

# Real Estate Corporate Finance & Investment

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# Background



#### Corporate Finance

Every decision made in a business has financial implications

Any decision that involves the use of money is a corporate financial decision

#### **Business Finance**

#### 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 NBconsideration –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 investorthresholds | cost ofequity

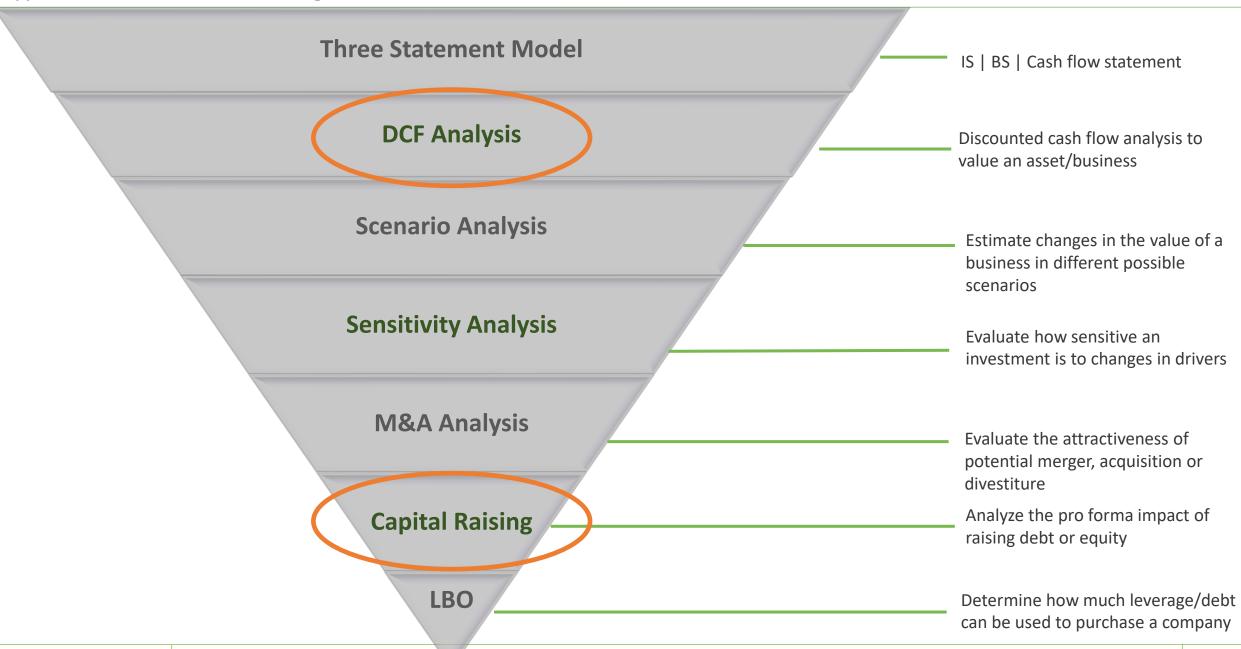
#### **ROI**

#### Minimum Hurdle Rate

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

## Investment Modelling





ukukhula

Confidential

## Inputs | Assumptions

### **Processing**

### Outputs

- Accurate
- Easy to use
- Easy to understand
- Easy to update

- Easy to maintain
- Accurate processing
- Transparency

- Provide key results to aid decisionmaking
- Easy to understand
- Unambiguous

## Simple Models

#### **Best Practice**

## **Complex Models**



- Basic
- Easy to follow
- Lack of precision
- Overly simplified



Keep things as simple as possible while providing enough detail for decision making



- High detail
- Precise
- Hard to understand
- Prone to error

# 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

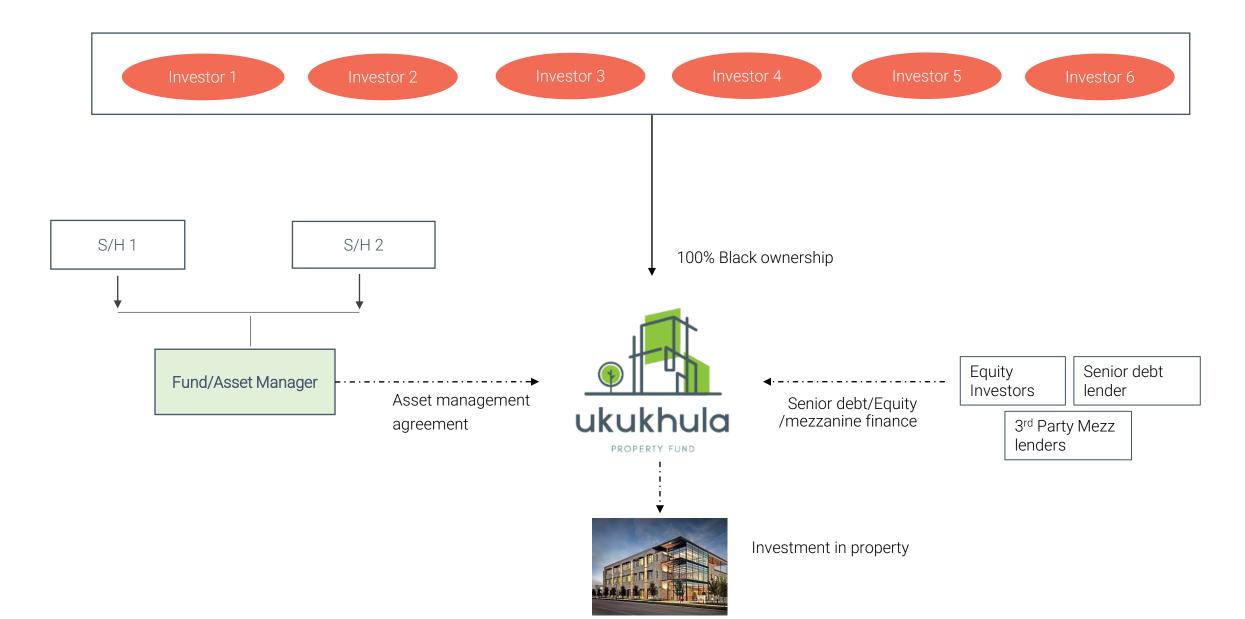
- Size
- Location
- Occupancy
- Average net rental R/m<sup>2</sup>
- Average rental escalation %
- Other rental R/m<sup>2</sup>

#### 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

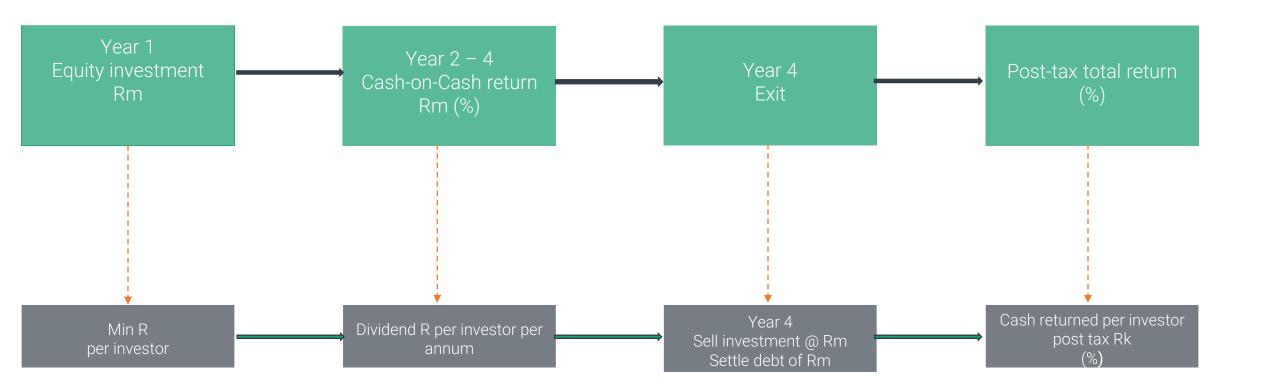
- Ideal for a retail investment environment where liquidity is paramount
- Listing platform can regulate the types of investors
- Tax benefits
- Using an existing listing platform my enhance consumer trust in the investment product
- Bringing in an anchor investor at a later stage will be easier
- Transparent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



## 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 predetermined 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**



Investment opportunities are sourced & negotiated by manager management team and approved by an experienced investment committee



Investors are invited to co-invest alongside Fund Manager.
Capital commitment required from investors for min 6 months. Capital to be deployed within 12 months.

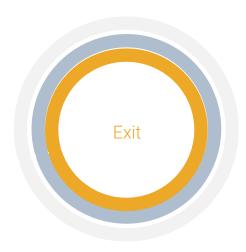


Once investment target has been reached and subscription period closed, funds are deployed directly into the acquisition of the property which is held in a dedicated SPV which is jointly owned by AM. Investors become equity shareholders and are issued share certificates



Total returns earned over the investment period underpinned by contractual cashflows.

Active asset management



Investors are required to remain invested for min 3 years, after which shares are tradeable.

Minimum investment period is 5 years.

Should assets be sold, shareholders also receive their share of the proceeds from the sale or they may reinvest.

## Conclusion





