

From: Camia Young camia@ohu.nz 
Subject: Feedback now | Deciding the path ahead for Collett's Corner, together
Date: 26 May 2021 at 9:21 AM
To: Collett's Corner info@collettscorner.nz

CY



Shareholder Vote



Kia ora,

We are writing to you as a shareholder in Collett's Corner. We are at a fork in the road, and we would like your participation to inform a critical decision for the project.

Major headwinds have caused us to rethink the project and whether we can deliver it as planned. We have recently learned about increased risks to the project due to changes in the lending landscape, higher construction costs and slow apartment sales. In keeping with our kaupapa of transparency and co-creation, we want to get your feedback on how we proceed. We have a small window to halt the project now, or continue on in light of the increased risks. The options are:

- Continue the project, proceed knowing the risks and continue to do everything we can to see Collett's Corner built, or
- Wrap up the project now given the increased risks and return as much capital as possible to shareholders.

Please digest the important information below before voting. We appreciate this is short notice but we are at a critical point in the development process. This is not a binding vote but we feel your feedback is important.

Vote here

Voting closes Wednesday June 2nd 12:00pm

The causes for the unexpected changes

There are a number of issues that have brought us to this critical point:

1. The costs of the project have increased by approximately \$1m.
2. The banks' lending appetite has reduced, with higher equity requirements and more onerous lending terms.
3. We have only sold 8 apartments, which is well short of the 15 we previously needed to access funding (75% of apartments pre-sold), noting this requirement from the banks is now for 100% of pre-sales to be completed.
4. There is also increased uncertainty in this COVID-19 environment, particularly in the materials supply chain, which is leading to more conservative decision making across all areas.

These issues create a higher level of risk for the project and it is appropriate that we consider whether it is sensible to continue. notwithstanding all the work. efforts and investment to date.

Dealing with the issues

The challenges we face are all high risk issues. They are not impossible to address but they are challenging to overcome. In order to build Collett's Corner we have four major obstacles to overcome:

1. Securing a bank loan: the banks appetite to provide a loan is lower than we anticipated due to our increased costs as well as the recent changes in lending conditions, this seems to be across all banks. What we can do to address this is:
 - o Introduce more equity, this would reduce investor returns down to possibly 2.5% (for equity crowdfunding investors 2020, higher proportionally for earlier investors). The amount of equity would depend on how much banks required but could be another \$1-2m.
 - o Seek wholesale lenders, this would be restricted to people with a high net worth. The reason being is we have to abide by financial restrictions and cannot seek investment or lending otherwise.
 - o Bring on an experienced Development Manager familiar to the bank. Banks trust people they have a prior relationship and track record with. We could reach out to existing developers with a track record and ask if they would sit on our board and be willing to assist us with brokering a loan.
 - o Consider selling the commercial floors, this is an option suggested by the banks as it would increase the amount banks would lend. The consequence to investors is that you would likely receive your investment back if we found a purchaser, but you would not receive a return over and above your investment. This would be contingent on finding a buyer for the two commercial floors in advance of construction.
2. Pre-sell the apartments: The banks expect 100% pre-sales of apartments. We have sold 8 out of 20 apartments so far. What we can do to address this is:
 - o Delay construction, if the apartments are not sold by August we can delay the start of construction to begin in February 2022 (instead of August 2021). This would give us more time to find purchasers. The latest we could sell all of the apartments by is November 2021. If we do not make that deadline, we may have to wrap up the project because the sale and purchase agreements would no longer be valid. This is due to the sunset clause in those current agreements expiring.
 - o Rally our crowd to help us find purchasers, explain to you, our shareholders, and the existing people that have expressed an interest in the apartments that we have to sell all of the apartments or we do not build the building. I have heard a number of people say they are thinking about purchasing, I think we need to set a hard deadline so that we know if we can proceed or not. If we set November 2021, then we can still meet our purchaser commitments and this gives us time to sell the remaining 12 apartments.
3. Guarantee for Ūkaipō: Banks will not provide an operational loan without having a guarantor for Ūkaipō because they do not have a prior trading history and are a startup. Ūkaipō needs to find someone that is willing to guarantee the first few years of their lease. The average lease cost per year is \$325,000. The guarantor needs to be in place in case Ūkaipō cannot pay their rent for whatever reason. The operational loan is vital because, due to our increased building costs, the apartment sales won't be enough to repay the full amount of the construction loan.
 - o Ūkaipō have until the end of July to find a guarantor, we are supporting them in every way we can to help them find someone who believes in their business and can afford to back them.
 - o Sell the commercial floors, if we find an aligned purchaser then we would not need an operational loan because the full construction loan would be repaid upon completion. It is also likely the full amount of equity could be repaid from the sale. This is contingent on finding a willing purchaser who would back Ūkaipō to be their tenant.
 - o Seek another tenant, if Ūkaipō are unable to find a guarantor, we may have to find another tenant for the building that has a prior trading history. This would be a last resort.
4. Material supply chains, due to COVID-19 the international supply chains have been disrupted and access to building materials has been affected. We risk not being able to obtain the materials we have specified. What we are doing about this is:
 - o Specify available materials, we are reviewing all of the material we currently have specified and assessing their availability, if they are unavailable we will specify alternative materials that are available.

- o Order materials early, if necessary we will order materials earlier than we require them and store them to prevent construction delays.

Please vote

We are asking you to vote between:

1. Continuing the project, I support you to continue the project, and I am willing to risk losing more of my investment in the hope the team can overcome the above challenges and deliver the project as planned. (If we get to the point where not enough progress has been made to address the above risks, and have to wrap up the project towards the end of the year, we forecast that an estimated 50% of your investment is likely to be repaid to you).
2. Wrapping up the project now, I don't believe the risks we now face are ones that we can overcome. They are too high and I would prefer to take a small loss then risk my investment further. (An estimated 75% of your investment is likely to be repaid to you).

A few things to know when you cast your vote:

- If we wrap up the project now shareholders would receive an estimated 75% of their investment.
- If the project were to wrap up after we obtained the building consent because apartments did not sell or because banks were still unwilling to lend to Collett's Corner, investors would receive an estimated 50% of their return.
- The amount we can return to investors is based on how much we can sell the land for and how much cash we have in the bank at the point of closing the project.
- The estimated investor returns are based on me forgiving the loan I have given to Collett's Corner and all shares I own and Ohu Development owns. This is valued at \$932,900.
- We will weigh each shareholder's vote based on the number of shares you own.
- This is a non-binding vote, we will use your feedback to ensure we are making an informed decision based on shareholder's input.

Vote here

Voting closes Wednesday June 2nd 12:00pm

This is our timeline to make this decision

We are asking shareholders to [vote by 12:00 Wednesday June 2nd](#). We aim to circulate an outcome of the vote to all shareholders within 24 hours.

I understand some people may want to ask questions and discuss what has been shared. I will host a Q&A on [Sunday May 30th at 5pm](#), please join me [on zoom here](#) I'm also available via email or by phone if you would prefer to speak to me privately.

This is a newsletter for shareholders only, we will circulate a stakeholder announcement in June once we have a decision on the best pathway forward.

Ngi mahi ano,

Camia Young

Director
021 1125 087
collettscorner.nz

