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# DEPARTMENT OF ECONOMIC DEVELOPMENT, ENVIRONMENT & TOURISM

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## FINAL REPORT

## FEASIBILITY STUDY ON INDUSTRIAL PARKS



18 July 2007

## **GLOSSARY OF TERMS**

<b>LIMDEV</b>	<b>Limpopo Economic Development Enterprise</b>
<b>LIBSA</b>	<b>Limpopo Business Support Agency</b>
<b>SEDA</b>	<b>Small Enterprise Development Agency</b>
<b>TIL</b>	<b>Trade &amp; Investment Limpopo</b>
<b>IP</b>	<b>Industrial Park</b>
<b>ADSL</b>	<b>Asymmetric Digital Subscriber Line</b>
<b>HSDPA</b>	<b>High Speed Downlink Packet Access</b>

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## EXECUTIVE SUMMARY

The Feasibility Study on Industrial Parks (IPs) was initiated by the Department of Economic Development, Environment and Tourism (DEDET) with a desire to understand the reasons for the lack of performance on the part of the industrial parks.

The industrial parks in Limpopo Province were built during the tenure of the homelands governments, when substantial subsidies were given to attract industrial clients to the often inconvenient, out of the way locations. After 1994, when subsidies were discontinued, the traditional clientele for the IPs relocated to other places. With the flight of their traditional clientele, the IPs then went into a period of decline. At the start of this project, it was believed that some of the IPs had collapsed due to a lack of usage.

This study was conducted using a structured methodology which combined a desktop review of information from the industrial parks, published information as well as interviews with stakeholders such as tenants, industrial parks management, business facilitation agencies and private sector real estate management companies. The study found that the industrial parks in Limpopo are still alive and relatively well subscribed. The state of most of the buildings is not particularly good and in need of refurbishment and upgrading. Further, most of the buildings are rather too big for use by average small to medium sized business, and need to be sub-divided. It is mostly these larger buildings which are vacant.

It is the considered view of the consultants that refurbishment is not only desirable for restoring and preserving the buildings but would also bring financial benefits to the industrial parks. The poor state of the buildings means the management have to charge sub-economic rents in order to attract some level of usage, and this in turn contributes to financial losses for the IPs. A program of refurbishment would present the IPs with an opportunity to demarcate the large factories into smaller units which would make them accessible to a wider range of clients including SMMEs.

Costs at the IPs are quite high and are causing a loss situation to prevail. Cost centres such as personnel costs, repairs and maintenance, and in some cases rates and taxes are contributing considerably to higher than normal levels of expenses. The aspect of cost management will have to be attended to as a matter of high importance, if the IPs are to operate sustainably.

Within the IPs, the tenant profile is dominated by the service sector, while the manufacturing sector is less represented. Employment generation also follows this pattern, whereby the services sector generates more employment than the manufacturing sector.

It would appear that the IPs are not well marketed to the ordinary business sector. While the management of the IPs is handled by LIMDEV, the marketing is handled by TIL. TIL is the first point of contact for those businesses wishing to relocate to Limpopo, hence the IPs are being marketed to this group of businesses and not the regular Limpopo based businesses. The business facilitators for smaller businesses such as SEDA, Umsobomvu, etc, state that most of their clients think that the IPs are for the large manufacturing companies only. There may be a need to refocus the marketing of IPs in order to make it possible to reach the ordinary small and medium sized business. A refocus of the rental policies and procedures may also be necessary.



## **1. INTRODUCTION & BACKGROUND**

The Feasibility Study on Industrial Parks was commissioned by the Department of Economic Development, Environment and Tourism, with the aim of gaining a better understanding of the state of affairs of the Industrial Parks within Limpopo Province. Further, the Department wishes to understand the challenges that constrain the Industrial Parks from achieving their developmental role as well as the opportunities presented by ownership of the assets.

The Department primarily commissioned this research in order to investigate the resuscitation feasibility and viability of industrial parks, taking into consideration the comparative advantages that the Province offers for the parks, and what needs to be done to create sources of competitive advantage that will result in successful industrial parks. The research will address the specific objectives outlined herein.

## **2 SCOPE AND OBJECTIVES**

The scope and objectives of the project are outlined in the Terms of Reference as issued by the Department. The Project Charter further clarified and outlined the objectives as follows:

### **2.1 OBJECTIVES**

To identify the existing industrial space in various industrial parks and the extent to which the space is being used. The study should also identify manufacturing opportunities in the Province and align these opportunities with existing industrial space.

### **2.2 SCOPE**

The scope of the study was as follows:

#### **PHASE 1:**

- To identify the industrial parks which are in existence.
- Determine the range of activities being carried out in each industrial park (economic profile).
- Determine the occupancy rate and capacity of each park.
- Compile employment data for each park.
- Determine the adequacy of infrastructure in each park.

## **PHASE 2**

- Determine the estimated cost of upgrading/ refurbishing the industrial parks.
- Identify manufacturing opportunities which could utilize vacant space in the industrial parks.
- Identify potential exports.
- Determine employment potential for such opportunities.
- Determine land requirements for each.

## **PHASE 3**

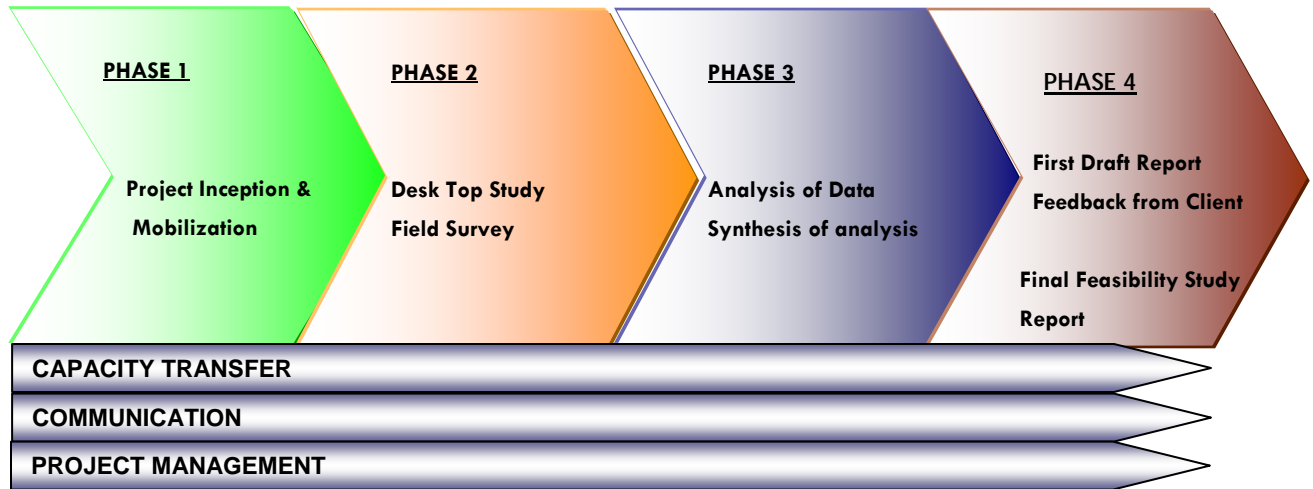
- Draft and Final Reports

The Project Charter is attached as Appendix 2, for reference.

## **3 METHODOLOGY**

The overall approach which has been followed during the conduct of this project is summarized in the graphics presented below, and discussed in the subsequent paragraphs. It is a structured approach starting with project inception up to final study report.

**Fig 1: METHODOLOGY**



<p><b><u>PROJECT INCEPTION</u></b></p> <ul style="list-style-type: none"> <li>Organise project</li> <li>Confirm client expectations</li> <li>Identify stakeholders</li> <li>Develop study framework</li> </ul>	<p><b><u>DESK TOP STUDY</u></b></p> <ul style="list-style-type: none"> <li>Gather existing data</li> <li>Limdev/ Govt depts/ Tenants</li> <li>Competitor service providers.</li> <li>Business facilitators eg. TIL etc.</li> <li>Other published data.</li> </ul>	<p><b><u>ANALYSIS</u></b></p> <ul style="list-style-type: none"> <li>Analysis of data from Desk top survey.</li> <li>Analysis of data from Field Survey.</li> <li>Assessment of IPs, economic performance, refurbishment potential and potential to accommodate new entrants.</li> </ul>	<p><b><u>FINAL REPORT</u></b></p> <ul style="list-style-type: none"> <li>Feedback from Client - 2nd Interim Report</li> <li>First Draft Report</li> <li>Feedback from Client</li> </ul>
<p><b><u>MOBILIZATION</u></b></p> <ul style="list-style-type: none"> <li>Mobilize project resources &amp; setup team.</li> <li>Lists of entities to include in Field Survey</li> <li>Appointments with Field Survey participants.</li> </ul>	<p><b><u>FIELD SURVEY</u></b></p> <ul style="list-style-type: none"> <li>Interviews with Field Survey participants.</li> </ul>	<p><b><u>SYNTHESIS</u></b></p> <ul style="list-style-type: none"> <li>Synthesis of all data</li> </ul>	<p><b>FINAL FEASIBILITY STUDY REPORT</b></p>
	<p><b>FIRST INTERIM REPORT</b></p>	<p><b>2<sup>nd</sup> INTERIM REPORT</b></p>	

### 3.1 PHASE 1: INCEPTION & MOBILIZATION

The work conducted during Phase 1 of the project is detailed below.

#### 3.1.1. INCEPTION

Work on the project started with reconfirming the client's expectations as far as the project outputs, reporting channels and conduct of the study. This offered an opportunity for the consultants to clarify with the client as far as additional instructions and deliverables. The result of this exercise was the production of the Project Charter and Project WorkPlan. The Project WorkPlan was presented to the Department and was approved.

### **3.1.2 MOBILIZATION**

The initial activities entailed project planning and mobilization of resources required for the execution of the project. Data collection forms, questionnaires and analytical tools for use during the study were assembled and tested. Field survey participants were identified and a list of the participants were made.

## **3.2 PHASE 2: DATA GATHERING**

### **3.2.1. DESKTOP STUDY**

This entailed the gathering of existing information. Information was accessed from the Industrial Parks managers, LIMDEV, pertaining to tenants lists, rentals charged, rental policies, vacant buildings, as well as the financial statements of the industrial parks. Other information was gathered from real estate management companies who manage private sector industrial parks. Local and international best practices were reviewed.

While most of the entities contacted for information responded positively, some parastatals did not release information timeously as requested,

### **3.2.2 FIELD SURVEY: INTERVIEWS**

Interviews were conducted with various stakeholders, as shown below:

#### **TENANTS**

Personal visits were made to all the industrial parks and all tenants were interviewed. The aim of the interviews was to get their views about services being offered by the IPs as well as to have a feel for the state of the buildings and facilities.

#### **LIMDEV**

The management of LIMDEV were interviewed in order to understand the nature of the current operations as well as the challenges that they face.

#### **BUSINESS FACILITATORS**

Four business facilitation agencies were interviewed: TIL, LIBSA, Umsobomvu and SEDA.. The aim of the interviews was to understand how the agencies interact with the industrial parks, if they refer their clients to the parks and what kind of service they had experienced in the past.

## **REAL ESTATE MANAGEMENT COMPANIES**

Interviews were also conducted with managers of private sector industrial parks in order to gain their view of the Limdev parks as well as to understand the workings of industrial parks management in general.

### **3.3 PHASE 3: ANALYSIS & SYNTHESIS**

At the conclusion of the data gathering phase, data was collated and analysed. Preliminary conclusions were derived which were presented in the Second Interim Report. Further analysis and synthesis have now been conducted and are presented in this Draft Final Report.

### **3.4 PHASE 4: PROJECT REPORTS**

This phase entailed combining of all the project phases: desk top study, field survey, analysis and synthesis into a body of work to be presented to the client. The initial report is the Draft Final Report which will be presented to the client. Feedback will be sought from the client, and after incorporating this feedback, a Final Project Report will be prepared and presented to the client.

### **3.5 CLOSE-OUT SESSION**

A Close-Out session will be conducted with the client. This session will afford the consultants an opportunity to present lessons learned to the client and present any other observations which bring value to the project.

### **3.6 CONCURRENT ACTIVITIES**

In addition to the core activities of the project, other activities taking place were as follows:

- **Capacity Transfer:** This is considered an important aspect of the projects which we engage in and invariably ensures that there is continuing passing on of skills to those persons that we work with during projects.
- **Consultation and communication:** Ongoing consultation and communication with the client is of utmost importance and enabled the client to be kept informed of developments as the project progressed. The consultations also ensured that we got feedback as to the requirements of the client and whether these were being met.
- **Project Management:** This was another key aspect of the project. This activity ensured that the project progressed on schedule, that regular

status reporting took place, that project issues were resolved and that quality work was delivered to meet the client's requirements.

### **3.7 THE PROJECT TEAM STRUCTURE**

#### **Team Leader**

The Team Leader has overall responsibility for timely and quality delivery of the project. He was the project's quality controller. The team leader for this project was Mr Michael T. Wakatama.

#### **Project Consultant**

The Project Consultant was responsible for the day-to-day project execution. She was responsible for the deliverables. The project consultant worked closely with the Team Leader. The consultant for this project was Ms Otilia Maphosa.

## **4 FINDINGS: INDUSTRIAL PARKS**

During the conduct of this study, five industrial parks comprising the portfolio of Limpopo Industrial Parks were identified. All the industrial parks are in operation and reasonably active. Most of the industrial parks contain more of the larger factory units, which is an indication of the time in which they were built, when large factories were the norm. Most of the industrial parks are well subscribed, all being more than half full. A brief overview of each of the industrial parks is presented below.

### **4.1 GIYANI**

This industrial park is comprised of 36 factory units with a total of 9 874 m<sup>2</sup>. It contains a variety of tenants with the majority being in the service sector. Manufacturing is the second largest category of tenants. The smaller units appear to be more in demand with an 88% occupancy rate, while the larger units which have a 58% occupancy rate. Overall the industrial park had 2263m<sup>2</sup> free space at the time of the survey. The occupancy pattern would seem to suggest that more large units need to be subdivided in order to be more accessible by the smaller and medium sized companies.

The industrial park is within easy access of the residential area.

## **4.2 THOHoyANDOU**

The Thohoyandou industrial park comprises 79 units with a total space of 140 836 m<sup>2</sup>. Of these 79 units, 14 units are in the "small" category. Some of the large units have been subdivided into smaller units but are still categorized as being "large" units, hence the appearance as if large units have a higher occupancy rate than the "small" units.

The industrial park is within easy access of the residential area. However the roads into the IP are not paved and it would appear that during the rainy season access must be difficult.

## **4.3 NKOWANKOWA**

The Nkowankowa IP is situated approximately 30km outside Tzaneen. It contains about 126 967 m<sup>2</sup> made up of 143 units. The smaller units have a higher occupancy rate at 93% while the larger units are at 67% occupancy.

In this IP the manufacturing sector is more dominant, with a number of larger companies manufacturing a range of products, some of which are involved in agro- processing and other companies which are to be suppliers to the agro-processing sector (e.g. makers of corrugated packaging and pallets). Timber based manufacture seems to be active as well.

## **4.4 SESHEGO**

Seshego is situated quite close to Polokwane city and is the largest of the IPs. It has a total of 159 577 m<sup>2</sup> made up of 166 units. The smaller units again have a higher occupancy rate at 98% than the larger ones with 84% occupancy.

Again the services sector is predominant, but the manufacturing sector is also significant. The IP is within easy access of the residential area, as well as the city centre of Polokwane.

## **4.5 LEBOWAKGOMO**

This is the smallest of the industrial parks with 33 units and 23 435 m<sup>2</sup>. Both the small and large units have high occupancy rates of 94% and 99% respectively.

The major economic activity is the services sector. The IP is located within a reasonable distance from the residential area.

## 5 PROFILES OF THE INDUSTRIAL PARKS

This section will deal with the profiles of the industrial parks, i.e. the economic and employment profiles. The availability of utilities such as electricity, water and telephones will also be discussed.

### 5.1 ECONOMIC PROFILES OF THE INDUSTRIAL PARKS

The following table summarizes the economic profiles of all the industrial parks. The percentages relate to the space taken up by a particular economic activity as a fraction of the total space within the IP.

**TABLE 1: ECONOMIC PROFILE : ALL IPS**

	Manufacturing %	Services %	Warehouses %	Retail %	Total %
Giyani	20.69	58.62	6.90	13.79	100.00
Thohoyandou	25.00	34.72	23.61	16.67	100.00
Nkowankowa	44.92	33.06	11.01	11.01	100.00
Seshego	26.78	61.75	7.10	4.37	100.00
Lebowakgomo	12.12	78.79	29.40	0	100.00

Source: Properties Catalogue

The table above indicates that the services sector occupies more space than the other sectors, followed by the manufacturing sector. The following section reviews the economic profiles of each of the IPs.

#### 5.1.1. GIYANI

Below is a summary of the economic profile of the Giyani Industrial Park.

**TABLE 2: GIYANI ECONOMIC PROFILE**

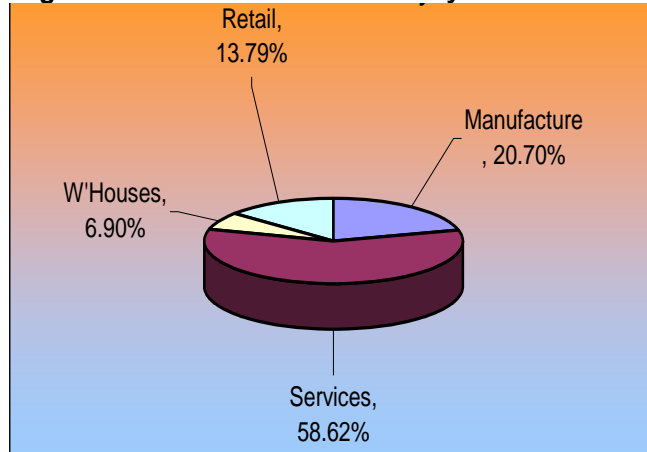
OCCUPIED UNITS = 29									
Manufacture		Services		W' house		Retail		TOTAL	
Units	%	Units	%	Units	%	Units	%	Units	%
6	20.69	17	58.62	2	6.90	4	13.79	29	100

Source: Giyani Catalogue

In the Giyani IP, the services sector is dominant, occupying 58% of the total space. The manufacturing sector takes up 21% of the overall space and comprises brick making, plastic re-processing and upholstery. The services sector comprises panelbeaters, auto spares, driving school, auto mechanics as well as a retail component. The graph below indicates the Giyani economic profile.



**Fig 2: Economic Profile: Giyani**



### 5.1.2 THOHOYANDOU

The table below summarizes the economic profile of the Thohoyandou Industrial park.

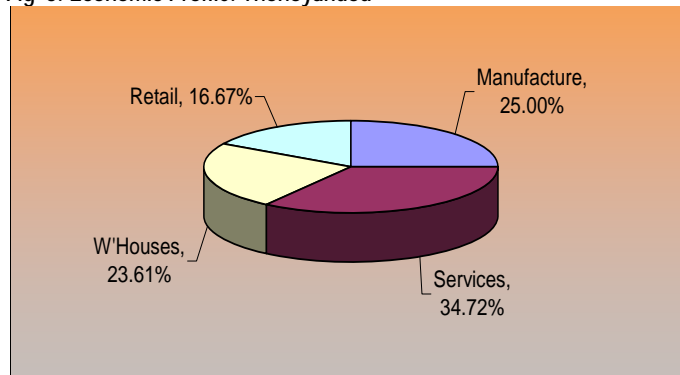
**TABLE 3: THOHOYANDOU ECONOMIC PROFILE**

OCCUPIED UNITS = 72									
Manufacture		Services		W' house		Retail		TOTAL	
Units	%	Units	%	Units	%	Units	%	Units	%
18	25	25	34.72	17	23.61	12	16.67	72	100

Source: Thohoyandou Catalogue

In the Thohoyandou IP the services sector is again dominant, taking up 35% of the total space. The manufacturing sector is in second place with 25% of the total space. Manufacturing centres around clothing sewing, furniture making, coffin making and atchar manufacture. The services sector comprises companies such as panelbeaters, electrical and auto repairs, security services, warehouses as well as retailing are also active. The graph below indicates the Thohoyandou economic profile.

**Fig 3: Economic Profile: Thohoyandou**



### 5.1.3 NKOWANKOWA

Tabled below, is a summary of the Nkowankowa IP economic activity.

**TABLE 4: NKOWANKOWA ECONOMIC PROFILE**

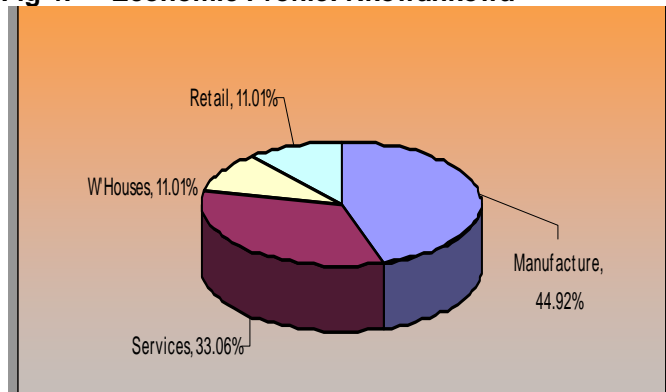
OCCUPIED UNITS = 118									
Manufacture		Services		W' house		Retail		TOTAL	
Units	%	Units	%	Units	%	Units	%	Units	%
53	44.92	39	33.06	13	11.01	13	11.01	118	100

Source: Nkowankowa Catalogue

The Nkowankowa manufacturing sector is more active than in other IPs, with 45% of the total space. A number of companies produce timber related products: timber, roof trusses, furniture, pallets and corrugated cartons. Others manufacture food based products such as paprika based products, maize meal, mela, mango atchar. Aluminium products are also manufactured in the IP. Some of the packaging which is manufactured in Nkowankowa is destined for areas outside the province. The services sector is also active, with 33% of the overall space. The services sector comprises companies in a variety of areas such as private schools, funeral parlours, panelbeaters, etc.

The graph below presents the Nkowankowa economic profile

**Fig 4: Economic Profile: Nkowankowa**



### 5.1.4 SESHEGO

Seshego's economic profile is summarized in the table below.

**TABLE 5: SESHEGO ECONOMIC PROFILE**

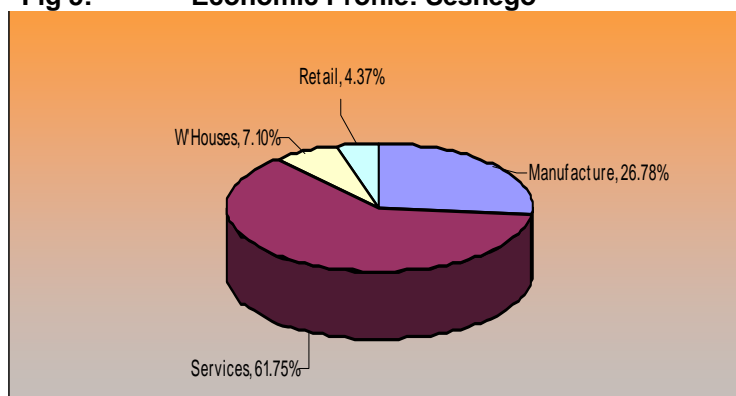
# of Business Units= 183									
Manufacture		Services		W' house		Retail		TOTAL	
Units	%	Units	%	Units	%	Units	%	Units	%
49	26.78	113	61.75	13	7.10	8	4.37	183	100

Source: Seshego catalogue

In Seshego the services sector is again dominant, with 62% of the total space. The range of service sector companies is varied: mining services, schools, plant hire, panelbeaters, funeral services, auto mechanics, security services and various others. The manufacturing is in second place with 27% of the overall space. The manufacturing sector consists of makers of packaging, road signs, tombstones, carpets, metal products, furniture, bricks and fruit juices.

The graph below presents the economic profile.

**Fig 5: Economic Profile: Seshego**



### 5.1.5 LEBOWAKGOMO

The table below summarizes the Lebowakgomo IPs economic activity.

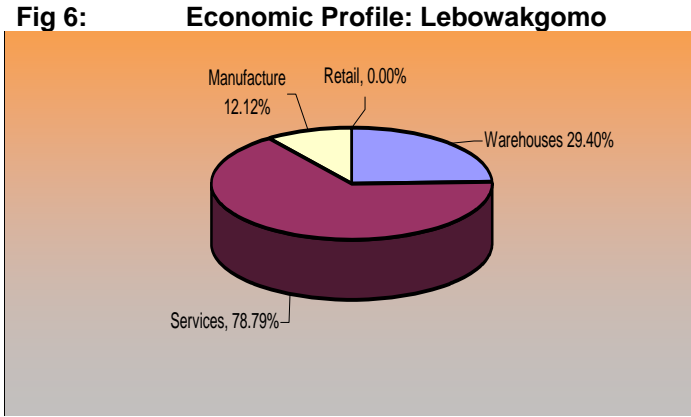
**TABLE 6: LEBOWAKGOMO ECONOMIC PROFILE**

OCCUPIED UNITS = 33									
Manufacture		Services		W' house		Retail		TOTAL	
Units	%	Units	%	Units	%	Units	%	Units	%
3	29.40	26	78.79	4	12.12	0	0	33	100

Source: Lebowakgomo catalogue

Lebowakgomo is made up mostly of the services sector which take up 79% of the total space. This sector is made up of companies in: scrap metals, security services, funeral services, auto repairs and panelbeaters, etc. The IP contains

only two small scale manufacturers, one making wood products and another making ceramic pots. There is also a exploration services company and Telkom. The graph below presents the economic situation.



## 5.2 EMPLOYMENT PROFILES.

The employment profile somewhat mirrors the economic profile, with most jobs being provided by those sectors which are dominant in each of the industrial parks. A summary employment profile of all the industrial parks is presented below:

**TABLE 7: EMPLOYMENT PROFILE: ALL IPS**

	Manufacturing	Services	Retail	Warehousing / Offices	Total
Giyani	82	436	235	48	<b>801</b>
Thohoyandou	260	320	182	104	<b>866</b>
Nkowankowa	905	802	460	155	<b>2 322</b>
Seshego	868	1326	188	99	<b>2 481</b>
Lebowakgomo	21	102	0	72	<b>195</b>
<b>TOTAL IND. PARKS</b>	<b>2 136</b>	<b>2 986</b>	<b>1 065</b>	<b>478</b>	<b>6 665</b>

Source: Statistics All IPs

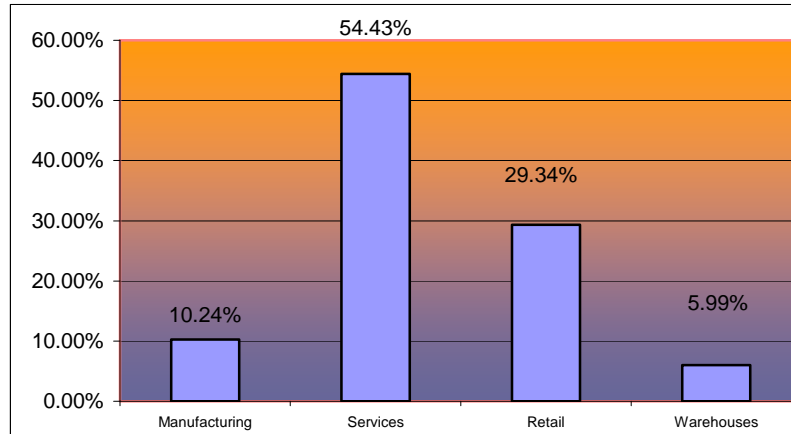
The summary indicates that in all the industrial parks except for Nkowankowa, more employment is generated by the service rather than manufacturing sector. However in the larger IPs of Nkowankowa and Seshego the manufacturing sector generates a significant number of jobs.

The following section provides an analysis of the employment profiles of each of the IPs.

### 5.2.1 EMPLOYMENT: GIYANI

In the Giyani IP the services sector provides the highest number of jobs, with 54% of total employment. The retail sector provides the next highest level, with 29% of overall jobs. The figure below summarizes the employment profile.

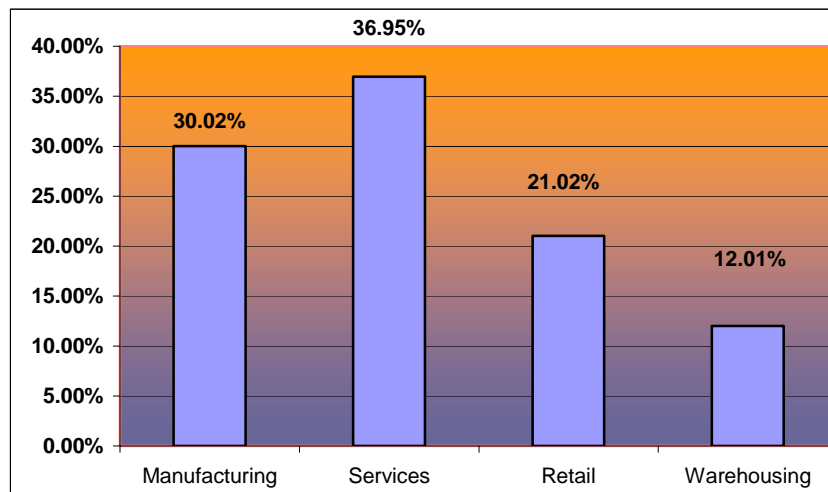
**Figure 7: Giyani Employment Profile**



### 5.2.2 EMPLOYMENT: THOHOYANDOU

In Thohoyandou the services sector is the highest employer, with 36.95% of total employment. The manufacturing sector is in second place with 30% of total employment, and the retail sector is in third place with 21%. The figure below indicates the employment situation.

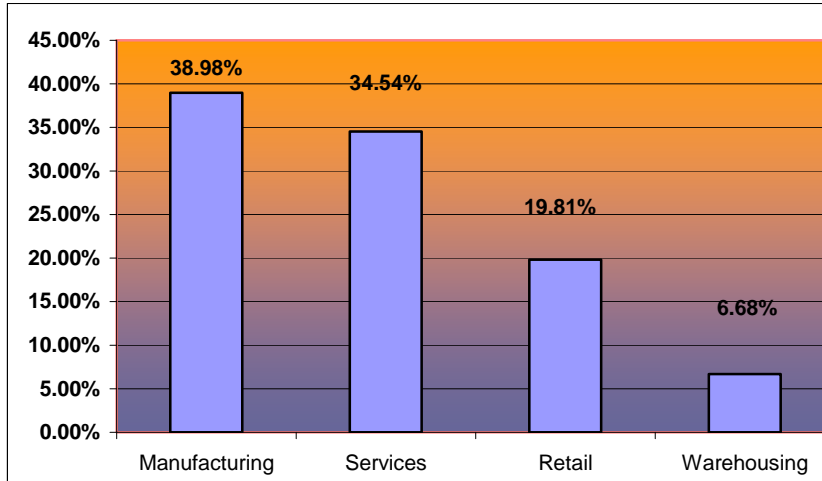
**Fig 8: Thohoyandou Employment Profile**



### 5.2.3. EMPLOYMENT: NKOWANKOWA

In the Nkowankowa IP the manufacturing sector is the highest employer with 39% of total employment. The services sector is in second place at 35% and retail provides 20% of the jobs. The figure below indicates the employment situation.

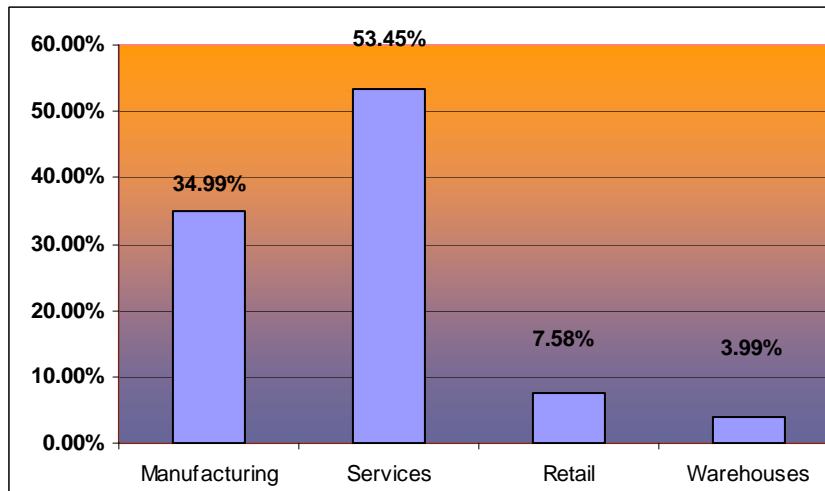
**Fig 9: Nkowankowa Employment Profile**



### 5.2.4 SESHEGO

In Seshego the services sector is again the dominant employer comprising 53% of total employment. The manufacturing sector is in second place comprising 35% employment, with retail and warehousing at lower levels. The graph below indicates the employment situation.

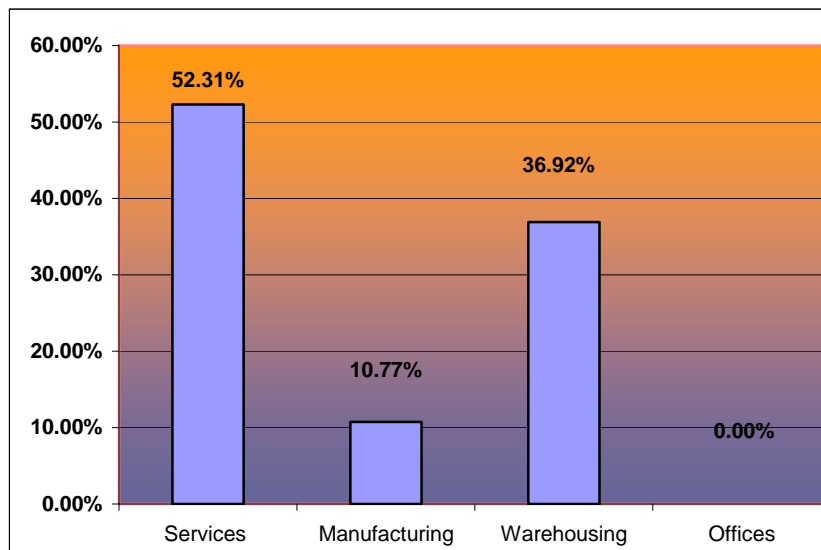
**Fig 10: Seshego Employment Profile**



#### 5.2.4 EMPLOYMENT: LEBOWAKGOMO

In Lebowakgomo the bulk of employment, 52% comes from the Services sector. Warehouses are the second largest employers, with 37% of employment and manufacturing provides 11% of total employment. The graph below indicates the employment situation.

**Fig 11: Lebowakgomo Employment Profile**



### 5.3 UTILITIES

This section reviews the availability of water, electricity, and telephones at the industrial parks.

All the industrial parks surveyed had access to electricity and water for all the buildings. In a few cases where a subdivision had occurred the utilities had not been redistributed properly, but this is an issue of refurbishment and maintenance rather than of availability.

In the case of telephones, some tenants indicated that they would have liked to get more telephone lines as well as high speed ADSL lines. Access to communication is an important aspect of doing business, however the lack of ADSL is no longer a constraint to business. Recently cellphone companies have introduced cellphone technology based broadband which delivers the same and in some cases better levels of connectivity as ADSL, at cheaper prices than Telkom prices.

## 6 OCCUPANCY LEVELS

Overall, the occupancy levels at the industrial parks can be considered high. In Giyani and Thohoyandou only 7 units are vacant in IP. Nkowankowa which has 25 vacant units is a large IP with 143 units. However it is significant that the vacancies in Nkowankowa are occurring mostly in the larger units which by today's standard of factory sizes, are too big. Lebowakgomo is almost full, with only 3 vacant units. The table below summarizes the occupancy levels in the IPs, in terms of factory units.

**TABLE 8: OCCUPANCY LEVELS: ALL IPS**

	LARGE UNITS			SMALL UNITS			TOTAL
	Units	#occup'd	#vacant	Units	#occup'd	#vacant	Vacant
Giyani	12	8	4	24	21	3	7
Thohoyandou	65	60	5	14	12	2	7
Nkowankowa	90	69	21	53	49	4	25
Seshego	72	66	6	87	85	2	8
Lebowakgomo	22	21	1	44	42	2	3
<b>TOTAL</b>	<b>261</b>	<b>224</b>	<b>37</b>	<b>222</b>	<b>209</b>	<b>13</b>	<b>50</b>

The following section continues the occupancy analysis.

### 6.1 OCCUPANCY LEVELS

in this section the occupancy levels in the individual IP's is reviewed.

#### 6.1.1 OCCUPANCY: GIYANI

The Giyani park has a total of 9 874 m<sup>2</sup> divided as per the table below. **The occupancy rate is calculated in terms of square metres.**

**TABLE 9: OCCUPANCY: GIYANI**

	# Units	Occupied	Vacant	Occupancy%
Large Units	12	8	4	58
Small Units	24	21	3	88
Total	36	29	7	66

The overall occupancy rate for Giyani IP is 66%, with the small units having a higher occupancy rate (88%) than the larger units.

The above indicates a possibility that the overall occupancy would be higher if some of the larger units were subdivided into smaller units.



### 6.1.2 OCCUPANCY: THOHOYANDOU

The Thohoyandou Industrial Park contains a total of 140 836.14 m<sup>2</sup> divided as shown in the table below:

**TABLE 10: OCCUPANCY: THOHOYANDOU**

	# Units		Occupied	Vacant	Occupancy %
Large Units	65		60	5	97
Small Units	14		12	2	80
Total	79		72	7	97

The overall occupancy rate for the whole IP is 97%. In this park the large units appear to enjoy a high occupancy rate (97%) than the small units (80%). However this is due to the fact that some of the large units have been subdivided into small units - but are still classified as being "large" factories.

### 6.1.3 OCCUPANCY: NKOWANKOWA

The Nkowankowa Industrial Park contains a total of 126 967m<sup>2</sup> divided into 90 large units totalling 120 782 m<sup>2</sup> and 53 small units totalling 4 200 m<sup>2</sup>. The table below provides a summary.

**TABLE 11: OCCUPANCY: NKOWANKOWA**

	# Units		Occupied	Vacant	Occupancy %
Large Units	90		69	21	67.54
Small Units	53		49	4	92.86
Total	143		118	25	68.40

Of the total area available in the large industrial area, 81 583 m<sup>2</sup> are occupied achieving an occupancy rate of 67.54%. In the smaller units 3900 m<sup>2</sup> are occupied for an occupancy rate of 92.86% .

### 6.1.4 OCCUPANCY: SESHEGO

**TABLE 12: OCCUPANCY: SESHEGO**

	# Units		Occupied	Vacant	Occupancy%
Large Units	72		66	6	84.02
Small Units	94		92	2	98.63
Total	166		158	8	84.71

Seshego's overall occupancy rate is high. The high occupancy rate could possibly be due to the fact that it is near a major urban centre, Polokwane.

### 6.1.5 OCCUPANCY: LEBOWAKGOMO

The Lebowakgomo Industrial park has a total of 23 435m<sup>2</sup> divided into 22 large units, and 19 small units. Of the space available 22 886 m<sup>2</sup> is occupied, giving an overall occupancy rate of 97.66%. The table below summarizes the Lebowakgomo's occupancy rate.

**TABLE 13: OCCUPANCY: LEBOWAKGOMO**

	# Units	Size m <sup>2</sup>	Occupied	Vacant	Occupancy %
Large Units	22		21	1	98.65
Small Units	44		42	2	94.03
Total	66		63	3	97.66

### 6.2 ACCOMMODATING NEW TENANTS

The ability to accommodate new tenants at the industrial parks is rather limited. Nkowankowa is possibly the only industrial park which still has some reasonable space to offer. At Seshego the 24 392m<sup>2</sup> is likely to be filled soon. At the time that this study was being conducted only 8 units were empty at Seshego and of these, two large units were being prepared to be taken up by Government departments. This would leave only 6 units being available.

**TABLE 14: SPACE AVAILABLE: ALL IPS**

Industrial Park	Total m <sup>2</sup>	Occupied m <sup>2</sup>	Available m <sup>2</sup>
Giyani	9 874	7 611	2 263
Thohoyandou	57 420	49 856	7 564
Nkowankowa	124 982	83 976	41 006
Seshego	154 936	130 640	24 296
Lebowakgomo	20 081	19 532	549
TOTAL IND. PARKS	367 293	291 615	75 678

## 7 SHOULD IPS BE REFURBISHED?

### 7.1 EVALUATION

The industrial parks were erected many years ago during the tenure of the homelands governments. Most are now in a state whereby refurbishment is necessary in order for the buildings to remain usable. Stakeholders in the IPs (such as the tenants, Limdev, TIL, LIBSA, SEDA, Umsobomvu) all agree that the IP buildings are now old and in need of refurbishment.

There is also a need to subdivide some factories which are quite large, in order to make them usable by a wider range of potential tenants.

Limdev has prepared some costs of refurbishing the individual properties within each IP. These costs were developed by LIMDEV's building maintenance personnel. The table below presents the estimated total cost of the IPs after refurbishment. This consists of the original cost of construction and the estimated costs of refurbishments.

**TABLE 15: ESTIMATED COST OF IPS AFTER REFURBISHMENT**

Industrial Park	Original Construction Cost	Estimated Refurbishm't Cost	Projected Total Cost
Giyani	4,351,296	2,225,219	6,576,515
Thohoyandou	25,277,813	3,859,950	29,137,763
Nkowankowa	3,995,380	19,232,500	23,227,880
Seshego	37,346,799	13,191,220	50,538,019
Lebowakgomo	3,677,451	5,146,750	8,824,201
<b>Total</b>	<b>74,648,739</b>	<b>43,655,639</b>	<b>118,304,378</b>

The consultants have not verified the refurbishment cost estimates, but have sought to evaluate the financial impacts of such refurbishments.

From a strategic point of view, it is the considered view of the consultants that it is worthwhile and desirable to refurbish the existing IPs, for the following reasons:

- Buildings need to be renewed from time to time for them to remain usable.
- The buildings which were viewed were good buildings but they do need repairs and upgrading.
- The cost of constructing similar buildings would be higher than the cost of refurbishing the existing ones.
- The large buildings need to be subdivided in order to make them more usable by SMMEs and other medium sized businesses.
- If the buildings are not refurbished they will become less and less attractive to potential tenants, leading to a downward spiral of lower and lower rents being charged in order to retain some tenants.

In order to arrive at a conclusion as to whether it is financially viable to refurbish the industrial parks, it is necessary to evaluate the various elements which contribute to the financial viability of the parks. The various elements which were assessed are: the rents

charged and operating costs. Projections were developed with regards to Return on Investment based on current average rents, as well as several scenarios of rentals.

From a financial point of view the analysis revealed that the refurbishment is viable, as long as it is accompanied by an upward revision of rents so that there is a recoupment of the investment as well as profits. With refurbished, appropriately subdivided units which are being marketed effectively, the IPs should be able to generate good returns while still attaining the developmental objectives of the owner. The rents can be set at concessionary levels of anywhere between R12 -R24/m<sup>2</sup> and still generate profits for the IPs.

It is, however, important that the IP management set rents and terms that are consistent and transparent. The current procedure of setting rents on a deal-by-deal basis does not sit well with some tenants and other stakeholders.

The following sections address the various components of the financial analysis.

## 7.2 RENTS

Rent in the industrial parks is quite affordable. The amounts charged for the units vary quite considerably within each park. The table below summarizes the rent situation in the various parks.

**TABLE 16: RENT INDICATORS: ALL IPS**

Rent: R/m <sup>2</sup>	Giyani	Thohoyandou	Nkowankowa	Seshego	Lebowakgomo
Lowest Rent	2.71	0.04	2.48	1.00	2.12
Highest rent:	20.08	30.20	56.84	50.00	23.40
Avg rent large units	9.66	1.99	5.33	4.64	2.12
Avg rent small units	4.51	14.22	5.11	5.03	4.19
Avg rent - all units	7.69	2.07	5.32	4.68	3.73

The variation in the levels of rents paid is a source of displeasure among the stakeholders; tenants, the business facilitator organisations such as TIL, SEDA etc. The tenants advise that the rent that one is charged is set through negotiations between that party and LIMDEV, there is no set rent.

Overall the average rents being charged are sub-economic. While it could be argued that the industrial parks are meant to be developmentally oriented accommodation, the level of subsidy evident in the above table is unsustainable.

Further these rent levels ensure that the property owner is unable to accumulate adequate resources to be able to properly maintain the buildings as well as refurbishing them when necessary.

### 7.3 OPERATING COSTS

A review of the IP operating costs was carried out in order to assess how effectively the IPs are being managed. The level of operating costs impact on the viability of any refurbishment programme which may be enacted.

The table below summarizes the most significant cost elements within the IPs.

**TABLE 17: ABRIDGED FINANCIALS ALL IPs**

	Giyani	Thohoya	Nkowankowa	Seshego	Lebowakgomo
<b>TOTAL INCOME</b>	<b>6,312,928</b>	<b>10,883,465</b>	<b>5,266,054</b>	<b>8,958,385</b>	<b>2,587,118</b>
Cleaning & Garden Svcs	297,048	291,698	494,633	262,851	346,812
Personnel Costs	707,410	1,692,320	1,617,259	1,228,179	1,687,412
Rates & taxes	419,023	466,397	892,894	2,040,505	196,477
Repairs and Maint.	1,241,573	2,398,008	1,610,315	5,075,690	1,607,378
Water & Electricity	561,438	224,373	100,637	8,998	533,669
Security Cost	-	-	710,986	630,893	681,771
Other expenses	396,108	333,151	286,490	288,753	472,213
<b>EXPENDITURE</b>	<b>3,622,600</b>	<b>5,405,947</b>	<b>5,713,214</b>	<b>9,535,869</b>	<b>5,525,732</b>
Gross Profit/Loss	2,690,328	5,477,518	(447,160)	(577,484)	(2,938,614)
Total Expenses as % of sales	57.38%	49.67%	108.49%	106.45%	213.59%

The current IP operating costs exhibit a higher than normal level of expenditure.

The table below expresses the costs as a percentage of revenue.

**TABLE 18: ANALYSIS: IP OPERATING COSTS**

% of Revenue	Giyani %	Thohoya-ndou %	Nkowan-kowa %	Seshego %	Labowa-Kgomo %
Total Expenses	57.38	49.67	108.49	106.45	213.59
Cleaning Svcs	5.13	2.68	9.39	2.93	13.41
Personnel Cost	12.22	15.55	30.71	13.71	65.22
Rates & Taxes	7.24	4.29	16.96	22.78	7.59
Repairs & Maint.	21.46	22.03	30.58	56.66	62.13
Water & Electricity	9.70	2.06	1.91	0.10	20.63
Security	0	0	13.50	7.04	26.35

See Appendix 3: IP Income Statements for the actual expenditure data. Note that revenues and expenses in Appendix 3 relate to the whole of Limdev's property portfolio, including the IPs.

An analysis of each cost category is presented below:

### **7.3.1 TOTAL EXPENSES**

The total levels of expenses at all the IPs is considerably high, ranging from 50% of revenue at Thohoyandou to 213% at Lebowakgomo.

### **7.3.2 PERSONNEL COSTS**

Personnel costs range from 12% of revenue at Giyani to 65% at Lebowakgomo. One would expect to see personnel costs which range from 12% - 20% at a manufacturing or retail concern but not at a real-estate management concern. The level of personnel costs at the industrial parks appears too high.

### **7.3.3 RATES AND TAXES**

Rates and taxes at Giyani, Thohoyandou and Lebowakgomo seem moderate, however the rates bills at Nkowankowa and Seshego appear to be on the high side.

### **7.3.4 REPAIRS AND MAINTENANCE**

Expenditure on repairs and maintenance ranges from 21% of revenue at Giyani to 62% of sales at Lebowakgomo. This range of expenditure on maintenance is definitely on the high side. Ordinarily, maintenance costs for industrial buildings would be expected to range between 1% -2.5% of property values.

In this instance Limdev might argue that the age and state of buildings makes it difficult to keep costs down. However in the event that the buildings are refurbished, one would expect the maintenance costs to come down to normal ranges.

### **7.3.5 WATER AND ELECTRICITY**

One would expect that the tenants pay for their own water and electricity. In the event that the landlord pays for utilities one would expect that these are directly recovered such that no expense remains in the landlord's account, except for that portion of water utilised for common services such as gardens.

### 7.3.6 SECURITY

Again this is a cost which ordinarily accrues to the tenant. In other cases where the landlord pays for security for the whole complex, that cost is usually shared between the tenants and does not remain a significant cost to the landlord. In this case Nkowankowa, Seshego and Lebowakgomo are carrying a significant security cost ranging from 7% to 26% of revenue.

## 7.4 RETURN ON INVESTMENT ASSESSMENT

The Return on Investment analysis was used as a tool to evaluate whether it would be worthwhile for LEDET to renovate the IPs. In order to address this question the analysis interrogates the following scenarios:

- Are the Industrial Parks currently being managed effectively in terms of managing costs?
- What is the financial impact of the refurbishment programme on the viability of the IPs?
- Are the rents which are being charged adequate to recoup the cost of refurbishment as well as to earn an acceptable Return on Investment?
- Is the Return on Investment achieved adequate to cover the cost of funds as well as an adequate profit to enable future repairs, maintenance and refurbishments?
- Will the factories still be affordable after the refurbishment programme?

This section presents several revenue streams which would be expected to accrue to each IP (using a 85% occupancy rate and the average rent per square metre). The IP revenue is measured against the total IP cost (the total IP cost includes the construction cost plus the estimated cost of renovation). The analysis evaluates what Return on Investment is achievable through a particular revenue stream resulting from a particular level of rent.

The starting point used was the average rent currently being charged at each IP. Sensitivity analyses were applied, varying the rent from R8.00/m<sup>2</sup>, R12.00/m<sup>2</sup>, R16.00/m<sup>2</sup> and R24.00/m<sup>2</sup> respectively. This analysis assumes that a uniform rent is charged for the whole IP or that the weighted averages achieve that target rent amount. (Note that the weighted average rents for various IPs currently range from R3.73/m<sup>2</sup> to R7.69/m<sup>2</sup>, whereas the Province averages R30.00 /m<sup>2</sup> at private sector industrial buildings). The annual Return on

Investment is calculated using the estimated profit and the total IP cost after renovation.

#### 7.4.1 OVERVIEW: RETURN ON INVESTMENT: ALL IPS

The table below presents the results of the ROI assessment for all IPs.

**TABLE:19 ESTIMATED ROI AFTER RENOVATIONS**

	Current	Sensitivity 1	Sensitivity 2	Sensitivity 3	Sensitivity 4
Annual ROI %	Rent	8.00	12.00	16.00	24.00
Giyani	0.81%	0.91%	2.30%	3.68%	6.44%
Thohoyandou	3.91%	11.00%	19.04%	27.08%	43.16%
Nkowankowa	-2.33%	9.40%	26.90%	44.40%	79.40%
Seshego	-2.34%	15.67%	37.36%	59.06%	102.45%
Lebowakgomo	-2.98%	0.02%	2.84%	5.65%	11.27%

The table above indicates that the current rent levels are sub-economic and that the assets are not achieving adequate returns. However at higher levels of rent the assets yield reasonable returns. It is important to note that the profit levels used in this analysis have been calculated using the current cost structure at the IPs which is rather high. Current cost levels have a negative bearing on financial results, shown above.

The section below analyses the Return on Investment assessment for the individual IPs.

#### 7.4.2 RETURN ON INVESTMENT: GIYANI

**TABLE 20: PROJECTED ROI: GIYANI**

	CAPEX	Curr. Avg Rent	Rent 1	Rent 2	Rent 3	Rent 4
Rent R / sq m.		7.69	8.00	12.00	16.00	24.00
Original Construction Cost	4,351,296					
Required Renovation Cost	2,225,219					
Total Cost after renovation	6,576,515					
Total Area sq m		9,874	9,874	9,874	9,874	9,874
Proj. Annual Rent @ 85% occup		774,497	805,718	1,208,578	1,611,437	2,417,155
Current Avg park operating costs (pro-rata estimates)		539,387	539,387	539,387	539,387	539,387
Estimated net profit		235,110	266,332	669,191	1,072,050	1,877,768
Estimated Annual Return on Investment		0.81%	0.91%	2.30%	3.68%	6.44%



The above table indicates that at current rents which average R7.69/m<sup>2</sup>, the Giyani IP Return on Investment of 0.81% is very low and does not cover the cost of money or generate adequate profits to enable accumulation of resources toward future refurbishments. At a rent of R24.00 / m<sup>2</sup> the investment achieves a ROI of 6.44% which is at the low end of acceptability. However seen in the light of an economic development investment, this ROI may be marginally acceptable.

#### 7.4.3 RETURN ON INVESTMENT: THOHOYANDOU

**TABLE 21: PROJECTED ROI: THOHOYANDOU**

<b>Thohoyandou</b>						
	CAPEX	Avg Current Rent	Rent 1	Rent 2	Rent 3	Rent 4
Rent R / sq m.		4.47	8.00	12.00	16.00	24.00
Original Construction Cost	25,277,813					
Required Renovation Cost	3,859,950					
Total Cost after renovation	29,137,763					
Total Area sq m		57,420	57,420	57,420	57,420	57,420
Proj. Annual Rent @ 85% occup		2,618,007	4,685,472	7,028,208	9,370,944	14,056,416
Current Avg park operating costs (pro-rata estimates)		1,480,061	1,480,061	1,480,061	1,480,061	1,480,061
Estimated net profit		1,137,946	3,205,411	5,548,147	7,890,883	12,576,355
<b>Est. Annual Return on Investment</b>		<b>3.91%</b>	<b>11.00%</b>	<b>19.04%</b>	<b>27.08%</b>	<b>43.16%</b>

Based on current rents which average R4.47/m<sup>2</sup>, the IP Return on Investment of 3.91% is very low and does not cover the cost of money or generate adequate profits to enable accumulation of resources toward future refurbishments. However at higher rent levels the returns improve significantly with ROIs of 11.1% for a rent of R8.00/ m<sup>2</sup>, and ROI of 43% for a rent of R24.00.

It should be noted that while the overall park rent averages R4.47 / m<sup>2</sup>, the highest rental being charged at Thohoyandou is R30 / m<sup>2</sup> which shows that higher rents are achievable.

#### 7.4.4 RETURN ON INVESTMENT: NKOWANKOWA

**TABLE22: PROJECTED ROI: NKOWANKOWA**

<b>Nkowankowa</b>						
	CAPEX	Avg Current Rent	Rent 1	Rent 2	Rent 3	Rent 4
Rent R / sq m.		5.32	8.00	12.00	16.00	24.00
Original Construction Cost	3,995,380					
Required Renovation Cost	19,232,500					
Total Cost after renovation	23,227,880					
Total Area sq m		124,982	124,982	124,982	124,982	124,982
Proj. Ann.Rent @ 85% occup		6,782,023	10,198,531	15,297,797	20,397,062	30,595,594
Curr. Avg park operating costs (pro-rata estimates)		7,459,971	7,459,971	7,459,971	7,459,971	7,459,971
Estimated net profit		(677,948)	2,738,560	7,837,826	12,937,091	23,135,623
<b>Est. Annual Return on Investment</b>		<b>-2.33%</b>	<b>9.40%</b>	<b>26.90%</b>	<b>44.40%</b>	<b>79.40%</b>

At current rents which average R5.32/m<sup>2</sup> Nkowankowa is generating losses of R677 948 as well as a negative Return on Investment. However with an improvement in the weighted average rent to R8.00 the IP achieves a Return on Investment of 9.40%. With an average rent of R24.00 the park would yield a Return on Investment of 79.40%.

The highest rent achieved at Nkowankowa is R56/ m<sup>2</sup>, and this indicates that higher levels of rents are possible.

#### 7.4.5 RETURN ON INVESTMENT: SESHEGO

**TABLE 23: PROJECTED ROI: SESHEGO**

<b>Seshego</b>						
	CAPEX	Avg Current Rent	Rent 1	Rent 2	Rent 3	Rent 4
Rent R / sq m.		4.68	8.00	12.00	16.00	24.00
Original Construction Cost	37,346,799					
Required Renovation Cost	13,191,220					
Total Cost after renovation	50,538,019					
Total Area sq m		154,936	154,936	154,936	154,936	154,936
Proj. Annual Rent @ 85% occup		7,396,025	12,642,778	18,964,166	25,285,555	37,928,333
Curr. Avg park oper. costs (pro-rata estimates)		8,077,254	8,077,254	8,077,254	8,077,254	8,077,254
Estimated net profit		(681,229)	4,565,523	10,886,912	17,208,301	29,851,079
<b>Est. Annual Return on Investment</b>		<b>-2.34%</b>	<b>15.67%</b>	<b>37.36%</b>	<b>59.06%</b>	<b>102.45%</b>

At current IP rents which average R4.68/m<sup>2</sup>, Seshego is generating losses of R681 229 as well as a negative Return on Investment of 2.34%. With an improvement in the weighted average rent to R8.00 the IP would achieve a Return on Investment of 15.67%. With an average rent of R24.00 the park would yield a Return on Investment of 102.45%.

The highest rent achieved at Seshego is R50/ m<sup>2</sup>, and this indicates that higher levels of rents are possible.

#### 7.4.6 RETURN ON INVESTMENT: LEBOWAKGOMO

**TABLE 24: PROJECTED ROI: LEBOWAKGOMO**

<b>Lebowakgomo</b>						
	CAPEX	Avg Current Rent	Rent 1	Rent 2	Rent 3	Rent 4
Rent R/ sq m.		3.73	8.00	12.00	16.00	24.00
Original Construction Cost	3,677,451					
Required Renovation Cost	5,146,750					
Total Cost after renovation	8,824,201					
Total Area sq m		20,081	20,081	20,081	20,081	20,081
Proj. Annual Rent @ 85% occup		764,002	1,638,610	2,457,914	3,277,219	4,915,829
Curr. Avg park oper. costs (pro-rata estimates)		1,631,804	1,631,804	1,631,804	1,631,804	1,631,804
Estimated net profit		(867,802)	6,806	826,110	1,645,415	3,284,025
Est. Annual Return on Investment		-2.98%	0.02%	2.84%	5.65%	11.27%

At current rents which average R3.73/m<sup>2</sup>, Lebowakgomo is generating losses of R867 802 as well as a negative Return on Investment of 2.98%. High operating cost structures contribute to the loss situation, however with an improvement in the weighted average rent to R16.00 the IP would achieve a Return on Investment of 5.65%. With an average rent of R24.00 the park would yield a Return on Investment of 11.27%. The highest rent achieved at Lebowakgomo is R23.40/ m<sup>2</sup>.

## 8 POTENTIAL PROJECTS FOR IPs

This section presents some projects which have been identified as potential users of the various industrial parks. Most of the potential projects are contained in the IDPs of the various municipalities, however some have been identified as a result of the current Agro-Processing Research project which is being carried out on behalf of LEDET. As per the Project Charter, the opportunities identified should be in manufacturing in general and agro-processing in particular.

It should be noted that the projects highlighted here are those which have been adopted by the various municipalities in their IDPs as well as those being proposed by the consultants. However, many other projects start up without seeking the assistance of the municipalities. Such projects may also be interested in renting space in the IPs. **There is a need for concerted efforts to publicise the existence of space in IPs. In the**

interviews with business facilitator organisations, it was pointed out that most SMMEs perceived IPs as being for the large companies only.

## 8.1 POTENTIAL PROJECTS LIST

The following is a list of projects which have been identified for potential location within existing IPs.

**TABLE 25: POTENTIAL PROJECTS FOR IPS**

<b>PROJECT</b>	<b>EST. SPACE REQUIRED m<sup>2</sup></b>
<b>GIYANI</b>	
Fruit & Vegetable Packhouse <sup>1</sup>	1 250
Goat Cheese Factory <sup>1</sup>	950
Essential Oils Processing Plant <sup>1 &amp; 2</sup>	850
Oyster Mushroom Farming <sup>2</sup>	750
Farming Input Supplies Distributor <sup>1</sup>	1 200
Livestock Feeds Manufacturer <sup>1</sup>	1 000
<b>Total Space Requirement</b>	<b>6 000</b>
<b>THOHOYANDOU</b>	
Fresh Produce Market <sup>2</sup>	1 500
Fruit & Vegetable Buying Depot <sup>1</sup>	750
Poultry Abattoir <sup>2</sup>	650
Bakery <sup>2</sup>	450
Polish Manufacturer <sup>2</sup>	750
Farming Input Supplies Distributor <sup>1</sup>	1 200
Livestock Feeds Manufacturer <sup>1</sup>	1 000
Pig Abattoir <sup>2</sup>	1 200
Plastic Packaging Manufacturer <sup>1</sup>	1 500
<b>Total Space Required</b>	<b>9 000</b>
<b>SESHEGO</b>	
Bronbeg Cheese Manufacturing <sup>2</sup>	1 000
Cold Asphalt Manufacturing <sup>2</sup>	2 600
FR Concrete <sup>2</sup>	3 200
Limpopo Waste Paper Recycling <sup>2</sup>	2 000
Polokwane Fresh Produce Market <sup>2</sup>	10 000
Kitlano Recycling <sup>2</sup>	2 500

Mankweng Waste Management & Recycling <sup>2</sup>	2 500
Peakanyo Clothing <sup>2</sup>	250
Potato Mash Factory <sup>2</sup>	650
Exotic African Pebbles <sup>2</sup>	450
Exotic Gems <sup>2</sup>	450
Rough n Tumble <sup>2</sup>	450
Nature's Art <sup>2</sup>	450
Exotic Jewellers <sup>2</sup>	450
Limpopo Polyfibre <sup>2</sup>	1 800
Samson Technology <sup>2</sup>	3 500
<b>Total Space Requirement</b>	<b>32 250</b>
<b>NKOWANKOWA</b>	
Fruit & Vegetable Packhouse <sup>1</sup>	1 250
Spectrum Timber <sup>2</sup>	1 000
Tzaneen Mining Timber <sup>2</sup>	1 250
Northern Timbers <sup>2</sup>	1 250
Mogoboya Lumber <sup>2</sup>	1 250
Bass Timber <sup>2</sup>	1 000
Selati De Hoek <sup>2</sup>	1 250
Lutzkie Houterkers <sup>2</sup>	1 300
Diggerest Farm Timbers <sup>2</sup>	750
<b>Total Space Requirement</b>	<b>10 300</b>
<b>LEBOWAKGOMO</b>	
Mine Supplies <sup>1</sup>	450
Poultry Feeds Manufacturer <sup>1</sup>	1 000
<b>Total Space Requirement</b>	<b>1 450</b>

Sources: <sup>1</sup> TAP project proposals  
<sup>2</sup> Local Municipality IDP

Appendix 7 provides a more detailed description of the various potential projects.

## 8.2 PROPOSED PROJECTS SPACE REQUIREMENTS

The potential space requirements at the various IPs is as shown below, and is compared with space currently available at the IP.

**TABLE 26: PROPOSED PROJECTS' SPACE REQUIREMENTS**

IP	Space Required	Vacant Space	Available/ (Shortfall)
Giyani	6 000	2 263	(3 737)
Thohoyandou	9 000	7 564	(1 436)
Nkowankowa	10 300	41 006	30 706
Seshego	32 250	24 296	(7 954)
Lebowakgomo	1 450	549	(901)
<b>Total</b>	<b>59 000</b>	<b>75 678</b>	<b>16 678</b>

Source : IP catalogues.

The vacant space represents space that was vacant at the time of the survey.

The table above indicates that only Nkowankowa would be able to accommodate new projects being developed in the area. Giyani, Seshego and Thohoyandou would require some expansion. Seshego may require more expansion than is indicated here, since there were indications at the time of the survey, that the available space was being prepared for customers who had already made commitments.

### 8.3 PROPOSED PROJECTS' POTENTIAL EMPLOYMENT

The following section assesses the potential employment which could be generated by the potential projects proposed in section 8.2.

**TABLE 27: POTENTIAL EMPLOYMENT: PROPOSED PROJECTS**

PROJECT	POTENTIAL EMPLOYMENT
<b>GIYANI</b>	
Fruit & Vegetable Packhouse	250
Goat Cheese Factory	45
Essential Oils Processing Plant	40
Oyster Mushroom Farming	10
Farming Input Supplies Distributor	15
Livestock Feeds Manufacturer	45
<b>Total</b>	<b>405</b>
<b>THOHOYANDOU</b>	
Fresh Produce Market	75
Fruit & Vegetable Buying Depot	15
Poultry Abattoir	35
Bakery	30
Polish Manufacturer	30

Farming Input Supplies Distributor	15
Livestock Feeds Manufacturer	45
Pig Abattoir	26
Plastic Packaging Manufacturer	20
<b>Total</b>	<b>291</b>
<b>SESHEGO</b>	
Bronbeg Cheese Manufacturing	145
Cold Asphalt Manufacturing	1 000
FR Concrete	600
Limpopo Waste Paper Recycling	200
Kitlano Waste Recycling	64
Polokwane Fresh Produce Market	300
Mankweng Integrated Waste Management	65
Peakanyo Clothing	30
Potato Mash Factory	45
Exotic African Pebbles	13
Exotic Gems (stonecutting)	53
Rough n Tumble (stonecutting)	60
Nature's Art	30
Exotic Jewellers	10
Limpopo Polyfibre	15
Samson Technology	15
<b>Total</b>	<b>2 645</b>
<b>NKOWANKOWA</b>	
Fruit & Vegetable Packhouse	250
Spectrum Timber	36
Tzaneen Mining Timber	40
Northern Timbers	50
Mogoboya Lumber	35
Bass Timber	35
Selati De Hoek	25
Lutzkie Houterkers	55
Diggerest Farm Timbers	15
<b>Total</b>	<b>541</b>

<b>LEBOWAKGOMO</b>	
Mine Supplies	6
Poultry Feeds Manufacturer	45
<b>Total</b>	<b>51</b>

Please note that the potential employment numbers presented here are estimates based on labour requirements of similar projects. The Polokwane/Seshego employment data was sourced from the latest Capricorn IDP.

The summary of labour requirements for the proposed projects is as follows:

**TABLE 28 SUMMARY: POTENTIAL LABOUR: NEW PROJECTS**

<b>IP</b>	<b>Est. Labour Requirement</b>
Giyani	405
Thohoyandou	291
Nkowankowa	541
Seshego	2 645
Lebowakgomo	51
<b>Total</b>	<b>3 933</b>

## **9 MANAGING THE IPs**

Insight into the management of IPs was sought only insofar as it affects profitability of the IPs and the impact this would have on any refurbishment investment. Based on the review of the financials of the IPs (as shown in Section 7.3), it would appear that the management of IPs does need to be improved. The analysis which was conducted revealed that expenses emanating from a number of cost centres were too high and unsustainable.

### **9.1 CURRENT MANAGEMENT POLICIES AND PROCEDURES**

Some of the current management policies and procedures present cause for concern, as described below.

Rents vary considerably within each Industrial Park and range from as low as R0.04/m<sup>2</sup> to as high as R56/m<sup>2</sup>. Tenants and other stakeholders such as the business facilitation agencies complain of a lack of transparency and consistency in the way that Limdev sets rents for each property, as well as in deciding who is allocated space in the IPs. Agencies such as SEDA, TIL, Umsobomvu Youth



Fund stated that very few of the clients that they refer to Limdev are ever allocated factory space.

In essence IP rents are set on a deal-to-deal basis through negotiation between the tenant and Limdev, and the larger "blue chip" companies which are termed "anchor tenants" have an advantage and better possibilities of achieving lower rentals. (See Appendix 5: Rental Policy and Appendix 6 Tenants Catalogue).

When it comes to the selection of tenants, emphasis is placed on the financial strength of the business. The requirement that one should present a business plan is an unusual condition for accessing a rental property, and works in favour of larger, financially stable companies.

### **9.1.1 RENT POLICY**

A summary of the rental policy is set out below. These are the factors which influence what rent is charged for a particular property:

- Location and age of the property
- Cost of the property plus the desired rate of return on investment.
- Cost of additions to the property(as requested by the tenant)
- Maintenance required
- The number of tenants on the property.
- Rates and taxes payable in respect of the property
- Cost of insuring the property
- Cost of sewerage and refuse collection.
- Cost of supplying water and electricity to the property.
- Risks associated with the particular lessee, eg nature of business, age of business, experience of the management team, capital available to back the business.
- Anchor tenants – "blue chips" are usually charged lower rates.
- Turnover achieved by the tenant.

### **9.1.2 SELECTION OF TENANTS**

Some of the factors which are taken into account in selecting tenants are listed below:

- Nature of the client's business
- What machinery or equipment will be used in the business operations.
- If the technology used is likely to change during the lease period.
- Does the business of the client require any special licenses to operate.
- The impact of the business on the environment.
- Will the business be employing people from the local population and do they possess the skills which are required.
- Where the market of the business is.
- Period of the lease.
- Creditworthiness of the tenant: annual financial statements, credit checks, tax clearance, suretyships and payment mechanisms
- Number of employees
- Business plan

## **9.2 MARKETING THE IP PROPERTIES**

TIL is responsible for marketing the IP properties (Limdev is not involved in marketing the IP properties). The constraint with this arrangement is that TIL markets the IPs as part of the packages that it offers to attract new businesses to the Province. The IPs are not marketed separately or to existing businesses. Further, TIL indicated during interviews that it does not see the IPs as "incubators for startups but as factories for industrialists who bring industrial development". This frame of mind influences who they market the IPs to.

On the other hand, agencies like SEDA, LIBSA and UYF state that SMMEs perceive that IPs are for large businesses. The fact that the units at IPs are quite large possibly reinforces this view.

There is a need for more direct marketing of IPs in addition to the TIL package, marketing which is directed at the target market using media which speaks to those markets.

## **10 EXPORT OPPORTUNITIES**

As part of the process of identifying new project proposals, the consultants also evaluated if any of these opportunities would yield export possibilities.

The potential projects which were identified did not show any export potential.

## **11 CONCLUSIONS**

This section contains the conclusions drawn about the various topics discussed in this report. The conclusions are presented in summary form per topic:

### **11.1 CONCLUSIONS: ECONOMIC & EMPLOYMENT PROFILES**

- In terms of economic profile, the services sector is dominant. In most of the industrial parks except for Nkowankowa, there are more companies providing services than are conducting manufacturing.
- Overall the services sector generates more jobs than the manufacturing sector, although in Nkowankowa and Seshego manufacturing generates a significant number.
- Utilities are available in all the IPs. In Thohoyandou the access road is in bad condition and possibly causes problems during the rainy season. Telkom and Eskom have depots in or near all the industrial parks. The advent of HSDP offered by cellphone service providers improves the availability of communications services for everyone.

### **11.2 CONCLUSIONS: OCCUPANCY LEVELS**

- Occupancy levels at the various industrial parks are relatively high ranging from an overall occupancy of 66% at Giyani to 97% at Thohoyandou.

- The smaller units have a higher occupancy rate, ranging from 80% at Thohoyandou to 98% at Seshego.
- Larger units have a lower occupancy rate, ranging from 58% at Giyani to 84% at Seshego.
- Overall, there is not much room for accommodating new tenants at the existing factory units, except for Nkowankowa where there is some 41 000m<sup>2</sup> available.

### **11.3 CONCLUSIONS: REFURBISHMENT**

- The industrial parks buildings are in need of repairs and refurbishment.
- Some buildings are too large for today's factory sizes and need to be subdivided in order to make them more usable by SMMEs and medium sized businesses.
- If the buildings are not refurbished they will continue to attract sub-economic rentals to the detriment of the sustainability of the IPs.
- The cost structures of the IPs is quite high.
- The rents which are being charged are sub-economic and unviable.
- The factories will still be affordable to SMMEs and medium sized businesses after renovation.
- The refurbished buildings will yield better returns for the property owner.

### **11.4 CONCLUSIONS: POTENTIAL PROJECTS**

- There are a good number of projects which could be potential candidates for the IPs. Most of the projects presented in this report have been adopted by the municipalities, but there may be many more projects seeking accommodation which have not sought municipal approval.
- A total of 59 000m<sup>2</sup> could be taken up by the proposed projects.
- Only Nkowankowa could accommodate new projects' space requirements in its area. The other IPs would have shortfalls.
- It is estimated that the projects proposed here could generate 3 933 jobs.

### **11.5 CONCLUSIONS: IP MANAGEMENT**

- Management of costs at the IPs is not acceptable. Expense levels which in some cases are higher than revenues, are unsustainable.

- The marketing of IPs is currently being done through TIL only, as part of their investor outreach packages, i.e. to those businesses considering relocating to the Province. Existing businesses in Limpopo are not being marketed to.
- TIL appears to be marketing to the larger businesses only and not to SMMEs.
- SMMEs appear to have the idea that IPs are for large businesses only.

## **12 RECOMMENDATIONS**

This section presents recommendations which have been developed, with regard to the various topics discussed in this report.

### **12.1 RECOMMENDATIONS: OCCUPANCY**

- There is a need to subdivide existing large factory units to create smaller, more user friendly units.
- It may be advisable to create new industrial parks to cater for the envisaged economic development.
- These industrial parks should be located close to areas of human settlements.
- The majority of these new units should be smaller units which are better suited to small and medium sized businesses.

### **12.2 RECOMMENDATIONS: REFURBISHMENT**

The consultants sought to address the issue as to whether it is worthwhile or desirable for LEDET to refurbish the IPs. Further the consultants took into account the developmental objectives of the Province.

The following recommendations are offered:

- LEDET should facilitate the refurbishment of the IPs.
- Such refurbishments should also sub-divide large factories to make them more accessible for small and medium sized companies.
- The refurbishment should be accompanied by a reasonable increase in rents in order to recoup costs and accumulated profits in order to be able to effect future refurbishments.
- The cost structure of the IPs needs to be brought down and into line with similar private sector factory complexes.

- The marketing of IPs should be conducted more effectively so that potential clients know of their existence and availability.
- The package offered by IPs should be communicated effectively and transparently to the target clientele.

### **12.3 RECOMMENDATIONS: POTENTIAL PROJECTS**

- LEDET should facilitate the startup of projects that have been identified in this section.(those not being championed by municipalities, such as the packhouses in the fruit and vegetable growing areas). The projects will improve the utilisation of the IPs as well as creation of jobs.
- In those cases where the IPs have a shortfall in space, expansion of the IP should be considered.

### **12.4 RECOMMENDATIONS: IP MANAGEMENT**

- The IPs need to be managed for better cost containment than is currently the case.
- More revenues could be achieved by raising rents and maintaining more uniform rent structure.
- There should be more transparency than currently prevailing. Currently stakeholders are unsure how allocation of units is achieved and what rents prevail.
- The marketing of the IPs needs to be placed with another entity which markets to everyone in the target market and not just to newcomers to the Province as is the case now with TIL.
- The costs picture seems to suggest that other management options need to be considered, e.g. outsourcing to private sector property managers.

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# Appendix 1: TERMS OF REFERENCE

## FEASIBILITY STUDY ON INDUSTRIAL PARKS

### 1. Problem Identification

Limpopo province contributes less towards the domestic economy (in terms of GDP, at only 4%) than its share in the national population and the total land area (10%). The province has the highest population growth rate in South Africa. The large population relative to the small formal economy results in generally low levels of GDP per capita and therefore generally low levels of incomes.

Unemployment for the province is also much higher than the national average resulting in the second highest unemployment rate nationally. People are forced to seek employment outside the province, as indicated by high levels of male absenteeism.

Limpopo province economy is therefore small relative to its share in national population and land area. Secondly, the formal economy is very open, which implies a significant cross-border flow of goods, services and factors of production. Primary and secondary goods production is exported from the province, whereas consumption and other intermediary goods and services are sourced from outside the province. The implication is a loss in potential employment and income that could be generated through the processing of goods produces locally.

Observations in Limpopo indicate that industrial sites are being used for a host of non-manufacturing purposes, such as warehousing, distribution and even governmental functions. Industrial parks are available throughout the province to provide for the needs of accelerated industrial development. Some of these parks are vacant resulting in idle capacity and the municipalities have a number of planned industrial parks.

It is recognised that a good number of the existing industrial parks are from the previous homelands. Previously companies that operated from the industrial parks were given a number of incentives but these have now been withdrawn and it appears this has affected the occupancy. There is therefore a need of revisiting the whole area of incentives to establish if this is major factor in the promotion of industrial parks. URBANECON has been commissioned to conduct a study in this area as well.

The Department of Economic Development Environment and Tourism in fulfilment of its mandate has commissioned this research to investigate the resuscitation feasibility and viability of



industrial parks taking into consideration the comparative advantages that the province offers for the parks, and what needs to be done to create sources of competitive advantage that will result in successful industrial parks. This outcome is closely linked with mining beneficiation outcomes, and SMME growth in the province. The research will address the specific objectives outlined herein

#### 1. Research Objectives

- a. To ascertain if existing industrial parks are located in business viable areas.
- b. To establish whether it would be profitable for the government to resuscitate existing industrial parks
- c. To establish current rentals being paid for industrial parks.
- d. To find out if it would be necessary to have currently available parks demarcated.
- e. To find out the potential of areas with industrial parks, based on economic strengths, competitiveness and economic clusters.
- f. To find out if there is a need for construction of new industrial parks in newly demarcated economic regions.
- g. To find out if the parks are serviced.
- h. To find out why several Parks have closed down.

#### 3. Research Questions

- a. Are the existing industrial parks located in manufacturing viable or industry viable areas?
- b. Is it feasible for the provincial t to resuscitate the industrial parks from a business, economic and financial point of view? Should the areas be demarcated?
- a. What type of industrial parks would be more successful in the province?

#### 4. Scope Of Work To Be Undertaken

- Field Research (visiting industrial parks and regions of potential)
- Interviewing Government stakeholders within the industrial park field.
- Review of Regional industrial development strategy.

#### 5. Identification of Key Stakeholders

- DTI
- URBANECON

#### 6. Deliverables

A report will be submitted with two hard copies and a soft copy on a cd. The report will cover the following sections:

- Executive Summary
- Background to Research
- Methodology
- Findings
- Interpretation of results/conclusion
- Recommendations
- Bibliography

## Appendix 2 :Project Charter

LIMPOPO PROVINCIAL GOVERNMENT  
DEPARTMENT OF ECONOMIC DEVELOPMENT,  
ENVIRONMENT & TOURISM  
FEASIBILITY STUDY ON INDUSTRIAL PARKS

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### 1. Introduction

Observations in Limpopo indicate that Industrial Parks are being used for a host of non-manufacturing purposes, such as warehousing, distribution and even governmental functions. Industrial Parks are available throughout the province to provide for the needs of accelerated industrial development, however some of these parks are vacant resulting in idle capacity and the municipalities have a number of planned industrial parks.

It is recognised that most of the existing industrial parks are from the previous homelands. Previously companies that operated from the industrial parks were given a number of incentives but these have now been withdrawn and it appears this may have affected the occupancy levels. There is therefore a need of revisiting the whole area of incentives to establish if this is a major factor in the promotion of industrial parks. URBAN ECON has been commissioned to conduct a study in this area as well.

The Department of Economic Development Environment and Tourism in fulfilment of its mandate has commissioned this research to investigate the feasibility and viability of industrial parks taking into consideration the comparative advantages that the province offers.

### 2. **BACKGROUND AND OBJECTIVES**

The feasibility study is intended to identify manufacturing opportunities in the Province and to align these opportunities with the existing industrial space in various industrial parks. The research focuses on the factory space that is currently available in the industrial parks and the extent to which the space (facilities) are being used. In other words, the research team must compile an industrial profile and undertake an industrial potential analysis. This is achieved through the supply and demand evaluations that identify opportunities for industrial development.

## **2.1 SUPPLY ANALYSIS**

- Identify the industrial sites in each municipality and determine the range of (manufacturing) activities in each industrial park (IP)
- Compile employment data for each IP
- Determine occupancy rate and capacity utilization in actual and percentage terms.
- Develop an economic profile in each IP with respect to;
  - Location
  - Ownership
  - Production trends
  - Business confidence
  - Relocation (outside Province) potential
- Determine availability and adequacy (or capacity) of infrastructure and support services:
  - Roads
  - Sewerage
  - Water
  - Storm water drainage
  - Electricity
  - Communications
- Determine the cost of upgrading infrastructure and support services to a level that ensures reliable supply of services.

## **2.3. DEMAND ANALYSIS**

- Identify manufacturing opportunities in each IP that meet local and SA demand. Such opportunities should include manufacturing in general and agro-processing (upstream and downstream) in particular.
- Identify and to the extent possible, quantify potential opportunities for export.
- Determine employment potential for each opportunity in aggregate
- Determine land requirements for each manufacturing opportunity in the context of:
  - Existing and new industrial nodes
  - Infrastructure investment options
  - Land use budgets and mixes
  - Value chain management

- Local industrial clustering
- Location of ideal land pockets.

## **2.4 OTHER**

- Investigate why several IPs have closed down
- Establish whether it would be profitable for Government to resuscitate existing (failed) IPs.

## **3. PROJECT SCOPE**

The project will cover the entire Province and will entail field and archival research for the purpose of compiling relevant baseline information. This information will be analyzed and synthesized in the context of the Agro-Processing and Precious Metals Beneficiation projects, and any other potential opportunities.

With respect to the several IPs that have closed down, the study will seek to establish the lessons learned, as well as evaluate their potential in the context of the new paradigm.

## **4. ASSUMPTIONS AND CONSTRAINTS**

The successful completion of this project is premised on the assumption of the availability of information and free access to the information. It is further assumed that the consultants will have timely access to provincial and municipal officials as well as other stakeholders.

At this point in time, no major constraints in executing this project are envisaged.

## **5. RELATED PROJECTS**

Two other projects, i.e. the Agro-Processing and the Precious Metals Beneficiation projects, are related to this project. To a large degree, this project is dependant on these other projects. The dependency arises from the fact that specific opportunities will require manufacturing space in existing and/or new IPs.

## **6. RISKS**

The risks pertaining to the successful and timely completion of this project are as follows:

- Availability and timely access to information;
- Timely access to stakeholders; and
- Timely feedback on Progress Reports.

## **7. QUALITY MANAGEMENT APPROACH**

The Team Leader shall be responsible for quality assurance, check each report/submission for accuracy and integrity.

## **8. TOOLS AND TECHNIQUES**

The project will rely on templates to collect relevant data (See Appendix 1). An analysis and synthesis of the information will be carried out in order to align this project with potential investment opportunities that may arise from the Agro-Processing and Precious Metals Beneficiation projects.

## **10 WORK PLAN**

The Work Plan is shown on Attachment 1.

## **11 TEAM CONTACT DIRECTORY**

- Michael T. Wakatama (MTW) - Team Leader
  - Tel # 011 326 4965
  - Fax 086 695 8109
  - Cell: 072 246 2487
  - e-mail: michaelw@blackstonecap.co.za
  
- Otilia Maphosa
  - Tel # 011 326 4965
  - Fax 086 695 8109
  - Cell: 082 863 8302
  - e-mail: maphosa@blackstonecap.co.za

## Appendix 3: IP FINANCIAL STATEMENTS

EXCELL FILES

## **Appendix 4 :INTERVIEWS WITH LIBSA, TIL, SEDA & UMSOBOBVU**

All the above quoted organizations interviewed are aware of the industrial parks and they do refer entrepreneurs to LIMDEV for space in the IPs. The following organizations were interviewed, Limpopo Business Support Agency (LIBSA), Trade and Investment Limpopo (TIL), Small Enterprises Development Agency (SEDA) and Umsobomvu Youth Fund. The following analysis gives an overview of the organizations interviewed.

### **LIBSA**

LIBSA is currently funding 46 co-operatives in the Limpopo province. Out of the forty six only four are renting spaces in the industrial parks. These are Ipopeng Fisheries, Badirishani, Giyani Plastic manufactures and Chivirikani. The low occupancy is due to the nature of business most co-operatives are doing. Out of the forty two not operating in the industrial parks seven can operate in the factories. Most of the co-operatives are running businesses involved in farming and mining activities which need large open spaces and others are in the service industry which need small office space.

LIBSA has a good working relationship with LIMDEV. All the co-operatives they have referred to LIMDEV have managed to secure the space they required.

### **Suggestions**

- The factories need to be renovated at LIMDEV's expense.
- A lot of marketing needs to be done locally since most entrepreneurs are not aware of these parks.

### **TIL**

TIL is responsible for marketing Limpopo Province as a whole nationally and internationally. Industrial parks are included in the package they market to national and international investors when they market the Province. They do not promote or advertise Industrial Parks separately. However, TIL is re-designing its website and the industrial parks will have its own section.

Working relations between TIL and LIMDEV are supposedly not good at all. TIL identified the following as the problems they encounter when they try to get investors be accommodated in the factories.

- The policies and procedures of acquiring space in the industrial parks is not clear.
- The decision process is very long and the prospective tenants end up frustrated and finding space somewhere else.
- Some of the requirements are unreasonable, e.g. when one is asked to submit a ~~business plan.~~

- The whole deal is not clear, for example, the criteria used for selection, the rental charges and the option to buy the factories.
- The state of the factories is bad. If an entrepreneur wants to occupy the factories, they are asked to renovate the factories at their own expense.
- The factories are misallocated. For example, factories for heavy industry are allocated to businesses which use them as warehouses and when someone who wants space for heavy industry manufacturing comes, he is allocated a factory suitable for light industry.

Of all the investors referred to LIMDEV by TIL less than 10% successfully occupied the factories. This is due to the problems noted above.

### **Suggestions**

- The factories have to be renovated and they should be of good appearance.
- The factories must be well packaged and the deal must be very clear.
- Classify all the factories according to industries and allocate them accordingly.
- The decision making process should be short and the requirements must be clear.
- If a business is allocated a factory which is not suitable for their needs, they should be put in the line so that when a suitable one comes up they get first offer to change over to the right type (eg light vs heavy industry type factory).
- The factories are not SMME incubators but are meant for industrialists for industrial development.

### **SEDA**

SEDA said that of all the small enterprises they refer to LIMDEV only 10% managed to be allocated space. They noted the following as the obstacles:

- There is no security and many tenants complain of theft and break-ins.
- The biggest challenge faced by small entrepreneurs is when they are asked to renovate the structures at their own expense. The renovations are costly and upcoming businesses can not afford them.
- The industrial parks are far away from town where most customers are and this means extra transport costs.
- Some small enterprises find the factories too big for their requirements.
- The other challenge is the mentality or perception of small entrepreneurs. They think that the IPs are for big companies.
- The factories are not user friendly. Most of the services such as toilets, water are not working and sometimes there is no electricity.



## Suggestions

- All the people interviewed noted that the rentals must represent an incentive in order to lure more industrialists.
- Small enterprises need shared facilities like security and cleaning and these can be built into their rentals.
- Tenants should be allowed to sublet part of the space if it is too big for them.
- The factories should be classified according to suitability of operations, eg light industry, etc.
- Security in the parks should be beefed up and this can be part of the package.
- Renovations need to be done at LIMDEV's expense and tenants should rent a factory that is ready for use with all the services available.

## UMSOBOMVU YOUTH FUND

This organization supports entrepreneurs who are below thirty five years old. They do advise people to approach LIMDEV for space. They said they don't have a tracking facility to find out the occupancy rate but some of the businesses they referred are now operating in the industrial parks. They have good working relations with LIMDEV but they noted the following as some of the problems young entrepreneurs encounter.

- The biggest challenge with upcoming businesses is the distance from town where most of their customers are. This means extra transport and marketing costs.
- LIMDEV is not clear with regards to the offer. It is not clear how the rentals are set and how one is refunded after doing renovations
- The process of acquiring space is not clear.
- The most attractive thing with the factories is the rentals which are cheap, but the state of the buildings needs attention.

## Suggestions

- LIMDEV must make the package very clear to all stakeholders so that they can give informed advice to entrepreneurs who need space in the industrial parks.
- The factories must be repaired and well packaged.
- The process of acquiring space must be clear and simple.
- Incentives must be introduced to lure more tenants and help them cover some of the extra costs they incur. Some of the suggested incentives are: tax concessions, rental grace period or rental subsidies.

## **APPENDIX 5: LIMDEV RENTAL POLICY**

### **ATTACHMENT**

**(UNDER SEPARATE COVER)**

## **Appendix 6: IP TENANTS CATALOGUE**

### **EXCELLE FILES**

## Appendix 7: WORKPLAN

<b>LIMPOPO PROVINCIAL GOVERNMENT</b>
<b>FEASIBILITY STUDY ON INDUSTRIAL PARKS</b>

DETAILED WORKPLAN	Duration	Responsibility	Start Date	Completion Date	DELIVERABLES
<b>TASKS</b>		<b>(Team Leader)</b>			
<b>PROJECT MOBILIZATION</b>					
Work Plan	7 days	MTW	05/03/07	12/03/07	Present Workplan
Site Visit	3 days	MTW	01/03/07	30/03/07	
Confirm Client Expectations	1 day	MTW/MMK/ DEDET	01/03/07	01/03/07	
Listing of Stakeholders	1 day		01/03/07	30/03/07	
<b>PRESENT WORKPLANS TO CLIENT</b>			<b>12/03/07</b>	<b>12/03/07</b>	
<b>SUPPLY ANALYSIS</b>					
Identify Industrial Parks (IPs) in each municipality	14days	MTW	01/04/07	14/07/07	
Determine range of activities in each IP	14 days	MTW	15/04/07	28/07/07	
Compile employment data for each IP	14 days	MTW	15/04/07	28/04/07	
Determine occupancy rate	14 days	MTW	15/04/07	28/04/07	
Develop an economic profile in each IP:		MTW			
- Location	30days		1/4/2007	30/04/07	
- Ownership	30days		1/4/2007	30/04/07	
- Production trends	30days		1/4/2007	30/04/07	
- Business confidence	30days		1/4/2007	30/04/07	
- Relocation potential (outside province)	30days		1/4/2007	30/04/07	
Determine availability and adequacy of infrastructure:	30 days	MTW			
- Roads	30 days		01/05/07	30/05/07	
- Sewerage	30 days		01/05/07	30/05/07	
- Water	30 days		01/05/07	30/05/07	
- Storm water drainage	30 days		01/05/07	30/05/07	
- Electricity	30 days		01/05/07	30/05/07	
- Communications	30 days		01/05/07	30/05/07	
Determine cost of upgrading buildings	30 days	MTW	01/05/07	30/05/07	
<b>PRESENT PROGRESS REPORT TO CLIENT</b>		MTW/MMK		<b>30/05/07</b>	Progress Report

<b>DEMAND ANALYSIS</b>						
Identify manufacturing opportunities in	15 days	MTW	01/06/07	15/06/07		
- For local demand						
- For RSA demand						
Identify & quantify potential export opportunities	15 days	MTW	01/06/07	15/06/07		
Determine employment potential for each opportunity	15 days	MTW	18/06/07	30/06/07		
Determine land requirements for each opportunity	15 days	MTW	18/06/07	30/06/07		
- Existing and new industrial nodes	15 days		18/06/07	30/06/07		
- Infrastructure investment options	15 days		18/06/07	30/06/07		
- Land use budgets and mixes	15 days		18/06/07	30/06/07		
- Value chain management	15 days		18/06/07	30/06/07		
- Local industrial clustering	15 days		18/06/07	30/06/07		
- Location of ideal land pockets.	15 days		18/06/07	30/06/07		
<b>Report Writing</b>	<b>14 days</b>	<b>MTW</b>	<b>01/07/07</b>	<b>14/07/07</b>		
<b>Present Draft Research Report</b>		<b>MTW/MMK</b>	<b>14/07/07</b>	<b>14/07/07</b>		<b>Draft Research Report</b>
<b>Review &amp; incorporate feedback on Draft Report</b>			<b>15/07/07</b>	<b>28/07/07</b>		

## APPENDIX 8: PROPOSED PROJECTS FOR THE IPs

### 1 GIYANI

Giyani has a substantial number of small scale tomato and fruit growers. Some irrigation schemes which have been underutilized are scheduled to be revitalized. These are at Mabunda, Homu, Hlaneki, Siyandani and Nkuri. The revitalization will enable more agricultural output of bananas, other fruits and vegetables as well as tomatoes.

Lack of access to markets is the major challenge for small scale growers. A substantial amount of tomatoes are grown however most of the growers produce tomatoes at the same time, hence the local market cannot absorb them and they end up rotting<sup>1</sup> &<sup>2</sup>.

The following are the main products being grown in Giyani:

- Vegetables
- Tomatoes
- Mangoes/bananas/oranges/lemons
  
- Cattle
- Goats
- Poultry
- Pigs

Source: Mopani/Giyani IDP 2006

There are other agricultural initiatives which have already been started in the area:

- Beekeeping
- Growing for Essential oils production
- Oyster mushroom farming
- Mopani worm collection and processing
- Marula fruit processing

These initiatives have potential for generating income and poverty reduction for the area, however it is important that processing facilities be put in place so as to gain maximum benefit for the participants.

It is worth noting that while Giyani produces a variety of crops, the output is rated small scale and possibly may not warrant a full fledged processing plant. However a

packhouse which packs and distributes fresh fruits and vegetables could be justified. The packhouse could also act as the buying agent and supplier to a processing plant located in another part of the Province, e.g. Musina or Makhado.

The following are the potential manufacturing opportunities which have been identified. These opportunities have been developed in a cluster form so that the agricultural activities in the area supply the manufacturing activities, and the manufacturing activities create a secure market for the agricultural output. These developments could utilize the space in the Industrial Parks. These proposals have been developed with the small scale producers in mind as the larger producers are usually able to arrange own facilities.

## **1.1 VEGETABLES**

Establish a Vegetable Co-Operative which would buy tomatoes and other vegetables from the local small scale farmers. The Co-Op would run a two part operation:

- A Packhouse for grading, packing, and marketing of fresh vegetables and tomatoes.
- A Processing Plant for over-ripe and off-spec product. The plant would produce items such as tomato purees, sauces and other items in the vegetable value chains.
- The Co-Op would answer the major challenge for small scale growers, that of lack of markets for their crops.
- The Co-Op would be managed by competent, professional staff on behalf of the members.
- The Province could assist in the initial capitalization of the set-up of the Co-Op but the Co-Op would be run on commercial lines.

## **1.2 GOATS**

Establish a goat cheese making plant. This entity would buy goat milk from the villagers and small scale farmers and process it into goat cheese.

The entity would sell the cheese to local (Limpopo) shops, tourism establishments as well as outside the Province. Goat cheese is in demand all over the country.

## **1.3 ESSENTIAL OILS**

An Essential Oils processing plant could be set up within the IP.

This entity would specify to the local growers the essential oils to be grown and buy the output for processing into essential oils. The Essential Oils Plant would then be responsible for marketing the output. Essential oils are in high demand within the country (RSA) as well as overseas.

#### **1.4 OYSTER MUSHROOM FARMING**

Oyster mushrooms are in much demand all over the country and are relatively easy to grow. Again the challenge for the small scale grower is in finding markets as well as guidance as far as producing a good quality crop.

The oyster mushroom farmers could join the Vegetable Co-Op and bring in their produce to the Vegetable Packhouse for grading, packing and marketing of fresh mushrooms with other mushrooms going into the Vegetable Processing Plant for conversion into value added mushroom products.

#### **1.5 FRUITS**

The Giyani area produces fruits such as mangoes, bananas, oranges, and lemons and it has been noted that a substantial amount of fruit is produced by small scale producers

There is an opportunity to assist the small scale growers by setting up a fresh fruit processing facility along the lines of a Packhouse and Processing Facility. The main advantage of this facility would be the creation of an assured market for the producers. This would encourage production as well as ensure incomes to growers and negate possibilities for fruit spoilage.

- A Packhouse for buying grading, packing, and marketing of fresh fruits
- A Processing Plant for processing over-ripe and off-spec product. The fruits would be processed into a variety of products such as orange juices, marula juices, mango atchar, fruit purees, dried fruit, etc.
- The facility would be managed by competent, professional managers on behalf of the Co-Operative.

An option would be to combine the Vegetable and Fruit facilities into one, though this calls for a stronger management structure and management competencies.

#### **1.6 INPUT SUPPLIES**

This opportunity would be for bulk buying, storage and supply of agricultural inputs to the small scale farmers and villagers. An operation of this nature would reduce input costs



substantially for the small scale farmers. In effect such an input supplier would also find clientele among the established farmers who otherwise have to travel long distances to source their inputs.

## **1.7 LIVESTOCK FEEDS**

This project would source some of its feedstock from the waste coming out of the Processing Plant. Pulp from the processing of tomatoes, oranges, etc can be used as input into the production of feed for various livestock. Other feedstock such as maize/sorghum could be sourced from the small scale and well as established farmers in the area.

## **2 THOHOYANDOU**

The area around Thohoyandou is characterized by substantial activity in small scale and commercial agriculture. There is potential for manufacturing projects conducting value addition to the agricultural output of the area.

The following are the main agricultural products of the Thohoyandou area:

- Vegetables
- Tomatoes
- Mangoes/bananas/oranges/lemons
- Avocados/ litchis/ macadamia nuts
- Goats
- Poultry
- Pigs

Source: LEDET AgroProcessing Research/ Turnaround Partners 2006

The following projects have been identified as having manufacturing potential, utilizing Industrial Park space in a way that benefits the community as well as improving the economic performance of the area.<sup>3</sup>

## **2.2 FRESH PRODUCE MARKET & PACKHOUSE**

There is a project for the establishment of a Fresh Produce Market project which is to be assisted by the municipality.<sup>3</sup> This shows the need for an outlet/ market for the agricultural produce of the area. Our recommendation would be to establish not just a fresh produce market, but one which is linked with a Packhouse for fresh produce and a Processing Plant for the produce which is off-spec or overripe. The Packhouse and

Processing Plants could be a combined facility for both fruits and vegetables, or could be two stand alone plants, one for vegetables and the other for fruits.

The value of a Packhouse is in the services offered such as:

- Grading the product so that the outgoing final product is of acceptable/expected specification and quality. The outgoing quality can either make or break a product/producer.
- Packing the product in attractive packaging which enhances shelf life and marketability.
- Acting as a ready buyer of produce from small scale producers, thus creating an assured market.
- Finding markets for the output.
- Branding - to enhance marketability.
- Distribution of the produce to various markets within and outside the province.
- Selling the off-spec and overripe product to the Processing Plant. This ensures that no product goes to waste.
- If structured as a Co-Operative, the profits accrue to the community members.

The Processing Plant would offer the following services

- Purchase vegetables and/or fruit from small scale farmers as well as from the Packhouse.
- This arrangement would ensure a ready market for the small scale farmers.
- The resulting output is a value added product which creates more jobs.
- A variety of processed products could be generated by a Processing Plant at Thohoyandou, items such as fruit concentrates, fruit purees for use in drinks and yoghurts, tomato pastes and dried tomatoes, etc.

### **2.3 POULTRY ABATTOIR**

There are at least 4 poultry farming projects being assisted by the municipality<sup>3</sup>. There may be a need to establish a poultry abattoir. The abattoir would:

- Buy poultry from these projects as well as from other small scale producers.
- Slaughter, pack and distribute fresh/ frozen poultry products.
- Manufacture and distribute other value added products such as polonies, marinated chicken, pre-cut, etc.

### **2.4 BAKERY**

There two bakery projects to be established, with the support of the municipality<sup>3</sup>. These could utilize space in the IP.

## **2.5 FRUIT PROCESSING**

The area produces a variety of fruits, eg avocado, mango, banana, oranges, litchies, lemons, macadamia nuts, etc<sup>2</sup>. There are at least 2 projects which are due to be established for fruit processing (projects being assisted by the municipality)<sup>3</sup>. The projects could utilize space in the IP.

## **2.6 POLISH MANUFACTURING**

This project aims to produce shoe and floor polishes. It could also utilize IP space. This project is also due for assistance from the municipality<sup>3</sup>.

## **2,7 INPUT SUPPLIES**

This opportunity would be for bulk buying, storage and supply of agricultural inputs to the small scale farmers and villagers.

## **2.8 ANIMAL FEEDS**

This project would source some of its feedstock from the waste coming out of the Processing Plant. Pulp from the processing of tomatoes, oranges, etc can be used as input into the production of feed for various livestock.

## **2.9 PIG ABATTOIR**

The Thohoyandou area is home to a number of piggery projects, with further small scale pig rearing in villages. There was a recognition by the municipality of the need to have a pig abattoir in the area hence, the abattoir project is being assisted by the municipality. This project could utilize space at the IP

## **2.10 PACKAGING**

This opportunity would be for the manufacture of packaging (eg punnets) for use by the Packhouse and Processing Plant.

## **3. POLOKWANE**

Polokwane is at the centre of many developments in the province. The city aims to position itself as a regional trading hub and as it moves in pursuit of this it will stimulate production of various. Hence there will be need for factory space. Mining developments

within the province will also activate the need for support facilities such as supply of goods and services, Polokwane is a central point for covering the province. The district has targeted agriculture, mining, tourism and manufacturing as key sectors to address job creation.

The area around Polokwane does not produce substantial volumes of fruits and vegetables. On average the area produces less than 2% of the Province total of any of the crops such as bananas, mangoes, oranges, tomatoes or vegetables. Polokwane would, therefore, not be a primary candidate for agricultural value addition processing.

The following list of projects are being supported by the Polokwane Municipality<sup>4</sup>, and could be accommodated in the Industrial Park.

### **3.1 BRONBERG CHEESE**

This project is for the processing of cheese utilizing the ultra-filtration process.

### **3.2 COLD ASPHALT**

This project aims to produce cold asphalt using hot asphalt as a base. The output would be used for repair of potholes and trenches on roads.

### **3.3 FR CONCRETE**

This project aims to produce concrete blocks.

### **3.4 POLOKWANE WASTE PAPER**

The project is aimed at collecting and recycling waste paper.

### **3.5 KITLANO RECYCLING**

The project will collect and recycle plastic and glass waste.

### **3.6 MANKWENG RECYCLING**

The project will be involved in waste management

### **3.7 PEAKANYO CLOTHING**

This project is a co-operative which will manufacture clothing.

### **3.8 POTATO MASH FACTORY**

This project will process potatoes from the surrounding region into mashed potatoes.

### **3.9 EXOTIC AFRICAN PEBBLES**

The project will be involved in sourcing pebbles, tumbling them and distributing as smooth pebbles for various decorative uses.

### **3.10 EXOTIC GEMS**

The project will be involved in faceting semi-precious and precious gem stones for jewellery.

### **3.11 ROUGH N TUMBLE**

The project will manufacture stone products.

### **3.12 NATURES ART**

The project will manufacture costume jewellery

### **3.13 EXOTIC JEWELLERS**

The project will produce designer jewellery.

### **3.14 LIMPOPO POLYFIBRE**

The project will manufacture polyfibre

### **3.15 SAMSON TECHNOLOGY**

The project will entail the establishment of a water hydraulic breaker assembly.

The above list contains only those projects which have received the support of the municipality, however there are many other projects which do not seek municipal support. There will be other projects which are already in production which may need accommodation in Industrial Parks.

## **4 TZANEEN**

The Tzaneen area is characterized by large areas under agricultural production. The main products from the area are:

- Timber
- Sub-tropical fruit
- Citrus
- Cattle
- Maize
- Vegetables

There is lack of adequate agricultural produce processing in the area, which results in most agricultural produce being taken out of the area for processing then returning as processed consumable products<sup>5</sup>.

A substantial amount of vegetables are grown by small scale growers, and these farmers need link-up to markets for their crops. It is worth noting that an estimated 40% of agricultural land around Tzaneen is state land and is underutilized<sup>5</sup> - this indicates opportunities for improved agricultural output.

The following are proposals for projects which could be established within Industrial Parks.

#### **4.1 VEGETABLE PROCESSING**

There are agricultural projects which are being assisted by the municipality at the following locations: Mafarana / Mavele/ Mlati / Msiphane / Jopi/ Sedan<sup>5</sup>. The projects will produce a variety of vegetables. A Vegetable Packhouse and Processing facility could be established and located at the IP. The Vegetable Processor would assist with the creation of a market for the produce.

#### **4.2 FORESTRY PRODUCTS**

The following projects which produce timber related products could also be candidates for the IP<sup>5</sup>:

- |                         |                             |
|-------------------------|-----------------------------|
| • Spectrum Timber       | Sawn timber                 |
| • Tzaneen Mining Timber | Mining timber               |
| • Northerm Timbers      | Ceiling and decking timber  |
| • Mogoboya Lumber       | Decking, doors, and trusses |
| • Bass Timbers          | Sawn timber                 |
| • Selati De Hoek        | Structural timber           |
| • Lutzkie Houterkers    | Furniture, doors            |
| • Diggerest Farm        | Treated poles               |

#### **4.3 FRUIT PROCESSING**

Most of the fruit produced in the Tzaneen area is taken out for processing.<sup>5</sup> There is, therefore, an opportunity to create a fruit Packing and Processing facility which would buy-in crops from small scale producers and market both the fresh fruit and processed fruit products.

The facility would need to be a professionally managed co-operative of the growers.

### **5 LEBOWAKGOMO**

There are not many identified projects in the vicinity of the Lebowakgomo IP area. However there is potential for some activities which could benefit the area economically, as well as utilize the IP. The following are some proposals:

#### **5.1 SUPPLIES OF GOODS AND SERVICES TO MINES**

There are several mining developments going on in the area such as the dolomite mine/ platinum mines/ a cement factory/ gold projects and a silica projects. Companies and SMMEs offering services (goods and services) to these projects could be accommodated in the IP.

## **5.2 IRRIGATION SCHEME & POULTRY FACILITIES.**

It was noted that there are irrigation schemes and poultry farm buildings, both of which are being underutilized<sup>6</sup>. The irrigation facilities could be utilized to grow produce which could be used for animal feeds. The following projects could then be established at the Industrial Park:

- A project to produce animal feeds for poultry to be supplied to the poultry farms in the area and elsewhere in and outside the Province.
- A broiler abattoir could be setup at the IP to process and distribute the broiler meat.
- A unit of the broiler abattoir could process value added chicken meats such as pre-cut, marinated, polonies, sausages, etc.