

*Presenting*  
***MEDITERRANEO DEVELOPMENT  
CORPORATION LIMITED***

**Business Plan**

**For**

**MEDITERRANEO**

*Prepared By:*



**Capital Trust**

**12<sup>th</sup> July, 2004**



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- A. Map of Project
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- C. Conceptual Vision PPlan



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## **SECTION I: EXECUTIVE SUMMARY**

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GCT is currently seeking a strategic partner for Mediterraneo Holding Company “MHC” to assist in the implementation of the proposed Mediterraneo development “the platform”.

The platform shall be assumed by a joint venture subsidiary of MHC, Mediterraneo Development Corporation Limited (“MDC”), under which it obtains the exclusive right to design, finance, construct commission and operate the facilities of the Mediterraneo development.

This business plan (the “Business Plan”) sets out a descriptive summary of the scope of the business proposed for MHC, and of the projected financial results of that business activity. Other businesses may, by agreement between the MHC shareholders, be added to MHC in due course, but these have not been included in the projected summary financial results at this stage.

MHC’s scope of business is designed to be a commercially and economically viable platform (“the Platform”) on which the delivery of MHC’s objectives may be carried.

MHC will plan and implement development of Mediterraneo into a living and working environment unmatched in the region. Under this Business Plan Mediterraneo will offer ground breaking amenities to residents, thus providing the best possible chance of attracting a mass of tourists to the region. Mediterraneo is set to be the first exclusive tourism destination in Lebanon.

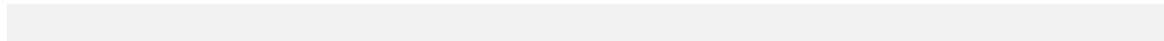
The revenue and non revenue generating infrastructure required to deliver MHC’s objectives are costed and programmed in to this plan under an achievable development timetable, against a practical plan for zoning of the project into residential, retail/commercial, tourism development areas. Associated land development revenues are projected.



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MHC intends to act as building developer for retail/commercial sites and an initial estimate of costs and associated revenues for this business is included in this plan.

MHC also intends to develop and build a set of services and support facilities unmatched elsewhere in the region, and to promote the potential for the project to become an exclusive tourism destination with access to culture in the region.





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## **SECTION II: OVERVIEW OF MEDITERRANEO PROJECT**

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### **1. THE VISION**

Mediterraneo is a world-class waterfront development bordering the Mediterranean Sea in Lebanon that addresses the needs of an established society which values its culture and tradition. It aims to create a community that promotes quality of life, addressing the needs of an aging population as well as those related to future generations.

Mediterraneo consists of private residential communities and public areas with commercial retail, hotel and entertainment facilities along the waterfront. The balance of densities and programmatic functions is therefore important – high in the waterfront areas to enliven the public zone, and lower in the inland residential enclaves.

The traditional walled villas with private gardens, pools and unobstructed views of the sea shall be a major feature for the residential models. Mediterraneo's residential community shall be a highly exclusive, private gated community with its own clubhouse. The planning principles would create beautiful, lush landscape designs that will frame spectacular views of the Mediterranean Sea. The planning and architecture shall reflect the roots of the land and be reminiscent of the origins and traditions of the area.

All nations face the unavoidable growth of an aging population. Three major factors contribute to this prolonged life span. The first is the aging of the “baby-boomer” generation. Secondly, the rise of an educated population which is able to acquire information and knowledge on nutrition and exercise, thus allowing each to better maintain one's own health. Thirdly, advancements in medical research and biotechnology, resulting in improved health. Mediterraneo will contain a state-of-the-art Wellness Center and Spa with the appropriate three-levels-of-care model corresponding to the needs of the community by promoting healthy lifestyles.





Technology has changed the lifestyles of the young drastically. The internet revolution has been the major catalyst in promoting the trendy live-work, “24/7” lifestyle. Mediterraneo’s buildings, several of which will be located along the commercial promenade, will contain live-work units wired for which speed internet access. Furthermore, the commercial zone will be equipped with a wireless network allowing users easy internet access from any location of their choosing.

The Natural deep sea coast commands a world class marina with its own exclusive yacht club at its northern coastal edge of the site, adjacent to an old fishing village. A Cruise Ship Terminal to the southern end of the Mediterranean coastal edge will be built to promote regional tourism by allowing access to large cruise ships. Linking the marina and the cruise ship terminal would be a 300-meter linear pedestrian-scaled retail promenade with a boardwalk, a public beach pool, an outdoor amphitheater, and a five star resort hotel.

## **2. THE MISSION**

Becoming a world class destination for visitors to the region, reflecting a progressive outlook built upon a solid and rich cultural and historical heritage.

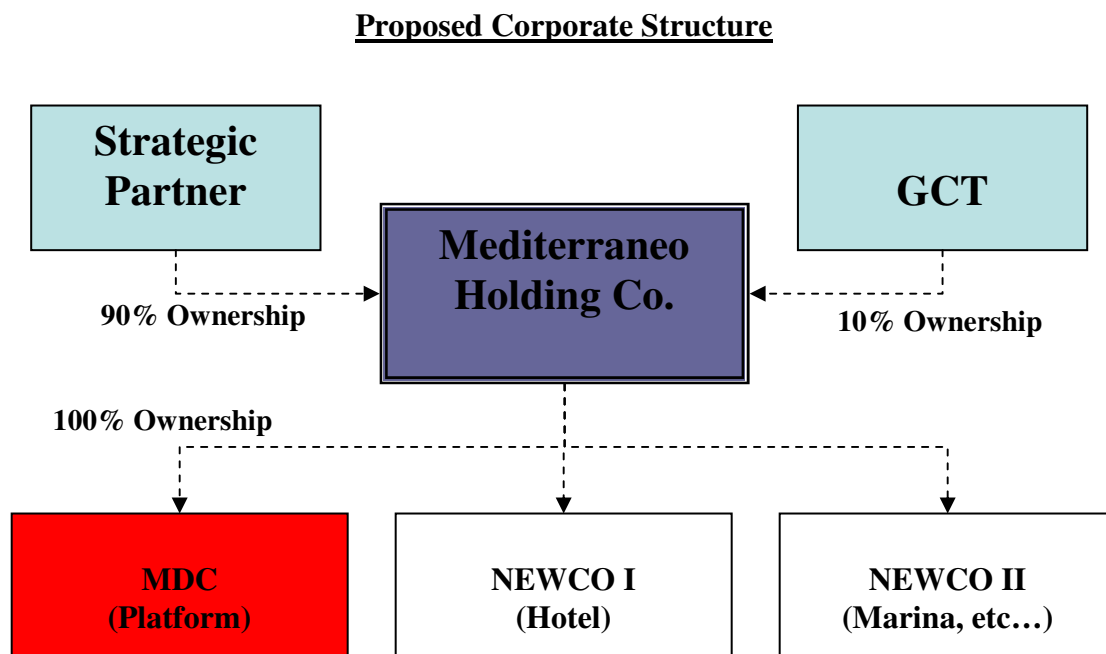
Becoming an icon for Lebanon in the 21<sup>st</sup> century.



### SECTION III: PROPOSED CORPORATE STRUCTURE

Given MHC's wide range of potential strategic interests, it has been seen to be efficient and effective to create a joint venture subsidiary, Mediterraneo Development Corporation "MDC", in which to focus implementation of the joint strategy.

The proposed structure for the holding of and investment in MHC is designed to provide flexibility for future partnerships with strategic partners for the development of complementary or additional economic activities which benefit from the Platform implemented by MDC.



The Platform will be built, managed and serviced by MDC.

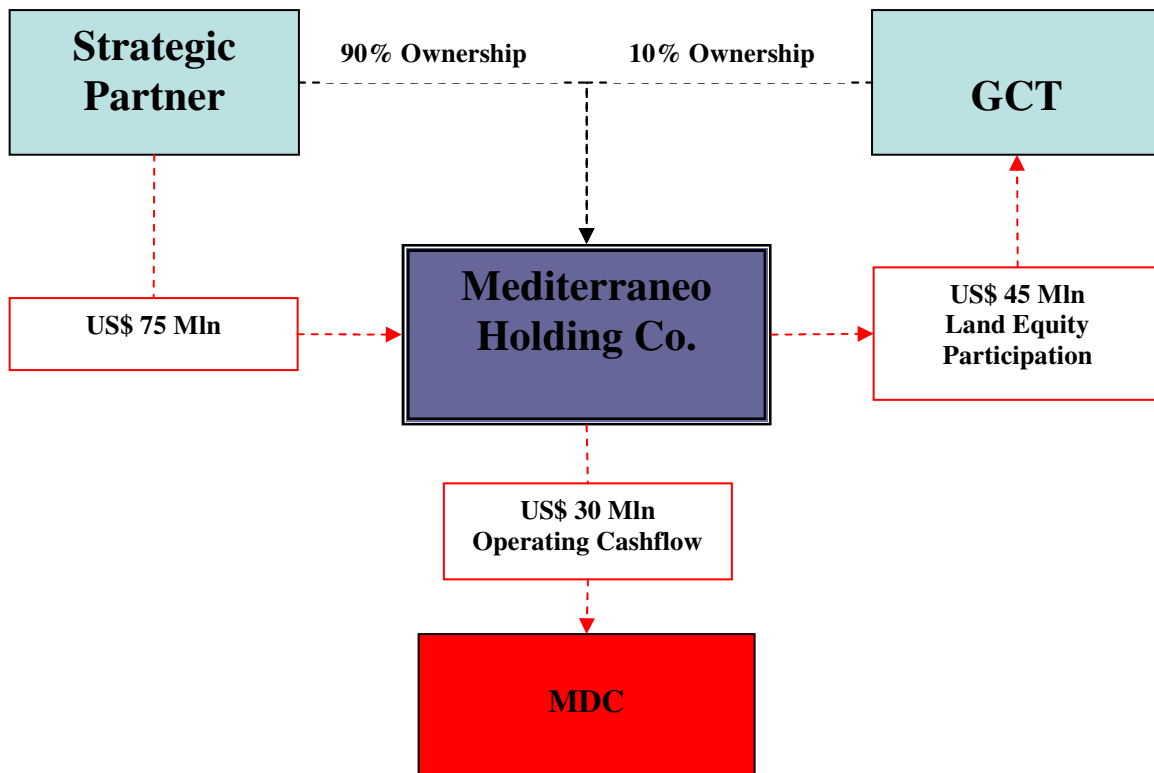


## 1. BENEFITS OF THE PROPOSED MHC STRUCTURE

Focusing the realization of Mediterraneo by MDC as a commercial and residential resort, allows MHC to concentrate on achieving its broader corporate objectives with its initial strategic partner. MHC retains the flexibility to develop other focused activity through the establishment of new joint-ventures, similar to that of MDC, with other strategic partners.

## 2. MHC INVESTMENT STRUCTURE

GCT proposes the following investment structure for MHC:



Under the above structure, the strategic partner contributes USD 75 million towards 90% shareholding participation in MHC. The total investment of USD 75 million shall be used in part as payment for land acquisition as well as to finance “Infrastructure and Non-Infrastructure” cashflows.



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### **3. PROJECT MANAGEMENT**

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A Project Management Agreement will be entered into between MHC and MDC under which MDC will be appointed as the sole Project Manager for the Platform and for the performance of certain services.

MDC will have the authority to determine the manner in which the Platform is to be implemented including:

- Appointment of the CEO (subject to the approval of MHC) and of other executives or employees
- Appointment of consultants and contractors for implementation of the Platform
- Marketing and public relations
- Financial management of operations
- Commitments in respect of office spaces, equipment and other facilities
- Conduct of BOT negotiations and IT-related contracting, etc...



#### 4. FUNDING MECHANISM

The sources of funds for the implementation of the Platform include the strategic partner, revenues generated by MDC from activities on the Platform, and if required, debt facilities to be raised by MDC.

Funds will be used in the following priority:

<b>Strategic Partner USD 30 million</b>	Used to finance selected “Infrastructure” works + “Non- Infrastructure” cashflows
<b>Revenues</b>	Used to finance expenditure beyond USD 30 million
<b>Debt Facilities</b>	Used to finance expenditure beyond USD 30 million + Revenues

“Infrastructure” costs are taken in this plan to include all non-revenue generating infrastructure costs (e.g. waterways, roads, parking and circulation, public spaces, and fire mains) and all revenue generating infrastructure costs (e.g. electrical distribution, sewage / drainage, water, gas and solid waste).

“Non-Infrastructure” costs are taken in this plan to include all pre-incorporation costs, land development costs, costs related to commercial services.

MDC will be given the flexibility to change the timing of the development program from that shown in this plan in order that the required expenditure will fall within the amounts of already committed and available funds and revenues, and that the requirement for debt facilities is minimized.



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MDC will also have the ability to select specific items of the “Infrastructure” to be funded by the contribution from other strategic partners so as to achieve the same objective.

## **5. IPO OPPORTUNITY**

It is anticipated that MDC will be listed as a specialist tourism player supported by the real estate development opportunity. MDC, as structured, will demand maximum valuation as financial investors typically apply a discount on holding companies.

MDC may be brought to one of the main international exchanges not simply as a GDR program, but as a major local listing. The size of the issue will release and reflect the real estate value of MDC.

A listing may be envisaged in the coming 2 to 3 years as the main physical elements of the Platform take shape, and as real estate sales accelerate. As financial investors have become very selective and are very carefully scrutinizing their cashflows, the issue would be best received when MDC has started to generate positive cash flows.

Management would have delivered a proven track record, and there would already be 2-3 years of established and audited accounts on an International Accounting Standards basis, and an International Standard on Auditing basis. Physical evidence of successful delivery would be available by the end of 2007.



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## **6. IPO INVESTMENT CASE**

The main elements of the investment case would be:

- A specialist real estate stock with strong underlying positive cash flows
- Physical assets backing the ‘ideas’ and ‘knowledge’ businesses covering the operating costs and investments
- The lack of similar platform in Lebanon
- Strong partners with proven credibility

## **7. IPO POSSIBLE VALUATION**

The current intended capitalization of MDC is USD 30 million – this is viewed as a pre-IPO placement. Pre-IPO value is typically unlocked through an initial public offering so that pre-IPO shareholders are compensated for assuming the greater risk. The IPO valuation in this case will also release the development premium inherent in the infrastructure, and the real estate. IPO valuation typically represents a multiple of the current capitalization.



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## **SECTION IV: THE BUSINESS**

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It is envisaged that a special purpose company (Mediterraneo Development Corporation Limited or “MDC”) will be set up to undertake the development activities on Mediterraneo. MDC will be responsible for the delivery of the “Platform” of the integrated real estate and infrastructure development defined.

Whilst the Platform will be commercially and economically viable in its own right, it will also provide the basis for MDC to fulfill its respective objectives of attracting new economic activities to Lebanon.

Mediterraneo will be developed into a comprehensive living and working environment which offers ground breaking facilities for the region. The environment will be designed to attract tourists traveling the Mediterranean. The unparalleled leisure environment on Mediterraneo, together with state-of-the-art facilities will attract tourists to the region. Mediterraneo will be in a position to lead the way into the development of an exclusive tourism related new economy activities in Lebanon.

### **1. Background**

GCT has conducted a preliminary study on the Real Estate Development of Mediterraneo, and has established a quantitative business and development plan based on the same initial revised vision plan assumptions.

It should be noted that a demand assessment should be performed by a local and international real estate consultant, in order to properly assess the demand for the project.





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Demand for the commercial, tourism, retail and residential real estate will be critically driven by the attractiveness of the project.

This is a unique opportunity, unlikely to be matched, to establish a commercial development of value to Lebanon. The benefits, both direct and indirect, commercial and financial, are considerable for the capital city.

This section defines and describes the real estate development of the Platform.

## **2. Development**

The real estate development ("the development") will create a comprehensive living environment unmatched in the region, which will attract a critical mass of tourists to the region. Although the physical, real estate is a critical contributor to the success of the Project, it cannot and must not be separated from the services which will be provided in parallel. It is only by linking these developments, through the establishment of the Platform, that the objectives can be met.

## **3. Objectives of Project**

The principal objectives of developing a real estate Platform in Mediterraneo are three-fold.

1. to illustrate, regionally and internationally, the exemplary development, giving Mediterraneo due recognition. The Project is seen as complimenting the present status of Lebanon, through the growth in tourism economic activities. The integration of Mediterraneo as a Lebanese Tourism Destination should bring indirect benefits to the commerce of the region, for example increases in spending, etc. These spin-offs would arise from the Project's development and illustrating Lebanon's developments accordingly;



2. to create an appropriate setting to which a strong identity can be attached. The setting will support the business activities which are to be created by MDC;
3. to ensure the commercial viability of the Project by establishing creative ideas that will enhance property value and build a strong community brand.

#### **4. Opportunities**

Due to its unique status as exclusive tourism destination, Mediterraneo has the opportunity to offer incentives to individuals, corporations, retailers and hoteliers.

Mediterraneo's current status is that of a 'Greenfield' site. This should enable the introduction of new ideas and concepts.

Lastly, Mediterraneo will also assist the facilitation of tourism access to and from Lebanon, through its unique State-of-the Art Cruise-Ship terminal.

#### **5. Other Reasons**

The attractive environment, provided by the real estate development, will provide the necessary platform from which new economy businesses may be established.

Another attraction which will be provided by Mediterraneo, which is indeed specific to the project itself, is the theme of water. This can be determined by:

- the attraction to residents and businesses alike;
- high added value for property;
- a more economical amenity than landscaping;
- unique brand image for Mediterraneo;
- the recognition of the legacy of Lebanon's maritime origin.



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## **SECTION V: SITE EVALUATION**

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### **1. REGIONAL SETTING**

Mediterraneo is located some 30 Km north of Beirut City and north east of Byblos city, one of the oldest city in the world. The location of Mediterraneo and the surrounding areas around the project are illustrated in Appendix A.

### **2. SITE DESCRIPTION**

The site is a private piece of waterfront land, located along the beautiful Mediterranean shore. The site, as defined by the unused railroad on the east, slopes down westward approximately 20 meters in elevation towards the sea. The gradient allows for ample opportunities for spectacular views out toward the sea. This site is particularly virgin land, having no existing usage except for some scattered agricultural usage.

Waterfront development is often not well-used nor developed. There is a need to revitalize waterfront areas, public commercial areas and the cruise line industry, which has been in the past neglected & fallen in importance due to the rise in the airline industry.

For the purposes of this preliminary study, parcels within boundary west of the railroad easement shall be assumed to be purchased and incorporated into the development, although the land currently controlled (156,000, sq.m) is sufficient to carry out the development. Additional land (30-35k sq.m) should be acquired to create the ideal natural boundary for the site.

### **3. ACCESSIBILITY and VISIBILITY**

The formal entry into the site shall be off the highway, running east to west across the railroads tracks, looking toward the sea. With the improvement of the main highway, access to the site becomes 30 minutes away from the Lebanese capital and its surroundings.



The entry into Mediterraneo is defined by a tree-lined driveway, framing the view of the Mediterranean Sea beyond. This gated entrance is planted with lush, colored flower beds along its edge and in the center median. Mediterraneo is a lush, landscaped oasis: a private estate with unobstructed view of the sea.

<b>4. KEY ADVANTAGES</b>	
i. 156,000 plus m <sup>2</sup> of land located in prime location and controlled by one group.	➤ <b>Unique plot of land.</b>
ii. 1 Km of Seafront, representing 0.5% of the total Lebanese Coast line.	➤ <b>Almost impossible to find in this area.</b>
iii. Presidential Decree for land reclamation of additional 46,000 m <sup>2</sup> .	➤ <b>Time consuming process, with no guaranteed results of approval.</b>
iv. License to undertake maritime works for a seaport infrastructure.	➤ <b>Time consuming process, with no guaranteed results of approval.</b>
v. Facility to undertake Duty Free Area within the cruise terminal.	➤ <b>Additional added value facilities to international tourists.</b>
vi. Natural Sea Draft over 15 meters, ability to coast large cruise vessels.	➤ <b>Unique Ability in the region highly cost efficient given its natural draft.</b>
vii. Cleanest sea water area in Lebanon	➤ <b>Located in a touristic area, heavy factories to the north, and power plant to the south.</b>
viii. 30 minutes away from BCD and major cities in Lebanon	➤ <b>Close proximity to Highway</b>
ix. Close proximity to Byblos City.	➤ <b>+7,000 years old city, renowned worldwide, a must see tourist destination.</b>



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## **5. CONCLUSION**

The site offers significant potential for a residentially oriented real estate development which would provide necessary support services and amenities. In order to successfully develop real estate components and particularly uses that require high visitation levels such as retail space, the provision of a choice of connections with adequate capacity is vital.

Mediterraneo, would provide opportunities for the development of leisure uses such as a marina that could be integrated into the real estate development and enhance land value.

## **SECTION VI: PROPOSED DEVELOPMENT**

The idea behind the proposed development is to create a commercial centre in an urban resort setting. The main features of this would include:

- establish the commercial centre in the heart of a spectacular world class location, adjacent to the Mediterranean shoreline and project marina;
- use the water, as stated before, as a major amenity and unique 'branding' feature;
- establish state-of-the-art infrastructure,
- create a 'spaciousness' not seen everywhere in Lebanon; due to lower density ratios, more views of water, and a high percentage of 'low rise' residential housing;
- ease of automobile use, for example through ample free parking;
- year round comfort for pedestrians through the building of air conditioned accesses along the pedestrian spine in the project central area;
- create an overall higher level of quality than elsewhere – locally or regionally.



## **1. Phasing**

The concept of the phasing of the Development has been initiated due to several reasons:

- offering the very best features with, of course, the enjoyment of water for the initial phases of development;
- establishing at the outset a strong brand identity and associated high property value;
- allowing the less prestigious locations on Mediterraneo to gain value from the established brand quality which has previously been developed;
- including a full range of building designs from inception in order to both create choice for residents, and gauge market reaction to new and different building designs;
- the master plan for each area can be modified as the market evolves;

**IT SHOULD BE NOTED THAT THE DETAILED IMPLEMENTATION PROGRAM REPRESENTED IN THIS BUSINESS PLAN, AND REFLECTED IN THE FOLLOWING DETAILED SCHEDULING AND COST AND REVENUE ANALYSIS MAY REQUIRE AMENDMENT FOR CHANGES TO SCHEDULING OR ZONING ARISING FROM FINALIZATION OF THE MASTER PLAN.**

## **2. Development Roles**

There are two roles which MDC proposes to play in the development of the Project; primarily that of land developer, but it also has a presence as a building developer.

The land developer role would entail servicing the land and disposing of the relevant sites, whereas the building developer role would involve building the sites and marketing them.

This role will, for strategic purposes, be limited to only building key ‘signature’ buildings (e.g. Hotel, retail, etc), thereby demonstrating new building types, and setting high standards for planning and design. The option of remaining a building developer on additional sites exist, in the event MDC decides to expand such a role.



#### 4. Key Parameters on Development Costs

MDC's role, as previously discussed, is primarily that of land developer. For strategic purposes, it will also act, in a limited capacity, as a building developer.

Other parameters include:

- all costs and revenues are split per plot;
- preliminary costs prepared by GCT
- all costs shown in USD (all figures in USD year 2004);
- the land development costs for revenue-generating infrastructure has been included in the financial projections;
- it is assumed all residential and retail will be developed prior to 2012,
- the quality of the development is to be well above local average.

In years 2005-2011 of the Project, the total land and property development costs amount to USD 40 million as shown below. Details of the assumptions used for real estate development costs are provided in Appendix B.

	2005	2006	2007	2008	2009	2010	Total
<b>Land Development Costs (000s)</b>							
Site Preparation	(500)						(500)
Data Collection, Market Research, etc	(250)						(250)
Master Planning	(1,000)						(1,000)
Architectural Design & Engineering	(5,000)						(5,000)
Licensing, Fees, etc	(1,000)	(500)	(500)	(500)	(500)	(500)	(3,500)
Management & Marketing	(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(7,000)
<b>Total</b>	<b>(9,750)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(17,250)</b>

	2005	2006	2007	2008	2009	2010	Total
<b>Development &amp; Construction Cost (000s)</b>							
Residences		5,875	5,301	3,658	2,839	1,959	19,632
Retail		3,428					3,428
<b>Total Construction Cost</b>		<b>9,303</b>	<b>5,301</b>	<b>3,658</b>	<b>2,839</b>	<b>1,959</b>	<b>23,060</b>



## 5. Key Parameters on Development Revenues

The parameters that highlight MDC's financial projections include:

- revenues are based on well above average local quality, and market positioning
- the preliminary pricing has been effected by GCT
- it is assumed that all revenues are received in the form of sales of land and long term retail/commercial leaseholds;

In years 2005-2010 of the Project, the total revenues amount to USD 227 million. This can be highlighted in the following table. Further details are provided in Appendix B to this plan.

### **Revenues (USD 000s)**

Total Revenue in PV (000s)	2005	2006	2007	2008	2009	2010	Total
Residences		54,193	65,682	44,226	33,501	22,557	220,158
Retail		-	1,685	1,795	1,911	2,036	7,427
<b>Total Revenue</b>		54,193	67,367	46,020	35,412	24,593	227,586

## 6. Key Parameters on Cashflow

The key parameters concerning the cashflow include:

- revenues from the sale of land are received at signature of sale contract;
- revenues from the sale of leasehold retail space developed by MDC are received after completion of construction.





## 7. Conclusion

When compared to other real estate development areas in Lebanon, Mediterraneo's pricing in terms of square footage is comparable to the other areas, this is highlighted in the table below.

Marfa'	Beirut Central District	Most streets/selling	5,650
Mina El Hosn	Bab Idriss	Phenicia	4,600
Aïn El Mreysseh	Ain El Mreysseh	Phoenicia west lower	4,000
Moussaytbeh	Unesco	Ramlet el Baida	4,000
Aïn El Mreysseh	Ain El Mreysseh	Phoenicia west upper	2,800
Mina El Hosn	Mina El Hosn	Phoenicia east upper	2,800
Mina El Hosn	Bab Idriss	Omar el Daouk	2,700
Saïfi	Yassouiyet	Monnot	2,700
Saïfi	Yassouiyet	Rue de Damas	2,650
Saïfi	Gemmayzeh	Charles Helou	2,600
<b>Mediterraneo</b>	<b>Jbeil</b>	<b>Amchit</b>	<b>2,000</b>
Mount Lebanon	Metn	Marina	1,900

It can be noted that a premium for Mediterraneo is supportable, and this is due to its extra features, e.g. proximity to water, excellent views, state-of-the-art infrastructure, etc.

The real estate development of Mediterraneo is an integral part of the overall development. The roll-out program envisaged should be developed in conjunction with local and international real estate specialists. The program should be justifiable in the timescale and appropriately focused on the delivery of a practical business plan for MDC.



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## **8. Development Schedule**

In the preparation of the Business Plan, a conservative program has been adopted for the land and buildings, infrastructure development strategy. The development plan expands over a period of six years.

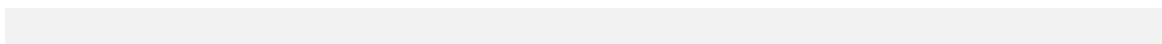
In particular, the plan for all access, non revenue generating and revenue generating / utility infrastructure has been re-phased to meet the revised initial development timetable and to lead the expected roll-out of the subsequent real estate over time.

## **9. BOT Possibilities**

The Business Plan provides the conservative assumption that MDC will be responsible for all costs associated with “utilities” infrastructure. Whilst these would normally generate revenues, this has been conservatively reduced to zero under MDC’s business scenario.

It is expected that cost of this type of infrastructure (i.e. power, water, sewage and gas, cruise ship terminal) may be reduced by the introduction of BOT operators. This will provide a potential upside for MDC in the potential sharing of infrastructure development cost.

It will be MDC’s responsibility to conduct all BOT negotiations and to contract related works under the Project Management Agreement.

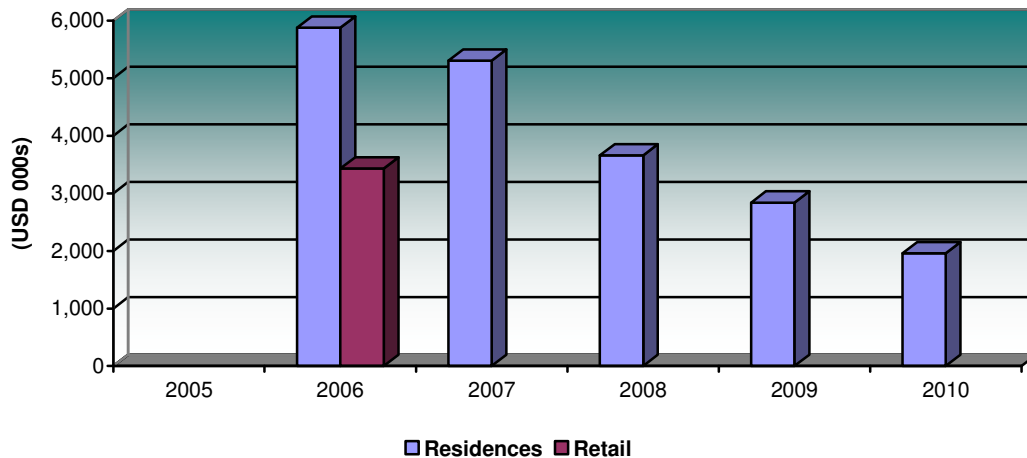




## SECTION VII: SUMMARY BUSINESS PROJECTIONS

### 1. MDC Costs

A summary of the costs which are expected to be dispensed by MDC from its various businesses during the initial six years is provided below:



### 2. MDC Revenues

A summary of the revenues which are expected to be generated by MDC from its various businesses during the initial six years is provided below:

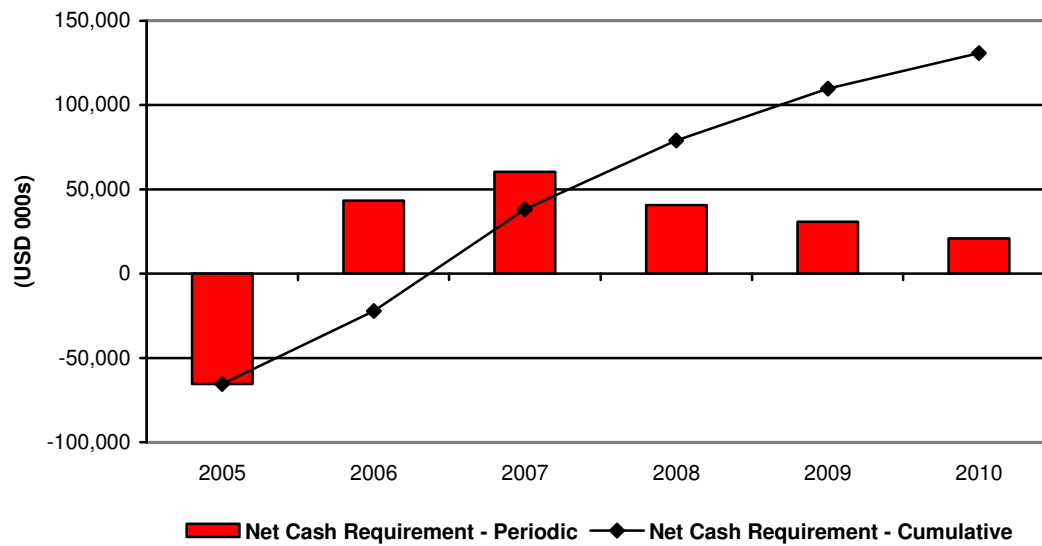




### 3. MDC Base Case Financial Projections

A summary of the financial projections for the initial six years for MDC incorporating the costs and revenues from the various identified businesses is provided below. Details, of this Base Case cash flow are attached to this Business Plan as Appendix B.

#### **Base Case Cash flow Projections**





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## **SECTION VIII: TOURISM IN LEBANON**

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### **1. OVERVIEW**

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The outlook for the tourism sector in Lebanon is positive, with investors demonstrating confidence in the industry. About \$2 billion has been invested in hotels over the past decade. The presence of many international chains such as, Holiday Inn, Marriott, Movenpick, Metropolitan and Inter-Continental hotels in Lebanon offers reassurance to travelers still unsure of Beirut as a travel destination. Lebanon's location, climate, culture, proximity of coasts and mountains, archeological heritage, tradition of hospitality, and nightlife, offer a variety of attractions to foreign visitors .

Tourism was the Lebanese economy's backbone before the civil war. During the 1960s, revenues from visitors had accounted for 20% of the country's GDP. About 2.4 million tourists visited Lebanon annually in the early 1970s. At that time, Lebanon was the premier tourism destination in the Middle East, accounting for more than 40 percent of tourism earnings in the region.

Tourism made a strong comeback in the 1990s. The number of visitors increased on average 27 percent annually during much of the 1990s to 557,000 in 1997. By 2000, this number was up to 742,000.

Arrivals in 2001 increased by 13 percent, to reach 837,000, thus underscoring the steady improvement that had been apparent since the end of the civil war in 1990. The growth in the number of tourists visiting Lebanon annually is still in its infancy as is apparent when compared with the number of tourists who visited Lebanon prior to the civil war or when compared with the number of tourists visiting neighboring Jordan or Syria, each receiving about twice as many tourists annually. According to the World Tourism Organization, Lebanon should expect steady growth in the sector in the decade ahead.

Tourist revenues in 2000 were \$1.2 billion, accounting for over seven percent of GDP, and these figures are likely to increase with the number of tourists. The Lebanese government has allocated funds to improve Lebanon's image abroad.



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In 2001, the Ministry of Tourism secured a \$30 million loan from the World Bank to help upgrade its historic sites.

In the wake of September 11th, the government approved a \$1 million promotional budget for the Tourism Ministry as well as \$10 million discretionary fund for the Prime Ministry. The National Council for Tourism (NCT), the Investment Development Authority of Lebanon (IDAL) and a number of advertising agencies are also promoting Lebanon abroad.

The NCT promoted the February 2002 shopping festival. Saatchi & Saatchi was awarded the contract to conduct a campaign encouraging Arab tourists to visit Lebanon during the Ramadan holiday.

The September 11th attacks caused a temporary drop in arrivals, however that number picked up again in November and December with a 20% increase in arrivals over the previous year. This increase was in large part due to the arrival of large numbers of Muslim visitors during the month of Ramadan in December. Hotel occupancy averaged 90% during that period.

According to the WTO, about 33,000 Lebanese worked in the tourism sector in 1995. The WTO expects this number to increase to over 70,000 by 2010, creating another 80,000 jobs elsewhere in the economy through backward linkages.

## **2. GEOGRAPHY**

Lebanon, a small independent country with an area of 10,452 Km<sup>2</sup>, lies on the east coast of the Mediterranean. Its 2 mountains ranges extend from North to South, parallel to the shores of the Mediterranean. Lebanon is blessed with a highly diverse terrain situated in relatively small area: The 215-km Mediterranean coastline stretches along a narrow, flat plain that gives way to the Mount Lebanon range, whose tallest peaks are covered in snow all year round.



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### 3. ECONOMIC REVIEW

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Lebanon does not have access to a substantial resource base (cheap labor, minerals or energy) to phase its development in the traditional way. Thus the future growth of the Lebanese economy will be driven by the country's capabilities: Knowledge workers, trade/financial services and tourist attractions. As a result, sustainable growth of the Lebanese economy will have to be based on the country's capabilities namely the following:

- Strategic geographic location,
- Educated manpower,
- Beautiful countryside and social environment
- Centuries of trading experience

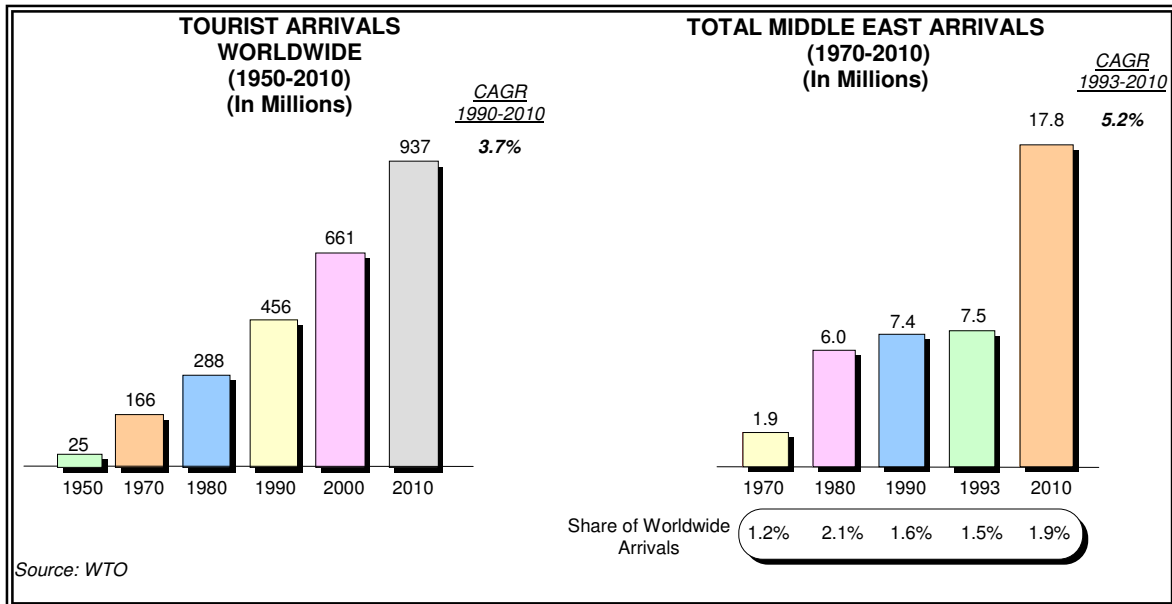
Five principal parameters typically affect the level of tourism activity in a country:

- Inherent country attractiveness (natural resources, cultural heritage, social amenities, business base),
- Promotion and awareness of a location as a tourist destination,
- Accessibility of the location (airport capacity, road network, ease of entry, etc),
- Basic tourism infrastructure, including hotel/resort facilities, tour operators, conference and exhibition facilities, and
- Supporting infrastructure, including recreational, shopping, food & beverage facilities, as well as an active night life.

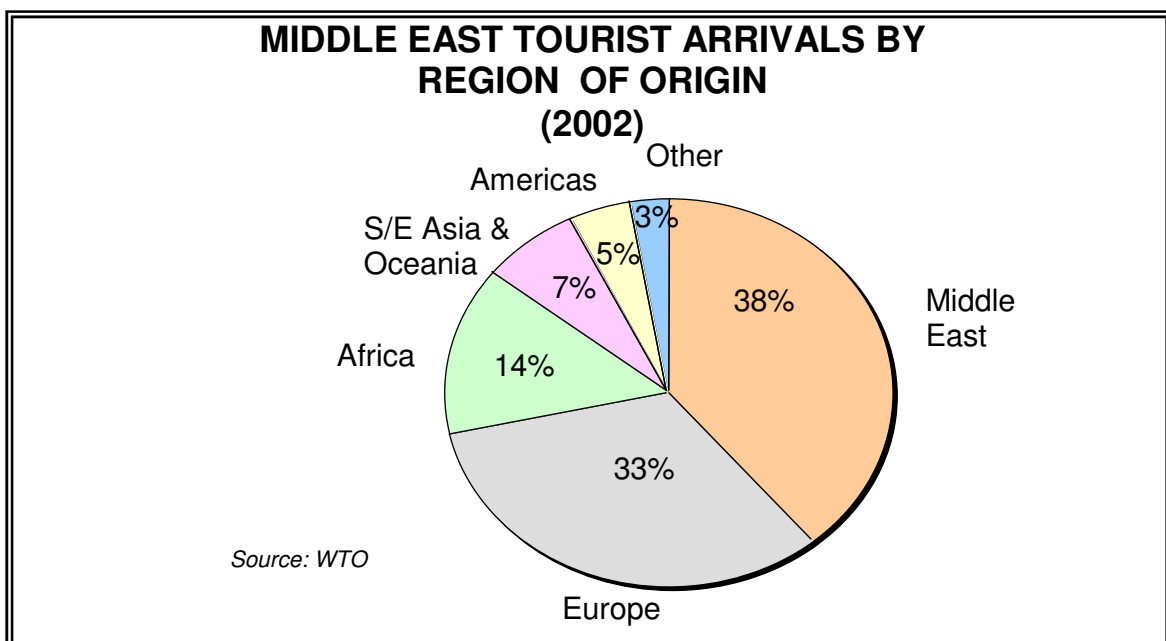
In light of the above, we believe that Lebanon clearly meets the inherent attractiveness criteria and what Mediterraneo proposes, is to capitalize on this inherent reality by filling part of the gap in the country's tourism infrastructure and supporting services. As such we believe that Mediterraneo will become a large scale sea resort facility able to attract some of the flows of European tourists in the Eastern Mediterranean region (estimated at 17 million).



By 2010, the total number of tourist arrivals to the Middle East is expected to rise to 17 million, representing around 2% of the world's total.



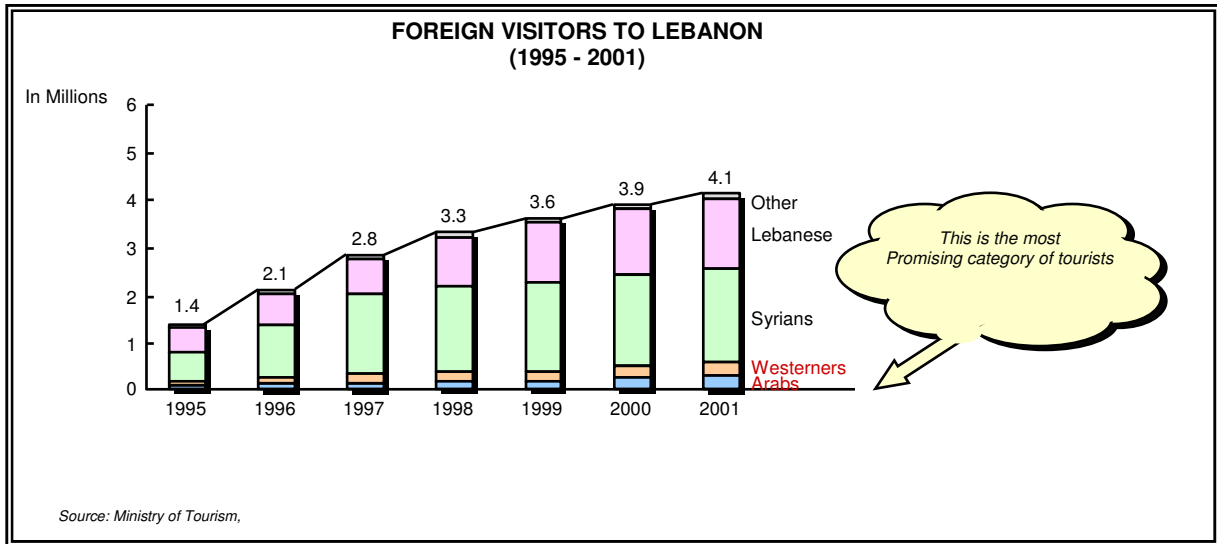
In the Middle East, Regional travelers represent the largest segment, followed by Europeans, who represent one third of the total.







Lebanon has the opportunity to attract a significant proportion of these flows, if it develops adequate infrastructure and support facilities to cater for Western and Arab tourists.



The tourism infrastructure should be developed around the needs of the relevant tourist segments.

#### NON RESIDENT VISITORS PROFILE

	PREDOMINANT	ENTERTAINMENT	SENSITIVITE
Arabs	<ul style="list-style-type: none"> <li>Mainly tourists coming during summer season or on special occasions (Eid, Shopping Festival, etc.)</li> <li>Businessmen</li> </ul>	<ul style="list-style-type: none"> <li>Good life (food/outing/entertainment)</li> </ul>	<ul style="list-style-type: none"> <li>Service sensitivity</li> <li>Low price sensitivity (prices in Lebanon are considered acceptable as compared to GCC prices for entertainment)</li> </ul>
Syrian	<ul style="list-style-type: none"> <li>Low income workers</li> <li>Emerging Tourists category (mainly day trips)</li> </ul>	<ul style="list-style-type: none"> <li>Low</li> <li>Emerging category comes for shopping and features not available in their home country</li> </ul>	<ul style="list-style-type: none"> <li>High price sensitivity</li> </ul>
Lebanese	<ul style="list-style-type: none"> <li>Nationals, living abroad coming back on special occasions (end of the year vacations, summer, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Mainly family outings (restaurants and summer camps)</li> </ul>	<ul style="list-style-type: none"> <li>Value for money sensitivity (do not like "abusive" prices)</li> </ul>
Westerner	<ul style="list-style-type: none"> <li>Businessmen for short periods of stay</li> </ul>	<ul style="list-style-type: none"> <li>Country specific features such as archeological tours and cultural visits. Emergence of package tours including stops in other countries</li> </ul>	<ul style="list-style-type: none"> <li>Tourist category, with medium price sensitivity. Unattracted by western style entertainment</li> </ul>
Other	<ul style="list-style-type: none"> <li>UN staff and diplomats</li> </ul>	<ul style="list-style-type: none"> <li>Very low entertainment needs</li> </ul>	<ul style="list-style-type: none"> <li>High price sensitivity</li> </ul>



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## **SECTION IX: RESIDENTIAL MARKET ANALYSIS**

### **1. DEMOGRAPHIC ANALYSIS**

Beirut City and its suburban areas comprise approximately 35 % of the total population of Lebanon, equivalent to 1,200,000 people. The population of Beirut city has increased at an annual rate of 1.3% between 1991 and 1997. Future population growth is estimated at 1.8% annually. By 2010 the population is expected to reach 1,350,000 people. The typical household size is estimated at 4.2 people in 2004 values.

### **2. SUPPLY OF RESIDENTIAL ACCOMMODATION**

As previously highlighted, Beirut City is home to 1,200,000 people ranging across the entire socio-economic spectrum. Rapid population growth has resulted in urban sprawl, as space for new developments in the city is becoming more and more scarce. This trend has stimulated development of high-rise buildings to replace the old low-rise supply of residential units. Due to the lack of space in the city, several new housing developments are under construction at locations as far as 40km from CBD.

### **3. FUTURE RESIDENTIAL DEVELOPMENT**

We understand that the government of Lebanon is keen to see the extension of the city towards the surrounding areas. Many significant plot of lands have been designated for residential development and supporting infrastructure. We understand that the government is intending to stimulate the rapid development of such areas through the quick establishment of new schools, hospitals and other community services funded mainly by gulf countries. In addition, through a subvention program, the government is promoting the development of commercial projects at very attractive interest loans.



#### **4. RESIDENTIAL DEMAND CHARACTERISTICS**

According to interviews with real estate agents, tenants tend to move from older apartments to newer supply that is usually of better quality at similar rental rates. This has left some 15,000 to 20,000 older residential units vacant in the market. Due to the fact that land is becoming more and more scarce in BCD, new developments on the main road are mostly high-rise apartment buildings.

These developments are often supported by attractive subvention loans from the government, which is insisting on high rise development to maximize revenues. As such demand for luxurious 3-bedroom apartments was reported to be strong.

#### **5. DEMAND FOR RESIDENTIAL ON MEDITERRANEO**

##### ***Primary Housing Demand***

The primary market area (PMA) for the proposed development comprises mainly the Lebanese expatriates and people from the Middle Eastern/Gulf region.

##### ***Secondary Housing Demand***

A secondary market sector will be derived from the existing population in Lebanon. We believe that only 10% of this demand represents households which could afford the prices that would logically be charged for housing's on Mediterraneo.

We also believe, that an additional 15% allowance within this segment for households to acquire additional housing units for extended family or recreational purposes.

#### **6. MARKET CAPTURE**

Given its prominent location and amenity attributes, Mediterraneo has the potential to become a premier residential development capable of supporting a self contained first class living environment.



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## **SECTION X: RETAIL MARKET ANALYSIS**

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### **1. SUPPLY OF RETAIL SPACE**

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The retail market in Lebanon is relatively unsophisticated and features only a few examples of contemporary retail developments. Many shops in Lebanon are located along the main streets on the ground floors of residential and commercial buildings. The prime shopping area is located in Beirut Central District (Solidere) and its surrounding area.

A total of 11 shopping centers of acceptable quality were identified in the market. Many centers include supermarkets, warehouses and extensive food courts and children's play areas. The Design efficiency of most malls is poor, with leaseable area representing 60% or less of total floor space.

Three new large shopping malls are either under construction or in the planning stages, and could add over 100,000 m<sup>2</sup> of new retail space to the market.

### **2. RETAIL DEMAND CHARACTERISTICS**

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Although general income levels are relatively low, demand for retail facilities in Lebanon is constrained due to the proximity of BCD which provides a concentration of high standards shopping malls as well as very attractive entertainment facilities. Many Lebanese residents in Mount Lebanon and surrounding areas prefer to shop in BCD during the weekend or festive occasions.

BCD's liberal environment attracts many tourist shoppers from the neighboring countries as well as an increasing number of Europeans. These markets will be mostly attracted to the BCD and surrounding areas.

We believe that if all three proposed new retail projects materialize, the retail market in the surrounding regions will be adequately supplied in the short term to serve the current population base and more.



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### **3. DEMAND FOR RETAIL FACILITIES ON MEDITERRANEO**

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Demand for retail facilities in Mediterraneo's commercial area will be primarily driven by the hotel tourists and residents in the project. Given that the BCD will be adequately supplied with regional retail facilities, we would recommend that development emphasis be paced on facilities servicing regional and international tourists, as well as local resident.

#### ***Demand Capture***

Although we believe that in particular the demand for convenience goods can be fully captured on the project, demand for shopper good and specialty goods will be partly satisfied off the project in Beirut Central District (BCD) and its surrounding areas.

This assumption is underpinned by the perception that the population on the Mediterraneo project will be highly mobile and traveling frequently, thus being exposed to alternative shopping opportunities.

On average, we believe that 70% of total retail demand generated through Mediterraneo tourists base and residents can be captured on the project. In addition we believe that the equivalent of 2% of the neighboring areas can be persuaded to shop on the project.

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### **4. RETAIL DEVELOPMENT ASSESSMENT**

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Given the objective of satisfying a high percentage of regional and international tourists and local resident shopping needs on the project, both international and convenience retail facilities should be developed on the site.



In order to develop estimates of retail space revenues, we have applied the following breakdown of retail space to the allocation space.

- Convenience stores 35%
- Prime location retail stores 15%
- Secondary location retail stores 20%
- Anchor tenants 30%
- Total: 100%**

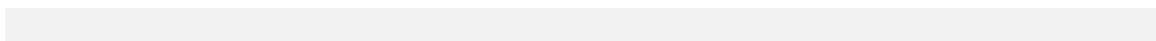
### ***Construction Costs, Rental Rates and Operating Costs***

Our research indicates that the typical construction cost for retail projects varies from US\$ 465/m<sup>2</sup> to 490/m<sup>2</sup> in present day values. We have applied an average cost of US\$ 400/m<sup>2</sup> in the preparation of our estimates. Rental levels in shopping malls are a function of location and quality of development. Typical rental rates in BCD and surrounding areas vary from US\$ 150 to US\$ 500 / m<sup>2</sup> / per annum. Rental rates for “street shops” are considerably lower at US\$ 50 to US\$ 150 / m<sup>2</sup> / per annum.

We have applied different rental levels for the different types of shops as summarized in the following table.

<b>Retail Rental Rates</b>		
<b>Retail Type</b>	<b>Development Mix</b>	<b>Annual Rental</b>
	<b>%</b>	<b>US\$/m<sup>2</sup></b>
Convenience Stores	35.0%	250
Prime Shops	15.0%	350
Secondary Shops	20.0%	300
Anchor Tenants	30.0%	200
<b>Total / Average</b>	<b>100.0%</b>	<b>267</b>

Operating expenses have been estimated at a fixed amount per m<sup>2</sup> of lettable space, amounting at US\$ 20/m<sup>2</sup> in 2004 values, and are adjusted for inflation.





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## **SECTION XI: HOTEL MARKET ANALYSIS**

### **1. SUPPLY OF HOTEL ACCOMMODATION**

Given the lack of alternative revenue sources, the Lebanese government was forced to diversify its economy towards new sectors, mainly tourism which has led to the development of small local resort industry.

The current inventory of quality hotels in Lebanon comprises 18 hotels with a total of 4,300 rooms. Quality hotel developments re-started in the early 90's, and much of the stock is now generally in good condition with no direct need of renovation.

The newest addition to the quality market is the Movenpick Hotel, located on the Corniche. Several of the 5-star hotels, such as the Hilton, Intercontinental, and Sheraton, provide beach access, although none of these hotels can be classified as true resort hotels.

Several new hotel projects are rumored for the city. No construction has commenced, however. The government has recently promoted the development of the hotel and commercial sector through subventions of attractive interest loan rates, all in order to boost the development to satisfy the tourism demand. Continuation of this policy would further the potential for new supply in the City and surrounding areas.

### **2. HOTEL DEMAND ANALYSIS**

Lebanon attracts mainly regional tourist travelers. Demand is largely driven by tourist travelers, therefore is dependent on economic activity and the overall tourism climate.

In the following table we compare the performance of quality hotels in Lebanon in recent years. The supply of better quality hotels in BCD is 2 time larger than that of hotels in the surrounding areas.



Hotel Name	General Information		2001		
	Classification	No. of Rooms	Annual Average Room Occupancy	Achieved Average Room Rate	Yield (US\$)
Le Vendome Intercontinental	Int	73	73%	243	177.39
Mariott	Int	165	61%	92	56.12
Albergo	Int	30	55%	212	116.60
Phoenicia Intercontinental	Int	467	62%	187	115.94
Riviera	Int	120	58%	106	61.48
Sheraton Coral Beach	Int	92	62%	105	65.10
Rotana Gefinor	Int	168	51%	107	54.57
Le Gabriel	Int	75	56%	97	54.32
Le Meridien Comodore	1st	209	57%	95	54.15
Martinez	1st	185	58%	95	55.10
Royal Plaza	1st	65	55%	110	60.50
Monroe	1st	112	59%	90	53.10
Howard Johnson Grand	1st	73	58%	90	52.20
Metropolitan Palace	1st	225	55%	120	66.00
Holiday Inn Dunes	1st	131	65%	108	70.20
<b>Average</b>		<b>2190</b>	<b>59%</b>	<b>124</b>	<b>74.18</b>

The foregoing table demonstrates that quality hotels in BCD and its surrounding areas achieve low room occupancy rates around 59% on an annual basis. The average room rate has remained reasonably stable at around US\$ 124.

### 3. DEMAND FOR HOTEL ACCOMMODATION ON MEDITERRANEO

We believe demand for hotel accommodation arising from BCD will be adequately met by the existing and planned new hotel facilities in the city center. Demand for hotel accommodation on Mediterraneo would be mainly generated through activities related to high-end regional and international tourists. To best meet the demand, hotel facilities should be located in the vicinity of the central area of the project, while providing state-of-the-art services and facilities.





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### ***Tourist Hotel***

The provision of a dedicated resort development could potentially attract a new tourist market, particularly if Mediterraneo is paired with state-of-the art wellness center, water sports and other recreational facilities. The provision of tourist hotels, however, would put additional pressure on the infrastructure of the project, and thus needs to be carefully considered and controlled. Since demand for tourist facilities is largely *supply-led*

We would recommend development of a hotel to an international four-star standard which would be equivalent to a five-star property by local standards. Perhaps a small, deluxe beach front property could be supported in a later stage of the project.

#### **4. HOTEL DEVELOPMENT ASSESSMENT**

We would recommend the initial development of tourism hotel to support the core development of the project. The hotel could be developed in parallel, but would not be required to support the core development.

## **SECTION XII: LAND DEVELOPMENT AND FINANCIAL MODEL**

### **1. INTEGRATION OF RESIDENTIAL AND RECREATIONAL DEVELOPMENT**

The principal uses on Mediterraneo are focused on servicing the Central Area proposed on the project, in terms of residential accommodation, retail requirements and other support services. The provision of residential real estate alongside leisure uses is a well-established phenomenon and this applies particularly to homes located on or in proximity to the marina. The development of leisure related residential real estate – serving either primary residences or second homes – has been particularly successful in the United States (Florida and California for example), and Mediterranean Europe (Spain and Portugal).



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The integration of a residential real estate component with a marina development has a number of economic benefits to both components. These can be summarized as follows:

- Marina development costs are typically significant, and the sale of real estate can generate early-year cash flow and defray costs.
- The overall ambience and animation of a marina or waterfront community is enhanced by the inclusion of a residential component.
- Premiums can be obtained for the residential homes due to their location in what are typically very attractive settings; and access to up-scale leisure amenities.
- The owners of the homes are usually boat owners. In some instances free membership is provided to entice potential buyers.
- Successful developments often demonstrate high absorption rates and stronger growth in capital values. Homes can thus be sold on at a profit – often within a short space of time.

Well planned developments, when successfully marketed and in good location, are often sold almost entirely *off-plan*. The development can thus be funded through sales revenues generated in advance of construction, and is typically phased to meet demand patterns. This is important, as initial infrastructure typically carries a high cost with no directly attributable return.

<b>2. PRELIMINARY FINANCIAL MODEL</b>
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The preliminary financial model provides an analysis of land development cost for all the residential and retail structures of the project, in combination with estimates of net operating income through a sale and rent program that culminates in estimates of net cash flow.



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### *Estimates of Land Values*

Prior to calculating potential land sales prices that could be achieved on Mediterraneo, we have conducted research into land sale prices currently achieved in Lebanon, to put our findings into perspectives. We summarize our findings as follows.

- Prime land for high density commercial development – along the BCD and surrounding areas is selling for as much as US\$ 2,500 to US\$ 5,500/ m<sup>2</sup> of raw land.
- Land for residential development in prime areas is sold at US\$ 650 to US\$ 2,500 m<sup>2</sup>.

### **SECTION XIII: PROPOSED DEVELOPMENT STRATEGY**

We believe that the Mediterraneo project should be made available for development under the following circumstances:

- Mediterraneo Holding Company “MHC”, will grant Mediterraneo Development Company “MDC” the right to develop and operate real estate activities on the Mediterraneo’s project.
- MDC will be empowered to sell/lease the property and retail space

It is anticipated that MDC will establish and enforce strict guidelines for development, commensurate with any leasing/sale of the property in order to ensure that real estate activities contribute to the image and integrity of the overall project.



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These development regulations would likely include design guidelines to ensure compatibility of architecture; building codes and construction standards to ensure overall quality; and performance obligations to ensure proper phasing of key infrastructure and necessary support functions.

Given its mandate from Mediterraneo's Holding Company to exercise control over the development process, and the likelihood that there is a significant opportunity to capture the benefits to surrounding lands that will be generated by the project, we have identified three basic roles that MDC might consider with regard to its potential leadership in the development of the property. Each role differs in terms of required involvement, development expertise, financial investment, financial return and development risk.

These roles can be identified as follows:

- MDC as landlord;
- MDC as land developer;
- MDC as community builder.

Each role is briefly reviewed in the following paragraphs.

#### ***MDC as landlord***

The "landlord" role requires the least involvement in terms of actual development responsibility. Under this approach, MDC would prepare a master plan for the property and obtain all necessary entitlements. It would then prepare an infrastructure financing plan and land parcelisation program and sell the land areas to developers under a carefully managed disposition schedule. It would be reasonable for MDC to factor into its business plan the land sale proceeds at rates comparable to the increase in sale levels over the long term.



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The responsibility for construction of infrastructure would fall on the buyers, though MDC would likely provide overall co-ordination to ensure that it was provided in a timely fashion.

Under this approach, MDC would have the least commitment in terms of professional expertise, investment and financial risk; however, it would face significant development risk in that it might be very difficult to ensure that buyers provide necessary infrastructure and key facilities in a timely fashion. This approach would also likely produce the lowest return and yield the slowest land absorption.

### ***MDC as Land Developer***

Under the “land developer” approach MDC would, in addition to the master planning/entitlement, assume responsibility for provision of necessary infrastructure and certain of the amenity systems. This approach would provide greater certainty with respect to assuring that the support systems for the project would be completed in a timely fashion.

While there is a greater financial exposure under this approach, there is also the prospect of significantly higher returns in the form of land developer’s profit, superior buy terms, and an accelerated pace of development.

### ***MDC as Community Builder***

Under the third option, MDC would assume the full responsibility for the development of both land and buildings on the property. While this approach offers the potential for the highest return, it also would require a major initial commitment in the establishment of a full-spectrum development and building company and a significant financial commitment to absorb a major share of the initial front-end infrastructure and building construction costs.



In our experience, we have found that there are a few community builders who are able to acquire the talent and co-ordinate the construction activities over the range and variety of land uses which will be required to provide the necessary support for the project in a timely fashion. Moreover, it is extremely difficult to assemble in one company the range of builder skills necessary to satisfy the range of tastes found in the residential housing market.

## **1. RECOMMENDATIONS**

Given the concerns as outlined previously, it is our recommendation that MDC consider a *land developer role* as its primary development focus, and then enter into strategic partnerships with outstanding builders in order to complete the key facilities. In our view, such an approach will effectively build the potential real estate value on the remaining lands on the project.

## **2. RECOGNITION OF RISKS**

Our estimates of market and financial performance assume a number of circumstances that are considered likely to prevail during the period under review. However, it is considered prudent to conclude our evaluation by itemizing the main risk associated with the achievement of the estimates of occupancy, average rental rates, annual revenues and annual costs as outlined in this report. In our view, the following represent the main area of risks:

- That an adverse change in political and or economic conditions result in the decline in demand for one or more components of the development;
- That future additions to the primary competitive supply of real estate developments occur beyond those anticipated in this report, resulting in over-construction and a decline in market performance;



- 
- That the location of Mediterraneo is not accepted by the commercial and residential market;
  - That the project is not developed according to the high standards of design and quality of construction as proposed in this report;
  - That the estimates of the development costs are substantially exceeded.

Our estimates of performance are a reflection of the market conditions, which we believe most likely to eventuate during the period under review in this report. This said, the overall market outlook is not easily predictable and actual performance may, in reality, differ materially from that estimated in this report, with a consequent impact on financial performance.

### **3. DEVELOPMENT CONCEPT**

It is envisaged that Mediterraneo will become a major touristic and residential centre hosting the following facilities;

- Marina
- Resort Hotel
- Yacht Club
- Public Beach
- Outdoor Amphitheater
- Retail Broadwalk
- Cruise Ship Terminal
- Wellness Center
- Clubhouse
- Luxury Villas



A residential real estate program would be developed around the project central area, creating an environment that should be fully self-supporting to work and live.

The commercial and residential developments on the project would also provide potential for the development of other supporting businesses, including hotel accommodation and leisure and entertainment facilities.

#### **4. DEVELOPMENT STATUS**

##### **STATUS:**

To-date the following has been accomplished:

- **Conceptual Vision Plan** – an overall vision plan for the proposed development has been prepared by CW group and Thomas Lyons in San Francisco in coordination with the land owners.

##### **Next Steps:**

There are three major steps prior to the architectural design and construction of the building(s) for this development.

**Step 1:** Refine the Vision Plan and establish Goals and Objectives.

**Step 2:** Conduct a Market Study in conjunction with Financial Feasibility Studies in the following areas:

- Detached Residential Villas
- Retail and Entertainment
- Commercial
- Hotel and Resort
- Wellness Center and Spa
- Technology Usage

All pertinent information and data pertaining to the land, the sea coast and any governing codes and jurisdictions should be collected.

**Step 3:** Develop a Master plan which would set the framework for the development of the Mediterraneo community.



**APPENDIX A**  
**MAP OF PROJECT**



**LAND INFORMATION:**

- **Location:** Amchit – Lebanon
- **Total Controlled Area:** 156,000 m<sup>2</sup> (green area)
- **Total Optional Area:** 30-35,000 m<sup>2</sup> approx (grey area)
- **Total Long-Term Lease Area:** 10,000 m<sup>2</sup> (Property of the Catholic Church)
- **Zoning:** E – Touristic Area

**ADDITIONAL INFORMATION:**

- Presidential Decree for additional 46,000 m<sup>2</sup> Land reclamation
- Port License