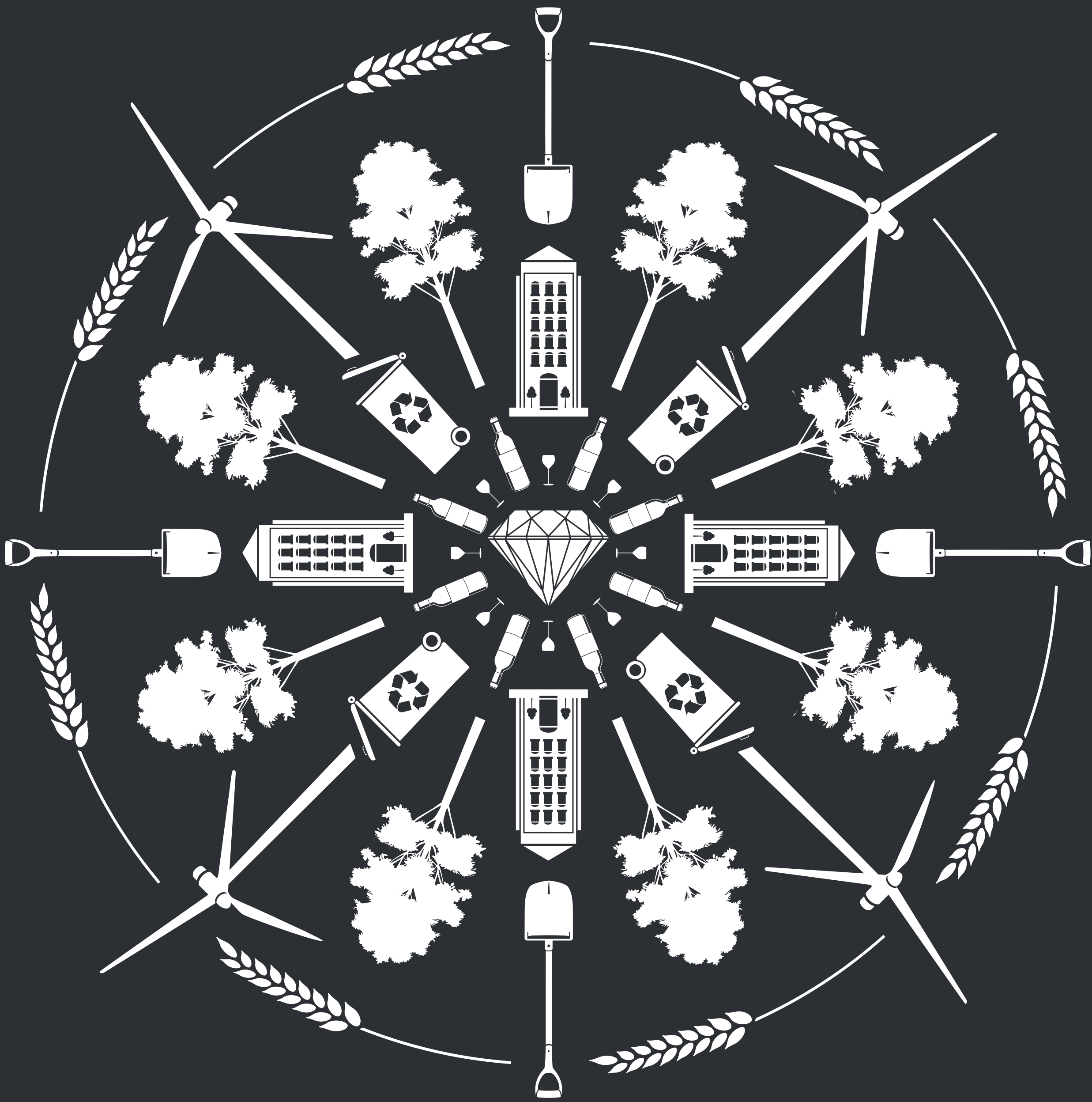
AiR

ALTERNATIVE INVESTMENT REPORT



HOTEL AND RESORT PROPERTY – 2013

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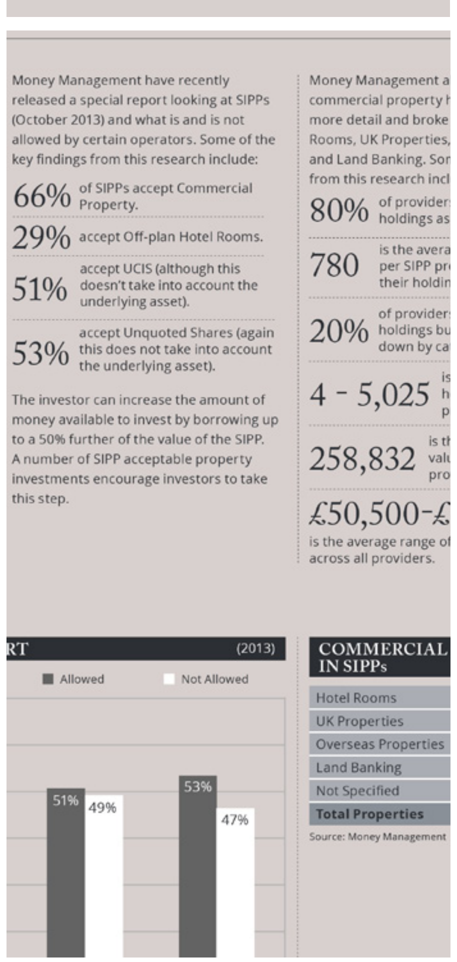

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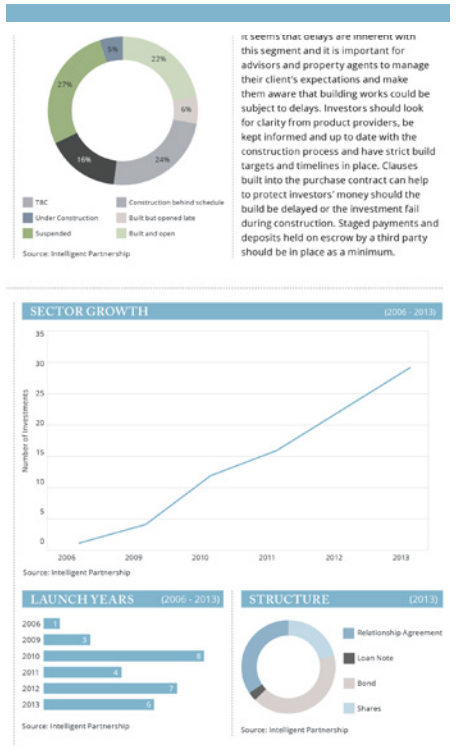

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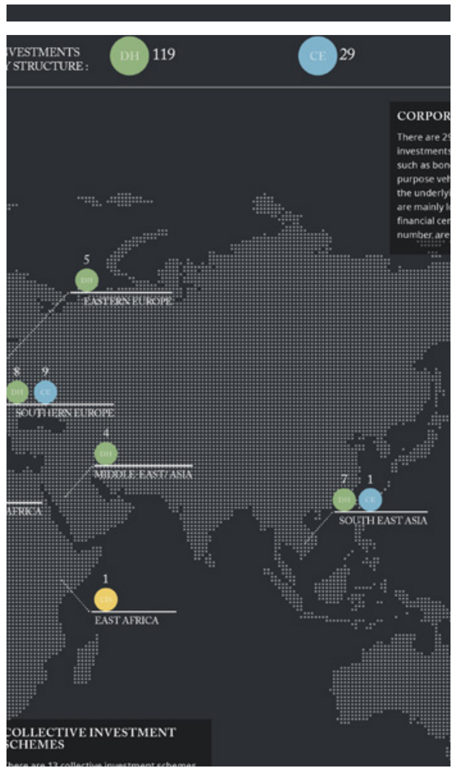
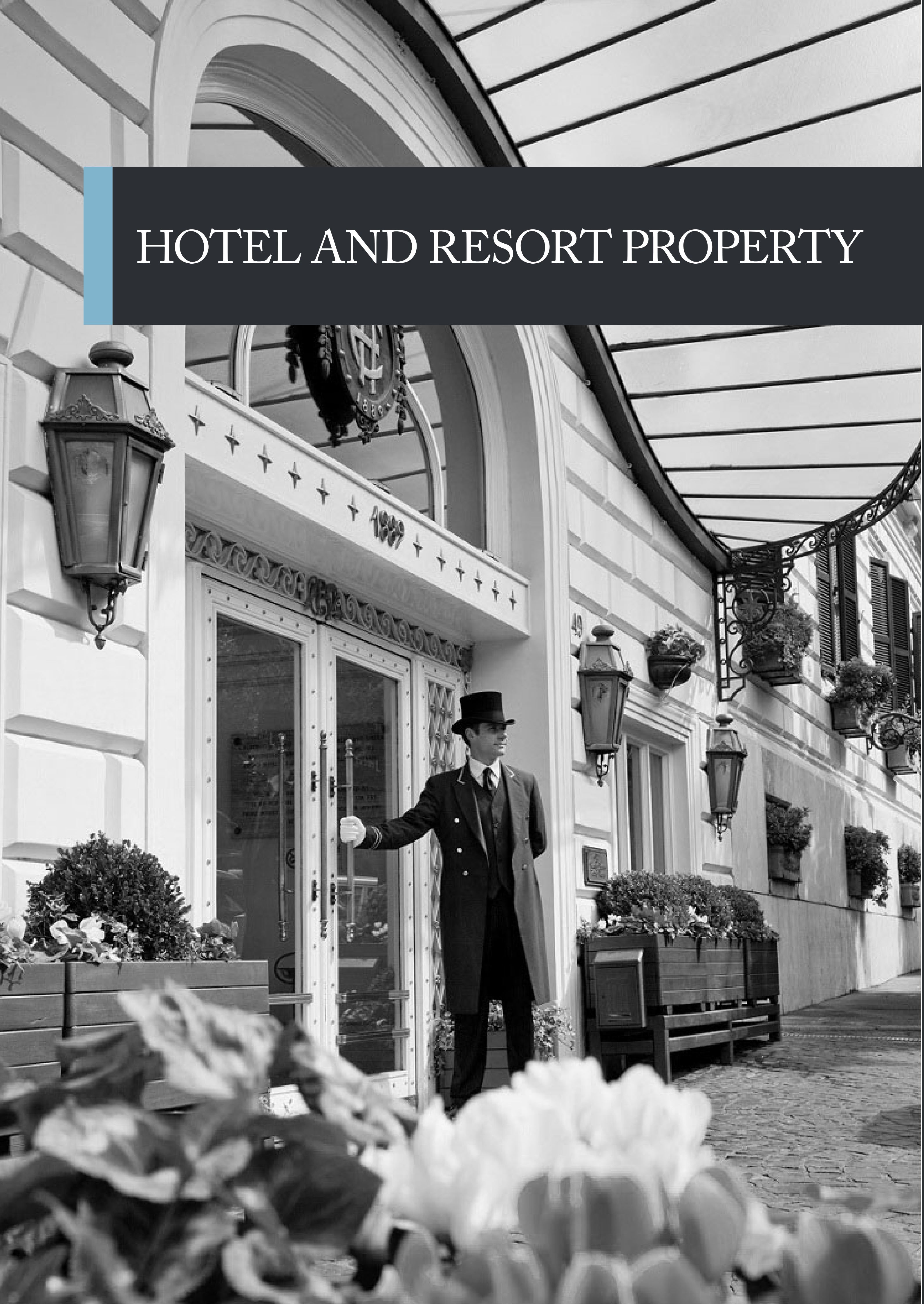


AiR

ALTERNATIVE INVESTMENT REPORT

Intelligent Partnership are committed to the very highest professional standards as embodied by the trade associations we are members of; the Enterprise Investment Scheme Association, the Association of International Property Professionals, the Association of Member-Directed Pension Schemes, the Chartered Insurance Institute(CII) and the Institute of Financial Planning(IFP).

The AiR series of reports has been accredited by both the CII and IFP for CPD purposes. Readers of these reports can claim CPD for each hour spent studying the material; to claim CPD and provide feedback please visit **www.AiReport.co.uk**



HOTEL AND RESORT PROPERTY

INTRODUCTION

The hotel and resort property sector includes such a range of opportunities, locations, investment structures and risk/return profiles that while many property investments do indeed qualify as mainstream, hotel and resort property should still be considered "alternative".

This sector has seen its fair share of failures which have resulted in intense scrutiny and tighter controls from the regulator over the last year. It has also fallen in and out of favour with investors, but there is now a large amount of optimism as to what the future may hold for the sector.

SCOPE

We will be looking at investment opportunities into off-plan, new build or recently refurbished properties that intend to run a business providing guest accommodation. We'll nod to the mainstream opportunities for investors to gain exposure to this sector so that readers can make meaningful whole of market judgments, but our intention is to focus on non-regulated, direct investments and lightly regulated UCIS schemes as these form the bulk of retail investment opportunities and are less well covered by the analyst community.

WHO SHOULD READ THIS REPORT?

The report is aimed at advisors, intermediaries, sophisticated investors, SIPP operators, product providers, developers and other market practitioners who have an interest in the sector.

The intention is to capture the current state of play: the drivers that are shaping the sector; the opportunities that are out there; changes in regulation; pitfalls to avoid and how to invest sensibly. We'll shed some light on what's been happening and help readers make informed decisions about their involvement in this sector.

THE INVESTMENT REGISTER

As with all of the reports in the AiR series, we've also included a comprehensive investment register. We believe this is currently the only place where you can see all of the direct, non-regulated, non-mainstream pooled investments (NMPI) and collective investment schemes in the hotel and resort sector gathered together in one place, allowing readers to conduct whole of market research.

The investment register includes 119 directly held property investments, 29 investments with a corporate element and 13 collective investment schemes.

We've carried out our own analysis of the findings that can be drawn from this register and we've also surveyed some of the biggest product providers, allowing us to extract some meaningful trends that just might point towards the future for hotel and resort property as an investment sector.

INVESTMENT CASE

THE ROLE WITHIN A PORTFOLIO

DIVERSIFICATION

Obviously the success of a hotel or resort property is dependent upon high occupancy – getting enough guests to stay. A particular property achieving high levels of occupancy can be something that is entirely divorced from the wider economy or the mainstream markets.

If investors can find these sorts of properties, they can provide returns that are uncorrelated from the rest of a more mainstream investment portfolio, providing diversification benefits and reducing overall portfolio volatility.

Properties that can fulfill this objective should not be high risk investments. An established property with proven levels of occupancy in a stable location might have a lower yield than other opportunities, but will hopefully provide regular income and portfolio diversification.

From this perspective, the investment is only a small allocation within an overall portfolio that is already well on its way to achieving its financial objectives. However, the proliferation of single asset SIPPs suggests that this has not always been the case, and is something we will examine further on in this report.

SPECULATION

Hotel and resort property can also provide opportunities for high returns, often from capital growth. Investing in off-plan properties or more speculative developments in unproven locations or with new developers is much more risky, but investors should be rewarded by much higher returns when these investments are successful. Products here can be thought of on a spectrum, from genuine investments at the low risk end of the spectrum, to pure speculation at the higher end.

Whether investors are always appropriately rewarded for the risk that they take on and whether the risks are even fully identified in the unregulated sector is questionable. We'll return to this theme later in the report, as well as looking at how some naive investors have been seduced into the more speculative investments, when they were wholly inappropriate for them.

THE MACRO CASE

TOURISM AND TRAVEL

Obviously the numbers of tourist and business travelers are the major driver of success or failure in the hotel and resort property sector.

Tourist numbers and business demand are now increasing and the emergence of affluent middle-classes in Asia, North Africa and South America is predicted to increase demand in the coming years.

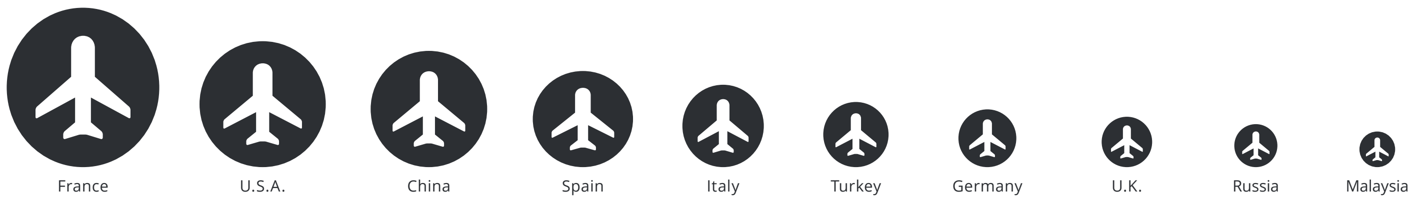
Tourist Numbers

2012 saw 1.035 billion international tourist arrivals in one year for the first time, up from 983 million in 2011 and 940 million in 2010 - growth of 5.29% from 2011 to 2012.

TOP 10 COUNTRIES BY TOURIST ARRIVALS (2010 - 2012)

Rank	Country	UNWTO Region	International Tourist Arrivals (2011)	International Tourist Arrivals (2012)	Change (2010-2011)	Change (2011-2012)
1	France	Europe	81.6 million	83.0 million	+5.0%	+1.8%
2	United States	North America	62.7 million	67.0 million	+4.9%	+6.8%
3	China	Asia	57.6 million	57.7 million	+3.4%	+0.3%
4	Spain	Europe	56.2 million	57.7 million	+6.6%	+2.7%
5	Italy	Europe	46.1 million	46.4 million	+5.7%	+0.5%
6	Turkey	Europe	34.7 million	35.7 million	+10.5%	+3.0%
7	Germany	Europe	28.4 million	30.4 million	+5.5%	+7.3%
8	United Kingdom	Europe	29.3 million	29.3 million	+3.6%	-0.1%
9	Russia	Europe	22.7 million	25.7 million	+11.9%	+13.4%
10	Malaysia	Asia	24.7 million	25.0 million	+0.6%	+1.3%

Source: Wikipedia



"2012 saw 1.035 billion international tourist arrivals in one year for the first time, up from 983 million in 2011 – growth of 5.29%."

You have to dig a bit deeper to get the numbers for some of the smaller destinations that have been popular locations for some of the unregulated investments on offer:

POPULAR LOCATIONS FOR HOTEL AND RESORT PROPERTY INVESTMENTS (2003 - 2011)

Year / Country	International Tourist Arrivals 2003	International Tourist Arrivals 2010	International Tourist Arrivals 2011	2010-2011 % Change	2003-2011 % Change
Argentina	2.9 million	5.3 million	5.7 million	7.1%	90.5%
Barbados	0.5 million	0.5 million	0.5 million	6.8%	7.0%
Brazil	4.1 million	5.2 million	5.4 million	5.3%	31.5%
Cape Verde	0.2 million	0.3 million	0.4 million	27.4%	185.3%
Chile	1.6 million	2.7 million	3.0 million	11.0%	90.2%
Dominican Republic	3.3 million	4.1 million	4.3 million	4.4%	31.2%
Egypt	5.8 million	14.1 milion	9.5 million	-32.4%	65.3%
France	75.1 million	77.6 million	81.4 million	4.8%	8.5%
Germany	18.4 million	26.9 million	28.4 million	5.6%	54.2%
Grenada	0.1 million	0.1 million	0.1 million	7.3%	-16.9%
Hungary	-	9.5 million	10.2 million	7.8%	-
Indonesia	4.5 million	7.0 million	7.7 million	9.2%	71.3%
Malta	1.1 million	1.3 million	1.4 million	5.7%	25.3%
Panama	0.6 million	1.3 million	1.5 million	11.3%	160.2%
Slovenia	1.4 million	1.9 million	2.0 million	9.0%	48.4%
Spain	50.1 million	52.7 million	56.7 million	7.6%	11.5%
Thailand	10.1 million	15.9 million	19.2 million	20.7%	90.7%
Turkey	13.3 million	31.4 million	34.0 million	8.4%	155.1%
United Kingdom	22.8 million	28.3 million	29.3 million	3.6%	28.6%
United States	41.2 million	59.8 million	62.7 million	4.9%	52.1%
Venezuela	0.4 million	0.5 million	0.6 million	13.1%	76.6%

Source: Wikipedia

Based on these numbers, Cape Verde, Panama, Turkey, Egypt and Argentina have witnessed the strongest levels of growth in tourism numbers since 2003. Grenada, France and Barbados have seen the lowest. However, developed markets such as France, Germany, Spain and the USA still attract the highest numbers. (Note that they are all big territories as well!)

Within countries it's also important to identify the right cities: The World's top 10 tourist locations have remained reasonably similar for the last few years but cities such as Bangkok, Istanbul, Dubai and Kuala Lumpur have dramatically increased in popularity recently.

Paris ranks first among the top 5 Travelers' Choice World destinations and benefits from high occupancy and increasing average daily room rates. This has made the city one of the most sought after markets for hotel investment.

INTERNATIONAL TOURIST ARRIVALS BY CITY (2013)

Source: MasterCard Global Destination Cities Index

Readers should examine these numbers and carry out their own further research to help them come to informed decisions on whether an investment location makes sense and whether the claims made in product providers' marketing matches the actual tourist demand.

OCCUPANCY RATES: 67% ASIA / PACIFIC | 66% EUROPE | 63% AMERICAS | 62% MIDDLE EAST / AFRICA

Travel Numbers

Another leading indicator is air traffic numbers. The International Air Transport Association (IATA) announced global passenger traffic results for August 2012, showing that air travel continued to expand at a healthy rate, with growth led by the Middle East and emerging markets. Overall demand in 2013 has increased by 5.2% compared to the previous year.

The Middle East had the strongest growth with a 15.1% increase year on year. Latin America and Asia/Pacific experienced growth of 9.8% and 8.6% respectively, in contrast with slower growth in Europe (5.4%) and North America (5.1%).

It appears that travel of all kinds is growing faster for emerging economies, but a healthy travel and tourism market overall is good news for the hotel and resort sector.

OCCUPANCY

Verifiable occupancy figures can be hard to come by for ordinary retail investors and their advisers. However some major hotel operating companies such as IHG (InterContinental Hotels Group) do publish global occupancy figures in their annual financial statements. The most recent figures released show average room occupancy across the group of 61.1% for Q1 2013.

TR Global also collect occupancy figures and average daily room rates by region, their figures suggest average annual occupancy rates range from 60 to 70%.

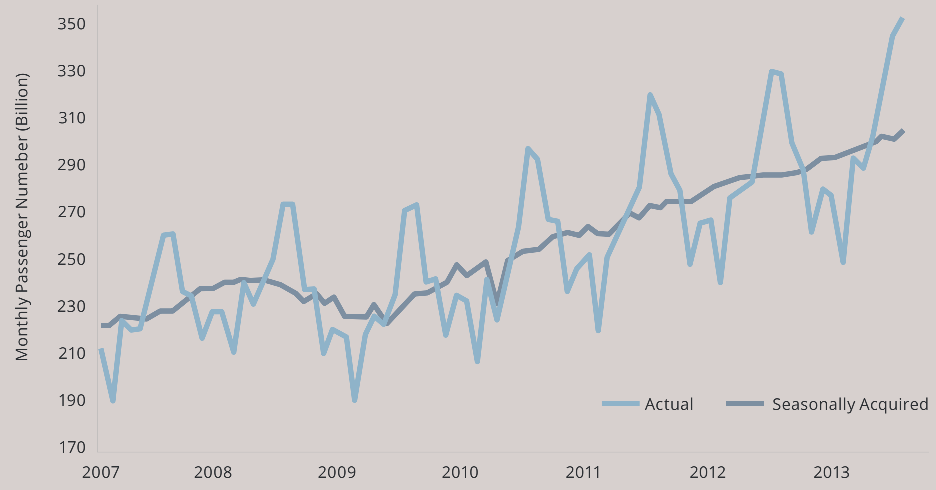
So while these figures can provide a globalised macro view of occupancy levels, it can be harder to find this information on a localised level to benchmark investment opportunities against.

GLOBAL OCCUPANCY (2013)

World Regions	Occ. (%)	ADR (USD)
Asia Pacific	66.70	123.59
Europe	66.10	133.12
Americas	63.20	112.40
Middle East/ Africa	61.60	164.21

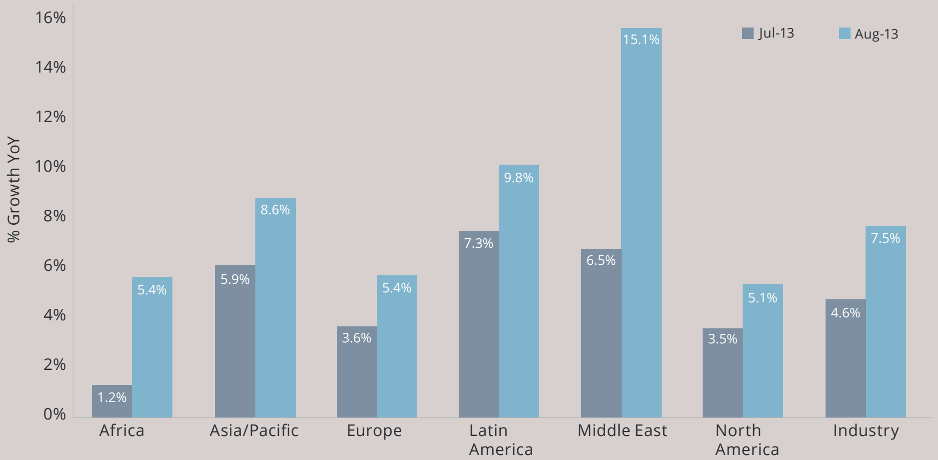
Source: STR Global

INTERNATIONAL PASSENGER MARKET (2007 - 2013)



Source: IATA

INTERNATIONAL PASSENGER GROWTH BY REGION (2013)



Source: IATA

ROOM RATES

It's not just about rising numbers of travelers and rising occupancy, the rates that can be achieved per room are also an essential part of the equation (usually measured by the average daily rate or ADR).

Hotels.com produces the Hotel Price Index, a regular survey of hotel prices in major destinations around the world. We have extracted some useful information from their findings. In 2012, guests paid over 3% more for accommodation than in the previous year. Regionally the Caribbean saw a 6% rise, North America 5%, Pacific 4%, Asia 2%, Latin America 1% and Europe and the Middle East registered a slight fall.

Europe trailed due to the Eurozone crisis, but it should be noted that London is an exception that has bucked this trend due to improved stock and exposure post the 2012 Olympics. PwC estimated that 10.6% of additional supply opened in London in 2012 (approx. 7,700 rooms) with a further 4,600 bedrooms expected to have opened in 2013. Potential investors need to assess if this is a rising trend they can benefit from, or if they have missed the boat for now...

Another observation worthy of note: despite the growth in travel to the Middle East, hotel receipts did not rise. Again, this could potentially represent an opportunity if investors can find the right property and they have the appetite to invest in a volatile region.

MARKET UPDATE

INVESTMENT ACTIVITY

BUYERS

Private equity in the United States and Europe continues to dominate investment activity in the sector. These investors have significant buying power and risk tolerance which allows them to take advantage of current market conditions, buying at low valuations and seeking high returns.

Sovereign wealth funds (mainly from Qatar and Abu Dhabi) and family offices for the super wealthy have been purchasing 'trophy assets' with an average size of £395m ($630m) in H1 2013.

Real Estate Investment Trusts (REITs) have continued to make headline acquisitions to diversify their portfolios, particularly in North America. After raising record breaking amounts of debt and equity in 2012 ($67.4billion) they have been on something of a buying spree. US Hotel REIT averaged 12% in the index in 2012.

Interestingly, despite REITS being available since 2007 and their favoured tax status, there are no specific Hotel REITs listed in the UK. Perhaps market players were discouraged by the £2billion failure of Vector, a UK hotel REIT that failed to launch in 2007.

SELLERS

The main sellers of hotel and resort property have been private equity firms and institutional investors (37% of transaction volumes) who continue to sell off some of their previous acquisitions to free up capital. Hotel operators are the second largest seller (18% of transaction volumes), disposing of assets to raise additional capital to repay loans and finance other operations.

The vast majority of transactions and market activity that are publicised relates to these large scale institutional investments rather than retail investors, but these levels of activity are encouraging for the entire sector and for all investors.

GLOBAL INVESTMENT

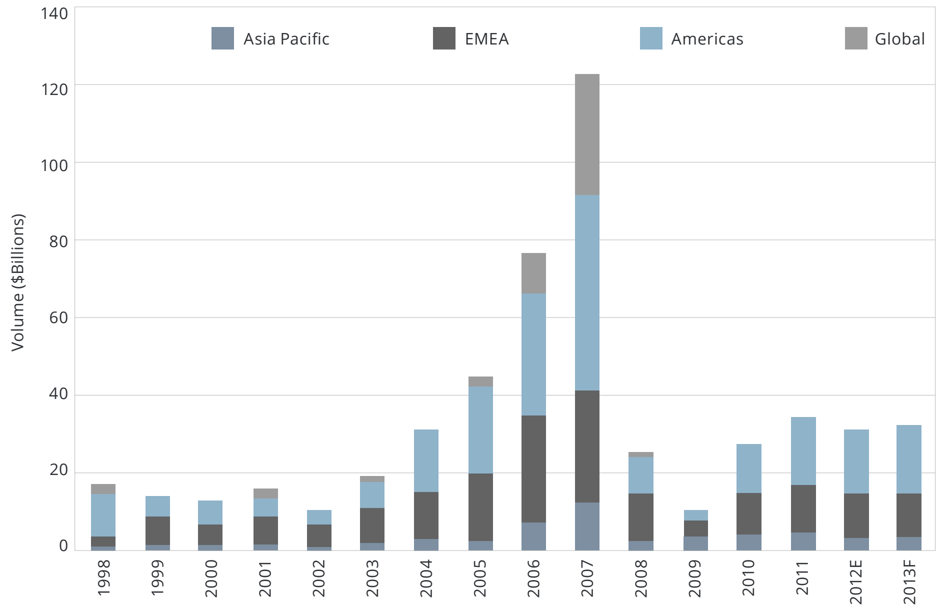
Global investment activity into hotel and resort property was $31.8 billion in 2012, a decrease of 5% compared to 2011 and much lower than the highs seen in the run up to the global financial crisis - with nearly $80b invested in 2006 and over $120b in 2007.

However, in 2013 hotel investment activity has seen very strong growth. Investment levels reached US$21 billion during the first six months of the year - a 51% increase on the same period last year.

Based on current investment activity Jones Lang LaSalle expects investment to exceed US$33 billion for the whole of 2013. This would indicate that whilst we aren't yet witnessing a sea-change in market sentiment, perhaps we can say that we have reached the bottom and are slowly on the way back up to the levels of transaction and activity witnessed prior to 2008, although hopefully not into the dangerous bubble territory witnessed in '06-'07.

One notable observation is that a significant amount of this investment will be international in nature. Overseas hotel and resort property investments provide diversification from domestic currencies, locations and economies. Cross-border investment accounted for 30% of global activity in 2012, mainly driven by strong capital flows from the Middle East and Asia. Sovereign wealth funds and family conglomerates are predicted to continue their strong cross-border investment 2013.

GLOBAL HOTEL INVESTMENT VOLUME (1998 - 2013)



Source: Jones Lang LaSalle

RECENT GLOBAL HOTEL INVESTMENT (2012 - 2013)

US$ billions	H1 2012	H1 2013	% change	Q2 2012	Q2 2013	% change
Americas	7.2	10.8	50%	3.9	5	28%
EMEA	5.2	7.4	42%	1.6	2.2	37%
Asia Pacific	1.7	3	82%	1.4	1.6	22%
Total	14	21.1	51%	6.9	8.9	29%

Source: Jones Lang LaSalle

GLOBAL HOTEL INVESTMENT YEAR ON YEAR GROWTH 2012 - 2013

50% AMERICAS

42% EMEA

82% ASIA PACIFIC

REGIONAL INVESTMENT

Americas

According to recent figures released by Jones Lang LaSalle, hotel investment in H1 2013 in the Americas increased by 50% compared to the same period last year. This was supported by improved economic conditions, low new supply, strong hotel trading and increased availability of debt financing.

There has also been increased liquidity in resort property which has been a strong driver behind recent investment in the sector. The resort market has taken a lot longer to recover from the 2008 financial crisis than other hotel sectors, but occupancy levels have now returned to previous peaks and the sector is attracting a large amount of attention.

Caribbean

The Caribbean has experienced improved demand in 2013, particularly in the Dominican Republic, Jamaica, the Cayman Islands and Aruba. The recovery has been led by all-inclusive resorts which are forecast to continue to strengthen in 2013. The bulk of large resorts in the Caribbean have been financed by high levels of debt and many include residential units, with sales activity driven by owners who are forced to sell due to default. Hotels in these locations are highly susceptible to changes in tourist numbers, the impact of hurricanes or rising costs. The majority of transactions are likely to be driven by upscale and luxury resorts changing ownership due to debt restructuring. Strongly performing assets are much less likely to change hands as their prices remain suppressed and below potential.

Central America

Like the Caribbean, Costa Rica experienced a wave of development and new resorts over the last seven years with many properties including residential units. Due to its stable political environment, healthy economic fundamentals and the newly expanded Liberia airport, Costa Rica is predicted to be a popular investment location.

South America

South America presents a number of opportunities due to strong economic growth and large amounts of investment and development in the pipeline. Just 15% of rooms in Brazil are supplied by an international hotel brand, meaning there is large potential for growth in a country that is enjoying global exposure at the moment as the host of both the 2014 World Cup and 2016 Olympics.

EMEA

Hotel investment of £110b accounted for 7% of the total commercial real-estate transactions in Europe in 2012. High-net-worth individuals (HNWIs) (domestic and international) accounted for 20% of the market.

Hotel operators, although net sellers, were the third largest group of hotel investors with 18% of transactions. Hotel operators disposed of £1.6b worth of assets, 21% of the total hotel property market.

Despite continued economic challenges in Europe, hotel investment for 2013 is expected to remain similar to 2012 at roughly £6.9b ($11b). The emergence of new sources of debt and alternative investors such as pension funds should lead to an improvement in investor confidence in 2013. These investors will start to fill the funding gap left by traditional banks.

Middle Eastern investment almost tripled from £620m ($991m) in the first half of 2012 to £1.75b ($2.8b) in the same period of 2013. This came mainly from sovereign wealth funds in Qatar and Abu Dhabi who continue to invest in Europe.

Development is expected to pick up in the Middle East with 150 new hotels scheduled to have opened in 2013. The majority are in Saudi Arabia and the United Arab Emirates – development in Dubai is slow as the market is nearing maturity.

The UK remains Europe's most active market with investment for 2013 predicted to be £1.88bln (40% of total EMEA investment), followed by France at £1.06b (23%) and Germany at £525m (11%).

Asia Pacific

Investment in Asia Pacific in H1 2013 was up 82% compared to the same period last year, with increased activity in Japan, China, Singapore and Australia, collectively accounting for three-quarters of regional investment.

Despite the recent slowdown in economic growth and the weaker economic outlook, China accounted for the second largest share of investment in Asia Pacific with a total of £415m ($665m). Investment in Australia fell to £211m ($337m) during the first half of 2013, compared to a record £600m ($955m) for the same period last year.

USA

REITs and private equity buyers are expected to account for 70% of total investment activity in 2013.

ASIA

Investment is predominantly from REITs, Asian family companies, owner operators and opportunity funds in Japan.

EMEA

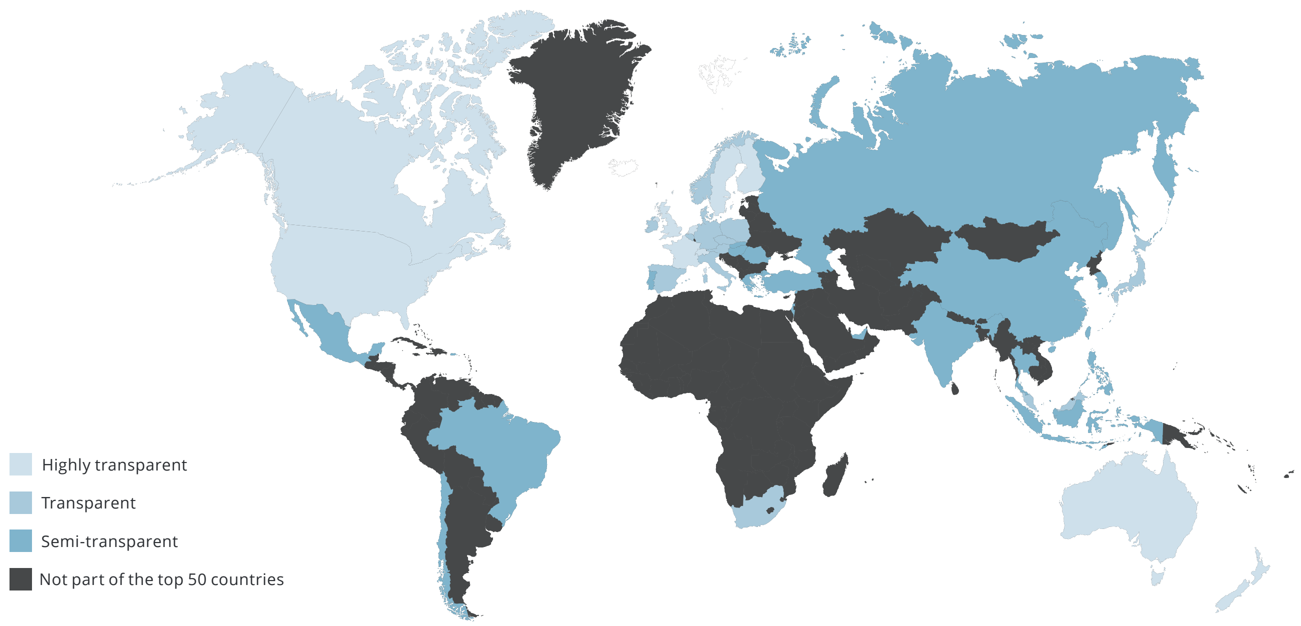
Hotel investment was dominated by institutional investors such as Westmont, Starwood Capital and Morgan Stanley which accounted for 24% of the market, up from 17% in 2011.

GLOBAL REAL ESTATE TRANSPARENCY INDEX

Jones Lang LaSalle produces the Global Real Estate Transparency Index which quantifies transparency of investing into property worldwide. The Index aims to help investors, corporate occupiers and retailers understand important differences when transacting, owning and operating in foreign markets. The index ranks 97 countries worldwide on a number of criteria including investment performance, market fundamentals, regulatory & legal structure and the ease of completing transactions. The lower the combined score, the more transparent and easier it is to invest in real estate in that country. This index is updated every two years and the top 50 countries are listed below. Countries in black on the map below are not included in the top 50 transparent countries for real estate investment according to Jones Lang LaSalle.

TRANSPARENCY INDEX (2012)

Transparency Level	2012 Rank	Market	2012 Score	Transparency Level	2012 Rank	Market	2012 Score
Highly Transparent	1	United States	1.26	Semi-Transparent	26	Hungary	2.53
	2	United Kingdom	1.33		27	Brazil - Tier 1	2.54
	3	Australia	1.36		28	Portugal	2.54
	4	Netherlands	1.38		29	Taiwan	2.6
	5	New Zealand	1.48		30	Brazil - Tier 2*	2.75
	6	Canada	1.56		31	Turkey	2.76
	7	France	1.57		32	China - Tier 1	2.83
	8	Finland	1.57		33	Greece	2.84
	9	Sweden	1.66		34	Israel	2.85
	10	Switzerland	1.67		35	Philippines	2.86
Transparent	11	Hong Kong	1.76		36	Slovakia	2.9
	12	Germany	1.8		37	Russia - Tier 1	2.9
	13	Singapore	1.85		38	Indonesia	2.92
	14	Denmark	1.86		39	Thailand	2.94
	15	Ireland	1.96		40	Romania	2.96
	16	Spain	2.06		41	South Korea	2.96
	17	Belgium	2.07		42	Puerto Rico*	2.96
	18	Norway	2.08		43	Mexico	2.97
	19	Poland	2.11		44	Russia - Tier 2	2.98
	20	Italy	2.16		45	Chile	3.01
	21	South Africa	2.18		46	China - Tier 2	3.04
	22	Austria	2.22		47	UAE - Dubai	3.05
	23	Malaysia	2.32		48	India - Tier 1	3.07
	24	Czech Republic	2.34		49	India - Tier 2	3.08
	25	Japan	2.39		50	India - Tier 3	3.15



Source: Jones Lang LaSalle

RETAIL INVESTMENT

Ordinary retail investors who want daily liquidity, low minimum investments, low transaction costs, the assurances that come with investing in a heavily regulated environment and the protections afforded by the FSCS must stick to mainstream investments. These will include open-ended property funds that are listed on the stock exchange, individual shares in quoted major property companies, REITs and PUTs (Property Unit Trusts).

However, all of these investments have a high degree of correlation to the stock market (reducing diversification benefits) and tend to be focused on commercial property: office blocks, retail centers and industrial premises. Investors would be very unlikely to be able to achieve specific exposure to the hotel and resort property sector through these routes.

Investors who want direct exposure to the sector are usually looking for higher returns and diversification. This will mean investing in an unregulated fund structure or by directly purchasing a property.

This usually involves a trade-off; higher risk. The risk will come from bigger up front financial commitments, higher transaction costs, lower liquidity and lower levels of regulatory scrutiny. These risks can be mitigated by researching the right opportunities, or added to by using leverage, buying off-plan and investing in unproven locations. That's not necessarily a bad thing to do, but investors who go down this route must have a very healthy appetite for risk and capacity for loss.

INVESTMENT OBJECTIVES

In exchange for the risks associated with an expensive, illiquid asset an investment property must offer the investor certain advantages over other investments such as diversification, strong returns and the opportunity for capital appreciation

For a lifestyle purchaser, they would need to consider the on-going costs of owning the property and how they would cover these, the travel costs and time it takes to get to the property and how often they will actually be able to use it.

If it is an investment purchase, then the investment objectives must be considered next. Is it for diversification, income or speculation? What level of diversification, level of income or level of return is required? What is the investor's appetite for risk and capacity for loss? Clarity on the answers to these questions is essential to avoid taking on more risk than necessary.

Investors can answer these questions themselves, but professional financial advice is invaluable here and is recommended.

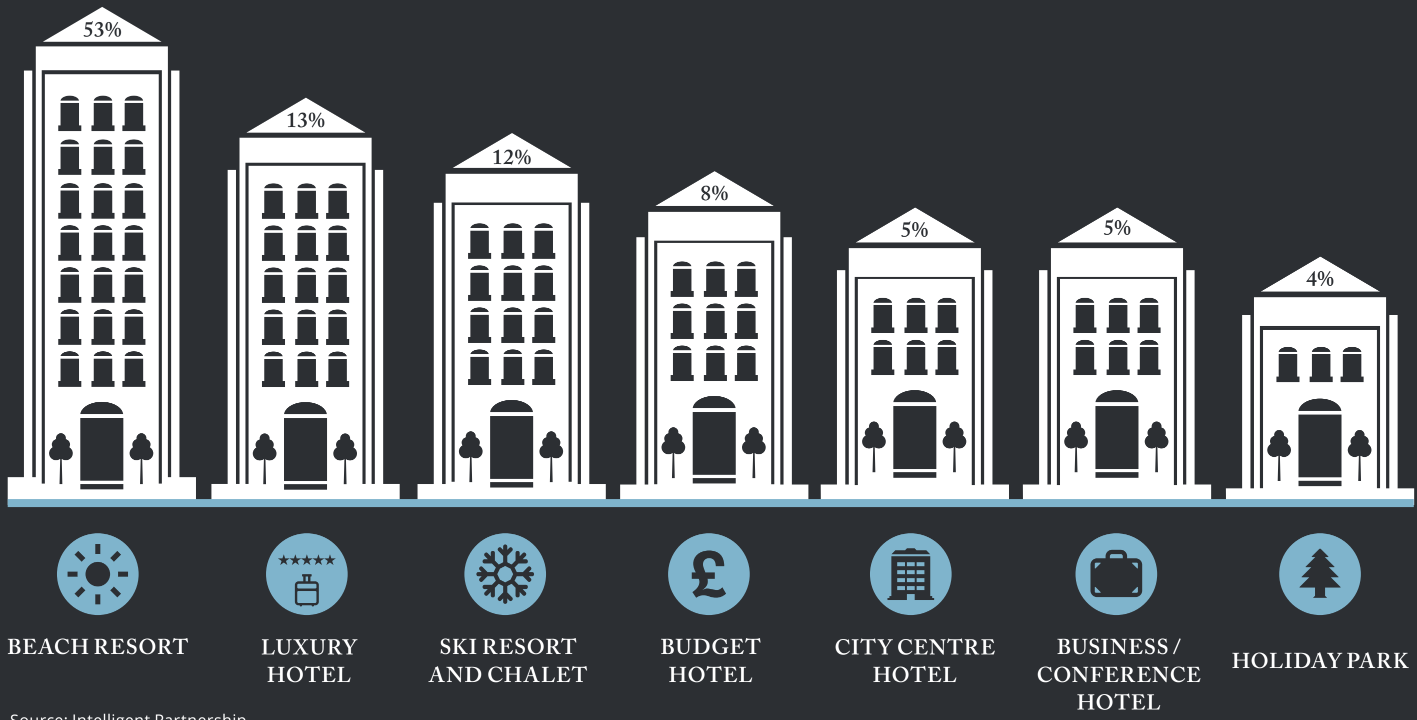
Once the investor is sure of what they are looking for from an investment property, they can then look at the types of property available in the sector.

CATEGORIES OF HOTEL AND RESORT PROPERTY

Based upon our research into the direct and non-regulated investment market we have identified seven different categories of investment property.

In the following section we give a short market update and synopsis of what is currently available in each category.

PROPORTION OF RETAIL INVESTMENT OPPORTUNITIES (2013)



Source: Intelligent Partnership

"Investors can choose from seven different categories of investment property: beach resort, ski resort and chalet, holiday park, city centre, luxury, budget and business hotel."

#1 BEACH RESORT

Beach resorts tend to be large (100+ rooms) and are located in popular tourist locations in the Caribbean, Mediterranean and Cape Verde Islands. There are also a large number of properties in emerging markets such as Thailand, North Africa and South America.

There is a wide choice of locations available, with the more established destinations being more expensive and the less established being riskier, but with the potential for high capital growth.

The investor can purchase a room (or fraction of a room) in an all-inclusive resort which will be managed by a specialist management company: either an established brand or a new independent management company.

The investor is offered a fixed return for an initial period, usually between 2 and 5 years, followed by a share of rental income. A number of properties offer **fixed returns of between 7-10% per year.** The longest fixed return available is 10.33% which is assured by the product provider for 10 years. These properties are widely targeted at retail investors and a number of them have been accepted by SIPP providers over the last few years. It's worth considering the difference between 'fixed' and 'guaranteed' here – they do not mean the same thing.

Beach resort properties account for the largest share of the sector with approximately 53% of the direct property investments currently available to retail investors. The vast majority of these investments are new properties which are sold off-plan, so one of the risks to investors is that the construction of the property is delayed or it doesn't get built at all.

Delays can lead to higher costs, lower returns, or loss of the initial deposit if the property isn't built.

Based on our research, construction of nearly 40% of beach resort properties is currently running behind schedule (or the completed hotel opened late). A further 30% are built and opened on time, with the remaining 30% of properties currently under construction.

#2 LUXURY HOTEL

Luxury hotels have a small number of rooms and often offer additional services in comparison to standard hotels, such as spa access or golf courses. They are regularly used for short luxury breaks and weekend retreats.

Luxury hotels account for approximately 13% of investments currently available in the directly held sector. Properties are located in the UK and other European countries, and tend to be built hotels that are in need of refurbishment and upgrading.

Properties are run by private brands which focus on providing luxury services at a high price and therefore can achieve high operating margins and returns.

Some of the opportunities in this sector offer guaranteed returns of 10% or higher for an initial period, followed by a share of rental income. Initial investment levels are very high, and therefore properties are often split into fractional investments to make them more accessible to retail investors, with many being SIPP acceptable.

#3 SKI RESORT AND CHALET

Ski resort and chalet property is a very well established sector with sale and leaseback agreements being used successfully in the USA and France for a number of years. Properties are relatively small with up to 15 apartments and are sold on a leasehold or fractional basis.

Location is very important with a large number of properties located in popular, well established ski resorts in the French Alps.

There are a few very well established companies that run sale and leaseback ski properties and pay a **fixed return of between 3.5-5% for up to 10 years.** The longest leaseback currently available pays 3.8% per year guaranteed for 18 years. The returns on offer are lower than other hotel property investments as the ski season is relatively short (3 to 4 months), meaning that average annual occupancy is much lower. However, it's likely that the owner will be able to use the property during the summer months when occupancy levels are very low. (This would not be acceptable within a SIPP.)

There are both newly built and re-sale properties available, with ski resorts accounting for approximately 12% of directly held investments in the market. This end of the market is where lower return / lower risk opportunities can be found, especially in established properties.

#4 BUDGET HOTEL

There has been a large amount of growth in the budget hotel sector in the UK which is being led by brands such as Holiday Inn, Travelodge and Park Inn. According to Deloitte research, the budget hotel sector has increased from 3% of total UK hotel supply in 2000, to 18% by 2010 and by 2016 could account for 25% of the UK hotel sector. Properties are often in city centre locations or up and coming areas close to transport links and popular attractions such as sporting venues.

Hotels have 100 to 200 rooms, with relatively basic facilities for short stay clients. Revenue is achieved by high occupancy rates at competitive prices.

Budget hotels account for only about 6% of directly held investments currently available in the market, but their popularity is growing. For example, a project in London recently sold out after offering investment properties with strong returns of 8-10% per year.

Properties are sold as new-build or off-plan investments and are widely SIPP accepted.

#5 CITY CENTRE HOTEL

Boutique city centre hotels account for a relatively small part of the market with about 5% of available investments.

There are a number of UK based investments which turn previously built distressed or commercial property into city centre hotels (in a similar way to purpose built student property). Opportunities include direct investments, collective investment schemes and debt financing.

Properties are relatively small (50 to 100 rooms) and privately managed with a focus on niche customers looking for short breaks and weekend getaways. Initial investment levels tend to be high as they

ANNUAL INVESTMENT RETURNS: 25% HIGHEST 10% AVERAGE 3.5% LOWEST

are in popular city centre locations, but forecast returns are also strong. Some investments offer guaranteed returns of 8% for an initial period, followed by a share of room revenue.

A number of these investments are SIPP acceptable as they are run as commercial hotels and there is no personal usage as a part of the investment.

#6 BUSINESS/CONFERENCE HOTEL

Business or conference hotels offer a wide range of facilities focused toward business customers. Hotels are located in out of town locations where they are cheaper to build, but they are invariably close to major transport links, airports and business centres.

Investment opportunities are available via directly held properties as well as collective investment schemes and debt financing.

These sorts of hotels are run by small management companies, with a number of the investments being into hotels which are already built, but in need of funds for refurbishment and modernisation. Business hotels only account for 5% of the investment into the hotel and resort property sector.

Returns vary widely by investment but are predicted to be between **6-10% per year**, with a number of investments being SIPP acceptable.

#7 HOLIDAY PARK

Holiday park investments have been around for a number of years. Investors purchase freehold property which is part of a collectively run holiday park. The property is then leased back to an operating company such as Centre Parcs.

These parks can be very large (up to 900 properties) and are mainly based in France and Germany. Resorts cater to families on weekend and vacation breaks and provide a choice of restaurants and entertainment such as kids clubs, waterparks, crazy golf and sporting facilities.

Returns are not high compared to other hotel and resort property investments and **range from 3.5-5%**. However, the returns are generally underpinned by long-term leasebacks which can run for up to 10 years and provide an element of security for investors.

There may also be a lifestyle element which allows investors free use of the property and facilities for a limited number of weeks per year.

Holiday parks account for a relatively small proportion of the sector at around 4% and come from a very small number of providers. They are generally marketed to European, rather than UK, investors which may explain the smaller size of this section of the market. Again, lower return/lower risk opportunities can be found here.

OPERATING MODELS

FRANCHISE

The hotel owner pays the franchise provider fees and royalties in order to operate under their brand name. In return, they would receive full branding, training and marketing exposure.

This is usually the fastest and most widely used route into the hotel sector, as using a well-known brand means the hotel will instantly gain recognition and benefit from an existing and well-established business model. The owner of the hotel will sign an operator agreement (which could be for up to 25 years) and they will pay the franchise company an initial fee (fixed) and an on-going fee (% of revenue).

Franchises range from budget to high end luxury hotels. Franchise costs and set-up costs are likely to be much higher for luxury hotels.

The main disadvantages of this model are the potentially high costs and lack of potential for growth (as the hotel will be tied to the franchise).

PRIVATELY OWNED & OPERATED

The owner of the hotel is also the operator. This structure is used by international hotel groups as well as by new entrants looking to enter the sector and set up on their own.

HOTEL OPERATING AND OWNERSHIP MODELS (2013)

	BRAND OWNERSHIP	MARKETING AND DISTRIBUTION	STAFF	HOTEL OWNERSHIP	CAPITAL INPUT	INCOME
Franchised	Franchise	Third-party	Third-party	None	None	Fee % of rooms revenue
Managed	Franchise	Franchise	General Manager as a minimum	Third-party	Low/none	Fee% of total revenue plus % profit
Owned & Operated	Franchise	Franchise	Franchise	Franchise	High	All revenues and profits
Leased	Franchise	Franchise	Franchise	Third-party	Low	All revenues and profits

Source: Intelligent Partnership

"The promotion and sale of UCIS and Close Substitutes (NMPI) to ordinary retail investors has been restricted from 1st January 2014."

This model gives the owner the most freedom and control and they can make all of the decisions regarding staff, branding, marketing, operational structure and future growth.

However, this can also be one of the riskiest ways to enter the market. The hotel will need to establish itself and build its brand, reputation and marketing from the ground up.

LEASED

The physical building will be owned by a third party who leases the building to the operator.

The owner of the building has no control over the management and will receive a pre-agreed return as part of the lease. This type of ownership is very common and is used by a number of international hotel groups.

The benefit to the hotel group is that there is no requirement for large amounts of capital to build new hotels. The hotel owner will receive a fixed minimum rent and a variable amount based on occupancy or revenue.

Many of these hotels will be owned by hedge funds and institutional investors as it can achieve relatively steady annual income over a number of years.

MANAGED

This structure is more widely used with existing hotels rather than new hotels. The physical building is privately owned, but the owner may employ a well-established brand to operate the hotel on their behalf.

The owner will not have any day-to-day control over the hotel, but will benefit from the brand and their experience. This model is often implemented when owner operated hotels have struggled to compete for market share. The manager is likely to be paid a percentage of the revenue received.

The majority of investments in the hotel and resort property sector tend to be run on a leased or managed basis, as this allows the owners to be very hands off and take advantage of the experience and brand image of the management company.

INVESTMENT STRUCTURES

The hotel and resort property market is dominated by directly held investments which account for over 70% of the sector. This includes freehold, leasehold and fractional ownership. If the purchase is purely for investment purposes with no lifestyle element, investors can also use collective investment schemes and structures with a corporate element such as bonds, loan notes or special purpose vehicles.

INVESTMENT STRUCTURES AND REGULATION

The Financial Conduct Authority (FCA) does not regulate the sale of land or property but they do regulate Collective Investment Schemes (CIS) and a firm must be authorised by the FCA to operate or promote a CIS from the UK.

The promotion and sale of Unregulated Collective Investment Schemes (UCIS) and Close Substitutes to ordinary retail investors has been restricted from 1st January 2014 as a result of the FCA policy paper PS13/3. Close substitutes include Qualified Investors Schemes (QIS) and any investment that is not a direct purchase of an asset, but instead has a structure around it that modifies the investors' exposure to the asset with an element of pooling of income, profits or contributions.

The new regulations mean that these investments are only suitable for high net worth individuals (those with over £250,000 in investable assets or an annual income in excess of £100,000) and sophisticated investors due to their high risk, illiquid nature.

PS 13/3 is likely to dramatically narrow the audience collective investment schemes can be promoted to. However, some property investments will still claim that they are not collectives as they are direct purchases of property - and therefore they will escape the new regulations.

It's going to be crucial to be certain about property investments that claim not to be a CIS. The FCA has recently taken Capital Alternatives (along with several other firms including African Land Limited and Reforestation Projects Limited) to court over the running of investment schemes which the FCA believes are illegal. The FCA have asked the high court to find that Capital Alternatives, African Land Limited and Reforestation Projects Limited projects have been promoting and/or operating unauthorised collective investment schemes.

The FCA also believes that these companies have made misleading statements and have given false information when promoting the schemes to investors. The case is being heard in court at the start of October (2013) and will set a precedent for the industry.

These are not property investments, but their operation, promotion and sale is similar to a number of hotel and resort property investments that are currently available to retail investors. If Capital Alternatives are found to have been running an unauthorised CIS, many property investments might find themselves next in the firing line.

These topics are looked at again in the Distribution section.

DIRECTLY HELD

The leasehold or freehold title to the property will be owned directly by the investor, with the property managed on their behalf by a management company.

Returns are paid from rental income or through a leaseback arrangement. There is often a guaranteed return offered by the product provider for an initial period (up to 10 years). This can provide security and make the investment very attractive, but the investor needs to be sure that the developer can afford to pay these returns for the offered period. They also need to ascertain, if they can, just how much these guarantees have been built into the initial purchase price.

Leaseback arrangements are an alternative way of providing long-term fixed returns.

Hotel and resort property investments are commonly operated as commercial properties and many do not offer any lifestyle element or personal use. These properties are widely accepted within a SIPP.

There is a lack of established secondary market for investments in this sector with pre-owned resort properties

PROPORTION OF RETAIL MARKET:	DH	74%	CE	18%	CIS	8%

rarely changing hands. Property is an illiquid asset class, particularly when the investment is based overseas.

FRACTIONAL

The investor owns a fraction of the property which entitles them to a share of rental income. This allows people to own luxury products that they might otherwise not be able to afford.

The investor will own part of the freehold or leasehold title to the property and therefore have a stake in it should the price increase (or decrease). The investor will purchase a share of the total asset, such as a 5th. For example, owning a 5th of a £100,000 hotel room might cost £25,000 as there is ordinarily a premium paid for fractional. Fractional ownership is very well understood in the USA and throughout Europe. It can be used for a wide range of property types including ski chalets, buy-to-let apartments, resort hotels and city centre hotels. Fractional is the form of underlying ownership and the success of the property will come down to the management company and their ability to achieve strong occupancy rates.

Fractional investment property is almost completely hands off for the investor. They will not be involved in any of the day to day running or decisions surrounding the property and are unlikely to have any control over its décor or upkeep. This will be in the hands of the management company or resort operator who may charge a high fee in return for their services. Investment returns will come from rental revenue once management, administration and any other costs have been paid.

Fractional investments are illiquid and there is not an established secondary market outside of the USA.

CORPORATE ELEMENT

Investments with a corporate element include asset backed bonds, loan notes, and special purpose vehicles. These are unregulated investments and the investor does not own the underlying physical asset – they own unsecured or secured debt.

The most common use for a special purpose vehicle is to hold the leasehold or freehold title of a property and then issue units to investors. Investors hold an interest in the performance and returns from the underlying property by being a shareholder, rather than owning the physical title to the property.

This structure is also used for non-commercial investments to allow them to be held within a SIPP. This is achieved by the SPV being a genuinely diverse commercial vehicle (GDCV). A GDCV is not a collective investment scheme but is a structure which has been approved by HMRC through which investors can indirectly hold residential property.

This structure is often used by developers and hotel operators to raise capital. Investors have become relatively familiar with investing in debt and this type of investment can provide stable fixed returns and a defined exit strategy with capital being repaid on maturity.

There is a grey area surrounding the operation, promotion and sale of these investments as to whether they come under the FCA's definition of unregulated collective investment schemes and close substitutes. There are investments available that are being openly marketed through unregulated channels direct to ordinary retail investors but this could change with the implementation of PS 13/3 in January 2014 and the outcome of the current court case involving Capital Alternatives.

COLLECTIVE INVESTMENT SCHEME

Collective investment schemes pool investors' funds in order to purchase underlying property. The fund can purchase the entire asset which is then operated by a designated management company.

Pooling money in this way allows investors access to the sector and returns from rental revenue once all costs (including management costs) have been paid. Investors will also share in any profits from the fund as and when underlying properties are sold.

Collective investment schemes include unit trusts, limited partnerships, investment trusts, open-ended investment companies (OEICs) and unregulated collective investment schemes (UCIS).

Open-ended funds can have unlimited share capital with shares listed on a recognised stock exchange such as the London or Channel Islands Stock Exchange. This provides liquidity for investors and these types of funds are generally considered appropriate for ordinary retail investors.

However, the majority of hotel and resort property funds are closed-ended as property is an illiquid asset and it can take a long time for the investment manager to dispose of assets. Investors and their advisors must be aware of the liquidity surrounding investments into property funds. If the fund is investing into a physical underlying asset then it is likely to be a long-term investment and investors should be fully aware of this when they choose to invest.

The student property specialist Brandeaux is a good example of the liquidity problems that can arise from running an open-ended fund. Brandeaux have suspended redemptions from their property funds citing a lack of liquidity due to the changes in the regulation. The directors of Brandeaux cited CP12/19 as the cause of their liquidity problems, causing a reduction in in-flows of new money. With a portfolio of illiquid assets, they could no longer meet requests for redemptions, regardless of the performance of the underlying assets.

Collective investment schemes give a large amount of control to the operator and investment manager to make investment decisions such as when to buy and when to sell properties. They can provide a number of advantages for investor, particularly diversification as the risk can be spread across a number of underlying properties. Funds can also be much quicker, easier and cheaper to invest in than buying property directly. However, closed ended funds are illiquid and often unregulated. Risks include a higher

"The majority of hotel and resort property funds are closed-ended as property is an illiquid asset and it can take a long time for the investment manager to dispose of assets."

concentration of assets, complex terms and conditions, lack of regulatory scrutiny, transparency and high leverage.

ENTERPRISE INVESTMENT SCHEME (EIS)

The EIS is a Government backed initiative to promote investment in small start-up companies, with investors receiving tax reliefs for taking on the extra risk associated with these companies. Companies have to meet certain criteria set by HM Revenue & Customs in order for investors to receive these reliefs.

There are certain trades which are excluded from EIS investment, including:

#1. Property development

#2. Operating or managing hotels.

The main reason that these trades are excluded is that they are often asset backed and therefore they do not undertake sufficient risk for investors to be granted tax relief. Companies can undertake these trades, but according to HMRC guidelines they can only account for 20% or less of the companies activities.

Investments into hotel and resort property do not meet these criteria and cannot receive investment through the EIS.

VENTURE CAPITAL TRUST (VCT)

Venture Capital Trusts (VCTs) are listed companies that are run by a fund manager and which, in turn, invest mainly in smaller companies that are not quoted on stock exchanges. Investors into VCTs receive generous tax reliefs in return for the added risk of investing into small, higher risk start-up companies.

There are very strict rules on how Venture Capital Trusts can invest pooled money in order to qualify for Government tax reliefs. In order to receive tax reliefs and be classed as an eligible company, the company must undertake a "qualifying trade". Certain trades are specifically excluded from this, these include: property development and hotels.

Therefore there are no opportunities in this sector for investment through a venture capital trust.

ESTABLISHING INVESTMENT CRITERIA

Common sense investment criteria can be used to screen for suitable investments. Each criteria needs to be fully explored and supporting evidence gathered - preferably independent, objective evidence, not the developer or product provider's opinion. Each investment opportunity can be scored against the investment criteria (for example, it could be scored from 0-10) and then the final score can be used to compare a number of potential investments.

To do this, investors and their advisers need to take a view on each criterion, and then need to decide how confident they are in that view. For example, they may be buying off-plan, but have a high degree of confidence in the developers' ability to complete the project to the required specification and on time; therefore they can give a lower score to that risk.

On the other hand, they may be buying in an unproven location, and whilst they believe that occupancy levels will rise, they are not certain about this. This risk is given a higher score.

This is one way of trying to distil a lot of ambiguous and uncertain information to allow direct comparisons.

Using investment criteria in this manner allows investors to screen for properties that meet their investment objectives in a dispassionate way, which helps to avoid being influenced by glossy brochures and marketing promises.

However, using a screening system like this is not flawless. Although it attempts to be more objective, it is still more art than science. There are many judgment calls involved in ascribing scores to each criteria and one person's opinion of certain risks could be very different to another's.

The other consideration is the risk/return ratio. Just because something is higher risk does not make it a poor investment as long as investors are being sufficiently rewarded for taking on that risk and it is compatible with their personal appetite for risk.

INVESTMENT CRITERIA MATRIX

Criteria	Low Risk (0-3)	Medium Risk (4-6)	High Risk (7-10)
Stage of Development	Already built with final touches completed	Recently completed / final stages of development	Off-plan with significant amounts of work to finish
Country	Developed market	Emerging market	Frontier market
Location	Established tourist destination, close to amenities and attractions	Niche tourist destination	Developing tourist destination, amenities still to be developed
Season	Year round	Seasonal	Short season
Operator	Established, known brand	Niche or less well known operator	New, unproven operator
Occupancy	High year round occupancy levels	Seasonal occupancy, levels vary	Unproven occupancy levels based on forecasts
Competition	Few competitors in the area, little scope for building more	Some competitor properties, but restrictions on new entrants	Many established competitors / no restriction on new properties
Exit	Active secondary market, including domestic demand / buy-back built in	Secondary market	No secondary market
Yield	High room rates at well-established levels / guaranteed period of rental yield	Variable room rates depending upon demand	Low room rates
Purchase Price	Purchase price below market value	Purchase price at market value or at a premium	Hard to establish fair value
On-going Costs	Low and well-established on-going costs	High or unpredictable on-going costs	Hard to assess level of on-going costs
Currency Risk	Local currency	Major currency ($, €, ¥...)	Emerging currency (Brazil, India, Turkey)
Property Market	Rising, but not overvalued	Flat	Overheating / declining / unpredictable

Source: Intelligent Partnership

RISK FREE RATE

One of the key numbers to check back to is the 'risk-free-rate', which for an ordinary retail investor could be a high-interest savings account or the return on a portfolio or fund invested in high quality shares. Both of these investments, which are more liquid and more highly regulated, could be considered safer than most hotel and resort property investments. Therefore you should expect to have a strong chance of earning a return that is commensurably higher than this in reward for taking on the added risk of investing in property.

EXAMPLE CRITERIA MATRIX

Based on the example criteria matrix, an investment that posed absolutely no risk would have a total overall weighting of 0, with an extremely high risk investment weighted 130. Of course this is very unlikely, as all investments are likely to contain a degree of risk for the investor. For an investment to be classed as "Low Risk", it will have a total overall weighting of 0-39, "Medium Risk" from 40-91 and "High Risk" from 92-130.

WEIGHTING

Different criteria can be given more or less weight in the assessment process as appropriate. Things that cannot be reversed should be given a proportionally higher weight: country, location, season, purchase price. Whatever else happens, these things will not change, so buyers need to be confident about them.

SAMPLE RISK WEIGHTING: L 0 - 39 M 40 - 91 H 92 - 130

WORKED EXAMPLE

Criteria	Property A	Score	Risk	Comments
Development Stage	Building has begun	7	H	Still high risk as building work may be affected by delays or issues
Country	UK	1	L	Well developed country with solid land ownership laws and building controls
Location	Manchester	3	L	Developed city with a number of sources of demand
Season	Year round	1	L	Benefits from tourist and business season
Operator	Radisson	2	L	Globally recognised operator with a long track record and experience
Occupancy	TBD (Forecast 75%)	7	H	This is higher than global average occupancy rates
Competition	High	7	H	Competition from a wide range of international brands and budget hotels
Exit	Open Market	8	H	The re-sale market for hotel rooms is undeveloped and unproven
Yield	TBD (Forecast 9% pa)	7	H	Returns are not guaranteed and are forecast high
Purchase Price	23% BMV	3	L	Backed by RICS valuation
On-going Costs	TBD	10	H	No mention of ongoing costs, investor could be liable for high costs
Currency Risk	Sterling	0	L	No currency risk for UK investors in sterling
Property Market	Flat	7	H	Hard to establish whether re-sale prices for this type of property will increase
Total		63/130	M	**This is a high risk off-plan investment which has already been hit by delays**

Criteria	Property B	Score	Risk	
Development Stage	Open for 10+ Years	1	L	Built and open with a track record of occupancy
Country	Germany	1	L	Well developed country with solid land ownership laws and building controls
Location	Bavaria	4	M	Demand and local area is relatively unknown
Season	Year round	1	L	Benefits from tourist season year round
Operator	Independent	5	M	Lacks global brand image, marketing and reputation
Occupancy	70% (established)	4	M	Reasonably high occupancy rates but established
Competition	Low	3	L	Shouldn't be affected, but a new entrant could have an impact
Exit	Buy-back Option	4	M	Gives the investors the option for a defined exit, but not guaranteed
Yield	Fixed leaseback 10%	4	M	Leaseback is a well-established model but returns are not guaranteed
Purchase Price	Market Value	5	M	Investors are not purchasing at a discount
On-going Costs	Fixed	3	L	Investors are aware of what costs they are liable for
Currency Risk	Euro	5	M	Currency risk for Sterling to Euro exchange rate
Property Market	Flat	7	H	Hard to establish what the re-sale price for this type of property would be
Total		47/130	M	**This is an established property, but still presents risks to the investor**

Criteria	Property C	Score	Risk	
Development Stage	Building behind schedule	9	H	Off-plan investment which is already running behind schedule
Country	Barbados	6	M	Investors are susceptible to weak land ownership laws and poor building controls
Location	Barbados	6	M	As above
Season	High/Low	5	M	Year round tourist season but certain periods of lower demand
Operator	Independent	5	M	Lacks global brand image, marketing, reputation and track record
Occupancy	TBD (Forecast 75%)	7	H	Due to tourist seasons this occupancy may not be achievable
Competition	Low	3	L	Not overly affected by competition, but a new entrant could have an impact
Exit	Open Market	9	H	Re-sale market for this type of property, in this location, is not established
Yield	Fixed company guarantee 10%	4	M	Returns are fixed but only underwritten by the management company
Purchase Price	Hard to value	9	H	There is no independent valuation or reasonable comparisons available
On-going Costs	TBD	10	H	Investors are unaware of what costs they may be liable for in future
Currency Risk	USD	5	M	Currency risk for Sterling to USD exchange rate
Property Market	Flat	7	H	Hard to establish what the re-sale price for this type of property would be
Total		85/130	H	**This is a high risk off-plan investment which has already been hit by delays**

Source: Intelligent Partnership

RESEARCH AND DUE DILIGENCE

There are a number of risks associated with unregulated property investments, and these risks can be even greater when it comes to off-plan property in far off locations.

WHERE TO START?

There are so many considerations with purchasing hotel and resort property that it can be hard to know exactly what to look for. Marketing and promotional materials are generally full of benefits but do not always explain the risks in detail.

Unlike regulated products, investment property providers can make outlandish claims and advisers cannot rely upon statements made in the marketing literature.

Providers also tend to use computer generated images to portray the finished project, but rarely include actual photographs of the site or information on the current stage of construction.

This type of information is important for investors. The regulator made this clear in January when the FSA issued their alert regarding Harlequin Property. They stated that adviser's due diligence should include:

1. Consideration of how building work is progressing on the various sites and any factors involved in reported delays to completion;

2. Establishing precisely how their customers' funds will be used during the construction phase and the terms of their purchase agreements;

3. A full assessment of all publicly available information about the overseas property investments through Harlequin Property and on all the parties associated with these investments.

RESEARCH

The following section covers some of the main due diligence considerations in detail, and in the hexagon diagram on the opposite page is a short list of initial questions investors, and their advisers, should be asking.

WHAT DOES THE INVESTOR OWN?

The investor must be fully aware of what they are purchasing and how they will own the property. Do they own the leasehold, how long is the leasehold for? Or do they own the property freehold? If this is a fractional investment, will they be allowed any use of the property?

It might seem like an unnecessary step, but it is also important to verify that the project sponsor actually owns the land they intend to build on.

Property/land ownership laws may be very different in some countries and therefore this should be checked by their lawyer.

The investor should also check exactly what is included in the purchase price. Does this cover the purchase costs? Does the purchase price cover the completed property or just the basic shell of the structure? Does this include any fixtures and fittings, or any furnishings? Is the investor liable for any further costs should the project fall behind schedule?

It is important to have these points checked and validated by a third party to ensure that no unexpected costs arise with the investment. Independent lawyers are used by both parties whenever residential property changes hands in the UK - the same should apply for an investment purchase, particularly overseas.

RETURNS

Property is an expensive and illiquid asset and may account for a large proportion of an investors' portfolio. Therefore returns must be high enough to reward the risks being undertaken. Returns from hotel and resort investments range from 8 to 10% per year which is attractive compared to returns from cash and bonds, but only comparable with high yielding large cap stocks (which of course are also more liquid and more highly regulated than property investments).

A number of investments offer guaranteed or fixed returns for an initial period, usually up to 5 years. Returns are either paid by the developer or through a lease arrangement with the management company. Due diligence is essential to ensure that the developer or management company can actually afford to pay these returns. Money may be put aside or held securely by a third party to cover the guaranteed returns. Investors should note that this money is likely to have come from their initial investment and was factored into the sale price of the property by the product provider.

Guaranteed returns can make it hard to accurately assess whether the investment has been producing a high enough profit to pay on-going returns. Investors should consider previous projects from the same product provider and see whether these are paying investor returns after the initial guaranteed period has ended.

Investors need to ensure that returns are realistic and achievable. Do they rely on high occupancy levels? Are these occupancy levels achievable?

Property also offers the potential for capital growth over the long-term. This can often be where a large amount of the investment return comes from, particularly with off-plan property investments. But this additional return is not risk-free: it comes with much more risk attached: the risk that the development might fall behind schedule, run into unforeseen difficulties, not be completed to specification or never complete at all.

OCCUPANCY

Occupancy will fluctuate - different locations and different types of hotels will have different customers and tourist seasons. Some hotels may be in locations that have almost year round demand but most resort hotels are likely to see demand fluctuating according to tourist seasons.

"Unlike regulated products, investment property providers can make outlandish claims and advisers cannot rely upon statements made in the marketing literature."

There may be periods of very high occupancy, followed by long periods of very low occupancy. The average occupancy achieved over the year is what is important.

Occupancy for the first few years of operation is likely to be low as the hotel establishes itself and builds market share. This is why many developers offer a guaranteed to cover this period of lower occupancy.

Investors should consider the projected occupancy rates for the hotel and compare these to what similar established hotels nearby are achieving. If predicted occupancy rates are higher - this should be considered a red warning flag.

Consider what occupancy the hotel needs to make a profit. Is there a big enough margin between this break-even point and the predicted occupancy for the hotel?

LEGAL ADVICE

It is essential for all information relating to the purchase of the property to be verified by a third party, preferable a lawyer.

They will undertake their own due diligence on the purchase and look into building guarantees offered by the developer, ensure that full planning permission is in place and that the land title is correctly owned by the developer. They will also check contracts of sale and ensure that the investor holds the correct title on the property once the transaction is completed. The lawyer should also look into any ownership restrictions or foreign investment restrictions that could impact the investment.

It would also be advisable for the lawyer to review any agreements for the on-going management of the investment (if applicable) and ensure that these are fair to both the investor and the management company. This will help to define the role of the management company and any costs that they will pay on behalf of the investor, and also help the investor understand what rights they have should the management company not perform as contracted.

The investor should get an independent valuation on the property, ideally by an experienced property surveyor who is accredited by the Royal Institute of Chartered Surveyors (RICS) or equivalent body.

TAX ADVICE

Tax advice is essential to understand the tax implications of the purchase. There could be upfront taxes due on the purchase and on-going taxes on income. The tax advisor should have knowledge of the relevant tax laws for the country where the investment is based to ensure that all property taxes are correctly paid and settled when due. This reduces the likelihood of a very large tax bill in the future.

They will also be able to advise whether there is a double taxation agreement in place for rental income earned abroad (so the investor avoids being taxed twice, once in the investment location and once where they are domiciled) and what taxes may be due when the investor comes to exit the investment, such as capital gains tax.

INSURANCE

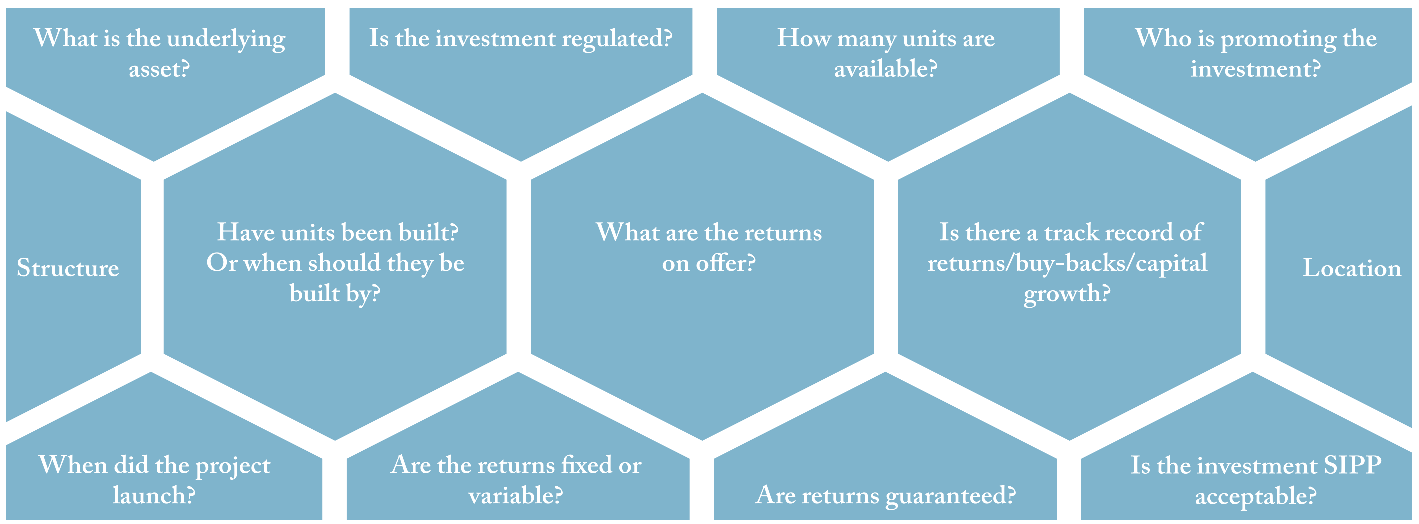
Insurance is important for any physical asset. With off-plan investments it is likely that the developer will cover insurance throughout the build stage until the purchase is completed. For re-sale or ready built properties buildings insurance should be taken out as soon as the purchase is complete.

If there is a management company in place, check what insurance cover they provide over the property. This should include personal liability cover as well as buildings and contents insurance, and should be outlined in the management agreement.

COSTS

There are likely to be a number of costs with the investment, property purchase costs can be high and vary widely by country. The investor is likely to be liable for upfront and on-going costs.

DUE DILIGENCE CONSIDERATIONS (2013)



Source: Intelligent Partnership

"There is no end to the amount of research and due diligence that can be undertaken when assessing a potential property investment."

Upfront costs may include notary and legal fees, land registry, stamp duty or purchase taxes, survey, tax adviser fees, transaction/administration, bank and mortgage arrangement fees.

The exchange rate will affect overseas properties and presents a currency risk, as well as the added costs of exchanging money for the purchase.

On-going costs may be similar to owning a buy-to-let property and include ground rent, council/land tax and maintenance fees due on an annual basis. If the property is managed on behalf of the investor, or as part of a resort/hotel complex, then there will also be management charges which are likely to account for a percentage of room revenue.

The investor should check whether they are liable for upkeep and maintenance of the property, or whether this is covered by the management company.

DEPOSIT

With off-plan investments the investor is usually only required to pay a deposit to secure the property with the remaining price paid as staged payments once the project hits certain build milestones. The initial deposit is usually 10% of the purchase price although this can vary widely.

The investor must ensure that monies are used correctly and if necessary check that they are held securely by a third party until certain building work has been completed. Ideally held within an escrow account or backed by a deposit protection bond. This would ensure that the investor receives their initial deposit back should the developer not hit certain build targets. This incentivizes the developer to keep the build on track and means that the investor isn't committing all of their capital upfront.

MORTGAGE/FINANCE

Non cash investors will require further funding through either a loan secured against the property (mortgage) or through developer finance. Investments sometimes advertise preferential mortgage rates with banks and it is essential to research these to ensure they actually are a good deal.

Investors should also check whether the loan is to be secured against the investment property, or against their own home or personal assets. Banks do not often lend against off-plan property and may require the investor to use their own personal assets as collateral. This can mean that the investor is putting their personal assets at risk, and should the investment property not be built they could lose more than their initial investment. Any kind of financing dramatically increases the risk.

CURRENCY RISK

Currency risk will affect all investments that are made in a foreign currency. Note that some investments are sold in pounds sterling (£), but the asset will be valued in the local currency. It is priced in this way to make it easier for the investor to understand and compare to property prices they are familiar with – but investors should not let that disguise the additional element of risk.

When investing in a different currency, for example a UK buyer purchasing in France, the current exchange rate would need to be taken into account.

Costs, returns and the value of the property will all fluctuate with the exchange rate.

The exchange rate will also affect the sales price of the property when the investor transfers the money back into their home currency.

PRODUCT PROVIDER

The investor should know exactly who they are dealing with and who contracts are between. With such a large number of property agents in the market it is likely that the investors' first contact will be with an agent, rather than the product provider. The investor should speak to all counterparties involved to be sure of exactly who is responsible for each aspect of the investment.

Check the product providers' record and identify any previous projects that they have been involved with. If they do have previously built projects then an inspection visit could help to establish whether they live up to the investors' requirements and expectations.

Any previous projects that have failed or been delayed are a worry, but in construction delays do happen and it would be beneficial to understand what caused them.

DEVELOPER

The product provider is likely to outsource the construction of the project to a local developer and workers.

As with assessing the product provider, it is important for investors to research the developers' track record. They are ultimately responsible for the building of the property which must meet the specifications and quality expected.

Investors need to look at their previous projects and potentially visit these. Some developers offer build guarantees or discounts for delays. This may be built into the purchase contract.

Any responsible developer will have strict deadlines and milestones. Ask to see a copy of the project plan.

PLANNING

Investors should check that the developer has the necessary local knowledge to comply with building regulations and local planning laws. Verify that the appropriate planning permission has been obtained.

ROLE OF AGENT

Distribution of directly held property is unregulated and relatively unrestricted, although a number of property agents are part of the Association of International Property Professionals (AIPP), the industry body for the international property market. The AIPP aims to improve standards of professionalism in the sector with members agreeing to follow a professional Code of Conduct.

Investors should take into account how the investment was marketed and promoted to them and understand the role of the property agent.

Property agents work on behalf of the product provider and are usually paid a commission based on the sale price of the

"Hotel and resort property can present additional risks to investors as an unregulated and illiquid investment."

property. The investor must be sure that it is in their best interest to invest and if they are unsure they should seek independent advice. Agents are NOT advisers, they are salesmen. Some may be good, some may be bad, but only an authorised IFA can give genuinely independent financial advice.

The investor may be offered a free inspection visit which is useful, but don't lose sight of the fact that this is essentially a marketing ploy. An independent inspection visit will give the investor greater freedom and mean they won't feel tied to the product provider or property agent. This should give the investor the chance to meet the developer and see the location first hand.

MANAGEMENT COMPANY

The management company can be vital to the success of the investment. They are in charge of the day to day running of the property, room rates and occupancy. The investor will most likely sign a management contract with the management company taking a set percentage of rental revenue in payment for their services.

This rental contract should be checked by a lawyer to ensure it is fair on both parties and has safeguards in place should the management company not perform. The investor must be sure that they are completely satisfied with the services offered by the management company. It is essential to look into the management company's track record and the performance of any other properties that they manage.

A new or independent management company could be more risky as they may not have the required experience or brand reputation to establish a share of the market and fill the property.

EXIT STRATEGY

For the majority of investments the exit is likely to be open-ended, meaning that the investor can sell and exit whenever they see fit.

Some investments offer a defined exit strategy, most commonly a developer buy-back. The developer may offer to buy the unit back off the investor after a set period of time for a defined amount, such as 120% of the original purchase price. It is essential that the investor gets independent legal advice on any buy-back agreement to ensure that they fully understand it. The buy-back will only be honored if the developer has the capital to re-buy the units when the time comes, and there is no guarantee that this will happen.

The most common exit strategy is to sell the asset on the secondary market. Obviously a profitable exit is very much dependent upon the performance of the asset – the success of the property itself.

Investors should consider their exit strategy from the outset and see if there is an established secondary market for similar properties. Local property agents may have clients who have successful re-sold similar properties. Sellers can use local property agents, or the product providers sometimes offer a re-sale service.

Of course, there are transaction costs associated with the sale of the property which will lower the eventual return.

Property is an illiquid asset and investors should be aware that it can take a long time to sell and exit the investment. Property prices can be volatile — particularly in this sector — and if investors need to exit quickly they may have to accept a much lower price than they were expecting.

OTHER FACTORS FOR SUCCESS

There are other factors potentially underpinning the success of the investment which investors need to consider.

1 Is the success of the investment relying upon improvements to local infrastructure or transport links which is not in the hands of the developer?

2 Would a tour operator pulling out of the location/airport be detrimental to the success of the property?

3 Is there demand for the property in the local area?

HIGH EFFORT

This may sound like a lot of effort, and it is. Investing in hotel and resort property is no different to investing in any other business and in fact has some additional risks as an unregulated and illiquid investment. Investors will be committing significant amounts of long term capital, so it is essential to leave no stone unturned when investigating an opportunity.

DISTRIBUTION UPDATE

Property is one of the most familiar asset classes in the UK and one that many investors feel comfortable investing in – perhaps because of the tangible nature of bricks and mortar or because so many people own their own homes.

Commercial property has long been the backbone of traditional 'true' Self Invested Personal Pensions (SIPPs) that have discretion to invest in a wide range of assets and many SIPP portfolios have been built around a core property holding.

This background of investor comfort with property on the one hand, and the tradition of holding commercial property in a SIPP on the other, has helped to fuel a small but significant boom in investment into the hotel and resort sector over the last six years. This boom has resulted in many issues which have prompted intervention from the regulator.

PHASE ONE

Loose regulations, unregulated distribution and higher risks. There were a number of features of this mini-boom which concerned the regulator. Perhaps the biggest issue centered on ordinary retail investors: investors who are not sophisticated or high net worth and who do not ordinarily have much appetite for risk or capacity for loss. Normally when these investors take professional advice they would be placed into well diversified portfolios of less volatile, liquid assets, in line with the regulators expectations.

However, as the direct purchase of property (even for the purposes of investment) is not regulated by the FSA/FCA, for many investors advice never came into the equation. Non-regulated introducers were free to promote property investments to the public. Some of these introducers were (and still are) well trained ethical business people, but some were motivated solely by commission and achieving sales.

Likewise, as the investment was not regulated the developers were not bound by the same rules around marketing and promotional literature that regulated investments are, and were free to make overly optimistic claims for the levels of risk and return associated with their product.

Many investors were led into making investments that were not appropriate for them: investing in more speculative, off-plan developments; investing in assets that were illiquid and hard to value; investing too much of their wealth into just one scheme; borrowing to invest; or investing in schemes with esoteric, hard to understand legal structures. It should be noted that on their own, none of these things are necessarily bad but each one adds another element of risk to an investment. At the same time, a number of new developments in the distribution landscape had sprung up.

Firstly, some regulated advisers who were keen not to miss out on this opportunity had begun to help clients make investments into hotel and resort property on a 'non-advised' or 'execution only' basis. In this way they could offer the investment to their existing client banks and earn the same commissions as an introducer. The difficulty arises if the consumer still thought they were getting advice or that the investment had the same protections (FOS, FSCS) as a regulated one.

Secondly, property investment intermediaries started to use SIPP transfer companies. This enabled introducers to hand off clients who had existing pensions that could be consolidated in a SIPP. These newly liquid clients would then be handed back to the introducer, only now with the funds available to invest in a property scheme.

Again, it should be noted that there is nothing wrong with an execution only investment via an IFA and there is nothing wrong with using a SIPP transfer company – but the abuse of these developments did increase the risk of consumer detriment within the hotel and resort property market.

In short, it was a loosely regulated market with a large number of non-regulated introducers motivated by high levels of commissions. They were promoting un-regulated products to ordinary retail investors, with the added possibility of accessing those investors' pensions as well as their cash savings. Of course this was a recipe for poor consumer outcomes in some cases.

The final caveat to note – this didn't just apply to hotel and resort property, but it was one of the most prominent in the alternative investment sector.

PHASE TWO

Tighter regulations, restricted distribution and lower risks. The FSA/FCA has taken a number of steps over the last twelve months to address these issues.

DISTRIBUTORS

The first area they addressed was the one where they had a clear remit, the behavior of regulated advisers. In their consultation paper CP12/19 and subsequent policy paper PS13/03 they made it clear that unregulated collective investment schemes (UCIS) and 'close substitutes', now defined as 'non-mainstream pooled investments' (NMPIs), were no longer considered suitable for ordinary retail investors.

This prevented advisers from promoting hotel and resort property UCIS to anybody who was not a HNW or sophisticated investor. It also cast doubt on a number of property schemes that could be considered to be 'close substitutes' and therefore this had implications for product providers and non-regulated introducers as well.

Previously the assumption had been that these schemes were not collectives and therefore could be operated and promoted without authorisation. PS13/03 opened up the possibility that they would be considered to be collectives, and therefore operating and promoting them without authorisation would be a criminal offence.

There has already been at least one incident of the regulator changing their opinion on whether a scheme was an unregulated collective. The FCA has also brought a high court case against Capital Alternatives, accusing them of running an unauthorised collective investment scheme.

In addition to the new policy papers, the Financial Ombudsman Scheme (FOS) has made it clear that execution only cannot be used as a way of side-stepping regulation; the appropriateness test in COBS 10 still applies even to execution only sales.

These steps were enough to encourage the vast majority of IFAs to scale back their activity in the hotel and resort property investment market.

"There has been a small but significant retail investment boom into the hotel and resort sector, this has resulted in issues which prompted intervention from the regulator."

DISTRIBUTION CHAINS (FROM THE LOWEST TO HIGHEST REGULATORY RISK

- Client ➜ IFA ➜ Advised cash investment
- Client ➜ IFA ➜ Advised SIPP transfer ➜ Advised SIPP investment
- Client ➜ Introducer ➜ IFA ➜ Cash investment
- Client ➜ Introducer ➜ IFA ➜ Advised SIPP transfer ➜ Advised SIPP investment
- Client ➜ IFA ➜ Non-advised investment
- Client ➜ introducer ➜ non-advised investment
- Client ➜ introducer ➜ IFA ➜ advised SIPP transfer ➜ introducer ➜ non-advised investment

Source: Intelligent Partnership

SIPPS

The second area the FSA/FCA addressed was the use of SIPPs to invest in this sector. They also took the unusual step of focusing on a specific product – Harlequin Property.

Harlequin always grabbed the headlines, it was a high profile investment with a large sales and marketing presence, paying sizeable commissions and promising high annual returns and capital growth; it also ran behind schedule on its building programme due to issues with a fraudulent contractor.

In an alert regarding Harlequin, the FSA made it clear that the SIPP transfer advice process was not being followed correctly in some cases. It is not acceptable to advise on the SIPP wrapper only, which in many cases was the model used to make funds available to invest in Harlequin. Any adviser who is advising a client on the merits of transferring their current arrangements into a SIPP must also consider the suitability of the proposed new investments that will be held within that SIPP.

To drive the point home the same alert also outlined the sorts of areas advisers should look into when considering the suitability of an investment in Harlequin. This included the progress of building work, how funds will be used and any other publically available information. Based on this it would be difficult for any adviser to recommend ordinary retail clients open a SIPP with the purpose of investing in Harlequin or a similar style property investment.

Finally, the FSA also issued another consultation paper – CP12/33. This proposed new and rather onerous capital adequacy requirements on SIPP operators where the SIPPs held alternative asset classes. Controversially, commercial property was categorised as an alternative asset.

The consultation closed in February, but there is resistance to the current proposals from small scheme operators, voiced through their industry body the Association of Member Pension Schemes (AMPS).

Commercial property is the backbone of many SIPPs and unnecessarily penalising operators for having commercial property assets seemed a little draconian. AMPS have obtained 55 of the 57 industry responses to the consultation through a Freedom of Information request. While there was strong backing for extra consumer protection, there was minimal support for the formula the regulator has proposed.

They have suggested that as an interim measure the FCA should raise the minimal capital level to £50,000 and then carry out more detailed analysis of the appropriateness of basing SIPP capital requirements on assets rather than expenditure.

However, even though AMPS anecdotally appear to be making some headway with the FCA, the potential threat of having to find much larger capital reserves has led to many SIPP operators closing their doors to any new investments that might be considered non-standard assets, including hotel and resort property.

These two steps have dramatically reduced the use of SIPPs for investment in the sector and taken together with the restrictions imposed in PS13/3 there is now a much narrower market for hotel and resort property, resulting in more products chasing fewer distributors.

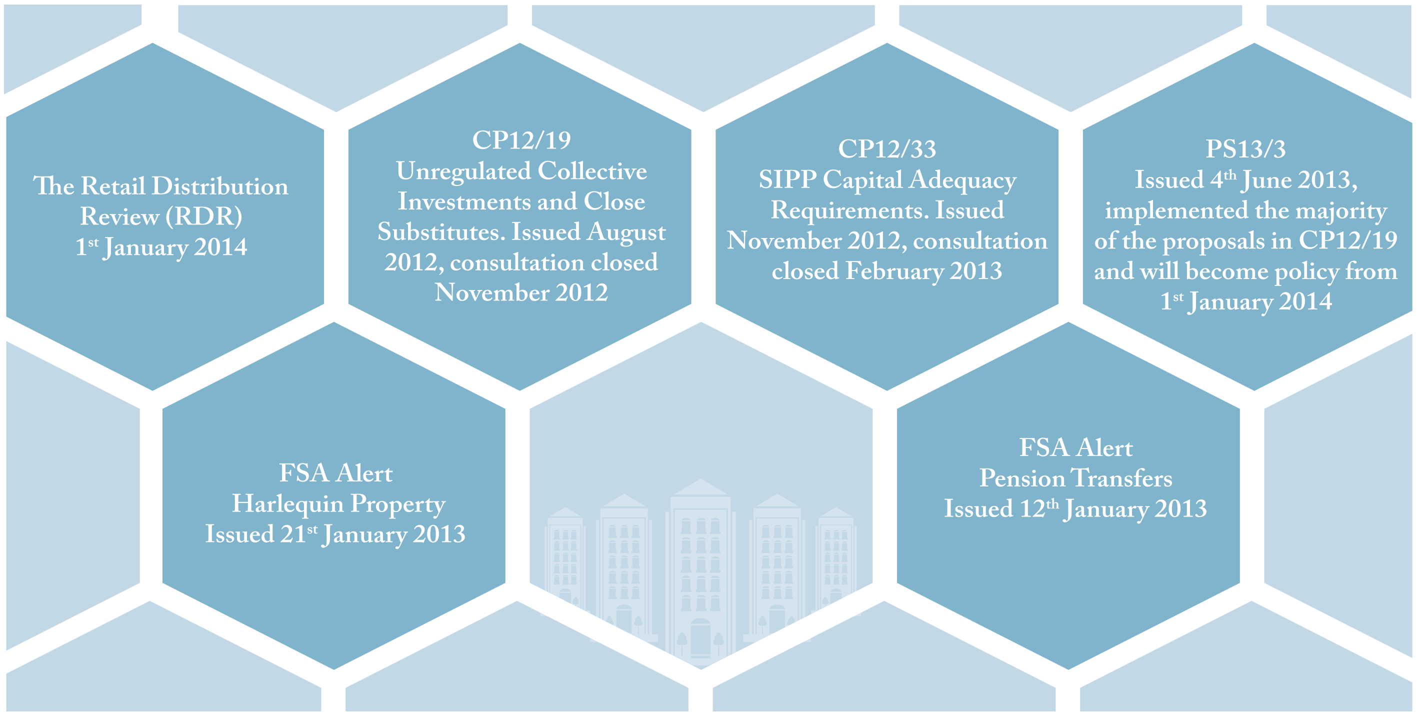
However, there is no sense that investors' appetite has diminished. Bricks and mortar still appeal and despite strong returns over the last five years many investors are still weary of mainstream assets. It seems that the challenge for product providers is to secure productive distribution that complies with the new regulations.

WHAT IS AN NMPI? (As defined in PS13/03)

- UCIS
- Qualified Investor Schemes (QIS)
- Securities issued by Special Purpose Vehicles
- Traded Life Settlement Policies

"The FCA has taken a number of steps over the last 12 months to address some of the issues surrounding the promotion and sale of unregulated investments."

KEY ANNOUNCEMENTS FROM THE REGULATOR



Source: Intelligent Partnership

CONCLUSIONS

It's clear that as regulations in the sector have tightened, the number of distributors has fallen and a large number of investors have been excluded from the market -leaving more products chasing successful distribution to fewer potential investors.

There are of course some unintended consequences with all of this.

Firstly, many investors may be prevented (or at least discouraged) from accessing investment opportunities that would have been good for them.

Secondly, there has been some suggestion that the new regulations and narrowing of the market have caused something of a liquidity crunch. This was the reason the Brandeaux student property funds cited behind their decision to stop redemptions in June, with the Mansion Student Accommodation Fund following suit in October. You can see our video on the issue here: Property-funds-and-the-issue-of-liquidity

Thirdly, as noted above it is very difficult to exclude one class of investment from SIPPs without undermining the 'self-invested' part of the SIPP concept and potentially penalizing people for holding the sensible commercial property investments that are at the core of many SIPPs.

Finally, the direct route is still open. An investment property that is not a collective is still outside of the regulator's remit and can be sold by unregulated introducers to ordinary retail investors. Many hotel and resort property investments will continue to use this distribution channel (albeit with fewer SIPP purchases being made) and some elements of bad practice, such as making overblown claims for the investment in the marketing literature or the use of boiler room sales tactics, will persist.

PROPERTY AND SIPPS

SIPPS

Self-invested personal pensions allow investors far greater choice of where to invest their pension funds than regular stakeholder pensions. There are a wide range of investments allowed within a SIPP, but some assets are excluded. The main exclusions are residential property and tangible moveable property (TMP) such as fine wine, art or classic cars.

A large number of hotel and resort property investments are structured and classed as commercial property to allow them to be held within a SIPP. The investor must not have any personal use of the property, and all returns and costs will be paid into and out of the SIPP.

Money Management have recently released a special report looking at SIPPs (October 2013) and what is and is not allowed by certain operators. Some of the key findings from this research include:

66% of SIPPs accept Commercial Property.

29% accept Off-plan Hotel Rooms.

51% accept UCIS (although this doesn't take into account the underlying asset).

53% accept Unquoted Shares (again this does not take into account the underlying asset).

The investor can increase the amount of money available to invest by borrowing up to 50% of the value of the SIPP. A number of SIPP acceptable property investments encourage investors to take this step.

Money Management also looked at commercial property holdings in SIPPs in more detail and broke this down into Hotel Rooms, UK Properties, Overseas Properties and Land Banking. Some of the key findings from this research include:

80% of providers disclosed their holdings as part of the survey.

780 is the average of properties held per SIPP provider (that disclosed their holdings).

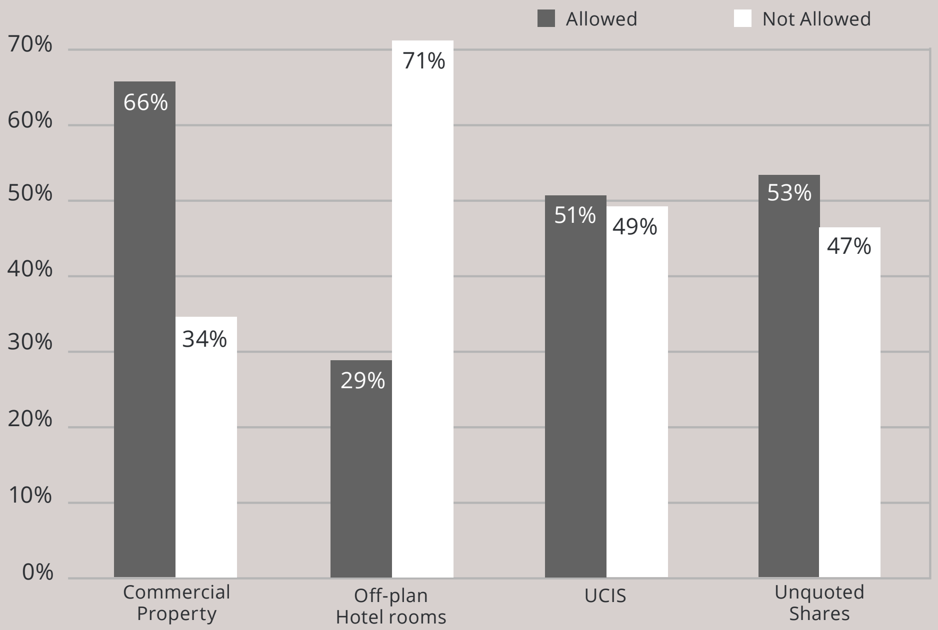
20% of providers disclosed their total holdings but didn't split this down by category.

4 - 5,025 is the range of total holdings per SIPP provider.

258,832 is the average property value across all providers.

£50,500-£686,458 is the average range of property value across all providers.

MONEY MARKETING SIPP REPORT (2013)

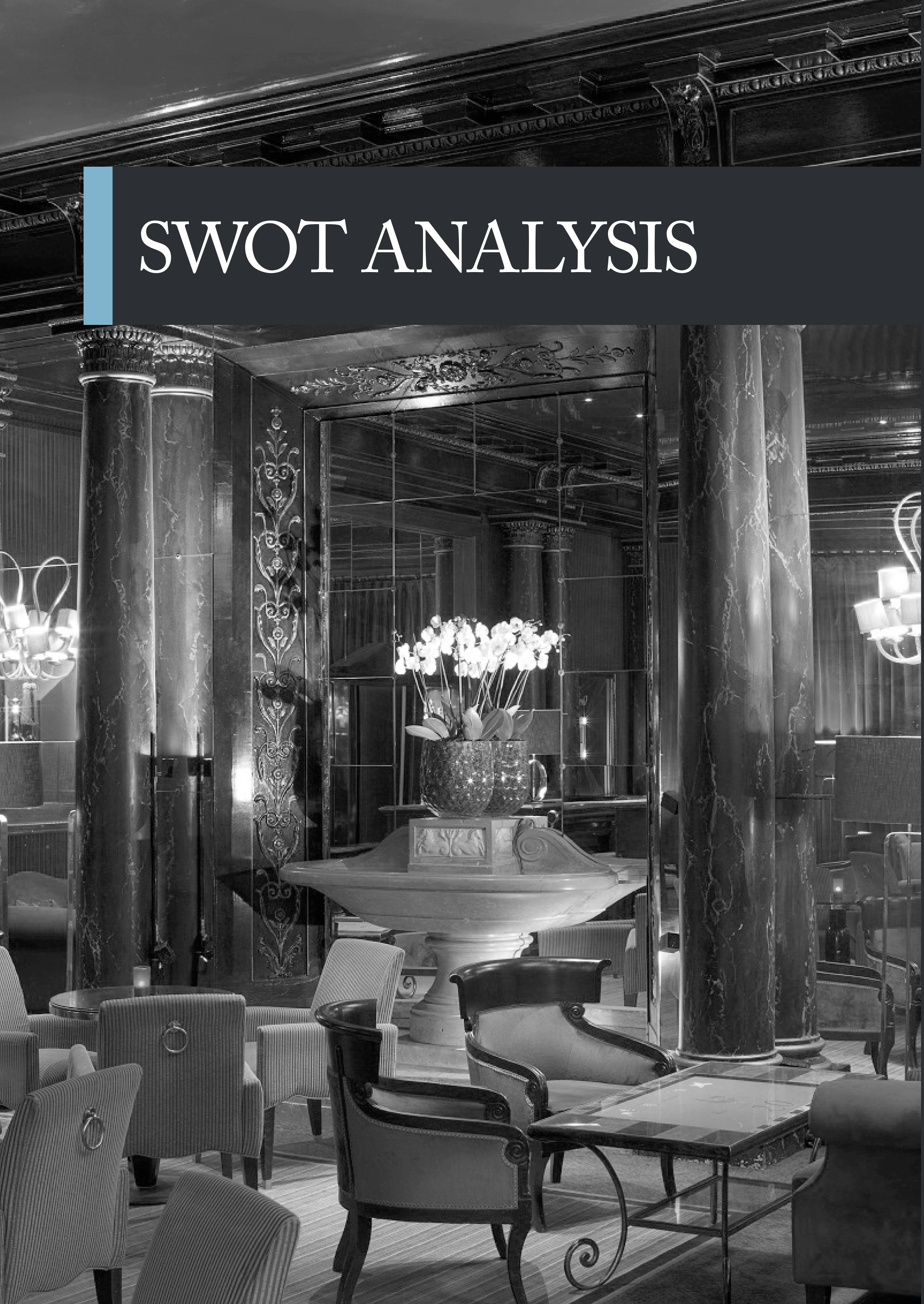


Source: Money Management

COMMERCIAL PROPERTY IN SIPPs

Hotel Rooms	1,184
UK Properties	15,025
Overseas Properties	398
Land Banking	423
Not Specified	11,334
Total Properties	**28,364**

Source: Money Management



SWOT ANALYSIS

"We can use a SWOT analysis to assess the strengths, weaknesses, opportunities and threats for the hotel and resort property sector."

STRENGTHS

1. Consumer preference for bricks and mortar investments
2. Potential for very high returns
3. Investment and lifestyle sales are both possible
4. Many, many products in the market – something for everybody (different locations, price points, stages of development, risk, return, business model...)

WEAKNESSES

1. There have been some high profile failures and some outright scams.
2. The non-advised, direct to client (D2C) route can lead to high pressure sales tactics, mis-selling and inappropriate investments
3. The non-regulated status of direct investment products means that they are subject to lower levels of scrutiny and their marketing literature can be heavy on benefits and light on the risks
4. Many, many products in the market – it is a competitive space and it can be difficult for product providers and distributers to gain any traction

OPPORTUNITIES

1. Direct investment products (i.e. non-collective) still have a D2C distribution channel with no restriction on who the products can be promoted to
2. Investors are still wary of mainstream markets and looking for alternative assets to diversify their portfolios

THREATS

1. The D2C channel is open to abuse
2. Any collective investment structure now faces restrictions on who it can be marketed to and a much reduced SIPP market to target.
3. Some providers that use structures that they consider not to be collectives may be challenged by the FCA, with dire consequences for the operators and promoters.
4. Hotels cannot qualify for EIS (Enterprise Investment Scheme) status. EIS offer significant tax breaks – this new and rapidly growing market may attract investment that would otherwise have found its way into hotel and resort property.

PRODUCT PROVIDER SURVEY ANALYSIS

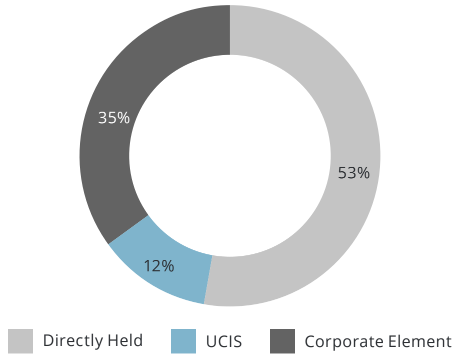
"This analysis is based on a survey of over 200 property developers and product providers."

We identified and surveyed over 200 property developers and product providers. We received a 21% response rate to the survey, with 2% of these responses not being applicable to be included in this analysis. This analysis is therefore based upon a response rate to the survey of 19%.

The survey included over 90 questions although not all of these questions were mandatory or would apply to all projects. A number of important questions have been selected as a base for this analysis.

ABOUT THE INVESTMENT

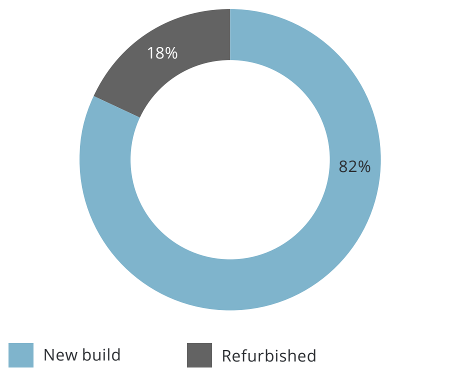
Q. Investment Structure



Source: Intelligent Partnership

A. The investment structure corresponds closely to the investment register with directly held property investments accounting for the large proportion of the sector (53%). This is followed by investments with a corporate element and a small number of collective investment schemes.

Q. Type of Property



Source: Intelligent Partnership

A. The vast majority of investments are new build properties which is consistent with what is seen in the wider hotel and resort property sector.

Q. Has the number of units (or size of investment) changed since the inception of the project?

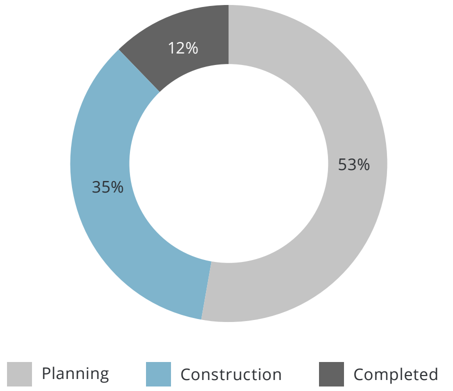
A. Over 35% of respondents have changed the number of units available or size of investment required, with over 80% of these increasing the number of the units. The reasons given for these increases were demand, potential for higher yields and planning consent being granted for expansion.

Q. Has the price of units changed since the inception of the project?

A. Nearly half (47%) of respondents have changed the price of the investment since it was launched. Of this, just over 60% increased the price due to demand, quality and the type of client attracted to the investment. The remaining 40% lowered the price due to the economic situation and lower than predicted demand.

STAGE OF DEVELOPMENT

Q. What development stage is the project at?



Source: Intelligent Partnership

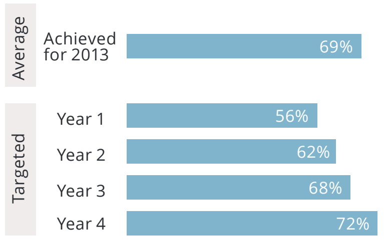
A. A large number of underlying properties are still in the planning stage (53%) although it is unclear how long they will be in planning and when construction is scheduled to commence. 35% of underlying properties are currently under construction, with only a small number (12%) completed. These survey results correspond to the investment register analysis seen earlier.

Q. Were/will building works be completed on time?

A. Less than a quarter (24%) of respondents expected building works to be completed on time. Nearly 30% said that there had been (or they expected) a delay with almost all of these expecting the delay to be longer than 12 months. The remaining respondents did not give an answer to this question.

OCCUPANCY

Q. Achieved Occupancy for 2013 vs. Targeted Occupancy



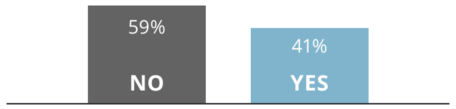
Source: Intelligent Partnership

A. The average occupancy achieved from properties that have opened is 69% for 2013 (to date). This is a strong level of occupancy when compared to average targeted occupancy rates which range from 56% in year 1 to 72% in year 4. Occupancy targets are high compared to average global occupancy figures but they are not unachievable.

SIPPS

The use of SIPPs for investment into hotel and resort property has been widely documented and looked at in detail in this report.

Q. Is the investment SIPP Accepted?



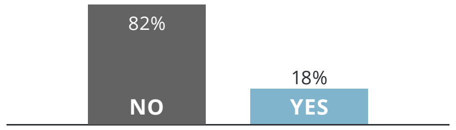
Source: Intelligent Partnership

A. 41% of respondents said that their investment was able to be held within a SIPP. Responses seem to indicate that there has been a reduction in SIPP investment activity in 2013 due to increased regulatory scrutiny on the sector. This supports issues highlighted elsewhere in this report.

However, it is clear that SIPPs are still a strong driver behind the sector. Based on those investments that are SIPP acceptable, 68% of investment volume came from SIPPs with the remaining 32% from cash investors.

RETURNS

Q. Does the investment offer guaranteed returns?



Source: Intelligent Partnership

A. Only 18% of investments included in the survey offer guaranteed returns, which is lower than the proportion see in the investment register analysis for the hotel and resort property sector as a whole. The same proportion (18%) pay returns to investors before building work has been completed.

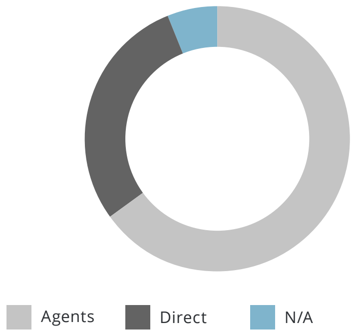
Only 2% of investments offer mortgages/development finance to allow investors to purchase more expensive properties.

DISTRIBUTION

Q. Is the property marketed to investors as well as lifestyle purchasers?

A. Over 70% of the investments are marketed to investors as well as lifestyle purchasers. Investors account for an average of nearly 70% of investment volumes with the remaining 31% from lifestyle purchasers.

Q. How was the investment sold/marketed to investors?

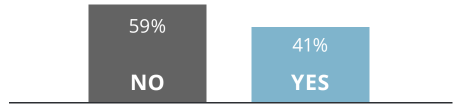


Source: Intelligent Partnership

A. Distribution through property agents and introducers is the most popular method. Based on those surveyed there is on average 30 agents distributing each property investment.

SALES

Q. Have any sales been made to date?

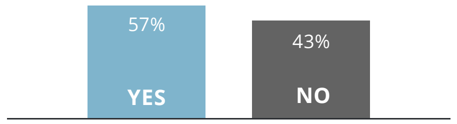


Source: Intelligent Partnership

A. Nearly 60% of respondents have not made any sales to date which corresponds with there being a large number of properties still in the planning stage.

Out of the 41% that have made sales to date, nearly a third said that sales during 2013 were worse than they had been expecting. Nearly 90% of those that have made sales to date feel that 2014 will be better or much better than 2013, with the remaining 10% feeling that 2014 will be pretty much the same.

Q. Have sales been affected by UK regulatory changes?



Source: Intelligent Partnership

A. Nearly 60% of those who have made sales to date believe that they have been adversely affected by recent regulatory changes in the UK. The main reasons given include that there is more caution in the marketplace, the impact of RDR has slowed sales, and high profile failures in the sector and the heavy handed responses to this by the regulator have scared investors.

OTHER INVESTMENT PROJECTS

Over half (53%) of respondents have another hotel and resort property investment available to investors.

Q. Are there any other projects in the pipeline?

A. 65% of respondents have a further hotel and resort property investment in the pipeline. This includes all of those that already have another investment available and shows that product providers are optimistic about the future for the sector.

CONCLUSIONS

This survey was well received by the hotel and resort property product provider community and has allowed some very interesting information to be collected and analysed. Some of the key points to take from this research include:

- The majority (53%) of the investments in this sector are into directly held properties;

- Over 80% are new build properties (including off-plan investments);

- Only 12% of investments surveyed were completed, with the majority (53%) in planning and 35% currently under construction;

- Average targeted occupancy rates range from 56% in year 1 to 72% in year 4;

- 41% of respondents said that their investment was able to be held within a SIPP;

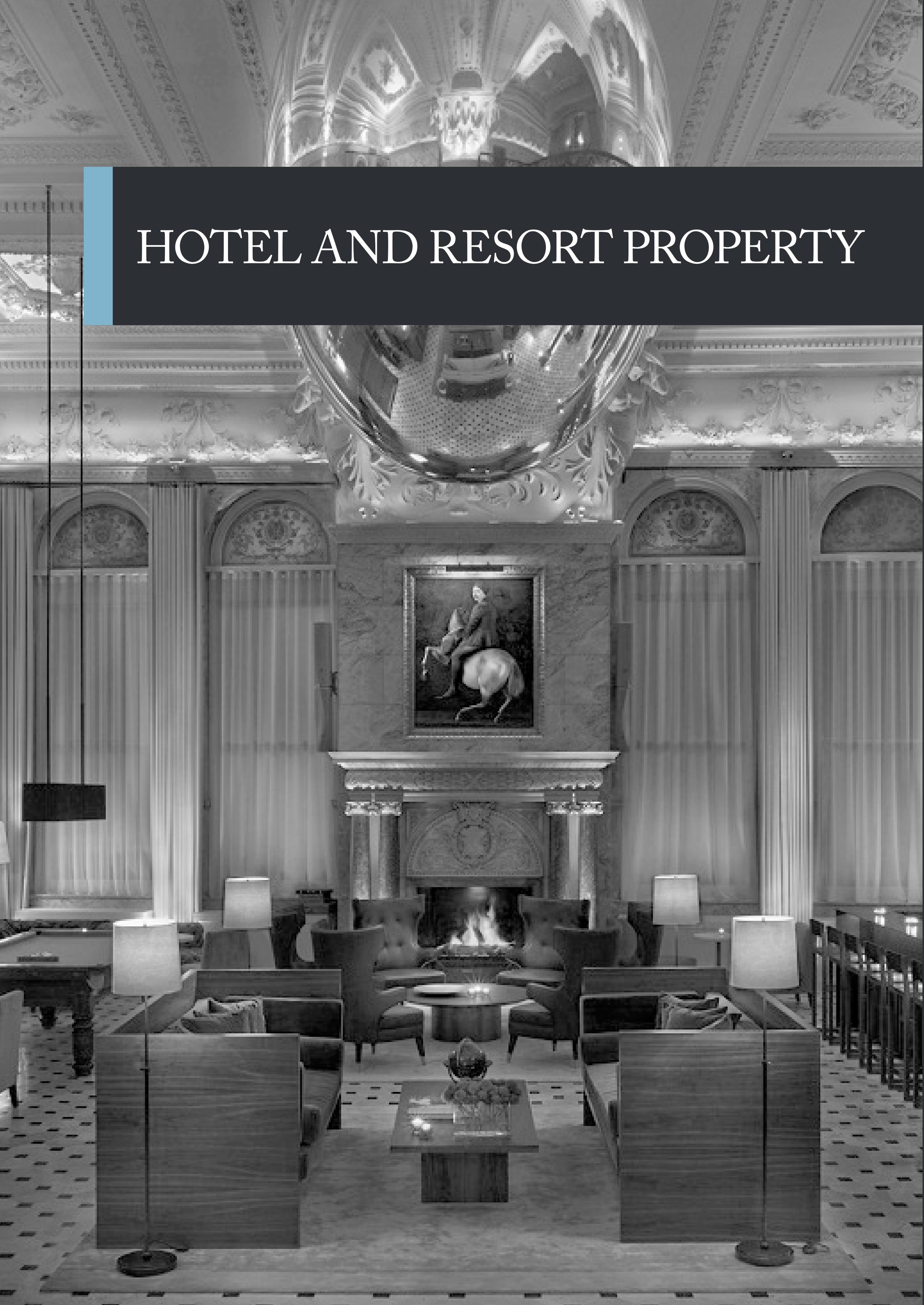
- Only 18% of investments offer guaranteed returns, which is much lower than seen on the investment register and implied from marketing literature;

- Distribution is primarily (65%) through property agents and introducers;

- Nearly 60% of product providers believe that sales have been affected by recent regulatory changes in the UK;

- 65% of respondents have a further hotel and resort property investment in the pipeline.

HOTEL AND RESORT PROPERTY



ALTERNATIVE INVESTMENT REGISTER

This alternative investment register gives the reader whole of market understanding of the opportunities currently open for investment, as well as including a number that have recently been fully subscribed.

The investment register includes 161 hotel and resort property investments available to retail investors, including 119 directly held property investments, 29 investments with a corporate element and 13 collective investment schemes. The information was sourced through internet based research.

This investment register is limited to investments that are openly marketed, those that are only marketed through closed channels are not included. This register provides a snapshot of the industry at a point in time (November 2013) and does not include historical information on investments that are no longer being marketed to UK investors.

The data gathering relied upon an exchange of information, with providers and promoters providing product literature and responding to relevant questions. The reliability of the responses and accuracy of the literature received was not verified and the research is based on the information provided.

DIRECTLY HELD

Directly held investments offer the investor leasehold or freehold title to the property which will then be managed on their behalf by a management company.

Returns are paid from rental income or through a leaseback arrangement. There is often a guaranteed return offered by the product provider for an initial period (up to 10 years). This can provide security and make the investment very attractive. Returns from directly held investments range from 7-10% per year and include a wide range of properties including beach resorts, ski chalets, holiday parks, luxury hotels, city centre hotels, budget hotels and business hotels.

Any investment that includes the direct purchase of property should be considered highly illiquid and potentially high risk. As these are direct purchases of property they are not regulated investments and are sold through unregulated channels.

The first directly held property investment launched in 2005 with 2008 seeing a large number of investment launches. 2009 saw a fall in new product launches but the segment has recovered strongly, with 29 new investment properties launching so far in 2013.

CORPORATE ELEMENT

Investments with a corporate element often include debt financing, with the most common investment structures being shares in special purpose vehicles (SPVs); bonds and loan notes issued by private companies and relationship agreements with property developers.

Investors can choose investments that either focus solely on long-term capital growth or fixed annual income, with both fixed and variable terms available. Due to their nature these investments should be considered illiquid and relatively high risk.

As there is a corporate element to these investments, they are not direct asset purchases and therefore promotion may be limited to only high net worth, sophisticated or institutional investors.

The first investment included on the register launched in 2006 with 2010 seeing the largest number of investment launches to date. There have been 6 new investments launched so far in 2013 and more are likely by the end of the year.

COLLECTIVE INVESTMENT SCHEME

Collective investment schemes pool investors' funds in order to purchase underlying property. The fund can purchase the entire asset which is then operated by a designated management company.

Pooling money in this way allows investors access to the sector and returns from rental revenue once all costs (including management costs) have been paid. Investors will also share in any profits from the fund as and when underlying properties are sold.

Collective investment schemes include regulated and unregulated structures such as unit trusts, limited partnerships, investment trusts, open-ended investment companies (OEICs) and unregulated collective investment schemes (UCIS). They can be operated on a fixed or open-ended term.

Collective investment schemes must be run by a regulated provider and can only be promoted through regulated channels. The FCA have recently restricted the promotion of UCIS to only high net worth, sophisticated or institutional investors.

The first collective investment scheme on the register was launched in 2007. 2010 saw a large amount of growth with the launch of 4 new products and the sector has since grown steadily with 2 new investments launched per year since 2011.

FINDINGS AND ANALYSIS

DIRECTLY HELD

There are over 119 directly held hotel and resort property investments from 56 different product providers included on the investment register which are openly marketed to retail investors. It has not been possible to identify every product provider operating in the segment.

The segment has seen a large amount of growth in recent years increasing by 36% in 2011, 50% in 2012 and 32% during 2013.

#1 LAUNCH YEARS

The first property investment was launched in 2005 and this has since sold out, with the property opening in 2010. 2008 saw a large number of investment launches with some of these still in construction. 2009 saw a fall in new product launches but the segment has recovered strongly. There have already been 29 new investment properties launched in 2013 with more expected by the end of the year.

#2 TYPE OF PROPERTY

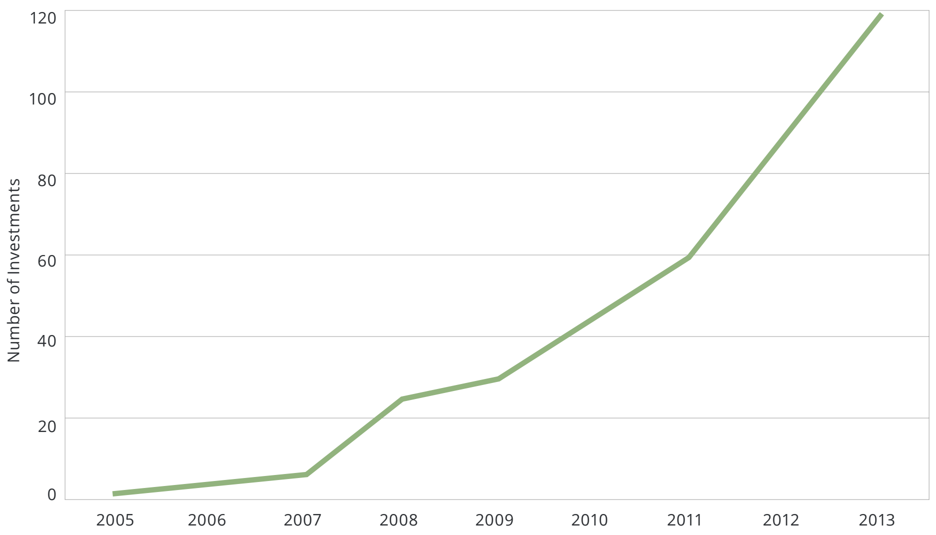
The directly held segment is dominated by beach resort properties which account for over half of the segment. This is followed by luxury hotels and ski resorts which account for 13% and 12% of the segment respectively. Holiday parks account for only 4% of the investment opportunities and are seen as very niche investments, offered by only one product provider.

There is a large amount of choice for investors. Different types of property operate in different market segments and will have different customers and levels of demand. Investors should take this into account when considering different properties. i.e. budget hotels may see increased demand during a recession, whilst luxury and city centre hotels may struggle due to their higher room rate prices.

#3 LOCATION

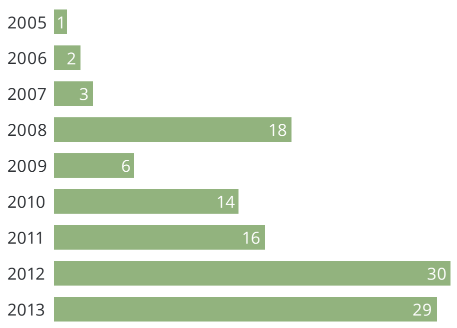
Investments are located in 24 countries across the world covering 12 different geographical regions. The United Kingdom has the highest number of investments (28) accounting for nearly 24% of the market, followed by France (22) with 18% of the market and Egypt (15) with 13% of the market.

SECTOR GROWTH (2005 - 2013)



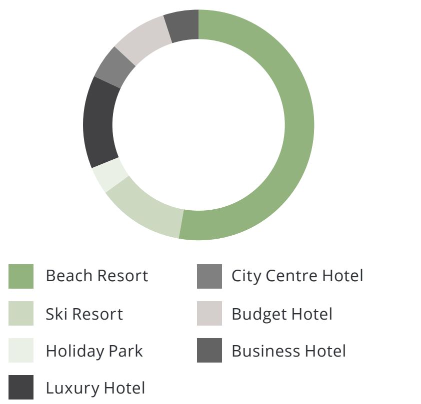
Source: Intelligent Partnership

LAUNCH YEARS (2005 - 2013)



Source: Intelligent Partnership

TYPE OF PROPERTY (2013)



Source: Intelligent Partnership

INVESTMENT LOCATIONS (2013)

SECTOR GROWTH

Again there is a very large choice for investors who can choose investments located close to home, potentially giving more security as they can visit the property and see construction in progress. Investors also have the choice of more exotic and developing locations, which may be higher risk but present the opportunity for stronger returns and capital growth.

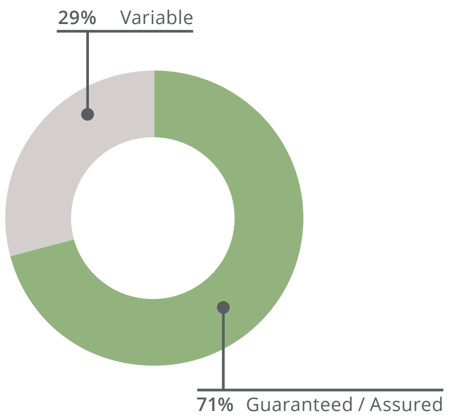
#4 RETURNS

Returns vary widely with a number of different assurances and guarantees offered. The highest return on offer is 25% per year which is assured by the product provider for 5 years. Other strong returns include 10.33% offered by the product provider for 10 years.

A number of leaseback properties offer lower returns but these are underwritten by long-term contracts such as 3.8% guaranteed per year for 18 years.

Over 70% of investments offer guaranteed or assured returns for an initial term, ranging from 1 to 10 years with the most common being around 5 years. This return may be built into the initial sales price of the unit. Guaranteed returns are generally offered as a company guarantee and will rely on the product provider or management company having the capital to pay these returns.

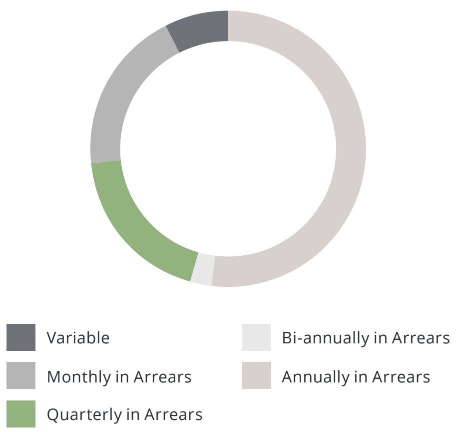
RETURNS (2013)



Source: Intelligent Partnership

Returns are most commonly paid annually or quarterly in arrears. Other investments pay on a monthly basis which can provide regular income for investors. Those investments that pay on a variable basis will change depending on the management company in charge of the property.

RETURNS (2013)



Source: Intelligent Partnership

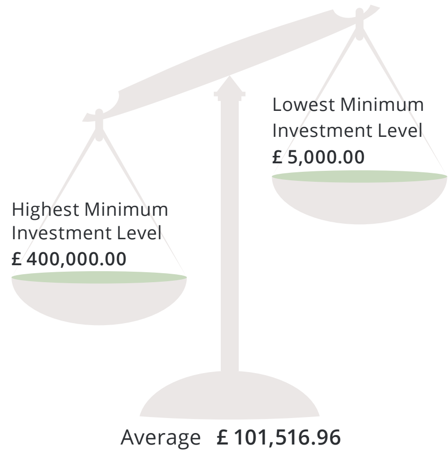
#5 MINIMUM INVESTMENT

The minimum investment required shows how accessible the property is to potential buyers.

A number of properties are sold as fractional investments to make them attractive to investors with less capital to invest.

Some investments also offer staged payments and financing, meaning that an initial deposit is required followed by a number of staged payments at a later date. This has skewed the results to some extent, but the minimum investment across the directly held segment is only £5,000. The investment with the highest minimum investment is £400,000, with the average investment required across the segment of just over £100,000. The median (middle) investment required is £85,000 and the mode (most common) is £60,000.

MINIMUM INVESTMENT (2013)



Source: Intelligent Partnership

#6 SIPP ACCEPTABILITY

A large number of investments claim to be SIPP acceptable and this is usually clearly advertised in the promotional literature and used heavily as a sales tool. Over 45% of investments in the register claim to be (or have been) allowable within a SIPP.

A number of SIPP providers have stopped taking execution only alternative investments and it is very likely that a number of investments that claim to be SIPP acceptable would no longer be accepted by the vast majority of SIPP providers on an execution only basis.

The remaining 55% do not claim to be SIPP acceptable (or at least do not market themselves as such).

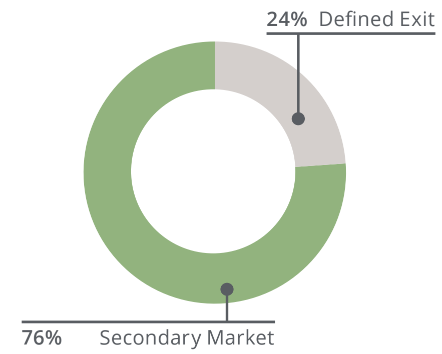
#5 EXIT

The exit is an important consideration for investors. Almost a quarter of investments are sold with a defined exit strategy, which is most commonly the developer or product provider offering to buy the property back off the investor after a specified period of time.

These are generally only "options" which either side can back out of. In the same way as guaranteed returns, the investor needs to judge whether they believe the product provider will honor or be able to afford the buy-back. There is no guarantee that the product provider will still be around in 5 or 10 years' time.

The majority of investments rely on the sale of the property on the open market. This is risky as the resale market for hotel and resort property is largely unproven.

EXIT (2013)



Source: Intelligent Partnership

FINDINGS AND ANALYSIS

"The number of investments with a corporate element have increased by 33% in 2011, 44% in 2012 and 26% so far in 2013."

CASE STUDY: BEACH RESORTS

As beach resorts account for over 50% of directly held investments in the segment it seems appropriate to analyze them in greater detail.

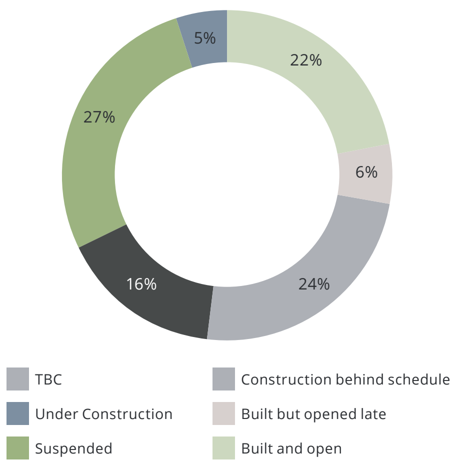
Over 60 beach resorts have launched to retail investors since 2005 and there have been a range of successes and failures.

Just under a third (27%) of resorts have been built and are now open. 6% of resorts opened behind schedule.

The worrying point for investors is that nearly a quarter (24%) of resorts are in construction but are running behind schedule and will therefore open later than originally planned.

A number of investments (16%) in this segment have been suspended or have failed. This is largely made up of Harlequin Property investments which are currently suspended and are awaiting restructuring.

CONSTRUCTION STAGE (2013)



Source: Intelligent Partnership

The remaining resort investments are either currently under construction or their status is to be confirmed. We have not verified whether these investments are running to schedule or not.

It seems that delays are inherent with this segment and it is important for advisors and property agents to manage their client's expectations and make them aware that building works could be subject to delays. Investors should look for clarity from product providers, be kept informed and up to date with the construction process and have strict build targets and timelines in place. Clauses built into the purchase contract can help to protect investors' money should the build be delayed or the investment fail during construction. Staged payments and deposits held on escrow by a third party should be in place as a minimum.

CORPORATE ELEMENT

There have been 29 hotel and resort property investments identified in the segment that include a corporate element. These investments come from 13 different providers and are marketed directly to retail investors through a number of channels including direct distribution and IFAs.

There has been relatively consistent growth in this type of structure in recent years increasing by 33% in 2011, 44% in 2012 and 26% so far in 2013.

#1 LAUNCH YEARS

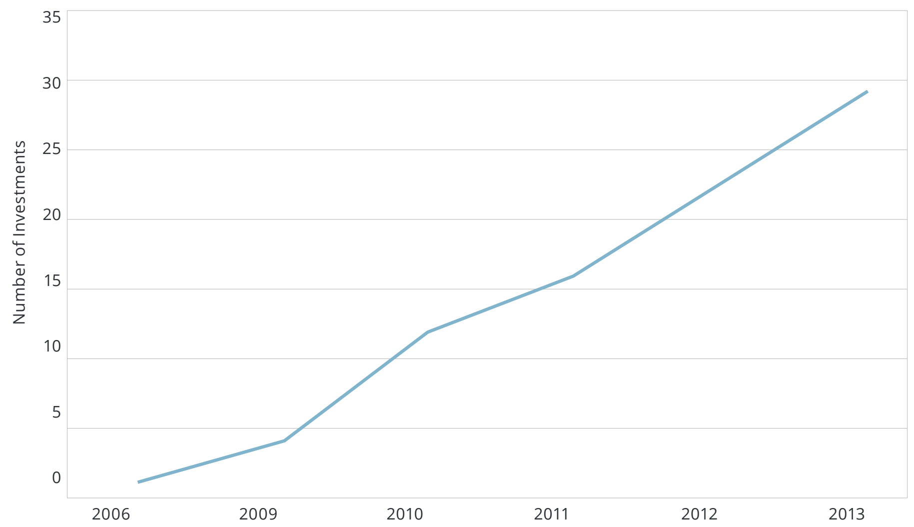
The first investment included on the register launched in 2006 with 2010 seeing the largest number of investment launches to date. There have been 6 new investments launched so far in 2013 and more are likely by the end of the year.

#2 STRUCTURE

Four main structures are used: shares in special purpose vehicles (SPVs); bonds and loan notes issued by private companies and relationship agreements with developers.

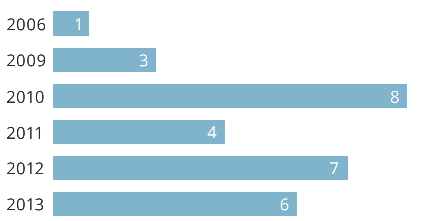
Bonds are the most widely used structure accounting for over 40% of corporate element investments. These do not tend to be listed or traded and therefore should be considered illiquid.

SECTOR GROWTH (2006 - 2013)



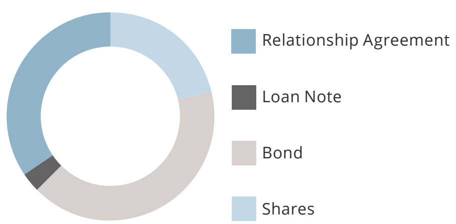
Source: Intelligent Partnership

LAUNCH YEARS (2006 - 2013)



Source: Intelligent Partnership

STRUCTURE (2013)



Source: Intelligent Partnership

Investments that offer a relationship agreement, whereby the developer agrees to pay the investor a set amount interest in return for lending money during the construction phase of the project, account for a third of the segment (34%). Shares in special purpose vehicles are popular with 21% of the segment with loan notes accounting for only 3% of investments.

Loan notes, bonds and shares are relatively well understood in the investment world, but it is important for investors that they are secured against an underlying asset. It's also important to note that the investments in this segment are not regulated or listed on an exchange. They are unregulated, illiquid investments.

Relationship agreements are a very niche segment and should be considered extremely high risk.

#3 RETURNS

Returns are generally paid on an annual basis (41%) or at the end of the investment term (45%).

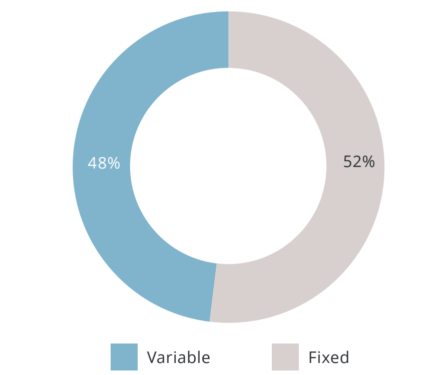
Returns paid on an annual basis come from income generated from the underlying asset. Investments that pay out at the end of the investment term rely on capital growth of the underlying asset.

The remaining investments (14%) pay out bi-annually.

This range of options can give investors the choice of an investment that focuses solely on long-term capital growth or one that can provide a steady income.

Investments pay out both fixed and variable returns.

RETURNS (2013)



Source: Intelligent Partnership

Fixed returns account for just over half of investments and relate closely to the number of bonds and loan notes available. These tend to offer investors a fixed level of return over a defined period of time.

Variable returns will change depending on the performance of the underlying asset. This may give the potential for higher returns but also adds more uncertainty into what the returns may be. Variable returns are generally offered by holding shares in SPVs and from relationship agreements.

#4 MINIMUM INVESTMENT

The minimum investment required varies considerably from only £1,000 to as high as £600,000. But the majority of investments are relatively accessible to investors, with a number starting at between £1,000 and £10,000. The average investment required across the segment is just under £40,000 but this has been skewed by a smaller number of large investments.

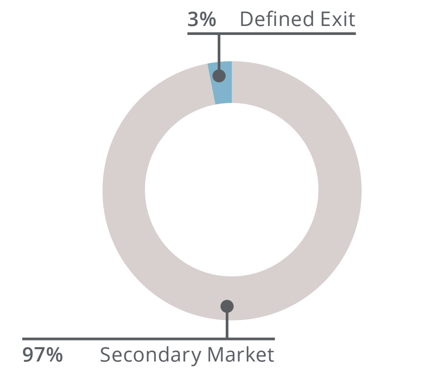
#5 EXIT

The exit strategy is important with any investment and should be a major consideration for potential investors.

Property is an illiquid asset but almost all of the investments in this segment offer a defined exit strategy. This can allow investors to plan for the exit and mean that they do not have to try and sell on their investment themselves. Investors should take into account that this will give them less flexibility as they are likely to be locked in for a defined period of time.

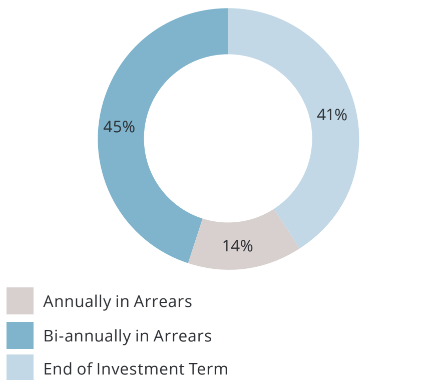
It should also be noted that the exit strategy is not guaranteed, for example the bond/loan note issuer may not have the capital available to repay investors. It is therefore essential that investors (and advisors) consider the credit worthiness and strength of the product provider and the value of any underlying assets.

EXIT (2013)



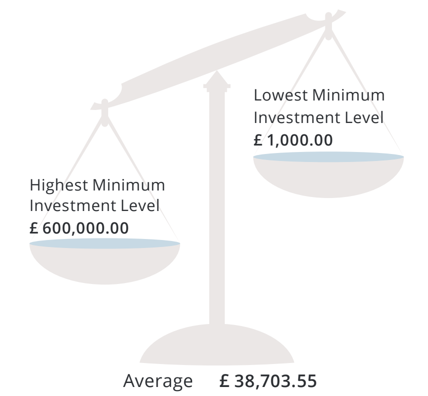
Source: Intelligent Partnership

RETURN FREQUENCY (2013)



Source: Intelligent Partnership

MINIMUM INVESTMENT (2013)



Source: Intelligent Partnership

FINDINGS AND ANALYSIS

COLLECTIVE INVESTMENT SCHEME

There are 13 collective investment schemes included on the investment register which gives investors access to the hotel and resort property sector. This includes both unregulated and regulated collective investment schemes. Investments are offered from 11 separate providers and have been marketed directly to retail investors.

#1 LAUNCH YEARS

The segment saw a large amount of growth in 2010 with the launch of 4 new products and has since grown steadily with 2 new investments launched per year since 2011.

#2 RETURNS

The vast majority of returns are offered annually in arrears and come from income generated by the underlying assets the investment scheme owns. Almost a quarter of investments pay out twice annually, with a further 8% paying out quarterly. The remaining 15% of investments pay out at the end of the investment term. These investments rely on capital growth from the sale of the underlying assets.

Only a small number of investments pay out fixed returns. Collective investment schemes will generally pay a dividend to investors out of any profits made during the year or over the life of the fund. This gives more flexibility and control to the investment manager but means that investors do not know what level of returns to expect.

These investments may not be suitable for investors looking for regular income but may suit investors looking for long-term growth and the potential for high returns.

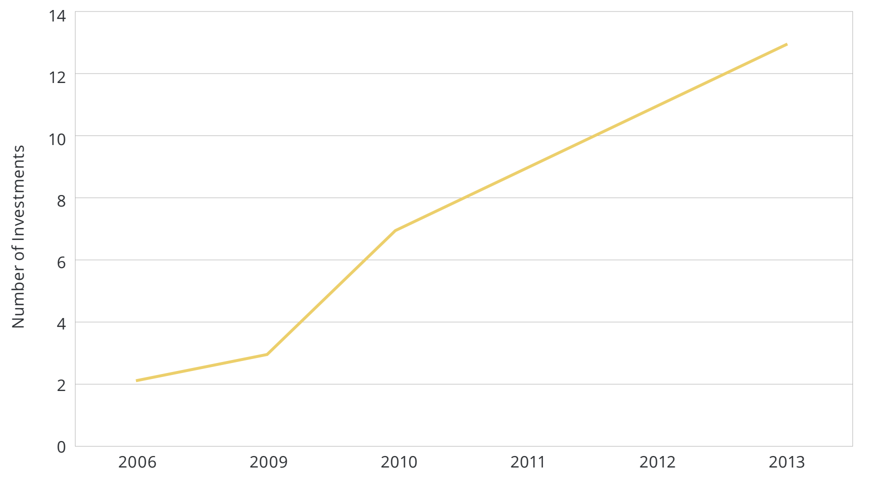
#3 MINIMUM INVESTMENT

The average investment required across the segment is just over £17,500 although there are a number of schemes that start at £10,000. The majority of these schemes are targeted at high net worth investors which pushes up the average investment required. Those investment schemes that are stock exchange listed may vary depending on the current share price.

#4 EXIT

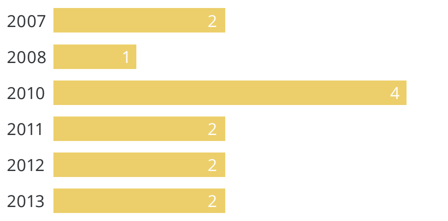
Over 60% of investment schemes offer a defined exit although there is likely to be a large amount of flexibility to this. The exit may be at the discretion of the investment manager and therefore the investment manager may delay the sale of underlying assets should market conditions not be favorable. Investors should be aware of this and the powers of the investment manager and any extensions to the fund life should be clearly explained in the investment literatureShares in stock exchange listed funds are openly traded and therefore investors can exit the investment at any time.

SECTOR GROWTH (2006 - 2013)



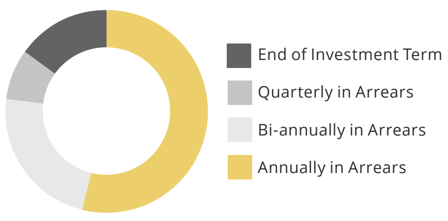
Source: Intelligent Partnership

LAUNCH YEARS (2007 - 2013)



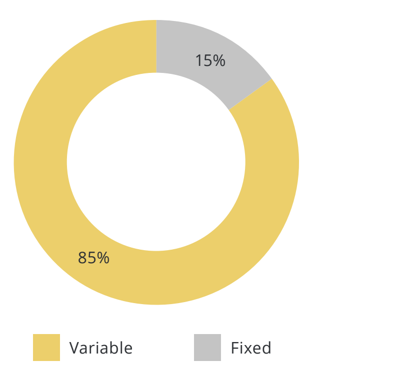
Source: Intelligent Partnership

RETURN FREQUENCY (2013)



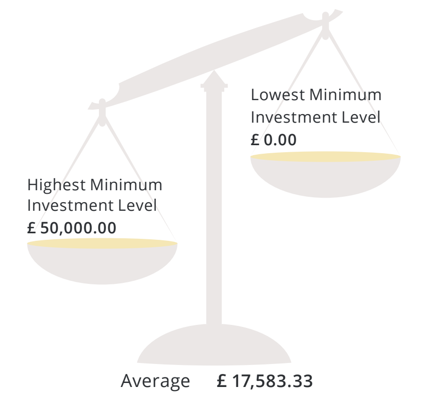
Source: Intelligent Partnership

RETURNS (2013)



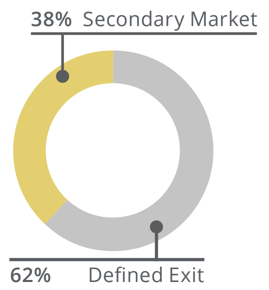
Source: Intelligent Partnership

MINIMUM INVESTMENT (2013)



Source: Intelligent Partnership

EXIT (2013)



Source: Intelligent Partnership

REGIONAL SPREAD: UK

There are 48 investments in total situated in the UK consisting of 28 directly held, 15 corporate element and 5 collective investment schemes.

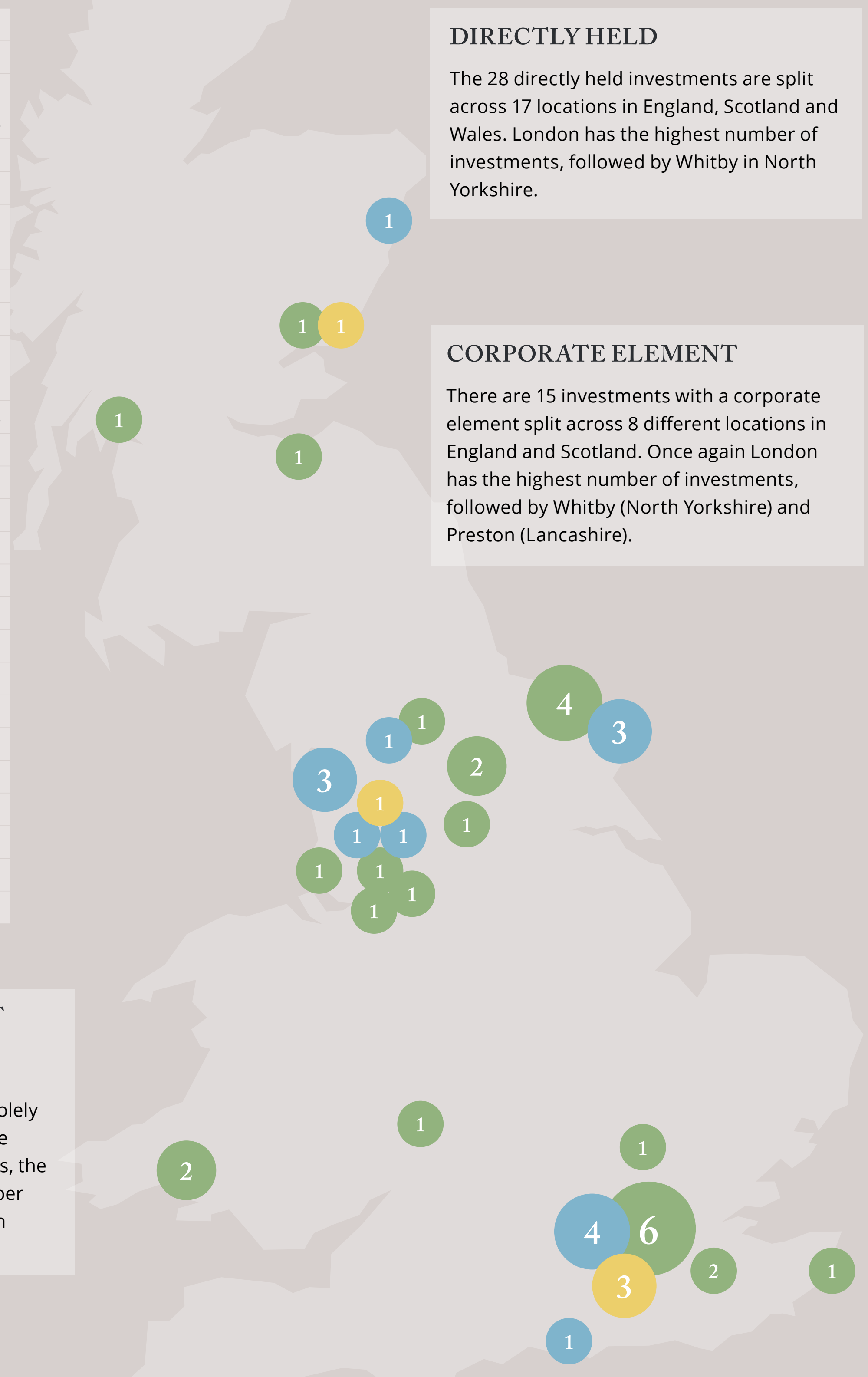
CIS	London	3
	Manchester	1
	Dundee, Scotland	1
Corporate Element	London	4
	Whitby	3
	Preston	3
	Harrogate	1
	Bradford	1
	Portsmouth	1
	Manchester	1
	Aberdeen, Scotland	1
Directly Held	London	6
	Whitby	4
	Kent	2
	Harrogate	2
	Carmarthen, Wales	2
	York	1
	Birmingham	1
	Dover	1
	Knutsford	1
	Liverpool	1
	Manchester	1
	Stevenage	1
	Warrington	1
	Leeds	1
	Dundee, Scotland	1
	Clyde Valley, Scotland	1
	Edinburgh, Scotland	1

DIRECTLY HELD

The 28 directly held investments are split across 17 locations in England, Scotland and Wales. London has the highest number of investments, followed by Whitby in North Yorkshire.

CORPORATE ELEMENT

There are 15 investments with a corporate element split across 8 different locations in England and Scotland. Once again London has the highest number of investments, followed by Whitby (North Yorkshire) and Preston (Lancashire).



COLLECTIVE INVESTMENT SCHEMES

There are only 5 collective investment schemes based in the UK which focus solely on hotel and resort property. Due to the nature of collective investment schemes, the underlying assets are located in a number of different locations and have not been individually highlighted on the map.

DH DIRECTLY HELD

CE CORPORATE ELEMENT

CIS COLLECTIVE INVESTMENT SCHEME

REGIONAL SPREAD: GLOBAL

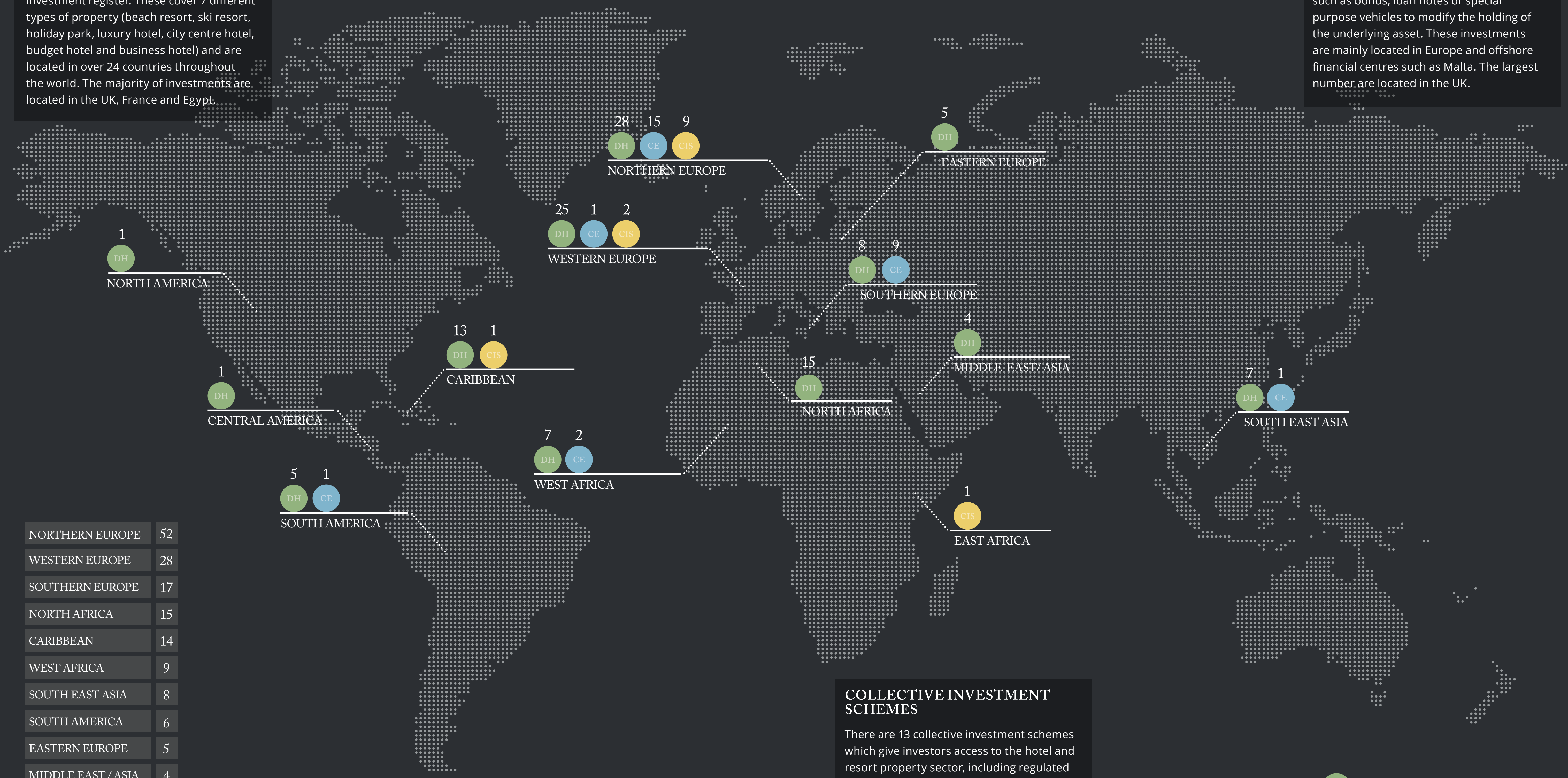
INVESTMENTS BY STRUCTURE : DH 119 CE 29 CIS 13

DIRECTLY HELD

There are 119 directly held hotel and resort property investments included on the investment register. These cover 7 different types of property (beach resort, ski resort, holiday park, luxury hotel, city centre hotel, budget hotel and business hotel) and are located in over 24 countries throughout the world. The majority of investments are located in the UK, France and Egypt.

CORPORATE ELEMENT

There are 29 hotel and resort property investments that use a corporate element such as bonds, loan notes or special purpose vehicles to modify the holding of the underlying asset. These investments are mainly located in Europe and offshore financial centres such as Malta. The largest number are located in the UK.



NORTHERN EUROPE	52
WESTERN EUROPE	28
SOUTHERN EUROPE	17
NORTH AFRICA	15
CARIBBEAN	14
WEST AFRICA	9
SOUTH EAST ASIA	8
SOUTH AMERICA	6
EASTERN EUROPE	5
MIDDLE EAST / ASIA	4
EAST AFRICA	1
NORTH AMERICA	1
CENTRAL AMERICA	1

COLLECTIVE INVESTMENT SCHEMES

There are 13 collective investment schemes which give investors access to the hotel and resort property sector, including regulated and unregulated structures. A number of these are located in offshore finance centres such as the British Virgin Islands, Guernsey and Mauritius to take advantage of efficient tax structures and regulation.

DH DIRECTLY HELD
CE CORPORATE ELEMENT
CIS COLLECTIVE INVESTMENT SCHEME

INVESTMENT REGISTER

DIRECTLY HELD: 16 LAUNCHED IN 2011 · 30 LAUNCHED IN 2012 · 29 LAUNCHED IN 2013

DIRECTLY HELD

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Las Rosas Argentina	Argentina	Camino Real Country Club	£ 87,500.00	Annually in Arrears	18.8% Net Return Predicted per year	20 Units	99 Year Leasehold	Build Completion Expected 2012	On Sale of Property	2010	Sold Out
The Merricks Resort	Barbados	Harlequin Hotels and Resorts	£ 245,000.00	Quarterly in Arrears	10% Return Guaranteed for 10 years	1,000 Units	Freehold Title	Build Completion Expected 2010, delayed to 2012, Currently Suspended	On Sale of Property	2006	Suspended
Harlequin H Hotel	Barbados	Harlequin Hotels and Resorts	£ 260,000.00	Quarterly in Arrears	10% Return Guaranteed for 10 years	78 Units	Freehold Title	Build Completion Expected 2012 - Currently Suspended	On Sale of Property	2011	Suspended
Harlequin (Garapua) Beach Resort	Brazil	Harlequin Hotels and Resorts	£ 55,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	To Be Confirmed*	Freehold Title	Currently Suspended	On Sale of Property	2009	Suspended
Natal Ocean Club Resort & Spa	Brazil	Pioneer Land Group	£ 98,000.00	Annually in Arrears	39% of Gross Rental Revenue per year	338 Units	Freehold Title	Build Completion Expected Q4 2010 but delayed to 2013	On Sale of Property	2009	Open
Caponga Beach Village Resort	Brazil	Caponga Beach Empreendimento Imobilarios Ltda	£ 12,000.00	Annually in Arrears	6.24% During Construction followed by 8.5% Return Guaranteed for 1 year	600 Units	Freehold Title	Under Construction	On Sale of Property	2012	Open
Salinas Sea Resort	Cape Verde	Oasis Atlantico Group	£ 10,000.00	Annually in Arrears	5% Net Return Fixed for 3 years	302 Units	Freehold Title	Build Completion Expected 2011, open 10/2013	On Sale of Property	2007	Open
Palm View Resort	Cape Verde	Ciaran Maguire Group	£ 75,000.00	Annually in Arrears	10% Net Return Guaranteed for 5 years	90 Units	Freehold Title	Build Completion Expected 2010	On Sale of Property	2008	Sold Out
Tortuga Beach Resort and Spa	Cape Verde	The Resort Group PLC	£ 60,000.00	Annually in Arrears	7% Net Return Guaranteed for 2 years	To Be Confirmed*	Freehold Title	Built and Open 2011	On Sale of Property	2010	Sold Out
Dunas Beach Resort & Spa	Cape Verde	The Resort Group PLC	£ 60,000.00	Annually in Arrears	7% Net Return Guaranteed for 2 years	628 Units	Fractional Ownership	Build Completion Expected 2011 but delayed to Q3 2014	On Sale of Property	2010	Sold Out
Santa Monica Beach Resort	Cape Verde	Assetz International	£ 10,000.00	Annually in Arrears	10% Net Return Guaranteed for 2 years	To Be Confirmed*	Freehold Title	To Be Confirmed*	On Sale of Property	2010	Open
Llana Beach Hotel	Cape Verde	The Resort Group PLC	£ 86,760.00	Annually in Arrears	50% of Net Rental Revenue per year	601 Units	Freehold Title	Build Completion Expected 2015	On Sale of Property	2011	Open
White Sands Hotel & Spa	Cape Verde	The Resort Group PLC	£ 21,600.00	Annually in Arrears	50% of Net Rental Revenue per year	835 Units	Freehold Title	Build Completion Expected 2015	On Sale of Property	2012	Open
Radisson Blue Resort & Spa, Dubrovnik Sun Gardens	Croatia	iO Adria	£ 160,000.00	Annually in Arrears	4% Net Return Fixed per year	201 Units	Leasehold Title	Built and Open	On Sale of Property	2012	Open
Aphrodite Hills	Cyprus	To Be Confirmed*	£ 280,000.00	Quarterly in Arrears	5% Net Return Guaranteed for 4 years	290 Units	Freehold Title	Built and Open 2005	On Sale of Property	2007	Sold out
Two Rivers Resort	Dominican Republic	Harlequin Hotels and Resorts	£ 175,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	600 Units	Freehold Title	Build Completion Expected Q3 2011 - Currently Suspended	On Sale of Property	2010	Suspended
Las Canas Resort	Dominican Republic	Harlequin Hotels and Resorts	£ 100,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	1,000 Units	Freehold Title	Build Completion Expected Q1 2014 - Currently Suspended	On Sale of Property	2010	Suspended
The Hideaway Las Canas	Dominican Republic	Harlequin Hotels and Resorts	£ 100,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	225 Units	Freehold Title	Build Completion Expected Q1 2014 - Currently Suspended	On Sale of Property	2010	Suspended
Palm View Resort	Dominican Republic	To Be Confirmed*	£ 60,000.00	Annually in Arrears	9% Net Return Guaranteed for 25 years	216 Units	Freehold Title	Built and Open	On Sale of Property or 120% Developer buy-back after 10 years	2012	Open
Sanctuary Bahia Esmeralda Eco Beach Resort & Spa	Dominican Republic	Sanctuary International Resorts Ltd	£ 30,000.00	Quarterly in Arrears	7-10% Gross Return Guaranteed for 2 years	320 Units	Freehold Title	Build Completion Expected Q2 2016	On Sale of Property or 120% Developer buy-back after 3 years	2013	Open
Sunset Pearl	Egypt	Pyramisa Group	£ 45,000.00	Annually in Arrears	5% Net Return Guaranteed for 10 years	380 Units	Freehold Title	Built and Open 2012	On Sale of Property	2007	Sold Out

INVESTMENT REGISTER

DIRECTLY HELD : 76 OPEN FOR INVESTMENT | 31 SOLD OUT | 12 SUSPENDED

DIRECTLY HELD

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Florenza Khamsin Beach Resort	Egypt	Egyptian International Tourism Company	£ 19,500.00	Quarterly in Arrears	6% Net Return Guaranteed for 3 years	To Be Confirmed*	Freehold Title	Build Completion Expected 08/2013	On Sale of Property	2008	Open
Royal Beach	Egypt	EGY France	£ 39,100.00	Quarterly in Arrears	5-8% Net Return Guaranteed for 5 years	To Be Confirmed*	Freehold Title	Build Completion Expected 2012 but delayed to 06/2013	On Sale of Property	2008	Sold Out
Pyramisa Isis Luxor	Egypt	Pyramisa Group	£ 45,000.00	Annually in Arrears	5% Net Return Guaranteed for 10 years	480 Units	Freehold Title	Built and Open	On Sale of Property	2008	Sold Out
Paradise Gardens	Egypt	Pyramisa Group	£ 40,000.00	Annually in Arrears	7% Net Return Guaranteed for 3 years	300 Units	Freehold Title	Build Completion Expected 2010 but delayed to 2013	On Sale of Property	2008	Open
Nubia Sharm Residence	Egypt	Sharm El Sheikh Real Estate	£ 39,500.00	Variable	Variable	To Be Confirmed*	Freehold Title	Built and Open 2012	On Sale of Property	2008	Open
Laguna Vista Residence	Egypt	Balbaa Group	£ 48,200.00	Variable	Variable	278 Units	Freehold Title	Built and Open 2010	On Sale of Property	2008	Sold Out
Pyramisa Beach Resort Sharm	Egypt	Pyramisa Group	£ 48,000.00	Annually in Arrears	5% Net Return Guaranteed for 10 years	720 Units	Freehold Title	Built and Open 2008	On Sale of Property	2008	Sold Out
Samra Bay Hotel Limited	Egypt	Orbit Group Orbit Alliance	£ 47,000.00	Annually in Arrears	7% Return Guaranteed for 8 years	400 Units	Freehold Title	Built and Open 2012	125% Developer buy-back after 8 years	2009	Open
The Place Resort	Egypt	To Be Confirmed*	£ 5,789.00	Quarterly in Arrears	6% Net Return Guaranteed for 3 years	To Be Confirmed*	Freehold Title	Build Completion Expected 12/2014	On Sale of Property	2012	Open
Beach Front Bay	Egypt	To Be Confirmed*	£ 12,350.00	Variable	10% Return Predicted per year	350 Units	Freehold Title	Build Completion Expected 2014	125% Developer buy-back	2012	Open
Tropical Jungle Residence	Egypt	To Be Confirmed*	£ 17,500.00	Quarterly in Arrears	8% Net Return Guaranteed for 5 years	178 Units	Freehold Title	Build Completion Expected 06/2013	On Sale of Property	2012	Open
Viva Reef Resort	Egypt	To Be Confirmed*	£ 25,882.00	Variable	Variable	To Be Confirmed*	Freehold Title	Built and Open 2012	On Sale of Property	2012	Open
The Red Sea Hotel & Resort	Egypt	To Be Confirmed*	£ 27,000.00	Variable	Variable	To Be Confirmed*	Freehold Title	Build Completion Expected 2014	On Sale of Property	2012	Open
Jewel Makadi	Egypt	Kafafy International Property Group	£ 13,000.00	Variable	Variable	300 Units	Freehold Title	To Be Confirmed*	On Sale of Property	2013	Open
The Amara Residences	France	Pierre & Vacances	£ 300,000.00	Annually in Arrears	3.5% Net Return Guaranteed per year	To Be Confirmed*	Freehold Title	Build Completion Expected Q4 2012	On Sale of Property	2008	Open
The Crozats Residences	France	Pierre & Vacances	£ 300,000.00	Annually in Arrears	3.5% Net Return Guaranteed per year	To Be Confirmed*	Freehold Title	Build Completion Expected Q4 2011	On Sale of Property	2008	Open
La Chapelle	France	Ecogest	£ 200,000.00	Annually in Arrears	3.8% Net Return Guaranteed for 18 years	68 Units	Leasehold Title	Built and Open 2011	On Sale of Property	2010	Open
Eco Le Ruitor Residence	France	Eco Le Ruitor Residence	£ 90,000.00	Annually in Arrears	4% Net Return Guaranteed per year	53 Units	Leasehold Title	Built and Open 2011	On Sale of Property	2010	Open
The Trois Forets Park	France	Pierre & Vacances	£ 200,000.00	Annually in Arrears	5% Net Return Guaranteed for 9 years	870 Units	Freehold Title	Built and Open 2010	On Sale of Property	2011	Open
Domaine du Bois Aux Daims	France	Pierre & Vacances	£ 170,000.00	Annually in Arrears	5% Net Return Guaranteed for 10 years	To Be Confirmed*	Freehold Title	Build Completion Expected 2015	On Sale of Property	2011	Open
Domain des Hauts De Bruyeres	France	Pierre & Vacances	£ 190,000.00	Annually in Arrears	3.5% Net Return Guaranteed for 9 years	350 Units	Freehold Title	Built and Open 2012	On Sale of Property	2011	Open
Aspen Residence	France	To Be Confirmed*	£ 160,000.00	Annually in Arrears	4.2% Net Return Guaranteed per year	48 Units	Leasehold Title	Built and Open	On Sale of Property	2011	Open
Residence Le Six	France	Terresens	£ 115,000.00	Annually in Arrears	4.25% Net Return Guaranteed per year	93 Units	Leasehold Title	Built and Open	On Sale of Property	2012	Open
The Terrasses d'Helios	France	Pierre & Vacances	£ 210,000.00	Annually in Arrears	3.75% Net Return Guaranteed per year	To Be Confirmed*	Leasehold Title	Build Completion Expected Q4 2013	On Sale of Property	2012	Open

INVESTMENT REGISTER

DIRECTLY HELD: 65 FREEHOLD TITLE | 48 LEASEHOLD TITLE | 6 FRACTIONAL OWNERSHIP

DIRECTLY HELD

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Villages Nature	France	Pierre & Vacances and Euro Disney SCA	£ 200,000.00	Annually in Arrears	4% Net Return Guaranteed for 10 years	1,730 Units	Freehold Title	Build Completion Expected 2016	On Sale of Property	2012	Open
Halcyon Retreat Golf & Spa Resort	France	Barrasford & Bird Worldwide	£ 16,000.00	Annually in Arrears	10% Net Return Guaranteed for 4 years	18 Units	Fraction of Ownership Deed	Built and Open 2012	150% Developer buy-back after 10 years	2012	Open
Temples du Soleil	France	Pierre & Vacances	£ 115,000.00	Annually in Arrears	3.5% Net Return Guaranteed per year	317 Units	Freehold Title	Built and Open 2009	On Sale of Property	2012	Open
Residence Le Machu Pichu	France	Pierre & Vacances	£ 115,000.00	Annually in Arrears	3.5% Net Return Guaranteed per year	To Be Confirmed*	Freehold Title	Built and Open 2012	On Sale of Property	2012	Open
Residence Le Tikal	France	Pierre & Vacances	£ 115,000.00	Annually in Arrears	3.5% Net Return Guaranteed per year	64 Units	Freehold Title	Built and Open 2009	On Sale of Property	2012	Open
Residence Le Centaure	France	To Be Confirmed*	£ 180,000.00	Annually in Arrears	4.6% Net Return Guaranteed per year	53 Units	Freehold Title	Built and Open 2012	On Sale of Property	2013	Open
Grand Ermitage	France	Vinci Immobilier	£ 215,000.00	Annually in Arrears	3.7% Net Return Predicted per year	33 Units	Freehold Title	Build Completion Expected Q3 2013	On Sale of Property	2013	Open
Les Fermes de Châtel	France	To Be Confirmed*	£ 135,000.00	Annually in Arrears	5% Net Return Guaranteed for 11 years	89 Units	Freehold Title	Build Completion Expected 2015	On Sale of Property	2013	Open
Les Hauts de la Vanoise	France	To Be Confirmed*	£ 175,000.00	Annually in Arrears	3% Net Return Guaranteed for 9 years	97 Units	Freehold Title	Built and Open 2006	On Sale of Property	2013	Open
Chateau de Rethondes	France	Oak Property Partnership Limited	£ 180,000	Annually in Arrears	8% Net Return Assured for 10 years	55 Units	Freehold Title	Built and Open 2013	80% (of RICS valuation) Developer buy-back in year 10	2013	Open
La Foret D'Armotte	France	Leapfrog Properties	£ 180,000.00	Annually in Arrears	6% Net Return Guaranteed for 5 years	50 Units	Freehold Title	Build Completion Expected Q3 2015	On Sale of Property	2013	Open
L'Etoile des Cimes	France	To Be Confirmed*	£ 225,000.00	Annually in Arrears	3.8% Net Return Guaranteed for 9 years	62 Units	Freehold Title	Built and Open 2011	On Sale of Property	2013	Open
Hotel Royal	Germany	Nest Hotels	£ 60,000.00	Monthly in Arreara	15% Net Return Predicted per year	34 Units	99 Year Leasehold	Built and Open	On Sale of Property	2008	Sold Out
Park Bostalsee	Germany	Pierre & Vacances	£ 100,000.00	Annually in Arrears	5% Net Return Guaranteed for 15 years	500 Units	Freehold Title	Built and Open 2013	On Sale of Property	2010	Open
AlpenClub	Germany	Karma Royal Group	£ 44,950.00	Monthly in Arrears	10.33% Net Return Assured for 10 years	57 Units	Freehold Title	Built and Open	Developer buy-back from year 2	2013	Open
Halcyon Hills Resort & Spa	Greece	Barrasford & Bird Worldwide	£ 19,500.00	Annually in Arrears	5% Net Return Guaranteed During Construction followed by 8% Net Return for 2 years	To Be Confirmed*	60 Year Leasehold	Build Completion Expected Q1 2014	140% Developer buy-back	2009	Open
Elounda Peninsula Diamond Residences	Greece	Elounda SA	£ 400,000.00	Variable	Variable	To Be Confirmed*	60 Year Leasehold	Built and Open 2011	On Sale of Property	2010	Open
Rimondi Grand Resort & Spa	Greece	Alternative Asset Alliance	£ 9,555.00	Annually in Arrears	8% Return Guaranteed for 2 years	120 Units	Beneficial Interest through Deed of Trust	Built and Open 2012	100% Developer buy-back	2010	Sold Out
Bacolet Bay Resort	Grenada	Bacolet Bay Development Company	£ 40,000.00	Annually in Arrears	10% Net Return Guaranteed for 5 years	280 Units	999 Year Leasehold	Build Completion Expected 2014	On Sale of Property	2008	Open
Saloc International Golf & Spa Resort	Hungary	Saloc International (UK) Ltd	£ 45,000.00	Annually in Arrears	10% Return Fixed for 10 years	103 Units	175 Year Leasehold	Build Completion Expected Q4 2014	125% Developer buy-back after 10 years	2013	Open
Karma Kandara Phase V	Indonesia	Royal Karma Group	£ 150,000.00	Annually in Arrears	5% Net Return Guaranteed for 3 years	To Be Confirmed*	Leasehold Title	Built and Open 2010	On Sale of Property	2011	Open
Karma Kandara Phase VI	Indonesia	Royal Karma Group	£ 150,000.00	Annually in Arrears	5% Net Return Guaranteed for 3 years	64 Units	Leasehold Title	Build Completion Expected 2014	On Sale of Property	2013	Open

INVESTMENT REGISTER

"Directly Held investments are located in 24 countries across the world covering 12 different geographical regions."

DIRECTLY HELD

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Sarani Resort Boutique Hotel	Panama	Global Prospects S.L	£25,000.00	Annually in Arrears	16% Net Return Predicted per year	35 Units	Freehold Title	Build Completion Expected Q2 2014	Developer buy-back after 3 years	2013	Open
The Marquis Estate	Saint Lucia	Harlequin Hotels and Resorts	£135,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	2,000 Units	Freehold Title	Build Completion Expected 2012 - Currently Suspended	On Sale of Property	2010	Suspended
Blu Hotel	Saint Lucia	Harlequin Hotels and Resorts	£225,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	76 Units	Freehold Title	Build Completion Expected 2012 - Currently Suspended	On Sale of Property	2011	Suspended
Freedom Bay Hotel	Saint Lucia	Affinity Resorts	£17,500.00	Annually in Arrears	6% Return Guaranteed for 2 years followed by 15% Return Predicted per year	1,508 Units	Fractional Ownership Certificate	Build Completion Expected 2013 but delayed to 03/2015	On Sale of Property or 90% Developer buy-back	2011	Open
Palm View Golf Resort	Saint Lucia	Ciaran Maguire Group	£250,000.00	Annually in Arrears	8% Net Return Guaranteed for 25 years	230 Units	Freehold Title	Build Completion Expected 07/2013	On Sale of Property	2012	Open
Buccament Bay	Saint Vincent & The Grenadines	Harlequin Hotels and Resorts	£170,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 2 years	To Be Confirmed*	Freehold Title	Build Completion Expected 2010, Open 2012	On Sale of Property	2006	Suspended
Gora Hotel	Slovenia	Room to Invest Ltd	£5,000.00	Annually in Arrears	8% Net Return Guaranteed for 3 years	18 Units	Freehold Title or Room Rights	Suspended	On Sale of Property	2009	Suspended
Champneys Spa Resort	Spain	To Be Confirmed*	£12,000.00	Bi-Annually in Arrears	7% Gross Return Guaranteed for 5 years	To Be Confirmed*	Freehold Title	Build Completion Expected 2010 but not complete	On Sale of Property	2008	Suspended
Royal Suites Marbella	Spain	To Be Confirmed*	£99,000.00	Annually in Arrears	50% of Rental Revenue per year	120 Units	Freehold Title	Built and Open	On Sale of Property	2008	Closed
Terrazas Costa del Sol Resort	Spain	Pierre & Vacances	£105,000.00	Annually in Arrears	5% Net Return Guaranteed for 10 years	328 Units	Freehold Title	Built and Open 2009	On Sale of Property	2011	Open
Hotel El Nogal	Spain	Tomas Linares Hernandez	£18,500.00	Annually in Arrears	10% Net Return Guaranteed for 2 years	42 Units	175 Year Leasehold	Built and Open	Developer buy-back after 3, 5, 7 or 10 years	2013	Open
Movenpick White Sand Beach Resort	Thailand	Apex Development PCL	£120,000.00	Annually in Arrears	5-6% Net Return Fixed for 15 years	503 Units	Leasehold Title	Build Completion Expected Q4 2013	On Sale of Property	2009	Open
Laguna Beach Resort	Thailand	Heights Holdings	£17,475.00	Variable	Variable	660 Units	Leasehold Title	Build Completion Expected 08/2014	On Sale of Property	2011	Sold Out
Laguna Beach Resort 2	Thailand	Heights Holdings	£16,632.00	Variable	Variable	1,100 Units	Leasehold Title	Build Completion Expected 12/2014	On Sale of Property	2011	Open
Laguna Beach Resort 3 "The Maldives"	Thailand	Heights Holdings	£22,000.00	Variable	Variable	1,750 Units	Leasehold Title	Build Completion Expected 12/2015	On Sale of Property	2012	Open
Amazon Residence Jomtien	Thailand	Matrix Developments	£36,000.00	Variable	Variable	796 Units	Leasehold Title	Build Completion Expected 06/2014	On Sale of Property	2012	Open
Lakeside Phuket	Thailand	Phuket PRD Properties	£165,000.00	Annually in Arrears	10% Net Return Guaranteed for 3 years	256 Units	Leasehold Title	Build Completion Expected 2015	130% Developer buy-back	2013	Open
Nikki Beach Hotel and Spa	Thailand	Castlewood Group	£18,000.00	Annually in Arrears	5% Net Return Guaranteed for 10 years	174 Units	Leasehold Title held in Trust	Build Completion Expected 2012 but delayed to 2014	On Sale of Property or Managed Sale in 2020	2012	Open
Harmony Bay Resort	Turkey	Akbuk Resort Group	£12,250.00	Annually in Arrears	8% Net Return Guaranteed for 2 years followed by 10% Return Predicted per year	240 Units	Freehold Title	Build Completion Expected 2013	100% Developer buy-back	2008	Open
Unity Bay Resort	Turkey	Akbuk Resort Group	£14,000.00	Annually in Arrears	4% Return Guaranteed During Construction followed by 7-9% Return Predicted per year	To Be Confirmed*	Freehold Title	To Be Confirmed*	100% Developer buy-back	2013	Open

INVESTMENT REGISTER

"Over 70% of directly held investment offer a guaranteed or assured return for an initial period, usually for between 1 and 10 years."

DIRECTLY HELD

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
The Ramada Pamukkale Thermal Spa Resort	Turkey	Equity Plus International Ltd	£28,000.00	Annually in Arrears	10% Net Return Fixed for 3 years	190 Units	Freehold Title	Built and Open 2009	On Sale of Property	2013	Open
Kusadasi Spa Village Resort	Turkey	CLC Estates	£36,000.00	Annually in Arrears	8.5% Net Return Guaranteed for 10 years	146 Units	Freehold Title	Build Completion Expected 12/2013	132% Developer buy-back after 5 years	2013	Open
Park Plaza Westminster Bridge	United Kingdom	Park Plaza Hotels Limited	£250,000.00	Annually in Arrears	6% Net Return Guaranteed for 5 years	1,021 Units	999 Year Leasehold	Built and Open 2010	On Sale of Property	2005	Sold Out
The Kimberley Hotel	United Kingdom	Fund Invest Group	£60,000.00	Quarterly in Arrears	8% Net Return Guaranteed for 5 years	93 Units	999 Year Leasehold	Built and Open 2008	On Sale of Property	2008	Sold Out
The Flaxby Country Resort	United Kingdom	Skelwith Leisure	£199,950.00	Quarterly in Arrears	6% Return Guaranteed for 10 years	303 Units	999 Year Leasehold	Build Completion Expected Q3 2015	On Sale of Property	2008	Sold Out
Holiday Inn West India Dock	United Kingdom	Key Homes Fund	£189,000.00	Annually in Arrears	10% Return Predicted per year	252 Units	999 Year Leasehold	Built and Open 2012	On Sale of Property	2010	Sold Out
Holiday Inn Barking	United Kingdom	Key Homes Fund	£125,000.00	Annually in Arrears	7.5-10.5% Return Fixed for 5 years	207 Units	199 Year Leasehold	Build Completion Expected Q1 2013	On Sale of Property	2011	Sold Out
Holiday Inn Royal Albert Docks	United Kingdom	Albert Ventures Limited	£125,000.00	Annually in Arrears	7.5-10.5% Return Fixed for 5 years	204 Units	199 Year Leasehold	Build Completion Expected Q3 2013	On Sale of Property	2011	Sold Out
Park Inn Wembley	United Kingdom	Key Homes Fund	£140,000.00	Annually in Arrears	10.2-12.6% Net Return Predicted per year	237 Units	199 Year Leasehold	Build Completion Expected Q1 2013	On Sale of Property	2011	Sold Out
Kersewell Golf Resort	United Kingdom	Kersewell Estate Limited	£194,000.00	Annually in Arrears	6% Return Guaranteed for 1 year	750 Units	Freehold Title	Build Completion Expected 2014	On Sale of Property	2011	Open
Hever Hotel	United Kingdom	Oak Property Partnership Limited	£140,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 10 years or 50% of Rental Revenue	84 Units	999 Year Leasehold	Built and Open	100% Developer buy-back in year 4 or 80% (of RICS valuation) in year 5	2012	Sold Out
The Russell Hotel	United Kingdom	To Be Confirmed*	£35,000.00	Bi-Annually in Arrears	11% Net Return Predicted per year	43 Units	999 Year Leasehold	Built and Open	On Sale of Property	2012	Open
Quality Hotel	United Kingdom	To Be Confirmed*	£30,000.00	Annually in Arrears	7% Net Return Predicted per year	113 Units	999 Year Leasehold	Built and Open	On Sale of Property	2012	Sold Out
Royal Arsenal Hotel	United Kingdom	To Be Confirmed*	£95,000.00	Quarterly in Arrears	7.17-11.1% Net Return Predicted per year	130 Units	125 Year Leasehold	Build Completion Expected Q1 2013	On Sale of Property	2012	Sold Out
Raithwaite Hall Country Retreat	United Kingdom	Skelwith Leisure	£118,125.00	Annually in Arrears	8% Return Guaranteed for 10 years	45 Units	999 Year Leasehold	Built and Open 2011	On Sale of Property	2012	Sold Out
The Keep at Raithwaite Hall	United Kingdom	Skelwith Leisure	£170,000.00	Annually in Arrears	8% Return Guaranteed for 10 years	28 Units	999 Year Leasehold	Built and Open 2011	On Sale of Property	2012	Sold Out
Raithwaite Hall Residences	United Kingdom	Skelwith Leisure	£335,000.00	Annually in Arrears	8% Return Guaranteed for 10 years	46 Units	999 Year Leasehold	Build Completion Expected 2014	On Sale of Property	2012	Sold Out
The Cottages at Raithwaite Hall	United Kingdom	Skelwith Leisure	£200,000.00	Annually in Arrears	8% Return Guaranteed for 3 years	18 Units	999 Year Leasehold	Build Completion Expected Q3 2013	On Sale of Property	2012	Sold Out
Burn Hall Hotel	United Kingdom	To Be Confirmed*	£49,950.00	Bi-Annually in Arrears	14.5% Net Return Predicted per year	94 Units	125 Year Leasehold	Built and Open 2012	On Sale of Property	2012	Sold Out
The Corran Resort & Spa - Phase 1	United Kingdom	Barrasford & Bird Worldwide	£17,000.00	Quarterly in Arrears	12.5% Return Guaranteed for 10 years, 15% years 11-15	546 Units (21 rooms)	Fraction of Ownership Deed	Built and Open 2013	100% Developer buy-back after 3 years, 150% after 15 years	2012	Sold Out
The Corran Resort & Spa - Phase 2	United Kingdom	Barrasford & Bird Worldwide	£17,000.00	Quarterly in Arrears	10% Return Guaranteed for 10 years, 12.5% years 11-15	725 Units (28 rooms)	Fraction of Ownership Deed	Built and Open 2013	100% Developer buy-back after 3 years, 150% after 15 years	2013	Open
JQ Hotel	United Kingdom	New Manor Group	£89,950.00	Quarterly in Arrears	8% Net Return Guaranteed for 2 years	82 Units	999 Year Leasehold	Build Completion Expected Q3 2014	110% Developer buy-back after 4 years	2013	Open

INVESTMENT REGISTER

CORPORATE ELEMENT: 4 LAUNCHED IN 2011 | 7 LAUNCHED IN 2012 | 6 LAUNCHED IN 2013

DIRECTLY HELD

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Dover Port Hotel	United Kingdom	To Be Confirmed*	£85,000.00	Quarterly in Arrears	9% Net Return Assured for 1 year	120 Units	250 Year Leasehold	Build Completion Expected Q3 2015	On Sale of Property	2013	Open
The Knutsford Hotel	United Kingdom	To Be Confirmed*	£80,000.00	Quarterly in Arrears	8% Net Return Guaranteed for 2 years	32 Units	250 Year Leasehold	Built and Open	On Sale of Property	2013	Open
Titanic Hotel	United Kingdom	Signature Living	£40,300.00	Monthly in Arrears	10% Net Return Guaranteed per year	59 Units	125 Year Leasehold	Build Completion Expected 08/2014	120% Developer buy-back after 3 years	2013	Open
The Old Trafford Hotel	United Kingdom	To Be Confirmed*	£74,250.00	Quarterly in Arrears	9% Net Return Assured for 3 years	98 Units	250 Year Leasehold	Build Completion Expected 2015	Developer buy-back after 3 years	2013	Open
Needham House	United Kingdom	Oak Property Partnership Limited	£180,000.00	Quarterly in Arrears	10% Net Return Guaranteed for 10 years	69 Units	999 Year Leasehold	Built and Open 2013	Developer buy-back after 5 years	2013	Open
The Lymm Hotel	United Kingdom	To Be Confirmed*	£90,000.00	Quarterly in Arrears	8% Return Guaranteed for 2 years	61 Units	250 Year Leasehold	Built and Open 2013	On Sale of Property	2013	Open
Wyndham Grand, The Angus	United Kingdom	MAP Property & Leisure	£25,000.00	Annually in Arrears	6% Net Return Guaranteed per year	200 Units	175 Year Leasehold	Build Completion Expected Q3 2015	Developer buy-back after 5 years	2013	Open
Hyatt Place Hotel	United Kingdom	MAP Property & Leisure	£65,000.00	Annually in Arrears	6% Net Return Guaranteed per year	181 Units	175 Year Leasehold	Build Completion Expected Q3 2014	Developer buy-back after 5 years	2013	Open
Great American Lodge	USA	North Dakota Developments LLC	£27,950.00	Annually in Arrears	25% Net Return Assured for 5 years or 40-46.4% Return Predicted per year	408 Units	60 Year Leasehold	Built and Opening Soon	115% Developer buy-back after 2 years, 120% from years 6-10	2013	Open
Caracola Beach Resort & Spa	Venezuela	Mar Y Casas Mediterraneas	£22,000.00	Annually in Arrears	7% Net Return Guaranteed for 10 years	360 Units (downscaled from 1,244 units)	Freehold Title	Build Completion Expected 2010 but not complete	On Sale of Property	2008	Suspended

CORPORATE ELEMENT

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Salinas Sea Resort Limited	Cape Verde	Salinas Sea Investments Limited	£10,000.00	Annually in Arrears	5% Net Return Fixed for 3 years	£10m	Unlisted Shares	Open to Investment	Developer buy-back option after 5 years or sale of shares on open market	2011	Open
Salinas Sea Investment Limited	Cape Verde	Salinas Sea Resort Limited	£10,000.00	End of Investment Term	6% Capital Growth Predicted per year	£10m	Unlisted Shares	Open to Investment	Developer buy-back option after 5 years or sale of shares on open market	2011	Open
Four Seasons Santiago	Chile	Knightsbridge Partners	£600,000.00	End of Investment Term	18-22% Net Predicted IRR	£77m	B Class Shares	Build Completion Expected Q3 2016	Minimum 7 years from initial closing date	2013	Closed
Coralli Spa Residence	Cyprus	Coralli Resort Investments Limited	£14,000.00	Annually in Arrears	8% Return Fixed for 3 years	£1.2m	Unlisted Shares	Built and Open 2012	On Sale of Underlying Property	2010	Sold Out
Secret Hills Hotel & Spa Resort	North Cyprus	Secret Hills (IOM) Ltd	£3,500.00	End of Investment Term	61% Predicted Capital Growth	£18.5m	Unlisted Shares	Open to Investment	At Discretion of Investment Manager within 7 years	2013	Open
Alpine Hotel Investment (No. 2) LP - Bond	France	Profin Développement et Gestion SARL	£10,000.00	Annually in Arrears	7% Return Fixed per year	£20m	Fixed Interest Bond	Open to Investment	5 Year Fixed term bond	2013	Open
IHI 6.5% Bond 2014	Malta	International Hotel Investments PLC	£1,000.00	Annually in Arrears	6.5% Return Fixed per year	€12.50m	Fixed Interest Bond	Closed to New Investment	100% Redemption 2012, 2013 or 2014	2006	Closed

INVESTMENT REGISTER

CORPORATE ELEMENT: 9 OPEN 20 SOLD OUT

CORPORATE ELEMENT

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS	AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
IHI 6.25% Bond 2019	Malta	International Hotel Investments PLC	£1,000.00	Annually in Arrears	6.25% Return Fixed per year	€30m	Fixed Interest Bond	Closed to New Investment	100% Redemption 2015, 2016, 2017, 2018 or 2019	2009	Closed
Corinthia Finance PLC 6.25% Bond 2019	Malta	Corinthia Finance PLC	£1,000.00	Annually in Arrears	6.25% Return Fixed per year	€20m	Fixed Interest Bond	Closed to New Investment	100% Redemption 2016, 2017, 2018 or 2019	2009	Closed
IHI 6.25% Bond 2020	Malta	International Hotel Investments PLC	£1,000.00	Annually in Arrears	6.25% Return Fixed per year	€25m	Fixed Interest Bond	Closed to New Investment	100% Redemption 2017, 2018, 2019 or 2020	2010	Closed
Corinthia Finance PLC 6.25% Bond 2019 (Second Issue)	Malta	Corinthia Finance PLC	£1,000.00	Annually in Arrears	6.25% Return Fixed per year	€20m	Fixed Interest Bond	Closed to New Investment	100% Redemption 2016, 2017, 2018 or 2019	2010	Closed
IHI 5.8% Bond 2021	Malta	International Hotel Investments PLC	£1,000.00	Annually in Arrears	5.8% Return Fixed per year	€20m	Fixed Interest Bond	Closed to New Investment	100% Redemption on 21st December 2021	2012	Closed
Corinthia Finance PLC 6% Bond 2022	Malta	Corinthia Finance PLC	£1,000.00	Annually in Arrears	6% Return Fixed per year	€7.5m	Fixed Interest Bond	Closed to New Investment	100% Redemption 2019, 2020, 2021 or 2022	2012	Closed
Cool Blue Samui	Thailand	Project Kudos Limited	£25,000.00	Annually in Arrears	15% Predicted IRR	41 Units	Unlisted Shares	Build Completion Expected 2012, delayed to Q4 2014	150% Developer buy-back after 4 years	2010	Open
IPIN - The Flaxby Country Club	United Kingdom	BridgePoint Ventures LLC	£19,000.00	End of Investment Term	30% Return Predicted per year	To Be Confirmed*	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2009	Closed
IPIN - The Woolston	United Kingdom	BridgePoint Ventures LLC	£35,000.00	End of Investment Term	18% Return Predicted per year	To Be Confirmed*	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2010	Closed
IPIN - Holiday Inn Docklands	United Kingdom	BridgePoint Ventures LLC	£40,000.00	End of Investment Term	25% Return Predicted per year	150 Units	Relationship Agreement	Built and Open 2011	Defined Exit through Addendum to Relationship Agreement	2010	Closed
IPIN - The Raithwaite Hotel	United Kingdom	BridgePoint Ventures LLC	£52,875.00	End of Investment Term	18% Return Predicted per year	To Be Confirmed*	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2010	Closed
IPIN - The Raithwaite Cottages	United Kingdom	Skelwith Leisure	£ 38,000.00	End of Investment Term	18% Return Predicted per year	To Be Confirmed*	Relationship Agreement	Closed to New Investment	Addendum to Relationship Agreement	2010	Closed
IPIN - Number One	United Kingdom	BridgePoint Ventures LLC	£50,220.00	End of Investment Term	15% Return Predicted per year	98 Units	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2011	Closed
IPIN - The Keep	United Kingdom	"BridgePoint Ventures LLC" "Skelwith Leisure"	£38,000.00	End of Investment Term	18% Return Predicted per year	To Be Confirmed*	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2011	Closed
Manchester Terminal 2 Hotel Limited	United Kingdom	GDCV Investments Limited	£10,000.00	Annually in Arrears	7% Net Return Fixed per year	£3.2m	Fixed Interest Loan Note	Open to Investment	112% Redemption in 2018	2012	Open

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COLLECTIVE INVESTMENT SCHEME: 2 LAUNCHED IN 2011 | 2 LAUNCHED IN 2012 | 2 LAUNCHED IN 2013

CORPORATE ELEMENT

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS		AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Squire Hotels Limited A Bond	United Kingdom	GDCV Investments Limited	£17,000.00	Bi-Annually in Arrears	6-8% Return Fixed per year		£2.65m	Fixed Interest A Bond	Closed to New Investment	110% Redemption in 2018	2012	Closed
Squire Hotels Limited B Bond	United Kingdom	GDCV Investments Limited	£17,000.00	Bi-Annually in Arrears	6-8% Return Fixed per year		£2.65m	Fixed Interest B Bond	Open to Investment	110% Redemption in 2018	2012	Open
The Smith Bond	United Kingdom	Smith Bonds PLC	£1,000.00	Bi-Annually in Arrears	7.5% Cash or 9.5% Loyalty Return Fixed per year		£5m	Fixed Interest Bond	Closed to New Investment	100% Redemption after 4 years	2012	Closed
IPIN - Woolmanhill	United Kingdom	BridgePoint Ventures LLC	£33,000.00	End of Investment Term	16% Return Predicted per year		97 Units	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2012	Closed
IPIN - Brick Lane	United Kingdom	BridgePoint Ventures LLC	£40,500.00	End of Investment Term	18% Return Predicted per year		40 Units	Relationship Agreement	Closed to New Investment	Defined Exit through Addendum to Relationship Agreement	2013	Closed
IPIN - Aldgate	United Kingdom	BridgePoint Ventures LLC	£41,308.00	End of Investment Term	15% Return Predicted per year		127 Units	Relationship Agreement	Open to Investment	Defined Exit through Addendum to Relationship Agreement	2013	Open
Squire Hotels Limited C Bond	United Kingdom	GDCV Investments Limited	£10,000.00	Bi-Annually in Arrears	6-8% Return Fixed per year		£2.65m	Fixed Interest C Bond	Open to Investment	100% Redemption in 2015	2013	Open

COLLECTIVE INVESTMENT SCHEME

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS		AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Hypa Investments Asia Ltd	British Virgin Islands	Hypa Management LLP	£10,000.00	End of Investment Term	Variable		£10m	A Class Shares	Closed to New Investment	At Discretion of Investment Manager	2010	Closed
Alpine Hotel Investment (No. 1) LP	France	Profin Développement et Gestion SARL	£25,000.00	Annually in Arrears	11.2% Return Predicted per year		£6.3m from up to 100 Investors	Limited Partner or Unit Holder (in Unit Trust)	Closed to New Investment	5 Year Fixed Term	2010	Closed
Alpine Hotel Investment (No. 2) LP	France	Profin Développement et Gestion SARL	£10,000.00	Annually in Arrears	15% Return Predicted per year		£20m	Limited Partner or Unit Holder (in Unit Trust)	Open to Investment	7 Year Fixed Term	2011	Open
Park Plaza Hotels Limited	Guernsey	Park Plaza Hotels Limited	No Minimum	Bi-Annually in Arrears	9% Return Predicted per year		41.5m Ordinary Shares	Ordinary Shares	Open to Investment	AIM Listed - Daily Dealing	2007	Open
Darwin Leisure Property Fund	Guernsey	Darwin Property Investment Management (Guernsey) Limited	£10,000.00	Annually in Arrears	8-12% Return Predicted per year		Open-Ended	Units in Unit Trust	Open to Investment	CISX Listed - Monthly Dealing	2008	Open
Blackmore Commercial Opportunities Fund Ltd	Guernsey	Blackmore Commercial Opportunities Fund Ltd	£10,000.00	Bi-Annually in Arrears	Variable		24m A Class Shares	E Class Shares	Open to Investment	CISX Listed - Monthly Dealing	2010	Open
Future Inns Hotel Investment Sub-Fund	Isle of Man	The Premier Property Options Fund plc.	£10,000.00	Annually in Arrears	8% Return Predicted per year		100m Ordinary Shares	Ordinary Shares	Open to Investment	CISX Listed - Monthly Dealing	2007	Open
Caldora International Fund Limited PCC - Harlequin Income Fund	Mauritius	Caldora Asset Management Limited	£1,000.00	Bi-Annually in Arrears	6% Return Predicted per year		Open-Ended	Listed Shares	To Be Confirmed*	Weekly Share dealing	2012	To Be Confirmed*

INVESTMENT REGISTER

COLLECTIVE INVESTMENT SCHEME: 6 OPEN 7 SOLD OUT

COLLECTIVE INVESTMENT SCHEME

PRODUCT NAME	LOCATION	PROVIDER	MINIMUM INVESTMENT	RETURN FREQUENCY	RETURNS		AVAILABILITY	TENURE	STAGE	EXIT	LAUNCH YEAR	STATUS
Hypa Raithwaite LP	United Kingdom	Hypa Management LLP	£10,000.00	Annually in Arrears	8% Net Return Guaranteed for 10 years		£7m	Limited Partner or Unit Holder (in Unit Trust)	Closed to New Investment	At Discretion of Investment Manager	2010	Closed
Congham Hotels Limited	United Kingdom	Congham Hotels Limited	£25,000.00	End of Investment Term	270% Predicted Capital Growth		£3m	Unlisted Shares	Closed to New Investment	At Discretion of Investment Manager	2011	Closed
Cresta Court Hotel Property Limited	United Kingdom	Connection Capital LLP	£25,000.00	Annually in Arrears (from year 2)	6% Return Predicted per year		£1.4m	A Class Shares & Unsecured Loan Notes	Closed to New Investment	At Discretion of Investment Manager	2013	Closed
Osprey Income and Growth 4 LP	United Kingdom	Osprey Equity Partners	£25,000.00	Annually in Arrears	6% Return Predicted per year		£12.8m	Limited Partner or Unit Holder (in Unit Trust)	Open to Investment	Sale of underlying property predicted after 4.5 years	2013	Open
Invicta Dundee LP	United Kingdom	Invicta Capital Limited	£50,000.00	Quarterly in Arrears	10% Return Fixed per year		£2.75m	Limited Partner or Loan Note Holder	Closed to New Investment	Sale of underlying property predicted within 5 years	2012	Closed

> "A particular property achieving high levels of occupancy can be an excellent, long-term, stable investment. But investors must be aware of the risks involved when investing in speculative developments in unproven locations."

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