

Application Procedure for Financing Awqaf Real Estate Projects

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Introduction to Awqaf Properties Investment Fund (APIF)

Establishment of the Fund

Awqaf Properties Investment Fund (APIF) was established in 2001 with total subscriptions amounting to US\$ 50 million. As of December 2016, there are 14 fund participants with a total paid up capital of US\$76.41 million. In addition, the IDB has approved a line of financing amounting to US\$ 100 million to finance the Waqf projects jointly with APIF.

Purpose of the Fund

The purpose of the Fund is to invest in and develop, in accordance with the principles of Islamic Shariah, Awqaf real estate properties that are socially and financially viable, in the member countries of IDB and Islamic communities in non-member countries.

The Fund participates in the financing of new projects aiming at the development of Awqaf lands, as well as in those projects that aim at developing already existing Awqaf properties, with the aim of enhancing their value or returns that ultimately serves the Waqf charitable activities. The key sectors include residential, commercial, retail and mixed-use facilities.

There is also the possibility of purchasing an existing building and converting it into a Waqf property, subject to a limitation on IDB financing up to 75% of the purchase price.

Terms and Conditions for APIF Financing

GENERAL TERMS AND CONDITIONS	
Mode of financing	Leasing/Istisna/Murabaha or any suitable Shari'ah-compatible mode of financing
Project Value	US\$ 5.0 million (minimum)
Terms of financing	The maximum tenor is 15 years including gestation period
Collateral Security	Depends on the nature of the project (bank guarantee, corporate guarantee, mortgage, pledge, etc.)
Pricing	Between 5-7 % per annum, on a case-by-case basis.
Currency of Financing and Repayment	US Dollars

Documents Required for APIF Financing

Stage 1: Clearance of Legal Documents and Project Concept

1. Official request for financing providing brief details of the Waqf project
2. Copy of the registration certificate and articles of association of the Waqf/charitable organization
3. Copy of the title deed of the property that shows that the land is in the name of Waqf and/or charitable organization and is free of all encumbrances
4. Copy of the Waqf deed/Trust deed, if any
5. Detailed information about the organization including scope of activities, operations and investments.
6. Brief profile of the trustees and management including their nationalities
7. Audited financial statements for the last three years

Stage 2: Appraisal Phase (After Concept Clearance)

1. Feasibility study (see guidelines provided on page 3)
2. Copy of the building permit, if issued
3. Proposed security for the financing like bank guarantee, mortgage, pledge, etc.

Recommended Practice:

1. In IDB Member Countries, the financing request should be endorsed by a no objection letter from the IDB Governor's Office
2. In IDB Non-Member Countries, the financing request should be endorsed by a relevant authority with a no objection letter

Guidelines for the Preparation of Feasibility Study for Financing Awqaf Real Estate Projects

Note: The Feasibility Study will be requested after the project concept clearance by IDB.

1. Economy

- **Country:** Basic economic indicators: GDP and GDP growth rate, unemployment rate, inflation, central bank discount rate, commercial bank prime lending rate, etc.
- **Project city / province:** Basic economic indicators and activities.
- **Exchange rates:** Local currency vs. US dollar (historical and forecasted).
- **Taxation:** Overview of taxes like income tax, VAT, withholding tax, property tax or any other tax relevant to Real Estate Investment

2. Awqaf (Endowment) Sector

- Historical background of the sector in the country
- Current status and structure
- Applicable Awqaf laws and regulations
- Similar laws such as Trust/Foundation/NGO laws

3. Real Estate Market

- Overview of the Sector and sub-sectors: residential, retail, office, storage/ industrial etc.
- Sector size and growth (focus on the project subsector if already decided according to zoning).
- Current demand and supply.
- Forecasted demand/supply over the next 5-10 years for and the basis for projections.
- Land and property price trends.
- Rental and occupancy rates for different types of buildings.
- Regulations of the real estate sector: ownership and tenancy regulations, building permits, etc.

4. The Project

- a. **Project Objective:** Rationale, concept and objective of the project
- b. **Project Land and Location:**
 - Geographical location - advantages and disadvantages
 - Zoning regulations
 - Description of the site – area, shape and description of any available structure
 - Location – accessibility (roads and transport facilities)
 - Land valuation and basis of valuation
 - Land deed, liens, encumbrances, free or lease hold and terms of lease... etc.
 - Class of neighborhood – Upper- middle- low income, etc.
 - Amenities available – Public transportation, utilities (water, gas, electricity facilities, telephone lines, sewer), facilities such as schools, shopping centers, clubs, universities, hotels, hospitals, mosques, ... etc.
- c. **Best use analysis:**
 - Consider three alternatives and recommend the best use of land with justification
 - Provide concept drawings for floor plans and elevation for the selected option
- d. **Project Scope:**
 - Project construction works, renovation of current property or purchase of new property
 - Consultancy services (design, supervision, legal, .etc.)
 - Statutory fees related to building permits and connection to public utilities or property transfer cost in case of purchase of property.
- e. **Building Description:**
 - Civil works, electromechanical and other facilities
 - Description of the building (s) – number of storeys, number of apartments, offices, shops, size per unit, common areas, parking facilities, landscaping etc.
 - Gross and lettable areas for each component/Building.
 - Technical Description of Finishing and electromechanical systems (e.g. heating & air-conditioning, firefighting & fire alarm, elevators and security features, etc.)
- f. **Building Materials and Labour Supply:**
 - Availability.
 - Type, sources, quality and prices
 - Current construction cost per sqm for different classes of finishing e.g. Deluxe, Ordinary, Low cost housing, etc.

g. Construction, Design and Supervision:

- Availability of consultants (project design & supervision and project management)
- Availability of contractors locally and class of contractor required for the project
- Capacity of beneficiary to manage the project and reinforcing measures to implement the project.

h. Environmental Considerations:

- Environmental impact assessment and mitigating measures
- Health and safety of employees, soil erosion, noise, solid waste disposal, sewerage disposal, storm water drainage etc.

i. Project Cost:

- Item wise breakdown of cost estimates in local and in US dollar equivalent (construction works, electromechanical works, consultancy, furniture, contingencies, etc.)
- Cost of Construction per square meter
- Basis of cost estimates and provision for contingencies
- Comparison of cost with other recent/current projects

j. Financing Plan:

- Details of funds available with the sponsor/beneficiary
- Details of funds committed to the sponsor/beneficiary
- Requested amount of financing
- Existing financing gap, if any

k. Implementation:

- Project implementation schedule including development and planning, design, building permit, procurement and construction & supervision
- Proposed procurement method: International Competitive Bidding (ICB) or National Competitive Bidding based on availability of suitable contractors and consultants

l. Property Management Post-Construction:

- Availability of specialized property management firms
- Brief Terms of Reference (TOR) for the property management firm (admin & marketing, maintenance, security, cleaning, annual insurance, utilities .etc.)
- Proposed property management structure
- Availability of specialized maintenance firms/ or in-house maintenance

5. The Sponsor

Mandate according to Constitution/ Articles of Association

- Legal status
- Organization structure
- Key management personnel and their background
- Operating performance (existing activities in detail)
- Financial Performance over the past 3 years (Annual Budget, Profit and Loss Statements, Balance Sheets, etc.)
- Sources of funds and main sponsors

6. Project Justification

Social justification

Social causes to be served by the project, e.g. poverty alleviation, education, health, etc.

Market justification

- Filling a supply gap for commercial (offices, shops, retail, malls etc.) or residential (furnished or residential apartments) space.
- Marketing strategy: competition, pricing, market share, marketing channels etc.
- The impact of the project on the area, etc.

Financial justification

Basic assumptions underlying the project financial projections.

1. Rental rates
2. Tenancy agreements' period and rate of increase of rentals
3. Estimated occupancy rates over a 20-year period

Note: Please compare rental and occupancy rates for similar buildings to the proposed project in the project area.

4. Depreciation rates.
5. Taxation: Calculation of all taxes applicable to the project such as income tax, property tax, VAT, withholding tax, etc.
6. Operational expenses: breakdown for costs of admin. & marketing, property management, maintenance, security, cleaning, utilities, insurance, etc.
7. Service charges (if there are service charges collected from tenants to cover part of the operational costs)

Cash Flow Calculation

- Projected Income/Expenses and Cash Flow Statement for 20 years of operation considering current and forecasted currency exchange rates. All amounts should be mentioned in local currency as well as in US dollar equivalent
- Financial Indicators e.g. Internal Rate of Return (FIRR), debt coverage ratio, Net Present Value, debt equity ratio, etc.
- Sensitivity analysis under different scenarios:
 1. Decrease in net income by 10%
 2. Increase in project cost by 10%
 3. A combination of (a) and (b) above.

7. Risk Analysis

Potential risks and ways & means, if any, to mitigate them, e.g.

- Design and construction risks
- Sectoral and business risks
- Cost overrun risk
- Time overrun risk
- Operating and management risks
- Currency risks
- Money transfer regulations/risk including repayment of installments to IDB i.e. repatriation of Funds (principal and mark-up) including withholding tax

8. Conclusion and Recommendations

- Financial viability of the project
- Justification for financing
- Recommendations

Annexes

- Map showing the project location
- Photograph of the site
- Copy of the title deed of the land
- Copy of the Waqf deed/Trust deed if any
- Concept design and preliminary drawings
- Organization chart of the beneficiary
- Implementation schedule
- Two land valuations (or property valuation in case of purchase of property) from independent qualified surveyors.