

## APPENDIX C7(2): COMMENTS RECIEVED

Comments on Basic Assessment Report  
Review period 04 March 2021 – 06 May 2021  
(C&RR: Point 1)

## Key Stakeholders and Interested & Affected Parties



- (i) Paragraphs 7.1 states that *“The predominant perception of wind turbines is that they lower nearby housing values”*<sup>30</sup>
- (ii) Paragraphs 7.2 notes that the Waainek Wind Farm is *“largely characterised by rural property types with some light industrial developments located to the east of the wind farm”* and *“The area can therefore be classified as rural but located on the periphery of an urban node”*<sup>31</sup>. This is in contrast to the fairly unimproved agricultural areas surrounding the two proposed wind farms, areas accessed by mostly gravel roads
- (iii) All references to the Lightstone study (paragraphs 7.2 and 7.4) should be disregarded as the study has an important caveat where Suburb Reports, such as what is used in the two SEIA’s, are concerned: *“The data used in Lightstone’s aggregated reports (Town, Suburb, Sectional Scheme and Estate Reports) and market analysis tools reflect the trends in developed residential homes”*.<sup>32</sup> This is a totally different market to rural, agricultural and hospitality property and is therefore of no relevance to the study area around the two proposed wind farms
- (iv) The use of the FNB Housing Price Index in paragraphs 7.3 and is applicable to *“housing market performance”* - not the property market as a whole. To therefore rely on the Housing Price Index and relate that to *“South Africa’s property market”*<sup>33</sup> is disingenuous. It might give a good overview when one is dealing with residential property, but is of limited use in any of the other market segments, such as the commercial, agricultural or hospitality property markets
- (v) As the writer of the two SEIA’s relies on Lightstone, a residential study as indicated in paragraph (iii) above, no statistics on agricultural properties are reflected. This could be one of the reasons why *“no properties were recorded as ‘transferred’ in the 10 year period in Makana NU (Makhanda)”*<sup>34</sup>. This is a serious oversight, as we found in excess of 65 agricultural property transactions being registered in the rural district of Albany alone, during the period of 01 January 2016 to the present

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<sup>30</sup> WGSEIA page 49, FSEIA page 49

<sup>31</sup> WGSEIA page 49, FSEIA page 49

<sup>32</sup> Lightstone Website

<sup>33</sup> WGSEIA page 51, FSEIA page 51

<sup>34</sup> WGSEIA page 52, FSEIA page 52



- (vi) The non-relevance of the conclusions drawn on pages 54 of the two SEIA's is emphasised where the writer uses statistics of sectional title units (usually apartments or group housing units) and vacant residential plots (with prices of around R210,000 each). It is therefore clear that the research contained in this section of the SEIA's do not cover the type of property that is potentially affected, therefore being of no use in a process such as this

### 3.8.2

With regard to the opinions of *Agents* (paragraphs 7.5 of the SEIA's) towards the impact of the wind farms on property prices in the "*affected areas*", the following is applicable:

- (i) There is no indication of the boundary or location of the "*affected areas*" - does it cover agricultural properties only, or is it focussed on non-agricultural properties?
- (ii) The questions posed in the questionnaire / survey are not discussed. Was a distinction made between the different types of property, or is it a general overview of the prices of the properties that the Agents sold in the period just prior to the survey?
- (iii) How do these Agents gauge price levels? A change in value can only be determined if the property was sold twice, in a relatively short space of time (so that external factors do not affect demand or supply), on the open market and where there were no changes to the property itself (e.g. upgrades, extensions). This scenario is quite rare and we could not find one transaction in the Albany Rural District that transacted twice in the period between 2016 and 2021. A similar situation is most likely found in other rural areas, with the effect that the opinions of the Agents interviewed is little more than anecdotal opinions - not the type of evidence one can rely on in important studies such as those required for the Wind Garden and Frontier Wind Farms
- (iv) In contrast to this, a longer listing period for farm properties in the Cookhouse district due to the presence of wind farms is not anecdotal - this is something that can be measured in days and months. The same applies to the opinion of the Remax Frontier agent in Makhanda, with regard to finding investors for tourism and game farms

- 3.8.3 In paragraphs 7.6 of the SEIA's<sup>35</sup>, International Literature is reviewed. As was the case before, this portion focuses mostly on "*the values of nearby homes*" and "*home sale prices*" (own underlining). As the purchaser of a residential house has a different set of requirements when it comes to buying a house (e.g. distance to schools, number of bedrooms, extent of garden), it cannot and should not be compared to say a hospitality property located in a rural location. Here attributes such as remoteness, the rural ambience, views and noise levels are important. As all these attributes can potentially be impacted by wind farms, it is safe to say that the effect on the value of a home cannot be used as baseline for the impact on a farm or upmarket tourism property
- 3.8.4 With this in mind, we cannot agree with the conclusion that "*there is no direct correlation between wind farms and property values over the long-term*".<sup>36</sup> This is in our opinion an exaggeration of the conclusions of the studies presented, in that the residential market is not reflective of all property types. Although the findings might be true for residential property, there is no evidence that it also holds true for the type of properties that are potentially affected by Wind Garden and Fronteer. This is a serious shortcoming of the two SEIA's and to a large degree renders them to be of limited value
- 3.8.5 This misconception is also contained in the two BAR's, where the term "*property values*" as used in the SEIA's is expanded to now include "*land values*"<sup>37</sup>. Two paragraphs later the conclusion is also indicated to be applicable to the "*rural and farm areas*" - an area that is not studied in any of the literature quoted in the SEIA's. This gross generalisation is in our opinion an overreach by the writers, stating it as a conclusion where in fact it was not covered by any of the various studies the writers relied on. This alone indicates a lack of objectivity, not the unbiased opinion that is required in a BAR. The significance score of "Low (24)" is in our opinion not reflective of the actual state of affairs
- 3.8.6 One of the aspects that is not covered by the SEIA's or the BAR's, is the loss of rates revenue to the Municipality as a consequence of reductions in property values. The basis of valuation for the levying of municipal rates is market value. If the market value of the property is reduced, be it by the visual, noise or socio-economic impact of a wind farm, the rates income to the Municipality will decrease

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<sup>35</sup> WGSEIA page 56, FSEIA page 56

<sup>36</sup> WGSEIA page 59, FSEIA page 59

<sup>37</sup> WGBAR page 223, FBAR page 219



- 3.8.7 It is possible that the writers of the relevant reports were under the impression that this loss in income will be recouped from the increase in the market value of the farms on which the wind farms are to be located. This is however not the case - for two reasons. In the first instance, Section 46 (3)(a) of the Municipal Property Rates Act<sup>38</sup> directs the valuer to disregard the value of equipment or machinery which, in relation to the property concerned, is immobile property. The turbines located on the farm and the income derived from it may therefore not be included in the valuation
- 3.8.8 There could be an argument that the wind farm be regarded as public service infrastructure (“PSI”), in which case the “equipment” may be rateable. However, PSI must be publicly controlled, which is not the case with a privately developed wind farm. The wind farm will therefore not be a rateable entity under current legislation
- 3.8.9 With the proliferation of new wind farm developments, it is possible that legislation could in future be amended to make provision for a wind farm, as supplier of electricity, to be regarded as PSI, even if in private ownership. This will however not benefit the Municipality either, as rates can only be levied on 70% of the value of the PSI (Section 11 (1)(b) of the Municipal Property Rates Act). In our opinion, it is therefore inevitable that the Municipality’s income will be reduced, a significant constraint for a Local Council which is already under pressure to supply adequate services to its residents

#### 4. CONCLUSIONS

- 4.1 In paragraph 3 above, several short comings of the BAR’s and the studies on which it relies, are indicated. Although many of these might seem of limited consequence, one must keep in mind that the combined effect of the understated scoring could change the final finding of the BAR. This is especially applicable if the scoring of other portions of the reports that have not been analysed by us, is incorrect or misrepresented

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<sup>38</sup> Local Government: Municipal Property Rates Act, No. 6 of 2004



- 4.2 Of concern is the fact that the status quo is not presented as a real option. In a few instances, the no-go option (paragraph 10.13 of the BAR's) is presented as "not having a positive influence", instead of indicating the effect to be neutral. One example of this is where Employment is discussed: *"however, if the wind farm is not developed, then the unemployment rate will not be positively influenced by the proposed development. ...Therefore, from an employment perspective, the 'do-nothing' alternative is not preferred as there is a perceived loss of employment opportunities"*.<sup>39</sup>
- 4.3 This statement seems to paint a bleak picture, but in fact, the situation remains the same as before - nothing gained, nothing lost. It is our opinion that the writers did not fully investigate this option with the necessary objection, stating effects to be negative where in fact, the effect remains neutral
- 4.4 The purpose of a BAR should be to determine the impact of a proposed development on the receiving environment. If the scoring is above 60, the impact is regarded as "High", i.e., *"the impact must have an influence on the decision to develop in the area"*. In this case, the BAR's seem to go to great lengths to downplay the impacts, so that the impact is not regarded as "High". Not only do we have reason to doubt the accuracy of the scoring, especially with regard to the visual and socio-economic impacts, but where impacts are "High", the no-go option is disregarded or misrepresented
- 4.5 With this in mind, we believe that the BAR's and the conclusions drawn from them should be rejected, as the reports are not deemed to be factually correct and objective

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<sup>39</sup> WGBAR page 234, FBAR page 230





## VALUATION REPORT

### 1. INSTRUCTION

- 1.1 Our instruction is to determine the impact of the Wind Garden and Fronteer Wind Farms on the open market value of Kwandwe. For this, we will use the before and after method of valuation, determining an “Unencumbered” and an “Encumbered” value. In one scenario we will disregard the wind farms and in the other we will assume the wind farms to have been completed and in full operation. The difference between these two values will be the impact the two wind farms have on the value of the Subject Property, referred to as the derogation in value
- 1.2 The Subject Property was inspected on 08 and 09 April 2021, with the assistance of Ms Lucy Stofberg. Mr Angus Sholto-Douglas and Mr Graeme Mann of Kwandwe assisted with information on the operations of Kwandwe

### 2. PROPERTY DESCRIPTION AND TITLE DEED INFORMATION

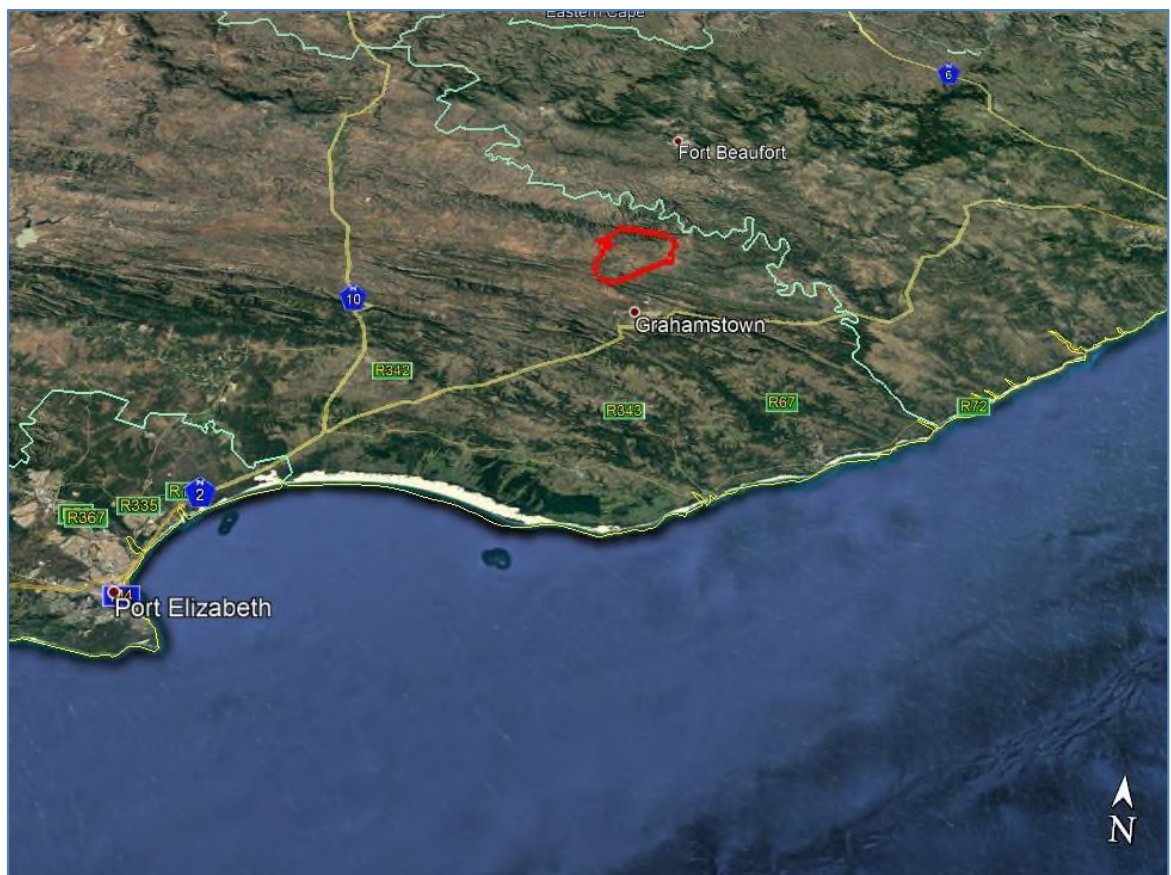
#### 2.1 General

- 2.1.1 Kwandwe is an upmarket and exclusive private game reserve, located to the north of Makhanda (previously Grahamstown) in the Eastern Cape Province. The reserve is part of the Indalo Protected Environment, which was formally recognised and registered in 2018 by the then Department of Environmental Affairs (now known as the Department of Environment, Forestry and Fisheries) as part of the National Protected Area Expansion Strategy for South Africa
- 2.1.2 There are two options to access the reserve from Makhanda. The first is via the tarred R350 route and the gravel R344 route, all in all some 19km from this town. This gives access to the western part of the reserve. The other option is to use the tarred R67 via the Ecca Pass, a total distance of ±25km. This route gives access to the eastern part of Kwandwe. Please refer to **Figure 5** depicting the location of Kwandwe (in red)
- 2.1.3 The Subject Property is traversed by a public road (gravel) between the eastern and western access points. A second gravel road extends from Krantzdrift in a north-western direction. These public roads could be a drawback, impacting on the exclusivity of the reserve, but it seems they are not really seen by the general public as public roads and therefore very rarely used as such

## 2.2 Province, Division, Municipality & Deed Registry

Kwandwe is situated in the Albany Registration Division. It falls within the Makana Local Municipality that forms part of the larger Cacadu District Municipality. Titles to properties here are now held at the King Williams Town Deeds office, but were previously found at Cape Town. Refer to **Table 1** for Title Deed numbers and descriptions of the farms and farm portions of which Kwandwe comprise

**Figure 5: Google Imagery Showing Location of Kwandwe (in red)**



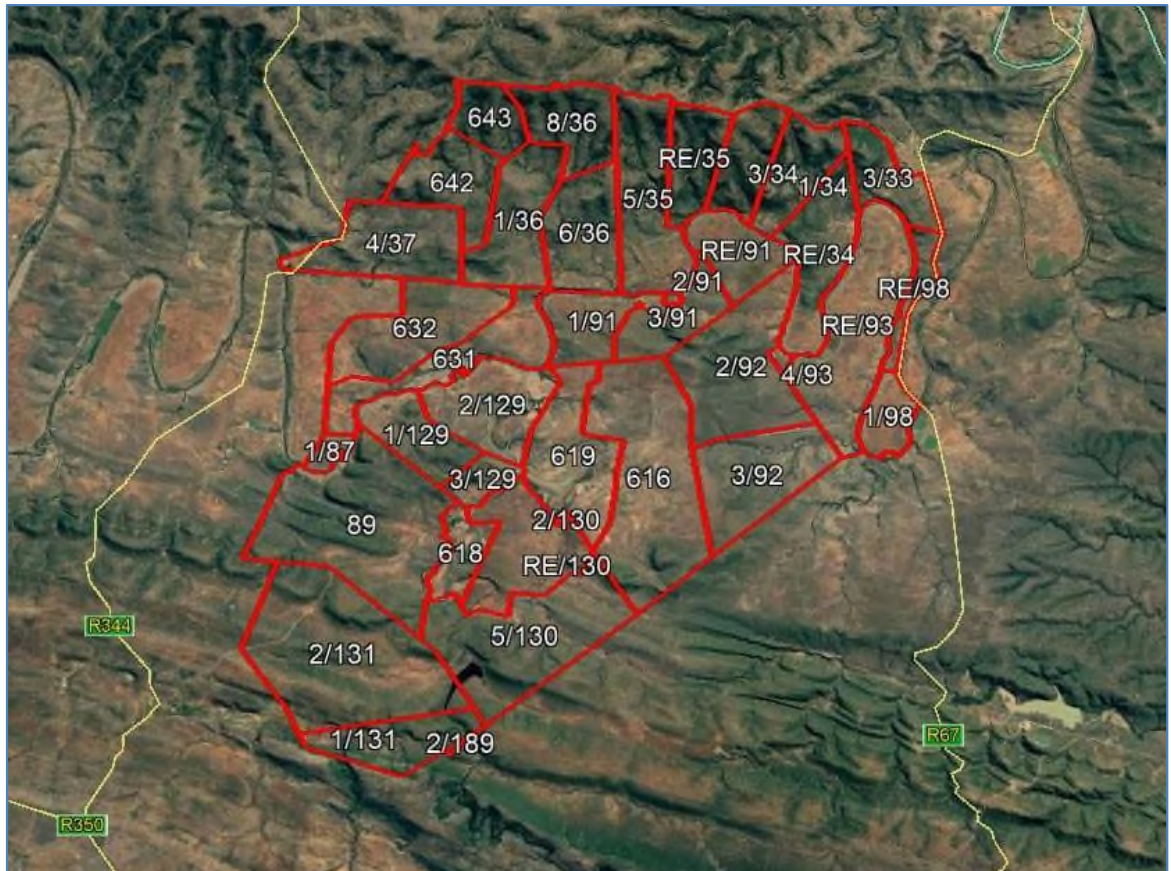
## 2.3 Registered Owner

The 37 farms and farm portions making up Kwandwe are all registered in the name of C-SA Properties (Pty) Ltd (Reg. No. 201113677407) ("C-SA"). Refer to **Table 1** for farm portion extents and historical purchase details of these portions and **Figure 5** depicting the layout of the portions



TABLE 1: FARMS AND FARM PORTIONS THAT CONSTITUTE THE SUBJECT PROPERTY						
DESCRIPTION	NO	PTN	TITLE DEED	PRICE	DATE	EXTENT
Koodoo Kloof	33	3 RE				332.7988ha
Bosch Kloof	34					567.2562ha
Bosch Kloof	34	1 RE				420.7173ha
Bosch Kloof	34	3 RE				342.9076ha
Vette Weiden	35	RE				372.5621ha
Vette Weiden	35	5				725.5290ha
Lemoen Kraal	36	1 RE				560.0763ha
Lemoen Kraal	36	6				515.2040ha
Lemoen Kraal	36	8				422.3221ha
Fontein Kloof	37	4				653.6253ha
Brandleegte	87	1 RE				74.8715ha
Krans Drift	89					1,351.9877ha
Roode Drift	91	RE				433.4052ha
Roode Drift	91	1				422.2703ha
Roode Drift	91	2				12.8480ha
Roode Drift	91	3				345.1824ha
Nooitgedacht	92	2 RE				905.4671ha
Nooitgedacht	92	3				628.5818ha
Hermanus Kraal	93	RE	T58825/2012	\$12,700,000	27-Apr-12	1,005.2145ha
Hermanus Kraal	93	4				23.7174ha
Fort Brown Peninsula Outspan	98	RE				164.6338ha
Fort Brown Peninsula Outspan	98	1 RE				221.7615ha
Koesters Drift	129	1				397.5022ha
Koesters Drift	129	2				581.8707ha
Koesters Drift	129	3				177.9873ha
Kromme Krans	130	RE				633.5872ha
Kromme Krans	130	5				985.6168ha
Hounslow	131	1 RE				267.1023ha
Hounslow	131	2				1,194.0170ha
Burnt Kraal	189	2 RE				10.7567ha
	616					1,291.4478ha
	618					229.3585ha
Heatherton Towers	619					1,341.9691ha
	631					554.6089ha
Mowbray Epsom	632					678.1518ha
	642					458.2199ha
	643					258.4883ha
Kromme Krans	130	2	T12917/2014	R0	17-Mar-14	11.9350ha
<b>TOTAL</b>				<b>R12,700,000</b>		<b>19,575.5594ha</b>

**Figure 6: Google Imagery of Farm Portions Constituting Kwandwe**



**2.4 Title Conditions & Servitudes**

There are various servitudes in favour of and against the various portions making up Kwandwe. Most of these are in respect of water storage and aqueduct and have a limited influence on the value of the property

**2.5 Unregistered Rights**

For the purpose of this valuation we assume that in the event of a disposal of the business and property as separate entities, all current lease agreement will be amended to accommodate the best possible price. Market Rental will therefore be used in our value determination



### 3. MUNICIPAL INFORMATION

As stated Kwandwe falls under the jurisdiction of the Makana Local Municipality. For succinctness only the combined municipal value of Kwandwe is reflected, although a detailed list of the individual values can be provided. The information was obtained from the website of the Makana Local Municipality. The Municipal Valuation Roll (dated 01 July 2019), reflects the following values for Kwandwe:

<b>TABLE 2: MUNICIPAL VALUE FOR SUBJECT PROPERTY</b>				
<b>Description</b>	<b>Use Category</b>	<b>Municipal Values</b>	<b>Tax Rate (07/2020)</b>	<b>Annual Rates</b>
Subject Portions x 37	Tourism	R86,714,000	0.001562	R135,447

### 4. NEIGHBOURHOOD AREA AND SUBJECT PORTIONS

- 4.1 Kwandwe comprises  $\pm 19,575.5594$ ha in the Great Fish River region that was previously largely used for stock farming and to a lesser degree, mixed farming with irrigation. All the Subject Portions has however been restored to their natural vegetations and restocked with African wildlife
- 4.2 The Great Fish River flows through the reserve for approximately  $\pm 30$ km and all the watercourses drain towards it. A tributary of the Great Fish River, the Botha's River, supplies three large dams on the property. This together with several smaller dams and numerous seasonal pans provide important water sources for the game. The Great Fish River Valley also enhances the aesthetic appeal of the Subject Portions, for which potential buyers are prepared to pay a premium
- 4.3 The elevation of Kwandwe ranges from  $\pm 300$ m above sea level at the Great Fish River to over  $\pm 600$ m above sea level on the dividing ridges. This wide range has the effect that different parts of the reserve experience different rainfall patterns, ranging from under  $\pm 400$ mm in the Great Fish River Valley to over  $\pm 600$ mm north of the Great Fish River, on the relatively higher ground of the Fish River. The mean annual rainfall for the area is  $\pm 435$ mm. Kwandwe has a warm temperate climate with maximum daily temperatures often exceeding  $35^{\circ}\text{C}$  in the summer months (December, January and February) and minimum night-time temperatures below  $5^{\circ}\text{C}$  in the winter months (June, July and August). This is also affected by topography, with southern slopes experiencing cooler conditions, while north facing slopes are characteristically warmer and drier

- 4.4 Kwandwe falls in the Albany Thicket Biome and Bioregion, with the vegetation types mainly the Great Fish River Noorsveld on the plains and Great Fish Thicket towards the higher lying northern mountainous part. Valley Thicket is found in the higher rainfall areas and Xeric Succulent Thicket in the lower rainfall areas

## 5. WATER AND ELECTRICITY SUPPLY

- 5.1 Water is extracted from the Fish River on three places and pumped into tanks at three different water purification systems, where it is purified and distributed to various buildings. A tributary of the Great Fish River, the Botha's River, supplies the three large dams on the property that serves as drinking water for the wildlife
- 5.2 All the power lines on the southern bank are underground while there is an overhead line on the northern bank. Five back-up generators are also provided to the various lodges

## 6. IMPROVEMENTS

The reserve is improved with various buildings, most of which are in a fair to good state of repair. It is divided into various pockets and for ease of reference the improvements will be discussed on this basis. Due to the fact that guests were residing at the premises, we could not access all buildings. The Class A improvements can be described as follows:

### 6.1 "KwaNdlovu Lodge" (Owners' Compound)



This complex was completed in 2016 and is used by the owners of Kwandwe. Accommodation includes two master suites (each with two dressing rooms and en-suite bathrooms), four additional bedrooms with en-suite bathrooms, a trophy room, a cinema, a gymnasium and several other recreational rooms. There is also ample accommodation for staff, as well as a swimming pool and hot tub. The building has an extent of over 1,950m<sup>2</sup> and most of its finishes are imported

## 6.2 The Fort

This building was constructed in 2013 and is used as a villa for guests. It comprises 4 bedrooms (all with en-suite bathrooms), recreation areas (including a study and gymnasium), a large stoep and a swimming pool. It also has staff accommodation



## 6.3 Melton Manor

This is a villa built in a U shape with the swimming pool situated at the open end of the U. It comprises amongst others four bedrooms (with en-suite bathrooms) two lounges, a guest toilet, a dining room, kitchen and scullery. There are also staff and back of house facilities.



#### 6.4 Uplands

This renovated homestead is used for guest accommodation, comprising three bedrooms (all with en-suite bathrooms), an entrance hall, a lounge, a dining room, a guest toilet, a kitchen, pantry and scullery. There is also staff accommodation here



#### 6.5 Great Fish River Lodge

This complex consists of nine chalets (all with private pools) and a main building. This accommodation is supplemented with staff quarters





## 6.6 Ecce Lodge



This lodge comprises the dining area, lounge, ablutions, kitchen and information centre, as well as six chalets, all with private pools. This is supplemented with a staff centre housing the stores, office, canteen and staff cottages

## 6.7 Heatherton Towers

This area is used as the reception area for guests arriving at the game reserve, as well as all administration areas of the reserve. This includes the curio shop, bar store, walk-in fridge and freezer, laundry, cleaning store, two staff cottages and a chapel



## 6.8 Brandeston

The five dwellings here are all used as staff accommodation. Other buildings include barns and sheds

## 6.9 Krantzdrift

This node provides staff housing, amongst other a large dwelling, two staff cottages, three barns/sheds, a swimming pool, pump room, 27 labourers cottages, community hall, walk in freezer and tennis court

## 6.10 Rooidrift

The dwelling at Rooidrift is used as staff accommodation and is supplemented with a shed and outbuilding

## 6.11 Fontein Kloof

The buildings at Fonteinskloof are used as staff accommodation, a shed and two labourer's cottages

## 6.12 Class B Improvements

### 6.12.1 Security Systems

There are three security gates on various parts of the boundary fence with cameras fitted at each gate. The security cameras are linked to a central server where the data is recorded

### 6.12.2 Roads

The total distance of the internal road network is  $\pm 620$ km. These roads (all gravel) are generally in reasonable condition. There are some steep areas where the condition of the roads has deteriorated due to heavy rainfall. Some of the lesser used roads are also more suitable to 4 x 4 vehicles

### 6.12.3 Airstrip

The airstrip is located east of Heatherton Towers and was constructed in 2015-2016. It has a runway from east to west, with a tarred surface. Its length of 2.1km makes it suitable for most smaller aircraft





#### 6.12.4 Eskom Electricity

The Fort, Krantzdrift, Uplands, Heatherton Towers, Ecce and Roodrift obtain electricity from an Eskom point at the Fort. River Lodge, Melton and the River Water System obtain electricity from an Eskom point at Boschgift. All the cables are underground and owned by Kwandwe. Brandeston Village has two Eskom points that enter the reserve from the R67 district road. Fonteinskloof has one Eskom point. In addition to the Eskom electricity, five back-up generators are provided

#### 6.12.5 Game Fence and Electrification

- (i) The game fence around Kwandwe is  $\pm 71$ km in length and  $\pm 2.4$ m in height. It comprises  $\pm 3$ m poles that are buried  $\pm 600$ mm deep and spaced about  $\pm 10$ m apart. There are 12 strands of high strain wire attached to the poles, spaced according to government regulations, with diamond wire attached from the ground to a height of  $\pm 1.2$ m. Approximately  $\pm 2.4$ m droppers are attached to the fence at approximately  $\pm 1$ m to  $\pm 1.5$ m intervals for strengthening purposes
- (ii) The game fence is electrified. Five strands of high strain wire are spaced on the inside of the fence according to government specifications. These wires are connected to the fence with offset insulator brackets. All these wires are energized by nine energizers that are strategically spaced in five positions around the reserve. One of these points is powered by Eskom and the other points use solar power with backup battery packs. The energizers generate about  $\pm 8,000$  volts
- (iii) This fence meets the requirements of the Department of Environmental Affairs with a certificate of adequate enclosure for dangerous game species

## 7. VALUATION METHODOLOGY

- 7.1 The most apt method of valuing a property such as the Subject Property is by means of the *Market Data Approach of Direct Comparison*. With this method, comparable transactions in the Neighbourhood Area are researched and compared to the Subject Property, making adjustments for varying value attributes. In this way, rates per ha are determined for the Subject Property's different uses



- 7.2 A second method that can be used is a derivative of the Market Data Approach of Indirect Comparison (also referred to as the Income Method). This derivative is known as the Profits Method and is generally used for hospitality properties, to determine the contributing value of the improvements. For this, the "value" of the hospitality business (with its related facilities) first has to be assessed. This is done by evaluating the historical performance of the operation, its occupancy levels, expense ratios and the prospect of carrying on in a similar or improved manner into the future. If no such trading figures are supplied, or if the trading figures are not adequate to determine a trend, industry norms can be applied, with the necessary adjustments for location, market, etc.
- 7.3 Once this is assessed, the EBIDTA of the business is determined, i.e. the net income or earnings before interest, depreciation, tax and amortisation. It will therefore reflect the income that is generated by the combined use of the fixed property and movables, by an operator running the business in a skilled manner. As only the fixed property is part of this valuation, this total income of the hospitality business has to be apportioned between these two components, i.e. the fixed property and the movables. The portion attributable to the fixed property will reflect the rental the operator can afford to pay for the immovable property
- 7.4 One of the methods used to apportion the profit of the hotel business to reflect a notional rental for the property, is by using the "WACC" method, i.e. using the owner's weighted average cost of capital (calculated using the Annual Financial Statements as basis) to determine an appropriate yield on the investments in fixed property. A similar calculation is also done on the movable assets. This theoretical exercise is based on an assumed holding and operating company scenario. The assumption is that the holding company owns the fixed property, while the operating company supplies the movable assets. The useful lives of last-mentioned assets determine the payments for the movables, assuming the assets are leased or replaced after their useful lives end
- 7.5 By deducting this rental for the movables from the profit of the business, the maximum affordable rental of the operator to the landlord is determined. In the same way, the minimum sustainable rental the landlord requires to service debt on the fixed asset is determined. The notional market rental is where these two overlap



- 7.6 Based on our experience with hotel and hospitality valuations, the rental for the immovable property is generally between 50% and 70%, depending on the contribution of the fixed property and its value attributes to the success of the hospitality operation. This rental is then capitalised into perpetuity, using the principles of the Income Method
- 7.7 For the non-hospitality buildings, the Depreciated Replacement Value (“**DRV**”) will be used. This uses the current cost of reproduction or replacement of an asset, minus deductions for physical deterioration and all relevant forms of obsolescence and optimisation

## 8. THE EFFECT OF THE PROPOSED WIND FARMS

The main impact on the Subject Property would be the socio-economic impact, this being a result of the visual impacts. The impacts can be summarised as follows:

- 8.1 During construction, the impact on sensitive visual receptions (such as tourists and owners) will be significant, having to access their destinations through the two wind farms. Noise and dust will impact their experience. In our opinion, this could deter tourists from returning, taken the high initial impact of a wind farm development in the planning stages
- 8.2 Once the development is completed, the BAR’s indicate the visual impact on sensitive visual receptors (residents and visitors) located within a 5km radius of the wind turbines to be “High”, with a score of 64. A similar score is attributed to observers traveling along roads within a 5km radius. What is very important to consider, is that this effect cannot be mitigated and is in place for the life time of the wind farm. One should also consider that this impact is on a “per wind farm” basis, not the combined effect of the wind farms. The actual effect could therefore be much higher. The lower portion adjacent to the two wind farms, is located within this radius and all drive in guests will be affected by this. In our opinion, this could result in a significant loss of visitors, as indicated in the survey done by Kwandwe. It will therefore not only affect the hospitality business, but also the expansion potential on the properties closest to the proposed wind farms. Both the land value and the buildings’ contributing values will thus be affected
- 8.3 For the 5-10km radius, the impact is once again regarded as “High”, with a score of 60. A similar score is given to sensitive visual receptors within the region (10-20km). All of Kwandwe falls within this radius - thereby affecting it significantly. Even is topography is taken into account, the northern most part of the reserve will have a view over the turbines

- 8.4 The visual impact of operational, safety and security lighting on sensitive visual receptors is scored as “High”, with a score of 60. Kwandwe is known for its star gazing and especially international tourists have a high regard for the night skies here. With all of Kwandwe being within the 20km radius (the BAR’s indicate that about 54% of the total extent being affected), and with no mitigating options (the new technology referred to in the BAR’s might not be accepted by the CAA), this could have a serious effect on visitors’ enjoyment of the reserve. This impact on potential visitor numbers will be reflected in the contributing value of the buildings
- 8.5 Even though the BAR’s indicate the impact on local tourism and the game farming industry during the construction phase and once completed to be “Medium” (scores of 36 and 30 respectively), it also notes that , the full extent of the negative impact will only be achieved in the operational phase of the project, when the word about the proximity of the project to local game farms spread amongst potential tourist and repeat visitors and when the turbines are fully operational and visible.<sup>40</sup> This emphasizes our opinion that these scores are not accurate
- 8.6 Firstly the research was inadequate, focussing not only on the wrong type of hospitality operator, but also an operator in a location that has no relevance to the receiving environment. In addition to this, the international studies that were discussed also had limited relevance, and the one study that offered a different conclusion, was disregarded. In our opinion, the effect on the hospitality industry in general, in on Kwandwe specifically, will be significant, with a reduction in occupancy of at least 5%, largely overseas visitors. This type of guest wants to experience “wild Africa”, without wind turbines reminding them of civilisation. The loss in visitors could even be more, taken the strong opinions contained in the survey conducted by Kwande. This loss in income will have a direct bearing on the value of the buildings on the Subject Property, as well as a secondary effect on employment. This must be measured against the eight permanent positions created by a wind farm, for skilled and low skilled staff from the local area

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<sup>40</sup> WGBAR page 229, FBAR page 225



## 9. CONTRIBUTING VALUE OF THE KWANDLOVU LODGE (OWNER'S COMPOUND)

- 9.1 To determine the value of an asset such as Kwandwe, it is important to determine who the most likely buyer will be. This determines not only the potential demand for the property, but also the methods most likely used to determine the property's value. Our research indicated that a number of the game reserves here are owned by foreign individuals and that large game farms are generally marketed to the foreign market. There are however wealthy local individuals and companies who also participate in this market, where participants would like to have a large luxury game reserve in their asset trophy cabinet
- 9.2 In light of the above, this portion of the property will be valued by means of the Depreciated Replacement Cost Method. It is not generating an income and the Income Method can therefore not be applied to it. Depreciation takes on different forms - physical, functional and economical. In this case, the physical depreciation is very limited, as the buildings are immaculately maintained. The functional depreciation is also a limited issue, as the buildings are suitable and often used for the purpose for which they were constructed. The economic depreciation is however more of an issue, taken the fact that the actual construction cost could have been far less had for instance local material been used
- 9.3 Although a part of the value of the airstrip lies in the hospitality component's contributing value, the remainder is in our view part of the contributing value of the owner's compound. As indicated before, an asset such as Kwandwe is often held by a foreign owner, who flies in when visiting. Without the airfield, the economic and functional depreciation will be more significant - what we used here includes the availability of the airstrip. In our opinion a prospective buyer will therefore add value to the airstrip
- 9.4 Once a wind farm is developed on the border of the Subject Property, the demand for a prime asset such as this, as being representative of "Wild Africa" is diminished considerably. We will even go as far as to say that the interest from a foreign owner will most likely be extremely limited. One must keep in mind that this type of owner is a nature lover, a person who wants to get away from the city and civilisation. If one has to gauge this love of nature by using the current owner as example, it is evident that a large part of their expectations is in experiencing nature. This includes a basic tented camp in the southern part of the reserve (in direct view of the proposed wind farms) and regular interactions with the animals (e.g. getting involved in darting and dehorning rhino's)





9.5 If the reserve is therefore scarred by a wind farm (or two), their enjoyment will be reduced, possibly to a point where they will no longer want to visit the property, even opting to dispose of it. Finding a buyer for a “scarred” property in this price bracket will be extremely difficult, having a severe downward effect on value. This will be reflected in the remainder of the reserve, but especially on the contributing value of the owners’ compound. We are therefore of the opinion that the unencumbered value will decrease by at least 20%, this being a combination of visual interference and a lack of demand

## 10. THE CONTRIBUTING VALUE OF THE HOSPITALITY IMPROVEMENTS

10.1 As mentioned, the *Profits Method of Valuation* is used to determine the contributing value of the improvements. With this, financial statements for three years, as received from Kwandwe, were used in our analysis, with adjustments were deemed necessary. Due to the confidential nature of the financial information, the calculation is not attached, but it can be supplied on request

10.2 In addition to the above-mentioned *Profits Method* a DRV has been undertaken. Based on each building’s estimated replacement cost, this indicates a total depreciation  $\pm 46\%$ . This is realistic for buildings of this type and condition

10.3 For the “Encumbered” value, where we assume the development of the wind farm is approved and the development goes ahead, a second calculation was done. This is based on the same methodology as before, but with a reduction in accommodation income going forward. This results in a value reduction of some 42%

10.4 In addition to this, one must keep in mind that the hospitality venture is a significant source of employment in the area. At present, the staff to guest ratio is 3:1. To keep a venture such as this profitable, management will have to cut costs. As salaries currently make up about 30% of total income, this will most likely be one of the first options available. A conservative 5% loss in accommodation income could therefore result in the loss of five employment opportunities - quite a significant number when measured at the eight permanent positions created by the wind farm. This extremely negative socio-economic impact is not reflected in the SEIA’s or the BAR’s. If one further takes into account that this impact is but for a single hospitality employer in the area, it is evident that the cumulative loss of employment will far outweigh the eight new positions being created by the wind farm



## 11. THE LAND VALUE

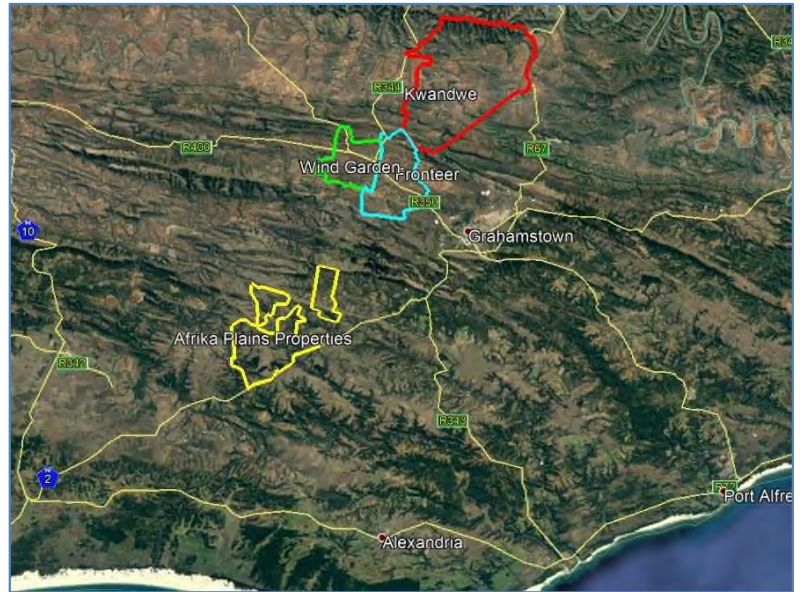
- 11.1 During our market research of the broader Neighbourhood Area, the following was established:
- 11.1.1 The Neighbourhood Area is a fairly stable area, with limited movement. This is not necessarily due to a lack of demand for large prestigious game reserves, but rather a lack of supply
- 11.1.2 The transactions listed and analysed indicate that potential buyers are prepared to pay a premium when farms are purchased as part of a site assembly. Not only does this increase its “plottage value”, but often these farms are purchased from different landowners who expect a premium value on their respective properties
- 11.1.3 Potential buyers are prepared to pay a premium for a game farm that is fully electrified with a certificate of adequate enclosure and stocked with quality game
- 11.1.4 We found that where there is a difference in game farming characteristics (i.e. grazing capacity, rainfall, etc.) the influence thereof is reflected in the overall rate per ha paid for such properties. The Subject Property has a good grazing capacity and rainfall statistics, which will be taken into account with our value determination
- 11.1.5 Buyers and sellers do not make conscious separate apportionments for land and improvements. The efficiency, condition and quality of the improvements do however influence the general price of a property. However, we do believe that due to the quality of the improvements and the fact that it is used for the hospitality industry, separate apportionments should be made between land and buildings

### 11.2 Market Evidence

A number of transactions of comparable assets were be found in the direct vicinity of Kwandwe. As part of our market research, we also spoke to a number of landowners and other parties active in the area. Only a brief description of each of the transactions will be provided, even though a comprehensive analysis was done. The following transactions have relevance:

**11.2.1 Transaction No. 1**

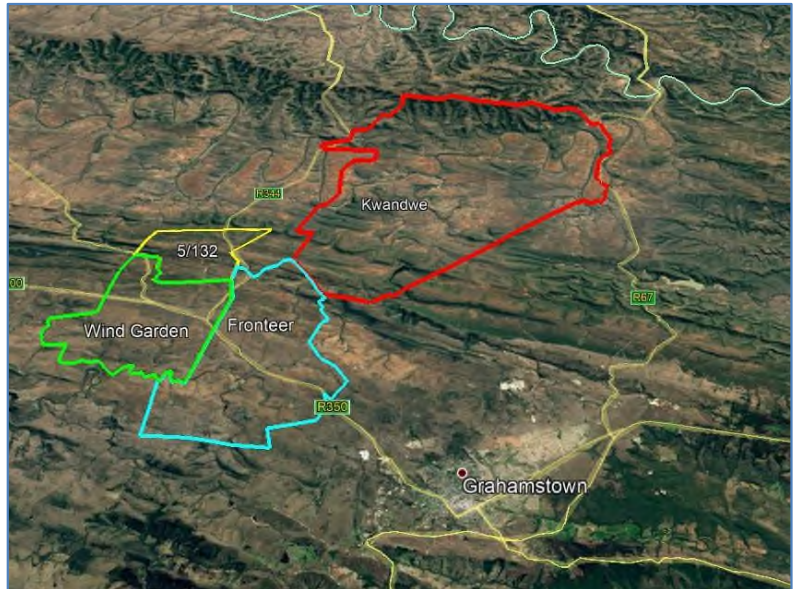
Description : 26 Farms and farm portions in the Albany Division  
 Land Extent : 9,209.9488ha in total  
 Location : South of Makhanda, to the west of the N2 route



Date of Purchase : During the course of 2016  
 Purchase Price : R183,811,795 in total  
 Rate per Hectare : R19,958 per ha  
 Property Use : Game and lodges  
 Summary : This property has an inferior location to that of the Subject Property, adjacent to a main route carrying a high traffic load. This affects privacy, with an inferior appeal for upmarket eco-tourism to that offered by Kwandwe. The rate per ha is therefore an absolute minimum indication of value for the improved Subject Property

### 11.2.2 Transaction No. 2

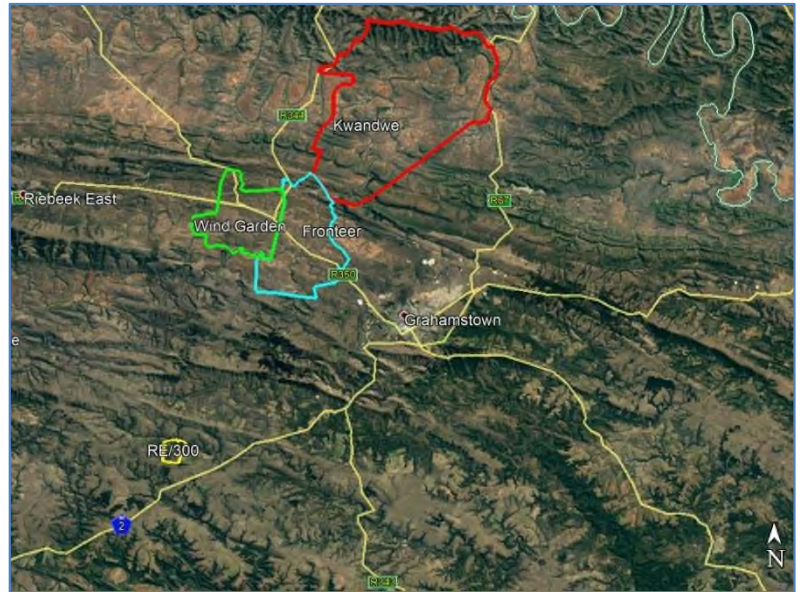
Description : Portion 5 of Farm No. 132 Albany Division  
 Land Extent : 1,866.3366ha  
 Location : Directly north of Wind Garden Wind Farm, off the R344 route



Date of Purchase : 25 June 2016  
 Purchase Price : R13,250,000  
 Rate per Hectare : R7,099 per ha  
 Property Use : Game / stock farm with 25% game fence and remainder stock fence  
 Summary : This property has a comparable location to that of the Subject Property, directly west of the main access to Kwandwe. The property was purchased for use as a private game lodge and significant improvements have since been done to it  
 At the time, the buildings and infrastructure were in a poor condition and most of the equipment for water and electricity has since been replaced. The price attained should be an absolute minimum parameter for the Subject Property

### 11.2.3 Transaction No. 3

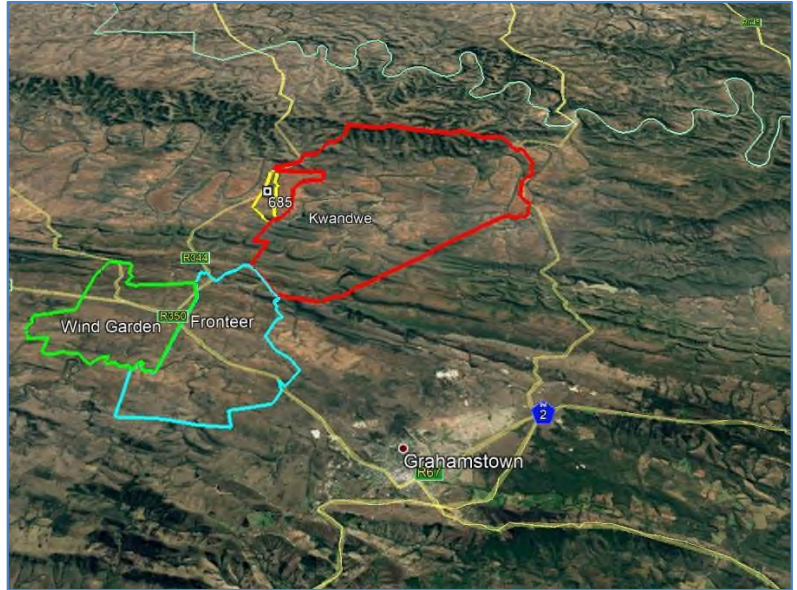
Description : Farm 300 in the Albany Division  
 Land Extent : 310.7582ha  
 Location : Southwest of Makhanda, to the west of the N2 route



Date of Purchase : 27 September 2017  
 Purchase Price : R22,000,000  
 Rate per Hectare : R70,795 per ha  
 Property Use : Game and lodge  
 Summary : This property has an inferior location to that of the Subject Property, accessed off a gravel route from the N2 route. The area has an agricultural character, with less topographical features and this results in a reduced appeal for upmarket eco-tourism. It was purchased as part of a site assembly and this could be part of the reason for the high rate per ha. It also has a smaller than average extent. The price attained should be a good to minimum parameter for the lodges on Kwandwe

#### 11.2.4 Transaction No. 4

Description : Farm No. 685 Albany Division  
 Land Extent : 421.3822ha  
 Location : Directly west of Kwandwe, some 5km north of Fronteer Wind Farm, off the R344 route



Date of Purchase : 09 February 2018  
 Purchase Price : R4,000,000 (excluding VAT)  
 Rate per Hectare : R9,493 per ha  
 Property Use : Stock farm, sharing northern and eastern boundaries with Kwandwe (therefore fence built to dangerous game specifications)  
 Summary : This property has a comparable location to that of the Subject Property, directly west of Kwandwe. The property was purchased for game breeding, to be used in conjunction with Kwandwe. Although the main farm house and the stores were in a good condition, the staff housing and other structures were demolished due to their poor condition. A valuable attribute is the ±3km of Fish River frontage and water rights. The price attained should be an absolute minimum parameter for the Subject Property



### 11.3 Conclusions

- 11.3.1 As can be noted, there are few transactions that can be deemed comparable to the Subject Property, both in terms of location and extent. Transaction No. 1 has a comparable extent, but its location to the southwest of Makhanda, adjacent to the N2 is a significant drawback. As this property is improved with various smaller game lodges, the rate of R19,958 per ha is inclusive of buildings. This was considered in our determination of the unencumbered land value
- 11.3.2 As indicated before, some 54% of Kwandwe is affected by the proposed developments, in different degrees. The BAR's indicate each wind farm to have a "Very High" effect on about 1,461ha, a "High" effect on a further  $\pm 6,247$ ha and a "Moderate" effect on  $\pm 2,950$ ha. In our experience, a conventional powerline usually has a 10% value reduction on an improved residential property. However, taken the specific market at which this type of property is aimed (an outdoor lover who wants to experience the scenic and unspoilt beauty of nature), the potential impact will be higher. Finding a buyer for a "scarred" property in this price bracket could be problematic, resulting in longer listing periods and a bigger variance between asking and actual selling prices
- 11.3.3 This indicates a derogation of  $\pm 10\%$  in the value

## 12. SUMMARY OF VALUE DEROGATION AND CONCLUSION

- 12.1 Based on the information presented under paragraphs 8 to 10 of this report, it is evident that the development of either of the Wind Garden or Fronteer Wind Farms will have a significant effect on the value of Kwandwe, and most likely other properties as well. This is largely as a result of the visual and socio-economic effects of the projects. The derogation in property value (and excluding the loss in income from the hospitality business and losses in employment opportunities), per wind farm development, is in excess of R100,000,000, i.e. more than 20% of the open market value



12.2 The above figures represent the scenario for the development per wind farm, and each of the wind farms will have this effect. If both wind farms are to be constructed, the effect will be significantly higher, due to the sheer magnitude of the two projects adjacent to each other. This must be considered in the evaluation of the desirability of the projects. What is however evident is that the BAR's conclusions on the potential impacts of the two projects are inaccurate, being a severe understatement on the effect on the receiving environment. In light of this, we are of the opinion that the two BAR's and their annexes are not reflective of reality and should therefore be disregarded in the evaluation process