



# DUNAS BEACH RESORT

SAL ISLAND - CAPE VERDE

Dunas Beach Resort – Sal Island – Cape Verde

## Executive Investment Summary



## Key Features & Benefits

First European 5-Star rated operation on Sal Island

Fully managed hotel operator rental scheme

Beach Front Location

Easy Access – regular flights from UK

High Levels of Occupancy

50/50 Net room-rate share

Anticipated income yields 9% plus

Highly competitive market prices

Up to 15% further discount (Option 3 only)

Fixed €1.35 - £1.00 exchange rate on first deposit

Fully Furnished to Hotel Excellence Standard (Option 2 and 3 only)

Fully Air Conditioned

Free Legal Services

6% 'non-returnable' interest paid on cash deriving from savings or investment vehicles (Option 1 and 2 only. Non-SIPP sales).

Fully SIPP compliant

# About Cape Verde Islands

The Cape Verde islands have a unique vibe that is somewhere between African, European and Brazilian.”  
(David Whitely, AOL.co.uk)

The island of Sal is the most popular and developed of the Cape Verde archipelago. Regular flights from the UK and Europe have made this island one of the world’s fastest growing tourist destinations, accounting for 69% of Cape Verde’s rental market.

*“Cape Verde has leapt into the top ten of world locations... property developers are now hot on its heels.”  
(The Independent, 2008)*

Just over 5 hours from the UK takes you to an island with crystal clear seas, endless white beaches, adventurous water-sports and idyllic settings.

The government is investing heavily in Sal to ensure it is a world class tourist destination; it has the most advanced infrastructure & communications of all the surrounding islands. The carefully planned and controlled developments will ensure the island retains its natural charm, whilst delivering high class facilities.

*Foreign Direct Investment increased by 46% in 2008 and is expected to continue to rapidly increase in 2009. (Cape Verde Investment Agency, January 2009)*

At present the growth in demand from tourists far outstrips the supply of rooms within hotels and this is why Dunas Beach Resort & Spa makes such a good investment choice.

## Why Invest?

The Cape Verde government has set the development of its tourism sector as its key priority. Though tiny in area, the islands attract visitors with the year-round good weather, which is kept to a manageable temperature in the height of summer by cooling Atlantic breezes.

According to the government’s tourism department, the numbers of tourist arrivals are increasing at an annual rate of 22% and projections suggest that by 2015, around one million tourists will be visiting the islands every year (National Statistics Institute, 2008).

Property prices are still being pushed forward as demand far outstrips supply. Premium projects will command a higher return; therefore capital investors should feel confident in their decision.

Research by Savills shows that the island’s average occupancy is around 80%. The only established “branded” hotel (RIU Group) is a European 4\* chain and has experienced an average occupancy rate over 90% for the past three years. The base rack rate at this hotel in 2008 for a standard 38m2 room was €130 per night.

Dunas Beach Resort & Spa will attract premium room-rates and will represent (along with its sister resort – Tortuga Beach Resort & Spa) the very first European 5\* Resort facility managed by a reputable international Hotel Operator. The 50/50 net room rate share will be extremely attractive for long-term income investors.

The Resort Group has agreed heads of terms with a leading internationally recognised hotel operator carrying a total inventory of over 80,000 hotel rooms across 30 countries

and who achieve an average 'global' occupancy rate of around 80% for this type of resort. It's European client base and recognised brand makes it an ideal partner for this development.

## Due Diligence

Construction finance has been agreed and notarised with BANIF Bank for Tortuga beach Resort and Spa. Dunas Beach Resort is unencumbered and all titles are freehold under Cape Verdean law.

- Planning and construction licenses have been issued.
- Environmental Impact Study Reports have received approval.
- A construction contractor has been appointed and works are already ahead of schedule on Tortuga Beach Resort & Spa.
- Construction works on Dunas Beach Resort begins October 2009

(A full due diligence pack containing all licenses and permits can be provided upon request).

## The Developer - Financial Status

The Resort Group's financial model is based on securing a high level of pre-sales before commencing construction, placing them in a cash-flow positive position throughout the entire construction cycle, removing an over reliance for 3<sup>rd</sup> party financial assistance.

As at October 2009, The Resort Group has procured in excess of 900 property sales from a total inventory of 1,195 units. This places the developer in a cash flow positive position, irrespective of future sales performance.

The developer's cash flow assumes a 'sell-out' of the remaining properties on Dunas Beach Resort by the end of 2010. Based on their current average monthly performance the physical 'sell-out' will be realized by end of April 2010. At the lowest cash flow ebb during the height of construction the developer is showing a cash-flow in excess of €10,000,000 (positive).

Put into perspective, most development companies with projects the size and stature of Dunas and Tortuga Beach Resorts will typically manage a negative cash flow position of €60,000,000 during the height of the construction cycle.

The developer's business model is very risk averse, phasing of the completions is structured in such a way that cash flow is maximized in order to ensure a constant stream of funding is available for later phases.

The Resort Group PLC has also secured commercial funding of €9,000,000 through BANIF Bank's holding company in the Cayman Islands (approved and notarised in Sept 08).

A 'Savills' Red Book Valuation confirms a 'bare land value' of €46 million for Dunas Beach Resort (underwritten). This bare land value does not take into consideration the fact the resort is more than 70% sold out and fully contracted to clients. The promissory contract gives clients further security, in addition to what is demonstrated above.

Succession planning is already underway. The Resort Group has acquired a 3<sup>rd</sup> plot of land measuring 78,500m<sup>2</sup> – situated between their two live projects.

Master planning and construction licenses will be finalised and secured before the release of this 3<sup>rd</sup> resort, although in keeping with The Resort Group's finance policy to 'never spread themselves too thinly' the trigger for release will be determined only when the vast majority of properties on Dunas Beach Resort are sold.

This is expected to be approx March 2010.

## Mortgages

Completion mortgages will be made available through a number of leading Portuguese Banks (Subject to Status). The Resort Group Plc already works closely with BANIF Bank, one of the largest banks in Portugal.

These lenders will typically lend between 50% - 70% loan to value, subject to status.

Re: SIPP's

Current SIPP legislation permits borrowing of up to 50% of the net assets of the SIPP fund.

SIPP legislation states that the lending criteria is based on 'serviceability' which in the case of Dunas Beach Resort, the resort will be 'serviced' by an international hotel operator rental scheme.

## What is a SIPP?

You can now use your pension fund/s to invest in an overseas property using a SIPP. A Self Invested Personal Pension, known as a SIPP, is a personal pension for which the person investing for retirement has a greater control and choice where their pension fund is invested and the likely returns that can be generated.

Traditionally, conventional money purchase schemes are managed by a pension fund manager who may invest in potentially volatile stocks and shares, allowing you limited or no control or influence on how your money is invested or its performance.

With their wide investment choice SIPPs allow investors to study for themselves the best investments, while benefiting from the generous tax relief offered by conventional pension plans. If an investor already has a SIPP, or once the SIPP has been set up, the investor selects the investment they wish the SIPP Trustees to invest in.

It is also possible to increase the amount of funds available in a SIPP by borrowing up to a further 50% of the net assets held within the fund. For example; if a SIPP has net assets of £200,000, SIPP legislation permits up to £100,000 can be borrowed and re-invested in other SIPP compliant products.

An investor using a SIPP can make further contributions ongoing into their fund and is entitled to full tax relief between 20% - 40% (depending upon the tax bracket and annual earning of the investor).

For example, if the client earns £50,000 and the 40% tax threshold starts at £42,000, then a gross contribution of £8,000 will benefit from the full 40% tax relief.

A net contribution of £8,000 is automatically grossed up to £10,000 (20% basic rate tax relief) and the extra 20% (£2,000) can be reclaimed via your end of year tax return. Therefore, on this example a total investment of £10,000 would only actually cost £6,000.

Any contributions up to £42,000 (in this example) will benefit from 20% tax relief, grossed up immediately upon entry into the SIPP.

Tax relief is applied to gross contributions that do not exceed the client's annual income in the tax year the contribution is made. So, if for example a client earns £20,000 and pays in £30,000 into a SIPP, tax relief at 20% will be applied to £20,000.

Consequently, astute investors have flocked to open a SIPP: leading them to grow from being a relatively niche - largely the preserve of wealthy individuals - to bordering on becoming a mainstream way to save for retirement for those who are happier making their own investment decisions.

Any type of pension can be transferred into a SIPP, for instance many people have several 'frozen' pensions from previous employment or businesses and/or personal pensions that they can transfer into a SIPP. This is a complex area and it does need professional advice.

## Dunas Beach Resort – SIPP compliant

Dunas Beach Resort has passed through the compliance process of the largest independent provider of Self Invested Pensions in the UK, Rowanmoor Pensions.

The Rowanmoor Pension SIPP product was awarded the prestigious Defaqto Five-Star rating for 2009. Defaqto is widely recognized as the leading independent provider of financial services research in the industry.

Rowanmoor are directly authorised and regulated by the Financial Services Authority.

A SIPP is a fully FSA regulated product and as such a full independent pension review is carried out to ensure you make the right investment choice.

## Purchase Packages – SIPP Buyers

There are three possible ways in which you can invest through a SIPP.

SIPP Option 1 – 45% Deposit

45% Deposit – payable on contract  
€1.35 - £1.00 fixed exchange rate on full deposit \*  
Free air-conditioning  
Free Legal Services  
Free Hotel Excellence Furniture

55% on completion – At the normal daily spot €/£ rate

\* The fixed exchange rate on offer can vary from month-to-month.

SIPP Option 2 – 65% Deposit

65% Deposit – payable on contract (€1.35 - £1.00 fixed exchange rate on 45% of the deposit, 20% at the normal spot €/£ rate)\*

Free air-conditioning

Free Legal Services

Free Hotel Excellence Furniture

5% Written off as discount

30% on completion – At the normal daily spot €/£ rate

\* The fixed exchange rate on offer can vary from month-to-month.

SIPP Option 3 – 85% Deposit

85% Deposit – payable on contract (€1.35 - £1.00 fixed exchange rate on 45% of the deposit, 40% at the normal spot €/£ rate)\*

15% balance written off as discount

Free air-conditioning

Free Legal Services

Free Hotel Excellence Furniture

\* The fixed exchange rate on offer can vary from month-to-month.

## Purchase Packages – Cash Buyers

There are three possible ways in which you can invest.

Option 1 – 35% Deposit

35% Deposit – payable on contract

€1.35 - £1.00 fixed exchange rate on full deposit \*

Free air-conditioning

Free Legal Services

50% Discount on the Hotel Excellence Furniture

65% on completion – At the normal daily spot €/£ rate

6% 'non-returnable' interest will be paid on cash deriving from savings or investment vehicles.

\* The fixed exchange rate on offer can vary from month-to-month.

Option 2 – 45% Deposit

45% Deposit – payable on contract

€1.35 - £1.00 fixed exchange rate on full deposit \*

Free air-conditioning

Free Legal Services

Free Hotel Excellence Furniture

55% on completion – At the normal daily spot €/£ rate

6% 'non-returnable' interest will be paid on cash deriving from savings or investment vehicles

\* The fixed exchange rate on offer can vary from month-to-month.

### Option 3 – 85% Stage Payments

45% Deposit – payable on contract

20% Stage Payment – 6 months later

20% Stage Payment – 12 months later

15% balance written off as discount

€1.35 - £1.00 fixed exchange rate 1<sup>st</sup> 45% deposit \*

Remaining two stage payments at daily spot €/£ rate.

Free air-conditioning

Free Legal Services

Free Hotel Excellence Furniture

\* The fixed exchange rate on offer can vary from month-to-month.

## Pooled Rental Scheme

The precise rental system will be announced after the finalization of the full operator agreement although the most likely 'mechanic' under discussion is for a total 'pooled' resort system. 50% of all monies generated from rentals will be distributed to all rental members proportionately based on property size, type and price, after the deduction of operational overheads such as cleaning, consumables, utility supply, community fee, furniture maintenance etc.

In summary, a totally managed rental scheme will be provided.

## Rental Returns

A reputable international hotel operator will be operating the resort after completion although The Resort Group PLC (TRG) will retain ownership of the commercial assets, maintaining a long-term invested interest in the success of the Resort.

The delivery of TRG's resorts will represent the very first European 5-Star resorts on Sal Island. The most prominent hotel currently is the RIU Funana/Garopa (Spanish Operator) which is certified as a European 4-Star hotel. This hotel is currently generating an annual occupancy rate in excess of 90%, while the on-island average is 80%.

Despite these on-island averages, TRG's marketing literature promotes a conservative occupancy rate of 68% for the apartments and villas. This is despite the fact Dunas Beach Resort will represent the highest rated resort on the island, once completed.

The example below is based on a typical 2-Bed Apartment.

The daily rack rate projection below is pitched only €40 more per night versus a basic 38m2 standard room at the RIU hotel. Put into perspective, a two-bed apartment measures in excess of 80m2 (110% larger), with an additional bedroom, additional bathroom, separate kitchen, lounge, dining area and private outside terrace space. Comfortably accommodating a party of four.

The developer believes this projection to be very conservative versus the RIU's basic rack-rate for a 38m2 standard room.

Ownership of the units will be completely freehold.

Cash-buyers opting into the rental scheme will be granted 5 weeks personal free use per annum.

SIPP legislation does not permit any private use for investors. SIPP investments are strictly 'commercial' transactions and as such the asset (property) must remain in the hotel rental scheme at all times.

#### RENTAL PROJECTION – Two-Bed Apartment (68% Occupancy)

Example Price : €180,000

Daily room rate : €170

Occupancy rate : 68% (248 days)

Gross annual income : €42,160

#### Annual Expenses

Operator Fee's (50%) : €21,080

Community fees : €1,560 (based on €30 p/w)

Water/Electrical : €1,560 (based on €30 p/w)

Annual Property Tax : €1,350  
(3% of 25% of attributed value)

Total Outgoings : €25,550

Gross Profit : €16,610

Projected yield (%) : 9.2%

# Capital Growth Prediction

## Growth indicators

Despite the global economic downturn, Cape Verde's economy has been in growth since the late 1990's. Foreign investment has been a key driver of this growth, rising from just US\$100,000 little over 7 years ago, to US\$1.2 billion in 2008.

In August 2007, the World Bank announced an investment package worth US\$237.9 Million for a variety of projects, including energy, water, infrastructure and tourism.

## Other growth factors;

- Politically stable since its independent status in the 1970's.
- Land values steadily increasing for the past 5 years.
- Touristic figures increased by 107% over past 5 years.
- Increasing international access routes from Europe and America.
- Touristic demand outstripping supply for quality accommodation.
- Globally recognized hoteliers and established tour operators now collaborating with developers – maximizing occupancy rates
- Superior build Resorts – Including branded fixtures and fittings / extensive on site facilities
- Strict environmental controls in place – low density, low-rise projects only.
- Premium beach-front land carrying only touristic planning permissions.

## Verdict:

The above contributory factors are set to underpin substantial capital value returns for the medium – long term.