



## Manazel Al Mamlaka Fund Investor Update December 2023



The following report presents an update in relation to your investment in Manazel Al Mamlaka Fund ("Fund") as of December 31<sup>st</sup>, 2023.

### Background

The Fund was incorporated in 2012 and invested in two real estate assets in Saudi Arabia:

1. Radium Compound, acquired in 2014; and
2. Qurtobah Labour accommodation, acquired in 2015.

In 2022, the Fund exited Qurtobah Labour accommodation through an auction process.

The Fund currently has a mortgage on the Radium Compound. This loan was taken in 2015 and the outstanding amount on the loan as of December 31<sup>st</sup>, 2023, is SAR 171.00 million, the mentioned amount is after the principal payment of SAR 8.00 million that was made on November 30<sup>th</sup> 2023. We are in the advanced stages of discussions with the Bank, to restructure the loan with an aim to reduce financing costs and to possibly extend the principal repayment period, including a grace period for repayment.

We would like to bring to your attention that there is an ongoing dispute with the Zakat authorities in the Kingdom of Saudi Arabia, and to efficiently address this matter, we have engaged the professional services of KPMG. For certain cases, final decisions have been ruled and we anticipate final decisions on the remaining in the second quarter of 2024. However, it should be noted that the amount anticipated to be paid, yet cannot be confirmed prior to final court decision, is anticipated to be material. Furthermore, we have provisioned for such expenses in the NAV calculation mentioned below.

### Radium Compound

Radium Residential Compound is located within Al Munsiyah District, Riyadh, Kingdom of Saudi Arabia and it is situated approximately 200 meters northwest of Al Thumamah Road, 400 meters south of Saudi Railway Company headquarters, and 5 km northeast of Airport Road.

The immediate surroundings of Radium Compound have witnessed significant development in recent years, highlighted by the completion of the King Khalid International Airport's new terminal for domestic flights. Notably, plans are underway to expand the airport, projecting a remarkable capacity of 120 million travelers by 2030, reinforcing the area's prominence. Furthermore, the area is also well serviced by metro connectivity. Moreover, the retail landscape in the proximity of Radium Compound has undergone substantial upgrades, amplifying its appeal as a preferred destination for residents

### Property Details

The Radium Compound has a land area of 44,689 sq. m and consists of 229 residential units (69 villas and 160 apartments) with a total built-up area of 35,175 sq. m. including facilities. The compound's facilities and amenities include landscaped garden areas, recreation center, swimming pools, multi-functional sport courts, an administration building and a mosque.

The Radium Compound is in good condition, fully insured with 24-hour security. However, certain upgrades are required to ensure that the compound remains in good standard to sustain its value and attract high quality tenants.

## Fund Strategy

Building on the strong macro-economic position in KSA supported by stable oil prices and increased investment activity as well as the expansion of Riyadh city, we believe that the Radium Compound neighborhood is becoming more and more appealing to tenants. We have also recently received several enquiries from large local and multinational companies in relation to tenancing the compound. More importantly, the location of the compound is now becoming strategic due to its proximity to the metro station, the mega development project "Roshn development", expansion of KKIA and others. All of which are factors that will enhance the value of the compound and the rental rates.

## Rental strategy

We are strategically aiming to secure a single tenancy agreement for the compound spanning a minimum duration of 5 years. Recent developments include receiving inquiries expressing interest in the property; however, before committing to any agreement, our priority is to optimize returns, if possible. To accomplish this, we are engaging with leasing agents to target Category A tenants, thereby ensuring robust and sustained rental inflows while maximizing the rental yield.

In addition to the above, we have received two direct offers. One of the offers did not meet the compounds optimal value, and was declined. Furthermore, the remaining offer is still in the negotiation phases as we are currently aiming to enhance the yearly rental rate, aiming to achieve terms that align more closely with the objectives and the market value of the property.

## Maintenance strategy

We have appointed an engineering consultant company who has conducted an inspection of the compound, defined the necessary requirements for maintaining the compound in order for it to be in a good condition. This allows us to cross-match the actual required maintenance work needed with the budgeted commercial offers received from the contractors. Additionally, the consultant is in the process of reviewing and advising on the selection of the contractor, ensuring their alignment with the identified maintenance needs and cost.

It is to be noted, that we are prioritizing essential maintenance to ensure the compound is in good condition. However, we will refrain from extensive refurbishments or furniture-related uplifts, recognizing that potential incoming tenants may have specific preferences or requirements. This approach allows tenants the flexibility to manage and personalize these aspects according to their needs, aligning with their individual preferences upon occupancy.

The anticipated timeline for the selection and awarding of a contractor is by end of February 2024. It is important to note that once the maintenance begins, it is estimated to take three months to complete.

## Net Asset Value (NAV):

As of December 31st, 2023, and based on the management accounts of the Fund, the Fund had the following key assets and liabilities. It should be noted that management accounts can vary from the audited financial statements.

### Key Assets:

- **Radium Compound:** **SAR 221.40 million**  
*(Valuation report dated January 8th 2024, valued the Compound at SAR 246 million, however a 10% discount was applied to represent a more adequate liquidity value)*
- **Cash with Banks:** **SAR 53.70 million**

### Key Liabilities:

- **Bank Loan:** **SAR 171.00 million**
- **Provisioned Liabilities:** **SAR 38.59 million**

## Estimated NAV

<b>NAV:</b>	<b>SAR 65.51 million (<i>Netting of key assets and liabilities</i>)</b>
Total No of units:	2,799,338
<b>Estimated NAV per Unit:</b>	<b>SAR 23.40</b>

We have received a comprehensive valuation report from a licensed service provider in Saudi Arabia (Dar Al Qias Evaluation), valuing the Compound at SAR 246 million. However, we find the indicated valuation doesn't accurately capture the compound's liquidity value. Conservatively, a discount of 10% was applied to better align the valuation with a more adequate liquidity value of the compound.

It is imperative to emphasize that the valuation price stipulated in the valuation report is not indicative of an offered price but rather serves as an estimate provided by the evaluator. This estimation is subject to significant fluctuations, potentially altering in a positive or negative direction upon an eventual exit from the investment. The dynamic nature of market conditions and variables pertinent to the property's performance may notably influence this valuation.

## Exit

The Fund Manager is regularly assessing the exit options for the Fund and the ways to maximize such exit. The initial term of the Fund was for 5 years (3+1+1) and, since then, it has been extended on a yearly basis and the next review of the Fund's term will be in November 2024. We hope that once the compound is leased, we will have multiple options to consider maximizing the exit value of the Radium Compound. In the meantime, and should we receive any offers to sell the compound before renting it out that we consider optimal or receive a commitment from a real estate auction house to include the Compound at an optimal amount or above, we will seriously consider them.

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