



**Investors' presentation**  
**Modderfontein**  
**11 October 2007**

# Why AECI's landholding?

- **1894: land at Modderfontein purchased by Nobel Industries (Sweden) and The South African Republic for explosives manufacture and storage**
- **1901: land at Somerset West purchased by DBCM for similar purposes**
- **Post WW1: rationalisation of explosives and chemical industries worldwide; resulted in the formation of AECI (1924)**
- **So: Modderfontein, Somerset West (and Umbogintwini) land owned by AECI**

# **Mandate and strategy**

**To realise value from land that is surplus to Group operational needs**

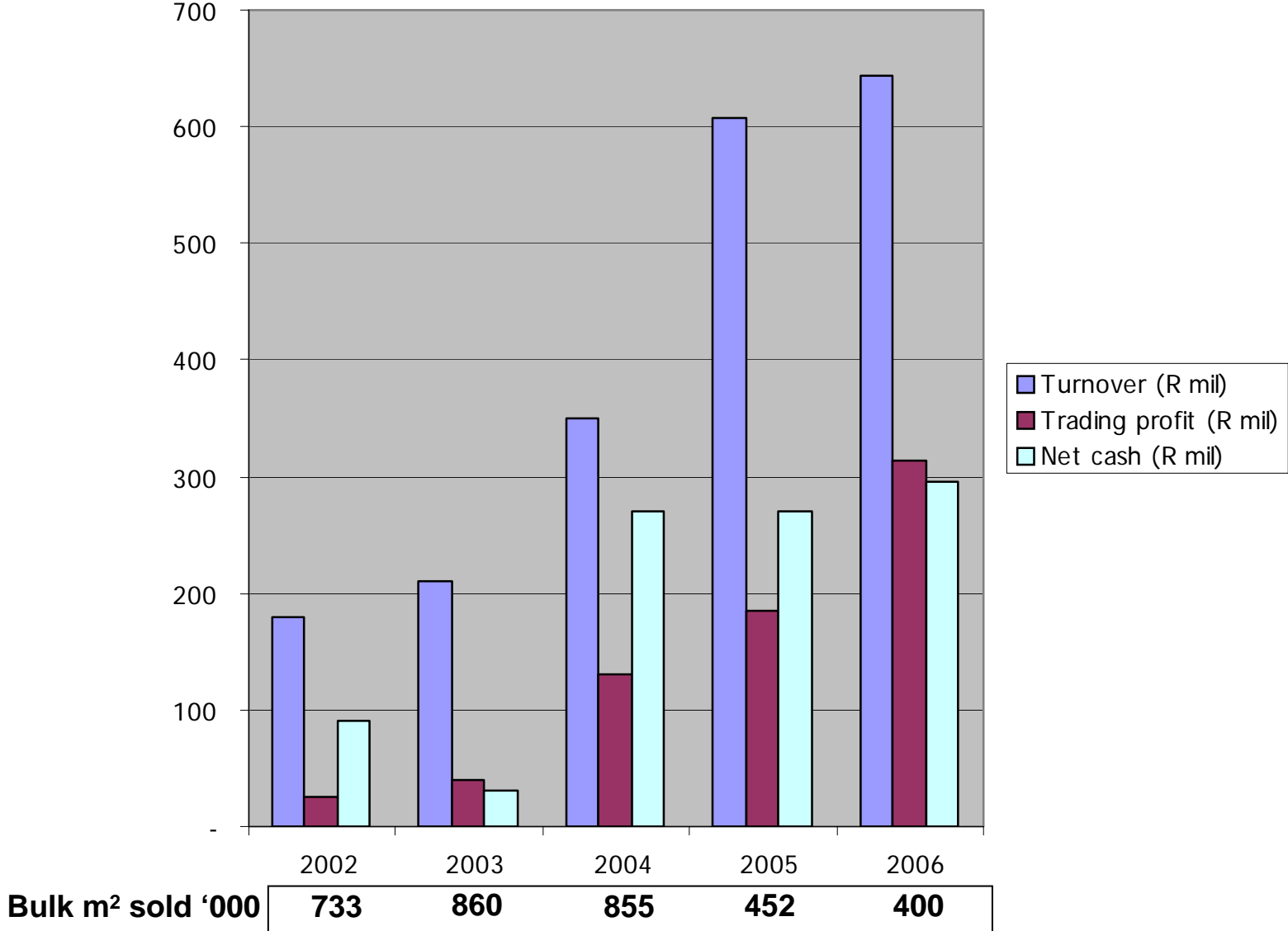
**To enhance the value of the remainder of the surplus land asset**

- **Strategic macro planning**
- **Strategic infrastructure facilitation**
- **Matching market demand**
- **Incremental land release**

# Strategic advantages

- **Scale of landholdings**
- **Location**
- **Ability, through scale, to manage approval framework (government)**
- **Ability, due to location and scale, to manage provision of external infrastructure**
- **Ability to manage localised market response**
- **Management of mixed use land release**

# Financial performance – all property activities



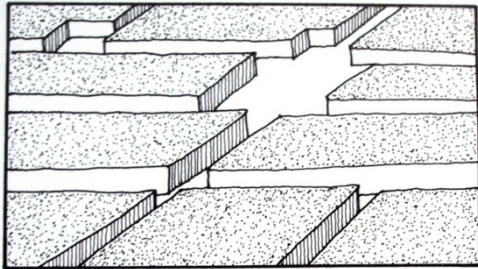
# Key factors driving value

- **Single ownership**
- **Historically low interest rate environment**
- **Urbanisation**
- **Densification**
- **Size does count**

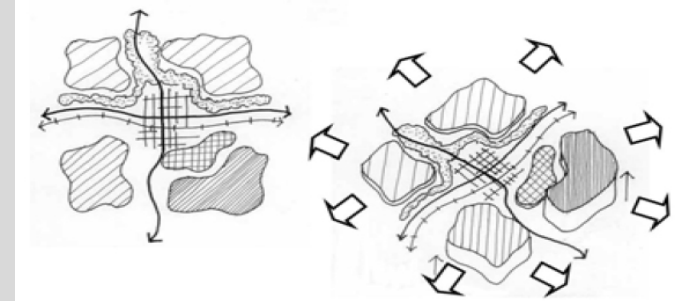
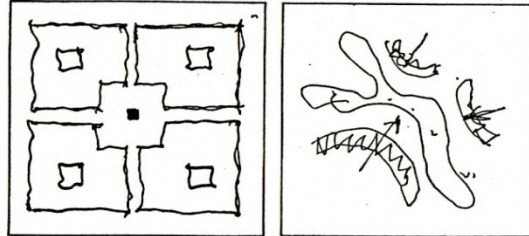
# Planning and implementation

- **Urban form and densities**
- **Development rights and services capacities**
- **Scale and position of land**
- **Planning process**
- **Implementation and management**
- **SA housing debate**

# Urban form and densities



*Traditional City Form*



- **Density impacts on city structure**
- **South African cities are:**
  - **traditionally low density**
  - **segregated in land use**
  - **high levels of inefficiency**
  - **unsustainable**

# Attributes of good cities



- **Density = complexity = economic opportunity**
- **Successful cities: densities > 40 res units/ha and 100+ people/ha**
- **Common space stimulates interaction and economic opportunity**
- **Cities should :**
  - respect nature**
  - : be for people, not for cars**
  - : be able to change**

# Development rights and services



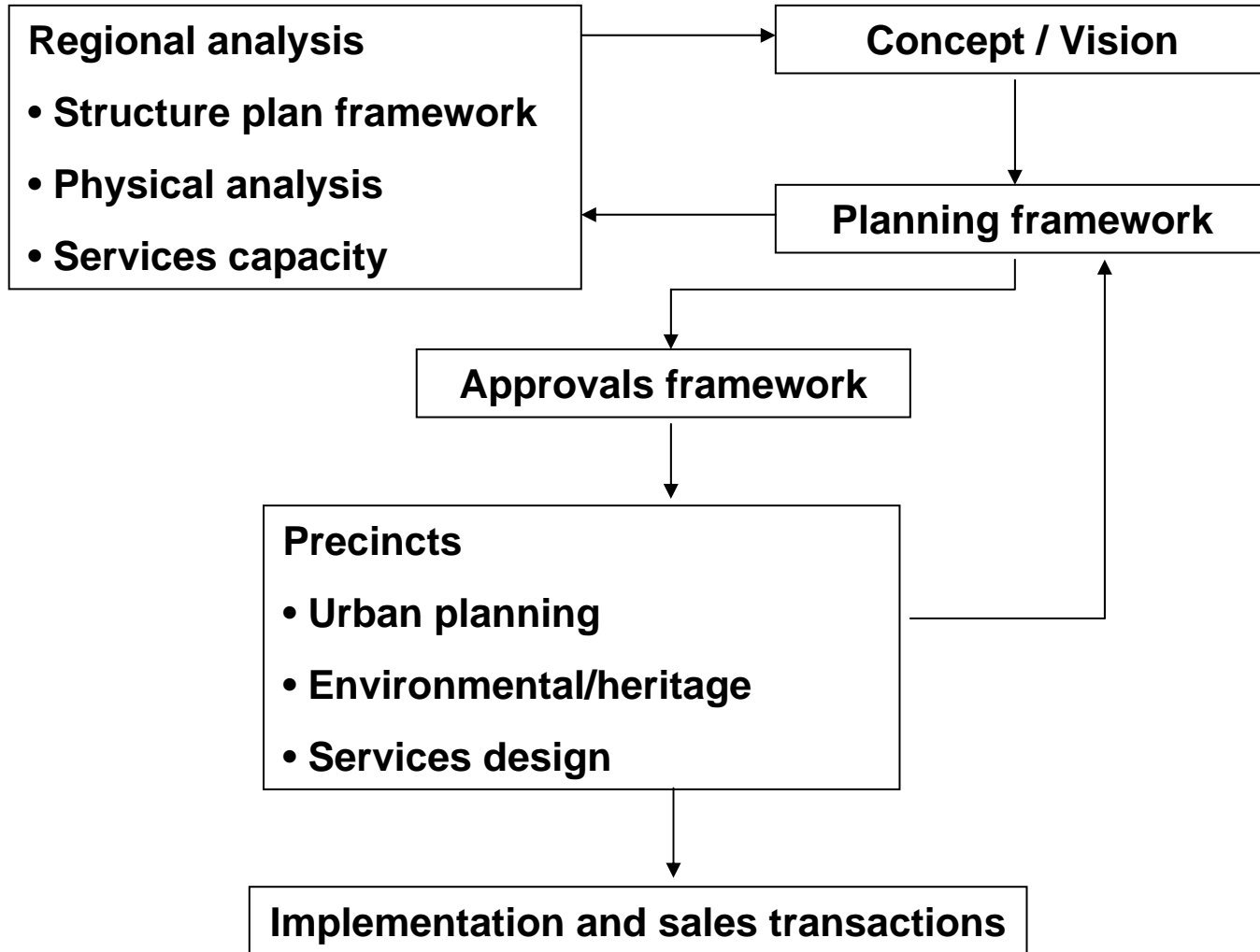
- **Land without rights or services has limited value**
- **Government approvals enforce policy**
- **Local government has limited capacity to award development rights**

# Planning strategy

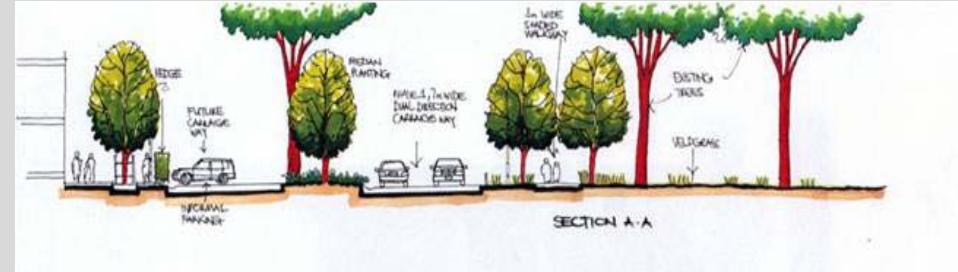
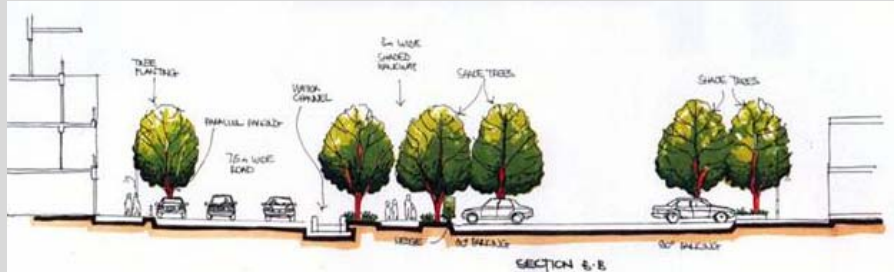


- **Respect the environment**
- **Concentrate development energy**
- **Mixed land use adds quality and value**
- **Maximise and optimise infrastructure**
- **Urban design-based approach**

# Planning process



# Implementation

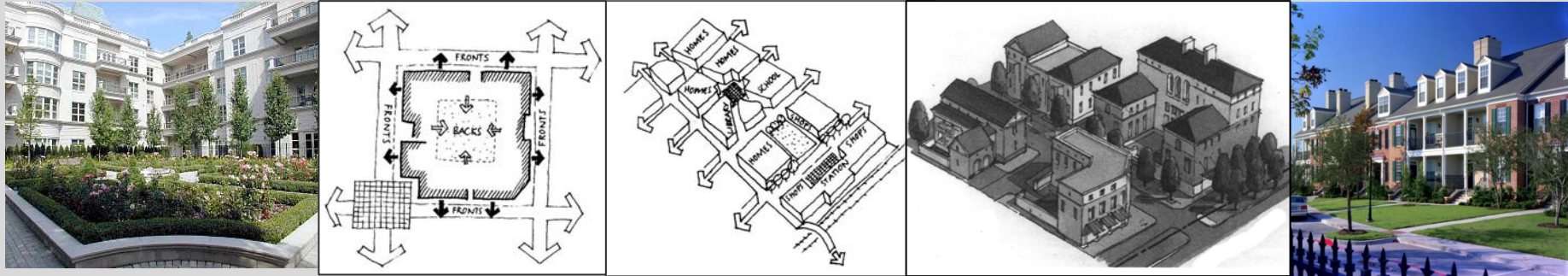


- Development rights have shelf life of 5 years
- External infrastructure
- Precinct services deal with specific development opportunities; are installed on “just in time” basis

# **Value management**

- **Sale agreements specify allocation of rights**
- **Mandatory membership of Owners' Associations**
- **Design control maintained**
- **Forced development periods**
- **Ongoing urban management**
- **Future sale of additional bulk rights**

# Housing



- **Entry level housing is part of good urban planning**
- **Need for economic opportunity exists for all**
- **Quality design and management allows for integration**
- **Single land use negates value**

# Value indicators – Rode Conference 2007

## Macroeconomic forecast 2007-2012

CPI: % change	5,0
GDP: % change	5,2
Real PCE: % change	5,3
Prime overdraft rate: %	11,2
BER Building Cost Index: %	8,9

*Source: Rode's SA Property Trends, June 2007*

# Value indicators – Rode Conference 2007

## The coming rental jump

- To make new office developments viable, one requires a rental of R130/m<sup>2</sup>/month.
- Rentals are now only R90
- Industrials are in a similar situation to offices.

# Value indicators – Rode Conference 2007

## Rode's Conclusions

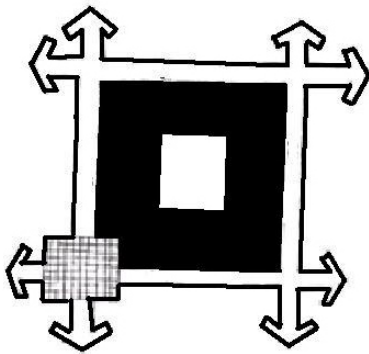
1. Shopping-centre performance will moderate through more moderate PCE growth and robust supply of new retail space.
2. Driven by replacement costs and declining vacancies,
  - industrial rentals have already started a long upswing phase, and
  - office rentals have started theirs a bit later;
  - the star performer of the next few years will be offices.
3. Bank in land

# **Regional profile**

## **Somerset West**

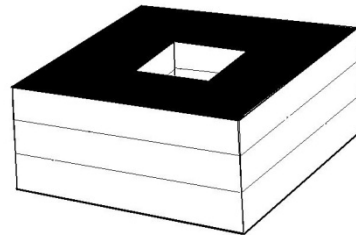
# Understanding “bulk”

**Floor area ratio = coverage of land x number of floors**



% of area covered

**X**



number of floors

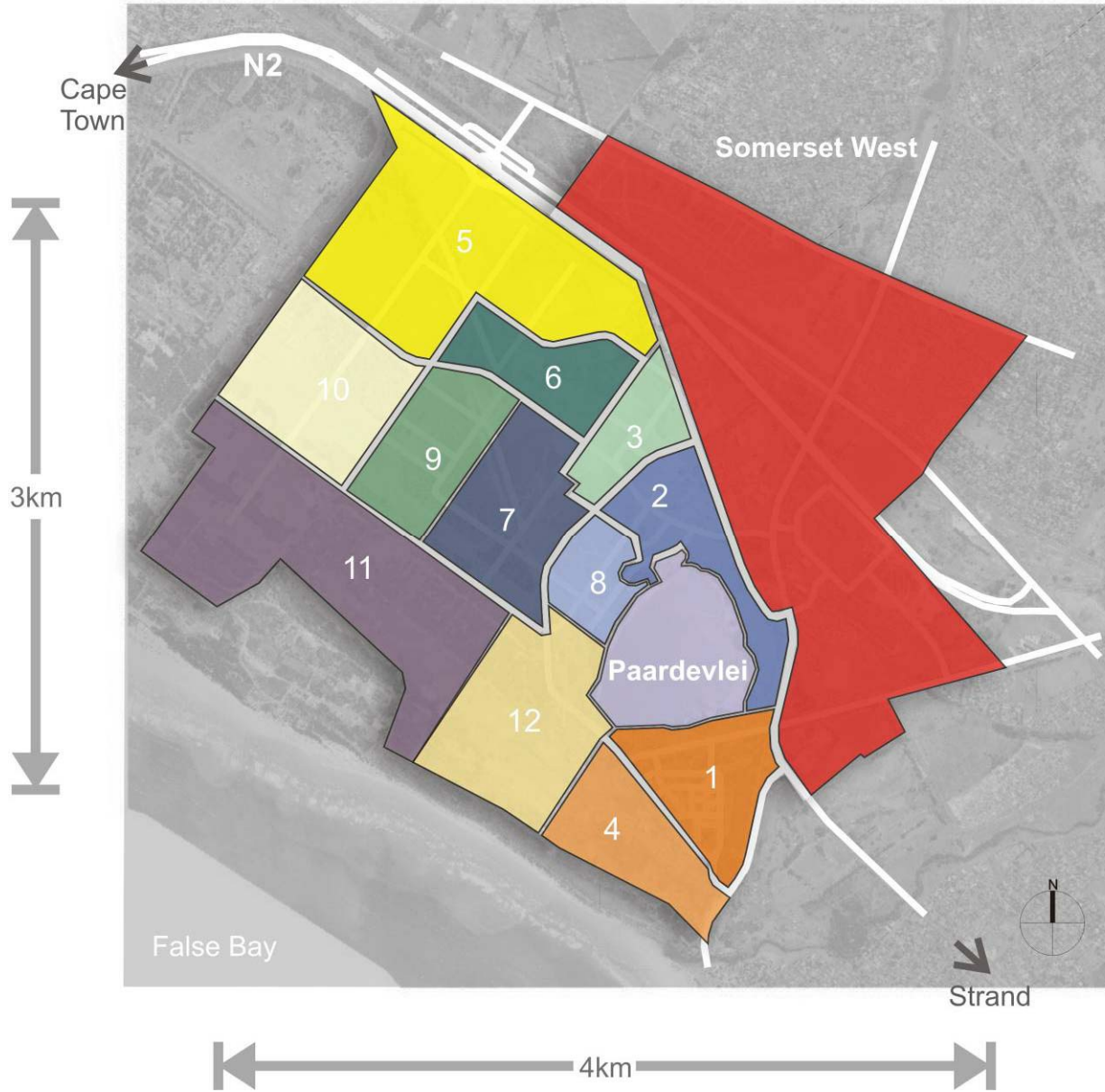
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**Bulk**

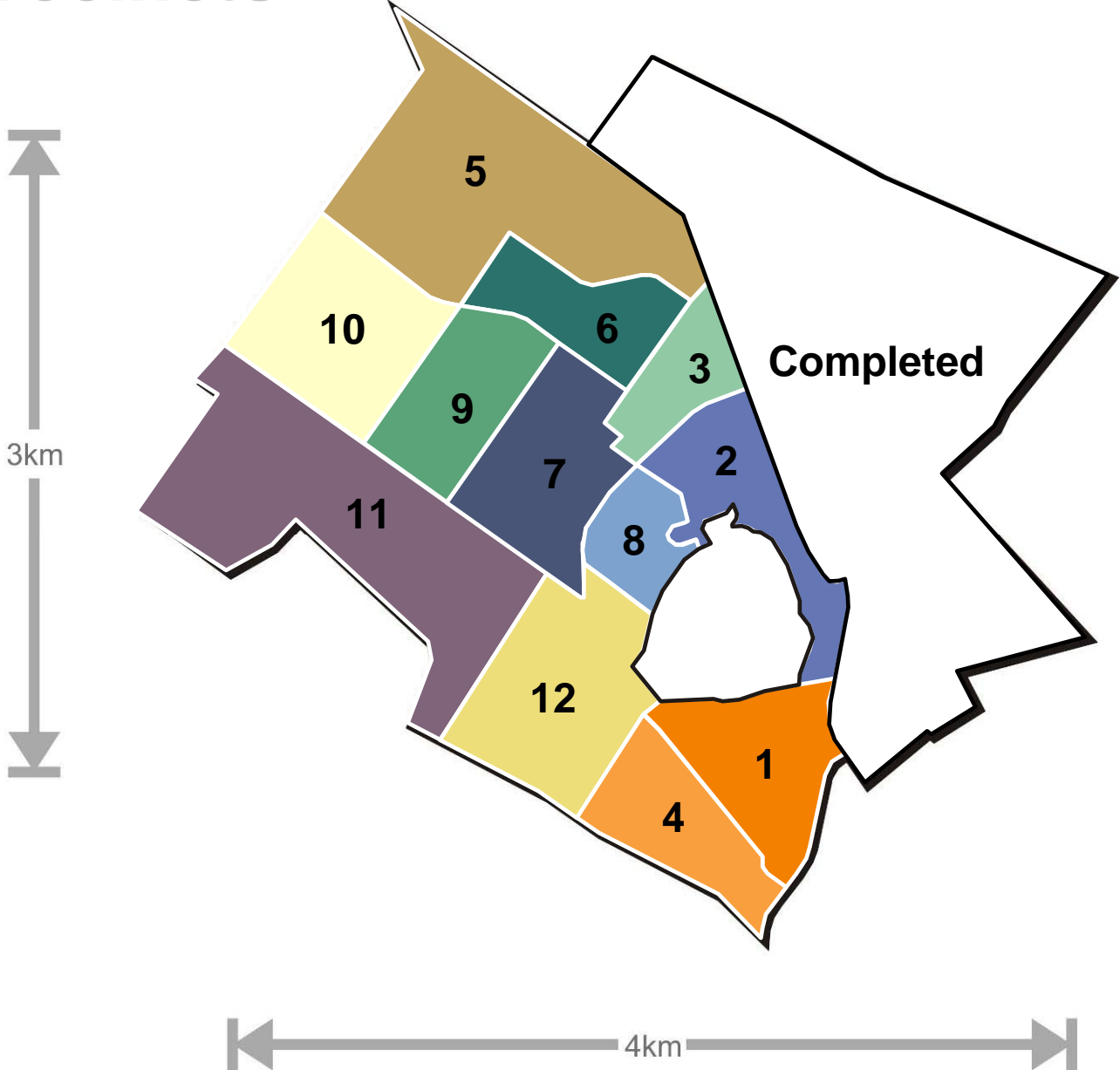
expressed as  
m<sup>2</sup> or factor of  
land area

# **Change in bulk predictions**

- **Previously consensus view was for future developable bulk to be approximately 8 million m<sup>2</sup>**
- **Urbanisation plus JHB and CT policies urging densification**
- **Market appetite already exists**



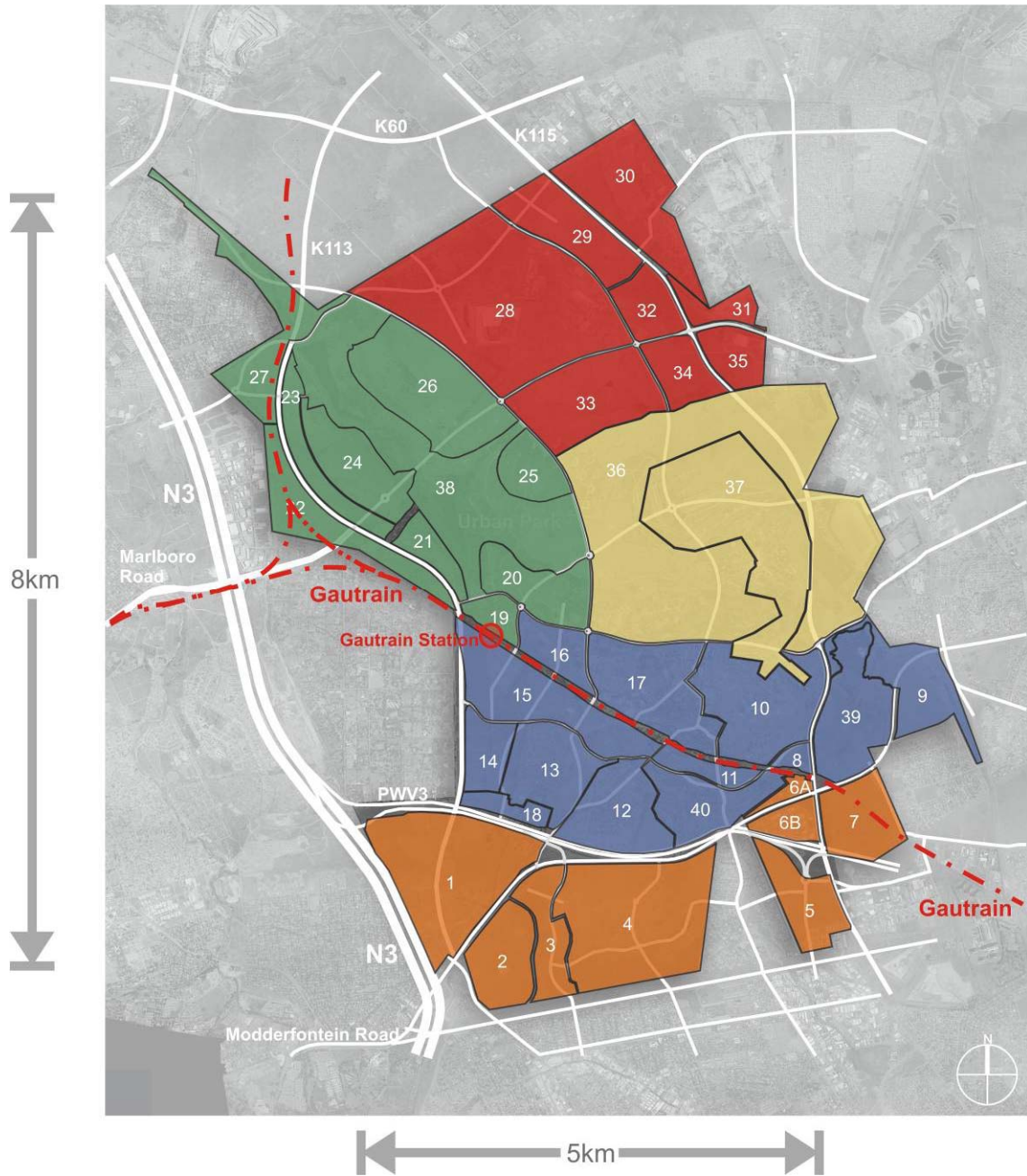
# Precincts



# Somerset West future development capacity - current view

Precinct	Total Bulk m <sup>2</sup>	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
1	150,000	30	13	32	22	3	2007 / 2008
2	260,000	38	3	50	7	2	2008/2009
3	230,000	40	7	18	32	3	Future
4	30,000	20	8	22	42	8	Future
5	580,000	42	6	24	25	3	Future
6	380,000	60	3	22	11	3	Future
7	590,000	80	4	14	0	2	Future
8	270,000	55	3	38	0	3	Future
9	230,000	60	5	32	0	4	Future
10	210,000	44	5	48	0	3	Future
11	90,000	44	4	48	0	3	Future
12	350,000	64	2	30	0	3	Future
	<b>3,370,000</b>	<b>56</b>	<b>4</b>	<b>28</b>	<b>10</b>	<b>2</b>	

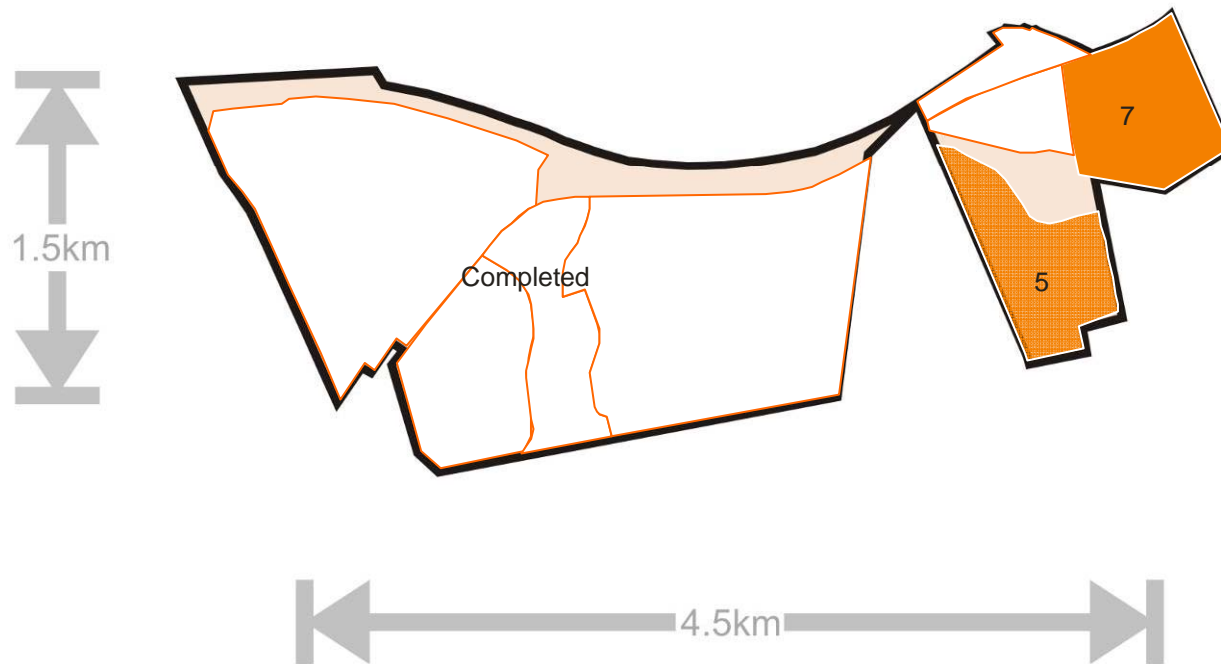
# **Regional profile Modderfontein**



# **Gautrain at Modderfontein**

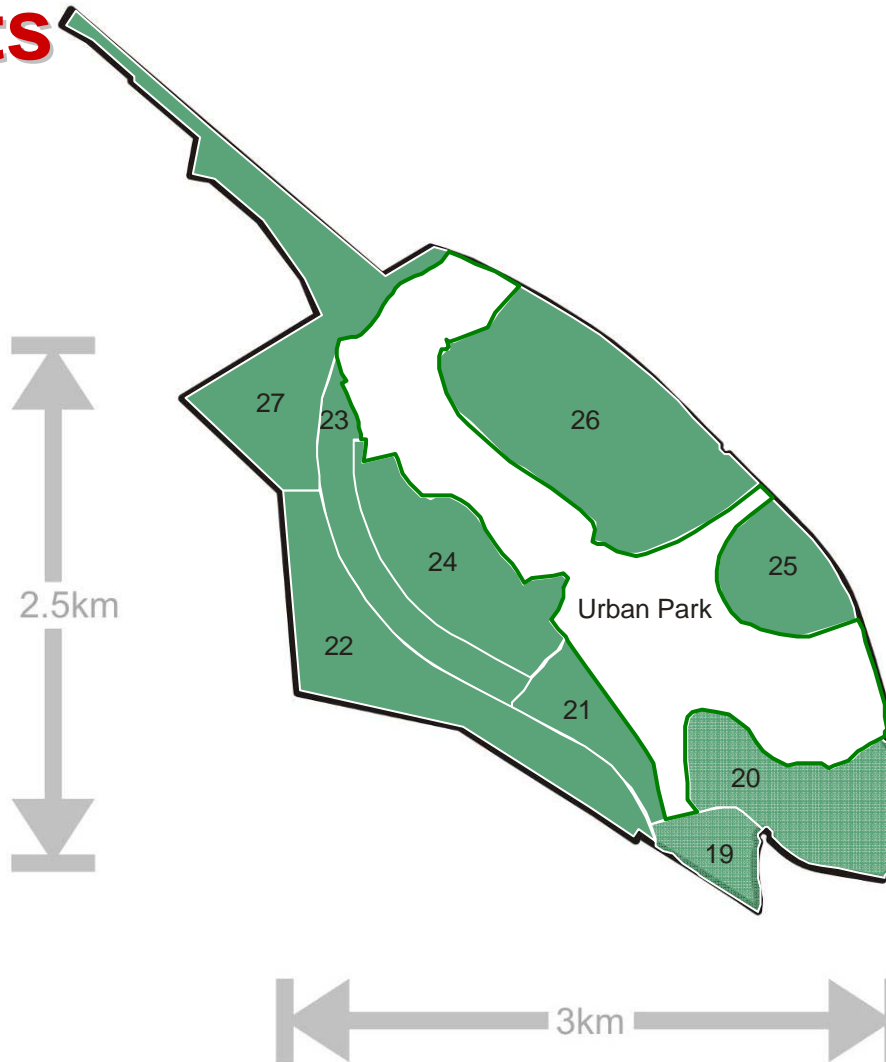
- **Work progressing**
- **Basic station infrastructure being built at Heartland's expense**
- **Station to be expanded when economically warranted**
- **Heartland to own development rights at and around station**

# Southern development framework - precincts



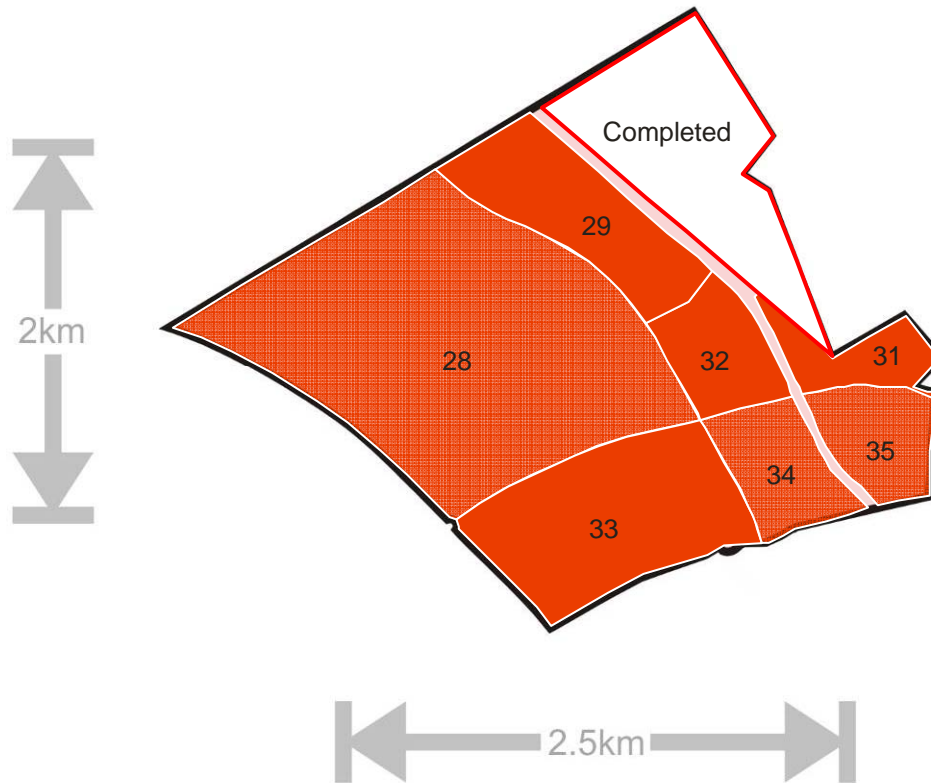
Framework	Total Bulk m2	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
Southern	290,000	30	2	33	33	2	2007 / 2008

# Western development framework - precincts



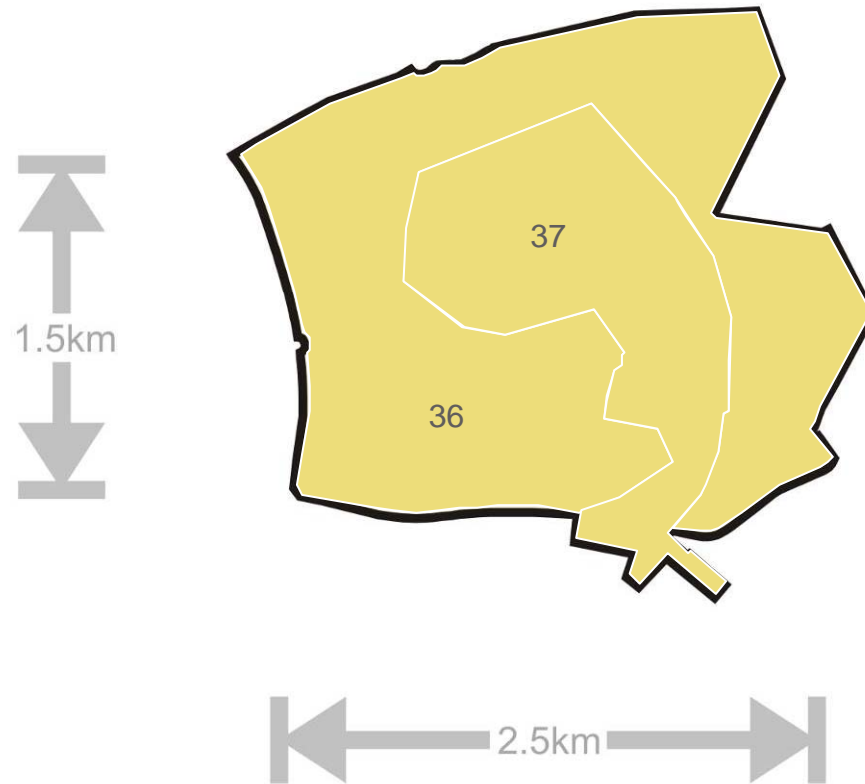
Framework	Total Bulk m2	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
Western	2,490,000	59	2	20	10	9	2008 / 2010

# Northern development framework - precincts



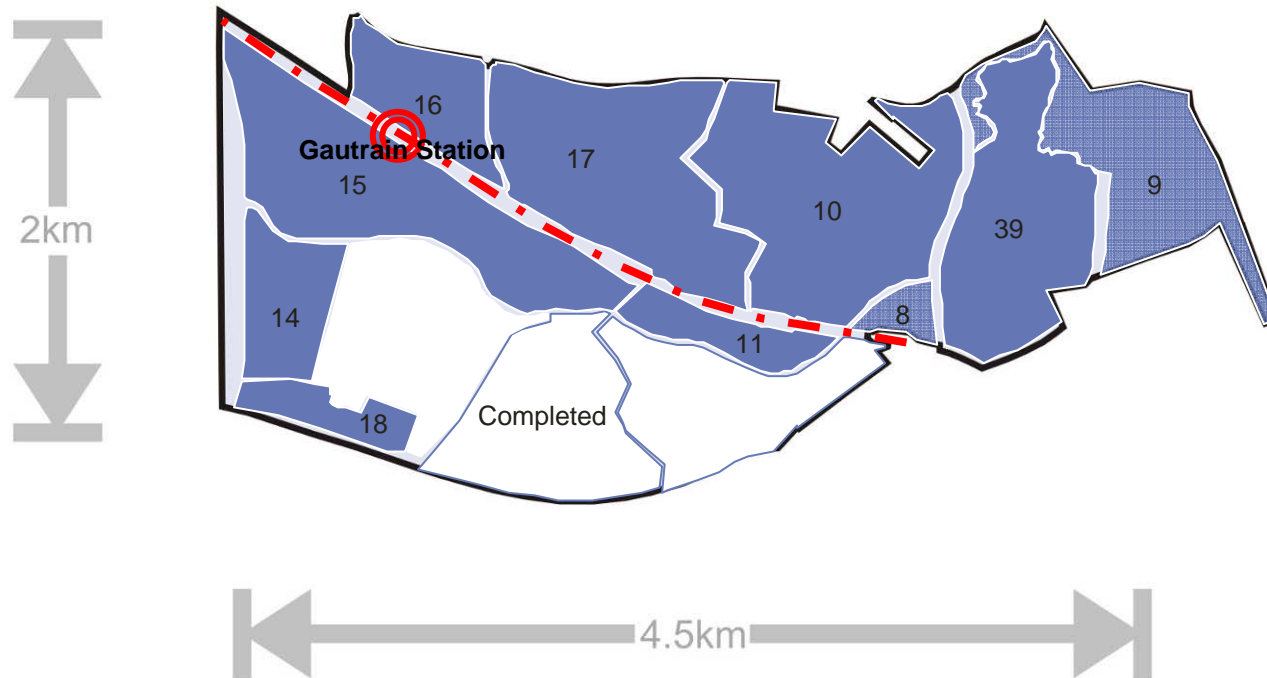
Framework	Total Bulk m2	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
Northern	2,660,000	45	2	10	23	20	Future

# Factory development framework - precincts



Framework	Total Bulk m <sup>2</sup>	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
Factory	2,930,000	20	2	10	58	10	Future

# Central development framework - precincts



Framework	Total Bulk m2	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
Central	2,850,000	42	2	41	6	10	Future

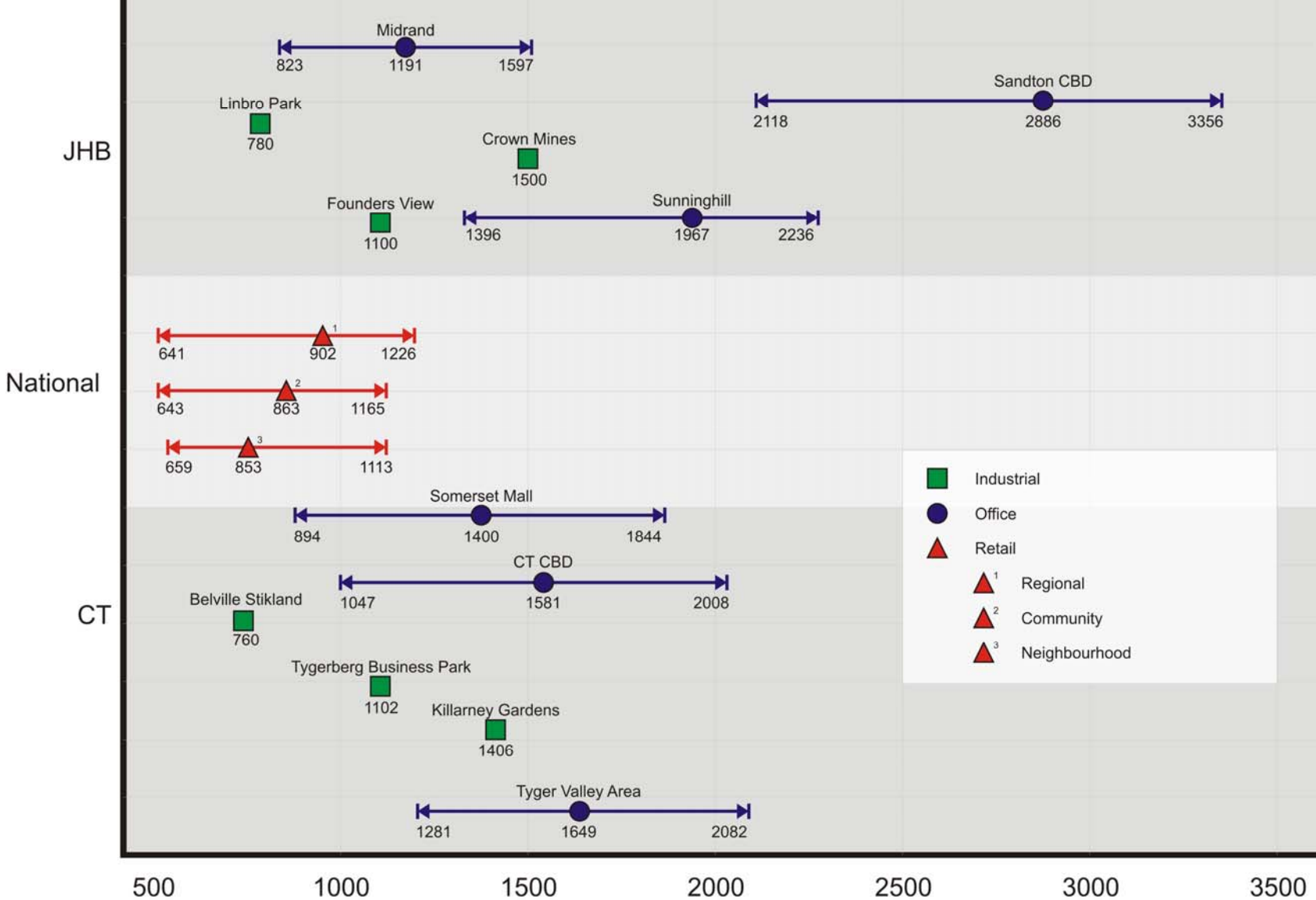
# Modderfontein future development capacity - current view

Framework	Total Bulk m2	Bulk Ratios (%)					Timing
		Res	Retail	Commercial	Industrial	Institutional	
Southern	290,000	30	2	33	33	2	2007 / 2008
Western	2,490,000	59	2	20	10	9	2008 / 2010
Northern	2,660,000	45	2	10	23	20	Future
Factory	2,930,000	20	2	10	58	10	Future
Central	2,850,000	42	2	41	6	10	Future
	<b>11,220,000</b>	<b>39</b>	<b>2</b>	<b>23</b>	<b>26</b>	<b>10</b>	

# Total future development capacity - current view

Precinct	Total Bulk m <sup>2</sup>	Bulk Ratios (%)				
		Res	Retail	Commercial	Industrial	Institutional
Somerset West	3,380,000	56	4	28	10	2
Southern	290,000	30	2	33	33	2
Western	2,490,000	59	2	20	10	9
Northern	2,660,000	45	2	10	23	20
Factory	2,930,000	20	2	10	58	10
Central	2,850,000	42	2	41	6	9
	<b>14,600,000</b>	<b>42</b>	<b>2</b>	<b>24</b>	<b>23</b>	<b>9</b>

# Comparable bulk pricing



Source: Rode's Report 2007:2

# **Residential bulk**

**in the vicinity of Heartland land parcels**

**2007 selling rates (R/bulk m<sup>2</sup>):**

<b>JHB single residential</b>	<b>1 250 – 2 500</b>
<b>JHB apartments</b>	<b>600 – 1 000</b>
<b>Somerset West single residential</b>	<b>1 500 – 2 850</b>
<b>Somerset West apartments</b>	<b>850 – 1 300</b>

# Heartland projects - profitability ratios

- 30 completed projects with revenue of Rbn1.5+ over 5 years

Input	Infrastructure	Profit	Revenue
Land	spend		

$$1/6 + 1/3 + 1/2 = 1$$

Excludes overheads and tax

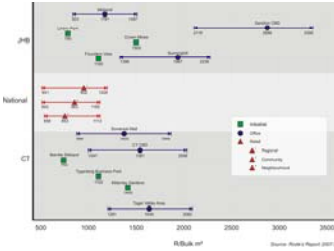
# **Other property activities**

- **Rental business**
  - **Rentals of R62mil**
  - **Trading profit of R32mil earned in 2006**
- **Remediation**
  - **R255mil spent by end 2007**
  - **R120mil statutory provision**

# What is the land asset worth?

Precinct	Total Bulk m <sup>2</sup>	Bulk Ratios (%)				
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Southern	290,000	30	2	33	33	2
Western	2,490,000	59	2	20	10	9
Northern	2,660,000	45	2	10	23	20
Factory	2,930,000	20	2	10	58	10
Central	2,850,000	42	2	41	6	9
	<b>14,600,000</b>	<b>42</b>	<b>2</b>	<b>24</b>	<b>23</b>	<b>9</b>

x



x % = ?

# **SANS Fibres: update**

- **No strategic partner/owner found to add value to business as a whole**
- **Alternative: engage with partners/owners for individual businesses (nylon, polyester, PET)**
- **This option being pursued**
- **JV in USA: clarity by end-October**