INTRODUCTION TO PROPERTY DEVELOPMENT

ENTREPRENEUR EMPOWERMENT PROPERTY FUND

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WHAT IS PROPERTY DEVELOPMENT?

Entrepreneur’s Perspective

• It is process of improving the usefulness of land or building through the development of facilities that meet social, commercial and infrastructural needs;

• Turning dreams into reality;

• Property is said to be at the heart of real wealth and power;

• “Its tangible, its solid, its beautiful, its artistic, I just love property” Donald Trump
WHAT IS PROPERTY DEVELOPMENT?

Architect’s Perspective

• Shaping the built environment for commercial gain

• Finding the delicate balance between good design and the commercial imperative

• Architecture arouses sentiments in man. The architect’s task is to make those sentiments become a reality

• “All architects want to leave beyond their death”
WHAT IS PROPERTY DEVELOPMENT?

Town Planner’s Perspective

• Delivery and management of places for people to live, work, shop and play.
SITE IDENTIFICATION AND ACQUISITION

• Determine Macro Economic Indicators:

  • Economic Outlook
  • Trends and Cycles
  • Inflationary impact
  • Interest Rate
  • Where is the growth potential
• Determine Micro Economic Indicators:
  
  • Population numbers and growth projections
  
  • Socio-economic and demographic profiles
  
  • Residential Property Market
  
  • Competitor Analysis
• **Determine your Site:**

  - **Location**
  - Exposure
  - Existing and Planned Infrastructure
  - Public Amenities and facilities
  - Accessibility and public transport  Rea Via Route, Taxi
SITE IDENTIFICATION AND ACQUISITION

- **Check Title Deed** – Restrictive of title, Zoning, Servitudes, Heritage, environmental

- **Conditions of Township Establishment** - Bulk contributions, Local authority; Ensure they can deliver, Electricity, Utility company

- **Timelines** – Rezoning application, Eskom Supply of Electricity

- **Geotechnical Investigation** - EIA, Dolomitic conditions
SITE IDENTIFICATION AND ACQUISITION

• Acquisition of Site
  • **Sale Agreement** – must be painfully precise, environmental
  
  • **Transfer of Property** – has effect on project cashflow
  
  • **Conclusion of Sale Agreement** – after all visibility studies complete, analysed and reviewed
VIABILITY STUDY

• Land Acquisition
  - **Purchase Price of land or building** – opportunity cost per unit should not be more than R60 000
  - **Town Planning Costs** – Application, Local authority negations, appeals, EIA
  - **Soil Conditions**
VIABILITY STUDY

• First Year Net Yield

Add
• Gross Rental Income
• Parking Income
• Retail Income
• Operating cost recoveries

Less
• Operating Costs
• Vacancy Provision
• Bad Debts

= First Year Net Income

• 1st Year Net Income/ Capital Cost = First Year Net Yield
• Project management

• Appointment of professional team.

• Negotiate price with contractor or call for proposals.
  • Fixed or variable

• Manage drawdowns

• Practical completion and occupation certificate
Property management is the day to day management of the building:

- Function can be outsourced or performed in-house
- Property management involves:
  - Leasing of the premises;
  - Tenant selection and management;
  - Collection of rentals;
  - Payment of all property related expenses;
  - Accounting and reporting of the financials of the property
  - Vacancy and bad debt management;
  - Appointment of contractors i.e. cleaning, security, lifts etc.
CHALLENGES TO PROPERTY DEVELOPMENTS

Sustainable development:
- Eskom power crisis;
- Green building;

Infrastructure:
- Electricity
- Roads,
- Planning approval process
- Public transport

Empowerment:
- 18 years of democracy the property ownership has not fundamentally changed

Lack of Funding:
- Banks are not lending in this market;
- Lack of equity contribution
CURRENT PROJECTS

- **Location**: Jeppestown
- **No of Units**: 32
- **Total cost**: R9.5million

- **Location**: Bertrams
- **No of Units**: 31
- **Total cost**: R10.3million

- **Location**: Hillbrow
- **No of Units**: 50 units
- **Total cost**: 13.8million
CURRENT PROJECTS

- **Location:** Troyeville
- **No of Units:** 36
- **Total cost:** R11.5million

- **Location:** Glen Marais, Kempton Park
- **No of Units:** 42
- **Total cost:** R15million

- **Location:** Primrose Hill
- **No of Units:** 30
- **Total cost:** R12.7million
“Leveraging Affordable Housing Finance”