

CASE STUDY

A Real Estate Developer has offered the following investment opportunity to Mr.XYZ.

Property Offered Residential Building with Retail on the Ground Floor

<u>Area Details</u>		
Plot Area	16,340	Sq Ft
Built Up Area	88,795	Sq Ft
Saleable Area	47,900	Sq Ft
Car Parks	69	Nos

<u>Type of Apartment in the Building</u>	<u>No of Units</u>	
Studio Apartment	24	Nos
1 Bed Room Apartment	30	Nos
2 Bed Room Apartment	12	Nos
Retail Area (in sq ft)	2,036	Sq Ft

The developer has put forward two options for Mr.XYZ to consider

1. Option One : Pay AED 45 Million upfront with an option to lease back to the Developer for a term of 10 years against a net annual rent of AED 4.5 Million starting from 12 months from the date of purchase
2. Option One : Pay AED 35 Million upfront with an option to lease back to the Developer for a term of 10 years against a net annual rent of AED 2.8 Million starting from 12 months from the date of purchase

Both transactions will cost Mr.XYZ additional 5% in fees which is not included in the prices mentioned above.

Mr.XYZ has USD 5 Million to inject and he is planning to go for a debt for the remaining amount on the following terms agreed with the bank

Term of the loan 10 Years with the first annual instalment due from 12 months from the date of purchase.
Interest Rate 3 month EIBOR + Interest Margin of 2.5% subject to a minimum of 6% per annum

As an independent Investor Advisor of Mr.XYZ you are required to advise him which option he should look taking into account all options including selling the property after the lease back term.

NOTE : The candidate should present his case supported by his assumption and workings.

Additional Information

1. The property being offered falls under a new high-end master community and hence no historical rental data are available
2. The current rentals in nearest neighbourhood which is 5 kms away from this location are as follows

Studio	AED 20,000/-
1 BR	AED 35,000/-
2 BR	AED 45,000/-
Retail	AED 75 per sq ft

The average annual increase in rental during the last 10 years is 3.00%

3. Real Estate properties in the nearby areas are generally being transacted with a 10-12 multiple of EBITDA

4. There is a master community charges of AED 10 per sq ft of saleable area payable annually to the master developer. However the real estate developer has agreed to bear it during the lease back term