



Real Estate Corporate Finance & Investment

28 March 2023



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Background



Corporate Finance

Business Finance

Every decision made in a business has financial implications
Any decision that involves the use of money is a corporate financial decision

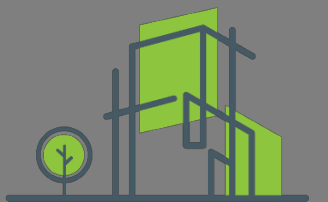
What is it?

- Invest resources (ie. capital) into an asset/platform
- Find the right mix of financing to fund the investment
- Deliver a cash return to the investors

Fundamentals

- Maximizing value
- Risk has to be rewarded
- Cash flows matter more than accounting profit
- Investors are informed
- Every decision impacts value

Principles



Investment

Identify & secure

- Assets with the correct fundamentals aligned to co. objectives/strategy
- Assets which meet the targeted minimum hurdle rate for business & investors
- Jockey is an NB consideration – experience, skills etc.

Financing

Mix of Debt & equity informed by:

- Type/Nature of Asset
- Risks attributed to investment
- Future potential of asset

Capital Structure

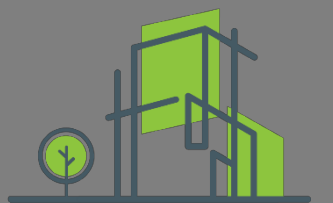
- Optimal mix to achieve maximum return
- Influenced by pricing & ranking
- Risk profile
- Conditions ie. Covenants | equity investor thresholds | cost of equity

ROI

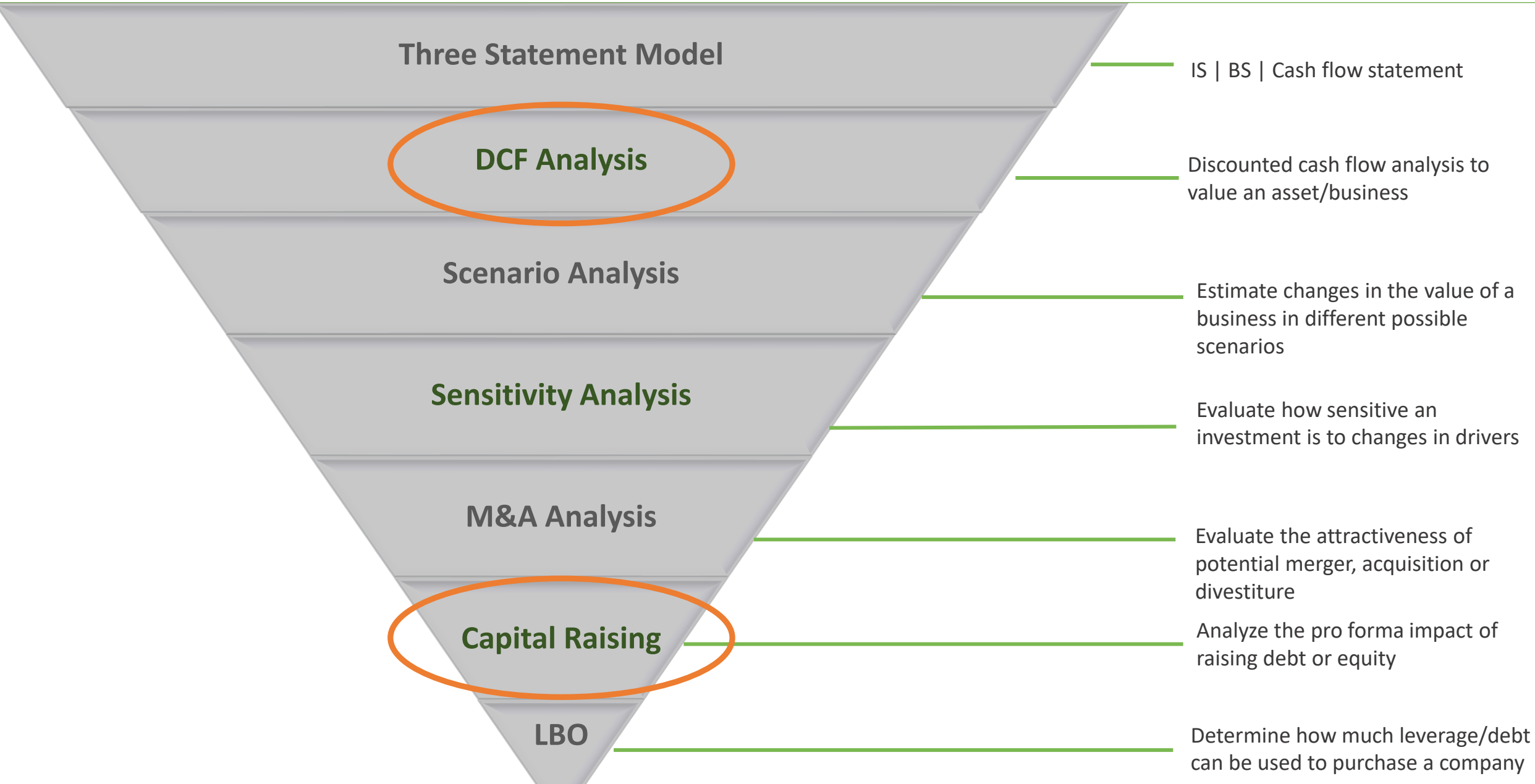
Minimum Hurdle Rate

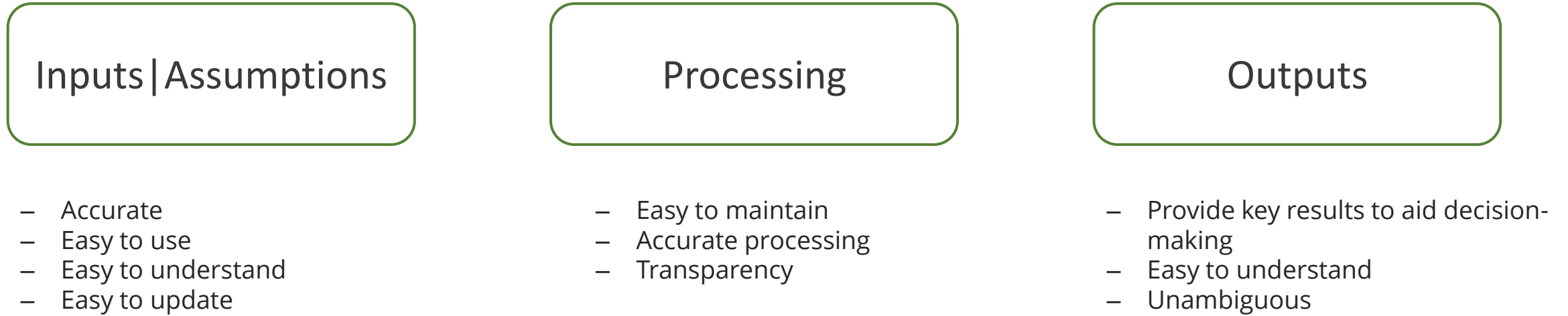
- Targeted annual & total return over period of investment
- Investment tenure
- Entry & exit assumptions
- Market conditions

Investment Modelling

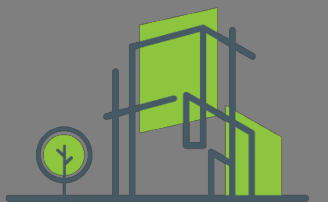


Types of Investment modelling





Case Study



Executive Summary

Overview

Platform Overview

Underlying investment & Pipeline
Management background

Capital

Targeted LTV

Simple capital structure

Senior bank debt 70%
Mezzanine debt 20%
Equity 10%

Tenure

Minimum investment/ lock-in
period

Exit facilitated through sale
of shares to new or existing
shareholders
Disposal of assets to recycle
capital

Returns

Income and capital growth over
lease tenure to achieve targeted
returns

Annual property yield
Annual fund yield
Average total return over
investment period

Growth

Growth prospects reinforced by
demand in targeted sectors
Scale will ensure meaningful value
for investors

Targeted growth
Targeted future returns
Targeted investments

Summary of property opportunity

Salient features of property

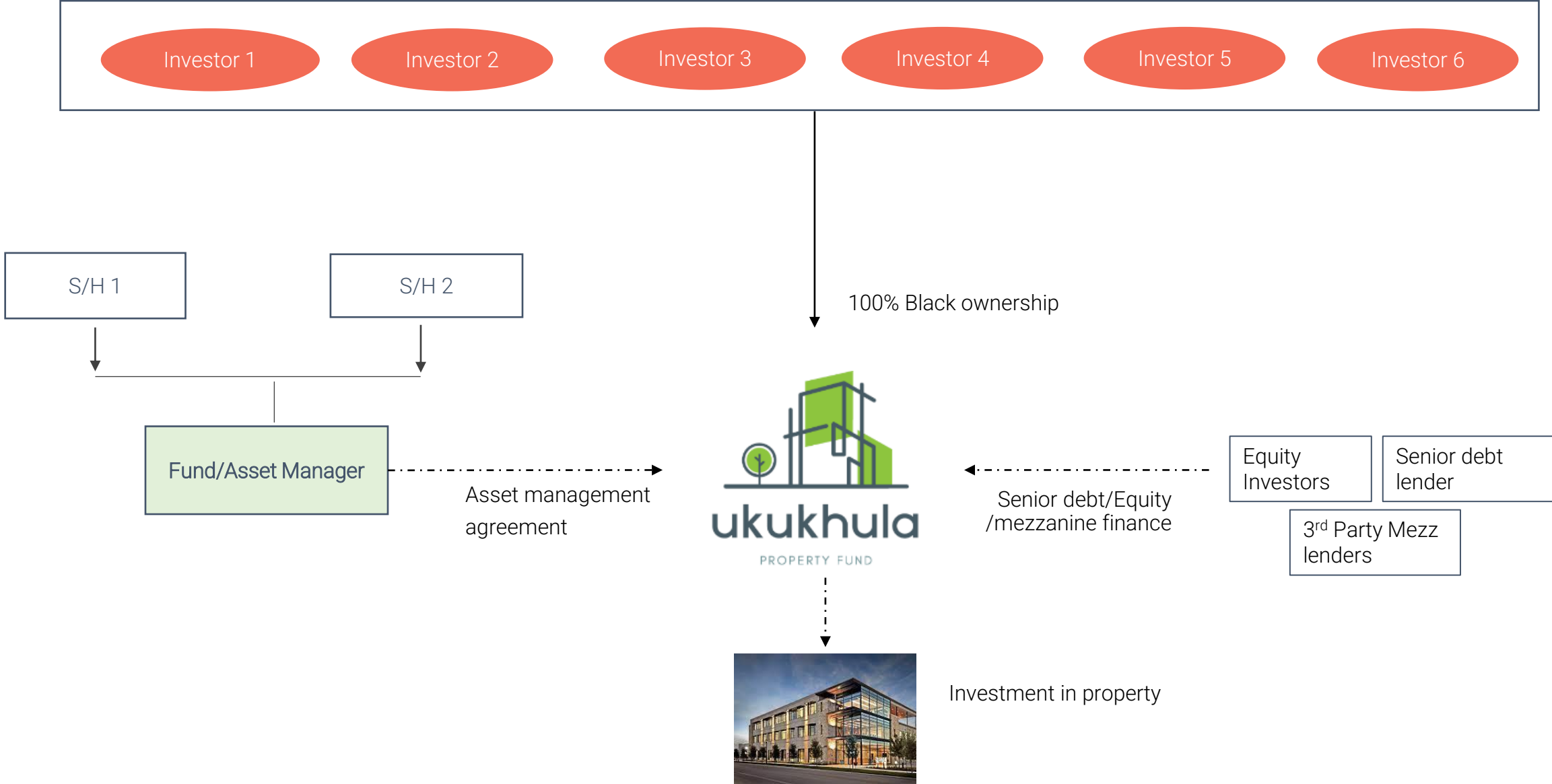
- Size
- Location
- Occupancy
- Average net rental R/m²
- Average rental escalation %
- Other rental R/m²

Transaction overview

- High-level transaction metrics



Ownership & Funding Structure



Ownership structure options

Private Equity

Pro's

- Bringing in an anchor investor at a later stage will be easier as institutions have fund of funds mandates
- Limited Partners can be screened and selected based on the minimum 51% African women requirement

Con's

- Liquidity – PE funds are fixed term for anywhere from 5 to 10 years. Individual investors will require greater liquidity
- Licensing – PE vehicles are regulated by the FSCA and licenses would be required
- Cost – setting up a PE structure is costly

SPV (Pty Ltd)

Pro's

- Enables investments on a property or portfolio level
- The SPV can achieve a BEE rating
- Investors may be screened to meet minimum 51% African women requirement

Con's

- Liquidity will be an issue for retail investors, they are likely to be locked in for the life of the property
- Highly administrative – share certificates etc.
- Tax leakage as the SPV will be taxed at 28%

Trust

Pro's

- The trust can achieve a BEE rating
- A large group of people can be beneficiaries
- Beneficiaries may be screened to meet minimum 51% African women requirement

Con's

- Highly administrative to invest on a property by property basis
- Care would need to be taken in defining beneficiaries to ensure liquidity
- SARS' increased focus on trust has made Trusts less tax efficient. Trusts are taxed at the highest marginal tax rate

Listed Instrument

Pro's

- Ideal for a retail investment environment where liquidity is paramount
- Listing platform can regulate the types of investors
- Tax benefits
- Using an existing listing platform may enhance consumer trust in the investment product
- Bringing in an anchor investor at a later stage will be easier
- Transparent corporate governance
- The underlying company can achieve a BEE rating

Con's

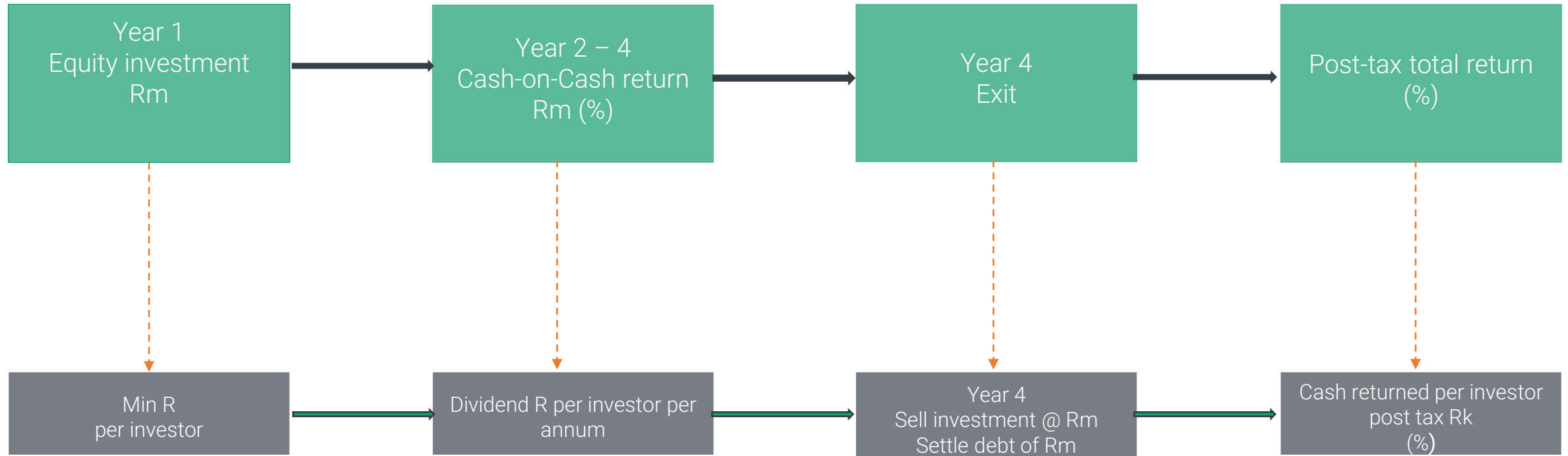
- Less sophisticated investors may be intimidated by the listed environment
- Initial and on-going listing fees
- Investments will be on a portfolio basis only
- The vehicle would need to be licensed for making investment decisions



FORECASTS

03 | FINANCIAL INFORMATION

Flow of funds



Potential risks & mitigants

Income risk

- Contractual leases for full period of investment
- Extensive due diligence of tenants
- Sufficient security provided by tenants
- Active and experienced asset managers
- Rentals below market, attractive to tenants

Property value risk

- Strong property fundamentals
- Independent market valuation
Acquisition value at a discount (immediate valuation uplift)
- Valuation increase based on contractual lease escalation

Capital risk

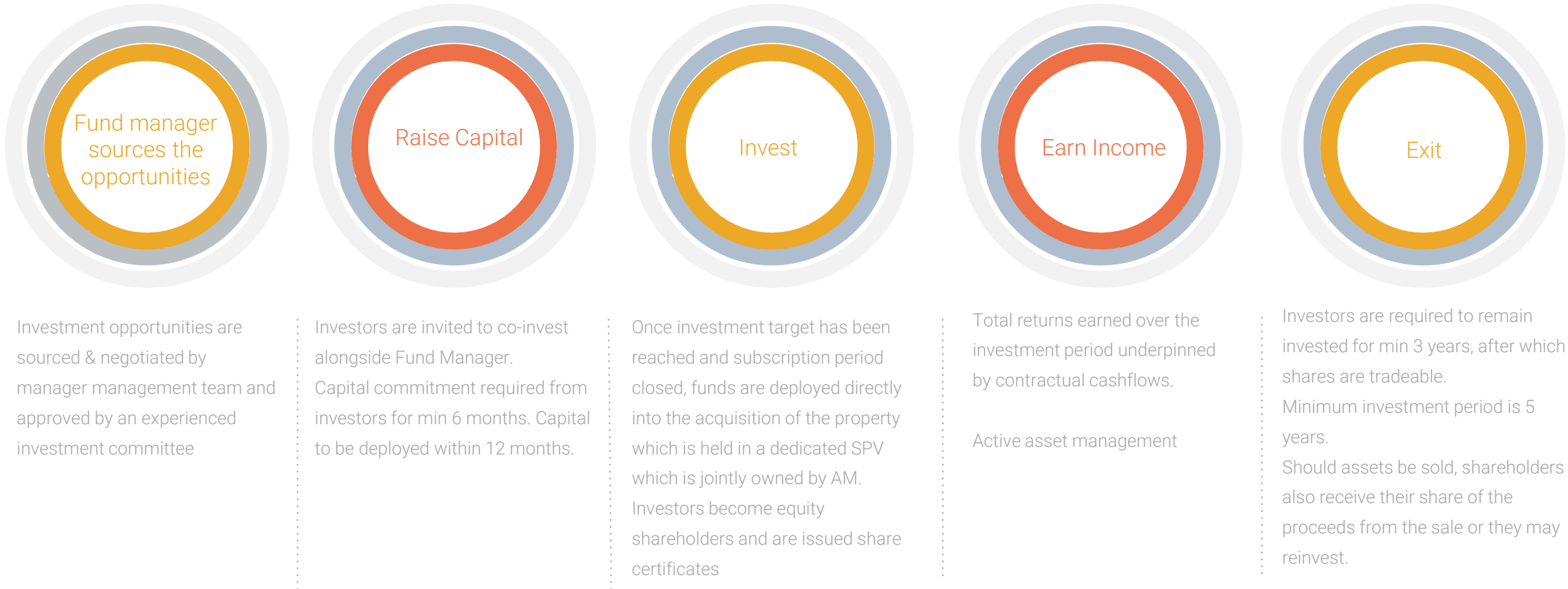
- Senior debt & mezzanine pricing fixed for period of investment
- Senior debt & mezzanine term same as investment period
- Capital repayments from year 2 reduces debt over investment period

Exit risk

- Secured sale to seller at pre-determined price
- Option to continue to hold the investment post 4 years
- Ability to sell investment in open market to achieve a better price
- Asset manager well experienced in sourcing buyers

Overview

Investment Process



Conclusion

