

Guide to Ownership



*Welcome to Villas de Palermo
Guide to Ownership*

April 2011

Guide to Ownership

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Welcome to Villas de Palermo

This guide conveys information that may be useful to existing and potential homeowners in the community of Villas de Palermo.

Please read the disclaimer at the end of this “Guide to Ownership”.

Nicaragua

Nicaragua is a tourist and retirement destination, offering a beautiful ecosystem, cultural arts and history similar to its southern neighbor, Costa Rica. Tourists, retirees and investors can all enjoy Nicaragua’s friendly people, beautiful landscape, and affordability.

Nicaragua’s proximity to the United States makes visiting convenient. Only two hours from Miami and three hours from Houston, many investors consider Nicaragua as a retirement destination. Nicaragua’s Law 306 offers tax incentives to developers and retirees in Nicaragua over the next several years.

San Juan del Sur

San Juan del Sur, once a sleepy fishing port, is a hub for tourism on Nicaragua’s Southern Pacific coast. San Juan del Sur is home to national surfing championships, uncrowded beaches and spectacular sunsets. The town is conveniently located approximately a thirty minute drive from the Costa Rican border and two hours from the international airport in Managua. Tourists visit San Juan for fishing, surfing, boating, hiking and relaxing.

San Juan del Sur offers many amenities but keeps its authentic charm. Tourist services and infrastructure are evolving. Visitors find many restaurants, hotels, shops, and internet cafes. National and local projects continue to improve access to power, paved roads, water, sewer, physicians, gas stations and markets. Cruise lines make San Juan del Sur one of their Central American destination stops.

Villas de Palermo

As tourism in Nicaragua and San Juan del Sur grows, there is an increasing need for destination resorts. Travelers seek up-scale, full-service properties to maximize the enjoyment of their vacation.

With a close proximity to town and based upon the condo-hotel model, Palermo Hotel and Resort at Villas de Palermo is a popular destination resort in San Juan del Sur. Palermo Hotel and Resort focuses on convenience for owners and visitors. It offers a turn-key property management experience for owners. The management company maintains the property and manages the hotel operation and restaurant. As a Nicaragua Law 306 approved company, the management company enjoys a waiver of property taxes and taxes on 80% of operating profits for ten years (23 October 2007 through 23 October 2017).

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Villas de Palermo is situated within a larger community known as Lomas de Palermo, over 1,000 acres in size with gradual forested hills and green pastures below. Both communities provide the feel of living in the tropics, mixed with country living. Villas de Palermo offers a quiet and peaceful setting on the outskirts of San Juan del Sur. Situated in the foot-hills, each Villa has a dramatic view of San Juan del Sur's harbor, yet is protected from nature and the sea.

Breezes help to maintain a comfortable temperature, relative to the lower-lying areas in town. A rich natural habitat provides for numerous activities including hiking, a zip-line canopy tour and horseback riding within our community. Villas de Palermo offers a clubhouse with pool, restaurant and bar, housekeeping and concierge services.

Map of Villas de Palermo



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Villa Furnishings and Upgrades

Each villa has the same floor plans and general configurations. There are two roof styles. Art and furniture vary slightly from villa to villa.

Standard features of each Villa

- Elegant decor, ceramic tile and exotic hardwood trim throughout
- 2-zone air conditioning with separate thermostats for each zone
- A/C and ceiling fan in downstairs bedroom
- Instant, on-demand, electric hot water
- Hand-finished, ceramic tile flooring throughout
- Custom, solid wood doors
- Decorative and recessed lighting
- Soundproof exterior and interior walls
- Custom windows
- Steel-reinforced concrete and concrete-block construction typical of US building standards
- Sliding glass doors to covered terrace and upstairs balcony
- Eat-in kitchens with stainless-steel refrigerator, oven, cook-top, sink and microwave
- Granite countertops and custom wood cabinetry
- Walk-in bedroom closets and storage area
- Ceramic tile in showers
- Lush, tropical landscaping

Extra touches – also standard in every Villa

- Wi-Fi internet throughout Villas de Palermo – ask concierge for password
- Bring your laptop and use your internet phone connection to stay in-touch with home and office
- Upstairs and downstairs workspaces for office tasks
- High-quality cotton bedroom linens and bathroom towels
- Kitchen pantry with service for four: including dishes, glasses, silverware, cooking utensils, towels, coffee pot and small appliances, wine glasses, bottle opener, etc.
- Wood furniture from Simplemente Madera: 1 queen bed in most bedrooms (although some bedrooms have two twin beds), night stands, couches, chairs, desks, coffee table, end table, lamps, dining room table and chairs
- Cable television, stereo, alarm clocks and DVD player

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Architect

Villas de Palermo offers an appreciation for open space, wildlife, the sea and for preserving the culture and history of Nicaragua. The project architect, Eduardo Chamorro, has extensive expertise in both Central America and Florida. Some of his other work includes the condos at Playa Coco, Iglesia Santa Domingo, INCAE offices in Costa Rica, and the Managua government building. Mr. Chamorro's thoughtful designs are reflected in the Villas de Palermo Master Plan, Villas and Clubhouse.

Floor Plan - First Floor



CASA TIPICA VILLAS DE PALERMO • PLANTA BAJA • SAN JUAN DEL SUR, RIVAS • NICARAGUA
EDUARDO CHAMORRO CORONEL, HON. FAIA, ARQUITECTO • SEPTIEMBRE 2004

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Location

Villas de Palermo is located in the town of San Juan del Sur on the southern Pacific coast of Nicaragua. This peaceful and private ecologically-friendly community overlooks the Pacific Ocean and pastures of the Agrícola Santa Ana farm. Two international airports; one in Managua, Nicaragua (MGA) and the other in Liberia, Costa Rica (LIR) provide access from the USA, Europe and other areas in Central and South America. An airstrip about 7 miles north at Morgan's Rock Ecolodge offers closer access to guests who have access to a private plane. The roads are good and paved between Managua, Villas de Palermo and San Juan del Sur. San Juan del Sur is a few minutes away.

Travel Times

- 30 minutes from Rivas
- 2 hours from Managua International Airport (MGA)
- 3 hours from Liberia International Airport (LIR)
- 30 minutes from the Costa Rica border
- Minutes to San Juan del Sur's discos, fishing, surfing, shopping, rental cars and restaurants.

Directions from Pan American Highway

- From the Pan American Highway heading south, turn right (west) at the obelisk marking the entrance to the San Juan del Sur Highway at La Virgen. Travel 12 miles (20 kilometers) and watch on the right for two large concrete signs flanking the entrance to the Palermo Hotel and Resort. If you arrive at the Texaco gasoline station in the town of San Juan del Sur or pass the Palí grocery store on your left, you've missed the entrance and have driven too far.
- Drive up the paved road to Palermo Hotel and Resort. Turn left at the first intersection and follow the road to the main gate. Introduce your party to the security staff, enter Palermo Hotel and Resort, turn right and park to go into the lobby of the clubhouse and reception desk.

Suggested Modes of Transportation

- Private or shared, air-conditioned van service from Managua International Airport booked through hotel reservations
- Car rentals booked through hotel reservations for pick up in San Juan del Sur, Managua or Peñas Blancas at the Costa Rican border crossing
- Large, air-conditioned tour bus from Liberia to the Costa Rican border at Peñas Blancas or to downtown Rivas, where the hotel will meet you

Parking

- Secure parking for private vehicles on Villas de Palermo property.

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Items Requiring Consideration before Investing

The below topics are not in any assumed order of importance!

Operating Structure and Accounting

The operating company for Villas de Palermo is a Nicaraguan corporation operating under Law 306: Empresa Turistica del Pacifico, S.A. (ETP). This company operates the hotel, employs staff and maintains the property on behalf of the homeowners. ETP is subject to all Nicaraguan rules of accounting and annual reporting is shared with homeowners.

ETP also manages the restaurant and bar operation. Any profit or losses are shared by homeowners, in the same manner as hotel revenue. We encourage all owners and guests to enjoy the delicious food in our restaurant, because each meal served contributes to the profitability our operation.

Board of Directors and Management

The members of the Board of Directors of ETP are homeowners who are elected by the homeowners (one vote per villa). There are currently five board members. The Board makes financial decisions on behalf of the homeowners, oversees the operation of ETP, and hires a General Manager to operate the hotel and restaurant businesses. Annual elections choose two board members who each serve a three-year term from 1 August through 31 July.

The current General Manager is Ray Soto who has 30+ years experience in the hospitality services business including General Management experience with Hilton in the United States, as well as Nicaraguan hotels in Managua and San Juan del Sur.

Assessments

The current monthly assessment for a villa purchased after January 2009 is US \$350/month. Additionally, there is currently an annual homeowner fee due mid-year of US \$1,000. When the two are combined, the monthly cost of homeowner fees is currently US \$433.

Assessments are set by the Board of Directors of ETP at the beginning of each fiscal year (1 July through 30 June) based upon an annual budget and may be changed from time-to-time based upon financial performance of the hotel and costs of maintaining the property.

In general, the Board and management of ETP have as a goal the profitable operation of Palermo Hotel and Resort and the reduction or elimination of assessments for homeowners. However, neither the Board nor management offers any guarantee that such profitable operation and/or reduction or elimination of assessments will occur.

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There may be unpaid assessments on some villas that are listed for sale. All unpaid assessments must be paid in full at time of closing. Ask for the unpaid amount if you have any doubt that the existing owners will cover this cost for you. Unpaid assessments are the responsibility of the owner of a villa without regard to date of purchase.

Assessments cover operational, capital and other costs that are in excess of revenues generated by the hotel operation. At the current time at Villas de Palermo, the monthly assessment covers: general management; housekeeping; building and infrastructure maintenance; grounds keeping, road and common property maintenance; around-the-clock security; electric power; water; pool maintenance; cable TV and Wi-Fi internet service, hotel and restaurant operations; repairs to and maintenance of individual villas; repairs to or replacement of appliances; replacement of amenities, linens and other consumable items; rental commissions; marketing; concierge services; accounting; repair of furniture as necessary, etc.

In the future, it is possible that scheduled, annual maintenance costs may be shifted from ETP to individual homeowners.

Homeowner Meeting

An annual homeowner meeting is held in the Villas de Palermo Clubhouse in November each year. Please plan to attend. This is an excellent opportunity to meet and greet fellow homeowners and to talk about individual and mutual concerns and issues for Villas de Palermo.

Cable TV

Cable TV is available within each villa and at the bar in the clubhouse. The service is delivered through cable by Enitel from San Juan del Sur, which offers channels in English and Spanish language. Each villa is wired for TV in several locations.

Internet Access

Wi-Fi internet service is available within each Villa and the clubhouse. There are two sources of internet, to offer the best guarantee of service available for homeowners and guests planning to work during their stay at Villas de Palermo. One service is delivered through cable from Enitel from San Juan del Sur. The second service is delivered by radio link from towers in San Juan del Sur maintained by Satelinet. Wireless signal is broadcast throughout Villas de Palermo using additional antennas. Each villa has a unique router, which allows the signal to be apportioned equitably among competing users. When there are few users, the surplus bandwidth is available to all. When there are many users demanding bandwidth, the service is metered equally to each villa. If a homeowner or guest requests additional bandwidth, then additional bandwidth may be contracted for a single villa on a month-by-month contract and paid for by that individual homeowner. The strength of the wireless signal is greatly reduced when it passes through steel-reinforced concrete walls so some locations in each villa have better reception than others.

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A password is required to access each Wi-Fi network. The passwords may be requested from the front desk.

Communications

Homeowners receive occasional newsletters reporting on marketing events and activities at Palermo Hotel and Resort. The Board additionally sends informational emails as needed to inform homeowners about upcoming elections and financial statements. All previous board and marketing communications are available to review on a member-only page maintained on a Facebook page as “Villas del Palermo Homeowners”.

ETP manages a website available in Spanish and English - accessible through the following URL: www.villasdepalermo.com

Housekeeping

Housekeeping is performed regularly in each villa. When occupied by hotel guests or owners, cleaning and inspection is performed daily. When vacant, each villa is inspected at least weekly. Discounted monthly rates are sometimes negotiated to include less frequent housekeeping service. Since ETP is responsible for maintenance of all villas, neither guests nor homeowners may refuse access to or cleaning of their villa.

Laundry

Laundry services are available on-site for hotel guests, resident owners and restaurant operations. Homeowners are charged per pound and a standard hotel schedule of charges is available for guests from the front desk.

Maintenance

Scheduled maintenance is performed on an annual calendar and ad-hoc maintenance is performed as needed. Homeowners and guests are requested to email maintenance requests to hotel@villasdepalermo.com or leave a list of issues with the front desk.

Gardening

Scheduled watering, pruning and landscaping maintenance is performed on an annual calendar and ad-hoc gardening is performed as needed. Homeowners and guests are requested to email gardening requests to hotel@villasdepalermo.com or leave a list of issues with the front desk. Homeowners requesting additional planting or replacement of trees may make requests of the general manager and may be charged for these services.

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Security

24-hour security is maintained within the grounds of Villas de Palermo. Each vehicle is stopped and identified before being allowed entrance to Villas de Palermo. The security team patrols the grounds and the roads. Each guard has a radio to report any incidents to the security chief in the guard house at the front gate.

Guests visiting the restaurant or a resident of a villa will be allowed entrance after a brief conversation with the guard on duty. Villas de Palermo reserves the right to deny access to anyone at any time.

Electricity

The electricity used within Villas de Palermo is delivered by DISSUR (Gaz Natural). Power is delivered to Villas de Palermo from three separate DISSUR high-voltage lines. Each line is then connected to one or more transformers serving individual sections of the property so it is possible for some Villas to be without power and others to have power.

DISSUR presents a single invoice to ETP for all power used by villas, laundry, restaurant, and any other consumer of power within the project. ETP receives discounted rates for power usage, due to the classification as a tourist operation.

Please help us conserve water and electricity. Electricity is very expensive in Nicaragua and is usually about 30 percent of the cost of operations for Villas de Palermo. Air conditioning represents the primary use of electricity for Villas de Palermo. When you leave your villa, please turn off the A/C. The maids and security are authorized to turn off A/C in unoccupied villas.

Generators and Backup Power

Villas 1- 7, the internet, business offices, laundry, pool area, some outdoor lighting and the restaurant are connected to four generators which provide power during power disruptions. Villa 18 has a system using battery backup. In villas that are connected to backup power, lights, internet, fans and some wall sockets operate during outages. Air conditioning and the kitchen range and oven use 220-volt power and are not powered by backup units.

Water

All water used within Villas de Palermo is pumped from a well on the plain below the Villas de Palermo property. Water is pumped to several large tanks on the hill above all the villas and is gravity-fed to the villas, landscaping, pool and restaurant. A single invoice is presented by Agrícola de Santa Ana to Villas de Palermo, the vendor who sells water to

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Villas de Palermo and all other homes in Lomas de Palermo. The water has an unusually high mineral content, which clogs faucets and disrupts the delivery of hot water. If you have erratic delivery of hot water or low water pressure, please inform the front desk and the filters in your villa will be cleaned.

For Sale

Homeowners who are interested in selling their villa or a partial share of a villa may list the villa number, price and a short description of why they are selling or why they bought at Palermo. This listing is free and maintained on the Villas de Palermo website. No commissions are charged by Villas de Palermo on sales of villas. All inquiries are passed along to the respective owners and may be shared with real estate agents in the town of San Juan del Sur.

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Next Steps for New Owners

We welcome you to the community of owners within Villas de Palermo and hope to meet you soon at your new home.

Step 1 – Introduce Yourself

Please contact board@villasdepalermo.com to introduce yourself and let us know your date of purchase of your villa.

Step 2 – Schedule Walk-through of Your Villa

Please complete the Introduction Letter, attached as Appendix A.

Each villa is required by to be available for rental by the hotel operation, ETP. As an owner, you are required to maintain the specific furniture, appliances and fixtures in your home to support the hotel operation. If any inventory is damaged by hotel guests, the damage will be charged to hotel guests and repairs or replacement performed by ETP. Be sure the following assets are not removed by the previous owner – or you will be assessed for their replacement.

Please schedule a walk-through of your villa with ETP housekeeping to sign off that your villa is clean and all required articles are present after the previous owner has departed. You may be assessed a cleaning fee, if extraordinary cleaning is required to bring your villa up to standards required for inclusion in the hotel operation.

Step 3 – Schedule Financial Review and sign covenants and restrictions document

Please schedule a time to review the finances of your villa with the Board of Directors of ETP. In some cases, villas are sold with unclear expectations about operating costs, assessments or past-due amounts.

As outlined in this document, owners are liable to support the hotel operation when revenues are insufficient to cover costs and may share in profits from the hotel operation when revenues exceed costs.

To obtain water, electricity and other services for a villa and to use common property, the owner is required to sign and abide by the covenants and restrictions. We encourage every homeowner to contribute their good ideas to the group of homeowners that maintain the policies enforced within our community.

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Frequently asked Questions

Some of the common questions we are asked by prospective buyers are:

- We understand that Villas de Palermo was established under Nicaraguan Law 306, intended to give tax breaks to developers and operators of tourist infrastructure in Nicaragua. When did the 10-year 306 tax “clock” start? How much longer Villas de Palermo have to benefit from the 306 tax breaks?

The Villas de Palermo development started the Law 306 “clock” on October 23, 2007 and as the law is currently written; all tax benefits for Villas de Palermo associated with Law 306 expire October 23, 2017. Current paperwork states that ETP has the benefits of Law 306. Individual homeowners have to date not been assessed annual property taxes or property tax on the sale of a unit. This waiver of property tax has been at the discretion of the San Juan del Sur Alcaldia and may or may not continue into the future.

- If there are damages caused by a renter, how are they taken care of and who pays for repairs?

The policy is to charge renter-caused damages to the renter. The hotel takes a credit card imprint that can be used to charge damages to the renter and to the extent possible, the hotel makes these charges as a matter of course. The owner will be held financially liable if the renter is introduced by the homeowner and refuses to pay for damage to the villa.

- What is the % split between owner and hotel/resort?

All expenses and all income are pooled. All expenses and income are distributed across the villas.

Empresa Turistica del Pacifico, SA (ETP), the operating company, operates the hotel and maintains the property on behalf of the homeowners. The members of the Board of Directors of ETP are homeowners who are elected by the homeowners (one vote per Villa).

The Board makes financial decisions on behalf of the homeowners and oversees the operation under the direction of the General Manager. The current General Manager is Ray Soto who has 30+ years of experience in the hospitality services business including GM slots with Hilton and in other Nicaraguan hotels.

To the extent that the operation produces revenues in excess of total costs, the Board decides how much money is used to defray monthly dues, how much might be distributed, how much retained for reserve and so on. The Board is acutely sensitive to the input of homeowners.

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- Is the rental income pooled across all units?

Yes.

- Who covers the cost of marketing for rentals? Owners or the management company?

Marketing costs are included in the expenses of the operating company, ETP. The marketed product is: "Palermo Hotel and Resort at Villas de Palermo in San Juan del Sur, Nicaragua", the branding of the hotel operation.

Individual homeowners may market and rent their individual units using the description: "Home in Lomas de Palermo in San Juan del Sur, Nicaragua".

- What do \$1,000 HOA fees cover? Do they include insurance?

The annual HOA fees are targeted to maintenance and upkeep of the common areas and property to include clubhouse, pool, pool bathhouse, administration and laundry building, roads and grounds and electrical, water and sanitary sewerage systems; and replacement, improvement to or upgrade of common areas and property, including vehicles, as required.

The fees include property and liability insurance on common property, basic individual homeowner and liability insurance on individual villas, but not title insurance on individual villas.

The decision to purchase additional insurance of any kind is up to individual homeowners.

Title insurance is available from First American Title Insurance.

- Is there generator to supply power in the case of an outage? If so, to what extent does it cover during blackouts?

Villas 1- 7, the internet, business offices, laundry, pool area, some outdoor lighting and the restaurant are connected to four generators which provide power during power disruptions. In villas that are connected to backup power, lights, internet, fans and some wall sockets operate during outages. Air conditioning and the kitchen range and oven use 220-volt power and are not powered by backup units.

- Rules regarding use by owners (how many months per year, and how many years until the owners can enjoy year-round occupancy)?

Law 306 paperwork offers benefits to the Nicaraguan company ETP. Please solicit legal advice for how this law may affect individual ownership of a villa in Villas de Palermo.

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- [Current HOA fees and any other monthly, quarterly or annual assessments levied against owners.](#)

The current monthly assessment for a villa purchased after January 2009 is US \$350/month. Additionally, there are annual homeowner fees due mid-year of US \$1,000.

Assessments are set by the Board of Directors of ETP at the beginning of each fiscal year (1 July through 30 June) based upon an annual budget and may be changed from time-to-time based upon financial performance of the hotel and costs of maintaining the property.

In general, the Board and management of ETP have as a goal the profitable operation of Palermo Hotel and Resort and the reduction or elimination of assessments for homeowners. However, neither the Board nor management offers any guarantee that such profitable operation and/or reduction or elimination of assessments will occur.

There may be unpaid assessments on some villas that are listed for sale. All unpaid assessments must be paid in full at time of closing. Ask for the unpaid amount if you have any doubt that the existing owners will cover this cost for you. Unpaid assessments are the responsibility of the owner of a villa without regard to date of purchase.

Assessments cover operational, capital and other costs that are in excess of revenues generated by the hotel operation. At the current time at Villas de Palermo, the monthly assessment covers: general management; housekeeping; building and infrastructure maintenance; grounds keeping, road and common property maintenance; around-the-clock security; electric power; water; pool maintenance; cable TV and WI-FI internet service, hotel and restaurant operations; repairs to and maintenance of individual villas; repairs to or replacement of appliances; replacement of amenities, linens and other consumable items; rental commissions; marketing; concierge services; accounting; repair of furniture as necessary, etc.

- [When is the hotel operation going to start making money?](#)

We track the ups and downs of Nicaragua and San Juan del Sur along with the other high-end hotels. In some holiday seasons we are full and profitable, and in rainy seasons we are nearly empty and don't collect enough revenues to cover costs.

We are unable to predict when our local economy will change or when the hotel operation might consistently produce revenues in excess of costs.

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Appendix A – Introduction Letter and Walk-through

Villa Number: _____

Owner Name: _____

Legal Entity and/or names of persons who are legal owners of your villa. All owners are 100% responsible for all actions and all debts for Villa, regardless of legal ownership of unit.

Additional Family Members: _____

Family members to be recognized as visitors with full permission of owners.

Physical Address of Owner: _____

Address of place of business or residence of owners.

Email address: _____

Email address(es) to receive board communications, newsletters and invoices.

Confirmation of Contents of Villa:

Date and time of walk-through: _____

Each villa is required to be available for rental by the hotel operation, ETP. As an owner, you are required to maintain the required physical inventory in your home to support the hotel operation. If any inventory is damaged by hotel guests, the damage will be charged to hotel guests and repairs or replacement performed by ETP. Housekeeping maintains the official inventory list, but a general list follows so you can be sure the following assets are not removed by the previous owner – or you will be assessed for their replacement.

Living room – two couches or couch and two large chairs, coffee table, dining table and two chairs, audio cabinet with TV and DVD players with remotes and speakers. Floor lamp and art. two rocking chairs and end table on porch. Curtains.

Upstairs bedroom – one queen bed, desk with desk chair and lamp, side table, two end tables with lamps, low bench. Two director’s chairs and end table on balcony. Bed linen and bathroom towels. Art, curtains and wood blinds.

Downstairs bedroom - one queen bed or two twin beds, side table, two end tables with lamps, low bench. Bed linen and bathroom towels. Art, curtains and wood blinds.

Kitchen – Wall thermostat, kitchen table, bench, 2 chairs, full service for 4, including plates, glasses and silverware. Cooking pots, pans and implements. Toaster, coffee maker, microwave and Art.

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Please schedule a walk-through of your villa with ETP housekeeping to sign off that your villa is clean and all required articles are present after the previous owner has departed. You may be assessed a cleaning fee, if extraordinary cleaning is required to bring your villa up to standards required for inclusion in the hotel operation.

Financial review and signing of covenants and restrictions:

Date and time of financial review: _____

Each villa is required by to be available for rental by the hotel operation, ETP. As outlined in the attached covenants and restrictions document, owners are liable to support the hotel operation when income is insufficient to cover costs and may share in profits from the hotel operation in later years.

To obtain water and electricity in a villa, the owner is required to sign and abide by the covenants and restrictions. We encourage every homeowner to contribute their good ideas to the group of homeowners who maintains the policies enforced within our community.

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Appendix B – Villas de Palermo covenants and restrictions

Note: This document is subject to change.

Villas de Palermo Covenants and Restrictions

This contract is made by Empresa Turistica del Pacifico, (ETP), the Management Company, a Nicaraguan corporation as owner of portions of a unique coastal property duly registered with number 26,425 at the Public Registration Office in Rivas and buyer(s)

_____ of Villa number _____ in Villas de Palermo, San Juan del Sur, Nicaragua.

Through construction, this property has been beautifully preserved and the landscaping continues to be restored to its natural and unspoiled state. The purpose of this contract is to perpetuate, with respect to such developed portions, the rich variety of this coastal, pastoral, and tropical dry forest environment for the benefit of all who acquire property within and visit Villas de Palermo.

It is to promote the foregoing that this declaration is made and it is the intention of Villas de Palermo that it will be in recognition of the foregoing that the covenants and restrictions of this declaration and of all other declarations supplemental hereto will be understood and construed. The Board of Directors for ETP enforces and manages these covenants and restrictions. By virtue of being an Owner in VDP, each unit owner is automatically entitled to vote elections for Directors. The ETP Board of Directors has the power to modify these covenants and restrictions, as well as to levy dues and enforce the rules set forth.

Villas de Palermo Initial Development

ETP hereby declares that all of the real property located in the development, described as follows:

Villas de Palermo SA property, all as shown on maps # 304940-000 (00109) filed in the Office of CATASTRAL in Rivas, is held and shall be held, conveyed, hypothecated, encumbered, leased, rented, used, occupied and improved, subject to Villas de Palermo the covenants and restrictions set forth in this declaration, all of which are declared and agreed to be in furtherance of a plan for the improvement and sale of said real property and are established and agreed upon for the purpose of enhancing and perfecting the value, desirability and attractiveness of said real property, and shall be binding upon and insure to the benefit of ETP and each Owner of said real property, and each successor in interest of such Owner. ETP will perform the day-to-day operations, and to comply with Nicaragua Tourism Law 306, which is binding on the company for a period of 10 years.

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Use and Restrictive Covenants

- (a) ETP shall have the right at any time, to enter a Villa for the purpose of maintaining such Villa and the surrounding area or otherwise enforcing the restrictions set forth.
- (b) The Villas shall be used exclusively for residential purposes and no more than one family (or as deemed acceptable by ETP) shall occupy such private area.
- (c) In each calendar year, neither owner nor owner's designee shall occupy owner's unit in excess of 109 days a year, whether consecutive or spread throughout the year.
- (d) Owner will make owner's unit(s) available for rent through ETP when not occupied by owner or his legitimate guest, no less than 70% of the year (256 days). Neither owner nor his agent shall advertise using "Villas de Palermo" through local newspapers, internet, with real estate agents or by any other means to solicit or beneficially receive rental income other than income distributed by the Management Company. Individual advertising shall use "Lomas de Palermo". Violations will be reviewed by the Board and appropriate action will be taken.
- (e) Personal belongings shall be stored in the "bodega" (Owner storage closet), and the owner shall be responsible to lock the bodega prior to departure and maintain his keys.
- (f) The Management Company will make every effort to accommodate an Owner's stay in his Villa; however there is no guarantee of a particular unit being available. The earlier the notice of arrival is provided to ETP, the better the chance of availability.
- (g) No noxious or offensive activity shall be carried on which may be or become a nuisance, or cause unreasonable embarrassment, disturbance, or annoyance to guests of the hotel or other Owners in the enjoyment of their private area, or in their enjoyment of common area.
- (h) No animals shall be maintained on the property by renters. Pets are not allowed in common areas. Owners can bring their household pet when staying in their Villa, however, additional fees for cleaning may be assessed, to clean animal hair and animal smell from a Villas, if required to make Villa available to hotel operation. Owners will be assessed for any damage and extra cleaning caused by pets allowed in their Villa.
- (i) No tree or shrub shall be planted on the property, or removed from it,

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by anyone except by the contracted maintenance crew.

(j) No signs whatsoever, including but without limitation, commercial, political and similar signs, visible from neighboring property, shall be erected or maintained upon the property.

(k) No trailer of any kind, truck camper, or boat shall be kept, placed or maintained upon any area of the property.

(l) All garbage and trash shall be placed and kept in covered containers. In no event shall such containers be maintained so as to be visible from neighboring property.

(m) No outside clotheslines for drying or airing will be permitted.

(n) There shall be no exterior fires whatsoever.

(o) No power, telephone or other utility line (wire or conduit), which would be visible from neighboring property, shall be installed, except as installed by ETP.

(p) There shall be no exterior lighting of any sort either installed or maintained, the light source of which is visible from neighboring property except as installed by ETP.

(q) There shall be no antenna of any sort either installed or maintained, which is visible from neighboring property except as installed by ETP.

(r) Any changes to the exterior of the Villa shall be subject to approval by the Association. Owners of the Villas will not alter the outside appearance prior to receiving written approval from ETP management.

(s) Villas Owners and guests will respect parking restrictions and use designated parking areas.

(t) Since the unit will be rented as a hotel, the Owner must maintain adequate furnishings in his unit. It is necessary to maintain a consistent standard in each unit; therefore, the Owners will be required to maintain the basic furniture package as defined by ETP. The Owner shall not alter the Villa or the furniture package.

(u) The Villas owners and guests will adhere to a NO SOLICITATION rule of any kind.

(v) ETP will enroll a Villa into the rental pool at either the time of legal closing of the Villa, or with a signed release by ETP and the buyer of the

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Villa.

Remedies for Abuse of Restrictive Covenants

- (a) ETP reserves the right to remove an Owner's unit from the rental pool for a period of time to conduct repairs of damages or alterations by an owner to his unit, and charge back the cost of such repairs to the owner.
- (b) ETP reserves the right to restrict access to the pool, clubhouse and other common areas, and to deny or withhold all services to individual Owners who abuse the restrictive covenants.
- (c) Other remedies deemed appropriate may be utilized by the Management Company as required. Should an owner wish to appeal the remedy imposed by the managers to the Board of Director, an e-mail should be sent to board@villasdepalermo.com. That e-mail will be forwarded to all board members for review.

Board of Directors

There shall be a Board of Directors, organized as follows:

- (a) The Board of Directors shall consist of five (5) homeowner members. The right from time to time to appoint and remove all members of the Board of Directors shall be, and is hereby reserved to and vested solely in ETP . The ETP Board of Directors shall have the obligations and duties, subject to the covenants and restrictions, to do and perform each and every of the following for the benefit of the Owners and for the maintenance and improvement of Villas de Palermo. The Board of Directors shall maintain or provide for the maintenance of the units, common area, recreational facilities and all improvements of whatever kind and for whatever purpose to keep them in good order and repair. The ETP Board of Directors shall be responsible for the selection and contracting of the management function and for collecting assessments and fees from the owners as required in order to maintain adequate funding.
- (b) Each unit Owner(s) shall have one vote for the purpose of electing Board Members as open positions become available.

Operating Fund

ETP will use the rental revenues, when sufficient, to pay operational expenses. ETP will retain a professional management team and staff, and ETP may have owners supplement rental income, if rental income is insufficient to meet operational expenses. When a distribution is awarded to homeowners, ETP shall pay each owner, at his request, the distribution generated by his Villa ownership on a quarterly basis.

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Assessments and Rental Income

On a quarterly basis, the management company will provide a financial statement to each Villa Owner detailing the unit's share of rental income, expenses and assessments. In the case where the rental income exceeds the expenses and assessments, the Management Company will, at the Owners' request, pay to the Owner the residual balance, or accrue in the Owners' account the residual balance, until such time the Owner requests payment of the balance. In the case where expenses and assessments exceed the rental income, the Owner shall pay the remaining balance within 30 days of the statement. The statements will be sent out the 20th day following each calendar quarter to the email address(s) indicated by the Owner of Record.

Default in Payment of Assessments

Each assessment shall be a separate, distinct and personal debt and obligation of each Owner(s) against whom it is assessed. If the Owner does not pay such assessment or any installment thereof when due, the Owner shall be deemed to be in default and ETP shall apply any of the following remedies: Remove the unit from the rental pool, retain any prior rental income, withhold all services including utilities and accrue interest of 1% per month on the unpaid balance until such time the default is cured.

Amendment or Repeal

The ETP Board of Directors reserves the right to modify or supplement Villas de Palermo covenants and restrictions with respect to all or any part, and any limitation, restriction, covenant or condition thereof, may be amended or repealed.

Enforcement; Non-waiver

- (a) To the extent otherwise provided, the ETP Board shall have the right to enforce any and all of the limitations, restrictions, covenants, conditions, obligations, liens and charges now or hereafter imposed by ETP, restrictions upon Owners, or upon any property within Villas de Palermo.
- (b) ETP reserves the right to deny services or access to the property to owners who fail to comply with the covenants and restrictions or fail to pay assessments and fees.
- (c) The failure to enforce the provisions of any limitation, restriction, covenant, condition obligation, lien or charge of Villas de Palermo covenants and restrictions shall not constitute a waiver of any right to enforce any such provision or any other.

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Obligations of Owners; Avoidance; Termination

No Owner, through his non-use of any common area, or recreational facility, or by abandonment of his Villa, may avoid the burdens or obligations imposed on him by Villas de Palermo covenants and restrictions by virtue of being an Owner. Upon the conveyance, sale, assignment or other transfer of a Villa to a new Owner, the transferring Owner shall not be liable for any assessments levied with respect to such lot after the date of such transfer, and no person, after the termination of his status as an Owner and prior to his again becoming an Owner, shall incur any of the obligations or enjoy any of the benefits of an Owner in Villas de Palermo following the date of such termination, providing that the transferring owner obtains a clearance certificate from existing financial obligations to the development and obtains the signature of the Villas de Palermo covenants and restrictions by the new owner. Signed Villas de Palermo covenants and restrictions are to be delivered to the Management office prior to obtaining a clearance certificate.

Acknowledgement

The Buyer or Owner certifies having read the Villas de Palermo covenants and restrictions and agrees to abide by all of its stipulations. These Villas de Palermo covenants and restrictions are also binding on owner's heirs, family and guests.

Buyer(s) or Owner(s)

Name(s)

Date

Signature(s)

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