

Draft Analysis of the Cape Town Spatial Economy

Implications for Spatial Planning



October 2010

Introduction

The purpose of this document is to summarise spatial economic information and analysis that was considered in the drafting of the City of Cape Town Spatial Development Framework. It is not intended to be a comprehensive analysis of the city economy but rather focuses on spatial economic information that is of particular relevance to spatial policy.

Good economic information at a sub-metropolitan level is generally unavailable. Official employment information is both out-of-date and enumerated by place of residence rather than place of work, while private information providers such as Quantec and Global Insight (at the time of writing) do not provide spatially disaggregated information. This document, thus, focuses on a number of additional datasets that shed light on different aspects of the Cape Town spatial economy. This includes building plan data, municipal valuation data, Regional Services Council levy data and investment information from Wesgro. Where possible multiple data sources have been used to allow for the cross-referencing of and validation of information.

In addition, this report aims to draw attention to a number of key implications this analysis has for spatial planning policy.

1. Sectoral structure of economy

Shift to services based economy

The economy is shifting towards the services sector. Recent general value added (GVA) data from Quantec suggests that this trend may have accelerated in the current economic recession. Figure 1 shows that relative contributions to city GVA have grown rapidly for finance, insurance and business services sector but have decreased for manufacturing and wholesale and retail. Although the wholesale and retail sector declined in relative importance between 2005 and 2009, this sector experienced strong growth prior to the current recession (Quantec data: 2000-2006).

Declining sectoral share does not necessarily imply negative growth – but rather indicates that other sectors are growing faster. For example, manufacturing has a low but positive average annual GVA growth rate over this period (see figure 1). The agriculture, mining and construction sectors had very high growth rates but this is of limited significance because of their relatively small size. In contrast, the finance, insurance and business services sector was both the largest sector and had a high average annual growth rate. Figure 2 shows that in absolute terms the finance, insurance and business services sector has accounted for more than 55% of all growth GVA (Quantec data: 2000-2006). This exactly matches company turnover growth based on RSC levy payments from 2001 to 2005 which was also calculated to be 55%.

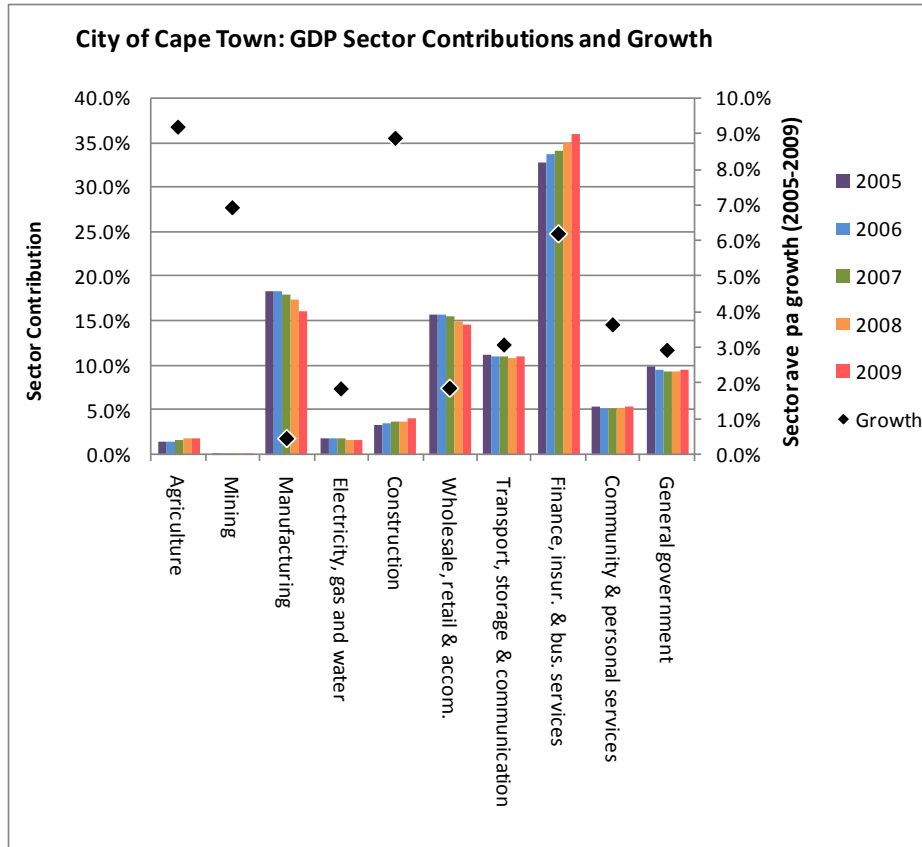


Figure 1: GDP sectoral contributions and growth. Source Quantec data

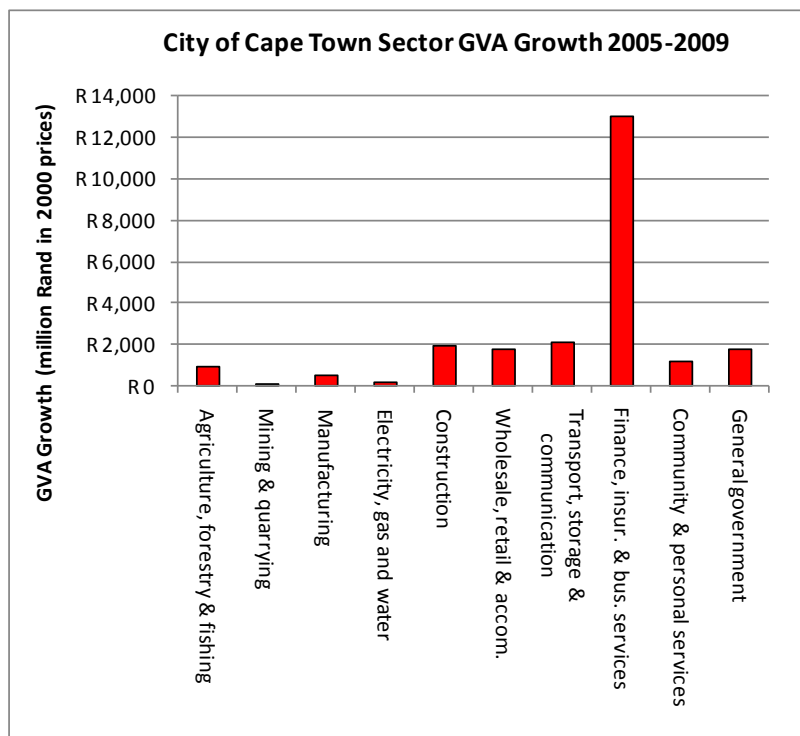


Figure 2: Absolute growth by economic sector. Source: Quantec data

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Commercial Centres

The finance, insurance and business services sector accounts for more than half of all economic growth in the city. Businesses in this sector can afford high property rentals, can be located in high-rise buildings and tend to cluster in large commercial centres. This suggests an increasingly important role for large commercial centres.

Employment

Sectoral employment information from Statistics South Africa's Labour Force Survey (LFS) (see figure 3) shows a different sectoral pattern to that of Quantec GVA. This data suggests that the manufacturing, construction, wholesale and retail, and community and personal services (including government) sectors are relatively more significant in terms of employment than for GVA (compare table 3 with table 1). The LFS estimates that 11% of the labour force is employed in the informal sector while employment in private households (including domestic workers) accounts for 7% of all Cape Town jobs.

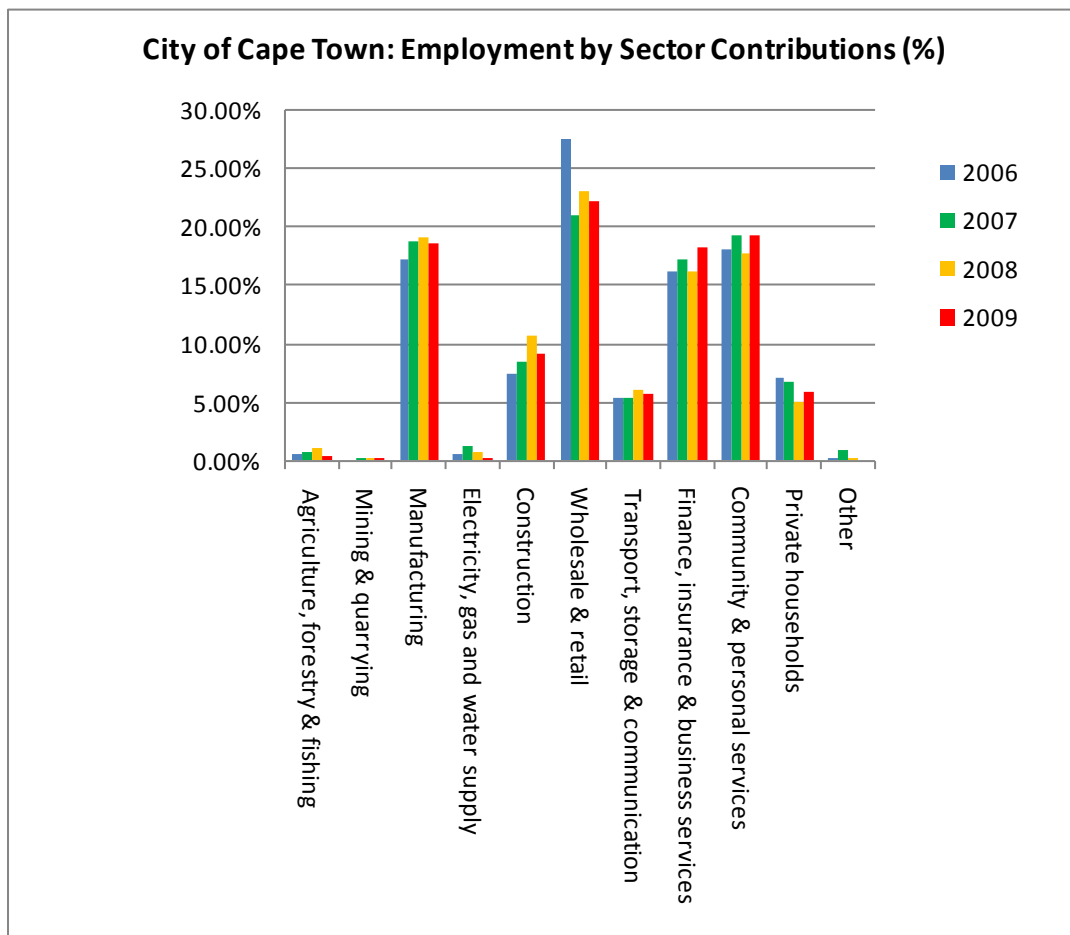


Figure 3: Sector Employment contributions. Source: Labour Force Survey

Table 1: Employment by Category

Sector	% Share
Informal Sector	11
Formal Sector	81
Private households	7

Source: Statistics South Africa, Labour Force Survey Q2 2009

2. Spatial Distribution

Figure 5 shows the distribution of company turnover in 2005 while figure 4 shows figures for turnover, payroll and the number of businesses for main economic centres in Cape Town based on RSC levy payments. The City Centre accounted for close to 25% of all city turnover and is the dominant economic centre. Payroll figures were even higher because of the concentration of government employment here. The Bellville / Tygervalley area was the second largest economic centre in the city, but was, less than half the size of the City Centre in terms of turnover and payroll.

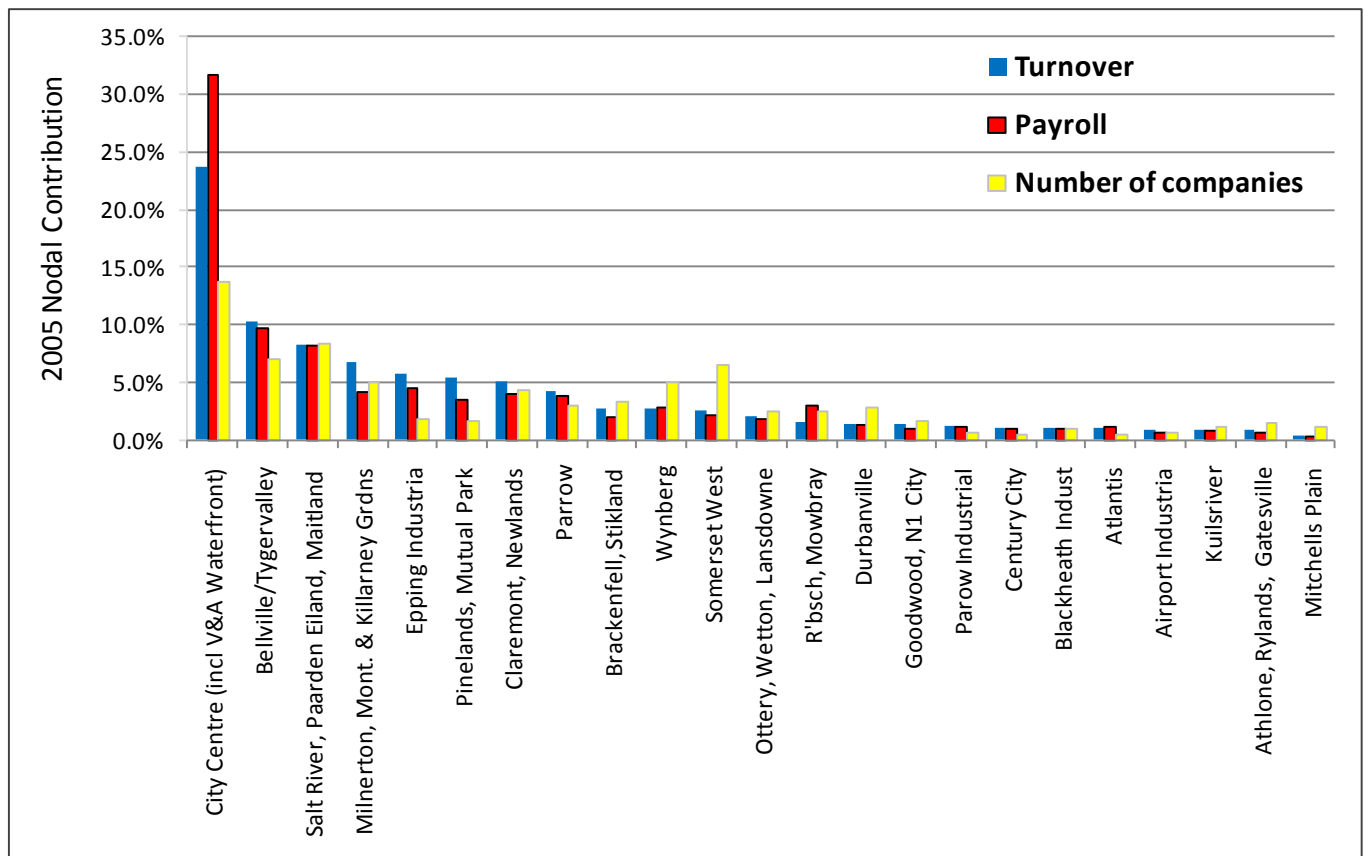


Figure 4: No of businesses, turnover and payroll for centres (based on 2005 RSC levy payments)

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The Cape Town CBD

In stark contrast to most South African cities, Cape Town has an attractive, vibrant and growing city centre. The CBD has excellent transport infrastructure and is the most accessible economic centre by public transport. In addition to being an attractive urban centre that attracts both tourists and locals, it is the hub of the Cape Town economy with the highest concentration of economic activity. Many economists contend that benefits derived from economic agglomeration are an important factor for the growth of the services economy. This suggests that the CBD is an important location for future economic growth.

Figure 5 shows that nearly 25% of turnover was most concentrated in the City Bowl and a further 43% was generated in the area roughly stretching from Salt River to Bellville. The West Coast and Southern Suburbs each accounted for a further 10%. Very little turnover was recorded for the south east which accommodates at least a third of the city's population.

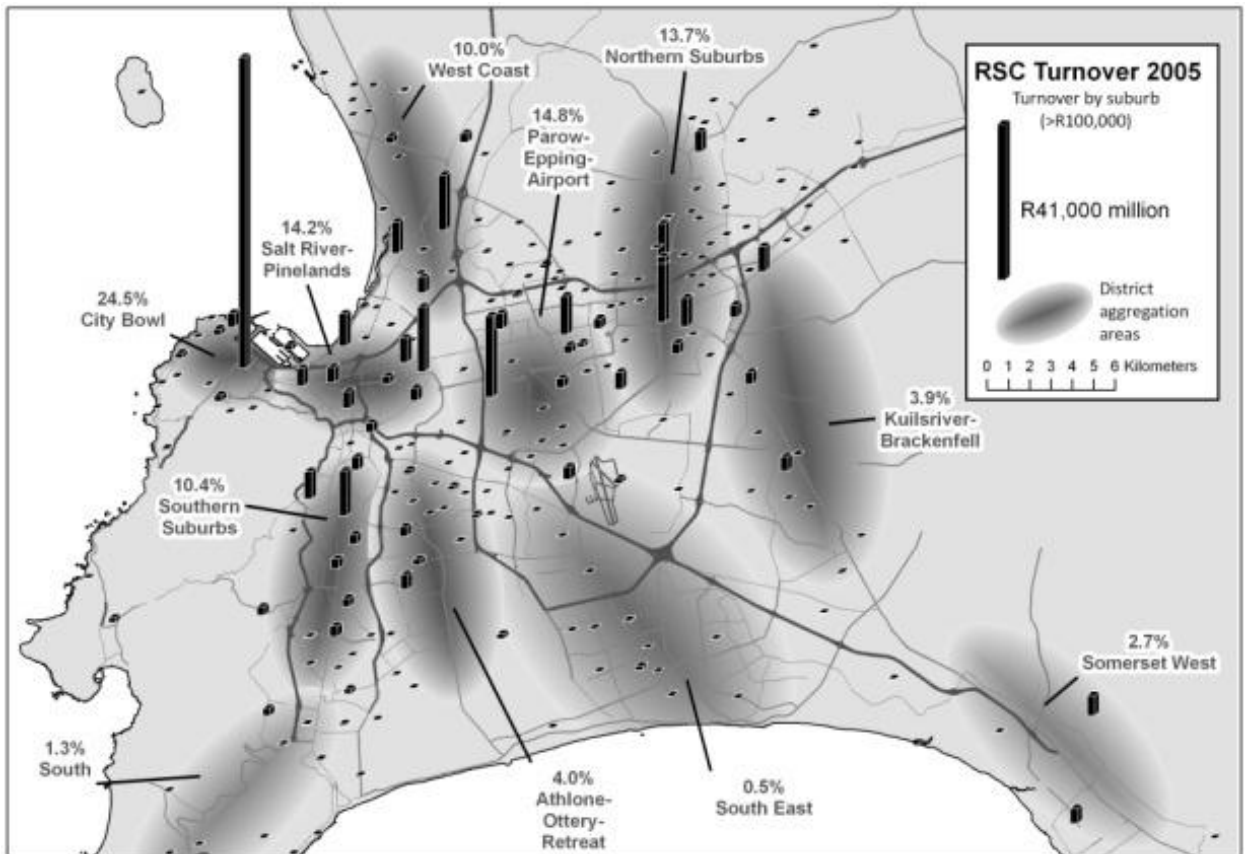


Figure 5: Distribution of company turnover based on 2005 RSC levy payments

Implications for Spatial Planning

Older economic areas

Retaining businesses in well located areas is as important as directing new growth to suitable locations.

Most jobs in Cape Town are located in a broad band roughly stretching from the CBD to Bellville. Epping, for instance, is still the fourth largest economic area in the City. Although, centrally located in the metro area and well connected to public transport, many such areas are in decline. Crime and grime issues and lack of investment have eroded investor confidence.

Figure 6 shows a graphic representation of economic activity based commercial property values. This graphic presents a broadly similar spatial distribution to that of the RSC levy payments.

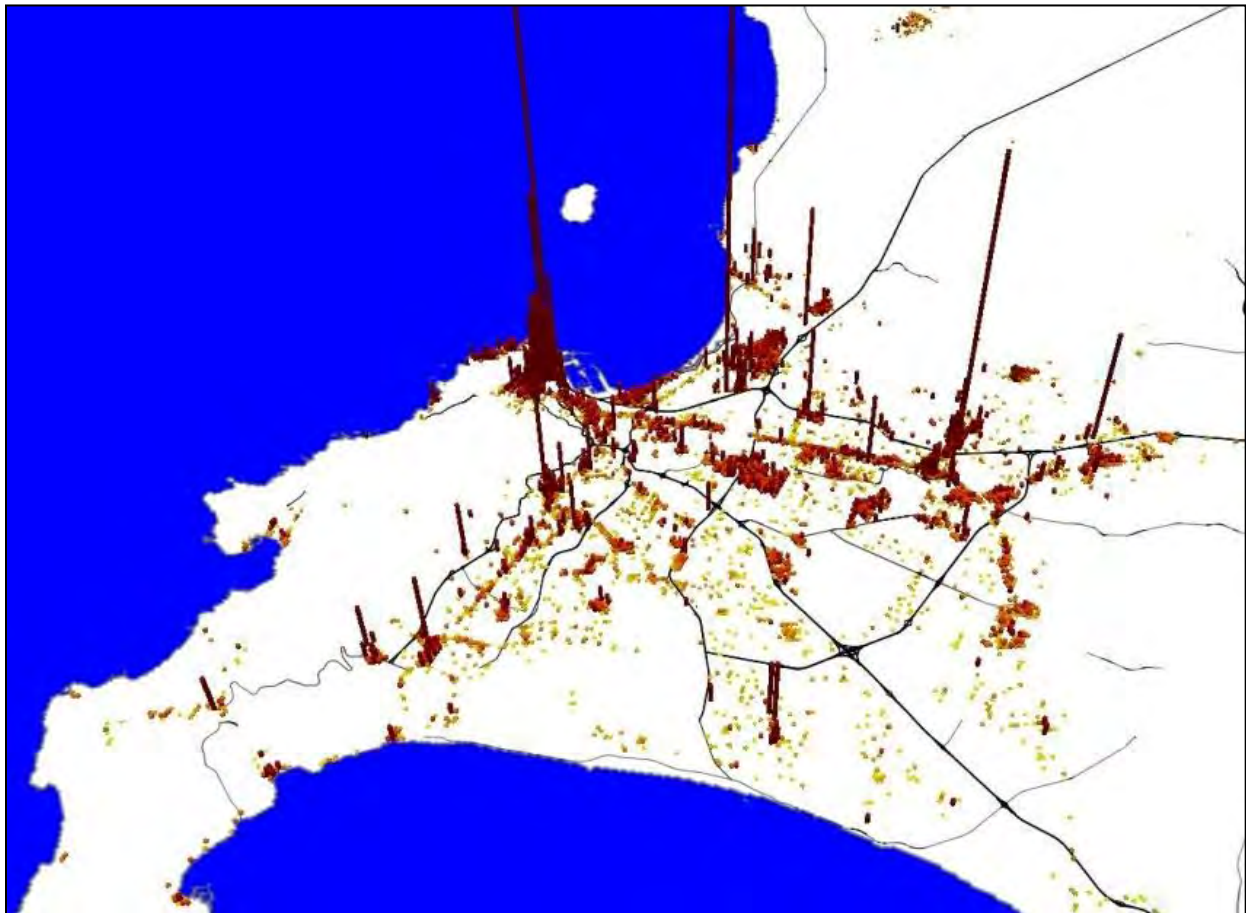


Figure 6: 2008 Distribution of economic activity (K. Sinclair-Smith, unpublished work 2009)

Implications for Spatial Planning

Nodes or corridors (strip-development)?

Cape Town has both nodal and linear elements to its spatial-economic structure. Linear elements or “urban corridors” include Voortrekker Road, Durban Road in the Tygervalley area, and Main Road running through the Southern Suburbs. However, figure 6 shows that the pattern of economic activity is more nodal than linear. In addition, much of the city’s population is concentrated in a dense “node” in the south east as can be seen in figure 13.

This has implications for transportation. Linear development can be efficiently served by transport operating along urban corridors while a nodal pattern, with significant distances between nodes, requires efficient point-to-point travel.

3. Changing Spatial Patterns

Figure 7 shows absolute turnover growth (2001-2005) and 2005 turnover based on RSC levy payments for the main economic centres in the city. Growth largely reinforced existing economic centres with the greatest increase occurring in the City Centre. At a broader level, growth was spread across the City Bowl, Salt River area, West Coast, Parow-Epping area and Northern and Southern Suburbs with each of these accounting for approximately 15% of growth (see figure 8). Again it can be seen that comparatively little growth occurred in the south east. Figure 9 shows the distribution of private investments facilitated by Wesgro, a Western Cape investment promotion agency, and its partners between 2004 and 2007. While, this database is much smaller in size, it shows a generally similar spatial pattern to that of the growth of RSC levy payments.

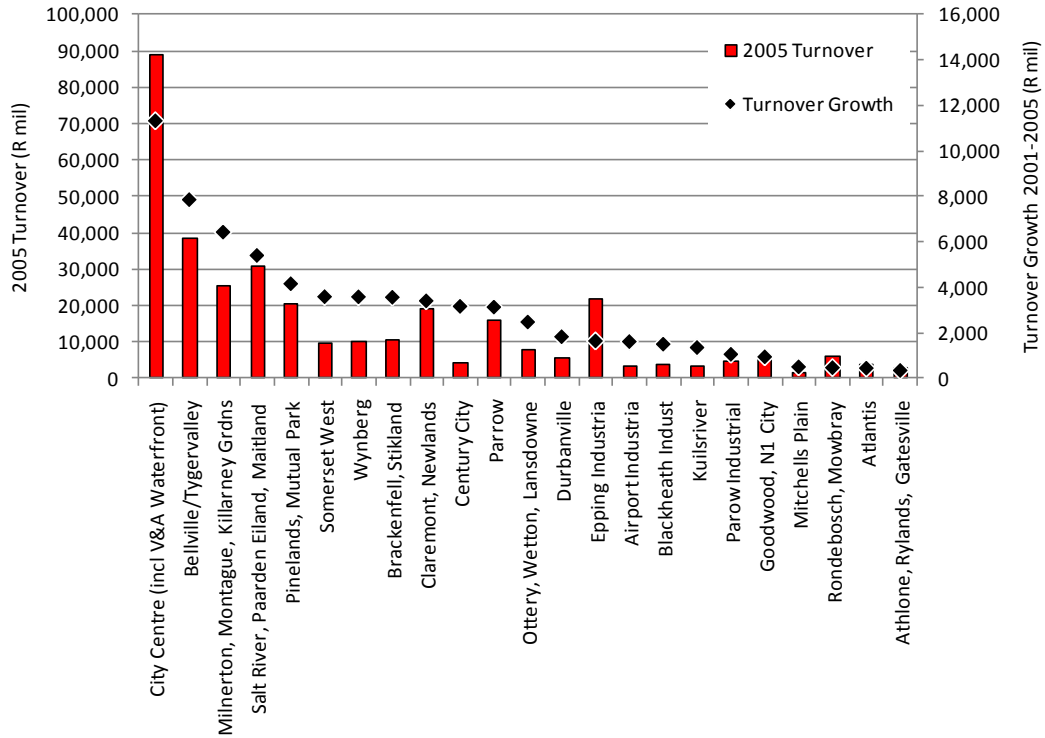


Figure 7: Absolute turnover growth (2001-2005) and 2005 Turnover for main economic centres based on RSC levy payments

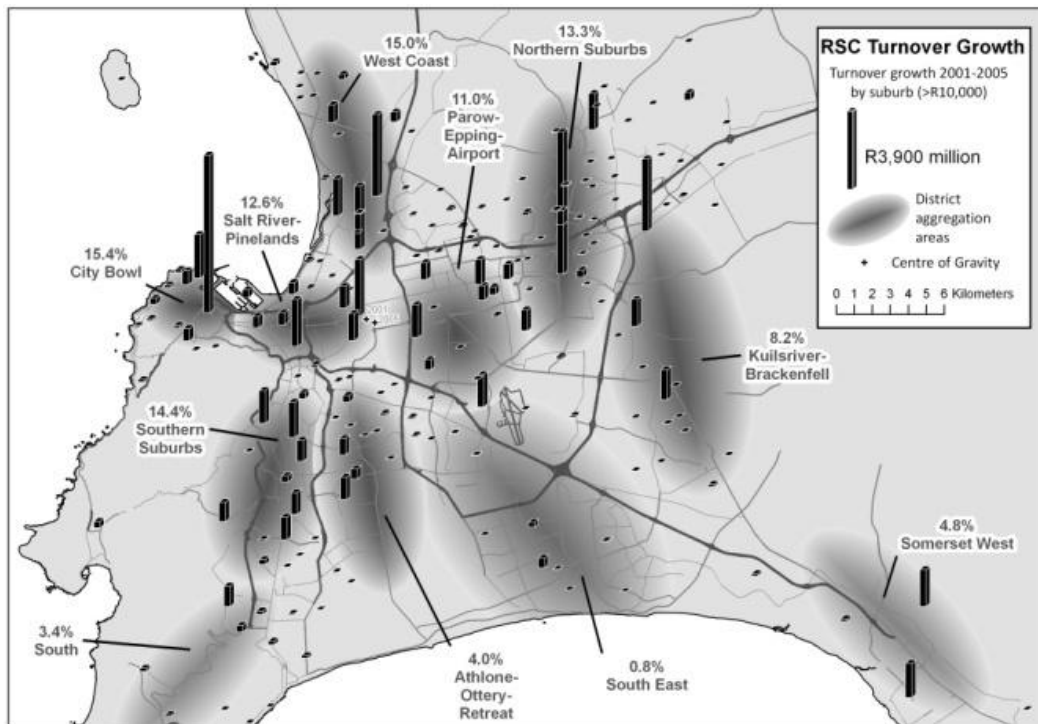


Figure 8: Distribution of company turnover growth (2001-2005) for suburbs and broader city regions (Source: RSC levy data)

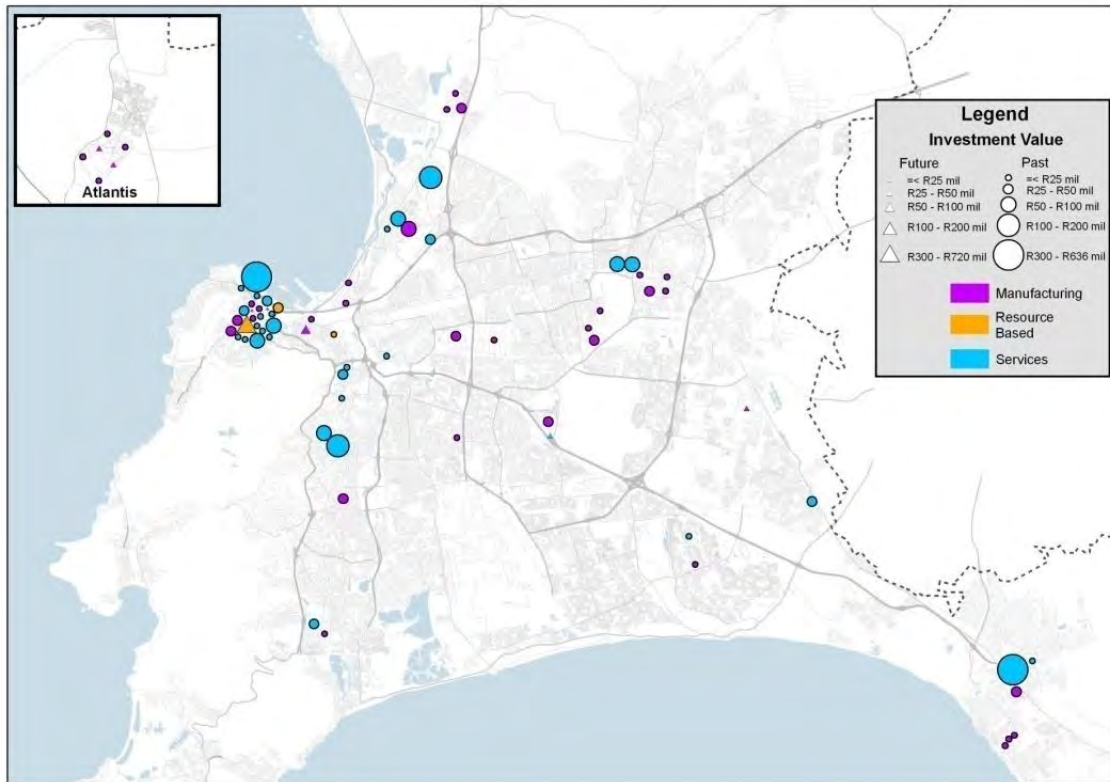


Figure 9: Distribution of investment facilitated by Wesgro (2004-2007)

4. General Sectoral Spatial Patterns and Trends

Analysis of the manufacturing, wholesale and retail, and finance, insurance and business services sectors based on RSC levy payments shows that these sectors had growth and distribution patterns that differed from aggregate spatial economic patterns. Overall distribution and growth patterns of these sectors can be seen in figures 10 to 12.

The finance, insurance and business services sector was clustered in the CBD and other large commercial centres, especially Bellville and to a lesser extent Claremont/Newlands. The overall growth pattern was that of further concentration in these areas. However, the spatial footprint of this sector was strongly influenced by two large companies: Old Mutual (Pinelands) and Sanlam (Bellville). Further analysis shows that insurance and financial services were strongly clustered in large centres while the business services sector was more dispersed.

The wholesale and retail sector was more concentrated in the north of the city where the bulk of city household income is located. This pattern is being reinforced by strong growth in the Northern Suburbs, West Coast and Somerset West – all areas that have experienced significant high-value residential development. However, it should be noted that this data may be inaccurate for retail activity, which is affected by head office location to a greater extent than other sectors.

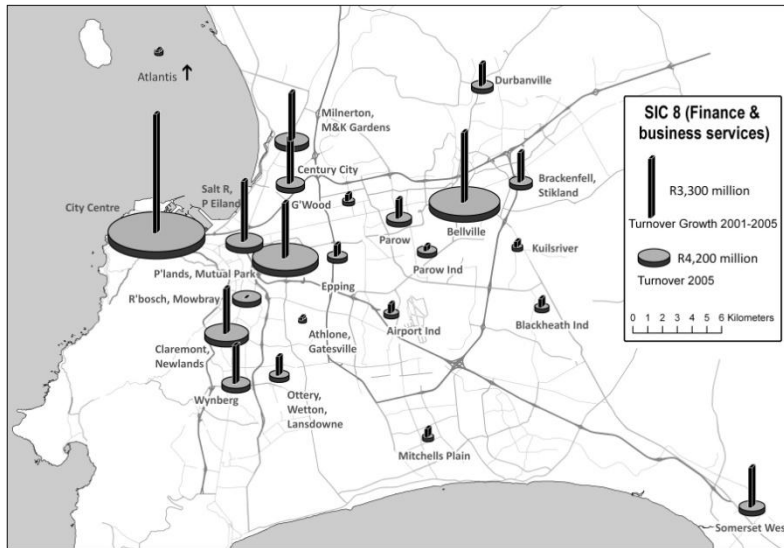


Figure 10

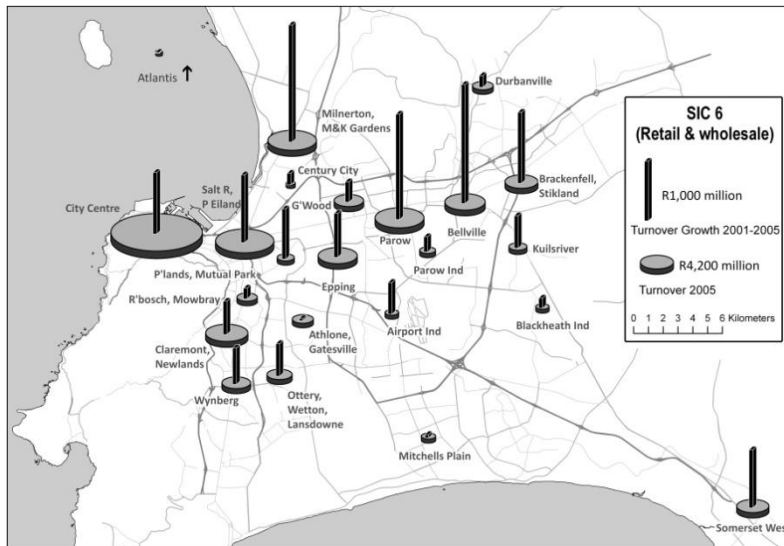


Figure 11

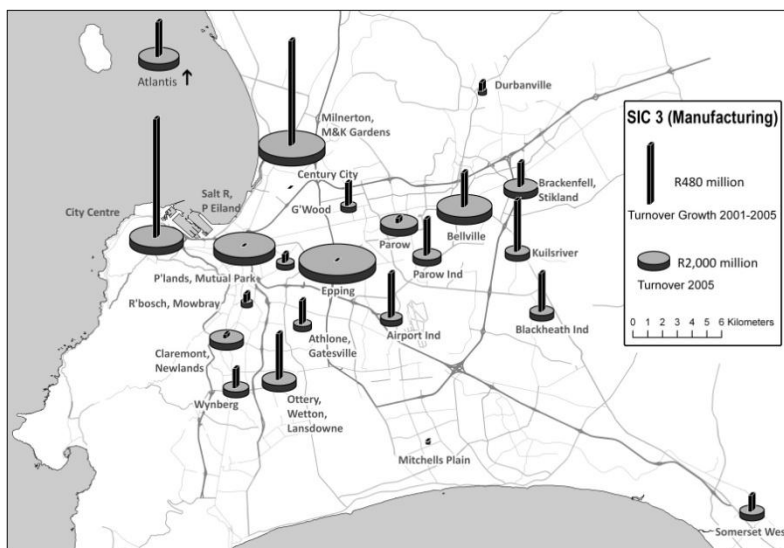


Figure 12

Figures 10-12: Distribution & growth of key economic sectors (based on RSC levy turnover)

Manufacturing was shifting from central industrial areas to more peripheral areas that offered cheaper land and less congestion¹. The data suggest that this shift is being driven by relocations as well as new growth. Manufacturing was found to be declining in centrally located industrial areas where it was being displaced by wholesale and retail as well as finance, insurance and business services sector activities.

There is also a greater availability of vacant industrial sites in peripheral locations. New industrial development has occurred primarily in more peripheral areas such as Somerset West, Saxenburg Park (Blackheath), Killarney Gardens and Capricorn Park, while most central areas have become fully developed.

5. Spatial Distribution of Population and Labour

This section looks at the spatial distribution of population, household income and skills. Figure 13 shows that population densities are highest in the metropolitan south east where more than a third of the city's population is concentrated. This is the least economically developed part of the city and the area where most of the city's poor live. Consequently, a large portion of the city's workforce commute long distances to employment centres. This is highly inefficient and has substantial economic and social costs.

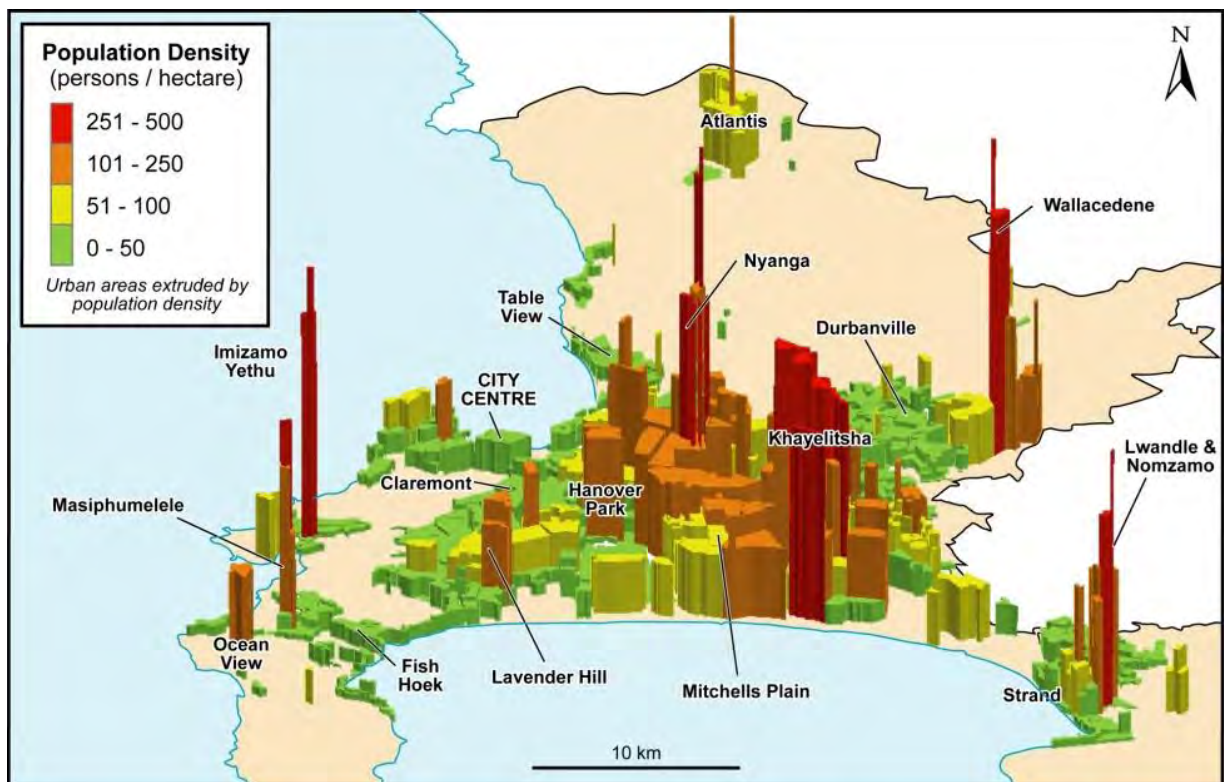


Figure 13: Population density (Turok, Sinclair-Smith & Shand, 2010)

¹ The high city centre “manufacturing” growth shown in figure 12 is mainly from media and publishing activities (classified as manufacturing according to the Standard Industrial Classification system) as well as administrative offices for manufacturing base companies.

Spatial dislocation between the labour force and specific types of employment results in further inefficiencies. This is evident in the West Coast where urban growth has contributed to inefficiencies. Substantial manufacturing growth has taken place here; far from where most of the manufacturing workforce live (see figure 14). However, extensive residential development has attracted middle and upper-income population to the West Coast, many of whom commute out of the area to the city centre and commercial centres.

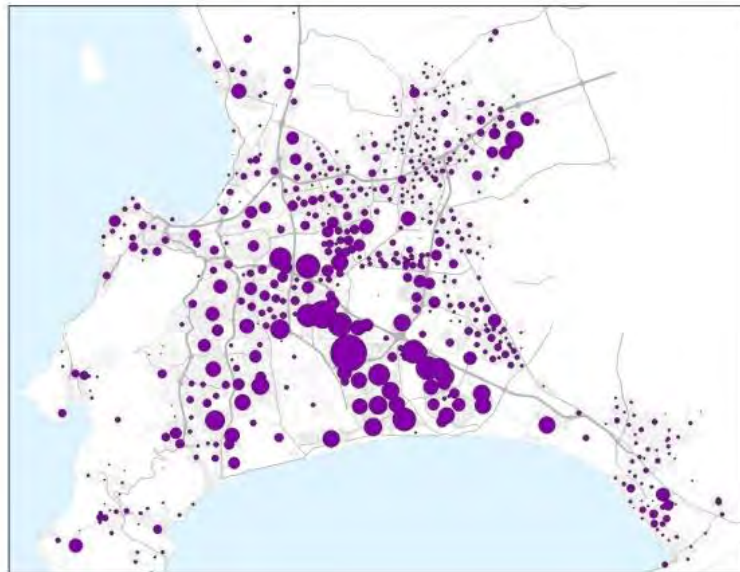


Figure 14: Manufacturing labour force by residential location, Statistics South Africa, 2001

Disposable income

The spatial distribution of disposable income affects economic growth. This is particularly true for the retail activity which is directly affected by changes in disposable income of consumer catchment areas. High income earners also have a greater influence in where businesses are located. Figure 15 shows household income densities, which can be used as a proxy for disposable income densities, based on the 2001 census. It can be seen that this is highest close to the city centre where household income is high and properties are small. It is also important to note is that significant household income exists in the south east where large numbers of relatively poor people live. It is likely that these would have increased since 2001 as a result of economic transformation as well as increasing residential densities in the south east. Aside from the inner city, household income is generally more concentrated in the northern areas of the city. This may explain the high retail and wholesale turnover growth figures obtained from RSC levy payments.

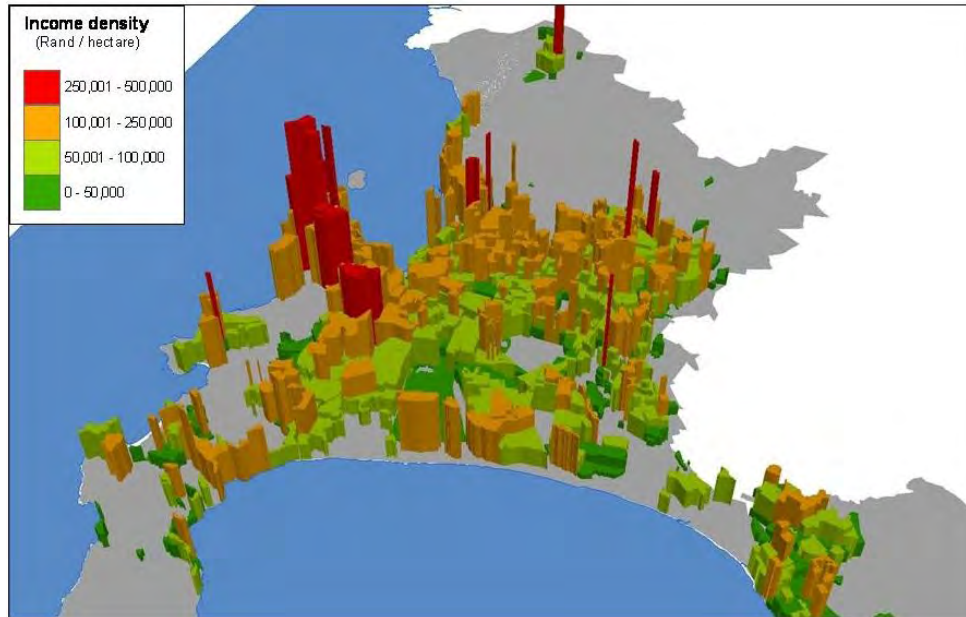


Figure 15: Household income density (based on 2001 Census)

Household income density is dependent on both population densities (see figure 13) and household incomes. Figure 16 shows the distribution of residential property values (red is highest; green is lowest) which broadly reflects household income patterns. These two factors are often negatively associated: high-income households live in low densities while low-income households live in high densities.

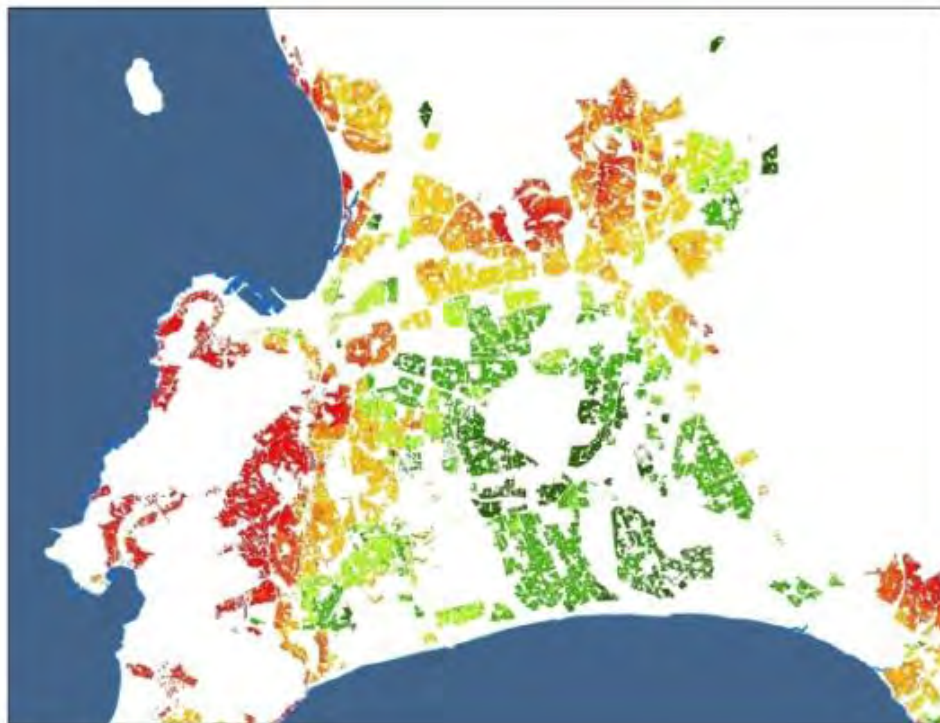


Figure 16: 2008 residential property values (municipal valuations)

Implications for Spatial Planning

Economic opportunities of the metropolitan south east

While it is well established that the lack of employment opportunities in the metropolitan south east is a major problem, there is little consensus on how to address this issue.

Nevertheless, a number of economic opportunities of the south east suggest a possible way forward:

- Substantial and mostly untapped disposable income provide opportunities for retail, repair and service sector growth. While a number of shopping mall have recently been developed in the south east, the area remains relatively underserved.
- Opportunities from the proximity of the (recently upgraded) airport.
- Proximity to N2 and R300 freeways.
- Good location for manufacturing, logistics and warehousing which are shifting to cheaper and more peripheral locations with good road access.
- Significant private investment growth occurring at Airport Industria.
- Proposed development of vacant land, including zoned industrial land, within and close to the metro south east.
- Proximity to labour force.
- High densities of the area allows for efficient public transport links. Investments in bus lanes, IRT and railway extensions have potential to improve linkages and

Household income distribution is also affected by residential development, especially high-value residential development. Figure 17 indicates areas where substantial residential development has taken place between 1999 and 2007 with figures for new dwelling units given as a percentage city total. This shows a polarised pattern with high-value (>R500,000) houses (shaded red) having been developed in the Northern Suburbs, Kuilsriver, West Coast and Somerset West areas while lower-value (<R500,000) housing (shaded green) has been developed in the south east.

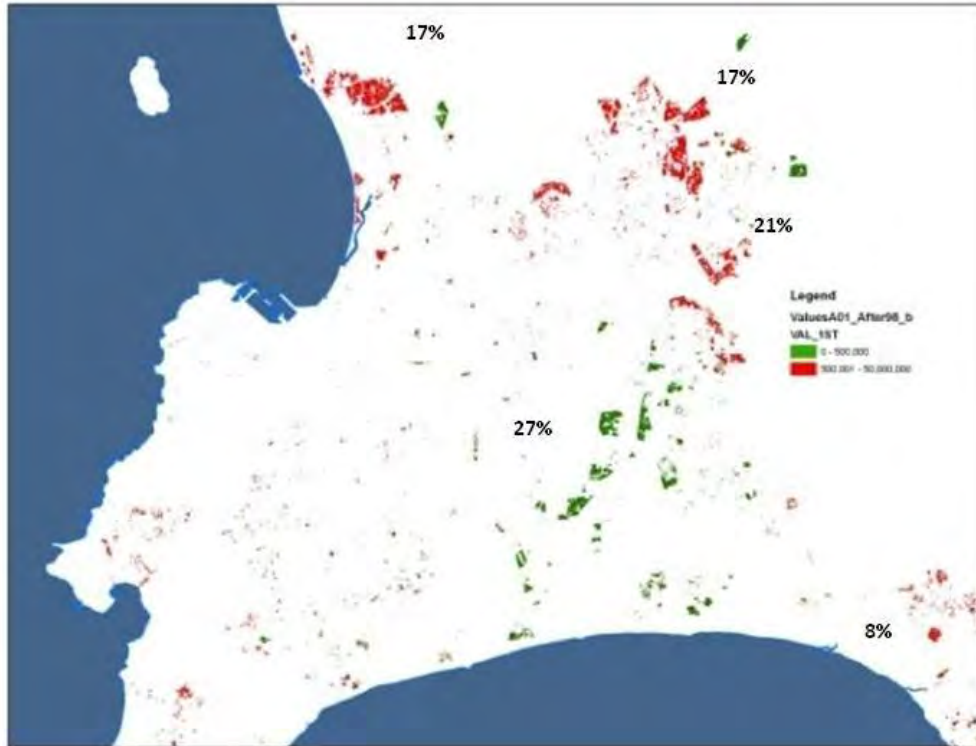


Figure 17: Residential development 1999-2007 by value

Implications for Spatial Planning

Income Segregation

Cape Town is highly income-segregated and this is being perpetuated by current residential development patterns. This is problematic as it is inefficient and reduces economic opportunities for business and individuals living in low income areas. Many workers, especially retail and domestic employees, are forced to commute long distances to wealthy suburbs, where such jobs are concentrated.

Skilled labour

Highly skilled individuals are believed to play a critical role in the economy where growth is increasingly concentrated in the service sector and “knowledge-intensive” industries. The location of highly skilled labour has an important influence on the economy. Economic centres located close to high-income suburbs benefit from their proximity to highly-skilled labour and, in return, are attractive employment locations to people living in these suburbs because of the shorter commuting distances. It is also plausible that staff in senior management positions would be inclined towards business locations close to their area of residence.

Figure 18 shows the distribution of individuals with postgraduate university education and figure 19 show the distribution of high-skill occupational categories (legislators, managers, senior officials and professionals) by residence. As expected these are concentrated in upmarket suburbs of the City Bowl, Southern and Northern Suburbs, Somerset West and the West Coast. However, skills appear to be particularly concentrated in the Southern Suburbs and to some extent in the City Bowl.

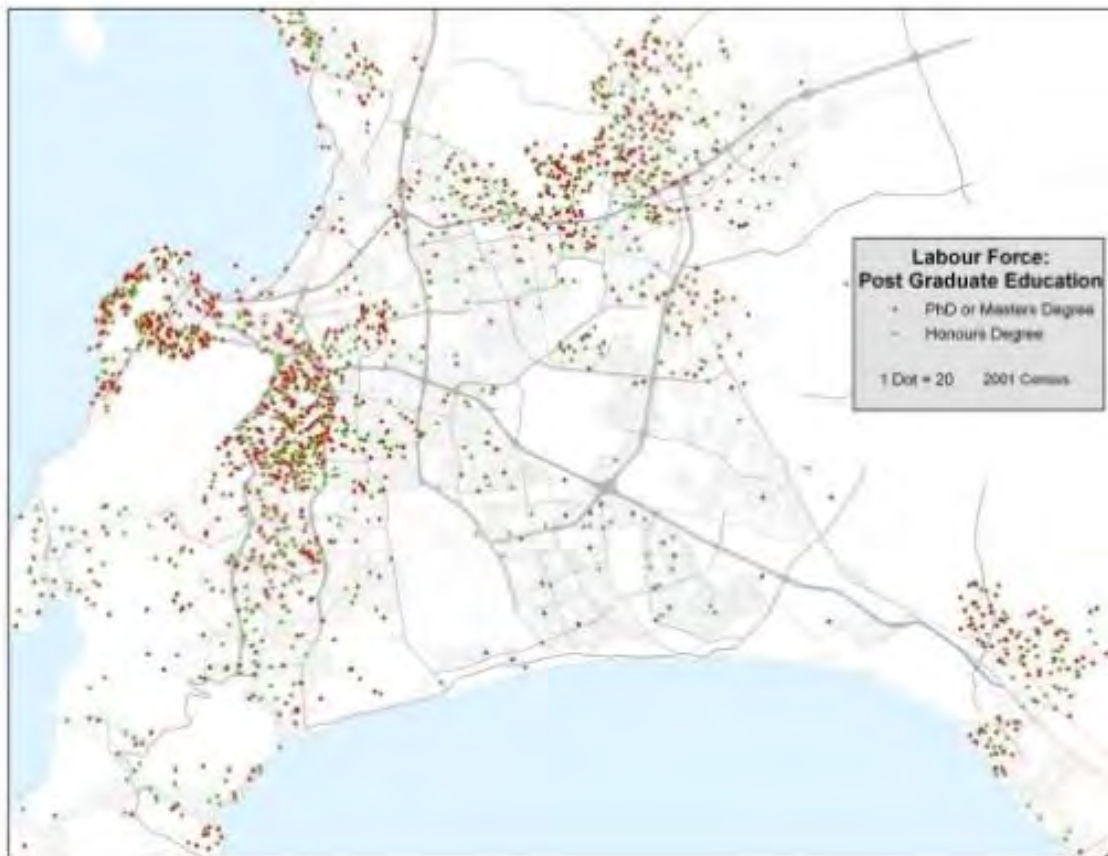


Figure 18: Residential distribution of individuals with honours, masters or PhD degrees (2001 Census)

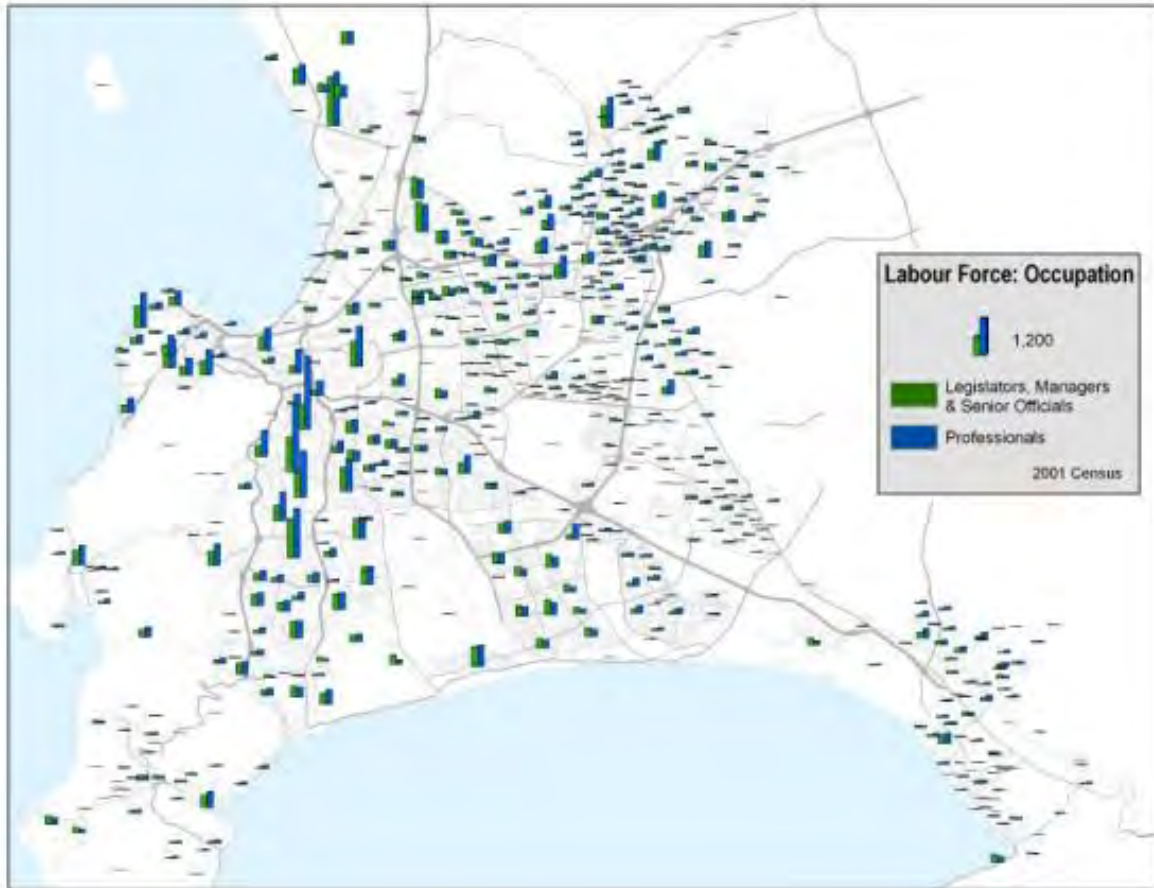


Figure 19: Residential distribution of high skilled occupational categories (2001 Census)

Implications for Spatial Planning

Secondary economic centres

Secondary economic centres such as Bellville-Tygervalley, Wynberg, Claremont / Newlands and Somerset West play an increasingly important role in the city economy. They are connected to public transport, are experiencing strong growth, are close to high-income residential areas where skilled labour is concentrated and are the preferred location for certain businesses.

It is preferable that suburban economic growth be concentrated at these centres rather than dispersed or located in more peripheral suburban locations where public transport connections are inferior.

6. National and Regional Context

Functional Economic Area

Cape Town's functional economic area operates across an area that extends well beyond the municipal boundary. The 2008 OECD review defines a broad area including Saldanha, Malmesbury, Paarl, Stellenbosch and Hermanus as the city's functional region. Key regional economic interdependencies include a commuting labour force, shared consumer catchment area, transport infrastructure and a second port located at Saldanha as well as the agricultural and tourism areas surrounding the city and the four universities located within this area.

However, Cape Town dominates this functional area both in terms of economic activity and population (see figure 23). In 2009 Cape Town accounted for 71% of the provincial gross domestic product (Quantec data) and 66% of the provincial population (2007 Community survey, Statistics South Africa). The city accounted for 11% of national GDP in 2009 (Quantec data).

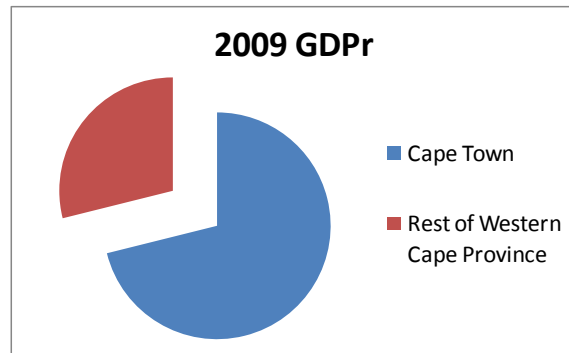


Figure 20: Provincial GDP, Source Quantec data

Freight Movement

External freight movement is dominated by land-based Gauteng freight. Approximately ten times more freight enters or leaves the city along the N1 corridor than the N2 or N7 corridors (see table 2). Ninety percent of the freight on the Cape Town-Gauteng corridor is bound for domestic markets (see figure 21) and more freight is transported from Gauteng to Cape Town than in the opposite direction (City of Cape Town Integrated Transport Plan 2006 to 2011; National Freight Logistics Strategy, 2005).

Table 2: Freight transport

Freight Corridor	Billion Tonne-km
Gauteng (N1)	50
Port Elizabeth (N2)	5
Namibia/Upington (N7)	5

Source: City of Cape Town Integrated Transport Plan 2006 to 2011

In addition, Cape Town-Gauteng freight (19 million tons pa) is substantially more than that handled by Cape Town's port (4 million tons pa) and airport (30,000 tons pa). (City of Cape Town Integrated Transport Plan 2006 to 2011; National Freight Logistics Strategy, 2005). This suggests that Cape Town has strong economic links with the Gauteng area and that these outweigh international linkages.

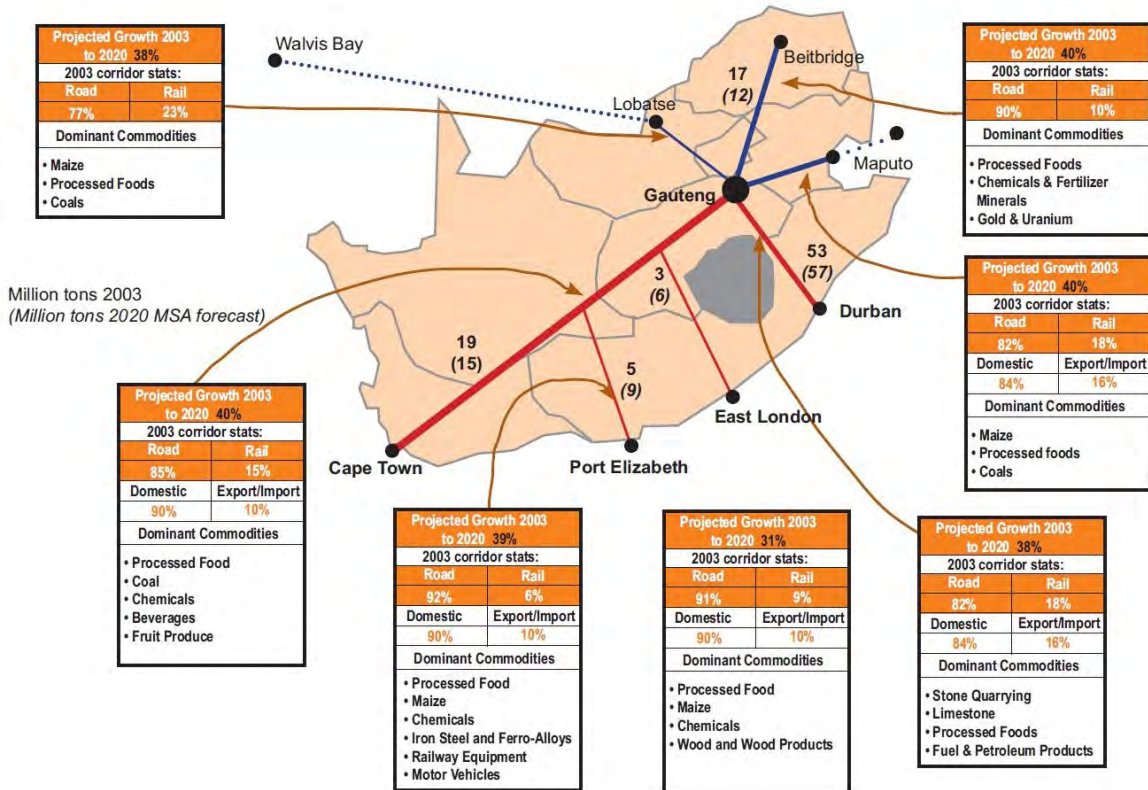


Figure 21: National Freight Logistics Strategy, 2005

Relationship with Gauteng

Gauteng is the undisputed economic heart land of South Africa with both the largest GDP share and contribution to growth (see figure 22). Its growing dominance is reflected in its strong economic growth and by the growing numbers of people attracted to the area. This area has also benefitted from the expansion of South African companies into neighbouring countries which has occurred since the fall of Apartheid. Johannesburg has thus established itself as a “gateway to Africa” and has become an international business centre serving not only South Africa but also neighbouring countries.

The growth of the Gauteng economy has consequences for Cape Town as domestic markets and business networks are increasingly concentrated in Gauteng. Consequently, many Cape Town companies have extensive and critical business ties with Gauteng and a relatively large number of individuals commute to Gauteng on a regular basis. Since 2006 Old Mutual, BP Africa and Shell, have relocated head office functions to Gauteng, all citing the need to be close to markets and business partners located in Gauteng as their reasons for relocating.

Global and national economic competition

- Cape Town's attractive natural and built environment is an important city asset that attracts and retains skilled labour, tourism, and business to the city.
- Linkages to Gauteng are critical.
- Accessibility of the airport for long-distance commuters is important. The future location of the airport as well as transport connections to the airport should be assessed in this light.
- Encouraging spatial clustering of industries can improve efficiency and city competitiveness. Spatial specialisation can help to reduce competition between different Cape Town economic centres.

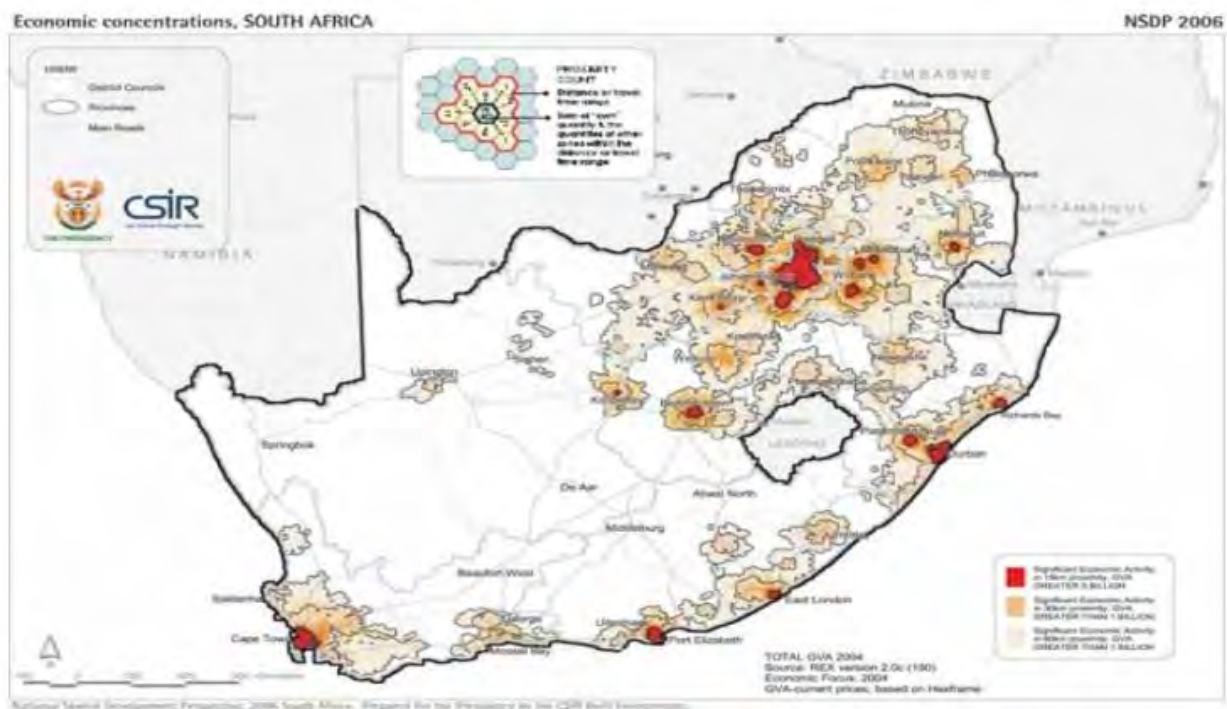


Figure 22: Economic concentrations in South Africa (National Spatial Development Perspective, 2006)

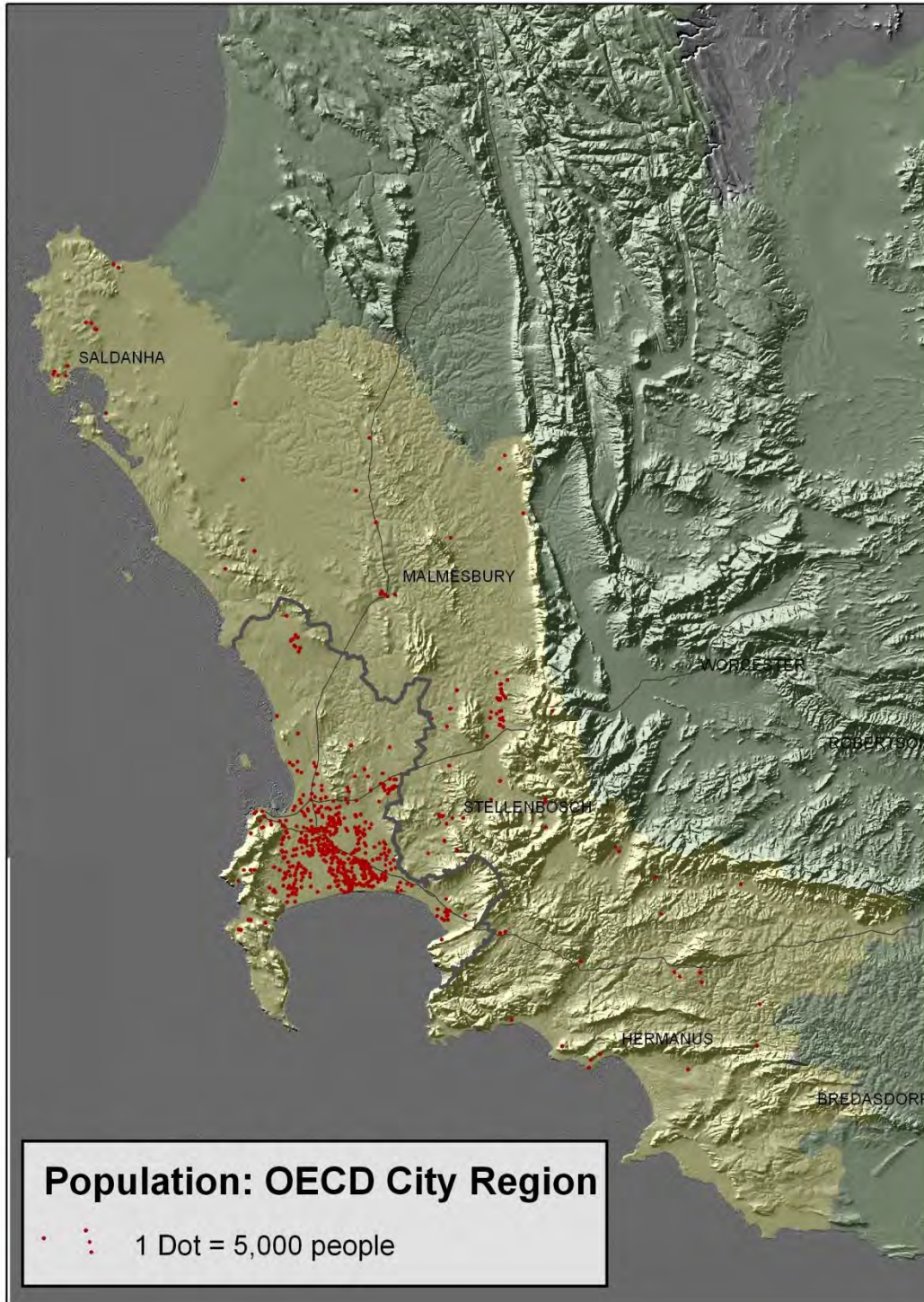


Figure 23: Population distribution within OECD defined City Region (Statistics SA, 2001)