

UK COMMERCIAL REAL ESTATE

FINANCING & REAL ESTATE ADVISORY SERVICES





INTRODUCTION

UK COMMERCIAL REAL ESTATE FINANCING

ADIB has had a presence in the UK since 2012, with real estate being at the core to our service offering. We have built a real estate expertise and network enabling us to deliver an effective and efficient service to our clients.

ADIB provides Shari'a compliant commercial real estate financing solutions via Islamic structured financing products to support our clients in the acquisition of real estate assets across the UK. We have a flexible and highly responsive approach when it comes to real estate finance. We work with our clients to build long-term partnerships offering tailored financing solutions for specific transactions.

We have a dedicated and specialist real estate team based in our prestigious One Hyde Park office in Knightsbridge, London.

REAL ESTATE ADVISORY SERVICES

A new added value service offered exclusively for our existing Private Banking Clients.

- Free client consultation to establish specific UK commercial real estate investment objectives and needs, including referral to external legal and tax experts where required.
- Acting as the designated clients representative working with a select panel of partners to assist with originating and securing real estate investment opportunities that meet defined objectives, provision of expert due diligence advice and post acquisition asset management.

This information paper does not constitute legal or financial advice and customers must consult with their own solicitors and other professional advisors. This paper has been designed to provide ADIB Group clients with a summary overview of the UK commercial real estate investment market. Information contained herein is believed by ADIB to be accurate and from trustworthy sources but ADIB accepts no responsibility whatsoever for any loss or damage caused by any act or omission taken as a result of the information contained in this paper. ADIB does not provide regulated investment advice or tax advice.

WHAT DO WE FINANCE?

We specialise in the UK commercial real estate sectors.

We provide Islamic financing to support new acquisitions. Properties must be income producing.

SECTORS

- ▶ Residential (multi-unit investment properties), student accommodation, hotels, hotel apartments, retail, retail warehousing, offices, warehouses/logistics and industrial.

GEOGRAPHY

- ▶ Across the whole of the UK.

MAXIMUM TERM

- ▶ 5 years (profit only) or 10 years with amortization (based on 20 year schedule & balloon on maturity).

FINANCING AMOUNT

- ▶ From £5-£50M per transaction.

EXPOSURE TO VALUE

- ▶ Typically 50-65%.

PROFIT RATE

- ▶ Typically 200-300 bps.

FIXED / FLOATING RATE

- ▶ Fixed rate only.

SECURITY & DOCUMENTATION

- ▶ Standard SPV security package. Commodity Murabaha.

DEVELOPMENT FINANCING

- ▶ No.



ADIB COMMERCIAL REAL ESTATE FINANCING STRONG TRACK RECORD IN THE UK

PRIVATE SAUDI CLIENT



The Hub, Bristol

- ▶ 103,483 sqft Grade A Office
- ▶ 100% let to Atkins
- ▶ WAULT 8 Years



PRIVATE UAE CLIENT



Lateral House, Leeds

- ▶ 95,317 sqft Grade A Office
- ▶ 100% let to Government
- ▶ WAULT 3 Years



PRIVATE SAUDI CLIENT



Travelodge, T5 Heathrow

- ▶ 297 Key Hotel
- ▶ 100% let to Travelodge
- ▶ WAULT 20 Years



PRIVATE SAUDI CLIENT



Broadway Chambers, Stratford

- ▶ 16,726 sqft Grade A Office
- ▶ 100% let to Galliford Try
- ▶ WAULT 10 Years



PRIVATE UAE CLIENT



Atmosphere One, Aberdeen

- ▶ 53,367 sqft Grade A Office
- ▶ 100% let to Bibby Offshore
- ▶ WAULT 10 Years



PRIVATE SAUDI CLIENT



Coventry Business Park

- ▶ 88,208 sqft warehouse
- ▶ 100% let to Woodland
- ▶ WAULT 4 Years



ADIB COMMERCIAL REAL ESTATE FINANCING IN THE UK

UK BASED ISLAMIC BANK



Edinburgh Waterfront



- ▶ 94,124 sqft Grade A Office
- ▶ 100% Let to Centrica plc
- ▶ WAULT 16 years

PRIVATE UK CLIENT



Vernon Street, Liverpool



- ▶ 165 Key Hotel
- ▶ 100% Let to Premier Inn

PRIVATE UAE CLIENT



South Kensington, London



- ▶ Prime Private Hospital
- ▶ 100% Let to BUPA plc
- ▶ WAULT 20+ years

PRIVATE BAHRAIN CLIENT



Tallents House, Edinburgh



- ▶ Distribution Warehouse
- ▶ 100% Let to Royal Mail

THE REAL ESTATE PURCHASING TEAM

If you are contemplating investing into the UK commercial real estate market it is critical that you engage a professional team to represent you.

TEAM MEMBER	TYPICAL SCOPE OVERVIEW
<p>ADIB – Investment Advisory & Financing</p>	<p>REAL ESTATE ADVISORY (BUY SIDE AGENCY)</p> <ul style="list-style-type: none"> ■ Provide market data and assist with establishing Shari'a compliant real estate investment strategy / criteria ■ Act as designated client representative to engage with UK investment agents to originate real estate investment opportunities that meet the defined Shari'a compliant criteria ■ Property inspection ■ Ensure that the property is rented to a tenant who engages in Shari'a compliant activities ■ Filter through and analyse real estate investment opportunities and present recommendations to the client in the form of an acquisition report, including:- <ul style="list-style-type: none"> ▶ Initial pricing advice ▶ Lease/tenant analysis ▶ Leasing/investment comparables ▶ Market overview ▶ Future rental growth prospects ▶ View on future asset management opportunities ▶ Cash flow modeling of existing / potential income ■ Oversee the preparation and submission of bid documents and negotiations with the vendor ■ Oversee the transaction to legal completion <p>FINANCING</p> <ul style="list-style-type: none"> ■ Subject to credit approval and satisfactory due diligence provide senior financing to support the acquisition
<p>UK Lawyer</p>	<ul style="list-style-type: none"> ■ Carry out real estate due diligence on the target property and report to the client on any issues with the property. Dependent on the age of the property and any modifications made to it, the due diligence may also need to encompass construction and planning advice. ■ Negotiate the sale and purchase agreement in connection with the acquisition of the property. ■ Negotiate the English law banking and security documents required to be entered into in connection with the financing of the property. ■ Oversee the completion process and the acquisition of the property.

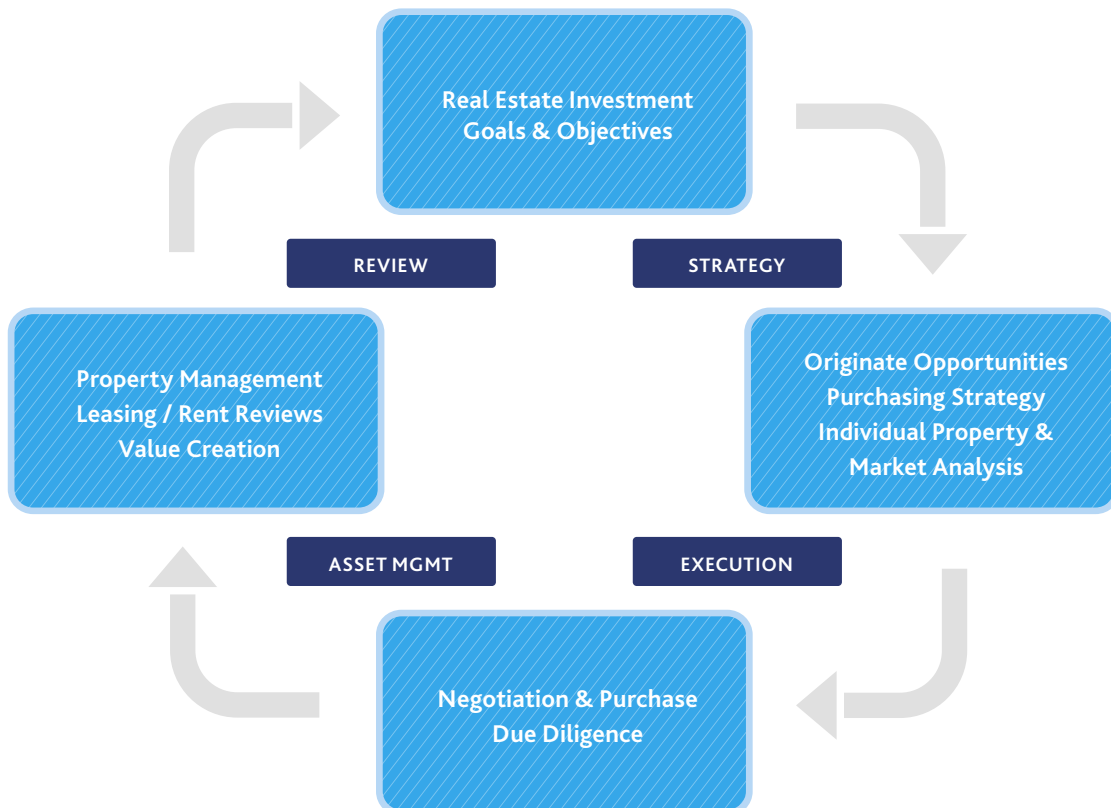
THE REAL ESTATE PURCHASING TEAM

TEAM MEMBER	TYPICAL SCOPE OVERVIEW
<p>Tax Advisor (tax advice can either be provided by a law firm or an accountant)</p>	<ul style="list-style-type: none"> ■ Prepare a tax structuring paper which sets out a proposed structure for the acquisition. The tax paper will be bespoke factoring in the client's investment strategy and will include consideration of: <ul style="list-style-type: none"> ▶ Stamp Duty Land Tax; ▶ Capital Gains Tax; ▶ Any tax on rental receipts; ▶ VAT; and ▶ The repatriation of profits.
<p>Offshore Lawyer</p>	<ul style="list-style-type: none"> ■ Review and negotiate any Jersey (or other offshore jurisdiction) law documents required to be entered into in connection with the financing of the property for example any account charges, subordination deeds and share pledges. ■ Prepare corporate authorities authorising entry into the banking and security documents required to be entered into in connection with the financing. ■ Issue a legal opinion in favour of the funding bank confirming the offshore entities have the capacity and authority to enter into the banking and security documents.
<p>Offshore Administrator</p>	<ul style="list-style-type: none"> ■ Establish Special Purpose Vehicles (SPVs). There would usually be two; a "PropCo" that owns the property and a "HoldCo" which is the sole owner of PropCo. ■ Provide administration and accounting, company secretarial and director services for each of HoldCo and PropCo. This will include: <ul style="list-style-type: none"> ▶ Providing two corporate directors for each of HoldCo and PropCo; ▶ Acting as company secretary; ▶ Maintaining all statutory records and providing a registered office; ▶ Establishing and operating bank accounts; and ▶ Maintaining the accounts and preparing quarterly and annual reports.

WHY APPOINT ADIB AS YOUR REAL ESTATE ADVISOR?

As your real estate advisor, we would:

1. Brief you on market trends and conditions
2. Assist with defining Shari'a compliant real estate investment goals and objectives
3. Act on your behalf in the UK (as designated client representative) engaging with investment agents in order to originate suitable real estate investment opportunities that meet your criteria and are also aligned with the banks UK real estate financing target market and risk acceptance criteria
4. Undertake building inspections and analyse property information
5. Preparation of an acquisition report with recommendations on bidding strategy
6. Prepare bid documentation, negotiate heads of terms and oversee the transaction to completion
7. Coordinate with the ADIB financing team
8. Post transaction advice including arranging for proposals from property managing agents



No upfront fees. Our fees will be fixed at 1% of the agreed purchase price of the property and are only payable on completion of the transaction.

Property management would be undertaken by a third party managing agent with fees agreed on a case by case basis.

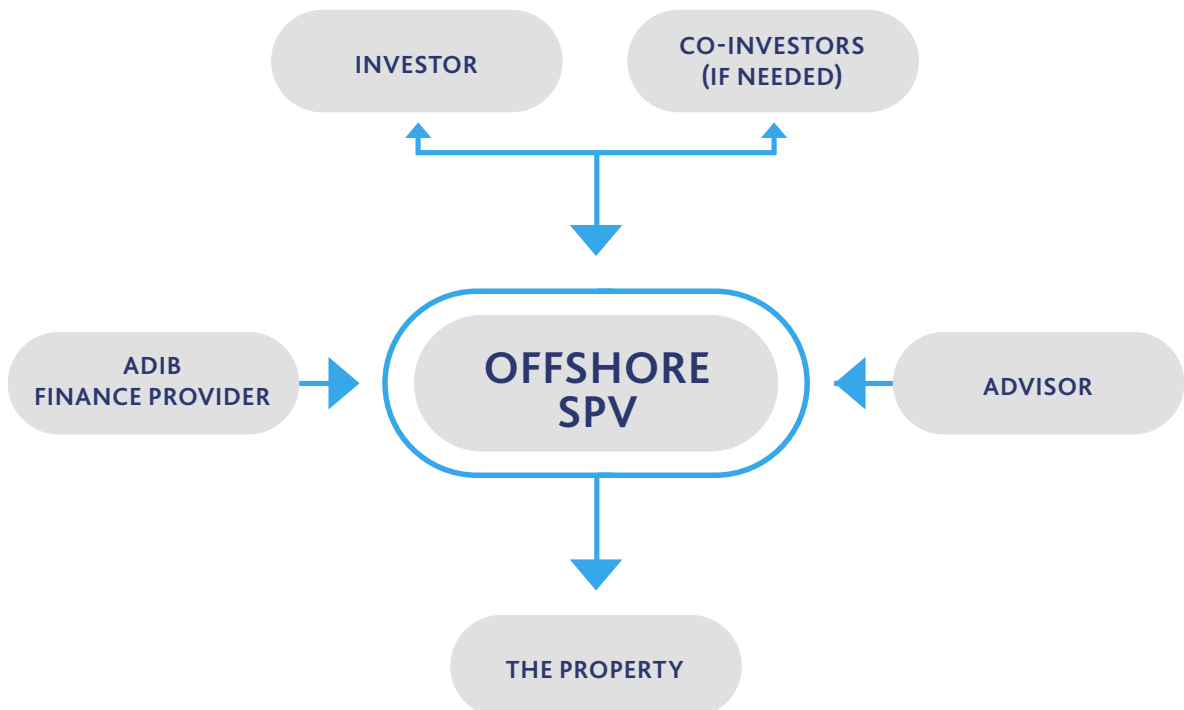
STRUCTURING A UK REAL ESTATE PURCHASE

If you are considering purchasing a commercial real estate asset in the UK we strongly recommend that as a first step you engage a suitably qualified lawyer so they can discuss your specific circumstances and objectives and advise you accordingly in respect of structuring the transaction and tax.

In real estate transactions, quite often a special purpose vehicle ("SPV") will be set up specifically to purchase the property asset. They are created for a limited purpose free from pre-existing obligations and debts and to "ring fence" the investor's assets and liabilities; they can be registered in England and Wales or overseas.

Overseas SPVs have certain benefits, usually tax driven, e.g. a Jersey SPV:

1. Lower rate of income tax on rental profits (currently 20%).
2. No capital gains tax on sale of investment properties.
3. No capital duty payable on the issue of either shares or debt securities.
4. No stamp duty land tax (SDLT) payable on the shares in an overseas SPV holding property in England or Wales.



EXECUTING A UK PROPERTY PURCHASE

- Once a suitable property is identified your adviser will submit a written offer outlining the terms and conditions of the offer. The offer will be subject to contract and hence not legally binding.
- In order to enhance credibility of the offer it should include confirmation that funds are in place to execute the transaction or ADIB financing has been agreed in principal. ADIB can support by providing you with an Indicative Term Sheet which is subject to credit approval.
- If the offer is accepted by the vendor it is usual for the purchaser to be given an exclusivity period in order to complete initial due diligence and arrange financing, prior to the sale contract being exchanged.
- ▶ Satisfactory Technical Surveys including a focus on Building Condition, Mechanical and Electrical Equipment and an Environmental Assessment.
- ▶ Satisfactory Valuation Report – this will confirm the market value of the property, for secured financing purposes, in accordance with guidelines produced by the Royal Institution of Chartered Surveyors.
- ▶ Satisfactory Legal Title – The bank will appoint its own lawyers to review all legal documentation to highlight whether there are issues which could negatively impact the market value of the asset and thus weaken the banks security position.

The actual process of acquisition is in three stages:-

1. Pre-Exchange due diligence
2. Exchange of a sale and purchase contract and
3. Completion of legal transfer and payment of the purchase price.

PRE-EXCHANGE

- Your lawyer will carry out searches and raise enquiries with the seller, including a review of the occupational leases to ensure the rental income and rent review provisions are verified along with repairing obligations and other factors impacting value.
- The seller will deduce title and answer standard form and specific enquiries about the property.
- In parallel ADIB will take forward the credit application for financing the property purchase. If approved, the terms and conditions will be confirmed. Standard conditions precedent to completion will include:-

EXCHANGE OF CONTRACTS (SALE & PURCHASE)

- The contract between seller of the property and the purchaser will be negotiated and any special conditions revealed by the due diligence included. Upon signing ("exchange") the parties become legally bound to complete the purchase (subject to any conditions). This means neither party may terminate without incurring liability. A deposit is typically payable on exchange; usually up to 10% of the purchase price.

COMPLETION

- Occurs on a date agreed between the seller and the buyer in the sale contract. Often there is a gap of up to 20 days so that the buyer can put it's funding in place. The balance of the purchase price is paid on completion.

REAL ESTATE INVESTMENT OPPORTUNITIES EXAMPLE



POTENTIAL INVESTMENT RETURNS

PURCHASE PRICE		£21,615,000
ADIB Facility	£12,969,000	60% ETV
Client Equity	£10,223,895	40% Equity + costs
Annual Rent	£1,499,893	Rent from The Pearson Building
Annual Profit Payment	£356,648	Based on Profit Rate of 2.75%
Annual Management Fee	£30,000	Fixed fee estimate
Net Annual Return	£1,113,245	
Annual Return on Equity	10.9%	
Initial One-Off Purchasing Costs - To be paid by the Client		
Stamp Duty Land Tax	5%	£1,080,750
Agents Fees	1%	£216,510
Legal Fees	0.50%	£108,075
Valuation/Survey Fees	0.20%	£43,230
Arrangement Fee	1%	£129,690
		£1,577,895
<i>Financing costs & fees are all estimates for illustration purposes only</i>		

THE PEARSON BUILDING

55 – 59 UPPER
PARLIAMENT STREET, NOTTINGHAM, UK

- The Pearson Building offers a rare opportunity to acquire a prominent city centre asset with 74% of the total income secured to The Secretary of State for circa 10 years.
- Nottingham is an affluent, vibrant city and the administrative centre for the East Midlands.
- Nottingham benefits from extensive intercity and regional rail services, with regular services to London St Pancras International every 30 minutes, with a fastest journey time of 1 hour 31 minutes.
- The Pearson Building comprises of two separate properties, 55-59 Upper Parliament Street and 23-25 Market Street.
- 55-59 Upper Parliament Street comprises a self-contained building arranged over ground and four upper floors totalling 62,947 sq ft and a leased car park at ground and basement level with 221 car parking spaces of which 71 are demised to the office.
- Attractive city centre car parking ratio of 1:887 sq ft on the office accommodation.
- 23-25 Market Street comprises a three storey building with retail at ground level and two floors of offices above totalling 1,919 sq ft.
- The property is multi-let to three tenants with an attractive WAULT of 11.7 years to expiry (9.2 years to break).
- Total income of £1,499,893 per annum equating to a low average passing rent of £17.51 per sq ft on the office accommodation.
- Future long term change of use potential (subject to planning).
- The property is held freehold.
- Purchase price of £21,615,000 reflecting a net initial yield of 6.5%

REAL ESTATE INVESTMENT OPPORTUNITIES EXAMPLE



POTENTIAL INVESTMENT RETURNS

PURCHASE PRICE		£8,300,000
ADIB Facility	£4,980,000	60% ETV
Client Equity	£3,925,900	40% Equity + costs
Annual Rent	£575,365	Rent from The Range
Annual Profit Payment	£154,380	Based on Profit Rate of 3.1%
Annual Management Fee	£25,000	Fixed fee estimate
Net Annual Return	£395,985	
Annual Return on Equity	10.1%	
Initial One-Off Purchasing Costs - To be paid by the Client		
Stamp Duty Land Tax	5%	£415,000
Agents Fees	1%	£83,000
Legal Fees	0.50%	£41,500
Valuation/Survey Fees	0.20%	£16,600
Arrangement Fee	1%	£49,800
		£605,900
<i>Financing costs & fees are all estimates for illustration purposes only</i>		

THE RANGE

CHALON WAY, ST. HELENS,
MERSEYSIDE, UK

- Prime Retail Warehouse trading as The Range situated within St Helens on a highly prominent site fronting the A58 and within walking distance of the town centre
- In total provides 61,789 sq ft on a site of 6.34 acres
- Income secured against 5A2 covenant of CDS (Superstore International) Limited, trading as 'The
- Range', one of the UK's fastest growing retailers with a current turnover of £945 million pa
- Lease extension recently agreed providing 15 years unbroken income with expiry 31st December 2035
- Let off a low and affordable rent of £8.43 per sq ft (£521,126 pa) rising to £9.31 sq ft (£575,365pa) in 2022 with 5 yearly upward only rent reviews thereafter
- Vendor will look to 'top-up' the fixed uplift in 2022 giving a purchaser a guaranteed income of £575,365 pa until the next rent review in 2027
- Longer term redevelopment potential for the whole together with shorter term infill opportunities
- Purchase price of £8,300,000 which reflects an attractive net initial yield of 6.5%.



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