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VERSION: 2

SUBJECT: TWO RIVERS DEVELOPMENT SALE OF DEVELOPMENT RIGHTS POSITIONING PAPER

1) Introduction

The purpose of this paper is to set out the value proposition and the target market of the Two Rivers development rights.

2) What are we selling?

2.1. Two rivers development rights are defined as a grant of a lease by Two Rivers Development Limited (TRDL) over portions of land upon which a developer wishes to put up a real estate development.

2.2. The lease describes the construction footprint through a ground coverage, the and the plot ratio

2.3. The development rights are measured in Square Metres (SQM) of Gross Developable Bulk.(GBA) The GBA means the total gross floor area at every floor level in a building erected by the developer. Roofs, parking, loading areas and any uncovered areas within the building are excluded from the calculation of GBA.

2.4. The development rights are priced at a rate per SQM of GBA. The rate is determined on a case-by-case basis to ensure that each development is commercially successful and has a significant cost advantage over a competing development in a stand-alone location. The Two Rivers development team will work with the developers cost consultants to arrive at a pricing that will provide the developer with an at least 15% cost saving.

2.5. TRDL adopted the development rights model as this works best in a serviced mixed-use development where there is more than land available for sale. As opposed to the typical model of selling land in acres, this model offers the following advantages to a developer.

2.5.1. Where a developer opts to erect their development in a non-serviced land, they must in addition to purchasing the land invest in infrastructure such as parking, power back up and power upgrade, water storage, water treatment facilities, perimeter boundary walls, landscaping, ICT etc. These amenities come bundled in the development rights and already priced-in in the rate of GBA per square meter.

2.5.2. The lease contractually documents and enforces the development controls within the TRDL masterplan, and this preserves the long-term value of the investment.

2.5.3. Shareholding in the Two Rivers Property Company which holds the common area land and common infrastructure.

2.5.4. Rights of provision of road access, power provision from Two Rivers Power Company(TRPC), water provision from Two Rivers Water Company (TRWC), security infrastructure, ICT access, use of common areas, access to the sports district and parks within the development

2.5.5. The Two Rivers lease is a bankable instrument and a developer can secure long term financing against them.

3) How much does a Developer save in TRDL?

3.1. The mixed-use concept at Two Rivers offers scale which results in significant cost savings to a developer both as an upfront CAPEX investment and as OPEX during the operating phase of the development compared to developing and maintaining the infrastructure on a stand-alone basis.

3.2. Developers in the residential space for sale will deliver apartments that will be cheaper to run and this will translate to a lower service charge to the buyers. Developers of operating assets such as hotels will see the savings reflected in the bottom line for a higher valuation of their properties.

3.3. The section below sets out the case study of a Two Rivers developer who has the option of developing a 12,500 SQM development on a stand-alone site. We will compare this to setting up the project in Westlands given the developer's target market.

All Amounts in KES	**Two Rivers**	**Westlands**	**Ref**
Land 12,500 SQM @ KES 25,000 per SQM in Two Rivers, 1.2 acres @ KES 400 mn per acre in Westlands	312,500,000	480,000,000	3.3.1
Change of user, strategic Impact assessment, traffic impact assessment	-	3,200,000	
Incremental power connection cost	-	3,000,000	
Generator - 250kVA	-	5,000,000	
Incremental Water Storage	-	4,000,000	
Fire Hydrant system	-	2,000,000	
Borehole and Equipment and related costs	-	4,000,000	
Reverse Osmosis Treatment Facility	-	10,000,000	
Perimeter wall and security systems	-	10,000,000	
Street and Outdoor Lighting	-	1,000,000	
Gate, Gatehouse and Barriers	1,000,000	5,000,000	
Incremental Parking Cost: 125 bays @ KES 1.2mn per bay	-	150,000,000	3.3.2
Cost of delay in getting building approvals on invested capital in land for 6 months	-	31,200,000	3.3.3
Total	**313,500,000**	**708,400,000**	
per Acre equivalent	*261,250,000*	*590,333,333*	
per SQM of GBA	*25,080*	*56,672*	

3.3.1. The first cost for a developer is the size of land purchased in a stand-alone development. To be competitive at the mid income to high end market a developer will require sufficient parking, circulation space, green spaces and parks. To provide all these amenities in a standalone development a developer would have to acquire 50% more land and also incur the cost of landscaping and maintaining the land. For smaller developments this may not be feasible and in an absolute sense the green spaces may be too small for any viable use such as parks, jogging tracks, football fields. Within the Two Rivers competitive zone of Westland's, Runda, Gigiri the value of land is too high to put to such use and there is very little if any public provision of such spaces. In Two Rivers the developer ended up purchasing the GBA he required as the other amenities are catered for by TRDL.

3.3.2. The second major cost savings for a developer opting to put up their development in Two Rivers is in the parking investment. On a stand-alone site a developer has to provide the total required parking which is many times an essential but non-revenue generating investment. This parking means that the investor has to either make a substantial investment in basement parking which is as at cost of close to Kshs 1.2 million per parking bay or on grade parking which is expensive when developing on a high value plot. In Two Rivers there is significant parking space available in a shared model which reduces the parking space requirements for a developer, and which can enable them to develop a product on a cost competitive basis while still offering a very generous parking ratio.

3.3.3. The third major area of saving and risk mitigation is on regulatory and environmental approvals. This is a very sensitive area and presents a high-risk area for developers where regulatory approvals can take a very long time or can come with conditions that make the development unviable. Environmental approvals are another major source of risk coupled with concerns from neighborhood associations where developments have been stopped and even demolished. Two Rivers has an approved master plan with all the development sites having clearly assigned development rights and approved heights. This significantly shortens the approval process. Two Rivers has also invested in significant road infrastructure that is designed to support a very high traffic capacity based on comprehensive Traffic Impact Assessment Study. Traffic considerations are a key impediment to the granting of approvals for medium to high density developments. This is in addition to the very significant investment in sewer and water treatment capacity. In addition, Two Rivers has conducted a Strategic Environmental Impact Assessment for the entire site based on the master plan and new infill development are only required to carry out a localized environmental impact assessment which is a significantly shorter process. To mitigate the risk to the developer Two Rivers is responsible for securing approvals and the lease is only registered once these approvals are obtained. Two Rivers enables an investor to focus on their development and takes away the headache of pursuing approvals in addition to significantly shortening the time required to go to market.

3.4. The table below gives a comparison of the operational costs of the standalone development compared to the one in Two Rivers.

All Amounts in KES	**Two Rivers**	**Westlands**	**Ref**
Urban Management and Infrastructure Levy: 12,500 SQM at KES 25 per SQM for 1 year	3,750,000	-	3.4.1
Generator - 250kVA	-	1,500,000	3.4.2
Borehole and Equipment and related costs	-	1,500,000	3.4.3
Reverse Osmosis Treatment Facility	-	2,000,000	3.4.3
Security	576,000	1,728,000	3.4.4
Total	**4,326,000**	**6,728,000**	
Running Cost for 10 years	43,260,000	67,280,000	

3.4.1. The operational costs in Two Rivers are lower by 36% compared to a development in Westlands. The operational costs in the development are met through an urban management (UM) and infrastructure levy (Infra Levy). The UM and Infra Levy are administered by the Two Rivers Property Company in which the developers get a shareholding. The UM levy covers the operating costs of urban management services provided within the public environment. These include (but are not limited) to the following: Safety and security, Ambulance services, Fire services, cleaning, power and water consumption in common areas and place marketing and promotions. This is a far more superior package of services than can be found in Westlands for a lower cost. The Infra Levy caters to the cost covers the maintaining, repairing, rebuilding, renewing, and reinstating of infrastructure at Two Rivers. This ensures the quality of infrastructure in Two Rives is maintained.

3.4.2. Two Rivers gets its power from Two Rivers Power company (TRPC) is a licensed power generator and distribution company. TRPC purchases power in bulk from KPLC at 66kV national grid with an ancillary line at 11kV. The up time for these two lines is 99.9% negating the need for developers to have back up power. TRPC also has 7.5 MVA of back up power in the unlikely event that there is a power black out in addition to generating power from a 1MW solar plant within the precinct.

3.4.3. Two Rivers gets its water from Two Rivers Water Company (TRWC). TRWC is also a regulated utility company that sources its water from boreholes within the development. TRWC then treats the water in a reverse osmosis plant to potable water quality. TRWC has a capacity to treat 2 million litres of water per day. This ensures that the Developers do not incur costs of drilling boreholes in additional to the high operation costs.

3.4.4. Two Rivers has state of the art security infrastructure designed in collaboration with IBM. This starts at the access control points and includes 24 hour manned and remote surveillance of the property. A developer's investment in security is reduced and is a key selling point for the target market.

4) What is our market positioning?

4.1. The target market of Two Rivers Development rights are property developers interested in developing medium to high density developments targeting the affluent Gigiri/Muthaiga/Runda market.
4.2. The closest competitor or alternative development node that is in a similar market segment with similar zoning to Two Rivers is Westlands/ Waiyaki Way area.
4.3. The Runda and Gigiri area is not a competitor node because these areas are zoned for low density developments It is not possible to secure development approvals for medium to high density developments in this area. The constraints are not just at the regulatory level but with neighborhood associations. Ruaka as well is not a competitor node largely because this is a lower income node and developments like Loft, Cascadia and Riverbank would not sell in this area.
4.4. Two Rivers is therefore a one-of-a-kind development offering the convenience of Westlands and the privacy and exclusivity of Runda/Gigiri. A developer can leverage the Two Rivers brand name and sell more than floor area of their unit. The end consumer is interested in the totality of the experience and Two Rivers is probably the only location within this area where an end user can enjoy retail, hospitality, office, sports and recreation facilities within a walkable space.
4.5. Two River's unique position in the market therefore offers a compelling value proposition to a developer and buyers/tenants. This value preposition has been validated by the sales success that has so far been enjoyed by those developers who have opted to erect their developments within Two Rivers with virtually all developments under construction in Two Rivers enjoying sales levels above 50%. The Two Rivers mall has also attracted leading international and local brands at above market rentals.

5) Two Rivers is a sustainable development

5.1. Two Rivers Water Company recycles wastewater using Moving Bed Bio-Reactor technology. The recycled water is used for irrigation, firefighting and cleaning. This saves about 33% of water demand in the development.
5.2. TRWC ensures access to safe and affordable drinking water to all with a 24 hour monitoring laboratory that ensures water is treated to WHO standards.
5.3. Up to 95% of the solid waste in Two Rivers is recycled. The organic waste is turned into fertilizer while the inorganic waste is sorted and sold to offset

come of the garbage collection costs. For instance, glass manufacturers buy waste glass, pillow manufactures buy textiles and metal sold to scrap metal dealers. This creates employment through the value chain.

5.4. Up to 10% of the power demand in Two Rives is met by the rooftop solar plant.

5.5. Two Rivers is easily accessed via Limuru road and the northern bypass. Two Rivers erected two bus stops to facilitate public transport access to the development from these two roads. There is also a two-lane taxi rank within the development with bicycle racks distributed within the development.

5.6. The mixed-use concept also ensures that parking is efficiently utilized. For instance, retail users will use parking during the day when residential users are out of the house.