PROPERTY DEVELOPMENT IN

South Africa

By

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__________________________________________
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Synopsis

PROPERTY DEVELOPMENT
IN SOUTH AFRICA

By Antonie G van Deventer

This thesis report is useful to any entity wishing to enter the South Africa market environment. Although the report in the second section concentrates on the property development market the first section is very useful to entities wishing to know more about the workings of South Africa. The history, politics, economy, business, taxation and other items are dealt with briefly in Section A. Section A hence provides information regarding the workings of South Africa and all relevant aspects.

Section B concentrates on the compilation of feasibility studies. A feasibility study is a document that records the elements of a proposed project: such as market, finance, risk and environmental issues. The compiler, in collaboration with the client, needs to make assumptions whilst keeping overall objectives in mind. A feasibility study, which can be a useful tool to suggest possible development scenarios and or design options, determines the viability of a project and notes all the known limitations. Emphasis in this report is on the property development sector.

Lastly, an example of an actual feasibility study, compiled for a potential investor, has been included. The document for the proposed “Thula” development was adapted from the original for the purposes of this thesis. The systematic manual drawn up for this thesis implemented as a guideline in order to test the practical application thereof. The investor very favourably considered this feasibility study and the project is in the acquisition phase.
Section A: South African Environment

Part 1: Background Research into South Africa
- History
- Geography
- Provincial Overview & Demographics
- Tourism
- Government
- Economy
- Business structures
- Foreign Investors & Non-Residents
- Taxation & Duties
- Property ownerships
- Property Transfers
- Development Schemes
- Basic Site Services & Permits

Part 2: The Development Process
- Initiation
- Evaluation
- Acquisition
- Design & Costing
- Permission
- Commitment
- Implementation
- Exploitation

Section B: Property Development in South Africa

Part 1: Property Inspection and Information Report

Part 2: Feasibility Study Manual
- Phase 1: Market Study
- Phase 2: Financial Analysis
- Phase 3: Risk Analysis
- Phase 4: Environmental Impact Study

Part 3, Example: “Thula” Feasibility Study
- Property Inspection & Information Report
- Market Analysis
- Financial Analysis
- Risk Analysis
- Environmental Impact Assessment

Section C: Thula Installations
- Demand Estimates
- Electricity
- Water
- Gas
- Building Principles
# Table of Contents

Thesis Layout Diagram ........................................................................................................ iii
List of Figures ......................................................................................................................... xvi
List of Graphs ......................................................................................................................... xvii
List of Pictures and Maps ..................................................................................................... xviii
Thesis Commission Members .............................................................................................. xix
Acknowledgments ................................................................................................................. xx
Introduction ........................................................................................................................... xxi
Foreword on South Africa ..................................................................................................... xxiii
Problem Formulation ............................................................................................................ xxv
Objectives ............................................................................................................................ xxvi
Point of Departure ................................................................................................................ xxvii
Assumptions and Conditions ............................................................................................. xxviii
Thesis Layout Diagram ......................................................................................................... xxix
Section A ................................................................................................................................ 30
Section B ............................................................................................................................... 144
World Wide Web References .............................................................................................. 276
Acronyms ............................................................................................................................... 278
Bibliography ........................................................................................................................... 281
Attachments ........................................................................................................................... 282
SECTION A:

SOUTH AFRICAN ENVIRONMENT

PART 1:

RESEARCH SOUTH AFRICAN ENVIRONMENT

Relevance ...................................................................................................... 33

Chapter 1  A Brief History of South Africa ............................................ 35

Chapter 2  Geography ............................................................................. 49

Chapter 3  Provincial Overview and Demographics ....................... 51

3.1  Gauteng (17 010 km²) ........................................................................................52
3.2  Mpumalanga (79 490 km²) ..............................................................................53
3.3  Kwazulu Natal (92 100 km²) ..........................................................................54
3.4  North West (116 320 km²) ............................................................................55
3.5  Limpopo Province (123 910 km²) .................................................................56
3.6  Western Cape (129 370 km²) ........................................................................57
3.7  Free State (129 480 km²) ...............................................................................58
3.8  Eastern Cape (169 580 km²) ..........................................................................59
3.9  Northern Cape (361 830 km²) .....................................................................60

Chapter 4  Government Structure and Functions ......................... 61

4.1  National Government ..................................................................................62
4.2  Provincial Government ...............................................................................63
Chapter 5  
Economy .................................................................................................................. 65
5.1  
   Interest rates....................................................................................................... 66
   5.1.a  Repo Rate .................................................................................................. 66
   5.1.b  Prime Interest Rate ................................................................................ 67
5.2  
   The Consumer Price Index .............................................................................. 71
5.3  
   CPIX .................................................................................................................. 71
5.4  
   Inflation Rate ................................................................................................... 71
5.5  
   Real Gross Domestic Product ........................................................................ 73
5.6  
   Real Gross Domestic Expenditure .................................................................. 74
5.7  
   GDP by Activity ............................................................................................... 75
5.8  
   Production and Consumer Price Indices ....................................................... 76

Chapter 6  
Tourism .................................................................................................................. 77
6.1  
   Global Tourism in 2003 .................................................................................. 78
6.2  
   South African International Tourism ............................................................. 82
   6.2.a  Growth in Tourism .................................................................................. 82
   6.2.b  Purpose of visits ..................................................................................... 83
   6.2.c  Tourism Source Markets ......................................................................... 83
   6.2.d  Provincial distribution of visitors ............................................................. 85

Chapter 7  
Business Entities in South Africa ........................................................................ 86
7.1  
   Companies ........................................................................................................ 87
   7.1.a  Limited Liability Company ................................................................... 87
   7.1.b  External Company and Branch Operations ........................................... 88
   7.1.c  Unlimited Liability Companies ............................................................... 89
7.2  
   Partnerships or Joint Ventures ...................................................................... 89
7.3  
   Close Corporation ............................................................................................ 90
7.4  
   Sole Proprietorship ......................................................................................... 91
7.5  
   Non-Profit Organisation (Section 21 companies) ........................................... 92
7.6  
   Trading Trusts .................................................................................................. 92
7.7 Co-operatives ............................................................................................................. 92

Chapter 8 Foreign Investors & Non-Residents ........................................... 93
8.1 Foreign Exchange Control .................................................................................. 93
8.2 Restrictions on local borrowings ........................................................................ 95
8.3 Loans and Financing .......................................................................................... 97
   8.3.a Mortgage loans .......................................................................................... 97
   8.3.b Unsecured/Secured loans ........................................................................ 97
   8.3.c Discounting and factoring ......................................................................... 97
   8.3.d Corporate finance ...................................................................................... 98
   8.3.e Export finance and guarantees .................................................................. 98
8.4 State assistance .................................................................................................. 98
8.5 Level of foreign investment .............................................................................. 100

Chapter 9 Taxation & Duties ............................................................................... 102
9.1 Principle Taxes .................................................................................................. 103
   9.1.a Administration considerations ................................................................ 103
   9.1.b Direct Taxes .............................................................................................. 104
   9.1.c Indirect Taxes ........................................................................................... 105
   9.1.d Corporate Tax ........................................................................................... 105
   9.1.e Rates .......................................................................................................... 105
   9.1.f Dividends Received ................................................................................. 106
9.2 Determination of Taxable Income .................................................................... 106
   9.2.a Deduction allowances ............................................................................. 106
   9.2.b Tax Losses and Group Relief ................................................................... 107
   9.2.c Secondary Tax on Companies ................................................................. 108
   9.2.d Branches of Foreign Companies ............................................................. 108
   9.2.e Interest received by or accrued to foreign companies ......................... 108
   9.2.f Transfer pricing and thin capitalisation .................................................. 109
9.3 Taxation for other Entities .............................................................................. 109
9.3.a Partnerships ................................................................. 109
9.3.b Trusts ............................................................................. 109
9.3.c Individuals ..................................................................... 110

9.4 Withholding Taxes ............................................................ 111
9.4.a Royalties ......................................................................... 111
9.4.b Dividends, Interest and Branch Profits ......................... 111

9.5 Other Taxes ........................................................................ 111
9.5.a Value-Added Tax ........................................................... 111
9.5.b Donations Tax ............................................................... 112
9.5.c Estate Duty ................................................................. 112
9.5.d Capital Gains Tax ......................................................... 112
9.5.e Excise and Customs Duties .............................................. 114
9.5.f Local Taxes on Immovable Property ......................... 114
9.5.g Regional Services Council Levies ................................ 114
9.5.h UIF contributions and Skills Development levy .............. 115
9.5.i Marketable Securities Tax .............................................. 115
9.5.j Stamp Duties ............................................................... 115
9.5.k Duty on Transfers of Immovable Property ...................... 115
9.5.l Pensions, Provident and Retirement Annuity Funds ........... 115

9.6 Tax Treaties ........................................................................ 116

9.7 Anti-Avoidance Legislation .................................................. 116

Chapter 10 Property Ownership .............................................. 117

10.1 Normal ownership .......................................................... 118
10.2 Non-registered owners ..................................................... 118
10.2.a Prescription ............................................................... 118
10.2.b Expropriation ............................................................. 118
10.2.c Marriage in community of property ............................ 118
10.2.d Insolvency of registered owner ............................... 118

10.3 Join ownership or “Co-ownership” ................................. 119
Chapter 11  Property Transfer ................................................................. 120
  11.1  Estate Agents or mediators .............................................................. 120
  11.2  Transfer Documents ....................................................................... 121
  11.3  Costs .............................................................................................. 122

Chapter 12  Development Schemes ..................................................... 123
  12.1  Sectional Title Schemes ................................................................. 123
  12.2  Share block scheme ....................................................................... 124
  12.3  Schemes for Retired persons .......................................................... 125
  12.4  Group housing schemes ................................................................. 126

Chapter 13  Basic Site Services & Permits .......................................... 127
  13.1  Building permits ............................................................................ 128
  13.2  Environment assessments .............................................................. 129
  13.3  Electricity connection .................................................................... 129
  13.4  Water connection ........................................................................... 131
  13.5  Telephone connection .................................................................... 132

PART 2 :

THE DEVELOPMENT PROCESS

Chapter 14  Development Process ...................................................... 136
  14.1  Initiation ......................................................................................... 136
  14.2  Evaluation ....................................................................................... 138
  14.3  Acquisition ...................................................................................... 139
  14.4  Design and Costing ....................................................................... 140
  14.5  Permission ....................................................................................... 140
  14.6  Commitment .................................................................................... 140
  14.7  Implementation ............................................................................... 140
  14.8  Exploitation .................................................................................... 141
SECTION B:

PROPERTY DEVELOPMENT IN SOUTH AFRICAN

Thesis Layout Diagram................................................................. cxliii

PART 1:

INFORMATION AND INSPECTION REPORT

Chapter 1  Property Inspection Report Manual.................................149
1.1  The Brief.........................................................................................149
1.2  The property.....................................................................................150
1.2.a  Regional locality ...........................................................................150
1.2.b  Municipality.................................................................................150
1.2.c  Property number ..........................................................................150
1.2.d  Deeds Register ............................................................................151
1.2.e  Property Size ................................................................................151
1.2.f  Current owner ..............................................................................151
1.2.g  Restrictive conditions of title .......................................................151
1.2.h  Bonds or endorsements ...............................................................151
1.2.i  Servitudes ......................................................................................151
1.2.j  Surveyor General Diagrams ..........................................................152
1.2.k  Arial Photographs ........................................................................152
1.2.l  Brief background of property .......................................................152
1.2.m  Property description/Physical characteristics ..........................152
PART 2:

FEASIBILITY STUDY BASIC MANUAL

Chapter 2  Market Study Manual..........................................................156
2.1  Location.................................................................................................157
2.2  Development segment..........................................................................157
2.3  Market Aspects......................................................................................157
2.4  Market Analysis....................................................................................158
2.5  Authorities requirements .......................................................................159
2.6  Environmental Issues...........................................................................159
2.7  Planning consent..................................................................................160
2.8  Risks.......................................................................................................160
2.9  Conclusions and recommendations ....................................................160

Chapter 3  Financial Analysis Manual..................................................161
3.1  General..................................................................................................161
3.2  Preliminary Designs...............................................................................161
3.3  Development Cost Estimates...............................................................162
3.4  Financial evaluation.............................................................................162
  3.4.a  Operating Income statements..........................................................162
  3.4.b  Conventional techniques of evaluation ...........................................163
  3.4.c  Cash Flow Method of evaluation......................................................165
  3.4.d  Net Terminal Approach evaluation...............................................165
  3.4.e  Discounted Cash Flow Method evaluation......................................165
3.5  Sources and Terms of Financing .........................................................166
3.6  Governmental Considerations.............................................................166
3.7  General Tax implications......................................................................168
3.8  Decision making Ratios........................................................................169
Chapter 4  Risk Analysis Manual..........................................................175
4.1  Identify..........................................................................................175
4.2  Quantify.......................................................................................176
4.3  Formulate Strategies.................................................................176
4.4  Monetary calculations of risk....................................................177

Chapter 5  Environmental Impact Assessment.................................178
5.1  Introduction..............................................................................178
5.2  Regulations.............................................................................178
5.3  Activities requiring Environmental Authorisation......................179
    5.3.a Some of the Activities that require EIA...............................179
    5.3.b Some of the Activities that require Initial Assessment...........180
    5.3.c Responsibilities and obligations of applicant....................180

PART 3:
"THULA" FEASIBILITY STUDY

Note:.................................................................183
Foreword..............................................................189
Executive Summary..................................................190

Chapter 1  Property Inspection Report.............................................192
1.1  The Brief...................................................................................192
1.2  The Thula Property ....................................................................192
    1.2.a Regional Locality and Access ...........................................192
    1.2.b Size...................................................................................194
    1.2.c Current Owner ....................................................................194
    1.2.d Restrictive conditions of Title .........................................194
    1.2.e Bonds or Endorsements..................................................194
    1.2.f Servitudes .........................................................................194
1.2.g  Property Description / Physical Characteristics ......................... 194
1.2.h  Development requirements .............................................................. 197
1.2.i  Logistical Background of Towerkop Nature Reserve .................... 197

Chapter 2  Market/Property Study ........................................................... 198
2.1  Executive summary ............................................................................. 198
2.2  General .................................................................................................. 198
2.3  Location .................................................................................................. 199
2.4  Tourism .................................................................................................. 200
2.4.a  International Travellers ................................................................. 200
2.4.b  Domestic Travellers ......................................................................... 205
2.4.c  Seasonality of Travellers ............................................................... 209
2.4.d  Conclusion ......................................................................................... 209
2.5  Development possibilities ................................................................. 210
2.6  Market Aspect ..................................................................................... 211
2.7  Market Analysis .................................................................................... 218
2.8  Land-use Zoning .................................................................................. 220
2.8.a  Planning consent for change of use of property ......................... 220
2.8.b  Registration, licensing and permits ............................................. 220
2.8.c  Regulations and By-Laws ............................................................... 220
2.8.d  Other legal Requirements ............................................................. 221
2.8.e  Voluntary Requirements ............................................................... 221
2.9  Development and Environmental Limitations .............................. 221
2.10 Marketing Strategies .......................................................................... 222
2.11 Conclusions and Recommendations ............................................... 223

Chapter 3  Medium Term Financial Analysis ........................................ 224
3.1  Executive summary ............................................................................. 224
3.2  General .................................................................................................. 225
3.3  Approximate Facilities size ................................................................. 226
3.4 Preliminary Assumptions .................................................................227
  3.4.a Value Added Activities ...............................................................227
  3.4.b Peak Occupancy .................................................................228
  3.4.c Property Cost ...........................................................................228
  3.4.d Design Costs including Professional Fees ............................228
  3.4.e Construction/Building costs ....................................................228
  3.4.f Exploitation Costs ....................................................................231

3.5 Preliminary designs ........................................................................234
  3.5.a Concept drawing ........................................................................234
  3.5.b Main Camp Guest accommodation .......................................237
  3.5.c Private Lodges ........................................................................239
  3.5.a Functional program and dimensions ......................................242
  3.5.b Situation and grouping of spaces ............................................243
  3.5.c Orientation of spaces .............................................................243
  3.5.d Construction type and building methods ............................243
  3.5.e Specials ....................................................................................243
  3.5.f Building materials .................................................................243

3.6 Overall Cost Estimates ................................................................244

3.7 Financial analysis ..........................................................................245
  3.8 Profit evaluation ..........................................................................246
    3.8.a Cash Flow .............................................................................246

3.9 Ratios ............................................................................................251

3.10 Sensitivity ....................................................................................252
    3.10.a Occupancy sensitivity ...........................................................252
    3.10.b Timeshare selling rate sensitivity ........................................254
    3.10.c Nightly Rate Sensitivity ..........................................................256
    3.10.d % Change vs. Net Development Value ..............................257

3.11 Governmental considerations .....................................................261
    3.11.a Black Economic Empowerment ......................................261
    3.11.b Government assistance ......................................................261
    3.11.c Area Development Plan ......................................................261
3.12 Important Regulations and Acts .................................................................261
3.13 General Tax implications ..........................................................................262
3.14 Conclusions ..............................................................................................263

Chapter 4  Risk Analysis .............................................................................. 264
4.1 General ........................................................................................................264
4.2 Identifying and Strategizing Risks ...............................................................265
   4.2.a Risks for the initiation phase .................................................................265
   4.2.b Risks factors in planning and construction phase ...............................266
   4.2.c Risks factors during exploitation phase .................................................267
4.3 Risk and Solution in monetary terms ..........................................................268
4.4 Conclusions ..............................................................................................269

Chapter 5  Environmental Impact Assessment ........................................... 270
5.5 Regulations ................................................................................................270
5.6 Activities requiring Environmental Authorisation ....................................271
   5.6.d Activities that require EIA ....................................................................271
   5.6.e Activities that require Initial Assessment .............................................272
   5.6.f Responsibilities and obligations of applicant ......................................272
5.7 Conservation Management Plan .................................................................272
5.8 Public Private Partnership agreement ........................................................273

Divers Pictures of Property ........................................................................... 274
## List of Figures

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1</td>
<td>South African Flag Colours</td>
<td>xxiv</td>
</tr>
<tr>
<td>Figure 2</td>
<td>ANC Logo</td>
<td>39</td>
</tr>
<tr>
<td>Figure 3</td>
<td>South Africa</td>
<td>49</td>
</tr>
<tr>
<td>Figure 4</td>
<td>South African Provinces</td>
<td>51</td>
</tr>
</tbody>
</table>
## LIST OF GRAPHS

<table>
<thead>
<tr>
<th>Number</th>
<th>Graph Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graph 1</td>
<td>Comparative Rates Graph: Repo Rate vs. Prime Lending Rate</td>
<td>70</td>
</tr>
<tr>
<td>Graph 2</td>
<td>South African Prime Rate vs. CPI Inflation</td>
<td>72</td>
</tr>
<tr>
<td>Graph 3</td>
<td>Real Gross domestic Product (GDP)</td>
<td>73</td>
</tr>
<tr>
<td>Graph 4</td>
<td>Real Gross Domestic Expenditure</td>
<td>74</td>
</tr>
<tr>
<td>Graph 5</td>
<td>GDP by Sector</td>
<td>75</td>
</tr>
<tr>
<td>Graph 6</td>
<td>Production Prices for Goods for Domestic Use</td>
<td>76</td>
</tr>
<tr>
<td>Graph 7</td>
<td>Global Tourism Arrivals 2003</td>
<td>78</td>
</tr>
<tr>
<td>Graph 8</td>
<td>Global Tourism Arrivals change over 2002</td>
<td>79</td>
</tr>
<tr>
<td>Graph 9</td>
<td>Outbound Departures 2002, 2003</td>
<td>81</td>
</tr>
<tr>
<td>Graph 10</td>
<td>Tourism Growth in South Africa</td>
<td>82</td>
</tr>
<tr>
<td>Graph 11</td>
<td>Purpose of Visit</td>
<td>83</td>
</tr>
<tr>
<td>Graph 12</td>
<td>Top 20 Tourism Markets Worldwide</td>
<td>84</td>
</tr>
<tr>
<td>Graph 13</td>
<td>Top 20 Tourism Markets Overseas</td>
<td>84</td>
</tr>
<tr>
<td>Graph 14</td>
<td>South African Provincial Distribution of visitors</td>
<td>85</td>
</tr>
<tr>
<td>Graph 15</td>
<td>Foreign Tourism Quantities SA</td>
<td>200</td>
</tr>
<tr>
<td>Graph 16</td>
<td>Purpose of visits nationally 2003 vs. 2002</td>
<td>201</td>
</tr>
<tr>
<td>Graph 17</td>
<td>Provincial Distribution of visitors 2003 vs. 2002</td>
<td>201</td>
</tr>
<tr>
<td>Graph 18</td>
<td>Total Foreign Direct Spending in SA</td>
<td>202</td>
</tr>
<tr>
<td>Graph 19</td>
<td>Length of Stay 2003 vs. 2002</td>
<td>203</td>
</tr>
<tr>
<td>Graph 20</td>
<td>Provincial Bednights Distribution, 2003</td>
<td>204</td>
</tr>
<tr>
<td>Graph 21</td>
<td>Domestic traveling population</td>
<td>205</td>
</tr>
<tr>
<td>Graph 22</td>
<td>Total number of Domestic trips</td>
<td>205</td>
</tr>
<tr>
<td>Graph 23</td>
<td>Source of all domestic trips</td>
<td>206</td>
</tr>
<tr>
<td>Graph 24</td>
<td>Destination of domestic trips</td>
<td>206</td>
</tr>
<tr>
<td>Graph 25</td>
<td>Share of total domestic direct spend</td>
<td>207</td>
</tr>
<tr>
<td>Graph 26</td>
<td>Seasonality of international and domestic trips in SA</td>
<td>209</td>
</tr>
<tr>
<td>Graph 27</td>
<td>Cash In vs. Cash Out</td>
<td>249</td>
</tr>
<tr>
<td>Graph 28</td>
<td>Discounted Cash-flow</td>
<td>250</td>
</tr>
<tr>
<td>Graph 29</td>
<td>Income vs. Occupancy Rate</td>
<td>252</td>
</tr>
<tr>
<td>Graph 30</td>
<td>IRR vs. Occupancy Rate</td>
<td>253</td>
</tr>
<tr>
<td>Graph 31</td>
<td>Income vs. Selling Rate</td>
<td>254</td>
</tr>
<tr>
<td>Graph 32</td>
<td>IRR vs. Selling Rate</td>
<td>255</td>
</tr>
<tr>
<td>Graph 33</td>
<td>Nightly Rate Change vs. Income</td>
<td>256</td>
</tr>
<tr>
<td>Graph 34</td>
<td>IRR vs. Nightly Rate</td>
<td>257</td>
</tr>
<tr>
<td>Graph 35</td>
<td>% Change comparison graph vs. NPV</td>
<td>258</td>
</tr>
<tr>
<td>Graph 36</td>
<td>% Change comparison graph vs. NPV</td>
<td>259</td>
</tr>
<tr>
<td>Graph 37</td>
<td>% Change comparison graph vs. NPV</td>
<td>260</td>
</tr>
</tbody>
</table>
# List of Pictures and Maps

<table>
<thead>
<tr>
<th>Number</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Picture 1: Bushman Painting</td>
<td>xxii</td>
</tr>
<tr>
<td>Picture 2: Sunset at Thula</td>
<td>30</td>
</tr>
<tr>
<td>Picture 3: Jan van Riebeeck and the VOC</td>
<td>35</td>
</tr>
<tr>
<td>Picture 4: Depiction of Great Trek</td>
<td>36</td>
</tr>
<tr>
<td>Picture 5: Depiction of the battle at Blood River (Ncome River)</td>
<td>37</td>
</tr>
<tr>
<td>Picture 6: Concentration Camp at Norvalspoort</td>
<td>38</td>
</tr>
<tr>
<td>Picture 7: Abraham Carel Wessels, Bloemfontein Camp</td>
<td>38</td>
</tr>
<tr>
<td>Picture 8: Nelson Mandela</td>
<td>41</td>
</tr>
<tr>
<td>Picture 9: Oliver Tambo</td>
<td>41</td>
</tr>
<tr>
<td>Picture 10: Fleeing crowds as police open fire, Sharpeville, 1960</td>
<td>42</td>
</tr>
<tr>
<td>Picture 11: Nelson Mandela walks to freedom [Winnie Mandela next to him]</td>
<td>45</td>
</tr>
<tr>
<td>Picture 12: Election Day April 1994</td>
<td>47</td>
</tr>
<tr>
<td>Picture 13: Karoo Violet</td>
<td>116</td>
</tr>
<tr>
<td>Picture 14: Ruins on TNR</td>
<td>126</td>
</tr>
<tr>
<td>Picture 15: Animal track</td>
<td>144</td>
</tr>
<tr>
<td>Picture 16: View of Thula property</td>
<td>148</td>
</tr>
<tr>
<td>Picture 17: View from Thula front door</td>
<td>182</td>
</tr>
<tr>
<td>Picture 18: Thula house reflection</td>
<td>184</td>
</tr>
<tr>
<td>Picture 19: Panoramic view of Thula homestead</td>
<td>189</td>
</tr>
<tr>
<td>Picture 20: Position of Thula property in relation to Towerkop Nature Reserve boundaries</td>
<td>193</td>
</tr>
<tr>
<td>Picture 21: Surveyor General Drawing of Thula Property</td>
<td>196</td>
</tr>
<tr>
<td>Picture 22: Steenbok</td>
<td>210</td>
</tr>
<tr>
<td>Picture 23: Front View Main Lodge</td>
<td>234</td>
</tr>
<tr>
<td>Picture 24: Rear View Main Lodge</td>
<td>234</td>
</tr>
<tr>
<td>Picture 25: Plan View Main Lodge</td>
<td>235</td>
</tr>
<tr>
<td>Picture 26: Left View Main Lodge</td>
<td>236</td>
</tr>
<tr>
<td>Picture 27: Right View Main Lodge</td>
<td>236</td>
</tr>
<tr>
<td>Picture 28: Front View Studio Lodge (1-2 persons)</td>
<td>237</td>
</tr>
<tr>
<td>Picture 29: Plan View 1-2 persons</td>
<td>237</td>
</tr>
<tr>
<td>Picture 30: Front View Private Lodge (2-4 persons)</td>
<td>238</td>
</tr>
<tr>
<td>Picture 31: Plan View Private Lodge (2-4 persons)</td>
<td>238</td>
</tr>
<tr>
<td>Picture 32: Front View Private Lodge (2-6 persons)</td>
<td>239</td>
</tr>
<tr>
<td>Picture 33: Rear View Private Lodge (2-6 persons)</td>
<td>239</td>
</tr>
<tr>
<td>Picture 34: Plan View Ground floor Private Lodge</td>
<td>240</td>
</tr>
<tr>
<td>Picture 35: Plan View First Floor Private Lodge</td>
<td>241</td>
</tr>
<tr>
<td>Picture 36: Crasulla Rupestitis</td>
<td>271</td>
</tr>
<tr>
<td>Picture 37: Redhartebeest</td>
<td>273</td>
</tr>
</tbody>
</table>
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INTRODUCTION

It is remarkable that South Africa, only a mere decade removed from the apartheid era, is showing such remarkable promise. The Real Estate and Tourism industries, among others, are blooming at present. Everything points towards a bright future for the country and its citizens.

As with most flourishing economies the opportunities for investments have grown exponentially. They are offered new and promising investment opportunities in South Africa for many years to come. One of these sectors of growth, as mentioned before, has being the Real-Estate sector, both private and public.

In South Africa as a whole it seems that the supply of higher income housing has not grown in relation to the increase in demand. The few able developers in this sector are working feverously to meet this demand. The ones that are working in this sector have been able to maintain an profitable building price per m² although the quality sometimes seems to be lacking if compared to that in first world countries.

There are pockets of higher income real estate developments, mostly in the coastal regions of the Eastern- and Western Provinces. Plettenberg Bay, Knysna, George, Gordon’s Bay, Cape Town and the Wild Coast area of the Eastern Cape are towns and cities that can be mentioned. Most new developments in these areas seems to concentrate on golf estates, luxury housing units, townhouses, ecotourism, low-income housing and retirement care-villages.

The increase in foreign investment in various sectors in South Africa has been remarkable, especially with the government changing the tax laws in the last few years, making it easier for foreigners to invest capital in the country.

In the last 4 years the average selling price of houses in the middle to higher-income brackets have increased beyond expectations. Just in the last financial year (2002 to 2003) the average selling price has increased by no less than 23% and in 2004 by 32,6%. There were properties that sold at an incredable 71% increase on yearly basis. Average building
costs on average have not increased at the same rate due to a spectrum of factors. Inflation has been on the decrease in the last few months and is now at an estimated of 6%. The Reserve Bank of South Africa in the last twenty-four months has decreased the prime lending rate by no less than 500 points to 11.5% the lowest it has been in twenty years in South Africa!

To this effect the decision was made to do some research into the relevant information that foreign investors will need to know.

The Main thesis is research orientated; Section A discusses South Africa and Section B introduces a general manual for writing feasibility studies and gives an example feasibility study that was completed for a property called Thula. Negotiations with the owner of this property is now underway and the Thula development will take place in the not too distant future.

The Extra Thesis Project is a study into installation techniques (water, gas, electricity building techniques and comfort) available in South Africa that can or must be utilised for this specific Thula project. This extra report does not form part of this report, but is attached on the Compact Disc (CD).

A developer or prospective developer, national or international, interested in South Africa will find the information contained in this report very interesting and informative.
FOREWORD ON SOUTH AFRICA

South Africa hosts the big-five wildlife species (Elephant, Buffalo, Lion, Leopard and Rhino), breathtaking scenery and a multitude of bird and wildlife species and is often referred to as the “Cradle of Humankind” for it is here where archaeologists found fossils dating 2,5 million years and 100 000 year old remains of modern man.

The South African population comprises of diverse ethnic, cultural and religious groups. South Africa alone has eleven official languages, each of which is afforded protection under the Constitution. English is generally the most widely used language in national and provincial Government and in commerce.

The South African population consist of a multitude of cultures; the Nguni people (consisting of the Zulu, Xhosa, Ndebele and Swazi); the Sotho-Tswana people; the Tsonga; the Venda; the Afrikaners; the English; Coloureds; Indian; and immigrants from the rest of Africa. Also living in South Africa are the Khoi and the San (commonly known as the KhoiSan), they are considered to be the oldest remaining culture in the world.

After the first democratic election in 1994 an interim Constitution was drafted and in 1996 the New Constitution of South Africa (Act108 of 1996) was implemented in place of the interim constitution. The last census was held in the year 2001. Everyone in South Africa has the right to use their own language and to participate in the cultural or religious life of his/her choice as long as it is not inconsistent with the provisions of the Bill of Rights. This right was incorporated in to the New Constitution of South Africa in 1996. Every person also has the right to be instructed in his/her language of choice as far as this is reasonably practical. The Constitution of South Africa caters for many official languages, namely Afrikaans, English, IsiNdebele, IsiXhosa, IsiZulu, Sepedi, Sesotho, Setswana, Tshivenda and Xitsonga.

The National Language Policy Framework (NLPF) was launched in 2003 guided by the following principles; To promote and protect the linguistic and cultural diversity; support democracy through entrenchment of language equity and language rights; asserting that multilingualism is a resource
and to encourage the learning of other African languages. The National Language Service (NLS) is laying down the basis for the South African Language Bill as set out in the Constitution.

The Department of Arts and Culture is also taking steps to promote the indigenous languages of South Africa. The National and Provincial levels of government may use any two or more official languages for the purposes of government.

Freedom of worship is guaranteed by the Constitution and the official policy is that of non-interference in religious practices. The majority of South Africans are Christians (almost 80%). The other major religious groups are Hindus, Muslims and Jews. A minority do not belong to any religion.

Although AIDS is a major concern in South Africa and in the rest of Africa and the world, no attention will be given to this subject in this report as it falls outside the scope of this thesis and no consensus has been reached on the impacts and numbers.

According to the last census, released in 2001, there were 44,819,778 people in South Africa of these 79% classified themselves as being Black, 9.6% as white, 8.9% as coloured and 2.5% as Indian/Asian. The male population is a total of 21,685,415 (48.4%) and 23,662,839 (51.6%) female.

Given these characteristics, South Africa offers investors a significant free market in its own right as well as a gateway to invest in Africa.

Figure 1 South African Flag Colours
PROBLEM FORMULATION

The problem is twofold:

FIRSTLY, The problem is the acquisition of information, due to the lack of readily available and concise information. The potential foreign investor needs information on the country he intends to start investing in, and requires relevant information to be readily available to him in the form of one encapsulating document. In this case South Africa. For instance he will need information on; the economy, to determine amongst other if it is stable enough to warrant investment, the business structure to determine which business form will suit him best, country and provincial information to determine where best to base himself, regulations for foreign investors and overall he will need to know whom to contact to apply for permits and to apply to regulations, and so forth. These are just some of the questions and information that has to be addressed in this thesis report.

SECONbLY, the problem of the formulation or compilation of a Feasibility Study. Many investors/developers require a feasibility study to be made for a proposed development/investment. This requires a lot of time and research. Much time and effort is normally wasted in the compilation of the content (or index) of the feasibility study and the determination of what details, or not, to have included therein. This is the problem at hand here, the need for a step-by-step manual. This manual can be a very useful tool in the hands of the compiler of the feasibility study.

Also, it is a time-consuming activity to research and find the relevant websites and information centres and databases. A foreigner who intends to compile a feasibility study on a project in South Africa, [a country of which he will normally have no real knowledge] will spend a considerable amount of time and capital finding this information. The problem was therefore addresses in this report in the form of website links and addresses being included throughout the writings. These websites can be used to research and find amongst other things, contact details and information on regulations, registrations and the laws. It can be a very useful tool in the hand of the competent user.
OBJECTIVES

**Primary** Objectives include:

- The compilation and writing of a report on the most relevant information that any investor, foreign or domestic, might need to have at hand if he is looking at South Africa as a possible invest market. The information requirements and compilation is based on the authors own experiences, and from questions and requests from investors during the last few years. The information contained in this document makes it possible to form a mental picture true, objective and clear, as well as cultivating a understanding of the workings, of South Africa as a whole.

- The development of a step-by-step manual for the compilation of a feasibility study. The user must be able to follow this manual and compile a comprehensive feasibility study, or user might choose to only use part of the manual and therefore adapt the information requirements to their own needs. Although the manual primarily focuses on property development it may also be used for other business ventures, by adapting the information requirements. The four main phases will always remain the same.

- The research and inclusion of the website addresses of the relevant private, commercial, government institutes, societies and so forth so as to make the research move faster. The information sources are consequently readily available, as well as the contact details of the relevant entities.

**Secondary** objective of author:

- The Author is a South African by birth and upbringing, but has not lived in the South Africa for the past eight years. The secondary objective of these reports are, for the author to again become acquainted and familiarised with the country, the new regulations and the changed structure of the country. These have changed considerably in the past few years.
POINT OF DEPARTURE

- There is a need for a relatively comprehensive and broad based information bundle concerning South Africa.
- There is a need for a simple guide for making feasibility studies.
- Having not lived or worked in SA for the past many years and therefore having limited knowledge of NEW South Africa as things have changed considerably since 1992. The author returned to South Africa to live and work in the property development market and again become familiar with the country.
- The author needed to compile a feasibility study.
- The Author has returned to search for properties with apparent development potential within South Africa, to make a feasibility study on that property and to find investors and or finances to develop his ideas.
ASSUMPTIONS AND CONDITIONS

Some basic assumptions of the author were:

- The readers of this thesis report have very limited to no knowledge of South Africa.
- Most foreigners are either poorly informed regarding South Africa.
- There is a need for a relatively comprehensive and broad based information bundle concerning South Africa.
- There is a need for a simple guide for making feasibility studies.
- Users of the feasibility study manual have no or limited knowledge of the steps to be taken in a feasibility study process, referring specifically to property developments in South Africa.
- The feasibility study manual can be used for other types of developments.
Section A: South African Environment

Part 1: Background Research into South Africa
- History
- Geography
- Provincial Overview & Demographics
- Government
- Tourism
- Economy
- Business Structures
- Foreign Investors & Non-Residents
- Taxation & Duties
- Property Ownership
- Property Transfers
- Development Schemes
- Basic Site Services &

Part 2: The Development Process
- Initiation
- Evaluation
- Acquisition
- Design & Costing
-Permission
- Commitment
- Implementation
- Exploitation

Section B: Property Development in South Africa

Part 1: Property Inspection and Information
Part 2: Feasibility Study Manual
- Phase 1: Market Study
- Phase 2: Financial Analysis
- Phase 3: Risk Analysis
- Phase 4: Environmental Impact Study

Part 3, Example: “Thula” Feasibility Study
- Property Inspection & Information Report
- Market Analysis
- Financial Analysis
- Risk Analysis
- Environmental Impact Assessment

Section C: Thula Installations
- Demand Estimates
- Electricity
- Water
- Gas
- Building Principles
Section A

SOUTH AFRICAN ENVIRONMENT

PART 1: SOUTH AFRICA

PART 2: THE DEVELOPMENT PROCESS

Picture 2: Sunset at Thula
Part 1:

SOUTH AFRICAN FACTS

BRIEF HISTORY

GEOGRAPHY

PROVINCIAL OVERVIEW & DEMOGRAPHICS

GOVERNMENT STRUCTURE

ECONOMY OUTLINES

TOURISM

BUSINESS STRUCTURES

TAXATION

GENERAL PROPERTY INFORMATION

GENERAL DEVELOPMENT INFORMATION
RELEVANCE

This section had its origin in questions that was asked by potential investors and interested persons in the last few years.

As it is important to know the environment in which an entity wishes to be involved these first few chapters, under the main heading of Section A, Part 1 have been compiled to give a brief general overview of South Africa as a whole.

The history, geography, provincial layout, demographic, government structure, taxation, forms of business organisations and legal practices in South Africa, amongst other relevant issues that have been noted.

It reflects the general position in South Africa as it was in May 2004, unless otherwise indicated. Following this preamble is a compendium of facts regarding South Africa and information important and relevant to the developer and investor alike.

Part 1 functions as a source of information for any entity wishing to invest in South Africa and who desires to know more about the market and where he may find further information.

In order to understand South Africa and its diversity, the need arises to attempt to comprehend the vastness of the country, its people and how they are knit together, therefore this section of the report starts with a brief history of the country.

“Those that fail to plan, plan to fail”
Please Note:

This section of the report is NOT centred on the property development market alone. Therefore it is important that the reader notes that the next few chapter reflect the general position in South Africa. Certain information may not apply directly to your specific circumstances or needs.

General exemption:

The author has taken all reasonable care in the compilation of this document, but the author or alike cannot accept responsibility in any form or manner for any exclusions, nor the correctness of the source information used in the compilation of this document.
Chapter 1

A Brief History of South Africa

(South Africa’s contemporary problems have deep historical roots. Although human settlement in the subcontinent extends back thousands of years, racial conflict dates from the arrival of the Dutch subject, Jan van Riebeek (pictured left) at the Cape of Good Hope in 1652, when the Dutch East India Company [VOC, also known as the Company] established a re-supply station at Cape Town for its fleets travelling between Holland and its empire in South and Southeast Asia. During the first 150 years of European control of the Cape, the Company, a commercial operation, established some of the most enduring features of colonial society. The Company was not interested in expanding European settlement across Africa, only in acquiring goods (fresh water, foodstuffs, replacement masts) to re-supply its ships. When local KhoiSan peoples refused...)

Picture 3: Jan van Riebeek and the VOC
to provide these goods on terms set by the Company, the Europeans took up arms and drove most of the local population into the interior of the country. In place of local producers, the Company relied on a combination of European farmers (mostly former employees of the company) and imported African slave labour to work the land that had been seized from local residents.

When the European farmers (known as Boers) attempted to escape the monopolistic trading practices and autocratic rule of the Company by moving into the interior and prohibited further expansion, ending the emigration of Europeans to the Cape, and expanded the use of slave labour. By the end of the eighteenth century, society in the Cape was marked by antagonism between the local white community (mostly descended from the same small group of seventeenth-century Dutch, French, and German settlers) and a largely disinterested and exploitative metropolitan ruler. The racial divide was reflected in the pattern of land ownership and the authoritarian structure of labour relations, based largely on slavery.

British acquisition of the Cape at the beginning of the nineteenth century accentuated divisions between local settlers and metropolitan rulers and widened the racial divide between whites and blacks. The British conquered the Cape largely to prevent it from falling into the hands of Napoleon, and thus protecting their only sea route to their empire in South Asia. Like the Dutch East India Company, the British were not interested in expanding settlement but wanted to keep down the expense of maintaining their strategic re-supply station at Cape Town.

Desperate for more land and fearful of losing all of their black labour, many Boer families in the 1820’s marched into the interior of South Africa on the Great Trek, skirting the densest African populations. These people commonly known in South African history as the Voortrekkers, or trekkers, hoped to establish their own communities, free of British rule. Prevented by the British from
establishing a republic on the Indian Ocean coast, the Boers formed two republics in the interior, the South African Republic (the region previously known as the Transvaal and now called Gauteng) and the Orange Free State now called Free State. Both republic economies were based on near-subistence farming and hunting. Thus, white settlement expanded across the region, although almost entirely into unpopulated areas with few local inhabitants. The majority of black Africans still lived in their own autonomous societies. As the Voortrekkers progressed into the interior there were many skirmishes and battles between the Voortrekkers and the local inhabitants. The Voortrekkers with their advanced weaponry and tactics won most of these battles. One of the better-known battles was the battle of Blood River in 1838 (16 December 1838 - Battle of Blood River)

The discovery of minerals in the late nineteenth century - diamonds in 1867 and gold in 1886 - dramatically altered the economic and political structure of southern Africa. The
growing mineral industry created ever-greater divisions between the British and the Boer, white and black, rich and poor. At the turn of the century, for the first time, South Africa had an extremely valuable resource that attracted foreign capital and large-scale immigration. Discoveries of gold and diamonds in South Africa exceeded those in any other part of the world, and more foreign capital had been invested in South Africa than in the rest of Africa combined. In the Transvaal, the site of the gold discoveries, the white population expanded eightfold, while hundreds of thousands of Africans sought work each year in the newly developed mines and cities of industrializing areas.

The British in the 1870’s and 1880’s conquered the still-independent African states in southern Africa, confiscated the bulk of the land and imposed cash taxation demands on African migrant labour. But the discovery of minerals also exacerbated tensions between the British and the Boers. The gold discovered in the Transvaal was beyond the reach of British rule. Most profits from the mines were reinvested in Europe and the Americas and did not contribute to the growth of additional industries in South Africa. The Boers sought to gain access to some of this wealth through taxation policies, which in turn incurred the wrath of the mine magnates and their supporters in England.

The **Anglo Boer War**, fought by the Boers and the British between 1899 and 1902, was primarily a struggle for the control of gold. The Anglo Boer War was also the first time in recorded history that concentration camps were implemented. 26,370 women and children (81% were children) died in the concentration camps. Although the Boers lost the war, in large part they won the peace.
The British realized that in order for the diamond and gold industries to be operated profitably, they required a local administration sympathetic to the financial and labour demands of mining.

The Union of South Africa, established on May 31, 1910, as a self-governing state within the British Empire, legislatively restricted political and property rights to whites. With the exception of a very small number of voters in the Cape Province and Natal, Africans were kept off electoral rolls throughout most of the country. By the terms of the Mines and Works Act (1911), only whites were permitted to hold skilled jobs in the mining industry. The Natives Land Act (1913) prohibited Africans from owning land in any part of South Africa outside a small area (7.5 percent, expanded to 13 percent in the 1930s) set aside for their use.

Two nationalist movements emerged in the aftermath of the formation of the union, one racially and ethnically exclusivist, the other much more disparate in its membership and aims. The Afrikaner Nationalist Movement, built around the National Party [NP], appealed to Afrikaners, who were still bitter about their suffering in the war and frustrated by the poverty in which most of them lived.

The Black Nationalist Movement, led primarily by the African National Congress (ANC, formed in 1912), addressed the myriad injustices against black South Africans.

Although Afrikaner generals helped unite South Africa’s first government, most Dutch speakers did not share in the fruits of victory. Much of their land had been confiscated by the British during the war and was not returned after it ended. English speakers owned the main source of employment, the mines. Rural Afrikaners moving to the cities had neither capital nor marketable skills, and thus they found themselves competing with Africans for low-paid unskilled work.

Throughout the 1920’s, 1930’s, and 1940’s, the Afrikaner nationalist movement grew in popularity, fuelled by fears of black competition for jobs, antipathy toward the English-
speaking mine magnates, the memory of past suffering, and the impact of World War II (especially massive black urbanization). In 1948, with the support of a majority of Afrikaners (who constituted about 60 percent of the white electorate), the NP won the election on its apartheid platform. Henceforth, South Africa was to be governed by a party that hoped to shape government policies to work in favour of whites in general, and Afrikaners in particular.

The black nationalist movement had no such success. For most blacks, lack of access to the vote meant that they could not organize an effective political party. Instead they had to rely on appeals, deputations, and petitions to the British government. The British responded by pointing out that South Africa was now self-governing and that the petitioners had to make their case to the local white rulers.

With the introduction of apartheid, the NP extended and systematized many of the features of entrenched racial discrimination into a state policy of white supremacy. Every person resident in South Africa was legally assigned, largely on the basis of appearance, to a racial group - White, African, Coloured, or Asian. South Africa was proclaimed to be a “white man’s” country in which members of other racial groups would never receive full political rights. Africans were told that eventually they would achieve political independence in perhaps nine or ten homelands.

Coloureds and Asians, too, were to be excluded from South African politics. By law, all races were to have separate living areas and separate amenities; there was to be no mixing. Education was to be provided according to the roles that people were expected to play in society.

The most draconian piece of security legislation, the *Suppression of Communism Act* (1950), adopted an extraordinarily broad and vague definition of communism—i.e., the aim to “bring about any political, industrial, social, or economic change within the Union by the promotion of disturbance or disorder.” Also included under the act was anyone who encouraged “feelings of hostility between the European and the non-European races of the Union.” This legislation enabled the police to label almost any opponent of apartheid
as a supporter of the outlawed Communist Party of South Africa (reactivated in 1953 as the South African Communist Party—SACP).

Blacks rose up in protest against apartheid in the 1950s. Led by Nelson Mandela and Oliver Tambo, the ANC sought to broaden its base of support and to impede the implementation of apartheid by calling for mass non-compliance with the new laws.

Working together with white, coloured, and Indian opponents of apartheid, the ANC encouraged people to burn their passes and to refuse to use the separate amenities set aside for them, to use those intended for whites instead, and to boycott discriminatory employers and institutions.

In 1955 representatives of the ANC, as well as white, coloured, and Indian organizations opposed to apartheid, drafted the Freedom Charter as a basic statement of political principles. According to the charter, South Africa belonged to all who lived within its boundaries, regardless of race. The charter stated that no particular group of people should have special privileges, but that all should be treated equally before the law. It also stated that all who lived in South Africa should share in the country’s wealth, an ambiguous statement sometimes interpreted by supporters of the ANC, and more frequently by its opponents, to mean a call for nationalization of private-sector enterprises.

The NP government dealt harshly with all those who opposed its policies. Many of the delegates who drew up the Freedom Charter were arrested and tried for treason in a trial that lasted nearly five years. Repression became harsher as opposition grew.
In 1960 police at Sharpeville, a black township south of Johannesburg, fired into a crowd of Africans protesting against the passed laws, and killed sixty-seven. In the aftermath of the shooting, which attracted worldwide condemnation, the government banned the ANC, the Pan-Africanist Congress (PAC), and other organizations opposed to apartheid; withdrew from the British Commonwealth of Nations; and, after a referendum among white voters only, declared South Africa a republic.

During the 1960s, the implementation of apartheid and the repression of internal opposition continued despite growing world criticism of South Africa’s racially discriminatory policies and police violence. The ANC and the PAC, banned from operating within South Africa, turned to violence in their struggle against apartheid—the former organization adopting a policy of bombing strategic targets such as police stations and power plants, the latter engaging in a program of terror against African chiefs and headmen, who were seen as collaborators with the government.

Verwoerd’s government crushed this internal opposition. Leaders of the ANC and PAC within South Africa were tracked down, arrested, and charged with treason. Nelson Mandela was sentenced in 1964 to imprisonment for life. Oliver Tambo had already fled the country and led the ANC in exile. Despite growing international criticism, the government’s success in capturing its enemies fuelled an economic boom. Attracted by the apparent political stability of the country, and by rates of return on capital running as
high as 15 to 20 percent annually, foreign investment in South Africa more than doubled between 1963 and 1972. Soaring immigration increased the white population by as much as 50 percent during the same period. Apartheid and economic growth seemed to work in tandem.

The United Nations (UN), in 1973, declared apartheid “a crime against humanity,” a motion that took on real meaning four years later, in 1977, when the UN adopted a mandatory embargo on arms sales to South Africa.

Internal and external opposition to apartheid was fuelled in 1976, when the Soweto uprising began with the protests of high-school students against the enforced use of Afrikaans—viewed by many Africans as the oppressor’s language. The protests led to weeks of demonstrations, marches, and boycotts throughout South Africa. Violent clashes with police left more than 500 people dead, several thousand arrested, and thousands more seeking refuge outside South Africa, many with the exiled forces of the ANC and the PAC.

Fearful of growing instability in South Africa, many foreign investors began to withdraw their money or to move it into short-term rather than long-term investments; as a result, the economy became increasingly sluggish. In order to cope with labour unrest and to boost investor confidence, the government decided in 1979 to allow black workers to establish unions as a necessary step toward industrial peace. This decision was a crucial step in the growing perception that apartheid would have to end.

Pretending otherwise had already become increasingly difficult. A national census in 1980 showed that whites were declining as a proportion of South Africa’s population. From more than 20 percent of the population at the beginning of the century, whites accounted for only about 16 percent of the population in 1980 and were likely to constitute less than 10 percent by the end of the century. By the end of the 1980s, almost one-half of black South Africans—according to apartheid theory, a rural people—would be living in cities and towns, accounting for nearly 60 percent of South Africa’s urban dwellers. Demographic facts, alone, made it increasingly difficult to argue that South Africa was a white man’s country.
In the early 1980s, NP reformers tinkered with the basic structure of apartheid. Concerned about demographic trends, Prime Minister P. W. Botha led his government in implementing a new constitutional arrangement, one that embraced the concept of multiracial government but, at the same time, perpetuated the concept of racial separation. The new constitution established three racially segregated houses of parliament, for whites, Asians, and coloureds, but excluded blacks from full citizenship. Botha and his allies hoped that such a change would bolster NP support among coloureds and Asians, and thereby give the party enough numerical strength to counter growing dissent. The constitution implemented in 1984 only inflamed further opposition to apartheid.

Newly legalized black trade unions took a leading role in the opposition, particularly by organizing strikes that combined economic and political complaints. The number of workdays lost to strikes soared to more than 5.8 million in 1987. Armed members of the ANC and PAC infiltrated South Africa’s borders from their bases in Angola, Mozambique, and Zambia and carried out a campaign of urban terror.

Although the government’s repressive actions strengthened state control in the short term, they backfired in the long run. Police repression and brutality in South Africa, and military adventures elsewhere in southern Africa, only succeeded in heightened South Africa’s pariah status in world politics. As events in the country grabbed world headlines and politicians across the globe denounced apartheid, the costs for South Africa of such widespread condemnation were difficult to bear. Foreign investors withdrew; international banks called in their loans; the value of South African currency collapsed; the price of gold fell to less than one-half of the high of the 1970s; economic output declined; and inflation became chronic. In the face of such developments, it was clear to most South African businessmen, and to a majority of NP party leaders, that apartheid itself had to undergo substantial reform if economic prosperity and political stability were to be regained. In 1989 a stroke precipitated Botha’s resignation, and F. W. de Klerk succeeded him.

FW De Klerk moved faster and farther to reform apartheid than any Afrikaner politician had done before him, although in many instances it seemed that events rather than individuals were forcing the pace and scale of change. De Klerk released Nelson Mandela.
from twenty-seven years of imprisonment in February 1990, and rescinded the banning orders on the ANC, the PAC, the SACP, and other previously illegal organizations.

Reacting to demands from within and outside South Africa, de Klerk in 1990 and 1991 repealed the legislative underpinnings of apartheid, gone were:

- The *Reservation of Separate Amenities Act*, which had enforced petty apartheid;
- The *Natives Land Act*, which had made it illegal for Africans to own land in urban areas;
- The *Group Areas Act*, which had segregated people by race; and
- The *Population Registration Act* assigned every resident of South Africa to a specific racial group.

The pace of change was so rapid that many within the Afrikaner community questioned the wisdom of de Klerk’s moves, and he came under increasing attack from right-wing proponents of a return to apartheid. For most critics of apartheid, however, the pace of change was not fast enough. They wanted to see apartheid not reformed, but overthrown entirely.
From the end of 1991 onward, government negotiators met regularly with representatives from other political organizations to discuss ways in which some form of democracy could be introduced and the remaining structures of apartheid dismantled. Those involved called their forum the *Convention for a Democratic South Africa* (Codesa). The negotiations were neither clear-cut nor easy, in part because each participating group brought a different past and different demand to the bargaining table. An official commission of inquiry in 1990, for example, found evidence that de Klerk’s government had turned a blind eye to clandestine death squads within the security forces that were responsible for the deaths of many opponents of apartheid.

The ANC’s armed struggle against apartheid also lingered in popular memory during the negotiations. ANC leader, Mandela, raised fears among white businessmen with talk about the need for the nationalization of industries and for the redistribution of wealth to the victims of apartheid. Yet there was more common ground than difference in Codesa. De Klerk and Mandela and their respective supporters were united in the belief that continued violence would destroy all hope of economic recovery.

Winnie Mandela, long a proponent of more radical solutions to the problems of poverty and discrimination in South Africa, saw her influence decline as her marriage to Mandela fell apart. Nor did the PAC, long an adherent of the view that South Africa was a black man’s country, in which whites were merely guests, win much support for its continued support of armed struggle and its slogan, “One settler, one bullet.”

The members of Codesa increased the pace of negotiations and of plans to implement the interim constitution. South Africa was to have a federal system of regional legislatures, equal voting rights regardless of race, and a bicameral legislature headed by an executive president. The negotiators also agreed that the government elected in 1994 would serve for five years, and that a constitutional convention, sitting from 1994 onward and seeking input from all South Africans, would be responsible for drawing up a final constitution.

On the 16\textsuperscript{th} of April 1994, more than 19 million South Africans, roughly 91 percent of registered voters, went to the polls, most for the first time, and elected South Africa’s first democratic government. The establishment of a government of national unity led by the
African National Congress (ANC), under the presidency of Nelson Mandela, signalled emphatically the demise of apartheid and the return of South Africa from the pariah status it had occupied for decades to a respected place in the world community.

Most participants viewed the election in April 1994 as a remarkable success. Although several parties, especially the Inkatha Freedom Party (IFP), had threatened to boycott the election, in the end no significant groups refused to participate. The polling was extended to four days to allow for logistical and bureaucratic problems.

In the end, it was carried out peacefully, for the most part, and there were few complaints of interference with anyone’s right to vote. No political party got everything that it wanted. The ANC won nearly 62.6 percent of the vote, but it did not get the two-third’s majority needed to change unilaterally the interim constitution, and it therefore had to work with other parties to shape the permanent constitution. The NP, as expected, no longer led the government, but it did succeed in winning the second largest share of votes, with 20.4 percent. The IFP did not do well nationally, but with a much stronger base of support in KwaZulu-Natal than most commentators expected, it came in third, with 10.5 percent, and won for Buthelezi control of the provincial government. The Freedom Front, a right-of-centre, almost exclusively white party led by former members of the security establishment, got 2.2 percent of the votes; the PAC, appealing solely for the support of blacks, won 1.2 percent. The National Assembly unanimously elected Nelson Mandela president on 9 May 1994. Thabo Mbeki, deputy leader of the ANC, and F.W. de Klerk was named deputy presidents. South Africa had made a peaceful political transition from an apartheid police state to a democratic republic.

The Constitutional Court approved the new (“final”) constitution, intended to govern after the five-year transition. President Mandela signed the new Constitution of South Africa (Act108 of 1996) into law on December 10, 1996, and the government began phasing in provisions of the new document in February 1997. The final constitution
contains a Bill of Rights, modelled on the chapter on fundamental rights in the interim constitution. It also ends the power sharing requirements that were the basis for the Government of National Unity under the interim constitution.

South Africa conducted its first post-apartheid census in October 1996. The process of enumeration proved even more difficult than expected, in part because provincial governments are still establishing their functions and authority, and administrative boundaries are still in dispute in a few areas.

The government has made substantial progress in expanding social services, health care, and education. The demand for housing is proving particularly difficult to meet; foreign construction firms are participating in the effort, and the pace of new home construction has increase steadily. The campaign against AIDS continues to be mired in political debate, funding controversies, and personal acrimony.

The Truth and Reconciliation Commission heard more than 2,000 testimonials and received nearly 4,000 applications for amnesty for acts committed during the apartheid era.

Levels of foreign investment have lagged behind that needed for economic growth, and the government offered incentives to increase foreign participation in South Africa's business and manufacturing sectors. The Ministry of Finance outlined new economic strategies aimed at liberalizing foreign-exchange controls and imposing stricter fiscal discipline, in a framework document entitled *Growth, Employment and Redistribution*. 
Chapter 2

GEOGRAPHY

The Republic of South Africa occupies the southernmost tip of the African continent and covers a total surface area of **1 219 090 km²**. The countries of Zimbabwe, Mozambique, Namibia, Botswana and Swaziland share common boundaries with South Africa. The Mountain Kingdom of Lesotho (www.lesotho.gov.ls) is completely enclosed by South Africa.

![South Africa Map](image)

**Figure 3: South Africa**
South Africa is surrounded on three sides by the ocean. To the West, South and East South Africa borders on the Atlantic and Indian Oceans and has a coastline of almost 3 000 km. The coastline itself is an even, closed one, with few bays and natural suitable harbours. Most river-mouths are unsuitable for harbours as large sandbars block the entry for most of the year and for this reason the country has no navigable rivers, such as in Europe. The Great Escarpment forms the most prominent boundary between the two major physiographic categories in the country.

The Great Escarpment forms a natural boundary between the interior plateau and the land between escarpment and the coast. The interior plateau is characterised by wide-open plains with an average height of 1 200 meters above sea level. The highest point on the Great Escarpment is the Drakensberg mountain range in Kwazulu-Natal and measures 3 482 meters above sea level. The land bordering on the coast is an area that varies in width from 80 to 240 km in the east to a mere 60 to 80 km in the west.

The subtropical location of South Africa accounts for the warm temperate climate conditions. The presence of oceans on three sides has a moderate influence in the countries climate. The average annual rainfall is 464 mm, compared to the world average of 860 mm. The Western Cape Province has the highest average rainfall in the winter months (winter rainfall district) whereas the average highest rainfalls in the other provinces are during the summer months (summer rainfall areas).

Three main features characterizes the temperature conditions. Due primarily to the greater elevation the temperatures tend to be lower than other regions at similar latitude, for example, Australia. Owing to the increase in height of the plateau towards the northeast and despite a latitudinal span of 13° the average annual temperature is remarkable uniform. There is also a striking difference in temperatures between the east and west coasts. In summer temperatures of above 32 °C is fairly common and temperature of above 40°C is not unheard of. South Africa is famous for its sunshine. April and May are the most pleasant holiday months, with the end of the rainfall season in the summer rainfall regions, before the rainfall season begins in the winter rainfall regions.
Chapter 3

Provincial Overview and Demographics

Figure 4: South African Provinces
The implementation of the New Constitution in 1996 saw South Africa divided into nine new provinces. Each new Province having its own Legislature, Premier and Provincial Members of Executive Councils as explained in Chapter 5.

The nine provinces listed below in order of ascending land size.

Please note: National Health issues such as the impact of HIV infection and AIDS on the population development and work productivity are not mentioned here as no consensus has been reached on this contentious issue. The author urges the reader to take note of this fact and the possible consequences these issues might have.

3.1 **Gauteng (17 010 km²)**

- **Provincial Capital:** Johannesburg
- **Population:** 7,35 million
- **% of total SA land area:** 18,1%
- **Population density:** 432,1 persons/km²
- **Principal languages:**
  - IsiZulu 21,5%
  - Afrikaans 16,7%
  - English 13%

Gauteng is the smallest of South Africa’s provinces but in contradiction to its size it is certainly the most important province with regards to the economy. It is here, in Johannesburg, were gold was discovered in the 1880’s.

Gauteng is a colourful, polluted, vibrant and dynamic province. Johannesburg can most rightfully be called the gold capital of the world. Gauteng is the richest province in the country. It generates about 37,7% of South Africa’s GDP (Gross domestic product).

The province is home to 7,35 million persons, which is 18,1% of the population of South Africa. This is the most densely populated province in South Africa with a density of 432,1 persons/km², followed by Kwazulu-Natal with only 91,4 persons/km². The rate of urbanisation has been calculated at 97%.
Most overseas visitors enter South Africa via Johannesburg International Airport in Kempton Park, Johannesburg. This airport was originally named after General Jan Smuts and is thus still known to most South Africans as Jan Smuts International.

Pretoria, the capital of South Africa, is situated 50km north of Johannesburg. Pretoria is also the administrative capital of South Africa. The pace in the city is relaxed and pervaded by a sense of history. Many buildings of historical and architectural importance have been retained here.

Important Gauteng towns include the West Rand towns of Krugersdorp and Roodepoort; and the East Rand towns of Germiston, Springs, Boksburg, Benoni, Brakpan and Kempton Park. North of Pretoria is the industrial area of Rosslyn as well as Soshanguve, and Cullinan, known for its diamonds.

More than 60% of South Africa’s research and development takes place in Gauteng. Pretoria houses a number of very important scientific institutes and also boasts the largest residential university in South Africa, The University of Pretoria and potentially the largest correspondence university in the world, the University of South Africa (UNISA). Johannesburg has two residential universities, The University of the Witwatersrand and The Rand Afrikaans University. The province also boasts several teachers training colleges and technikons. [Please take note: These national training institutions are being reorganised as from 2004, the new structures have not been finalised at the time of writing.]

3.2 Mpumalanga (79 490 km²)
- Provincial Capital: Nelspruit
- Population: 2,8 million
- % of total SA land area: 7,0%
- Population density: 35,2 persons/km²
- Principle Languages
  - SisSwati 30%
  - IsiZulu 25,4%
  - IsiNdebele 12,5%
The name Mpumalanga means “the place were the sun rises”. Mozambique, Swaziland and Gauteng border it. The province has an excellent infrastructure of roads, small airports and railway connections, making it highly assessable. Mpumalanga province is very popular with tourists.

Nelspruit is the capital, the administrative centre of the province and is responsible for a third of the country’s export in oranges. Witbank is the centre of the coal mining industry. Standerton is renowned for its dairy industry. Piet Retief is a production area for tropical fruit and sugar. A large sugar industry is also found in Malelani. Ermelo produces the most wool in South Africa, Barberton is the oldest gold mining town, and Sabie and Graskop are known as the forestry heartland of the country. The plantations are an ideal backdrop for ecotourism opportunities for the province. Groblersdal is an important irrigation area that produces a wide variety of products such as citrus, cotton, tobacco, wheat and vegetables.

3.3 Kwazulu Natal (92 100 km²)

- Provincial Capital: Pietermaritzburg
- Population: 8,42 million
- % of total SA land area: 20,7%
- Population density: 91,7 persons/km²
- Principle languages:
  - IsiZulu 80%
  - English 16%
  - Afrikaans 2%

Pietermaritzburg is the capital of the province. Visitors to the province can either disembark at Durban International Airport; harbours, or make use of the extensive national road network. Durban is one of the fastest growing areas in the world, boasts the busiest harbour in South Africa and is one of the 10 largest harbours in the world.

Other important towns include Richards Bay, an important coal export harbour, and many coastal holiday resorts. Eshowe is the centre of the sugar cane and forestry industries. Newcastle is known for steel production and coal mining.
Kwazulu-Natal has the second largest population density in South Africa. Amongst its assets, the province can boast several universities, technikons and various other educational institutions.

3.4 **North West (116 320 km²)**

- **Provincial Capital:** Mafikeng
- **Population:** 3,36 million
- **% of total SA land area:** 8,3%
- **Population density:** 28,8 persons/km²
- **Principle languages:**
  - Setswana 67,2%
  - Afrikaans 7,5%
  - IsiXhosa 5,4%

North-West is one of the smaller provinces and is the least densely populated in the country. It is completely landlocked and it has no major airports, but has strong functional links with Gauteng. Some of the main tourism attractions are the Pilansberg National Park, the Madikwe Game Reserve, Sun City and the Lost City.

The province has two universities; Potchefstroom University and The University of the North-West. Apart from being the most important food basket of South Africa, it produces crops of tobacco, citrus, paprika, wheat, peppers, cotton and sunflowers.

Mining plays the dominant role in the economy of the province and it is this industry that employs a quarter of the total labour force. Diamonds and gold is also mined in this province. The area surrounding Rustenburg and Brits is the single largest platinum production area in the world and also supplies marble. Fluorspar is mined at Zeelust.

North-West’s economy, with the exception of the mines, is further characterised by small, medium and micro-enterprises.
3.5 **Limpopo Province (123 910 km²)**

- **Provincial Capital:** Pietersburg
- **Population:** 4,93 million
- **% of total SA land area:** 12,1%
- **Population density:** 39,8 persons/km²
- **Principal languages:**
  - Sepedi 52,7%
  - Xitsonga 23%
  - Tshivenda 15,5%

The Limpopo province is the gateway to the rest of Africa. It is favourably situated for economic co-operation with parts of southern Africa, as it shares borders with Botswana, Zimbabwe and Mozambique. The Gateway International Airport at Pietersburg is being developed as a major economic growth project, to be a gateway to the rest of the continent.

A major new road route will be the Maputo Corridor linking the province directly with the Mozambique port of Maputo. Some of the produce of the province include sunflowers, cotton, maize, nuts, tea, coffee, peanuts, grapes and tropical fruits such as bananas, litchis, pineapples, mangoes and paw-paw.

The Limpopo province is rich in minerals, including copper, asbestos, coal, iron ore, platinum, chrome, diamonds and phosphates.

The province is a typical developing area; exporting primary products and importing manufactured goods and services. Resources such as tourism, rain-fed agriculture, minerals and the abundant labour force available in the province, are far from optimally utilised. It thus has much potential and capacity with the right kind of economic development and is a very attractive location for investors.
3.6 Western Cape (129,370 km²)

- Provincial Capital: Cape Town
- Population: 3.96 million
- % of total SA land area: 9.7%
- Population density: 30.6 persons/km²
- Principle languages:
  - Afrikaans 59.2%
  - English 20%
  - IsiXhosa 19.1%

The Western Cape is situated on the southwestern tip of the African continent. It is a region of folded mountains, well-watered valleys, wide beaches, and breathtaking scenery.

The cold Atlantic Ocean along the west coast is plankton-rich and supports rich fishing area, some consider it to be one of the richest fishing grounds in the world. The warm Indian Ocean skims the southern beaches of the Western Cape, making it attractive to the tourism sector.

Visitors can disembark at Cape Town International Airport or at the Port of Cape Town. A network of roads also leads to Cape Town, which is also the capital of the province.

Other areas of importance in the Western Cape include Saldana for Iron exports and fishing industry; Stellenbosch and Worcester for wine; George for indigenous timber and vegetable products, Oudtshoorn for ostrich products; and the Great Karoo for sheep farming. Knysna-Tsitsikamma has South Africa’s largest indigenous forest. The province is not rich in minerals, although its agricultural and fisheries potential more than make up for this.

The Western Cape has many higher education institutions, amongst other three universities (Cape Town, Stellenbosch, Western Cape), two technikons and many training institutions.
3.7 **Free State (129 480 km$^2$)**

- **Provincial Capital: Bloemfontein**
- **Population: 2,63 million**
- **% of total SA land area: 6,5%**
- **Population density: 20,3 persons/km$^2$**
- **Principle languages:**
  - Sesotho 62,1%
  - Afrikaans 14,5%
  - IsiXhosa 9,4%

The Free State lies in the heart of South Africa and is known for its immense rolling prairie, chequered with farmlands for as far the eye can see. Bloemfontein is the capital of the province and has a well-established judicial, intuitional and administrative infrastructure. It is the third-largest province in the country but it has the second-smallest population and second-lowest population density.

The road network density is the third highest in the country and the main national artery which connect Cape Town with the interior provinces of Gauteng and the Eastern Cape. Welkom, one of the few completely pre-planned cities in the world, is situated in the Free State and it is also in the heart of the gold fields. Sasolburg was established to produce a petrol-from-coal installation. In the Ficksburg district more than 90% of the country’s cherry crop is produced. Soya, sorghum, sunflowers and wheat are also cultivated in the province. 40% of the country’s potato production comes from the Free State.

Roughly 30% of South Africa’s gold is mined in this province, making it the fifth largest in the world in gold production. Gold mines in the Free State also supply a good proportion of silver, whilst considerable concentrations of uranium are extracted as a by-product. Bituminous coal is mined in the province and converted to petrochemical products at Sasolburg. Diamonds extracted from the kimberlite pipes and fissures are of very high quality. The largest deposits of bentonite in the country also occur here.
3.8 Eastern Cape (169 580 km²)

- Provincial Capital: Bisho
- Population: 6,30 million
- % of total SA land area: 15,5%
- Population density: 37,2 persons/km²
- Principle languages:
  - IsiXhosa 83,8%
  - Afrikaans 9,6%
  - English 3,7%

The Eastern Cape boasts a remarkable natural diversity, ranging from the dry desolate Great Karoo to the lush forest of the Wild Coast. Algoa Bay provides an ideal setting for the Port of Port Elizabeth.

The capital of the Eastern Cape is Bisho; Uitenhage is known for its motor vehicle manufacturing and related industries, King Williams Town for its rich history in military and early settlers; Grahamstown as the city of saints (for it has more than 40 churches) and Graaff Reinet for its historical buildings.

The Eastern Cape is not rich in minerals, but has large agricultural and forestry potential. Other produce and industries common in the province are fruit and sheep farming, pineapples, chicory, dairy products, coffee and tea.

The province has no less than five universities, three technikons and twenty technical colleges. The metropolitan economies of Port Elizabeth and East London are based primarily on manufacturing, the most important being motor-manufacturing. With two harbours, four airports, three of which offering direct flights to the main centres, a planned international airport in Port Elizabeth, and an excellent road and rail infrastructure, the province has been earmarked as a priority for growth and economic development. To facilitate integrated planning, sensitive to the environment, the province is implementing a consultative process involving community participation that includes two spatial development initiatives (SDI’s); the Fish River SDI and the Wild Coast SDI,
two Industrial Development Zones (IDZ’s); the Coega IDZ and the West Bank IDZ, and numerous substructure and structure plans

3.9 **Northern Cape (361 830 km²)**
- **Provincial Capital:** Kimberly
- **Population:** 0,84 million
- **% of total SA land area:** 2,1%
- **Population density:** 2,3 persons/km²
- **Principle languages:**
  - Afrikaans 69,3%
  - Setswana 19,9%
  - IsiXhosa 6,3%

The Northern Cape Province region covers the largest area of all the provinces and is the most scarcely populated province.

The major airports are situated at Upington and Kimberly, the capital of the province. The province is serviced by an excellent road and rail network, which makes the interior easily accessible from all of South Africa’s major cities, harbours and airports. Some of the well-known industries in the province concentrate around sheep farming, grape cultivation and fruit growing. There are also producers of wheat, peanuts, maize and cotton.

The Northern Cape is extremely rich in minerals. South Africa’s chief diamond pipes are found in the Kimberley district. In 1888, the diamond industry was formally established with the creation of De Beers Consolidated Mines. Alluvial diamonds are also extracted from the beaches and sea between Alexander Bay and Port Nolloth. The Sishen Mine near Kathu is the largest source of iron ore in South Africa. Copper is mined at Springbok and Aggeneys and the oldest mines in the country can be found int Okiep are one of the oldest mines in the country. Copper is also mined at Springbok and Aggeneys.

This province has no noteworthy tertiary institutions.
Chapter 4

Government Structure

and Functions

Legislative Authority

Parliament
- National Assembly
  (350-400 members)
- National Council of Provinces
  (90 delegates)

Mediation Committee

Executive Authority

Cabinet
- President
- Deputy President
- Ministers

Deputy Ministers

Judicial Authority

Constitutional Court
- Supreme Court of Appeal
- High Courts
- Magistrates’ Courts

State Institutions supporting Constitutional Principles
- Public Protector
- Human Rights Commission
- Commission for the Promotion and Protection of the Rights of Cultural, Religious and Linguistic Communities
- Auditor-General
- Independent Authority to Regulate Broadcasting

Provincial Government

Eastern Cape
Northern Cape
Western Cape
Northern Province
KwaZulu-Natal
North West
Free State
Gauteng
Mpumalanga

Legislative Authority

Provincial Legislature

Executive Authority

Executive Council
- Premier
- Members of Executive Council

Municipalities/Municipal Councils (Metropolitan/Local Councils)
The Constitution of the Republic of South Africa was approved on 4 December 1996 and took effect on 4 February 1997. The Constitution is the supreme law of the land and is one of the most progressive in the world. The South African Constitution enjoys high acclaim internationally and aims to:

“Heal the divisions of the past and establish a society based on democratic values, social justice and fundamental human rights; improve the quality of life of all citizens and free the potential of each person; lay the foundations for a democratic and open society in which government is based in the will of the people and every citizen is equally protected by law; build a united and democratic South Africa able to take its rightful place as a sovereign State in the family of nations”

South Africa is a constitutional democracy utilizing a three-tier system of Government. The tiers are: the Legislative-, Executive- and Judiciary-Authority government. The Constitutional Court ensures adherence to the Constitution.

The Judiciary system is a completely independent authority. The national, provincial and local levels of government all have legislative and executive authorities of their own that are distinctive, interdependent and interrelated.

4.1 **National Government**

On National level the Legislative Authority lies with the Parliament. Parliament consists of two houses namely:

a) The National Assembly consisting of between 350 and 400 members elected by common voters role for terms of five years. Political party representation is proportioned to the outcome of the national elections held every five years.

b) The National Council of Provinces (NCOP) consists of 54 parliament members and 36 special delegates. An elected chairperson resides over the NCOP. The NCOP is there to achieve a co-operative governance and participatory democracy. Each province sends ten representatives to the
NCOP (six permanent and four special delegates. These delegates are headed by the premier or designate person of each province).

The Executive Authority on National level lies with the Cabinet and consists of:

☼ **The President**: The executive Head of State is the President who also leads the Cabinet. The President elected for five-year terms and may not serve more than two five-year terms in office.

☼ **The Deputy President**: The President appoints the Deputy President. He or she assigned their powers and functions by the President and he may dismiss them.

☼ **The Ministers**: Also appointed by the President and assigned their powers and functions by him. All but two Ministers selected from the members of the National Assembly.

The members of the Cabinet are accountable individually and collectively to Parliament. The President appoints the Deputy Ministers from amongst the members of the National Assembly.

### 4.2 Provincial Government

On Provincial level the Legislative Authority lies with the Provincial Legislature.

Provincial legislature in each province consists of between 30 and 80 members. The number being determined in terms of a formula set out in national legislation. Members are elected to the provincial legislature in terms of proportional representation, same as for national level.

On Provincial level the Executive Authority consists of the Premier and the Members of the Executive Council. The Provincial Legislature of the respective province elects the Premier of each province.

Note: In South Africa there are State Institutions that were created to support and maintain constitutional democracy. They are the Public Protectors.
These State Institutions are:

- 3) The Commission for Gender Equality (www.cge.org.za)
- 4) The Auditor-General (www.agsa.co.za)
Chapter 5

ECONOMY

The ECONOMY of South Africa is the strongest and most advanced on the continent of Africa. It comprises of a sophisticated “First World” economy coexisting with an underdeveloped subsistence economy. South Africa is blessed with a wealth of natural resources, a well-developed financial and physical infrastructure, energy supply networks and a good telecommunications network. The country displays many world-class features and its economy and society is very much internationally orientated whilst still maintaining its strong sense of cultural heritage.

South Africa boasts with one of the top 10 stock exchanges in the world, the Johannesburg Stock Exchange commonly known as the JSE (www.jse.co.za). Certain
South African companies are competitive with the world’s best and biggest, some are even the leaders in certain sectors. The economy is based on free market principles and the financial, commercial and industrial standards and customs should be familiar to investors from the US, Europe, Australia, Japan and Asia.

The current challenge facing the South Africa is to further increase the levels of investment so as to encourage economic growth that will in turn reduce the country’s unemployment levels and further increase development within key sectors. Continental and regional political instability sometimes negatively affects investor’s perceptions, but South Africa as a whole has repeatedly been commended for its macroeconomic policies. South Africa is a leader amongst the emerging markets of the world. It is a competitive producer of, not only raw commodity export goods but, also high value added goods such as motor vehicles.

Up to date economic and financial indicators are obtainable from the Reserve Bank of South Africa [www.reservebank.co.za](http://www.reservebank.co.za) or [www.sarb.co.za](http://www.sarb.co.za).

Please Note:

The information listed was correct at the time of writing, dated December 2004. As with any healthy economy South Africa’s economy is constantly moving and changing. It is thus not possible to always present up to date figures in this document.

5.1 Interest rates

5.1.a Repo Rate

The Repo Rate (or purchasers rate) is the interest rate at which the South African Reserve Bank (SARB, [www.reservebank.co.za](http://www.reservebank.co.za)) lends money to the commercial banks. The Repo rate replaced the Bank Rate, which was a rigid rate. The Repo Rate in comparison is a variable rate and is reviewed regularly. This rate is far more flexible and is determined by the banks need for funds (market). The repo rate affects the level of short-term market rates and is directly linear to the interest rate at which the banks lend money to their customer. In other word if the repo rate raises the banks interest rate increases also.
Mr TT Mboweni is currently the Governor of the Reserve Bank of South Africa. Current Repo rates and the up-to-date Statements of the Monetary Policy Committee are available on the SARB website, www.sarb.co.za.

- **Dates of change in the Repo Rate (Purchaser Rate):**

  - 2001/09/21 9.50%
  - 2002/01/16 10.50%
  - 2002/03/15 11.50%
  - 2002/06/14 12.50%
  - 2002/09/13 13.50%
  - 2003/06/13 12.00%
  - 2003/08/15 11.00%
  - 2003/09/11 10.00%
  - 2003/10/17 8.50%
  - 2003/12/12 8.00%
  - 2004/08/13 7.50%

### 5.1.b Prime Interest Rate

The Prime Interest Rate is set by the commercial banks (whereas the repo rate is set by the Reserve Bank). This rate is used as reference point for interest charged on any mortgage, personal, and business loans, as well as interest paid on deposits and investment certificates. Currently the prime interest rate as set by the commercial banks is 11.5%. And it is expected to remain unchanged for the remainder of the year 2004 (unless something drastic happens to oil and Rand prices). It is still unclear whether this figure will remain unchanged or be increased during 2005, much depends on global developments and how these impact South Africa.

There are a number of commercial banks in South Africa, most of them also trade internationally and are therefore equipped to deal with international transactions and clients. Four of these banks are ABSA Bank (www.absa.co.za), First National Bank (FNB, www.fnb.co.za), Nedbank (www.nedbank.co.za) and Standard Bank (www.standardbank.co.za). The commercial banks of South Africa determine the Prime Lending rates individually, although they are generally the same.
Latest Prime Interest Rates date and changes courtesy of FNB and ABSA

- 2001/09/25 13.00%
- 2002/01/17 14.00%
- 2002/03/18 15.00%
- 2002/06/17 16.00%
- 2002/09/17 17.00%
- 2003/06/13 15.50%
- 2003/08/15 14.50%
- 2003/09/11 13.50%
- 2003/10/17 12.00%
- 2003/12/12 11.50%
- 2004/08/13 11.00%
Graph 1: Comparative Rates Graph: Repo Rate vs Prime Lending Rate

Comparative Rates Chart: Repo Rate vs Prime Lending Rate

<table>
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<th>FNB Prime Lending Rates</th>
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<tr>
<td>2010/12/13</td>
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<td>25.0</td>
</tr>
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</table>

Graph 1: Comparative Rates Graph: Repo Rate vs. Prime Lending Rate
5.2 **The Consumer Price Index**
Changes in the Consumer Price Index (CPI) is a measure for changes in national consumer prices. The CPI is measured monthly by Statistics South Africa [www.statssa.gov.za](http://www.statssa.gov.za).

They base this figure on a “standard basket” of consumer goods and services. Regular surveys of consumer buying preferences gives the bases for the composition of the basket and the weighting the different items in the basket.

The CPI history (PDF format) from 1975 to March 2004 is given as attachment.

5.3 **CPIX**
The CPIX is the consumer price inflation excluding mortgage rates (in other words the CPI excluding the interest on mortgage bonds).

It is a particular measure of prices used by government to set its inflation target with the main objective to reduce inflation and thus stop prices from increasing too fast.

The current target set by government is to keep inflation between 3% and 6% a year.

Note that the CPIX is not only the average of prices measured in the metropolitan areas but in other urban areas as well.

The CPIX history (PDF format) from 1997 to March 2004 is given as attachment.

5.4 **Inflation Rate**
South Africa’s official inflation rate is measured as the percentage change in the CPI from the main metropolitan areas between the survey month and the same month the previous year. This figure is often called the “**Headline CPI**”.

Current inflation rates can be viewed on the SARB website [www.reservebank.co.za](http://www.reservebank.co.za).

On the next page is a comparative graph CPI inflation to the Repo Rate:
Graph 2: South African Prime Rate vs. CPI Inflation
5.5 **Real Gross Domestic Product**

The following information on the next few pages have been extracted from the South African Yearbook 2002, 2003 and 2004. Copies of these complete reports can be viewed as attachments to this report. This original data was sourced from the South African Reserve Bank.

![Graph 3: Real Gross domestic Product (GDP)](image)

The above graph shows the percentage change of the domestic output at annualised rates for the Primary-, Secondary and Tertiary sectors in South Africa from 1999 to 2002.

Tertiary sectors are the Agriculture and Mining sectors. Secondary Sectors are the manufacturing sectors.
5.6 **Real Gross Domestic Expenditure**

The above graph shows the percentage change at annualised rates for the Real domestic expenditure broken down into the relevant components for the years from 1999 to 2002. Domestic final demand has increased since 1999, so too has the final consumption expenditure by government. But in the last three years until 2002, final consumption expenditure by household have remained mainly constant.
5.7 GDP by Activity

This graph shows the Gross Domestic Product by the type of economic activity as indicated in the legend, at the current prices and at basic prices for the years 1997 to 2001. Information up to 2004 was not available at time of this report.

The total (GDP at basic prices) has shown a steady increase, although this can mainly be contributed to the increase in agriculture, forestry, fishing and manufacturing. Activities
such as construction, mining and quarrying has remained mainly constant, although the
new figures to be released later this year should reflect a dramatic growth in these activities.

5.8 Production and Consumer Price Indices

This graph shows the production and consumer price indices of goods for domestic use
from 1994 until 2002. The year 2000 was taken as the baseline. Information for 2003 and
2004 was not yet available at time of this report.

The graph shows clearly that there has been a steady increase in the goods produced in
South Africa since 1994. This can also be seen with the other prices for services, goods
imported and all other goods. The conclusion is that the South African economy has
shown a steady increase in the last few years and the expectation is that this growth will
continue.

This bodes well for the South African economy and entities wishing to invest.
Chapter 6

TOURISM

The information on the next few pages have been extracted from the South African Tourism Report of 2003 as published in October 2004. Copies of the complete report, as well as the reports of the previous few years and other interesting and relevant information can be viewed as attachments to this report.

(Please find these attachments on the compact disk as attached to this report).

The Tourism files may also be viewed on www.southafrica.net.
6.1 **Global Tourism in 2003**

In the Global arena South Africa is faring very well if taken that some of South Africa’s closest competitors have shown a negative growth rate for 2003.

South Africa’s tourism growth rate increased by 1.2% from the last recorded year 2001, the reasons for the lower rate than 2001 (11.2%) was cited as terrorism, war, SARS and the poor global economy.

In general the tourism growth rate has shown a positive growth trend in the past ten years.

This is interesting if taken into context by the general decrease of foreign tourism to most countries that competed directly with SA. This can be more clearly shown in the accompanying graph below:
Graph 8: Global Tourism Arrivals change over 2002

<table>
<thead>
<tr>
<th>Country</th>
<th>International tourist arrivals (000's)</th>
<th>% change over 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>4,002</td>
<td>11.70%</td>
</tr>
<tr>
<td>South Africa</td>
<td>6,504</td>
<td>1.20%</td>
</tr>
<tr>
<td>USA</td>
<td>42,166</td>
<td>0.60%</td>
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<tr>
<td>Mexico</td>
<td>19,099</td>
<td>-2.90%</td>
</tr>
<tr>
<td>Australia</td>
<td>4,584</td>
<td>-5.30%</td>
</tr>
<tr>
<td>Thailand</td>
<td>10,201</td>
<td>-6.20%</td>
</tr>
</tbody>
</table>
Ranked on a global scale, South Africa was placed 30th in 2002, as can be seen on the table below. The international tourism figures for the other 29 major travel destinations are given below:

Table 1: International Tourist Arrival in 2003

<table>
<thead>
<tr>
<th>Rank</th>
<th>International tourist arrivals in 2003 (’000)</th>
<th>% change over 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>France</td>
<td>76,895.00</td>
</tr>
<tr>
<td>2</td>
<td>Spain</td>
<td>52,886.10</td>
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<tr>
<td>3</td>
<td>USA</td>
<td>42,166.00</td>
</tr>
<tr>
<td>4</td>
<td>Italy</td>
<td>33,546.90</td>
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<tr>
<td>5</td>
<td>China</td>
<td>30,050.10</td>
</tr>
<tr>
<td>6</td>
<td>United Kingdom</td>
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<tr>
<td>7</td>
<td>Russia</td>
<td>24,360.00</td>
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<td>8</td>
<td>Canada</td>
<td>19,367.00</td>
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<tr>
<td>9</td>
<td>Mexico</td>
<td>19,049.00</td>
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<tr>
<td>10</td>
<td>Austria</td>
<td>18,074.20</td>
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<tr>
<td>11</td>
<td>Germany</td>
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<td>12</td>
<td>Hungary</td>
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<td>Greece</td>
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<td>Turkey</td>
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<td>15</td>
<td>Poland</td>
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<td>16</td>
<td>Malaysia</td>
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<td>17</td>
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<td>6,637.00</td>
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<td>30</td>
<td>South Africa</td>
<td>6,594.89</td>
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This page shows the figures for the years 2002 and 2003 in table form of some of the other major tourism destinations in the world (as extracted directly from the SA Tourism Report 2003).

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<th>Inbound arrivals to South Africa - 2002</th>
<th>Inbound arrivals to South Africa - 2003</th>
<th>Outbound Departures 2002</th>
<th>Outbound Departures 2003</th>
<th>South Africa's market share in 2002</th>
<th>South Africa's market share in 2003</th>
<th>Δ Change in market share</th>
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<td>Germany</td>
<td>246,990</td>
<td>257,518</td>
<td>70,372,000</td>
<td>69,897,000</td>
<td>0.35%</td>
<td>0.37%</td>
<td>5.3%</td>
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<td>Italy</td>
<td>47,756</td>
<td>49,816</td>
<td>20,778,000</td>
<td>21,584,000</td>
<td>0.23%</td>
<td>0.23%</td>
<td>4.4%</td>
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<td>110,389</td>
<td>120,833</td>
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<td>16,085,000</td>
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<td>0.75%</td>
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<td>14,907</td>
<td>16,387</td>
<td>1,293,000</td>
<td>1,350,000</td>
<td>1.15%</td>
<td>1.21%</td>
<td>5.4%</td>
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<td>China excl. Hong Kong</td>
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<td>16,522,000</td>
<td>13,056,000</td>
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<td><strong>Americas</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>182,591</td>
<td>187,447</td>
<td>50,398,000</td>
<td>54,114,000</td>
<td>0.32%</td>
<td>0.35%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Canada</td>
<td>33,684</td>
<td>34,682</td>
<td>17,705,000</td>
<td>17,891,000</td>
<td>0.19%</td>
<td>0.19%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Brazil</td>
<td>16,187</td>
<td>17,452</td>
<td>1,960,000</td>
<td>2,258,600</td>
<td>0.09%</td>
<td>0.77%</td>
<td>-7.1%</td>
</tr>
</tbody>
</table>

Graph 9: Outbound Departures 2002, 2003
6.2 South African International Tourism

6.2.a Growth in Tourism

Graph 10: Tourism Growth in South Africa

In 2002, 23.6% of the total amount of foreign visitors were first time visitors, but in 2003 this has increased to 51%!

As can be seen above there has been a marked and steady increase in the numbers of international tourist to South Africa since the 1990’s. This trend is not expected to decrease in the next few years. The reason for this expectation is amongst others the winning of the prestigious bid to host the 2010 Football World Cup and the stable political
and economical situation. (The totals for the years 1986 to 1996 were rounded off to the nearest 100 000 in the above graph).

6.2.b Purpose of visits

Graph 11: Purpose of Visit

(VFR = visits to friend and relatives)

Most foreign visitors still come to SA for holiday purposes and shopping. It is noticeable that there has been a decrease in the holiday related visits in 2003 compared to 2002, and an increase in most of the other segments.

6.2.c Tourism Source Markets

As can be seen there from next graph [below] there is a high number of visitors from neighbouring countries, such as Lesotho, Swaziland and Botswana. This is most likely due to cross-border shopping and migrant workers to South Africa.

The graph shows the top 20 origin countries, worldwide, for visitors to South Africa. This is including African countries as well from Europe and America. The top positions are filled by African based countries.
The top 20 overseas (i.e. not on the African continent) is given in the graph below. It can be seen that the United Kingdom, Germany and the USA take up the three main positions. With the Netherlands taking fifth position.
6.2.d  Provincial distribution of visitors

The above graph show the distribution of Foreign tourism over the nine different provinces. The nine provinces are summarised in Chapter 3.

More than half the total visitors tend to stay over in Gauteng and the Western Cape Provinces. There has been a 6% increase in the number of bednights in the Western Cape since 2002. The reason for the high rate in Gauteng is due to most of the foreign business visits taking place in Gauteng (See chapter on provincial overview, Chapter 3, for details). Therefore a high bednight rate can be expected for this province.
Chapter 7

Business Entities in South Africa
The forms of business entities found in South Africa comprises of; Companies, Close Corporations, Partnerships (Joint Ventures), Sole Proprietorships, Non-profit organisations and Trusts [Co-operatives are also found but usually only in agricultural sector, but most have converted to companies].

7.1 Companies

Companies in general, must all have annual general meetings that are held within 15 months of the date of the previous meeting. The first meeting must be held within 18 months of the company staring up. An annual return must be submitted to the Registrar (CIPRO).

In accordance to the Companies Act 61 of 1973 (www.acts.co.za, and attached) companies are subdivided in to three main types:

7.1.a Limited Liability Company

The Limited Liability Company is the most common form of business entity in South Africa. These companies can either be limited by guarantee or limited by shares.

Companies limited by guarantee must end with the words “Limited (Limited by Guarantee)”. These companies are normally “not-for-profit” organisations such as for charity or educational interests.

Companies limited by shares can be either Public (ending with the words “Limited”) or Private companies (ending with the words “(Proprietary) Limited” or in abbreviated form “(Pty) Ltd”)

For private companies:

- The right to transfer shares are restricted.
- The number of members is restricted.
- The public may not be offered any shares.
- There are a minimum of one and a maximum of fifty shareholders.
- There must be a minimum of one director.
- The private company does not have to make information known to the public.
Public companies are not restricted by the same measures as private companies.

- They may offer shares to the public,
- There is no limit to the number of shareholders;
- There is no limit to the transferring of shares and
- Can be listed on the South African stock exchange, the JSE Securities Exchange South Africa and is then restricted by the regulations of the JSE.
- They must have at least 7 shareholders (unless it is a wholly-owned subsidiary of another company) and,
- Companies must have at least two directors. The directors need not own shares and need not reside in SA, but the company secretary must be a SA resident and a public officer that is also a SA resident appointed, for income tax matters.
- Shares can be offered either as; preference shares; redeemable preference shares or ordinary shares.

7.1.b External Company and Branch Operations

An External company is a foreign company, i.e. a company that is incorporated outside South Africa, which operates within South Africa. The definition of an external company is further extended to deem a foreign company that acquires immovable property in SA and they are then deemed to have established a place of business in South Africa.

An external company must register with CIPRO (Companies and Intellectual Property Registration Office, www.cipro.co.za) and must adhere to the provisions of the Companies Act, including submissions of annual returns and filing of annual financial statements for its total operations. Exemption to file these accounts can be applied for and is fairly readily granted. An external company is in all effects treated by SA law as a South African registered company.

A foreign company may also choose to open a Branch company in South Africa instead of operating through a subsidiary or registering as an External company. The Branch Company must operate under the same rules as normal SA companies.
7.1.c Unlimited Liability Companies

Also identified by the word “Incorporated” at the end of their names. Members of organised professions, such as doctors, accountants and attorneys, can form this type of company. Unlimited Liability Companies are private companies but they do not confer limited liability to its members as in the normal limited liability company. The members are thus jointly and severely liable for the debts of the company.

7.2 Partnerships or Joint Ventures

Partnerships, also known as Joint Ventures, are limited to twenty persons who may be either natural or juristic persons. An exception is partnerships of certain recognised professions such as accountants and attorneys.

Partnerships are regulated by the Companies Act but are not subject to the requirements imposed on Companies and Close Corporations.

Partnerships are not separate legal entities and no registration formalities exit. They are normally formed when two or more people decide to conduct business together and bear all debts in relation to the business equally.

It is advisable to have a partnership agreement drawn up by a legal expert so that some of the following issues can be dealt with;

- Formation,
- Profit sharing,
- Salaries,
- Banking arrangements,
- Changes of partners,
- Partner responsibilities.
- Partners are required to include all income from the partnership in their annual personal tax returns.
7.3 Close Corporation


The intent of the new act was to give the CC corporate status, whilst relieve business from the complex requirements of the Companies Act and still allowing the CC a legal identity distinct from its members.

A Close Corporation may have up to ten members, but a minimum of one member.

Members can only be natural persons, include non-residents; a trustee or testamentary trust. In other words a juristic person such as a company or other CC may not directly or indirectly own interest in a CC.

A trust created by contract is also specifically excluded from membership.

A CC is founded by means of a founding statement and the members own 100% of the interest in the company. Members are afforded limited liability. If they are not directly involved with the day to day running of the CC their liability is normally limited to their share of the company or their invested capital alone.

Annual financial records have to be submitted for taxation purposes and the accounting officer of the CC must sign these records.

The accounting officer has to be registered as a professional accountant and his details must be made known upon registration of the CC with CIPRO.

To summarise and mention regulations pertinent to the CC:

- The CC does not have to submit returns and
- There are no compulsory meetings,
- All the members may take part in the management and
- No annual audits of the CC records are required.
- Companies may not be members of a CC.
- Companies converted into a CC and vice versa!
Some of the advantages and disadvantages of Close Corporations are summarised here:

<table>
<thead>
<tr>
<th><strong>Advantages</strong></th>
<th><strong>Disadvantages</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited Liability - The proprietor or member is not personally liable for the debts of the Close Corporation.</td>
<td>The assets of the business vest in the Close Corporation, and not in the personal estate of the member.</td>
</tr>
<tr>
<td>It is an appropriate vehicle for a small business, and of members who have a close relationship.</td>
<td>The number of members allowed is limited to ten.</td>
</tr>
<tr>
<td>The legal procedures for registration, incorporation and administration kept relatively simple.</td>
<td>The members have to comply with these legal requirements, and have to run the business according to certain statutory requirements.</td>
</tr>
<tr>
<td>The Corporation pays a flat rate of tax on profits. This is an advantage when the business is prosperous, and making large profits.</td>
<td>This flat rate tax may entail paying more tax than one would have to if trading as an individual, if the Corporation is not making large profits.</td>
</tr>
</tbody>
</table>

Note: The Netherlands does not have a business entity corresponding to a CC. A “Beslote Vernoontschap or BV” is a Private Company.

7.4 **Sole Proprietorship**

If an individual runs a business in his own name or under a trade name and not in one of the previously mentioned forms then he is automatically a sole proprietor.

The business and personal assets of the owner are considered to be one and therefore a sole proprietorship is not a separate legal entity and the owner is personally responsible for any and all debt of the business.

No registration is required.
7.5 **Non-Profit Organisation (Section 21 companies)**

This kind of company is suitable for an association with the main objective of promoting religion, art, sciences, charity, and recreation or any other cultural social activity or communal group interest.

A non-profit organisation is a trust, company or other association of persons:

- Established for a public purpose
- The income and property of which are not distributable to its members or office bearers except as reasonable compensation for services rendered.

7.6 **Trading Trusts**

The Trust Property Control Act 1962 ([www.acts.co.za](http://www.acts.co.za)) governs all trusts. A trading trust is a form of unincorporated business organisation. A trust is created by a deed under which property is held and managed by trustees for the benefit and profit of the beneficiaries designated in the deed. Currently trading trusts provide certain tax advantages whilst still preserving a limited liability of the trustees, but this is gradually being changed so that trust will be taxed on the same basis as companies.

The number of trustees is limited to twenty in terms of the Companies Act and is not seen as a separate juristic person distinct from its trustees. Trustees must get authorization from the Master of the High Court to act as trustees, before which any actions taken by them can be effected otherwise it is void.

7.7 **Co-operatives**

This form of business entity is widely used only in the agricultural sector. In recent years most large co-operatives have converted to public companies. Co-operative societies or companies are registered under the Co-operative Societies Act. [www.acts.co.za](http://www.acts.co.za).

They are separate juristic persons that confer limited liability and do business for the benefit of their members. The co-operation is democratically controlled by its members and is mostly organised to provide a service to its members. In South Africa a co-operative is most commonly formed to provide goods and services to its members.
In South Africa, commercial banks are the main sources for small to long term financing of companies.

This is mainly due to the tax efficiency thereof and because if the funds are utilized in the production of income or trade, the interest on the loan is tax deductible (subject to transfer pricing and thin capitalisation provisions).

8.1 Foreign Exchange Control

The designated authorised dealers in foreign exchange in South Africa are the Exchange Control Department of the South African Reserve Bank (SARB) and the commercial banks. They administer the exchange control in South Africa.
Since 1994 significant progress has been made in the liberalisation of exchange controls. The Financial Rand mechanism was abolished in 1995, removing most controls on non-residents.

In June 1997, controls on South African residents were considerably relaxed, and virtually all controls on current account transactions were removed.

There are no restrictions on foreign firms wishing to invest in share capital. Investors are advised to ensure that the share certificates are endorsed “non-resident” by an authorised dealer in order to refer disposal proceeds and dividends to their country of origin.

To make a summary:

- There are no controls over the removal by non-residents of investment income.
- Capital gains taxed according to the Capital Gains Tax Act (see attachment or [www.acts.co.za](http://www.acts.co.za)).
- Repayment of foreign loans by South African residents requires prior approval by the SARB.
- Dividends paid to non-residents directly without the approval of the SARB.
- Dividends due to non-resident paid pursuant to deregistration or liquidation are transferable only against documentation confirming this fact.
- **All loans** from outside the Common Monetary Area of South Africa to South African residents require prior Exchange Control approval. Approval is normally granted provided the minimum tenor of the loan is for a period of at least one month and a market related interest rate is charged, i.e.:
  - ZAR denominated Loans = prime + 3%
  - Foreign denominated Loans = prime + 2% (not shareholder-related funds)
  - Shareholder’s funds = prime rate.
8.2 Restrictions on local borrowings

A South African company is known as an “affected company” if 75% or more of its voting power, power of control, capital assets or earnings are vested in or controlled by or on behalf of a non-resident of South Africa.

An South African affected company is also a company of which 75% or more of its capital or earnings may be paid to the benefit of a non-resident of SA!

A South African affected company is restricted in the amount it can borrow from South African lenders, be it bank loans, overdrafts, facilities and finance leases, etc. this restriction does however not include normal trade credit extended by suppliers of goods and services.

The borrowing (or facility limit), known as local financial assistance, is based on a pre-set formula that in turn is based on the effective capital of the non-resident.

Effective capital includes;

- Share capital,
- Share premium,
- Retained earnings,
- Shareholders’ loans to the extent that these are in proportion to shareholding,
- Deferred tax
- The minimum trade credit granted to the local company by its overseas affiliates to the extent that it is as a permanent intra-group facility.

The pre-set formula for calculating loan amount restriction:

\[
\text{Loan Amount} = 100\% + \frac{\% \text{South African interest}}{\% \text{Non-resident Interest}} \times 100\%
\]

Accordingly companies that are 100% foreign owned, the local borrowing limit is 100% of the effective capital invested in the South African company.
Effected companies applying for local finance must complete the MP79(a) form (fins copy in attachment), which discloses the assets and liabilities of the applicant company prior to the granting of the financial assistance.

On application, the assets and liabilities of a number of South African companies under common control can be aggregated for the purposes of establishing the maximum level of local borrowings that may be granted to the group, such that an individual company may be “over borrowed”, provided that the group as a whole is in aggregate within the borrowing limit for the group.

The Reserve Bank will not permit the remittance (payment) of profits or repayment of loans where, as a result of the remittance, the local borrowing limit will be exceeded and will require local borrowings to be reduced before remittance.

Royalties, licenses and patent fees to non-residents, where no local manufacturing is involved, requires the approval of the SARB.

Manufacturing royalties (as opposed to sales/marketing royalties) are subject to approval by the Department of Trade and Industry (DTI, www.dti.gov.za) which will communicate its decision to the licensee or the Exchange Control Department where applicable, which will enable an approach to a bank directly to transfer the royalty payments.

Current account payments, e.g. management fees and other fees for services provided, may be paid by authorised dealers (Commercial Banks) on production of an invoice, provided that such payments are not calculated as a percentage of sales, profits, purchases or income.

In his budget speech given in February 2004 the Minister of Finance proposed the following relaxations of some exchange controls;

- Increased foreign investment allowances for corporate
- Increased local borrowings capacity for foreign-owned companies
- Allowing foreign companies to be listed in South Africa
- Allowing institutions to additionally invest in locally listed African companies
- Possible further relaxation after the amnesty has been finalised
8.3 Loans and Financing

8.3.a Mortgage loans

Commercial banks apply their own policy in the granting of a mortgage loans over commercial properties.

The factors that they take into account include the value of the buildings, based on a professional valuation undertaken by the bank, and the location of the property.

Normally, South African banks lend up to about 70% of the value of a commercial property, but this can vary from one bank to another.

8.3.b Unsecured/Secured loans

The most common way for a business to finance its working capital is through an overdraft facility at a commercial bank.

A commercial bank might be prepared to grant this on an unsecured basis depending on the financial standing of the company, taking into account, for example, whether the business has sufficient assets and cash generation ability to service the overdraft.

Alternatively, the bank might require security for the loan in the form of, for example, personal guarantees by the directors, physical security such as a bond over a non-bonded property, or a cession of the book debts of the company.

8.3.c Discounting and factoring

South African banks will also, in some cases, be prepared to discount, for example, foreign bills, trade bills, bankers’ acceptances or promissory notes.

There are also a number of institutions, many associated with the banks, that undertake factoring, where the institution will advance money against the client's debtors’ book. Normally, factoring gives a better rate than a normal bank cession over a debtors’ book, but that also depends on the quality of the book.
8.3.d  Corporate finance

The commercial divisions of the major banks offer standard lending products to medium-sized companies.

There are also corporate finance divisions in the major banks, or specialised corporate finance institutions, which offer tailor-made solutions for larger or more complex needs, such as the financing requirements of multinationals or listed companies.

8.3.e  Export finance and guarantees

Commercial banks will assist with export credits, guarantees and letters of credit (L/C’s).

The Credit Guarantee Insurance Corporation of South Africa (http://mbendi.co.za/cgic) administers an export credit insurance scheme on behalf of the Department of Trade and Industry.

8.4  State assistance

The Industrial Development Corporation of South Africa Ltd (IDC, www.idc.co.za) is a self-financing, national Development Finance Institution (DFI) established in 1940 by an act of Parliament, the IDC Act (www.acts.co.za).

It focuses on contributing to economic growth, industrial development and economic empowerment through its financing activities.

The IDC provides financing to the private sector to facilitate commercially sustainable industrial development and innovation to the benefit of South Africa.

It is important that Black Economic Empowerment (BEE) is also noted here. This is a very complex and onerous issue and seeking professional advice is advised in relation to this issue, government assistance and loans.

Finance is in the form of equity, quasi equity and medium-term loan finance.

Interest rates are competitive and risk related and is based on the prime bank overdraft rate.
The IDC offers specific financing products:

- **Bridging Finance:** for entrepreneurs who have secured firm contracts - except for construction contracts - with government and/or the private sector and which have short-term financing needs;

- **Financing for empowerment:** for emerging industrialists/entrepreneurs who wish to acquire a stake in formal business by way of management buy-ins or buy-outs, leveraged buy-outs or strategic equity partnerships;

- **Financing for small-and medium-sized mining and beneficiation:** is aimed at small-and medium-sized mining and beneficiation activities and jewellery manufacturing activities;

- **Financing for the development of the techno-industry:** is aimed at entrepreneurs in the IT, telecommunication, electronic and electrical industries wanting to develop or expand their business;

- **Financing for the development of agro-industries:** for entrepreneurs in the agricultural, food, beverage and marine sectors wanting to expand and develop their businesses;

- **Financing for the development of the tourism industry:** is aimed at commercial projects in the medium to large sectors of the tourism industry;

- **Financing for the expansion of the manufacturing sector:** is aimed at entrepreneurs wishing to develop or expand their manufacturing business and create new or additional capacity;

- **Wholesale finance:** for intermediaries looking for wholesale funding to lend to individual entrepreneurs;

- **Financing for the export of capital goods:** for manufacturers and providers of exported capital goods or services. The aim is to provide competitive US dollar and Rand financing to prospective foreign buyers of equipment;

- **Import credit facilities:** for local importers of capital or services requiring medium-to long-term import credit facilities;

- **Short-term trade finance facilities:** for exporters looking for short-term working capital facilities to help them facilitate export orders; and,
- **Project finance**: is aimed at large projects in the Metals, Petroleum and Chemical, Manufacturing, Agriculture, Minerals and Mining, and Energy market segments

### 8.5 Level of foreign investment

The Foreign Direct Investment (FDI) graph (as downloaded from [www.sarb.co.za](http://www.sarb.co.za)) on the next page reflects investment by foreigners in undertakings in South Africa in which they have at least 10% of the voting rights.

Foreign investment is important for South Africa, as South Africa’s own investment rate is too low and foreigners introduce new technologies or may have access to distribution networks in foreign markets, otherwise closed to South African companies.
Total Direct foreign investment history 1985 to 2003 in R millions.

<table>
<thead>
<tr>
<th>R millions</th>
<th>Quarter 1</th>
<th>Quarter 2</th>
<th>Quarter 3</th>
<th>Quarter 4</th>
<th>YEAR</th>
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</thead>
<tbody>
<tr>
<td>1985</td>
<td>-213</td>
<td>-258</td>
<td>-279</td>
<td>-248</td>
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<td>1993</td>
<td>112</td>
<td>-67</td>
<td>116</td>
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</tr>
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<td>1994</td>
<td>9</td>
<td>478</td>
<td>682</td>
<td>179</td>
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<td>543</td>
<td>1,191</td>
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<td>1,296</td>
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<td>6,659</td>
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<td>1,919</td>
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<td>2,569</td>
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<td>2003</td>
<td>143</td>
<td>443</td>
<td>1,795</td>
<td>3,387</td>
<td>5,768</td>
</tr>
</tbody>
</table>

(The figure of over 50 billion recorded in 2001 is largely due to the restructuring of Anglo American and De Beers.)
Central Government levies most of the taxes in South Africa. The new Constitution gives limited taxing powers to the provinces. These mainly involve assessment rates and other taxes based on immovable property.

Prior to 1st January 2001, a “source” based system applied i.e. tax was only payable on income from (or deemed to be from) a South African source. Income is generally regarded as being from a South African source if its originating cause is situated in South Africa. Non South African residents will continue to be taxed on their South African sourced income only.
Companies will be tax resident if they are either incorporated, or have their place of effective management (the day to day activities involving a level of senior management), in South Africa.

Individuals will be tax resident in South Africa if they are either ordinarily resident here or are physically present in South Africa for a certain number of days.

Treaty residence overrides the local residence laws, i.e. if, in terms of a treaty, a taxpayer is not treaty resident in South Africa, but meets the above (local) requirements for tax residency, the taxpayer will not be tax resident in South Africa.

Due to the complexities involved, and constant changes to tax legislation, readers are advised to seek specific professional advice on the application of and changes to the tax system.

In the following sections the author has tried to outline the main duties and taxes in South Africa.

9.1 Principle Taxes

9.1.a Administration considerations

Company tax is payable for the fiscal year that coincides with a company’s financial year and for the individual at the end of February each year.

Tax is payable in instalments by all companies and close corporations and by those individuals who are classified as provisional taxpayers (for example directors of companies and members of close corporations).

Provisional tax consists of two or three payments,

- Due six months after the commencement of the year of assessment
- End of the year of assessment payment. A penalty and interest is payable for late payment.
- (“Top up”) payment made within seven months after the end of the year of assessment if the total amount paid by way of provisional taxes is less than the amount of tax assessed.
Interest (non-deductible) is payable on the shortfall at a prescribed rate, currently 13%.

Conversely, if the total amount paid exceeds the tax assessed, interest is payable to the taxpayer at a prescribed rate – currently 9% – on the amount overpaid. That interest is not taxable in the hands of non-resident taxpayers.

Employers are required to deduct employees’ tax from their employees’ remuneration and to pay such amounts over to the authorities on a monthly basis. Employees’ tax thus deducted is allowed as a credit against the total amount of an employee’s liability for tax as finally assessed on the basis of his or her annual return.

Under the SITE system (Standard Income Tax on Employees) however, individuals earning less than R68 000 a year from employment are not required to file an annual income tax return, and the employees’ tax deducted from their salaries represents their full and final liability for tax.

9.1.b  Direct Taxes

Income Taxes:
- Individual income tax - an annual tax on the income of partnerships and individuals
- Company tax - an annual tax on the income of companies and close corporations
- Secondary tax on companies (STC) - a tax imposed on dividends declared by companies and distributions made by close corporations, payable and borne by the companies and close corporations
- Dividends tax - from foreign registered or incorporated companies, including retirement funds and insurers

Capital Taxes:
- Donations tax - a gift tax payable by the donor on the value of property disposed of by donation by South African residents and private companies;
- Estate duty - an inheritance tax payable by the estate on the value of property of a deceased who was resident in South Africa at the date of death
- Capital Gains Tax (CGT, see attachment) introduced with effect from 1 October 2001 and applies to the disposal of any asset that takes effect after that date.
9.1.c  Indirect Taxes
South Africa also imposes the following three indirect taxes and duties;

- **Value-added tax (see attachment)** - an invoice-based value-added tax is levied on supplies of goods and services
- **Excise and customs duties** – charged for import and export of goods.
- **Stamp duties** - charges levied on certain documentary instruments

These taxes are briefly explained further later in this chapter.

9.1.d  Corporate Tax
Before 1 January 2001, companies were subject to income tax only on their income from South African sources, excluding capital gains.

However after 1 January 2001, South African residents and corporations are taxed on their **worldwide** income for years of assessment.

In addition, companies pay **Secondary Tax** on companies (STC), which is imposed on all dividends declared by them. In most respects, a company for tax purposes is defined to include close corporations.

9.1.e  Rates
- Companies taxed at the rate of **30%** on income.

Gold-mining companies are taxed according to a special formula. However, due to the secondary tax on companies, which is currently levied at 12,5% on the net amount of dividends declared by a company, the effective rate is higher than 30%. The combined rate is however not 42,5%, but is, in effect, 37,78%. Thus, broadly speaking, it can be said that a South African company will be taxed at the rate of 30% on so much of its profits as are retained, and an effective 37,78% on so much of its profits as are distributed by way of dividend.

Because secondary tax on companies is not a withholding tax on dividends, but a corporate tax, the rate is normally not reduced in terms of double tax agreements.

- **Small business corporations** (namely corporations with annual turnover of less than R53 million) are taxed at the rate of
= 15% for the first R150 000 of taxable income and
= 30% for amounts in excess of R150 000 (exclusive of secondary tax on companies – the effective rate will increase in respect of profits distributed by way of dividend).

“Employment companies” (namely certain labour brokers or companies on whose behalf a “connected person” renders services to clients) are taxed at a rate of 35% (exclusive of secondary tax on companies – the effective rate will increase in respect of profits distributed by way of dividend).

9.1.f Dividends Received
Local dividends received by a company, a close corporation or a resident individual are exempt from tax, and are deducted from dividends paid by the company or close corporation in determining the net amount on which secondary tax on companies is calculated. Certain foreign dividends received by South African residents are taxed and they do not give rise to credits in calculating a company’s secondary tax liability.

9.2 Determination of Taxable Income
The assessment is based on taxable income determined in accordance with the Income Tax Act 28 of 1997 (see attachment or www.acts.co.za).

Taxable income normally coincides with profit calculated in accordance with generally accepted accounting practice.

Capital receipts are excluded from gross income. To be eligible for deduction, expenditure must be incurred in the production of income, must be for the purposes of trade and must not be of a capital nature.

9.2.a Deduction allowances
A number of special allowances are taken into account in calculating taxable income.

a) Industrial Plant and Machinery
The cost to the taxpayer of plant or machinery used in a process of manufacture can be written off over periods varying between three to five years, depending on the circumstances (e.g. the date when the plant or machinery was acquired and brought into
use by the taxpayer for the first time and whether the plant or machinery is new and unused when acquired by the taxpayer).

An accelerated depreciation rate of 100% per annum applies for small businesses.

b) Industrial Buildings
The annual allowance depends on the date when erection of the building commenced and the use (the building must be used in a process of manufacture or, during certain periods, a similar process is also acceptable) to which the building is put and varies between 2% and 10% of the cost of the building.

c) Housing Projects
Housing projects consisting of five or more residential units qualify for a 10% initial allowance and a 2% annual allowance, provided that the units are for the use of employees or are to be let at a profit.

d) General Capital Allowances
Capital allowances are also available for expenditure on scientific research, certain intellectual property, hotels, aircraft, ships, plant and buildings of agricultural co-operatives, agricultural capital expenditure (including dams, roads, fences and machinery), buildings in designated urban development zones, pipelines, transmission and railway lines and mining capital expenditure. There is an investment allowance for approved strategic industrial projects.

e) Special Deductions
The Income Tax Act provides for certain special deductions relating to repairs, wear and tear and depreciation, legal expenses, medical and dental expenses, restraint of trade payments, bad and doubtful debts, leasehold improvements, lease premiums, donations to public benefit organisations, trading stock and contributions to pension and provident funds and retirement annuities.

9.2.b Tax Losses and Group Relief
Companies in a group may not share their tax losses with profitable companies in the same group. Tax losses may not be carried back but may be carried forward indefinitely,
provided that there is trading in every tax year. Transferring tax losses between businesses in unrelated sectors are not allowed.

Individuals may carry forward assessed losses even if there is no trading in the following tax year.

Rollover relief applies for most transactions between groups of companies (which generally require a chain of at least 75% equity shareholding).

9.2.c Secondary Tax on Companies
The Secondary Tax on Companies (STC) is a tax on dividends declared by a company (or a distribution declared by a close corporation).

The tax liability is based on the net amount calculated by subtracting dividends accruing to the company from those declared by it. That net amount is taxed at the rate of 12.5%, and the tax is borne and paid by the company. Dividends paid by distributing equity capitalization shares do not give rise to STC liability.

STC is also payable on amounts distributed by companies to shareholders that are deemed to be dividends, like certain loans to shareholders.

Pursuant to the introduction of a tax on certain foreign dividends, a South African resident company will not be able to claim a taxable foreign dividend as a credit in the determination of its liability for STC.

9.2.d Branches of Foreign Companies
An “external company” (namely the South African branch of a foreign company which has its place of effective management outside South Africa) is subject to a tax of 35% on taxable income derived from a source within South Africa.

External companies are exempt from STC.

9.2.e Interest received by or accrued to foreign companies
Interest received by or accruing to a non-resident company is exempt from tax, if the company does not carry on business in South Africa. Otherwise normal tax will apply.
9.2.f Transfer pricing and thin capitalisation

Transactions between residents and related non-residents as well as between residents and their offshore establishments need to comply with transfer pricing guidelines.

For example:
Where a non-resident holding company charges excessive interest to its South African subsidiary, the excessive portion of the interest will not be allowed as a deduction in the South African company’s hands and will be treated as a dividend attracting secondary tax on companies.

In addition, the thin capitalisation rules prescribe that interest charged on financial assistance granted by a non-resident company to its related South African resident company will be disallowed as a deduction in the hands of the South African company to the extent that the financial assistance, in relation to the non-resident’s equity shareholding in the resident, exceeds the debt: equity ratio of 3:1 and the excessive portion will be treated as a dividend subject to secondary tax on companies.

9.3 Taxation for other Entities

9.3.a Partnerships

Partnerships are not separate legal entities and are accordingly not taxed separately. Partners are required to file returns for the portion of the partnership income that has accrued to them.

Income received or accrued in common by the members of a partnership is deemed to have accrued to them individually (in the proportions of their partnership interests) on the date that it accrued to them in common.

The tax loss that a limited (sleeping) partner in an commandite partnership may claim, may not exceed the income received or accrued from the partnership, plus the amount for which such partner is at risk – that is, the amount he or she has invested.

9.3.b Trusts

Where a trust is simply a “conduit” for income (generally taken to mean that income is distributed to beneficiaries in the same financial year as that in which it is earned), the trust
is not taxed separately and the beneficiaries are taxed on their benefits, which retain the
color of the income concerned. For example rental retains that character and is
taxable, South African dividends retain that character and are not taxable.

Where the income is not so distributed, the trust is taxed as a separate taxpayer at 40%.

Trading trusts, which do not distribute their entire profits, are taxed separately.

Losses of a trust are not allowed to flow to beneficiaries for tax purposes. Such losses may
instead be retained in trust, where they may be carried forward to the following tax year to
be set off against the income of the trust in that year.

An exception to the application of the 40% trust tax rate has been made in the case of a
trust created solely for the benefit of persons who suffer from a mental illness or serious
physical disability and testamentary trusts established for the benefit of minor children.
These trusts are taxed at individual rates.

9.3.c Individuals

South African residents are taxed at progressive rates on their worldwide income with
effect from 1 January 2001. An individual’s tax year ends on the last day of February in
each year.

Treatment of Dividends

Local dividends received from all companies and distributions from all close corporations
are exempt from tax. A tax is levied on certain foreign dividends received by South African
residents.

Treatment of Interest and Foreign Dividends

Interest accruing to non-residents (other than non-residents who are residents of countries
in the common monetary area) is generally exempt from tax.

To qualify a non-resident individual must be absent from South Africa for not less than
183 days during the year of assessment.

A natural person who was at any time resident in South Africa and who has been carrying
on business in South Africa during the year of assessment will not qualify for this
exemption.
Taxation of Temporary Residents

In accordance with South Africa’s source-based rules, remuneration from services rendered in South Africa is taxable in South Africa.

Foreign nationals temporarily residing and working in South Africa are therefore taxable on their remuneration, regardless of where their employer resides or where payment is made. Such income may be exempted, however, under one of South Africa’s double taxation agreements. That exemption will usually be available if the temporary resident is present in South Africa for less than 183 days in any one tax year and is paid by a foreign employer.

9.4 Withholding Taxes

9.4.a Royalties

A withholding tax of 12% on gross royalties is levied and is payable by the South African entity which is liable for the royalty, on behalf of the non-resident.

Relief may however be provided in terms of double tax treaties.

9.4.b Dividends, Interest and Branch Profits

Dividends payable to non-residents are not taxable, either by a withholding tax on the company or in the hands of the recipient.

Local Dividends payable to residents are not taxable. Remittances of branch profits are not subject to withholding tax.

9.5 Other Taxes

9.5.a Value-Added Tax

An invoice-based value-added tax (VAT) has been in force since 30 September 1991. The value-added tax system is similar to those used in Western Europe and New Zealand. Most transactions involving goods (including immovable property) and services attract VAT. The rate of VAT is 14%. The tax is levied on the value added in each transaction.
9.5.b  Donations Tax
Donations (gift) tax is payable by the donor at 20% (previously 25%) of the value of property disposed of by donation by South African residents and companies (other than public companies) incorporated or managed and controlled in South Africa.

There is an exemption for donations of up to R30 000 a year for an individual donor and up to R10 000 a year for a non-public company, and also for donations by a public company or under a trust, donations to public benefit organisations and donations between spouses or which only come into effect on the donor’s death as well as donations of property that was acquired from non-residents or derived from trade outside South Africa.

9.5.c  Estate Duty
The first R1.5 million of an estate is exempt.

Estate duty is levied at the rate of 20% (previously 25%) on amounts above R1.5 million.

Overseas property that the deceased acquired by inheritance or held before taking up residence in South Africa is exempt of estate duty.

Bequests to a surviving spouse are also exempt.

9.5.d  Capital Gains Tax
Capital gains tax (CGT) was introduced with effect from 1 October 2001 on the disposal of assets on or after 1 October 2001.

Those liable for CGT;

- South African residents on worldwide assets;
- Non South African residents in respect of immovable property in South Africa (including immovable property held through a company) or assets of a branch or agency in South Africa.

The tax is triggered by the disposal, or deemed disposal of, a capital asset on or after 1 October 2001.

A capital gain or loss is the difference between the “base cost” (as defined) of an affected capital asset and the consideration realised or deemed to be realised on the disposal or
deemed disposal of such asset. A portion of the “net capital gain” will be included in the taxpayer’s gross income for income tax purposes.

Capital losses may be deducted against capital gains or carried forward to future years of assessment, but are not available for set-off against revenue income.

The portion of the gain (or inclusion rate) that will be taxable will be:

- **25%** for a natural person, special trusts and an insurer’s individual policyholder fund.
- **50%** for all other taxpayers like a company, close corporation, business, or family trust.

For example: a company makes a gain of R1000, 50% thereof (i.e. R500) must be included in its gross income for income tax purposes and taxed at the corporate rate of 30%. The effective rate of CGT is accordingly –

| Inclusion rate (50%) x statutory rate (30%) = effective rate (15%) |

Certain assets are exempt, these include:

- A primary owner occupied residence (up to R1 million of the capital gain),
- Assets owned by institutions exempt from normal taxation (like Government departments),
- Lump sum benefits of most superannuating and life assurance policies (excluding “second-hand policies),
- Private motor vehicles,
- Gambling proceeds,
- Small business assets,
- Personal belongings and
- Personal effects.

CGT liability will not arise with regard to:

- Transactions eligible for rollover relief (e.g. company formations, share for share transactions, intra-group transactions, amalgamations, unbundling, etc);
• Transfers of property from a deceased estate;
• Transfers between spouses;
• Transactions subject to income tax

9.5.e  **Excise and Customs Duties**

South Africa imposes excise duties on the local production of certain commodities, such as automobiles, jewellery, beer and wine, without regard to their sale. Clothing, basic foods, medicine, rent, certain utilities and professional services are exempt from excise duties.

Imported goods are subject to similar treatment in the form of customs duties. The rates of such customs duties, however, are not always the same as the rates of excise duties. A rebate of customs duty can be obtained if the imported goods are to be used in manufacturing for export. Information on duties can be viewed and found on [www.cargoinfo.co.za](http://www.cargoinfo.co.za) or [http://rapidttp.co.za](http://rapidttp.co.za)

9.5.f  **Local Taxes on Immovable Property**

Local governments levy real estate taxes. Agricultural land is taxed at a lower rate than dwellings or business properties. The value of real estate on which such local taxes are levied will, in certain circumstances, include land together with improvements and buildings on the property.

9.5.g  **Regional Services Council Levies**

District Municipalities, Metropolitan Councils and Joint Services Boards are responsible for the supply of basic services within their regions. A regional establishment levy is payable by businesses to these councils, calculated on the gross consideration received in respect of the sale or letting of goods, the sale or letting of fixed property and any trade, business or professional service rendered.

A regional services levy is also payable on the salary paid by an employer to employees.

The amounts of these levies vary from region to region, but the amounts are very small – for example, in the Johannesburg area, the regional establishment levy, payable on income, is 0.1408% while the regional services levy, payable on remuneration, is 0.3509%.

VAT is added to these amounts.
9.5.h  UIF contributions and Skills Development levy

Employers are liable to pay Unemployment Insurance Fund (UIF) contributions to a maximum amount of 1% of salaries, as well as a Skills Development Levy of 1% of remuneration. To the extent that there is appropriate training for the staff, some of this levy may be reclaimed.

9.5.i  Marketable Securities Tax

A tax is currently imposed on the purchase of listed marketable securities excluding debentures. The tax is currently 0.25% of the consideration paid in the transaction. Warrant issuers and registered brokers are however exempt.

9.5.j  Stamp Duties

Stamp duties Act 1968 (www.acts.co.za) applies to a number of documents in South Africa. The duty is on the document itself, not the transaction. Some stamp duties are at a fixed amount and others are at ad-valorem rates. Government policy is however to remove stamp duties and stamp duties on several documents were abolished with effect from 1 April 2002.

9.5.k  Duty on Transfers of Immovable Property

Transfers of immovable property where the seller is a vendor for VAT purposes are subject to VAT at 14%.

Where the seller is not a vendor for VAT purposes, acquisitions of immovable property by Companies or close corporations or trusts are normally liable to duty at the rate of 10% of the property’s value. Individuals are liable to duty at the rate of

- 0% on the first R140 000 of the value +
- 5% on any excess value up to R320 000 +
- 8% on any further excess value.

9.5.1  Pensions, Provident and Retirement Annuity Funds

Tax at a rate of 18% is imposed on monthly gross interest, non-exempt foreign dividends and net rental received by or accrued to pension, provident and retirement annuity funds.
9.6 **Tax Treaties**

South Africa has a number of double taxation agreements with various countries. Most are comprehensive agreements. Some relate only to sea and air transport. The comprehensive agreements include relief in respect of withholding taxes on royalties and know-how.

In addition, double tax agreements have been signed with several countries and will come into force as soon as they are ratified. With other countries, double tax agreements have been initialled but have not yet been signed, or are under negotiation or renegotiation.

Tax treaties exist for the Benelux area. Information can be viewed on [www rsaexport.co.za](http://www.rsaexport.co.za)

9.7 **Anti-Avoidance Legislation**

The Income Tax Act contains anti-avoidance provisions, which enables the Commissioner to assess a taxpayer for any taxes that have been avoided, postponed or reduced. A wide business purpose test is applied, the question being whether the relevant transaction was entered into in a manner that would have been utilised for bona fide trade purposes. If not, the Commissioner is entitled to levy tax as if the transaction had not been entered into. Common law anti-avoidance rules are also applied to prevent tax avoidance.

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**Picture 13: Karoo Violet**
Chapter 10

Property Ownership

There are many ways of owning a property in South Africa and in this chapter explanations are given of the most common forms of property ownership.

This may vary considerably in other countries but also it may be similar in some instances to that found in other countries.

Most commonly the name on the deeds of registry is also the name of the owner of the property and is thus registered as the owner of that said property. In South Africa it can also happen that the name on the deeds register is in fact not the real owner of said property, this explained next.
10.1 Normal ownership

In terms of the Deeds Registries Act 47 of 1937 (www.acts.co.za) the owner of immovable property is the person in whose name the property is registered in the title deed of the property at the Registrar of Deeds Office.

10.2 Non-registered owners

Ownership of immovable property without being registered owner by:

10.2.a Prescription

If a person is in possession of a property for an uninterrupted period exceeding 30 years then he becomes the owner of said property by prescription. Unless a court order has been obtained for the Registrar of deed to change the name on the title deed the former owner will remain registered as owner on the title deed.

10.2.b Expropriation

In terms of the Expropriation Act 63 of 1975 (www.acts.co.za) the State or other authorised institutions may expropriate property from the registered owner. The original owner remains registered as the owner on the title deed but a notice of expropriation is attached to the title deed of the property in question.

It is important to note here also the possible influence of the redistribution of agricultural land to previously disadvantaged persons and groups that needs to be taken into consideration, as well as the land claims by possible previous owners of land.

10.2.c Marriage in community of property

When getting married in community of property any and all property bought prior or after the marriage is deemed to form part of the joint estate and is thus co-owned by both spouses, even though the property is only registered in the name of one spouse.

10.2.d Insolvency of registered owner

In terms of the Insolvency Act 24 of 1936 (www.acts.co.za) the owner of immovable property is divested of his property upon his insolvency and the High Court controls the estate of that insolvent until such time as a trustee can be appointed.

A note of insolvency is attached to the title deed of the property.
10.3 Join ownership or “Co-ownership”

In this instance the owners do not have to be married. Two or more persons can jointly own the property; there is thus no limit to the amount of partners. In legal terms they own the property in undivided shares. All the joint owners as a result own the property as a whole. Joint ownership can be established by marriage in community of property, joint purchase or resulting from a bequest in a will.

In terms of the Deeds Registration Act 47 of 1937 Joint ownership is only established upon registration of the undivided shares at the Registration Office in the name of the joint owners.

If one or more of the joint owners wants to either mortgage, sell, or let his share of the property it can only be done with the consent of all the joint owners.
Chapter 11

PROPERTY TRANSFER

11.1 Estate Agents or mediators

In the normal flow of events a prospective property buyer would approach an Estate Agent to find a property suitable for his/her needs or he would search for the property in the local newspapers.

Estate Agents in South Africa are governed by the Estate Agency Affairs Act 112 of 1976 (www.acts.co.za). The underlining purpose of this act is to safeguard the public in their dealings with estate agents. All Estate Agents must be registered with the Estate Agency Affairs Board (www.eaab.co.za) and possess a valid Fidelity Fund Certificate. In order to take ownership of a property the buyer needs to take transfer of said property. This is thus the main aim of purchasing a property. The Estate Agent therefore brings the seller and buyer together and facilitates the sale and thus transfers of the property. As stated earlier the Deeds Registration Act of 1937 governs transfer of immovable property. According to this Act, ownership of a property only passes to the purchaser upon registration of the
property in his name in a deeds registry. To affect such a registration a deed of transfer must be prepared by a conveyancer and be executed in the presence of the Registrar of Deeds by the owner or duly authorised person on behalf of the owner.

11.2 Transfer Documents
The transfer documents prepared by the conveyancer must contain the following:

c) Owner's copy of the title deed of the property

d) Transfer duty Receipt or VAT receipt:

Receiver of Revenue issues a receipt to certify that the taxes and duties payable on the property has been paid in full and if transfer duty is payable in terms of the Transfer Duties Act 40 of 1949 a receipt that the transfer duty has been paid. In some instances VAT is also payable and then a receipt must be accompanying the transfer documents.

e) Rates clearance certificate (or body corporate levy clearance certificate):

The certificate issued by the local authority stating that all the rates payable on the property have been paid in full.

f) Consent of the bondholder if there is a bond:

In the case were a bank mortgages the property being sold, for example, the current bondholder must give his consent for the current bond to be cancelled and or release the property from the bond.

g) Consent required in terms of conditions in the title deed:

Sometimes the title deed of the property contains conditions restricting the sale of the property. The conditions must first be met and proof of this must be lodged with the transfer documents or the interested parties must waive the restrictions before transfer can take place.

In case of a new development, the title deed of the property must be studied carefully to make sure that the document does not contain clauses which can hamper the development or that needs to be removed from the document using a costly and lengthy legal process.
Currently the transfer of property takes about 6 weeks in normal circumstances. If a rates clearance certificate has to be obtained this period can be extended by up to 3 weeks.

### 11.3 Costs

South African Law prescribes what costs are payable on the sale of properties. The normal costs include:

- Transfer duty,
- Stamp duty and
- Conveyance fees,

Other costs can include amongst other:

- VAT,
- Inspection fees and
- Administration fees charged by financing institutions.

These fees change from time to time and it is advisable to contact a bank or estate agent to find out more.

Transfer duty must be paid no later than six month after acquisition of property (i.e. signature of purchase document and not date of registration and must be calculated on the purchase price of property and not the market value)!

Companies and Close Corporation are currently charged a flat rate of 10% of the purchase price. [Please note also that if the property is the only asset of a Closed Corporation or company the process of selling the CC or company to transfer the property and circumvent transfer duty costs has been stopped by new regulations.]

In the case of Natural persons the transfer duty is calculated as the sum of 5% of the purchase price over R 150 000 and up to R 320 000 plus 8% of the purchase price over R 320 000. No transfer duty is paid on the first R 150 000 of the purchase price. These rates change periodically and it is advised that a registered Estate Agent or bank be consulted for more information if so required.
Chapter 12

DEVELOPMENT SCHEMES

The most popular property development schemes in South Africa are outlined in the sections below.

12.1 Sectional Title Schemes

The Sectional Titles Act 95 of 1986 (www.acts.co.za) made it possible for more than one person to own a portion of a building.

The Act does not limit the use of the building sectional title schemes can thus consist of building housing e.g. offices, holiday apartments, apartments and shops.

The Act also does not require that the buildings are physically linked together and can thus also be free standing buildings on a property.

The only prerequisite is that the buildings must be of a permanent nature and fall within the boundaries of the local authority.

Only upon registration of the sectional title plan and opening of the sectional title register does a sectional title scheme come into existence. To open a sectional title register the
developer has first to submit a draft sectional plan to the Surveyor General for approval. Once the Surveyor General has approved the sectional plan the developer may apply to the Registrar of Deeds to open a sectional title register and to register the sectional title plan. Once this has been done the building concerned is deemed divided into sections and common property as shown in the approved sectional plan.

A purchaser in a sectional title scheme buys a unit in the scheme and then becomes the owner of his apartment, shop, or whatever the case may be and joint owner of the common property.

As explained a unit consist of a section (shop or apartment, etc.) in the building including its undivided shares in the common property apportioned to the section according to the participation quota. This quota is calculated by dividing the floor area of the relevant section by the combined total floor area of all the sections.

The Body Corporate comes into existence when any other person, other than the developer becomes owner of a unit in the scheme. Every owner of a unit is a member of the body corporate and monthly levies are calculated by a formula called the participation quota. Normally trustees appointed by the members of the sectional title scheme manage a body corporate. A majority of the trustees must be owners in the sectional title scheme, thus non-owners can also be appointed as trustees the body corporate controls, administrates and manages the sectional title scheme for the benefit of all the owners.

It is possible to arrange finance by mortgage bond for the purchaser owns immovable property by owning a unit in the Sectional title scheme.

12.2 Share block scheme

The provisions in the Share Blocks Control Act 59 of 1980 as well as the Companies Act 61 of 1973 regulate a share block scheme, in so far as those provisions do not contradict with the Share Blocks Control Act.

The entity controlling the share block scheme is called the share block company. When a share block company owns a building, a person acquires a share in this company by taking transfer of shares in the company. The purchaser of the shares does this to entitle him to
occupy and use a specific apartment, shop, etc. in a building owned or leased by the share block company. Transfer of shares must comply with the normal requirements as prescribed in the Companies Act.

He therefore becomes a shareholder in this company and his right to use the shop, apartment; etc in the building is regulated by the memorandum and articles of association of the share block company and the use agreement between him and the company.

The purchaser never becomes the owner of the portion of the building that he occupies; he only has a share in the share block company that owns the building.

The Share Block Control Act regulates the management of the share block company and the capacity and powers of the share block company and its directors so as to prevent misuse of the shareholders investment capital. The Act states for example that the directors of a share block company may not use the money invested in the company by its shareholders to start another share block company.

**NOTE:**

1) It is not possible for the purchaser of the shares to arrange finance through a mortgage bond since he his share does not translate into ownership of immovable property.

2) It is also not permitted for the share block company itself to grant financial assistance to the purchaser to acquire shares in the same company and may not mortgage its assets to secure repayment of a loan advanced by a third party to the purchaser.

### 12.3 Schemes for Retired persons

The Housing Development Schemes for Retired Persons Act 65 of 1988 regulates the development, sale or lease in a housing development scheme as divined in the Act.

In this Act only retired persons (a person that is 50 years old or older) or the spouse of a retired person may occupy the accommodation, unless all the other holders of housing interest in the scheme agree otherwise.

The Act also does not require that all the housing interest in the scheme must be sold or let to a retired person, only that the occupier must be retired. If a person that is not retired wants to occupy a unit in the scheme all the other holders of interest in the scheme must agree to it.
The management of a retirement scheme under the Housing Development Schemes for Retired Persons Act lies with the management association consisting of the developer and every purchaser of a housing interest in the scheme. At the head of this association is the Managing Agent. The association is responsible for the control, administration and management of the scheme.

12.4 **Group housing schemes**

Group housing schemes or “Cluster Housing” are not regulated by any specific legislation and generally refers to housing schemes that are not sectional title or share block.

The legal structure of group housing schemes is normally;

- **Freehold**, where the land subdivided in to small erven on which each owner builds his house. The owner thus owns the house and the land as in the case of ordinary house ownership and is responsible for all other duties relating to this, such as rates and taxes insurance, etc.

- **Co-ownership**: where the land cannot be subdivided into smaller erven. The purchaser of the building merely becomes co-owner of the land upon which it stands and all its improvements.

![Picture 14: Ruins on TNR](image)
Chapter 13

Basic Site Services & Permits

The specific standard steps which need to be taken to develop a site apply in South Africa as well. In most cases the relevant municipality or local authority in the area where the development is to take place defines the steps.

These steps are quite consistent throughout SA.

The municipality concerned would in most cases handle issues such as;

- Approval of plans
- Assessment of environmental impact
- Provision of utilities (water, sewerage and electricity, bulk and residential)

In cases were the land is already serviced and no upgrades are required, utility hook-ups are fairly simple and swift, but this is not the case were capacity upgrades and new servicing are required.
13.1 **Building permits**

Each municipality has their own application process. Each application must meet both the national codes set out by the National Development Act ([www.acts.co.za](http://www.acts.co.za)) and the building codes applied by the relevant municipality. The municipality might apply local building or service by-laws but typically these refer to national codes as published by the South African Bureau of Standards and or the South African National Standards. The National development Act specifies that each structure conform to over 20 requirements.

The engineer of the local authority (municipality) makes the decisions whether or not to consult with exterior bodies, such as the Department of Health, local Fire Department, and Ministry of Environment and Tourism.

The following areas are included in the approval procedures:

- **Fire,**
- **Pollution control,**
- **Health impact,**
- **Frontage works,**
- **Elevation control,**
- **Drainage and coastal engineering,**
- **Roads,**
- **Sanitation,**
- **Sewerage reticulation,**
- **Structures,**
- **Electrical supply,**
- **Gas supply**
- **Telephone,**
- **Telecommunication,**
- **Internet and**
- **Satellite TV**
Once the plans are approved, the municipality conducts a minimum of five inspections of the building site. Some municipalities conduct more, especially in the case of a multi-storey building.

Other inspections may be carried out from time to time, depending upon the specifics of the building.

13.2 Environment assessments
Where the application for building permits require an Environmental Impact Assessment or EIA, as with mostly all developments in South Africa, the assessment must be carried out by an independent environmental consultant at the expense of the developer.

Social Impact Assessments are not common but some investors have opted to have them done as well.

It is estimation that the environmental impact assessment can be up to 5% of the total investment cost.

13.3 Electricity connection
The local authorities buy their electricity from the state owned enterprise called Eskom (www.eskom.co.za). Eskom generates most of the electricity in South Africa.

The local authority then acts as re-distributors and supplies the electricity to the end users. In South Africa there exist about 450 re-distributors. Eskom sometimes sell directly to the end users; in instances such as were the local re-distributor cannot meet the needs of heavy electricity users or where the local re-distributor does not have jurisdiction over the particular area.

The application and installation procedures are simple and swift for a site with an existing structure and an adequate electrical supply already in place, i.e. where no equipment upgrades or added infrastructure is required.

An application for the supply of electricity should be submitted to the nearest Eskom sales office at least seven (7) days prior to the requested connection date. Connection fees currently range from R2 000 - R4 000, depending on the category of service (standard
users, off-peak users, or peak users). A cash deposit or bank guarantee may also be required to cover costs in event of non-payment.

Eskom is also able to meet the needs of investors who require capacity upgrades, such as for energy-intensive factories. For capacity upgrades, the waiting time depends on the availability of the size of transformer required. Costs are dependent on the size of the upgrade.

The utility is also able to supply “Greenfield sites” in serviced areas. However, investors should prepare their applications well in advance, as installation can take up to twenty-four (24) months for large projects. Investors may submit either an application for the supply of electricity or a letter of requirements to the nearest Eskom office. Eskom will provide an estimated quote of installation costs within fourteen (14) days of the initial application. The quote is subject to negotiation. The individual re-distributor defines the application, procedures and fees in areas not covered by Eskom but by the re-distributor. Connection times and tariff structures vary widely.

The following general tariffs in c/kWh are based on customers with a demand of 1000kVA and a load factor of 60% and may include the following components:

- Connection fee
- Energy charge
- Basic charge
- Demand charge
- Voltage discount
- Transmission surcharge
- Monthly rental
- Value Added Tax
Electricity tariffs in South Africa compare favourably with that of the rest of the world. For more information visit Eskom at http://www.eskom.co.za/tariffs.

### Table 2: National Electricity Prices per Province

<table>
<thead>
<tr>
<th>Province</th>
<th>Supply Authority</th>
<th>Price ZAR c/kWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mpumalanga</td>
<td>Nelspruit</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>Middelburg</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Witbank</td>
<td>24</td>
</tr>
<tr>
<td>Western Cape</td>
<td>Cape Town</td>
<td>23.83</td>
</tr>
<tr>
<td></td>
<td>Tygerberg</td>
<td>18.23</td>
</tr>
<tr>
<td></td>
<td>Blaawberg</td>
<td>18.23</td>
</tr>
<tr>
<td></td>
<td>Oostenberg</td>
<td>17.23</td>
</tr>
<tr>
<td>Gauteng</td>
<td>Boksburg</td>
<td>22.83</td>
</tr>
<tr>
<td></td>
<td>Pretoria</td>
<td>17.74</td>
</tr>
<tr>
<td></td>
<td>Brits</td>
<td>21.27</td>
</tr>
<tr>
<td></td>
<td>Kempton Park</td>
<td>20.67</td>
</tr>
<tr>
<td></td>
<td>Springs</td>
<td>21.26</td>
</tr>
<tr>
<td></td>
<td>Benoni</td>
<td>20.71</td>
</tr>
<tr>
<td></td>
<td>Vereeniging</td>
<td>21.93</td>
</tr>
<tr>
<td></td>
<td>Rustenburg</td>
<td>22.03</td>
</tr>
</tbody>
</table>

13.4 **Water connection**

Local Municipalities generally provide water connections.

Connection times are usually fast, with the exception of those sites not serviced. The time required for connection times to serviced sites ranges from one (1) day to two (2) weeks. Times required for connection to non-serviced sites ranges from one (1) month to one (1) year or more.
<table>
<thead>
<tr>
<th>Province</th>
<th>Tariffs</th>
<th>Domestic / Flats / Townhouse s</th>
<th>Industrial / Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
<td>0 – 10kl</td>
<td>R 2.15/kl</td>
<td>R 5.84</td>
</tr>
<tr>
<td></td>
<td>11 – 20kl</td>
<td>R 3.25/kl</td>
<td></td>
</tr>
<tr>
<td></td>
<td>21 – 40kl</td>
<td>R 4.48/kl</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41 kl and more</td>
<td>R 5.58/kl</td>
<td></td>
</tr>
<tr>
<td>Durban Metro</td>
<td>0 – 6kl</td>
<td>R 0.00</td>
<td>R 4.25</td>
</tr>
<tr>
<td></td>
<td>6 – 30kl</td>
<td>R 2.83/kl</td>
<td></td>
</tr>
<tr>
<td></td>
<td>30 and more</td>
<td>R 8.50/kl</td>
<td></td>
</tr>
<tr>
<td>Cape Town</td>
<td>0 - 8kl</td>
<td>R 0.00</td>
<td>R 3.16</td>
</tr>
<tr>
<td></td>
<td>7 - 20kl</td>
<td>R 2.60</td>
<td></td>
</tr>
<tr>
<td></td>
<td>21 - 40kl</td>
<td>R 4.10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>41 - 60kl</td>
<td>R 5.20</td>
<td></td>
</tr>
<tr>
<td></td>
<td>61+</td>
<td>R 7.00</td>
<td></td>
</tr>
</tbody>
</table>

Table 3: National Water Prices per Province

13.5 **Telephone connection**

Telkom ([www.telkom.co.za](http://www.telkom.co.za)) can usually provide a line within two weeks if lines are in place. The connection fee is R150 for the first line and R135 for any additional lines. It will usually dispatch a sales representative for any request for more than three lines. Any investor must provide a surety from a South African citizen. Failure to acquire a surety will require a deposit of R1 000.

If an equipment upgrade is required, Telkom can upgrade a facility within four months, depending on the need. No additional fees are required, unless the upgrade is not in Telkoms’ strategic plan. If the upgrade is not within its strategic plan, Telkom will base its fees on a cost recovery basis. No special forms are required.

Telkom can provide a number of means by which an investor can receive telecommunications services in an un-serviced area, but it requires approximately two to four months, depending upon the type of solution. Radiophone systems are installed in a number of remote areas around South Africa.

For more information regarding tariffs and call rate structures and plans please visit Telkom website at [http://www.telkom.co.za/index.jsp](http://www.telkom.co.za/index.jsp).
Part 2:

**THE DEVELOPMENT PROCESS**

Initiation

Evaluation

Acquisition

Design and Costing

Permission

Commitment

Implementation

Exploitation
Chapter 14

Development Process

As any developer knows, the development process can be a very complex system with many variables and uncertainties. In this chapter we very briefly look at the main steps that any development normally follows, from inception to exploitation.

The scope of the development depends on market factors in play and on the desires of the developer. The choice, for example, of investing in an existing building or a constructing a new building depends on these factors. In all these cases the development process will incorporate the following steps.

These steps are outlined as follows:

14.1 Initiation

The developer will in most cases have an existing property that he wishes to develop and he will want to know either; what he can develop on that property and if this development idea is financially viable and profitable. In most cases the development options will be as follows;

- Office development,
- Commercial and retail development,
- Industrial development,
- Residential development,
- Agricultural properties,
- Public development [e.g. hospitals and schools]

The task therefore is to find the best and most viable option for that specific property or to check the viability of the proposed development as laid down by the developer.
An investor on the other hand has resources and or capital that he wishes to invest, but not the property and will tender a mandate that he wishes to have fulfilled.

In this case the task is to find the most appropriate project within the boundaries of this mandate.

The investor normally does not get directly involved with the development process since he is only interested in the bottom-line (profit). The developer does get intricately involved, as he is normally involved with the design, construction and in some cases the exploitation.

Initiation of the project will start depending on the mandate. Each case determined on its own merits and boundaries. In most cases the following steps are taken in the initiation stage;

1. **Analysis of the mandate of the investor or developer and generate ideas to meet them (needs, requirements, objectives and resources).**
2. **Investigation of the availability and prices of borrowed capital (financing possibilities)**
3. **Undertake broad market research and search for suitable site and or test available site**
4. **Identify the most appropriate use by firstly:**
   - Researching the market and then,
   - If change of use is required, researching the potential for obtaining planning consent for change of use. Consult with the local planning authority with regard to the proposed development.

Once a property has been found, the next step will be that the property must physically be inspecting and a broad initial research into the viability undertaken. If this broad initial research shows the property to have a reasonable expectation of success the decision will be made whether or not to proceed with the property and or find a new property.
14.2 Evaluation

The potential property has been identified in the previous step and now it will be investigated further and in more detail. The grounds for qualification of the assumption of viability and productivity of the property must be determined.

The next step is to compile a feasibility study. The feasibility study will normally take the whole life cycle of the development into account.

The life cycle of a project is given briefly here:
The feasibility study normally consist of the following phases;

- **Market Study:**
  Evaluation of the market and external factors that influence the value of a selected property, both now and in the future by undertaking a more refined appraisal of the viability of the property or proposed development, taking into account market trends and physical constraints.

- **Financial Analysis:**
  Calculation of the investment value to the specific investor of one, or more selected properties, at the same time establishing the availability of finance and the terms on which it might be provided.

- **Risk Analysis:**
  A risk analysis is important and many projects have failed in the past due to developers not taking sufficient time to identify possible risk factors. The risk analysis is thus important as it tries to identify the possible risks and uncertainties involved in the proposed project. It is important to formulate strategies to handle these risks and uncertainties and to have the risks quantified where possible.

- **Environmental Impact Assessment:**
  It has become law in South Africa that environmental impact study has to be done with every new development or change of function of a existing building. This is a requirement before permission can be given by the local authority to proceed with the construction.

After the feasibility study has been presented to the client a decision must be made whether or not to proceed with this development or find another investment possibility.

### 14.3 Acquisition

If the property is not already in the possession of the investor or developer the decision must be made whether to acquire the property either by purchase, lease or negotiating a contract with the current owners to get first option on the property whilst the calculations and designs are being made.
14.4 **Design and Costing**

The design phase of the project is an important phase in the development process. If the project is poorly designed there is a high possibility that development will be unsuccessful and probably fail. It is therefore of utmost importance that the project is properly designed, planned and priced. If the designs are made properly, the costing and planning can also be done accurately and there will be less nasty surprises during the subsequent phases of the development. The design phase can be seen as the make or break point of the development. If little attention is given to the design of the project is can become very expensive and the construction can be very difficult and time consuming. During the design and costing step the following will also be taken;

- Decide the appointment of the professional team and determine the basis of the appointments
- Prepare a brief that outlines the basic proposals for design, budgeting, taxation, planning, marketing and disposal.
- Set out all the management and technical functions, together with the various responsibilities.
- Arrange for the design team to prepare and submit preliminary detailed drawings for planning approvals and budget forecasting

14.5 **Permission**

Submit the planning application and negotiate with the local authority, and other interested and affected parties. Make the necessary changes to the scheme and obtain final approval from all concerned.

14.6 **Commitment**

Decide whether or not to proceed with the project.

14.7 **Implementation**

The implementation phase is commonly known as the contract and construction phase where the development is physically built and developed. To do this it is important to
firstly establish the procedure for selecting contractors. Arrange the appointments and compile and approve the various contract documents. A management structure must be established to take account of communications between the parties and the responsibilities borne by all involved be allocated. Attention must particularly be paid to administration, accounting, purchasing, approvals reports and meetings. Other points to take in to account are;

- The appraisal system for monitoring the viability of the project throughout the construction period
- Generally supervise all contractual affairs
- Arrangements to check all plant, equipment and buildings before they are commissioned and de-commissioned

14.8 Exploitation

By this is meant commercial exploitation of the property. The developer decided early in the development whether or not he wants to sell, retain or exploit the premises. His initial choice will now determine at which point the marketing campaign is best started as well as how it should be conducted and by whom. He must then also already have decided on the form of lease or sale contract, so as to preserve an optimum return on the investment.

In the case of a lease and thus retaining the development it is important to establish a management and maintenance program so as to recruit and train the necessary personnel to provide a smooth handover. At all times the effort must be made to maintain the security and safety of the building. An ongoing process will be to monitor the performance of the retaining (managing) agents and reorganise the financial arrangements where necessary.
AG van Deventer
Thesis Layout

**Section A:** South African Environment

**Part 1:** Background Research into South Africa
- History
- Geography
- Provincial Overview & Demographics
- Government
- Economy
- Business structures
- Foreign Investors & Non-Residents
- Taxation & Duties
- Property ownerships
- Property Transfers
- Development Schemes
- Basic Site Services & Permits

**Part 2:** The Development Process
- Initiation
- Evaluation
- Acquisition
- Design & Costing
- Permission
- Commitment
- Implementation
- Exploitation

**Section B:** Property Development in South Africa

**Part 1:** Property Inspection and Information

**Part 2:** Feasibility Study Manual
- Phase 1: Market Study Manual
- Phase 2: Financial Analysis Manual
- Phase 3: Risk Analysis Manual
- Phase 4: Environmental Impact Study Manual

**Part 3, Example:** “Thula” Feasibility Study
- Phase 1: Property Inspection & Information Report
- Phase 2: Market Analysis
- Phase 3: Financial Analysis
- Phase 4: Risk Analysis
- Phase 5: Environmental Impact Assessment

**Section C:** Thula Installations
- Demand Estimates
- Electricity
- Water
- Gas
- Building Principles

**Main Thesis**

**Extra Thesis Project**
Section B

PROPERTY DEVELOPMENT IN SOUTH AFRICA

Part 1: Property Inspection and Information

Part 2: Feasibility Study Manual

Part 3: Example: “Thula” Feasibility Study
Part 1: PREAMBLE

In this section of the report the initial two stages of the development process as mentioned in Part 2 of section A are reviewed. Special attention is given to feasibility studies.

The additional stages of the process are well documented, consisting of various forms and techniques, these stages falls outside the scope of this report.

Part one is the inspection report. The inspection report will normally be completed before the feasibility study will be undertaken.

Part two is the feasibility study manual. This manual gives brief guidelines that can be follow in order to compile a feasibility study.

Part three is an example of such a feasibility study as undertaken and completed by the author for an actual development.
PART 1

PROPERTY INFORMATION AND INSPECTION

Picture 16: View of Thula property
Chapter 1

Property Inspection Report Manual

Once a suitable property has been identified a site investigation is undertaken and general information gathered on the property that may possibly be relevant to the project now and later.

The general information gathered in the inspection report are noted on in this chapter, the information will be important for further research into the property. The items mentioned in here are by no means the only information that can be gathered, but gives a good guideline that can be followed. As noted before, each project is unique.

The inspection report contains information that is relevant to the feasibility study and can thus be attached to the feasibility study report as an introduction or addendum.

Sections not applicable to the specific development can be omitted. There are no set guidelines as to the information to be incorporated into a property inspection report. Here we look at the most common available information for properties in South Africa.

1.1 The Brief

Give a concise summary of terms of reference (the mandate) with regards to the property. Take into account factors such as, but not only;

- preferred market segment (what needs to be developed),
- any location requirements (where does it need to be developed),
- available resources of investors (how is finances realised),
• rate of return on investment required (what is the expectation)
• how fast must development be implemented (By when must it be in finished)

1.2 The property

1.2.a Regional locality
As was noted in Section A, Part 1 Chapters 2 and 3 South Africa is a very large country and different provinces are more viable than others for certain types of industries and developments.

It can therefore be suggested that a brief description be given of the location of the property, include maps where available.

The reader must at all times be aware of the exact location of the property and its location with regards to the arterial roads network and local authorities. Information regarding these issues can be found in Section A.

1.2.b Municipality
A important point tot note in the inspection report is under which district and local municipality jurisdiction does the property fall?

The district municipality can be contacted to obtain information on property rates and taxes and the current municipal valuations. The municipality has information regarding the (civil) servicing requirements, location of such services and any additional or new development intended for the future (Spacial Development Framework).

The location, name and contact details of the municipalities in South Africa can be found on the South African Municipality Demarcation Board website www.demarcation.org.za

1.2.c Property number
Obtain the property (site/erf/parcel) number from the City Engineers Department of the relevant area or directly from the Chief Surveyor General (CSG) or the local municipality offices. The maps and diagrams of the area and property can be viewed, free of charge, at the offices of the Surveyor General in Cape Town, Bloemfontein, Pietermaritzburg and Pretoria.
Information and maps can be requested via the Internet on http://csg.dla.gov.za/ and http://w3sli.wcape.gov.za/. Internet registration is required and fees are charged both on the website and at the offices for copies of documents, diagrams and maps.

1.2.d  Deeds Register
Obtain a copy of the deed (small fee) of the property from the Registrar of Deeds in Cape Town, or on the Deeds-web of South Africa (www.deeds.co.za). Registration is required on the website and fees are charged both on the website and at the offices for viewing and copies of documents.

1.2.e  Property Size
The copy of the Deeds Register, the Surveyor General diagrams or information gathered from the local municipality shows the exact property size and extent. The property border co-ordinates can be ascertained from the surveyor general diagrams.

1.2.f  Current owner
Information of the current and past owners are documented in the Deeds Register. Included will be other relevant information regarding these owners, if needed. This information can be used to locate the current owners if these are not known.

1.2.g  Restrictive conditions of title
Report on the restrictive conditions of title as per the Deeds Register and information obtained from the Chief Surveyor General and zoning controls (Spatial development). This is important as restrictive conditions can hamper the development as it can be a costly and lengthy legal process to have these removed.

1.2.h  Bonds or endorsements
Report on the bonds and endorsement registered against the property, if any.

1.2.i  Servitudes
Report on registered servitudes against the property, as per the deeds registry. Relevant information is also obtainable from the Surveyor General website (http://csg.dla.gov.za). This is important for the same reasons as mentioned in paragraph 1.2.g.
1.2.j Surveyor General Diagrams
If necessary include the diagrams, obtainable from the Chief Surveyor General or downloaded from their website.

1.2.k Arial Photographs
If so required, an aerial photograph of the property can be included. This is obtainable from the Surveys and Mapping Division of the Department of Land Affairs. Photos can also be obtained from the GIS network and the data section of the Chief Surveyor general (http://csg.dla.gov.za/data.htm) or from Mowbray. Topographical maps are also available from the Surveys and Mapping Division.

1.2.l Brief background of property
Include a brief outline of the history of the property. This information will be relevant to the investor if previous such developments have been tested or proposed on the property.

1.2.m Property description/Physical characteristics
Give a brief physical description of the property including such items as availability of civil services (roads, water, sewage, etc.), topography, geology, etc.

Describe the general characteristics of the property including soil types present, topography, rainfall regime and what is the main directional orientation of the property [can also be seen on CSG diagrams].

As a last note it is important to endeavour to include as much information relevant to the envisaged development as possible in the inspection report.
PART 2

FEASIBILITY STUDY MANUAL

MARKET STUDY MANUAL

FINANCIAL ANALYSIS MANUAL

RISK ANALYSIS MANUAL

ENVIRONMENTAL IMPACT ASSESSMENT MANUAL
Part 2: PREAMBLE

This part, [Section B, Part 2] of the Thesis Report is “The Manual” for developing a feasibility report. This general manual covers the steps that can be taken to execute a professional study, either as a researcher mandated by a client, or a developer.

The focus is mainly on developing and compiling guidelines for a generic feasibility study, as well as how and where information can be sourced within the borders of South Africa (and more specifically the Western Cape Province since this province (amongst others) is currently experiencing a high level of growth in the property development sector).

This manual and thesis report is a very useful tool since the persons using it will most likely be foreigners unfamiliar to South Africa or have very limited knowledge of how to find the South African information that is needed. By using this manual they will be able to find the relevant information fairly quickly and familiarise themselves with the legislation and inner workings of South Africa, as this country is most certainly different from others.

It is not possible to include every thinkable scenario in the limited time and space available here and thus this manual only gives broad guidelines that can be followed to evaluate a development and initiate a feasibility investigation.

If sections in this manual are not applicable to a specific development they may certainly be omitted. Every report is unique to the specific development.

A feasibility study report normally consists of four main phases, namely;

- a Market Study,
- a Financial Analysis,
- a Risk Analysis and
- An Environmental Impact Assessment (EIA).

We use these four phases as the bases for the manual.
Chapter 2

Market Study Manual

The Market Study is an important phase within the feasibility study report.

Problem description:

The problem is that there are market forces in play that have a great influence on the potential income generating potential and the overall value of the development.

Goal description:

The goal is to identified and analysed these forces and utilise this information to determine/forecast the potential success of the project. This information is useful in determining the development of the correct facility, in the correct place, at the correct time.

The market study will give the developer a better idea as to the market forces in play and establishes a basis for informed decision making, other possible developments, as well as testing and refining the initial hunches of the developer/investor. It is useful in formulating long term investment and development strategies and to analyse and predict the performance of property investment portfolios.

Try to start by looking at the broader picture and then work towards a more focused point, in other words, start with the broader data (example: national residential house prices) and then work towards a more focused project specific level data (example: Suburb/regional house prices).

Identify and gather information about the broader property market and then utilise this information to identify and determine the project specific information that is required to
ensure the best probability of success (Some general information regarding South African properties have been noted in Section A, Part 1, Chapters 10 to 13)

2.1 Location
From the information gathered in the macro economical research information it might become clear as to the location that is most suitable for a development. Check to see if there are properties available in this location before proceeding. The property could however already be identified and purchased. In such cases the task will be to identify the best development option for the property.

2.2 Development segment
Describe as accurately as possible the development/market segment or industry that the property is intended for, i.e:

- Tourism and service (e.g. hotels and resorts),
- Agricultural (e.g. wine-lands and fresh produce),
- Industrial (e.g. factories and manufacturing plants),
- Residential. (e.g. free standing houses, town-houses and apartment buildings)

2.3 Market Aspects
The focus in this section is the property development market and the factors and trends that influencing the market. Gather information on the projects that are being developed or planned at present.

Find information on most recent developed objects relevant to your own circumstances. Describe these objects in a concise manner, (summarise direct and indirect competition). The importance of this analysis is evident.

Economical information, depending on the market sector, can be sourced from:

- South African Network for Economic Research (www.nct.ac.za/org/saner),
- National Bureau of Economical Research (www.nber.org),
- Stellenbosch Bureau of Economic Research (www.sun.ac.za/beo),
2.4 Market Analysis

The market analysis can be subdivided into “spacial areas” according to Wurtzebach and Miles (1987), [see reference in Bibliography]. These areas are;

1. Country analysis,
2. Provincial analysis,
3. Regional analysis,
4. Neighbourhood analysis,
5. Site analysis,

Foreign developers begin by doing a country analysis and then work down to a site specific analysis. Each foreign developer would have done this at least once. From thereon it is possible to only look at the provincial to site analysis if the developer intends to work only in one province, or even only concentrate on the neighbourhood and site analysis if he intends to concentrate his effort in one or more areas known to him.

External economic, social and political factors that influence the property value can and must also be noted. (Some of these general factors have been noted in Section A, Chapters 3, 5, 6, 8 & 9). In these analyses the influences that the state has on the national and regional economy; the government’s current monetary and fiscal policies can also be reported, thus giving as much information regarding external issues that will have an influence on the value of the property now and in the future. This can include local neighbourhood changes, stating if this is in decline or developing positively and the implications on the value of the property. The questions that should be dealt with include but are not limited to:

- Will there be clients to buy, rent or lease the proposed development?
- How quickly will the project be absorbed in the market?
- At what expected price will the project be absorbed.
How will the project be planned and or marketed and in doing so make it more competitive?

What government influences are there

It is not the purpose of this general manual to study these analyses. An in-depth study can be made of the market forces, although time constraints normally dictates the level of detail of he research done.

2.5 Authorities requirements

Each municipality has its own set of rules and regulation relating to the property and these must be researched and reported on. In the previous section regarding the inspection of the property we have touched on this issue and it is from this that information must be determined such as;

- Zoning,
- Licensing,
- Permits,
- By-laws,
- The building regulations such as fire regulations (for distances between buildings),
- Regulations regarding quality of materials used,
- Subdivision regulations,
- Building quality,
- Size, height and bulk high restrictions.

The local town planner’s master plan and structural plans have information on the land use zoning(spacial planning), future growth planning, utilities, trends and facilities.

2.6 Environmental Issues

In this section it is important to report on the developmental and environmental limitations for the envisaged development. For example; it is a necessity and requirement, to compile an Environmental Impact Assessment (EIA) for all new and proposed developments. This may not be done by the developer himself and it must be outsourced.
so as to ensure total independence. Enquire with the local health authorities for, amongst other items, the control of waterways and natural streams in the vicinity of the development. One should now be able to summarise the limitations and the requirements that will influence the design of the development.

Further information regarding environmental issues can be obtained from the Department of Environmental Affairs and Tourism (www.environment.gov.za).

2.7 Planning consent
Report on the possibility of obtaining planning consent for the change of property use, if this might be required. This is an very important aspect of the market analyses in South African conditions, albeit not necessary for all market analyses in other countries.

Contacting the local authorities for more information regarding the intended project beforehand, to determine if actual consent will be granted for the development or if there are any current restrictions. Conversely one runs the risk of being declined after committing a substantial amount of time and resources to the development.

2.8 Risks
This might not be necessary for all market analyses, although it is handy in preparing and as a build-up to the analysis at a later stage. Therefore, compile a brief report stating the possible market related risk factors for the proposed development, in order to be aware of potential obvious difficulties. Attention to this will be granted in part three, the “Risk Analysis”.

2.9 Conclusions and recommendations
Complete the market analysis by concisely reporting on the conclusions and recommendation regarding the proposed development.
Chapter 3

Financial Analysis

Manual

3.1 General
After the market analysis it will be possible to determine the expected income and other financial figures relevant to the development. These will, of course, be estimates grounded on the present and future information gathered during the feasibility. Further activities to engage in are mentioned here.

3.2 Preliminary Designs
It is important to determine some aspects of the design, so as to enable the financial calculations to be done in the following sections. It will therefore be necessary to determine and report on the functional program and minimal or maximum required dimensions of buildings; the situation, orientation, size and grouping of spaces, construction type, building methods and materials to be employed and any other special circumstances or elements of the design that will have clear influence on costs.

One may decide to include some initial sketches of the design and photos or other graphical aids to support the explanations.
3.3 **Development Cost Estimates**

With the above known it may now be possible to calculate the cost of developing and construction. The total development costs estimate consist of a variety of items, each being calculated as accurately as required.

These items are:

- Land cost (e.g. purchase price, transfer duties and legal fees)
- Building/construction cost,
- Professional fees,
- Site investigation fees,
- Planning fees,
- Building regulation fees,
- Funding fees (e.g. bank fees),
- Financing costs/interest,
- Letting agent’s fees,
- Promotion costs,
- Sale costs,
- Operating costs (Commercial Exploitation costs),
- Other development costs specific to the project.

3.4 **Financial evaluation**

Here some of the methods employed by the analyst to evaluate the development are noted. It is not the task here to explain how each evaluation method works as most readers will have prior knowledge of this. The inclusion of these explanations was deemed excluded from the terms of reference for this report as it is accepted and expected that these are be familiar to the reader

3.4.a **Operating Income statements**

In this section the analyst should try to determine the income that could be generated by the development. The methods for determining these figures are not included here as
most are quite self-explanatory. Calculations that can be included in the statement are, but not limited to, the following:

- Net operating income (i.e. what monies are there to cover daily operating costs and run the business)
- Before-tax cash income (i.e. how much before tax income is there)
- After-tax income (i.e. how much money is left after taxes have been paid)
- Annual income over a projected period of how many years (i.e. projected averaged annual profit over exploitation period)

Additional calculations can be included in the report in cases where a developer plans to sell the development immediately;

- Effective gross proceeds from sale
- Before tax net worth
- After tax net worth
- Justified present value of equity capital
- Justified present value of the project

3.4.b Conventional techniques of evaluation

There are age-old techniques by which the profit is determined by subtracting all the development costs from the estimated (expected) income or the value of the completed development so as to determine (in broad lines) what profit to expect or to determine the residual value of development.

This figure is used to establish whether the project produces an adequate return or yield on investment. The positive or negative evaluation of development and these results will highly rely on the return on investment required or expected by the investors.

The conventional technique can further be divided into two basic techniques namely the;

1) Residual evaluation:

Residual evaluation is done if the developer wants to know how much he can afford to purchase the property for, in order to reach a certain target rate of profit. The calculation is explained in Cadman and Topping 1996 (see bibliography) as it is not the purpose of
this general manual to study these analyses, it is assumed that the user is familiar with these methods.

2) Profit evaluation:
The development profit is calculated by subtracting the total development costs from the Net Development Value (NDV), to arrive at a figure that will represent the expected profit before taxes.

The NDV normally has two important variables that should be taken into account, namely the income and investment yield. Income can generally be defined as the funds that the development generates with the development during the exploitation period. The investment yield is the value used to discount the income stream in order to calculate the capital value of the scheme today (commonly known as capitalisation). It is important to have these values as accurate and realistic as possible and it is therefore advisable to consult a professional valuer, quantity surveyor or agent.

The development costs are the sum of the items as noted in the “Estimation of cost” section of this phase.

An additional calculation will be done to determine the Yield on Cost i.e. total development cost (excluding profit) divided into the first year’s income. This result must be greater than the yield applied to obtain the NDV above. The difference between the two yields should represent the profit to the developer.

The main weakness of the conventional evaluation method is that it does not take into account the timeframe of expenditure or revenue (thus interest cost calculations are inaccurate). Another weakness is that the calculation hides the uncertainty that lies behind the calculations, i.e. they do not take account of the effect of inflation and other economical influences.
3.4.c Cash Flow Method of evaluation

In order to cover the abovementioned shortfalls, a cash flow appraisal can be made.

The cash flow provides a more accurate and realistic representation of the development costs and income over time. This has an added advantage of allowing interest to be calculated on a monthly basis and thus provide a more accurate calculation of interest cost. (An example of a cash flow can be seen in the example as attached in Part 3 of the thesis report)

It is an important and time-consuming task to compile a proper cash flow, although it is certainly well worth the effort. The results obtained in the cash flow can be used to more accurately determine the financing requirements of the development on a monthly basis.

3.4.d Net Terminal Approach evaluation

This technique simply calculates the interest accumulated in a different manner than the cash flow technique mentioned above and has no visible advantage over the normal cash flow techniques. This method of calculation might even overstate the amount of debt outstanding every month.

3.4.e Discounted Cash Flow Method evaluation

The Discounted Cash Flow (DCF) does not calculate the interest on a monthly basis; it discounts the monthly costs and income to the present day to establish the value of the profit today rather than at the end of the development.

The discount rate determined by the cost of borrowing money and the formula used to discount the costs and income to today is \[ \frac{1}{(1+i)^n} \].

These calculations will result in the developer being able to calculate the Internal Rate of Return (IRR), which is used to determine the profitability of the development, if compared to other developments and as opposed to the percentage return on cost.
3.5 **Sources and Terms of Financing**

Investigate the availability and prices of borrowed capital ([See Section A, Chapter 5, 8 & 9](#)). This is especially important where the project is not only financed by investors capital, i.e. by means of other sources such as a bank loans, governmental assistance, etc. also.

The case where the investor is a foreigner (or non-resident) it will be important to research the options for borrowing capital and the controls layed down by government. ([Section A, Chapter 8](#))

The development project can be financed in a variety of ways, for example;

- The investor/developer himself,
- A syndication, involving more than one investor,
- A financial institutions or pension funds,
- Selling off units in the development prior to building (selling off-plan), to finance the rest of the development (this method is strongly controlled and regulated in SA).

Foreign investors must take a variety of additional issues (rules and regulations) into account and the feasibility report must research and report on these where neccessary. Some of the issues that should be investigated at are;

- [Foreign Exchange Control Regulations](http://www.reservebank.co.za) ([Section A](#))
- Restrictions on local borrowings by foreign investors and non-residents, with special attention to borrowing limits, equity ratios, remittance of profits and dividends ([Section A](#))
- Types of loans available to foreigners and residents ([Section A](#))

All of the above was reported and noted in [Section A](#), titled “The South African Environment, South Africa”.

3.6 **Governmental Considerations**

In certain instances, for example: State assistance is available ([Section A, Chapter 8](#)). Determine whether the development qualifies for state assistance and what the prerequisites are for applying.
The analyst must report on the development proposal, surrounding projects, the location of existing and proposed roads and the availability of engineering services.

Various authorities and bodies must be taken into consideration, including but not only;

☼ Eskom (Electricity),
☼ Water Board,
☼ Regional Services Councils and,
☼ N.G.O.’s (Non Governmental Organisations).

The developer should have sufficient knowledge of the Regulations, Legislation and Acts affecting the development in South Africa. Some of the most common occurring legislation is listed here:

- Black Economic Empowerment Act 53 of 2003
- Land Use Planning Ordinance 15 of 1985
- Removal of restrictions Act No. 84 of 1967
- Land Survey Act No. 8 of 1997
- Sectional Titles Act no. 95 of 1986
- Share Block Control Act 59 of 1980
- Time Share Property Control Act 75 of 1983
- Housing Act 107 of 1997
- Rental Housing Act 50 of 1999
- Deeds registries Act no. 47 of 1937
- Local Authorities Structures Plans
- Local Authority town Planning schemes
- Property Time Sharing Control Act 75 Of 1983,
- National Environmental Management Act 107 of 1998
- Municipal Property Rates Act 6 of 2004
Refer to Section A, titled “South African Environment, South Africa”, which forms part of this Thesis project, for more information about the above or find these acts and legislation on the website or the compact disc attached to this report.

Acts can be viewed on www.acts.co.za (website) and copies of most acts are included as attachment.

3.7 General Tax implications

Report on the tax implications relevant to this development and suggest the best structure for tax benefits and reductions. It will be advantageous to contact a professional versed in tax-law with regards to theses issues.

Section A, Chapter 9, of this thesis sheds some light on these issue in the South African context and further information can be gathered directly from the South African Revenue Service (www.sars.gov.za).

Take the following tax issues into account:

- Value Added Tax (VAT)
- Capital Gains Tax (CGT)
- Company/Corporate Tax
- Secondary Tax on Companies (STC)
- Employers Tax

VAT, for example, has an impact on the cash flow of a development project, although in most cases VAT could be recovered if the correct procedures are followed.

The legislation regarding VAT is very complex and it is beyond the scope of this report, those interested to know more can view the attachment on VAT included on the compact disc included with this report.

Added also to the attachments are information regarding secondary Tax on companies CGT and other information. Otherwise consult Section A of this thesis report where mention was made of these elements (Section A, Chapter 9).
3.8 **Decision making Ratios**

There are many forms of decision making ratios, some are standard but most not. In this section ratios are mentioned and defined. Definitions are given for clarity purposes only although others are omitted as these are self-explanatory and easily calculated.

Ratios utilise the financial information as gathered to make mathematical analyses of the specific project, company or venture, therefore attempting to clarify and compare different the projects and ventures. These ratios can therefore be used to compare one project to alternative investment possibilities. Some of these ratios are listed as a guideline of possible comparisons. Each project must be assessed on its own merits before determining the best ratios to use.

Not all possible ratios that can be calculated are mentioned here. Most ratios are self-explanatory but with some explanatory translations are given. To make the explanations more understandable ratios have been divided into:

A) **Liquidity Ratios:**

   *i.*) **Current Ratio:**

   \[ \text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \]

   The ratio between all current assets and all liabilities, i.e. another way of expressing liquidity. A ratio of > 1 is required, but one problem with this ratio is that it ignores the timing of cash received and paid, and therefore does not indicate the companies ability to survive. The norm is 2:1.

B) **Gearing Ratios** (Leverage ratios):

   *ii.*) **Debt to Equity ratio:**

   \[ \text{Debt to Equity ratio} = \frac{\text{Value of Loan(debt)}}{\text{Value of Equity}} \]

   This ratio shows the capital invested by the owners and the funds provided from the lenders. This ratio is determined to give an indication of how much finances was
borrowed against the equity that is available. This is a comparison of how much financing was received from debt and through equity. A ratio of between 1 and 4 is normally acceptable. A ratio of 2:1 is most common.

\[ \text{iii.) Loan to Value ratio:} \]
\[ = \frac{\text{Value of Loan}}{\text{Value of Property}} \]

The ratio that shows how much money was loaned in relation to the property value against which the money is loaned, normally this must and will be <1, although most South African banks require a ratio of <0.9 from individuals.

\[ \text{iv.) Debt coverage ratio:} \]
\[ = \frac{\text{Annual Net Operation Income}}{\text{Annual Debt Service}} \]

This ratio indicates how well the cashflow covers debt and the capacity to make annual debt payments or take on new debt. This figure should always be < 1 for the business to be able to repay the annual debt servicing.

C) Profitability Ratios:

\[ \text{v.) Gross profit margin:} \]
\[ = \frac{\text{Gross Profit}}{\text{Total sales(money received from rental)}} \]

This ratio is an indicator of how much profit is earned without taking into account of other administration and sales costs.

\[ \text{vi.) Net Profit margin:} \]
\[ = \frac{\text{Net Profits}}{\text{Total sales}} \]

This ratio shows how much profit comes from every dollar earned from rentals(sales).
D) General/Market Value Ratios:

vii.) Gross income multiplier:

\[ \text{Gross income multiplier} = \frac{\text{Market Price or Value}}{\text{Effective Gross Income}} \]

viii.) Net income multiplier:

\[ \text{Net income multiplier} = \frac{\text{Market Price or Value}}{\text{Net Operating Income}} \]

ix.) Operating ratio:

\[ \text{Operating ratio} = \frac{\text{Operating Expenses}}{\text{Gross Income}} \]

This ratio shows the “health” of the company. This is an indicator of how well the company functions to cover all its operating expenses by the gross income received.

x.) Break-even ratio:

\[ \text{Break-even ratio} = \frac{\text{(Operating Expenses + Debt Service)}}{\text{Gross Rental Income}} \]

xi.) Overall capitalisation rate:

\[ \text{Overall capitalisation rate} = \frac{\text{Net Income}}{\text{Market Value}} \]

xii.) Equity dividend rate:

\[ \text{Equity dividend rate} = \frac{\text{Before Tax Cash Flow}}{\text{Initial Equity Cash Outlay}} \]

xiii.) Cash on cash return:

\[ \text{Cash on cash return} = \frac{\text{After Tax Cash Flow}}{\text{Equity Investment}} \]

xiv.) Brokers rate of return:

\[ \text{Brokers rate of return} = \frac{\text{[After Tax Cash Flow + Equity Build-up]}}{\text{Initial Equity}} \]

xv.) Payback period:

\[ \text{Payback period} = \frac{\text{Cash Outlay}}{\text{Annual Cash Flow}} \]

Determination of how long it will take to repay the debt/cash invested in the company.
E) **Other.**

*xvi.) Choice of Discount rate:*

There are three types namely;

- Risk Free Rate,
- Risk Adjustment Rate or,
- Opportunity cost as common discount rate.

\[
\text{Discount Rate} = \text{Capitalisation Rate} + \text{Growth Rate Required}
\]

*xvii.) Hurdle rate:

\[
\text{Hurdle rate} = \text{Minimum Acceptable Rate of Return}
\]

In other words the rate required by the investor before he will consider going ahead with the scheme.

*xviii.) Net Present Value (NPV):

\[
\text{NPV} = \text{Present Value of cash inflows} - \text{Initial Investment}
\]

*xix.) Internal rate of return (IRR):

\[
\text{IRR} = \text{The discount rate that equates the net present value of the development to zero and it is required that the IRR is bigger of equal to the discount rate for the project to be acceptable. The method for calculating the IRR is explained in other publications and falls outside the scope of this report.}
\]

**Definitions**

- **Total current assets:** This is any cash or asset that can be quickly turned into cash. This includes prepaid expenses, accounts receivable, most securities and your inventory.

- **Total current liabilities:** This is a liability in the immediate future. This includes wages, taxes, and accounts payable.

- **Total long term assets:** This includes buildings and equipment (less depreciation), real estate and other assets that are not readily turned into income or cash.
- **Total long term liabilities**: This includes mortgage, deferred taxes, notes payable and other long term liabilities.

- **Sales**: Total sales/rentals for the period.

- **Receivables**: Total balance in your accounts receivable.

- **Cost of goods sold**: This is the total cost of the raw materials, supplies and labor required to produce your product for the period. In the property market this can also mean the construction or development costs.

- **Operating expenses**: Your selling, administrative and other expenses used to run your business but **not** directly associated with the creation of your product.

- **Interest expense**: Your total interest expense for the period.

- **Inventory**: Total inventory which includes normal inventory, safety stock and work in process. In the case of property developers this will mean the buildings that they have in their portfolio.

- **Other income**: Any other income your company receives that was not through its operations. This includes the sale of appreciated property or securities.

- **Gross profits**: Gross profits are your profits for the period before operating expenses, fixed expenses, taxes or interest. This is calculated as your sales minus your cost of goods sold.

- **Operating income**: Total income generated from your operations, after operating expenses but before interest and taxes.

- **Net income before taxes**: Your income before taxes. This amount includes income not generated directly from your operations such as income generated from financial investments.
**Conclusion, Advantages and Disadvantages:**

The advantages of using decision making ratios are that they are very useful in determining if a proposed development might be viable, or if a running concern is comparing favourable or not to other investments.

The ratios can and are used to compare one development to another or other projects. The projects do not necessarily have to be similar. This is therefore another advantage; that for example a large residential property development can be compared, using ratios, with a small clothing factory.

Ratios are used to determine the survival chances of the development and or the health of the financial side of a running venture, or to help an investor decide which investment possibility to take.

The choice of which ratio to use is project and time specific and can only be assessed when this is required. It is therefore not possible to use a turnover ratio such as the “Debtors period”, that indicate how long other companies must wait after a sale before they are paid, if the company has not even started trading yet unless you are only guessing.

The reasons for using the ratios are evident as explained above and the decision of which ratios to use will depend entirely on the situation and circumstances at hand. Therefore it is not practical or possible at this stage to determine which ratios will be used and the reasons why. This can only be done at a later stage, when more information is known.
Chapter 4

Risk Analysis Manual

A major disadvantage of the feasibility study and especially the financial analysis is that it is mostly based on assumptions and best guesses and not hard facts. In the course of compiling a normal feasibility study assumptions are made regarding amongst other items; the success of the proposed development, although the veracity of these assumptions known once the actual development has commenced or is fully developed and operational. Developers tend to shy away from determining a realistic risk analysis and when they do, it is mostly only done on gut-feeling alone. To ensure that the development assumptions are reasonable, requires the ability to:

1) identify,

2) quantify and

3) strategise potential risk factors.

This, to enable neutralization or reduction of the negative effects of the risks. Due to the slight inaccuracy of a risk analysis as it is of course based on assumptions, it is suggested that each development be analysed on its own merit. Thus each development will have a unique risk profile.

4.1 Identify

Identify and list the risks. These factors can be subdivided into different stages of the development, with each development being unique. Some items to considered are the:

- Market
- Environment
- Financial
4.2 **Quantify**

Once identified, these risks factors (assumptions and uncertainties) can now be quantified. Many techniques exist to quantify such factors and the most suitable technique should be identified. Now determine the probability of each risk factor occurring and what financial impact this would have. Combining these figures, one can now calculate the risks as an addition to the development cost.

It is not the task of this report to determine or mention all the possible risk calculation methods, although the most common method is to attach a monetary amount to each risk. This report is a basic guide to follow only.

4.3 **Formulate Strategies**

The risk factors now being identified, formulate various strategies to counteract these risks. Eventhough this activity can be postponed to a later stage, one would prefer to include it in the development planning in order to ensure a greater chance of success with the initiation of the development.

One sure way of counteracting risks would be to employ a professional team to compile both the feasibility report, design and plan of the entire development. The quality and quantity of the information gathered will, to a great extent, determine the level of risk. The higher the professionalism the lower the risk.

As most developments have time constraints, it is important to clarify commencement and completion dates for construction. A construction schedule could greatly determine the rate of success of a development.

According to published material, there are many methods of developing and quantifying the risks. This does not fall within the terms of reference of this report due to the complexity thereof and therefore cannot be summarised in these few pages as this is a subject on its own that can be undertaken as a totally separate and comprehensive study into the risk analysis methods.
4.4 Monetary calculations of risk

Use the information as determined in the previous paragraphs to now determine the costs of the risk and the possible solutions.

Allocate a change of occurrence to the risk and a monetary value to the risk. Multiply the two and compare it to the cost of the possible solution.

\[
\text{Risk} = \text{Chance of occurrence} \times \text{Cost of risk}
\]

Choose, risk or solution, that has the least monetary value and incorporate this option into the calculations of the development. In other word if the option that costs less is chosen as solution and then incorporated into the development plan.

A example of this is given in Chapter 4 of Part 3, Section B.
Chapter 5

Environmental Impact Assessment

5.1 Introduction
The Department of Environmental Affairs and Tourism published a document on 25 June 2004 defining an Environmental Impact Assessment (EIA) as follows:

“... the process of collecting, organising, analysing, interpreting and communicating information that is relevant to a decision contemplated in regulation 9 in respect of the potential impacts of a proposed activity”

As this project will have a marked influence on the environment, a environmental impact assessment must be completed and approved by the local government before permission can be granted to proceed with the planning and construction of the project.

This chapter is necessarily short as the regulations regarding the Environmental Impact Assessment were not finalised at the time of writing and therefore it was not possible to relate the accurate requirements.

5.2 Regulations
Consult regulations in EIA regulations document as attached to this report (CD) for information regarding the regulations, as it is too complex to report on properly in the
limited space available here. The regulations are very complex and forms a complete study on its own. It is not the purpose of this report to translate the regulations as these have in the past change on a regularly. The relevant information as it is to date have however been supplied.

5.3 **Activities requiring Environmental Authorisation**

Environmental Impact Assessment Regulations (see CD attached to this report), state that activities in the following geographic areas, must apply for authorisation:

Areas protected and identified by legislation, policy or plan for:

- Conservation of biological diversity.
- Conservation of water resources
- Conservation of landscape and geological features
- Core areas of biosphere reserves

5.3.a **Some of the Activities that require EIA**

- Construction of new runways for aircraft (exclusive of unpaved strips shorter that 1,4km
- Treatment of effluent, wastewater and sewage with an installed capacity of >15 000m$^3$
- The incineration, burning, evaporation, thermal treatment, roasting or heat sterilisation of waste or effluent
- The microbial deactivation, chemical sterilisation or non thermal treatment of effluent and waste
- Any new development in excess of 20 hectares
- The construction of a dam where the highest part of the dam wall, as measured from the outside toe is 5 meters or higher
5.3.b Some of the Activities that require Initial Assessment

The construction of new facilities or infrastructure for:

☼ Resorts, lodges, hotels and other tourism or hospitality where more than 20 guest are accommodated, covering an area more than 1 hectare and has no connection to the municipal sewage system

☼ Aircraft related activities

☼ Off road driving

☼ Abstraction of water directly from natural sources, including streams and aquifers

5.3.c Responsibilities and obligations of applicant

☼ Undertake the EIA in a form agreed to, or indicated by, the competent authority

☼ Appoint a professional, capable environmental assessment practices

☼ Provide access to information

☼ Be responsible for all costs incurred

☼ Ensure practitioner adheres to all procedures as required in Act

☼ Indemnify government and subordinates from liability

☼ Inform if practitioner has vested interest in activity that could influence his objectivity
Part 3: Example

“THULA” Feasibility Study

Picture 17: View from Thula front door
NOTE:

This is an edited copy of an actual feasibility study as compiled for an investor during 2004 and for the purposes of this thesis report.

Certain sections from the original feasibility report as given to the investor, were altered for privacy reasons.
Preliminary Feasibility Report

THULA

South Africa

October 2004

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Table of Contents

Foreword ........................................................................................................ 189
Executive Summary ..................................................................................... 190

Chapter 1 Property Inspection Report ...................................................... 192
  1.1 The Brief ............................................................................................... 192
  1.2 The Thula Property ............................................................................ 192
    1.2.a Regional Locality and Access ...................................................... 192
    1.2.b Size .............................................................................................. 194
    1.2.c Current Owner ............................................................................ 194
    1.2.d Restrictive conditions of Title ................................................... 194
    1.2.e Bonds or Endorsements .............................................................. 194
    1.2.f Servitudes .................................................................................... 194
    1.2.g Property Description / Physical Characteristics ..................... 194
    1.2.h Development requirements ....................................................... 197
    1.2.i Logistical Background of Towerkop Nature Reserve ............... 197

Chapter 2 Market/Property Study .............................................................. 198
  2.1 Executive summary ............................................................................ 198
  2.2 General ............................................................................................... 198
  2.3 Location ................................................................................................ 199
  2.4 Tourism .............................................................................................. 200
    2.4.a International Travellers ............................................................... 200
    2.4.b Domestic Travellers ................................................................. 205
    2.4.c Seasonality of Travellers .......................................................... 209
    2.4.d Conclusion .................................................................................. 209
  2.5 Development possibilities ................................................................. 210
  2.6 Market Aspect ................................................................................... 211
  2.7 Market Analysis ................................................................................ 218
  2.8 Land-use Zoning .............................................................................. 220
2.8.a Planning consent for change of use of property..................220
2.8.b Registration, licensing and permits ..................................220
2.8.c Regulations and By-Laws ...............................................220
2.8.d Other legal Requirements .............................................221
2.8.e Voluntary Requirements .................................................221
2.9 Development and Environmental Limitations .................221
2.10 Marketing Strategies ......................................................222
2.11 Conclusions and Recommendations ............................223

Chapter 3 Medium Term Financial Analysis ..........................224
3.1 Executive summary .........................................................224
3.2 General ...........................................................................225
3.3 Approximate Facilities size ............................................226
3.4 Preliminary Assumptions .................................................227
3.4.a Value Added Activities ................................................227
3.4.b Peak Occupancy ..........................................................228
3.4.c Property Cost ...............................................................228
3.4.d Design Costs including Professional Fees ..................228
3.4.e Construction/Building costs .........................................230
3.4.f Exploitation Costs .........................................................231
3.5 Preliminary designs ........................................................234
3.5.a Concept drawing ........................................................234
3.5.b Main Camp Guest accommodation ............................237
3.5.c Private Lodges .............................................................239
3.5.a Functional program and dimensions ..........................242
3.5.b Situation and grouping of spaces .................................243
3.5.c Orientation of spaces ..................................................243
3.5.d Construction type and building methods ..................243
3.5.e Specials ..........................................................243
3.5.f Building materials .......................................................243
3.6 Overall Cost Estimates ..................................................244
3.7 Financial analysis ...........................................................245
3.8 Profit evaluation .............................................................246
3.8.a Cash Flow ...............................................................246
### Chapter 3

<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.9</td>
<td>Ratios</td>
<td>251</td>
</tr>
<tr>
<td>3.10</td>
<td>Sensitivity</td>
<td>252</td>
</tr>
<tr>
<td>3.10.a</td>
<td>Occupancy sensitivity</td>
<td>252</td>
</tr>
<tr>
<td>3.10.b</td>
<td>Timeshare selling rate sensitivity</td>
<td>254</td>
</tr>
<tr>
<td>3.10.c</td>
<td>Nightly Rate Sensitivity</td>
<td>256</td>
</tr>
<tr>
<td>3.10.d</td>
<td>% Change vs. Net Development Value</td>
<td>257</td>
</tr>
<tr>
<td>3.11</td>
<td>Governmental considerations</td>
<td>261</td>
</tr>
<tr>
<td>3.11.a</td>
<td>Black Economic Empowerment</td>
<td>261</td>
</tr>
<tr>
<td>3.11.b</td>
<td>Government assistance</td>
<td>261</td>
</tr>
<tr>
<td>3.11.c</td>
<td>Area Development Plan</td>
<td>261</td>
</tr>
<tr>
<td>3.12</td>
<td>Important Regulations and Acts</td>
<td>261</td>
</tr>
<tr>
<td>3.13</td>
<td>General Tax implications</td>
<td>262</td>
</tr>
<tr>
<td>3.14</td>
<td>Conclusions</td>
<td>263</td>
</tr>
</tbody>
</table>

### Chapter 4

<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>General</td>
<td>264</td>
</tr>
<tr>
<td>4.2</td>
<td>Identifying and Strategizing Risks</td>
<td>265</td>
</tr>
<tr>
<td>4.2.a</td>
<td>Risks for the initiation phase</td>
<td>265</td>
</tr>
<tr>
<td>4.2.b</td>
<td>Risks factors in planning and construction phase</td>
<td>266</td>
</tr>
<tr>
<td>4.2.c</td>
<td>Risks factors during exploitation phase</td>
<td>267</td>
</tr>
<tr>
<td>4.3</td>
<td>Risk and Solution in monetary terms</td>
<td>268</td>
</tr>
<tr>
<td>4.4</td>
<td>Conclusions</td>
<td>269</td>
</tr>
</tbody>
</table>

### Chapter 5

<table>
<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.5</td>
<td>Regulations</td>
<td>270</td>
</tr>
<tr>
<td>5.6</td>
<td>Activities requiring Environmental Authorisation</td>
<td>271</td>
</tr>
<tr>
<td>5.6.d</td>
<td>Activities that require EIA</td>
<td>271</td>
</tr>
<tr>
<td>5.6.e</td>
<td>Activities that require Initial Assessment</td>
<td>272</td>
</tr>
<tr>
<td>5.6.f</td>
<td>Responsibilities and obligations of applicant</td>
<td>272</td>
</tr>
<tr>
<td>5.7</td>
<td>Conservation Management Plan</td>
<td>272</td>
</tr>
<tr>
<td>5.8</td>
<td>Public Private Partnership agreement</td>
<td>273</td>
</tr>
</tbody>
</table>

### Divers Pictures of Property

<table>
<thead>
<tr>
<th>Details</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divers Pictures of Property</td>
<td>274</td>
</tr>
</tbody>
</table>
FOREWORD

The increased influx of foreign investment and tourism has caused the service industry to experiencing an exponential growth. Foreign tourism figures, for one, have increased from a mere 640 000 foreign visitors p.a. before 1992 to 6,5 million p.a. in 2003 and these figures are still increasing (The Burger, Saturday 14/08/2004 and Statement by the office of the Minister of Environmental Affairs and Tourism 14October 2004).

The tourism and service industry is currently one of the best performing industries in South African and the country has won the bid to host the 2010 Football World Cup. This speaks volumes and shows the faith that both the local and international community has in South Africa.

In the Section A Chapters 1, 5 & 6 of this thesis report titled “The South African Environment”, the historical current, economical and cultural background of South Africa are summarised. This furnishes the potential local and foreign investor with information regarding the market they wish to enter.

This report which is filed as Section B, Part 3 of the thesis report and is considered as a concise, complete and workable feasibility report on the proposed project as described herein.

The property is unique in many respects compared to other properties in the same area and the situation of having private land within a provincial reserve is a very unusual one, advantageous and very attractive to a developer. The fact that Cape Nature Conservation (CNC) has made an offer to purchase the property and that they have a vested interest in who purchases Thula is expected to influence the purchase price and development options and limitations, discussed later in the report.

Picture 19: Panoramic view of Thula homestead
EXECUTIVE SUMMARY

Thula is regarded as prime property for a resort style and ecotourism development as it is central to a larger planned conservation area and situated in the middle of a large provincial reserve, named Towerkop Nature Reserve. The development possibilities are excellent, including possibilities to enter into a Public Private Partnership with Cape Nature Conservation (CNC) regarding the utilisation of the greater provincial reserve by visitors and also for the reserve management to continue to utilise, manage and maintain the natural resources on Thula. This leaves the development and management of Thula to focus on the tourisms and service industry.

The envisaged development consist of **private satellite lodges** and a **main camp** with accommodation, restaurant and entertainment.

The minimal required initial capital outlay is **R11,5million** this includes the cost of property purchase, design, construction, professional and EIA fees and other items. This value does not include the cost of constructing the private lodges as these will be sold off-plan in timeshare or similar thus not using direct investment capital but rather the capital of the buyers.

Initially the main camp facilities will be constructed and the private lodges in the following next few years.

In the calculations, the income stream starts only after the main camp facilities have been completed, thus leaving much room for improvement.

The exploitation period is **20 years** and no further major capital layout has been incorporated in the calculations.

**Cash flow analysis** shows the developers profit discounted for 20 years as **R22 million** or **44%** of the total discounted development cost of arround **R50 million**.

These figures are achieved with relatively LOW occupancy and nightly rates of:

- 25% for the main camp @ **R1 500 /person/night**,  
- 20% for private lodge unit rentals @ **R4 000 /unit/night** and,  
- 60% of available timeshare sold @ **R10 000 /week/annum**.
Initially the main income stream is generated from the sale of timeshare units; this therefore forms an important sector in the development.

The break-even point is a mere 2 years from opening.

The calculations are aimed to remain realistic and sometimes even pessimistic regarding this development. It is therefore believed that the calculations are not overoptimistic and it is not advisable to consider a lower investment outlay, as this will adversely affect the outward perception of the development to the general public, thus adversely affecting occupancy, accommodation rates on the development. Abundant opportunities exist to increase the occupancy and accommodation rates.
Chapter 1

PROPERTY INSPECTION

REPORT

1.1 The Brief

Task (“probleemstelling”):
- Find a property that has the potential for development into a facility with a reasonable return.

Objectives (“doelstelling”):
- The development must be self-sustaining after the initial investment
- With this development it must be possible to form a basis of a greater asset portfolio (in the property market) to be developed in South Africa in the future.
- Such a potential property has been located and this preliminary feasibility report considers the development feasibility of this property.

1.2 The Thula Property

1.2.a Regional Locality and Access

The property is named “Thula”, and is located in South Africa, Western Cape Province (WC). The four closest populated areas in the vicinity of the property are:

- Laingsburg,
- Touwsriver,
- Ladismith,
- Montagu.
The property can be accessed via any of these towns. By road transport the property is approximately 300km removed from Cape Town, there is a shorter route of 240km although this road is in dire need of repair and is best suited for 4x4 enthusiasts.

It is very important to note that Thula is situated within a Provincial Nature Reserve. The reserve is called Towerkop Nature Reserve (TNR) ([www.capenature.org.za](http://www.capenature.org.za)) which is part of Cape Nature Conservation (CNC). Thula is a pristine piece of Little Karoo and contributes substantially to the conservation within the Towerkop Nature Reserve. This can be seen clearly on the accompanying figure 1 here.

Pictures of the property have been sent to interested parties, of which some are attached at the end of this report.
1.2.b Size
The total property size is recorded as *2 973 Hectares* in the deeds registry.

1.2.c Current Owner
The current owner is Spyskor Kaap (Pty) Ltd. This company has been deregistered according to Companies and Intellectual Property Registration Office (CIPRO, [www.cipro.co.za](http://www.cipro.co.za)).

This company was fully owned by a Mr. A. J. van der Merwe at the time of deregistration.

1.2.d Restrictive conditions of Title
No active restrictions are documented on the deed of property, although it expected that there would be conditions attached to the sale of the property due to its location within a nature reserve.

1.2.e Bonds or Endorsements
No recorded bonds or endorsements exist on this property.

1.2.f Servitudes
No enforceable servitudes remain on this property since the Towerkop Nature Reserve (TNR) was founded.

1.2.g Property Description / Physical Characteristics
Thula predominantly consists of a wide valley bottom [8km long (W-E) and 3 km wide (N-S)], with the seasonal Anysriver flowing through it [W-E]. The riverbed and dam in front of the homestead is a source of water for animals.

The property has not been utilized by domestic stock for the past two decades and is therefore in a good state of repair. [That is; the ground has had time to rest since the grazing of domestic stock such as sheep and goats has detrimental effects on the natural surroundings and vegetation]

All the internal and boundary fences on the property have been completely removed and this opened the area up for utilization by the various game species present on the reserve. These include species such as:

- Redhartbeest,
- Gemsbok,
- Springbok and
- Endangered Cape Mountain Zebra.
Various other naturally occurring game are present such as:

- Kudu,
- Grey Rhebuck,
- Klipspringer,
- Steenbok,
- Grey duiker.

Predators that frequent the valley are amongst others:

- Blackback Jackal,
- Caracal (Rooikat),
- Leopard.
- Honey Badgers,
- Bat-eared fox,
- Aardwolf,
- African wildcat,
- Cape clawless otter and
- Various mongooses.

The sand deposits in the floodplains of the river are preferred areas utilized by Aardvark (Orycteropus afer) and hairy-footed gerbils (Gerbillurus paeba).

Thula contains about 80% of the available riverbanks to be found in the valley and these are favourite bird nesting sites for species such as European Bee-eaters and Brown throated Martins. There are **175 bird species** identified on the TNR and Thula to date.
Surveyor General Diagrams

Picture 21: Surveyor General Drawing of Thula Property
1.2.h Development requirements

Any development should consider the surrounding environment, especially with regards to water usage, disturbance, pollutants on the pristine indigenous vegetation and fauna. It is advantageous to utilise self-sustaining resources in developing and construction of the property and buildings.

1.2.i Logistical Background of Towerkop Nature Reserve

The purchase the initial 34 000 ha of the TNR was concluded during 1987. The proclamation to a Provincial Reserve was concluded in 1989. An additional 24 000 ha was purchased by the Lesley Hill Succulent Trust (administered by WWF-SA) and 4 000 ha donated to WWF-SA by Jan Terblanche, who presently has a lifelong usufruct of this part of TNR, making up the present 62 500 ha managed by TNR.

The 2 973 ha section known as “Thula” (Farm No. 263) was excluded from this proclamation. The understanding at that time was that a lease contract, would be entered into and the area would then be managed as an integral part of the TNR. All attempts by CNC to finalize such a lease have failed through lack of co-operation on behalf of the landowner.

Only one other private landowner exists within the reserve – David Hope (National Geographic Photographer) who owns 1 000 ha on the western corner of the Towerkop Mountain range. He is in the process of proclaiming his property as part of the Provincial Reserve with a contract which included the construction of a small ecologically friendly dwelling on the property and would have general access thereto. The ecological management will be the responsibility of TNR (as part of CNC). At present this land owner only visits the property every three years.

Towerkop Nature Reserve is centre in a proposed large ecological unit (400 000 ha+) in which all of the naturally occurring large game species will roam freely and the conservaiton of main ecological processes will be the main objective. Thula is situated in the centre of this area. Mr. David Daitz, the Chief Executive Officer of CNC, presented this concept at the World Parks Congress held in Pretoria [South Africa] in 2003. This will include various role players and property owners, each managing their own property, whilst having a common conservation goal.
Chapter 2

MARKET/PROPERTY STUDY

Important note:
The tourism and development possibilities of the property, albeit 3 000ha is increased by the fact that with
negotiation, guest could utilize the Towerkop Nature Reserve (62 500ha) for horse trails, 4x4 ventures, game
viewing, bird watching, hiking, mountain hiking, rock art (archaeological sites) and various guided trails (fynbos,
succulents, etc.). The TNR has established a basic visitor and office complex that could be utilized and upgraded
in a Public Private Partnership agreement.

2.1 Executive summary

The information in this chapter shows firstly that there is a big visitors pool to draw from with
regards to international and domestic visitors and that they have enough money to spend.

It indicates that the average occupancy rates of the competition are higher than the 25% used
for calculation in this report.

This chapter also gives information on the competition and describes what needs to be
developed in order to make this development competitive in the market.

This chapter gives the approximated sizes of the facilities and some concept drawings for the
Thula development, both for the main lodge camp and the private lodges.

In addition it summarises the land use zoning guidelines and notes the developmental and
environmental limitations that must always be kept in mind.

2.2 General

The following sections are to further introduce the reader to the Thula property, this is
important since the investor has personally not seen the property:

Wildlife numbers on the Towerkop Nature Reserve are currently low, although they may form
a significant part of the tourism product and will therefore replenishment in co-operation with
TNR.

To this extent it is also NOT desirable to reintroduce dangerous animals such as the big five to
this area, for it will negate the safety factor of enjoying nature in a safe environment and nullify
one unique feature of the property. Currently visitors are allowed to go anywhere on the
reserve without a guide. Due to the topography, it is easy to orientate oneself and as stated,
there are no threatening or dangerous animals on the reserve.

Various types of accommodation structures will suit the atmosphere in the reserve, of which
Private Bush camp facilities (as overnight rest stops) are becoming attractive accommodation in
the Little Karoo. The area lends itself to these kind of structures and facilities for temporary
accommodation. This should be considered developing tourist attractions and entertainment
facilities in cooperation with TNR. The possibility therefore exists to construct overnight bush-
camps for horse safaris and hiking trails on the TNR property itself.

At present Thula is unofficially managed as part of the TNR – this includes undertaking general
road maintenance, removal of infrastructure (fencing), alien vegetation eradication, collection
of ecological data such as game observations and general ecological work, traversing the area
on the two-day guided horse trails and general hikes by guests to the reserve. This can be
continued in a PPP, with the obvious benefits included.

It must be appreciated that the principles of sustainable utilization should be an important
guide for management and development of Thula alike. No hunting is allowed on the TNR and
thus no hunting is allowed on Thula, although partnership agreements can be formulated with
local farmers and hunting operators to accommodate visiting hunters.

2.3 Location

Thula is located in an area that offers excellent opportunities for outdoors based activities
including hiking, bird watching, mountain bike trails, horse trails, and 4x4 and quad routes.

Thula offers solitude and isolation, a most surprising feeling, as mostly everyone are
unaccustomed to this. There are very few human impacts visible, aside from the tourism and
office complex, roads and tracks.

The lack of light pollution in the area makes for excellent stargazing and there is no noise
pollution, as the main roads and populated areas are far from the site (25km+).

The area has very few, if any threats. Far from any town, thus crime-free and malaria free. Fire
in the fynbos vegetation (mountainous areas) is the driving force of this system and alien plants
that threaten many other reserves have been greatly eradicated and are only present in
extremely low numbers on the property.
2.4 **Tourism**  
(Information extracted from SA Tourism Report 2003 released October 2004)

Thula will cater for both national and international tourist in the holiday and business markets segments.

In this section a summary is given of the overall expected visitor numbers and expenditure of these visitors to the Western Cape Province.

No seasonal changes and fluxuations are taken into account as calculations are based on annual figures. Some indication of the seasonal fluxuations however are reflected in part 2.3.c of this report.

2.4.a **International Travellers**  

* b) Numbers.

Foreign tourist arrivals in South Africa have increased and is continuing to increase on a yearly basis.

In 2003, South Africa hosted **6 504 890** international visitors.

The increase in numbers of foreign visitors since 1986 is reflected in this graph.

Graph 15: Foreign Tourism Quantities SA
i) Purpose of visit

(All numbers are rounded off to nearest 1 000)

- 57.3% of all international visitor arrivals are business and holiday related, resulting in a base of potential development interest of approximately 3,7 million international visitors per annum.

![Graph 16: Purpose of visits nationally 2003 vs. 2002](image)

The distribution of foreign tourist over the provinces are:

![Graph 17: Provincial Distribution of visitors 2003 vs. 2002](image)

Of the above mentioned 3.7 million visitors, 23% visit the Western Cape Province (see graph on Provincial Visitor Distribution), equating to a potential
- international visitors pool of 876,000 visitors per annum.

This is approximately 13.5% of the total international visitors.

j) Amount spent

The total amount of Rands spent by foreign tourists have also increased from 2002 as indicated in this graph (figures in R million):

Graph 18: Total Foreign Direct Spending in SA

The increase in expenditure is related to the increase in international tourism.

The amount spent in the Western Cape Province can be extrapolated from the previous number of visitors to the province, also these are given in the Tourism Report of 2003 (attached to this report) as

- R8.10 billion [10^9] per annum.

The total proportionate amount spend by the holiday and business travelers (57.3% of visitors) to the Western Cape can then be calculated as:

- R4.64 billion [10^9] per annum.

With this information it is easy to see that each visitor spends an average of:

- R 5 300 per visit
**k) Length of stay**

The length of stay in South Africa is currently averaged at 10 days, although effort is being made to increase this, as it has positive consequences for the tourism industry as more capital is spent per visitor in South Africa.

As Thula will mainly cater for the holiday and business travelers it is interesting to note that the length of stay of these travelers are:

- **13 days** average stay

higher than the average stay of 10 days.

![Graph 19: Length of Stay 2003 vs. 2002](image)

This is the average number of days each visitor has to visit Thula and not the expected number of nights that they might choose to stay over at the resort.

*(Definition: VFR = visits to friend and family)*
i) Bednights

The total number of bednights spent in South Africa was 60.3 million for 2003.

![Graph 20 Provincial Bednights Distribution, 2003](image)

Visitors spend 26% of the total bednights in the Western Cape Province, providing an annual pool of

- **15.6 million** bednights

in total for the Western Cape Province alone.

m) Summary of international visitors

- Thula catering for **Business** and **Holiday** makers
- International visitors to Western Cape Province = 876 000 p.a.
- Rands spent in Western Cape Province = **R 4.64 billion** [10^9]
- Length of Stay = **13 days**
- Number of bednights in Western Cape Province = **15.7 million** p.a.
2.4.b Domestic Travellers

n) Numbers

According to Statistics SA, 49 billion domestic trips were undertaken in 2003 by at least half of the population over 18 years of age.

It is estimated that 8.1 billion \(10^9\) trips were holiday related and another 3.1 billion \(10^9\) business related, totalling:

- 11.2 billion \(10^9\) trips
during 2003 within South Africa.

\(\text{(Definition: VFR = visits to friend and family)}\)
Of the total national figure,

- 5.1 billion \([10^9]\) trips or roughly 10%

of total domestic trips undertaken, were made in and to the Western Cape Province during 2003.

Graph 23: Source of all domestic trips

Graph 24: Destination of domestic trips
o) Amount Spent

The table below shows that R47 billion was spent by domestic travelers in South Africa.

<table>
<thead>
<tr>
<th>TYPE OF TRIP</th>
<th>RACE GROUP</th>
<th>LSM</th>
<th>AVERAGE SPEND PER TRIP</th>
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<td></td>
<td>White &amp; Asian</td>
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<td>R 3,979</td>
<td>3,010,454</td>
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<td>LSM 10</td>
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<td>TOTAL</td>
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<td>TDDS</td>
<td></td>
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<td>R 47 billion</td>
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Domestic holiday and business expenditure accounted for 57.3% [or R26.9 billion \(^{10}\)] of the total expenditure in 2003, thus similar to that of international travelers.
p) Length of stay

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<th>VFR</th>
<th>Business</th>
<th>Medical</th>
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<td>8</td>
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*NOTE: Blank cells indicate statistical zeros, i.e. values are too small to be statistically significant*

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<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Limpopo</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Northern Cape</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Northwest</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Western Cape</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>1</td>
</tr>
</tbody>
</table>

*NOTE: Blank cells indicate statistical zeros, i.e. values are too small to be statistically significant*

The Western Cape had a average stay of
- 6.5 bednights in 2003.

The most common length of stay however was only
- 2 days
- for both the holiday and business sectors.

*(Definition: VFR = visits to friend and family)*
2.4.c Seasonality of Travellers

Seasonal domestic trips have a more pronounced pattern than international trips to South Africa as can be seen on the graph below.

The conclusion drawn from the above is that Thula should be suitably designed to cater for both the domestic and international market, since there are sufficient numbers of visitors in both categories in the Western Cape and the peak numbers for both occur at approximately the same times.

The peak visitor periods in South Africa is indicated as being April, July and December, with the last mentioned being considerably higher.

2.4.d Conclusion

By using the above information it has become clear that there is a big enough potential pool of clients/guests that might want to visit the Thula development. So there is a very high possibility that the development will have a higher occupancy rate than the indicated 25%, and thus a higher income. This increases the net project value as can be seen in later sections of this report.
2.5 **Development possibilities**

There are various development scenarios that may be implemented on this property, and only a few accommodation scenarios are mentioned.

Level of service facility:

- Basic / Self catering facilities
- **Limited service facilities**
- Full serviced facilities

Quality of Finishing:

- Low quality facilities
- **Standard facilities**
- Luxury facilities
- Ultra Luxurious facilities

Combination grouping of spaces:

- One Main Lodge/Camp catering for guests
- Separate or Grouped Private Units rented on daily basis only
- Separate or Grouped Private Units sold in timeshare/life-rights/shares only
- Private Units rentals
- **Combination of main lodge and private lodges**

It was decided, after consultation with the client and some basic preliminary calculations to consider a:

- Limited service facility of
- Standard to luxury quality and finishes category,
- Consisting of a **Main Camp** with separate self-catering **Private Lodges** sold in timeshare or life-rights and rented otherwise for this feasibility study. (The calculations however and the rest of the report have been compiled with timeshare in mind and so submitted to the investor).

Since the initial compilation of the feasibility report, it has become clear that timeshare is becoming less popular in South Africa over the past years. Liférights and selling shares in the private lodges have conversely become a popular alternative to timeshare.
The calculations however and the rest of the report have been compiled with timeshares in mind and so submitted to the investor.

Thus, the figures/terminology contained within this report was not adjusted to reflect a change from timeshare, to marketing the private lodges as life-rights or shares at this stage.

2.6 Market Aspect

Other market players (i.e. Builders and Developers Aspects)

There are numerous private- and governmentally-run wildlife and nature reserves in South Africa. The country has the largest % of land under protection (albeit government or private) in the world. Many of these sites are World Heritage and Ramsar Sites.

Reserves in the area of the proposed development are summarised here. The possibility always exists to make arrangements with some of these for access to their “big-five” game drives and private charter services. There are only a handful similar up-market reserves in the same general area of this Thula property and they include:

- - Sanbona Wildlife Reserve (3hrs from CT), www.sanbona.com
- - Bushmans Kloof Wilderness Reserve (4hrs from CT), www.bushmanskloof.co.za
- - Aquila Private Game Reserve (2hrs from CT), www.aquilasafari.com
- - Groothbos Private Nature Reserve (2hrs from CT), www.grootbos.com
- - Inverdoorn Game Reserve (2hrs from CT), www.inverdoorn.com

Four of these listed above are rated “five stars” and deemed to be the “cream of the crop” in the Western Cape Province.

The drive to market the “Karoo experience” only started recently and the response is very favourable, both from the local and international market.

- Developed Object Aspects (WHAT has been developed to date)

The listed reserves all have very similar facilities and service levels. Thula will be catering and competing for a similar market and it is thus imperative that the incorporation of similar and better facilities be a requirement for this development.

(Pictures and information taken from websites of these market players and by contacting them directly.)
A) **Sanbona Wildlife Reserve** ([www.sanbona.com](http://www.sanbona.com)) is the closest competitor. This reserve is situated on the southern side of Thula with a large mountain range separating it from Thula. Sanbona offers first class accommodation and service, and are accordingly classified as five (5) stars.

<table>
<thead>
<tr>
<th>Accommodation:</th>
<th>Activities:</th>
<th>Other services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of 10 suites</td>
<td>Game viewing</td>
<td>Restaurant</td>
</tr>
<tr>
<td>6 open plan luxury suites:</td>
<td>Swimming</td>
<td>Wellness Centre</td>
</tr>
<tr>
<td>Telephone</td>
<td>Horse rides</td>
<td>Hot Air Ballooning</td>
</tr>
<tr>
<td>Satellite Television</td>
<td>Hiking trails</td>
<td>Conference centre</td>
</tr>
<tr>
<td>Air Conditioning</td>
<td></td>
<td>Gym</td>
</tr>
<tr>
<td>Climate control</td>
<td></td>
<td>Landing strip in vicinity</td>
</tr>
<tr>
<td>Mini bar</td>
<td></td>
<td>Charter service</td>
</tr>
<tr>
<td>Room service</td>
<td></td>
<td>Laundry Service</td>
</tr>
<tr>
<td>House keeping</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Occupancy rates = Avg 57% (2004)
Day Visitors = Avg 40 groups of 2-5 persons
Annual turnover = R 27 million (only hospitality)
Average annual Commercial Costs = R 14 Million
B) **Bushmans Kloof Wilderness Reserve** ([www.bushmanskloof.co.za](http://www.bushmanskloof.co.za)) is not in the direct vicinity of Thula and is situated on the West Coast.

<table>
<thead>
<tr>
<th><strong>Accommodation:</strong></th>
<th><strong>Activities:</strong></th>
<th><strong>Other services:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Louges&lt;br&gt;Library&lt;br&gt;Billiard room&lt;br&gt;Bar&lt;br&gt;Indoor and outdoor&lt;br&gt;Dining Area&lt;br&gt;4 luxury suites with:&lt;br&gt;Telephone&lt;br&gt;Satellite Television&lt;br&gt;Climate control&lt;br&gt;Heating&lt;br&gt;Mini bar&lt;br&gt;Fireplace&lt;br&gt;House keeping</td>
<td>Game drives&lt;br&gt;Swimming&lt;br&gt;Rock Art&lt;br&gt;Mountain Biking&lt;br&gt;Fly Fishing (in vicinity)&lt;br&gt;Bird Watching&lt;br&gt;Hiking Trails&lt;br&gt;Canoeing&lt;br&gt;Stargazing</td>
<td>Spa&lt;br&gt;Charter&lt;br&gt;Sauna&lt;br&gt;Landing strip in vicinity&lt;br&gt;Gift Shop&lt;br&gt;Wine Cellar</td>
</tr>
</tbody>
</table>

Price Range is variable from R 1900 → R 5000 p.p.p.n. No further information was forthcoming from management.
C) **Aquila Private Game Reserve** ([www.aquilasafari.com](http://www.aquilasafari.com)), has a four (4) star rating. They offer day trips and up to three-day safari excursions. Visitors normally return to Cape Town in the evenings. This reserve is ideally situated for Thula visitors wanting to experience the big five and a co-operation agreement is possible between the two entities.

<table>
<thead>
<tr>
<th>Accommodation:</th>
<th>Activities:</th>
<th>Other services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard eco friendly Cottages</td>
<td>Game viewing</td>
<td>Conference centre</td>
</tr>
<tr>
<td>Luxury eco-friendly Cottages with Fireplace</td>
<td>Horseback safaris</td>
<td>Bar</td>
</tr>
<tr>
<td>Mini bar</td>
<td>Quad bike safaris</td>
<td>Restaurant</td>
</tr>
<tr>
<td></td>
<td>Mountain biking</td>
<td>Chapel</td>
</tr>
<tr>
<td></td>
<td>4x4 Trails</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hiking trails</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Abseiling</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clay pigeon shooting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Archery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rock art</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Birding</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rock swimming pool</td>
<td></td>
</tr>
</tbody>
</table>

Price range is variable from R 1500 → R 4200 p.p.p.n.
Occupancy capacity = 60 persons (double)
Day Visitors = 10 000 per annum
No further information was forthcoming from management.
D) **Grootbos Private Nature Reserve** ([www.grootbos.com](http://www.grootbos.com)), situated on the south coast, is classified as five (5) star and offers the following services and activities:

<table>
<thead>
<tr>
<th>Accommodation:</th>
<th>Activities:</th>
<th>Other services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Lodge</td>
<td>Whale watching</td>
<td>Restaurant</td>
</tr>
<tr>
<td>Private Cottages</td>
<td>Hiking/walking</td>
<td>Herb garden</td>
</tr>
<tr>
<td>Fireplace</td>
<td>Horse trails</td>
<td>Sea trips</td>
</tr>
<tr>
<td></td>
<td>4x4 trails</td>
<td>Bar</td>
</tr>
</tbody>
</table>

Price range is variable from R 1900 → R 3250 p.p.p.n
Occupancy capacity = 50 Persons (double)
Occupancy rates = Avg **75%** [Winter 50%, Season 98%(Aug to Mar)]
Day Visitors = not really allowed
Annual turnover = R 10 million

Average Annual Commercial Costs = R 7 million
E) **Inverdoorn Game Reserve** ([www.inverdoorn.com](http://www.inverdoorn.com)), is classified as four (4) star and offers the following services and activities:

<table>
<thead>
<tr>
<th><strong>Accommodation:</strong></th>
<th><strong>Activities:</strong></th>
<th><strong>Other services:</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>7 Bungalows</td>
<td>4x4 safaris</td>
<td>Conference centre</td>
</tr>
<tr>
<td>2 Guest houses</td>
<td>Quad bike trips</td>
<td>Shop</td>
</tr>
<tr>
<td>Self Catering</td>
<td></td>
<td>Bar</td>
</tr>
</tbody>
</table>

Price range is variable from R 1000 → R 1950 p.p.n.
Occupancy capacity = **34** persons (double)
Occupancy rates = Avg **60%** [Winter 15%, Season 85%]
Day Visitors =
Annual turnover = R 4.5 million
Average Annual Commercial Cost = R 2.5 million
Summary of the items to include in new development

The Thula main aim should be to concentrate on offering a higher standard of facilities, accommodation and services compared what is typically available in the market.

A niche marked, concentrating on only a small portion of the traveling population, is too fickle and the risk is proportionately too high to even consider this option.

It is furthermore proposed that a Main Camp be built with Lodge accommodation and additional facilities and activities. The Main Camp houses most of the activities and facilities.

Outside the boundaries of the main camp Private Units/Lodges can be built. The Private Lodges can be sold in shares or life rights, as is becoming a more popular concept in South Africa. Another option would be to offer these lodges on a 50-50 rental profit share basis.

All buildings and facilities will be managed and maintained by the management of the main camp, a (annual/monthly) maintenance fee will be chargeable to the co-owners for the private lodges.

Taking into account the facilities in the immediate competitors in the target market the development must consider the following facilities and services:

The Main Camp:

* Essential services and facilities:
  - Lounges
  - Sundecks
  - Restaurant
  - Swimming pool
  - Bar
  - Conference facilities (30 persons)
  - Various Shops (food, curios and clothes)
  - Laundry (collect and deliver)

* Optional services and facilities:
  - Air Charter service
  - Library
  - Wine cellar
  - Wellness centre
  - Billiards/snooker/pool
  - Film room (to cater for the budding SA film industry, educational films, conferences and entertainment of guests)
  - Gym

* The accommodation facilities:
  - Good quality to Luxury
  - Room service (optional)
  - Fireplace
  - Telephone/Fax/Internet
  - Satellite television
  - Mini bar
  - Climate control
  - House keeping
Activities for guests and visitors:

- Game viewing
- 4x4 safaris and trips
- Horse safaris and trips
- Quad bike safaris and trips
- Mountain bike safaris
- Rock art viewing
- Hiking
- Abseiling
- Bird watching
- Rock-pool and waterfall bathing

2.7 Market Analysis

There has been an remarkable growth in the tourism and service industry, as noted before, and therefore a belated market analysis should show a more favourable dispensation for this type of investment.

THE PRICES HAVE BEEN EXTRAPOLATED BY RESEARCHING DATA GATHERED FROM OTHER SIMILAR RESORTS (as reported earlier).

The following items shall and has been determined and assumed at this stage:

- **Will there be clients to buy or rent the proposed facilities?**
  
  As can be seen in the previous paragraph on tourism the is a sufficient visitors pool to draw from, both from international business and holiday makers as from the domestic market

  It is thus also assumed that there will be sufficient interested in purchasing shares in this scheme and visitors to the reserve.

- **How quickly will the project be absorbed in the market**
  
  For calculation purposes the following absorption/occupancy rates are assumed reasonable and on the bottom side of the to be expected occupancy range:

  - Shares units absorbed at **4 units per month** (conservatively) up to **60%** of available units
  - Main Lodge averaging **25%** occupancy on a yearly basis
  - Timeshare rentals averaging **20%** occupancy of available time on a yearly basis

  Later in this report a sensitivity analysis is made for variations in the occupancy rates.

  Also this is the current occupancy rates of the facilities presently available on TNR.

  With these rates there are always much room for improvement, especially through proper marketing, it reduces the temptation of overstating the financial forecasts figures in favour of
the investors and is added measure to reduce any negative affects that some risks might have on the income statements.

- **At what price will be project be absorbed in the market**

Accommodation rate variation for in an out of season rates and seasonal specials within this segment of the market ranges from:

- R 1 000 p.p.n to R 5 000 p.p.n.

Whilst **not** taking the effects of inflation, exchange rate or general increases into account, a overall conservative average rate was utilised for the preliminary calculations.

Averaged highly competitive fixed nightly rate of **R1500 p.p.p.n.**

This rate is on the conservative side as some clients are willing to pay a premium of R5000 per night, all-in, for first class accommodation as will be supplied on Thula.

The average rental price per person per room per night (p.p.p.n.) as used in the calculations is thus within the market variation currently experienced, but low enough to maintained a objective view of the development and not have the financials look skewed.

A **variable rate** can (and will) be determined and implemented at a later stage of this development. This will become effective only after a marketing strategy has been discussed and planned.

- **How do we place the project more competitively in the market?**

The carefully planned marketing campaign will focus on upper class clientele, international travellers and those that appreciate exceptional luxury, tranquillity and isolation, both international and domestic.

It is very important to plan the market introduction of Thula very carefully, for this will effect the perception to the public, the main form of advertisement.

An added advantage of a correctly tabled marketing strategy is that it should help minimise the complaints tabled by affected parties against the development before and during the initial phases of the development process even before the first guests are welcomed.

It is imperative that the Cape Nature Conservation and Towerkop Nature Reserve Management become involved and be consulted from an early stage and during all stages of the development and exploitation phases.

Their co-operation is **essential** to the success of both development and exploitation phases. For this reason, negotiations into a Public Private Partnership must be entered into at an early
stage, preferably just after the acquisition of the property. CNC is currently reviewing their Public-Private-Partnership (PPP) regulations and will be submitting the new proposals within the not to distant future.

2.8 **Land-use Zoning**

The property is currently zoned as *Agricultural Land*. The local Department of Housing must be approached regarding zoning controls and rezoning.

Application must be made to the Provincial Department of Agriculture and Environmental Affairs for permission to change the landuse, such as registering it as a contract nature reserve and or as requirement of the Public-Private-Partnership agreement with CNC.

The Central Karoo District Municipality will be consulted regarding special environmental, mining or other zones conflicting with the property. This procedure should not be a difficult as it is intended that only historically (previously disturbed) disturbed land will be developed and therefore CNC or other has no reason to oppose application.

2.8.a **Planning consent for change of use of property**

Once the project has been approved (no approval will be granted if a environmental impact assessment is not approved) an application must be made to the relevant minister for conversion of land / subdivision of agricultural land. These can be mostly formalities, as CNC should support this development through a Public-Private-Partnership.

2.8.b **Registration, licensing and permits**

The Central Karoo District Municipality must be approached to register both the facilities and the Public-Private-Partnership.

A trading license must be obtained (small fee) since the reserve will sell perishable foods.

The restaurant must obtain a general and liquor license, so to allow them to also sell wines directly to public.

2.8.c **Regulations and By-Laws**

Approach the Districts Municipality for guidelines regarding, amongst other, fire control equipment, water, electricity and sewage.

Approach the Aviation Authorities regarding regulations for the design, construction and use of the *gravel airstrip* on the property; this too, will be included as part of the EIA.
2.8.d Other legal Requirements

All accommodation, facilities, vehicles and staff must in the very least adhere to the conduct rules and standards as set out by the Conservation Authorities from time to time.

Requirements state that the accommodation facilities must be approved by Nature Conservation agencies (although this is more a courtesy than a necessity).

Road signs will have to be erected to direct people to the reserve and for this approval must be obtained from:

- The Department of Transport (for signs on **national roads**)
- The Facility Signs Committee in the Provincial Department of Transport (for signs on **secondary roads**)
- The Local Municipal Engineer (for signs on **local roads** within the municipal area)

The existing dams, especially the one in front of the main homestead, needs alterations, reconstruction and repair, although according to the new **National Water Act 36 of 1998** no alterations are allowed without consulting the Department of Water Affairs and Forestry first (DWAF, www.dwaf.pw.gov.za).

The procedure is outlined in the Act as can be viewed as attachment to this report.

Shortly stated the first step is to make an application to DWAF for classification of the dams. DWAF will classify the dams and advise on further procedures that must be followed.

2.8.e Voluntary Requirements

Membership of **Southern Africa Tourism Services Association** (SATSA, www.satsa.com) is currently voluntary, although this is set to change in the near future.

It is advisable to apply for membership, as this is effective as a marketing tool and advantageous to the overall marketing of the property (Sole proprietors excluded from membership).

There are various other institutions and associations to join pending ones requirements.

2.9 Development and Environmental Limitations

The Karoo, being a semi-arid region, has limited water resources and care should be given to its conservative and effective use of this resource.

Water consumption and thus water extraction from the environment should be quantified (a requirement of the EIA).
At present the main camp could utilize natural flow waters (spring water) from the Towerkop Mountain Range situated to the south of the camp. There are a few boreholes on the property, although the yield is not known at present. An investigation into the available water quantity and quality is however considered an essential action of the EIA. It is important that all waters reintroduced into the ecosystem be clean, purified and void of all ecologically harmful substances.

Light pollution should be kept to a minimum. The nearest electrical connection point is 25km east of the main camp location. It is suggested that solar, wind or diesel generated power be installed for the appliances and lighting, as well as gas for cooking and heating. Overhead power lines will have a negative visual impact apart from being extremely costly. (See Section C, Installations Thula for more information)

It is a requirement by law, that an EIA be compiled for this development [see later chapter for more information].

The cost of such a study could easily be 5-10\% of the total development costs and should not be ignored.

2.10 Marketing Strategies

Note: Publicity materials must always be submitted to the CNC officials before being presented to the media.

The compilation, submittion and implimentation of a professional marketing plan is essential to ensure maximum return on investment.

The marketing campaign commencement date will be determined in the marketing plan and it is expected that the project will benefit from the spillover of the marketing drives of CNC.

The campaign may be done through a variety of media such as printed brochures, the press, magazines (local and international), Internet, television and “word of month”. Local and international tourism databases will be approached to enter the reserve in their databases.

Public Association (there are many in SA) will also be approached to circulate information.
2.11 **Conclusions and Recommendations**

The purchase and development of Thula is an unique opportunity due to:

- Relatively low purchase price,
- Being at the centre of a provincial reserve (an very unique occurrence),
- Is part of an international biodiversity hotspot,
- Centre to a larger future conservation area,
- Natural occurring and endangered wildlife species traversing the property presently,
- All internal fences and infrastructure already removed,
- No need to maintain and fence the property
- Unofficially managed by Cape Nature Conservation for the past 15 years (well recovered)
- Private Public Partnership options regarding the maintenance of wildlife and grounds.
- Potential of a nature management plan were TNR manages the ecology and Thula’s management manages the tourism and service industry.

The conclusion and general sentiments is that if construction and development costs are kept in line and the facilities are managed effectively, this venture is a very attractive and lucrative project. The stable economy and political situation in South Africa is conductive to the success of the investment.

An exploitation period of no less than than ten (10) years is suggested and if maintained well, can run indefinitely, although after a period of 20 years most properties should be re-assessed, upgraded or sold.
Chapter 3

Medium Term Financial Analysis

3.1 Executive summary

The minimal required initial capital outlay is R11.5 million this includes the cost of property purchase, design, construction, professional and EIA fees and other items, but excluding the private lodges which these will be sold off-plan in timeshare or similar.

In the calculations, the income stream starts after the main camp facilities have been completed, thus leaving much room for improvement.

The exploitation period is 20 years and no further major capital layout has been incorporated in the calculations.

Cash flow analysis shows the developers profit before tax, discounted for 20 years, at a rate of 8% as R22 million or 44% of the total discounted development cost of around R50 million. 8% is also the current Real Interest Rate as shown in Section A Part1, Chapter 5.

These figures are achieved with relatively LOW occupancy and LOW nightly rates of:

- 25% for the main camp @ R1 500/person/night,
- 20% for private lodge unit rentals @ R4 000/unit/night and,
- 60% of available timeshare sold @ R10 000/week/annum.

Initially the main income stream is generated from the sale of timeshare units; this therefore forms an important sector in the development.

The break-even point is a mere 2 years from opening, (i.e. if the construction takes a year, the break even point will be two years after that at the current rates).
3.2 General

The option of building a self-catering to limited service facilities as described in chapter 2 is presented here. The main objection to self-catering units alone is the high level of risk compared to the expected investment reward, due to the limited clientele base. Other development options might exist for the property, although these will be ascertained at a later stage. A reasonable approach would be to consider the requirements for making such a resort attractive to tourists/investors. This was done in the previous section. Residual value of the property has been excluded. The aim is to make the investment profitable without taking the residual value of the property into account and using this development as a springboard into the South African market. This development must be self-supportive and a source of capital for future property developments within SA.

It must be stressed that all the figures are best estimates only. Until the actual designs have been drawn, these are the only guidelines to work from. This development may have many levels of capital investment. Two levels of capital investments was considered initially i.e. self-catering to limited service accommodation (low) and limited service to luxury accommodation (medium), but the lower capital investment option is discussed here. A third “super luxury” option is available, although the capital investment requirements are very high as initial calculations showed this option required more than double the investment.

Consulting the figures derived from the Rode’s report of South Africa and further considering the estimates, these were found in line with expert research on the topic. This information was used in combination with the reasonable expected occupancy rates determined from information gathered. The key to the success of this venture is to ensure occupancy rate by ensuring that adequate, classy facilities and entertainment is made available to clientele and visitors alike.

Note:

All references to Section A and Section C, refer to the other section of the thesis reports titled “Section A, South African Environment, South Africa” and the last report entitled Section C “Installation Techniques Thula”.

All calculations are in South African Rands (ZAR), unless otherwise indicated and most figures are rounded off for clarity purposes.
3.3 **Approximate Facilities size**

It has been determined, without having the concept designs made that the following space sizes are on average reasonable for the *South African conditions*. These figures where used for calculation purposes:

<table>
<thead>
<tr>
<th>Main Camp Facility</th>
<th>Description</th>
<th>Size (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Main Lodge</strong></td>
<td><strong>Building:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reception / Entrance Foyer</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>Main Lounge / Restaurant</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>Library/ Reading lounge</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Conference centre</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Bar and &quot;Smoking lounge&quot;</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td><strong>Wellness Centre (Spa)</strong></td>
<td>40</td>
</tr>
<tr>
<td></td>
<td><strong>Shops (clothing, Food, curios)</strong></td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Utility space and halls</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td><strong>Entertainment rooms;</strong></td>
<td>40</td>
</tr>
<tr>
<td></td>
<td><strong>Service sections:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kitchen</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Laundry</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Maintenance/Storage</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td><strong>Main Camp Guest Rooms:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(1 to 2 guests) 1 room, bath &amp; lounge</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>(2 to 4 guests) 2 rooms, bath &amp; lounge</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td><strong>Main Lodge total floor area</strong></td>
<td>1050</td>
</tr>
<tr>
<td></td>
<td><strong>Max Lodge Guest Capacity</strong></td>
<td>36</td>
</tr>
<tr>
<td></td>
<td><strong>Private Lodges:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>One Private Lodge 4-6 persons</td>
<td>150</td>
</tr>
</tbody>
</table>

These figures may not correspond directly to those given in writings such as “Neuffert Architects’ Data” or even the “New Metric Handbook, Planning and Design Data” as the situation is South Africa is such that there is space available and the fashion is to have bigger spaces than what was previously accepted as the norm. To note again this report is only the preliminary feasibility study and the real designs are being drawn by an architect. This architect will ensure that the total area is not greater than that used in these calculations.

For comparison the following figures according to the “New Metric Handbook” (Neuffert is the same):
MINIMUM FLOOR AREA

Main Lodge Building:

<table>
<thead>
<tr>
<th>Spaces</th>
<th>Size (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guest capacity</td>
<td>36</td>
</tr>
<tr>
<td>Additional seating</td>
<td>14</td>
</tr>
<tr>
<td>Total seating</td>
<td>50</td>
</tr>
<tr>
<td>Reception / Entrance Foyer</td>
<td>2.3 m²/person</td>
</tr>
<tr>
<td>Main Lounge / Restaurant</td>
<td>1.9 m²/seat</td>
</tr>
<tr>
<td>Library/ Reading lounge</td>
<td>1.1 m²/seat</td>
</tr>
<tr>
<td>Conference centre</td>
<td>0.8 m²/person</td>
</tr>
<tr>
<td>Bar and &quot;Smoking lounge&quot;</td>
<td>1.1 m²/seat</td>
</tr>
<tr>
<td>Wellness Centre (Spa)</td>
<td>0.9 m²/person</td>
</tr>
<tr>
<td>Shops (clothing, Food, curios)</td>
<td>0.8 m²/person</td>
</tr>
<tr>
<td>Utility space and halls</td>
<td>0.8 m²/person</td>
</tr>
<tr>
<td>Entertainment rooms;</td>
<td>0.8 m²/person</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Service sections</th>
<th>Size (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kitchen</td>
<td>0.9 m²/seat</td>
</tr>
<tr>
<td>Housekeeping and general storage</td>
<td>1.5 m²/guest</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main Camp Guest Rooms:</th>
<th>#of</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1 to 2 guests) Averaged between Flat and hotel</td>
<td>6  25  151</td>
</tr>
<tr>
<td>(2 to 4 guests) Averaged between Flat and hotel</td>
<td>6  53  316</td>
</tr>
</tbody>
</table>

Minimal Main Lodge Total Floor Area 1004 m²

Private Lodges:

<table>
<thead>
<tr>
<th>One private lodge</th>
<th>Size (m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4-6 persons</td>
<td>22.5 m²/person</td>
</tr>
</tbody>
</table>

As can be seen from the above the average size of the facilities as used in the calculations are bigger than the minimal size as required by the New Metric Handbook and Neuffert, but not by much as the construction cost will then be higher.

3.4 Preliminary Assumptions

3.4.a Value Added Activities

Value added activities for visitors to the resort Thula as mentioned in the summary of paragraph 2.5, will be outsourced. Therefore the income and expenditure from these activities will not be reflected in the finances of the development.

For calculation purposes the restaurant, shops and other are to be rented to independent operators. The income generated from each will initially be fixed at R100 000 p.a.
3.4.b Peak Occupancy

This is a relatively small development due to the constraints laid down.

The size of this development is therefore mostly limited by the available investment capital.

The Main Camp can accommodate

- 36 overnight guests,

this is marginally more than the competitors in the same market segment. Occupancy of 100% will be achieved if 36 beds are filled.

Initially the Private Lodges will house

- 6 guests each and there will be
- 5 lodges in total.

The peak occupancy of the private lodges will be 100% when 30 beds are filled in the private lodges.

3.4.c Property Cost

The current market variance for property in this area is **R 350 to R450 per hectare.**

Estimated purchase price of Thula property:

- **R1.1 million** (145 000Euro)
- Or **R370/hectare.**
- Transfer cost = **R131 000** (17 500Euro).

The going selling rate in the area starts at R350/hectare and there is a very real possibility that the actual selling price will be higher.

The total cost to purchase of the property is then **R1.23 million** (164 000Euro).

The price is relatively low taken the fact that the purchase could include the use of a 63 000 ha provincial reserve. (R450/ha x 63000ha = R 28 million) through a PPP with the CNC.

3.4.d Design Costs including Professional Fees

Normal professional fees range is **12-13%** of total project cost (according to Cadman and Topping).

The location of the property and the scarceness of locally available resources, necessitate a more in-depth design process, as logistics might prove to be problematic.

There are **NO civil services**, furthermore necessitates the design of viable alternatives.
Recycling and the environmental friendly reintroduction of waste into the ecology will be only one major concern, as all these elements affects the design costs. The overall design costs is expected to be higher than the norm. Thus due mainly to the influences above, a higher than normal Professional and Design cost of

- 16% (conservatively) was applied.

A major advantage is that if this is development is executed properly, it may prove to become a “poster child” for environmentally friendly construction in South Africa as this is not yet widely implimented locally. This will have the added invaluable advantage of free advertising and exposure to important environmental groups, both locally and internationally.

That said, it is suggested that the following professional team be employed on this development:

- **Solicitor/Lawyer**, advise on legal matters and draft the contracts
- **Accountant**, which will do the financial bookkeeping and advice on financial and tax matters.
- **Architect /Designer**, head the design team to design environmentally friendly structures as well as drawing the plans and making the buildings as aesthetically pleasing as possible. Buildings must blend in with the surroundings. He must together with the team to design the most effective and ideal structure for this application.
- **Engineers**;
  - **Geo-technical Engineer**, find suitable soil for construction purposes on the property and test soil for foundations and drainage. His task is also with finding and quantifying suitable water resources.
  - **Structural Engineer**, test and calculate strength of structures designed by the architect and team.
  - **Building Services Engineer**, design the optimal building services systems. (Electrical, climate control, water and available and suitable building materials). The services of a Mechanical Electrical Engineer can also be utilised, as Building Services Engineers are not common in SA.
  - **Planning Engineer**, will plan and co-ordinate activities in correlation with the design team.
  - **Environmental Engineer/Scientist**, determine and report on the environmental impact of the project.

- **Quantity Surveyor**, determine and calculate the quantities, keep record of items and materials utilized during construction and for billing purposes
- *Project Manager*, manage and head the construction process.

- *Town planning consultant* advises, consult and liaise with the local authorities on matter concerning planning consent and regulations.

- *Landscape Architect*, design and plan the landscaping in and around the main lodge facilities

- *Interior Design Architect*, design and furnish the interiors creating a harmonious, warm and inviting atmosphere.

### 3.4.e Construction/Building costs

It is expected that building costs could increase due to logistical limitations.

Once the preliminary designs have been made a Quantity Surveyor will be able to provide more accurate estimates, though for the purpose of this exercise, the following is deemed sufficient.

The initial building costs (excl. services) were conservatively estimated, pending materials used, comfort levels and finishing’s (figures taken from leading estimators and statistical information booklets) these figures also take into account that the construction will not be outsourced:

- **Main Lodge**  
  R4500/m² → R5500/m²

- **Private Lodges**  
  R4500/m² → R6500/m²

- **Staff Quarters**  
  R2000/m² → R3500/m²

- **Service buildings**  
  R1500/m² → R2500/m²

These figures are according to the leading professional in South Africa: Rode’s (for further figures: [www.rode.co.za](http://www.rode.co.za)). According to Rode’s the average building cost rates per square meter in South Africa as at January 2004 are:

*(IN OTHER WORDS: The “Bron” prices were obtained from the leading auditors in SA!)*

#### Building Type

**Hotels:**

- Limited service hotel
  /room  R 260 000 – R 390 000

- Resort style
  /room  R 975 000 – R 1 105 000

- Luxury hotel
  /room  R 1 105 000 – R 1 560 000

- Conference centre according to international standards
  /m²  R 11 700 – R 14 300
Residential:

Private dwelling houses:

Standard /m² R 2 600
Architect designed house /m² R 3 500
Exclusive architect design house /m² R 5 600
Outbuildings /m² R 2 000
Service to low cost housing stand (500m² – 700m²) R 36 500 – R 45 500

(excluding professional fees, escalations and VAT).

Figures above were obtained from the figures for the Gauteng Province area. The figures vary in the different provinces.

Construction costs in the Western Cape are approximately 30% higher than in the Gauteng Province and the above figures were therefore adjusted for this variance.

3.4.f Exploitation Costs

The cost of maintaining the grounds, roads, fencing and game can be very high and it is therefore best outsourced to TNR or other PPP's. Game and Grounds (G&G) maintenance will therefore be negotiated with TNR as part of the Private Public Partnership, freeing the management of Thula to concentrate on the Tourism and Service industry of the whole Reserve. No costs has therefore been allocated to this activity in the financial calculations.

The following complement of personnel will be sufficient to run the facility at the stated nightly rate/service levels. If the service levels or rate increases, the exploitation cost will also increase proportionately.

Management:

- Lodge Manager
- Assistant Lodge Manager
- Accountant (part time)
- Tourism Manager
- Restaurant Manager / Chef
Staff:

- Secretary / Receptionists
- Kitchen personnel
- Butlers / Busboys
- Maids / Cleaning Staff
- Game Rangers / Guides
- Grounds Personnel

Exploitation costs include such items as; day to day running costs, salaries, other staff expenses, maintenance, camp grounds upkeep, time- and occupancy dependant costs.

After initial calculations and consultation with some Reserve/Resort Managers, they estimated that a resort of this service level a yearly exploitation cost of approximately;

- **R3.5 million per annum (460 000 Euro)**

would be sufficient for the initial cost estimates.

If the nightly rate increases, the expectation is that the exploitation cost will increase proportionately. (In the sensitivity graph for the rate increase the total exploitation cost increased 5% for every R250 increase in the nightly rate.)

Broken down into a few different elements, the yearly exploitation cost can be viewed as:

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Property taxes</td>
<td>4,9%</td>
<td>R 500.000</td>
</tr>
<tr>
<td>Maintenance</td>
<td>10,0%</td>
<td>R 540.000</td>
</tr>
<tr>
<td>Salaries/personnel</td>
<td></td>
<td>R 1 650.000</td>
</tr>
<tr>
<td>Promotion/Advertising</td>
<td></td>
<td>R 250.000</td>
</tr>
<tr>
<td>Other/Sundries/Running cost</td>
<td></td>
<td>R 560.000</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>R 3,500.000</strong></td>
</tr>
</tbody>
</table>
Salaries mentioned here are in line with those offered in South Africa. Information obtained and sourced from auditing firms, financial and statistical data referenced and available on the web and governmental offices, experience and discussions with relevant persons.

Salaries breakdown are estimated as:

<table>
<thead>
<tr>
<th>Management / Senior staff:</th>
<th>(description)</th>
<th>Monthly</th>
<th>Yearly</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lodge Manager</td>
<td>1 R 20.000</td>
<td>R 240.000</td>
<td>R 240.000</td>
<td></td>
</tr>
<tr>
<td>Assistant Lodge Manager</td>
<td>1 R 12.500</td>
<td>R 50.000</td>
<td>R 150.000</td>
<td></td>
</tr>
<tr>
<td>Secretary/Receptionist</td>
<td>1 R 8.333</td>
<td>R 00.000</td>
<td>R 100.000</td>
<td></td>
</tr>
<tr>
<td>Accountant/Bookkeeper</td>
<td>1 R 12.500</td>
<td>R 50.000</td>
<td>R 150.000</td>
<td></td>
</tr>
<tr>
<td>Game Manager/Tourism manager</td>
<td>0 R 8.333</td>
<td>R 100.000</td>
<td>R -</td>
<td></td>
</tr>
<tr>
<td>Spa Manager</td>
<td>0 R 8.333</td>
<td>R 100.000</td>
<td>R -</td>
<td></td>
</tr>
<tr>
<td>Restaurant Manager/Chef</td>
<td>1 R 10.417</td>
<td>R 125.000</td>
<td>R 125.000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Staff:</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kitchen personnel</td>
<td>3 R 4.167</td>
<td>R 50.000</td>
<td>R 150.000</td>
<td></td>
</tr>
<tr>
<td>Butlers/barman</td>
<td>1 R 6.250</td>
<td>R 75.000</td>
<td>R 75.000</td>
<td></td>
</tr>
<tr>
<td>Maids</td>
<td>4 R 4.167</td>
<td>R 50.000</td>
<td>R 200.000</td>
<td></td>
</tr>
<tr>
<td>Game rangers/ veldwag</td>
<td>2 R 4.583</td>
<td>R 55.000</td>
<td>R 110.000</td>
<td></td>
</tr>
<tr>
<td>Grounds personnel</td>
<td>2 R 4.167</td>
<td>R 50.000</td>
<td>R 100.000</td>
<td></td>
</tr>
<tr>
<td>Pension contributions and sundries</td>
<td>17</td>
<td></td>
<td>R 1,400.000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R 250.000</td>
<td>R 1,650.000</td>
</tr>
</tbody>
</table>

These salaries are only a guideline that can be followed and are not the actual salaries that can be paid.
3.5 **Preliminary designs**

3.5.a **Concept drawing**

*CONCEPT* drawings were recently made. Pictures of these *concepts* are shown below:

*Main Camp*

![Picture 23: Front View Main Lodge](image)

![Picture 24: Rear View Main Lodge](image)
Picture 25: Plan View Main Lodge
Picture 26: Left View Main Lodge

Picture 27: Right View Main Lodge
3.5.b Main Camp Guest accommodation

1 to 2 Guests:

Picture 28: Front View Studio Lodge (1-2 persons)

Picture 29: Plan View 1-2 persons
2 to 4 Guests:

Picture 30: Front View Private Lodge (2-4 persons)

Picture 31: Plan View Private Lodge (2-4 persons)
3.5.c  Private Lodges

Picture 32: Front View Private Lodge (2-6 persons)

Picture 33: Rear View Private Lodge (2-6 persons)
Picture 34: Plan View Ground floor Private Lodge
Picture 35: Plan View First Floor Private Lodge
3.5.a Functional program and dimensions

The envisaged buildings and accompanying facilities as shown before in the concept drawings that the estimated total dimensions will approximately be as shown below.

THESE AREAS ARE THOSE DETERMINED AND GIVEN IN PREVIOUS CHAPTER 2.7.

These dimensions may vary from the final designs and is therefore only a guideline for preliminary calculations. The whole development should include of the following:

➤ Main Camp Facility:
  o Main Lodge........................................................................1050 m²
    ▪ Reception / Entrance foyer
    ▪ Restaurant
    ▪ Main lounge
    ▪ Smoking lounge
    ▪ Conference centre
    ▪ Bar
    ▪ Shops (Grocer/ Clothing / Curious)
    ▪ Kitchen
    ▪ Laundry
    ▪ Guest Rooms
      • 6 x (1 to 2) person rooms
      • 6 x (1 to 4) person rooms

➤ Private Units / Lodges..........................................................150 m² (per lodge)
  o 2 to 3 Bedrooms (sleeps four to six)
  o Kitchen
  o Lounge
  o Full Bathroom
  o Terrace platform

➤ On Site Employee Quarters....................................................400 m²
  o Management quarters (5 persons)
  o Staff quarters (10 persons)

➤ Other buildings.................................................................200 m²
  o Maintenance workshop
  o Garage
  o Storage
3.5.b Situation and grouping of spaces

- **Main camp** and accompanying facilities must remain, were possible, within the footprint and presently fenced area of the homestead and earth dam. All guest rooms grouped, oriented and designed to form part of the overall accommodation setting and facilities. The Restaurant may also be located adjacent to the dam.

- **Private Lodges** spread over the remaining property. Location co-ordinates for each lodge will have to be determined in the future together with a Land Surveyor.

- **Staff quarters** must be located such that it does not adversely affect the view and guests enjoyment, preferably close to the current CNC ranger houses or behind the main camp facilities.

---

3.5.c Orientation of spaces

- **All buildings** must be orientated to make full use of the natural light, the predominant wind direction and the heat of the sun. There must be a balance with the available views, sunlight, dam location and primary wind direction for reasons of comfort and practicality.

- **Main Camp facilities** such as guest rooms, restaurant, lounges, etc. must as far as possible orientated towards the dam, sun and or the natural beauty of surrounding landscape features.

- **Private Lodges** must be so located and oriented that the main lodge camp and other private lodges not observed and have unimpeded views of the surrounding area.

---

3.5.d Construction type and building methods

The buildings must blend in with the surrounding environment. The construction type must be permanent but utilise recyclable materials where possible. The designs based on eco-friendly techniques and materials. [See Section C].

---

3.5.e Specials

In the design, we made allowances for the supply of civil services such as water and electricity. This portion of the design as discussed further in Section C.

---

3.5.f Building materials

All buildings must, as far as possible, be constructed of natural occurring, recyclable and renewable resources such as wood, sand, stone and grass. There is an abundant supply of river stone, boulders and sand on the property. Grass and wood for roof construction and other applications can easily be sourced from the surrounding areas. The other sections of the
buildings will consist of more traditional building materials, such as straw bales, wood, brick, cement, steel and as much glass as possible. [See Section C.]

3.6 Overall Cost Estimates

Property Acquisition
- Property (All costs rounded off) R 1 230 000

Building/construction cost estimates
- Main camp facilities (incl. Restaurant) R 3 500 000
- Private Lodges (5 units x R700 000 per unit) R 3 500 000
- Staff quarters R 1 000 000
- Other buildings R 400 000
- Grounds/Landscaping R 500 000

Additional direct and indirect costs estimates
- Providing Civil Services (Water, Gas & Electricity) R 1 250 000
- EIA R 500 000
- Inventory/Furnishings R 2 000 000
- Transport R 600 000

Yearly Exploitation / Operating costs estimates
- Rates and Taxes R 500 000
- Salaries R 1 650 000
- Maintenance R 540 000
- Other/Sundries/Running costs R 810 000

It can be assumed that the exploitation costs (i.e. running cost) will remain constant since the costs as calculated above is expenditures at full operating capacity. The exploitation cost could also be calculated as a variable cost, depending on the occupancy rates achieved in the development. I.e. higher occupancy = higher exploitation costs and vice-versa.

In these calculations shown here it was decided to have a fixed exploitation cost based on 100% occupancy.
3.7 Financial analysis

The construction time allocated to the main camp facilities may be shortened with proper planning and scheduling, thus bringing forward the start of the income-generating stream from rentals and timeshares.

The cash flow analysis allows for a rather extended development construction period of one (1) year, allowing for irregularities such as logistics, location and supply of materials and skills. Opportunity for increasing the profitability by decreasing interest payments through shortening the development construction period, exists.

It is however conservatively estimated that the following rentals are deemed to be within the acceptable range for these facilities:

- Main camp accommodation rates start at **R1 500 (188 Euro) p.p.p.n.**
- Rental of Private units (up to six occupants) rented at **R4 000 (500 Euro) p.u.p.n.**
- A Timeshare unit sells for **R10 000 (1 350 Euro) per week per year**
- ALTERNATIVELY the selling price is **R200 000 (26 500 Euro)** for 1 week per year, each year, for the full exploitation period of **20 years.**

The optimal and actual rental and timeshare selling prices will be determined in the marketing plan to be compiled at a later stage. Until such time these low figures indicated are accurate enough estimates.

The current marginal lending rate in South Africa is 12.5%. Interest is calculated at 12.5%. This rate is 5% above the current South African Reserve Bank repo rate of 7.5%.

Prime overdraft rate (predominant rate) is currently 11.0% and the CPI inflation is averaging 3%, giving a real interest rate of 8%.

SARB has specific regulations regarding foreign loans; an accounting professional can be consulted. ([www.resbank.co.za/sarndata/rates/rates.asp?type=cmr#footnotes](www.resbank.co.za/sarndata/rates/rates.asp?type=cmr#footnotes)).

Occupancy rates are conservatively estimated (from information gathered from similar facilities and developments) at the following rates:

- **Main camp** 25%
- **Private lodge rentals** 20%
- **Timeshare** 60%
3.8 **Profit evaluation**

Note: According to Rodes a yield of 8% percent can be expected if the completed scheme is sold to an investor directly after completion.

This equates to a capitalization rate of 12.5.

*Note: Tax on Profit and VAT, residual property value, insurance depreciation and escalations have not been taken into account in these calculations. The actual required investment amount must not to be confused with the total development cost.*

3.8.a **Cash Flow**

The cash flow method was used for calculating more accurately over time, the cash flow (cash in and out) and the interest payments during both the construction and exploitation periods.

It is envisaged that the private units will be built and sold over a period of a few years (5 years) and not all at once.

The income streams from the main camp, private lodges timeshare and rentals commence in year two, but this can be brought forward if the timeshares are sold before completion.

It is conservatively estimated that the available time for ONE Timeshare Lodge will be sold over a period of 1,5 years up to the stated occupancy rate of 60%. The rest is rented at the stated occupancy rates.

It is important to note that the construction of the whole scheme is currently spread over six (6) years in the cash flow diagram. (1 year main camp and one timeshare lodge per year for the last five years), but this can be extended over a longer period, especially if investors intend building himself.

The Private Lodges can be built as they are sold/needed, although the Main Camp facilities are to be constructed at the start of the project and can be extended through the next few years.

Important is also to note that the main source of income for the first few years will be the sale of the timeshare and rentals.

Currently only five timeshare lodges are planned, although this can be increased during the exploitation period.

Return/Income is dependant on occupancy rates and the amount of timeshares sold and the capital overdraft amount and interest is repaid ASAP (although this is not always in line with best-business practices).
The Preliminary Cash flow layout for the **FIRST YEAR** looks as follows: [Table 4: 1st Year Cashflow]
The Preliminary Cash Flow for the EXPLOITATION PERIOD looks as follows:

### CASH FLOW DIAGRAM: Exploitation Period

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
<th>19</th>
<th>20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Months</td>
<td>12</td>
<td>24</td>
<td>36</td>
<td>48</td>
<td>60</td>
<td>72</td>
<td>84</td>
<td>96</td>
<td>108</td>
<td>120</td>
<td>132</td>
<td>144</td>
<td>156</td>
<td>168</td>
<td>180</td>
<td>192</td>
<td>204</td>
<td>216</td>
<td>228</td>
<td>240</td>
</tr>
<tr>
<td>ZAR</td>
<td></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

#### Revenue (ZAR)

(a) Timeshare sales Private Units R 52,600
(b) Private Unit Rental R 2,867,150
(c) Main Camp Rentals R 3,500,000
(d) Restaurant R 1,900
(e) Spas R 1,900
(f) Potential gross income (100% occupancy) ZAR

#### Expenses/Costs (R000s)

- Building cost: Main Lodge (3,500,000)
- Private Lodge (3,500,000)
- Employee quarters (1,000,000)
- Other Buildings (400,000)
- Landscaping/grounds (506,000)
- Professional fees (1,380,000)
- Other costs: Funding fees (426,000)
- Letting and sales cost: (1,925,513)
- Exploitation cost: (66,500,000)
- Total expenses (87,781,056)

#### Gross development value (R) €

- Total exploitation costs (89,616,432)
- Profit before tax (48,700,468)
- Discounted value (23,964,131) (including interest payments)

### Additional Notes

- Discount rate = 8%
- Discounted: (6,972) 2,894 5,198 6,977 4,651 3,280 2,631 1,556 1,033 957 886 760 783 651 663 558 517 479 441 23,964
- Gross development value R 138,304,980 € 18,442,253
- Residual property value R - € 0
- Total exploitation costs R 89,616,432 € 11,948,858
- Profit before tax R 48,700,468 € 6,493,396
- Discounted: R 23,944,331 (including interest payments)
- NPV: R 21,966,992 (excluding interest (D))
Graph 27: Cash In vs. Cash Out
3.9 **Ratios**

The assumption is that this venture is financed by a bank overdraft facility to the maximum amount by which the cash flow balance will be overdrawn (undiscounted).

- Discount Rate Applied = 8% (also real interest rate)
- Value of overdraft or Cash outlay = R 11 315 000 = Initial investment
- Annual Net Operating Income = R 5 712 000 (from rentals)
- Yearly Operating Expenses = R 3 646 000 (overall expenses)
- Annual net cashflow = R 2 066 000 (after repayment overdraft and interest)
- Gross Income = R 138 317 000
- Overall operating expenses = R 87 780 000
- Total interest on loan/overdraft = R 1 835 000
- Gross Expenses (incl. interest) = R 89 615 000
- Net Income = R 48 700 000
- Net Present Value (NPV) = R 21 967 000 (from DCF)  
  
  *(ZAR values in 000’s)*

- Yearly Operating Ratio = R 3 646 / R 5 712 = 0.6383 = **Good**
- Overall Break-even Ratio = (R 87 780 + R 1 835)/R 138 317 = 0.6478 = **Good**
- Break-even Ratio (after repayment of overdraft and interest) = 0.6383 = **Good**
- Payback Period = R 11 315 / R 5 712 = 1.9809 years = **Excellent**
- Internal Rate of Return = (Discount rate that equates the NPV equal to zero)  

  \[
  \text{IRR} = 35\% \ (\geq 8\% \text{ used for discounting}) = \text{Excellent}
  \]
3.10  **Sensitivity**

3.10.a  **Occupancy sensitivity**

The income stream is dependant on the overall occupancy rates of the resort. That is the nightly rates charged for guests. In this section we look at the income sensitivity for incremental changes in the occupancy rates. We assume further that for every incremental change in occupancy of the Main Camp the Private lodges rental also changes by the same increment. The selling rate of 60% for the timeshare private lodges remain constant here, so too the exploitation cost since this is calculated for full operating capacity.

(The sensitivity graphs are calculated with discounted values)
Graph 30: IRR vs. Occupancy Rate
3.10.b  Timeshare selling rate sensitivity

In the following sensitivity graphs we look at the sensitivity of the income stream and the IRR in relation to the selling rate of the timeshare units. The overall occupancy rate of the resort has been kept constant at 25%. Exploitation costs remain the same.

(The sensitivity graphs are calculated with discounted values)
Graph 32: IRR vs. Selling Rate
3.10.c Nightly Rate Sensitivity

By increasing the nightly rate the “exploitation costs” will also increase.

It is estimated that the exploitation cost will increase by 5% for every R250 increase in the nightly rate whereas before the exploitation costs remained constant. This increase in exploitation cost covers the additional expense of extra personell, maintenance and other running expenses.

(The sensitivity graphs are calculated with discounted values)
3.10.d % Change vs. Net Development Value

From the graph on the next page it can be seen that a change in Occupancy rates has a more pronounced affect on the Net Development Income discounted to today than any of the other influences such as timeshare selling rate and nightly rate changes.

This only strengthens the contention that high occupancy is essential for the success of this project. Therefore advertising and marketing costs are well worth the effort and expense.
% Change comparison graph vs NPV

Graph 35: % Change comparison graph vs. NPV
% Change comparison graph vs NPVa

Graph 36: % Change in Selling rate of timeshares

Page 259
Graph 37: % Change comparison graph vs. NPV
3.11 **Governmental considerations**

It is important that the following is also given consideration.

3.11.a **Black Economic Empowerment**

The influence that these regulations have on this project especially in view of the PPP relationship with the CNC must be determined. A person knowledgeable in these areas and regulations must be consulted.

3.11.b **Government assistance**

It is not uncommon for the government to lend assistance to developers and investors in certain instances. If certain prerequisites are met, government may provide subsidies, tax rebates and assist in other instances. These facilities and options are mentioned in Section A.

3.11.c **Area Development Plan**

Thula forms part of the greater conservation management plan as presented by Mr. David Daitz in 2003. The consequences of this plan can to a great extent determine the profitability of the development and can be a positive influence. It is therefore very important that a working relationship be maintained with CNC.

3.12 **Important Regulations and Acts**

Important regulations relevant here areas are listed below. Copies can also be viewed on the government Internet sites [www.acts.co.za](http://www.acts.co.za) and [www.gov.za](http://www.gov.za) or by contacting the relevant government department.

Copies are also included on the compact disk attached to the original documents as supplied by the author.

- Black Economic Empowerment Act 53 of 2003
- Land Use Planning Ordinance 15 of 1985
- Removal of restrictions Act No. 84 of 1967
- Land Survey Act No. 8 of 1997
3.13 **General Tax implications**

Companies have to pay the following taxes

- **Property tax** is variable **1% to 5%** property value (consult Municipal Property Rates Act 6 of 2004)
- **Company tax**, at **30%** of profit retained.
- **Secondary tax on Companies** (STC), at **12,5%** of the net dividends declared.
- **External Companies** i.e. Branches of foreign Companies, **35%**, exempt from STC.
- **Capital Gains Tax**, **50%** of the gain only if disposing a capital asset.
- **VAT**, (14%) legislation regarding VAT is very complex and it is beyond the cope of this report, but information on VAT is included on the Compact disk attached to the original printed copies of this report.

Some information on the above can be found in Section A. It is further advised to contact an accountant in these regards.
3.14 Conclusions

With;

- a nightly rate of R 1 500 per person per night,
- occupancy of 25% and,
- a timeshare selling rate of 60% at;
- a rate of R 10 000 per week per year,

The total cost over the exploitation period is estimated at R90 million (discounted = R 50 million),

The total income over the exploitation period is estimated at R 138 million (discounted = R 72 million),

and the present value of profits about R22 million (discounted).

The minimum financing/overdraft required according to the cash flow is R11.5 million (as explained before).

This is equal to 1.5 million Euro at current market rates (R7,50 / 1,00 Euro).

Costs are recovered from the sale of timeshares units and the rentals received from the main camp and associated facilities. With current market rates and the predicted occupancy rates the initial investment can be reimbursed within the 2 years. This does not take other government regulations or costs into account.

It must be noted again that tax still has to be paid on profits.

Regulations regarding remittances of foreign capital, restrictions and types of loans are dealt with in Section A.

The overall project seems very viable and profitable, as long as the occupancy rates can be achieved. This should not be a problem as the average occupancy rates of the closest competitors are already higher than 25%.
Chapter 4

Risk Analysis

4.1 General
There are always risk factors and uncertainties involved with any development and we look at these in this section.

Most developers spend only little or no time on a risk analysis, although this is not advised here, as strategies must be formulated to counteract the negative effects in the occurrences of a risk. The cost involved in the risk identified in this section has been incorporated into the calculations as done in the previous chapter.

In this feasibility study three distinct phases can be identified and thus three groups of risk are made and possible solutions are suggested.

The phases/groups are:

- Initiation-
- Planning & Construction- and
- Selling and Exploitation phases.

The quantification of risk factors in monetary terms is done in the last paragraph of this chapter, paragraph 4.3.

It is only possible to broadly estimated the possibility of such events occurring and the monetary implications at present. A chance of happening and cost was allocated to each risk and possible solutions. This cost was added to the feasibility calculations under various headings. This is a buffer in case of such events occurring. A more complete risk management plan can be compiled and implemented when continuing with this project.
4.2 **Identifying and Strategizing Risks**

The risks have been formulated, as they are known at present. The task at hand is minimizing the effects of these risks as far as possible. Listed below are some of the risks and obstacles that can be foreseen at present. There are no fixed guidelines to compiling a risk analysis and it was decided to group the risks into the different phases or time allocations.

### 4.2.a Risks for the initiation phase

1. Interest and inflation rates increasing (>5%).
2. Low market interest in this development
3. Mr. van der Merwe unwilling to sell at reasonable price.
4. Mr. van der Merwe sells to CNC or WWF
5. Mr. van der Merwe not willing to grant first option at a reasonable price.
6. CNC and TNR against development of property.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Possible Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Enquire from financial institutions and/or government for assistance and/or schemes to help curb these influences.</td>
</tr>
<tr>
<td>2</td>
<td>Proper marketing</td>
</tr>
<tr>
<td>3</td>
<td>Get first option to purchase</td>
</tr>
<tr>
<td>4</td>
<td>None</td>
</tr>
<tr>
<td>5</td>
<td>None</td>
</tr>
<tr>
<td>6</td>
<td>Involve them in the development and in a PPP.</td>
</tr>
</tbody>
</table>
## 4.2.b Risks factors in planning and construction phase

Risks for *Planning and Construction* could be:

1. Difficulty in obtaining planning permission.
2. Lack of co-operation on behalf of CNC and TNR management.
3. Cost of servicing the property with water and electricity higher than anticipated.
4. Higher building costs than anticipated.
5. Logistics for transportation of materials and construction personnel.
6. Availability of materials (solution, use as much natural, renewable and recyclable resources as possible, such as sand, river rock, wood and grass!)

<table>
<thead>
<tr>
<th>Risk</th>
<th>Possible Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Reapply until permission is granted, PPP will ensure that permission be granted.</td>
</tr>
<tr>
<td>8</td>
<td>Ensure that CNC understands and is involved in the development. Ensure that PPP does not curb the investors independent decision making capabilities with regards to the development and property.</td>
</tr>
<tr>
<td>9</td>
<td>Find alternative solutions or adapt current solutions.</td>
</tr>
<tr>
<td>10</td>
<td>Adapt designs and bring building costs down with discussions and negotiation with contractors, otherwise find contractor willing to build at reasonable cost.</td>
</tr>
<tr>
<td>11</td>
<td>Planning must be meticulous.</td>
</tr>
<tr>
<td>12</td>
<td>Source materials from surrounding areas.</td>
</tr>
</tbody>
</table>
4.2.c  Risks factors during exploitation phase

Risks during *Selling and Exploitation* could be:

13) Low selling rate of timeshare units

14) Low occupancy rate of main lodge facility, due to reasons such as not having big five, travel distance and inadequate advertisings/marketing

15) Revenue loss due to quality of access road (gravel road)

16) Revenue loss due to distance that has to be travelled to get to reserve

17) Cost of providing adequate high class service high

18) Personnel and management incapable of maintaining service

<table>
<thead>
<tr>
<th>Risk</th>
<th>Possible Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Intensify marketing and awareness campaign</td>
</tr>
<tr>
<td>14</td>
<td>Intensify marketing and awareness campaign</td>
</tr>
<tr>
<td>15</td>
<td>Intensify marketing and awareness campaign</td>
</tr>
<tr>
<td></td>
<td>Partnership agreements with other reserves in the vicinity</td>
</tr>
<tr>
<td></td>
<td>Market the road as one of the attraction for 4x4 enthusiasts.</td>
</tr>
<tr>
<td></td>
<td>Ensure that clientele are aware of the charter and shuttle service.</td>
</tr>
<tr>
<td></td>
<td>Petition for the public road to be maintained more regularly</td>
</tr>
<tr>
<td>16</td>
<td>Implement charter and shuttles services</td>
</tr>
<tr>
<td>17</td>
<td>Find management that is competent and capable of maintaining service levels</td>
</tr>
<tr>
<td>18</td>
<td>Only employ trained personnel and management or train them on site.</td>
</tr>
</tbody>
</table>
4.3 Risk and Solution in monetary terms

Below is a risk calculation that shows the broad estimated cost related to the risk and solution involved in the Thula project as given in the previous few paragraphs.

The choice must be made between taking the risk or implementing the solution into the project. The choice between risk or solution is normally made by choosing the option that costs the least and this is also done in this table below.

(The same risk numbering as in the previous paragraphs were followed)

<table>
<thead>
<tr>
<th>Risk #</th>
<th>Chance</th>
<th>Risk</th>
<th>Solution</th>
<th>Option</th>
<th>Option</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>Cost</td>
<td>Total</td>
<td>Cost</td>
<td>Cost taken</td>
</tr>
<tr>
<td>4.2.a) Initiation Phase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>40%</td>
<td>100,000 ZAR</td>
<td>40,000 ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
</tr>
<tr>
<td>2</td>
<td>10%</td>
<td>1,000,000 ZAR</td>
<td>100,000 ZAR</td>
<td>200,000 ZAR</td>
<td>100,000 ZAR</td>
</tr>
<tr>
<td>3</td>
<td>30%</td>
<td>400,000 ZAR</td>
<td>120,000 ZAR</td>
<td>50,000 ZAR</td>
<td>50,000 ZAR</td>
</tr>
<tr>
<td>4</td>
<td>50%</td>
<td>- ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
</tr>
<tr>
<td>5</td>
<td>50%</td>
<td>400,000 ZAR</td>
<td>200,000 ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
</tr>
<tr>
<td>6</td>
<td>20%</td>
<td>2,000,000 ZAR</td>
<td>400,000 ZAR</td>
<td>500,000 ZAR</td>
<td>400,000 ZAR</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>550,000 ZAR</td>
</tr>
<tr>
<td>4.2.b) Planning and Construction Phase (total only until exploitation starts)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>550,000 ZAR</td>
</tr>
<tr>
<td>7</td>
<td>50%</td>
<td>100,000 ZAR</td>
<td>50,000 ZAR</td>
<td>50,000 ZAR</td>
<td>50,000 ZAR</td>
</tr>
<tr>
<td>8</td>
<td>25%</td>
<td>200,000 ZAR</td>
<td>50,000 ZAR</td>
<td>50,000 ZAR</td>
<td>50,000 ZAR</td>
</tr>
<tr>
<td>9</td>
<td>20%</td>
<td>1,000,000 ZAR</td>
<td>200,000 ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
</tr>
<tr>
<td>10</td>
<td>10%</td>
<td>1,000,000 ZAR</td>
<td>100,000 ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
</tr>
<tr>
<td>11</td>
<td>30%</td>
<td>100,000 ZAR</td>
<td>30,000 ZAR</td>
<td>- ZAR</td>
<td>- ZAR</td>
</tr>
<tr>
<td>12</td>
<td>30%</td>
<td>250,000 ZAR</td>
<td>75,000 ZAR</td>
<td>50,000 ZAR</td>
<td>50,000 ZAR</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>150,000 ZAR</td>
</tr>
<tr>
<td>4.2.c) Exploitation Phase (yearly)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>150,000 ZAR</td>
</tr>
<tr>
<td>13</td>
<td>50%</td>
<td>5,000,000 ZAR</td>
<td>2,500,000 ZAR</td>
<td>100,000 ZAR</td>
<td>100,000 ZAR</td>
</tr>
<tr>
<td>14</td>
<td>50%</td>
<td>2,500,000 ZAR</td>
<td>1,250,000 ZAR</td>
<td>100,000 ZAR</td>
<td>100,000 ZAR</td>
</tr>
<tr>
<td>15</td>
<td>30%</td>
<td>1,000,000 ZAR</td>
<td>300,000 ZAR</td>
<td>150,000 ZAR</td>
<td>150,000 ZAR</td>
</tr>
<tr>
<td>16</td>
<td>20%</td>
<td>1,000,000 ZAR</td>
<td>200,000 ZAR</td>
<td>300,000 ZAR</td>
<td>200,000 ZAR</td>
</tr>
<tr>
<td>17</td>
<td>100%</td>
<td>1,000,000 ZAR</td>
<td>1,000,000 ZAR</td>
<td>75,000 ZAR</td>
<td>75,000 ZAR</td>
</tr>
<tr>
<td>18</td>
<td>25%</td>
<td>1,000,000 ZAR</td>
<td>250,000 ZAR</td>
<td>75,000 ZAR</td>
<td>75,000 ZAR</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>700,000 ZAR p.a.</td>
</tr>
</tbody>
</table>

Initiation phase risks were incorporated in the “Other Costs” sections of the calculations.

Planning and Construction Phase risk cost were incorporated in the “Building cost and Professional fees” sections of the calculations.

The Risks involved with the exploitation phase were incorporated in the calculations, as part of the “exploitation cost” and as part of the “Contingencies”.
4.4 Conclusions

The total cost involved with the risk/solutions is not as high initially expected, but it is clear that the success of the project depends on; the nightly rates and the occupancy rates achieved during the exploitation period, as well as the selling rate of the timeshares.

As could be expected, there are risks that cannot be prevented or influenced, but in general the solutions to the risks are quite simple and easily implemented. There where the cost of the risk was lower than the solution cost, the obvious decision was to take the risk and incorporate the percentage cost into the calculation.

In most cases the risk was counteracted by the solution suggested, only in two cases were the decision taken to rather take the risk.

Since we have tried to counteract the influences of the risks as far as possible it will not be financially viable to plan/counteract all eventualities. The remedy is to have the correct competent management in place to counteract and prevent these risks from happening.

The risk for the three phases as mentioned were:

a) Initiation risk = R 550 000

b) Planning and Construction risk = R 150 000

c) Exploitation risk = R 700 000

Some might think that the risk cost for (b) is too low, but with proper planning and control this risk cost can be kept low as indicated here.

The conclusion is therefore that the risk can be well managed and that the influences thereof have been incorporated into the preliminary calculations so that no further attention needs to be given to this at this time.
Chapter 5

Environmental Impact Assessment

The Department of Environmental Affairs and Tourism published a document on 25 June 2004 states that an Environmental Impact Assessment (EIA):

“… means the process of collecting, organising, analysing, interpreting and communicating information that is relevant to a decision contemplated in regulation 9 in respect of the potential impacts of a proposed activity”

As this project will have a marked influence on the environment, a Environmental Impact Assessment must completed and approved by the local government before permission can be granted to proceed with the planning and construction of the project,

For ease of obtaining this permission and assistance in, not only in compiling, but also in the cost of compiling the EIA report it is strongly suggested that a Public Private Partnership be entered into with CNC for the management of the facilities and tourism on TNR. They will then in turn assist, as far as possible with ensuring that this development is given the support that is needed.

Only legislation/regulations relevant to this project are reported.

5.5 Regulations
Consult regulations in EIA regulations document for information regarding this, as it is too complex to report in the limited space available.
5.6 Activities requiring Environmental Authorisation

EIA regulations, schedule 1, states that activities as specified in schedule 4, in the following geographic areas, must apply for authorisation:

☼ Areas protected and identified by legislation, policy or plan for
☼ Conservation of biological diversity.
☼ Conservation of water resources
☼ Conservation of landscape and geological features
☼ Core areas of biosphere reserves

5.6.d Activities that require EIA

☼ Construction of new runways for aircraft (exclusive of unpaved strips shorter that 1,4km
☼ Treatment of effluent, wastewater and sewage with an installed capacity of >15 000m³
☼ The incineration, burning, evaporation, thermal treatment, roasting or heat sterilisation of waste or effluent
☼ The microbial deactivation, chemical sterilisation or non thermal treatment of effluent and waste
☼ Any new development that cover an area in excess of 20 hectares
☼ The construction of a dam where the highest part of the dam wall, as measured from the outside toe is 5 meters or higher

Picture 37: Crasula Rapestis
5.6.e Activities that require Initial Assessment

☼ The construction of new facilities or infrastructure for:

☼ Resorts, lodges, hotels and other tourism or hospitality where more than 20 guest are accommodated, covering a area more than 1 hectare and has no connection to the municipal sewage system

☼ Aircraft related activities

☼ Off road driving

☼ Abstraction of water directly from natural sources, including streams and aquifers

5.6.f Responsibilities and obligations of applicant

☼ Undertake the EIA in a form agreed to, or indicated by, the competent authority

☼ Appoint a professional, capable environmental assessment practitioner

☼ Provide access to information

☼ Is responsible for all costs incurred

☼ Ensure practitioner adheres to all procedures as required in Act

☼ Indemnify government and subordinates from liability

☼ Inform if practitioner has vested interest in activity that could influence his objectivity

5.7 Conservation Management Plan

Conservation Environmental Management Plan (CEMP or CMP) for the management of the game and grounds will have to be compiled. This must as far as possible be done in co-operation with the TNR, as this will form part of the PPP with CNC.

The expected contents of such a report is given in the EIA regulations document to be viewed as attachment.
5.8 **Public Private Partnership agreement**

It can be advantageous to have a Public Private Partnership (PPP) with CNC for the management of the natural resources and wildlife and tourism. With this agreement a partnership will exist between the management of the tourism and service industry on Thula and TNR conservation authorities on the reserve.

The partnership agreement will include the terms and condition for the use if the greater area of the provincial reserve and also the possibilities to make satellite bush camps outside the area of Thula but on the property of TNR.

![Picture 38: Redhartebeast](image-url)
DIVERS PICTURES OF PROPERTY
WORLD WIDE WEB REFERENCES

1. [http://cnci.org.za](http://cnci.org.za)
3. [http://mbendi.co.za](http://mbendi.co.za)
4. [http://rapidttp.co.za](http://rapidttp.co.za)
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8. www.absa.co.za
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10. www.agrement.co.za
11. www.agssa.co.za
12. www.aquilasafari.com
13. www.bushmanskloof.co.za
14. www.cargoinfo.co.za
15. www.cge.org.za
16. www.cipro.co.za
17. www.crimestats.co.za
18. www.csri.co.za
19. www.deeds.co.za
20. www.demarcation.org.za
22. www.eaab.co.za
23. www.elections.org.za
24. www.environment.gov.za
25. [www.eskom.co.za](http://www.eskom.co.za)
26. [www.finforum.co.za](http://www.finforum.co.za)
27. [www.finnbuilder.co.za](http://www.finnbuilder.co.za)
28. [www.fnb.co.za](http://www.fnb.co.za)
30. [www.grootbos.com](http://www.grootbos.com)
32. [www.idc.co.za](http://www.idc.co.za)
33. [www.inverdoorn.com](http://www.inverdoorn.com)
34. [www.joburg.org.za](http://www.joburg.org.za)
35. [www.jse.co.za](http://www.jse.co.za)
36. [www.jutastat.co.za](http://www.jutastat.co.za)
37. [www.lesotho.gov.ls](http://www.lesotho.gov.ls)
38. [www.nber.org](http://www.nber.org)
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ACRONYMS

- ANC = African National Congress
- BEE = Black Economic Empowerment
- BV’ = “Beslote Vernoötschap”
- CC = Close Corporation
- CD = Compact disc
- CEMP = Conservation environmental managementt plan
- CGT = Capital Gains Tax
- CIPRO = Companies and Intellectual Property Registration Office
- CNC = Cape Nature Conservation
- CODESA = Convention for a Democratic South Africa
- CPI = Consumer Price Index
- CPIX = Consumer Price Index excluding mortgage rates
- CSG = Chief Surveyor General
- DCF = Discounted Cash Flow
- DFI = Development Finance Institution
- DTI = Department of Trade and Industry
- DWAF = Department of Water Affairs and Forestry
- EIA = Environmental Impact Assessment
- FDI = Foreign Direct Investment
• FNB = First National Bank
• G&G = Game and Grounds
• GDP = Gross Domestic Product
• GDP = Gross Domestic Product
• IDC = Industrial Development Corporation of South Africa Ltd
• IDZ = Industrial Development Zones
• IFP = Inkatha Freedom Party
• IRR = Internal Rate of Return
• JSE = Johannesburg Stock Exchange
• L/C = Letters of Credit
• NCOP = National Council of Provinces
• NDV = Net Development Value
• NGO = Non Governmental Organisations
• NLPF = National Language Policy Framework
• NLS = National Language Service
• NP = National Party
• NPV = Net Present Value
• p.p.p.n. = per person per night
• PAC = Pan-Africanist Congress
• PPP = Public-Private-Partnership
• SACP = South African Communist Party
- SARB = South African Reserve Bank
- SARB = South *African Reserve Bank*
- SATSA = *Southern Africa* Tourism Services Association
- SDI = Spatial Development Initiatives
- SITE = Standard Income Tax on Employees
- STC = Secondary Tax on Companies
- TNR = Towerkop Nature Reserve
- UIF = Unemployment Insurance Fund
- UN = United Nations
- UNISA = University of South Africa
- VAT = Value-Added Tax
- VFR = Visit Friends and Relatives
- VOC = Dutch East India Company
- WC = Western Cape Province
- WWF = World Wildlife Fund
- ZAR = South African Rand
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ATTACHMENTS

Attached to this document is a Compact Disc that has all the relevant information as mentioned in this thesis report! It contains the following folders and files:

1. South African Acts:
   All the relevant Acts that the author could get a copy of, most of the acts before 1995 are not available in PDF format and can sometimes be viewed on the website www.acts.co.za:
   1. South African Yearbook:
      - Yearbook 2001/2002
      - Yearbook 2002/2003
      - Yearbook 2003/2004
   1. South African Tourism:
      - Annual Tourism Report 2002
      - Annual Tourism Report 2003
      - Domestic tourism info
   1. Thesis documents
      Copies of both the main thesis as the extra thesis are on the compact disc.
   1. Other information
      Information on the following is also given
      - MP79a form
      - Capital Gains Tax
      - VAT
      - Financial Stability Review March 2004
      - CPIX figures 1997 to 2004
      - CPI Historical to Current
      - CPI 1975 to 2004
      - How to establish a hunting and game farm
1. Pictures

Collette van Deventer mostly took the pictures used in the compilation of this report on the Thula property. Other pictures downloaded from websites. All these pictures are available in high resolution on the compact disc.

END