

Cost analysis, product profitability and risk from an integrated developers perspective

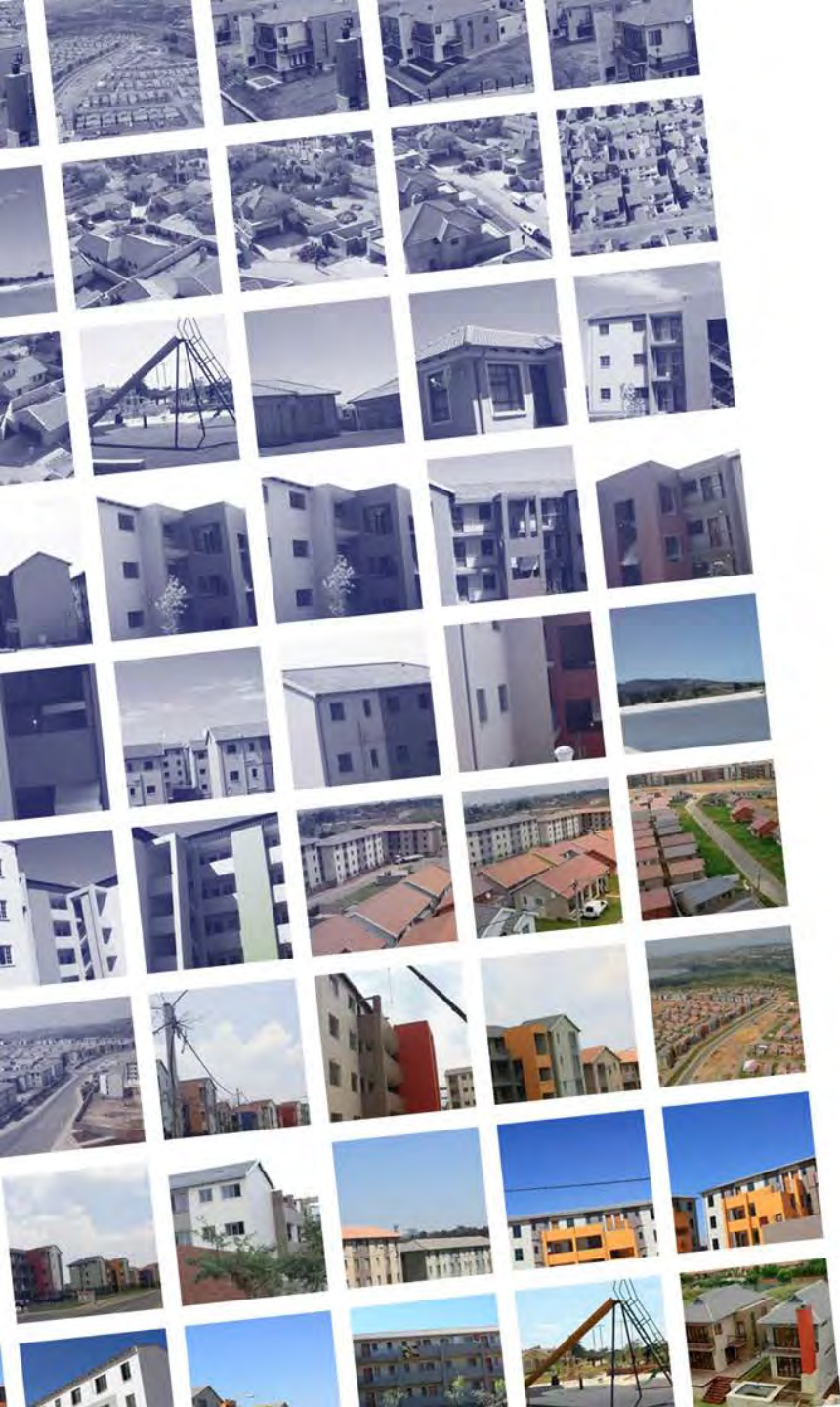
21 February 2013



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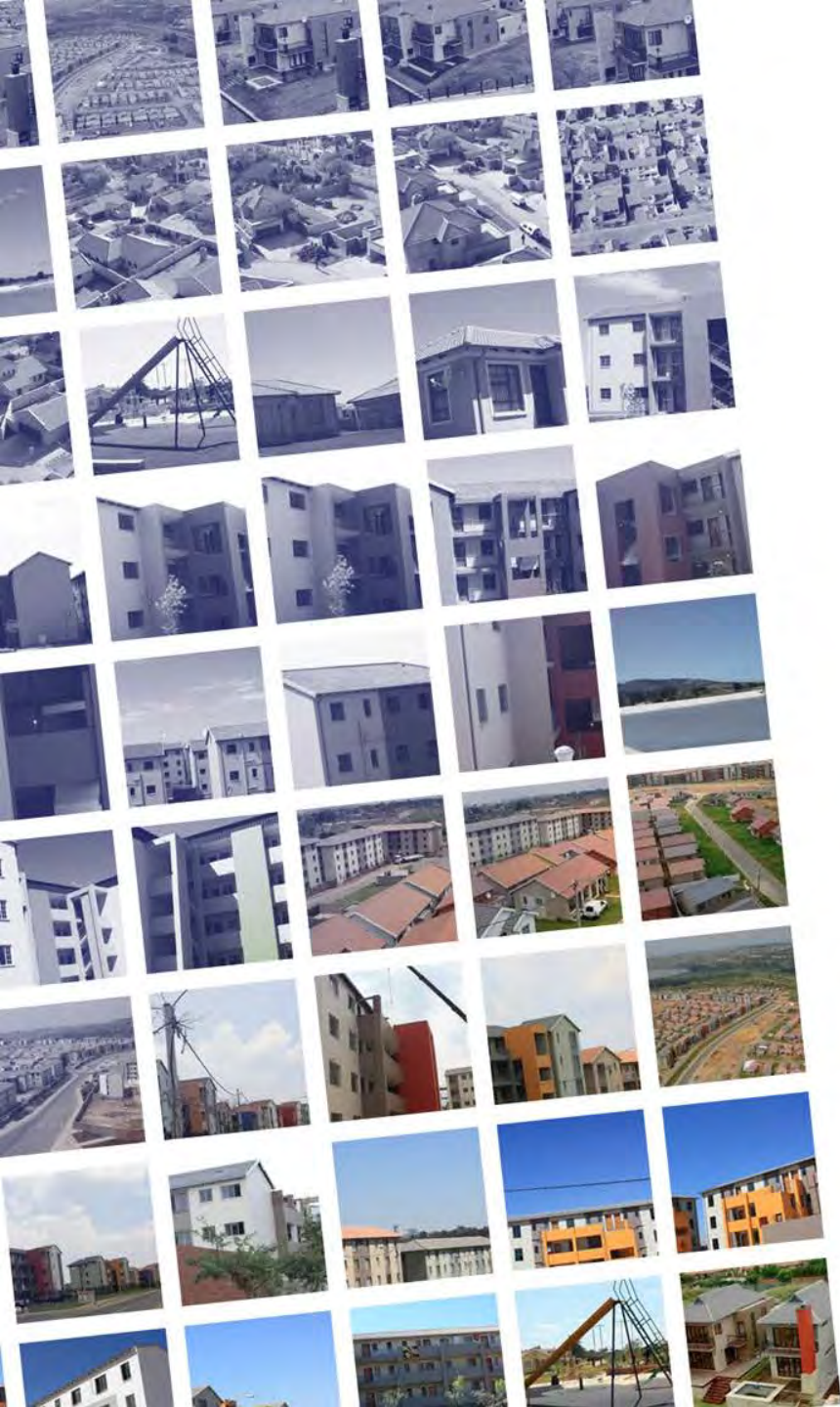
The logo for CALGRO M3 HOLDINGS features a stylized yellow and blue graphic above the company name. The name 'CALGRO M3' is in a large, bold, sans-serif font, with 'HOLDINGS' in a smaller font below it.

CALGRO M3
H O L D I N G S



Market Trends
Product profitability
Risk profiling
Effective capital allocation





Market trends

Better located projects

Higher density

Sustainability of projects



Market trends

- Market trends:
 - Better located projects
(gone are the days of building Soweto outside of Johannesburg, Botshabelo outside Bloemfontein, Kayalitsha outside Cape Town);
 - Higher density (prime land close to job opportunities and transport nodes to be developed); and
 - Sustainability of communities (close to Social amenities, Transport and Job opportunities).

Market trends

- Better located projects
 - Access to public transport. With 25 - 30% of disposable income spent on transport in the lower segments of the market, locality in relation to transport nodes becomes a major factor (leading to densification);
 - Job opportunities in any area contribute towards sustainability and lead to densification around the opportunities. Informal settlements usually started around job opportunities; and
 - Proximity of social amenities contribute towards the sustainability.

Market trends

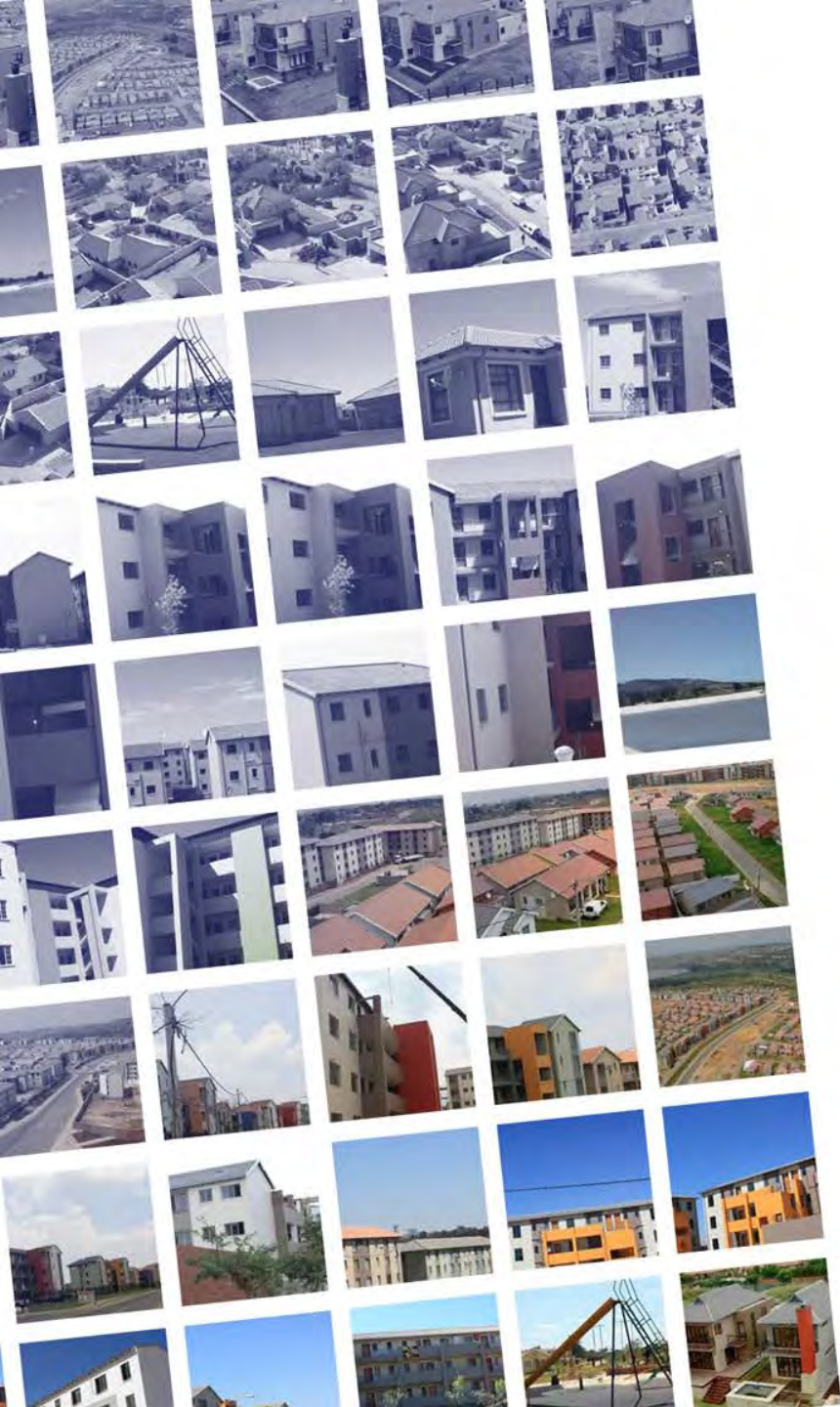
- **Densification**
 - Important to differentiate between rural area's and metro's. Although a business case can probably made for densification in most cases , the reality is that densification will first take place in the Metro's;
 - What do the market want, and what can they afford?
 - Infill sites lead to higher densification easier than greenfield projects;
- When it comes to densification it is important to differentiate between “greenfields projects” and “infill sites”:
 - Greenfields project – Fleurhof, South Hills, Scottsdene
 - Infill sites – Jabulani CBD, Belhar

Market trends

TOWNSHIP	Total Area (Ha)	Developable Area (Ha)	Residential Units	Density (Units/Ha)
Existing Areas				
Randburg				Below 10
Protea Glen				25 – 30
Greenfield Developments				
Fleurhof	243.582	144.582	9558	66
South Hills	161.97	67.92	5161	76
Infill Development				
Jabulani CBD	20.62	20.62	3881	188
Belhar	21.7	21.7	2691	124
Scottsdale	22.03	22.03	2885	131

Market trends

- Sustainability
 - The integrated development model is based on a wide range of product offering including :
 - Fully subsidised;
 - Social Housing;
 - Rental;
 - FLISP;
 - GAP;
 - Affordable;
 - Ownership and rental options available to the market; and
 - Social amenities included in the projects or in close proximity.



Fleurhof – “Greenfields site”



Fleurhof



Phase 3 & 4

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Fleurhof



Phase 1

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Fleurhof



Phase 1

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Fleurhof



Phase 1

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Fleurhof



Phase 2

Helpmekaar Bridge September 2012

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Fleurlhof



Phase 2

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Fleurhof



Phase 1



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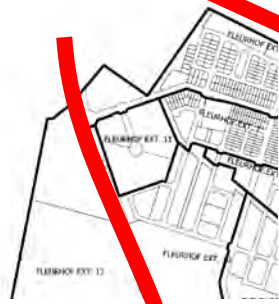
Fleurhof



Phase 1

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Florida

Main Reef Road

Lea Glen Industrial

Stormmill Industrial

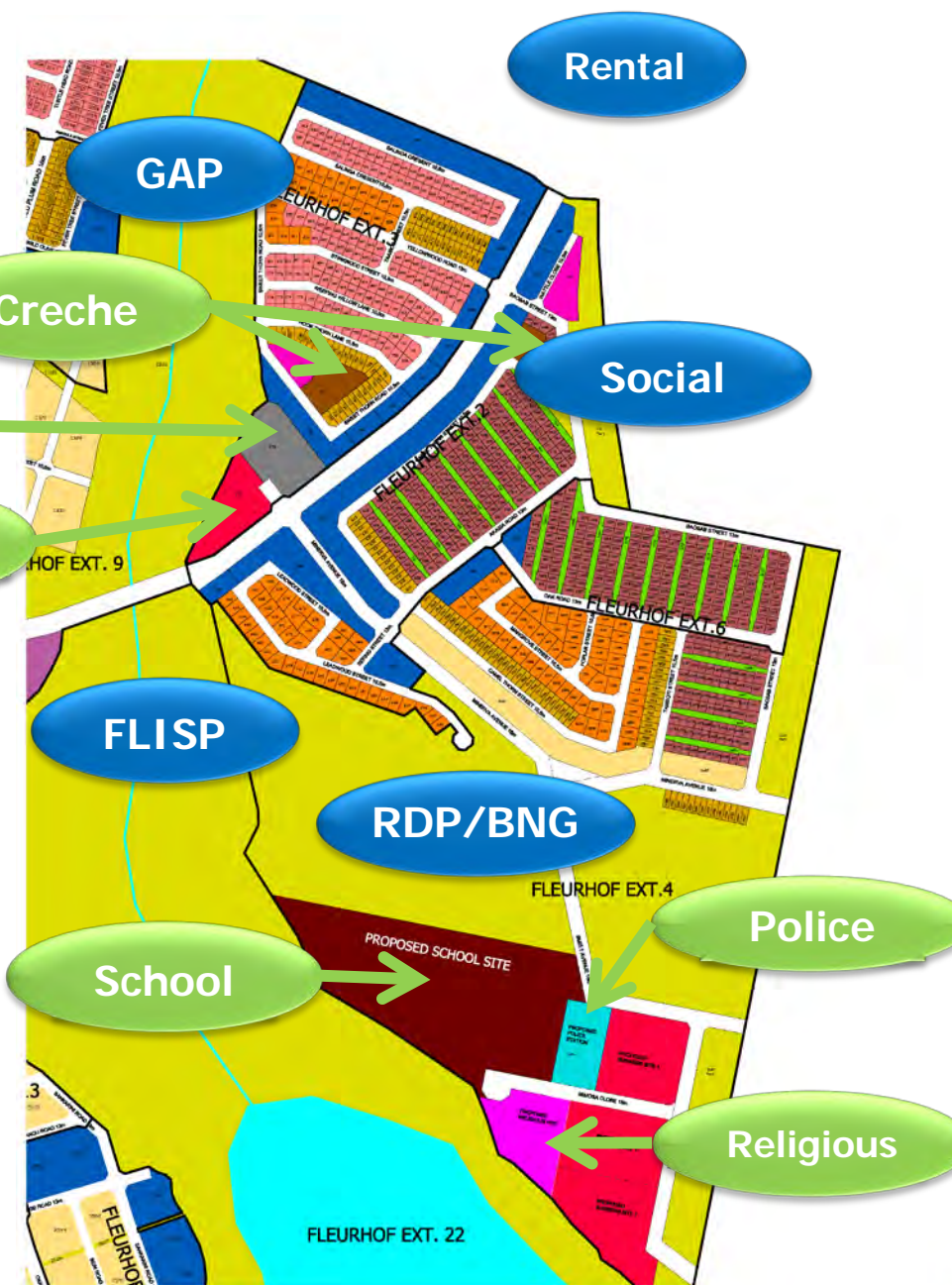
Fleurhof

Fleurhof Drive

Soweto

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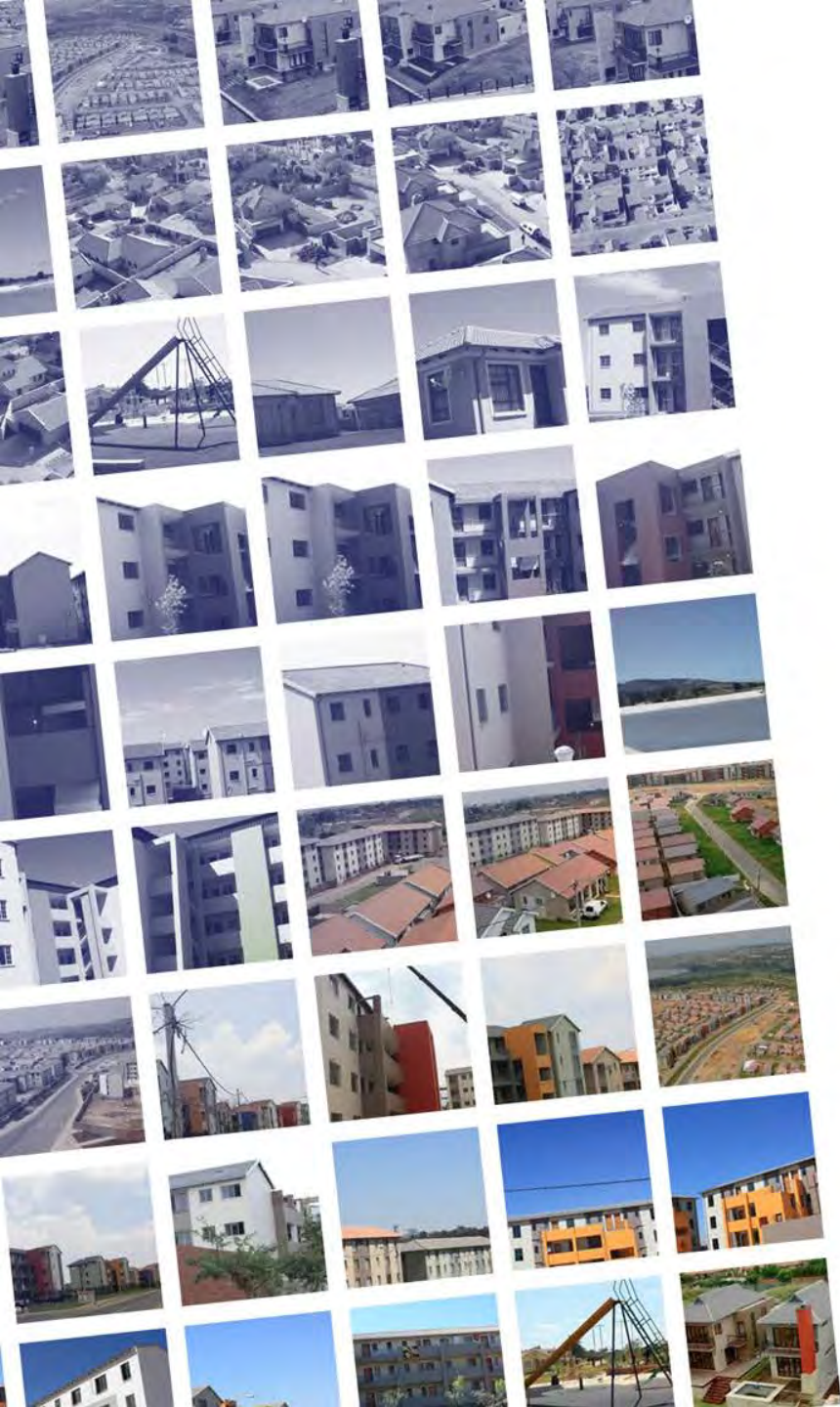
	Phase 1	
RDP/BNG	196	10%
Social	518	25%
Rental	162	8%
FLISP	97	5%
GAP	1062	52%

	Phase 2		Total	
RDP/BNG	717	40%	913	24%
Social	418	23%	936	25%
Rental	0	0%	162	4%
FLISP	399	22%	496	13%
GAP	247	14%	1309	34%
Total	1781		3816	

	Phase 3 & 4		Total	
RDP/BNG	540	25%	1453	24%
Social	300	14%	1236	21%
Rental	200	9%	362	6%
FLISP	402	18%	898	15%
GAP	752	34%	2061	34%
Total	2164		6010	

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“Infill sites”

Jabulani CBD, Belhar

Jabulani CBD



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Jabulani CBD



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Jabulani CBD



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Jabulani CBD



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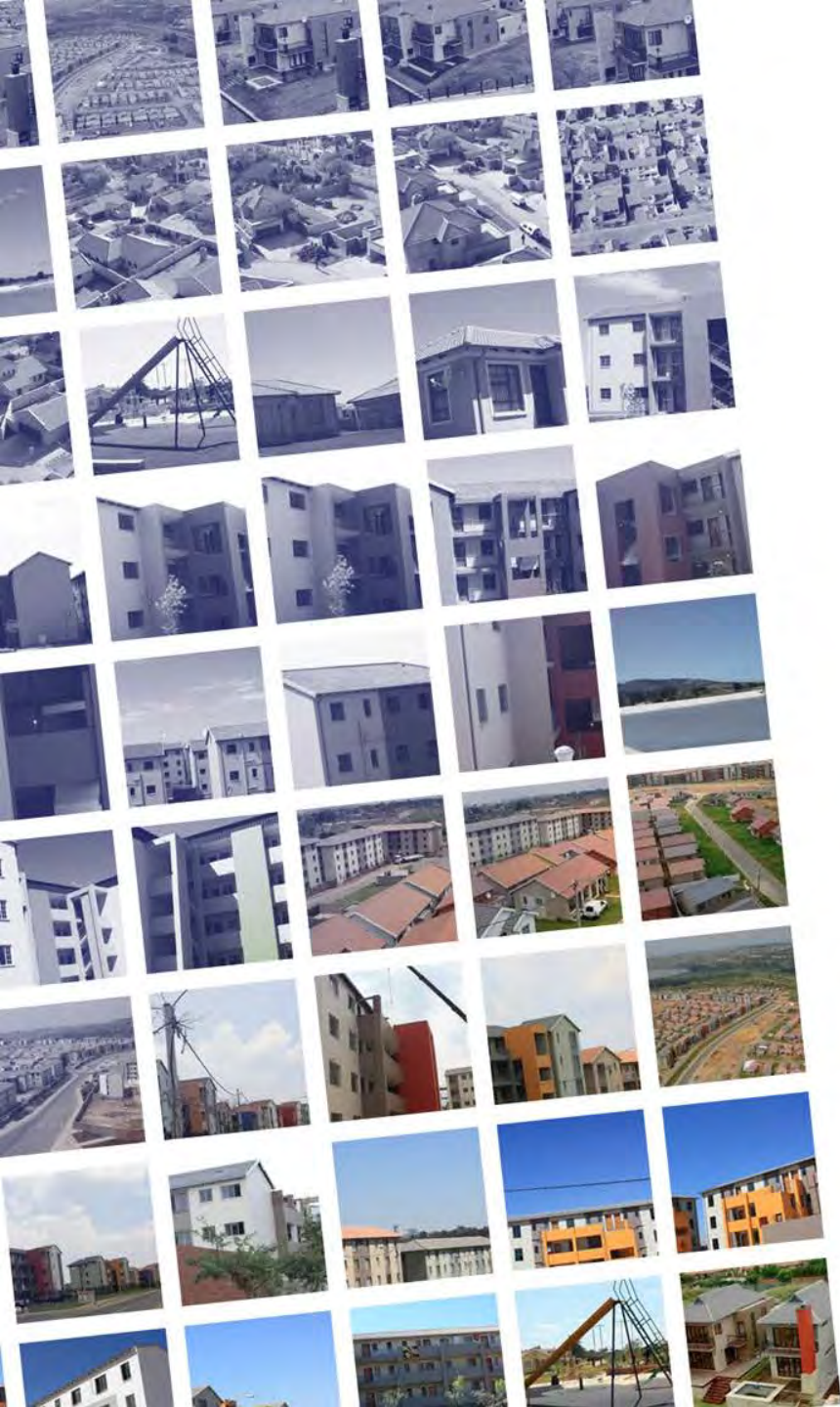


Jabulani CBD



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Product profitability

Product costs analysis

Product profitability



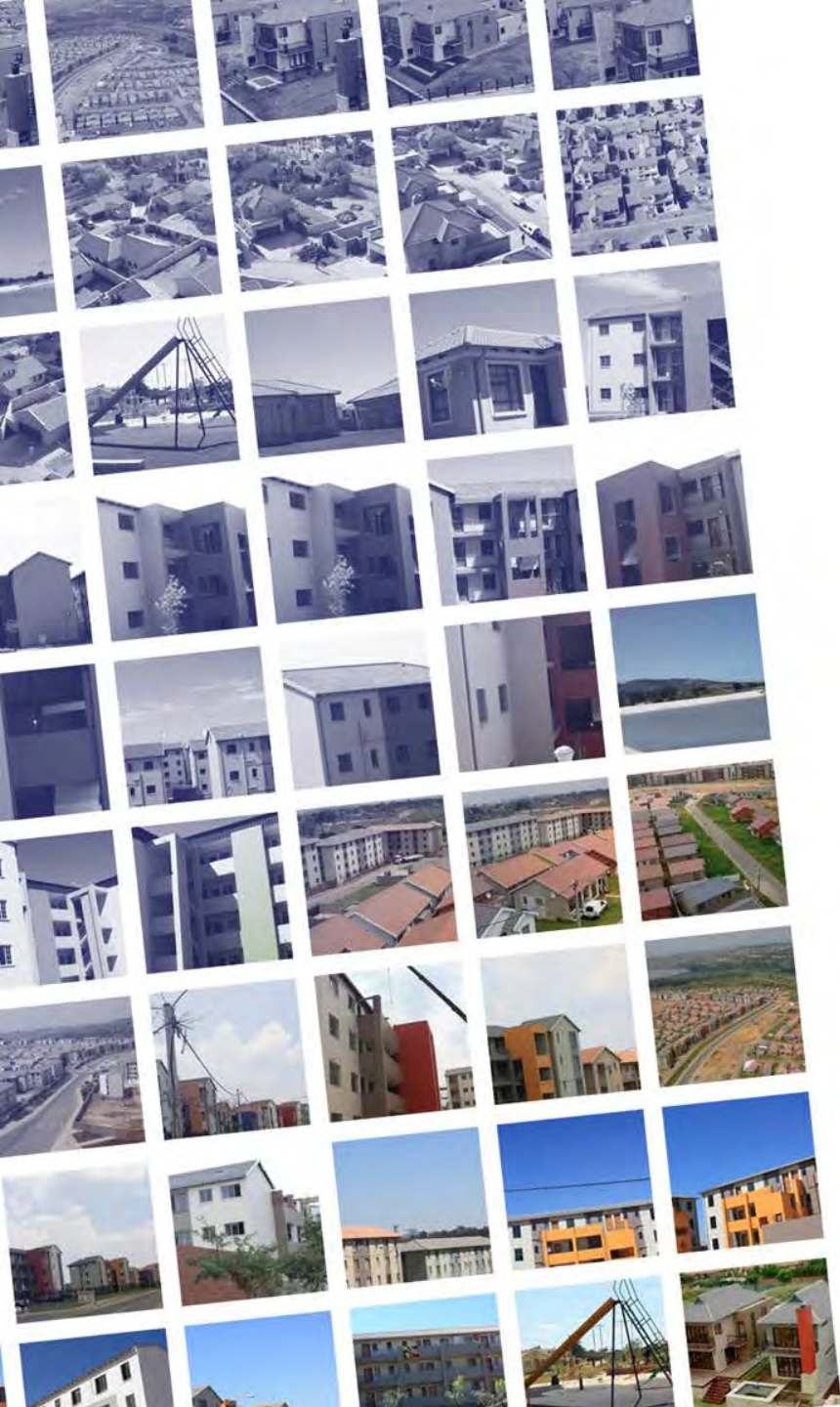
Product profitability

- Product profitability
 - Integrated development principle must be viewed holistically;
 - Cross subsidization, misperceptions;
 - Role of Public and Private sector, PPP's; and
 - Contributions by Public and Private sector.

(question - is there room for a land owner, civil contractor developer, top structure contractor in the process of delivering for the subsidised market?)

Product profitability

- Product costs analysis;
 - Fully subsidised units are linked to a fixed subsidy;
 - Social Housing units are linked the Subsidy and the Grant from the SHRA. The SHI business model will dictate pricing;
 - FLISP currently only applicable to units under R300 000; and
 - Gap market recently redefined by the Financial Institutions to joint income from R18 700 – R25 000. (R550 000 to R600 000 packages)



Risk profiling

Project risk profile
Beneficiary risk profile

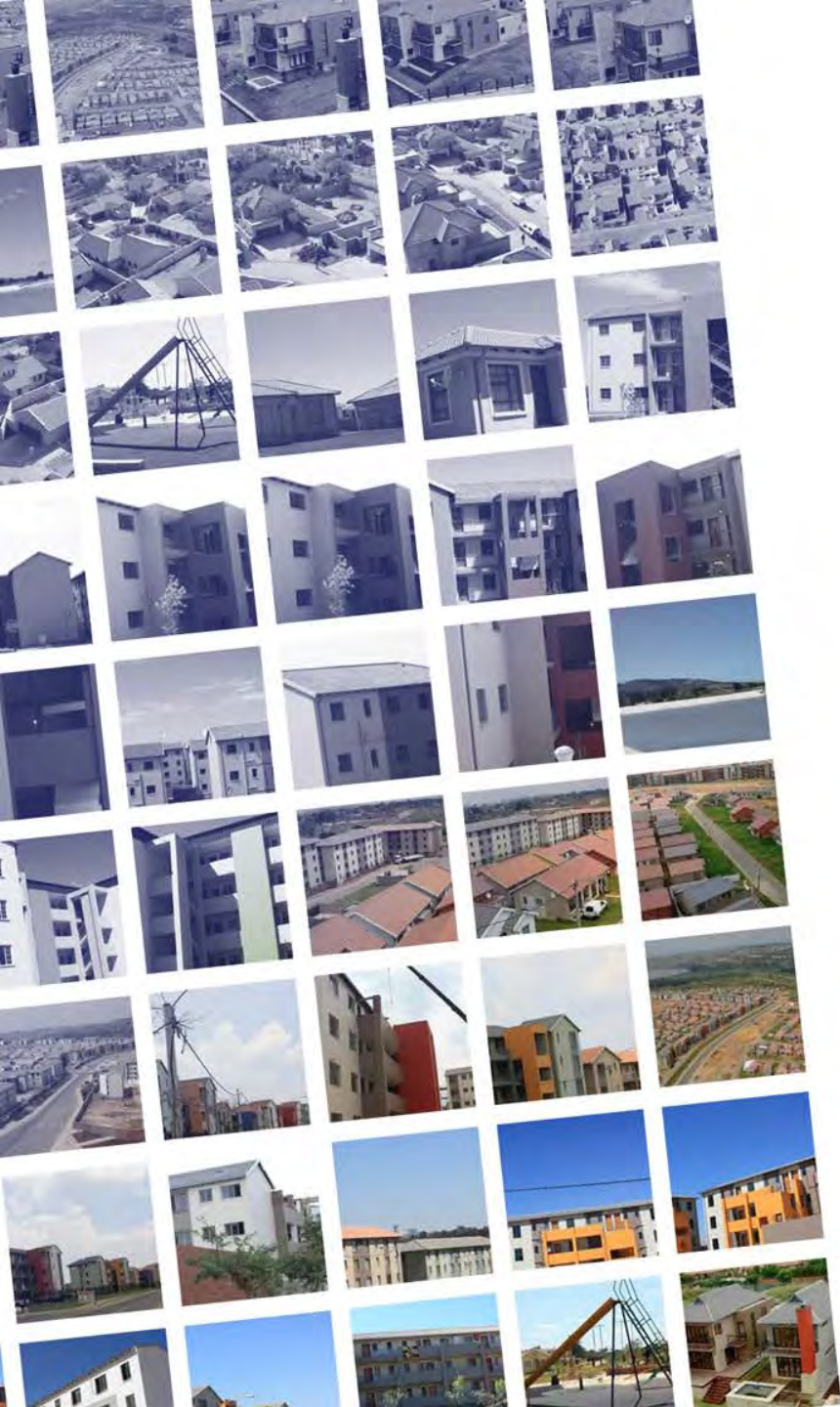


Risk profiling

- Project risk profile
 - Each project will have a different risk profile;
 - Project risk profiles will change over the duration of the project as a result of changes in global economy, policy changes, etc. The size of a project undertaken is therefore crucial;
 - Appetite for exposure to Public and Private Sector needs to be identified up front, although this can also change;
 - Financial Institution risk needs to be taken into account (Development and End-user finance);
 - Developments risk to Local Council needs to be taken into account;
 - Availability of Bulk services need to be taken into account; and
 - Contributions from all role players needs to be taken into account before involving them.

Risk profiling

- Beneficiary risk profiling;
 - Cross subsidization, misperceptions;
- a Subsidized perspective:
 - a Better located, more sustainable community is created by offering BNG, Social and FLISP products with normal GAP and affordable products;
 - Upliftment of community, included in social structures;
 - Rate payers in the community create a scenario where service delivery is improved;
- a Non-subsidized perspective
 - Reduced entry level;
 - Close to job opportunities



Capital allocation

Capital requirements

Effective allocation



Capital allocation

- Capital requirements
 - In the perfect world Equity should be balanced with Debt, but;
 - Financial Institutions don't finance the acquisition of land;
 - Financial Institutions generally don't finance the installation of services without pre-sales;
 - Development finance on condition of equity (skin on the line);
 - As a general – big projects require lots of equity;
 - Capital will be required, regardless of size, whether working with Public or Private sector, raising the barrier to entry even higher; and
 - Capital will be required to fast track projects, the pace of delivery are being dictated by the ability to raise finance for the projects and not sales.