COLLUSION, CRIME, AND THE DEATH OF DOWNTOWN
A Study of Firm Relocation in Johannesburg, South Africa

By

Christina Erickson

MCP in International Development & Regional Planning
Massachusetts Institute of Technology
Cambridge, MA 02139

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Author______________________________
Department of Urban Studies and Planning
May, 2003

Certified by______________________________
Professor Diane E. Davis
Associate Professor of Political Sociology
Department of Urban Studies and Planning
Thesis Supervisor

Certified by______________________________
Professor Langley Keyes
Chair, MCP Committee
Department of Urban Studies and Planning

Abstract

This study explores the dynamics of firm relocation in Johannesburg, South Africa, by analyzing the mass exodus of firms out of the city's Central Business District (CBD) over the past two decades. Using a historical approach, this study examines the interplay between urban form and firm behavior. We typically understand urban form to be a function of firm behavior—that is, firms choose their locations and thus dictate which areas are developed. This study finds that the inverse is true. Firm behavior is a function of urban form. Firms are location-takers. Forces endogenous to the urban form act on firms to determine which areas of a city are favorable for firm location. The following chapters probe the way changes in the Johannesburg CBD's form, itself a function of political, economic, and social transition, push individual firms to disperse to new locales throughout the city. Exogenous factors like crime, state failure, and skewed property markets biased firms against the CBD as a viable location. Their predominance in the range of factors that affect firm behavior suggests that a focus on extra-firm institutions (rather than the firms themselves) more adequately explains the relationship between firm behavior and urban forms.

Figure 1.1: Skyline of the Johannesburg CBD in the background; rubbish heap in the foreground.

Source: Author's photo, taken in January, 2003.

Table of Contents

Acknowledgements

I would like to take a moment to express my gratitude to the people that helped shaped my ideas on this topic. First, a thank you to Diane Davis for getting me to South Africa, for supporting my topic shifts—even when they veered away from crime and policing, and for pushing me to think like a sociologist. Thanks to Karen Polenske for getting me through MIT, for knowing when to be a professor and when to be a friend, and for pushing me to think like an economist.

Many thanks to all of my interviewees in South Africa. Though you remain nameless in this paper, (purportedly to protect you!), I am very grateful for your time, and your frustrating though honest views that there is no single hierarchy of factors for why businesses left the CBD. Thanks, especially, to those of you who helped me via e-mail long after I'd left Johannesburg. Your comments helped challenge some of what I believed to be true, and confirmed some of what I suspected was true about firm relocations.

Thank you to Soraya Goga for unsuspectingly unlocking a key piece of the decentralization puzzle that my interviews hinted at, but did not explicitly describe. Thanks to Mike Connor for then putting the property markets into terms that I could understand.

Finally, thanks to my mom for helping me figure out what is interesting about this story, my dad for helping me understand investment markets, and to my sister, Emily for staying awake—and even claiming to be interested—through my trial-run presentation. Tim Reardon—I can't tell whether I got more or less work done with you around—but it was pretty entertaining. Thanks finally to my friends, roommates, and other siblings for reminding me that there is more to life than firm relocations in Johannesburg.

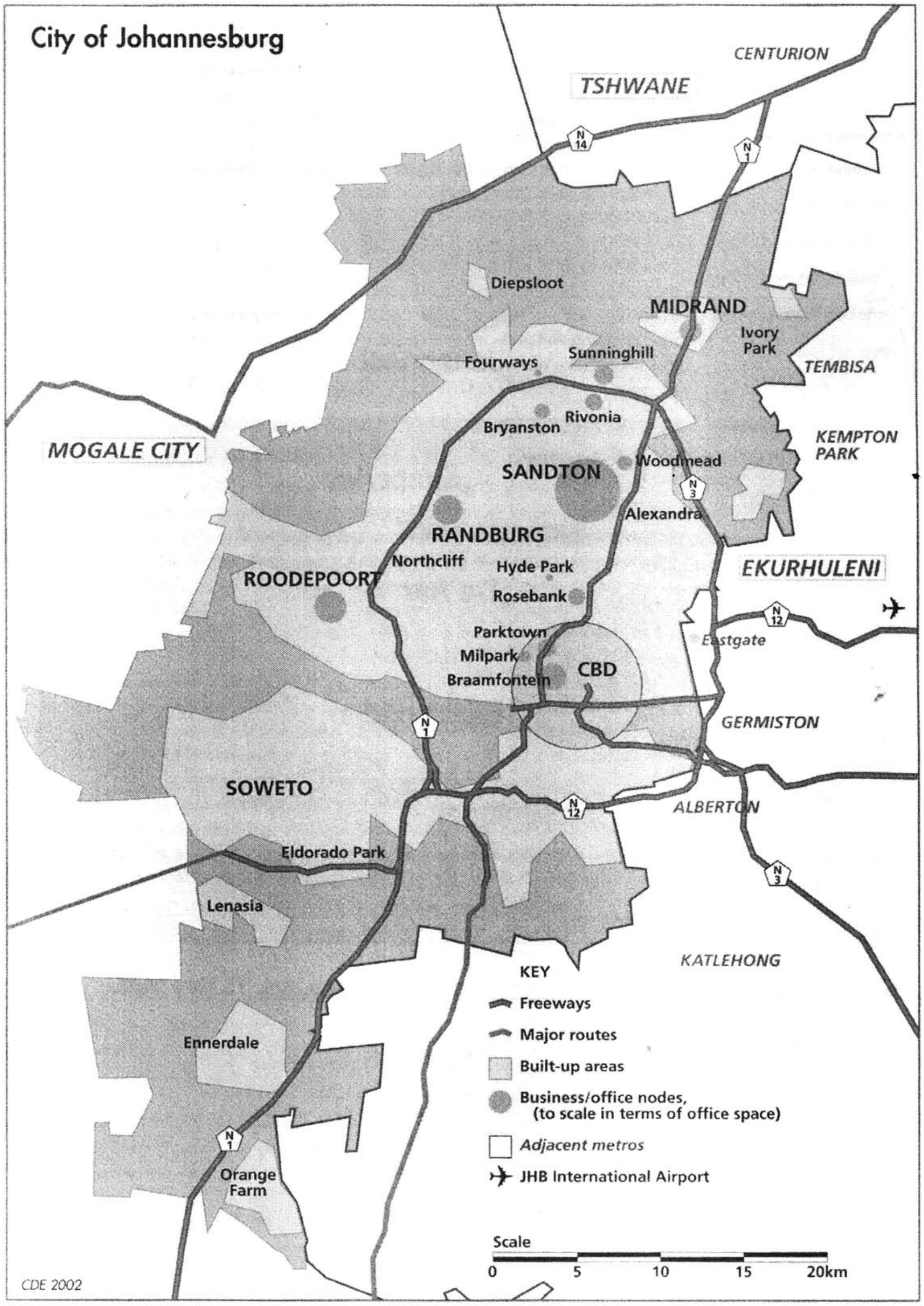
List of Figures

List of Tables

Figure 1.1: Map of South Africa

Source: Viewed online at www.reefrainfrst.com/ southafricamap.htm, 15 May 2003.

Figure 1.2: Map of Johannesburg



Source: CDE, 2002: 13.

Chapter 1: Introduction

This study explores the dynamics of firm relocation in Johannesburg, South Africa, by analyzing the mass exodus of firms out of the city's Central Business District (CBD) over the past two decades. Using a historical approach, this study examines the interplay between urban form and firm behavior. We typically understand urban form to be a function of firm behavior. That is, firms choose their locations and consequently dictate which areas are developed. This study finds that the inverse is true. Firm behavior is a function of urban form. Firms are location-takers. Forces endogenous to the urban form act on firms to determine which areas of a city are favorable for firm location. The following chapters probe the way changes in the Johannesburg CBD's form, itself a function of political, economic, and social transition, push individual firms to disperse to new locales throughout the city. The collective movement of these firms has dramatically altered the economic landscape of the city—potentially to the detriment of those living in the Southern areas of the city in the former townships.

Background

Driving through the CBD in Johannesburg today is not for the faint of heart. The guidebooks warn, "After the shops close, the city center becomes a virtual ghost town and extremely unsafe unless you're in a car...Don't head into the center to discover 'the real South Africa' until you have well and truly sussed the place out," (Lonely Planet, 2002).

The streets in the area (which cover a large area—about 150 square blocks) are filled with high-rise office buildings, a handful of government buildings, and retail centers. Little more than ten years ago, the CBD was the thriving center of business activity. It was pristinely maintained and tightly policed under the stern gaze of the apartheid state.

Now, many of the high-rise offices are vacant. Some have been invaded by squatters, transforming offices into overcrowded apartments. One modern skyscraper in the heart of the commercial district has chains on its doors, (see Figure 1.3). The once prestigious, now vacant Carlton Hotel protects itself from squatters—or any visitors—by hiding behind a black metal fence, (see Figure 1.4). The thriving formal business hub has been replaced by thriving informal businesses. During the day, vendors and hawkers crowd the sidewalks. Minibus taxis tear through the city streets. At night, these streets are deserted, save for the estimated 4,500 homeless people, (Interview C, 6 Jan 03)[1]. The shopping centers continue to operate, but are permeated with crime. (On my first visit to the Carlton Centre—the CBD's renowned shopping mall—I witnessed a police chase with drawn guns inside the mall.)

The change in the CBD represents a microcosm of a larger process of transition in South Africa. What is perhaps interesting about the CBD's transformation is that (in addition to nearby inner city areas) it is arguably the only area in Johannesburg to have witnessed real demographic change since South Africa's transition to inclusive democracy in 1994. The city's settlement and economic patterns remain divided along starkly racial lines. Though many claim that racism has become secondary to class conflict in Johannesburg (Beall et al., 2002; Tomlinson et al., 2003, etc.), the built environment continues to hamper the city's efforts to integrate their historically segregated residents. Why has demographic change been limited to the inner city?

Inner city communities like the CBD, Hillbrow, and Berea, are distinct for two reasons. Their geographic position in the center of the city makes them a symbolic link between the wealthy white North with the poor, black South, (see figure 1.5—map of racial distribution of Joburg). The density of the built environment in these areas (the only high-density development in the entire city) means that there are necessarily more congested sidewalks,

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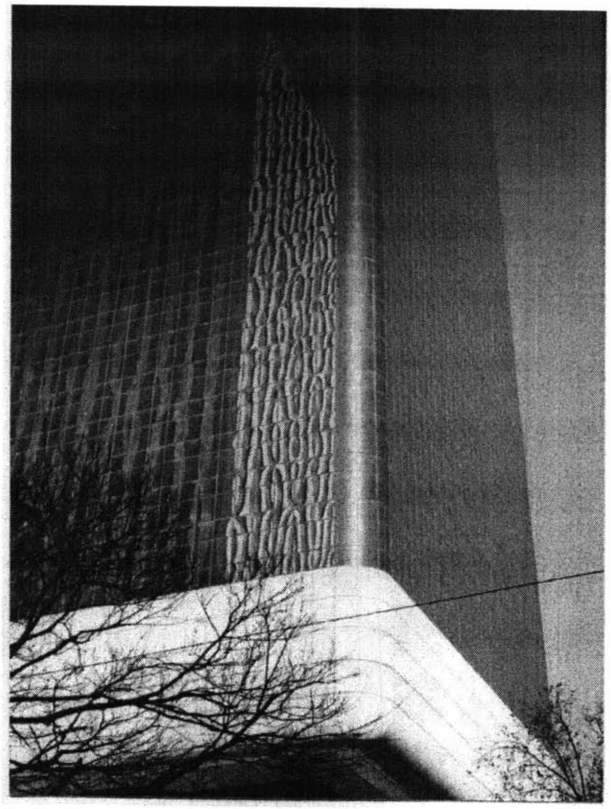
[1] All names of interviewees have been omitted to protect the confidentiality of the interviews. A list of their positions, organizations, and dates of interviews are included at the end of the Sources section.

street life, and human interaction. Perhaps partially due to their geography, they became sites of protest, struggle, and testing of anti-apartheid sentiment during the 1970s and 1980s.

Figure 1.3: Photo of a vacant CBD office tower—now with chains on its doors

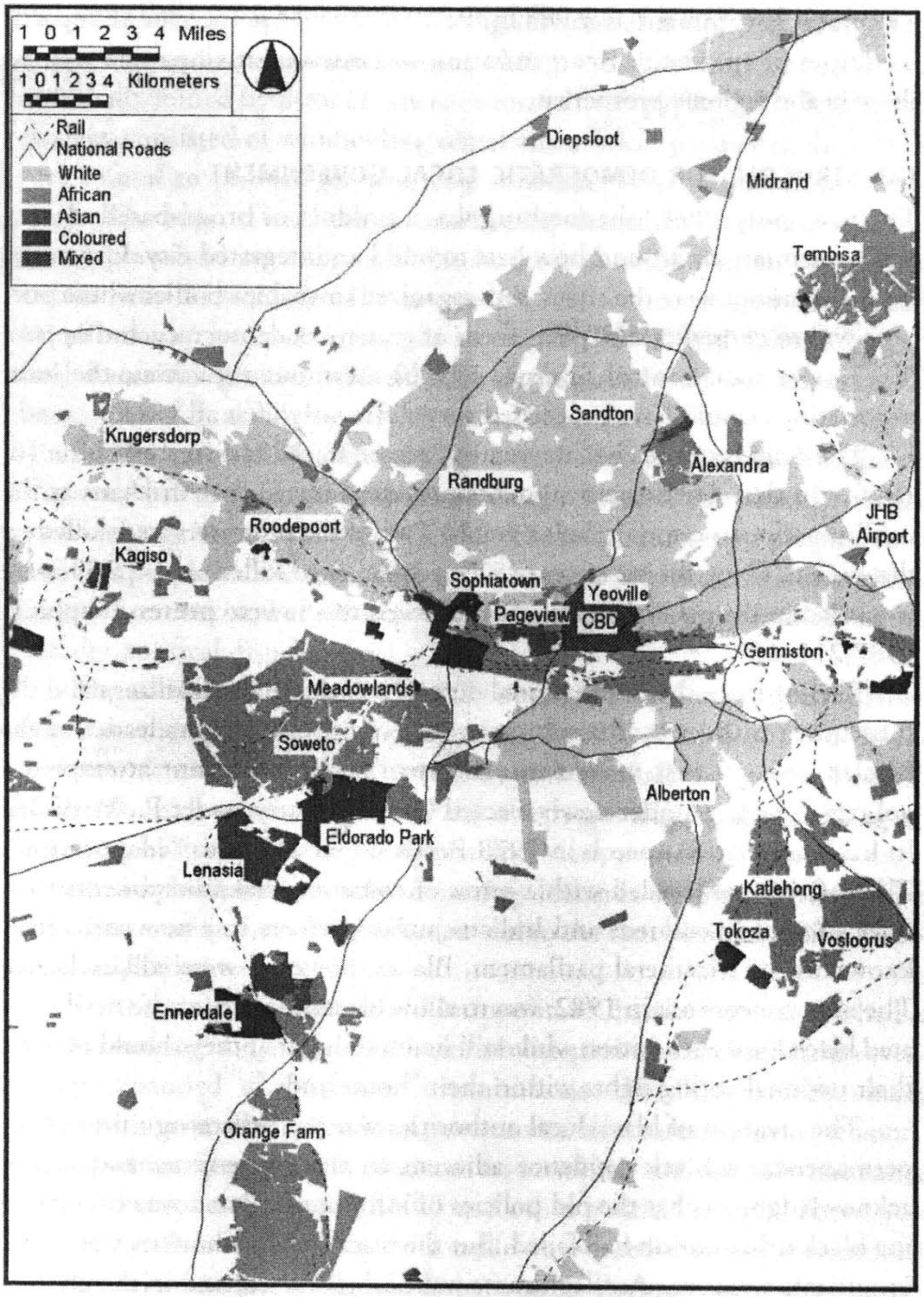


Source: Author's photograph, taken in January, 2003

Figure 1.4: Photo of Carlton Hotel, CBD

Source: Author's photograph, taken in January, 2003

Figure 1.5: Map of Racial Distribution in Johannesburg



Source: Tomlinson et al., 2003: 7.

How did changes in the CBD affect businesses? During this period, the central business district was transformed into a multi-racial, politically-charged microcosm of the nation's conversation (and contestation) over citizenship, redistribution, and racial imbalances. A quick drive through the CBD vividly illustrates the reaction of business to this external climate in the CBD. Formal businesses left the CBD en masse during the period around transition. The aims of this project were to understand (a) to what degree they left—and during which periods; (b) where they went; and, most importantly, (c) *why* they left. Though political transitions often create periods of instability and insecurity, this need not be manifest in spatial transformation of the type that occurred in Johannesburg. This study attempts to unpack the underlying dynamics that motivated firm behavior during South Africa's transition, and to understand how these behaviors in turn disrupt and alter the urban form.

<u>The Evolution of a Research Question</u>

My experience in Johannesburg coincided with a research project I have been involved in that studies some of the new theory on firm location patterns. New growth theories, popularized by people like Paul Krugman and Michael Porter, assert that firms in the "new economy" are likely to display clustering patterns. These theories assume that for firms to survive in an increasingly competitive environment, they must continually innovate—both in their processes and products. To improve their innovation potential, firms gravitate towards one another. They may cluster in order to tap both tacit and codified (often proprietary) knowledge, (i.e., to take advantage of spillovers). They may cluster with consumers or suppliers, in the hope that their proximity and close exchange will induce better product and process innovations.

In reading through many of these theories, it struck me that they share an assumption—or an approach—that innovation and/or production possibilities drive location. This, however, did not seem to be the case in Johannesburg. Anecdotal evidence and firm surveys suggested (in the early phase of my research) that *crime*, not production possibilities, pushed firms to relocate out of the CBD.

Crime as a "push" factor is rarely cited in the literature on space, innovation, and regional-location strategies. Instead, theorists focus on economic factors like proximity to users/suppliers, potential for knowledge spillovers, access to markets, currency stability, etc. How might a non-economic push factor affect the clustering patterns of firms? It seemed plausible that crime might drive firms to cluster in unexpected ways. Perhaps firms would cluster to take advantage of security spillovers (i.e., existing strong security infrastructure with effective public and private police forces). Perhaps they would cluster in patterns that follow the residential movement away from the inner city. Perhaps they would use the opportunity of relocation to move closer to similar companies (horizontal networks) or to suppliers and consumers (vertical networks). Perhaps they would not display clustering patterns at all.

My question, in comparing the Johannesburg context with the theoretical literature on clustering, was whether there was something unique about crime as a push factor that might promote new forms of clustering and innovation. Pushed out by crime, would firms be pulled in directions that we would not expect?

These were the questions I had in mind when I set off for Johannesburg in January 2003. What I quickly realized upon arrival was that my query rested on a fundamental assumption: that *crime* pushed firms out of the CBD. The more interviews I conducted, the more I came to understand that crime, while an important factor, is certainly not the only factor. To argue that crime alone pushed these firms out would be inaccurate. Instead, interviewees cited a whole host of drivers of firm relocation: not enough parking; high taxes; traffic congestion; technologically obsolete buildings; political protests; and racism.

I struggled with how to categorize these disparate answers, and how to analyze them critically to determine which were legitimate concerns and which were just proxies for politically incorrect motivations. This type of analysis is always difficult given the degree of interpretation that goes into each retelling of history. How could I discern which factors mattered in pushing firms out of one area and into another?

Rather than trying to fit these factors into some sort of hierarchy, I devised a framework that is broad enough to encompass many of them, but hopefully direct enough to be of some use to those concerned with how to manage or prevent intra-urban firm relocation.

Framework: What really makes firms relocate where they do?

Firm relocation = f (*e, s, p, g*)

Where: *e* = economic stability
s = security
g = government
p = proximities

Economic stability refers to the macro-economic environment. It takes into account inflation, exchange rates, growth rates and general economic performance. Security refers to the degree of real and perceived crime, violence, and civil unrest within a firm's immediate area or neighborhood. Government refers to the degree to which governments (local or national) effectively manage cities and neighborhoods (i.e., through taxation, policing, street maintenance, legislation against truant landlords, bylaws controlling street trading). Proximities refer to the synergies or benefits accruing to a firm that locates in close proximity to other firms. These synergies could include knowledge spillovers, infrastructure- or resource-sharing, or access to a customer base.[2]

Situating these four factors within a *push-pull* framework, as is common in relocation theory:

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[2] I have deliberately excluded transport costs from this framework. In doing so, I do not mean to ignore its relevance to firm location. Traditional location theories analyze firm behavior through the lens of direct forces on the firm, like the costs of labor, transport, and materials. This study instead focuses on the exogenous factors that indirectly affect firm behavior by changing the urban form. Though direct costs are obviously critical to a firm's decision, I argue that they are secondary to (indeed, defined by) the underlying political, economic and social climate. I believe that a historical analysis of these exogenous factors more adequately helps make the link between both firm behavior, to which traditional location theories are limited, and urban form.

PUSH

$$\text{Firm relocation} \;=\; f \left\{ \begin{array}{l} \text{Economic } \textit{in}\text{stability} \\ \textit{In}\text{secure surroundings} \\ \text{Poor government oversight} \\ \text{Weak gains from proximities} \end{array} \right.$$

PULL

$$\text{Firm relocation} \;=\; f \left\{ \begin{array}{l} \text{Economic stability} \\ \text{Secure surroundings} \\ \text{Strong government oversight} \\ \text{Strong gains from proximities} \end{array} \right.$$

I argue that firms that opt to leave a certain location are pushed out by some combination of economic instability, insecure surroundings, poor government oversight, and weak gains from proximities to other firms. These same firms are pulled towards new locations that offer some combination of the converse forces: economic stability, secure surroundings, strong government oversight, and strong gains from proximities. I contend that this conception of firm location better incorporates the role of exogenous, non-economic factors into the firm decision-making model than existing theories.[3]

Applying the Framework

This framework provides room for each of the push and pull factors my interviews and research cited as drivers of firm relocations in Johannesburg. Rather than isolating each of these factors and explaining how they fit into such a framework, I offer a more broad application of the framework. I present each of the four forces that act on firm relocation decisions in the form of four separate (though related) chapters. In my research, I found these forces to be central and somewhat under-reported drivers of firm relocations in Johannesburg. By laying out their dynamics, I can draw insights for application to other contexts.

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[3] A review of these theories begins on p. 21.

The first force is that of proximities. I argue in Chapter 2 that the benefits of proximity (for which I use agglomeration as a proxy) were not strong enough in the Johannesburg CBD to outweigh the exogenous pressures on firms in that area (business flight, crisis of confidence, civil unrest, crime, and racism). These firms were not necessarily pushed out by poor synergies. Rather, these synergies—weak or strong—were overshadowed by other factors. In Chapter 2, I map the flight of business from one location to another. I show that firms (a) did not follow their neighbors in the CBD to new locales; and (b) did not relocate near other same-sector firms, at least not near those also previously located in the CBD. This does not necessarily refute the notion that proximities matter, or that firms cluster. Rather, it suggests that firms prefer one of the other 'pull' factors (secure surroundings, better service provision, etc.).

The second force is economic stability—or, in the case of South Africa during transition—economic *in*stability. Chapter 3 tells a story of economic instability through the lens of a volatile property market and its effect on land development and sale in Johannesburg. In this chapter, I argue that major South African institutions over-invested in property in the northern suburbs of Johannesburg during the early 1980s. They relied on optimistic assumptions about economic growth that never materialized in Johannesburg. To render these investments profitable, they therefore had to offer their property to firms at below-market rates to existing firms in the city. This provided a considerable pull to firms in the CBD (where confidence was beginning to shake). This perspective on property developers' manipulation of land markets offers new insights into the external dynamics that dictate the internal decision of the firm to relocate.

The third force is secure (or insecure) surroundings. I discuss this force in Chapter 4, where I return to my original hypothesis that crime drove firms out of the CBD. I acknowledge that insecurity felt by CBD firms during this period was rooted in a much broader set of concerns, from racism to fear of civil unrest. I note that crime did not become a problem in the

CBD until the 1990s. However, I focus on crime because, in talking with firms themselves, I found it repeated again and again as *the* principal factor pushing the firm out of the CBD. Moreover, during the 1990s, crime rates were comparatively higher in the CBD than elsewhere. In this chapter, I discuss firms' perspectives on crime, studies that document the effect of crime on business location, and the relative crime rates throughout the city. I note the challenge firms face in making location decisions when crime is universally high throughout the city. I argue that fear, rather than crime itself, underpins firm flight out of the CBD—and this fear is somehow exacerbated by the physicality of the CBD. Finally, I suggest that crime tends to be used more as a rhetorical tool for conveying a collective sensibility about "the city" than a reflection of a higher incidence of crime.

The fourth and final force is government. In Chapter 5, I argue that national and local government conflicts both led to a deteriorated physical environment in the CBD and provided incentives for moves to the northern suburbs. I demonstrate the way institutions and laws affect firms' attitudes towards certain locations. I ground these arguments in the historically tenuous relationship between local and national government in Johannesburg and its direct impact on city management and governance.

Finally, I conclude with thoughts on how intra-urban firm relocation affects employment, transportation, and equitable opportunities. In a city that is already famously segregated, the decentralization of economic activity decidedly away from the inner city, (which is the major transport destination from the poorer, southern areas of the city) is worrisome. I offer some suggestions for the future of the CBD, and some thoughts on the promotion of 'growth nodes' by the city's economic planners. I argue that understanding the complex set of exogenous factors that underpin firm location decisions is key not only for understanding the past, but also for predicting future patterns of growth.

As Pellenbarg et al. (2002) note, the decision to relocate is a conditional one. It removes the site being abandoned from the spectrum of locations considered for relocation. When firms do this on a massive scale, we witness the collapse of certain spaces in the urban environment. The Johannesburg CBD is one of these spaces. This thesis is as much about understanding firm behavior as it is about understanding the process of urban spaces falling in and out of favor.

Methodology

This study required answering four questions: (1) *Did* firms relocate out of the inner city? (2) Where did they go? (3) Why did they leave? (4) Why did they choose this new location?

First, I gathered data on the current locations of 1034 firms that were located in the CBD in either 1986 or 1996.[4] These data provide firm-level information about (a) where in the CBD firms were located; (b) which firms left and which firms stayed; and (c) where in the city they relocated. By using a phone book to gather this information, I excluded the firms that relocated out of the Johannesburg area—and confined this to an intra-urban study.

Second, I conducted a phone and e-mail survey of a sample (n=16) of the 1034 firms.[5] In my survey, I contextualize the mapping exercise by asking firms why they left and why they relocated where they did. I ask questions about their property ownership (both in the CBD and in current locations) to determine whether firms follow property owners, or more organic market forces. I also ask questions about the degree to which crime affected their decision.

Third, I conducted roughly 45 interviews with local policy makers, city officials, redevelopment authorities, NGOs, academics, police officials, realtors, and citizens. These interviews provided a rich background to the city politics, dynamics of transition out of apartheid, and economic change.

Finally, I augmented this primary research with readings in South African history and politics, and Johannesburg historical and empirical research.

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[4] For a description of how I collected the data, see Appendix A.
[5] For a description of the how I conducted the survey, see Appendix B.

This was the methodology I used to understand the Johannesburg case, specifically. To situate this research within a broader context, I focused on location and relocation theories—with an eye towards the new theories of economic geography and clustering. Both because of their simultaneous emergence and the popularity (globally and locally) of the latter, the Johannesburg firm exodus out of the CBD and new economic geography writings seem like good bases for comparison.

Literature Review

Because there is surprisingly little work on understanding the role of the firm in a particular urban space, I focus this literature review on firm behavior and urban form. I look first at the two literatures broadly. Then I focus on their institutional determinants, to compare the existing literature with the framework I have proposed. I contend that this study adds to the existing literature by providing a framework for merging the analyses of firm behavior and urban form.

The literature on firm location and firm relocation attempts to explain the determinants of firm behavior. Their explanations typically point to endogenous drives to expand production or innovate. **Location theory** starts from the perspective that economic activity occurs within a physical space—and that this space matters. Location theory tends to be dominated by a focus on agglomeration economies, transportation costs, and minimizing productive factor costs.

Neo-classical location theory centers on transport costs and the benefits of agglomeration for industries and firms. According to Alfred Weber's theory of the location of industries (1929), analysts expect industries to locate where transportation costs of raw materials and final products are minimized. Marshall's theory of agglomeration (1920) suggests that firms will locate close to one another to reap the benefits of spillovers, shared resources, and economies of scope (Polenske, 2002c). These theories fail to describe why Johannesburg firms might reject the benefits of agglomeration, spillovers, economies of scope and low transport costs by choosing decentralized locations.

Central place theorists similarly fall short, (e.g., by positing that transport costs drive firm location. Assuming a featureless plane, the theorists suggest that there is a positive price-distance relationship. As firms move further from the plant, the transport costs rise, leading to the emergence of a dominant "central place." These central places grow when either production costs fall or there is a change in transport costs (Polenske, 2002a) Johannesburg firms' behavior—that is, the mass movement to decentralized, remote locations—suggests that transport costs are not prioritized.

Product Life Cycle theorists assert that as products mature, both sales and optimal production locations change (Polenske, 2002a). Were this theory explanatory of the Johannesburg CBD relocations, it would mean that each (productive) firm was experiencing product maturity.

Storper and Walker's (1989) alternative location theory more adequately speaks to exogenous factors driving firm location. They assert that:

1. Industries have locational freedom from the past.
2. Growth and dynamism pull new industries away from established centers.
3. Regional resources come from "rounds of investment."

Although their theory is attractive because it incorporates history, industrial power, and firm dynamism, Storper and Walker's theory falls short because it deals only with *innovative* firms' location strategies. My research deals almost entirely with non-innovating firms. Additionally, they tend to gloss over the differences between industry and firm.

In the following chapters, my research should demonstrate first that firms do *not* enjoy locational freedom from the past. In fact, the past plays a significant role in determining their future location. Second, growth and dynamism are not the primary drivers of firm flight away from the established center. Rather, political change, developer pressures, and crime leave firms assuming that their survival (not necessarily growth) depends on relocation.

An extension of location theory, **relocation theory** emphasizes the role of history and conditionality in firm location decisions. From the outset, it is important to highlight the lack of research on urban-level firm location, and intra-metropolitan firm relocation. The available theories tend to focus on (a) regional, national and global levels; (b) *industrial* rather than *firm* location; and (c) *productive* rather than *commercial* or *retail* economic activity.

Pellenbarg, van Wissen and van Dijk give a comprehensive overview of the theoretical and empirical research in relocation theory. Distinguishing firm relocation theory from location theory, they note,

> Firm relocation differs from firm location because it explicitly takes account of the fact that one location is substituted for another. The firm has a history, and this history is likely to have an influence on the locational outcome of the process. This locational outcome is therefore a *conditional* one. The specific nature of these conditional effects is important for any theory of firm relocation (2002: 3).

They go on to argue that these conditional effects can be interpreted as *push* and *pull* forces. Their emphasis on history and context (through a framework of push and pull factors) provides a key model for the structure and approach of this thesis.

Pellenbarg et al. summarize some of the key contributors to relocation theory. The movement of American industry from north to south inspired early theories of firm relocation (Garwood 1953; Mueller, 1961). During the 1960s and 1970s, the field came to be dominated by British-based theorists (Luttrell 1962; Cameron and Clark 1966; Keeble 1968; Townroe 1972). In Britain during this period, the central government heavily intervened to try to prevent the demise of former manufacturing centers. They used location control, capital subsidies and labor subsidies in an attempt to push manufacturing industry into key areas (Pellenbarg et al., 2002: 13). Because the British interventions were more rigorous than those of United States government, attention and empirical work naturally focused on the United Kingdom. All of these studies assume a much larger geographical scale than the city, so are marred by certain theoretical barriers for my purposes.

Intra-urban relocation theory is understudied, and therefore fairly underdeveloped. Empirical studies of intra-metropolitan relocations are typically undertaken by private firms, doing independent, contract work. As a result, there is not much rigorous attention paid to how these studies fit into a larger theoretical and empirical picture of urban economic growth. As Pellenbarg et al. (2002: 34) lament,

> Another topic that needs more attention is the study of firm mobility on the local scale. On the one hand, the lack of interest in research for the local scale is understandable because of the smaller impact of local moves on employment structures. On the other hand, the relative ignorance of the local moves is to be pitied, because from them a lot can be learned about the basic causes of firm relocation, and the course of the inherent decision process. In almost all cases, firms consider a local move *before* eventually deciding upon a move over greater distances, so it is very much worthwhile to know more about this phase. Furthermore, firm relocations over short distances can be very important in order to facilitate adjustment processes in the local economy.

One of the few intra-urban relocation studies I unearthed was conducted in 1980 by Erickson and Wasylenko. They developed a model of firm relocation, and they tested it with empirical evidence from intra-metropolitan relocation in Milwaukee. Their model is limited to *pull* factors like agglomeration economies, proximity to labor, available land, and proximity to transport. Wasylenko (1980) went a step further in acknowledging the need to look both at "demand for sites by firms and the supply of sites by communities, using the tax rate as an equilibrating mechanism." By exploring demand, he acknowledges the presence of not just *pull*, but *push,* factors in relocation.

The figures that these studies provide on the percentage of firms that have relocated best illustrate the extraordinary character of the Johannesburg case. Erickson and Wasylenko found that only 4.2% of Milwaukee firms relocated between 1964 and 1974. Pellenbarg et al. found that between 1994 and 1995, 7.9% of all firms in the Netherlands relocated. In Johannesburg, up to 85.2% of firms relocated out of the inner city, (see complete data in Chapter 2). These figures are staggeringly different. They suggest that there is something far more important than economic restructuring and suburban dreaming occurring in Johannesburg.

The applicable work on **urban form** attempts to explain the **decay of inner cities** and the **rise of the suburbs**. It mirrors some of Beauregard's characterizations of urban decay in the United States. Indeed, the images he presents are remarkably evocative of the

Johannesburg city decline. "Population loss; the physical deterioration of housing, factories, and shops; the collapse of urban land values; rising city property taxes and soaring crime rates; deepening poverty and unemployment; and the growing concentration of minorities have all, at one time or another, been dominant themes (Beauregard, 2003:3). My approach rejects the notion that post-Fordist production (a move away from centralized manufacturing) prompted the dissolution of downtowns and the proliferation of suburban development. Although Johannesburg did experience declining manufacturing employment and consequent spatial tendencies to decentralize, this change was minimal. Secondary sector employment only dropped by 4% between 1980 and 1991, (see Table 1.1).

Table 1.1: Employment by sector in the Johannesburg Metropolitan Area, 1980 and 1991

Primary sector				Secondary sector				Tertiary sector			
1980		1991		1980		1991		1980		1991	
No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
21,227	2.8	17,101	2.3	225,742	30	189,560	26	509,978	67	523,726	72

Source: Beavon, 1997.

Johannesburg's decentralization is more complicated. Though some of the mechanisms may be the same in the United States and South African cases (conflicted politics delaying inner city service provision, over-speculation in suburban land markets, etc.), the specific political and economic contextual differences render a comparison difficult.

Just as Beauregard writes on the flight from cities, there is a wide body of literature on the emergence of the suburb as a destination for business. The decline of the inner city is often linked in a chicken-and-egg argument to the rise of the suburb. A nod to urban history acknowledges that the centrifugal forces promoted and prompted by suburban development have been with us for the past 300 years. Robert Fishman traces the emergence of suburbs to the London bourgeoisie of the late eighteenth century, who sought refuge for a new form of family—the 'closed, domesticated, nuclear family' (Fishman, 1987:5).

Decentralizing trends are not new. However, they are changing their form. Even Fishman (1987: 16-17) notes,

> ...The suburb since 1945 has lost its traditional meaning and function as a satellite of the central city. Where peripheral communities had once excluded industry and large-scale commerce, the suburb now becomes the heartland of the most rapidly expanding elements of the late twentieth century economy...(These) perimeter cities are functionally independent of the urban core.

The causes implicit within these centrifugal forces are changing in time with changes in capitalist exchange. Suburban development in Johannesburg has a unique history. As early as 1890, the powerful mining magnates built sprawling residential estates to the north of the mines—in the area now comprising the northern suburbs (Beavon, 2000). These early settlers planted a thick forest of trees. Notably, Johannesburg is considered to have the largest urban forest in the world. Yet the natural terrain of the city is dusty savannah. This difference is striking to observe. The wealthy (historically white) areas of the city are starkly distinguished from the poorer (historically non-white) areas of the city by the mere presence of trees.

Johannesburg's suburbs continued to expand through the 20th century. "Even so, the large central business district located just north of the mining-land continued to be the single most important meeting point for people of all races although its opulence was reserved for whites only" (Beavon, 2000). In reading property documents and policy pieces from the early 1980s (Mandy, 1984; "New Perspectives on Urbanisation," 1986; Prinsloo, 1982), there is a sense that decentralization and a strong CBD could (and did) co-exist. The exodus from the CBD is thus arguably more than a sudden preference for suburban business.

Finally, I want to discuss the new theories on economic geography and clustering, not least because these theories partially motivated this study. They are interesting in this context because they share an approach that combines urban form with firm behavior. However, they do it in a slightly different way than I intend to. They share the assumption that firm behavior influences urban form. They assume that firms locate to expand their own productivity, (Porter, 2001; Krugman, 1991; Storper and Walker, 1989; Morgan, 1997). They do not consider that the relationship might work inversely: that urban form might exert more of an influence on firm behavior. In this study, I propose that this is exactly what occurs in Johannesburg. I maintain that firms in Johannesburg were location-takers. This is to argue that the location of economic activity in Johannesburg is based more on exogenous factors—factors that shape the urban form—rather than on the economic activity itself.

Johannesburg demonstrates an extreme case of firm relocation and an extreme case of inner city decline. In unpacking the dynamics of this case, I attempt to shed light on the multitude of alternative explanations—economic and non-economic—for why firms relocated. Specifically, I argue that property markets, insecurity, and the state were central determinants of Johannesburg's urban form and, by extension, firm behavior.

One problem with urban form driving market decisions is that it skews the range of choices for firms. It creates a heterogeneous landscape in which capitalism will have unpredictable or potentially inefficient outcomes. I do not intend to argue that this is a problem in itself. But it suggests that to understand firm behavior, economic activity, and the potential for economic development (in this case, on specific neighborhood-level planes), one must understand the urban form against which the activity occurs.

As this thesis demonstrates, urban form's effect on firm behavior tends to dictate the extent of economic activity (read: job creation) in specific areas of a city. In Chapters 3 to 5, I look historically (from 1980-2000) at developments in the CBD to determine ways that firms and form relate to and impact one another. Buried in this history are some interesting insights into the mechanisms and institutions that failed to create stable environments for doing business.

Identifying these helps us move beyond generalizing about firm relocation and points to specific points of plausible intervention.

Why should we care?

First, such a study fills several gaps in the existing literature. There is a paucity of work that incorporates exogenous factors into theories on clustering, new growth, and economic geography. I know of no attempts to map (on a micro-level) the spatial movement of firms out of the Johannesburg CBD.

The new discourse of economic geography pays surprisingly little attention to urban economic growth. The existing work on learning regions, knowledge-based growth, and building competitive advantage focuses on developing export clusters, and globally recognized clusters of innovation. Despite lip service paid to the importance of space and geography, there is little study of the dynamics of economic activity at the level of the city. As a result, this literature tends to ignore some of the more mundane issues of managing and "growing" the existing firms in an economy. The vast majority of these firms are small-medium enterprises that provide services for local consumption. Their movement may not trigger large growth rates directly, but they are responsible for the vast majority of jobs in a city.

When these "local" firms move—even to a new locale in the same urban area—they can wreak havoc on the local economy. Especially in a decentralized city with poor public-transport linkages, the movement of these firms can severely limit the employment opportunities of those in the deserted area. When these firms move en masse—as in the near total decentralization from the Johannesburg CBD—there are serious local impacts on employment. Even if jobs are not shed, disposable incomes of those having to commute further fall. For those who live in the region, suburb, or neighborhood that was abandoned by the firms, employment opportunities are pushed even further out of reach.

On the flip side, understanding *why* firms locate where they do can give policy makers insights on how to promote certain areas or regions—and how to cope with spatially equitable regional growth. From a planning and economic development perspective, city managers need to know what they are up against in recruiting firms to invest. If, indeed, not all firms make decisions based on security, perhaps these firms need to be identified. City managers and planners may need to rethink their targeting strategies. If high-valued added service industries tend to locate along the urban fringe, but low-value added sectors will locate closer to the urban core, perhaps officials in the city of Johannesburg should redirect some of their attention towards attracting the latter type of firms.

Conclusion

Because the stability of the local economy relies first on the stability of its localized firms, I contend that firm *relocation*, when present in extreme forms, can undermine a city's overall growth potential. That is, the *location* theorists' (which speak to the development of export-oriented, *productive* industries and firms) predictions of firm location become untenable in a city skewed by firm relocations. I maintain that the massive firm relocations to decentralized areas (almost wholly in the North of the city) stand in the way of sustained economic growth in the city because they create a rift in the economic geography of the city. It is therefore difficult—if not impossible—to consider (as policy makers have been trying to do since the new South Africa's inception in 1994) popular location theories like 'clustering' as having any real impact in South Africa.

On the other hand, perhaps the doomsday perspective is overstated. Schumpeter looked at the workings of capitalism, and duly noted that the defining feature of capitalism is that it sustains itself through "creative destruction." Like capital, cities and spaces within cities undergo creative destruction. Indeed, it is the mark of what Morgan describes as a "learning region" to be able to respond to such economic downturn with creative institutions, incentives, and retraining policies, (Morgan, 1997). Extended to cities, Schumpeter's theory of creative destruction implies that areas within cities have the potential to develop new modes of growth. The demise of these areas marks only one phase in their long-term development.

The problem, for planners, of course, is the immediacy of the short-term: the recognition that real people live in these economically abandoned areas. These real people hold a legitimate right to share in the city's wealth. Developing ways of reintegrating them into the local economy thus becomes critical. The policy implications (and some suggestions for a way forward) are made in the conclusion.

To jump ahead a bit, perhaps there are some lessons to be learned from the current literature on firm location. If the localized industries appear unusually footloose—or unwilling to locate in certain areas of the city—perhaps one solution would be to return to the recommendations put forth by location theory. That is, to exploit some of the competitive advantages of the abandoned areas (low rental costs, low transport costs, close proximity to low-income labor) to recruit new types of industries in these areas. Encouraging economic base industries to locate here would likely create agglomeration economies—thereby bringing back (or creating new) localized firms in the abandoned areas, and thereby opening up employment opportunities.

This seems quite logical—and perhaps we would expect local economic planners to consider such ideas. However, to read Johannesburg's economic plans and to speak with their planners and local officials, it is clear that they remain committed to the growth of high value-added, knowledge intensive sectors (i.e., financial and business services). Though I will discuss and critique this stance at length in later chapters, it bears mentioning now that their commitment to these sectors indicates the internationally persuasive power of Porter's theories of competitive advantage and Krugman's theories of a new economic geography.

This seems to be a broader problem of globalization writ large. These discourses get written (typically on the bases of empirical observations in the industrialized countries), held up as "truth" by major institutions like the World Bank and U.S. universities, and picked up by policy makers the world over.

My micro-analysis of firm movements in Johannesburg attempts to critique this blind acceptance by pointing out the mismatch in conditions on the ground with the assumptions of these theories. First, I argue that the primary problem in Johannesburg at present is the increasingly polarized economic geography of the city. Describing global-cities (noteworthy for it is Johannesburg's claimed goal [Joburg 2030, 2003; CDE, 2003]), Susan Fainstein notes,

> To the extent that they contribute to a spatial mismatch that reinforces labor-market exclusion, global-city characteristics may then be an indirect cause of income inequality...Those global cities whose fortunes are particularly tied to financial markets are supersensitive to swings in those markets, with the consequence of serious instability in the livelihoods of their residents. Although globalization is not the direct cause of polarization in Tokyo, its connection to the speculative frenzy of the 1980s and subsequent bursting of the bubble makes it an indirect determinant.

These conditions are echoed in Johannesburg. The location of the vast majority of economic opportunity in the northern suburbs (in tandem with very poor transport links) precludes the vast majority of the city's citizens, who are overwhelmingly poor and Black, or, in the South African understated but polite jargon "formerly disadvantaged," from accessing employment. This polarization arguably fuels the high crime rates, exacerbates the incidence of disease, and creates overall instability, which acts as a further deterrent to attracting economic investment—and to sustaining the investment that already exists in the city.

The global prevalence of speculative capital and its effect on property markets have been at the heart of the Johannesburg firm exodus. In the next chapter, I describe at length how an asymmetrical property market in Johannesburg (fueled by speculative capital) played a direct role in motivating firms to relocate out of the CBD.

My argument, in short, is that firm relocation *matters*. It matters why these firms left because many of the forces pushing firms out of the CBD over the past 20 years (property speculation, crime and grime, racism) continue to exist. It matters where these firms went because it highlights the polarization of opportunity that their relocation has created. It will be difficult for Johannesburg as a city to achieve meaningful economic growth (or equitable economic growth—rhetorically the primary goal of the ANC) if they continue to understate the importance of not just what happened to the CBD (i.e., how can we revitalize the inner city), but answering the question of where firms relocated, and how access to these new nodes can be improved.

Chapter 2: The Data

Mapping the flight of business out of the CBD

In this chapter, I map the movement of firms over the last 20 years from the Johannesburg CBD to the city's northern suburbs. I gathered address-level data on the current locations of 1034 firms that were located in the CBD in either 1986 or 1996. These data provide firm-level information about (a) where in the CBD firms were located; (b) which firms left and which firms stayed; (c) where in the city they relocated. In using a phone book to gather this information, I excluded any firms that relocated out of the Johannesburg area—and confined this to an intra-urban study.

The following pages highlight my findings on the past two decades of firm flight out of the Johannesburg inner city. I attempt to answer the questions: *Did* firms relocate? Which firms relocated? Where did they go? The chapter begins with on overview of the raw numbers of firms that relocated out of two districts within the CBD, over two time periods (1986 and 1996). Next, I map the movements of firms from the CBD to other sites within the city. Finally, I look at a specific building in the CBD (the Carlton Centre) and chart the movements of its tenants. I disaggregate the Carlton Centre's firms into various sectors to determine the degree to which firms (a) clustered in the Carlton Centre, and (b) follow similar clustering patterns in their new locations. Throughout this chapter, I emphasize the apparent preference of firms to choose decentralized locales over agglomerations. I use the data in this chapter as a springboard for arguing that strong exogenous forces in Johannesburg pushed firms into decentralizing in a more extreme way than we might observe in other post-industrial cities.

<u>First...did firms leave the CBD?</u>

The following statistics and charts offer compelling evidence that *yes,* firms left the CBD.

I collected data for two neighborhoods (Commercial and Financial districts) during two periods.[6] The Commercial District of the CBD comprises the highlighted area on the Eastern side of the map (see Figure 2.1). This area has witnessed one of the most dramatic downturns in the CBD. Flanked by the prestigious Carlton Centre and Hotel, the Commercial District was the premiere shopping area in South Africa through the 1970s. Through the 1990s, its property values crashed. The Financial District comprises the area on the Western side of the map, (see Figure 2.1). This area has also undergone a turbulent period through South Africa's political transition. However, it is now one of the key districts in the city being revived. The "Financial" District is a bit of a misnomer now—the area, encompassing the cultural precinct of Newtown—is being marketed as the cultural hub of the city.

Commercial District in 1986

According to the 1986 *Braby's Directory,* there were 2463 firms in Commercial District buildings. I looked each of these firms in the 2003 Johannesburg phone directory. Of these 2463 firms, 539 of them still exist and have address listings in the city. This indicates a surprisingly high 21.9% recovery rate. That is, 21.9% of the firms that were located in the Commercial District in 1986, (a) still exist; and (b) are still in Johannesburg.

Of these 539 firms, only 47 firms (or 8.7%) were still in their Commercial District locations. The remaining 492 firms (or 91.3%) relocated—most of them (85.2%) to areas outside the CBD.

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[6] For a detailed description on how I compiled this data, see Appendix A.

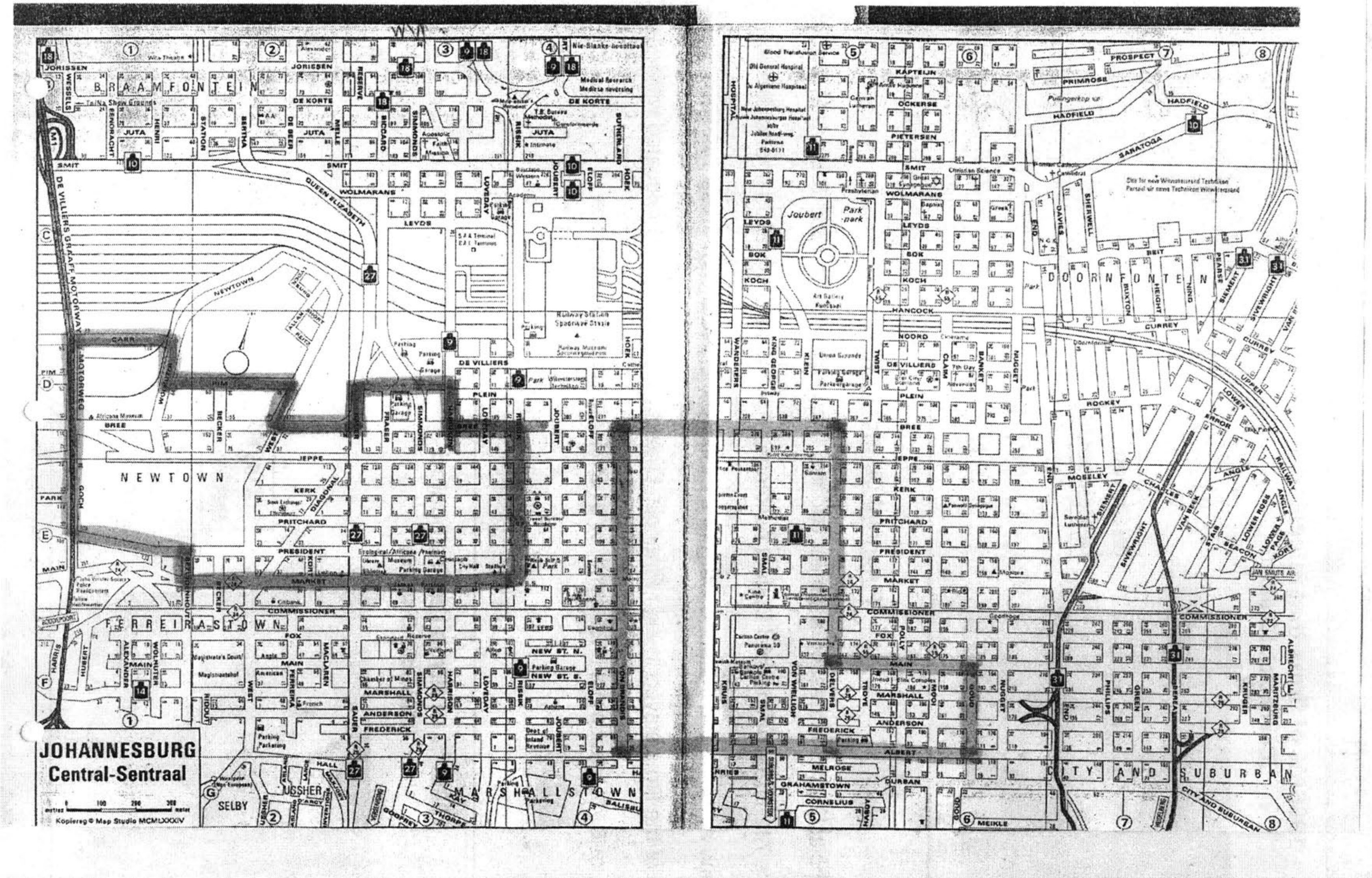
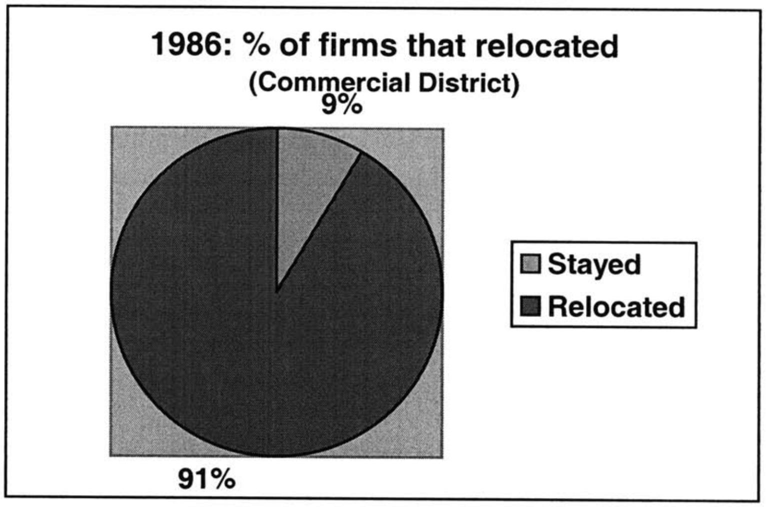


Figure 2.1: Map of the Johannesburg CBD

Source: Braby's Directory of Johannesburg Businesses, 1986-7.

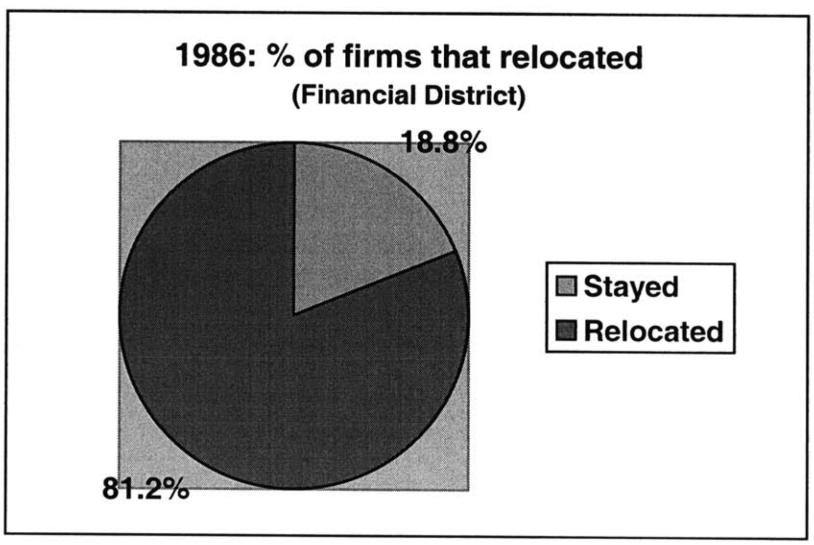
Figure 2.2



Financial District in 1986

The Financial District witnessed a similar exodus. According to the 1986 *Braby's Directory*, there were 712 firms in Financial District buildings. According to the 2003 phone directory, 149 of them had addresses in Johannesburg (a 21.2% recovery rate). Of these 149 firms, only 14 (or 9.4%) of the firms stayed in their Financial District buildings. Some relocated within the CBD (13 firms, or 8.7%), but most (121 firms, or 81.2%) left the CBD altogether.

Figure 2.3



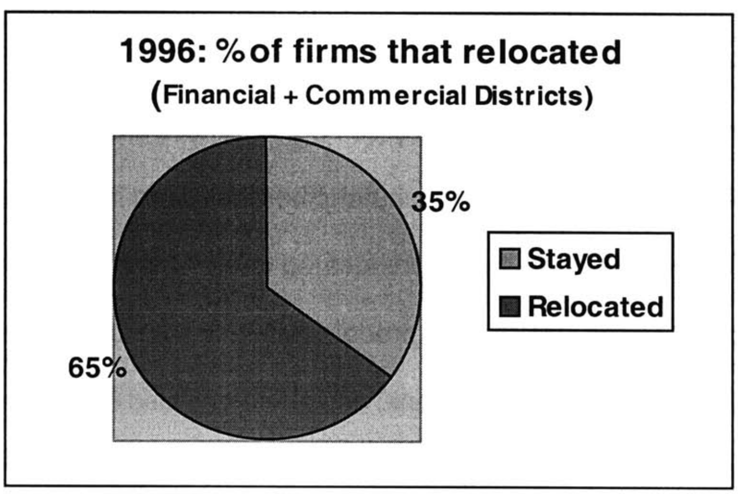
Commercial + Financial Districts in 1996

For 1996, I aggregated the Commercial and Financial districts, since there were fewer firms in both districts by this time. This fall in businesses reported by *Braby's Directory* was an indication in itself of the rising vacancy rates in the CBD. Their listing of 776 firms between both districts in 1996 demonstrates a 68.5% decline in the number of firms in the CBD since 1986. These figures are especially telling because they account for new businesses coming into the area. These numbers suggest that 68.5% of the office space that was occupied in 1986 was vacant by 1996.

Of the 776 firms listed in the 1996 *Braby's Directory*, I found current addresses for 346 of them, (a 44.6% recovery rate). My recovery rate rises noticeably for 1996, since less time has elapsed and the likelihood of survival for a 1996 firm is higher than for a 1986 firm.

Of the 346 firms I analyzed, 95 (or 27.5%) of them stayed in their current locations, and a total of 121 firms (35%) stayed in the CBD. Again, this figure is much higher than the retention rates of 1986 firms. I would argue that it is the more resilient firms that are still located in the CBD in 1996 (given rising crime rates and deteriorated perceptions of the area). So it is unsurprising that more of them (though notably only about 1/3) opt to stay in their current locations. The remaining two thirds (346 firms or 65%) left the CBD altogether.

Figure 2.4

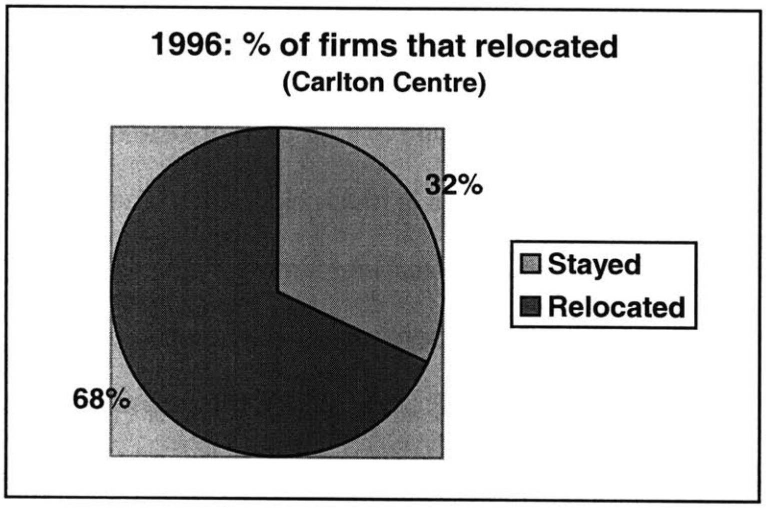


Clearly the real push out of the CBD occurred in the 1980s, with a total of 580 firms leaving the CBD during this period. However, the 65% flight rate, (an exodus of 346 firms) witnessed in the 1990s is also significant.

Carlton Centre: 1996

Finally, to examine one particular building within the Commercial district, I looked at the firm relocations of the Carlton Centre in 1996. Their results mirror those of the aggregated 1996 analysis above. I found that of 82 total firms in the Carlton in 1996, 56 (or 68%) of them left the CBD altogether.

Figure 2.5

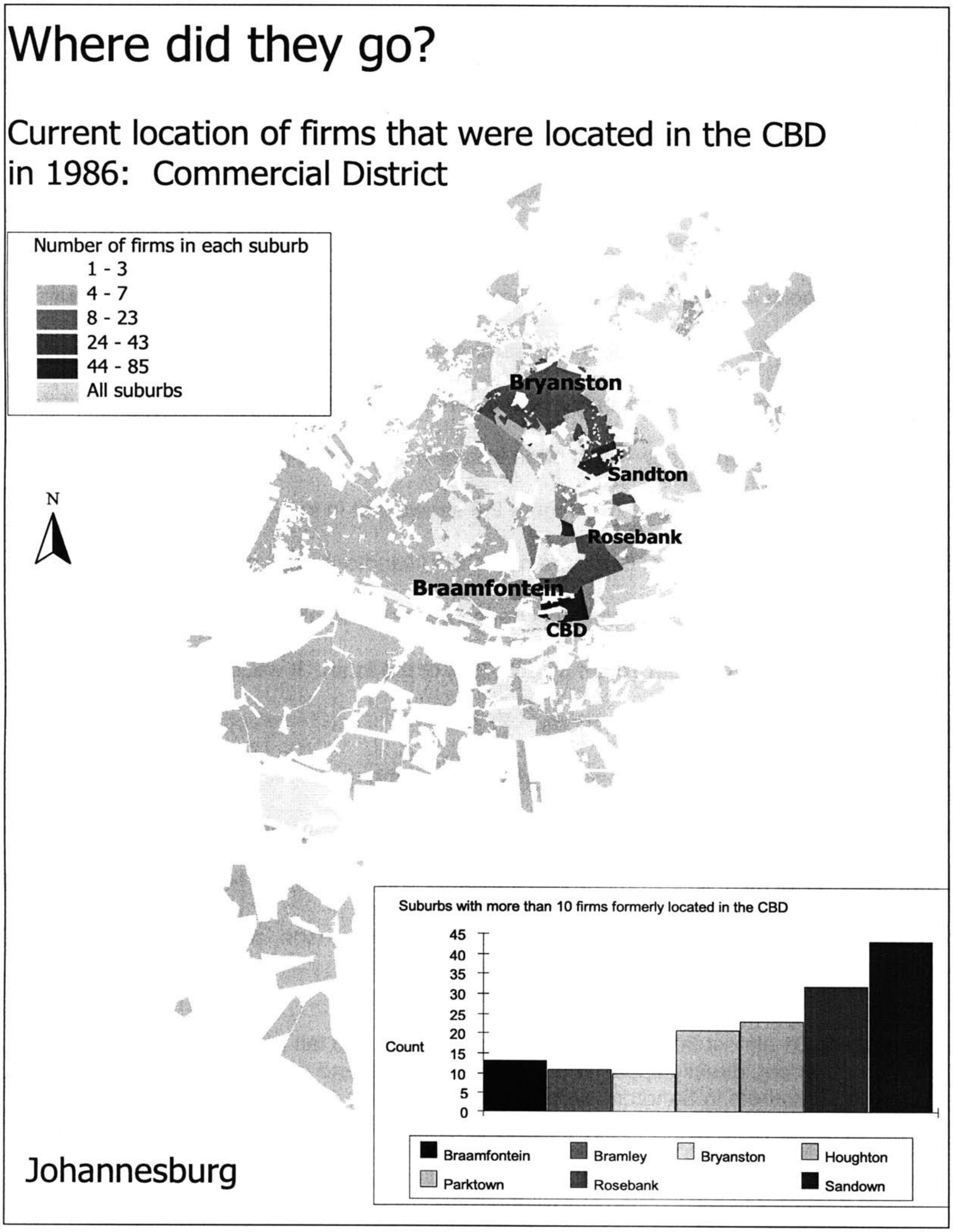


Where did they go?

We know that firms left the CBD in massive numbers. Where did they go? The following figures map the flight of business from each neighborhood, and in each period.

As Figure 2.6 shows, firms that were located in the Commercial District in 1986 decentralized throughout the city, though predominantly to the north. A few key hubs can be identified in Houghton, Parktown, Rosebank, and Sandton (also called Sandown). Forty-five firms are now located in Sandton. This is perhaps unsurprising, as many consider Sandton to

Figure 2.6: Map of the relocations of 1986 firms (Commercial District)



Source: Author's interpretation of data from *Braby's Directory* and *Phonebook: Johannesburg, 2003.*

be the new CBD, (Interview E, 2003; Interview F, 2003; Interview O, 2003). However, it is important to remember the total number of firms that this map represents. I found current addresses for 539 firms in this category. So the "hub" in Sandton only corresponds to 8% of the total. Additionally, there are a large number of suburbs that contain only 1-3 firms. This indicates that firms are dispersing to a significant degree.

Figure 2.7 maps the movement of firms that were located in the Financial District in 1986. This map looks fairly similar to the pattern of Commercial District firms. The top four destinations for these firms are Rosebank, Braamfontein, Illovo, and Parktown. Again, Rosebank, with 10 firms, represents only 7% of the 149 firms mapped in total. The bulk of the firms locate in dispersed manners—most often with only one or two firms per suburb.

Do the results change by 1996? Figure 2.8 shows that in fact, the patterns remain remarkably similar. With about 32 firms, the new CBD (Sandton) captures only 9% of the total number of firms. The other 'hubs' during this period are comparably small—with Braamfontein and Rosebank only hosting about 10 firms each, (3% of the total). It would seem that firms are dispersing even more than in earlier periods.

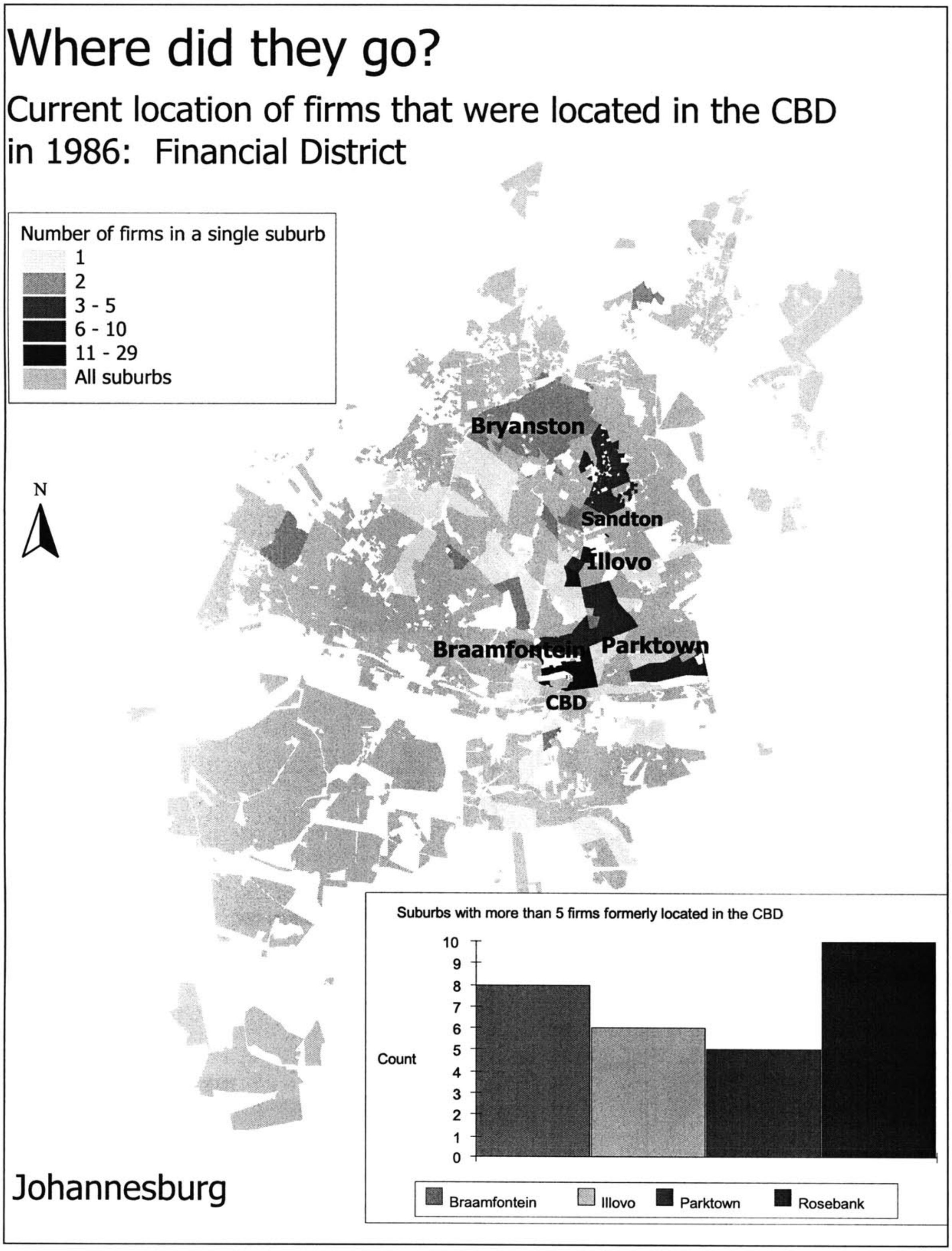
Similar Findings Elsewhere

My findings are echoed by existing research. Rogerson and Tomlinson report that, "Between 1982 and 1994, 17 of the top 65 corporations relocated their head office from the CBD to one of the business nodes in the northern suburbs," (Rogerson & Tomlinson, cited in Beall et al., 2002: 55). The CDE report similarly finds that:

> By April 2001 almost 500 of the city's 600 advocates had left Innes Chambers in Pritchard Street, directly opposite the Supreme Court, and moved to Maisels or Garden Chambers in Sandton. More were due to leave the CBD when their leases expired. The bar secretariat itself moved to Sandton after its lease expired in March 2002. It seemed the advocates would rather travel 15 or 20 km twice a day (and be near many of their clients) than remain in the city centre, where they could walk to court across the road, (CDE, 2002: 38).

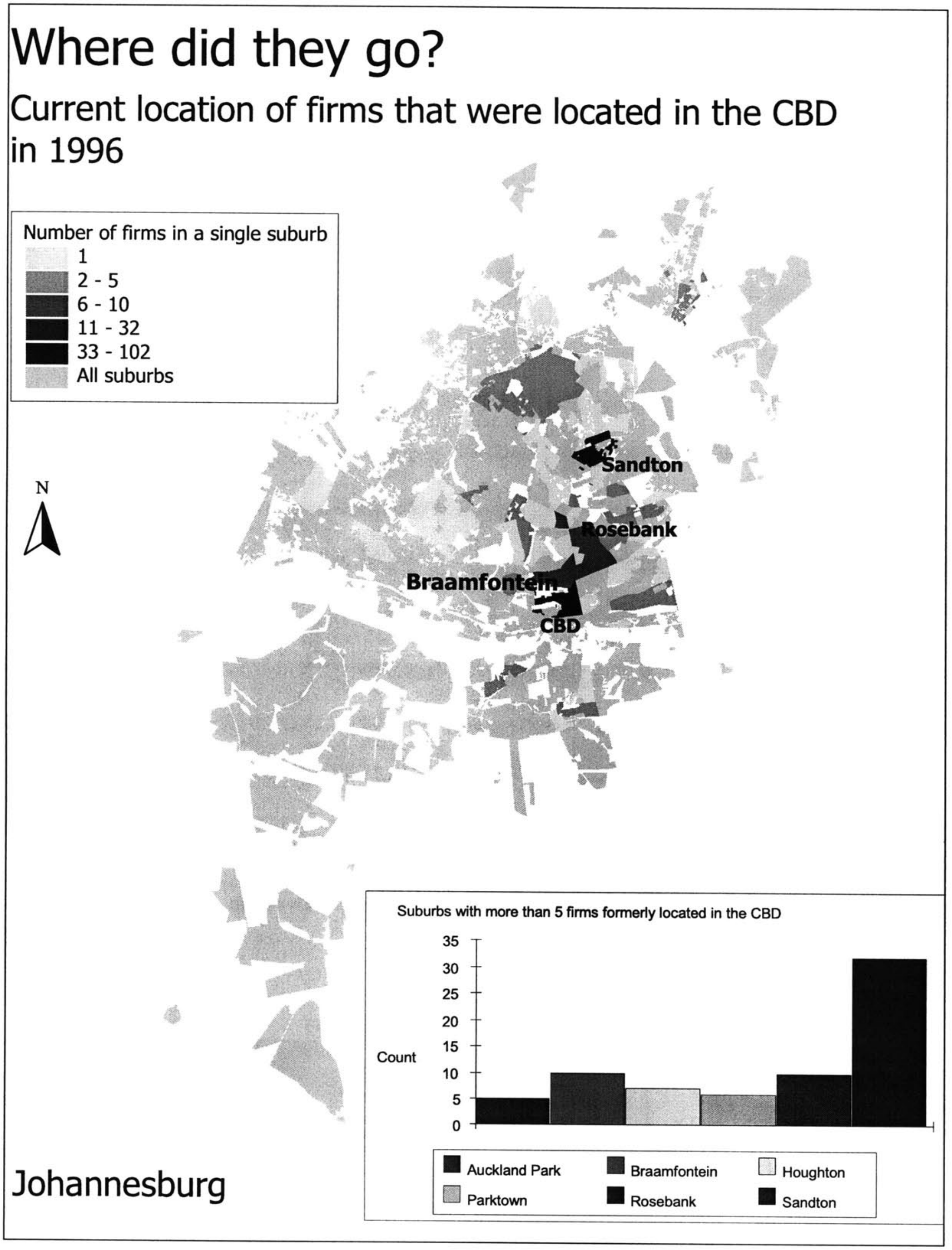
Though these findings are unlikely to surprise anyone in Johannesburg, this study fills a gap in available literature on the decline of the city's CBD by following on a broader scale the

Figure 2.7: Map of the relocations of 1986 firms (Financial District)



Source: Author's interpretation of data from *Braby's Directory* and *Phonebook: Johannesburg, 2003.*

Figure 2.8: Map of the relocations of 1996 firms (Commercial + Financial Districts)



Source: Author's interpretation of data from *Braby's Directory* and *Phonebook: Johannesburg, 2003.*

movement of firms from the CBD to new locations within the city. Newspaper articles and existing studies tend to chart only the movements of leader firms. They tend, as a result, to assume that the smaller firms are indeed "following the leaders." My results suggest otherwise. Firms—especially small firms—tend to disperse widely throughout the city.

To better understand firm behavior, I isolated a single building in the CBD—the Carlton Centre—and tracked the movement of its tenants over the two time periods. The Carlton Centre is one of the largest office buildings in the CBD. At 50-storeys high, it boasts that it is "the tallest building in Africa." Beyond its size, the Carlton Centre is steeped in symbolic meaning for the city. For the past thirty years, it has been both an economic anchor for the commercial district, and a cultural image of both apartheid-era nostalgia and the political struggle against apartheid. The first legal non-racial restaurant in South Africa was established in the once 5-star Carlton Hotel in 1975 (CDE, 2002: 22). Many people used the Carlton Centre's demise as a barometer for the general downfall of the CBD.

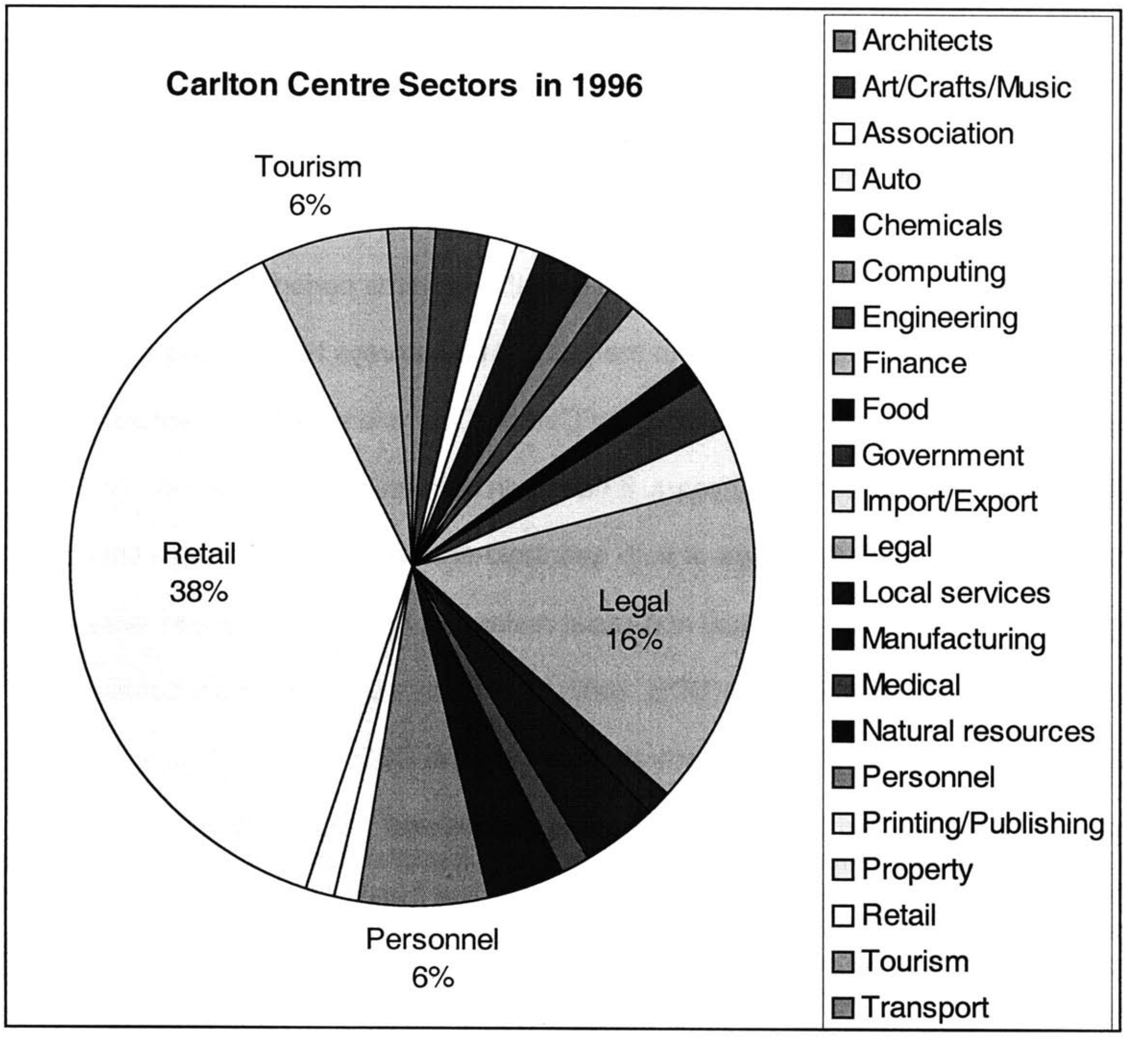
> The Carlton symbolized the CBD's boom in the 1960s and 1970s...However, changing dynamics in the inner city steadily undermined the complex until, in 1997, Anglo American Property Services (Ampros) put it up for sale... Ampros wanted R84 million—roughly what it had cost to build the centre almost three decades earlier. In August 1999, the transport parastatal Transnet bought the entire complex for a mere R32 million—according to the *Financial Mail*, 'less than one tenth of its replacement cost and not much more per square meter than the cost of the carpets in the...office of Saki Macozoma, (then) Transnet's CEO (CDE, 2002).

That the Carlton experienced such utter decline makes the study of its tenants especially interesting.

In disaggregating the Carlton Centre, I test the hypothesis that firms that "clustered" in 1996 and 1986 (i.e., were all located in one building), would also "cluster" when they moved to new locations. If they co-located originally to tap synergies or knowledge spillovers, then shouldn't they also co-locate after crime has pushed them out of the original location?

To test this hypothesis, I first identified the sectors of firms located in the Carlton Centre in 1996. They are as follows:

Figure 2.9



The four primary sectors in 1996 were retail (31 firms), legal (13 firms), tourism (5 firms), and personnel (5 firms). Where did these firms go? Below, I analyze the movements of legal and retail firms from the Carlton Centre to new locales.

LEGAL

Table 2.1 shows the current addresses of the legal sector firms that were located in the Carlton Centre in 1996. If firms clustered in their new locations, we would expect to see them all locating in the same suburb. As the figures and charts below demonstrate, these firms did not cluster in their new locations.

Table 2.1: Legal firms located in the Carlton Centre in 1996

Firm	1996 Address	2003 Suburb	2003 Street Address
Brugmans Inc	Carlton Centre	Carlton Centre (CBD)	Same
De Vries Inc	Carlton Centre	Carlton Centre (CBD)	Same
Sibiya Attorneys	Carlton Centre	CBD	Merbrooke House, Commissioner Street
Smith, Mervyn J	Carlton Centre	CBD	14 Nugget St., City & Suburban
Krawitz Michael & Co	Carlton Centre	Dunkeld West	25 Bompas Road, Dunkeld West
Jansen-Potter Attorneys	Carlton Centre	Kensington	The Lion House, 20 Roberts Ave.
Snyman HJG	Carlton Centre	Northcliff	282 Pendoring Road
Rubenstein GB Attorney	Carlton Centre	Parktown	11 Rock Ridge Road
Mayat Nurick & Associates	Carlton Centre	Parktown North	62 7th Avenue, Parktown North
Melamed & Huruwitz Inc	Carlton Centre	Riviera	70 Oxford Road, Riviera
Fluxman Rabinowitz Raphaely	Carlton Centre	Rosebank	Baker Square, 33 Baker St.
Perlman S	Carlton Centre	Rosebank	Alliance House, Rosebank
Praetor Trust	Carlton Centre	Rosebank	Nedbank Gardens, Bath Ave.

Of the legal firms "clustered" in the Carlton Centre in 1996, two of them stayed in the Carlton Centre. Two of them relocated to other space in the CBD. The remaining nine relocated, (69%). Did these law firms stay together?

No. They remaining nine all moved to northern suburbs, but do not display clustering patterns. Three went to Rosebank, where they stayed in close proximity—but not in the same building or even on the same street.

RETAIL

Table 2.2: Retail firms located in the Carlton Centre in 1996

Firm	1996 Address	2003 Suburb	2003 Street Address
Hilmond Weavers & Interiors	Carlton Centre	Auckland Park	55t Sandhurst, Auckland Par
3rd Base Clothing A	Carlton Centre	Bedfordview	Eastgate Shopping Centre, B
Manny's Keyhole	Carlton Centre	Bramley	Bramley Shopping Center, 28
Denim King CC	Carlton Centre	Bruma Lake	Bruma Flea Market, East Opp
Levisons Stores (Pty) Ltd	Carlton Centre	Carlton Centre (CBD)	Same
Sterns Jewellers (Pty) Ltd	Carlton Centre	Carlton Centre (CBD)	Same
Wimpy Restaurant	Carlton Centre	Carlton Centre (CBD)	Same
Carlton Bakery	Carlton Centre	Carlton Centre (CBD)	Same
Carlton Centre Florist	Carlton Centre	Carlton Centre (CBD)	Same
Galaxy Jewellers	Carlton Centre	Carlton Centre (CBD)	Same
Gift Inn	Carlton Centre	Carlton Centre (CBD)	Same
La Panache	Carlton Centre	Carlton Centre (CBD)	Same
Love Inn	Carlton Centre	Carlton Centre (CBD)	Same
Pumpernickel Restaurant	Carlton Centre	Carlton Centre (CBD)	Same
Springbok Panorama	Carlton Centre	Carlton Centre (CBD)	Same
Truworths	Carlton Centre	Carlton Centre (CBD)	Same
Clicks Stores	Carlton Centre	Carlton Centre (CBD)	Same
Alex Hair International	Carlton Centre	CBD	Small Street Mall, The Brid
Tigers Eye Retail	Carlton Centre	CBD	35 Phillips St., City & Sub
Curry Tavern The	Carlton Centre	City Deep	City Deep Market, City Deep
Camera Kiosk	Carlton Centre	Dunkeld West	281 Jan Smuts Ave, Dunkeld
Roxy's Restaurant	Carlton Centre	Melville	20 Main Road, Melville
Frames Unlimited	Carlton Centre	Parktown	31 Prince Wales Terrace, Pa
Private Collection	Carlton Centre	Rivonia	40 Rivonia Blvd, Rivonia
Boutique Bazaar	Carlton Centre	Sandton	Village Walk, Maude Street,
Lane Hair Clinic	Carlton Centre	Sandton	124 Daisy St, Sandown
Gold Coin Exchange	Carlton Centre	Sandton	Twin Towers, Sandton City
SA Diamond Dealers	Carlton Centre	Sandton	Sandton
The South African Gold Coin	Carlton Centre	Sandton	Twin Towers West, Sandton C
Toty's Restaurant	Carlton Centre	The Gardens	48 The Avenue, The Gardens
Ladine Beauty Centre	Carlton Centre	Weinberg	34a 6th Ave, Weinberg
Hilmond Weavers & Interiors	Carlton Centre	Auckland Park	55t Sandhurst, Auckland Park

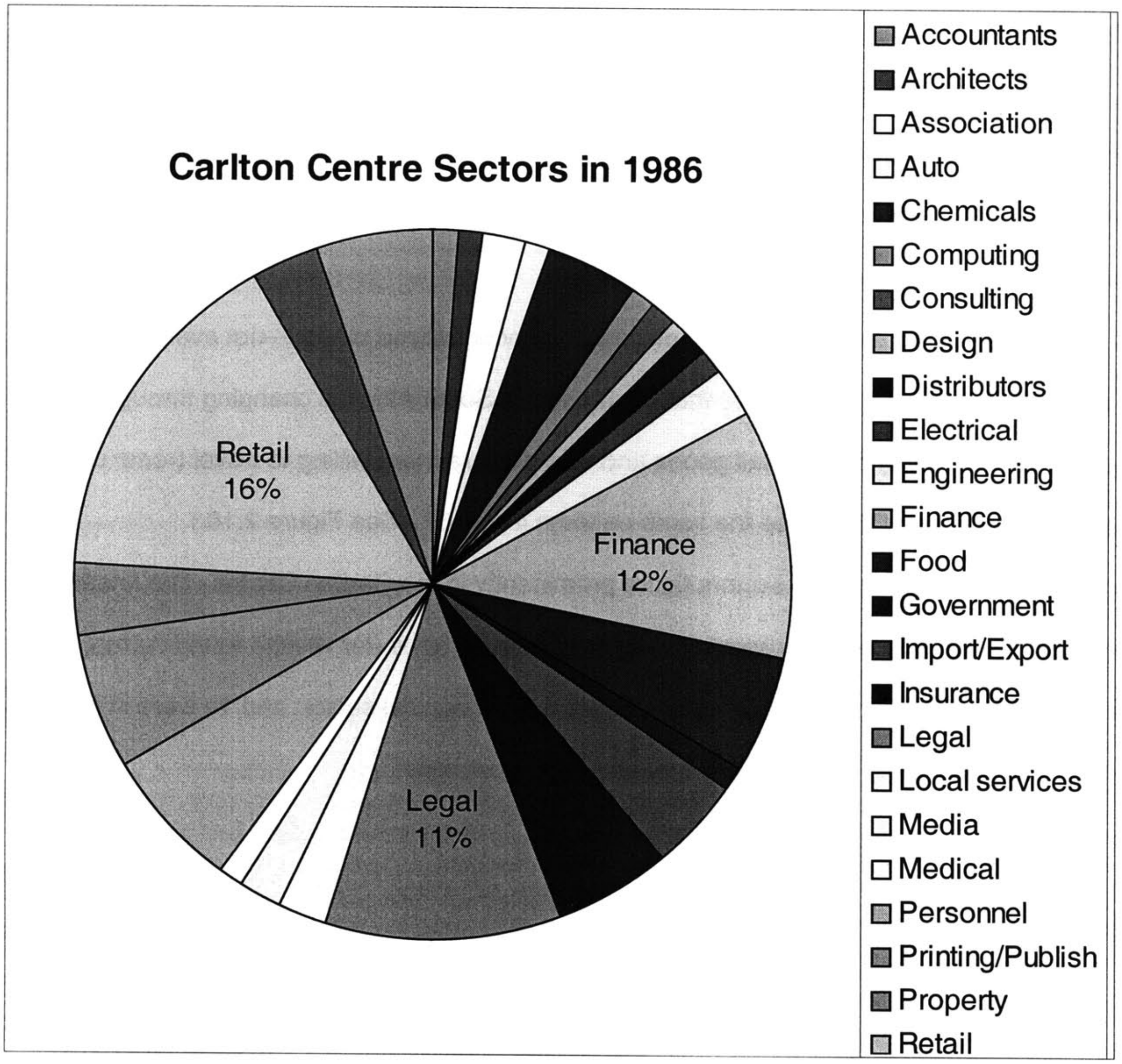
The first noticeable difference here is that a large proportion of retail firms stayed in the Carlton Centre. Thirteen firms (42%) of the retail firms stayed in the Carlton Centre, and two firms relocated to elsewhere in the CBD (6%). Did the remaining 52% of retail firms cluster in their new locations?

There appears to be some pull towards Sandton, with five firms (16%) relocating there. Two of these firms (Gold Coin Exchange and The South African Gold Coin) relocated to the same shopping centre: Twin Towers, Sandton City. Their movement perhaps demonstrates some micro-level clustering.

However, the majority of firms relocated to decentralized places—not even necessarily in shopping centers. This indicates that the market in South Africa is changing through this period. Consumers of these retail goods and services are more willing to travel (read: drive) to dispersed locations. Do we see the same patterns in 1986? (See Figure 2.10.)

Again, retail and legal sectors figure prominently in the Carlton Centre. The financial sector also has a noticeable presence in 1986. Out of 95 firms (for which I found current addresses), 15 were in the retail sector; 11 were in the financial sector; and 10 were in the legal sector. Did these firms stay together through their relocations?

Figure 2.10


Carlton Centre Sectors in 1986
Retail
16%
Finance
12%
Legal
11%
Accountants
Architects
Association
Auto
Chemicals
Computing
Consulting
Design
Distributors
Electrical
Engineering
Finance
Food
Government
Import/Export
Insurance
Legal
Local services
Media
Medical
Personnel
Printing/Publish
Property
Retail

RETAIL

Table 2.3: Retail firms located in the Carlton Centre in 1986

Firm	1986 Address	2003 Suburb	2003 Street Address
Hippe Furs (Pty) Ltd	Carlton Centre	Birdhaven	17 Wingfield Ave, Birdha
Lloyds Travel	Carlton Centre	Bryanston	Bryanston, S Center, Hob
Cuthberts	Carlton Centre	Carlton Centre	Same
Amica Boutique	Carlton Centre	CBD	4 Smal Street Mall
Dodo's Boutique	Carlton Centre	CBD	Saambou National Bldg, C
Circus	Carlton Centre	Highlands North	Balfour Park S Center, H
Trouser House	Carlton Centre	Hillbrow	High Point, Koetze St.,
Stubihl Curios (Pty) L	Carlton Centre	Parkwood	15 Torquay Rd, Parkwood
Lilliputs Toys	Carlton Centre	Rosebank	The Mall, Craddock Ave.
Golden Sheepskin, The	Carlton Centre	Rosebank	The Zone, Rosebank
Wesleys Tobacconist	Carlton Centre	Rosebank	The Mall, Craddock Ave.,
Biji Boutique	Carlton Centre	Rosebank	Regents Place, Cradock A
Hitachi Ltd	Carlton Centre	Rosebank	Nedbank Gardens, Bath Av
Forma Viva Fine Jewell	Carlton Centre	Rivonia	116 Medical Mws, Rivonia
Sharp Edge Sharp Shoot	Carlton Centre	Sandown	L15C Sandton City, Sando

Retail firms that were located in the CBD in 1986 appear to have clustered slightly more than in the later period. Rosebank was a popular destination for firms—likely because of its large shopping mall (The Zone and The Mall are connected). However, the remaining 66% of firms tended to disperse—predominantly to northern suburbs.

LEGAL

Table 2.4: Legal firms located in the Carlton Centre in 1986

Firm	1986 Address	2003 Suburb	2003 Street Address
Louis Gishen and Assoc	Carlton Centre	Bryanston	58 Peter Place
Mervyn J Smith	Carlton Centre	CBD	14 Nugget St.
Oshry David & Associat	Carlton Centre	Dunkeld West	Albury Road
Krawitz Michael & Co	Carlton Centre	Dunkeld West	25 Bompas Road
Venter GC Oden	Carlton Centre	Glenvista	16 Cunningham Road
Lourens and DeLange At	Carlton Centre	Northcliff	156 DF Malan Ave
Lowndes Group	Carlton Centre	Parktown	Nedbank Park
Fluxman Rabinowitz Rap	Carlton Centre	Rosebank	Baker Square
Melman and McCarthy	Carlton Centre	Rouxville	38 Boundary Rd
Ioulianou S Attorney	Carlton Centre	Senderwood	13 Chaucer Ave

Legal firms that were located in the Carlton Centre in 1986 are now located in very dispersed patterns. Only one law firm stayed in the CBD (Mervyn J Smith). The others have relocated entirely to the northern suburbs. This implies that either they were not clustered together to enjoy spillover effects from similar firms in the first place, or that these spillover effects were not valuable enough to maintain them. An interesting follow-up study would examine the areas where these firms relocated. Are there other law firms nearby? For now, we can only assume that these particular firms did not share enough of a relationship to maintain it through their relocation.

FINANCE

Table 2.5: Financial firms located in the Carlton Centre in 1986

Firm	1986 Address	2003 Suburb	2003 Street Address
Dolomite Investment	Carlton Centre	Bryanston	37 West St.
Centaur Finance	Carlton Centre	Chislehurston	Trade House
Gorfil Brothers Invest	Carlton Centre	Dunkeld West	20 Kent Road
Kleinwort Benson Ltd	Carlton Centre	Dunkeld West	2 North Road
Spectrum Financial Con	Carlton Centre	Kensington	Milner Road
Randoux Finance (Pty)	Carlton Centre	Parktown	JCC House
Bayerische Vereinsbank	Carlton Centre	Parktown	3 Rockridge Road.
Intercontinental Finance	Carlton Centre	Sandhurst	19 Woodside Ave
Grosvenor Asset Manage	Carlton Centre	Sandton	20 Fredman Drive
Bank of Tokyo	Carlton Centre	Sandton	The Forum
Credit Commercial	Carlton Centre	Sandton	Nedcor Bldg

Finally, we turn to the financial sector. Tellingly, none of the finance-related firms stayed in the CBD. They all moved to the northern suburbs. Three firms (27%) moved to Sandton. Two firms each (18%) moved to Dunkeld West and Parktown. Again, we see the same patterns: some micro-level clustering, but for the most part decentralized dispersal of firms that once shared the same building.

Suggestions for future research

The address level data I have collected on firm movements out of the CBD can be used for many supporting analyses. Though such analyses would be somewhat outside the scope of this paper, they would be useful in drawing out some of the correlations (or lack thereof) between past and future firm locations. Do certain types of firms (i.e., by sector), demonstrate a preference for certain areas? Do firms that were located in the same building, or in the same immediate vicinity tend to follow each other to new locations? These questions could all be answered through further analyses of my data. I posed these questions for a single building, the Carlton Centre. But it would provide a rich comparison to add several other buildings (or all buildings) to the analysis.

Moreover, additional data collection would augment the information I have here. As mentioned earlier, it would be helpful to collect more data on the areas where firms relocate, to determine firms' relationships to other firms in the new area. Did firms relocate to tap the benefits of proximity to their new neighbors? Did they tend to locate near "leader" firms?
It would be useful, too, to have more detailed information on the firms in my dataset. How many employees did/do these firms have? What are their specific locational determinants (i.e., proximity to customers, proximity to suppliers, access to transportation for goods or employees, etc.)? I attempted to texturize my own data set with these types of questions in an informal phone survey. But the cost of phoning many firms internationally, and the time it takes to interview even one firm prohibited me from conducting a comprehensive survey. With some more time and resources, such information could provide more valuable, precise insights into firm behavior in Johannesburg.

Conclusions

What can we conclude from these analyses? By and large, firms in the same sector do not follow each other from one location to another. Regardless of what pushes these firms out of the CBD, they are unlikely to cluster in the same way that they did prior to relocation. Do these findings debunk cluster theory?

It is difficult to disregard cluster theory entirely without more information about the areas to which firms relocated. However, cluster theory is clearly inadequate for explaining *why* firms relocated where they did.

Additionally, in making sense of the demise of the CBD, we need to ask why firms disregarded the "benefits" that typically accrue from agglomerations. Why did firms opt for decentralized locations over their locations in an urban core with a full range of amenities and close proximity to similar firms?

Agglomeration and clustering forces, which the literature claims motivates firm location, were not strong enough to keep firms in the inner city. What were the exogenous forces that must have acted on these firms? In the next three chapters, I argue that three exogenous factors (property markets, crime, and state failure) pushed firms to such an extent that they gave up their benefits of agglomeration, and opted for decentralized locations. These factors *push* firms out of cluster formations.

Why weren't these same firms *pulled* together in more centralized patterns? Although we do witness the emergence of a few commercial hubs in the northern suburbs (as in Rosebank, Sandton and Parktown), firms tend to locate in highly dispersed configurations. In reading through the next three chapters on the impact of exogenous factors on firm behavior, it is important to keep in mind this question of why firms forfeit agglomeration economies in favor of their dispersed locations. The following chapters should offer enough evidence to explain *why* firms make this tradeoff. In the concluding chapter, I will consider the potential setbacks of choosing decentralized patterns of location over agglomerations (or clusters). There are setbacks not only for firms themselves, but for the society at large. It is important to emphasize that agglomeration is, in fact, *traded off* for decentralization. This is not a story of firm location, but firm *re*location. Since growth in the South African economy remains marginal throughout the 20-year period studied here, it is not new firms that are choosing dispersed locations (as in Silicon Valley, for example). Rather, it is existing firms that are leaving their "clustered" locations for decentralized sites.

We turn now to the first reason I put forth for why Johannesburg firms made this choice: the role of property markets.

Chapter 3: Manufacturing Clusters

The role of property developers in pushing firms out of the CBD

"There is nothing unique about the Johannesburg context, in terms of property tendencies."
—Interview J, Urban Economist, Interviewed 10 Jan 03.

In this chapter, I take issue with this economist's claim. I contend that Johannesburg's decentralization was unprecedented in its rapidity, its scope, and its intra-urban nature. If, according to my data, an extraordinary 85.2% of firms located in the CBD in 1986 subsequently relocated[7]—and not to other countries or regions, but within the same city—is it fair to suggest that Johannesburg's property tendencies are no different than elsewhere in the world?

Just as the property tendencies diverge from what we would expect to see, so do the property market's actors. Throughout this chapter, I point to the agency of property developers in encouraging relocations out of the CBD. In so doing, I make two arguments: (1) property developers in Johannesburg manipulated land and property markets in unique, contextually-specific ways; and (2) that the speculative behavior of property developers more generally is underestimated in theoretical understandings of firm behavior, urban form, and firm relocation.

My aim is to show how property developers play a critical role in setting the terms for where and how firms can locate. Property developers can often drive cluster development in ways that are far more relevant than pure market mechanisms, individual firm behavior, or government interventions. What is more, in the absence of any state control, property developers can (and do) actively manipulate markets in such a way as to manufacture demand. This can lead to highly inefficient outcomes. However, it can also lead to new morphologies of cluster formation. Exploring these dynamics is the primary purpose of the following chapter.

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[7] See Chapter 2.

The Logic

When I asked over twenty property developers, city officials, and academics, about the reasons for the flight of business out of the Johannesburg CBD, they mentioned (in varying order) things like crime and grime, political unrest, racism, weak city management, the physical decay of buildings, new technological requirements for firms, and global trends of post-industrial urban decline. Weighing these factors against one another, I had difficulty in selecting a single dominant factor.

However, Soraya Goga's chapter on "Property Investors and Decentralization" in the new publication Emerging Johannesburg (2003), highlights a critical factor that my interviews failed to unearth. She points to the responsibility of oligopolistic property investors and developers during the mid 1980s in: Providing the office space in the northern suburbs—even in the absence of a demand for it; encouraging their inner city tenants to relocate; setting off a crisis of confidence amongst business and retailers in the inner city.

She argues that the unique characteristics of both the property market and the broader economic climate during the late 1970s and early 1980s in Johannesburg precipitated the exodus of business out of the CBD.

Her argument, in brief, is that the unstable economic climate of the late 1970s and 1980s sparked high inflation in South Africa. Households responded by investing disproportionately in pension funds and insurance. These pension and insurance outfits reinvested the money in property markets. Poor market information, an oligopolistic property market (dominated by about seven major banks, pensions and insurance companies), and skewed opportunity costs (investing in any other area was tenuous, given the economic and political climate at the time) fueled massive over-development in suburban commercial space. To recover profits on these properties, the developers offered deep incentives for firm relocation within the city of Johannesburg. For these property owners, it became more profitable to write off their CBD buildings and to market instead (to the same clients) their decentralized office locations.

Let us now look at this phenomenon in closer detail.

At the heart of the matter was the period of economic volatility in the 1980s, caused simultaneously by the international economic recession, the sanctions imposed on South Africa, and the political instability in the late apartheid years. As Jones and Muller report, "In the 1980s, high inflation rates (about 13% for most of the 1970s and 1980s) led to increased investment by households in insurance and pension funds as a form of savings" (1992; cited in Goga, 2003: 73). Practically, this meant that South Africans' money went disproportionately to the major pension and insurance houses: Old Mutual, Sanlam, Rand Merchant Bank, JHI, Ampros, etc.

Given the massive infusion of capital from South Africans seeking to protect their investments from inflationary penalties, these firms had to find a place to invest the money. They could not invest abroad both because of sanctions and controls on foreign exchange. Business—a sound place to invest under normal situations—was also a non-option for two reasons. First, local manufacturing output had been declining (in line with international trends) for several years. Second, political uncertainty exacerbated by the violent anti-apartheid struggles in the townships, and a growing sense that a black government would rise to power, additionally rendered investors wary of investing in local business or manufacturing. The only remaining option was to invest in property.

The pension fund/insurance market in South Africa was (and continues to be) heavily dominated by a small number of players (arguably creating an oligopolistic market). "The industry is extremely concentrated. A few large players control most of the pension funds and thus investment. The largest two, Old Mutual and Sanlam, receive two-thirds of the total premium income of all long-term insurers, and the top seven about 90%" (Goga, 2003: 75). Goga notes that the oligopoly created a "herd mentality" among developers: even though there was no demand for decentralized office space, when one developer opted to build an office node outside the city, the others scrambled to keep pace.

This herd mentality was exacerbated by several other factors as well: a lack of sound investment information (it was not until 1998 that South Africa had a uniform property index to measure property performance); a lack of portfolio management; ad-hoc property management; and skewed property funding schemes (Goga, 2003: 77). The system by which property owners' valued property was not standardized. Owners and developers could perform and advertise their own assessments of the property's value. This, unsurprisingly, led to significant overvaluations of the properties, and served to further distort the market. Goga reports:

> As one property analyst stated:
>
> '…a big problem is that the big boys, and in fact everyone, values their properties themselves. So they can create what values they want. Everyone says, 'oh, well, the auditors will pick it up,' but the truth is that most of the auditors don't like to challenge the books of the big boys—after all, they need work next year.'
>
> What it meant for Johannesburg was that the perception of property as a 'good return' continued even in the face of poor returns (Goga, p.78).

A final problem was the nature of pension and insurance houses as both property owner and developer. Prior to this period of heavy investing in pension funds and insurance (during the years of stable inflation), many South Africans would keep their money in banks. Property was typically bought, developed, and sold by developers who took out bank loans to finance the investments. This provided a system of checks and balances, since developers were reliant on steady income from the property (in the form of rent) to incrementally pay off their bank loans. In the case of the big insurance and pension fund houses, however, they had little concern for the immediate income stream. They owned the property outright, so the more important factor was the property's long-term capital gain. This effectively meant that they could increase the supply of property even in the absence of any immediate demand.

This also meant that the big investment houses had to create demand for their new, decentralized properties. In the absence of any economic growth, their only option was to encourage relocations out of the CBD. "These institutions were not averse to offer rentals in the decentralized area to their clients in the CBD. Poaching of other CBD customers was also a major strategy.

We negotiated with tenants sometimes in our CBD buildings to move out of the CBD and into Sandton. We have mixed feelings about this—but we would do it anyhow. (Interview with George de Bie, Liberty Life Property; cited in Goga, 2003: 80)."

Goga notes the crisis of confidence these maneuvers set off amongst CBD business owners. "The concentrated ownership structure in the CBD also meant that a single institution attempting to sell its CBD portfolio has an enormous effect on the confidence of other investors" (Goga, 2003: 80). Firms began to leave, en masse, for perceived stability in the northern suburbs.

Their success in persuading CBD firms to relocate is remarkable considering the economic climate at the time. In line with international trends, the South African government pursued neo-liberal, export-led growth strategies since the mid-1970s. They cut government spending, removed trade protections, and curbed inflation by restricting the money supply. This caused interest rates to skyrocket—increasing the costs of credit for all of the commercial outfits of the city (Beall, et al., 2002: 36). This effectively meant that new capital was (and continues to be) extraordinarily expensive. On the one hand, this explains why developers struggled to fill their new decentralized commercial space with new enterprises. And on the other hand, it makes a compelling testament to both the (financial) incentives offered for relocation and the very real fear inspired by a collapse of confidence in the CBD.

Manufactured clusters

The major investment houses thus played a central role in creating spatial nodes of development. Each of these institutions concentrated their investments in key areas in the northern suburbs. By so doing, they effectively "manufactured" office clusters. How tenants patterned their location was still to be determined, but the building blocks for clustered development (notably decentralized clusters) in key nodes of the northern suburbs had been laid.

As Goga tells it, "Rand Merchant Bank concentrated ownership in Sandton and Sunninghill, Ampros in Bruma Lake, Liberty Life in Sandton, and AFC Holdings in Parktown" (Rogerson, 1997: 3). The institutions were thus under pressure to ensure that these particular locations, and not just particular investments, performed. It is perhaps for these reasons that we see, in several cases, the relocation en masse of several tenants formerly housed together in the CBD to the same decentralized location. That is, we see (on occasion) the decentralization of clusters, but not the decentralization of firms themselves.

Some intermediate conclusions and further questions

The role of property developers in promoting the business flight from the CBD brings up some key issues, in relation to this exploration of the role of exogenous, non-economic factors in firm relocations. Namely, can we assert that property developers "manufactured" cluster development?

What role did property developers play in stimulating firm clusters? To what degree did they target similar firms to locate in their nodes? To what degree did they use proximity to similar firms, or users and suppliers, to market their particular area? And in the incidence of clustered development, how can we assign agency? How can we measure which party played the greater role in fostering cluster development—the property developer or the firms themselves?

Firm survey results

To answer some of these questions, I conducted a phone survey of a sample (n=16) of firms from my data on Johannesburg relocations. In the survey, I asked why they left, and why they relocated where they did. I asked questions about their property ownership (both in CBD and current locations) to determine whether firms followed their property owners, or more organic market forces.

It was difficult to identify any correlation between property ownership in the CBD and property ownership in the relocated space. Many of the interviewees did not know who owned their property—then or now.[8] For those who did remember, there was no case of correlation between property ownership in the CBD and in the relocated space.

I also asked questions about whether there was a particular property developer that assisted them. Again, this was in an attempt to determine which owners of the decentralized properties were directly involved in recruiting firms to leave the inner city. This question also was very difficult to elicit reliable information on, since the employees interviewed could not remember, were not working at the firm at the time of relocation, or were not involved in the relocation process.

Though a comprehensive survey was outside the scope of this paper, the speculative behavior of property developers and their role in inducing relocations warrants some theoretical attention.

Integrating observed reality into a theoretical framework

In Johannesburg, property speculators drove spatial change in the city. They behaved in rent seeking, profit-driven manners. If we know this about the nature of the property market, then why does the new economic geography literature fail to consider it?

The assumptions in the literature include the following:

1. Property behaves on a market-based, supply and demand model.
2. Government intervenes to stem property market failures (typically through zoning regulations).
3. The property market is perfectly competitive—or at least monopolistically competitive.

My argument about the relevance of property developers in dictating cluster development is not altogether deviant from the theoretical frameworks of firm location and relocation. This

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[8] This information could be gathered using city valuation rolls—and would be interesting for further studies. However, I could not access the valuation rolls electronically, so had to rely on these informal surveys.

argument fits loosely into the category of institutional location theory. As Brouwer et al. describe,

> The institutional location theory starts from the assumption that economic process in space is rather shaped by society's cultural institutions and value systems than by firm behavior. It views the location behavior as the result of the outcome of a firm's negotiation with suppliers, governments, labor unions and other institutions about prices, wages, taxes, subsidies, infrastructure, and other key factors in the production process of the firm. This approach is more suited for large firms that have more negotiating power and are able to influence their environment. However, it can also be applied to explain small and medium sized firms' location behavior, which is mainly influenced by government policy and the real estate market (Brouwer et al., 2002: 4).

Brouwer et al. could easily be referring to the Johannesburg property market in the mid-1980s. The large firms—the trusts, banks, and insurance giants—accumulated enough stores of capital to influence the real estate market. By extension, they essentially dictated the location decisions then faced by the small and medium firms that comprised the majority of inner city firms.

Institutional location theory rightly credits power relations within the micro-level negotiations in determining property transactions and firm decisions. In this case, a handful of property owners were empowered by their oligopolist hold on the property market. This enabled them to skew the market sufficiently to push CBD firms to new, decentralized locales. Firms were essentially location-takers in this situation.

The work of James Rauch is helpful in articulating the interplay of property developers with firm clusters, location decisions, and property markets. He argues that developers engage in discriminatory pricing of land over time, in order to overcome the problem of first-mover disadvantage that can prevent relocation. His exploration of developer land-sale strategies are helpful in unpacking the dynamics that developers everywhere (not just South Africa) can capitalize on asymmetrical information and oligopolistic market structures to manufacture demand for office space. He contends that

> ...A great deal about the economics of agglomeration and the degree of importance of history in determining the location of city-industries can be learned

> by looking at the behavior of real-world developers and, in particular, at the behavior of developers of 'industrial parks' (also called industrial estates or industrial districts) who are explicitly attempting to capitalize on firm complementarities" (Rauch, 1993: 846).

Though discussing an industrial park (rather than a retail or high-tech cluster), Siegle highlights illustrations of an industrial park's power to facilitate agglomeration through creating "a kind of 'self-fulfilling prophecy'" (1992; cited in Rauch, 1993:846). Clusters do not necessarily develop organically. Rather, they can be virtually manufactured by these powerful developers.

<u>Attracting "seed tenants" and exploiting firm learning</u>

An important first step is in recruiting "seed tenants" to a cluster. "In the first stage of development land is sold to one or more 'seed tenants' who will 'set the reputation and character of the project and of the tenant mix'...these seed tenants are 'loss leaders' and if the same terms were offered to all subsequent tenants the developer would 'go bankrupt'" (Beyard, 1992; cited in Rauch, 1993:856). As Rauch reports, "Lee and Wong find for the developers they surveyed that 'an aggressive promotional program' for an industrial park accounted for 14 to 28 percent of total costs" (Lee and Wong, 1958, cited in Rauch, 1993:846).

Developer land-sale strategy has important insights for inter-firm externalities and spillovers. If we look closely at how developers discriminately price land in the new developments, we can see how they both manipulate and exploit the dynamics of firm learning. Specifically, the use of price 'phasing' is a developer strategy that "can be interpreted as evidence that (at least some) inter-firm externalities are realized with a lag and that their effects on profits are concave in the number of firms" (Rauch, 1993: 863).

How does this work? First a developer recruits a seed tenant by offering that firm a low price on the new property. The developer then waits—and refrains from placing all of the available land on the market.

If learning is especially rapid for the first few firms, it may make sense to sell only a few units of land in the first period because the higher price that firms in the second period will be willing to pay will more than make up for the cost of waiting to receive their payments...If later firms contribute little to learning, it may make sense to hold some units of land off the market until the second period because the higher price one can charge these firms will more than make up for the slightly lower price one can charge to the firms that come in the first period, (Rauch, 1993: 862).

The developers' accurate anticipation of the rates of firm learning will then determine the level of profits to be reaped. Obviously seeking to maximize profits, the developer will seek to assemble firms in ways that will maximize the perception of firm learning.

This indicates that firm clusters actually develop in ways that are quite different from what one might intuitively suspect. Even if we assume that a developer is acting under conditions of perfect knowledge, (which they demonstrably were not in Johannesburg) there will still be quite inorganic assemblages of firms. For example, if a firm that engages and invests heavily in R&D is recruited as a seed tenant, there may be a lag in the cluster's development—simply because the property developer is refraining from selling the adjacent land until the profits from the sale can be absolutely maximized. In another scenario, firms perceived to be low-learners might be recruited simultaneously to purchase property in a cluster. This would lead to a rather ad-hoc assemblage of firms, perhaps resulting in new forms of learning.

This analysis points out the positive features of this "inefficient" market manipulation by property developers. Rauch effectively claims that their price manipulations can actually benefit firm learning.

Perhaps countering these potential benefits, however, are the realities of inefficient markets created by this type of land speculation. We know that such speculation can distract investment away from other, arguably more deserving, pursuits. The money could be invested more efficiently (or more equitably) in productive small or medium sized enterprises, in black-owned enterprises, or in spatial areas of the city that are underrepresented.

Rauch's demonstration of the potential economic gains of this type of market failure is provocative. His analysis implies that it is in government's interest to give developers monopoly power. This "inefficient" market form may actually promote firm learning. Though it may promote firm learning, will it necessarily lead to collectively desirable efficient outcomes? Do speculation and capitalist accumulation promote such outcomes?

Speculation and Capitalism

At the core of this story of "failed" property markets in Johannesburg is a question of whether indeed this is a case of market failure or unfair competition. Could it not be argued that speculation and opportunistic behavior are the rules of the Capitalist game? Indeed, one property developer I spoke with argued just that:

> I believe that Goga is rather Socialistic in her view and fails to take cognisance of normal opportunism that any businessperson would exploit. It is a fact that the financial institutions held large amounts of cash that they could not invest under the apartheid regime. However, survival of the fittest was the game and institutions were protecting the income stream of their property portfolios. If a tenant was indicating a wish to move to the suburbs then the institutions would act quickly to secure or "steal" the tenancy (E-mail correspondence, Interview F, 24 Apr 03).

Though it may be standard business practice to compete, does the capitalist ethic contain room for demand to be manufactured? By creating supply in advance of demand, is there not a danger of *over*accumulation? Is overaccumulation antithetical to capitalism, or its defining feature?

These questions are particularly salient when the commodity in question is land. When land is treated as fictitious capital, land development becomes "...simply a matter of choosing what kinds of assets to include in a general portfolio of investments. And this, of course, is increasingly how pension funds, insurance companies, and even private individuals tend to view land investment" (Harvey, 1985: 97-98). Without effective zoning regulation, property developers effectively gain a monopoly on land-use decisions. They "insert themselves as the prime movers creating new spatial configurations of the built environment..." (Harvey, 1985: 102).

In Johannesburg the built environment was indeed transformed, at the lead of speculators, into an arguably inefficient one of decentralized, suburban urban form. Harvey contends that this predetermined urban form leads to a "post-hoc rationalization of a 'choice' that really was no choice" (Harvey, 1985: 105). Businesses, in other words, were location-takers—subject to the range of sites made available by the landowner and developer.

Is there any inherent danger in developers and financial institutions dictating the terms of land development? "Developers look at the opportunity and will pander to the needs of business" (E-mail correspondence, Interview F, 24 Apr 03). The individual needs of business may be effectively met. However, whether an efficient outcome on a more collective level is met seems dubious. Is it in a city's interest, for example, to pursue decentralized development?

Sandton, considered by many to be Johannesburg's "new" CBD, (Interview E, 2003; CDE, 2002; Interview O, 2003), quickly learned that the benefits of increased tax revenue from incoming businesses were unlikely to compensate for the major expense of laying new roads, sewer pipes, and telecommunications infrastructure. Peter Gardiner, Sandton's mayor in 1982, lamented,

> The cost of upgrading the infrastructure to service the massive office rights granted over the last few years on the periphery of our town centre will severely aggravate the rates burden rather than achieving the then announced intention of relieving it. That these rights were granted on the misguided notion that the roads need was not a limitation on development as the role of the car would diminish and that of public transport would increase, is tragic for Sandton" (Prinsloo, Report on the future development potential of the office component in Sandton, circa 1982: 9).

The impact of relocations on urban form clearly affected Sandton's residents (and presumably other northern suburbs' as well), to say nothing of their effect on the abandoned site, the CBD. The consequences of unrestricted development patterns on the public good raise questions about why there was so little done by government to intervene.

Mechanisms for Regulatory Intervention

The role of government will be explored in greater detail in Chapter 5. However, the failures of both government's industry regulation and the property industry's failure to self-regulate bear mention here. Pinpointing areas for government intervention demonstrate key levers for preventing over-speculation in future cases—inside and outside of Johannesburg.

The South African government failed to regulate an oligopolistic market through, for example, bringing anti-trust legislation against them. Second, the government did not oversee swelling overexposures to property by the major investment houses. Investor portfolios typically contain four investment categories: government bonds, fixed interest, stock exchange, and property, (Interview D, 21 Jan 03). The government sets the allowable proportions for these categories, to prevent overexposure in any one category.

The industry itself failed to self-regulate its actions through failing to standardize a property valuation system. Additionally, they failed to develop (until 1998) a property index by which property performance could be measured.

Conclusion

In this chapter, I have attempted to argue that in the 1980s, land development in decentralized (non-inner city) locales was driven by an oversupply of land and special incentive schemes by property developers. The oversupply of decentralized office space was as much a factor in firm relocations in the 1980s as the threat of inner city decay.

In the 1990s, however, inner city decay became a reality. Crime rates went up, informal traders moved in, and squatters invaded the abandoned office buildings and residential towers. This changed the nature of the exodus of firms from one that was supply-driven to one that was demand-driven. That is, firms were now demanding decentralized office space, in an effort to get away from the inner city. They no longer needed to be persuaded by property developers. There was no longer speculation about the inner city. Decay had set in.

During this period, the demand for space was dictated purportedly by concerns over safety and security above all else. Driven out by crime, these firms relocated in different patterns from their predecessors. It is much more difficult to correlate initial locales in the CBD with subsequent locations in the northern suburbs. The property developers no longer had to appeal to their CBD tenants to relocate to their holdings in the north, since they'd already begun to achieve reasonable occupancy rates.

This change from supply-driven to demand-driven firm exodus will be explored in the next chapter. In both cases, despite the different natures of the drivers of CBD exodus, they maintain one common feature: their non-economic nature. Firms in Johannesburg, in both periods, located for non-market, inorganic reasons—reasons that are rarely, if ever, touched on in the clustering and firm location literatures. This broader critique of the shortfalls of theory should be borne in mind through the following pages.

Chapter 4: The Paranoid City

Crime, insecurity, and firm relocation in 1990s Johannesburg

"Every member of my family has been robbed. Can you say that about every city?"

— Interview A, 30 Jan 03

Crime has become a defining feature of Johannesburg's character as a city. Johannesburg is perceived to be the crime capital of a country that is "riddled with violent crime" (Shaw and Gastrow, 2001; cited in Beall et al., 2002: 177). More people are victims of crime in the city's province, Gauteng, then in any other province in South Africa (Monitor, 2000). In Johannesburg itself, between 1993 and 1997, two thirds of residents were victims of crime (Louw et al., 1998a: 3). And within the city of Johannesburg, the CBD has among the highest incidences of crime.

Crime touches everyone in the city, including businesses. The City of Johannesburg claims that the effect of crime on business is unparalleled. They cite a 2000 World Bank study on the constraints to private sector business growth. None of the 100 surveyed countries listed crime as a constraint to doing business. "However, in a survey of 360 Johannesburg firms, 70 percent mentioned crime as a major obstacle to growth" (Joburg 2030, 2002: 20). Given the high incidence of crime in the CBD and its impact on firm behavior, is it any surprise that firms left the CBD for "safer" locales?

In this chapter, I begin by describing the high crime levels in Johannesburg, and their proven impact on firm behavior. I present the results of my firm survey that sought to determine firms' perceptions of push factors and the relative importance of crime. This survey, in addition to existing surveys on crime and firm behavior, supports the popular wisdom in Johannesburg that crime drove the most recent firm relocations out of the CBD. However, as I demonstrate, these reports do not explain why firms relocate given that crime is fairly ubiquitous throughout the city. If no place was safe, why would firms relocate?

Crime was (and continues to be) perceived differently in the CBD for three reasons: (1) Crime *was* slightly higher in the inner city; (2) Dense urban form made crime visible; and (3) People were uncomfortable with the "graying" of the CBD. By "graying", I refer to a sense of insecurity around the CBD's changing racial makeup, influx of immigrants, rise of the informal sector, and the shift from a *business* district to *mixed-use* land divisions. In this chapter, I contend that *perceived* insecurity about the changing urban form—prompted somewhat by crime and perceptions of crime, but mostly by insecurities about the graying of the area of the CBD—pushed firms to relocate.

The Case for Paranoia

In my interviews and research, I found overwhelming agreement that crime was a key driver pushing firms out of the CBD. In an informal **telephone survey** of 16 firms, I asked respondents directly: "To what degree did crime in the CBD affect your decision to relocate?" I offered them four options: "not at all"; "somewhat"; "significantly"; "it was the primary factor."

Respondents from 9 firms that left the CBD in the 1990s overwhelmingly cited crime as the "primary factor" in the decision to relocate.

Not at all: 2
Somewhat: 0
Significantly: 1
Primary Factor: 6

The two firms that claimed that crime was not a factor in their relocation decision were involved in mergers and acquisitions.

In an attempt to avoid limiting their range of responses for why they left the CBD, I prefaced the question about crime with the question: "Would you briefly summarize why your firm left the CBD?"

Their responses continued to cite issues of crime and fear. An employee at Nonyongo & Associates told me, "The CBD was becoming too dangerous." Gerald Horwitz Attorneys echoed, "Security was the main reason."

Some respondents differentiated between the perception and reality of crime. An employee at Gold Coin Exchange noted, "Our clients did not want to come to the Carlton Centre (in the CBD) anymore. Although nothing ever happened to our clients, there was a perception of crime." Similarly, Gerald Carson & Associates told me, "My clientele felt it dangerous to enter the CBD so I had a choice of either consulting with them wherever they might be, at my cost, or leaving my offices so they could consult with me."

The responses changed significantly when I asked three firms that left the CBD in the 1980s the same set of questions. All three firms said that crime did "not at all" affect their decision to relocate. They noted, "It wasn't bad then. There was no (crime)…nothing like today," (Link Insurance Brokers (Pty) Ltd). "At that time, the CBD was crime-free," (NP Shipping Services). Their responses demonstrate the newness of crime as a rhetorical push factor in the 1990s.

How did the firms that stayed in the CBD respond to the same questions? Surprisingly, concerns about crime still came to the fore. Out of three firms with whom I spoke, two claimed that crime had affected their businesses "significantly." An employee at Levisons reported, "Up until the government decided to change everything in town, security-wise, we were hit bad…The company was robbed twice in one year." They were compelled to stay in town nevertheless to maintain proximity to their client-base, (mostly black South Africans living in the southern parts of the city). He said that during the periods of high crime in the CBD, they just braced themselves: "We had that hope of 'we can make it'".

Similarly, an employee at Brugman Inc., a law firm, still located in the Carlton Centre (in the CBD) noted that crime had been a problem, but was improving. "Currently, we're not affected by crime. We have security guards on the streets. It was quite different ten years ago. We had smashed windows and that sort of thing…" When asked why they stayed, she answered: "Everybody was leaving, and we considered going, but it was so convenient to be close to the courts. And things have gotten better—it's quite safe now."

Other firms do not mirror their resilience. My data indicate that most law firms left their CBD locations for northern suburb locations—despite the position of the courts (where advocates need to travel twice a day) in the CBD. Out of 77 legal firms that were located in the CBD in 1996, only 15 stayed in the CBD, (Author's dataset, 2003).

Firms believed that they were pushed out of the CBD, to a large degree, because of crime and the perception of crime. Why did they choose their new locations? To what degree do they cite safety and security as locational assets? I found little explicit mention of secure surroundings being a real asset of the new location. Only one firm—Nonyongo & Associates—overtly mentioned security. "(Our new location) is quiet, safe, clean, and properly policed."

How did firms explain their choice of a new location, if not for better security? Some firms mentioned issues like proximity to clientele and bigger facilities as key assets in their new locations. Three firms mentioned their new positions in shopping centers. The shopping center itself could arguably appeals to the need for a secure environment. Shopping centers in Johannesburg have become security enclaves for both businesses and customers. Security guards carefully monitor all entrances, stroll the mall, and patrol the parking lots. Moreover, these areas limit commerce to formal businesses.[9]

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[9] An interesting caveat to this point is the development of informal markets in parking lots near, or attached to, some of the city's major shopping malls. Rosebank Mall hosts the city's biggest informal market—something like an organized flea market—every Sunday on one level of its parking lot. Another large informal market, Bruma Market, operates daily in a parking lot across the street from Eastgate, one of the city's first shopping malls. These markets host retailers both from South Africa and other African countries. They offer a controlled, safe environment for residents and tourists to buy anything from arts and crafts to spices. This coexistence of informal and formal retail demonstrates one of the ways in which the city has addressed the task of integrating.

What can be learned from the survey responses? First, crime as a push factor for businesses parallels increases in the incidence of crime. People's perceptions are not entirely unfounded. When crime rates rise, there are direct impacts on business in the area. Second, push factors do not necessarily mirror pull factors. Though insecurity may be the primary push factor, security need not be the primary pull factor.

The fact that firms rarely cited security as an advantage of their new location is not surprising. For one, crime continued to be a concern for all firms located in Johannesburg. Its pervasive presence throughout the city meant that one suburb was not necessarily safer than another. This suggests that firms chose their new locations not to escape crime, but to escape a broader sense of insecurity—one that included racial tension, xenophobia, and coexisting with vastly different income groups. Relocating enabled firms, their employees, and their customers avoid these insecurities. It did not help them to avoid crime.

Newspaper accounts echo the survey respondents' belief that crime drove firm relocations during the mid- to late-1990s. Ann Crotty (1998) writes that the Johannesburg Stock Exchange left the CBD, "...largely because of the crime in the CBD which has been a major factor in most of corporate Johannesburg relocating to Sandton." Another newspaper article describes the similar flight of PriceWaterhouseCoopers:

> PriceWaterhouseCoopers blamed crime in the inner city for its move. It is scheduled to relocate to Sunninghill (a northern suburb) next week, where the company has taken up 12,000m^2 of space from its 13,000m^2 complex in the city centre. "We need to offer a safer environment for staff," said Martin van der Merwe, the office manager. "The building no longer suited our needs (Shevel, 1998).

PriceWaterhouseCoopers now resides in a massive, mansion-style office perched on a hill overlooking Sunninghill. The complex has a patrolled entrance, and its office park neighbors are hundreds of meters away.

Finally, there are a handful of reports that point incontrovertibly to the inverse relationship between investment and crime. The Joburg 2030 report found the impact of crime,

> ...to outweigh investment decisions related to cost of capital, sales sectoral growth and so on. Crime had an elasticity of 0.1 in the model; this means that 61% of the decision to invest or not is determined by crime. In addition, the model showed that if a firm perceived itself to be located in a high crime area, it would invest 54% less than a firm that perceived itself to be in a low crime area...The findings of this model show, without a shadow of a doubt and with quantitative certainty, that investment in the Johannesburg economy will not take place at the levels required until crime is addressed (Joburg 2030, 2002:21).

A World Bank study of the locational and investment considerations for large manufacturing firms in Johannesburg echoed these findings:

> ...(The study) found that 95% of the CEOs at large manufacturing firms rank crime and violence as the main constraints to investment and growth. Reflecting the severity of the problem, follow-up interviews with senior managers revealed that as many as 83 percent of the firms were victims of several types of crime in 1998. In addition, 61 percent of firms surveyed mentioned that their employees were victimized on their way to or from work. On average, we found that firms spent 1.6 percent of their sales revenue on security guards and devices in 1998. Approximately 50 percent of the firms reported increasing their expenditure on crime prevention between 1997 and 1998 (World Bank, 2000).

The problem of crime is clearly a significant one for Johannesburg's growth prospects. It is important to outline this dynamic to differentiate between existing firms and new firms.

Though the Joburg 2030 and World Bank surveys offer interesting insights into crime's impact on firm investment behavior, they do not indicate how *existing* firms respond. I maintain that existing firms responded to crime and broader insecurities by relocating within the city. Was this a rational decision? *Did* crime occur uniformly across space? Crime may have driven them out of the CBD, but was it any better in their new locations?

The ubiquity of crime

Crime, admittedly, occurred at higher levels in the CBD than in the northern suburbs. The following map illustrates the incidence of murder in each area of the city, (see Figure 4.1).[10] Murder is typically the most reliable crime statistic since it is the most difficult to cover up or under-report. In and around the CBD, the murder rates per 1000 people (collected by police precinct) range from 175-233. In contrast, the murder rates in the northern suburbs, where firms are largely relocating, average between 11 and 50, with the exception of Alexandra—notably on the border of Sandton, the seat of the "new CBD." Alexandra is a relatively self-contained, or excluded, former township. Not only was there a murder hub very close to Sandton, but the area just north of the CBD is included in the district of extremely high murder rates. This area includes suburbs like Braamfontein and Parktown—two of the most prominent destinations for the relocating firms. If crime occurred at only slightly lower levels everywhere else in the city, why would firms be so eager to relocate?

Crime was and is ubiquitous throughout the city of Johannesburg. Time-series analyses support the contention that crime was not only high in the CBD through the 1990s, but that in most cases, it did not improve, (see figure 4.2).

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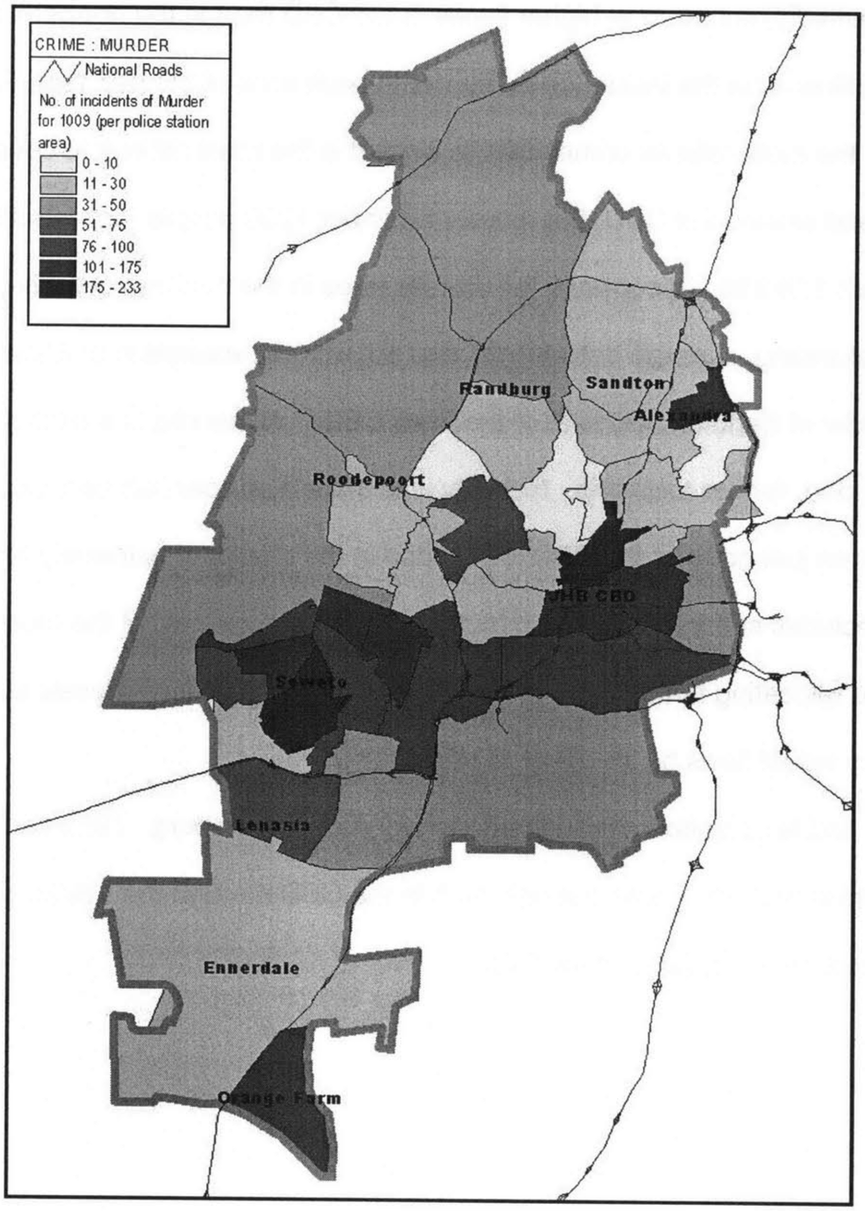
[10] To issue a disclaimer, South African crime statistics were notoriously unreliable until 2000. The accuracy of apartheid-era police force data is unreliable because of under-reporting in some cases, and exaggerated figures in other cases. As the police force went through the transition to a police service, the collection of statistics remained faulty. The South African Police Service web page warns, "Please note that the crime statistics, including those for the year 2000 and the first quarter of 2001, are data that was collected before the SAPS implemented measures to improve the integrity and reliability thereof" (SAPS, Crime Information Analysis Centre, 2003).

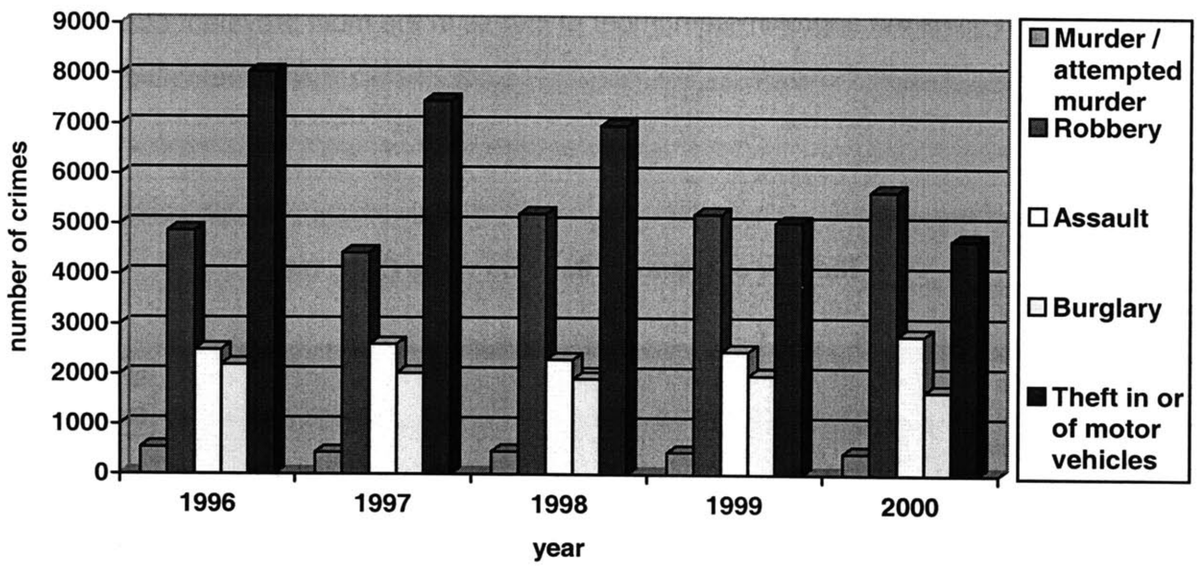
Figure 4.1: Map of Murder Incidence in the Greater Johannesburg Area: Murders per 1000 people



Source: CEROI, 2000.

Figure 4.2:[11]

Crime rates in Johannesburg & Jeppe Police Areas



Source: My interpretation of Table 13, from J. Luiz, 2002.

Overall, these figures demonstrate that crime was, in fact, a real problem in the CBD. What's more, crime did not get better through the late 1990s. Businesses had little incentive to stay given the high rates of crime. But why were they attracted to the northern suburbs? Can it be said that there was correspondingly less crime there during these periods? *The Star* newspaper published SAPS crime figures for June of 1997 that were leaked to the newspaper. "It shows that Johannesburg's worst crime area was the CBD and environs, with 2 035 serious crimes reported. Hillbrow was second with 1 840 cases, followed by Booysens with 1 437, Sandton with 1 110 and Randburg with 1 042 cases" (*The Star*, 10 June 1997). The figures indicate that Sandton's level of crime was nearly half that of the CBD—arguably providing strong incentive for firm relocations. It should be noted that these figures aggregate all crimes.

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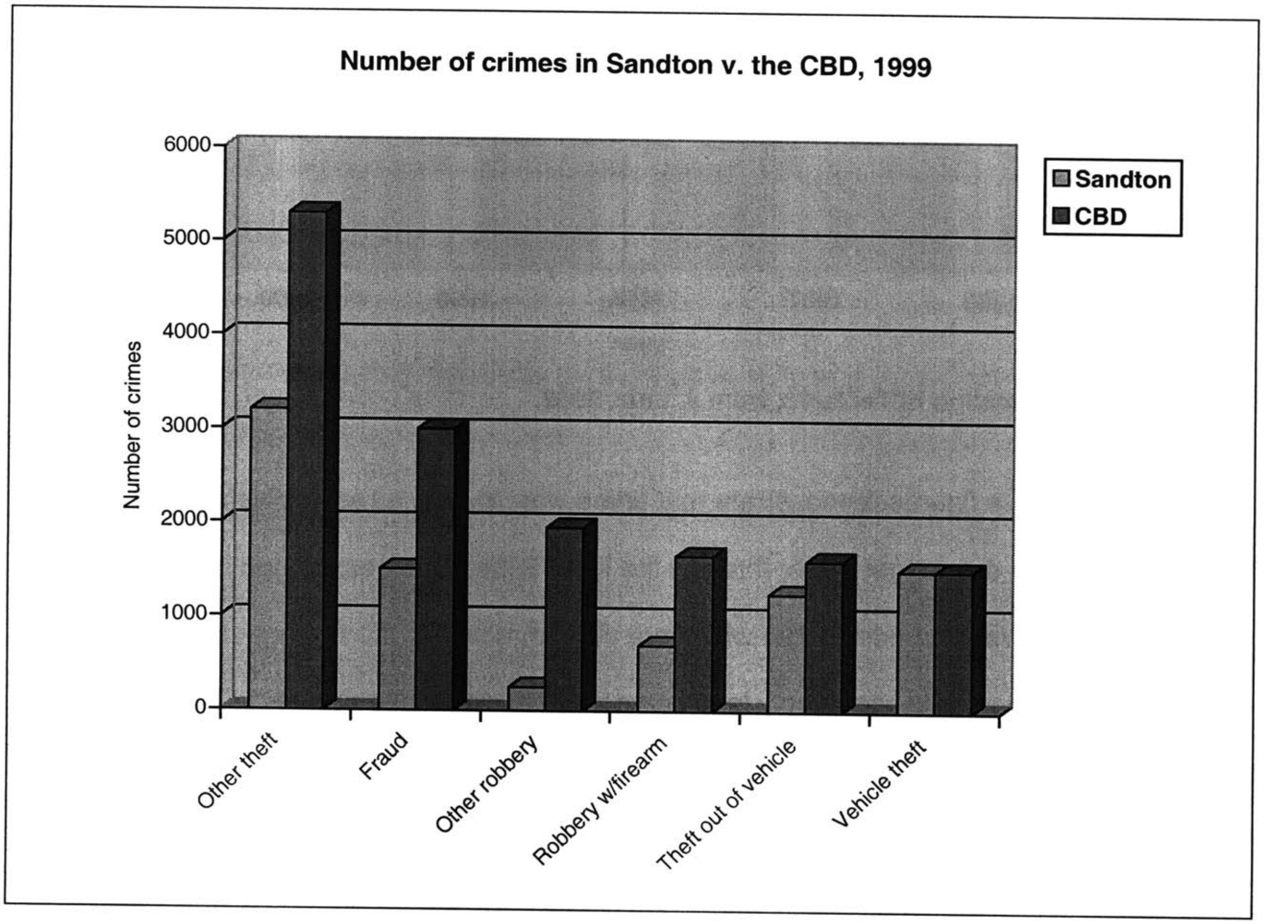
[11] Jeppe and Johannesburg are the two police jurisdictions that overlap with the CBD and surrounding areas.

The Greater Johannesburg Metropolitan Council commissioned a study of Safety and Security that offers less convincing evidence for the relative safety of the northern suburbs. The following chart gives the approximate number of crimes in the most prevalent categories for each station.

Figure 4.3.



Source: My analysis of Fanaroff, 2002.

Crime clearly occurred with greater frequency, if only slightly, in the CBD than in Sandton. These statistics indicate *some* spatial difference in the incidence of crime. Firms therefore perceived crime differently in the CBD than elsewhere in part because it *was* slightly higher there.

However, was this slightly higher incidence enough to motivate the wholesale relocating of firms out of the CBD?

Visibility of Crime

The CBD's dense built environment and population exacerbated the visibility of crime in the CBD. This, too, perpetuated the perception of crime as being higher in the CBD than in the northern suburbs. Discussing residential responses to crime, Charlotte Spinks (2001:9) notes, "Citizens seek to alleviate socio-spatial fear and mitigate the incidence of crime by providing a sense of protection via urban-form (e.g., walls protecting residence) and altered lifestyle (e.g., restricted spatial movement, limited social interaction)." Businesses, too, increasingly prefer to ebb their sense of fear by constructing walls and fortress-type developments. While practically these designs do little to exclude criminals, they offer the perception that customers and employees will be safer. This appeal to *perceptions* is critical to attracting firms to the northern suburbs. Although aggregate crime is not significantly lower in decentralized areas, firms may perceive it to be.

A critical issue bound to the visibility of crime is that of income differences. Firms that relocate to decentralized areas in the north typically move to wealthier areas than the central city. Not only can firms provide their own private security, but they are more likely to have neighboring firms who will do the same. This essentially means that the northern suburbs—through a combination of public and private policing—receive better security coverage than the CBD. This is starting to change with the introduction of privately contracted security providers in the CBD (CCTV, Business Against Crime, BIDs, etc.). However, during the 1990s these programs had yet to evolve. The spatial stratification of society in terms of crime and crime prevention consequently biases the CBD against the suburbs (Bourguignon, 1999: 2). Firms that move to the suburbs enjoy more visible *crime prevention* (through provision of security), and less visible *crime* through decentralized development.

The irony, of course, is that crime does not actually decrease—despite the perception that it should. Indeed, one of the fundamental criticisms of private security is that their profits depend on a sustained level of crime in the community. When I confronted one security industry executive about this tension, he argued, "Too much crime is always a problem. Right now, we've got four times the amount of crime we should have" (Interview I, 24 Jan 03). Perhaps crime levels could fall without affecting security industry profits. Several police station commissioners I spoke with doubted this, however (Interview K, 24 Jan 03; Interview L, 21 Jan 03; Interview M, 20 Jan 03). "To illustrate the effectiveness of the private security companies: security companies increased over the past few years by 1000%. So did crime" (Interview K, 24 Jan 03).

Despite disagreements about the effectiveness of private security, there is no question that the amount of coverage in the northern suburbs is higher given their presence. As the superintendent of a northern surburb police station lamented, "In my community...residents spend 12M Rand/year on private security. My yearly budget is 2M rand. I can't even tell you what I'd do with that 12M Rand. Let's just say there wouldn't be any crime" (Interview K, 24 Jan 03).[12]

The Graying of the CBD

Businesses' preference for a decentralized urban form was driven by more than just the lower visibility of crime in the northern suburbs. It was also driven by the visibility in the CBD of the informal sector, immigrants, poor people, and non-whites. Survey respondents, newspaper accounts, and international reports are slow to mention such factors. These issues are difficult to quantify and politically sensitive. In this section, then, I present an argument based on evidence and experience that is largely implicit. The state mechanisms that led to an increased informal sector presence, increased immigrants, and increased poor, non-whites' presence will be discussed in the Chapter 5. I intend, here, to describe the coincidence of these groups' permeation of the CBD and the flight of business out of the CBD, and to suggest that the two are not unrelated.

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[12] 12 million Rand was equivalent to about US$1.5 million at the time (January, 2003).

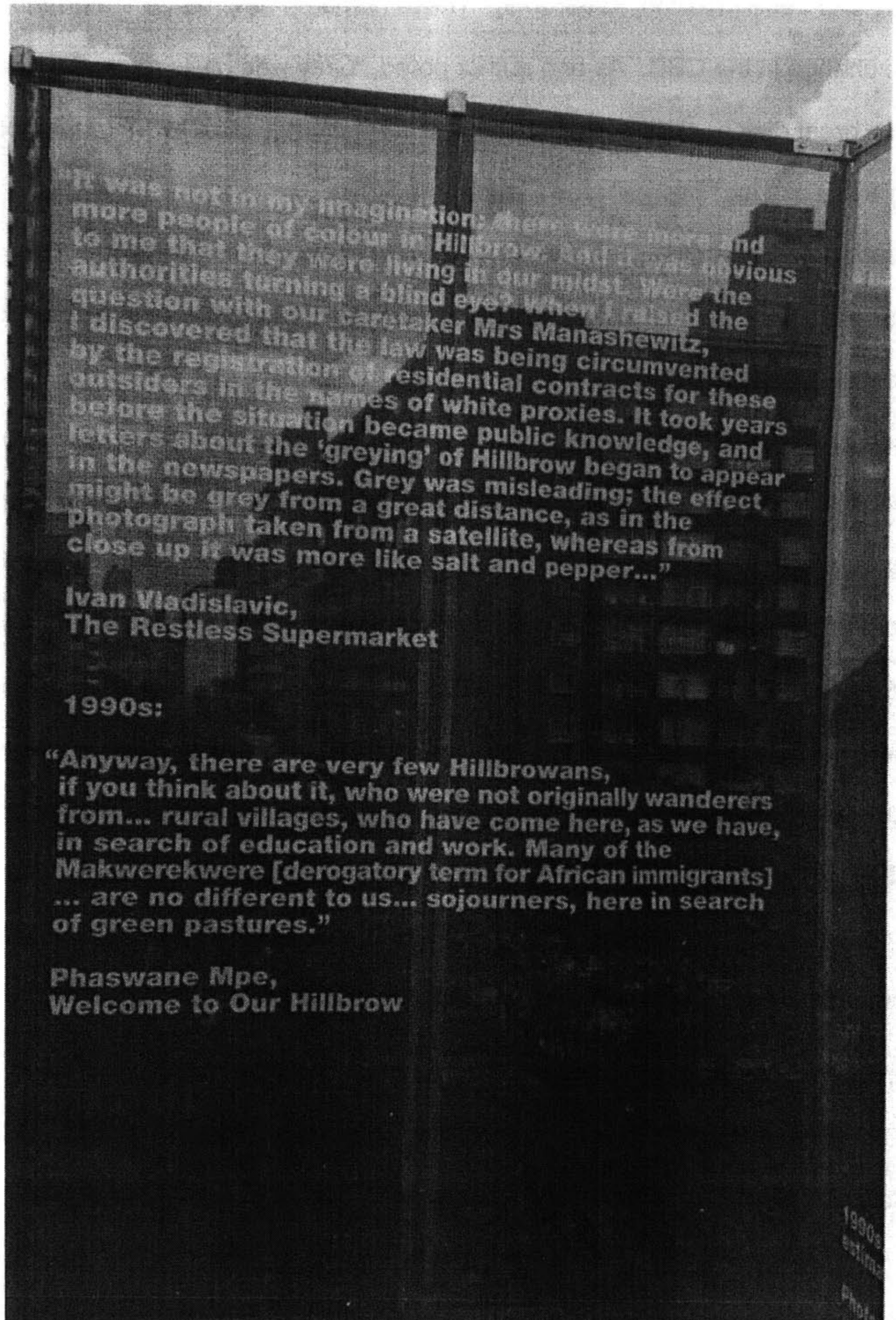
Of the 100,000 black people currently living in the inner city, 33,000 of them arrived between 1991 and 1992 (Beavon, 1998: 375). These numbers emphasize the dramatic pace of demographic change in the CBD. As one author noted, "Gray was misleading; the effect might be gray from a great distance, as in the photograph taken from a satellite, whereas from close up it was more like salt and pepper" (see Figure 4.4).

Any sudden change threatens the stability of the economic environment. The massive demographic shift combined with a long history of tenuous relations between whites and blacks, shook businesses' sense of security.

The influx of non-whites into the CBD also meant that a large number of poor people began to inhabit the area. As Beavon stresses, "whereas the initial wave of black people to the inner city was related to job opportunities in the CBD, many of the later arrivals were simply seeking accommodation regardless of where they were employed, if they were employed at all" (Beavon, 1998:375). By 1995, there were between 4,000 and 6,000 homeless persons in the inner city (Fraser, 1995, cited in Beavon, 1998:375). "Some of its small parks (had) been taken over by people living in shacks made of corrugated iron, cardboard, and plastic sheeting" (Beavon, 1998:375). Prior to transition, the poor had been confined to townships. The government did its utmost to provide housing and employment for poor whites near the CBD. However, non-whites were relegated to fringe areas outside of the city.

The influx of the **informal sector** to city streets further exacerbated a sense of insecurity. The number of participants in the informal sector exploded over the period around transition. Beavon (1998:375) notes that in the 1980s, there were about 300 informal traders.

Figure 4.4: Photo of outdoor museum exhibit in Braamfontein; Hillbrow in background



Source: Author's photograph, taken in January, 2003.

That number had grown to about 5,000 by 1995. The overcrowding of streets and sidewalks fueled businesses' (and their customers') insecurities about the relative safety of the CBD.

The demographic mix in the CBD has been shaped perhaps primarily by its **immigrant population.** Though there has been some residential migration of black South Africans to the inner city, immigrants dominate the residential mix in the CBD. South Africa's unwelcoming attitude towards immigrants—exemplified through their restrictive immigration laws (often compared to those of the United States and United Kingdom)—is both an institutional and cultural problem. Xenophobic attitudes are perpetuated by accusations that immigrants are taking scarce jobs from South Africans. The xenophobia often plays out in informal traders' battles over sidewalk space in the CBD. Asylum seekers are legally prevented from working and studying, and so have little recourse than to sell informally—under the gaze of the government. The illegality of their trade (and occasionally their immigration status) excludes them from citizenship and formal participation. This creates a sense of distrust and cleavage in the community. On the one hand, people are forced to eke out a living selling informally on the CBD's sidewalks. On the other hand, without formal participation rights, they have little stake in the CBD's success or failure. Their presence thus arguably added to the sense of insecurity among firms in the CBD.

Finally the CBD's character was changed by the introduction of more than one **functional use.** Formerly a central *business* district, the CBD during the period around transition witnessed the influx of squatters informally transforming offices to overcrowded apartments. Formal and informal businesses competed for the same physical spaces. This organic move towards mix-use zoning aggravated the sense of rapid change. That all of these changes happened so quickly added to a sense of chaos. Employees and customers arguably responded to this chaos by moving to areas they perceived to be less chaotic: the sleepy northern suburbs of the city. The reality was that they would not escape crime. But they would escape many of the rapid changes occurring in the CBD. By moving they could avoid physical confrontations with immigrants, poor people, and non-whites.

The role of perceptions

Whereas in the 1980s the "graying" of the neighborhood was more of a threat than a reality, by the 1990s, the neighborhood's demographic shift was clearly underway. Moreover, the insecurities that these changes ignited were exacerbated (and arguably exaggerated) by the tangible increases in crime. Though crime may have been high throughout the city, there were key reasons why firms might have perceived themselves to be 'safer' in the northern suburbs.

There is the reality that the incidence of crime in the CBD is slightly higher. There is the issue of high-density development rendering crime more visible to employees and customers. There is the idea that crime, by its visceral and urgent nature, makes it an easy proxy for the other set of insecurities like racial and economic integration. This is not to suggest that firms themselves were opposed to integration. Indeed, many of the firms and business leaders that left the CBD were instrumental in bringing down the apartheid regime, (CDE, 2002: 22; Interview O, 30 Jan 03). I rather argue that the climate for business was compromised by social perceptions—of employees and customers alike—that the CBD had become a dangerous (broadly construed) place to be.

Conclusion

Mike Nicol provocatively claimed, "urban crime has become a replacement for the civil war that never happened," (*The Star*, 3 July 1996, cited in Marais, 2001). There is no arguing that crime was (and is) extraordinarily prevalent in Johannesburg. However, given crime's ubiquity, I argue that it should not affect the behavior of firms to the degree that is claimed, by firms, reports, and news articles. I do not argue that crime was not a factor. Rather, crime was abetted by a host of deeper, underlying insecurities with rapid urban change writ large. These are the insecurities incited by the unfamiliar introduction of immigrants, poor people, non-whites, and the informal sector to the CBD.

The real civil war in South Africa is occurring at much deeper levels than simply crime—it is the conversation (or lack thereof) being had between rich and poor, black and white, formal and informal, and citizens and immigrants. This dialogue is happening—almost exclusively—in the CBD. Firms perhaps understandably do not want to be a part of this dialogue. It obstructs the normal functioning of economic activity.

The existing literature on firm relocation generally neglects these ambiguous distinctions between push factors and proxies. There is little discussion of the role of race, formality, and class perhaps because these issues are difficult to quantify, and difficult to model. However, this should not detract from their importance. The literature makes reference to "institutional" factors, which are meant to include crime. Pellenbarg et al (2002) develop a Logit model of firm relocation that includes one variable labeled, 'stress tolerance threshold', meant to include crime among other things. Krumme (1969) mentions 'increasing criminality' among a host of possible relocation drivers. While these models do acknowledge the possible role of crime, aggregating crime with a multitude of other factors tends to mask its relevance or irrelevance. These models do not allow crime specifically to stand out from other potential factors. Moreover, they do not distinguish between real crime and crime as a proxy for more nebulous factors like race or class insecurities. Given their clear importance in the Johannesburg case, (and undoubtedly in other contexts), we need to rethink the variables that these models use to determine, forecast, and explain firm relocations. Policy makers need a more flexible framework that teases out and differentiates issues like crime from issues like government policy or xenophobia, so that they can craft targeted responses.

Insecurity, marked by the interrelated forces of crime, uncertainty, and distrust, is a feature that seems inherent to the Johannesburg landscape. Both Johannesburg firms and their customers have necessarily adopted strategies to cope with omnipresent insecurities. These coping mechanisms are commonly depicted as high walls, surveillance cameras, and guarded entrances. However, perhaps an additional coping mechanism is the "footloose" mentality of these firms. When insecurities set in about the spatial environment in which they are located, firms simply move. There is no question that such a mentality is enabled by the unusually low prices of land in Johannesburg. It is an interesting hypothetical to think about whether crime would have the same affect on firms if land were more realistically priced. If firms could not afford to relocate, would they be pushed out of business entirely, out of Johannesburg, or (perhaps idealistically) would they stay in their existing location? If they stayed in their existing location, what alternative coping strategies would they devise? Would they partner more closely with government to address the problems of rising crime and deteriorating physical conditions in the CBD?

Though clearly these questions cannot be answered with any certainty, they raise further questions about the role of the state in addressing some of these problems. Indeed, throughout the last three chapters, one of the key questions that seem to emerge is, where was the state while firms were flooding out of the CBD? Why was their seemingly no local attempt to curb this exodus? In the next chapter, I address the failure of the local state to maintain the physical surroundings in the CBD and to curb insecurities about crime, racial change, political change, and economic decline. Though the state cannot be blamed entirely for business' exodus, there were critical legislative, political, and institutional failures over the past two decades that aggravated the decline of economic activity in the Johannesburg CBD.

Chapter 5: Johannesburg v. South Africa

Urban-National Conflict Pushing Business out of the CBD

"Of course there are obsolete and decaying cities in the world...But South Africa's cities are not in that category...South African cities are threatened not through the logic of their natural working but through over-regulation."

—Nigel Mandy, A City Divided: Johannesburg & Soweto, 1984:109.

We turn now to the role of the state in firm relocation. My intention with this chapter is to answer the questions, *why* were businesses given the opportunity to leave the CBD? *Where* were the municipal restrictions on development in the suburban areas? *Where* was the state when rising crime was emasculating policing in the CBD? And *why* did so many firms complain that it was poor city maintenance that induced their flight?

The key aim of this chapter is to demonstrate how institutions and laws affect the behavior of firms. This ascribes some of the agency for firm relocation to the state. By the state, I mean both local and national government. In the following pages, I analyze some of the key institutions (organizations, political parties, and civil society actors), and some of the key legislation to determine their impact both on the physical environment in the CBD and on the incentives for doing business there.

The Johannesburg CBD provided the site for local and national government battles over integration and agglomeration during the 1980s and 1990s. Many of South Africa's progressive, anti-Apartheid reforms were first tested in Johannesburg, and particularly the CBD. As such, Johannesburg endured an antagonistic relationship with the national government. The role of national political parties in local administration ensured that the local and national governments remain in constant confrontation. In this chapter, I argue that the national government and local residents' conflicting visions for the CBD led to incoherent city administration. The resulting erratic policies manifest themselves in deteriorating physical conditions of buildings, poor maintenance of streets, and weak police coverage. The physical decay in the CBD created an unstable business environment and exacerbated the crisis of confidence among firms located there.

In this chapter, I describe the evolution of law, politics, and administrative change from the 1980s through the 1990s. First, I introduce the CBD as both a business hub and a cultural symbol. Second, I analyze the legislation that affected the CBD governance and business climate. Third, I examine the three alternating political parties that govern the city over the 20-year period, looking specifically at how national political agendas manifest themselves in urban management and planning. Finally, I examine three key issues that are cited for driving firms out of the CBD: hawkers, taxis, and crime. Throughout the chapter, I organize the arguments into a push-pull framework of firm relocation, to demonstrate the key points where state action affects firm behavior.

<u>The Conflicted Identity of the CBD: Business hub and cultural symbol</u>

For many years, the Johannesburg CBD has sustained a dual, and arguably conflicted, identity: that of both business center and cultural symbol. Its most vocal defenders thus tend to be strange bedfellows. Property owners, business tenants, and informal traders clamor for government attention and resources to the area, albeit for different aims. Black residents throughout the city view the CBD as a symbol of their empowerment and citizenship. Many white residents hold the CBD as a nostalgic symbol of past prosperity. As such, the CBD wields tremendous political weight among the city's administrators and politicians.

In an informal conversation with the current mayor of Johannesburg, I asked whether citizens complained about the city's hyper-focus on revitalizing the CBD. He said, "It's a place to start" (Interview G, 29 Jan 03). Perhaps in line with city voters, he views the CBD as the barometer for the well-being of Johannesburg as a whole (Interview H, 14 Jan 03). Given that the city faces severe budget constraints, this seems like a very practical (and convenient) approach for city government. Indeed, it is much easier to revive one district than to extend service to more downtrodden places in the metropolitan area.

How does this erratic relationship between business and the city affect the dynamics of firm relocation? Given a shared commitment to inner city management and maintenance, it is surprising that the exodus of firms continued through the late 1990s. By analyzing some of these institutions, laws, and their political contexts, I hope to offer explanations for why business and government—until 2000—have been unable to stem the flow of (formal) investment out of the city.

My argument in brief, is that three broad state-related factors triggered the flight of business out of the CBD. First, three different regimes with competing ideologies and visions for the CBD led Johannesburg during the 20 years around transition. Second, the city consequently did not consistently maintain infrastructure or prevent crime. Finally, the diversity of economic interests exercising a claim on the CBD, from property owners to hawkers, continually expanded. This complicated constituent loyalty and led to less decisive action on how to balance these diverse demands. These factors combined to create an inhospitable business environment.

Laws

There are several key pieces of national-level legislation and local-level ordinances that highlight the specific ways in which business in the CBD is affected by national politics. Moreover, they provide a window into the extremity of the South African apartheid regime.

The **Group Areas Act** of 1950 mandated ethnic residential segregation. Each ethnic group was confined to a given area, and expected to be self-servicing and self-financing. The law itself had the effect of overcrowding the non-white majority of Johannesburg's population into townships. Adding the impact of rural migrants (overwhelmingly black), the pressure on residential space in the townships intensified.

Population pressure, national economic downturn, increasing inability of municipalities to provide services, and political wariness with apartheid gradually induced the repeal of the Group Areas Act in 1990. The process of its repeal began much earlier—in the mid-1970s. "The first areas in Johannesburg to be deracialised were the inner city areas" (CDE, 2002: 25). As the inner city began *de facto* to abolish apartheid restrictions, demand for inner city housing increased exponentially.

> As racial segregation collapsed, releasing pent-up demand for accommodation bottled up in the townships, blacks flooded into high-rise accommodation in the CBD and its immediate environs, substantially changing the city's character. This seemed to prompt more and more companies into leaving the city. These two factors created a mutually reinforcing mechanism: the more the city changed, the more companies joined the 'flight of white capital' to the suburbs (CDE, 2002: 37).

During the early phases of deracialized settlement, "graying" of the neighborhood appears to have been a primary factor in the city's changing "character" and thus in CBD firm behavior. As time passed, the practice of renting CBD housing to non-whites disintegrated into overcrowding. Because deracialized settlement was not officially legal, landlords enjoyed significant leverage in demanding high rents from black tenants. If they complained, the landlord could report them to the authorities, and press charges for violating the law, (Beavon, 1998).

This plight demonstrates the shaky position during the 1980s between local and national interests. On the one hand, Johannesburg sought to rebel against national apartheid legislation. On the other hand, they could not legally support the non-white CBD tenants. As a result, landlords were able to engage in unfair practices with impunity.

Legislation intended to prevent neglect by landlords was both inadequate and seldom applied by officials. The **Rent Control Act of 1976**, which regulates such matters as the increase of rent and the right to eject a tenant from the premises, failed, for example, to cover dwellings developed after 1949 (The Gaffney Group, 2003). A comprehensive law governing the actions of landlords was not passed until 1997, with the Gauteng Residential Landlord and

Tenant Act 3 of 1997. In the absence of legislative action, landlords both permitted overcrowding and failed to maintain the buildings appropriately.

These conditions created inhospitable business conditions insofar as the cleanliness, ease of mobility, and arguably "color" of street culture affected the perceptions of employees and customers. However, these *push* factors were aided by significant legal incentives *pulling* these same employees and customers to the northern suburbs.

The deracialization of settlement occurred in tandem with an early 1980s state program that offered **subsidies to first-time homeowners**. The program sought to provide incentives for home ownership in the northern suburbs. On the one hand, this pushed whites out of the residential areas in the inner city—further distancing them from the black areas of the city. Arguably, this delayed racial confrontation and meaningful integration. On the other hand, with more of their white employees leaving for the suburbs, the pressure on firms to follow them increased.

In 1986, they abolished **influx control restrictions**, allowing Africans to move freely in and out of urban areas (Marais, 2001: 49). Blacks increasingly migrated to the inner city for day trading and shopping, increasing taxi and pedestrian traffic. Since the Black population tended to have lower disposable incomes and Whites increasingly preferred the shopping malls of the northern suburbs, the customer base for many retail outfits began to shift. This gave firms an additional incentive to leave the CBD.

Finally, **parking restrictions** in the CBD, and a comparative abundance of parking in the Sandton area, tempted some firms to leave. In 1980, the ratio of parking spaces to floor space was "inadequate to satisfy the needs of developers of new buildings" (Mandy, 1984). In the CBD, the ratio was 0.5-0.7 spaces to 100m^2 of floor space. In Randburg and Sandton, by contrast, some office parks had ratios of 3.5-4.0 spaces to 100m^2 of floor space (Mandy, 1984).

These laws and ordinances changed the business climate in the CBD. The inability or unwillingness of national and local government to mediate the laws' negative effects on the business environment gave further incentive to firms to relocate. How did the politics of local and national governments affect their treatment (directly and indirectly) of the CBD?

Politics

Each of these political parties brought a distinct agenda for urban development—and therefore for both CBD and business development. Their differing agendas and internal political struggles shaped both the business climate in Johannesburg at large, and the physical condition of the CBD. In the next few paragraphs, I look at the three leaderships that alternately governed Johannesburg over the past 20 years. In each era, the different national political ideals were reflected in urban management. I contend that the conflicting approaches to urban management affected the behavior of firms located in the CBD.

One political party historically dominated Johannesburg: the National Party. Infamous for introducing apartheid planning to South Africa, this party held power at the national level from the 1950s through the late 1980s. In Johannesburg, too, the National Party's dominance was challenged in the 1980s as the economy began to suffer and apartheid segregation came under increasing attack. The Nats, as they are commonly referred, held power in Johannesburg until 1989. They were replaced by the Democratic Party, "a very liberal local authority," (Interview B, 23 Jan 03), who maintained local power until 1993. In 1993, a multi-party transitional local government was appointed, to navigate the new structure and form of a popularly-elected local government. Finally, in 1995, the ANC was elected to local government. They have enjoyed that seat ever since.

The **National Party** (or Nats) rose to power on the strength of a simplistic response to the problem of post-war black urbanization in the 1940s: apartheid. Their strategy of separate ethnic development informed their policies through the 1980s. These ideals were reflected in urban policy through various means. They attempted to supersede rebellious municipal governments by instituting Administration Boards, which regulated the supply and demand for black labor. The National Party's tampering with labor markets and restricting free trade more generally won little favor with Johannesburg businesses (Mandy, 1984: 289).

Though the National Party governed Johannesburg during most of the apartheid era, it had to contend with anti-apartheid protests from as early as the 1950s. Johannesburg politics thus held a shaky position between local and national. On the one hand, city political leadership was often National Party-dominated. On the other hand, Johannesburg also posed the greatest threat to apartheid leadership—both because of protest movements within the city, and because the city (by nature of its density and cosmopolitanism) could not practically sustain racial segregation.

During the tenure of both the Nats and the Dems, a single mayor and a management commission ran South African cities. "Johannesburg's mayors are ceremonial figureheads who customarily hold office for one year each. Real power is vested in the six councilors who comprise the management committee, and in particular in their chairman" (Mandy, 1984: 328). The management committee was not popularly elected, but rather elected by party officials. Accountability was not to the populace, but to the party leadership. This administrative organization inherently biased city managers in favor of national leadership.

The National Party in Johannesburg largely echoed the National Party of South Africa. When calls for resource sharing between white and black municipalities arose in Johannesburg in 1981, the city's management committee quickly shut them down. They argued that resources could not be shared because municipal governance in South Africa was based on four fundamental principles: (1) separate local authorities should be established for each race group; (2) every local authority should be independent; (3) local authorities should be granted autonomy; (4) each local authority should be self-financed (Mandy, 1984: 370-1).

We know that during the Nats' 1980s tenure, local government was sorely under-financed. The bulk of local government revenue in Johannesburg came from taxes assessed on businesses. Taxes in Johannesburg were assessed only on the value of the land, (Mandy, 1984: 365), meaning that the taxes in Johannesburg were higher than those in Sandton, which had lower land values. The National Party, experiencing poor relations with business in Johannesburg, was compelled to act on behalf of inflation-hurt households rather than business. "The management committee desired ultimately to relieve (private householders) of the rates burden, compensating for this by levying heavier charges on business" (Mandy, 1984:365). Sandton, on the other hand, started out with a wealthier tax base of householders and could provide better services than the cash-strapped CBD. Firms would be taxed less and receive better services if they relocated to Sandton.

Lax planning laws allowed private sector land development in the northern suburbs to proceed unimpeded. Why did the apartheid era government fail to regulate the property market? First, participation in planning exercises was limited to a small set of decision makers. "A management commission ran the city at the time. They were a very powerful group made up of 10 people...There was no citizen participation other than crony politics" (Interview A, 30 Jan 03). Second, apartheid-era planners relied on a sectoral, rather than an integrated approach. This resulted in overlapping or contradictory actions (Beall et al., 2002:81).

How did these features impair the ability of the apartheid government to regulate the property market? First the lack of citizen participation in the apartheid-era local government allowed officials to make development decisions that might be opposed by local residents. Ironically, Sandton residents shared a strong anti-development mentality until the 1980s, when a new business-friendly local government came to power.

> There was a conservative group of people living in Sandton for many years. They had anti-development policies. Sandton was entirely a peri-urban area. Then, in the early 1980s, they were ousted by pro-development folks. These people implemented tax cuts and created incentives for relocation. They offered incentives to move out of office stock that was reaching its sell-by date (Interview B, 23 Jan 03).

The management commission design of local government facilitated the dramatic policy change from anti- to pro-development proclivities in Sandton.

More than failing to regulate the property market, there was a tendency for Sandton officials to promote an unfettered wave of development. In other words, Sandton directly promoted firm relocations through both lax property development and through tax incentives for businesses (Beavon, 2000; cited in Beall et al., 2001: 56).

Why was there not more of an effort on the part of the Johannesburg management committee to prevent this? For one, the management committee mirrored national government party ideals, which clashed with those of business in Johannesburg. For another, the management committee did not have the financial resources at their disposal to invest heavily in maintaining the CBD. Finally, the influx of people into the CBD arguably overwhelmed any response the city could have made.

> In the 1980s, things continued to go wrong. Local government didn't want to deal. The National Party government tried to wash their hands of the Johannesburg government. The Democratic Party picked up the reins, but could see where the city was going. There was a kind of defeatism. It didn't matter what you did, there wasn't enough time to do it (Interview A, 30 Jan 2003).

The **Democratic Party** (DP) came to power in Johannesburg in 1989, with the election of management committee chair, Ian Davidson. The DP's election in Johannesburg sent a strong message to the national government about the city's dissatisfaction with the National Party. The Democratic Party was not allied with the ANC or the Nats. Rather, its national membership included English white liberals, business, and the media (ANC, 2003). Ian Davidson matched this profile. "He was a former stockbroker who believed passionately in the CBD. He was *very* opposed to Sandton's development. His own party was trying to pull north, but he really struggled against it" (Interview B, 23 Jan 03). Despite Davidson's personal commitment to the CBD, he faced strong resistance from strands within his own party—most strongly from a movement called the "Northern Alliance."

> The Dems saw that Soweto would be linked to the CBD. The pro-Sandton Dems were terrified. In fact, there was a proposal at one point for a 'Northern Alliance'. Sandton would take responsibility for Alexandra, and Joburg (the inner city) would take responsibility for Soweto—and the townships to the South.
>
> Ian Davidson, still committed to the CBD as an urban node, convinced the provincial government to locate there. Local management during this period was very strong.
>
> Urban management was not lax at that point. There were environmental upgrades, inspections of inner city buildings, successful relocations, and effectively managed bylaws (Interview B, 23 Jan 03).

Despite a commitment to bylaw enforcement, pressure from street traders overwhelmed local capacity. "The local authority's capacity to manage was compromised by the tremendous pressure for people to use the streets. In the 1990s, there was an incredible increase in street trading" (Interview B, 23 Jan 03).

Adding to the constraints on the Dems' ability to maintain the inner city were the political and bureaucratic challenges. As Morris notes,

> Despite the DP's more enlightened rhetoric, numerous issues contributed to the minimal impact of the (City Council) from 1990 to the end of November 1994. The first constraint was a bureaucratic and political one. Even though the DP was the dominant party, it had to work through the old bureaucracy which had been in place during the years of NP domination. The DP itself was a political party that was more capable of supporting the interests of the wealthier constituents (Morris, 1999: 162-3).

The DP's bureaucratic baggage from the previous regime, and its political baggage of a constituency rooted largely in the northern suburbs and big businesses, distracted the administration from decisively managing the CBD.

The Dems relinquished power in 1993 at the mandate of the Local Government Transition Act of 1993, which negotiated a post-apartheid city organization and provided for temporary governance until the 1995 local government elections, (Beall et al., 2002: 74). During this period, "there was no steering wheel" (Interview A, 30 Jan 2003). The city's focus was on its own administrative reforms rather than city management. Deteriorating physical conditions in the CBD fell secondary in the city's priorities to administrative restructuring.

When the **African National Congress (ANC)** took power in South Africa, the process of administrative restructuring continued. The ANC sought to negotiate its two major municipal battles (defining the city's administrative form and its boundaries) through its political agenda of growth and redistribution.

When the ANC came to power, there were strong calls for immediate redistributive measures—especially in the provision of basic services (i.e., electricity and water) to townships and historically underserved communities. As Franzen reports:

> Given the serious township services backlogs, Johannesburg's newly elected councils embarked on ambitious capital programmes. Not allowed to budget for a deficit, and despite unacceptably low payment levels, Johannesburg's councils budgeted for a 100% debt collection until 1997-8. Coupled with poor financial management (because of staff losses, inexperience, amalgamation, uncertainty, disputes over powers and functions, and problems with the organizational restructuring), and especially inadequate credit control measures to collect due revenues, Johannesburg was bound to end up cash-strapped. Prudent financial institutions were understandably reluctant to lend money to a city using operating funds to pay for capital projects, and with ineffective credit controls; the risks are just too high. Johannesburg found it increasingly difficult to access capital markets to acquire funds for capital investments. By September 1997, with a predicted R2 billion deficit at the 1997/8 financial year, it was clear that, without strong and decisive intervention, Johannesburg was facing bankruptcy (CDE, 2002:32).

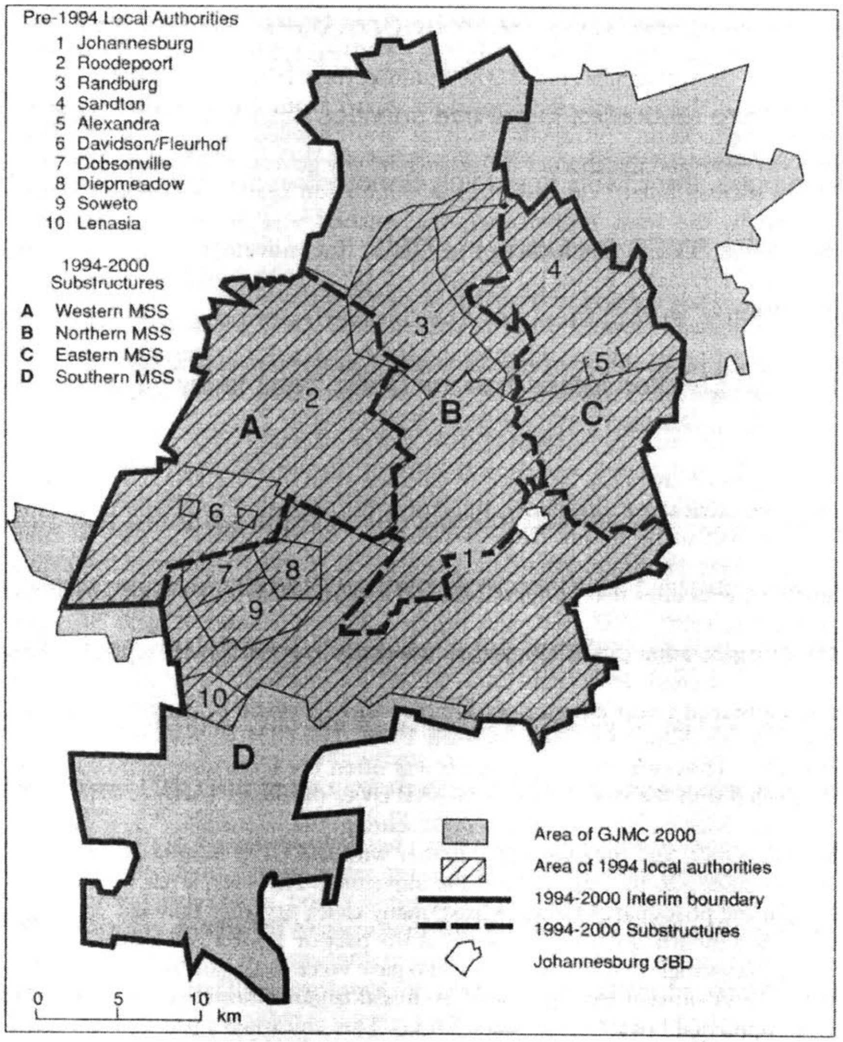
The new municipal government had over-spent on services and under-collected taxes from residents. Important for CBD maintenance, the ANC allowed expenditure on infrastructure to decay in favor of service expansion in underprivileged areas (Joburg 2030). Basic city management functions were under-prioritized because resources were not available for non-essential services.

To compound the problem, the ANC-led municipal government redrew the city boundaries to include areas like Soweto and Sandton in Johannesburg proper. This maneuver increased the population of Johannesburg by almost three times its size under the apartheid era (Beall et al., 2002: 76). Although the tax base similarly expanded, this move led to the inclusion of larger swaths of underserved populations. It also complicated the process of service provision because it necessitated the coordination and integration of previously disparate city offices. Prior to this time, Sandton and Soweto were both autonomous municipalities.

As the city tried to cope with massive new strategies for extending services, it also engaged in overhauling administrative governance structures. "When the first transitional government took power, there were 11 authorities consolidated into one. It was then redistributed into 7 sub-structures. Later, this was further consolidated into 4 structures. Now, we have Metro government" (Interview B, 23 Jan 2003). In total, there were 9 organizational reviews and restructuring efforts (Emdon, 1999: 19).

How did institutional transition affect physical conditions in the CBD? This institutional confusion was especially damaging for the CBD because it skewed its tax base. During the period 1995-2001, when there were four sub-structures, and one metropolitan overseer, the CBD was included in the most populous, and most poor sub-structure, (see Figure 5.1). This meant that it had to forfeit a larger proportion of its tax revenues to provide for services in these poorer areas. The CBD—being the seat of business—was comparably wealthy, and therefore necessarily suffered from under-provision of basic services. Table 5.1 highlights the way this arrangement exacerbated spatial inequality. The Southern sub-structure (including the CBD) hosts 42% of the population. The contribution by business as a percentage of total rates is

Figure 5.1: Map of municipal boundaries in Johannesburg, Pre- and Post-Transition



Source: Beall et al., 2002: 69.

Table 5.1: Percentage distributions of projected rateable income by sub-structure, 1996-1997

	Municipal sub-structures				
	Eastern	*Southern*	*Northern*	*Western*	*Total*
Contribution by business as a percentage of total rated	45	35	17	3	100
Contribution by advantaged residential areas as a percentage of total rates	44	14	32	10	100
Contribution by disadvantaged residential areas as a percentage of total rates	63	7	24	6	100
Estimated proportion of the population	23	42	19	16	100

Source: GJMC, 1998; cited in Beall et al., 2002: 79.

35%. In contrast, the Eastern sub-structure (including Sandton), hosts only 23% of the population, and business contributions comprise 45% of total rates (Beall et al., 2002:78).

Sandton had more resources to provide services than the CBD. As a final example of the budgetary differences, the EMSS (including Sandton) spent only 20% of its budget on salaries, compared to the SMSS (including the CBD) that allocated 40% of its more limited budget to salaries. Clearly, during this (albeit short-lived) period, businesses had clear incentives for locating in Sandton rather than the CBD. Their taxes would be lower and their services better.

These fiscal differences soon led to fiscal crises in the southern sub-structures, and calls for metropolitan government. In 2000, a single metropolitan government structure was finally adopted. However, the six years of indecision left their impact on the CBD. This institutional trial and error affected the day-to-day maintenance of the city. During this period, crime reached all- time highs, businesses continued to move out of the CBD, and hawkers traded with little to no regulation.

This reality collided with the ANC's vision for its governance. Prior to their ascendance, there was a widespread fear that the standards of development and the general quality of life would deteriorate under a black government. Sensitive to the implicit distrust these fears expressed—and anxious to prove that they could both maintain the existing infrastructure and make it accessible to a broader citizenry—the black government centrally struggled to maintain these "standards."

> The democratization of local government, instead of assuaging widespread fears of CBD downturn and inner-city decline, compounded public anxieties about the maintenance of 'standards' by seizing on the issue of urban regeneration of the inner city. This was especially the case during the interim phase of local government and included the active encouragement of formal business (Beall et al., 2002).

A hyper-attention to maintaining standards led to a process, continuing today, of real political struggle over who controls the streets: formal business or the street traders.

The problem of the street traders

The conflict over the street traders (or "hawkers") began in the early 1980s. Local government policy became increasingly tolerant of informal-sector activity during this period (Rogerson and Hart, 1989). Council licensing laws that prohibited trading were increasingly ignored. By 1991, they were repealed entirely through the introduction of the Businesses Act 71 (Emdon, in Tomlinson et al, 2003: 228).

Why were the Nats willing to relax enforcement of informal trading violations? Emdon argues that in the early 1980s, a group of influential lawyers lobbied both the municipality and national government to repeal the Council licensing laws. These lawyers were funded and promoted by an organization called the Free Market Foundation (Emdon, in Tomlinson et al., 2003: 228). The intention of the Free Market Foundation was not to help informal traders, but rather to liberalize business environments. Their lobbying success demonstrates some of the international influence of neoliberal thinking on National Party policies.

The negative impacts on the inner city of liberalizing trade were not felt until a decade later. "What had been a quaint revival of street life in the 1980s, became a massive problem of unrestricted and uncontrolled street trading in the 1990s" (Emdon, in Tomlinson et al., 2003: 228). The abolition of the Council licensing laws gave informal traders the right to trade, while the repeal of the influx control act permitted them to migrate freely in and out of trading areas. The CBD, as the central trading locale, most seriously experienced these consequences.

The hawker issue presented (and continues to present) a fundamental challenge to the ANC populist government. The ANC was elected by the members of the informal sector—low-income residents who, in a city with high unemployment and few opportunities, were resigned to selling their wares in unregulated stands. Their position in the informal sector placed them outside the purview of taxpayers. The city found itself challenged with the fundamental problem of whether to support taxpayers or citizens more broadly. Whereas the Democratic Party faced conflict within its *party* over how to manage the CBD, the ANC faced conflict within its *ideology* over how to manage the CBD.

Business in the CBD had very little tolerance for informal trading. Any permissive policy by the ANC was likely to irritate formal businesses located in the CBD. Indeed, as one jeweler who owned a business in the CBD in 1986, but had subsequently moved to La Rochelle noted, "Hawkers and cleanliness were real problems for us" (Interview, Alfnet Manufacturing Jewelers, Apr 2003). Local government's irresolute approach (until quite recently) to the issue of street traders exasperated formal business owners, and provided them still more reason to leave the CBD.

The problem of the taxis

The massive influx of taxis into the Johannesburg CBD occurred as the influx control restrictions began to ebb. "In the mid-90s, there was a collapse in the city's ability to clean the streets. Taxis took over" (Interview O, 30 Jan 2003). Both the demand and the supply for taxis increased. The demand was fed by the increased number of blacks moving in and out of the CBD to commute to work, trade on the streets, shop, or socialize. The supply was maintained by the black entrepreneurs seeking employment in one of the handful of state-sanctioned black-run businesses. This aggregate increase in taxi traffic "shattered the (city's) ability to maintain CBD streets" (Interview B, 23 Jan 2003). The number of taxis in the CBD mushroomed to such a point that they dominated (and largely continue to dominate) inner city traffic and on-street parking spaces.[13] Both the neglected streets and the chaotic presence of unregulated taxis amplified a perception of "grime."

A lack of taxi regulation deteriorated physical conditions in the CBD. Local government through the transition arguably should have done more to regulate taxis or provide better public

[13] By taxis, I refer to "minibus taxis" or "combies," which are minivans that carry 18-20 people. They represent the primary method of transportation for most black residents in the city.

transportation. Its failure is perhaps unsurprising. To this day, regulating the taxi industry (which has earned a reputation for being violently competitive) continues to be a major obstacle for local government.

The problem of policing

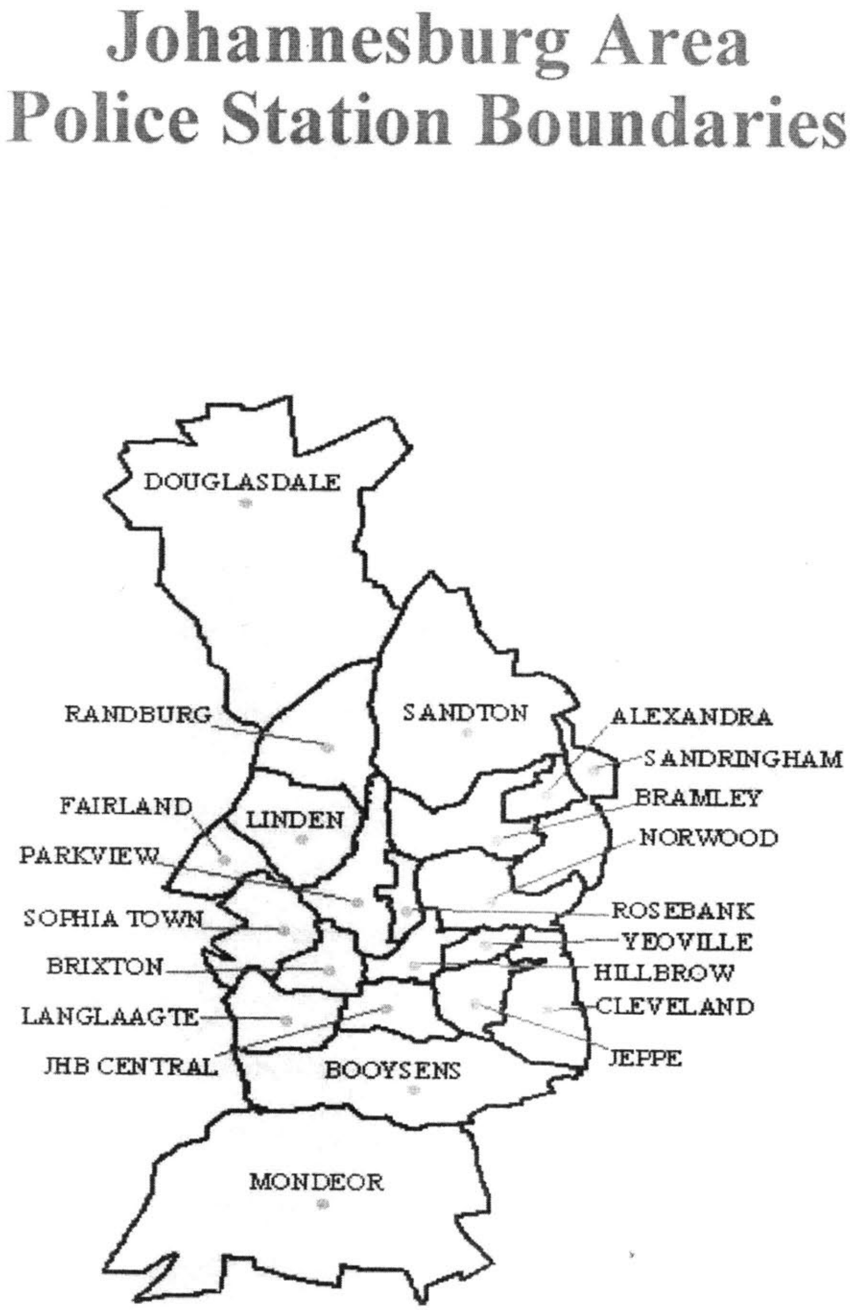
The problem of policing demonstrates how national-level institutions affect local politics and local environments like the CBD. Policing in South Africa is centralized. The South African Police Service (SAPS) is a highly bureaucratic, top-down organization. At its most decentralize level are police stations.

There are two structural problems that impair the ability to control crime from the perspective of the city. First, SAPS jurisdictional boundaries do not coincide with those of the city. The following maps help to illustrate these overlapping boundaries (see Figure 5.2 and Figure 5.3). For example, Soweto and Midrand are not included in the Johannesburg SAPS area commissioner's jurisdiction.

This can mean two things: first, the city needs to maintain relationships with several police commissioners who may have competing visions for crime control. Second, commissioners may be reluctant to interfere in problems in neighboring jurisdictions (despite the fact that these problems are still within the city borders, and therefore of import to city officials). For example, when I confronted the Johannesburg SAPS area commissioner about a vigilante group based in Midrand, (though arguably carrying out most of their "activities" in the Johannesburg SAPS area), he shrugged his shoulders and said, 'That's in Midrand, that's outside my jurisdiction" (Interview N, 30 Jan 2003).

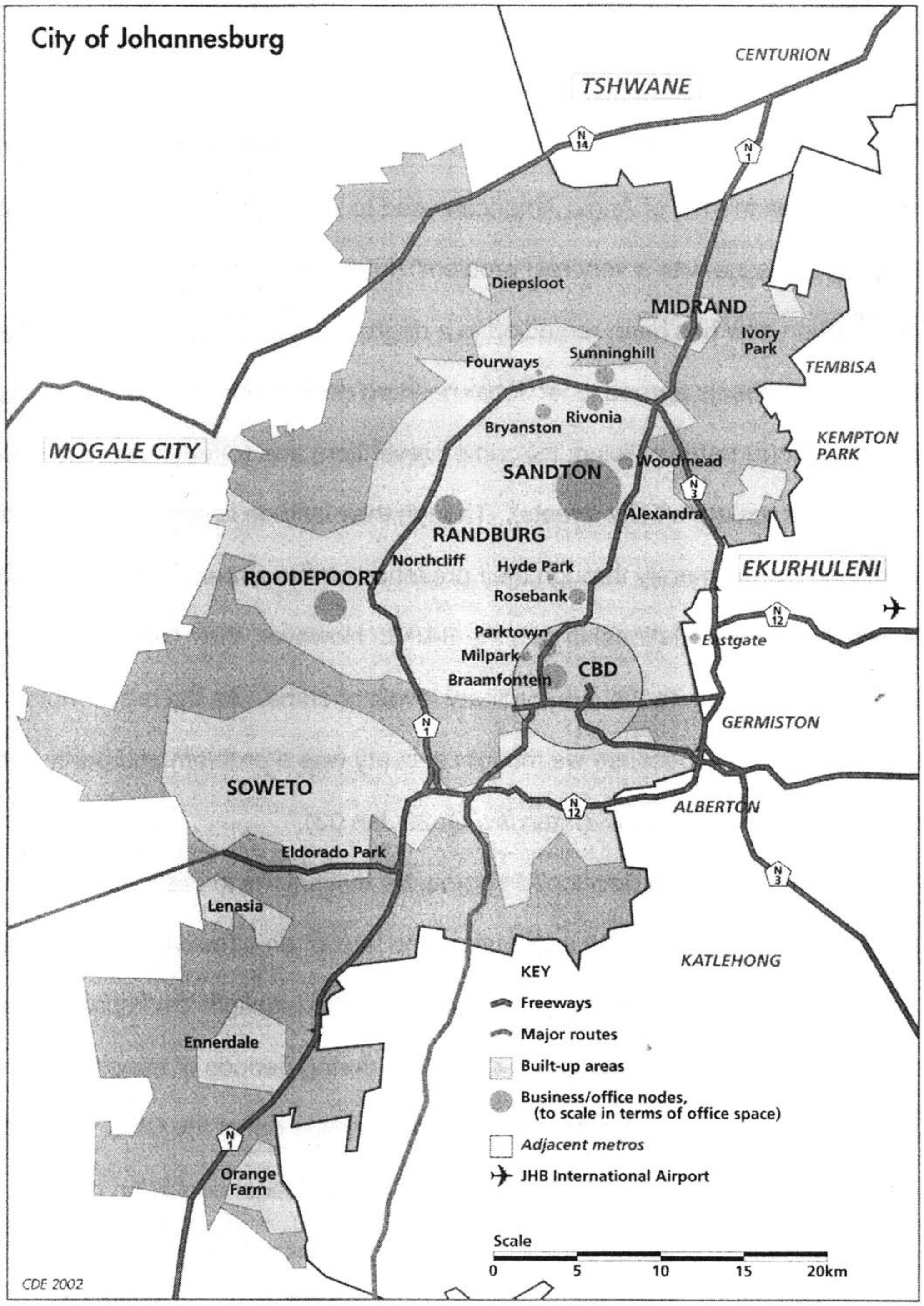
This lack of coordination did not fuel the rise in crime in the inner city. However, it arguably prevented coordinated, aggressive responses to crime, criminals could exploit this emasculated institutional response to crime in the city. "Really big-time crooks saw an

Figure 5.2: Map of current police jurisdictions (2003)



Source: South African Police Service, Crime Analysis Information Centre, Braamfontein.

Figure 5.3 Map of the current municipal jurisdiction (2003)



Source: City of Johannesburg, *Spatial Development Framework,* 2002.

opportunity. If you get apprehended, you could get bail. The chances of getting a conviction were low, because your rights were much better. Crime was profitable" (Interview A, 30 Jan 2003).

The city did not have any formal mechanisms at their disposal for controlling crime in the city centre. "The area in front of Anglo American used to witness shootouts between police and taxis. Managing the issue was a very real problem" (Interview O, 30 Jan 03).

The situation now has been remedied to a degree. After significant debate, the national and provincial governments agreed to let Johannesburg develop its own metropolitan police force—charged with (a) traffic policing; (b) crime prevention; and (c) enforcing city by-laws (i.e., cleaning up informal traders off city streets). Though their latitude is limited, they have been effective crime deterrents merely through their presence on the streets. Metro police continue to struggle in defining their relationship with the SAPS. However, their creation has given the city more muscle in coping with the extraordinary levels of crime. As the mayor noted "(Metro police was created)...partly because we thought security was a problem and partly because we wanted to be proactive about crime" (Interview G, 29 Jan 03)."

Though the city has *now* developed aggressive institutions to cope with crime in the inner city, their absence prior to 2000 emphasizes the lack of an effective institutional response in earlier periods. I point this out not to assess blame, but to highlight the importance (and challenge) of "getting the institutions right"—especially during periods of transition. Crime is unquestionably a major factor in the flight of many businesses out of the CBD. In this case, a failure of coordination between the city and SAPS, and institutional confusion through the transition, turned attention away from the increasingly criminalized inner city.

Conclusion

For each of the political parties, the CBD was a highly politicized area. Under the National Party, the CBD was the site of unofficial protest against apartheid policies. Under the

Democratic Party, the CBD became the site of official protest against apartheid policies. Under the ANC, the CBD has come to symbolize the measure of the new government's success (or failure). From one regime to the next, formal business has sent a very clear message that it prefers to be elsewhere. To what degree is the state responsible for their flight? In this case, the state cannot be considered in isolation from the other factors (property markets, crime, racism, political unrest). However, the political struggles between South Africa and Johannesburg, played out in the physical space of the CBD, clearly affected the willingness of business to locate there.

Through this examination of the role of the state in firm behavior, I hope to have highlighted the importance of looking not only at municipal-level restrictions and national-level legislation, but also at the politics that determine these rules. It is in making sense of the politics that we can understand the logic underlying certain restrictions and legislation, and their enforcement (or lack thereof).

Conclusion

This study of firm relocations in the Johannesburg CBD makes two sets of contributions. Each chapter provides a unique perspective on the exogenous causes of firm behavior. Together they suggest that firm behavior is determined by factors exogenous to the firm, and endogenous to the urban form.

Chapter 2 adds a new dataset to the location literature—one that can be analyzed in future projects. These data should be helpful to students of both firm location broadly and the Johannesburg case more narrowly. Furthermore, the mapping exercises in the first chapter demonstrate the micro-level flows of firms from one urban space to another, and empirically prove the flight of business out of the CBD.

The third chapter on the dynamics of over-development in the Johannesburg property market brings attention to a subject that is sorely understudied in the location literature. The role of property developers and institutional owners in determining the supply of land (both in quantity and price) has real implications for the "footloose" tendencies of firms within a city. My study raises a whole new set of questions around the degree to which property developers and owners drive firm clustering. It also highlights the need for those studying location issues to focus not only on the firms themselves, but on the property market and its structure. Skewed market structure (i.e., oligopolistic, concentrated ownership), and poor market information can heavily distort the location of economic activity.

The fourth chapter's focus on the role of crime and insecurity in firm location decisions highlights another key driver of firm relocation that is almost never reported in the literature. I demonstrate the serious impact that crime has on firm location. However, I offer a cautious recommendation that this crime be placed in a larger historical context of insecurity. Though

Johannesburg is notorious for its high levels of crimes, residents (and businesses) arguably exaggerate the effect of crime in order to use it as a proxy for issues like racism, xenophobia, and class conflict. This process of deconstructing insecurity, to analyze both crime and its underlying factors, is critical both for understanding the complexity of the Johannesburg case and for developing a more nuanced theory of firm relocation.

Finally, in the Chapter 5 analysis of the state's role in firm relocation, I emphasize the importance of understanding the politics that define the hostile or hospitable character of certain locations. Knowing the political and institutional context underlying firm relocation identifies the "causes" of their flight as historically dynamic and rooted in a mix of political battles. This unquestionably muddies the picture, and complicates the story of firm relocations. Perhaps this is why the state is so rarely elaborated on in discussions of firm relocation. However, the role of the state (in its absence or presence) is central to firm decisions. Analyzing the political context presents a more historically accurate approach to analyzing firm behavior.

Taken together, these chapters demonstrate the power and influence of non-economic factors (market failure, insecurity, and politics) on firms. They bring into question the legitimacy of predictive theories of firm behavior that do not accord commensurate weight to these non-economic (or exogenous) determinants.

What emerge from this study are a set of general behavioral restraints on firms and the corresponding mechanisms that drive these restraints. Economic volatility can be analyzed through the purview of property markets. Insecurity can be mapped through, (among other things) crime rates. State failure can be monitored through the city's relationship with the nation, politically, legislatively, and institutionally. These exogenous factors (economic stability, security, and government) outweigh the benefits of proximities in the Johannesburg case. Firms cannot operate efficiently in an insecure environment and/or with poor external conditions. If attractive alternatives to these environments are provided, firms will opt to relocate. These should not be surprising claims. However, it is precisely these external environments that are largely ignored by theory. It is precisely these environments that determine, before anything else, the likelihood of a firm to anchor itself in a certain location.

How is Johannesburg coping with firm relocation?

Firm relocations out of the CBD have triggered an identity crisis that mirrors the larger South African project of redefining itself in a post-apartheid context. Though the firm flight in some ways dodged (or delayed) the conversation on racial integration and social co-existence, it also left behind a contestable and symbolic space in the CBD. Contestations over the CBD are emotionally charged, politically important, and highly publicized. Informal traders, business owners, and government officials engage daily in battles over the rights to the streets.

A large proportion of the current CBD residents (and/or squatters) are immigrants—many of them engaged in informal trading. They compete with South African traders for space on the streets, often attracting xenophobic charges by locals). There is a large homeless population that has moved into the CBD. The major banking and mining institutions are still located in fortress-type buildings in the CBD. Their amenities are all within their monolith structures, so that employees can avoid taking to the streets for food and leisure. The provincial government has (generously) located in the CBD. Finally, the courts and library continue to occupy space in the civic centre.

In many ways, the firm relocations opened up the space for this identity battle, but on a very limited—perhaps manageable—scale. The space of the CBD is certainly easier for politicians to revitalize than to tackle all of Soweto, or some of the more challenging townships.

This is not to say that the identity crisis is one that is easily revolved. The stakeholders named have vastly different interests. Should the city strive for "world city" status (CDE, 2003)? Should the city strive to be a "world class African city that works" (Interview C, 6 Jan 03)? Or should the city make redistribution its sole goal and focus on rolling out services and education to the poor?

> The solution is not clear-cut…Those that run the city want to improve the public environment—the streets, pavements, parks, taxi areas, etc.—to attract business and want to renew Johannesburg to reverse its overall decline. The marginalized poor want cheap accommodation, jobs, and better welfare support. They do not want to move to the peripheries of Johannesburg and into sprawling shack settlements that are far from economic opportunities. They want to stay in the city center (Emdon, in Tomlinson et al., 2003: 229).

This struggle seems to articulate, on a micro-scale, what should be a much larger project of civic identity building.

What has been interesting in following the city's visioning for itself is the process by which they do it. I was struck by the degree to which global rhetorics influenced their visions. For example, the invocations of "world city" or a "world class city" are repeated throughout the various planning documents (CDE, 2003; Joburg 2030, 2002; CJP, 2003). The Joburg 2030 document, which outlines the city's long-term planning vision, refers to the importance of exploiting both economies of urbanization and economies of localization.

Outside of the official planning documents, plans for urban renewal and revitalization are drawing largely on the experience of U.S. cities. When I was conducting my interviews in January, I was amazed by the number of people who quoted to me from Rudy Giuliani's recent book, Leadership. Giuliani's mayoral tenure is held by nearly all (save one) of the people I spoke with as being an ideal approach to turning a city around, especially concerning "crime and grime." They were sincerely surprised to hear that Giuliani's popularity among New Yorkers was lukewarm at best.

Finally, many of the approaches being adopted by organizations like the Central Johannesburg Partnership (inner city renewal leaders) and the Johannesburg Development Agency (the city's redevelopment authority) are taken directly from U.S. models. The director of the CJP, for example, recounted all of the trips he had made to U.S. cities, and all of the U.S. mayors and city officials he had hosted in Johannesburg to demonstrate the degree to which he pulls from international best-practice models of urban revitalization. Public-private partnerships have been an especially popular model in Johannesburg. These partnerships are exemplified by projects like Business Improvement Districts (BIDs), which develop partnerships to put extra security guards on the street and hire extra cleaning crews. The CBD's new surveillance system (CCTV), which installs cameras on most street corners in the inner city and monitors criminal activity (or, they remind me, non-functioning traffic lights, broken water mains, or car accidents), began as a private-public partnership. It has subsequently spun off as an entirely private entity that is contracted by the government.

These city-driven responses to "crime and grime" have been unquestionably successful. However, when I asked the director of the CCTV program whether there had been any concerns raised about civil liberties and privacy, he said, "Look, people aren't thinking about their privacy—they're too worried about getting mugged" (Business Against Crime, 2003).

The shift towards public-private partnerships is perhaps understandable in the context of the city of Johannesburg's fiscal crisis, and near bankruptcy. This crisis clearly illustrated the inability of government to "go it alone." The private sector participation in these arguably public roles, then, emerged more out of necessity and desperation than a real conviction that partnerships are effective tools for service provision, capital projects, and urban development.

Nonetheless, the way in which public-private partnerships have emerged questions the degree to which global models can be applied to different contexts. The key question is whether cities are engaged in institutional learning, whereby they borrow models and fit them to local contexts, or rather implementing best practices, where they import U.S. models of urban revitalization wholesale. The trend currently seems to be towards the latter. Given the myriad differences between a city like New York and a city like Johannesburg (huge informal trading, massive crime, polarized citizenry, decayed inner city), it seems like the techniques being used in the name of urban renewal are at best optimistic.

Rethinking urban form in Johannesburg

What does the new economic geography in Johannesburg say about the city's urban form? As long as land remains abundantly available and densities low, Johannesburg's urban form will remain dynamic. Firms now in the northern suburbs can afford to be "footloose" given the mobility of their car-owning customers. However, they are unlikely to stray far from the northern suburbs. In this respect, the economic landscape will not likely change, aside from increasing traffic jams. Since Johannesburg has one tax base for the entire metropolitan area, intra-urban relocation does not pose a threat in terms of state revenue collection.

What will become of the CBD? Given the cheap land still available in the northern suburbs, it seems highly unlikely that formal business appealing to a wealthier clientele (of the type that was in the CBD before) will return. It seems plausible that the CBD will become a launch pad—both for informal traders and for small enterprises—to ultimately move their businesses to the northern suburbs, where the wealthier customers reside. The low rental prices in the CBD will only appeal to the type of entrepreneur that is either involved in mid- to low-end retail, or office functions that employ medium-skilled people with low- to middle-income customers. This trend has already begun, with Black-owned small enterprises creeping up in some of the C- and D-grade office space (Rogerson and Rogerson, 1997b, in Beall et al., 2002). Larger opportunities exist in functions like back-end (lower-skilled) office work like call centers, or export-oriented, low-technology production. An example is the proposed fashion district (Rogerson, Tomlinson, 1999). This area aims to coordinate the mass of informal traders that currently sell clothing to international traders from Zimbabwe, Mozambique, and other African countries. This seems like a viable project. However, it will have to produce clothing cheaply enough to out-compete the informal traders that likely come up in their stead.

In short, claims that businesses will return to the CBD (Interview G, 29 Jan 03) are unrealistic. The formal businesses once located in the CBD have moved, with their client base, to the northern suburbs.

What should become of the CBD?

The contestations over the CBD reflect the important, and until now secondary, conversation waiting to be had between races and classes about South Africa's economic future. There is a process underway of urban renewal—which could give Johannesburg a chance to revise its image of itself in a way that is different, appropriately, from the past.

Rather than ignoring the new image of the CBD that is emerging, policy makers and city advocates should embrace it. Although the flight of business out of the CBD has had negative affects on the perception of the inner city, there is now an opportunity to recast the image in a new way. Why would policy makers *want* to create the city in its old image? Its old image was one of exploitation and segregation. There is now a chance, in their rhetoric, to build an African city that works.

What is this new image? In the CBD, street traders and informal traders need to be given far more latitude than the government currently provides. The reality is that unemployment rates in Johannesburg continue to be staggering. The informal sector is often the only plausible livelihood for many people. The government's current approach is to provide organized markets for traders, and to rent kiosks on the sidewalks for trading. This certainly organizes the trading, but also (in addition to the strict new bylaws that define allowable distances one can trade from fire hydrants, street crossings, driveways, etc.) limits the number of traders who can make a living.

More of an effort can be made to organize cottage industries out of the networks of informal traders. I was told that the main barrier to this is not an unwillingness on the part of traders to cooperate, but rather, a lack of capital to get such industries started. Finding this capital will be a key challenge for the JDA and the city.

Finally, mixed-use development should become a top priority for city government. The apartheid planning regime mandated not only racial segregation, but functional segregation. As one property developer told me, "In South Africa, it was demarcated: you work here, you shop there, you have entertainment elsewhere," (Interview D, 21 Jan 03). The CBD has historically been just that—a central *business* district. Given the departure of business, it seems logical to recast this zoned function. Business is undoubtedly important—not least because the built environment supports it. However, as it stands, many of these buildings have already been invaded by squatters living in overcrowded, unsanitary conditions. Given the housing shortage in the city, and the vacancy of offices, the government should work to raise funds for transforming these buildings into housing.

This call for mixed-use development is one that extends out of the CBD to the entire city. It seems the best way forward is very quickly to begin promoting business development in the areas where it was historically prohibited: black, coloured and Indian townships. If businesses—both retail and office space could be established in and around some of these areas it would open up job opportunities and bring labor closer to homes, thereby cutting down on traffic congestion.

Many cities throughout the world have abandoned their dependence on a single urban core. Though the tone of this thesis has tended to lament the flight of business out of the CBD, this should not necessarily dictate the tone of future visions for the area. In the northern suburbs, there is now a clear poly-nucleated form. Perhaps Johannesburg should embrace its decentralized form. The key is to establish other nuclei in historically underserved areas of the city. Business and retail centers (beyond merely a shopping mall) should be targeted for development in the southern parts of the city. The Group Areas Act prohibited non-whites from conducting business outside of prescribed areas of the city. Commerce in anything besides essential goods could not be conducted in townships. The current government should actively reverse these retrogressive policies.

This sort of policy recommendation demands that the government reorient its focus from the microcosm of the CBD to the city at large. It advocates for spatial rather than sectoral development. Businesses should be encouraged in and around residential hubs. Developing sectoral nodes (i.e. of high-tech, financial and business services) should be secondary to supporting businesses that tap the existing (rather than forecast) skills of the population.

Concluding remarks

I do not purport to solve any of these problems for the city of Johannesburg. Rather, I present some data on the intra-urban movement of businesses (and jobs). By analyzing the reasons for their flight, and the patterns of their relocation, I have tried to tell a story of how firms make location decisions. I have proposed this story as an alternative to some of the existing narratives. Finally, I have offered some modest suggestions for how we can use of knowledge of why firms locate where they do to shape these movements.

My overarching argument is a simple one. History matters for urban economic development. The political transition in South Africa opened up a unique set of circumstances that fundamentally altered expected patterns of economic development. The circumstances of political transition offer a new challenge for developing a broader understanding of economic geography—one that maintains enough flexibility to incorporate history.

In this paper, I developed a model for considering firm relocation. I argue that firms will relocate if there is some combination of economic volatility, insecure surroundings, poor government polices and institutions, and weak gains from being in proximity to other firms. Understanding the micro-level effects of the economy, security, the state, and local firm presence gives key clues as to whether a certain location will both attract and anchor businesses. These four factors are key not only to growing local economies, but to maintaining them as well.

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Interviews
(Note: Names have been omitted to protect the confidentiality of the interviews.)

Name	Title	Organization	Date
Interview A	Professor, Dept of Geography	University of Pretoria	1.30.03
Interview B	Professor, Dept of Architecture	University of Witwatersrand	1.23.03
Interview C	Executive Director	Central Johannesburg Partnership	1.6-7.03
Interview D	Managing Director	Dijalo Property Services (Pty) Ltd	1.21.03
Interview E	CEO	Apex Hi Properties	1.13.03
Interview F	Director	Standard Bank Properties	1.9.03
Interview G	Mayor	City of Johannesburg	1.29.03
Interview H	Chief Srategic Officer	Blue IQ	1.14.03
Interview I	Operations Manager	Fidelity Security	1.24.03
Interview J	Development Economist	Urban-Econ	1.10.03
Interview K	Station Commissioner	South African Police Service	1.24.03
Interview L	Station Commissioner	South African Police Service	1.21.03
Interview M	Station Commissioner	South African Police Service	1.20.03
Interview N	Johannesburg Area Commissioner	South African Police Service	1.30.03
Interview O	Professor / Consultant in Urban Development	Independent	1.30.03

Telephone Survey Respondents
(All interviews conducted in March and April 2003)

Firm	CBD Location	Current Location
Dorbyl Ltd	Financial District: Barclay House	Houghton
Link Insurance Brokers (Pty) Ltd	Financial District: New Plaza Centre	Glenvista
Loop & Needlecrafts (Pty) Ltd	Financial District: Fanora House	Braamfontein
National Business Initiative	Financial District: Union Centre	Auckland Park
NP Shipping Services	Financial District: Montrose House	Houghton Estates
Brugman Inc.	Carlton Centre	Same
Levisons Stores (Pty) Ltd	Carlton Centre	Same
SA Tour	Carlton Centre	--
Sage Properties Ltd	North State Building	same
Alfnet Manufacturing Jewelers	Quebec House	La Rochelle
Gerald Carson & Associates	Landmark House	Hyde Park
Gold Coin Exchange	Carlton Centre	Sandton
Helm SA (Pty) Ltd	Carlton Centre	Bedfordview
Gerald Horwitz Attorney	Century Insurance Building	Houghton
Letcor Property Management	Kine Centre	Braamfontein
Nonyongo & Associates	York House	Braamfontein

Appendix A
Data Collection Methodology

For this study of firm relocations in Johannesburg, I sought two sets of data. First, I needed to know which firms were located in the Johannesburg in the CBD in the 1980s and 1990s. Second, I needed to know where these firms went.

During my research trip to Johannesburg, I learned that there is no existing dataset that monitors the movement of firms out of the city's CBD. On the advice of an employee at the *Johannesburg City of Commerce*, I used the *Braby's Directory* of Johannesburg businesses. This is the only source that categorizes firms by geography, rather than function.[14] Moreover, *Braby's Directory* listed firms in the CBD according to their building. I was thus able to determine which buildings housed which firms at a given point in time.

I borrowed the *Braby's Directories* for 1986-7 and 1996-7 from the Johannesburg Public Library. To narrow the scope of the study, I chose two of the six precincts that comprise the CBD: the Financial District and the Commercial District, (see Table A.1). My choice of these two districts was not random. Through the course of my interviews and readings, these two districts emerged as interesting study cases. Both districts were among the strongest economic performers during the apartheid era. The Financial District was the seat of several of the city's major banking outfits, and the Johannesburg Stock Exchange. The Commercial District was the retail center of Johannesburg, flanked by the prestigious Carlton Hotel and shopping centre.

Table A.1: Inner City Office Districts

District	Area
Exchange	Bree and Pim Streets to the north, Rissik Street to the east and Market Street to the south, with Goch Street forming the western boundary
Financial	Market Street to the north, Rissik Street to the east, Hall Street and Village Road to the south, and the M1 to the west
Commercial	Bree Street to the north, Albert Street to the south, Delvers and Goud Streets in the east, with Von Brandis Street forming its western boundary
Midtown	Bree Street in the north, Albert Street in the south, Von Brandis Street in the east and Rissik Street to the west
Station	Noord Street and Park Station in the north, Harrison Street in the west, Nugget Street in the east and Bree Street forming its southern boundary
Braamfontein	Railway line to the south, Hospital Street to the east, the Braamfontein Ridge to the north and the M1 motorway to the west

Source: AMPROS; cited in Tomlinson & Rogerson, 1999: 36.

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[14] Due to the unavailability of data of firm movements, I was unable to determine the year that each firm left the CBD.

The importance of these two districts is demonstrated by its high proportion of A-grade office space, (See Table A.2). With the exception of Braamfontein (whose inclusion in definitions of the CBD has been historically inconsistent, and therefore was excluded from this study), the Financial and Commercial districts have the highest levels of A- and B-grade office space and the highest levels of total office space.

Table A.2: Office Area in Each District (m^2)

Grade	Exchange	Financial	Commercial	Midtown	Station	Braamfontein
A	242 588	391 622	287 667	34 680	5 635	261 260
B	116 541	275 143	120 067	115 479	80 586	177 843
C	54 513	271 135	114 645	264 116	164 172	282 207
D	46 115	34 100	156 642	69 597	80 798	88 122
Total	459 757	972 000	679 021	483 872	331 191	809 432
% A & B	75	65	60	31	26	54

Source: AMPROS; cited in Tomlinson & Rogerson, 1999: 34.

I used the map in Figure 1.3 to determine which addresses in *Braby's Directory* fell within the boundaries of the Commercial and Financial Districts. As an example, in 1986, there were 2463 firms in the Commercial District's buildings. I used the firm names listed in *Braby's* to look up the firm in the current *Phonebook: Johannesburg* (2003). If the firm was listed in the current phonebook, I noted its current address. For the 1986 Commercial District firms, I found current address listings for 539 of them, (or 22%).

I then categorized these addresses by their suburbs. When the suburb was ambiguous (i.e., if only the street address was listed), I used *MapStudio*'s street map of Johannesburg to determine in which suburb the firm was located. I used these suburb distinctions to map the relocation patterns of firms in Johannesburg.

For the 1996-97 period, I slightly altered my methodology. Because there was such a noticeable drop in the total number of firms in each CBD building, I aggregated the Financial and Commercial Districts for this period.

My decision to analyze the Carlton Centre as opposed to other buildings was also a calculated (rather than random) decision. As described in the text, the Carlton Centre has historically been a powerful cultural symbol. Moreover, it is the largest office building in the CBD. By following the movements of firms of firms specifically located in that building, I sought to determine whether there was any direct parallel between CBD location and new location.

Problems with the Data

Despite my efforts to collect this address-information precisely, the data are fraught with problems. First, the listings in *Braby's Directory* are imperfect. I was warned about the problems of reliability inherent in using this source. A woman from the *Johannesburg Chamber of Commerce* told me that the 1980s versions were fairly reliable, but that their reputation had declined since then. This was evident in their listings. Many of the CBD buildings had firm names repeated or cut off. There was a fair measure of guesswork involved on my part when firm names were incomplete. Similarly, when I looked up firm names in the current phonebook, I occasionally had to interpret whether similar-sounding businesses were indeed the same.

Often there was no problem deducing whether the same firm I found listed in the 1986 *Braby's Directory*, for example, was the same firm I looked up in the *Phonebook: Johannesburg.* However, there were many instances in which it was not so clear.

This is not to suggest that the data are therefore totally invalid. Rather, they should be understood to highlight general trends rather than precise events.

Appendix B
Survey Methodology

I conducted a telephone survey of a random sample of firms from my dataset in order to hear from firms directly about the reasons for their relocation.

I used the statistical software package, *SPSS*, to randomly select firms out of my datasets. I originally selected about 60 firms. However, due to the limitations of a telephone survey (unwilling respondents, wrong numbers, inability to reach the appropriate person, faulty data), I was only able to conduct full surveys with 16 of these firms. The expense of international calling, the lack of time, and the difficulty with time zones, prohibited me from expanding this phone survey any further.

Additionally, I was asking firm employees about their locational decisions 20 years ago in some cases. Respondents unsurprisingly did not always remember the specifics of their decision (i.e. which estate agent helped them relocate). More often, the respondents were not employed by the company when they relocated.

For these reasons, this survey (like the data collection) is not necessarily reliable. However, the survey responses give texture to the personal response of firms and employees to the exogenous changes around transition. They give voice to the trends that we witness happening. As such, I contend that they are an important (if imperfect) source.

Appendix C is a sample survey for firms that left the CBD. Appendix D is a sample survey for firms that stayed in the CBD. Appendix z summarizes the respondents' answers to the survey.

Appendix C

Telephone Questionnaire: Firms that stayed in the CBD

Questionnaire

Introduction:

I am conducting a survey of firms that have relocated out of the CBD. Your firm was randomly selected from a sample of approximately 800 firms that have relocated over the past fifteen years. Through this survey, I seek to understand why firms locate where they do. This survey comprises a key part of my Masters thesis on firm relocation in Johannesburg. **Please note that all information supplied will be kept confidential at your request.**

Directions: *Please fill out the following as completely as possible.*

Demographics

Business Name:
Age of Business:
Number of employees at current location:
Sector Classification:
Nature of business:
Is your firm South African-owned?
Is your firm's primary market local, provincial, national, or global?

Decision to stay in the CBD

How many years has your firm been in the CBD?

To what degree has crime in the CBD affected your firm and employees: *Not at all; somewhat; significantly;* or *it was the primary factor.* (Please indicate)

Please briefly summarize why your firm stayed in the CBD.

Do any of the following factors influence your decision to stay in the CBD: *proximity to similar firms, proximity to clients/customers,* or *proximity to employees*? (Please indicate.)

Does your firm conduct any R&D?

Who owns your building in the CBD?

Thank you for completing this survey. If you would like to see the results of this survey, please note it below.

Appendix D

Telephone Survey Questionnaire: Firms that relocated outside the CBD

Questionnaire

Introduction:

I am conducting a survey of firms that have relocated out of the CBD. Your firm was randomly selected from a sample of approximately 800 firms that have relocated over the past fifteen years. Through this survey, I seek to understand why firms locate where they do. This survey comprises a key part of my Masters thesis on firm relocation in Johannesburg. **Please note that all information supplied will be kept confidential at your request.**

Directions: *Please fill out the following as completely as possible.*

Demographics

Business Name:
Age of Business:
Number of employees at current location:
Sector Classification:
Nature of business:
Is your firm South African-owned?
Is your firm's primary market local, provincial, national, or global?

Relocation out of the CBD

In what year did your firm leave the CBD?

Please briefly summarize why your firm left the CBD.

Did any of the following factors motivate your relocation out of the CBD: *growth, merger, acquisition,* or *takeover*? (Please indicate.)

To what degree did crime in the CBD affect your decision to relocate? *Not at all; somewhat; significantly;* or *it was the primary factor.* (Please indicate)

Please briefly summarize why you chose your present location.

Did any of the following factors influence your choice of a new location: *proximity to similar firms, proximity to clients/customers,* or *proximity to employees*? (Please indicate.)

Does your firm conduct any R&D?

Who owned your building in the CBD?

Who owns your current property?

Which property developer or realtor helped your company relocate?

Appendix E
Phone survey details (1)

Firm	Former location	Current location	Age	Employees at current location	Nature of business	South African-owned?	Market scope	Year firm left CBD	Reasons for leaving (or staying)	Was crime a factor?	Reasons for new location
Dorbyl Ltd	Financial District: Barclay House	Houghton	100 years	12	Automotive components and roof tresses	Yes (with a division in the U.S.)	Global	1980	"The CBD was becoming a bit run down."	No	Convenient to the north and east.
Link Insurance Brokers (Pty) Ltd	Financial District: New Plaza Centre	Glenvista	22 years	1	Insurance brokerage	Yes	Local	1986	Merged with business in Wadeville	No	My boss bought a company there.
Loop & Needlecraft (Pty) Ltd	Financial District: Fanora House	Braam-fontein	27 years	36	Import distributor	South African and German	National	1994	Crime in the CBD was very high. We've got a showroom and customers weren't prepared to come to the CBD.	Yes: it was the primary factor.	The rent at that stage was quite reasonable.
National Business Initiative	Financial District: Union Centre	Auckland Park	14 years	60	Development agents; consultants	Yes	National	1995	We merged 2 organizations, and our CBD property wasn't large enough.	Not at all.	One of our members gave us a discounted rental.
NP Shipping Services	Financial District: Montrose House	Houghton Estates	30 years	5	Import-Export; customs clearing	Yes	Local & provincial	1983	We're a family business that works mostly from home; we moved to a suburb and the business came with us.	Not at all.	Moved our home.
Brugman Inc.	Carlton Centre	Same	25 years	25-30	Law firm	Yes	Local	--	Everybody was leaving, and we considered going, but it was convenient to be so close to the courts. And things have gotten better—it's safe now.	It was—10 years ago. It's fine now.	--

Firm	Former location	Current location	Age	Employees at current location	Nature of business	South African-owned?	Market scope	Year firm left CBD	Reasons for leaving (or staying)	Was crime a factor?	Reasons for new location
Levisons Stores (Pty) Ltd	Carlton Centre	Same	50 years	5	Retail: clothing	Yes	Local	--	Because of business. We had that hope of 'we can make it' (despite the high crime).	Yes—it was terrible. Crime has come down since the cameras (were installed).	--
SA Tour	Carlton Centre	--	n/a	n/a	Tourism	Yes	Global	2000	We closed the office completely.	--	--
Sage Properties Ltd	North State Building	same	n/a	11	Property division of an insurance house	Yes	Local	--	Really, we're only here because we own the building.	Not chronically.	
Alfnet Manufacturing Jewelers	Quebec House	La Rochelle	12-13 years	5	Jewelry manufacturer	Yes	Local	1997	Crime was a big problem—some of our customers were being robbed. Hawkers and cleanliness were real issues for us.	Yes—a significant factor.	Shopping centre, a lot more people, appropriate clientele, more upper class.
Gerald Carson & Associates	Landmark House	Hyde Park	46 years	n/a	Law firm	Yes	n/a	1994	My clientele moved to Sandton. They felt it dangerous to enter the CBD.	Me personally, not at all; but for my clients it was the primary factor.	It's very nice; it's half country, yet central to everything I need; my clients love coming here.
Gold Coin Exchange	Carlton Centre	Sandton	25 years	25	Sell Kruger rands and gold coins	Yes	National	1996	Clients didn't want to come to the Carlton Centre anymore.	Perception of crime was a problem; but nothing happened to our clients or employees.	To capture the tourist market; we came to a tourist mecca.
Helm SA (Pty) Ltd	Carlton Centre	Bedford-view	30 years	5	Distribution of chemicals, food, and pharmaceutical	No—German	Global	1998	It was unsafe.	It was the primary factor.	It's a good area. There's a shopping mall right next door.
Gerald Horwitz Attorney	Century Insurance Building	Houghton	25 years	4	Law firm	Yes	Some global, but mainly local	1997	Security was the main reason.	It was the primary factor.	Mr. Horwitz lives in the townhouse next door.

Firm	Former location	Current location	Age	Employees at current location	Nature of business	South African-owned?	Market scope	Year firm left CBD	Reasons for leaving (or staying)	Was crime a factor?	Reasons for new location
Letcor Property Management	Kine Centre	Braam-fontein	14 years	8	Property rental and fictional title	Yes	Local	1998	We left for Bryanston because of the violence itself; we found that our clientele was based in the CBD area, so then we moved back to town.	It was about 60% of the reason.	To be near our clients. Braamfontein is quite safe. We've had 1 or 2 small problems, but that's to be expected.
Nonyongo & Associates	York House	Braam-fontein	20 years	3	Law firm	Yes	Local	1998	The CBD was becoming too dangerous. People were running down the buildings; they were no longer clean or safe; my clients were complaining that they couldn't find parking.	Crime was one of the most important reasons I left. We had break-ins almost monthly.	It's quiet, clean, safe, properly policed.

Appendix F
Phone survey details (2)

Firm	Former location	Current location	Who owned your CBD building?	Who owns current property?	Which estate agent helped you relocate?	Did any of the following factors influence your relocation choice? Proximity to:		
						Similar firms	*Clients or Customers*	*Employees*
Dorbyl Ltd	Financial District: Barclay House	Houghton	Don't know.	Don't know.	Don't know.	X	X	X
Link Insurance Brokers (Pty) Ltd	Financial District: New Plaza Centre	Glenvista	Don't remember.	Don't remember.	Don't know.			
Loop & Needlecrafts (Pty) Ltd	Financial District: Fanora House	Braamfontein	Can't remember.	We do.	Can't remember.			
National Business Initiative	Financial District: Union Centre	Auckland Park	PG Klaus	Grey Properties	Don't know.			
NP Shipping Services	Financial District: Montrose House	Houghton Estates	We did.	We do.	N/A			X
Brugman Inc.	Carlton Centre	Same	N/A	N/A	N/A	X		
Levisons Stores (Pty) Ltd	Carlton Centre	Same	N/A					

Firm	Former location	Current location	Who owned your CBD building?	Who owns current property?	Which estate agent helped you relocate?	Did any of the following factors influence your relocation choice? Proximity to:		
						Similar firms	***Clients or Customers***	***Employees***
SA Tour	Carlton Centre	--						
Sage Properties Ltd	North State Building	same	Sage	Sage	N/A			
Alfnet Manufacturing Jewelers	Quebec House	La Rochelle	Don't remember.	3 private individuals.	Don't know.		X	
Gerald Carson & Associates	Landmark House	Hyde Park	Private corporation; Principal shareholder died; his son, a barrister, inherited most of his shares.	RMB Properties (owned by First Rand Bank Ltd)	The estate agent has now gone out of business.		X	
Gold Coin Exchange	Carlton Centre	Sandton	Carlton Centre	Liberty	Don't know.		X	
Helm SA (Pty) Ltd	Carlton Centre	Bedfordview	Carlton Centre	Liberty	Don't know.			
Gerald Horwitz Attorney	Century Insurance Building	Houghton	Don't know.	N/A	N/A			X
Letcor Property Management	Kine Centre	Braamfontein	Technicor	Sabre Holdings	We did it ourselves.		X	
Nonyongo & Associates	York House	Braamfontein	Old Mutual	Anglo American	Broll Properties		X	