



## FINANCIAL VIABILITY

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Development : Commerce Square 6 & 7

Report : 12

Date : 4 October 2011

Reference : BJ1287/21949

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## GENERAL INFORMATION

Development : Commerce Square 6 & 7  
Report : 12  
Date : 02 March 2011  
Reference : BJ1287/21949  
Developer(s) : Bakos Properties (Pty) Ltd  
Principal agent : SIP Project Managers (Pty) Ltd  
Architects : Intergrale Architects  
Project location : Sandhurst  
Method of estimating construction cost : Square metre  
Drawing numbers : Not numbered  
Scale : Per drawings

**Directors:** Dr C P de Leeuw (Managing), G W de Leeuw, N P Roos\* - PrQS \*Pretoria  
Del Quantity Surveyors (Pty) Ltd - Reg No 1999/22021/07

**Offices:** JOHANNESBURG | PRETORIA  
**Associated offices:** GHANA | KENYA | MAURITIUS | NAMIBIA | NIGERIA | TANZANIA | UGANDA

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# CONTENTS

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|                   |                            | <b>Page No</b> |
|-------------------|----------------------------|----------------|
| Executive summary |                            | 1              |
| Section 1         | Capital investment         | 3              |
| Section 2         | Net income (first year)    | 6              |
| Section 3         | Return on investment (ROI) | 7              |

# EXECUTIVE SUMMARY

## DEVELOPMENT

Office development comprising two office blocks with a construction area of 7,946 m<sup>2</sup> and five levels of basement with 319 parking bays and ancillary site works

## PROGRAMME

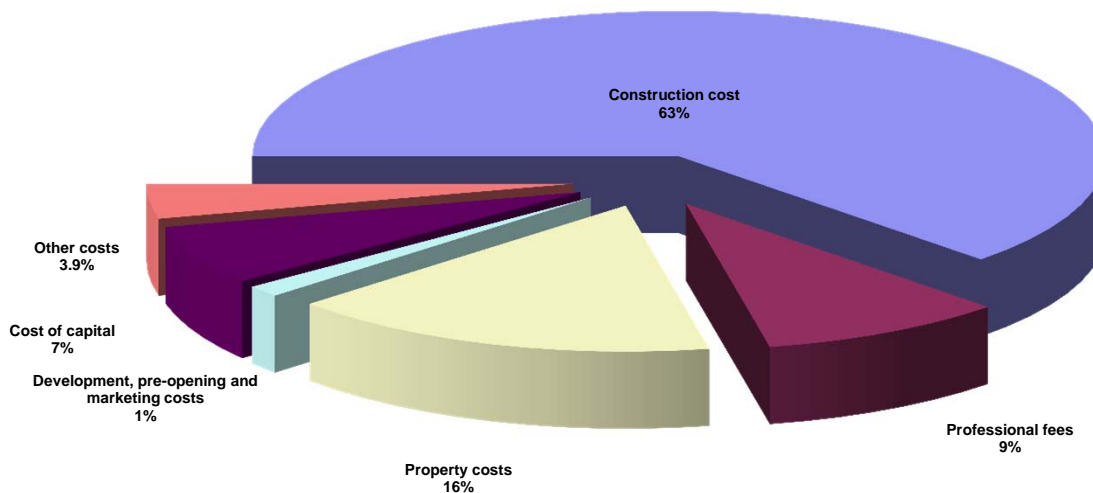
|                         |            |
|-------------------------|------------|
| Construction tender     | 21/07/2011 |
| Construction start      | 18/08/2011 |
| Construction completion | 23/11/2012 |
| Opening                 | 23/11/2012 |

## EXTENT AND OVERALL EFFICIENCY OF DEVELOPMENT

|  |                       |
|--|-----------------------|
| Construction area (excluding parking)                                  | 7,946 m <sup>2</sup>  |
| Construction area of parking   | 7,979 m <sup>2</sup>  |
| Total construction area  | 15,925 m <sup>2</sup> |
| Rentable area  | 6,966 m <sup>2</sup>  |
| Rentable efficiency ratio (rentable to construction excluding parking) | 87.67 %               |
| Parking bays   | 319 no                |
| Parking efficiency (bays per 100m <sup>2</sup> of rentable area)       | 4.58 no               |
| Parking efficiency (bays per 100m <sup>2</sup> of usable area)         | 5.08 no               |

## ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT)

R 160,159,906



## ESTIMATE OF NET INCOME (FIRST YEAR) (EXCLUDING VAT)

R 16,237,270

## FIRST YEAR AVERAGE NET RENTAL RATE PER MONTH

|                  |                             |
|------------------|-----------------------------|
| Basement parking | R 662.22 per bay            |
| Offices          | R 162.05 per m <sup>2</sup> |

## EXECUTIVE SUMMARY (continued)

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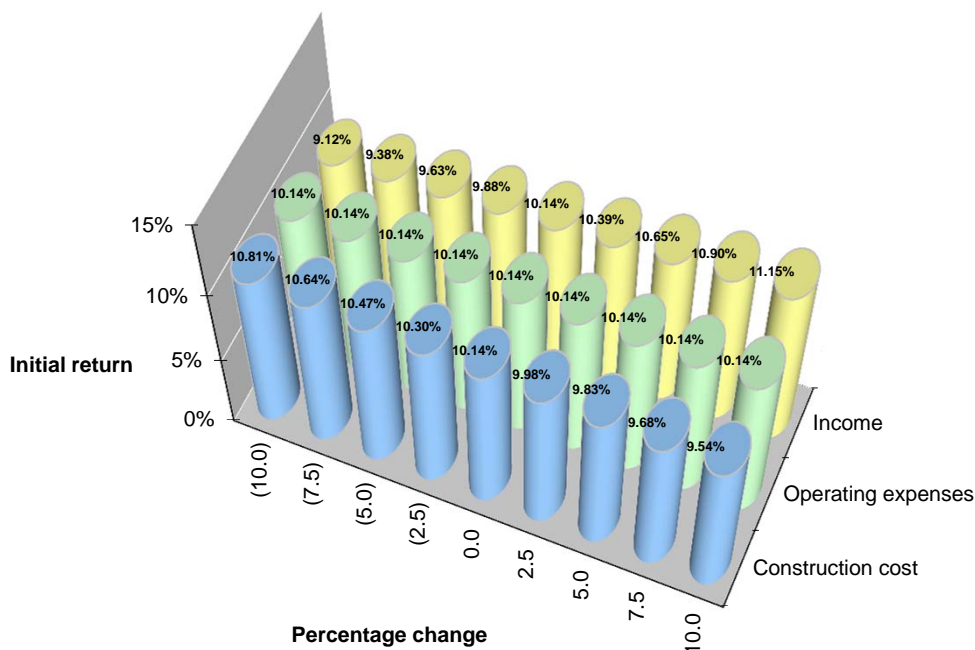
### DEVELOPMENT COST PER M<sup>2</sup>

|   | Per construction area<br>R/m <sup>2</sup> | Per rentable area<br>(excluding parking)<br>R/m <sup>2</sup> |
|---|---|--|
| Construction cost                                     | 5,777.60                                  | 13,208.19  |
| Escalation in construction cost                       | 506.64                                    | 1,158.24   |
| Professional fees                                     | 942.64                                    | 2,154.96   |
| Property costs  | 1,648.35                                  | 3,768.30   |
| Local authority charges                               | 93.83                                     | 214.51   |
| Development, pre-opening and marketing costs          | 130.39                                    | 298.10   |
| Tenancing costs                                       | 195.43                                    | 446.76   |
| Financing costs                                       | 58.20                                     | 133.06   |
| Cost of capital                                       | 663.98                                    | 1,517.93   |
| Other expenditure                                     | 40.07                                     | 91.60  |
| <b>ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT)</b> | <b>10,057.14</b>                          | <b>22,991.66</b>   |

### RETURN ON INVESTMENT (ROI)

|   |        |
|---|--------|
| Initial return (first year)                 | 10.14% |
| Internal rate of return (IRR) over 5 years  | 15.81% |
| Internal rate of return (IRR) over 20 years | 16.67% |

### INITIAL RETURN SENSITIVITY ANALYSIS



## SECTION 1 - CAPITAL INVESTMENT

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|           |  | R                  |
|-----------|--|--------------------|
| <b>1.</b> | <b>Construction cost</b>   | <b>100,076,563</b> |
| 1.1       | Estimated construction cost (as at 02/03/2011)<br>(Annexure A)           | 92,008,249         |
| 1.2       | Pre-tender escalation in construction cost                               | 4,441,778          |
|           | Number of months   | 1                  |
|           | Average % escalation per month   | 4.83               |
| 1.3       | Post-tender escalation in construction cost (during construction period) | 3,626,536          |
|           | Number of months   | 15                 |
|           | Average % escalation per month   | 0.50               |
| 1.4       | Direct construction costs  | -                  |
| 1.5       | Other costs  | -                  |
| <b>2.</b> | <b>Professional fees</b>   | <b>15,011,484</b>  |
| 2.1       | Professional fees (14.5%)  | 14,511,102         |
| 2.2       | Disbursements  | 500,383            |
| 2.3       | Other fees   | -                  |
| <b>3.</b> | <b>Property costs</b>  | <b>26,250,000</b>  |
| 3.1       | Land or property value (as at 02/03/2011)                                | 26,000,000         |
| 3.2       | Registration costs   | -                  |
| 3.3       | Town and regional planner's fees   | 70,000             |
| 3.4       | Environmental impact assessment costs                                    | -                  |
| 3.5       | Rezoning costs   | -                  |
| 3.6       | Land surveyor's fees   | 20,000             |
| 3.7       | Investigation costs (archaeological, soil, etc)                          | 35,000             |
| 3.8       | Legal fees (other than registration costs)                               | 100,000            |
| 3.9       | Other costs/costs  | 25,000             |

## SECTION 1 - CAPITAL INVESTMENT (continued)

©

|   | R                |
|---|------------------|
| <b>4. Local authority charges</b>   | <b>1,494,289</b> |
| 4.1 Plan scrutiny fees  | 191,100          |
| 4.2 Interim tax on land   | 523,189          |
| 4.3 Interim tax on improvements   | -                |
| 4.4 Bulk service charges including stormwater   | 400,000          |
| 4.5 Electricity upgrade   | 380,000          |
| <b>5. Development, pre-opening and marketing costs</b>                                    | <b>2,076,531</b> |
| 5.1 Development and promotion fees (2%)   | 2,001,531        |
| 5.2 Pre-opening and opening costs   | -                |
| 5.3 Marketing costs   | 75,000           |
| 5.4 Other costs   | -                |
| <b>6. Tenanting costs</b>   | <b>3,112,143</b> |
| 6.1 Leasing commissions   | 3,112,143        |
| 6.2 Stamp duty on lease agreements  | -                |
| 6.3 Non-recoverable tenant requirement costs (other than included in construction cost)   | -                |
| 6.4 Furnishings, fixtures and equipment costs (escalated and including professional fees) | -                |
| 6.5 Other costs   | -                |
| <b>7. Financing costs</b>   | <b>926,911</b>   |
| 7.1 Finance raising fee   | 720,720          |
| 7.2 Mortgage registration costs   | 206,192          |
| 7.3 Guarantee costs   | -                |
| 7.4 Other fees/costs  | -                |

**SECTION 1 - CAPITAL INVESTMENT (continued)**

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|            |   | R                  |
|------------|---|--------------------|
| <b>8.</b>  | <b>Cost of capital</b>  | <b>10,573,896</b>  |
|            | Cost of capital and/or interim interest on loan finance, compounded monthly |                    |
|            | Number of months  | 19                 |
|            | Average % interest per annum  | 9.00               |
| 8.1        | On property value/costs   | 4,417,219          |
| 8.2        | On other costs  | 6,156,677          |
| 8.3        | From development completion to opening                                      | -                  |
| 8.4        | Other interest/costs  | -                  |
| <b>9.</b>  | <b>Other expenditure</b>  | <b>638,087</b>     |
| 9.1        | Development contingency   | 638,087            |
| 9.2        | Other expenditure   | -                  |
|            |   | <b>160,159,906</b> |
| <b>10.</b> | <b>Interim income</b>   | <b>-</b>           |
|            |   | <b>160,159,906</b> |
| <b>11.</b> | <b>Value added tax (VAT)</b>  | <b>-</b>           |
|            | <b>ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT)</b>                       | <b>160,159,906</b> |
|            | <b>(COMPLETION : 23/11/2012)</b>  | <b>160,159,906</b> |

Note: It is assumed that the developer is a vendor for VAT purposes and can recover the relevant VAT



## SECTION 2 - NET INCOME (FIRST YEAR)

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| Rentable space  | Quantity | Unit | Rental rate<br>in current<br>terms<br>(net)<br>R per month | Escalation<br><br>% per<br>annum | First year<br>rental rate<br><br>(net)<br>R per month | Net<br>income per<br>month<br><br>R |
|---|----------|------|--|----------------------------------|---|-------------------------------------|
| Basement parking  | 319      | No   | 566.00   | 9.50                             | <b>662.22</b>   | 211,248                             |
| Offices   | 6,952    | m2   | 138.50   | 9.50                             | <b>162.05</b>   | 1,126,572                           |
| Office storage  | 436      | m2   | 30.00  | 9.50                             | <b>35.10</b>  | 15,286                              |
| Net monthly income  |          |      |  |                                  |   | 1,353,106                           |
| Net annual income   |          |      |  |                                  |   | 16,237,270                          |
| First year operating expenses (net rentals)                               |          |      |  |                                  |   | -                                   |
| Per m2 of rentable area per month (excluding parking)                     |          |      |  | 0.00                             |   |                                     |
| Percentage of gross annual income   |          |      |  | -                                |   |                                     |
| <b>ESTIMATE OF NET INCOME (FIRST YEAR)</b><br><b>(START : 23/11/2012)</b> |          |      |  |                                  |   | 16,237,270                          |

Note: The rental escalation period is 1.73 years

Rentals per developer

## SECTION 3 - RETURN ON INVESTMENT (ROI)

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|   |          |             |              |
|---|----------|-------------|--------------|
|   |          | % per annum |              |
| <b>INITIAL FIRST YEAR RETURN</b> (if fully let) |          |             | <b>10.14</b> |
| <b>INTERNAL RATE OF RETURN (IRR)</b>            | 6 Years  |             | <b>15.81</b> |
|   | 20 Years |             | <b>16.67</b> |

### Assumptions

Escalation for IRR calculations

| Year               | 1     | 2     | 3     | 4     | 5     | 6     |
|--------------------|-------|-------|-------|-------|-------|-------|
| Rental             | 9.50% | 9.50% | 9.50% | 8.00% | 8.00% | 7.00% |
| Operating expenses | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |

Maturity for IRR calculations (as percentage of estimated fully let net income)

| Year                | 1      | 2      | 3      | 4      | 5      | 6      |
|---------------------|--------|--------|--------|--------|--------|--------|
| Net income achieved | 95.00% | 97.50% | 97.50% | 97.50% | 97.50% | 97.50% |

|                                     |                |             |              |
|-------------------------------------|----------------|-------------|--------------|
|                                     |                | % per annum |              |
| Average net escalation after year 6 |                |             | <b>7.00</b>  |
| Captialisation rates for end value  | After 6 years  |             | <b>11.00</b> |
|                                     | After 20 years |             | <b>14.00</b> |

### General qualifications

1. All expenses have been escalated to the lease start date
2. Income received prior to the lease start date has been deducted from the capital investment after adjusting for operating expenses and cost of capital
3. Return on investment does not take into account interest on loans, redemption thereof and vacancies. Refer to the executive summary for a sensitivity analysis indicating the effect of construction cost and income fluctuations (eg the effect of vacancies) and to the relevant annexure (if provided) for return on equity (ROE) and the effect of income tax
4. No allowance has been made in the above calculation for income tax

### Qualifications related to initial return

1. It has been assumed that the development will reach full maturity during the first year of operation
2. No allowance has been made in the initial return calculations for the recoupment of capital during the income bearing period of the investment or for the realisation value of the investment at the end of the investment period

### Qualifications related to the internal rate of return

1. Income and expenditure have been taken into account at the beginning of each month
2. The end value has been determined by capitalising the projected net income at the capitalisation rates indicated above