



VIKARE
INVESTMENTS

Frequently Asked Questions

Risk Management: Questions and Answers

- Everything in the design development and implementation of The Vikare Tuscan Property Fund has been done to convey an open, honest and transparent approach.
- Like all investments this Fund carries a degree of risk. However, every effort has been made to recognise and minimise factors that may be potential risks.
- Investors can participate in an exciting and potentially very rewarding market in full possession of the facts and knowing that the Managers are fully aware of their responsibilities.

This document has been prepared to show answers to questions the Managers expected to be asked when they talk to IFAs and Investors and these fell under 5 main headings – Property, Financial, Liquidity, Planning and Design and Sales.

Property

Q: Are there sufficient property opportunities to sustain the Fund?

A: Yes. When people talk of 'Tuscany' they are usually referring to the Chianti Region where significant restoration and development has been undertaken over many years. However, there are many other areas of similar beauty and character that are relatively untouched and where numerous old and sometimes historic buildings await restoration. Indeed even within Chianti there are numerous opportunities open to Vikare that would never reach the open market.

Q: How will you find these properties?

A: Our long established network of local agents and experts have been fully briefed on our investment criteria and they are firmly of the opinion that many properties, some of which would be 'off market', will be available for acquisition.

Q: Does the property market have to go up in value for investors to make money?

A: The simple answer is no. The Fund is designed to generate returns through development profit in a proven stable market. While most funds assume, try to predict or just hope that a market or asset class will rise in value we only need the market in Tuscany to remain stable, as it has done for many years, even through the recent international financial crisis.

Q: How complicated is the legal process when buying a property in Italy and are you assured that you are then the true owner?

A: Yes. Ownership rights in Italy are completely transparent. Both the Notary and Lawyer in Florence who have been engaged by the Managers are highly experienced and respected. They will ensure that the legal process is followed for each acquisition. As part of our diligence process prior to acquisition they will ensure that all issues relating to title, ownership etc, are in order. While the Italian process is then straightforward it is worth pointing out that typically a buyer will initially pay a deposit or "caparra" of 30% to the seller. If the buyer pulls out he or she loses the caparra. If the seller pulls out he or she repays the caparra and pays the same amount again to the buyer! In this way, once the two parties have agreed to proceed, the deal is normally binding and this is one of the elements of the Italian system that helps to provide stability.

Financial

Q: How much bank debt will be used to provide gearing for the Fund?

A: The fund has low gearing. Having seen the problems encountered by funds whose gearing was excessive we were clear that this would be kept to a sensible and what could be termed 'safe' level. Having said that, one of the main reasons the property market in Tuscany, and indeed most of Italy, has not suffered like Spain, Dubai etc. is that the banks do not lend more than 60% ltv on property-related projects. We have stated that the maximum debt at any time will not exceed 55% of the gross asset value of the Fund.

Q: Are there currency issues, given the Fund is denominated in Sterling yet most of its activities will be Euro based?

A: We gave careful thought to this issue and felt that since the majority of our investors will be Sterling investors, the Fund should be denominated in Sterling. We recognise that this is a property development fund and not a currency fund so we will not be speculating on the exchange rate. However, we also recognise that we must exercise due care when looking to make conversions between the currencies and be observant of prevailing exchange rates (see page 19 of the IM).

Q: What steps will be taken to ensure the prices paid for properties are realistic and offer true value?

A: We are extremely confident that our experience and our established team of local experts will provide the diligence we require to establish the price we are prepared to pay for a suitable property. For example, the property at Palaia (page 10 of the IM) was marketed at €600,000 and is arguably valued at above that price given that it has planning consents. In conjunction with our Agent we have negotiated, and agreed, a price of €505,000. Prior to any purchase our financial diligence will also provide full project costs and a very accurate indication of the likely sale price on completion. From this, and taking account of our target return on equity employed, we can establish if the price offers value.

Liquidity

Q: Can we assist investors to take money out of the Fund early in unforeseen circumstances?

A: The Fund, by its nature, is deemed 'illiquid' by the regulators but we believe that we offer a higher degree of liquidity than most funds of this type. The term of the Fund is likely to be just over 4 years but given that it will acquire, restore and sell numerous properties throughout this period it will have the ability to use sale proceeds to meet redemption requests particularly in the event of death - a particular concern to Pension Trustees. Other requests will be considered on a case by case basis and at the discretion of the General Partner

Planning and Design

Q: Are there potential risks in acquiring properties where there remain outstanding planning issues?

A: Clearly there are, as there would be in any country, but in Italy these can be particularly problematic to inexperienced developers (hence the demand for completed or nearly completed properties). Again our diligence process, involving the expertise and considerable experience of Architect Professor Novelli and her team (see pages 13 and 31 of the IM), will highlight any potential problems prior to purchase and we will assess if any issues are likely to present unacceptable delays. The Palaia property again is a good example. Full planning consents are already in place and work could start 21 days after acquisition. Diligence on the property at Pescia (again page 10 of the IM) has shown there to be potential urban planning issues that could delay matters for up to 4 years thereby rendering this property unworkable. Our strategy is not to take planning risks and if an exceptional property merited this then we would seek to negotiate an option to buy conditional on planning consents being approved.

Q: How can we ensure that the maximum potential is realised for each property?

A: For the type of property we are targeting for the Fund there are likely to be many opportunities to enhance the existing structure and to restore parts of the building(s) which no longer exist. In Architect Professor Novelli and her team we have a highly experienced and creative group of professionals whose in depth knowledge of the planning rules and system, together with their meticulous attention to detail when studying records of the properties, will ensure that maximum potential is identified for every property. This information, when combined with our knowledge of the expectations and demands of discerning buyers enables us to design and create a product for which maximum value can be achieved.

Sales

Q: How do we know that there will be a demand for the properties restored and developed by the Fund?

A: Our rationale for the Fund is based upon the fact that there is considerable increasing international demand for properties in Tuscany which are restored to a high standard. Tuscany is regarded as one of the prime international locations for affluent buyers seeking second homes and the Fund will create a product to meet their demands and aspirations.

Q: How can we ensure that we maximise the sale prices for our properties and thereby ensure the best possible investment returns?

A: Our team has direct experience and success in this market and personal knowledge of the locations, design features and quality of finish expected by the kind of buyers we will target. In previous work in the region we have conducted highly successful PR and marketing campaigns and featured in many recognised publications. Properties being sold by the Fund will also be marketed by selected local and international real estate agents with potential buyers receiving the highest level of service.

Q: How can we use the market and features of the buying process to provide our investors with additional returns?

A: In almost every case we will market the properties for sale prior to their completion. Demand is such that we wish to secure 'pre-sales' as often as possible and again have direct experience and success. A pre-sale and use of the caparra system (see above) allows us to take a significant deposit (and perhaps stage payments) from a buyer. The pre-sale obviously reduces risk as a buyer is secured early in the development process. Most importantly pre-sale reduces equity employed and bank funding thereby greatly increasing the return. It effectively acts as a form of secured gearing. The section 'The Significance and Importance of Pre-sales' on page 11 of the IM outlines this; if quantified for the Palaia property even by only reducing the equity employed from €741,100 to €500,000 the gross return on equity increases from 42.9% to 63.6%.



VIKARE
INVESTMENTS

Tel. 0131 221 6511

Email: info@vikareinvestments.com

Address: Forth House
28 Ruthland Square
Edinburgh EH1 2BW