Sycamore II Property Development Fund

Fund Update – Spring 2013

2012 was a mixed year for Sycamore II, with completion on several projects being delayed due to sales falling though; notably Phase 2 of Sandhurst School, the sale of the second of the refurbished units in Madeira Avenue. This property exchanged and fell through twice before the sale was finally completed in September. Despite this, the year ended on a high with the Learning Disability Care Home project in West Sussex receiving its CQC Accreditation and the first resident assessments taking place.

The impact of these delays was such that we immediately started a review of the strategy for the Fund to identify areas that could be improved and also areas that needed to change to take account of current market conditions and reduce risk to investors. These changes have now been implemented as described in the Revised Strategy section on page 4 of this update.

Project Update

Sandhurst School/Madeira Avenue, Worthing, West Sussex

The year long delay in selling one of the refurbished units in Madeira Avenue had a double impact for the Fund. Firstly, the delay saw local house prices drop and on advice from our Estate Agents, we lowered the asking price to £560,000 where we achieved a sale in September 2012. This delay impacted our ability to release enough cash from within the project to continue with Phase 3, the refurbishment of the Grade II Listed School Building, and a decision was made to pull out of the project completely. This decision was not taken lightly but it was agreed that the risk to the Fund would be greater if we decided to tie up cash with the refurbishment and run the risk of having the sale delayed and, potentially, a reduced price.

Apartments at Shoreham, West Sussex

One of the deciding factors in the Sandhurst School decision was the potential risk a lack of available cash would have on our plans for the refurbishment and sale of the 4 apartments in Shoreham. You may recall that we were granted planning permission to change these 4 x B1 offices to apartments and although house prices in West Sussex were falling, apartment prices were holding steady. The proceeds from the sale of the School were soon put to good use and final refurbishment on the apartments was completed and the units put on the market in December 2012. Three of these units have now sold and the fourth is due to complete at the end of May.

Jasmine Cottage, West Wellow, Hampshire

Unfortunately the 18 month delay in gaining planning permission to build a second property on this site had a negative impact on the return for this project resulting in our decision to sell the plot of land with planning permission rather than undertake the build ourselves. Again, this was a decision made to release cash rather than add a sales risk and a further delay to the Fund. However, the second phase of this project, the sale of the Jasmine Cottage is now in its latter stages and is due to complete end of May/early June.

Epsom, Surrey

As last reported, the hotel at Epsom has been subject to a number of further discussions with the council as planning permission was rejected by the planning department. Although this project has been delayed, the underlying return is underwritten by our JV partner thus not causing a drain on cash within the Fund. The latest update from our JV partner is that they will now be resubmitting the application for residential housing which, they anticipate, will provide a better return.

Brownfield Site at Sutton Scotney, Hampshire
As last reported, we have agreed the sale of the site to a well known house-builder upon receipt of planning permission. There has been a delay in planning due to a title discrepancy with the adjoining land owner and we are currently liaising with them to remedy this. As soon as this has been agreed, we will be in a position to complete the sale of the land and we expect this to be finalised by the end of May 2013.

We are also delighted to announce that we have agreed with the land owner a 2-year Option on another small area of adjoining land and this second phase is now in the design stage. This will be for 2 x 4/5 bed units and we anticipate that this design stage will be completed and ready for planning by the end of June 2013.

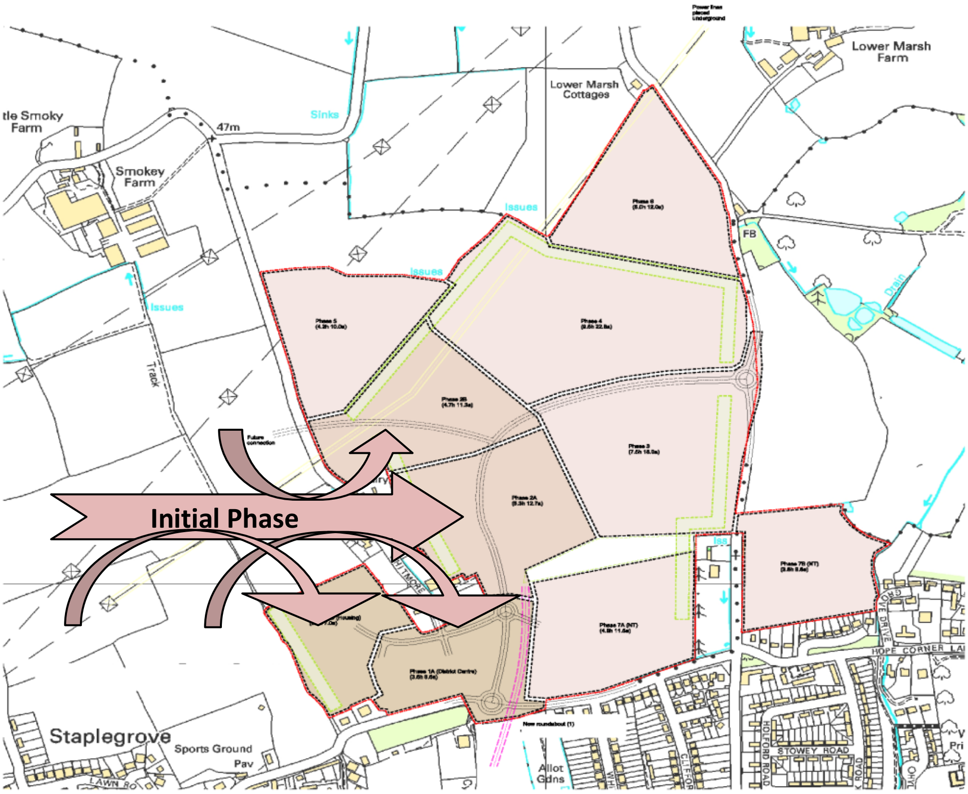
Winchfield, Hampshire
This is another longer term large scale development site which has been identified as being in a strong position for planning in Hampshire. An existing preferred site was rejected by the Planning Department so we had to act quickly to work with a group of landowners to get this site put forward as an alternative. It is expected that this site will produce its return towards the end of the Fund life (between years 5-7) and produce strong returns.

Land Option - Codsall, Staffordshire
We continue to work with Hallam Land, one of the top land developers in the UK, on this Option as it progresses through the planning process. Again, this is a longer term play, so progress will not be as rapid as some of the other projects in the portfolio. Progress on this is dependent on the Local Borough Council's adoption of its new Core Strategy Document.

Woolavington, Somerset (Large and small)
These two sites are planning plays and despite lengthy consultation with the Parish Council and local residents, we were required to reduce the number of units on the site from 120 to just 60 units towards the end of last year. This decision was due to changes in planning policy and involved a huge consultation process on our part. However, we have continued to work closely with the local community who are very much in support of our plans.

Staple Grove, Somerset
This 100 acre site has been 'allocated for housing' in the Local Borough Council's Core Strategy Document with a maximum of 900 houses. We are working with 4 landowners on this project and have a 5-year promotion agreement in place with the potential for a further 5-year extension if required. The site does have some constraints due to the lack of road infrastructure and presence of the protected Lesser Horseshoe Bat. To address these issues we have instructed a team of specialist advisors and are confident to have all matters resolved to enable us to submit our initial planning application by the start of 2014.

The below diagram shows the entire site and the shaded areas indicate the proposed development. Our initial phase (slightly darker shaded) will be for circa 200 units and will be split into 2 tranches to maximise the land value.



4 x Care Bungalows, Burgess Hill, West Sussex
Following the review of the Fund strategy, it was decided that upon completion of the build of these 4 x 4-bed care bungalows, we would not exit this project but remain and become an active business partner. Although exiting the project would have seen a potential £2M return to the Fund, we believe by remaining as a partner it will present the Fund with an opportunity of an income stream in the region of £600k per annum over the next 5 years and a capital gain (£2-3M) at the close. We consider this to be more beneficial to the Fund in the long term as this anticipated annual income stream constitutes more than 30% of the targeted amount the entire Fund needs to achieve per annum.

In order to secure the income stream, the bungalows need to achieve a 90% occupancy rate year on year. At the beginning of March, the bungalows were awarded the necessary CQC Certification to enable them to operate. We already have in place a highly experienced Manager who is now assessing potential residents. Added to this, we are now an approved provider with West Sussex County Council and in the process of gaining approval by other Local Borough Councils. We are currently in the final stages of agreeing pricing for two residents and our aim is to have 90% of the beds occupied by the end of 2013.

Revised Strategy

As mentioned before, we decided a review of the Fund's strategy was required to ensure that no additional projects became delayed as a result of the exit routes relying on sales. And although the start of 2013 has seen good news emerging from the property sector with the likes of Barratt Homes seeing 2012 pre-tax profits of 113% and Taylor Wimpey announcing its pre-tax profit leaping 106% to £185.3 million, a decision was taken to step away from undertaking any further development ourselves, but rather focus on projects whose exit routes were identifiable and able to be secured at an early stage.

By utilising the strong relationships we have with a number of the UKs' major house-builders, the new strategy will see us enter option or promotion agreements with landowners, where the exit route has been identified or secured by us simultaneously agreeing a Heads of Terms contract with the house-builders to acquire the project once planning has been granted.

On the longer terms projects, we will also look to phase the progress in such a way that the early stages benefit Sycamore II but should the latter stages look likely to fall outside the life of the Fund, our subsequent property development Fund, Sycamore V, can acquire the project at the current market value. This way an increased percentage of the entire project profits are returned to the Funds and the risks are reduced dramatically.

We will also look to acquire another care home facility similar to that at Burgess Hill and, indeed, we already have a site identified in Middlesex. Not only will the Fund see an increase in value of these projects from the refurbishment point of view, but the additional income stream that they generate offers the Fund a greater liquidity.

Summary

In addition to the above review, we have also taken on board comments made by a significant number of investors who would rather see a more consistent NAV than one with peaks and troughs. You will recall that the original aim of the Fund was to achieve a targeted return of 24.5% with targeted distribution points of 65% at Year 3, 35% at Year 5 and then any remaining profit and capital returned at Year 7. As such, we have also realigned projects to allow us to target an annual distribution from year 4 onwards rather than a huge pay-out at Year 3 and then nothing until Year 5 etc. We believe that this approach will confirm to investors that the Fund is performing whilst still delivering a steady targeted return.

I trust that the above explains the current situation and our revised strategy for the remaining term of the Fund. However, should you have any further questions, then please do not hesitate to contact either myself or Sarah Hendy on 01794 335505.

Mark Yadegar
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