WILD DOG ESTATE

POTENTIAL RETURNS ON INVESTMENT

You get the type of Investor who would build a Villa for his own exclusive use and who would not want anyone else using this Chalet, therefore would simply keep the unit locked up and empty when not in use. This type of Investor is not interested in short term returns, but simply looks at it for his own family's pleasure and for a long term growth on his capital. This document does not apply to this type of Investor.

However, there is a large proportion of Investors who are interested in short term return. The million dollar question facing any potential Investor is what sort of return versus risk can be expected when evaluating any investment. In ***Wild Dog Estate's*** case there are various scenarios that are possible, viz.,

a) Building a Villa for short term resale and gain.

b) A Syndication Scenario in which the Investor sells off a certain number of weeks or modules and retains one module for personal use.

c) A Rental Scenario in which the Investor does not sell off any weeks. However, all unused weeks are placed in a Rental Pool.

Let us explore these potential returns in all three cases.

1. BUILDING A VILLA FOR SHORT TERM RESALE AND GAIN

Current prices are extremely competitive ranging between R14,800m^2 – R16,300m^2 including vat – with no transfer duty and fully furnished. (*505m2 Area including patios and decks*)

Once the Hotel complex has been built in 2010/2011 and the balance of the infrastructure has been completed, we firmly believe that prices will rocket. Currently prime developments in Zimbali and the Durban Waterfront are retailing at between R25,000 m^2– R35,000 m^2 and demand keeps rising.

Based on the exclusivity of ***Wild Dog Estate***, the tremendous growth in tourism in the Underberg district and growth in general leading up to the 2010 world cup, we believe that within a 5 year period the Villa Owner can achieve excellent returns on investment should the unit be resold.

With the Hotel Complex coming on stream by 2011/2012 we can confidently expect a growth of between 15% and 25% over the next 5 year period.

2. SYNDICATION

A popular way to recover costs quickly is to syndicate your Villa. This option would only be suitable for those who do not mind limiting their usage in a unit and who are interested in a quick return. The recommended method would be as follows;

- Purchase and build your Villa via a private company.
- ***Wild Dog Estate*** allows a maximum of 13 syndications per Villa, i.e. 4 weeks per buyer. However you can decide on any number of combinations, 2, 4, 6, 8 etc.
- Syndications would be sold at a higher price and we recommend a minimum of 10% premium.

3. RENTAL POOL

3.1. Once the Hotel Complex has been built, all Owners will be able to bank their units with the ***Wild Dog Estate Rental Pool***. All Chalet Owners who wish to participate will place their unused weeks into the Rental Pool which is run and administered by the company running the Hotel & Hydro. This company would be responsible for the marketing, administration, housekeeping and more importantly, the guest liaison aspect of the business. Chalet Owners participate on a pooled basis, rated according to number of bedrooms. The Rental pool will work as follows:

3.1.1. Owner gets 50% of gross Revenue and Hotel 50%.

3.1.2. Owner shares in the global rental pool (*not just your own unit*) on a percentage basis. For example if you put in a 3 bedroom unit into the pool and there are a total of 100 bedrooms on this day, you will get 3 divided by 100 i.e. 3% of the rental income for that day, irrespective whether your unit was rented out or not. (*Assuming R1000 per bedroom X 100 = R100,000 per day X 50% = R50,000 X 3% = R1500 per day would be your share*.)

3.1.3. The Hotel's 50% covers vat, cleaning unit, and dealing with clients from check-in to check-out.

3.2. Assuming a base cost of R7,900,000 for a 4 bedroom, $500m^2$ Villa, plus a conservative rental of R3,500 per Villa per night and extremely conservative occupancy rates, your expected income return:- <u>excluding capital growth and net of levies</u>:- would be as follows over the next ten year period:

Year	Occupancy	% Return
Jan-09		
Jan-10		
Jan-11	25%	2.3%
Jan-12	30%	3.0%
Jan-13	40%	4.3%
Jan-14	45%	5.1%
Jan-15	45%	5.5%
Jan-16	45%	5.8%
Jan-17	45%	6.1%
Jan-18	45%	6.5%

The above rental returns have been calculated on the base purchase price in the form of simple interest. (*A similar example would be a deposit in a bank where you are drawing the interest out each year*.)

Unlike the bank the original capital invested will grow as per the property appreciation. Assuming a property growth of 15% per annum over the next ten years, the Investor's expected IRR, taking into account the rental income, would be **18% IRR**.

Again unlike the bank the rental return is appreciating each year. As can be seen from the above table, even when the occupancy rate is constant the interest grows with inflation.

4. IRR CALCULATOR

For those of you who are used to Microsoft Excel, we have created a spreadsheet, (***Section E.2 Potential Returns WDE IRR CaLculator.xls***) which we have used to calculate what is the return you can expect based on costs, sales, inflation, interest and all other types of factors. If you are comfortable with Excel, then you simply use this calculation sheet to alter factors to suit yourself. For example, Building Inflation has been set at 12%. You might disagree and say it is 20%. All you do is punch in 20% and you have your answer.

You can alter all cells which have been highlighted in Green, to suit yourself. You will see that the Excel Workbook contains 3 Worksheets, called, "***Sales***", ***"Syndication"***, and ***"Rental"***. This will enable you to look at three different scenarios as described above. The ***WDE IRR Calculator*** can be found on the accompanying CD or it can be downloaded from www.wilddogestate.com.

Internal Rate of Return

If the Reader understands how ***Internal Rate of Return*** (***IRR***) works then please ignore the following paragraph. However, if you do not understand ***IRR***, then herewith is the explanation.

How do you measure your percentage profit on an investment which gives you an irregular income stream? For example if you invest R100,000 in the bank and they give you, R10,000 interest the 1^{st} year, R11,000 interest the 2^{nd} year, R12,100 interest in the 3^{rd} year, and so on:- that is easy to calculate because that is equal to 10% compound interest. (*i.e. interest on interest*)

However, how do you calculate an investment where you spend R100,000 in year 1, R500,000 in year 2, then get back R500,000 in year 3 and another R600,000 in year 4? That is a lot more difficult. What we do is discount all values back to today's values, and in that way we work out what the net percentage return is in today's money.

Therefore, ***IRR*** is the percentage return you are getting on your investment in **today's money** and it gives you the ability to compare irregular expenses, versus irregular income spread over numerous years, and compare this in today's money versus a simple fixed deposit in the bank, or against any other type of investment.

Therefore an investment offering a conservative ***20% IRR*** is definitely ***"Blue Chip"***