



DOHALAND

REAL ESTATE PROJECT FINANCING

A LENDER'S PERSPECTIVE



OUTLINE

- INTRODUCTION
- FINANCING ELIGIBILITY
- SECURITY
- POST-APPROVAL LOAN MANAGEMENT

INTRODUCTION

- The rules are the same for all types of projects
 - Development
 - Investment
 - Commercial/Residential
 - Shopping Malls
 - Hotels....
- The structure of financing changes
- Generally apply to Conventional or Islamic financing

- Quality Owners/ Good Management
- Track Record
- Solid Balance Sheets
- Equity Contribution
- Good "Partners"
 - Architects
 - Consultant
 - Contractors
 - Quantity Surveyors

Contractor – points for consideration

- is contractor's experience relevant to the project type and size?
- what other ongoing work or contracts does the contractor have?
Can he handle it all?
- does the contractor have the necessary capacity or resources to mobilize equipments and manpower?

- Feasibility Study
 - costings (verified?)
 - valuation (one/two?)
- Financial forecasts, sensitized for
 - reduction in rentals/ sale price
 - change in occupancy rates
 - increase in costs
 - extended completion date
 - increase in interest rates

FINANCING STRUCTURE

- Regulatory requirements
 - Maximum financing to total cost: 65%
 - 35% equity from own sources – upfront or pro-rata/ Land contribution included
- Planning Permission and other Approvals
- Tenor
 - Investment projects – typically max 10 year, including construction period
 - Development projects – matching with pre-sale & final instalment cash flows

FINANCING STRUCTURE

- Grace Period – Interest capitalized during construction ?
- Financial Covenants – usually minimum DSCR. Minimum TNW covenant in exceptional cases
- Drawdown linked to completion milestones, pro-rata equity contribution
 - Verified by Consultant certification
 - Sometimes independent bank appointed Consultant
- Escrow account – all cash inflows captured

- Registered mortgage over land (Ownership in case of Islamic Financing)
- Assignment of receivables for investment projects (Official Assignment where feasible)
- Assignment of Contractor Insurance during construction & full coverage insurance on completion
- Assignment of Contractor Bonds
- Pledge over Escrow account
- Guarantees of Shareholders
- Owners Undertaking to cover Cost Overruns

- Drawdown of Loan:
 - Evidence of equity contribution
 - Consultant certification on expenditure
- Quarterly progress reports from consultant stating,
 - % of work done, supported by photographs
 - Cost incurred
 - Any adverse technical features impacting timelines/cost
 - Remaining cost to complete vis-à-vis budget
 - Remaining time to complete vis-à-vis budget
- Monitoring of cash inflows
- Post completion valuation, followed by annual evaluations