

APPENDIX 15.18

PROPOSED END USE OWNERSHIP STRUCTURE

BY

LAURUSCO DEVELOPMENTS



LAURUSCO DEVELOPMENTS

To Neels

Company Laurusco Developments

From Gino

Subject Hillcove Hills – Proposed End-user Ownership Structure – Version 4

Date 15/02/12

Background

Hillcove Hills covers an area of approximately 500Ha and offers several commercial opportunities, but is in the main a series of residential developments. These span low density, retirement village and medium density developments. The planning layout has to a degree been impacted by the need to provide secure residential clusters, and in this respect the housing clusters, whilst located within a greater wildlife reserve, would be individually secured. It is acknowledged that it would not be feasible to provide a security solution around the entire perimeter of the wildlife reserve, but that perimeter fencing, whilst acting as a deterrent for human intrusion, should focus on wildlife retention.

Objective

In putting together the various ownership structure recommendations, a balance has been sought between:

- Protecting the developer's investment by ensuring a smooth and responsible operational transition to residents AND
- Minimising the developer's exposure, both financially, and in management time, particularly in relation to resident/developer conflict, which inevitably arises.

Home Owners Associations – Residential

It is very important to provide a residential environment which is not only secure, but also perceived to be as such, and in this respect, it is the correct approach to provide individually secured residential clusters. This is particularly relevant to the site in question, which is a greenfields development, might be perceived to be slightly "rural", and will rely on attracting residents who in all likelihood are not already resident in the area, or even familiar with the area.

15 Timeball Boulevard, Point Waterfront, Durban, 4001, Kwa-Zulu Natal, South Africa

P.O. Box 20443, Durban North, 4016, Kwa-Zulu Natal, South Africa

Tel: +27 31 337 3460 Fax: +27 31 337 3412

www.laurusco.com

LAURUSCO DEVELOPMENTS (Pty) Limited

C.P. Brink (Managing); G. D'Eranno

Co. Reg. No. 2004/019668/07



However, the number and scale of these clusters presents certain challenges. Fundamentally, there are three options in terms of HOA:

1. Each cluster has its own HOA and is run autonomously from day 1.
2. All clusters are managed by one HOA
3. A combination, whereby a Master HOA (MHOA) is established, and then individual/local HOA (LHOA) once the various residential clusters and land uses are launched.

It is recommended that the third option is adopted, being a Master HOA, with local HOA. This is in view of the nature of the shared costs which will be incurred, for example the sewerage treatment works, and various facilities which service the entire development. Furthermore, by having a MHOA, it is easier to establish the financial sustainability of the respective LHOA, and it will also cover the management and operations of the Recreation Centres, Game Reserve and, link/major roads not handed to the Municipality, proposed later in this memo.

Therefore, first and foremost, a purchaser would be obligated to join the MHOA and pay a levy thereto. This payment would be made through the LHOA, ie the MHOA would charge one aggregated levy to the respective LHOA on a formula to be agreed, but potentially pro-rata to the number of transferred sites in the case of residential clusters. This would be used to cover common costs across Hillcove Hills. The residential clusters are autonomous of each other, with their own access and egress. There would be no common areas spanning across the various clusters, though common areas within the respective clusters would be owned by the LHOA. The standards of internal operation would then be determined by them inside their respective areas, including road maintenance. Members (residents) would in turn pay levies for adherence to these standards.

Upon transfer of a site to the purchaser, they become liable for payment of a monthly levy to the LHOA. This would also encompass the monthly levy payable to the MHOA referred to above. Hence the LHOA levy must cover the MHOA levy as well as running costs of the LHOA. In order to ensure the financial stability of the LHOA in the initial stages, purchasers also pay a one-off stabilization levy to the LHOA, and a Wildlife Levy, discussed in more detail later, to the MHOA which is held in trust.

The introduction of the Stabilization Levy should limit any financial burden to the primary developer through the LHOA. Until a sales threshold is reached, the developer would retain control of the MHOA and LHOA.

As with the residential clusters, the retirement village could be developed by the primary developer (Hillcove), or by secondary developers with experience in retirement villages. That would also determine ownership structures within the retirement village, for example restaurants.

15 Timeball Boulevard, Point Waterfront, Durban, 4001, Kwa-Zulu Natal, South Africa
P.O. Box 20443, Durban North, 4016, Kwa-Zulu Natal, South Africa
Tel: +27 31 337 3460 Fax: +27 31 337 3412

www.laurusco.com

LAURUSCO DEVELOPMENTS (Pt.) Limited
C.P. Brink (Managing): G. D'Eramo
Co. Reg. No. 2004/019668/07

Recreational Centre Association

Hillcove Hills, which in totality is expected to yield approximately 1200 residential units would require community facilities (from hereon referred to as a Recreation Centre). Excluding the retirement village, would leave about 700 units situated along two main spines. The assumption is that there would be a requirement for a Recreation Centre serving each spine, and therefore catering for approximately 350 residential units each.

A low density residential development is planned for the Ashburton side of the development. This is not on one of the two main spines, but its residents would still have access to one of the Recreation Centres.

It is outside the scope of this memo to deal in detail with the Recreation Centres. However, in order to serve residents adequately it would seemingly need to have a small sheltered structure or gazebo, and possibly tennis court, swimming pool and children's recreation area. It would also need ablution facilities. Other aspects thereof have a direct bearing on how it would be structured in relation to the various HOA and these are:

1. It would need to be secure, maintained and managed
2. It is exclusive to residents of Hillcove Hills, and is not accessible by the general public.
3. It needs to stand independent from any LHOA, both physically and in ownership structure.
4. It needs to be owned and available to all residents of Hillcove Hills. Each Centre would service approximately 350 pre-determined units.
5. The specifications of what these Recreation Centres will consist of need to be carefully outlined in sales documentation.

Based on the above requirements, the following recommendations are made:

1. Operating and management costs of the Recreation Centre are borne by the MHOA.
2. Upon joining, each member is provided with security access to the Recreation Centre (once it is built).
3. The Recreation Centres are managed separately from the LHOA.
4. The Recreation Centres will be constructed and funded by the primary developer, once a trigger has been reached in terms of unit occupancy (say transfer of 200 out of the 350 sites).
5. Consideration could be given to a special one-off "Construction Levy" to fund construction of the Recreation Centres.



Wildlife Reserve

This amenity stands entirely separate from any of the residential clusters. There are various options available in terms of its ownership structure and management. It is self-evident that the primary developer of Hillcove Hills has the expertise and capacity to manage such wildlife reserve.

During the initial phases of the overall development, the MHOA would effectively be controlled by the primary developer. It is recommended that the primary developer retain ownership of the wildlife reserve, and continue to operate and manage it until such time as a transfer trigger is reached.

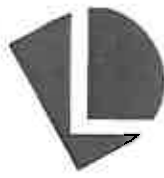
As alluded to previously, a one-off Wildlife Levy will be payable by purchasers on transfer of their land. This represents payment for the wildlife reserve. This levy will be held in trust until such time as the transfer trigger (for example 300 units) has been reached. At that point, the primary developer will transfer ownership of the Wildlife Reserve to the MHOA in exchange for the monies held in trust. Until that time, the primary developer will retain ownership as well as the duty to maintain and operate the Wildlife Reserve in accordance with agreed service level benchmarks. Notwithstanding the transfer of the Reserve to the MHOA, all (residential) land transfers from primary developer to end user will attract the Wildlife Levy, payable to the primary developer.

When the Wildlife Reserve is transferred to the MHOA, they will be responsible for maintaining and operating the Wildlife Reserve in line with at least the same service level benchmarks. They will be free to decide who should oversee the care and maintenance of the Wildlife Reserve. Any breach in service level not remedied will enable the primary developer to take transfer of the Wildlife Reserve back from the HOA, until such time as all land in Hillcove Hills has transferred. Access to the Wildlife reserve would be controlled, and any dispensation provided to special interest groups would be at the sole discretion of the MHOA. It is not intended that access to the Wildlife Reserve be limited to (residential) members of the MHOA, but that the amenity be available to the general public. However, such access would be controlled, and the terms and conditions surrounding such admittance would need to be formulated by the MHOA.

The Wildlife Reserve would be provided to the MHOA at no extra cost, with no guarantee provided as to the state of the reserve, its animals and its perimeter game fencing. The MHOA would then have to decide how to deal with the reserve. A business plan will be prepared and form part of the undertaking by the MHOA – initially the developer. This will form the basis of the marketing strategy and owners will have the comfort of an “approved” management plan. It will in all likelihood also be an EIA requirement. Non-residential members of the MHOA would be paying levies towards the upkeep of the wildlife reserve, which indirectly enhances the value proposition of their land. They would not be responsible for paying the Wildlife levy.

15 Timeball Boulevard, Point Waterfront, Durban, 4001, Kwa-Zulu Natal, South Africa
P.O. Box 20443, Durban North, 4016, Kwa-Zulu Natal, South Africa
Tel: +27 31 337 3460 Fax: +27 31 337 3412
www.laurusco.com

LAURUSCO DEVELOPMENTS (Pty) Limited
C.P. Brink (Managing); G. D'Eramo
Co. Reg. No. 2004/019668/07



LAURUSCO DEVELOPMENTS

Commercial Node

This node straddles the land between the N3 and the new North-South arterial within the development. It consists of business park, commercial / retail space and a hospital site. This entire zone, to be developed over a number of years, will fall within one LHOA. Allocation of levy responsibilities between the different land use categories will need to be determined. Included within this LHOA is a significant amount of Private Open Space (Passive Park) which will need to be maintained, and which is dealt with below.

Within the overall Hillcove Hills development, there are several other land use components which will each stand as a separate LHOA. This will include the Frail Care Centre, Lodge, Conference Centre and Equestrian Centre. The principle being that any commercially run, standalone entity would be a separate LHOA, provided that it benefits from services offered by the MHOA.

Facilities which service the entire development, have broad public appeal, and generally are not commercially run, will form part of the MHOA. This includes the Estate office, but not the Primary School site or Community Worship facility, both of which serve not only residents of the development, but the broader community. One exception to this principle is the open grassland abutting the existing Bellevue suburb. The responsibility for the maintenance and upkeep of this tract of protected grassland will rest with the MHOA, notwithstanding that such area will be available to the general public, irrespective of where they reside.

Open Space

The development will include both public and private open space, with sub-classifications within each, as detailed below.

Public Open Space :

- a. Active (eg sports field)
- b. Passive

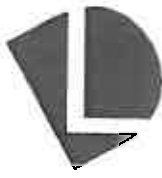
Private Open Space:

1. Conservation /Passive park (conservation space within cluster)
2. Conservation/Game Reserve (wildlife reserve)
3. Passive Park (eg adjoining commercial space)

15 Timeball Boulevard, Point Waterfront, Durban, 4001, Kwa-Zulu Natal, South Africa
P.O. Box 20443, Durban North, 4016, Kwa-Zulu Natal, South Africa
Tel: +27 31 337 3460 Fax: +27 31 337 3412

www.laurusco.com

LAURUSCO DEVELOPMENTS (Pty) Limited
C.P. Brink (Managing): G. D'Eranno
Co. Reg. No. 2004/019668/07



LAURUSCO DEVELOPMENTS

Any public open space will be handed over to the Municipality, who will be responsible for its upkeep. An exception is the grassland area abutting the existing Bellevue suburb, which will remain under the control of the MHOA.

Private Open Space will not, as the name implies, be accessible by the general public. The passive park component will typically adjoin the commercial nodes, whilst the Conservation/Passive Park will be within a residential cluster and accessible only by those who are members of the respective LHOA. Upkeep thereof will be the responsibility of the LHOA. The Conservation/Game Reserve will be accessible by all members of the MHOA, the general public on a controlled basis, and is the Wildlife Reserve as previously described.

Voting

It is proposed that each (residential) member of the MHOA would have one vote. Minimum voting percentages would apply to ensure rule and policy changes have broad support across the MHOA. The weighting of vote applicable to non-residential LHOA would need to be agreed.

Within residential LHOA, each member would have a vote. Again, the basis of voting within the Commercial LHOA needs to be agreed on a formula basis.

15 Timeball Boulevard, Point Waterfront, Durban, 4001, Kwa-Zulu Natal, South Africa
P. O. Box 20443, Durban North, 4016, Kwa-Zulu Natal, South Africa
Tel: +27 31 337 3460 Fax +27 31 337 3412
www.laurusco.com

LAURUSCO DEVELOPMENTS (Pty) Limited
C.P. Brink (Managing); G. D'Eramo
Co. Reg. No. 2004/019668/07



Conclusions

The following high-level recommendations are made:

1. Each residential cluster to have its own LHOA.
2. The commercial node to fall within one LHOA.
3. Upon transfer of the respective site, each owner pays a levy to the LHOA to which they belong and becomes a member thereof.
4. This levy would also cover their membership of the MHOA, which separately bills the LHOA.
5. They also pay a one-off Stabilization Levy to the LHOA, and Wildlife Levy to the MHOA.
6. In the event of re-sales, each subsequent purchaser will pay the Stabilization levy.
7. The primary developer will control the MHOA and LHOA until such time as critical mass is reached, and the entities are financially sustainable.
8. The MHOA will own and manage shared facilities such as the Wildlife Reserve, Recreation Centres, Estate office, open grassland adjoining Bellevue, internal roads and sewerage treatment works (unless handed over to the Municipality).
9. Ownership of the Wildlife Reserve shall remain with the primary developer until a pre-agreed transfer trigger point is reached.
10. Non-residential members of the MHOA would not pay the Wildlife levy, but in turn would not have unfettered access to the Wildlife Reserve.
11. There are several different classifications of open space, and these have implications as to whether their upkeep is the responsibility of the LHOA, MHOA or Municipality.