key Indicators

- 33 The intended outcomes for the Fashion District Development are detailed below. The associated performance indicators are detailed in the table below.
- 34 A projected R50 million in direct and Indirect private sector investment
- 35 Business growth tracked along different points in the value chain.
- 36 An urban environment that affords the retainment of existing private sector investment and is attractive to new investment.
- 37 Increased economic activities related to the Fashion Industry. Get emerging and established Designers into the District.
- 38 Intensive management of the district coupled with by-law enforcement, elimination of

illegal and unsuitable use of properties, elimination of criminal activities, improved service delivery and maintenance of the public environment.

39 Increased employment opportunities.

40 DPM businesses aggregated into large units (Fashion Houses) to enable scale effects.

41 Consumer guide to the Fashion District published including only specialised SOB.

42 The Fashion District Institution will be set up and operational and will promote the Fashion District as the strategic location for the Johannesburg fashion industry.

43 Key Performance Indicators

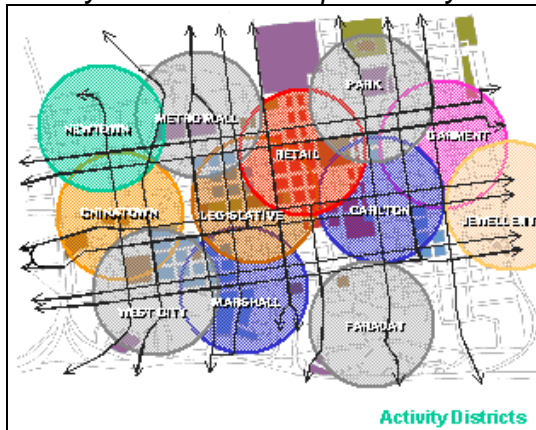
| 44 Key Indicators | 45 Measure | 46 Target | 47 Current Progress | 48 Score |
|--|---|--|---|-----------|
| 49 Key Economic Indicators | | | | 50 |
| 51 Vibrant, economically viable urban location attracting investment and generating sustainable employment | 52 The Fashion District would rapidly develop into a unique space combining retail, design and production of fashion items attracting consumers from many different backgrounds | 53 Sophistication and extent of demand 54 Reliable and higher production 55 Efficiency of operations | 56 FD is relatively undifferentiated, unaffiliated and unassisted cluster of low level operators | 57 |
| 58 Property market | 59 This is measured by these factors: 60 Vacancy rates 61 Rental levels 62 Property sales | 63 Increase in improvements to property 64 Reduction and stability of vacancy rates | 65 Only 23% of buildings in the district are considered to be in good condition, with 76% falling into fair or bad categories. Only 1% are considered to be in excellent condition. | 66 |
| 67 Business activity in impact areas | 68 Survey businesses established/retained. Average value of business assets | 69 The goal is to see this progressively increase. | 70 Occupancy levels are low except for ground floor space, landlord are not interested in leasing upper floor due to low-level rentals and sufficient holding income from ground floor retail | 71 |
| 72 Indicators Relating To Perception | | | | |

| | | | | |
|-------------------------------|--|---|---|-----------------|
| 73 Confidence in the District | 74 Every year the JDA interviews businesses to establish their confidence around a number of issues. | 75 JDA's goal is to steadily increase overall confidence, and to achieve a 20% improvement by 2007. | 76 Business confidence is low due to high crime levels and on-going environmental and social decay. | 77 |
| 78 Key Indicators | 79 Measure | 80 Target | 81 Current Progress | 82 Score |
| 83 Increasing investment | 84 This is measured by new businesses moving into the area, coupled with maintenance and reuse of properties | 85 The goal is to steadily increase investment from quality, credible and legitimate investors | 86 The district has a high concentration of informal residential stock, that is to say illegal conversion and slum land-lording of buildings. | 87 |

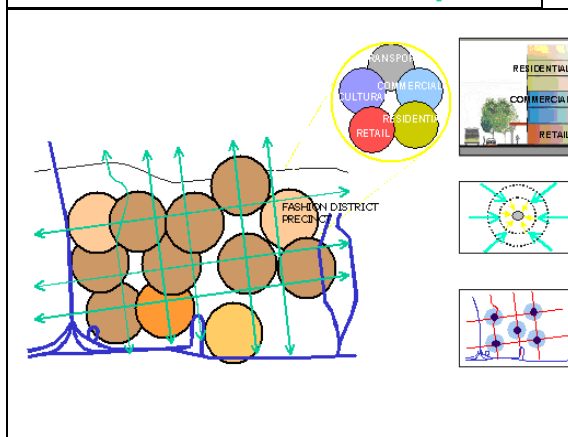
88 Alignment to City of Johannesburg Policies^{i ii iii iv v vi vii viii ix}

- 89 The Fashion District Development has strong links to a number of important COJ policy documents and processes. In June 1999 the GJMC Executive Committee approved the Spatial and Economic Framework for the Johannesburg Inner City. The Spatial and Economic Framework argued that the downturn in the formal manufacturing economy must be set against the rise of a new manufacturing economy in the inner city composed of small scale, black-owned, production activities, where clothing manufacturing is a central activity. Moreover, the Spatial and Economic Framework identified that although the formal sector was in decline, the informal sector had gained ground, with clothing becoming one of the major growth points in the economy of the inner city. For this reason the Spatial and Economic Strategy indicated that the city should support the growth and development of this sector.
- 90 Subsequently, in September 2000 the Transformation Lekgotla Committee approved the City Centre Framework. Some of the intentions of the City Centre Framework, amongst others, were to:
- 91 Create compact activity precincts
 - 92 Establish precincts with their own predominant use and character
 - 93 Provide urban management to within the City Centre
 - 94 Provide social and cultural amenities, public space
 - 95 Address historic, vacant and derelict building issues
- 96 The City Centre Framework identified the Fashion District as one such precinct requiring a focused strategy addressing the issues listed above.

97 Activity Centres and Proposed City Centre Precincts



98



99 The Joburg 2030 Strategy sets out the vision and focus for action that will help the city attain a world class city status in terms of its business environment, performance in key economic sectors, delivering a skilled and directed labour force, improving spatial connectivity and city functionality with the ultimate aim of improving the quality of life of citizens equivalent to that of first world capital cities.

100 The Fashion District adds value to the strategic direction of 2030 in a number of its key areas these include:

- 101 Skills development
- 102 Crime prevention
- 103 Spatial planning
- 104 Sectoral Development, particularly the design component of creative industries
- 105 SMEs and linkages

106 Likewise the project will contribute to the City of Johannesburg Vision of an African World Class City by developing and promoting the Fashion District as “The Urban Edge of African Fashion”.

107 Regarding city planning the Fashion District Development will add area-based detail to the planning hierarchy that stems from the Integrated Development Plan and the Spatial Development Framework. In this regard the Development will generate an urban design framework for the precinct meeting requirements of the Regional

Spatial Development Framework as well as contributing to many of the core objectives of the Local Integrated Development Plan.

- 108 The Inner City Regeneration Strategy and its Business Plan set the goal of achieving raised and sustained private investment leading to a steady rise in property values. The objectives aimed at achieving this goal, include:
- 109 Address sinkholes
- 110 Undertake intensive urban management
- 111 Maintain and upgrade infrastructure
- 112 Promotes ripple pond investment
- 113 Support economic sectors
- 114 The Fashion District Development cuts across these strategies at the precinct level and as such has direct relevance to the Regeneration Strategy.
- 115 The Fashion District Development poises a challenging opportunity for the JDA, it holds true to many of the organisational objectives, namely:
- 116 To create jobs.
- 117 To simulate development and housing opportunities in the city
- 118 To increase the rates base
- 119 To boost Johannesburg's image as a place to live, invest and visit
- 120 To respond to and realise the aspirations of the whole population of Johannesburg and to improve the quality of life and economic opportunities provided to them.
- 121 The outcomes of the Inner City Fashion District Project will contribute substantially to the attainment of the above objectives. But more than this it tackles issues of urban regeneration, social and economic development in the context of a marginal set of frame conditions. In this respect some of the core values of the organisation (creativity, innovation and responsiveness) will be put to test in ensuring that the process-driven economic rationale is translated into meaningful improvements to the quality of social, cultural and economic life in the district.

Section B

Current Situation

Background/History

This Development is a major inner city regeneration projects that can contribute to the outcome for the inner city, viz., the economic, social and cultural centre of the African World Class City, by promoting both the growth and sustainability of SME's through a re-dimensioning of fashion businesses to focus and shift emphasis towards design and value added manufacturing components of the industry.

This Fashion District Business Plan follows an assessment of the JDA's role in the Fashion District and acknowledged the significant work that preceded the set-up of the JDA and the subsequent transfer of the Development to its management. The assessment identified as its central findings:

The need for JDA to be less involved in direct implementation and to play a more supportive/enabling role, pushing delivery to the most appropriate level or institutions. In doing so, emulating a best practice approach to Fashion District management. As such acknowledging:

- a) The need to prioritise the formation of a Fashion District Institution;
- b) The need to place greater emphasis on industry (and related partner) led action;
- c) The need for JDA to mobilise key partners including council departments and agencies in related areas such as property development, housing, bad buildings, markets;
- d) The need for JDA to systematically structure its management response around a redefined project.

Following from this, a number of recommendations were made which hinged on two core proposals:

- 1) The urgent creation of an industry related Institution with a broad set of responsibilities that go beyond a narrow urban management mandate.
- 2) That once created, the Fashion District Institution would takeover the ongoing delivery of the services defined in the JDA business plan.

The business plan herewith is a continuation of this logic and thus a link backward to the history and origins of the Development outside of the JDA.

Economic: Macro & Micro^{x xi xii xiii xiv xv}

The Fashion District Development carries a strong emphasis on the promotion of economic development anchored on the economic activity of the organic and emerging fashion based cluster that exists in the western section of the Inner City. Without undermining the urban and social development components of the Development and their links back into economic growth, this section of the business plan outlines some of the economic rationale that underpins the development approach. As such the section not only outlines the macro and micro economic environment but also attempts to justify the development approach taken.

The Economics of South African Clothing Industry

The South African clothing industry has been in significant decline for more than a decade. This decline has occurred in all the three of the major clothing production centres of Cape Town, Durban and Johannesburg. The formal industry in Johannesburg currently employs in the region of 6,000 people, at its peak during the 80s more than 30,000 people found work within the industry. In fact, the current employment levels are not far off the levels recorded in the mid 1930 when the industry was still establishing itself.

There are a number of interrelated factors contributing to the decline of the industry. Prior to the mid 90's South Africa's pariah status saw it excluded from the global economy. Economic sanctions restricted the opportunities to export and with it the opportunities to realign production and management techniques to keep up to date with changes in international competition and rising productivity levels. On the other hand, the South African government adopted a highly protective tariff structure that limited the penetration of imported clothing at the very time where the productive centres of Asia and in particular the Far East were aggressively reshaping the traditional supply patterns within the world clothing markets. The ripples of change within world clothing production and the restructuring of its markets to form the foundation of a new globally functioning clothing commodity chain did not make their way to the protected shores of the South Africa clothing industry which remain inwardly focused.

Adding a second degree of complexity to the competitive mix in the local clothing industry was the impact that a concentrated, oligopolistic retail sector had on sub-sector as a whole. South Africa had and still has one of the most concentrated clothing retail sectors in the world with the majority of clothing retail sales being captured by a very limited number of players such as the Edcon, Pepstores and the Foschini Groups. As such, supply options for gaining access into the local market by manufacturers have been and remain restricted. Exclusive supply agreements are not uncommon between retail houses and major manufactures and in some cases retailers have opted for backward integration taking on board their own manufacturing arms. The impact of this has been the development of a highly controlled "buyer-driven" industry where manufactures have had little say in pricing, quality specification, range design or fabric selection the control of inventory or timing of deliveries.

With the advent of democracy and the inevitable integration with the global economy, the South African industry had to simultaneously adjust to the arrival of (legally and illegally) imported goods as well as a rapid reduction of protective tariffs. For the inflexibility and

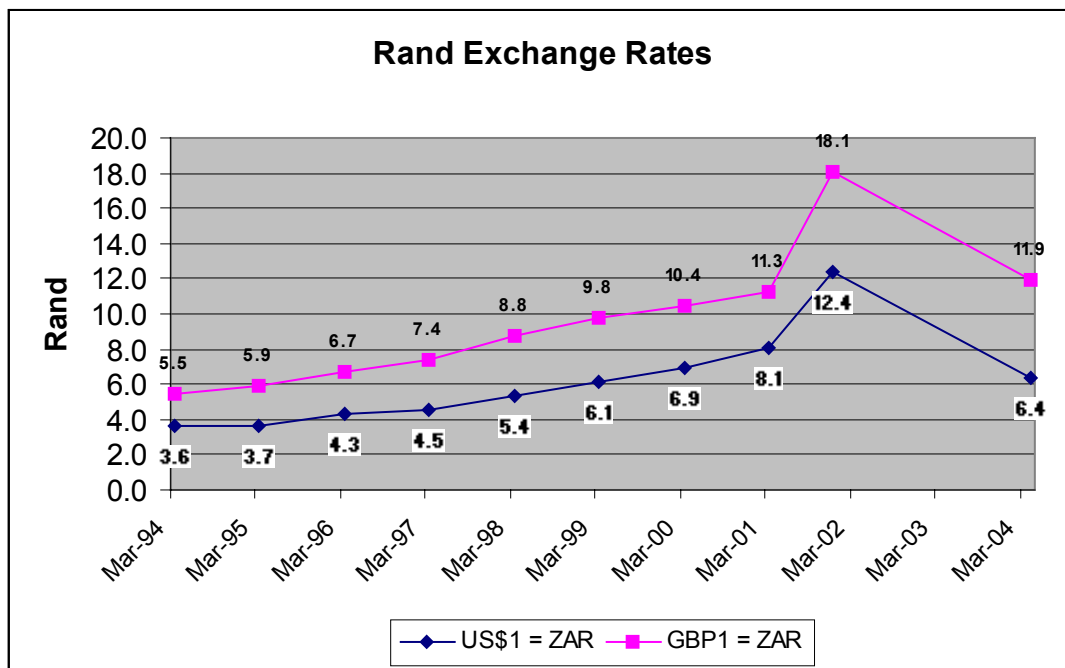
uncompetitive local industry the impact was massive, triggering the rapid downsizing of the industry.

The above synopsis presents only a brief review of the challenges faced by the formal clothing industry. Lying behind these broad macro events, is a more detailed set of economic relationships and conditions have helped or hampered the industry. It is beyond the scope of this business plan to articulate all of these dynamics in any reliable detail, instead following paragraphs sketch a few of the more pertinent issues.

Relative Rand strength or weakness has differing impact on particular operators within the industry depending on the degree to which they are export orientated or focused on serving the local market as well as to the degree to which they are dependant on local supply of inputs such as fabric or trim or whether they are net importers. The table below more summarises the impact of Rand strength or weakness. For the most common form of South African clothing manufacture, that which is focused primarily on the local market using local inputs, a strong Rand is a detrimental factor driving increased competitive clothing imports. Likewise a weak Rand is generally beneficial for the local industry.

| | Market Focus | Rand Strength | Impact | Hedge Factor |
|--------------------|---------------------|----------------------|---------------|---------------------|
| Local Manufacturer | Local Market | Strong Rand | Negative | Imported inputs |
| Local Manufacturer | Local Market | Weak Rand | Positive | Local inputs |
| Local Manufacturer | Export Market | Strong Rand | Positive | Local inputs |
| Local Manufacturer | Export Market | Weak Rand | Negative | Imported inputs |

In recent months the Rand has shown remarkable resilience, maintaining high value after a period of dramatic gains of a very weak position at the end of 2001, beginning of 2002. This increased strength of the Rand reflects primarily Dollar weakness and gains against the more directly competitive currencies of the major clothing production centres are not as dramatic.



Additionally, Rand volatility, a defining characteristic of the currency in recent times is generally a detrimental factor which limits forward planning, investment and as a result growth. Reinvestment by clothing firms into new equipment is not only hampered by exchange uncertainties but is restrained more generally as a result of the overall uncertainty facing the industry as well as declining profits to reinvest and a cautious banking sector that is risk adverse to investment in the clothing industry (one of the success factor identified for the growth of clothing industry in Mauritius was the willingness of local banks to fund expansion). The age of shop floor equipment is rising, which suggests that limited investment into new technologies which have the potential to enhance productivity, quality and in turn competitiveness.

As much as there is an established trend towards dropping world commodity prices there is a growing trend of dropping of prices for certain categories of manufactured goods as well. The integration of China into the world economy and its capacity for mass production of manufactured good has been in part used to explain this trend. The clothing sector is one of the sectors experiencing falling prices internationally. Not only suffering from declining real prices, the industry has had to contend with a decline in local demand for clothing. (See DTI table x below)

| Reducing Unit Value of Clothing Produced in SA (at 2000 constant prices) | |
|--|-------|
| Year | Value |
| 1993 | 100 |
| 1994 | 96.6 |
| 1995 | 94.3 |
| 1996 | 94.2 |

| | |
|------|------|
| 1997 | 92.9 |
| 1998 | 88.9 |
| 1999 | 87.4 |
| 2000 | 84.6 |

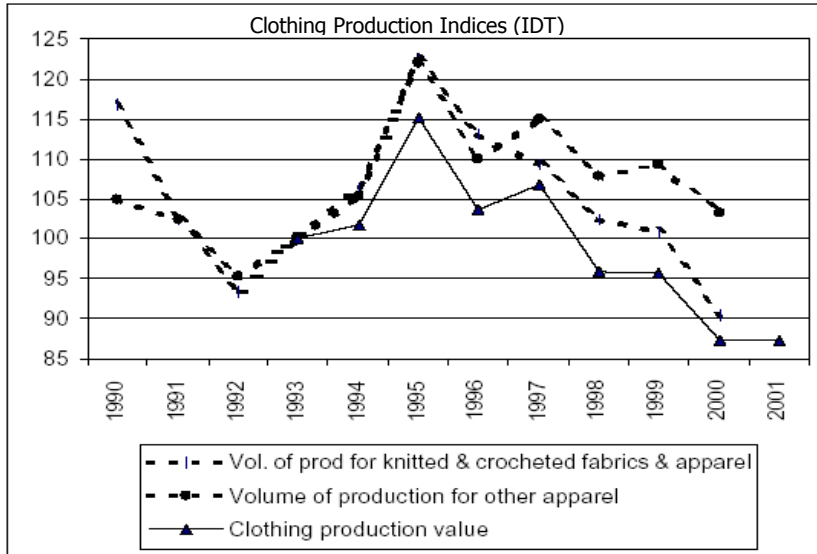
Table x

In the more recent years the South African industry found some stability in certain niche markets. The export sector has shown some limited growth, in particular within the US market. Sales to the EU have declined as a whole but the UK remains relatively strong market (see table x below). Nevertheless, export growth has typically occurred in foreign-owned part of the sector, with the domestically-owned part of the sector struggling to shrug off historical dependencies to come to grips with changes in the domestic market discussed above. On the positive side, South Africa's partial status (that of Developing Country along with Mauritius rather than of Less Developed Country the status ascribed to the rest of Africa) with respect to AGOA and the continued existence of the DCCS have helped sustain the export market and on the negative side has been Central Europe's preference for supply from regionally located suppliers (Eastern Europe, Turkey, etc).

| Year | Regional Breakdown of SA's Clothing Exports (%) | | | | |
|------|---|---------------|------|--------|---------------|
| | EU | UK as % of EU | US | AFRICA | Other Regions |
| 1988 | 66.6 | 43.0 | 8.4 | 14.7 | 10.4 |
| 1990 | 58.4 | 45.4 | 9.3 | 16.1 | 16.1 |
| 1992 | 44.4 | 46.8 | 5.4 | 14.6 | 35.5 |
| 1994 | 47.9 | 46.6 | 37.6 | 9.9 | 4.5 |
| 1996 | 46.2 | 66.7 | 31.0 | 15.6 | 7.2 |
| 1998 | 40.0 | 81.8 | 41.3 | 10.9 | 7.8 |
| 2000 | 26.3 | 80.9 | 57.1 | 9.5 | 7.0 |
| 2001 | 19.9 | 80.6 | 64.9 | 8.0 | 7.2 |

Table x

Falling production (see graph below) and falling prices gained for produced good clearly place substantial pressure on the local industry and for many the pressure was too great to bear. Between 1990 and 2001 the number of formal business operating in the country halved to around 650 in number (see table x below). For those firms who have managed to survive, they have typically increase in size (employment) and shown some limited increases in multifactor productivity levels. Labour productivity on the other hand, particularly in the centralised production areas, has not changed significantly (see graph below).



Graph x

| Year | Nationally | | Gauteng | |
|------|------------|------------------------|-----------|------------|
| | No. Firms | Av. Employees per Firm | No. Firms | % of Total |
| 1990 | 1248 | 115.7 | 347 | 27.8 |
| 1995 | 1064 | 125.9 | 268 | 25.2 |
| 1996 | 1098 | 136.5 | 261 | 23.8 |
| 1997 | 980 | 142.5 | 239 | 24.4 |
| 1998 | 894 | 144.7 | 226 | 25.3 |
| 1999 | 770 | 179.6 | 201 | 26.1 |
| 2000 | 722 | 189.4 | 179 | 24.8 |
| 2001 | 654 | 202.7 | 171 | 26.1 |

Table x



Labour costs are kept high by bargaining Council Agreements in the central areas of Cape Town, Durban and Johannesburg (R1320 pm - R1890pm - 2001). Decentralised areas such as Newcastle (R386pm - R733pm - 2001), Isithebe and Ladysmith maintain lower wage regimes as well as lower general labour standards. Nevertheless labour standards and to a degree labour costs are higher than those of regional neighbours such as Lesotho (Maseru R600 pm –2001), Swaziland, Mozambique, Botswana and Namibia (see table x below).

| | Pieces per Operator Day | Monthly Salary (US\$) | Unit Cost of Assembly (US\$) |
|---------------------|-------------------------|-----------------------|------------------------------|
| South Africa | 15 | 248 | 0.75 |
| China | 20 | 150 | 0.34 |
| India | 16 | 72.5 | 0.21 |
| Swaziland | 15 | 105.4 | 0.32 |
| Lesotho | 18 | 87 | 0.22 |
| Mauritius | 18 | 108 | 0.27 |

Some factories have managed to carve out higher value added niche markets requiring greater specialisation and production skilling. However for the majority of players, they have opted for or have been forced to take the “low road” of low specification and mass volume production. Increased access to the US markets has been typical in this area, following the supply lines through international sourcing agents, which see products eventually retailing through outlets such as supermarkets, low end retail chains and mail order catalogues. On the upside, serving the US market has placed greater demands on high run production and adherence to high standards of quality assurance.

In summary, the SA industry has been through a cathartic period and remains in a weak state. Although there is an active core of producers who have managed to sustain low-end markets the prospects for significant growth will be limited in the medium term without structural changes, new investment in productive capacity and greater support to the industry from government. In this regard, there is a strong argument that for government to fulfil its stated intention to create jobs through economic growth it needs to more readily acknowledge the contribution the clothing sector makes to manufacturing sector jobs currently (even after the downsizing of the industry) as well as to the potential that the clothing sector has to create jobs:

“While every serious economic study show that it is cheaper to create manufacturing jobs in the clothing sector than in any other, this has not been reflected in government priorities”^{xvi}

In directing policy at supporting the formal industry the following are important issues for consideration by government and the industry itself:

- Improving export responsiveness particularly among domestically owned businesses.
- Addressing the main structural constraints retarding export performance.
- Improving the sectors knowledge of export market.
- Improving quality assurance measures and other market disciplines that can promote sales.
- Improving productivity and overhead structures.
- Addressing issues of local fabric supply in terms of the supply line, backwards integration, design and quality (meeting AGOA requirements).

Regarding the role of city authorities, in the context of their increasing engagement in issues of local economic development, there are a number of important ingredients that have assisted the growth of successful fashion districts in different cities around the world. Clearly, the interaction of supply and demand factors at the macro level is of paramount importance albeit that they lie, on the whole, outside of the scope or influence of most city initiatives. These factors include foreign exchange ratios, tariffs and incentives and labour costs.

However, cities that have actively promoted clustered fashion activities, providing support programmes and ensuring a broadly enabling environment have managed to improve value along the chain. In this regard, city action may not determine the broad band of potential economic output but can determine the relative placing within that band. Furthermore, city level support leads to improved sustainability and can provide the trigger or catalyst, which combined with macro improvements, can result in rapid and accelerated growth.

The Economics of the Fashion District

In the heyday of the South African clothing industry, Johannesburg was a more significant centre than either Durban or Cape Town. Rees Mann, whose family have been engaged in the Johannesburg clothing industry for three generations, talks of the vibrancy, bustle and endless activity that defined the early industry and the Fashion

District in particular. In its current form, the formal industry is scarce in the Fashion District with only a few significant players located there. Nevertheless, the District still maintains a unique character albeit within an environment that is less than satisfactory.

As the formal industry collapsed, a number of retrenched workers set-up their own informal business choosing to locate within the district for a mixture of historical, supply and market reasons. In conjunction with this, after 1994, an inflow of foreign nationals with clothing and tailoring skills and South African new-entrants also congregated in and around the district. The emergence of this new cluster of clothing based activity now comprises a significant portion of the business activity in the area.

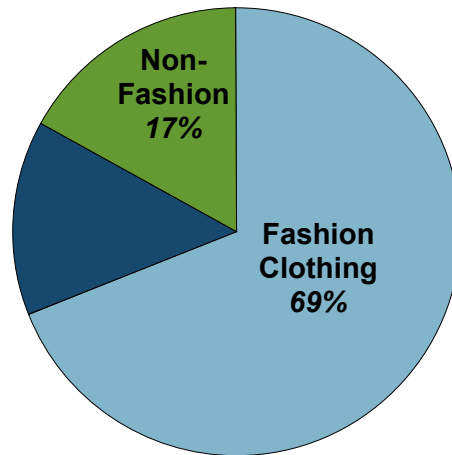
Clothing related businesses make up 75 percent of businesses in the area. Of these most are engaged in sales only activities, both retailers and wholesales, supplying the low cost mass market. Much of this clothing is imported from the Far East or else source from the decentralised areas of production within South Africa. The secondary area of clothing activity in the area relates to clothing manufacturing and design, which consist of very small businesses, employing on average 5 people.

The links between small clothing businesses and remaining large-scale manufacturers in the area are very limited and in many cases absent. Rapid growth of the clothing industry in the Far East has been attributed in part to the supportive role SMEs played (mainly in CMT activity) to the formal industry. However, the impact of globalisation of the clothing commodity chain and the restructuring of international trade relations and agreements has been to weaken these linkages to the point that clothing SMEs are no longer an important factor in production. In Johannesburg, in the current environment there are limited synergies that exist between the formal industry and the informal one that could trigger stronger linkages in the future. As such, for the Fashion District with its focus on smaller players, it would be unwise to expect the formal industry to be the driver of growth in the area. Instead, a more realistic strategy is one that focuses on the development of a vibrant small clothing business culture that positions itself effectively in higher value-added, design-rich, niche markets, that require value chain specialisation and production that focused on smaller quality runs and backed by aggressively promoting the cluster along side a parallel process that drives the development of market opportunities.

The JDA commissioned The Monitor Group to undertake a strategic review of the fashion cluster in order to better understand the dynamics of the area, the nature of the economic relationships and to identify market failures and suggest possible courses of action to remedy them. The following paragraphs draws extensively on Monitor's work and their full report is included in Annexure B.

The District comprises of around 800 businesses and an addition 300 street traders. Of the 800 businesses 69% are clothing/fashion businesses, another 14% are fashion related and the remaining 17% are non-fashion businesses.

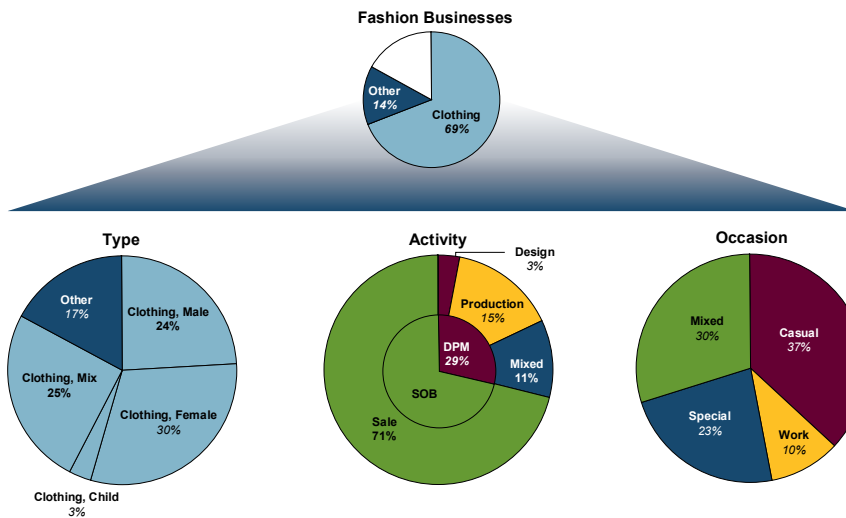
Focus of Businesses



Of the combined fashion and fashion reacted businesses, 71% are sales only businesses (SOB) and typically active in the sale of low cost garments (imported or of decentralised-area origin) to the bottom end consumer market. The remaining 29% fit the typology of design or production focuses businesses or mixture of the two (DPM), 3%, 15% and 11% respectively, as detailed below.

Confidential

Fashion in Fashion District Overview

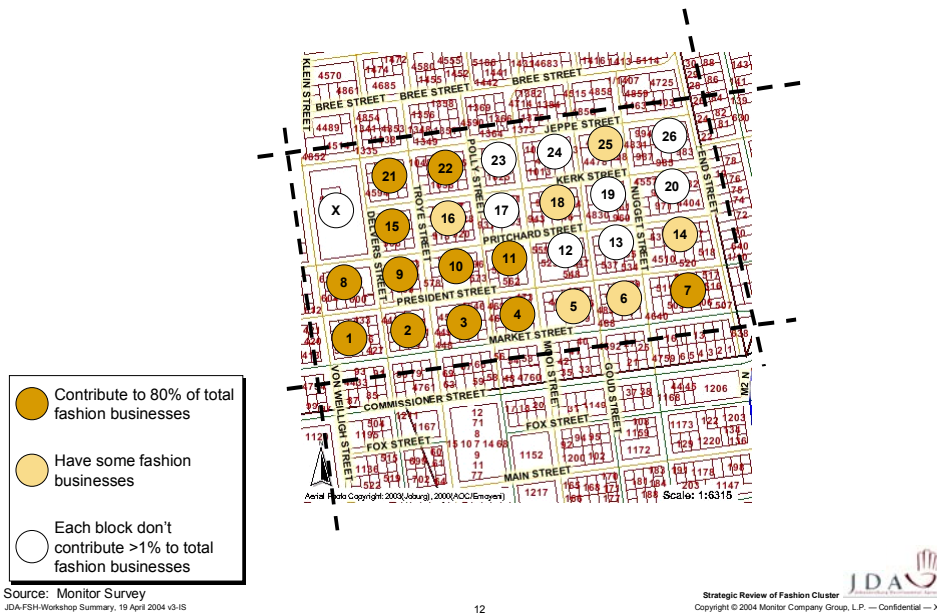


Source: Monitor Survey
JDA FSH Workshop Summary, 19 April 2004 v3-IS

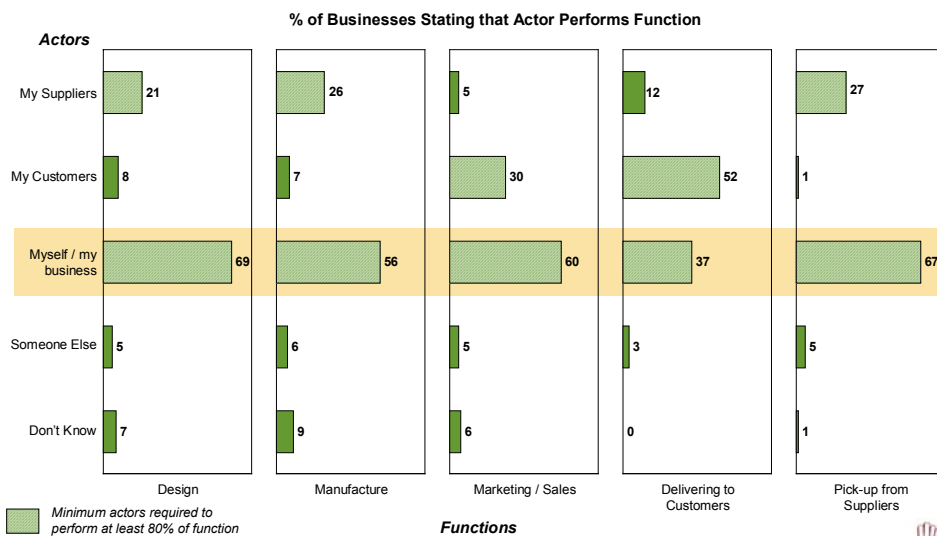
11

Strategic Review of Fashion Cluster
JDA
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The fashion-orientated businesses are concentrated in the western side of the Fashion District. See below

BACKUP**Distribution of Fashion Businesses — Clothing and Other**

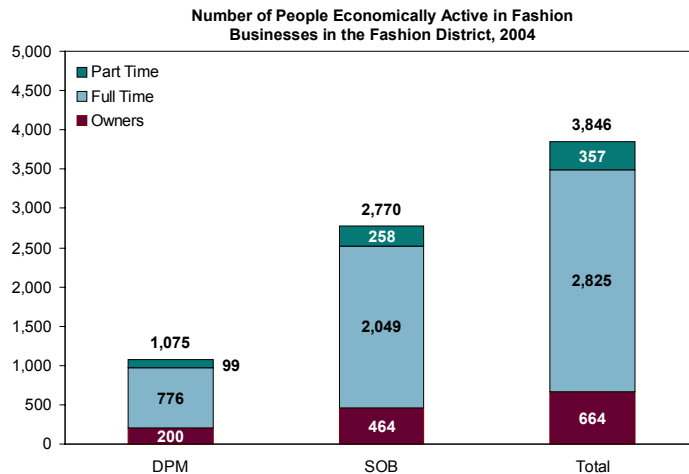
DMPs show a high degree of functional integration, as such there is little specialisation with very few businesses focusing on single areas of expertise such as design, specialist finishes or offering of marketing services to producers.

DPM**Who Does What?**

Total direct employment relating fashion businesses is around 3,900 people, with approximately 1,100 finding employment with DPM businesses (28%). The Average DMP business employs around 5 people including the owner/s

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DPM / SOB Employment



Source: Monitor Survey
JDA-FSH-Workshop Summary, 19 April 2004 v3-IS

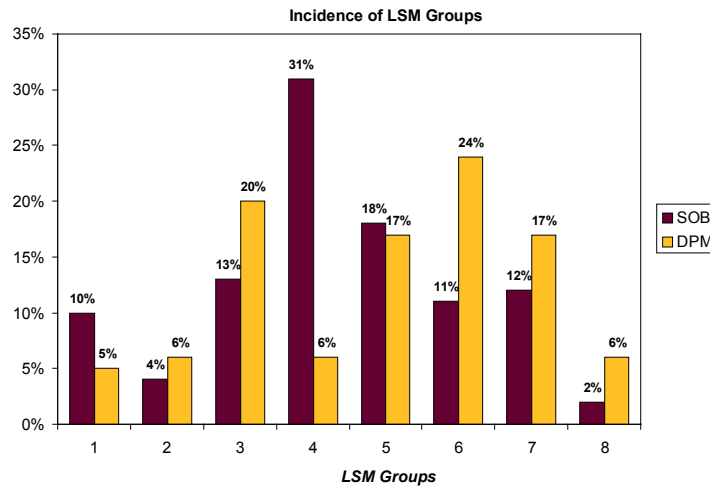
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For DMP businesses 55% are male and 45% female, with 81% being owned by Previously Disadvantage People (primarily black and Asian) and 80% have local owners and 20% foreign owners. 26% of DPM businesses are registered Closed Corporation (CC) or are Private Limited companies (PTY LTD), the remaining 74% are sole proprietorship, or are unregistered.

DPMs receive the majority of their supplies from within Johannesburg 67%, with 18% of all supplies coming from within the fashion District itself. Suppliers outside of the Gauteng were not common.

In terms of customers, DPMs reach in general higher LSM groups than SOBs, 58 % of their customers falling in LSM categories 5, 6 and 7.

DPM / SOB**Type of Customer**

Source: Monitor Survey
JDA FSH Workshop Summary, 19 April 2004 v3-IS

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For all DMPs in the district, total sales turnover is estimated at R120, 000,000 per year. 60% of turnover goes towards the costs of goods sold, leaving an operating profit of 40% or around R48, 000,000. In terms of salaries and income, for a typical employee earns around R2500 pm month and for an employer around R4, 000. About 5% of operating profits are re-invested into the businesses.

Business sales are highly seasonal, peaking from September to December and dipping during January, March, June July and August. During dips sales turnover is approximately 25% of the value during peak periods.

DPM, Business Economics

Estimated Profit & Loss Accounts, data backup

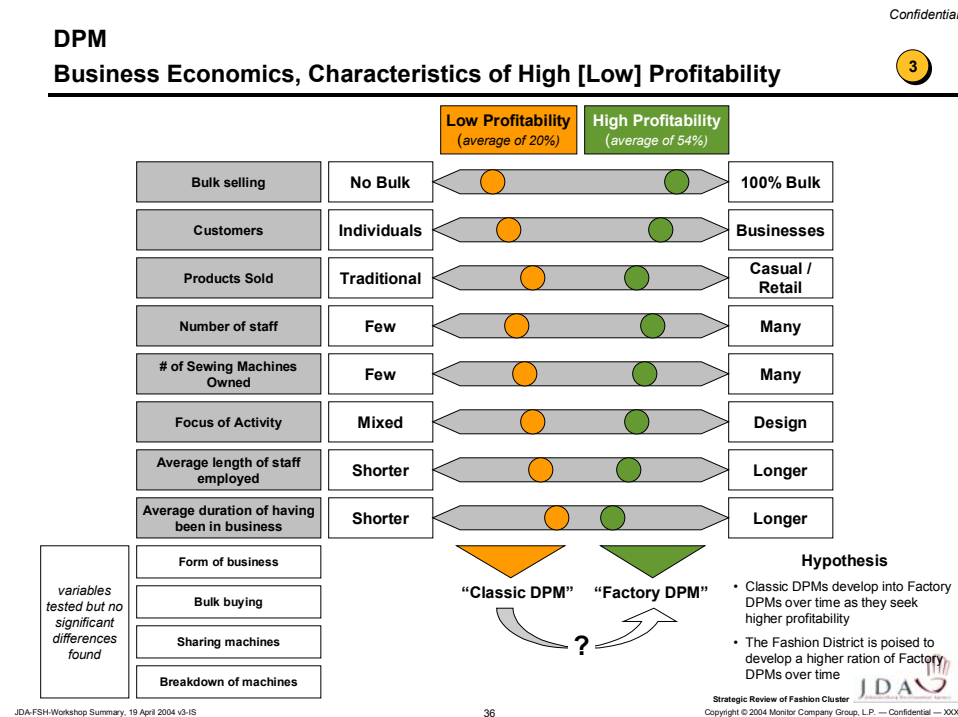
| Week | | | | Month | | | | Year | | | |
|---------------------------------------|-------------------|------------------|------------------------|---------------------------------------|-------------------|------------------|------------------------|---------------------------------------|-------------------|------------------|------------------------|
| per week | unit of analysis | | | per month | unit of analysis | | | per year | unit of analysis | | |
| | individual person | average business | total Fashion District | | individual person | average business | total Fashion District | | individual person | average business | total Fashion District |
| # businesses | | | 200 | # businesses | | | 200 | # businesses | | | 200 |
| # of people | | 5 | 1,000 | # of people | | 5 | 1,000 | # of people | | 5 | 1,000 |
| turnover [Rand] | 2,500 | 12,500 | 2,500,000 | turnover [Rand] | 10,000 | 50,000 | 10,000,000 | turnover [Rand] | 120,000 | 600,000 | 120,000,000 |
| cost of goods sold [%] | 60% | 60% | 60% | cost of goods sold [%] | 60% | 60% | 60% | cost of goods sold [%] | 60% | 60% | 60% |
| purchasing spend [Rand] | 1,500 | 7,500 | 1,500,000 | purchasing spend [Rand] | 6,000 | 30,000 | 6,000,000 | purchasing spend [Rand] | 72,000 | 360,000 | 72,000,000 |
| operating profit [rand] | 1,000 | 5,000 | 1,000,000 | operating profit [rand] | 4,000 | 20,000 | 4,000,000 | operating profit [rand] | 48,000 | 240,000 | 48,000,000 |
| staff comp. [Rand] | 625 | 3,125 | 625,000 | staff comp. [Rand] | 2,500 | 12,500 | 2,500,000 | staff comp. [Rand] | 30,000 | 150,000 | 30,000,000 |
| owner premium [Rand] | 375 | 1,875 | 375,000 | owner premium [Rand] | 1,500 | 7,500 | 1,500,000 | owner premium [Rand] | 18,000 | 90,000 | 18,000,000 |
| owner comp. [Rand] | | 1,250 | 250,000 | owner comp. [Rand] | | 5,000 | 1,000,000 | owner comp. [Rand] | | 60,000 | 12,000,000 |
| funds available for investment [Rand] | 375 | 625 | 125,000 | funds available for investment [Rand] | 1,500 | 2,500 | 500,000 | funds available for investment [Rand] | 18,000 | 30,000 | 6,000,000 |
| | | | | | | | | | | | |
| # of products | 4 | 21 | 4,167 | # of products | 17 | 83 | 16,667 | # of products, year | 200 | 1,000 | 200,000 |
| average price per product [Rand] | 600 | 600 | 600 | average price per product [Rand] | 600 | 600 | 600 | average price per product [Rand] | 600 | 600 | 600 |
| turnover [Rand] | 2,500 | 12,500 | 2,500,000 | turnover [Rand] | 10,000 | 50,000 | 10,000,000 | yearly turnover [Rand] | 120,000 | 600,000 | 120,000,000 |

Note: Business performance heavily depends on seasonality. Above numbers reflect average performance per unit of analysis irrespective of season.

Source: Monitor Survey

JDA-FSH-Workshop Summary, 19 April 2004 v3-IS

One of the factors determining the level of operating profit was the degree to which the DMPs were geared towards “factory type” production and the generation of higher quantity runs as opposed to a more “classic” DPM that is geared to servicing individual client. The distinctions between “classic” DPM and “factory type” bears out not only in profitability but also in relation to other important indicators such as bulk purchase orientated, age of equipment, number of staff, degree of formalisation and age of businesses. It is considered that “classic” and “factory” type DPMs, form part of the growth cycle of DMP with the latter being the mature form in terms of the business growth cycle. See graph below.



Nevertheless, for the majority of DMP business they are characterised at early stages in their growth cycles. To make the shift from their current level of operation to more stable and profitable level of operation a number of changes in key operating characteristic may be required and are summarised in the table below:

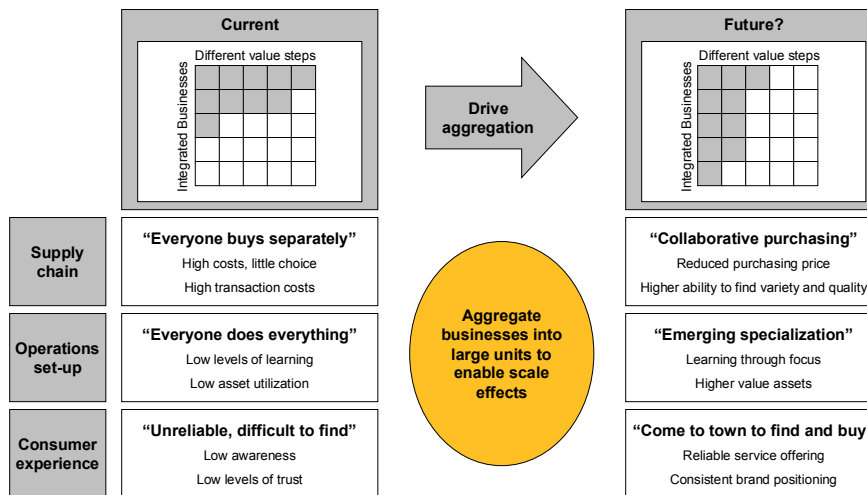
| | DPMs Currently | DMP Growth Potential |
|---------------------------------------|---|---|
| Demand conditions | Buyers unaware of products Buyers must be convinced to use product | Widening buyer group Consumer accepts variable quality |
| Products | Poor Quality Many product variations | Quality improvements Technical differentiation |
| Manufacturing and distribution | Short Production runs | Shift towards higher production runs |
| Competition and Margins | Few companies Relatively high margins | Entry of competitors Highest profits |

In order to make this transition it has been argued that the following three core strategies should be promoted:

1. aggregation of capacity
2. utilization of scale effects
3. value chain differentiation.

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DPM Strategy



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Monitors study also provides important insight into the Sales only Businesses and reinforced their relationship to the functioning of the cluster as a whole. Although strong links and over laps where common between SOBs and DPMs they had some commonality in theirs of their respective customers bases. Monitor identified that for most SOBs they were in a mature point in their business lifecycles indicated by their age and market and product focus. As such, product specialisation was seen as an area that could promote growth within this group of companies.

In summary, the formal industry has shrunk and growth prospects remain limited. The informal or small-scale industry in Johannesburg has shown some stability and growth. The smaller operators in the fashion district have limited connections to the formal industry and in some respects are less hindered in their growth potential by macro events and concerns. This being said however, the constraints facing smaller operators are sizable. In order to drive growth they will need to address the factors identified that limit their current operations. In this respect the City and its partners can provide support in driving specialisation and seeking value adding components, improving market access and market opportunities and building group capacities in areas of purchasing, design and production.

Social

Social development issues are not well mapped out in the district, with the exception of a social capital study of garment producers that was undertaken in the District by BCG Bees. This study indicated that networking and linkages are evident to a degree among garment operators, however, these are limited in extent and further assistance will be needed if social capital is to be built. Although some South African and immigrant clothing producers work together, xenophobia is an issue in the district. Average incomes of DMP workers, as detailed earlier, although fluctuating seasonally, are reasonable and often exceed the wage agreement set for the formal industry. Nevertheless, income levels of the most micro-entrepreneurs are marginal. For this group in particular there is a need address the social exclusion and poverty related issues.

As regards district residents, their situation is not well documented. Anecdotally however, it is possible to draw a number of conclusions.

- Given that formal residential stock (mainly in the northern section of the district) is on the whole in poor to very poor condition, this would suggest that its occupants are most likely low-income earners or unemployed.
- The district has a high concentration of informal residential stock, that is to say illegal conversion and slum land-lording of buildings. These buildings typically pose health and safety risks. SAPS officials have report high incidents of reported assault and other violent crime relating to these structures.
- Given the lack of schools, public facilities, social services, public space, recreational facilities, it can be assumed that residents suffer high levels of social exclusion. The only social amenity that appears to be in high supply is liquor stores and taverns. The SAPS have identified this as one of the biggest problems within the police sector.
- The Fashion District is home to a large immigrant population, particularly of Mozambican origin. For many of these immigrants they are likely to be illegal aliens. Given this fact, many are likely to experience high levels of social and economic marginalisation. For example, business forum members have complained to the SAPS that police from the neighbouring Jeppe station (not their area of direct jurisdiction) were randomly arresting “illegal aliens” and extorting bribe money for their release – although in many instance the arrests were made of legal aliens or SA citizens.
- Street children and vagrancy has been identified as a problem in the area, for which no nearby facilities or services exist.
- General crime levels in the area are high, including mugging, assault (including domestic violence), theft of motor vehicles (including hijacking), theft out of motor vehicles, business and residential burglary, armed robbery, drugs and prostitution.

In concretising this component of the development it will be necessary for a more comprehensive social audit be carried out by Region 8 social services feeding this information back into the development cycle.

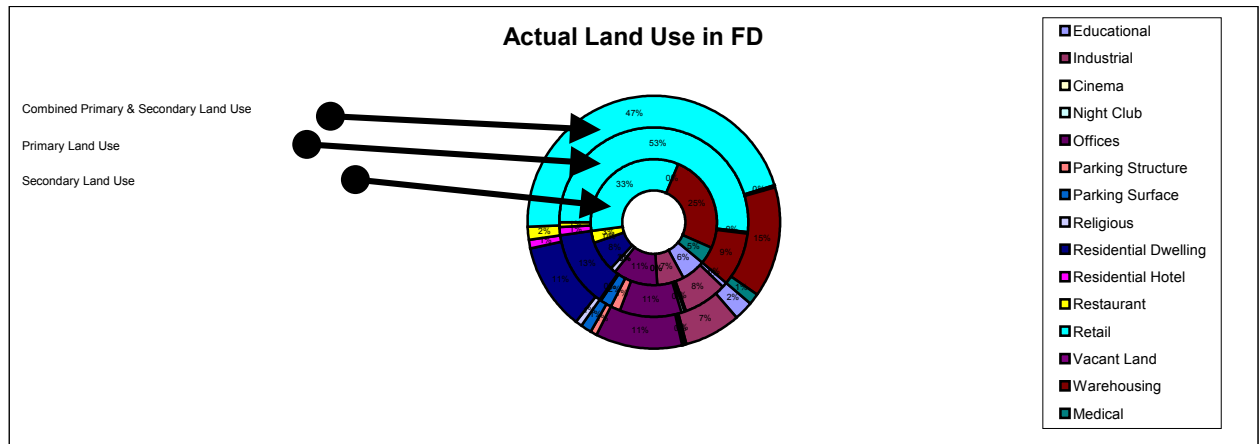
Environmental^{xvii, xviii}

The precinct displays characteristics common to many inner city areas facing decline and degradation. These include:

- unregulated informal traders causing congestion and contributing to crime and grime issues, as well as undercutting 'formal' entrepreneurs in terms of business and competition for space in the public realm;
- formal retailers contesting pavement space;
- crime perceptions and realities which discourage investment and visitors in the area;
- parking and loading problems;
- general grime issues exacerbated by lack of maintenance of the public environment, decaying infrastructure, lack of maintained and adequate street furniture and public amenities;
- illegal conversions and slum lording;
- deterioration of buildings and no conservation or heritage considerations in place;
- little or no green space or planting;
- lack of a cohesive space, flow and movement pattern, and
- buildings that are not conducive to the functional needs of practitioners in that they are inward looking. This results in no display space opportunities and buildings that need to be reconfigured in many instances, to be 'turned inside out', so as to offer to a more meaningful public interface.

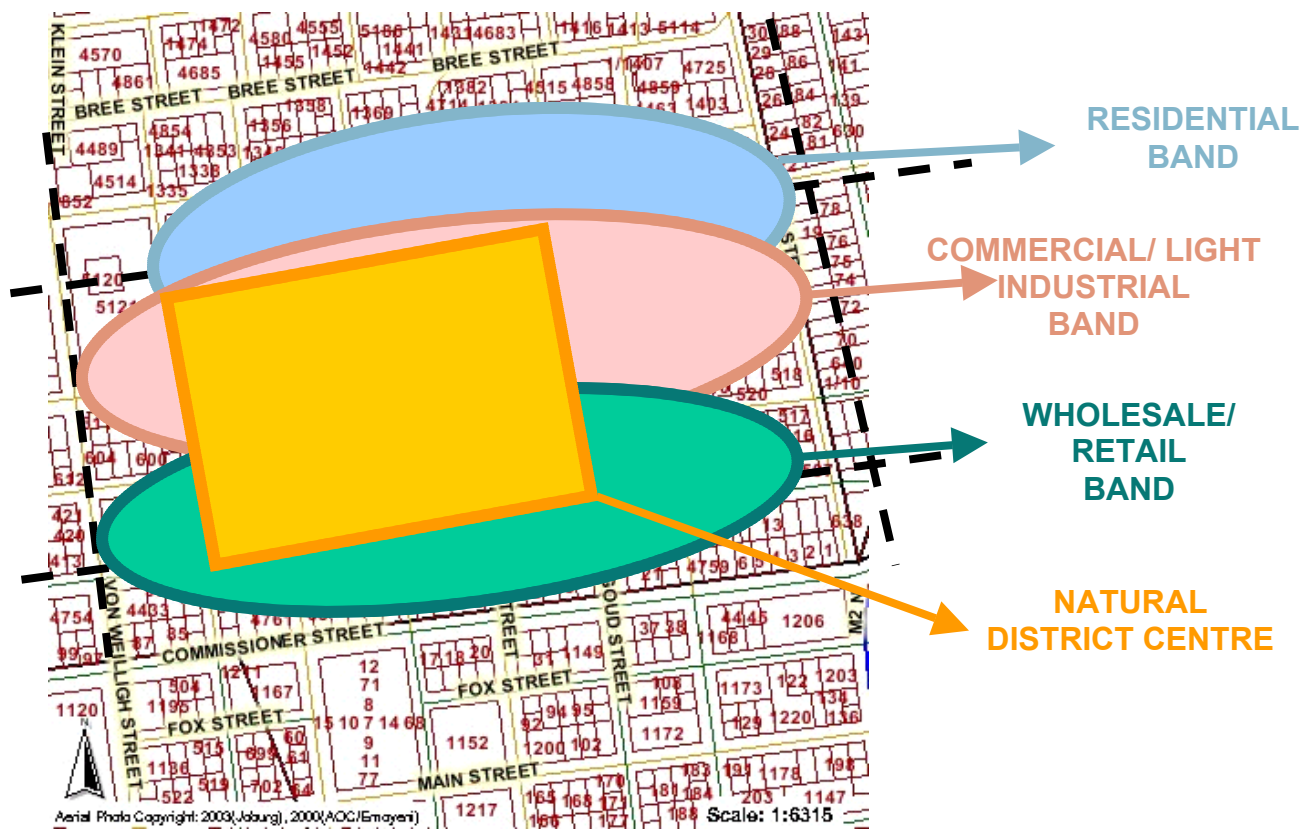
District Layout and Uses

There is a change of predominant use when moving South to North through the district. The southern most third of the district is characterised by retail and wholesale activities, the central third by light industrial and commercial uses, and the most northerly third has an increasing low-end residential component within the mix.



The district has a natural centre around Market, Kerk, Goud, and Delvers streets. It is also in this area and the western side of the district as a whole where better quality building stock is located. Fashion activities predominate more often in the western portion of the district (see economic section earlier) and in particular around Pritchard Street.

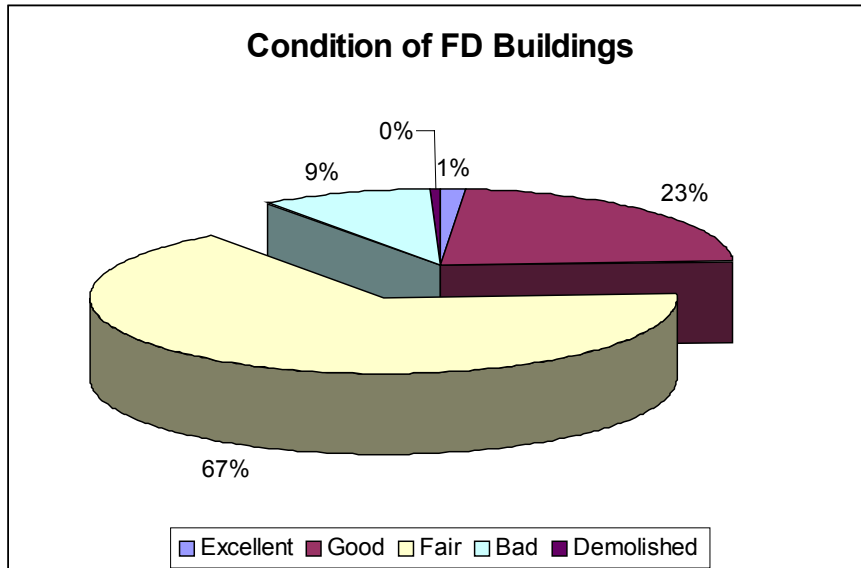
The District is influenced by the ABSA campus to the South, The Precinct to the East, the barrier of End Street to the West and the residential buffer zone to the north.



There are a number of buildings with architectural significance in the district (see (heritage graph below). Gallo house and the Synagogue amongst others have the potential to become landmarks for the district.

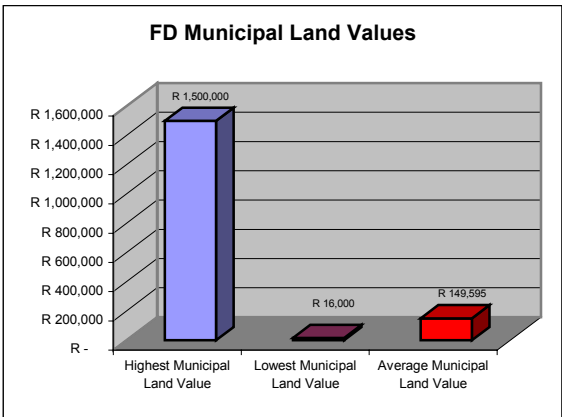
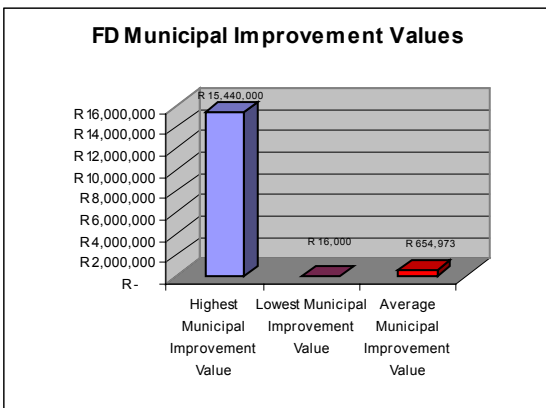
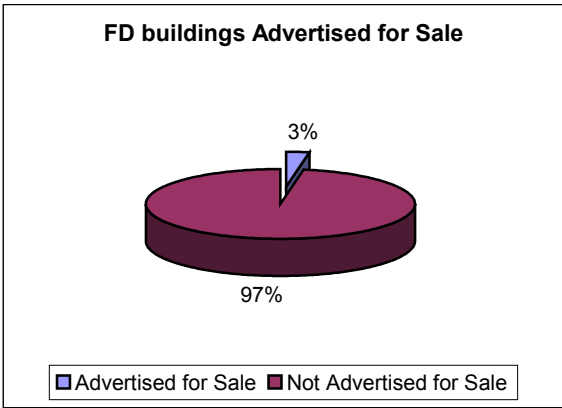
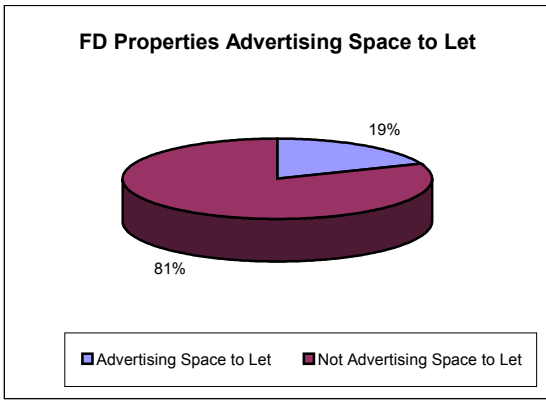
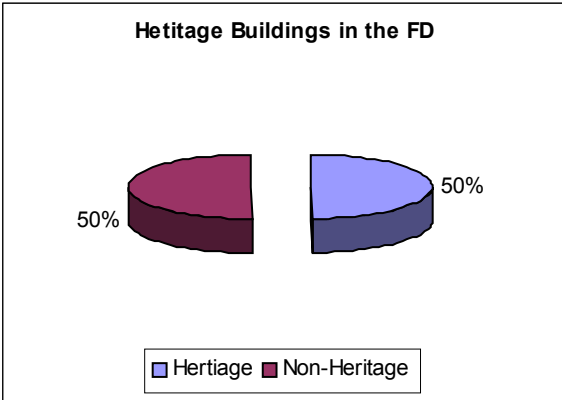
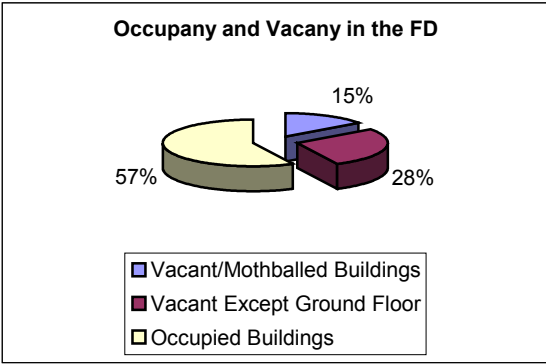
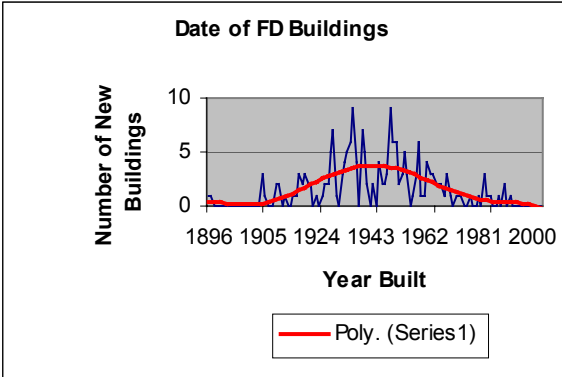
Building Stock^{xix}

Only 23% of buildings in the district are considered to be in good condition, with 76% falling into fair or bad categories. Only 1% were considered to be in excellent condition.



The lack of investment that precipitates the poor condition of building can be explained by a number of factors:

- Absence of any major property owners in the district
- High concentration of absentee landlords and slum landlords
- Building stock is old (50% of building have potential heritage status because of their age)
- Occupancy levels are low except for ground floor space, landlord are not interested in leasing upper floor due to low-level rentals and sufficient holding income from ground floor retail.
- Buildings were designed for outdated manufacturing models
- The COJ owns no stock in the area
- Decline of the clothing industry that historically supported the property base
- The relative distance from the central CBD core
- Access limited by safety and legibility issues
- Investment in new buildings has been closely linked with the growth and decline in the clothing industry, as such since the 80s there has been little new building stock developed
- “Sink Hole” factors, where the concentrated presence of bad buildings limits investment in area
- Owners are not considering selling their buildings since market values are low and revenue streams for ground floor retail provide a return that mitigates against sale.

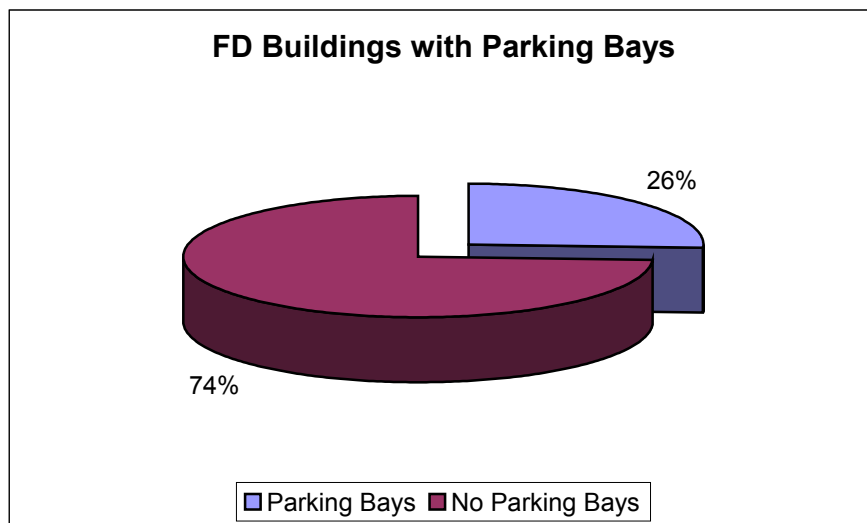


Parking

74% of buildings do not have parking bay provision. Furthermore, the COJ removed on-street parking meters from the area. Vehicle related theft is also high in the district

A number of disused parking garages exist north of Kerk Street. It may however prove problematic to incorporate these garages into the fashion core in the short term. These garages are also not located in perceived “safe” areas. The possibility of purchasing parking levels in other, better located, buildings seems to provide a more practical solution. The following sites have been identified for investigation:

- a. Jeppe parking garage (Erven 1037/8 Kerk street)
- b. Truval house (erf 4544 President street)
- c. Indent House (erf 4646 President street)
- d. Eplow House (erf 4789 President street)
- e. New parking garage at fashion square.



Urban Management Issues

Safety and security problems in the district (see earlier social section) are perceived as major issues in the district. Although SAPS effort in recent times have brought about some stability in reported crime levels (as opposed to preceding periods of increase) many resident and users do not feel this is enough. Efforts to establish higher visibility and closer community ties through a sector policing initiative may assist the problem, albeit that resident have also flagged police corruption as a inhibitor to improved safety.

Lighting in the area is generally considered sufficient, however should the area develop extended trading hours or create 24-hour use public amenities this may need to be reviewed.

Cleaning and cleansing is considered by most residents to be problematic. The area often appears dirty and unclean. The problem is exacerbated by the large number of street traders and formal traders who utilise the pavement space.

Maintenance is an obvious problem in the district both within the public and private space. The area characterised by broken and unkempt paving and curbing. Road makings are in poor condition. Moreover private buildings are often in a bad state of repair, requiring painting and other maintenance work.

Informal trade in the area is unmanaged and on the whole unsightly. Some provision of trading structures has been made along Market Street. A busy Mozambican market exists along Kerk Street as well as some interesting individual trading scattered around the district. Retailers add to sidewalk congestion by displaying their goods illegally on the pavements as well. In general however, street trading and retailers' use of pavements for the display of good add to the area's vibrancy, but requires some thinning down and proper management and facility provision, if it is not to remain a problem in the area.

Public Space and Greening

There is a total absence of public open space in the district. Furthermore, there is very little greening in the district, with no significant treed avenue.

Transport and Access

The area has good East, West and North, South access, and has reasonably close access to the N2 and highway system. Nevertheless, routes are not well-identified lacking signage and legibility clues, and for some users require travel through parts of the inner city that are not considered safe (including Hillbrow). Highway access is complicated and involves routing around the confusing road system below the flyover.

The public transport system is fairly well accessed in terms of Northerly, Easterly and Westerly directions.

Clearly, the built environment has a number of very real problems and without diluting the seriousness of these it is also important to acknowledge that the area has a certain vitality and dynamic that generates excitement and is conducive to the development of a unique experience and precinct. If the current physical and environmental shortcomings and problems are dealt with in a flexible and sensitive manner they will support the emergence of a secure, attractive and functional district. The reconfiguration of space and uses within and around buildings needs to be undertaken to ensure that visitors and practitioners alike are exposed to operators, their goods and services, in the most accommodating and pleasant manner possible.

Stakeholder and Competitor Analysis

The JDA has no direct competitor agencies vis-à-vis the development it wishes to undertake in the Fashion District. However, the complex nature of the development which cuts across economic and physical development strands will bring it into contact with a range of agencies operating in the district that will partial impact on JDA activities. By and large, most of these agencies are already engaged in the development as partners. There will still be a need to deepen these relationships in certain key areas.

| Agency/Organisation | Role in Fashion District | Activity |
|--|---|---|
| <ul style="list-style-type: none"> City of Johannesburg: EDU Region 8 Johannesburg Property Company Metropolitan Trading Company Metropolitan Police Department | <ul style="list-style-type: none"> Project Partners | <ul style="list-style-type: none"> Provision of municipal services Development finance – parking meters, business support, property development Project management – property development By law enforcement, on-street parking management Street trading regulation and infrastructure provision Periodic market support Better buildings activity Advisory role in Fashion District Institution Provision of district parking meters |
| <ul style="list-style-type: none"> Department of Trade and Industry (TISA, Ntsika) | <ul style="list-style-type: none"> Project Partner Funder | <ul style="list-style-type: none"> Provision of finance for business support and market development programme Macro-level policy, incentives Strategic support Advisory role in Fashion District Institution |
| <ul style="list-style-type: none"> Central Johannesburg Partnership | <ul style="list-style-type: none"> Project Partner | <ul style="list-style-type: none"> Establishment of Fashion District Institution (including CID portfolio) Membership role in Fashion District Institution |
| <ul style="list-style-type: none"> Service Providers; Sew Africa Wits Tech BCG Bees Department of Labour Clothing SETA Raiz Style Rosebank Design District. Etc | <ul style="list-style-type: none"> Service Providers | <ul style="list-style-type: none"> Provision of design, production and business training Provision of market development services and incubator services Membership role in Fashion District Institution |
| <ul style="list-style-type: none"> SAPS | <ul style="list-style-type: none"> Project Partner | <ul style="list-style-type: none"> Law enforcement Sectoral Policing |

| Agency/Organisation | Role in Fashion District | Activity |
|---|---|--|
| <ul style="list-style-type: none"> • Funders: • Commark Trust • Others to be identified | <ul style="list-style-type: none"> • Funder • Strategic Support | <ul style="list-style-type: none"> • Funding of cluster support activities • Strategic support • Advisory role in Fashion District Institution |
| <ul style="list-style-type: none"> • Transvaal clothing and Textile Bargaining Council • South African Clothing and Textile Union • Transvaal Manufacturers Association • Association of Clothing Producers | <ul style="list-style-type: none"> • Interest Groups | <ul style="list-style-type: none"> • Provision of advice and strategic support • Membership role in Fashion District Institution |
| <ul style="list-style-type: none"> • Fashion District Businesses | <ul style="list-style-type: none"> • Investors • Beneficiaries | <ul style="list-style-type: none"> • Business investment • Membership role in Fashion District Institution • Recipients of support and services |
| <ul style="list-style-type: none"> • Fashion District Property Owners | <ul style="list-style-type: none"> • Investors • Beneficiaries | <ul style="list-style-type: none"> • Property investment • Membership role in Fashion District Institution • Recipients of support and services |

Pre-conditions for Implementation

There are no critical pre-conditions which need to be fulfilled before Development Implementation can proceed

Risks

The following table shows the risks and mitigation measures for the development.

| Risks | Consequences | Steps To Be Taken To Minimise Risk | Risk Indicators (Early Warnings) | Likelihood Of Risk Happening |
|--|--|---|---|-------------------------------------|
| Financial Risks | | | | |
| Non-delivery of the JPC in relation to the property development function | Delivers important mechanisms for income generation for the Fashion District Institution and have a direct link with overall sustainability of the Development. | <ul style="list-style-type: none"> Finalise and secure financial commitment from JPC | Budget approval and Cash flows | Medium |
| Non-provision of parking meters would impact moderately on the financial viability of the planned parkade. | Affect the sustainability of the Fashion District Institution | <ul style="list-style-type: none"> Finalise and secure financial commitments from JMPD | Failure to secure capital Budget from the Council | Low |
| Failure of the development to activate private sector interest and investment. | <ul style="list-style-type: none"> Failure to leverage capital funding from the private sector. Development regarded as a failure, which can result in withdrawal or reduction of capital funding by the Council | <ul style="list-style-type: none"> Feasibility of each project must be clearly proven to potential investors Marketing strategy must advise the development of the target market that can bring in the needed investment. | Lack of involvement from the private sector. | Medium |

| Risks | Consequences | Steps To Be Taken To Minimise Risk | Risk Indicators (Early Warnings) | Likelihood Of Risk Happening |
|--|--|--|----------------------------------|------------------------------|
| Financial Risks | | | | |
| Ability to create a sustainable Fashion District Institution that has limited dependence on donor funding | <ul style="list-style-type: none"> Have a direct link with overall sustainability of the Development. | <ul style="list-style-type: none"> All the property management stream to come on board and leases from JPC to the Institution to be signed at the forecasted levels. The advertising revenue to meet 75% percent of the amount anticipated in the CJP Feasibility Study. CID cost recovery to be at a level of at least 30% of actual costs. property management cost and income levels (occupancy levels and rental levels) to be within forecasted predictions Institutional costs to be maintained at reasonable levels. | Dependence on donor funding | High |
| | | | | |

| Risks | Consequences | Steps To Be Taken To Minimise Risk | Risk Indicators (Early Warnings) | Likelihood Of Risk Happening |
|--|---|---|--|-------------------------------------|
| Financial Risks | | | | |
| Delays or failure to establish revenue streams from advertising are considered to be of highest order. | Such delays would both raise the development cost substantially as well as jeopardise the sustainability of the institution. | As such establishing this revenue stream is a critical milestone for the development. | The policy mechanism for this has been developed and approved by the COJ, but as yet has not been used in practice | High |
| The property development and urban upgrade projects hinge on the availability of property for sale at rates pegged at the current municipal land and improvement values. | Should there be no willing sellers or prices required are significantly above realistic market expectations or properties are not available in terms of the areas identified in the Property Plan, the impact could be serious. | Communicate the development vision & goals to target market. | Prices of property and sales | High |

| Risks | Consequences | Steps To Be Taken To Minimise Risk | Risk Indicators (Early Warnings) | Likelihood Of Risk Happening |
|---|---|--|---|-------------------------------------|
| Law Enforcement Risks | | | | |
| Resistance to enforcement of the by-laws by property owners who are benefiting from the status quo. | Continuing illegal use of properties with properties not utilised at their highest and best use. | Securing support for the by-law enforcement interventions. | Failure of the area to attract quality investment and therefore further social and economic deterioration in the area | Medium |
| Failure of Law Enforcement Agencies to address crime and other illegal activities | Continuous lawlessness and illegal activities. Increase in crime levels to undermine the initiatives of a safe environment. | <ul style="list-style-type: none"> • Securing support and commitments from the Inner City Task Force, SAPS and JMPD to provide resources necessary to ensure successful law enforcement • Ensuring an integrated and co-ordinated approach to law enforcement by SAPS, JMPD and Inner City Task Force. | <ul style="list-style-type: none"> • Some members of SAPS and JMPD operating in the area lacking credibility in the community. • Difficulty in getting the SAPS and JMPD to commit resources and support the development. | High |

Section C

Development Structure

The Development structure is shown in the diagram below.

The Johannesburg Development Agency is the implementing agent. It takes overall responsibility for the implementation of the development in accordance with the business plan; including financial management, reporting against targets, deadlines and key performance indicators; programme management and coordination; and liaison with key stakeholder groups.

The Development Manager is appointed by the JDA and is responsible for ensuring effective delivery of the development, its projects and components. Key tasks include:

- Overall development management, including planning and programming and change management within the programme and approving change management within sub-projects.
- Appointing of Project and Sub Project Managers and assembling the Sub Project Teams in consultation with Project Managers.
- Managing the work of Project Managers
- Defining, together with the sub project teams, the responsibilities, work scope, deliverables and targets for each sub project.
- Management of interdependencies between projects.
- Ensuring implementation within budget and on time for projects and sub-projects and at agreed quality.
- Monitoring and managing project and sub project progress.
- Project financial management and monitoring and reviewing of sub project budgeting and expenditure.
- Monitoring and managing risk and opportunities at the development level and which fall outside of the control of Project Managers.
- Managing the resolutions of development issues and project issues that are outside of the control of the Project Managers.
- Communicating with all stakeholders.
- Delivering the development objectives and deliverables on time and within budget at agreed quality.

Institutional Arrangements for Development

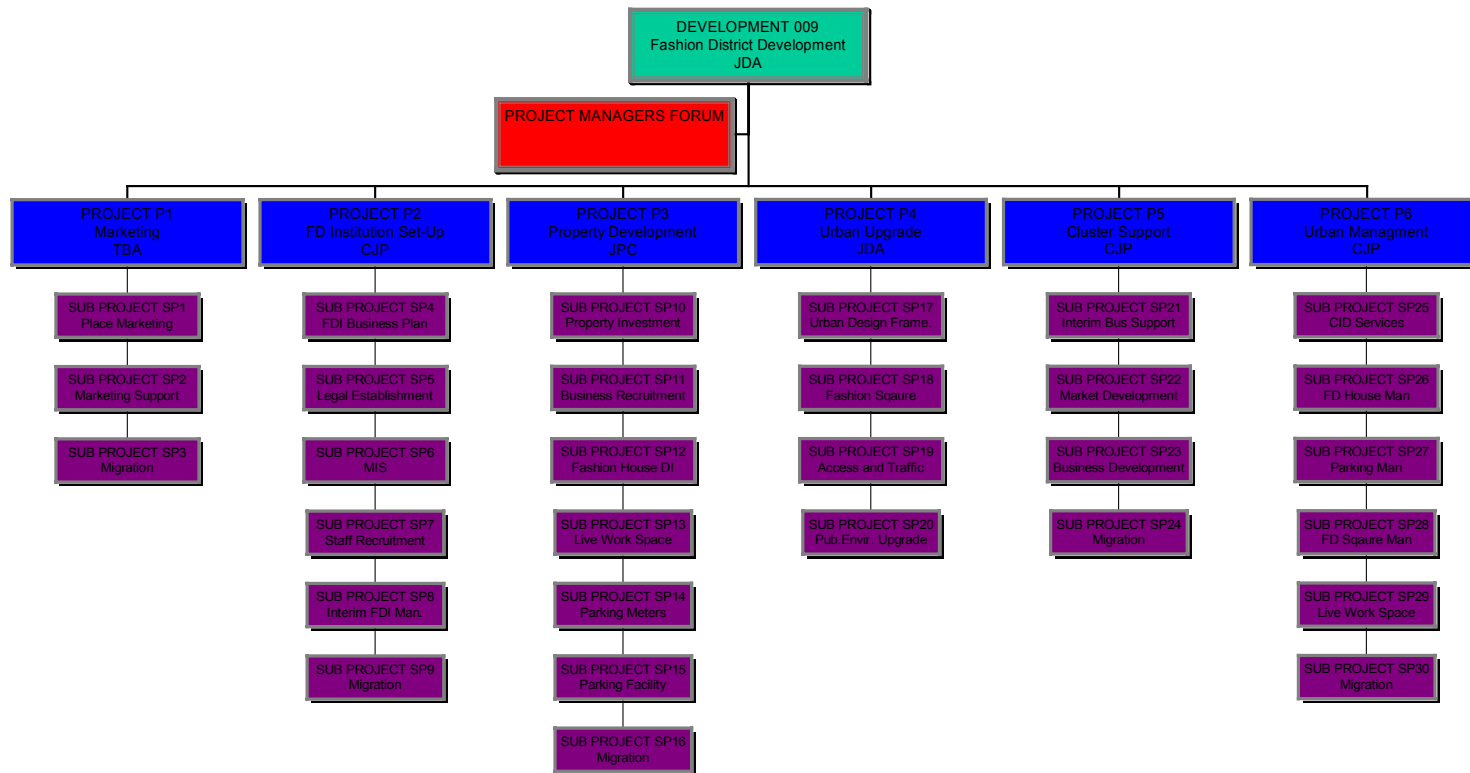
The Fashion District Development has a set of evolving institutional arrangements that are linked to the set-up and sustainability of a Fashion District Institution. The end state of the Development assumes a functional and sustainable institution that takes over the delivery and management of remaining core projects/objectives of the Development.

At the outset the Development (managed by the JDA) is comprised of six Projects (managed by JDA appointed Project Managers). One of the Projects is an Institutional

Set-Up Project through which the institution is set-up and at its end point derives “independence” from the Development and continues to pursue its organisational objectives which are evolved from the original core Development Objectives. The remaining of the five Projects comprise components that will, by the completion of the institutional set-up period, migrate from the control of the appointed Project Manager to the Institution. Coordination between the Projects is managed by a JDA Development Manager and will include the convening of a Project Management Team.

The following diagram depicts the Institutional arrangements for the development:

Development Structure



Transitional Mechanisms

Sets of financial triggers and minimum capacity requirements, that will determine the exact timing of the transfer of delivery from the JDA to the Institution, have been developed. The latter, relate to the legal, managerial and operational capacity of the Fashion District Institution, the former relate to its ability to sustain itself financially (defined as its ability to generate sufficient income to manage its operations and deliver a satisfactory level of services). Whereas, meeting the targets of individual 'financial triggers' would allow the migration of certain functions from JDA appointed Project Managers to the Fashion District Institution, the "minimum capacity requirement' are all pre-requisites that need to be met before any function can migrate to the institution. As such, achieving the 'minimum capacity requirements' means that a functional institution has been develop, but only when a critical mass of 'financial triggers' have been met will the institution be both functional and sustainable.

Minimum Capacity Requirement:

1. Legal Establishment of Institution and adherence to all relevant statutory requirements
2. Completion of a detailed Institutional Business Plan (conforming to the format provided in Annexure X)
3. Development of a comprehensive management information system including policies, procedures and systems.
4. The engagement of suitably skilled and experienced staff according to the Organogram detailed on page X

Financial Triggers:

- Revenue Steam Establishment and Growth Triggers
 1. Outdoor Advertising Revenue Stream Established
 2. Outdoor Advertising Revenue Stream Plateau Reached
 3. Fashion House Revenue Stream Established
 4. Fashion House Revenue Stream Plateau Reached
 5. Fashion Square Revenue Stream Established
 6. Fashion Square Stream Plateau Reached
 7. Fashion Parkade Revenue Stream Established
 8. Fashion Parkade Revenue Stream Plateau Reached
 9. Fashion Live Work Space Revenue Stream Established
 10. Fashion Live Work Space Stream Plateau Reached
 11. Urban Management Revenue Streams Established
 12. Donor Revenue Streams Established
 13. Event Management Revenue Streams Established
- Critical Revenue Levels Triggers
 14. Revenue Streams exceed R10,000 pm
 15. Revenue Streams exceed R145,550 pm
 16. Revenue Streams exceed R195150 pm
 17. Revenue Streams exceed R282,150 pm
 18. Revenue Streams exceed R412150 pm

The critical revenue levels equate to the anticipated timing of the handover of core functions and the costs associated with the delivery of that function at an acceptable level of service provision. Trigger 18 is the threshold amount required to ensure a fully sustainable institution at acceptable service delivery levels. The following table cross-references the Critical Revenue Levels Triggers with anticipated functional migration:

| Critical Revenue Levels Trigger | Associated Functional Migration |
|--|--|
| Revenue Streams exceed R10,000 pm | Marketing function can migrate |
| Revenue Streams exceed R145,550 pm | Urban management function can migrate |
| Revenue Streams exceed R195150 pm | Cluster support function can migrate |
| Revenue Streams exceed R282,150 pm | Property development & management functions can migrate |
| Revenue Streams exceed R412150 pm | Management and administrative functions can be sustained |

The Gantt Chart below shows programming for the migration of functions to the Fashion District Institution and the relationships to Development and Project processes and capacity requirements and financial triggers.

In summary therefore the following arrangements govern the transition from a JDA managed development to the point that a sustainable and functional institution is able to independently deliver Development objectives:

- The institution is set up at the beginning of the development
- The institution becomes functional early in the development with its legal establishment and the appointment of staff and the development of work plans and systems.
- Until the Institution is sustainable it will be considered to be in an Interim Stage
- During the Interim Stage the JDA (development) will carry the costs of the Institution (staffing, operational and admin), on a decreasing basis, with decreases linked to increases of revenue generated by the institution.
- Revenue flows (property management income, advertising, CID levies, donor funding) established by the Development will accrue to the account of the Institution on condition that its founding constitution, articles, governance mechanisms and business plan align with the Fashion District Development Objectives and requirements.
- Interim Stage funding of the Institution by the JDA will be made indirectly through the CJP and linked to the issue of Project Management contracts with the CJP (Fashion District Institutional Set Up Project, Urban Management Project and Cluster Support Project).
- In turn the CJP will be obliged to contract or fund the Institution to assist in delivery of Projects in full or part.
- The JDA will contract other Project Managers to manage the remaining Development Projects.
- As prescribed revenue targets are achieved by the Institution, the JDA will cancel related Project Management contracts and transfer ongoing delivery responsibility to the Institution paid for of its own budget.

The first Gantt Chart below presents a schematic representation for the transition of functions from Project Manager to the Institution and the articulation of this with contractual arrangements and income levels generated.

The second Gantt Chart shows actual transition timing as planned moving from the Interim Stage (JDA managed) to the end state of a fully functional and sustainable institution carrying forward the Development Objectives.

Transition of functions Programme Insert Here

Institutional Handover Programme Insert Here

Post Development Institutional Arrangements

The Fashion District Institution once set-up, functionally capacitated, financially sustainable and fully operational will mark the exit point for the JDA from the development.

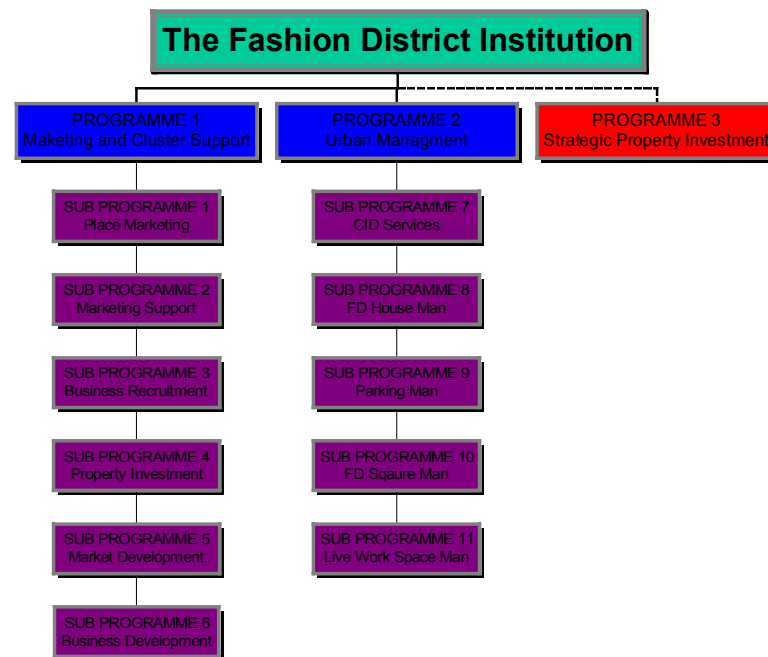
At this point the Institution will take the form and structure discussed in the previous section and depicted in the first two diagrams shown below.

Investment Mechanisms

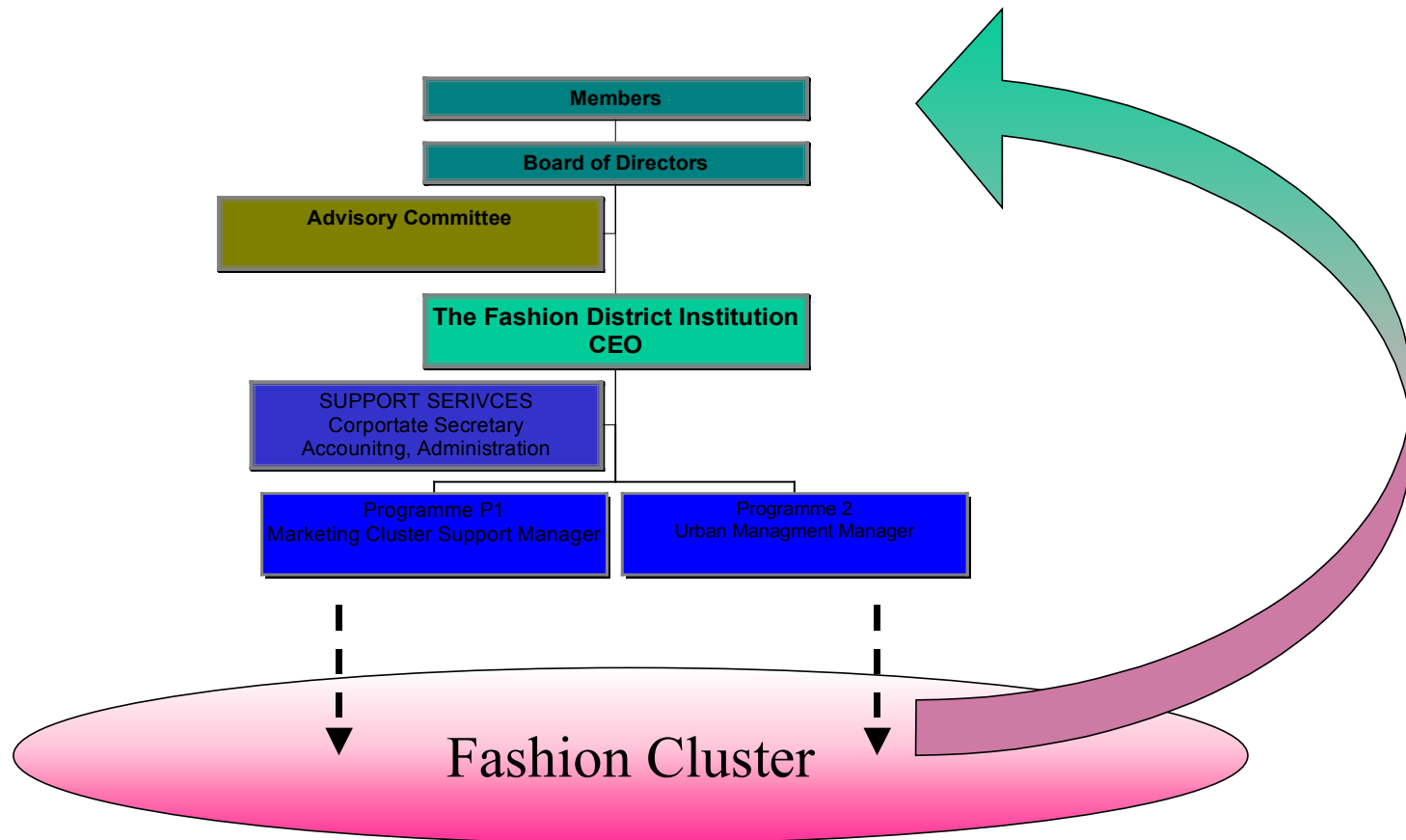
Once independent from the JDA, the Institution may choose to make strategic investment in areas such as property development that would be beneficial to the District, or may wish to consider developing investment mechanisms to support private investment in the District and the mitigation of private investment risk.

The third diagram in the following series depicts institutional investment arrangement and mechanisms that might support these activities. In this regard, the principle has been to limit direct risk within the Institution, as such the preferred mechanism would be for the Institution to invest (in terms of surpluses as opposed to debt financed investment) through separate investment vehicles (most likely profit making companies).

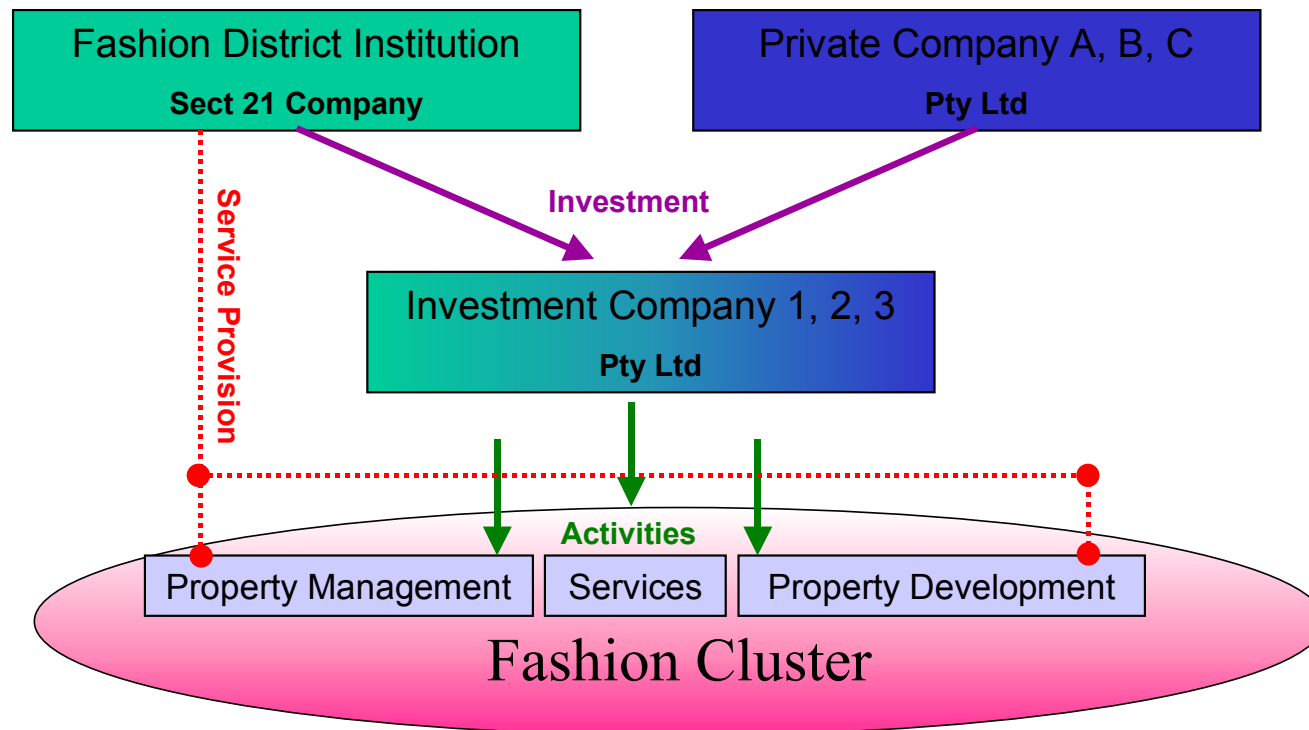
Post - Development Structure



Fashion District Institutional Structure



Fashion District Institutional Investment Mechanisms



Section D

Section A set out the goal, strategies and objectives for the development and briefly detailed the projects that would be implemented to achieve them. Section B details the history of the development and some of the rationale and feasibility work that underpins the development approach and structure. The current section provides greater project detail in the form of a Work Plan Break Down and set of Financials.

Work Plan Breakdown

The following tables define the scope definition for the various development elements (development, projects, sub-projects, and components). In doing so it defines milestones for each element and provides a budget reference to assist identify the costs associated with delivery of each particular component. Additionally, the tables detail the project manager for each element and the relevant implementation team and as such the flow of accountability. Finally the tables indicate the type of JDA contract that would apply in the case of each element.

Insert WPB tables here

The following work programme sets out the timing and relationships between the various development elements. It is based on reasonable estimates of time, sets the overall timeframe for the development and is the basis of detailed costing presented in the final section.

Insert Development programme here

Financials

Budget and Cash Flow

The following section details estimates for Development related expenses and income streams. Presentation is made in the form of a detailed cash flow projection and budgets, that indicates:

- costs per project element, including some activity level costing.
- that indicates overall sources of funding
- that indicate the contribution planned revenue stream make to the budget
- that indicates off-budget investment by property owners as a key investment return
- that provides detailed budget notes explaining assumptions and the basis for calculation for each major expense and income element

In addition a summarised budget indicates which funding line and revenue sources are expected to fund each particular set of expenses.

Budget Summary

| | | |
|----|-------------------------|-------------------|
| | YEAR 1 | |
| | EXPENDITURE | 11,440,500 |
| P1 | FD Institutional Set Up | 1,074,000 |
| P2 | Property | 5,691,000 |
| P3 | Urban Upgrade | 2,495,000 |
| P4 | Urban Management | 911,500 |
| P5 | Economic | 939,000 |
| P6 | Marketing | 330,000 |
| | YEAR 2 | |
| | EXPENDITURE | 10,085,550 |
| P1 | FD Institutional Set Up | 1,345,650 |
| P2 | Property | 3,666,000 |
| P3 | Urban Upgrade | 2,410,000 |
| P4 | Urban Management | 923,300 |
| P5 | Economic | 1,550,600 |
| P6 | Marketing | 190,000 |

| | |
|-------------------------------|----------------------|
| TOTAL DEVELOPMENT COST | 21,526,050.00 |
|-------------------------------|----------------------|

Funding and Investment Opportunities

At the time of drafting the business plan the following table details the status funding.

| Funder | Amount Budgeted | Amount Required | Comments |
|----------------------|----------------------|----------------------|---|
| JDA | R2,000,000 Year 1 | R2,765,200 Year 1 | Funding is confirmed but is short of required amount by R765,200 |
| JDA | R3,000,000 Year 2 | R3,771,180 Year 2 | Funding is budgeted but not confirmed and is R771,180 short of required amount |
| JDA | R2,000,000 Year 3 | R0 Year 3 | Funding is budgeted but not confirmed and is R2, 000,000 more than required. As such JDA is within the overall anticipated budget but the timing of draw down is not currently optimal. |
| JPC | R3,250,000 Year 1 | R3,971,000 Year1 | Funding is confirmed but is nominally R721, 000 short, however some of the expenses allocated to the JHC (namely better building are budgeted for and would not form part of the R3, 250,000 detailed. |
| JPC | R0 Year 2 | R1,966,000 Year 2 | Funding has not been budgeted at this stage. |
| EDU | R230,000 Year 1 | R450,000 Year 1 | Funding is confirmed and has been transferred to the JDA, but is short of the required amount. Some of the short fall can be made up if EDU directs its funded business service providers to target the businesses in the district. |
| EDU | R210,000 Year 2 | R0 Year 2 | Funding has not been budgeted at this stage. |
| City of Johannesburg | R720,000 Year 1 | R0 Year 1 | Funding has not been budgeted at this stage. |
| Funders | R720,000 Year 1 | R0 Year 1 | Commack and DTI (Ntsika) are to be requested to fund these costs |
| Funders | R650,000 Year 2 | R0 Year 2 | Commack and DTI (Ntsika) are to be requested to fund these costs |
| Private Investor | R2,300,000 | R0 Year 1 | If there is no private sector investment the related expense line will fall away and the budget will re-balance. As such this line item reflects the intended |

| | | | |
|--|----------------------|--------------|--|
| | | | investment geared from private property developments. Investment may follow a slower time line but will also not effect the overall balancing of the budget. |
| | R1,700,000 Year 2 | R0 Year 2 | As above. |

The final table identifies how the budget is allocated to different funders and income streams.

ACRONYMS

| | |
|------|---|
| FD | Fashion District |
| FDI | Fashion District Institution |
| SAPS | South African Police Service |
| JDA | Johannesburg Development Agency |
| CID | City Improvement District |
| CJP | Central Johannesburg Partnership |
| DM | Development Manager (JDA) |
| PM | Project Manager |
| EDU | Economic Development Unit |
| CoJ | City of Johannesburg |
| DTI | Department of Trade and Industry |
| CMT | Cut Make Trim |
| DCCS | Duty Credit Certificate Scheme |
| GJMC | Greater Johannesburg Metropolitan Council |
| SOB | Sales Only Businesses |
| DMP | Design, Manufacturing or Mixed Businesses |

Annexure A

Business Plan Outline Fashion District Institution

Name

Registration

Constitutional Matters, Articles, Memorandum Association

- Distribution of income and assets
- Powers of organisation
- Structures and mechanism for governance
- Meeting rules, convening, conducting, minute taking, quorums, decisions taking
- Financial controls
- Financial year
- Constitutional changes
- Procedures for wind-up or dissolution, transfer of assets on dissolution
- Procedures for appointment and termination of members and office bearers
- Liability
- Investment provisions, guideline for the use of funds, acquiring and controlling assets

Membership/ Shareholders/ Representation

Board of Directors

Background History

Market Analysis

Competitor Analysis

Comparative and Competitive Advantages

Vision/ Mission/ Values

Goal

Strategy

Objectives

Core competencies

Target Group/Beneficiaries

Critical Success Factors

Work Plan/ Operational Plan

- Projects
- Outputs
- Targets/ Prioritisation
- Target Group/Beneficiaries
- Critical Success Factors
- Indicators
- Baseline Data
- Risks
- Risk Amelioration

Financial Plan

- Financial Modelling
- Fundraising Strategy
- Investment Mechanisms
- 3 –5 Year Capital Budget
- 3 –5 Year Operational Budget
- Cash Flow Forecast

Management Information System (Systems Policies and Procedures)

- Operational Procedures & Systems (manual)
 - Organisational Structure
 - Staffing and technical capacity
 - HR Policies
 - Recruitment & Selection Policy
 - Condition of Employment
 - Leave
 - Employment Equity Policy
 - Remuneration Policy
 - Training & Development Policy
 - Labour Relations Policy
 - Staff conduct
 - Disputes, Grievances, Discipline
 - Sexual Harassment Policy
 - Termination of Employment Policy
 - Exit interview
 - Reporting and Accountability
 - Project Management System
- Financial Procedures & Systems (manual)
 - GAAP
 - Procurement Policy
- ICT System

-
- ⁱ Economic Development Framework of Greater Johannesburg (1999), CoJ
 - ⁱⁱ Inner City Spatial Framework (1999), CoJ
 - ⁱⁱⁱ City Centre Framework (2000), CoJ
 - ^{iv} Spatial Development Framework 2003/4
 - ^v Joburg 2030 Strategy, 2002, CoJ
 - ^{vi} Integrated Development Plan, CoJ
 - ^{vii} Regional Spatial Development Framework, 2002, CoJ
 - ^{viii} Johannesburg Inner City Regeneration Strategy Business Plan,(2004) CoJ
 - ^{ix} Johannesburg Development Agency Operations Manual, 2002
 - ^x Institutions and Industrial Development: A Case Study of Garments and Textiles in South Africa, D McCormick, 1999
 - ^{xi} Promoting the Competitiveness of Textiles and Clothing Manufacturing in South Africa, L Salinger, H Bhorat, D Flaherty, M Keswell, USAID, 1999
 - ^{xii} DTI, Industrial Sectors Policy Support Project, Final Report Clothing Sector, University of Natal, 2002
 - ^{xiii} Strategic Review of the Fashion Cluster, Cluster Report, Monitor Group, 2004
 - ^{xiv} Report on Inner City Clothing Manufacturers in Johannesburg, C Rogerson, 2002
 - ^{xv} South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints, P Gibbon, Centre for Development Research, Denmark, 2002
 - ^{xvi} South Africa and the Global Commodity Chain for Clothing: Export Performance and Constraints, P Gibbon, Centre for Development Research, Denmark, 2002
 - ^{xvii} Perceptions Survey Results and Goals and Vision; Fashion District 2000, CJP
 - ^{xviii} Fashion District Johannesburg CBD, Preliminary Property Plan, JPC, 2004
 - ^{xix} Fashion District Property Audit, JPC, 2004