

# CPD

Crawford Property Developers(PTY)LTD

34 years of building excellence  
Construction, Electrical, Plumbing, Gas and Civil's

Non-Disclosure Agreement  
&  
Executive Summary  
To  
Crawford Property Developers

## **Non-Disclosure and Confidentiality Agreement**

The undersigned ("Recipient") hereby agrees that all financial and other information ("Information") that it has and will receive concerning Crawford Property Developers PTY (LTD) is confidential and will not be disclosed to any individual or entity without prior written consent.

The Information shall remain the property of Crawford Property Developers PTY(LTD) and shall be returned to Crawford Property Developers PTY(LTD) promptly at its request together with all copies made thereof.

Recipient acknowledges that no remedy of law may be adequate to compensate Crawford Property Developers PTY (LTD) for a violation of this Agreement and Recipient hereby agrees that in addition to any legal or other rights that may be available in the event of a breach hereunder, Crawford Property Developers PTY (LTD) may seek equitable relief to enforce this Agreement in any Court of competent jurisdiction.

\_\_\_\_\_

Date

\_\_\_\_\_

Signature

*This is a business plan and does not imply an offering of securities.*

# **Crawford Property Developers PTY (LTD)**

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# 1. Executive Summary

## 1.1 Business Opportunity

The **purpose** with this Business Plan is to support a **request for financing the development input cost** for property development in South Africa.

The opportunity to the input cost investor is to enable returns well and be on the norm. On average the investor can receive a **return of 10% or more over 5 years**.

The company's objective is to supply aesthetically pleasing and profitable residential stock to the market. The stock is beneficial for both end users and investors alike. **Crawford Property Developers** develop stock to the market from **30% to more than 50%** less than other developers and thereby creating returns way above the norm. No alternative building products is utilised.

The model employed by **Crawford Property Developers** cannot easily be reproduced by other developers or competitors. The methodology of developing property will entrench a new standard towards cost effective property development.

The South African economy is at its bottom end and gearing itself for an upswing. This will bring about a rise in property prices. At this point in time one can speak off a **“Property Bubble”**, not one that is happening when prices are over inflated at the top of a cycle, but one where clients are mostly renting and wants to get into ownership and they are awaiting for an upswing in the economy and the right stock.

Crawford Property Developers do not rely on an economic upswing to enable the 30% to 50% yield on the developments, this will be a bonus.

It is anticipated that **Crawford Property Developers** will, in the next 5 years, become a major developer in the Pretoria and Johannesburg areas. The vision is to ultimately go national then international.

The business Model is based on the speculative market and not the investment market.

## 1.2 Product/Service Description

### **PRODUCTS**

The product **Crawford Property Developers** supply are newly built apartments, townhouses, duplexes and freehold homes. The emphasis is placed on modern designs which is what today's clients wants. Of which there are very few going around, especially in the freehold market.

The last 10 years of a depressed seller's market have caused most developers to develop property for rental purposes and freehold properties that were developed were mainly based on selling freehold stands and building packages. Developers did not take advantage of constructing homes and selling them as a completed development.

Most of the Freehold and Sectional Schemes sold in the Pretoria municipality is old stock, 20 years and older. The styles designers used over the last 30 years were mostly Tuscany and Bali or a combination of these two styles and for the older properties it was a traditional style. Apartments resembled pigeon boxes and townhouses was title boxes which had no character, they are boring to present clients and does not cater to them liking it. But seeing that the Pretoria East and North East developed a strong attraction for the clients, they had to make do with buying the older homes.

Clients who did buy stands found it too cumbersome to develop their own properties, or clients discovered that building their own homes will be more costly than buying an existing property. They then went on to sell these stands again. Therefore, quite a number of these stands are presently in the market. Most apartments and townhouses bought were for investment purposes, the Buy-to Rent market. Clients who felt that they could not find properties to their liking decided to take up renting property for longer. The above lead to what is seen as a "**Property Bubble**", clients awaiting properties that are in a price range comparable to existing properties but which are also, as far as designs go, modern, aesthetically pleasing and functional, in line with today's client lifestyle and technology advances including being energy efficient homes.

The Market phrases such as, "**Location, Location, and Location**" and "**property is the cornerstone of wealth creation**" is the essence of the market. This boils down to the right property for the right area. Pretoria East has all the fundamentals underpinning "Location" in place such as, proximity/access to shops, excellent medical facilities, schools, transport links, safety, entertainment, major employment and major investment. This is some of the reasons why so many people want to live in Pretoria East. The Pretoria Municipality have some of the best schools, universities, shopping malls, medical facilities', entertainment, major employment and investments in South Africa.

The market in Pretoria is **continuously growing**. Clients **have the means** to buy in Pretoria. There is demand for the right property at the right price. The market is awaiting these properties.

## **SERVICES**

**Crawford Property Developers** buy the undeveloped property (land), do the designs and obtain the necessary development permissions, town planning and construction approvals from the local authorities.

**All Africa Plumbing, Electrical, Gas & Construction** together with **Trian Construction** executes the construction of the developments. These two businesses are owned by Mr. Crawford. For tax purposes the development company is not doing the direct construction but acts as the client.

From the time that preliminary approvals of the projects, to the local authorities are started, the marketing of these projects are set in motion. The marketing is done internally by **Crawford Property Developers**, this also contributes to a saving of more than **70% of the traditional marketing cost**, compared to having the developments marketed through external estate agents.

The basis for delivering projects for less than 30% (and more), to the market is rooted in an idea which started 30 years ago. This idea grew and was put in practice in 2004. The concept is based on delivering quick, sellable stock which added value to clients. Making property more affordable and bringing the stock into the market for less than what other developers can supply it. It is also the objective of satisfying the needs and wants of the market. The model is built on the concept that, it should be workable in, at the one end in a depressed market and the other end a booming market.

The concept is based on one construction company executing the entire project, without using sub-contractors. The construction industry moved away from this concept in the early 1980's and embarked on what is known as "**Specialization**". "**Specialization**" entails, making use of sub-contractors for each aspect of the construction. Specialization has led to an increase in building cost. The reason for the building cost increases is because every sub-contractor applies their mark-up and profit and the main contractor then furthermore applies his mark-up and profit on top of that of the sub-contractors. Compared to one contractor executing the entire project and only once applying a mark-up and profit. This alone brings about a saving of about 40% on the cost of a project. This is a very common principal. The challenge lies in the execution.

This is the opportunity that **Crawford Property Developers** capitalize on. **Crawford Property Developers** went be on this method and insured expert technical knowledge of all trades, better cost and time management. The understanding of what is required to make a project work and the ability to follow through and ensuring what is planned, accurately gets executed within the allocated budget and schedule. This is an art that comes with experience and knowledge. This gives **Crawford Property Development** the **competitive edge** above other competitors which is unrivalled.

Another cost saving method applied is that, most contractors buy materials from retailers. The two construction companies employed by **Crawford Property Developers** buy materials wholesale. This brings about a **saving on materials of 20% to 30%**.

These projects identified by **Crawford Property Developers** are all constructed in the best location to fulfil the "Location" criteria. This entails that the fundamentals are all in place.

### 1.3 Current Business Position

From 2004 up until 2012 developments took place through **Trian Construction** and **All Africa Plumbing, Electrical and Gas**. During this period the economy kept on performing badly. It was then decided that operations should be halted for the time being and the focus should be placed on gearing for the next upturn in the residential market. In the time, the emphasis was placed on the homing in of skills, especially as to engineering services such as bulk water, storm water, roads and bulk electrical services. These are all crucial services in estate developments and to enable cost savings again services, when delivered in-house, brings about more savings, which in turn reduces the input cost and gives higher profits.

The markets were continuously analysed to determine the best possible time to enter the market for speculative purposes. Up and till the beginning of 2019 the market for developers were geared towards investment properties. This entailed developers developing properties for rental purposes. This is not a market that **Crawford Property Developers** wants to partake in.

During 2018 it become clear that the property market, as for speculative properties, are showing signs of getting ready to turn in that direction. Crawford Property Developers analysed different regions. It was decided that the Pretoria Municipality, with its more stable local economy and all the fundamentals in place would give the best returns for speculative developments. Development land is also abundantly available, and sellers of these properties have lowered expectations as to prices. This is presently the best time to acquire development land.

The Government also played into the land issue because of their stance of acquiring land without compensation. Their position was clarified as to this issue in that they stated that they will inter alia only look at land that people have are only holding on to, for reselling but they do not want to develop it. This caused people to become jittery and these properties are now being sold. This is not the main purpose of the Government lending towards looking at acquiring land without compensation.

The Government was pushed into this direction because of the populist opposition party the Economic Freedom Fighters (EFF) playing the emotional card of land must be given to black people. This was praying on the ill-informed and ignorant who are looking at acquiring land for free. The land issue stemmed from the negotiations between then then National Party and other parties prior to 1994. One of the issues raised was that black people who was disposed of their properties because of the then 1913 legislation must be given back their land. It was then so agreed, and this policy was entrenched in the Constitution of South Africa. A qualification was also entrenched, namely that, land identified for being repossessed and redistributed in this manner, the Government must apply the “willing buyer-seller” principal and the present owners must be compensated the market value. The claimants of such land, which are 90% agricultural land, then had the option either to receive monetary compensation or they could opt for receiving such land. This led to more than 80% of them opting for the money.

A Department was also established to implement the land policies. They were task with valuating such land and buying it was from the present owners. This Department dragged their feet and progress were and still is slow. This caused this issue to become a major issue for the past election (May 2019). One of the opposition parties (EFF) then made this their main election policy. This forced the ANC Government to

show commitment to “Land Re-Distribution” and it became a major campaign issue for both the ANC and the EFF. The ANC was bullied into taking a position looking at changing the Constitution to do away with the “willing buyer-willing selling” principle. Although the ANC lead Government clearly understand that if such a policy is accepted, it will harm the country’s economy intensely. Therefore, they have already water it down and have put the criteria for it in such a manner that this would only, if finally adopted, be implemented in extreme cases. It must be understood that South Africa has a very progressive Constitution. The Constitution clearly state that no arbitrary legislation can be adopted or implemented. This holds that the Government cannot take land without a proper basis. All citizens in South Africa agrees that mistakes of the past must be rectified. The only issue is the way this must be done.

The policy changes put forward will hardly change the status quo but it still makes people jittery, especially people possessing property that they cannot develop. This is more an agricultural land issue. It led to people selling of land that they would have either developed in the future or sold for a profit to developers. It is too costly for people to develop, therefore the average person seeing an opportunity to cash in in future has now opted to sell off the land. This causes land for development to come on to the market presently, at very affordable prices.

The result is that **Crawford Property Developers** needs to seize this opportunity to obtain such land which dramatically reduces input cost. The window of opportunity is limited. The land issue, besides the unemployment challenge is the last issue to create clarity in the economy. When this happens property prices will skyrocket. Because the Government being very reluctant to change the Constitutional Clause concerning this issue, this issue can drag on or be resolved within the next year.

## 1.4 Financial Potential

In execution projects, all in-house, brings about savings of 30% and more, compared to stock other developers brings into the market. An example is that when these developers bring stock in at a selling price of \$ 10 000, and they make a profit of 10% to 15% in comparison Crawford Property Developers can produce stock at a selling price of \$ 9 500 and make \$ 4 000 to \$ 5 000 per unit. This holds that stock will be sold of quicker and, which in turn, will lead to money’s being available to reinvest at a faster rate, having funds quicker available for re-investing into the following projects thereby increasing turnovers and taking advantages of the upturn in the property market.

The profits to be obtained is directly reliant on the input cost in developing the property, which are;

- The Cost of Land and VAT (Value Added Tax, 15%)
- The Cost of Professional Fees, including transfer fees (Architects, Engineers, Town Planners and Conveyors (Attorneys)), these fees can be from 10% to 15% of the construction budget.
- The Local authority Fees
- The Cost of developing the land (bulk services and roads) up to the point of the just before the construction of the units.
- The registration of units with the National Home Builders Registration Council. (NHBRC), registration cost of 3,5% of value of the property. This is an insurance, the purpose of it is that, in case of bad workmanship of a builder registered with the NHBRC, then the council will have the builder rectifying the defects or the council will pay to have it corrected. No builder in South Africa can build homes if not registered with the council. No bank will finance a home not registered with the council. Homes or Dwellings are any type of home, freeholds or sectional schemes (apartments, town house or duplex's)
- The Bond cost if the developer has to obtain a building loan from one of the Commercial Bank.
- The actual building cost of the units,
- The Estate Agents Fees, the going rate is 8% of the selling value although most agents are prepared to render a service at 3% to 4%,
- The VAT (15%) on the Final Sale. All input cost gets set off against the final selling price to determine the applicable final VAT amount. Developers must apply VAT, persons not dealing with property as their main source of income pays Transfer Duty. The buyer buying from a developer therefore save Transfer Duties in lieu of VAT that must be paid by the developer. It is thus more beneficial for buyers to buy directly from a developer. Example is \$ 9 500 sell price; the total input cost is \$ 5 467. Then the VAT applicable is calculated on the \$ 4 033 profit. An amount of \$ 605. The cost is included in the Final Selling price but as far as the buyer is concerned, he does not have to pay Transfer Duties out of his pocket.

The input cost the developer has control over and cost the developer can obtain savings on, on are;

- The buying of the land, determine the value of land to the developer and negotiate the price to the determined value or below it,
- The Professional Fees, delivering in-house Professional services such as Project Management and Quantity Surveying services, which are the costliest of professional fees and outsourcing the other services not required on a full-time basis. Negotiating fees with outsourced Professionals. This equates to fees under 3% of the Sell Price,
- The Cost of developing bulk services. To be done in-house by the

Construction entities, this brings about a saving of more than 50% compared to main contractor employing the services of a sub-contractor,

- Loans and Bond Cost can be negotiated,
- The actual building cost of the units, a saving of 30% and more compared to other developers,
- Estate Agent fees, doing the marketing and selling in-house brings about a saving, getting the 4% going fee to below 2%.

Therefore, in applying the example above in more detail, see the calculations in the table below; **(NOTE; All Rands are converted at R14.4 to \$1, trough out this Business Plan)**

	<b>Crawford Property Developers Calculations</b>		<b>The Average Developers Calculations</b>	
<b>Sell Price</b>		<b>9 500</b>		<b>10 000</b>
<b>Input Cost</b>	<b>%</b>		<b>%</b>	
Stand	4.40%	418.00	4.18%	418.00
Development Cost	2.65%	251.75	4.00%	400.00
Bond & Loan Cost	2.00%	190.00	2.00%	200.00
NHBC	3.50%	332.50	3.50%	350.00
Marketing	2.00%	190.00	3.00%	300.00
Building Cost	40.00%	3 800.00	65.00%	6 500.00
Professional Fees	3.00%	285.00	5.00%	500.00
<b>Total Input Cost</b>	<b>57.55%</b>	<b>5 467.25</b>	<b>86.68%</b>	<b>8 668.00</b>
<b>Profit</b>	<b>42.45%</b>	<b>4 032.75</b>	<b>13.32%</b>	<b>1 332.00</b>
Initial Input Cost	18.00%	1 710.00	18.00%	1 800.00
<b>ROI</b>	<b>235.83%</b>		<b>74.00%</b>	

**NOTES:**

1. The percentages above is based on a project identified by Crawford Property Developers as the Montana Project Ref 29
2. The actual Sell Price of the project were not used, but applied to the example above.
3. The Cost percentages, in the Viabilities would be applied against the Project Cost, except for the Marking Cost, for this calculation it was applied against the Sell Price. The percentages are still pro-rata, as per percentages in Viability Reports. See Crawford Property Developers website for the Viability Reports under the Developments page.

When applying the above to the overall cost and based on the projects selected for execution the Project Budget shows that this accelerated approach will be profitable. The first year's financial ratios are in line with the start-up of the acceleration. By the

third year the business is starting to show the direction and potential of this venture.

For the purposes of this Business Plan the methodology applied was that no additional land would be acquired, and no additional projects will go beyond the fifth year. This was to give an indication of what **Crawford Property Developers** can achieve with a start-up investment of \$ 10 million. In reality the company will continue to reinvest and grow, therefore if the Business Plan went beyond the Fifth year, then better results will be achieved. The two Tables below give the **Financial Ratios**, the **Profit & Loss Statement** and the **Balance Sheet** as calculated in the Budget Forecast.

The methodology and business model applied in this Business Plan is not the only methodology and business model that can be applied.

<b>Crawford Property Developers Financial Ratios</b>					
	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Profitability ratios:</b>					
Gross profit margin	100.00%	100.00%	100.00%	100.00%	100.00%
Operating profit margin	-47.56%	32.06%	25.40%	33.44%	35.09%
Net profit margin	-54.92%	30.18%	24.18%	32.90%	34.55%
Return on equity	n/a	-91.28%	-349.46%	-2870.82%	107.90%
Return on assets	-59.31%	346.50%	144.77%	291.49%	82.98%
<b>Liquidity ratios:</b>					
Current ratio	n/a	n/a	n/a	5.49	n/a
Quick ratio (Acid-test)	n/a	n/a	n/a	5.49	n/a
Working capital ratio	0.92	0.54	0.59	0.48	0.83
<b>Activity ratios:</b>					
Accounts receivable days	0.00	0.00	0.00	0.00	0.00
Inventory days	n/a	n/a	n/a	n/a	n/a
Inventory turnover	n/a	n/a	n/a	n/a	n/a
Sales-to-assets	1.25	10.81	5.70	8.72	2.37
<b>Leverage ratios:</b>					
Debt-to-equity	-2.68	2.33	0.71	0.22	0.00
Debt ratio	1.59	0.70	0.41	0.18	0.00
<b>Times-interest (TI) earned:</b>					
Operating income	-3 228 555	8 526 630	10 382 719	31 230 943	32 772 891
Interest expense (+)	500 000	500 000	500 000	500 000	500 000
TI earned ratio	-6.46	17.05	20.77	62.46	65.55

<b>Crawford Property Developers PTY(LTD) - Profit &amp; Loss (Summary)</b>					
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Income</b>	6 788 889	26 591 980	40 879 630	93 401 853	93 401 853
Gross profit	6 788 889	26 591 980	40 879 630	93 401 853	93 401 853
<b>Operating expenses:</b>					
Land Acquisition	4 392 447	3 249 930	5 416 388	5 416 388	5 416 388
Professional Fees	1 666 330	1 189 262	3 062 407	2 671 748	1 649 584
Development Cost	688 060	795 734	1 201 955	618 562	618 562
NHRBC Fees	86 568	522 710	294 300	815 473	294 300
Construction Cost	2 473 351	10 998 261	17 981 128	49 056 173	49 056 173
Marketing Cost	215 000	362 776	741 148	1 791 592	1 791 592
Salaries	399 996	766 668	1 445 832	1 445 832	1 445 832
Office Accomodation	13 668	21 336	42 168	42 168	42 168
Office Supplies	5 004	7 500	12 504	12 504	12 504
Telephones	19 584	50 418	105 828	105 828	105 828
Computors	5 418	11 250	24 996	24 996	24 996
Professional Annual Fees	2 778	2 778	3 472	4 861	6 250
Transport	40 002	70 836	134 580	134 580	134 580
Office Equipment & Furnit	4 332	6 666	15 252	15 252	15 252
Loan Repayments	0	0	0	0	0
Depreciation	4 909	9 222	14 952	14 952	14 952
Total operating expenses	10 017 447	18 065 347	30 496 910	62 170 909	60 628 961
<b>Operating income</b>	-3 228 558	8 526 633	10 382 720	31 230 944	32 772 892
Interest expense	500 004	500 004	500 004	500 004	500 004
<b>Net income</b>	-3 728 562	8 026 629	9 882 716	30 730 940	32 272 888

<b>Crawford Property Developers PTY(LTD) - Balance Sheet (Summary)</b>					
	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>
<b>Assets:</b>					
Current assets:					
Cash	6 241 283	14 259 361	24 126 480	54 872 376	77 160 220
Total current assets	6 241 283	14 259 361	24 126 480	54 872 376	77 160 220
Fixed assets (net)	30 162	38 714	54 313	39 360	24 407
<b>Total assets</b>	6 271 445	14 298 075	24 180 793	54 911 736	77 184 627
<b>Liabilities and equity:</b>					
Current liabilities:					
Line of credit	0	0	0	0	0
Notes payable	0	0	0	10 000 000	0
Total current liabilities	0	0	0	10 000 000	0
Long-term liabilities (net)	10 000 000	10 000 000	10 000 000	0	0
<b>Total liabilities</b>	10 000 000	10 000 000	10 000 000	10 000 000	0
<b>Equity</b>	-3 728 555	4 298 075	14 180 793	44 911 736	77 184 627
<b>Total liabilities and equity</b>	6 271 445	14 298 075	24 180 793	54 911 736	77 184 627

## 1.5 The Request

**Crawford Property Developers** require funding for the selected projects. On its own **Crawford Property Developers** can obtain finance for some of the projects, but not all of the identified projects, hence the call for funders/investors to take up this opportunity.

As will be clear from this Business Plan, the economy is about to make an upturn, the window of opportunity is very limited to acquire some of the best development land available at reduced prices. The Free Hold properties to be developed comes at a premium compared to **Crawford Property Developers** developing their own land. This can lead to a reduction of more than 50% compared to buying from other developers or individuals.

In light of the above **Crawford Property Developers** is open for any proposals and models, but **Crawford Property Developers** are proposing the following funding/investing models.

1. The first funding option is debt finance. Here the financier loans **Crawford Property Developers** \$ 10 million for a period of 5 years at a rate of 5% per annum. Interest payable monthly and the capital amount repaid at the end of the 5 years.
2. The second option is whereby the funder takes up a 5% equity stake in the company. Then it can be negotiated if the funder will be paid a dividend and an interest portion or only an equate share.
3. Another funding option is than the funder will loan the amount to **Crawford Property Developers** and the funder will receive an stepped interest rate, meaning the interest rate will start at 5% and escalate annually with 2,5% per year until the end of the five year period.
4. Other options are also available as per **Crawford Property Developers** website. This is mostly funding for a particular project. The premium is very high for **Crawford Property Developers** in using this method of funding at those terms and is therefore the least favourable option to Crawford Property Developers.
5. Other models can be proposed by the Funder/Investor as well as other percentage returns **Crawford Property Developers** has plenty scope.

Loans can be secured by the properties that will be bought and developed. Funding is not required to be done as a lump sum but can be done in a phased manner.

**Crawford Property Developers**, for the purpose of this Business Plan used the amount of \$ 10 million, the funder can put forward the amount the funder would like to invest and terms can be negotiated.