



Namib Bou

a member of **Capricorn Group**

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PROPERTY VALUATION REPORT

PROPERTY: ERF 10, OTJIWARONGO

GROOTFONTEIN STREET



MARKET VALUE:	N\$ 3,120,000.00
FORCED SALE VALUE:	N\$ 2,180,000.00
INSURANCE VALUE (15% VAT INCLUDED):	N\$ 4,710,000.00
DATE OF VALUATION:	31 May 2021

Prepared by: Carmen W. du Preez
Property Valuer
Hons Degree in Property Studies (UFS)

VALUATION REPORT

1. GENERAL INFORMATION

1.1 INSTRUCTION

We have been instructed by Bank Windhoek Omaruru Branch represented by Josefina Absalom to determine the most probable market value of the subject property as described in this report.

CLIENT: Mr. A Hayward
TELEPHONE: + 264 81 275 0272
DATE OF INSPECTION: 21 May 2021
DATE OF VALUATION: 31 May 2021

1.2 PURPOSE OF VALUATION

- The purpose of this valuation report is to determine the market value of the subject property for administration & borrowing purposes.
- Determine the insurance and forced sale value of the subject property.

1.3 BASIS OF VALUATION

The basis of value is to determine the Market Value of the subject property. Market Value is defined in accordance with the International Valuation Standards as:

“The estimated amount for which an asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

A summary of the features of the “willing” buyer and seller are:

- They should be in a position to enter into a contract (financially and legally);
- They negotiate on equal terms;
- They are both well informed about the property and all its potentialities, as well as about the market for such properties;
- They are not under pressure;
- They negotiate the transaction rationally.

2. PROPERTY DETAILS

CERTAIN: Erf 10, Otjiwarongo
SITUATED: In the Municipality of Otjiwarongo
Registration Division "D"
Otjozondjupa Region
MEASURING: 1800m²
SERVITUDE: AS STIPULATED BY TITLE DEED

I did not view the title deed of the subject property and the valuation is done on the basis that apart from the standard stipulations, there are no servitudes or conditions registered against the title deed that may adversely affect the content of this report.

3. LOCAL GOVERNMENT INFORMATION

LOCAL AUTHORITY NAME: Otjiwarongo Municipality
ZONING: Light Industrial
COVERAGE: 80%
HEIGHT: Three (3) storeys or twelve (12) meters whichever is most restrictive
PARKING: 1.5 bays per unit plus 1 visitors bay per 3 units

4. LOCAL AUTHORITY VALUATION

Land and the improvements were separately valued as per Valuation Roll dated 2015 for Otjiwarongo Municipality as described hereunder:

Township Name:	Otjiwarongo
Calculated Area:	1800m ²
Property Number:	10
Zoning:	Light Industrial
Site Value:	N\$ 104,000.00
Improvement Value:	N\$ 1,800,000.00
Total Value:	N\$ 1,904,000.00

Please note that the municipal valuation is not reflective of the market value of the subject property, it provides the basis from which rates and taxes are levied by the Otjiwarongo Municipality.

5. LOCATION AND SITUATION

5.1 LOCATION

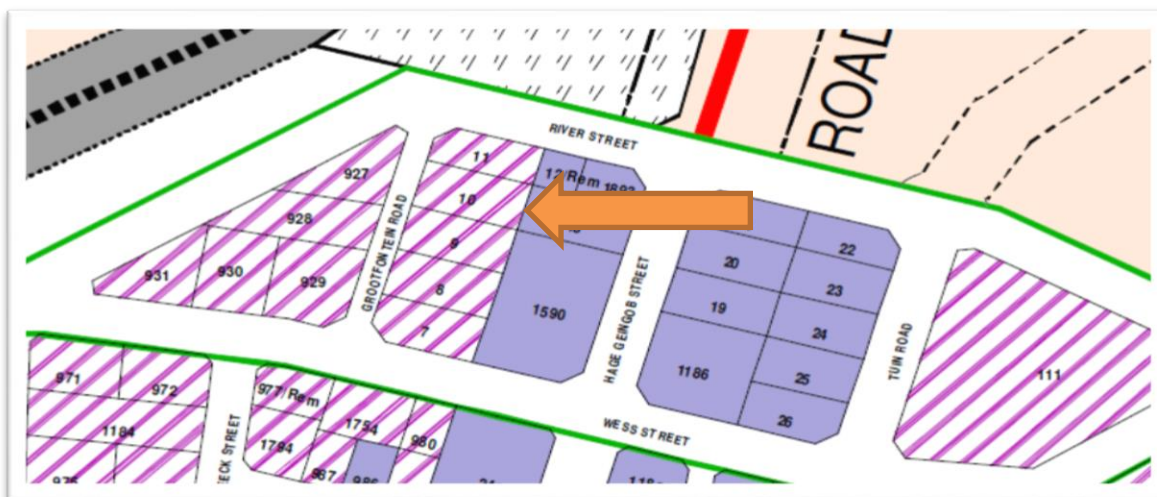
The subject property is located in the north western industrial area of Otjiwarongo. The immediate area mainly comprises of business and industrial type properties. Amenities in the area include establishments of such as Pupkewitz Auto, Indongo Toyota, Dunlop tire zone, and other industrial buildings.



(Figure 1: Google maps image)

5.2 TOPOGRAPHY

The subject property is situated on a levelled rectangular “Light Industrial” zoned stand. The subject property is fully serviced by the Municipality with water, electricity, sewerage and refuse removal.



(Figure 2: Spatial Zoning Map)

6. DESCRIPTION OF IMPROVEMENTS

The above can best be described at the hand of the following:

Structure:	Conventional brick and mortar constructions over reinforced concrete foundations and floor slab to relevant specification.
Roof covering:	IBR roof coverings fitted on to steel trusses
Floor coverings:	Tiled floors
Condition:	Good to average condition
External walls:	Plastered and painted
Internal walls:	Plastered and painted

GBA m²:

Description	Size (m²)
Flats	618
Storeroom	33

Visual Images





7. OPEN MARKET ANALYSIS - HIGHEST AND BEST USE

(*a Term meaning the reasonable, probable and permissible use that will support the highest present value, as of the effective date of the valuation).

In determining the highest and best use of the property, the following aspects need to be considered:

- Legal Permissibility
- Physical Possibility
- Financial Feasibility
- Maximum Productivity

The Erf is zoned 'Light Industrial'. The present utilization of the subject property as a flat complex is considered as being the highest and best use for the property. The subject property will be valued as such.

8. ANALYZING

Rating out of 5 (1: low, 3: medium, 5 high)

Condition of buildings: Quality Finishes inside	Rating: 3.5
Suburb Demand:	Rating: 3.5
Location	Rating: 3
Let-ability:	Rating: 2.5
Sale-ability:	Rating: 2.5

9. METHODS OF VALUATION

Since the subject property is an income producing property, the property will be valued at its highest and best use as a commercial property. The **Income capitalization method** will be used in determining the Market Value of the subject property.

9.1 **Income Capitalization Approach**

The Income Capitalization Approach is used to value commercial and investment properties. This approach is generally considered to be the most applicable valuation technique for income producing properties because it is intended to directly reflect or model the expectations and behaviors of typical market participants, where sufficient market data exists.

In commercial income producing properties, this approach capitalizes an income stream into a value indication – this figure is then applied to a Net Operating Income (NOI). The Net Operating Income is the Gross Potential Income (GPI),

less vacancy and collection losses (= Effective Gross Income) less operating expenses (but, excluding debt service, Income taxes, and / or depreciation charges applied by accountants).

The NOI is then divided by a capitalization rate r (%), which is the measure of return or yield that an investor would expect to receive on equity invested in this type of property, in order to determine the subject property's present market value.

9.2 Comparable Sales Method

The comparable sales method has been established by the courts in actions involving market value disputes that comparable transactions afford a sound basis for arriving at a satisfactory guide in determining market value and that the comparison method has been readily accepted as a sound valuation principle. The objective of the method is to determine comparable rentals that will be used in the Income Capitalization Method.

Analysis of the most comparable properties sold

ERF	Erf size	Zoning	Suburb	GBA	Purchase price N\$	Date	Average Sell out rate
1059	5003	Industrial	Otjiwarongo	1087	N\$ 3,000,000.00	01-Mar-19	N\$ 2,759.89
1685	5887	Industrial	Otjiwarongo	800	N\$ 2,740,000.00	01-Jun-18	N\$ 3,425.00
155	2142	Business	Otjiwarongo	250	N\$ 3,736,000.00	30-Nov-18	N\$ 14,944.00

Comparable Rentals for accommodation

Section of building/Tenant	GLA m ²	Rent/month
Erf 261	60	N\$ 5,500.00
Erf 292	45	N\$ 3,500.00
Erf 1758	85	N\$ 8,000.00
Erf 1312	210	N\$ 12,000.00

The above table illustrates the rental analysis researched in Otjiwarongo. Due to the nature of the subject building, we researched the market for similar properties in the vicinity of the subject property and in other locations in Otjiwarongo. The researched properties are fairly similar to the subject property in terms of use, criteria, size, condition and improvements. For this valuation, however, we have used the actual rentals of the subject property as the rental rates are in line with the current market.

10. MARKET COMMENTARY

10.1 Key Global Economic outlook (Bank of Namibia Dec 2020 Outlook)

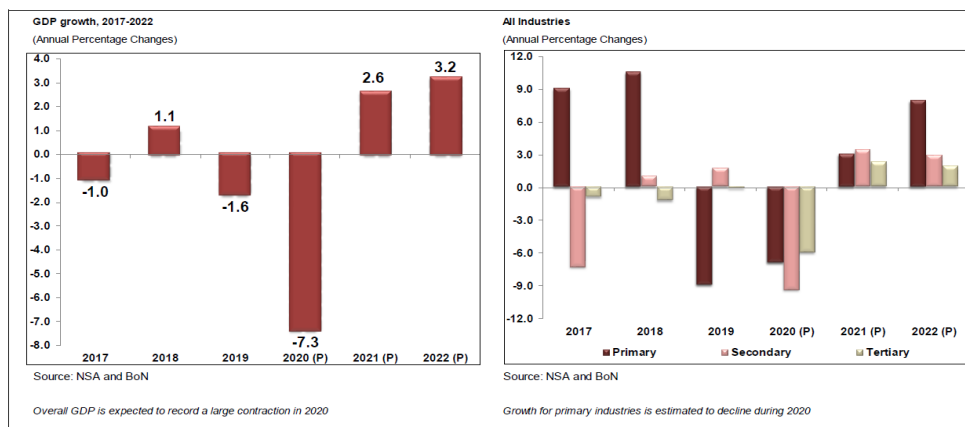
The global economy is projected to contract during 2020, before improving in 2021. According to the IMF World Economic Outlook (WEO) released in October 2020, the contraction in global output is projected to be less severe than the earlier projection in June 2020. The revision is on the back of better than anticipated growth outturns in advanced economies because of the scaling back in COVID-19 induced lockdowns coupled with signs of an overall stronger recovery during the third quarter of 2020. Global output is estimated to contract by 4.4% in 2020 before recovering to positive growth of 5.2% in 2021. The estimated growth for 2020 represents a 7.2 point decline from the 2.8% for 2019. In the April 2020 WEO update, the contraction in global growth was projected at 4.9% for the year 2020.

10.2 Key Macro- Economic Indicators

Namibia's economy remains weak and is expected to recover moderately in 2021. Real GDP is expected to contract by 7.3% in 2020, which is slightly lower than the 7.8% contraction projected in the August 2020 Economic Outlook. A slower contraction projected in this Economic Outlook Update is based on year to date information, which indicated that the contraction in primary industries during 2020 is likely to be less severe than earlier anticipated. The sectors expected to be most affected by COVID-19 induced travel restrictions and weakening global markets remain largely unchanged and include hotels and restaurants; mining; transport and storage; manufacturing; wholesale and retail trade; and construction. The Namibian economy is then projected to recover to growth rates of 2.6% and 3.2% in 2021 and 2022, respectively.

Risks to domestic growth remain dominated by the impact of COVID-19 pandemic, primarily through uncertainty regarding its expected duration. Risks to domestic growth are dominated by ongoing travel restrictions that are in place for many countries, exacerbated by the second wave of COVID-19 infections in advanced economies, including Namibia's key trading partners. That means that travel restrictions will most likely, continue to impede business activities, causing disruptions to supply. Other risks to domestic growth and outlook include the persistently low international prices of Namibia's export commodities and climatic swings.

Figure 1: Overall growth and growth by industries



10.2 Micro-Economic Indicators

Stagnation in this specific property market was observed in Otjiwarongo. Currently there are many industrial buildings for sale in Otjiwarongo, and the lengthy period of these properties on the market indicates that there is no interest in buying industrial buildings. However, according to various letting agents, the demand for rental accommodation has increased noticeably during the last year due to increased employment at the B2 Gold mine, resulting in a shortage of this type of space. This is confirmed by the steadily growing rental rates for accommodation.

On the other hand, as the globe grapples with the humanitarian crisis around the pandemic, while this is still unfolding with great future uncertainties and a ripple effect across all sectors of the economy, not much is being said about the effects of Covid-19 on the commercial property market in Namibia including pressing landlord and tenant issues. From a long-term investor perspective property needs to be viewed as a long-term investment, with decisions made looking to the future. Rental rates will drop post the Covid-19 lockdowns. In a rental market controlled by supply and demand, when supply increases and demand decreases, the price has to capitulate. Companies will revise their growth plans, look to consolidate or look to move. Many businesses will cease to exist in the medium term, even if they are able to survive for the next few months. In this regard, the year 2021 will presumably see a stagnation or stabilization in the property sectors.

Note that the current economic downturn, coupled with depository requirements as well as restrictive lending practices from financial institutions have a negative impact on property values, rental yields and capitalization rates.

11. VALUATION CONSIDERATION

11.1 Capitalization Rate

A Capitalization rate of 9.5% to 13.5% is considered to be the market norm for this type of space offered by the subject property, located in an average risk lending area with good exposure and visibility.

A capitalization rate of 12% is considered appropriate to determine the market value of the subject property, considering the location and condition of the property. This in turn is equivalent to a price earning index of 8.33 which is in line with what the market should offer for a property of this nature under current market conditions.

11.2 Vacancy and Collection Loss

Vacancy and collection loss is an allowance for reduction in potential gross income attributable to vacancies, tenant turnover, and non-payment of rent or other income. This line item considers two components:

- Physical vacancy as a loss of income
- Collection loss caused by concessions or default by tenants.

A 3% to 5% vacancy and collection loss factor is currently regarded the norm for income producing properties, in accordance to the Broll Namibia Sub-Saharan Africa Snapshot 2017. We regard a 2% vacancy factor to be reasonable for this exercise in consideration of micro economic factors.

11.3 Expenses

Operating expenses are divided in three categories:

- Fixed expenses – Taxes and building insurances

- Variable expenses - Management, maintenance, security, leasing commissions etc.
- Replacement allowance - Allowances for the replacement of building components that wear out and needs to be replaced during the building's economic life.

All the above are normally the responsibility of the owner and the tenants are responsible for the monthly/annual rent, portion of municipality rates and the cleaning of the building.

As indicated by property managers, expenses for these types of properties, depending on the condition and size, normally range between 15 – 25% of the gross income. Therefore, we are of the opinion that a 10% expense rate can be applied to the gross income for this valuation.

12. DETERMINING OF VALUE

12.1 MARKET VALUE

Description	Size (m²)	Rent (N\$/m²)	Amount
Flat 1	1	N\$ 5,600.00	N\$ 5,600.00
Flat 2	1	N\$ 3,200.00	N\$ 3,200.00
Flat 3	1	N\$ 3,200.00	N\$ 3,200.00
Flat 4	1	N\$ 4,400.00	N\$ 4,400.00
Flat 5	1	N\$ 5,600.00	N\$ 5,600.00
Flat 6	1	N\$ 4,400.00	N\$ 4,400.00
Flat 7	1	N\$ 4,000.00	N\$ 4,000.00
Flat 8	1	N\$ 5,000.00	N\$ 5,000.00
			N\$ 35,400.00
			12
Effective Gross Income (EGI)			N\$ 424,800.00
Less: Vacancy Determined at 2% of gross income		2%	N\$ 8,496.00
Less: Outgoings Determined at 10% of gross income		10%	N\$ 42,480.00
Net Operating Income (NOI)			N\$ 373,824.00
Capitalized in perpetuity at 12%	100	12	8.333333333
Total			N\$ 3,115,200.00
MARKET VALUE (ROUNDED)	SAY	-	N\$ 3,120,000.00
FORCED SALE VALUE	70%	-	N\$ 2,180,000.00

12.2 INSURANCE VALUE

Description	Size (m ²)	Rate (N\$/m ²)	Amount
Flats	618	N\$ 5,000.00	N\$ 3,090,000.00
Storeroom	33	N\$ 2,500.00	N\$ 82,500.00
Minor improvements			N\$ 361,000.00
Sub Total			N\$ 3,533,500.00
13% Professional Fees	13%		N\$ 459,355.00
3% Demolition Fees	3%		N\$ 106,005.00
Total (Excluding 15% VAT)			N\$ 4,098,860.00
ADD 15% VAT	15%		N\$ 614,829.00
Total			N\$ 4,713,689.00
Grand Total Rounded (VAT Incl)			N\$ 4,710,000.00

13. OPINION OF VALUE

After due consideration of the information presented, a **Valuation Amount of N\$ 3,120,000.00 (Three Million One Hundred and Twenty Thousand Namibian Dollars)** is considered a realistic **Market Value** for the subject property with a recommended **Insurance Value of N\$ 4,710,000.00 (Four Million Seven Hundred and Ten Thousand Namibia Dollars)** and a recommended **Forced Sale Value of N\$ 2,180,000.00 (Two Million One Hundred and Eighty Thousand Namibian Dollars)**.

14. CONDITIONS & RECOMMENDATIONS

My valuation assumes that the services are in a satisfactory condition. This valuation of the subject property offered as security is done solely for the internal administrative purposes of Bank Windhoek Limited. No warranties whatsoever are given or implied in respect of the property, its condition or market value. Furthermore Namib Bou (Pty) Ltd does not accept any responsibility should this information be used by any other party for whatever reason

15. CERTIFICATE

After taking due consideration of all the relevant factors, I, Carmen du Preez in my capacity as Valuer, consider the above valuation to be a true reflection and a fair assessment of the subject property's current market value, as at the date of valuation.

Carmen du Preez/ Ulalia Waterboer
VALUER

DATE: 31 May 2021