



UNIVERSITY OF MPUMALANGA (UMP)

FRIEDENHIEM 282 FARM, PORTION 75 PHASE 2 PORTION OF THE LAND

RE-ASSESSMENT AND LAND ACQUISITION STRATEGY

Report prepared by the New Universities Project Management Team

**FRIEDENHIEM 282 FARM, PORTION 75
PHASE 2 PORTION OF THE LAND
RE-ASSESSMENT AND LAND ACQUISITION STRATEGY**

March 2016

Contents

1. Purpose of the Report	3
2. Background.....	3
2.1. UMP Council Meeting of January 2016.....	3
2.2. Measures taken since the Council Meeting of January 2016.....	3
3. Towards an appropriate Land Value.....	4
3.1. Overview of all Valuations undertaken on the Property	4
3.2. Significance of the Property to the University of Mpumalanga.....	4
3.3. Considerations in determining the Transaction Value	5
4. Towards a negotiating Strategy.....	5
4.1. Price	5
4.2. Requirements by UMP in terms of the negotiating strategy.....	5
4.3. Potential negotiating Proposals.....	5
5. Recommendations.....	6
6. UMP Council Resolutions.....	6
Annexure A: Location of Portion 75 relative to UMP with Description	7
Annexure B - Outcome from lands claim on Portion 75.....	9
Annexure C – proposed Portion 75 development – showing Phases 1 and 2.....	10
Annexure D – comparative values from the 7 valuations received	11
Annexure E: Summary Overview of the Valuations received	12
Annexures F1 – F7 The Valuation Reports - available on request.....	14
Annexures G – Summary of UMP Council Resolutions	15

1. Purpose of the Report

The purpose of this report is to provide a reassessment of the value of Phase 2 of Portion 75 of the land together with recommendations on the acquisition strategy.

2. Background

Following the Minister of Higher Education's approval in 2015 and the transfer of R20m by DHET also in 2015, the Council of the University of Mpumalanga instructed the New Universities Project Management Team to open negotiations with the Seller, for the procurement of Phase 2 of the property in question. A description of the property is set out in Annexures A, B and C.

2.1. UMP COUNCIL MEETING OF JANUARY 2016

After receipt of an offer by the Seller, the UMP Council meeting of January 2016 approved a new purchase price for Phase 2 of Portion 75 in the amount of R21.59m which includes the Seller's offer of R21m plus the estimated costs of subdivision and transfer in the amount of R0.59m. The Council meeting also requested that some steps be taken to verify the valuation of R28.5m, which had been received from Courtwell Consulting shortly before the meeting and which was thought to be excessively high in relation to the valuation also received from Courtwell Consulting (R16.5m) of just over a year ago.

2.2. MEASURES TAKEN SINCE THE COUNCIL MEETING OF JANUARY 2016

Based on Council's approval, permission to purchase the land for the new amount was sought and received from the Minister of Higher Education and Training, who had previously (early 2015) approved a total amount of R20m.

At the same time, in response to the queries raised at the Council meeting and in consultation with the Vice Chancellor, the New Universities Project Management Team (PMT) undertook several measures to validate Courtwell Consulting's recent valuation in the amount of R28.5m. These measures included the following:

- a) PMT commissioned a new valuation by Real Insight which produced an estimated land value of R13.53m.
- b) Because of the considerable difference between the two values (R28.5m and R13.53m), the NUPMT commissioned a further valuation by Siyakha (VALPROP) and also requested Courtwell to relook at its methodology in arriving at the R28.5m.
- c) The further valuation by VALPROP produced an estimated land value of R3.4m, which is believed to be flawed.
- d) Following the PMT's requested review, Courtwell has acknowledged that its valuation in the amount of R28.5m assumed that the land was close to receiving township proclamation and compared the land with recently sold land that was considered ready for development.
- e) Courtwell has subsequently submitted a revised valuation, which more appropriately compares the land with similar agricultural land and arriving at a land value of R15.2m.

3. Towards an appropriate Land Value

The property under review is referred to as portion 75 (a portion of portion 2) of the farm Friedenheim 282 in the registration division J.T. within the Mpumalanga Province. The portion 75 property measures 23, 8522 hectares (equivalent of 238 522 square metres). A description of the subject property is set out in Annexures A, B and C.

This reassessment of the land value takes account of the following:

- a) All the valuations undertaken to-date (seven in total)
- b) Significance of the property to the University.
- c) Additional considerations in determining the transaction value.

3.1. OVERVIEW OF ALL VALUATIONS UNDERTAKEN ON THE PROPERTY

A description of the 7 valuations undertaken on the subject property to-date is set out in Annexures D and E. The following table provides a snapshot overview of the outcome from these valuations.

	Valuer (#3)	Date of valuation (#2)	Value of property (#1)
1.	Stegmanns Inc – first valuation (Verification stage)	Feb'12	R 14,10 m
2.	Public Works (Feasibility assessment)	Aug'13	R 3,90 m
3.	Courtwell Valuation 1 (Basis for Council and Ministerial Budget Approval – R20m)	Oct'14	R 16,5 m
4.	Courtwell Valuation 2 (Basis for Purchase Recommendation to Council and Minister (R21.5m)	Nov'15	R 28,50 m
5.	Real Insight (To validate Courtwell's last valuation)	Feb'16	R 13,53 m
6.	Siyakha (VALPROP) (To check the validation in 5)	Mar'16	R 3,40 m
7.	Courtwell Valuation 3 (correcting valuation 2 above)	Mar'16	R 15,20 m

Note: (#1) – Estimated value of Portion 75, phase 2 in current Rand value

(#2) – Valuations in chronological order

(#3) – All valuers were appointed by the NU PMT except Public Works

From the range of valuations received - as per the table above, it would be logical to disregard the extreme values (a high of R28.5m and lows of R3.9m and R3.4m). On this basis it can then be assumed that a realistic market value lies somewhere between R13,5m and R16,5m.

3.2. SIGNIFICANCE OF THE PROPERTY TO THE UNIVERSITY OF MPUMALANGA

The acquisition of the subject property (Phase 2) is important to UMP for the following reasons:

- a) The property is on the ridge overlooking the Mbombela Campus and it is strategically important to permanently protect this city vista against unsightly developments that could permanently spoil the image of the university.
- b) There is a need to position the regional bulk potable water reservoir on high ground in this vicinity at a specific contour level. The property has sufficient space for the 2 planned Municipal reservoirs plus additional storage capacity which the UMP is likely to require for its expansion in future.
- c) The land is uncultivated and offers potential to the university as a field laboratory for its conservation programme.
- d) This property could enable future expansion of the University for any special purpose.

3.3. CONSIDERATIONS IN DETERMINING THE TRANSACTION VALUE

Based on the valuations undertaken to-date and summarised in 3.1 above, the market value of the land can be assumed to lie between R13.5m and R16.5m.

The following additional factors should be considered in determining an acceptable transaction value:

- a) Reservoir site value - If the land is not purchased, provision will need to be made to acquire a reservoir site servitude and a water pipeline servitude over the Seller's land - with an estimated value of between R2m and R3m;
- b) Allowance for water rights – the 13,5ha of water rights are currently trading in the open market at between R0,1m and R0,3m.
- c) The other factors set out in 3.2 above, which describe the significance of the site to the University, but for which it is impossible to determine a Rand value,

Therefore, the total potential transaction value for the subject property lies somewhere between R 15,6m and R19,8m.

4. Towards a negotiating Strategy

Key considerations for a successful negotiating strategy include an agreed price range, any requirements of UMP in terms of its rights and the potential negotiating benefits to the Seller that UMP can put forward in order to improve the financial offer.

4.1. PRICE

As indicated above, total potential transaction value lies somewhere between R15.6m and R19.8m, forming the basis for a negotiating strategy in terms of price.

4.2. REQUIREMENTS BY UMP IN TERMS OF THE NEGOTIATING STRATEGY

In terms of the negotiating strategy, the University's requirements are that the Seller:

- a) transfers the proportionate of the 13.5ha of water rights to the UMP with the purchase of the property, and
- b) provides the UMP a right of access to the property from his Phase 1 development.

4.3. POTENTIAL NEGOTIATING PROPOSALS

Proposals that the University can put forward to improve the financial offer are that UMP will:

- a) initiate and cover the costs for the subdivision of the 2 properties,
- b) install a palisade fence with service road between the 2 properties, similar to the existing palisade fence around the property,
- c) endeavour to a direct potable water connection to the Phase 1 property from the new reservoir at the Seller's cost, including the provision of a servitude along the northern boundary of the subject property for the Seller to install a water pipeline from the new reservoir to the Phase 1 property, or alternatively allow the Seller to retain his abstraction of water from the irrigation canal on the subject property, and
- d) assist the Seller to obtain sewer connections for his Phase 1 development, connected either to the UMP gravity sewer system or to the regional sewer system running along the D725 (details to be verified with Municipality or/and the professional design team).

5. Recommendations

It is therefore recommended that:

- a) UMP proceeds with the acquisition of the subject property (phase 2 of the portion 75) based on the budget originally approved by Council and the Minister of Higher Education and Training in an amount not exceeding R20m.
- b) A negotiating team be established under the leadership of Mr Dennis Mokotedi, Senior Director: New Infrastructure and including:
 - Mr Theuns Behrens from Real Insight – Principal Valuer, and
 - Mr Willie Potgieter, technical advisor to UMP on infrastructure.
- c) The team be mandated to finalise the transaction based on the negotiating strategy outlined under item 4. above.
- d) The UMP requests PMT to instruct the company Edward Nathan Sonnenberg (ENS), which has acted before for the PMT on property acquisition at Sol Plaatje University, to draft the purchase agreement, incorporating the relevant terms and conditions which have been highlighted in this report and which are subject to agreement.

Report prepared by the NUPMT

Approved

S Hodgson

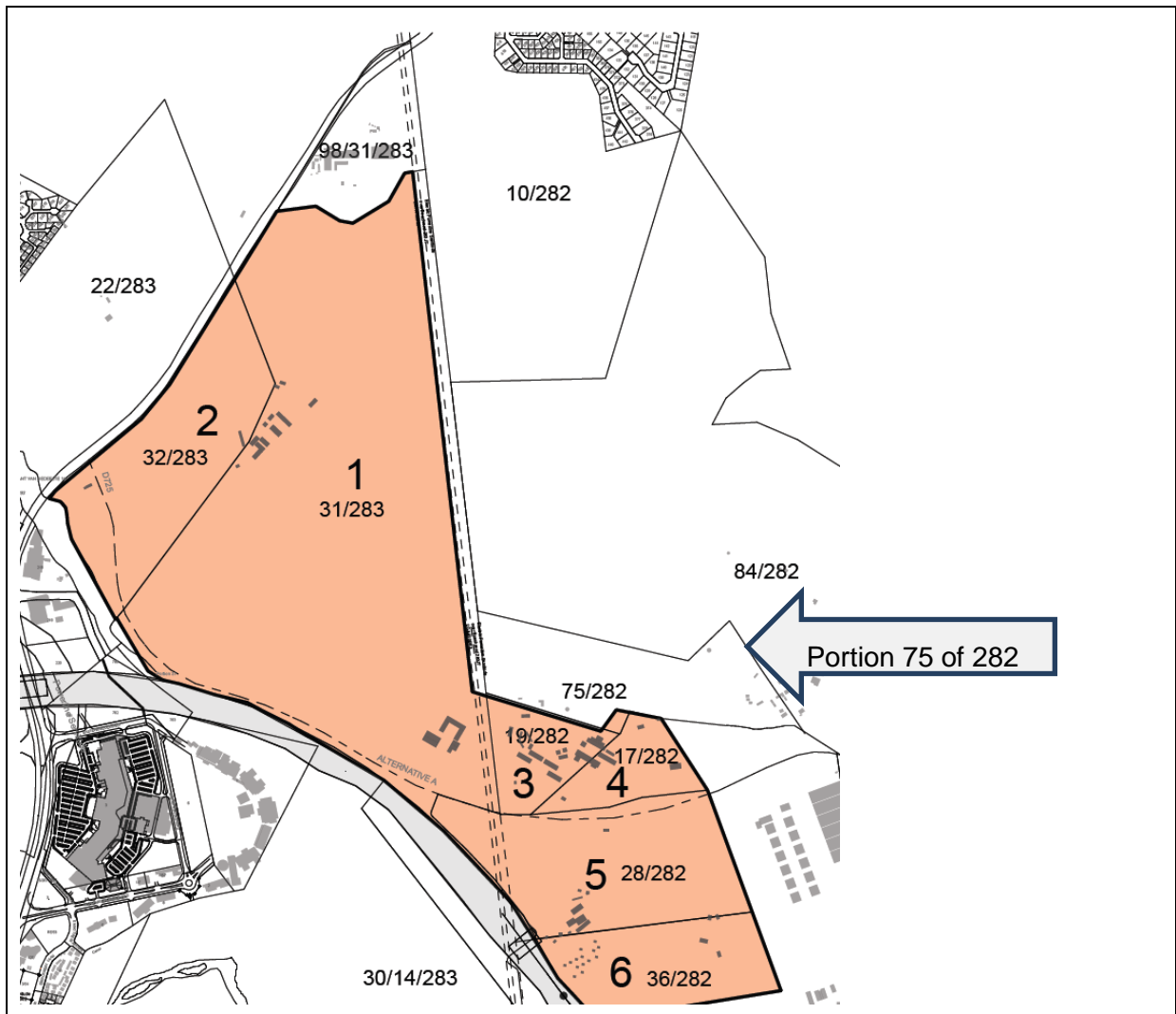
Date.....

6. UMP Council Resolutions

During a UMP Council meeting held on 7 April 2016, the PMT recommendations were approved with the exception of Item d) which should read as follows (See Annexure G):

- d) That a suitably qualified firm of locally based conveyancing attorneys be engaged to draft the purchase agreement, incorporating the relevant terms and conditions which have been highlighted in this report and which are subject to agreement

Annexure A: Location of Portion 75 relative to UMP with Description



Description

The following provides a brief description of the Property (see **Annexures A and B**)

a) Property size – property is referred to as 2 phases, as follows:

- Phase 1 (subject property) - 15,9148 ha (66,7%)
- Phase 2 - 7,9374 ha (33,3%)
- Total property size - 23,8522 ha

b) Current Owner

- Multicon Civil CC (Mr Giuseppe ('Peppe') Della Cagna)
- Date registered in the name of Multicon Civil April 2000
- Initial purchase price in 2000 is R 410 000

c) Municipal value

- The property is valued at R 2,60 million

- d) Land Claims – The Shongwe Emsamo Claimant group accepted financial compensation as an alternative form of redress to ensure that the UMP can purchase the Portion 75 property – see letter in Annexure B.
- e) Improvements on Phase 1 by current owner include:
- 8 houses with total development area of 1700m²
 - Potable water - from Friedenheim canal, treated/stored in 600 kl water reservoir
 - Effluent - Each house has a septic tank and French drain to deal with effluent
 - Driveway and security entrance gate at the D725
 - Boundary palisade fences and concrete slab walls
- f) Improvements on the Subject Property include a boundary palisade fence which needs attention
- g) Water rights
- 13,5 ha of water rights from the Crocodile River, registered on the total property
 - Water Rights accounts for about 108 000m³ of irrigation water per annum
 - Water is supplied via an irrigation canal and managed by Friedenheim Irrigation Board
- h) Zoning and town planning
- The land is currently zoned as “agricultural”,
 - Mbombela Municipality has in principle approved the Phase 1 township application,
 - A re-zoning application from ‘agricultural’ to ‘residential 1’ has been launched
 - The property lies outside the Mbombela “Urban Edge” demarcated by the SDF.

Annexure B - Outcome from lands claim on Portion 75



REGIONAL LAND CLAIMS COMMISSION: MPUMALANGA PROVINCE
30 SAMORA MACHELL DRIVE, RESTITUTION HOUSE, NELSPRUIT
PRIVATE BAG X 11330
NELSPRUIT, 1200
TEL : 013 756 6000
FAX : 013 752 5410

Enq: 013 756 6000/44

Ms. M. R Ndlovu

PO BOX 1459
PARKLANDS
2121

DEAR ADV JONATHAN S SMITH

RE: COMMENTS ON LAND CLAIM LODGED ON PORTION 75 OF THE FARM
FREIDENHEIM 282 JT IN TERMS OF THE RESTITUTION ACT NO 22 OF 1994 AS
AMENDED

The office of the Commission on Restitution of Land Rights Mpumalanga would like to acknowledge your intention to acquire the above mentioned property. We would like to state on record that property is under claim by Shongwe Emsamo Claimant group. The claim was lodged by Mr. TH Shongwe on behalf of Shongwe Emsamo Claimant group (KRP 1433) before the cut-off date of 31st December 2008. The claim by Shongwe Emsamo Claimant group was investigated and subsequently gazetted and published on the Gazette Notice No 36730, Notice Number 864 of 2013.

A resolution was taken by the Shongwe Emsamo Claimant group to receive financial compensation as an alternative form of redress as they do not wish to stand in the way of the contraction of the first University of Mpumalanga i.e. Portions 75 of the farm Freidenheim 282 JT.

The owner has been granted a permission to sell the property.

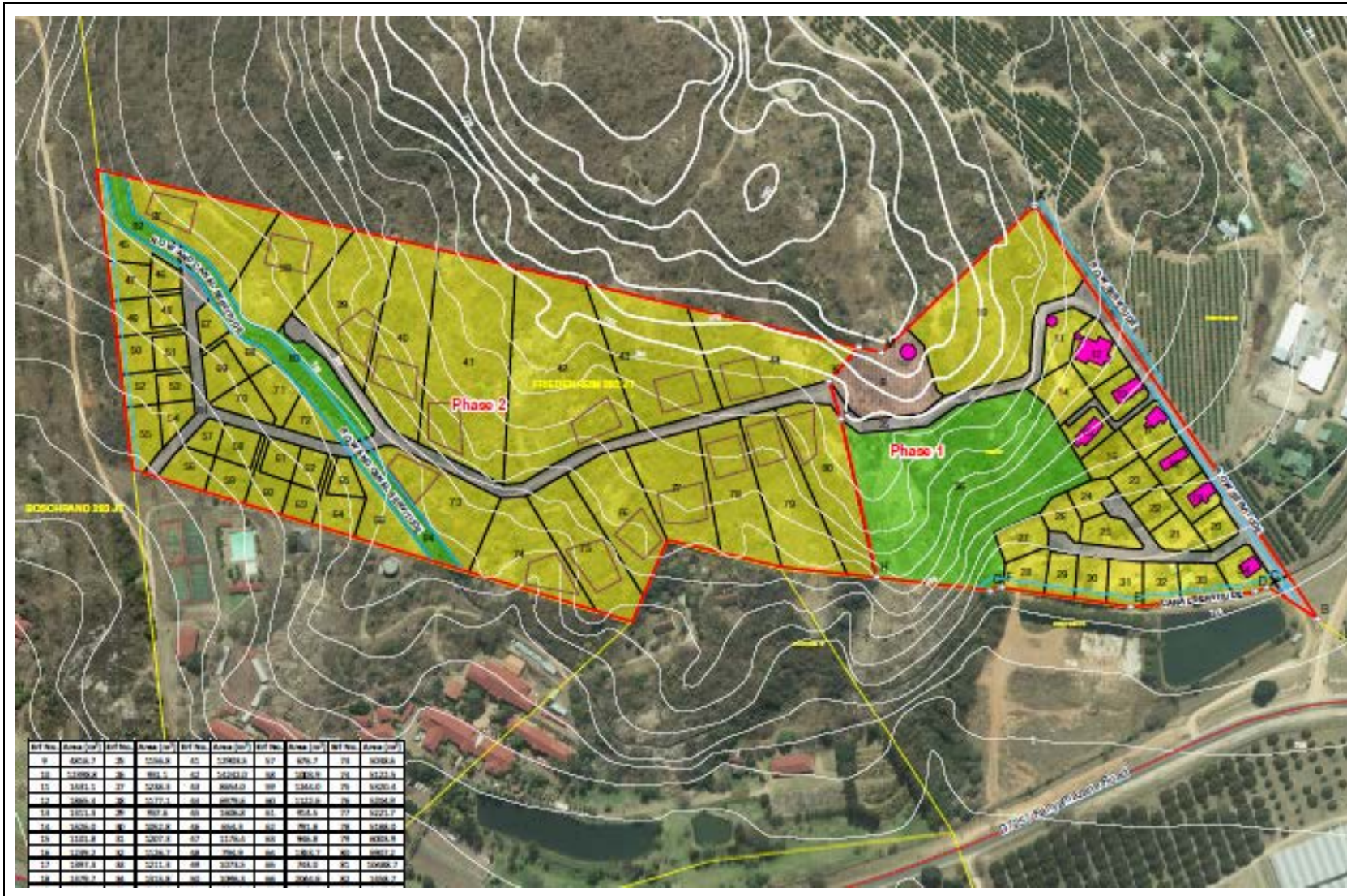
Trust that the above is in order.

Yours faithfully

MR ES NKOSI
CHIEF DIRECTOR RESTITUTION SUPPORT

DATE: 22/09/14

Annexure C – proposed Portion 75 development – showing Phases 1 and 2



Annexure D – comparative values from the 7 valuations received

Valuation done by:		Stegmann	Public Works	Courtwell (1)	Courtwell (2)	Real Insight	Siyakha	Courtwell (3)
Approach		comparable sales & depreciated value	comparable sales & depreciated value	comparable sales, land residual value & reconstr values	comparable sales & reconstr values	comparable sales	comparable sales	To be finalised
	Date of valuation	Feb'12	Aug'13	Oct'14	Nov'15	Feb'16	March'16	Mar'16
Phases 1 & 2 property	Total land value	R 14,858,387	R 4,770,440	R 23,850,000	R 51,208,122		R 4,580,000	R 24,723,314
	Improvements	R 5,505,617	R 4,951,360	R 13,791,878	R 13,791,878		R 9,630,000	R 14,000,000
	Water rights						R 337,500	R 120,000
	Township dev costs						R 670,000	
	Total est phases 1 & 2	R 20,364,004	R 9,721,800	R 37,641,878	R 65,000,000	none	R 15,217,500	R 38,843,314
	Land value R/ha, Mar'16	R 650,000	R 200,000	R 999,908	R 2,146,893	R 850,000	R 192,016	R 1,036,521
Phase 2 property	Estimate by valuer	Only total land value	Only total land value	R 16,523,765	R 28,500,000	R 13,527,580	Only total land value	R 15,200,000
	Projected land value @ Mar'16 rand value	R 14,073,741	R 3,858,252				R 3,393,393.54	
Comments		Only 7 houses, 1536m2, 35% depreciation, escalated @8%, land R/ha based on Feb'12 value	Only 7 houses, 1536m2, 20% depreciation, esclataed @ 8%	8 houses @ replacem value, Phase 2 = ave value between 2 valuations, not escalated	8 houses same as previous valuation		8 houses 1440 m ² , 30% depreciated, infrastruct, depreciated value, incl WR's	8 houses @ replacem value, Phase 1 vs phase 2 values @ R1,21mil/ha vs R0,95mil/ha

Annexure E: Summary Overview of the Valuations received

A number of valuations of the property (7 in total from 5 sources) have been performed since 2012. The approach of these valuations was based on comparable sales of other properties in the region to determine a comparable market value for the land as well as an assessment of the cost to construct the existing improvements on the property also considering depreciation of these developments over time. **This report only deals with the value of the Subject Property (Phase 2 of Portion 75).**

The following sections provide a summary of the valuations received over the last 4 years in chronological order as the reports became available to the NU PMT:

1. Stegmanns Inc

- Scope - The valuer was appointed in February 2012 by the PMT to undertake the first valuation as **part of the verification study** done for the DHET on the UMP site.
- The land was considered as development potential land at R0,65m/ha,
- The value for the Subject Property was estimated at:
 - R10,3 million in Feb'12, and
 - R14,1 million if escalated at 8%/annum to current (2016) Rand value.

2. Public Works

- Scope - Public Works did **land and property valuations and investment analyses** in February 2013 as part of a feasibility study by DHET on all the properties considered for the UMP Mbombela campus,
- The Subject Property was regarded as Agricultural land with potential for residential development,
- Based on a comparable sales approach, a market value of R0,20m/ha was placed on the land,
- The Subject Property was valued at:
 - R3,2 million in Aug'13, and
 - R3,9 million if escalated at 8%/annum to current (2016) Rand value

3. Courtwell Valuation 1 – October 2014

- Scope - Adv Jonathan Smith was requested by the NU PMT to undertake a valuation on the property to verify the first valuation done by Stegmanns Inc,
- Extensive assessments were done in his report to assess the costs involved with township development which is not relevant to the valuation of the Subject Property
- The Subject property was regarded as agricultural land with extensive development potential
- Courtwell's recommendation for land values are as follows:
 - Un-serviced and un-proclaimed development potential land at R1m/ha
 - Serviced development potential land at R1,61m/ha
- The Subject Property (un-serviced and un-proclaimed) was valued at R15,95 million (Oct'14) or R17,2 million in current Rand value (escalated at 8%/annum)

4. Courtwell Valuation 2 – November 2015

- Scope – Following the Seller's offer to sell at R21m, Adv Jonathan Smith was requested by the PMT to prepare a final valuation and motivation for the acquisition of the subject property

- In this valuation by Courtwell it was assumed that the land currently zoned 'agricultural' has extensive development potential. Comparable sales were evaluated for land portions with broadly similar development characteristics and proximity of this land to central business in Nelspruit.
- Recent comparable sales varied between R1,18m/ha and R2,74m/ha
- A weighted value calculation of phases 1 and 2 was done and it was recommended to value the Subject Property at R1,77m/ha or R28,5m.

5. Real Insight

- Scope - Due the high value on the property received from Courtwell in November 2015, the NU PMT appointed Mr Wessels from Real Insight in February 2016 to do an independent valuation on the Subject Property.
- From comparable sales, Real Insight used the guideline as follows:
 - Agricultural land with long term township development potential is valued at between R0,20m/ha and R0,25m/ha,
 - Smaller land parcels with shorter development horizons is valued at between R0,50m/ha and R0,55m/ha, and
 - Farm portions located between other township developments and in process of obtaining development rights are valued at between R0,85m/ha and R0,90m/ha
- The Real Insight value on the land was derived by accepting:
 - 20% of the property has development constraints such as rock outcrops, canal servitude, etc and is valued at R0,55m/ha, and
 - The remainder of the land was valued at R0,90m/ha.

6. Siyakha Quantity Surveyors acting as VALPROP Property Valuers

- Scope – Siyakha, a Mbombela based valuer and with local knowledge of properties in the region, was appointed in March 2016 by the NU PMT to undertake a further independent valuation in order to further check the difference between Courtwell and Real Insight,
- A market value based on comparable sales and excluding the inefficient areas (servitudes) was valued at R0,20m/ha,
- Water rights of 13,5 ha on the property were valued at R25 000/ha
- The Subject Property was valued at R3,40m (including the water rights)

7. Courtwell Valuation 3 – March 2016

- Scope – Adv Jonathan Smith was requested by the NU PMT to reconsider the valuation done in November 2015,
- Comparable sales valuation methodology was used from sales and transfers of comparable agricultural land portions during the past twelve months within Mbombela region. The value of the subject property was adjusted to compensate for positive- or negative- variances between the subject property and other comparable transactions.
- A value of about R0,95m/ha was accepted for the undeveloped land and water rights at R5000/ha
- The total value for the Subject Property was assessed as R15,2m.

Annexures F1 – F7 The Valuation Reports - available on request

The seven valuation reports referred to in this report are available on request and are as follows:

Annexure F1	Desktop Valuation to determine the Open Market Value of Portion 75, prepared by Stegmanns Inc, February 2012
Annexure F2	Valuation report for the possible expansion of the new University in Nelspruit, prepared by Department of Public Works in 2013
Annexure F3	Valuation and Due Diligence Review of Portion 75 of the farm Friedenheim, version 3 as at 19 October 2014 by Courtwell (Courtwell 1)
Annexure F4	Valuation of Portion 75 (a portion of portion 2) of the farm Friedenheim, version 1 as at 17 November 2015, by Courtwell (Courtwell 2)
Annexure F5	Property Valuation of Proposed Remainder of Portion 75 of farm Friedenheim, February 2016, received by Real Insight
Annexure F6	Valuation Report prepared by VALPROP Property Valuers, March 2016
Annexure F7	Valuation of Portion 75 (a portion of portion 2) of the farm Friedenheim, version 2b as at 17 November 2015, received in March 2016 by Courtwell (Courtwell 3)

Annexures G – Summary of UMP Council Resolutions



OFFICE OF THE REGISTRAR

SECRETARIAT

Mbombela Campus

Corner R40 and D725 Roads

SUMMARY OF RESOLUTIONS

Meeting : Council
Date : 07 April 2016

1. Revised Mandate to Purchase Phase 2, Portion of Erf 75 of 282 Friedenheim

Council considered an updated report on the mandate to purchase portion 2 of Erf 75 of 282, Friedenheim.

Noted:

- 1.1. The Re-Assessment and Land Acquisition Strategy Report for the purchase of Phase 2, Portion of Erf 75 of 282 Friedenheim, which was prepared by the New Universities Project Management Team.

Approved:

- 1.2. That the UMP proceeds with the acquisition of the subject property (phase 2 of the portion 75) based on the budget originally approved by Council and the Minister of Higher Education and Training in an amount not exceeding R20m.
- 1.3. That a negotiating team be established under the leadership of Mr Dennis Mokotedi, Senior Director: New Infrastructure and including :
 - Mr Theuns Wessels from Real Insight – Principal Valuer,

- Mr Willie Potgieter, technical advisor to UMP on infrastructure
- 1.4. That the Vice Chancellor work with the negotiating team contemplated in clause 1.3 of this resolution, to develop a negotiation strategy for the land purchase.
 - 1.5. That a suitably qualified firm of locally based conveyancing attorneys be engaged to draft the purchase agreement, incorporating the relevant terms and conditions which have been highlighted in this report and which are subject to agreement

SD: New Infrastructure Projects