

PLANNING STAGES

In each country, also in Germany, the process through which agricultural land (non urban) moves to become available to sustain real estate (Urban Land), is managed through several laws and ordinances, being the main ones in Germany, the Building code (BauGB, which is federal law), the Federal Land Utilization Ordinance (BauNVO, which is Federal Law) and the Building regulations of each Lander/Estate (BauO). Such different laws interact with each other and allow for the creation of Urbanizable land from originally agricultural land. Such transformation, which has financial interest, happens in mainly 3 stages.

1) FIRST STAGE – LAND USE PLAN

This first stage, is a process managed by the municipalities in close coordination with state planning, which at one moment or another, may decide that a certain space/plot of agricultural land, owned by many owners, is to be converted into Urban Land since the municipality has a need for certain assets/space to be developed. Such first process is called the Land use Plan (FNP), where the plot of land, is assigned a general description of what the future Urban municipality/region will look like in that area, and will be able to develop regarding residential areas, commercial areas, public spaces, green spaces, roads, and therefore, the FNP provides the first preparatory level for the future urban use of such territory and therefore the effect this plan will have on owners, since the municipality will take land from the owners in order to do the roads, green areas, among other services, which will decrease the availability of land to the owners.

Such plan, is prepared by the regional municipality with input from the state planning, and the different members of the community are encouraged to participate and give their opinion (owners of land, residents/voters, companies and public entities, among others). It is to be said, the FNP does not provide to the land owners any legal effect or rights, since nothing can be done yet in such land. Different legal stages need to be covered. As a summary, in this first phase, urban land use planning is therefore defined, through a public and political decision process on land use, decided by the municipality.

Such FNP process, takes normally a period from 5 to 30 years, and has a lot of uncertainty. A plot of land moving from non-urban to having been included in the FNP, increases in value between 2 to over 50 times, depending on what the regional council approves and on the price of land in the neighboring regions and necessities from the local municipality, since the capacity to develop more or less constructive area will be decided by the local needs of the municipality.

2) SECOND STAGE – DEVELOPMENT PLAN/B-Plan

In contrast to the preparatory “land-use plan”, the “development plan” is a legally binding urban land-use plan which, as a rule, contains the legally binding provisions for the urban development order for certain sub-areas of the municipality. In contrast to the FNP, which is limited to the presentation of the basic features, the development plan is specific to the parcel, and contains the

legally binding planning regulations for the individual plots of land, which must be observed in an approval procedure. This stage is what is called in Germany, acquiring the B-plan. The B-Plan is drawn up by the respective municipality.

As a summary we can say that what the FNP says in broad terms for the entire municipality, is defined in the B-Plan for each individual parcel in order to be able to assess the permissibility of building projects in individual cases: B-Plan directly creates building law through its legal effect, bringing value and reassurances to land owners that their rights/value cannot be stripped away.

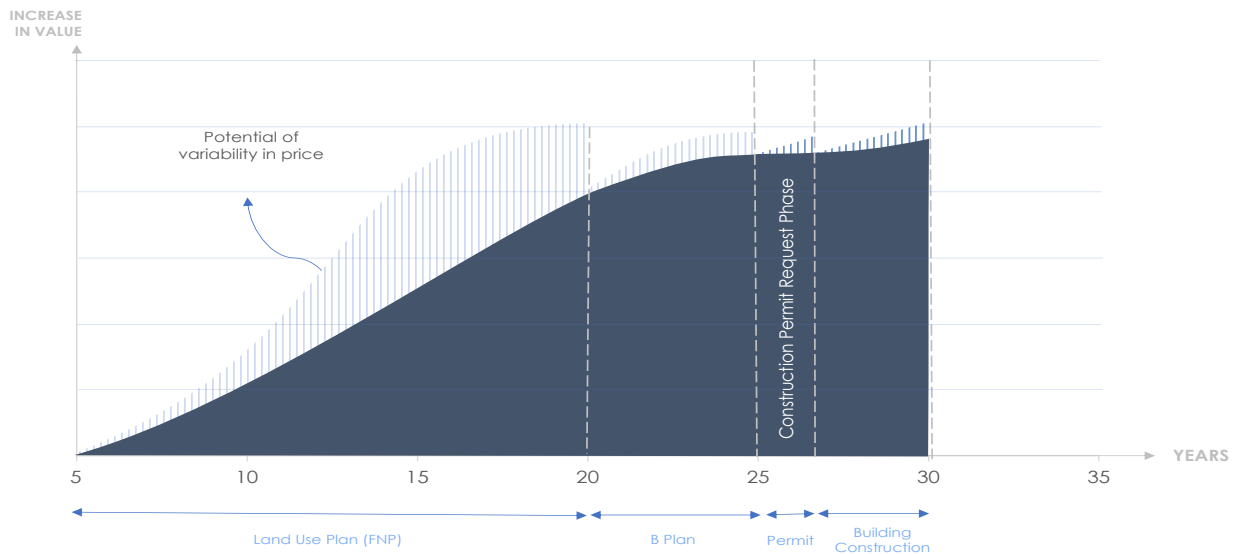
Generally takes from 2-5 years to obtain the B-Plan, and the value of the land can increase between 25%-60%. For such long process of 2-5 years, a description of the roads, space for electricity services, water, and all such requirements for the land to be developed, need to be made effective and therefore will from one side cost land space to the owners and also cost since the lines for public works (water, electricity) need to be executed.

Several important features are that the B Plan is generally requested by the Individual owners of the plots of land, and the final result is legally binding, and the owner of the plot of land can say he has been awarded such rights on his plot of land. Still, he cannot build anything yet, since there's one final phase: To request the permit to build, which will require from the land owner to become extremely specific on what he is planning to build in such plot of land.

3) THIRD STAGE – PERMIT TO BUILD

When the B-Plan has already been granted, the last step for the owner of the plot of land to be able to be granted the permit to start building the project he wants, is to make the request for the permit to Build, which requires for the owner to present, for example, the specific residential project he aims to build, describing the number of floors of the building, number of apartments per floor, number of car parkings per apartment, green space, type of windows, electric wiring system, and all such details that are necessary in order to build a building. Such project is then presented to the municipality which will have to understand if they fit all the regulations of the area, as well as the needs the municipality may have, what gives origin for the owner of the land to provide to the municipality for more value added (for example more parkings per apartment because lately the area has very few parkings available and is creating problems) and in exchange the owner of the land may get in exchange more buildable area.

Such process in Germany is decided in the conversations between the municipality and the promoter of the project, and it takes between 6-21 months, all depending on the urgency of such assets the municipality has, and also how busy is the municipality and back logged projects it may still have to review (Berlin currently has a long back log what makes the time to wait to get the permit to build much longer than other cities). The increase in value when the permit has been obtained is between 10%-20%, again, depending in the area and urgency of the demand to be meet locally by the municipality.



DESCRIPTION OF TIMING OF EACH PHASE – EMERALD MEZZANINE FUND

If we want to look at the risks of each stage, taking into consideration the first stage (FNP) which is managed by the municipality, during the B-Plan and the permit to build, land owners are directly involved providing their input, and in special in the permit to build phase. Emerald Mezzanine Fund will only finance this last phase, financing during the time it takes to receive the permit to build by the municipality, which as can be seen is a process which has not much uncertainty, and thus it can be reasonably predicted.

Emerald Mezzanine fund will be financing the last phase of such long process, what will give our investors a high degree of certainty together with an acceptable return with short duration on our loans.