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LETTING SCHEME – PRELIMINARY REPORT

Project description : Sandton House

Project reference : MC³18005

Report number : 1

Date : 12/07/2018

Developers : Musket Properties (Pty) Ltd

Principal agent : John Jones Architects

Site : Portion of erf 70589, Sandton

Drawing numbers : 2017 – 21 / SP1

Scale : 1:200

Method of estimating construction cost : Elemental analysis

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EXECUTIVE SUMMARY

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PROJECT DESCRIPTION

The project comprises a three storey mixed use development with retail and offices on two parking basements

Construction area (excluding parking levels)
 Rentable area
 Usable area
 Construction area of parking levels within the building
 Total number of parking bays

5 148 m ²
4 121 m ²
0 m ²
4 911 m ²
156 no

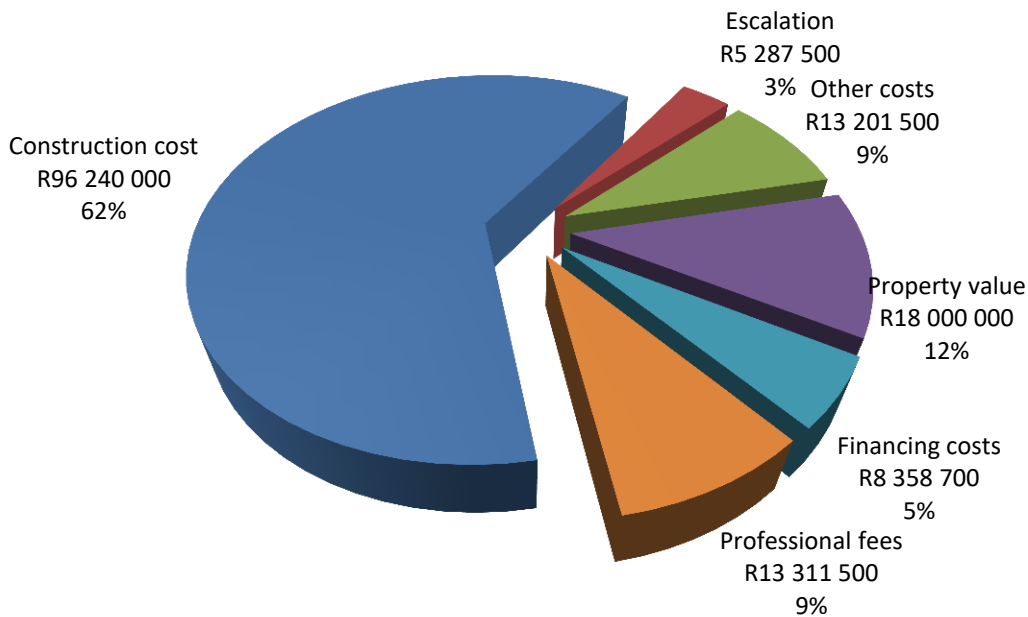
PROGRAMME ASSUMPTIONS

Construction cost estimate date
 Building contract tender date
 Construction commencement date
 Construction completion date
 Opening date
 Land payment date

02/07/2018
20/10/2018
01/11/2018
31/12/2019
01/01/2020
01/11/2018

**ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT)
 (COMPLETION DATE 31/12/2019)**

R
154 399 200



**ESTIMATE OF NET INCOME DURING FIRST YEAR OF OPERATION
 (EXCLUDING VAT) (COMMENCING 01/01/2020)**

R
14 055 420

RETURN ON INVESTMENT

Initial return (first year)
 Internal rate of return (IRR) over 20 years

9.10 %
16.86 %

PROJECT AREA ANALYSIS

Area efficiency ratio (rentable to construction excluding parking)
 Construction area per parking bay
 Parking ratio (parking bays per 100m² of total rentable area)

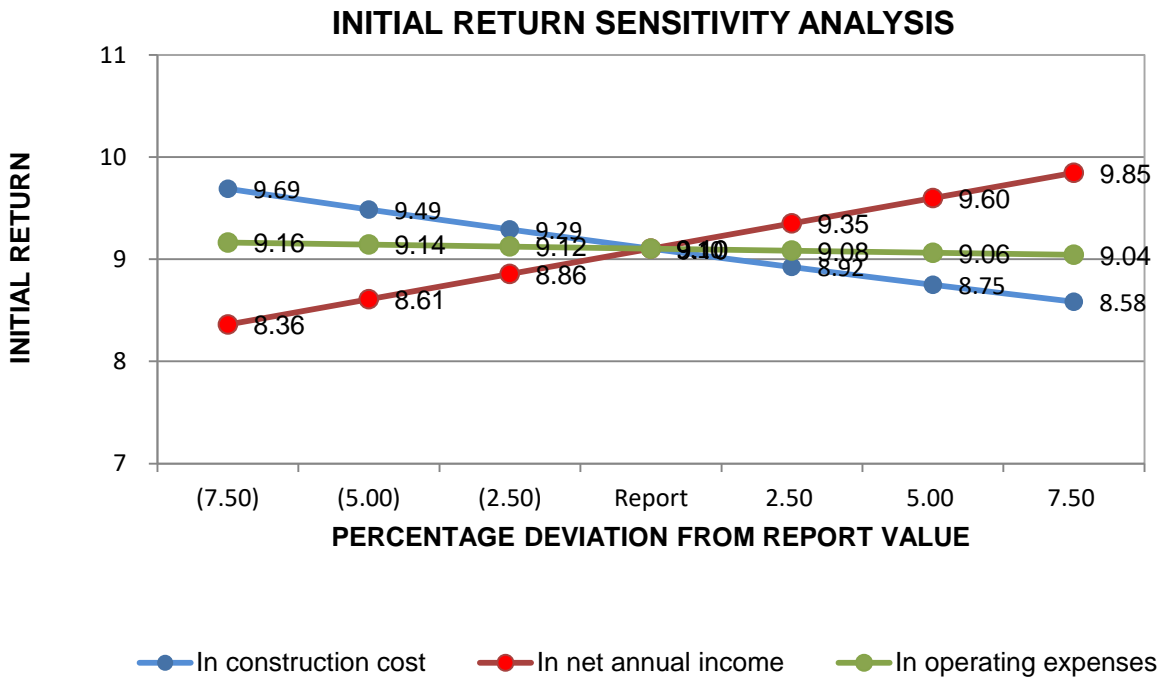
80.05 %
33.41 m ²
3.79 no

PROJECT FINANCIAL ANALYSIS PER M² OF RENTABLE AREA

Construction cost
 Escalation
 Professional fees
 Property costs
 Financing costs
 Other costs

R	
23 354 /m ²	
1 283 /m ²	
3 230 /m ²	
4 496 /m ²	
2 028 /m ²	
3 075 /m ²	
37 466 /m ²	
Interim income	0 /m ²
37 466 /m ²	

ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT) PER M² OF RENTABLE AREA



SECTION A - CAPITAL INVESTMENT

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	R
1. Property costs	18 530 000
1.1 Property value (per Developer)	18 000 000
1.2 Rezoning fees	-
1.3 Transfer costs	-
1.4 Land surveyor's fees	30 000
1.5 Town and regional planner's fees	400 000
1.6 Geotechnical investigation costs	50 000
1.7 Sundry legal fees	50 000
1.8 Other costs	-
2. Funding costs	1 186 970
2.1 Mortgage registration costs (mortgage of R83 901 930)	347 970
2.2 Finance raising fee (1.00% of mortgage)	839 000
2.3 Banker's guarantee costs	-
2.4 Other costs	-
3. Construction costs	101 527 500
3.1 Estimated construction cost (02/07/2018) (Annexure A)	96 240 000
3.2 Escalation in construction cost up to tender date (20/10/2018)	1 891 400
number of months	4
escalation per month	0.49%
3.3 Escalation in construction cost during building period (commencement date 01/11/2018)	3 396 100
number of months	15
escalation per month	0.37%

SECTION A - CAPITAL INVESTMENT (CONTINUED)

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4. Professional fees	13 311 500
4.1 Professional fees (12.50% of final construction cost)	12 690 900
4.2 Project Manager	-
4.3 Health and safety consultant	63 000
4.4 Disbursements	507 600
4.5 XA Consultant	50 000
5. Local authority costs	2 980 000
5.1 Plan scrutiny fee	800 000
5.2 Interim tax on land	180 000
5.3 Interim tax on improvements	200 000
5.4 Bulk service charges	1 800 000
5.5 Other costs	-
6. Promotional costs	3 786 000
6.1 Marketing, pre-opening and opening costs	50 000
6.2 Development and promotion fees (2.50% of total capital outlay)	3 736 000
6.3 Other costs	-
7. Tenanting costs	3 950 400
7.1 Leasing commissions	3 950 400
7.2 Legal fees on lease agreements	-
7.3 Non-recoverable tenant requirements costs	-
7.4 Furniture, fixtures and equipment costs	-
7.5 Training expenses	-
7.6 Direct contract costs	-
7.7 Other costs	-

SECTION A - CAPITAL INVESTMENT (CONTINUED)

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8. Financing costs	8 358 700
Cost of capital and/or interim interest on mortgage, compounded monthly	
8.1 On property costs (over a 14 months period at 10.50% per annum)	2 376 200
8.2 On improvements (over a 14 months period at 10.50% per annum)	5 982 500
8.3 From project completion to opening date	-
8.4 Other costs	-
9. Sundries	768 130
9.1 Development contingency (0.50% of escalated capital investment)	768 130
9.2 Value added tax (VAT)	-
9.3 Other costs	-
	<hr/>
	154 399 200
10. Interim income	-
	<hr/>
<u>ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT)</u>	154 399 200
<u>(COMPLETION DATE 31/12/2019)</u>	<hr/> <hr/>

Note: The above estimate of capital investment is based on the assumption that the owner / developer is a vendor for VAT purposes and can recover the applicable VAT as an input tax. The cost of capital allows for two months delay in recovering VAT

SECTION B - NET INCOME (FIRST YEAR)

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Description	Quantity	Unit	Present rental rate R/month	* Escalation % p a	First year rental rate R/month	Gross monthly income R
Retail	335	m ²	311.84	8.00	350.00	117 250
Stores in basements	349	m ²	71.28	8.00	80.00	27 920
Offices	3 786	m ²	213.83	8.00	240.00	908 640
Undercover parking bays	147	no	1 336.46	8.00	1 500.00	220 500
Estimate of escalated gross monthly income						1 274 310
Estimate of escalated gross annual income						15 291 720
Estimate of escalated annual operating expenses (8.08 % of escalated gross annual income - R25.00 per m ² of rentable area per month)						(1 236 300)
						14 055 420
Interest on monthly income (no allowance for cumulative interest)						-
<u>ESTIMATE OF NET INCOME DURING FIRST YEAR OF OPERATION (EXCLUDING VAT) (COMMENCING 01/01/2020)</u>						14 055 420

* First year rental rate is the present rental rate escalated to commencement date. The rental escalation period is 1.50 years

Note : Refer to Executive summary for sensitivity analysis

The rentable area is computed in accordance with the Method for Measuring Floor Areas in Buildings (effective 1 August 2005) as published by the South African Property Owners Association

SECTION C - RETURN ON INVESTMENT

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General qualifications

1. All expenses have been escalated to the construction completion date
2. Income received prior to the opening 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 or vacancies
4. No allowance has been made for income tax
5. Escalation after the first year of operation :

Year	1	2	3	4	5
Rental	8.00%	8.00%	8.00%	8.00%	8.00%
Operating expenses	7.00%	7.00%	7.00%	7.00%	7.00%

INITIAL RETURN ON CAPITAL INVESTMENT

Year	1	2	3	4	5
Annual return	9.10%	9.84%	10.64%	11.50%	12.42%

Qualifications

1. The return does not cater for the following:
 - 1.1 The project may not reach full maturity during the first year of operation
 - 1.2 Recoupment of capital during the income bearing period of the investment or realisation value of the investment at the end of the investment period

INTERNAL RATE OF RETURN (IRR)

Year	20	15	10	5
Internal rate of return	16.86%	16.52%	16.45%	16.16%

Qualifications

1. The investment period has been taken as 20; 15; 10; 5 years after the construction completion date
2. Income and expenditure have been taken into account at the beginning of each month
3. The escalation after year five in rental and operating expenses have been maintained at the rates applicable to the fifth year
4. The terminal value has been calculated by capitalising the net income at the end of the applicable investment period as follows:

Year	5	10	15	20
Capitalisation rate	9.00%	10.00%	12.00%	14.00%
Vacancies	2.50%	3.00%	4.00%	5.00%

SUMMARY OF CONSTRUCTION COST

	Construction cost R	Rate per m² R	% of construction cost %
Primary elements	50 159 400	4 986.52	52.12
Specialist installations	14 721 100	1 463.48	15.30
Equipment	-	-	-
Tenant installations	-	-	-
Alterations	-	-	-
External works and services	11 689 090	1 162.05	12.15
Price and detail development contingencies	3 829 410	380.69	3.98
Preliminaries	11 256 000	1 119.00	11.70
ESTIMATE OF CONSTRUCTION COST (EXCLUDING CONSTRUCTION CONTINGENCIES) (02/07/2018)	91 655 000	9 111.74	95.24
Construction contingency	4 585 000	455.81	4.76
ESTIMATE OF CURRENT CONSTRUCTION COST (EXCLUDING VAT) (02/07/2018)	96 240 000	9 567.55	100.00
Escalation in construction cost up to tender date	1 891 400	188.03	1.97
ESTIMATE OF ESCALATED CONSTRUCTION COST AT TENDER DATE (EXCLUDING VAT) (20/10/2018)	98 131 400	9 755.58	101.97

EXCLUSIONS

This estimate of construction cost is based on ruling competitive tender market conditions and excludes the following

- Expected escalation during construction period (refer to section A)
- Professional fees (refer to section A)
- Value added tax (VAT)
- Loose furniture and fittings, etc

ELEMENTAL ANALYSIS OF CONSTRUCTION COST

Code	Description	Cost R	Quantity	Unit	Cost per unit R	Cost per m ² R	Cost %
1	PRIMARY ELEMENTS	50 159 400	10 059	m ²	4 986.52	4 986.52	52.12%
100	Substructure	1 309 600	2 463	m ²	531.71	130.19	2.61%
101	Ground floor	1 898 760	2 509	m ²	756.78	188.76	3.79%
102	Structural frame	12 699 980	10 007	m ²	1 269.11	1 262.55	25.32%
103	External façade	8 540 430	5 139	m ²	1 661.89	849.03	17.03%
104	Roofs	1 048 610	2 319	m ²	452.18	104.25	2.09%
105	Internal divisions	5 281 830	5 500	m ²	960.33	525.08	10.53%
106	Partitions	446 340	404	m ²	1 104.80	44.37	0.89%
107	Floor finishes	2 902 640	9 647	m ²	300.89	288.56	5.79%
108	Internal wall finishes	2 482 190	11 560	m ²	214.72	246.76	4.95%
109	Ceiling finishes	2 004 240	9 999	m ²	200.44	199.25	4.00%
110	Fittings	57 000	10 182	m ²	5.60	5.67	0.11%
111	Electrical installation	6 492 230	10 182	m ²	637.62	645.42	12.94%
112	Plumbing	3 505 700	369	no	9 500.54	348.51	6.99%
113	Fire protection	344 600	54	no	6 381.48	34.26	0.69%
114	Balustrading, handrails, etc	1 145 250	503	m	2 276.84	113.85	2.28%
115	Miscellaneous items	-	-	m ²	-	-	

ANNEXURE A - CONSTRUCTION COST (CONTINUED)

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ELEMENTAL ANALYSIS OF CONSTRUCTION COST

Code	Description	Cost R	Quantity	Unit	Cost per unit R	Cost per m ² R	Cost %
2	SPECIALIST INSTALLATIONS	14 721 100	10 059	m ²	1 463.48	1 463.48	15.30%
200	Special foundations	2 749 000	2 463	m ²	1 116.12	273.29	2.86%
201	Special fire protection systems	1 444 020	10 182	m ²	141.82	143.56	1.50%
202	Conveyance systems	3 132 000	4	no	783 000	311.36	3.25%
203	Air conditioning	5 464 720	10 182	m ²	536.70	543.27	5.68%
204	Ventilation	643 880	10 182	m ²	63.24	64.01	0.67%
205	Heating and cooling	-	-	m ²	-	-	
206	Special electrical systems	51 150	10 182	m ²	5.02	5.08	0.05%
207	Electronic systems	255 090	10 182	m ²	25.05	25.36	0.27%
208	Other services	-	-	m ²	-	-	
209	Communications and security	583 040	10 182	m ²	57.26	57.96	0.61%
210	Signage	248 200	10 182	m ²	24.38	24.67	0.26%
211	Artwork, furnishings, etc	-	-	m ²	-	-	
212	Miscellaneous items	150 000	10 182	m ²	14.73	14.91	0.16%
3	EQUIPMENT	-	10 059	m ²	-	-	0.00%
300	Commercial	-	-	m ²	-	-	
301	Institutional	-	-	m ²	-	-	
302	Vehicular	-	-	m ²	-	-	
303	Other	-	-	m ²	-	-	
4	TENANT INSTALLATIONS	-	10 059	m ²	-	-	0.00%
400	Tenant installations	-	-	m ²	-	-	

ANNEXURE A - CONSTRUCTION COST (CONTINUED)

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ELEMENTAL ANALYSIS OF CONSTRUCTION COST

Code	Description	Cost	Quantity	Unit	Cost per unit	Cost per m²	Cost %
		R			R	R	
5	ALTERATIONS	-	-	m ²	-	-	
6	EXTERNAL WORKS AND SERVICES	11 689 090	10 059	m ²	1 162.05	1 162.05	12.15%
600	Demolitions	-	-	m ²	-	-	
601	Site clearance	37 320	2 463	m ²	15.15	3.71	0.04%
602	Earthworks	6 800 700	13 545	m ³	502.08	676.08	7.07%
603	Soil drainage	87 200	160	m	545.00	8.67	0.09%
604	Sub-surface water drainage	-	-	m	-	-	
605	Storm water drainage	150 000	160	m	937.50	14.91	0.16%
606	Water supply	42 700	160	m	266.88	4.24	0.04%
607	Fire service	148 500	160	m	928.13	14.76	0.15%
608	Electrical installation	1 049 990	160	m	6 562.44	104.38	1.09%
609	Gas and fuel	-	-	m	-	-	
610	Connection fees, etc	1 316 800	5	no	263 360	130.91	1.37%
611	Boundary, screen, retaining walls, etc	78 750	105	m ²	750.00	7.83	0.08%
612	Fences and railings	-	-	m	-	-	
613	Roads, paving, etc	589 680	1 867	m ²	315.84	58.62	0.61%
614	Covered parking, walkways, etc	147 600	164	m ²	900.00	14.67	0.15%
615	Decks	-	-	m ²	-	-	
616	Pergolas, canopies, etc	34 850	41	m ²	850.00	3.46	0.04%
617	Minor construction work	-	-	m ²	-	-	
618	Pools, etc	335 000	2	no	167 500	33.30	0.35%
619	Sports facilities	-	-	no	-	-	
620	Garden works	800 000	10 182	m ²	78.57	79.53	0.83%
621	Miscellaneous items	70 000	10 182	m ²	6.87	6.96	0.07%

ELEMENTAL ANALYSIS OF CONSTRUCTION COST

Code	Description	Cost R	Quantity	Unit	Cost per unit R	Cost per m ² R	Cost %
7	PRICE AND DETAIL DEVELOPMENT CONTINGENCIES	3 829 410	10 059	m ²	380.69	380.69	3.98%
8	PRELIMINARIES	11 256 000	10 059	m ²	1 119.00	1 119.00	11.70%
ESTIMATE OF CONSTRUCTION COST (EXCLUDING CONSTRUCTION CONTINGENCIES AND VAT) (02/07/2018)		91 655 000	10 059	m ²	9 111.74	9 111.74	95.24%
9	CONSTRUCTION CONTINGENCY	4 585 000	10 059	m ²	455.81	455.81	4.76%
ESTIMATE OF CURRENT CONSTRUCTION COST (EXCLUDING VAT) (02/07/2018)		96 240 000	10 059	m ²	9 567.55	9 567.55	100.00%
10	ESCALATION TO TENDER DATE	1 891 400	-	-	-	188.03	1.97%
ESTIMATE OF ESCALATED CONSTRUCTION COST AT TENDER DATE (EXCLUDING VAT) (20/10/2018)		98 131 400	10 059	m ²	9 755.58	9 755.58	101.97%

ANNEXURE B - DEVELOPMENT CASH FLOW

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Date	Property costs	Funding costs	Construction costs	Professional fees	Local authority costs	Promotional costs	Tenancing costs	Operator budget	Sundries	Financing costs				TOTAL
	R	R	R	R	R	R	R		R	Property	Improvements	To opening date	Other costs	R
	R	R	R	R	R	R	R		R	R	R	R	R	R
	18 530 000	1 186 970	101 527 500	13 311 500	2 980 000	3 786 000	3 950 400	-	768 130	2 376 200	5 982 500	-	-	154 399 200
01/10/2018	26 667			8 592 445	25 333	252 400	263 360		51 209					9 211 414
01/11/2018	18 156 667	1 186 970	207 700	337 075	2 625 333	252 400	263 360		51 209	158 000	79 900			23 318 614
01/12/2018	26 667		897 890	337 075	25 333	252 400	263 360		51 209	160 500	123 300			2 137 734
01/01/2019	26 667		1 800 020	337 075	25 333	252 400	263 360		51 209	162 100	124 100			3 042 264
01/02/2019	26 667		2 514 820	337 075	25 333	252 400	263 360		51 209	163 800	170 300			3 804 964
01/03/2019	26 667		3 862 740	337 075	25 333	252 400	263 360		51 209	165 400	203 600			5 187 784
01/04/2019	26 667		4 890 180	337 075	25 333	252 400	263 360		51 209	167 100	249 600			6 262 924
01/05/2019	26 667		6 304 960	337 075	25 333	252 400	263 360		51 209	168 800	305 400			7 735 204
01/06/2019	26 667		7 357 270	337 075	25 333	252 400	263 360		51 209	170 500	374 100			8 857 914
01/07/2019	26 667		8 931 440	337 075	25 333	252 400	263 360		51 209	172 300	452 700			10 512 484
01/08/2019	26 667		10 296 580	337 075	25 333	252 400	263 360		51 209	174 000	545 900			11 972 524
01/09/2019	26 667		11 255 730	337 075	25 333	252 400	263 360		51 209	175 800	652 300			13 039 874
01/10/2019	26 667		12 918 540	337 075	25 333	252 400	263 360		51 209	177 500	767 200			14 819 284
01/11/2019	26 667		13 623 120	337 075	25 333	252 400	263 360		51 209	179 300	898 100			15 656 564
01/12/2019	26 667		16 666 510	337 075	25 333	252 400	263 360		51 209	181 100	1 036 000			18 839 654

	R
Estimate of escalated capital investment	154 399 200
Mortgage finance (55.00% of capital investment)	(83 901 930)
<u>ESTIMATED EQUITY</u>	70 497 270
Cost of own capital calculated over 14 months at 10.50% interest per annum	(3 816 500)
<u>ESTIMATED CASH</u>	66 680 770

Note: The amount for cost of own capital is approximate as it has not been based on a cash flow prediction

ANNEXURE D - RETURNS ON EQUITY AND CASH

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Description	Year 1 R	Year 2 R	Year 3 R	Year 4 R	Year 5 R
Gross annual income (excluding any vacancies and cumulative interest)	15 291 720	16 515 058	17 836 262	19 263 163	20 804 216
Estimate of escalated operating expenses for first year of operation	(1 236 300)	(1 322 841)	(1 415 440)	(1 514 521)	(1 620 537)
Net annual income (excluding any vacancies and cumulative interest)	14 055 420	15 192 217	16 420 822	17 748 643	19 183 679
Interest portion of mortgage repayment calculated at 10.50 % p a over 10 years	(8 573 027)	(8 020 627)	(7 407 352)	(6 726 491)	(5 970 597)
Net income after interest portion of mortgage repayment but before capital redemption and income tax	5 482 393	7 171 589	9 013 471	11 022 152	13 213 082
Excess or (shortfall) after redemption of mortgage	469 852	1 606 649	2 835 254	4 163 075	5 598 111

Returns	Year 1 %	Year 2 %	Year 3 %	Year 4 %	Year 5 %
Return on equity	7.78	10.17	12.79	15.63	18.74
Return on cash	8.22	10.76	13.52	16.53	19.82