Financial Analysis

Nomad City 1, Samana

Prepared for: Samana Group Poland
Warsaw, April 17th, 2023

Table of content

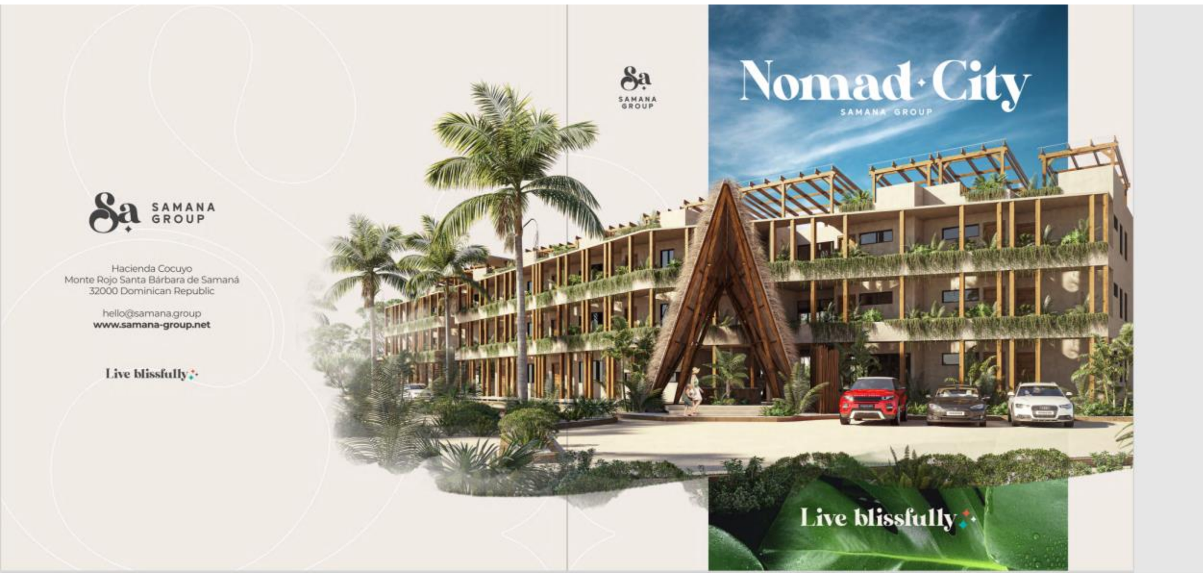
HIDA
Biznes Spot Powiśle ul. Wiślana 8, 00-317 Warszawa
www.hida.com.pl

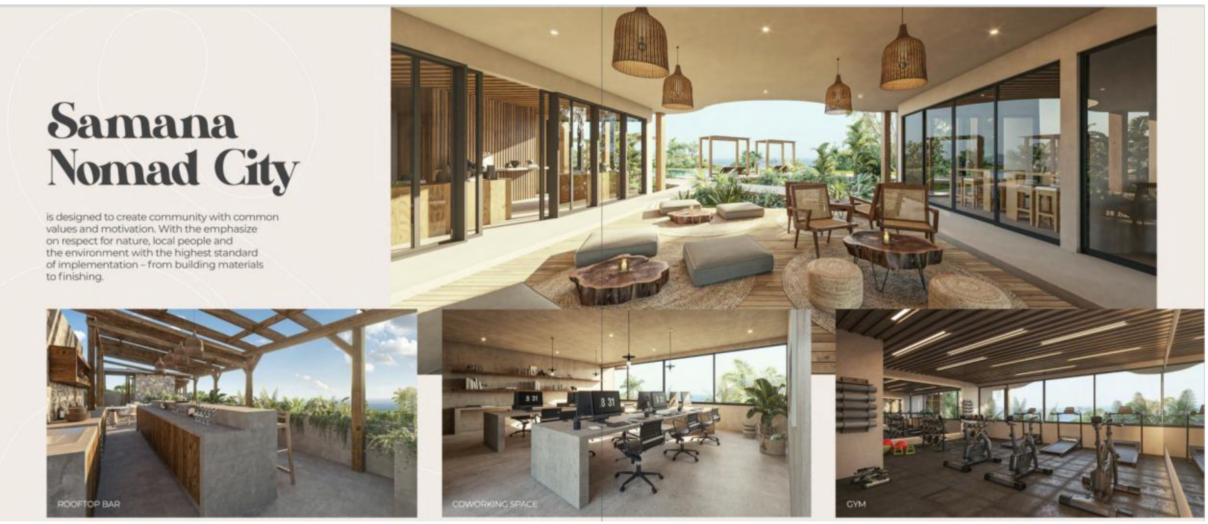
1. Introduction

HIDA advisory team was engaged by Samana Group Poland (from this point forward referred to as the client and/or investor) to prepare this Financial Analysis. The purpose of this report is to assess the viability and provide recommendations on the optimal commercial and financial configuration of the planned investment –aparthotel Nomad City 1 in Samana.

HIDA has prepared this study according to the material sent by Inwestor.

This report has been prepared for the information of our client and for presentation to relevant third parties. It may not be published, reproduced or quoted as a whole or in part. It may not be used as a basis for any contract, agreement or other document without our prior consent, which will not be unreasonably withheld.





2. Executive summary

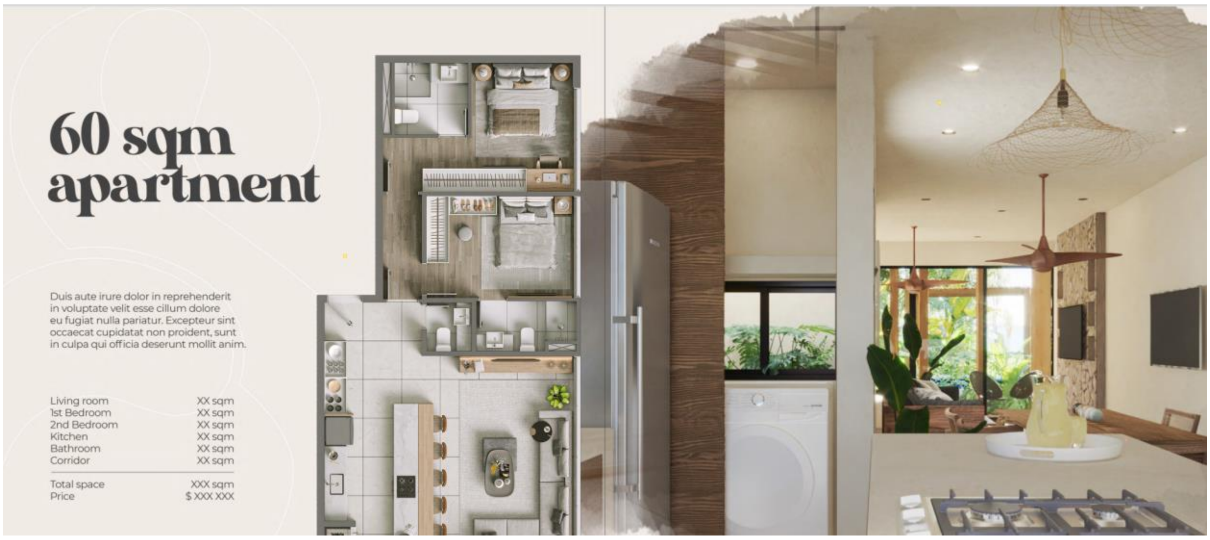
➢ OVERVIEW OF THE PROPERTY

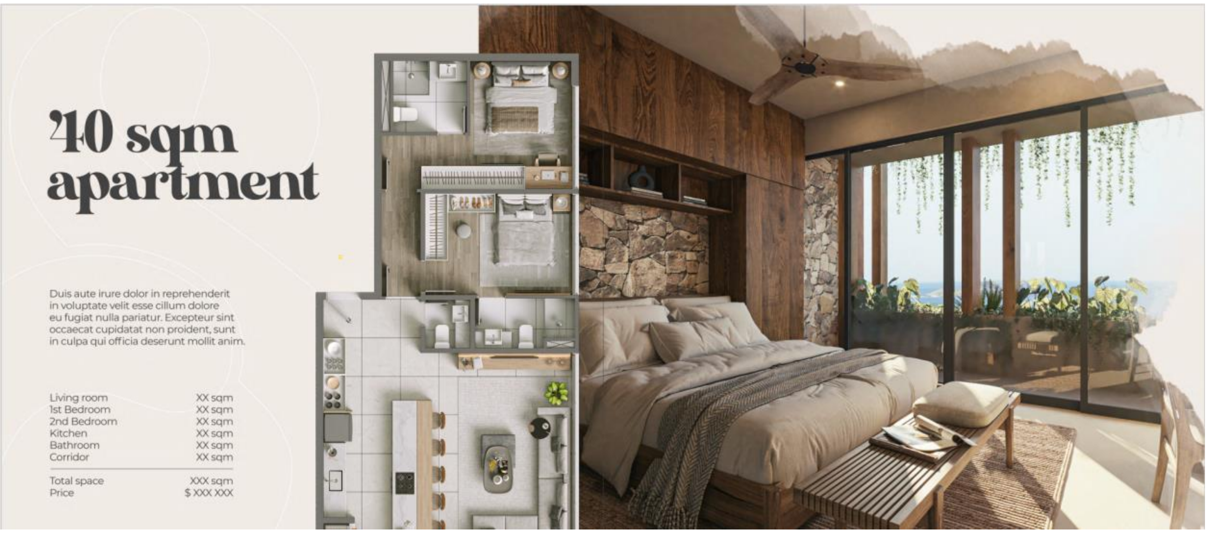
The planned aparthotel investment – Nomad City 1 is located at Samana peninsula, near Hacienda Cocuyo, Monte Rojo Santa Barbara de Samana, 32000 Dominican Republic.

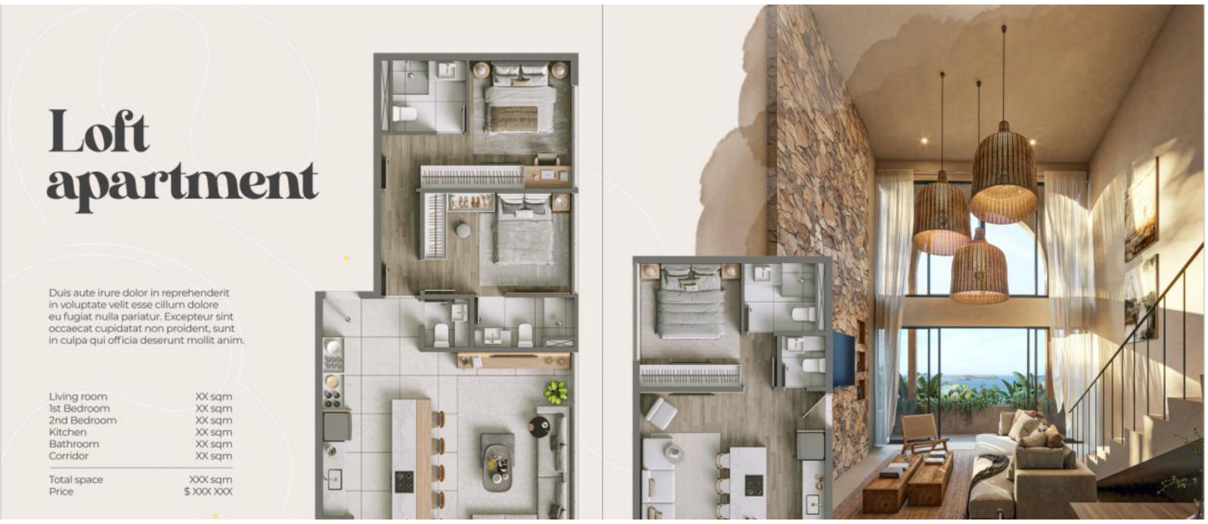
➢ PROJECT SUMMARY – MAIN INFORMATION ABOUT THE INVESTMENT

The investment will cosist of

- 6 luxury apartments
- 23 standard apartments
- 2 Loft apartments

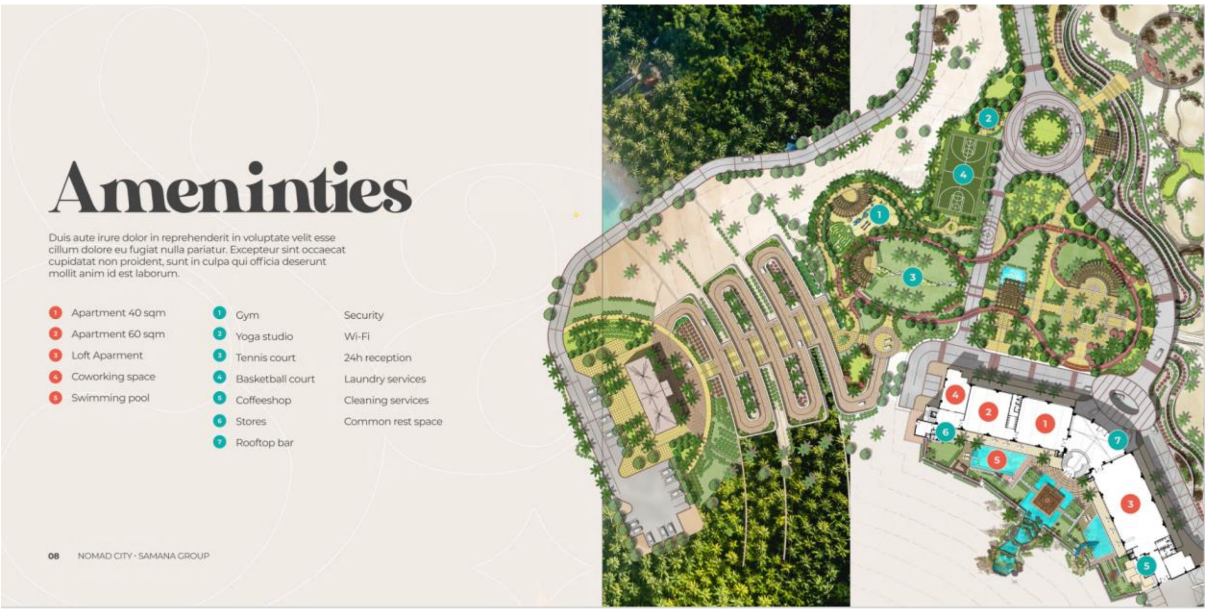






The investment plan also includes:

- Coworking Space
- External swimming pool
- Fitness room
- Tennis court
- Basketball court
- Restaurants



Summary of the planned project – Nomad City 1	
Name	Nomad City
Category	Not categorized as a hotel
Total No. of Rooms	31
Total Gross Area (excl. parking)	ca. 2859 m^2
Gross/Net Area per Apartment	ca. 92 / 59 m^2
Other functions	Co-working area – 30 m^2 Bar, restaurant – 181 m^2 Gym - 75
Parking places	31 One parking place dedicated to each apartment

3. Possible commercialization options

- **GENERAL RULES AND RECOMMENDATIONS FOR NOMAD CITY 1 CONDO COMMERCIAL MODEL**
  - Commercial model should be consistent for all condo buyers, although prices and some specific parameters may vary
  - All apartments are sold in a turn-key standard with obligatory purchase of FF&E and parking place
  - Developer (seller) should have a pre-emption right for the purchase of apartments on a secondary market
  - Developer should open an SPV who will become an asset management / operating company which will hold all relations with condo buyers
  - Asset SPV can be an operator or there might be a separate entity (most popular solution) which will take care of day-to-day hotel operations. Operational entity should be also an employer of nomad City staff. Staff can be shared with other properties under services agreement.
  - Return on investment for condo buyers is calculated based on the purchase price of unit, fully fitted, excl. FF&E, incl. parking place (although purchase of FF&E is obligatory). This is a common model of ROI presentation in most of the condo offers in Poland.
  - Property tax and property insurance on behalf of condo owners based on purchased area (apartment + share in communication area)

- **ANALYZED COMMERCIAL MODELS**

Recommended

- "30/70" split – maintenance costs covered by condo owners
- Fixed return (fixed rent)

Other available

- "55/45" split – all costs covered by operator
- Hybrid – fixed rent + share in:
  - a. I come
  - b. Operating profit

Recommended Commercial Model

"30/70" Revenue Share

Pros:

- Popular model in Poland
- Flexible in terms of length of owner's stays
- Fair for both sides – operator and condo owner with preference of condo owner
- No need for specific limitations of owner's stays

Cons:

- Quite sophisticated, but transparent, model of revenue and cost allocation
- Availability of long owner's stays may result in low availability for commercial rental

Revenue Share

- Condo owner - 70% of room and parking rental
- Operator – 30% of room and parking rental revenue + 100% of other revenues

Cost share (detailed list in financial analysis)

- Condo owner
    - Real estate tax and insurance
    - Fixed service charge
    - FF&E replacement reserve – 50%
    - Cost of utilities – proportionally to the owned area – ca 77% in this case

Optional commercial Model

Hybrid: Share in profit with guaranteed minimum (fixed) rent

Pros:

- Perceived as a very fair model for condo buyer. Requires fair and transparent revenue/cost allocation by operator.

Cons:

- Not highly popular in Poland, however preferred model for one of the largest condo/hotel developers
- Length of owner's stay has to be limited or longer stay needs to reduce fixed rent

Operator will pay to the owner, proportionate to the owned area (76,6%), GOP, but not less than fixed mimium rent, assumed at 5% of the purchase price for any given year, subject to indexation.

Condo owner will cover RE tax and insurance and proportionate FF&E replacement reserve.

Other condo models – acceptable under special conditions

Fixed return (fixed rent)

Very simple and transparent model, highly popular in Poland, especially in condo hotels.

Due to the fixed rent and expected medium and long term owner's stays this model will be very difficult to accommodate in Nomad City. However, if developer would decide to offer limited owner stays (up to 21 days) then this model would be acceptable and simple to manage.

55/45 revenue split

Not recommended for Nomad City due to long owner's stays. Main assumption of the model is a split of revenue between condo owner and operator between 55/45 to 50/50 but all costs ale covered by the operator. This model is acceptable on highly predictable markets with very limited owners' stays.

However it looks profitable for both sides, most of the risk is concentraded on operator.

➢ VARIANTS OF OWNERSHIP STAYS:

- No or short stays – (0 – 21 days) typical for hotel
- Medium and long-term stays – (14 – 60 days) forecasted for Samana Nomad City
- Permanent stays with the option of putting them under management – (2 months and above) typical for residential (villas, large apartments) type of accommodation

➢ RECOMMENDED MANAGEMENT MODELS

RECOMMENDED: Own brand and management

This model requires highest engagement of developer who will become an operator for the object but at the same time it minimizes operational costs (operator's and license fees).

As the Samana Group will become a recognizable operator in the area and Samana (peninsula or Group) is a brand on it's own, as well as tourist destination, it is reasonable to operate under own brand.

OPTIONAL: Franchise + Third Party Management

It's highly popular solution in hospitality industry – branding by a franchise or affiliation and management by an independent operator.

Samana Group can become an operator who charges management fees based on a model of External Management Company. This model is based on the above (Own brand and Management) but operator's and license fees will be transparently defined, charged and classified to specified entity. It might also help to grow operational profits of the whole group. However, at a very beginning, at 1st stage of the investment, those charges will negatively affect cash flow for condo unit buyers that might result in lower interest in buying units in further stages.

Franchise (or affiliation)

As Nomad City 1 will be part of Samana holding Nomad City can be charged for using Samana brand, integrated reservation system and loyalty program. Fees could be at a minimum level in the 1st year of contract and grow in line with growth of Samana holding across the peninsula.

Management Agreement

Nomad City should be managed by an operator owned by Samana Holding. Samana Group can become a third party operator and operate with fees at a typical levels for an independent hotel operators.

➢ OTHER MANAGEMENT MODELS

LEASE AGREEMENT

A lease agreement is a legal contract that outlines the responsibilities of the owner and tenant for a specific property.

Hotel lease agreements being concluded typically in top business or mix business/leisure destinations for medium to large size hotels (usually above 140 rooms). Hotel lease agreement is highly unlikely to be accepted in leisure destination and small condo project.

➢ MANAGEMENT CONTRACT

A management contract is an arrangement under which operational control of a hotel is vested by contract in a separate enterprise which performs the necessary managerial functions in return for a fee, under the brand provided by operator (chain).

None of the global hotel chains is willing to enter into management contract with 30 rooms condo project as this is not beneficial for any part of the contract. Management contracts can be beneficial for investor/owner and operator of the hotel is igger than 150 rooms, optimally more than 350 rooms.

Franchise Agreement

Below description refers to a typical, global branded franchise model, however it can be adapted to the needs of Samana Group in case the group decides to charge license fees for using Samana brand and being part of Samana reservation and loyalty system. It can be also adapted as a less strict affiliation model.

The franchise (license) agreement is concluded between the hotel chain and the property owner.

- ✓ On the basis of a franchise agreement, the hotel owner obtains the right to use a specific brand and trademark within a given chain,
- ✓ as well as access to training, technical consultancy and the ordering system both at the investment and operational stage.
- ✓ In return, the franchisee pays certain franchise fees to the network.

In the franchise system, the hotel owner:

- ✓ runs the facility on his own behalf and on his own account - which means that he remains financially and legally separate from the hotel chain.
- ✓ In this model, the risk associated with running a hotel business is borne primarily by the franchisee, and not by the hotel chain.

In the case of franchise and management agreements:

- ✓ the hotel chain is entitled to charge certain fees.
- ✓ They can be divided into two groups: one-off and recurring fees. In the group of one-off fees, one should distinguish above all the fee for technical consultancy.
- ✓ The fee for technical consultancy is a fee for technical support of the network during the design and implementation of a given project, so that the facility introduced to the market meets all the standards of a given hotel brand.

Depending on the standard of the hotel and the selected hotel chain, the technical fee ranges from 300 to 750 EUR per room.

Recurring fees are characteristic of the operating phase and most of them depend on the revenues or profit generated by the hotel. In the case of franchise agreements, the main fees include: the license fee, the marketing fee and the reservation (distribution) fee.

- ✓ **The license fee** is a fee for the right to use a trademark of a given network. The basis for calculating the fee are revenues from the sale of hotel rooms (mainly limited service hotels, range 3% -5%) and revenues from gastronomy (additional fee characteristic for so-called full service facilities, approx. 2%).
- ✓ **The marketing fee** is used to cover the costs of marketing programs such as advertising, promotion, market research, and to support the development and maintenance of the booking system, and participation in this is one of the greatest values of participating in a franchise network. Depending on the hotel chain and standard, it is calculated on the total revenue or revenue from the sale of hotel rooms - range 1.5% -4%.

- ✓ **The reservation (distribution) fee** is payable for including the hotel into the global distribution systems of the hotel chain, very often charged for individual reservations (a fixed level from EUR 5 to 10 per reservation or a specified percent of the revenue obtained by the network reservation system - range from 1% to 2 5%). Very often the amount of the reservation fee depends on the amount of the marketing fee and the distribution channel of a given reservation.

Franchise agreement – typical fees		
Revenue Related Fees		
License fee	2 – 5 %	Turnover from room revenue / food & beverage revenue
Marketing fee	1,5 – 4,5 %	Total revenue/Room revenue
Reservation fee	4 – 9 €	For each reservation
One Time Fees		
Technical services (including application fees)	500 – 750 €	Per Room

FRANCHISE AGREEMENT + INDEPENDENT ("WHITE LABEL") OPERATOR

This model is intended primarily for those investors who have no experience in hotel management.

Generally, in this case:

- ✓ hotel management fees are linked with the hotel's financial results - base fee based on total revenues and incentive fee based on operating profit.
- ✓ If the management fee and the incentive fee do not exceed the agreed minimum management rate, the operator receives the agreed minimum remuneration.
- ✓ In this scenario, the rate of return is generally lower than for owner-managed direct property management, but with very little commitment, returns on investment in excess of the hotel chain management contract or lease agreement can be achieved.

Cooperation with an independent operator is more flexible - solutions tailored to the investor's expectations are possible. The contract may be concluded for a period of several years and when the hotel indicators reach optimal levels, the owner, having the appropriate knowledge and experience, may decide to run the hotel on his own.

INDEPENDENT MANAGEMENT COMPANY TYPICAL FEES

The hotel owner pays the operator an annual incentive fee based on the hotel's Gross Operating Profit (GOP) and the basic management fee as a% of total revenue. This amount may be slightly lower in the first 5 years from the moment the operator takes over the management of the hotel.

For selected operators, there is a minimum flat-rate remuneration.

This model can be adapted to the needs of a management contract between Nomad City and Samana Group where Samana Group will be an operator.

Independent Management Company Typical Fees		
Revenue Related Fees		
Base Management Fee	2,0 - 3,5 %	Total Revenue
Incentive Fee	3,5 - 6,0 %	Gross Operating Profit (GOP)
Minimum management fee	20 - 40 K PLN monthly	
Additional fee		
Pre-opening fee	20 - 40 K PLN monthly	

HIDA
Biznes Spot Powiśle ul. Wiślana 8, 00-317 Warszawa
www.hida.com.pl

4. Financial analysis

Financial analysis in the attachement to the report.

HIDA
Biznes Spot Powiśle ul. Wiślana 8, 00-317 Warszawa
www.hida.com.pl

Disclaimer

This analysis has been prepared with due diligence, based on research and information available from HIDA on the current market situation and trends in operational management and condo investments in Domican Republic based on the parameters of condo projects in Poland, with particular emphasis on the hotel market in the region where the analyzed investment is located. The forecast presented was prepared in accordance with the currently valid 11th edition of the Standard Hotel Accounting System (USALI - Uniform System of Accounts for the Lodging Industry Eleventh Revised Edition).

HIDA Jacek Tokarski does not guarantee the correctness and completeness of the presented assumptions, statements, estimates and projections. HIDA Jacek Tokarski and its subsidiaries do not make any representations or warranties, expressed or implied, as to the correctness, accuracy, completeness or reliability of the presented model. In addition, HIDA Jacek Tokarski, as well as subsidiaries, advisers, representatives or employees, do not accept any responsibility for any written or oral statements provided to the recipient in the course of preparing the document, and are not responsible for negligence or lack of due diligence in the preparation of this forecast or any statements. whether in writing or orally, communicated or made available in any form whatsoever to the relevant financiers, lenders or banks.

As with other market research and financial forecasts, our conclusions should be considered relevant and valid for a specific time frame and require regular verification.

The report may not be published or reproduced in whole or in part, except for activities directly related to the implementation of the client's project, it may not constitute the basis for a contract, contract, prospectus or any other document without the prior consent of HIDA Jacek Tokarski, which will not be unreasonably withheld.

HIDA

HIDA Hotel Investment & Development Advisory

Biznes Spot Powiśle
ul. Wiślana 8
00-317 Warszawa

tel.: **+ 48 502 669 715**
e-mail: **Jacek.tokarski@hida.com.pl**