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### UNDICTATED: Joburg's 'Emerald City' could turn out to be pie in the sky

BY ALEC HOGG, 11 NOVEMBER 2013, 06:36



An artist's impression of the development in Modderfontein, Johannesburg, mooted by Shanghai Zendai Property

JOHANNESBURG was plastered with billboards last week telling us how Chinese will transform AECI's stuttering property development to the east of the city into "Africa's New York". Local talk radio stations were alive with opinions while property professionals buzzed with talk of fresh commissions.

The fuss arrived courtesy of a Mandarin-only speaker who told reporters — through an interpreter — he would make 1,600ha in Modderfontein the continent's financial hub.

This new city, he claimed, would have 35,000 houses; office skyscrapers; shopping malls; a new sports stadium; an educational centre and create 100,000 permanent jobs.

Man of the moment, Dai Zhikang, claimed investment during the next 15 years would exceed R80bn. The only thing missing from a widely republished artist's impression was an Ozymandian reference to "look upon my works, ye mighty, and despair".

AECI CE Mark Dytor has also caught the fever. When I spoke to him last week, Dytor was already referring to the tract as "Chinese land" — suggesting the new land owners would kick in lots more, including R200m for a Gautrain station.

Obviously the awful name, literally translated as Muddy Fountain, would need to change. A colleague suggested Baby Beijing.

On reflection, a better name would be Emerald City. Like in Dorothy and the Tin Man. Because with his background and such extravagant promises, the promoter is more Wizard of Oz than South African property's next big thing.

Dai is the founder and 39% shareholder of Shanghai Zendai, a Hong Kong-listed property development company. At HK\$2.3bn (R3.2bn) it ranks 630th on the Hong Kong Stock Exchange's listings by market cap.

For perspective, that means Zendai is worth less than a third of the JSE's recently listed property developer Attacq, a business which has its hands full with the 321ha Waterfall Estate.

For a company Zendai's size, the scale of Modderfontein is like Attacq taking on nine Waterfalls.

It is a challenge exaggerated by significant rehabilitation obstacles in a market where people don't speak your language and work according to very different laws.

Ahem. Publicity material trumpets this to be Zendai's second project outside China. Again, closer examination is illuminating.

Zendai's first foreign investment, all of \$14m, closed a year ago. It is in New Zealand's Gulf Harbour development 25km north of Auckland. Started by a Singaporean in the 1990s, the project is a dismal failure.

Instead of the proposed upmarket resort and marina, local media reports that Gulf Harbour is now "a sprawl of row after row of identical Noddy houses" most of which stand empty. Those who live there do so because of very cheap rents.

Zendai's investment at Gulf Harbour is via a company which bought a 31ha block of undeveloped waterfront land called Hobb's Wharf. The land was in receivership after its owner, one Jamie Peters, went bust, spectacularly. Two banks wrote off NZ\$156m on the sale to the Chinese. Zendai's partner in the project is Hong Kong-based entrepreneur Zhaobai Jiang.

What Re:CM founder Piet Viljoen calls golf course economics — only the third owner of a development makes profit — might work in Zendai's favour in New Zealand. Even so, a 45% stake in a \$35m acquisition of a 31ha distressed asset is a long way from R1bn for 1,600ha in Modderfontein.

AECI says it has taken two years to negotiate the deal. When you unpack verbiage like "Long Stop Date" and "Extended Grace Period", it means Zendai doesn't actually have to pay a cent to AECI until the end of September next year. Before then various hoops ("conditions precedent") could trip up the transaction.

Forgive my scepticism, but this looks more like a free punt for a smallish Chinese company than the creation of Manhattan in Modderfontein.

Unless he is merely a frontman for a fiendish plot to colonise the continent, Dai will succeed only if he is able to quickly sell a "place in Africa" to thousands of his countrymen. If the long-shot arrives, great. If not, AECI could be stuck with the land and forced to take back its Heartland property development company.

There are other immediate concerns. Like that claim of 35,000 houses. The 1,600ha is 3,500 acres. Divide that into 35,000, and even if every patch of the land is allocated to residential — excluding the promised offices, stadium, etc — each "house" would occupy just a tenth of an acre. Even those Kiwi "Noddy houses" wouldn't fit.

So why did South Africa swallow it all so smoothly? Especially AECI, a business eight times more valuable than Zendai? The answer, perhaps, lies in culture.

A few years ago, ahead of my first visit to China, Steinhoff's Markus Jooste sent me James McGregor's book, *One Billion Customers*. Jooste, who has substantial operations in the country, reckoned it to be the best insight he'd seen into Chinese business. Given his experience and the book's cover endorsement by Henry Kissinger, who would argue?

In it, McGregor says: "The Chinese have a 'no blush' gene when it comes to negotiations.

"No matter how egregious the demand, the Chinese can say it with a straight face.

"They will ask you for anything because you may just be stupid enough to agree to it. Many do."

In other words, there is an ingrained approach of overpromising and underdelivering.

The former Wall Street Journal bureau chief who now runs businesses in China said: "Chinese negotiators are masters at pushing the impression that you need them far more than they need you. Many foreign businesspeople bring along too much goodwill and trust. Chinese negotiators have no qualms about exploiting that by outright lying.

"For the Chinese, outcomes are far more important than truth."

Makes you think, doesn't it? Perhaps Joburg's Emerald City is more pie than sky?

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