

**NAKUROI INVESTMENT COMPANY LIMITED**

**P.O.BOX 79567**

**DAR ES SALAAM – TANZANIA**

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**A FEASIBILITY STUDY REPORT**

**ON**

**DEVELOPMENT OF COMMERCIAL COMPLEX**

**AT PLOT 504 BLOCK F, KUNDUCHI ROAD.**

**KINONDONI- DAR ES SALAAM.**

**Prepared For:  
M/s NAKUROI INVESTMENT COMPANY LIMITED  
P.O.BOX 79567  
DAR ES SALAAM  
TANZANIA**

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## 1.0 EXECUTIVE SUMMARY

### 1.1. Introduction

This report gives details on a proposal to construct a Modern Commercial Complex consisting of Multi-businesses such as Shopping Arcades, Offices, Conference centres, single units' apartments etc, at Plot 504 Kunduchi Road – Kinondoni – Dar es Salaam – Tanzania.

Which can also accommodate shopping mall/Banking Hall as part of phase one at the area and later on during the process of expanding the project a modern size Hotel/residential apartments will be built.

The proposed Commercial complex entails construction of multi-shops arcades together with internal roads, storm water drainage, waste water system, fire hydrant installations security walls, standby power house, water tank, land reclamation and landscaping. Total project area is approximately 1,500 square meters.

### 1.2. Sponsors.

The project is being sponsored by NAKUROI INVESTMENT COMPANY LIMITED, a private limited liability company incorporated and registered in Tanzania with a registration number 67254 of 01<sup>ST</sup> SEPTEMBER 2008.

**The Company is owned by the following shareholders:**

NAME	NATIONALITY	PERCENTAGE OF SHARES
SAMWEL M. MOLLEL	TANZANIAN	95%
EMMANUEL M. MOLLEL	TANZANIAN	5%

### 1.3. The Market.

In general Tanzania urban centers have an acute shortage of high quality and modern Commercial Complexes.

Dar es Salaam is the leading industrial and commercial center, housing most of the government ministries, foreign embassies, large local companies, multinational companies and banks as well as international organizations. It is also the main first point of call to tourists visiting the country before they proceed to visit tourist attractions upcountry.

According to an assessment made by the National Housing Corporation, and sponsors interviews with various foreign embassies and international organizations, it has been established that acute shortage of high quality modern and secure Commercial Complex exist in Dar es Salaam, and other regional centers.

This being the case the investors are assured of ready market for the project/property.

#### **1.4. The Project**

The project involves construction of shopping arcades, which comprises 7 floors can accommodate multi-modern business malls on a site at Plots No 504 Block F Kunduchi Road – Kinondoni Dar es Salaam- Tanzania.

On completion of this project, the Complex will be available for letting, complete with all facilities such as, storm water drainage, waste water system, and fire hydrant installations and landscaping. The complex will be fully furnished and well equipped.

#### **1.5 Estimated Capital Costs:**

The total investment cost of the project is estimated at about 20,000,000,000/= broken down as follows:

##### ***Capital Investment Cost:***

<b>S/NO</b>	<b>ITEM</b>	<b>TSH</b>
	<b>I: Fixed Assets:</b>	
1.	Land and Building	10,000,000,000
2.	Vehicles	1,000,000,000
3.	Furniture and Fittings	5,000,000,000
4.	Pre expenses	1,000,000,000
5.	Others	1,500,000,000
6.	Working Capital	1,500,000,000
	<b>TOTAL PROJECT COST</b>	<b>20,000,000,000/=</b>

#### **1.7 Management and Staff**

The said commercial complex will be managed by a competent real estate management company to be appointed by the holding company on completion of construction works at a rate of 8% of the gross income excluding service charges, the estate management company will be answerable to the holding company's Management for operational and policy decisions.

## 1.8 Profitability

(USD)

YEAR	2023	2024	2025	2026	2027	2028	2029	2030
Sales Income	39,600	Del house	286,000	286,00 0	286,00 0	286,00 0	286,00 0	286,000
Pre-Tax Profit	29,053	147,158	255,641	255,64 1	255,64 0	256,14 0	256,14 0	256,141
Dividend Rate: Amount	0%	0%	0%	40%	40%	40%	40%	40%
Accumulated Cash Balance	111,40 0	172,023	370,182	490,07 2	609,97 5	729,58 7	849,20 0	968,813

## 1.9. Development Values

The project has a number of development values to the country:

- ◆ The project will provide the most needed quality Office/Resl accommodation for both foreign and local organizations as well as foreign individuals.
- ◆ The project will generate direct and indirect employment to several Tanzanian both during construction and after completion.
- ◆ The project will generate the much-needed foreign exchange.

## 1.10 Conclusion and Recommendations.

The project as analyzed in this report is both economically and technically viable. The project has come at the right time to provide the much needed up market quality commercial complex and real ideal for all groups of investors, being local and foreign ones, business executives, diplomats, international experts working for international organizations and multinational companies investing in Tanzanian in various sectors of the economy.

A fast implementation of this venture is therefore highly recommended especially at this juncture when the government is implementing its economic and social adjustment programmes have International Investment as good and secure housing is of paramount importance.

## **2.0 MARKET AND DEMAND**

Due to nationalization of private commercial buildings and residential houses in 1967, the country witnessed a sudden halt in the construction industry. The present residential houses available in the City are by the large as old as over thirty-five years now. Construction of private houses resumed in about fifteen years ago on a small scale brought about by the liberalization policy. This has been carried out by civil servants and parastatal organizations for their consumption, although some have been forced to rent out in order to service mortgages and other personal financial obligations

When in 1973 Tanzania Government decided to shift its capital from Dar es Salaam to Dodoma, it was envisaged that the move would take about ten years and that in line with the growing government activities, commercial activities would proliferate. It is now thirty years but none of the above has taken place. Except for the Prime Minister's Office, The Ministry of Regional Administration and local Government and the ruling Party Head Office that have theoretically moved their seats to Dodoma, not a single government ministry, embassy, International Organization, a national parastatal has moved to Dodoma. The trend shows that the government has renovated and refurbished its offices in Dar es Salaam and the embassies are building their own offices in Dar Es Salaam instead of Dodoma.

Good example is the American, Swedish, Norwegian, Nigerian Embassies, Germany, Netherlands, UK and European Economic Union who have recently constructed their embassies. For the private companies it was clear from the start they would remain in Dar es Salaam as the City would have continued to be the main industrial and commercial center of Tanzania. Most of the multinational companies investing in mining, tourism and agriculture have their headquarters in Dar es Salaam.

Taking into consideration the above observations the current economic and the government's financial position it is obvious that the decision has been overtaken by events and therefore the status quo will remain allowing for Dar Es Salaam to function as government seat, industrial and commercial center indefinitely. Against this background, industrial and commercial activities in Dar Es Salaam have continued to grow accompanied by growing demand for quality residential houses, shopping arcades and office accommodation, not being matched by the corresponding supply.

This project will be one of the best in Dar es Salaam and it is expected to alleviate, albeit modestly, present situation of the shortage of modern quality commercial complexes, well secured and constructed in up market areas.

Construction of commercial houses started again about seven years ago but in small scale due to unavailability of suitable Plots within the City and the well planned areas. Most of the constructed quality houses are replacement of the old commercial houses, which means in real terms there has been no increase in number of houses required. To

alleviate this situation of severe shortage of quality houses within the City premium areas such as Oysterbay and Masaki, the investors have to fully utilize the big Plots by building several well-designed units as proposed in this project. Nevertheless, while this process is taking place, demand will increase because of demolition of occupied old houses until when new houses are completed.

It is therefore paramount that this project is implemented quickly in order to cash on the current trend created and the normal demand of quality commercial complexes.

This project aims at catering for the requirement of the upper income group, a major portion or about 90% of which would come from the foreign population working in embassies, United Nations Organizations, Multinational Corporation representatives, employees in externally financed development projects, chief executives and technical advisors of the foreign companies investing in Tanzania, as well as tourists. According to the recent report by the Tanzania Investment Centre (TIC), the Centre has approved projects of which about 75% are based in Dar es Salaam. These projects covering various sectors of the economy will definitely create additional demand for quality residential houses adding to already existing shortage. According to Consultants discussion with the National Housing Corporation who is the major landlord in Tanzania, it was discovered that since the inception of the Corporation, which is now merged with the Registrar of Buildings, no quality residential houses for upper income group have been built as it was thought to be luxury and not a necessity.

It can be observed that most of the Multinational Organizations doing business in Tanzania are having their offices in the neighboring country of Kenya, neither because they want to operate from there, nor is it cheaper or secure to them but due to lack of suitable and quality accommodation to house their executives and technical personnel families among others.

### **3.0. INVESTMENT COSTS**

#### **3.1. Basis of Calculations:**

In arriving at the total estimated cost of the project of 20,000,000,000/= the quantity surveyor's estimates based on architects' preliminary designs, the cost of acquisition of Plots, and quotations for equipment have been taken into consideration.

#### **3.2. Capital Investment:**

On the basis of construction costs provided by the quantity surveyors and the project designers (architects) total capital outlay for the completion of the estimate complex including the cost of the Plots is estimated at 20,000,000,000/= broken down as follows:

The total investment cost of the project is estimated at about 20,000,000,000/= broken down as follows:

**Capital Investment Cost:**

S/NO	ITEM	TSH
	<b>I: Fixed Assets:</b>	
1.	Land and Building	10,000,000,000
2.	Vehicles	1,000,000,000
3.	Furniture and Fittings	5,000,000,000
4.	Pre expenses	1,000,000,000
5.	Others	1,500,000,000
6.	Working Capital	1,500,000,000
	<b>TOTAL PROJECT COST</b>	<b>20,000,000,000/=</b>

**3.3. Project Financing:**

It is planned to finance the above capital costs from own fund 5,000,000,000/= and Local Commercial Bank 15,000,000,000/=

Based on construction cash flow projections provided by the project consultants, about 60% of the funds for acquisition of Plots and civil works would be utilized during the first year, 40% in the second year of the project implementation.

45% of the budgeted funds for the project will be in foreign exchange.

The following items have been listed for importation:

1. Sanitary, plumbing and fittings  
Electrical fittings
- 2.0. Aluminium doors and windows
- 3.0. Roofing tiles
- 4.0. Kitchen cabinets and equipment
- 5.0. Stand-by Power Generator
- 6.0. Security equipment and lighting
- 7.0. Air conditions.

## **4.0. THE PROJECT**

### **4.1. Project Description**

The promoters plan to develop this project modern commercial one fully furnished and equipped rentable facilities. A complex will consist of all facilities necessary to let all will be equipped with DSTV, Startimes, Cstv cables with more than 368 channels.

### **4.3 Design Requirements**

There is growing competition in apartments, shopping arcades and high quality and excellent commercial complex sector in DAR ES SALAAM will be applied especially after the liberalization of the economy. The commercial project to be realized should therefore take into consideration all amenities befitting the sector in order to attract the right customers. Therefore, the architects and engineers have been careful in the following during design and preparations of the project:

- (a) Since the Plots, although prime is of moderate size, the architects have the maximum usage of the area, i.e. each centimeter of the available land has been accounted for, of course without compromising the government design regulations or limits
- (b) All vital and important amenities for the provision of comfort for occupants have been included.
- (c) The project will have enough car parking space for each unit and will provide social facilities including internal roads, storm water drainage, waste water system, fire hydrants installations, security lights, reserve water tank and a standby generator.

## 5. PROJECT IMPLEMENTATION SCHEDULE

Considering that building materials are now readily available in the country and those to be imported are financed by foreign exchange component which is available from the resources of shareholders and which will be firmed up before construction starts, it is expected that the project will be completed within 2 years.

ACTIVITY	Year I	Year II
<b>Construction of the commercial complexes</b>	•	
1. Funds Mobilization	•	
2. TIC approval for certificate of incentives	•	
1.0. Legal Documentation	•	
2.0. Civil Works & Installations	•	
3.0. Cleaning and furnishing ready of letting	•	•
<b>Shopping Mall</b>		

## 6. ESTATE MANAGEMENT AND STAFF

Although **NAKUROI INVESTMEN COMPANY LIMITED** will own the project complex for letting, it is intended to hire a competent real estate manager company to run and manage the property on the day to day basis.

The real estate managers will be responsible for the preparation of annual budgets, letting maintenance, cleanliness, preparation of annual accounts, debt collection, submission of statutory payments and returns, marketing, liaising with government authorities and performing other day –to day management functions.

The Management of **NAKUROI COMPANY LIMITED** will oversee Policy issues which will be the responsibility of EAL Board of Directors headed by a Chairman.

## 7. FINANCIAL ANALYSIS

Financial evaluation of the project has been based on the following assumptions:

- (a) Units available :60-130 shopping arcades,
- (b) Rent per month per unit US\$ 400-800
- (c) Rent per annum per unit US\$ 4800.00-9,600.00
- (d) Rent per annum for 60 units US\$ 216,000.00

- (e) Services charges 10% of total rental income
- (f) Cap Municipal utilization is assumed at 75% in the first year, 80% in the second and 90% in the third and subsequent years. Income has therefore been calculated as follows:

**7.1. Projected Revenue**

YEAR	Year 1	Year 2	Year 3	Year 4 to 10
Units available per month	0	24	24	24
Units available per annum	12	20	20	20
Cap Municipal utilization	75%	80%	90%	90%
Units rented	9	38	65	65
Rent per month (US\$)	3000	3000	3000	3000
<b>TOTAL RENT</b>	<b>27,000</b>	<b>114,000</b>	<b>195,000</b>	<b>195,000</b>
Add: 10% service charge	2,700	11,400	19,500	19,500
<b>TOTAL INCOME</b>	<b>29,700</b>	<b>125,400</b>	<b>214,500</b>	<b>214,500</b>

**7.2. Project Operating Costs**

7.2.1. Estate Expenses:

Estate expenses have been based on the current open market prices and costs, and summarized as follows:

(US\$)

COST	PER ANNUM			
	Year1	Year2	Year 3	Year 4 to 10
Repair and maintenance 1% of civil works cost	675	2700	4725	4725
Insurance 0.15% of project cost	338	1350	2362	2362
Spare parts for equipment 2.5% of cost	Jangwani Beach Area	675	1181	1181
Land Rent/Site Rate	500	500	500	500
Property tax 0.15% of building cost	101	405	708	708
Licenses and Legal Fees	500	500	500	500

Fumigation and cleaning	300	600	900	900
Transport and motor running expenses	1250	1250	1250	1250
General Expenses	2600	3800	6200	6200
<b>TOTAL ESTATE EXPENSES</b>	<b>6431</b>	<b>11780</b>	<b>18326</b>	<b>18326</b>

#### 7.2.2. Administrative Expenses:

Administrative costs have been estimated at 5% of the total annual rental income to cover the cost of postage, telephone, water electric and other administrative expenses and worked out as follows:

(US\$)

YEAR	1	2	3	4
Total rental income	0	114 000	195 000	195 000
Administrative costs- Rate 5%	1 350	5 700	9 750	9 750

#### 7.2.3 Management Fees:

Management fees has been estimated at 8% of the gross rental income and worked out as follows:

(USD)

YEAR	1	2	3	4
Total rental income	27 000	114 000	195 000	195 000
Management fees- Rate 8%	2 160	9 120	15 600	15 600
<b>TOTAL AMOUNT</b>				

### 7.2.3. DEPRECIATION:

Depreciation has been calculated on a straight – line basis and differs from one year to another. The following calculations are based on year 3 at the end of project construction period:

(US\$)

<b>COST ITEM</b>	<b>Investment Cost</b>	<b>Scrap Value</b>	<b>Depreciation Rate</b>	<b>Amount of Depreciation</b>
Land and Buildings	2,980,000	80%	4%	5 300
Plant and equipment	182,000	35%	12.5%	3 840
Motor Vehicles	220,000	20%	25%	5 000
Furniture and fittings	318,000	15%	12.5%	3 214
Pre-Operational expenses	35,000	0%	20%	5 000
Others	25,000			
<b>TOTAL AMOUNT</b>	<b>3,760,000</b>			<b>22 354</b>

### WORKING CAPITAL

The working capital has been worked out bearing in mind the specific conditions prevailing in the real estate industry as summarized hereunder:

#### **Current Assets**

Stocks (spare parts) 6 months  
Debtors – 1 month

#### **Current Liabilities**

Management fees (1 month)  
Utilities (1 Month)

### 7.3. Projected Profit and Loss Statement

Projected Profit and Loss statements are presented an Appendix in this report. The various assumptions underlying the projected performance have been discussed above and on the basis of these assumptions the project is expected to make a modest profit right from the first year of its operation's. An after tax profit of US\$ 179 050 will be realized in the first year, rising to US\$1, 682,590 by the tenth year of operation

#### **7.4. Project Cash Flows:**

The projected cash flows of the project are also presented in the Appendix.

#### **7.5 Projected Balance Sheet**

The Appendix summarizes the project Balance Sheets over the ten-year period. From the balance sheet it will be observed that throughout the period the current liabilities will be more than adequately be covered by the net fixed assets.

#### **7.5. Discounted Cash flows**

The calculations of the Internal Rate of Return (IRR) shown in the Appendix shows an after tax IRR of 20.65% which is above the cost of borrowing and also considered to be acceptable in the infrastructure and real estate industry.

#### **7.6. The Payback Period**

The payback period of the initial investment of US\$ 3,920, 000 is about 7 years at the discounting rate of 4%.

#### **7.7. Risk Factors**

Like any other projects, this estate project has risk factors. One such risk factor could be competition. As the country continues to liberalize its economy more investments will take place in the real estate sector. More supply of real estate facilities will tend to lower the demand for residential accommodation. However, market saturation will take place over a longer time since as explained in section 2.0 demands right now is fairly high and it will take time before it is satisfied. The other unlikely factor is gradually improving its quality of governance. It is therefore hoped that peace will be sustained indefinitely.

### **CONCLUSION**

Given the above explanations and arguments, it is clear that the project is in time and the proposed modern Commercial complex will just be a drop in the ocean compared to the current demand

It is therefore recommended that the project take off as planned and designed. It is paramount that quality finishing and materials must be used and all architects, engineers and designer's instructions have to be carried out as specified in order to achieve the international standard acceptable to the market being aimed at: