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**THE RIVER CLUB
ZENPROP PROPERTY GROUP**

FOR ATTENTION: MICHELLE COUZYIN-RADEMEYER

RE: 2019 COMMERCIAL MARKET CONDITIONS & TRENDS:

While 2019 is expected to be a better year for South Africa, there needs to be an improvement on the country's fiscal outlook to alleviate risks such as unforeseen increases in revenue expenditure to fund infrastructure projects, rising government debt and political uncertainties. Initially, a GDP growth forecast of 1.9% for 2019 was anticipated in relation to better governance. However, current growth forecasts for 2019 have been progressively decreased with the potential for further downward revisions becoming possible. This is evidenced by the first quarter's poor performance translating to 0% year-on-year growth, hence it is hard to envisage even 1% growth for the remainder of 2019.

At present, the economic outlook has been impacted by uncertainty over further rating downgrades, the May elections and land/property expropriation. While South Africa has at present managed to maintain its investment grade rating, continuing structural weaknesses and rising debt will challenge this, and the market may have already started taking into consideration the moderate risk of a potential downgrade.

An essential element of economic and property market growth is stability and confidence, and the country is certainly poised for a return of confidence and economic revival. Over the next three to five years, analysts forecast that the South African economic environment will look a lot better, compared to the last five where South Africa has experienced dismal growth.

As far as the real estate sector is concerned, a more positive sentiment has definitely been evident in the second quarter, and especially since the elections. Evidenced by national house prices which grew by 3.4% in the year to end-march, particularly in the Western Cape (+5.8%) which continues to outperform in comparison to the national average.

Capitalization rates on directly held nonresidential property in South Africa worsened in the first quarter of 2019 compared to the fourth quarter of 2018 – reflecting a general conservative standing in SA. However, this could turn around by 2020, and may lead to the normalization of interest rates. According to South African Rode Report 2019: Q1 :- Respective national capitalization rates for the first quarter of 2019 were at 9,7% for prime multi-tenanted office properties, 9,3% for prime industrial leasebacks and 7,8% for regional shopping centres.

Cape Town's cap rates are still the lowest in the country particularly in Century City and Claremont who have recorded the best (lowest) cap rates at 8,8% and 9% respectively, however on average rates have somewhat worsened recently. In the first quarter of 2019, investors in regional centres required a net income return of between 7,7% and 8% to induce them to buy or sell regional centres. the national cap rates for the smaller community and neighbourhood centres were 8,6% and 9,6% respectively, slightly worse than in the fourth quarter of 2018.

Overall, these factors have contributed to rising yield rates, as evidenced by the Rode Report 2019: Q1 which have surveyed capitalization rates in the Cape Town area as follows:

Retail buildings in the Cape Town area are $\pm 8.3\%$ for “community” buildings and $\pm 9.3\%$ for “neighborhood” buildings. “A” office buildings range between 8.6% and 9.0% and “B” office buildings are around 9.7% for the Cape Town areas.

The following property sales / transactions of commercial / mixed use properties that were traced in the Greater Cape Town area, which have reflected yield rates between 8% - 10%. We are of the opinion that these expected yield rates are market related, and a fair reflection of current market trends.

ERF DETAILS	ADDRESS	ERF SIZE	ZONING	PURCHASE PRICE	PURCHASE DATE	EXPECTED YIELD
2019 TRANSACTIONS						
Erf 4507 Cape Town	85 St Georges Mall, Cape Town CBD	810m ²	General Business 7	R 59 000 000	Feb-19	9,25%
Erf 24264 Parow	43 Radnor Street, Parow Industrial	21, 510m ²	General Industrial 1	R 112 000 000	Apr-19	9,1%
2018 TRANSACTIONS						
Erven 6329 & 9939 Kuils River	102 & 104 Van Riebeeck Road, De Kuilen	2, 823m ²	General Business 5	R 899 987 941	Jun-18	9,3%
Erven 1239, 169833 & 9451 Cape Town	75 Strand, 50 & 52 Loop Streets, Cape Town CBD	3, 151m ²	General Business 7	R 220 000 000	May-18	10%
Erf 3062 Camps Bay	87 Victoria Road, Camps Bay	6, 276m ²	General Business 1	R 546 642 821	Sep-18	9%
Erf 142181 Cape Town	142 Bree Street, Cape Town CBD	2, 805m ²	Mixed Use 3	R 172 500 000	Mar-18	9%
Erf 7243 Cape Town	12 Burg Street, Cape Town CBD	1, 170m ²	General Business 7	R 100 000 000	May-18	8%
Erven 15928 Somerset West	R44 Main Road, Schonenberg Estate	51, 453m ²	General Business 4	R 596 000 000	May-18	9,5%
Erf 177492 Cape Town	De Waterkant	3, 475m ²	Mixed Use 2	R 180 000 000	Mar-18	9,1%
Erf 12 Roggebaai	7 Walter Sisulu Avenue, Cape Town CBD	1, 249m ²	General Business 7	R 315 200 000	Aug-18	9%
Erven 6563, 6569, 6952, 7054 Montague Gardens and Section 1 SS Crystal Towers	Century Boulevard & Boundary Road, Century City	37, 094m ²	General Business 3	R 949 200 000	Apr-18	7,9%
Erf 4483 Cape Town	31 Riebeeck Street, Cape Town CBD	1, 420m ²	General Business 7	R 124 000 000	May-18	10%
2017 TRANSACTIONS						
Erf 9363 Cape Town	2 Long Street, Cape Town CBD	3, 650m ²	Mixed Use 3	R 389 000 000	Feb-17	8%
Erf 140294 Cape Town	Alexandra Road, Oude Molen Village	8, 335m ²	Mixed Use 2	R 149 000 000	Jun-17	9%
Erf 39242 Goodwood	31 Louwtjie Rothman Street, N1 City	24, 910m ²	General Business 1	R 540 000 000	Mar-17	8%
Erf 10128 Brackenfell	524 Frans Conradie Drive, Brackenfell	107, 110m ²	General Business 1	R 450 000 000	Dec-17	9,25%
Erf 23427 Parow	9 Giel Basson Avenue, Parow Golf Course	22, 322m ²	Local Business 1	R 142 100 000	Sep-17	9,6%
Erf 116494 Cape Town	SS Tannery Park, Rosebank	9, 411m ²	General Business 1	R 105 984 000	Oct-17	9%

Taking into consideration the above factors, current economic sentiment, forecasts, and market trends. We believe feasibility prospects and potential development returns with market capitalization rates that are substantially below 9% are not commercially viable, particularly in the present investment environment.

Hence, we are of the opinion that Development Scenarios 1 and 2 are for the River Club are the most feasible investment opportunities.



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