INTRODUCTION

In past decades, it is common knowledge that the area known as South Western Townships (Soweto) played a leading role in the so-called struggle against apartheid. Almost exactly 30 years ago, the widespread 1976 unrest, commonly known as the Soweto Uprising, began there. Many of the democratic South Africa’s political and up-and-coming business leaders have had (or have) strong affiliations with the area. This is not to mention that arguably the country’s two most popular sporting teams (no disrespect to Sundowns or the Blue Bulls) are both from Soweto.

This high profile township area certainly has a lot going for it. During the struggle days, the turbulence of Soweto, and many other townships, probably counted against it. If the restrictive Apartheid laws weren’t enough, the perceptions created by the turbulence were a strong “repelling force”, keeping many investors away from doing business in townships even to the present day.

Ironically, it may be Soweto’s rich but turbulent political history that is today its biggest marketing tool. This year, Business Day ran an article reporting that Soweto was the third most popular tourist destination after Cape Town and the Kruger Park, and no prizes for guessing why. It is a marketing tool that is arguably propelling it to the forefront yet again.

But history alone doesn’t put the proverbial “bread on the table”. Greater economic forces must play their role too. Fortunately, those economic fundamentals are increasingly in place too. Soweto’s being part of the country’s economic and political powerhouse that is Gauteng Province, now also believed to be the country’s major growth region, is to its benefit.

This means that economic activity is looking for more space to take place. We see it in a host of different property vacancy rates, widely indicating that South Africa is running short of commercial property space. Other infrastructure, too, is coming under increasing pressure, including roads and electricity supply capacity.

The scramble for Soweto has begun, and is beginning to sound similar to some other of Joburg’s modern day “Gold Rushes”, including the rise of Sandton and other “suburban” mixed use areas with a strong retail, entertainment and commercial focus. Recently, the Barramall shopping centre was opened, and it was Winnie Madikizela-Mandela who at this opening was reported to have remarked that someday “this will be our Sandton”.

While Sandton status may be a long way off, Barramall is not the only thing coming to Soweto. Other prominent commercial developments include Jabulani Mall, Maponya Mall, the mixed-use Orlando-eKhaya development, a four star hotel in Kliptown, and even the possibility of a Gary Player-designed golf course.

The logic behind the great move on Soweto

Besides the fact that the country’s and Gauteng region’s economies are performing better, which is good for everybody, there is a strong and more “microeconomic” rationale for investors piling into Soweto.

- Empowerment Charters/Policy Pressures

Firstly, there is the obvious, i.e. the various government transformation policy pressures, normally manifesting themselves in a variety of industry charters, that are playing a role in driving some investment towards the township areas. The
property charter, for one, encourages “investment in under-
resourced areas”, while banks are encouraged by the financial
services charter to expand their services to the “unbanked”. From a policy point of view, therefore, investment flows to
Soweto and other townships make a lot of sense. But many
would see such policy-induced flows as “artificially-driven” and
not backed by economic fundamentals. The fear would be that
this could lead to non-profitable over-investment which could all
end in tears. At present there doesn’t appear to be much danger
of such an event in Soweto, as the following sections will show.

- The normalisation of retail and entertainment in
township areas
Retailers and other consumer-related services have long-since
abandoned the concept of operating only from major central
business districts, and this change in modus operandi led to
major expansions into the former white suburbs a few decades
ago. Being closer to the market in order to both understand their
clients’ needs, increase their convenience and cut consumers’
travelling time and costs makes absolute economic sense for
goods and service providers.

RICON Research estimates (2004 estimates) that the Soweto
area/city is home to 1.121 million people of which 99.8% fall into
the so-called black race group. This represents 12.5% of the
total estimated population of Gauteng Province.

RICON also estimates that from 1997 to 2004 Soweto’s
population grew by 20.6%, compared with Gauteng’s population
growth of 15.3% over the period, and also significantly faster
than the far wealthier Randburg magisterial district (which I will
use as a comparative example frequently in the coming
sections), which encompasses a large part of Johannesburg’s
wealthy northern suburbs.

Important, too, is that Soweto “packs ‘em in tight” compared to
the suburbs. Soweto’s 118 square kilometre area hosts an
estimated 9,487 people per square kilometre, compared to
Randburg’s 875 per square kilometre. This raises the potential
for a variety of service providers to “pile ‘em high and sell ‘em
cheap” by being able to ensure far higher numbers of feet
walking through their doors.

But buying power is more important than numbers, and this is
where the critics of my arguments would begin to load their
weapons. While Soweto has a large portion of Gauteng’s
population, it admittedly has a far smaller portion of the province’s consumer spending power.

RICON estimates that only 3.8% of Gauteng’s total disposable
income was earned by Soweto residents in 2004, amounting to
R12bn, compared to the R46 bn of Randburg.

However, one doesn’t evaluate the sustainability of new
consumer-related developments by buying power of an area
alone. Rather, it is the buying power relative to the level of
supply of consumer services already in the area, and from this
point of view there may be more untapped opportunities for
retailers and the like in Soweto than in some of Johannesburg’s
more “saturated” suburbs.

A far greater portion of Soweto’s disposable income is believed
to be spent elsewhere compared to, say, the Randburg or the
Johannesburg magisterial districts. In 2004, non-motor-vehicle
retail sales in Randburg amounted to an estimated R11.5bn, or
25% of total disposable income in the district. Soweto’s retail
sales were a meagre R1.4bn, which amounts to a far smaller
11.4% of total disposable income in the area. In the
Johannesburg magisterial district, which includes the central
business district, the value of retail sales in 2004 was estimated
at R28.7bn, 54% of the disposable income of the area, and the
view is that many households from peripheral townships such as
Soweto shop in Johannesburg, contributing to this high retail
sales value/disposable income.

Therein lies the first great opportunity – to capture the
purchasing power that already exists but which flows out to
other areas. High transport costs of the township poor have
long-since been a major problem. By moving consumer services
to Soweto the service providers will reduce the transport costs and travelling time and effort considerably, surely a winner. Initially, my guess is that many consumer service providers are looking little further than capturing the purchasing power already in, but currently leaving, Soweto. Assuming that Randburg is the benchmark when it comes to mixed use suburban areas, this should imply space for non-motor vehicle retailers to increase their capacity to a level where retail sales in the township amount to around 25% of disposable income, which would imply a more-than doubling of non-vehicle retail sales from R1.4bn to R3bn in 2004 terms. In other words, there is an “untapped” R1.6bn per annum market for non-motor vehicle retail goods alone. This is admittedly a boxwhisker calculation, and does not take into account that consumers in lower income areas spend a significantly greater portion of disposable income on consumer goods than on consumer-related services, accommodation etc. But while there exists a considerable untapped market in Soweto, R1.6bn will not “create a Sandton”, and neither will R12bn in total disposable income.

- Building a bigger market – the real opportunity

The real opportunity lies in the scope that there is for growing Soweto’s economy and thereby its purchasing power. Not only is much of Soweto’s disposable income spent elsewhere. A high proportion of its income is also earned elsewhere, with the township’s economic size a significantly smaller part of the Gauteng economy than its household income is of total provincial household income. These statistics support Soweto’s “dormitory town status”, where a large number of people reside, but with a high proportion having to both work and shop elsewhere. Soweto’s gross geographical product (GGP) expressed as a percentage of the total household income of its residents is only 59.7%. This compares poorly with Randburg’s ratio of 128.5%, and Johannesburg magisterial district’s even higher ratio of 226.9%.

However, building a bigger Soweto economy will require a far higher portion of highly-skilled/high income labour. Here lies the big challenge. Examining the demographic trends in a little more depth, however, one finds that the growth in Randburg’s black population (59.6% of the district’s total population) appears to be keeping up with Soweto’s black population growth (99.8% of the township’s total population), with the black population of both areas having grown by an estimated 20.6% from 1997 to 2004.

Therefore, while there appears to be very little transformation of Soweto’s demographics in terms of white coloured and Indian population growth in the area, Randburg’s transformation is moving ahead steadily as it attracts an increasing amount of black people to the area. Demographic transformation is therefore by-and-large “one way traffic”.

Randburg also has had the ability to attract a larger share of the much-vaunted black income growth. Over the period 1997 to 2004, the cumulative growth in real disposable income in the Randburg district was estimated at 84.8%, compared with 23.2% in Soweto, with Randburg’s real disposable income growth advantage being fuelled by a staggering estimated cumulative growth rate of 265% in black real disposable income growth compared with Soweto’s meagre 23.4%.

Furthermore, Randburg has attracted a large number of high income black households to its area, being a reasonably popular residential destination for highly-skilled black labour. Of Randburg’s estimated 118,729 black households as of 2004, 23,268 were estimated to be in the above-R360,000 per annum category. Soweto, by comparison, had a mere 1,935 black households in the same high income category.

### Economic Size as a Percentage of Household Income

<table>
<thead>
<tr>
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<th>Gauteng</th>
<th>Randburg</th>
<th>Soweto</th>
</tr>
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<tbody>
<tr>
<td>0-2499</td>
<td>56.7%</td>
<td>37%</td>
<td>8.4%</td>
</tr>
<tr>
<td>2500-6999</td>
<td>105,338</td>
<td>1,117</td>
<td>17,642</td>
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<tr>
<td>7000-11999</td>
<td>151,103</td>
<td>2,215</td>
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<td>12000-16999</td>
<td>250,559</td>
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<td>17000-21999</td>
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<tr>
<td>37000-41999</td>
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<td>110,688</td>
<td>12,502</td>
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<tr>
<td>52000-56999</td>
<td>93,268</td>
<td>11,390</td>
<td>4,832</td>
</tr>
<tr>
<td>570000+</td>
<td>107,017</td>
<td>23,268</td>
<td>1,935</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,009,595</td>
<td>118,729</td>
<td>306,800</td>
</tr>
</tbody>
</table>

**Source:** RICON Research
But while a bleak picture of a skills and income drain to former higher-income white suburbs is painted above, herein lies Soweto’s opportunity. This opportunity lies in the perceived motive for a portion of the high-income black migration. There is anecdotal evidence that not all black people move to the suburbs entirely through choice. Despite there having been no official segregation for white people during the Apartheid era, one still finds areas that are dominated by Afrikaans-speaking whites and others by English-speaking whites. Many middle-to-upper income black people are probably little different in that they may prefer to “live amongst their own”, while family back in the township also have some pulling power. While it is difficult to know to what extent such a preference is prevalent, one does from time to time read reports regarding black individuals battling to accustom themselves with the relatively unfriendly environment that is the average high-walled tight security Joburg suburb. The townships are often said to possess more of a “community spirit”.

But despite the “unfriendly” atmosphere of the suburbs, these area possess the facilities opportunities that many middle-to-upper income people across race groups seem to want. They have upmarket restaurants, coffee shops, shopping and entertainment, as well as providing far more in the way of employment for the highly-skilled section of the labour force. They also have far greater amounts of upmarket housing stock than the more high-density/low income townships. Hence, one may find that migration of a significant amount of highly-skilled black individuals, many of whom grew up in townships, to the more illustrious suburbs takes place due to the opportunities that exist there.

Should Soweto be able to increasingly provide the suitable employment, retail, entertainment, recreation and residential opportunities, the “one-way traffic” outwards may be partly reversed. This implies commercial development that looks beyond retail and entertainment towards office and industrial space. Here, corporate transformation will surely play a role. As black people gain control and influence over a greater portion of corporate SA, Soweto and other townships will have a better chance of acquiring a greater portion of non-retail commercial activity, including even some national/ regional headquarters of companies of varying sizes.

Growing the Soweto economy’s size significantly will require the mixed use development to move past the frantic retail development phase to the next level, i.e. the creation of significant amounts of office and industrial space as well as upmarket residential development.

The early signs of Soweto moving past the retail development stage are there. The Orlando eKhaya development will reportedly have elements of retail, entertainment, office space and upmarket residential living, touted as Soweto’s Melrose Arch.

Retaining and attracting the higher income/skilled individuals is crucial for two reasons. Firstly, they are the ones that drive economies and create jobs for the lower end of the labour market, thus increasing the buying power of those people. Secondly, they accumulate vast purchasing power themselves.

Currently, the non-retail commercial property market is becoming increasingly ripe for such developments, with both office and industrial vacancy rates in the region in a declining phase. A key challenge will be to provide greater amounts of high-income residential living. There exists a relative oversupply predominantly in the suburbs leading to house price deflation on the upper end (Above R2.2 million) according to Absa, and a general weakening trend in the residential market for the time being, but with the average house price of privately-owned township houses in Gauteng at only R275 000, according to the FNB Property Barometer, Soweto could offer very good value for middle-to-high income earners once more stock becomes available.

**In Conclusion**

The Soweto opportunity lies only to a certain extent in the untapped purchasing power that currently exists there. But although R12.1bn’s worth of disposable income sounds impressive to some, it is a drop in the ocean in the bigger scheme of things.

The key opportunity lies in growing the Soweto economy by developing it into a mixed use commercial and residential area that extends past the currently strong retail focus to a far wider range of job-creating economic activities. Retention and attraction of high income/skilled black individuals who often make their way towards Johannesburg’s leafy northern suburbs will be the result of such a mixed use drive, and Soweto’s pie should be dramatically enlarged in size.

Two concerns are apparent. One is the possibility that such retention of black skills may stifle suburban racial integration. Perhaps for some time, but more important is to have a successful township economic model that changes the perceptions of other race groups in the hope that one day the migratory trends of all race groups can be a two-way flow. A second concern is what will happen to Johannesburg CBD with Soweto possibly taking many of its retail clientele away? The CBD’s solution also lies in also moving to a more suitable mixed use model, also including more high income residential living. Perhaps, therefore, both the CBD and the townships will be more in competition with the suburbs than with each other. Fortunately, though, accelerating nationwide economic growth should mean that there are more high income individuals and less poverty to go around in future.
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