

Property Finance: An International Approach

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Structured RE Financing Case Studies

Chapter 6



Agenda

- 6.1 Structured financing for an income producing property**
- 6.2 Structured financing for a real estate portfolio acquisition**
- 6.3 Financing of a real estate development project**
- 6.4 Financing a shopping centre: credit application**

6.1 Structured financing for an income producing property

6.1.1 Description of the transaction

Price	€140.000
Annual Gross Rent	€ 10.080
Annual Operating Expenses	€514

- ✓ Hold and lease the property for five years and then to divest
- ✓ Rental payments and operating costs will increase by 2.5% per annum in line with projected inflation
- ✓ OMV is estimated by Direct Capitalization Approach, consequently the OMV will growth over time by the rate of inflation



6.1 Structured financing for an income producing property

6.1.1 Description of the transaction: free operating cash flows

	0	1	2	3	4	5
Property market value	€ 140,000,000	€ 143,500,000	€ 147,087,500	€ 150,764,688	€ 154,533,805	€ 158,397,150
Gross rent per year		€ 10,080,000	€ 10,332,000	€ 10,590,300	€ 10,855,058	€ 11,126,434
Annual operating expenses		-€ 514,080	-€ 526,932	-€ 540,105	-€ 553,608	-€ 567,448
Property cash flows		€ 9,565,920	€ 9,805,068	€ 10,050,195	€ 10,301,450	€ 10,558,986
Investment	-€ 140,000,000					
Divestment %						100%
Divestment						€ 158,397,150
Operating cash flows	-€ 140,000,000	€ 9,565,920	€ 9,805,068	€ 10,050,195	€ 10,301,450	€ 168,956,136



6.1 Structured financing for an income producing property

6.1.2 Term Sheet (A) - Key Facts

	<i>V1</i>	<i>V2</i>	<i>Min</i>
Maximum Loan Amount	Max Amount		€ 100,000,000
	LTV Constraint	70%	€ 0
	ICR Constraint (Max interest = CF/ICR)	170%	€ 5,627,012
	Acquisition Financing		€98,000,000
Purpose of the loan	To partially finance the purchase price of the Property provided as security		
Term	Five years from drawdown		
Drawdown procedures	In one single installment following conclusion of the relative loan agreement, conditional on the fulfillment of various conditions precedent		
Repayment	In one single installment upon maturity under the loan agreement and, if the property is sold, using the proceeds of the sale of the property		



6.1 Structured financing for an income producing property

6.1.2 Term Sheet (B) - Interest Rates, Margins and Fees

Interest Rate on Acquisition Line	Floating 12 months EURIBOR plus margin interest payable annually in arrears		
Margin on Acquisition Line	<ul style="list-style-type: none">3% per annum on the amount financed when LTV is under 60%3.50% per annum on the amount financed when LTV is between 60% and 70%		
Arrangement Fee	Equal to 1% calculated on the Loan Amount, due and payable upon signing of the loan agreement		
Interest Rate Risk and Hedging	<hr/>		
	Hedging		
	Euribor 12 months (current rate)	0.55%	Spread (LTV threshold)
	Cap (BP assumption)	1.25%	60.00%
	Upfront cap cost	1.50%	
	<hr/>		
	Financing line	Current	Cap
	Int. Rate Acq. Line >LTV	3.55%	4.25%
	Int. Rate Acq. Line <LTV	4.05%	4.75%
	<hr/>		



6.1 Structured financing for an income producing property

6.1.2 Term Sheet (C) - Security and Conditions

Security	<ul style="list-style-type: none"> (a) First ranking mortgage over the Property (b) Assignment of the rents and any other rights arising out of any rental agreement in relation to the Property and payment into a security escrow account with a pledge in favor of the Bank (c) Pledge on 100% of the borrower's shares (d) Assignment of rights and receivables related to the all risks insurance policies that cover the Property provided as security issued (e) Assignment of rights and receivables resulting from the signature of the hedging agreement to hedge interest rate risk
Conditions precedent at the signature of the loan agreement	<ul style="list-style-type: none"> • value verification of the Property provided as security by an appraiser appointed by the Bank • presentation of an all risks insurance policy covering the property provided as security issued by a primary standing insurance company • presentation of a true copy of all leases for the Property • completion of a legal and tax due diligence • completion of a Money Laundering due diligence
Conditions precedent for disbursement of the loan	<ul style="list-style-type: none"> • the legal validity of the Securities • a report drawn up by a notary/lawyer attesting the registration of a first-rank mortgage; the formalization of the assignment of rental payments and the absence of applications for the initiation of bankruptcy proceedings against the borrower • a declaration attesting that there are no further debts in addition to those declared
Other	<ul style="list-style-type: none"> • the loan agreement will take precedence over capital repayments • the Bank must be informed of any event which may have a substantially negative effect on the borrower's capacity to comply with any obligation associated with the loan and which may cause substantial detriment to the borrower's situation

6.1 Structured financing for an income producing property

6.1.2 Term Sheet (D) - Covenants

Financial Covenants	<ul style="list-style-type: none"> • LTV Default > 75% • LTV Cash Sweep >70% • ICR Default < 150% • ICR Cash Sweep <170%
Other Covenants	<p>1) Commitments by the borrower whereby, unless it has obtained prior written authorization from the Bank, it is required to refrain from:</p> <ul style="list-style-type: none"> • disposal of company assets other than in the ordinary course of business • any extraordinary activities such as merger or acquisition • incurring any other financial indebtedness • granting real or personal guarantees (negative pledge) • undertaking others loans • change of ownership in the borrower <p>2) The borrower is a SPV with the exclusive purpose of completing the specific transaction and may not carry out other transactions which may be detrimental to the existing financial equilibrium</p>



6.1 Structured financing for an income producing property

6.1.3 Financing Line and Cash Flow Summary

Acquisition Financing Line	0	1	2	3	4	5	
<i>Loan Balance BoP</i>		€ 98,000,000	€ 98,000,000	€ 98,000,000	€ 98,000,000	€ 98,000,000	
Drawdown	€ 98,000,000						
Arrangement fee	-€ 980,000						
Upfront cap cost	-€ 1,470,000						
Financing tax	-€ 245,000						
Repayment	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 98,000,000	
<i>Loan Balance EoP</i>	€ 98,000,000	€ 98,000,000	€ 98,000,000	€ 98,000,000	€ 98,000,000	€ 0	
LTV		68%	67%	65%	63%	62%	
Interest paid		-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	
CF Acquisition Line	€ 95,305,000	-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	-€ 102,655,000	
<i>Covenant ICR</i>		205.5%	210.6%	215.9%	221.3%	226.8%	
<i>Covenant Check</i>		OK	OK	OK	OK	OK	
<i>Yield on Debt</i>		9.8%	10.0%	10.3%	10.5%		
Cash Flow Summary	0	1	2	3	4	5	IRR
Property cash flows	-€ 140,000,000	€ 9,565,920	€ 9,805,068	€ 10,050,195	€ 10,301,450	€ 168,956,136	9.33%
CF Acq. Line	€ 95,305,000	-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	-€ 4,655,000	-€ 102,655,000	5.39%
Equity free cash flow	-€ 44,695,000	€ 4,910,920	€ 5,150,068	€ 5,395,195	€ 5,646,450	€ 66,301,136	16.93%





6.2 Structured financing for a real estate portfolio acquisition

6.2.1 Description of the Portfolio Acquisition

Block sales of real estate portfolios occur at lower prices compared to the sum of the value of the individual properties since the former are assets for which there is a more limited market (**illiquidity premium**), which means that a discount has to be granted in view of the reduced liquidity. A positive margin can be created between the purchase price for the portfolio and the sale price of the individual properties.

	Price	Net rent	OMV
Property 1		€ 580,125	€ 8,925,000
Property 2		€ 871,650	€ 13,410,000
Property 3		€ 360,750	€ 5,550,000
Property 4		€ 1,735,500	€ 26,700,000
Property 5		€ 965,250	€ 14,850,000
Portfolio	€58,500,000	€4,513,275	€69,435,000

- ✓ The portfolio is acquired with a deposit of 25% of the price upon signature of the preliminary sale and purchase agreement
- ✓ The appraisal value (OMV) represents the expectations as to the sale price of the individual properties following the portfolio split
- ✓ Assumption of a net increase in rents of 2.5% per annum in line with inflation
- ✓ Not possible to determine the order of sale ex ante, assumption of a hypothetical sale sequence

6.2 Structured financing for a real estate portfolio acquisition

6.2.2 Portfolio Divestment Simulation

	1	2	3	4	5	6	7	8	9	10
Property 1	€8,925,000	€8,925,000	€8,925,000	Sold	Sold	Sold	Sold	Sold	Sold	Sold
Property 2	€13,410,000	€13,410,000	€13,410,000	€13,410,000	€13,410,000	Sold	Sold	Sold	Sold	Sold
Property 3	€5,550,000	€5,550,000	€5,550,000	€5,550,000	€5,550,000	€5,550,000	Sold	Sold	Sold	Sold
Property 4	€26,700,000	€26,700,000	€26,700,000	€26,700,000	€26,700,000	€26,700,000	€26,700,000	Sold	Sold	Sold
Property 5	€14,850,000	€14,850,000	€14,850,000	€14,850,000	€14,850,000	€14,850,000	€14,850,000	€14,850,000	€14,850,000	Sold
Portfolio	€69,435,000	€69,435,000	€69,435,000	€60,510,000	€60,510,000	€47,100,000	€41,550,000	€14,850,000	€14,850,000	€0

6.2 Structured financing for a real estate portfolio acquisition

6.2.3 Portfolio Operations Cash Flows

Cash Flow	0	1	2	3	4	5	6	7	8	9	10
Acquisition	-€14,625,000	-€43,875,000	€0	€0	€0	€0	€0	€0	€0	€0	€0
Property disposal 1		€0	€0	€0	€8,925,000	€0	€0	€0	€0	€0	€0
Property disposal 2		€0	€0	€0	€0	€0	€13,410,000	€0	€0	€0	€0
Property disposal 3		€0	€0	€0	€0	€0	€0	€5,550,000	€0	€0	€0
Property disposal 4		€0	€0	€0	€0	€0	€0	€0	€26,700,000	€0	€0
Property disposal 5		€0	€0	€0	€0	€0	€0	€0	€0	€0	€14,850,000
Investment CF	-€14,625,000	-€43,875,000	€0	€0	€8,925,000	€0	€13,410,000	€5,550,000	€26,700,000	€0	€14,850,000
Rent property 1		€145,031	€145,938	€146,850	€0	€0	€0	€0	€0	€0	€0
Rent property 2		€217,913	€219,274	€220,645	€222,024	€223,412	€0	€0	€0	€0	€0
Rent property 3		€90,188	€90,751	€91,318	€91,889	€92,463	€93,041	€0	€0	€0	€0
Rent property 4		€433,875	€436,587	€439,315	€442,061	€444,824	€447,604	€450,402	€0	€0	€0
Rent property 5		€241,313	€242,821	€244,338	€245,865	€247,402	€248,948	€250,504	€252,070	€253,645	€0
Real Estate CF	-€14,625,000	-€42,746,681	€1,135,371	€1,142,467	€9,926,840	€1,008,101	€14,199,594	€6,250,906	€26,952,070	€253,645	€14,850,000

6.2 Structured financing for a real estate portfolio acquisition

6.2.4 Portfolio Term Sheet (A) - Key Facts

Structure	Three Financing Lines			
Maximum Loan Amount	Financing Line	A1	A2	A3
	Value	€ 15,000,000	€ 15,000,000	€ 15,000,000
	Constraint LTV %	40%	60%	70%
	Constraint LTV	€ 27,774,000	€ 41,661,000	€ 48,604,500
	Constraint LTC %			80%
	Constraint LTC			€ 46,800,000
	Difference with prev. Lines		€ 26,661,000	€ 16,800,000
	Committed amount	€15,000,000	€15,000,000	€15,000,000
Purpose of the loan	Payment of part of the purchase price for the properties to be mortgaged			
Term	Three years			



6.2 Structured financing for a real estate portfolio acquisition

6.2.4 Portfolio Term Sheet (B) - Repayment

Repayment	Lines A1, A2, and A3: repayment will be within three years from the sign of the loan agreement. The loan will be repaid as sale procedures are concluded in relation to the sale of the individual properties.																																																															
Allocated Loan Amount *(Based on the release pricing, an allocated loan amount table is drawn up allocating a quantity of debt to each property, which must be repaid at the time of sale)	<div>120%</div> <table><tr><td></td><td>OMV</td><td>% Value</td><td>ALA</td><td colspan="4">Release Pricing</td></tr><tr><td>Property 1</td><td>€ 8,925,000</td><td>13%</td><td>€ 5,784,187</td><td colspan="4">€ 6,941,024</td></tr><tr><td>Property 2</td><td>€ 13,410,000</td><td>19%</td><td>€ 8,690,862</td><td colspan="4">€ 10,429,034</td></tr><tr><td>Property 3</td><td>€ 5,550,000</td><td>8%</td><td>€ 3,596,889</td><td colspan="4">€ 4,316,267</td></tr><tr><td>Property 4</td><td>€ 26,700,000</td><td>38%</td><td>€ 17,303,953</td><td colspan="4">€ 20,764,744</td></tr><tr><td>Property 5</td><td>€ 14,850,000</td><td>21%</td><td>€ 9,624,109</td><td colspan="4">€ 11,548,931</td></tr><tr><td>Portfolio</td><td>€ 69,435,000</td><td>100%</td><td>€ 45,000,000</td><td colspan="4">€ 54,000,000</td></tr></table>									OMV	% Value	ALA	Release Pricing				Property 1	€ 8,925,000	13%	€ 5,784,187	€ 6,941,024				Property 2	€ 13,410,000	19%	€ 8,690,862	€ 10,429,034				Property 3	€ 5,550,000	8%	€ 3,596,889	€ 4,316,267				Property 4	€ 26,700,000	38%	€ 17,303,953	€ 20,764,744				Property 5	€ 14,850,000	21%	€ 9,624,109	€ 11,548,931				Portfolio	€ 69,435,000	100%	€ 45,000,000	€ 54,000,000			
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Portfolio	€ 69,435,000	100%	€ 45,000,000	€ 54,000,000																																																												
Release Price*(Based on hypothesized sales forecast)	Release price	4	5	6	7	8	9	10																																																								
	Property 1	€ 6,941,024	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0																																																								
	Property 2	€ 0	€ 0	€ 10,429,034	€ 0	€ 0	€ 0	€ 0																																																								
	Property 3	€ 0	€ 0	€ 0	€ 4,316,267	€ 0	€ 0	€ 0																																																								
	Property 4	€ 0	€ 0	€ 0	€ 0	€ 20,764,744	€ 0	€ 0																																																								
	Property 5	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 2,548,931																																																								
	Repayment	€ 6,941,024	€ 0	€ 10,429,034	€ 4,316,267	€ 20,764,744	€ 0	€ 2,548,931																																																								

6.2 Structured financing for a real estate portfolio acquisition

6.2.4 Portfolio Term Sheet (C) - Interest Rates, Margins and Fees

Interest Rate on each Acquisition Line	A floating rate based on the EURIBOR 3 month rate, plus a margin for the Bank per year for the loan full term according to the different risk profiles:			
	Interest	A1	A2	A3
	Euribor 3 months (ma)	0.50%	0.50%	0.50%
	Spread	2.50%	3.00%	3.50%
	Yearly int. Rate	3.00%	3.50%	4.00%
	Quarterly int. Rate	0.74%	0.86%	0.99%
	Initial annual interest	€ 450,000	€ 525,000	€ 600,000
Payment Frequency	Quarterly in arrears			
Fees	<ul style="list-style-type: none"> Flat-rate organization and conclusion fee: equal to 1.20% of the overall amount committed, due upon drawdown Loan management fee due to the Agent Bank: equal to €50,000 per annum, to be paid quarterly 			



6.2 Structured financing for a real estate portfolio acquisition

6.2.5 Detailed Breakdown of the loan facilities

Line A1	1	2	3	4	5	6	7	8	9	10	Total
Loan Balance BoP	€ 0	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 2,548,931	€ 2,548,931	
Drawdown	€ 15,000,000	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 15,000,000
Arrangement fee	-€ 180,000	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 180,000
repayment	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 12,451,069	€ 0	-€ 2,548,931	-€ 15,000,000
Loan Balance EoP	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 2,548,931	€ 2,548,931	€ 0	
Interest Payment	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 18,906	-€ 18,906	€ 0	-€ 816,604
Line A1 CF	€ 14,708,744	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 111,256	-€ 12,469,975	-€ 18,906	-€ 2,548,931	-€ 996,604
Line A2	1	2	3	4	5	6	7	8	9	10	Total
Loan Balance BoP	€ 0	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 12,629,942	€ 8,313,675	€ 0	€ 0	
Drawdown	€ 15,000,000	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 15,000,000
Arrangement fee	-€ 180,000	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 180,000
Repayment	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 2,370,058	-€ 4,316,267	-€ 8,313,675	€ 0	€ 0	-€ 15,000,000
Loan Balance EoP	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 12,629,942	€ 8,313,675	€ 0	€ 0	€ 0	
Interest Payment	-€ 129,562	-€ 129,562	-€ 129,562	-€ 129,562	-€ 129,562	-€ 109,090	-€ 71,809	€ 0	€ 0	€ 0	-€ 828,708
Line A2 CF	€ 14,690,438	-€ 129,562	-€ 129,562	-€ 129,562	-€ 129,562	-€ 2,479,149	-€ 4,388,076	-€ 8,313,675	€ 0	€ 0	-€ 1,008,708
Line A3	1	2	3	4	5	6	7	8	9	10	Total
Loan Balance BoP	€ 0	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 8,058,976	€ 8,058,976	€ 0	€ 0	€ 0	€ 0	
Drawdown	€ 15,000,000	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 15,000,000
Arrangement fee	-€ 180,000	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 180,000
Repayment	€ 0	€ 0	€ 0	-€ 6,941,024	€ 0	-€ 8,058,976	€ 0	€ 0	€ 0	€ 0	-€ 15,000,000
Loan Balance EoP	€ 15,000,000	€ 15,000,000	€ 15,000,000	€ 8,058,976	€ 8,058,976	€ 0	€ 0	€ 0	€ 0	€ 0	
Interest Payment	-€ 147,801	-€ 147,801	-€ 147,801	-€ 79,408	-€ 79,408	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 602,220
Line A3 CF	€ 14,672,199	-€ 147,801	-€ 147,801	-€ 7,020,432	-€ 79,408	-€ 8,058,976	€ 0	€ 0	€ 0	€ 0	-€ 782,220



6.2 Structured financing for a real estate portfolio acquisition

6.2.6 Financing Line and Cash Flow Summary

Acq. Line SUMMARY	1	2	3	4	5	6	7	8	9	10	Total
Drawdown	€45,000,000	€0	€0	€0	€0	€0	€0	€0	€0	€0	€ 45,000,000
Repayment	€0	€0	€0	-€6,941,024	€0	-€10,429,034	-€4,316,267	-€20,764,744	€0	-€2,548,931	-€ 45,000,000
Loan Balance EoP	€45,000,000	€45,000,000	€45,000,000	€38,058,976	€38,058,976	€27,629,942	€23,313,675	€2,548,931	€2,548,931	€0	
Portfolio Value	€69,435,000	€69,435,000	€69,435,000	€60,510,000	€60,510,000	€47,100,000	€41,550,000	€14,850,000	€14,850,000	€0	
LTV	65%	65%	65%	63%	63%	59%	56%	17%	17%		64.8%
Covenant Test	OK	OK	OK	OK	OK	OK	OK	OK	OK		
Interest	-€388,619	-€388,619	-€388,619	-€320,226	-€320,226	-€220,347	-€183,065	-€18,906	-€18,906	€0	-€ 2,247,532
Rent	€1,128,319	€1,135,371	€1,142,467	€1,001,840	€1,008,101	€789,594	€700,906	€252,070	€253,645	€0	€ 7,412,312
ICR	290%	292%	294%	313%	315%	358%	383%	1333%	1342%		290.3%
Covenant Test	OK	OK	OK	OK	OK	OK	OK	OK	OK		
Arrangement fee	-€540,000	€0	€0	€0	€0	€0	€0	€0	€0	€0	-€ 540,000
Loan Tax	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	€ 0
Bank Agent Fee	-€12,500	-€12,500	-€12,500	-€12,500	-€12,500	-€12,500	-€12,500	-€12,500	-€12,500	€0	-€ 112,500
Acquisition Line CF	€44,058,881	-€401,119	-€401,119	-€7,273,750	-€332,726	-€10,661,881	-€4,511,832	-€20,796,150	-€31,406	-€2,548,931	-€ 2,900,032

6.3 Financing of a RE development project

6.3.1 Description

Residential development project

The borrower will purchase the land with its own capital (fully equity financed) and request a bank loan equal to cover the full amount of the construction costs (LTC 100% on capital expenditure only). It is assumed that 25% of the price of the apartments will be received upon signature of the preliminary sale agreements, and the balance upon conclusion of the sale.

Timing	0	1	2	3	4	5	6	7	8	9	10	
Area %	100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	
Construction%	0%	0%	10%	15%	20%	20%	20%	15%	0%	0%	0%	
Preliminary Contract %	0%	0%	0%	0%	10%	20%	20%	25%	25%	0%	0%	
Final Deed%	0%	0%	0%	0%	0%	0%	0%	0%	0%	50%	50%	
Cash flows	0	1	2	3	4	5	6	7	8	9	10	Total
Area	-€18,000,000	€0	€0	€0	€0	€0	€0	€0	€0	€0	€0	-€18,000,000
Construction	€0	€0	-€4,500,000	-€6,750,000	-€9,000,000	-€9,000,000	-€9,000,000	-€6,750,000	€0	€0	€0	-€45,000,000
Preliminary Contract	€0	€0	€0	€0	€2,062,500	€4,125,000	€4,125,000	€5,156,250	€5,156,250	€0	€0	€20,625,000
Final Deed	€0	€0	€0	€0	€0	€0	€0	€0	€0	€30,937,500	€30,937,500	€61,875,000
RE Cash Flow	-€18,000,000	€0	-€4,500,000	-€6,750,000	-€6,937,500	-€4,875,000	-€4,875,000	-€1,593,750	€5,156,250	€30,937,500	€30,937,500	€19,500,000



6.3 Financing of a RE development project

6.3.2 Term Sheet (A) - Key Facts

Structure	Principal Facility (Construction Line)* + Surety Facility *(This will be drawn down in various installments, with amounts not lower than €500,000 at intervals of at least one month depending upon the WIP)																												
Maximum Loan Amount	<table><tr><td></td><td></td><td>Construction Line</td><td></td><td>Surety Facility</td></tr><tr><td>Max Amount</td><td></td><td>€ 52,000,000</td><td></td><td>€ 18,000,000</td></tr><tr><td>LTC %</td><td>100%</td><td>€ 45,000,000</td><td>100%</td><td>€ 20,625,000</td></tr><tr><td>LTV %</td><td>60%</td><td>€ 49,500,000</td><td></td><td></td></tr><tr><td>Financed Amount</td><td></td><td>€ 45,000,000</td><td></td><td>€ 18,000,000</td></tr></table>						Construction Line		Surety Facility	Max Amount		€ 52,000,000		€ 18,000,000	LTC %	100%	€ 45,000,000	100%	€ 20,625,000	LTV %	60%	€ 49,500,000			Financed Amount		€ 45,000,000		€ 18,000,000
		Construction Line		Surety Facility																									
Max Amount		€ 52,000,000		€ 18,000,000																									
LTC %	100%	€ 45,000,000	100%	€ 20,625,000																									
LTV %	60%	€ 49,500,000																											
Financed Amount		€ 45,000,000		€ 18,000,000																									
Purpose of the loan	Coverage of the costs of building the property provided as security																												
Term* (It must be consistent with the time-scales for construction and marketing activities)	Three years																												

6.3 Financing of a RE development project

6.3.2 Term Sheet (B) - Interest Rates, Margins and Fees

Interest Rate and margins	Floating-rate (EURIBOR 3 months) + margin, paid quarterly in arrears:			
		Construction Phase	Built Phase	Surety Facility
	Spread	3.50%	2.50%	1.00%
	Euribor 3 months	0.50%	0.50%	
	Interest rate (yearly)	4.00%	3.00%	1.00%
	<i>Interest rate (quarterly)</i>	<i>0.99%</i>	<i>0.74%</i>	<i>0.25%</i>
Fees	<ul style="list-style-type: none"> Commitment Fee: 1.50% on an annual basis, calculated on the residual amount to be drawn down from the Principal Facility (the difference between the loan approved and the amount actually drawn down), to be paid upon conclusion of each quarter Guarantee fee: 1.00% on an annual basis, paid quarterly in arrears 			
Repayment	The loan will be repaid in one single installment upon maturity, or alternatively in line with concluded sales for the properties built. Upon each individual sale, the borrower will be required to repay at least 125% of the amount of the loan allocated to the corresponding unit			

6.3 Financing of a RE development project

6.3.3 Costs

- ✓ **Loan Structuring Costs:** 1.25% of the amount loaned, to be withheld upon the first drawdown
- ✓ **Other Costs**

Construction Line	0	1	2	3	4	5	6	7	8	9	10	Total
Loan Balance BoP	0	0	€ 0	€ 4,500,000	€ 11,250,000	€ 20,250,000	€ 29,250,000	€ 38,250,000	€ 45,000,000	€ 45,000,000	€ 16,875,000	
Drawdown	0	0	€ 4,500,000	€ 6,750,000	€ 9,000,000	€ 9,000,000	€ 9,000,000	€ 6,750,000	€ 0	€ 0	€ 0	€ 45,000,000
Arrangement fee	0	0	-€ 562,500	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 562,500
Repayment	0	0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 28,125,000	-€ 16,875,000	-€ 45,000,000
Loan Balance EoP	0	0	€ 4,500,000	€ 11,250,000	€ 20,250,000	€ 29,250,000	€ 38,250,000	€ 45,000,000	€ 45,000,000	€ 16,875,000	€ 0	
interest Construction	0	0	-€ 44,340	-€ 110,851	-€ 199,531	-€ 288,212	-€ 376,893	-€ 443,403	€ 0	€ 0	€ 0	-€ 1,463,231
interest Built	0	0	€ 0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 333,768	-€ 125,163	€ 0	-€ 458,931
Total Interest	0	0	-€ 44,340	-€ 110,851	-€ 199,531	-€ 288,212	-€ 376,893	-€ 443,403	-€ 333,768	-€ 125,163	€ 0	-€ 1,922,162
Committed capital not used	0	0	€ 0	€ 33,750,000	€ 24,750,000	€ 15,750,000	€ 6,750,000	€ 0	€ 0	€ 0	€ 0	
Commitment fee	0	0	€ 0	-€ 125,857	-€ 92,295	-€ 58,733	-€ 25,171	€ 0	€ 0	€ 0	€ 0	-€ 302,056
CF Line A1	0	0	€ 3,893,160	€ 6,513,292	€ 8,708,174	€ 8,653,055	€ 8,597,936	€ 6,306,597	-€ 333,768	-€ 28,250,163	-€ 16,875,000	-€ 2,786,718
Surety Facility	0	1	2	3	4	5	6	7	8	9	10	Total
Surety amount BoP	0	0	0	0	€ 0	€ 1,800,000	€ 5,400,000	€ 9,000,000	€ 13,500,000	€ 18,000,000	€ 9,000,000	
New Surety	0	0	0	0	€ 1,800,000	€ 3,600,000	€ 3,600,000	€ 4,500,000	€ 4,500,000	€ 0	€ 0	€ 18,000,000
Surety Expiry	0	0	0	0	€ 0	€ 0	€ 0	€ 0	€ 0	-€ 9,000,000	-€ 9,000,000	-€ 18,000,000
Surety amount EoP	0	0	0	0	€ 1,800,000	€ 5,400,000	€ 9,000,000	€ 13,500,000	€ 18,000,000	€ 9,000,000	€ 0	
Cost	0	0	0	0	-€ 4,483	-€ 13,450	-€ 22,416	-€ 33,624	-€ 44,832	-€ 22,416	€ 0	-€ 141,222

6.3 Financing of a RE development project

6.3.4 Financial Covenants

	1	2	3	4	5	6	7	8	9
Debt	€0	€4,500,000	€11,250,000	€20,250,000	€29,250,000	€38,250,000	€45,000,000	€45,000,000	€16,875,000
Average OMV	€18,000,000	€24,000,000	€32,437,500	€42,975,000	€54,075,000	€65,175,000	€75,750,000	€82,500,000	€41,250,000
LTV		18.75%	34.68%	47.12%	54.09%	58.69%	59.41%	54.55%	40.91%
Covenant Test		OK	OK	OK	OK	OK	OK	OK	OK

6.3 Financing of a RE development project

6.3.5 Summary of cash flows and loan facilities

	0	1	2	3	4	5	6	7	8	9	10	Total	IRR Y
Real Estate CF	-€18,000,000	#	-€4,500,000	-€6,750,000	-€6,937,500	-€4,875,000	-€4,875,000	-€1,593,750	€5,156,250	€30,937,500	€30,937,500	€19,500,000	21.90%
CF Construction Line	€0	#	€3,893,160	€6,513,292	€8,708,174	€8,653,055	€8,597,936	€6,306,597	-€333,768	-€28,250,163	-€16,875,000	-€2,786,718	5.58%
CF Bank Guarantee Line	€0	#	€0	€0	-€4,483	-€13,450	-€22,416	-€33,624	-€44,832	-€22,416	€0	-€141,222	
Levered CF pre constraint	-€18,000,000	#	-€606,840	-€236,708	€1,766,190	€3,764,605	€3,700,520	€4,679,223	€4,777,650	€2,664,921	€14,062,500	€16,572,060	38.49%
Escrow Account BoP	€0	#	€0	€0	€0	€1,766,190	€5,532,999	€9,240,422	€13,931,174	€18,726,204	€21,414,489		
Increase	€0	#	€0	€0	€1,766,190	€3,764,605	€3,700,520	€4,679,223	€4,777,650	€2,664,921	€0	€21,353,108	
Interest	€0	#	€0	€0	€0	€2,204	€6,903	€11,529	€17,381	€23,364	€26,718	€88,099	
Drawdown	€0	#	€0	€0	€0	€0	€0	€0	€0	€0	€21,441,207	€21,441,207	
Escrow Account EoP	€0	#	€0	€0	€1,766,190	€5,532,999	€9,240,422	€13,931,174	€18,726,204	€21,414,489	€0		
Levered CF to Equity	-€18,000,000	#	-€606,840	-€236,708	€0	€0	€0	€0	€0	€0	€35,503,707	€16,660,159	29.15%

6.4 Financing a shopping centre: credit application

Borrower	Prime S.r.l.
Facility Amount	€75.0 Mln
Availability	€50.0 Mln within one month after the closing date €25.0 Mln within 12 months after the closing date
Margin	€25.0 Mln within 12 months after the closing date
Closing fee	125 bps payable on the entire Facility Amount at closing date
Commitment fee	100 bps per annum on undrawn Facility Amount payable in quarterly instalments
Maturity	5 years
Interest periods	3 or 6 months
Repayment	Bullet at Maturity
Main securities	<ul style="list-style-type: none"> - First ranking mortgage on the Property (including extension) - Pledge on quotas of the Borrower - Pledge on the Borrower bank accounts - Assignment of the Property lease contracts receivables - Assignment of hedging receivables - Assignment of hedging receivables



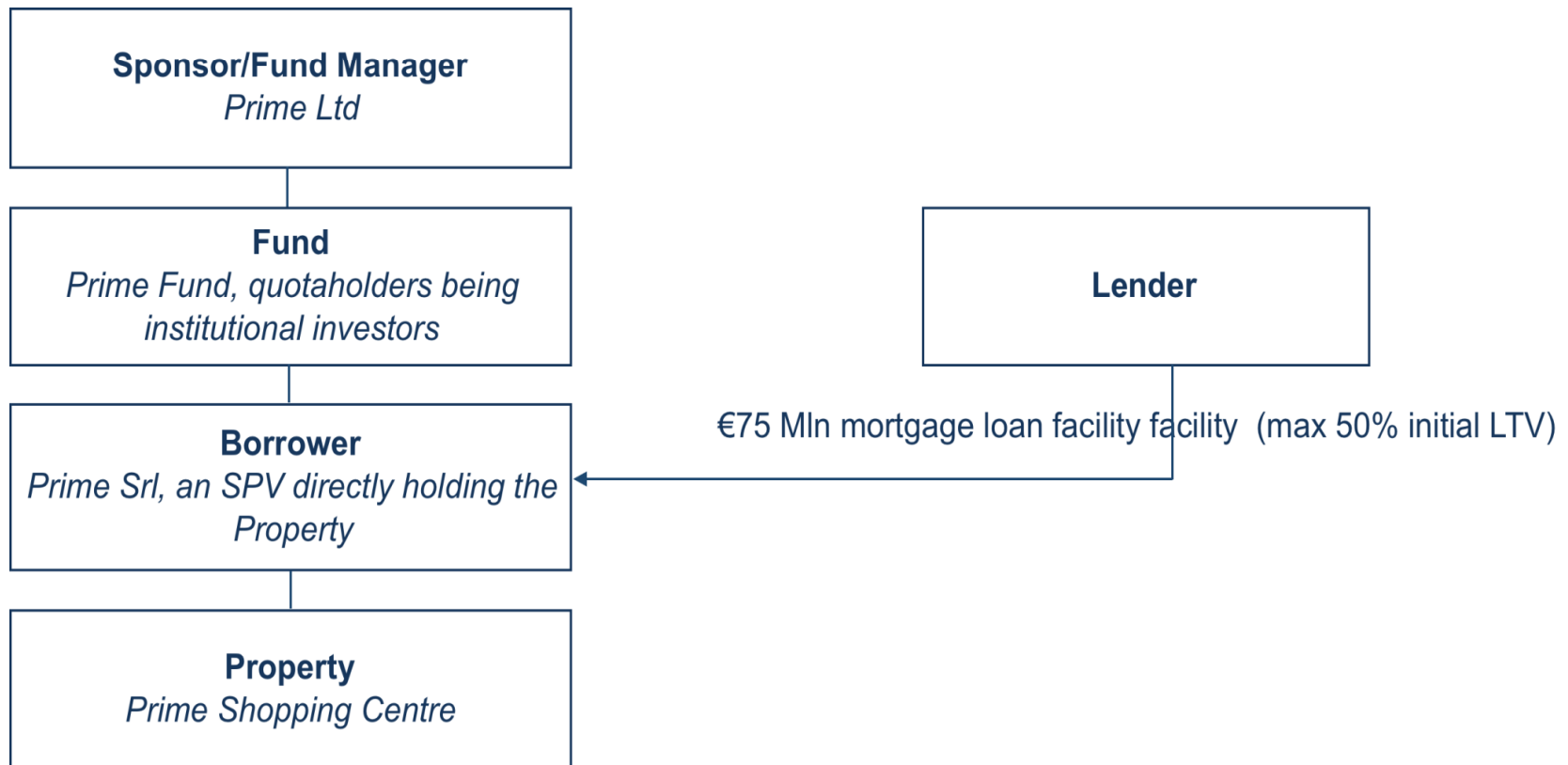
6.4 Financing a shopping centre: credit application

Financial covenants to be tested semi-annually	<ul style="list-style-type: none"> - LTV \leq 50% (years 1) - LTV \leq 40% (years 2, 3, 4, 5) - ICR \geq 2.0x on an historical basis (looking back) - ICR \geq 2.0x on a projected basis (looking forward)
Main additional covenants	<ul style="list-style-type: none"> - No change of control for the Borrower - No change of Fund Manager for the Fund
Voluntary Prepayments	Allowed subject to prepayment penalties equal to 2.0% in year 1, 1.5% in year 2, 1.25% in year 3, 1.0% in year 4 and 0.5% in year 5, to be calculated on the prepaid amounts
Cancellation fee	2.0% calculated on undrawn amounts (if any), payable at the end of Availability
Hedging	Mandatory hedging with a minimum notional equal to €50 Mln and until Final Maturity through an IRS or a Cap with base rate (excluding Margin) not higher than 2.0%



6.4 Financing a shopping center: credit application

6.4.1 Players Involved



6.4 Financing a shopping center: credit application

6.4.2 Financial Analysis* (A) - Property

Property Cash Flow Analysis	1	2	3	4	5	6
Inflation	2,00%	2,00%	2,00%	2,00%	2,00%	2,00%
Minimum Guaranteed Rent	€ 11.000	€ 14.720	€ 15.014	€ 15.315	€ 15.621	€ 15.933
Gross Rental Income	€ 11.000	€ 14.720	€ 15.014	€ 15.315	€ 15.621	€ 15.933
Total non-recoverable costs 20,00%	€ 2.200	€ 2.944	€ 3.003	€ 3.063	€ 3.124	€ 3.187
Net Operative Income	€ 9.350	€ 12.512	€ 12.762	€ 13.017	€ 13.278	€ 13.543
Interest on Mortgage Loan 5,30%	€ 3.975	€ 3.975	€ 3.975	€ 3.975	€ 3.975	€ 3.975
Mortgage Loan EoY	€ 75.000	€ 75.000	€ 75.000	€ 75.000	€ 75.000	€ 75.000
Property MV EoY	€ 150.000	€ 200.000	€ 200.000	€ 200.000	€ 200.000	€ 200.000
ICR	2,35	3,15	3,21	3,27	3,34	3,41
Debt Yield (%)	12,5%	16,7%	17,0%	17,4%	17,7%	18,1%
LTV (%)	50,0%	37,5%	37,5%	37,5%	37,5%	37,5%

*Main Assumptions:

- Current annual Gross Rental Income (GRI) generated by the lease contracts equal to €11 million, taking into account contractual Minimum Guaranteed Rent only and not considering any form of turnover rent
- Additional rent equals to €3.7 million from Year 2
- Annual GRI increase in line with expected inflation estimated at 2.0% per annum
- Non-recoverable costs equal to 20% of annual GRI
- Existing tenants will not exercise their respective options to break
- Interest rate is equal to 5.30% (5 year IRS at 130 bps plus 400 bps margin)

6.4 Financing a shopping center: credit application

6.4.2 Financial Analysis (B) - Prime Fund

Balance Sheet

Prime Fund €Mln

Total Assets	€1,000	Total Liabilities	€330
Fixed Assets	€900	Long Term Liabilities	€310
RE Investments	€850	Bank Loans	€300
RE under development	€40	Other Long Term Payable	€10
RE Participations	€10		
Current Assets	€100	Short Term Liabilities	€20
Cash	€80	Bank Loans	€10
Net Account Receivables	€20	Net Account Payable	€10
		NAV	€670

Key Ratios

NFP (€Mln)	€230
NFP/EBITDA	4.7
LTV (%)	34.4%
NFP/RE Assets (%)	25.6%
Current Assets/Short Term Liabilities	5.0
Solvency %	67.0%

Profit & Loss

Prime Fund €Mln

Rental Income from RE Assets	€70.0
Other Income from RE Participations	€1.0
Gross Rental Income	€71.0
Property Expenses	-€10.5
Property Management Fee	-€1.4
Net Rental Income	€59.1
Fund Mgmt Exp.	-€10.0
EBITDA	€49.1
Dep/Rev from RE Asset/Participation	€10.0
EBIT	€59.1
Interests Expenses	-€16.0
Taxes	-€5.0
Net Result	€38.1

Key Ratios

ICR	3.1
EBITDA Margin	69.2%
EBITDA/Bank Loans	15.8%
NFP/EBITDA	4.7



6.4 Financing a shopping center: credit application

6.4.3 Risk Appraisal (A)

6.4.3.1 Structure risk

The Borrower is an existing SPV directly holding the Property and fully indirectly owned by the Fund. The Fund has an average annualized distribution yield since inception equal to 6%. Given the strong performance of the Property, the Borrower is significantly contributing to such distributions. Since the Borrower is a SPV without recourse to other entities, the structure risk is considered average, though adequately mitigated by a strong security package and an adequate set of financial (LTV, ICR) and non-financial covenants.

6.4.3.2 Repayment

Given the very low leverage at Fund level (less than 40%) and the easy access to credit proven by the Fund controlled SPVs, refinancing risk is acceptable. No breaches of financial covenants have occurred. It is therefore expected that the Borrower will repay the facility through a disposal of the asset to another core institutional investor or through a refinancing.



6.4 Financing a shopping center: credit application

6.4.3 Risk Appraisal (B) - Real Estate Analysis

Property: It is a prime shopping mall with a total GLA of 30,000 sqm. The Property was opened 5 years ago and has a successful track record in terms of visitors and turnover. Given the successful and stabilized performance, an extension of 10,000 sqm GLA has been started and is expected to be completed in Year 1, bringing the total size of the scheme to 40,000 sqm. The Property is open all year round from 10 a.m. to 9 p.m. including Sundays and is closed only three days a year.

Location: The Property is located in a densely populated area with above national average per capita disposable income and above national average levels of consumption.

Tenancy: The Property is fully let to 150 tenants. Annual Minimum Guaranteed Rent (MGR) is equal to €11 million, reaching an amount of €13 million. Total MGR is expected to reach €14.7 million upon opening of the extension (additional GLA entirely pre-let through binding agreements bringing additional annual rent of €3,7 million). Top ten tenants represent 20% of total MGR. The average rental level is €366/sqm/year on MGR basis. Weighted Average Life of leases at first break stands at five years with next expiry peaks in 2017 and 2018. The Property has totalized a total turnover of €120 million over the last 12 months (equivalent to €4,000/sqm) resulting in an average current effort ratio (MGR/Turnover) of 9.1% which can be considered good.



6.4 Financing a shopping center: credit application

6.4.3 Risk Appraisal (B) - Real Estate Analysis

Valuation: The OMV of the Property has been assessed by an international independent appraiser following RICS standards. Last year's valuation reports an OMV of €150 million, reflecting a gross initial yield on existing MGR of 7.3% in line with market conditions and comparable evidence for prime shopping malls. This value is a fair assessment for a prime retail scheme such as the subject Property and adequately reflects its location, tenancy and level of competition.

Reputation risk: Considering Fund Manager solid track record as investor and asset manager as well as the strong performance of the Fund and the proven track record of the Borrower/Property, reputation risk is considered below average.

6.4 Financing a shopping center: credit application

6.4.4 Risk Rating and Risk-Reward

- ✓ Risk rating: equivalent to investment grade
- ✓ Risk adjustment return on capital: above thresholds
- ✓ Sanity Check: significantly above minimum thresholds of profitability set by the lender's committee, in view of pricing of the transaction (400 bps) that adequately remunerates the RWAs of the deal

6.4.5 Conclusion and Recommendation

Considering:

1. that the Property outlet has a very strong and consolidated track record and is the top performer in its large catchment area
2. the moderate initial LTV (50%), that will further decrease upon completion of the planned extension (below 40%)
3. the very good risk-reward profile of the transaction
4. the strong reputation of the Sponsor/Fund Manager as retail investors and asset managers on a global scale, with strong commitment to the Italian market
5. the opportunity for the Lender to consolidate the relationship with a key client like Prime with tangible cross-selling potential.

Approval is recommended with respect to this financing request



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