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FINANCIAL VIABILITY FOR A SELLING SCHEME (INDICATIVE)
PRELIMINARY REPORT

Project description : 17 On Main

Project reference : MC³17021

Report number : 1

Date : 1/06/2018

Developers : Musket Properties (Pty) Ltd

Principal agent : John Jones Architect

Site : Erf 542, Sandton

Drawing numbers : A101 to A110

Scale : 1:200 & 1:500

Method of estimating construction cost : Elemental analysis

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EXECUTIVE SUMMARY

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PROJECT DESCRIPTION

The project comprises ground floor parking / main entrance with two floors with apartments over

Construction area (excluding parking levels)
 Sectional title area
 Construction area of parking levels
 Number of parking bays
 Number of apartments

Construction area (excluding parking levels)	862 m ²
Sectional title area	626 m ²
Construction area of parking levels	319 m ²
Number of parking bays	10 no
Number of apartments	4 no

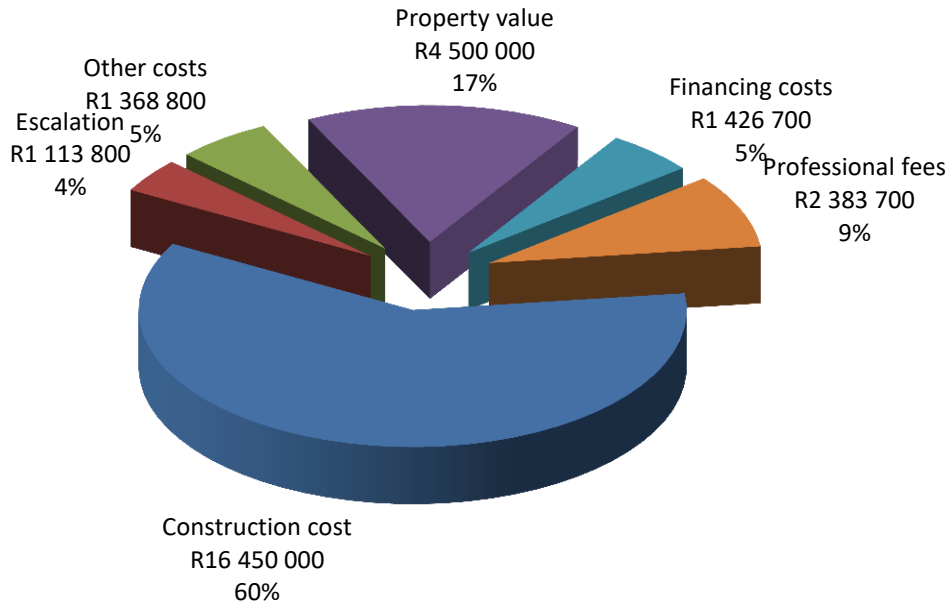
PROGRAMME ASSUMPTIONS

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

Construction cost estimate date	01/06/2018
Building contract tender date	30/11/2018
Construction commencement date	15/01/2019
Construction completion date	31/12/2019
Occupation date	01/01/2020
Land payment date	01/11/2018

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

R	27 435 000
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ESTIMATE OF NET INCOME FROM SALES (EXCLUDING VAT) (OCCUPATION DATE 01/01/2020)

R	5 928 013
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NON TIME RELATED RETURNS

Return on capital investment
 Return on equity

Return on capital investment	21.61 %
Return on equity	107.93 %

EXECUTIVE SUMMARY (CONTINUED)

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PROJECT AREA ANALYSIS

Area efficiency ratio (sectional title to construction excluding parking)
 Average sectional title area per unit
 Construction area per parking bay
 Parking ratio (parking bays per unit)

72.62 %
156.50 m ²
35.44 m ²
2.50 no

PROJECT FINANCIAL ANALYSIS PER M² OF SECTIONAL TITLE AREA

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Construction cost
 Escalation
 Professional fees
 Property costs
 Financing costs
 Other costs

26 278 /m ²
1 779 /m ²
3 808 /m ²
7 300 /m ²
2 308 /m ²
2 352 /m ²
43 826 /m ²
0 /m ²
43 826 /m ²

Less: Interim income

ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT) PER M² OF SECTIONAL TITLE AREA

ESTIMATE OF GROSS INCOME FROM SALES (INCLUDING VAT) (OCCUPATION DATE 01/01/2020)

Description	Quantity	Unit	Area	Present selling prices		Occupation selling prices	
				Amount R	Price/unit R	Amount R	Price/unit R
Unit 1	1	no	142	8 740 000	61 549	9 872 619	69 525
Unit 2	1	no	143	8 855 000	61 923	10 002 522	69 948
Unit 3	1	no	143	8 855 000	61 923	10 002 522	69 948
Unit 4	1	no	142	8 740 000	61 549	9 872 619	69 525
Stores	1	m ²	56	563 500	10 063	636 524	11 367

SECTION A - CAPITAL INVESTMENT

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		R
1. Property costs		4 570 000
1.1	Property value (per Developer)	4 500 000
1.2	Rezoning fees	-
1.3	Transfer costs	-
1.4	Land surveyor's fees	20 000
1.5	Town and regional planner's fees	-
1.6	Geotechnical investigation costs	20 000
1.7	Sundry legal fees	30 000
1.8	Other costs	-
2. Funding costs		332 030
2.1	Mortgage registration costs (mortgage of R21 637 350)	115 630
2.2	Finance raising fee (1.00% of mortgage)	216 400
2.3	Banker's guarantee costs	-
2.4	Other costs	-
3. Construction costs		17 563 800
3.1	Estimated construction cost (01/06/2018) (Annexure A)	16 450 000
3.2	Escalation in construction cost up to tender date (30/11/2018)	491 000
	number of months	6
	escalation per month	0.49%
3.3	Escalation in construction cost during building period (commencement date 15/01/2019)	622 800
	number of months	13
	escalation per month	0.38%

SECTION A - CAPITAL INVESTMENT (CONTINUED)

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4. Professional fees	2 383 700
4.1 Professional fees (12.50% of final construction cost)	2 195 500
4.2 Project Manager	-
4.3 Health and safety consultant	50 400
4.4 Disbursements	87 800
4.5 XA Consultant	50 000
5. Local authority costs	240 000
5.1 Plan scrutiny fee	90 000
5.2 Interim tax on land	80 000
5.3 Interim tax on improvements	70 000
5.4 Bulk service charges	-
5.5 Other costs	-
6. Promotional costs	592 000
6.1 Marketing costs	25 000
6.2 Development and promotion fees (2.00% of total capital outlay)	567 000
6.3 Other costs	-
7. Sectional title costs	171 370
7.1 Opening of sectional title register	10 980
7.2 Plan fees	24 390
7.3 NHBRC costs	136 000
7.4 Other costs	-

SECTION A - CAPITAL INVESTMENT (CONTINUED)

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8. Financing costs	1 445 100
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)	590 900
8.2 On improvements (over a 12 months period at 10.50% per annum)	854 200
8.3 From project completion to opening date	-
8.4 Other costs	-
9. Sundries	137 000
9.1 Development contingency (0.50% of escalated capital investment)	137 000
9.2 Value added tax (VAT)	-
9.3 Other costs	-
	<hr/>
	27 435 000
10. Interim income	-
	<hr/>
<u>ESTIMATE OF CAPITAL INVESTMENT (EXCLUDING VAT) (COMPLETION DATE 31/12/2019)</u>	27 435 000
	<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 - INCOME FROM SALES

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Description	Sectional title area m ²	Quantity	Present selling price R/unit	* Escalation % p a	Selling price at occupation date R/unit	Gross income R
Unit 1	142	1	7 600 000	8.00	8 584 886	8 584 886
Unit 2	143	1	7 700 000	8.00	8 697 845	8 697 845
Unit 3	143	1	7 700 000	8.00	8 697 845	8 697 845
Unit 4	142	1	7 600 000	8.00	8 584 886	8 584 886
Stores	56	1	490 000	8.00	553 499	553 499
Estimate of escalated gross income						35 118 961
Sales commissions (5.00% of gross income)						(1 755 948)
Estimate of escalated capital investment (excluding VAT)						(27 435 000)
<u>ESTIMATE OF NET INCOME FROM SALES (EXCLUDING VAT) (OCCUPATION DATE 01/01/2020)</u>						5 928 013

The selling price at the occupation date is the present selling price escalated to occupation date. *The escalation period is 1.58 years

The sectional title area is the area of the unit (excluding the common property) measured to the median line of the boundary walls of each section and of the external walls

SECTION C - RETURNS (INDICATIVE)

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General qualifications

1. All expenses have been escalated to the construction completion date
2. Income received prior to the completion date has been deducted from the capital investment
3. No allowance has been made for income tax

NON TIME RELATED RETURN

On estimate of escalated capital investment (excluding VAT) (non time-related)

21.61%

On equity

107.93%

Qualifications

1. The return does not cater for the following:
 - 1.1 Loans, loan repayments and interest charges on loans
 - 1.2 Occupational rent and/or interest on the outstanding balance of the purchase price
 - 1.3 Escalation of the basic selling prices during the sales period
 - 1.4 Income from sales earned over a period of time

INDICATIVE RESIDUAL PROPERTY VALUE

- Capitalised at 20.00% per annum
- Capitalised at 25.00% per annum
- Capitalised at 30.00% per annum
- Capitalised at 35.00% per annum

R

4 807 000
3 859 000
2 983 000
2 172 000

SUMMARY OF CONSTRUCTION COST

	Construction cost R	Rate per m ² R	% of construction cost %
Primary elements	9 295 760	7 871.09	56.51
Specialist installations	1 647 700	1 395.17	10.02
Equipment	-	-	-
Tenant installations	-	-	-
Alterations	-	-	-
External works and services	2 653 570	2 246.88	16.13
Price and detail development contingencies	407 970	345.44	2.48
Preliminaries	1 961 000	1 660.46	11.92
ESTIMATE OF CONSTRUCTION COST (EXCLUDING CONSTRUCTION CONTINGENCIES) (01/06/2018)	15 966 000	13 519.05	97.06
Construction contingency	484 000	409.82	2.94
ESTIMATE OF CURRENT CONSTRUCTION COST (EXCLUDING VAT) (01/06/2018)	16 450 000	13 928.87	100.00
Escalation in construction cost up to tender date	491 000	415.75	2.98
ESTIMATE OF ESCALATED CONSTRUCTION COST AT TENDER DATE (EXCLUDING VAT) (30/11/2018)	16 941 000	14 344.62	102.98

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
- Abnormal foundations
- Kitchen equipments, appliances, etc.
- Telephone and data system

ELEMENTAL ANALYSIS OF CONSTRUCTION COST

Code	Description	Cost R	Quantity	Unit	Cost per unit R	Cost per m ² R	Cost %
1	PRIMARY ELEMENTS	9 295 760	1 181	m ²	7 871.09	7 871.09	56.51%
100	Substructure	480 830	741	m ²	648.89	407.14	5.17%
101	Ground floor	39 460	141	m ²	279.86	33.41	0.42%
102	Structural frame	1 482 830	914	m ²	1 622.35	1 255.57	15.95%
103	External façade	1 989 760	935	m ²	2 128.09	1 684.81	21.41%
104	Roofs	538 980	573	m ²	940.63	456.38	5.80%
105	Internal divisions	572 490	727	m ²	787.47	484.75	6.16%
106	Partitions	-	-	m ²	-	-	
107	Floor finishes	776 410	637	m ²	1 218.85	657.42	8.35%
108	Internal wall finishes	378 840	2 017	m ²	187.82	320.78	4.08%
109	Ceiling finishes	259 160	1 276	m ²	203.10	219.44	2.79%
110	Fittings	1 096 200	862	m ²	1 271.69	928.20	11.79%
111	Electrical installation	906 900	862	m ²	1 052.09	767.91	9.76%
112	Plumbing	582 900	49	no	11 895.92	493.56	6.27%
113	Fire protection	19 600	3	no	6 533.33	16.60	0.21%
114	Balustrading, handrails, etc	171 400	60	m	2 856.67	145.13	1.84%
115	Miscellaneous items	-	-	m ²	-	-	

ELEMENTAL ANALYSIS OF CONSTRUCTION COST

Code	Description	Cost R	Quantity	Unit	Cost per unit R	Cost per m ² R	Cost %
2	SPECIALIST INSTALLATIONS	1 647 700	1 181	m ²	1 395.17	1 395.17	10.02%
200	Special foundations	-	-	m ²	-	-	
201	Special fire protection systems	-	-	m ²	-	-	
202	Conveyance systems	525 000	1	m ²	525 000	444.54	3.19%
203	Air conditioning	419 700	571	m ²	735.03	355.38	2.55%
204	Ventilation	84 000	862	m ²	97.45	71.13	0.51%
205	Heating and cooling	-	-	m ²	-	-	
206	Special electrical systems	-	-	m ²	-	-	
207	Electronic systems	63 000	862	m ²	73.09	53.34	0.38%
208	Other services	-	-	m ²	-	-	
209	Communications and security	399 000	862	m ²	462.88	337.85	2.43%
210	Signage	22 000	862	m ²	25.52	18.63	0.13%
211	Artwork, furnishings, etc	-	-	m ²	-	-	
212	Miscellaneous items	135 000	862	m ²	156.61	114.31	0.82%
3	EQUIPMENT	-	1 181	m ²	-	-	0.00%
300	Commercial	-	-	m ²	-	-	
301	Institutional	-	-	m ²	-	-	
302	Vehicular	-	-	m ²	-	-	
303	Other	-	-	m ²	-	-	
4	TENANT INSTALLATIONS	-	1 181	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	2 653 570	1 181	m ²	2 246.88	2 246.88	16.13%
600	Demolitions	150 000	1 164	m ²	128.87	127.01	0.91%
601	Site clearance	8 290	829	m ²	10.00	7.02	0.05%
602	Earthworks	233 860	411	m ²	569.00	198.02	1.42%
603	Soil drainage	88 500	65	m	1 361.54	74.94	0.54%
604	Sub-surface water drainage	-	-	m	-	-	
605	Storm water drainage	30 000	35	m	857.14	25.40	0.18%
606	Water supply	75 000	78	m	961.54	63.51	0.46%
607	Fire service	36 500	78	m	467.95	30.91	0.22%
608	Electrical installation	227 500	30	m	7 583.33	192.63	1.38%
609	Gas and fuel	-	-	m	-	-	
610	Connection fees, etc	419 000	5	no	83 800	354.78	2.55%
611	Boundary, screen, retaining walls, etc	519 940	614	m ²	846.81	440.25	3.16%
612	Fences and railings	-	-	m	-	-	
613	Roads, paving, etc	154 980	539	m ²	287.53	131.23	0.94%
614	Covered parking, walkways, etc	-	-	m ²	-	-	
615	Decks	-	-	m ²	-	-	
616	Pergolas, canopies, etc	-	-	m ²	-	-	
617	Minor construction work	-	-	m ²	-	-	
618	Pools, etc	360 000	2	no	180 000	304.83	2.19%
619	Sports facilities	-	-	no	-	-	
620	Garden works	350 000	1 164	m ²	300.69	296.36	2.13%
621	Miscellaneous items	-	-	m ²	-	-	

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	407 970	1 181	m ²	345.44	345.44	2.48%
8	PRELIMINARIES	1 961 000	1 181	m ²	1 660.46	1 660.46	11.92%
ESTIMATE OF CONSTRUCTION COST (EXCLUDING CONSTRUCTION CONTINGENCIES AND VAT) (01/06/2018)		15 966 000	1 181	m ²	13 519.05	13 519.05	97.06%
9	CONSTRUCTION CONTINGENCY	484 000	1 181	m ²	409.82	409.82	2.94%
ESTIMATE OF CURRENT CONSTRUCTION COST (EXCLUDING VAT) (01/06/2018)		16 450 000	1 181	m ²	13 928.87	13 928.87	100.00%
10	ESCALATION TO TENDER DATE	491 000	-	-	-	415.75	2.98%
ESTIMATE OF ESCALATED CONSTRUCTION COST AT TENDER DATE (EXCLUDING VAT) (30/11/2018)		16 941 000	1 181	m ²	14 344.62	14 344.62	102.98%

ANNEXURE B - DEVELOPMENT CASH FLOW

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Date	Property costs	Funding costs	Construction costs	Professional fees	Local authority costs	Promotional costs	Sectional title costs	Operator budget	Sundries	Financing costs				TOTAL
	R	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	R
	4 570 000	329 290	17 563 800	2 383 700	240 000	592 000	171 370	-	136 440	590 900	854 200	-	-	27 431 700
01/11/2018	4 500 000			1 404 370	11 538	45 538				39 400				4 539 400
01/12/2018				81 611	101 538	45 538			10 495	39 700	(5 900)			1 505 742
01/01/2019	70 000	329 290	11 760	81 611	101 538	45 538	171 370		10 495	40 100	10 100			871 803
01/02/2019			108 970	81 611	11 538	45 538			10 495	41 000	19 400			318 553
01/03/2019			302 920	81 611	11 538	45 538			10 495	41 400	21 700			515 203
01/04/2019			517 370	81 611	11 538	45 538			10 495	41 800	31 700			740 053
01/05/2019			801 860	81 611	11 538	45 538			10 495	42 100	39 400			1 032 543
01/06/2019			1 064 120	81 611	11 538	45 538			10 495	42 500	49 800			1 305 603
01/07/2019			1 425 690	81 611	11 538	45 538			10 495	42 900	62 700			1 680 473
01/08/2019			1 784 960	81 611	11 538	45 538			10 495	43 200	78 900			2 056 243
01/09/2019			2 096 360	81 611	11 538	45 538			10 495	43 600	98 600			2 387 743
01/10/2019			2 578 380	81 611	11 538	45 538			10 495	44 000	121 100			2 892 663
01/11/2019			2 932 710	81 611	11 538	45 538			10 495	44 400	148 100			3 274 393
01/12/2019			3 938 700	81 611	11 538	45 538			10 495	44 800	178 600			4 311 283

	R
Estimate of escalated capital investment	27 435 000
Mortgage finance (80.00% of capital investment)	(21 637 350)
<u>ESTIMATED EQUITY</u>	5 797 650
Cost of own capital calculated over 11.5 months at 10.50% interest per annum	(305 200)
<u>ESTIMATED CASH</u>	5 492 450

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