



## Assessment under IAS - 36 (Impairment of Assets)

AIAhli REIT Fund [1]

[www.insights-advisory.com](http://www.insights-advisory.com)

27<sup>th</sup> March 2019





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# Introduction

## Preface

In accordance with formal instructions from AlAhli REIT Fund (1), OceanX Company take enclosing our Value in Use Report on Al Andalus Mall and Staybridge Suites, both of which are located in Jeddah, KSA.

## Valuation Standards

We confirm that this valuation report has been prepared in accordance with International Financial Reporting Standards as applicable for Impairment Testing of business.

## Purpose of Valuation

Insights has been asked to provide our opinion of value for the Subject Property for determining the Value in Use of the AlAhli REIT Fund (1).

## Date of Valuation

The date of this Value in Use is 31<sup>st</sup> December 2018.

## Source of Information

We have been provided with the information of revenues, operating expenses and financial performance of the properties. We have assumed that the information provided to us by the management is accurate and has a material effect on the value of properties as per IAS - 36.



# Introduction

## Organization Overview

AlAhli REIT Fund (1) is a Shariah-compliant fund that aims to provide semi-annual rental income to the Unitholders by investing mainly in income-generating ready-to-use real estate assets, in addition to growth in the total value of assets.







## Executive Summary

# Executive Summary

## Property Overview

Insights was engaged by AlAhli REIT Fund (1) for the determination of the Value in Use as per the IAS – 36 (Impairment of Assets).

The properties involved included:

- **Al Andalus Mall**
- **Staybridge Suites**

Al Andalus Mall consist of a fully enclosed shopping mall with national and international tenants. The Mall has a Gross Leasable Area of approximately 90,272 sqm spread over ground, first and second floors. The property has seven entrance gates as well as approximately 3,000 car parking spaces. The construction of Al Andalus Mall concluded in 2006 and it is operational since 2007.

Staybridge Suites is an upscale hotel that adjoins the Mall and consists of 164 guestrooms, a restaurant, banquet hall with two additional meeting rooms as well as a fitness center with leisure facilities. The hotel opened for public in 2017.



# Executive Summary

## Valuation Approach

- In determining the Value in Use of the subject Property, we have applied the Income Approach via the Discounted Cash Flow technique.
- Discounting Cash Flow (DCF) analysis is defined in the International Financial Reporting Standards as a financial modelling technique based on explicit assumptions regarding the prospective cash flow of a property. This analysis involves the projection of a series of periodic cash flows that a property is anticipated to generate, with regards to the frequency and timing of associated development costs, contingency allowances etc. To this projected cash flow series, an appropriate discount rate is applied to establish an indication of the present value of the income stream associated with a property.
- With regard to the subject property, the cash flow has been calculated on an annual basis over a hold period of five years. With respect to the growth rate applied throughout our cash flow, we have adopted the average growth rate as applicable to such properties and the same is explained in the methodology portion.
- The cash flow is discounted back to the date of valuation at an appropriate rate to reflect risk in order to determine the Net Present Value.
- The future values quoted for the exit value of the property using the exit yield, the projected rents as well as costs are forecasts formed on the basis of information currently available to us and is not necessarily the representations of what the value of the property will be at any particular future date.





# Executive Summary

## Requirements of IAS – 36 “Impairment of Assets”

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

### Useful life is either:

- a) The period of time over which an asset is expected to be used by the entity; or
- b) The number of production or similar units expected to be obtained from the asset by the entity.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### Identifying an asset that may be impaired

An entity shall assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset.

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

### External sources of information

- a) There are observable indications that the asset’s value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.
- b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.
- c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset’s value in use and decrease the asset’s recoverable amount materially.
- d) The carrying amount of the net assets of the entity is more than its market capitalization.





# Executive Summary

## Requirements of IAS – 36 “Impairment of Assets” (cont’d)

### Internal sources of information

- e)* Evidence is available of obsolescence or physical damage of an asset.
- f)* Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- g)* Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

### Fair value less costs of disposal

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Costs of disposal are incremental costs directly attributable to the disposal of an asset or cash-generating unit, excluding finance costs and income tax expense.

### Value in use

The following elements shall be reflected in the calculation of an asset’s value in use:

- a)* An estimate of the future cash flows the entity expects to derive from the asset;
- b)* Expectations about possible variations in the amount or timing of those future cash flows;
- c)* The time value of money, represented by the current market risk-free rate of interest;
- d)* The price for bearing the uncertainty inherent in the asset; and
- e)* Other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

### In measuring value in use an entity shall:

- a)* Base cash flow projections on reasonable and supportable assumptions that represent management’s best estimate of the range of economic conditions that will exist over the remaining useful life of the asset
- b)* Base cash flow projections on the most recent financial budgets/-forecasts approved by management.
- c)* Estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified.

# Executive Summary

## Requirements of IAS – 36 “Impairment of Assets” (cont’d)

### Identifying the cash-generating unit to which an asset belongs

If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs (the asset’s cash-generating unit).

The carrying amount of a cash-generating unit shall be determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

### Impairment loss for a cash-generating unit

An impairment loss shall be recognized for a cash-generating unit (the smallest group of cash-generating units to which goodwill or a corporate asset has been allocated) if, and only if, the recoverable amount of the unit (group of units) is less than the carrying amount of the unit (group of units). The impairment loss shall be allocated to reduce the carrying amount of the assets of the unit (group of units) in the following order:

- a) First, to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units); and
- b) Then, to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units).

These reductions in carrying amounts shall be treated as impairment losses on individual assets.



**In allocating an impairment loss, an entity shall not reduce the carrying amount of an asset below the highest of:**

- a) Its fair value less costs of disposal (if measurable);
- b) Its value in use (if determinable); and
- c) Zero.

The amount of the impairment loss that would otherwise have been allocated to the asset shall be allocated pro rata to the other assets of the unit (group of units).

# Executive Summary

## Impairment Testing

Insights was engaged by AlAhli REIT Fund (1) for the determination of the Value in Use as per the IAS – 36 (Impairment of Assets).

The properties involved included:

- **Al Andalus Mall**
- **Staybridge Suites**

IAS 36 requires annual impairment tests for certain assets and for any non-financial asset where there is an indication of impairment.

Upcoming slides explain the methodology used for the calculation of impairment and the extract below gives a brief summary for the identification of impairment.



Calculation for Impairment			(in SARs thousands)
<b>Lower of: (1 vs. 2)</b>			
<b>1. Carrying amount as provided by the management</b>			1,345,000
<b>2. Recoverable amount</b>			
Value in use as per IAS – 36	(a)	1,365,613	
Fair Value (average of Colliers and ValuStrat report)	(b)	1,310,550	
<b>Recoverable Amount (higher of a vs. b)</b>			1,365,613
<b>Carrying Amount less than Recoverable Amount – No Impairment Charge</b>			20,613



# Site Analysis

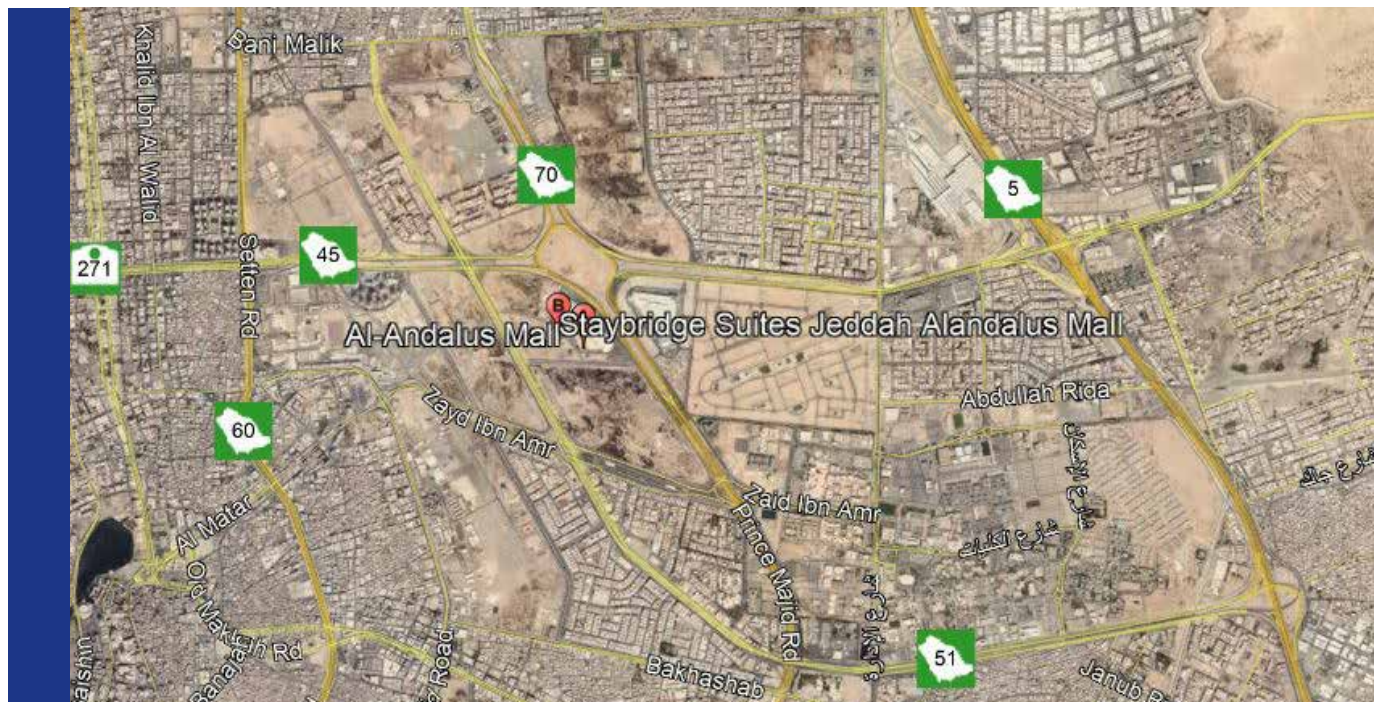


# Site Analysis

## Location Analysis

Jeddah is the second largest city in Saudi Arabia after the Kingdom's capital city Riyadh. The site of retail shopping mall (Alandalus Mall) is located in the middle of Jeddah in Al Fayhaa District.

- The location is considered as a prime location in Jeddah at the intersection of Prince Majid Rd and King Abdullah Road. The area consists of many high end residential buildings.
- The area currently is occupied by two shopping malls (Al Salam Mall and Al Andalus Mall) and Jeddah Gate, which is a master planned community.
- King Abdulaziz International Airport is located approximately 23 km away from the mall.
- The site is 78 km away from Masjid al-Haram, Mecca.

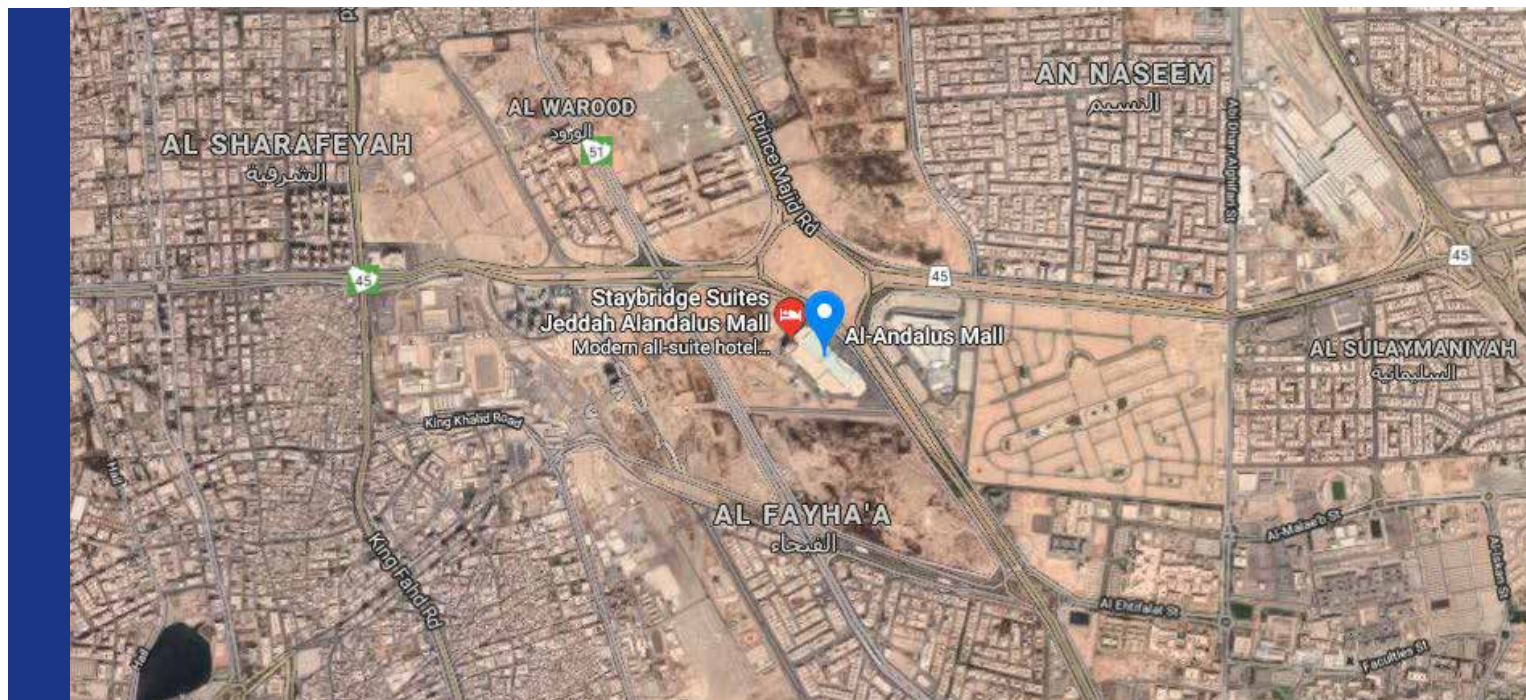


# Site Analysis

## Site Accessibility

The business site is easily accessible through King Abdullah road and Prince Abdul Majeed road. Further Al Harmain Expressway is nearly 7 km away from the location of property.

- The proposed Harriman High Speed Railway link is a key, nation-wide transportation strategy that will connect the Holy Cities of Makkah, Madinah, and Jeddah, with a transit station located at Knowledge Economic City.
- The transportation system is expected to ease traffic during Hajj season, when religious tourism increases Madinah's population to an estimated 2 million residents, which is nearly double the resident population of the city.
- In coming future the metro will be linked to a rapid bus network, park-and-ride facilities, and the new Al-Harriman High-Speed Rail network.





# Site Analysis

## Major Attractions

These are many well known landmarks in the Jeddah city and are hence a key attraction for the people. The major attractions located near the property include the following:

*Mall of Arabia*

*Red Sea Mall*

*Stars Avenue*

*Le Maison*

*Roshana International Center*

*Serafi Mega Mall*

*Jeddah International Center*





## Property Details



# Property Details

## Alandalus Mall

Al Andalus Mall comprises a fully serviced shopping mall with national and international brands. We have been told that construction of the Mall concluded in 2006 and that it is operational since 2007.

The Mall extends in approximately 152,910 sqm. The Mall has construction of two floors other than ground floor. The leasable area is approximately 90,272 sqm as stated by the client. The Mall benefits from 7 entrance gates as well as approximately 3,000 car parking spaces.

The building is of reinforced concrete frame construction beneath a concrete/profiled metal roof. The external envelope is finished with painted pre-cast concrete panels to all elevations incorporating full height glazed sections to the entrance gates.



# Property Details

## Alandalus Mall (cont'd)

Access from ground to first level is facilitated via 6 elevators, 14 escalators and 2 panoramic lifts which are located within the mall and provide good interconnectivity between each level.

The children's entertainment area includes several removable rides and arcade games as well as an ice skating rink.

Al Andalus Mall management office is situated on the second floor, which is accessed via a service corridor.

A Building Management System is installed within the Centre in addition to a comprehensive security system featuring numerous CCTV cameras. Overhead fire sprinklers, fire alarms, hose reels, extinguishers and detectors are fitted throughout the entire property.

The Mall has been extended from its southern elevation by 8,000 sqm. We have not been provided with the development cost but we understand works were completed at the end of 2016. The expanded area has already been fully leased, with anchor tenants including Red Tag and City Max.

Additionally, 5 new food court units have been developed as an extension to the existing area. These units range from 52 sqm to 62 sqm each. The extension was completed in Q2 2018.

The Client has agreed a deal with a Cinema operator to operate a cinema theatre at the Mall, which is expected to be operational as of October 2019.

The following are some of the brands representing their presence in Alandalus Mall:

**Hyper Panda**

**City Max**

**New Look**

**Smart Mango**

**Home Box**

**City Max**

**Centre Point**

**Riva**

**H&M**

**Red Tag**

**Paris Gallery**

**Kiabi**

# Property Details

## Skybridge Suites

Staybridge Suites is an upscale hotel that adjoins the Mall and benefits from 164 guestrooms.

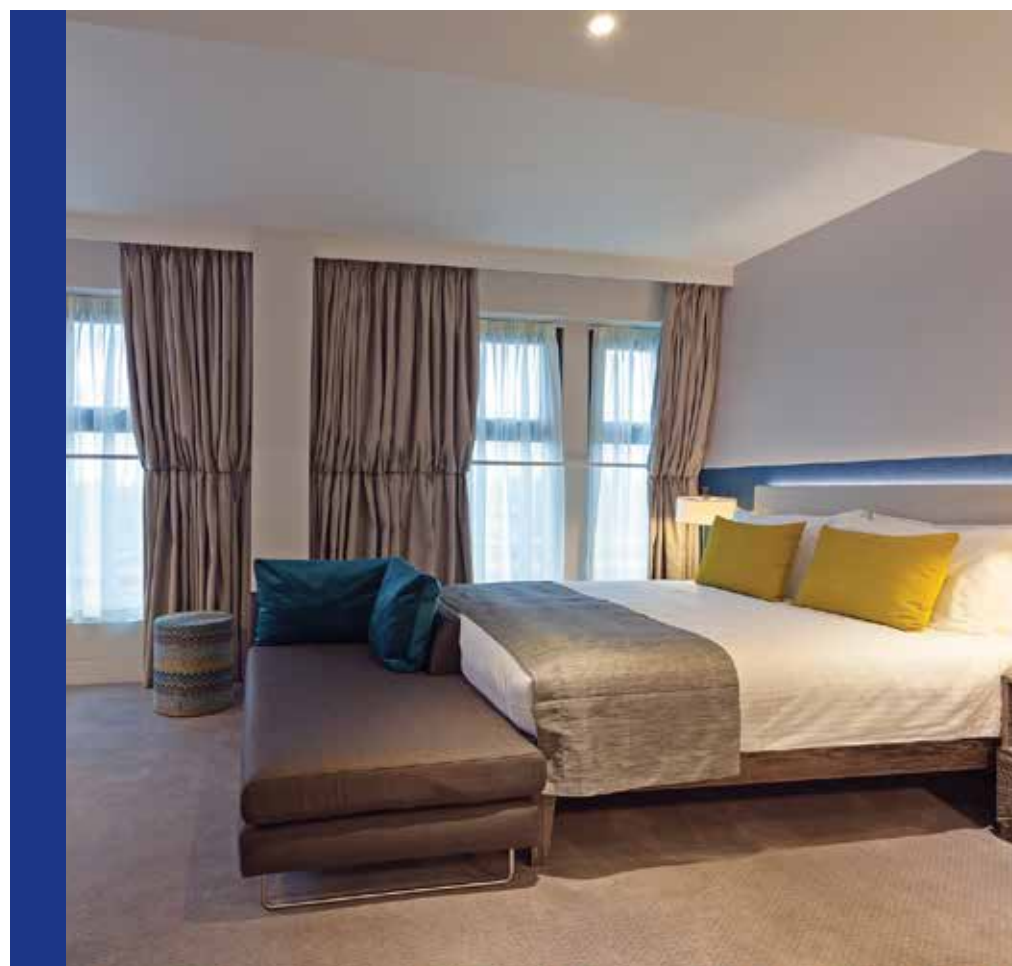
In terms of the configuration of the Hotel, the reception is located on the ground floor.

There is a restaurant on the first floor, which benefits from 70 covers and is identified as 'The Hub', as well as a club lounge.

On the second floor there is a banquet hall that can be divided into 5 meeting rooms, as well as 2 individual meeting rooms with audio visual equipment. On this level there is also a fitness centre, sauna room and a 20 metre outdoor swimming pool.

The Hotel also benefits from an outdoor tennis court, which is located on the fourth floor. The detailed number of keys with their types are as below:

One Bedroom (type 1)	75
One Bedroom (type 2)	15
Two Bedroom (type 1)	15
Two Bedroom (type 2)	15
Studio (type 1)	14
Studio (type 2) 15 Studio (type 3)	15
<b>Total Keys</b>	<b>164</b>



# Property Details

## Key Characteristics

We have seen the copy of Title Deed for the property. We have assumed the following details to be correct for the purposes of this report.

However, if there have been found any different details of the property, we reserve the right to amend our business valuation.



Description	Information
City	Jeddah
District	Al Fayhaa
Owner Name	Sandouq Tamkeen Real Estate Company
Property Type	Al Andalus Mall & Staybridge Suites Hotel
Land Area (sq. m)	159,133
Plot size of the Mall (sq. m)	152,910
Plot size of the Hotel (sq. m)	6,223





# Value in Use



# Value in Use

## Reason for Valuation

The main purpose of Value in Use for AlAhli REIT Fund (1) was the impairment test for Al Andalus Mall and Staybridge Suites. For the calculation of impairment it is necessary to have a comparison between the following:

- **Carrying Amount**
- **Recoverable Amount**

The recoverable amount includes two further sub classifications:

- **Fair Value**
- **Value in Use**



## Value in Use :

### Approach :

Insights adopted the Discounted Cash Flow (DCF) technique for the calculation of Value in Use. This approach involved the discounting of the net cash flow on a yearly basis for Al Andalus Mall and Staybridge Suites over a 5-year cash flow horizon based upon the expected cash flows. The projected income stream reflects the anticipated rental growth inherent in a property investment based upon the physical, tenancy or market characteristics related to that property. In addition to projected operating costs and allowances, future capital expenditure can also be reflected in the cash flow.

Cash inflows comprise income from the property adjusted to reflect actual and assumed lease conditions and rental growth, whilst cash outflows comprise operating costs adjusted to reflect anticipated inflation. This cash flow is discounted at an appropriate rate to reflect the associated risk premium, in order to determine a Net Present Value of the subject property.

# Value in Use

## Reason for Valuation (cont'd)

### Valuation Inputs :

The level of rental income projected by the client is in line with market expectations for the Property. It was assumed that the rents provided are inclusive of a service charge contribution for the maintenance and management of the common areas.

Based on information and further clarifications provided by the client, we have assumed Operational Expenditure at 22% of gross rental revenue which is gradually dropped to 18% in 5 years. This percentage reflects the OPEX levels applicable to similar properties in similar conditions.

### Exit Yield :

The Yield is a capitalization rate which takes into account all of the risks associated with realizing the projected income. The Exit Yield for the Jeddah retail market normally vary between a range of 8% and 12% depending upon factors such as the location, financial strength of the tenant, specification and condition of the property. Reduced transactions in the market is an impediment for the exit value calculations. Owing to the factor reliance have been mainly on the anticipated market participants expectations from the historical property investments. Based on the abovementioned criteria, the exit yield of 8.50% have been applied to the Al-Andalus Mall and on the Staybridge Suites.

### Valuation Uncertainty :

The factor of market instability cannot be ignored after the valuation of any property. This is mainly due to the factor of uncertainty which exists in the market. A particular amount achieved as a result of valuation might change to any unexpected changes in the market.

The real estate sector has remained volatile and the level of transactions taking place in the market has remained on the downside. Considering these conditions, the parameters used often of a historical nature and might not be up to date.

The client is advised that whilst all reasonable measures have been taken to supply as accurate a valuation as possible as at the Valuation date, this figure should be considered in the context of the volatility of today's market place. We have assumed the information provided by the client is up to date as on the valuation date.

# Value in Use

## WACC Parameters

The weighted average cost of capital (WACC) was calculated using the following:

WACC Calculation	Al Andalus Mall	Staybridge Suites
Risk free rate	3.90%	3.90%
Beta (Real Estate in KSA)	0.95	0.95
Market Return in KSA	12%	12%
CAPM = $R_f + b (R_m - R_f)$		
CAPM	11.58%	11.58%
Alpha Value	2.00%	1.00%
Cost of Equity	13.58%	12.58%
Cost of Debt	5.00%	5.00%
Equity financing	60.61%	60.61%
Debt financing	39.39%	39.39%
WACC	10.20%	9.59%

## Cost and Revenue Assumptions

The basic assumptions for Al Andalus Mall consisted of the following:

Cost and Revenue Assumptions	2019	2020	2021	2022	2023
Rental Growth %	2.5%	2.5%	2.5%	2.5%	2.5%
Operational Cost %	22%	21%	20%	19%	18%
Occupancy %	95%	95%	95%	94%	90%

The revenue from the mall is expected to grow at a rate of 2.5% every year. Whereas the occupancy of the mall is expected to be 95% in the first three years, at 94% in the fourth year and at 90% in the fifth year. On the other hand the operational cost is expected to start from 22% of the revenue and reduce till 18% of the revenue in the last year.



# Value in Use

## Cost and Revenue Assumptions (cont'd)

The basic assumptions for Staybridge Suites consisted of the following:

Cost and Revenue Assumptions	2019	2020	2021	2022	2023
Rental Growth %	0.0%	3.7%	4.6%	2.1%	3.2%
Operating Cost % (as a percentage of total revenue)	55%	55%	55%	55%	55%

The revenue from the suites is expected to grow between the rate of 2.1% to 4.6% in the next five years. The operating cost of suites, as a percentage of total revenue, is expected to remain around 55%. These projections and percentage increase are confirmed and agreed by the management.

## Exit Strategy

Exit Strategy	
Exit in Year	5th Year
Capitalization Rate % - Al Andalus Mall	8.5%
Capitalization Rate % - Staybridge Suites	8.5%

The exit strategy of the properties involves a time horizon of five years for the value in use calculations. The benchmark of five years projection is as per the requirements of IAS – 36 Impairment of Assets. The exit yield range of the market is on average between 8% to 9% and similarly the capitalization rate for Al Andalus Mall and Staybridge Suites is taken at 8.5%. This is used for the calculation of the terminal value.

# Value in Use

## Al Andalus Mall NPV

Net Present Value for Al Andalus Mall was calculated using the weighted average cost of capital of 10.20% as calculated in the WACC parameters segment of this report.

	In SARs thousands	2019	2020	2021	2022	2023
Total Revenue		126,815	129,985	133,235	135,128	132,613
Operational Cost		(27,392)	(27,297)	(26,647)	(25,674)	(23,870)
Void Costs		(163)	(167)	(171)	(211)	(360)
Terminal Value						1,275,085
Net cash flow		99,260	102,521	106,417	109,243	1,383,467
Year		1	2	3	4	5
Discount Rate		0.907	0.823	0.747	0.678	0.615
Present Value		90,075	84,425	79,524	74,082	851,366
Net Present Value – All Years	1,179,472					

# Value in Use

## Staybridge Suites NPV

Net Present Value for Staybridge Suites was calculated using the weighted average cost of capital of 9.59% as calculated in the WACC parameters segment of this report.

	In SARs thousands	2019	2020	2021	2022	2023
Total Revenue		29,784	31,649	33,056	34,826	35,546
Departmental Expenses		(6,797)	(7,284)	(7,573)	(7,979)	(8,144)
Undistributed Expenses		(5,808)	(6,171)	(6,446)	(6,791)	(6,932)
Management Fee		(1,970)	(2,088)	(2,184)	(2,301)	(2,349)
Fixed Charges		(149)	(158)	(165)	(174)	(178)
FF&E Reserve		(298)	(633)	(661)	(1,045)	(1,066)
Terminal Value						198,553
Net cash flow		14,762	15,315	16,027	16,536	215,430
Year		1	2	3	4	5
Discount Rate		0.912	0.833	0.760	0.693	0.633
Present Value		13,470	12,752	12,177	11,464	136,279
Net Present Value – All Years	186,141					

# Value in Use

## Total Value in Use

Value in use for both segments of the projects is calculated as SAR 1,365,613,000.

	In SARs thousands
Al Andalus Mall	1,179,472
Staybridge Suites	186,141
Total Value in Use	1,365,613







**Conclusion**

# Conclusion

## Calculation for Recoverable Amount

IAS 36 requires annual impairment tests for certain assets and for any non-financial asset where there is an indication of impairment.

The principle of IAS 36 is that an entity's assets are carried at no more than their recoverable amount. Recoverable amount is the higher of the amount to be realized through the asset's use or sale. Where the carrying value exceeds the recoverable amount, the asset is impaired and an impairment loss is required to be recognized.

The standard also details the circumstances when an impairment loss should be reversed and lists the disclosures required for impaired assets, impairment losses, reversals of impairment losses and key estimates and assumptions used in measuring recoverable amounts of cash-generating units (CGUs) that contain goodwill or intangible assets with indefinite lives.

The recoverable amount was calculated after a comparison between the:

- **Fair value of the property and**
- **Value in use**

The higher value between the value in use and the fair value of property will be considered as the recoverable amount as per the guidelines of IAS – 36 Impairment of Assets.



# Conclusion

## Calculation for Recoverable Amount Fair Value

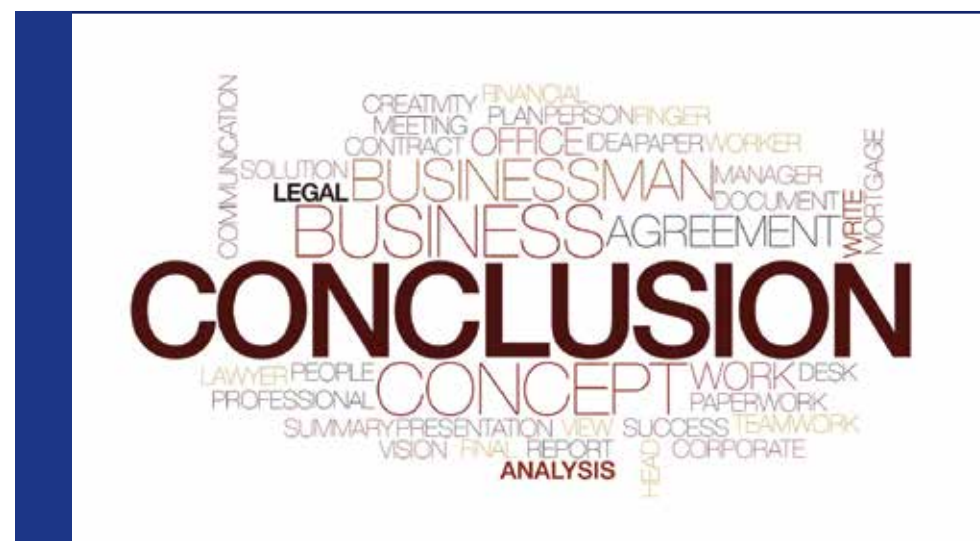
### Fair Value :

For the calculation of fair value of both Al Andalus Mall and Staybridge Suites, external valuation experts were hired. The total land area of property was 159,133.96 sq. m and it is a commercial use property.

### Valuation Approach :

For each property a different valuation approach was undertaken namely:

- Al Andalus Mall: The valuation has been undertaken using the Investment Approach - Discounted Cash Flow (DCF)
- Staybridge Suites: The valuation has been undertaken using the Trading Performance Approach



Valuers	Value (SAR)
ValuStrat	1,340,100,000
Colliers International	1,281,000,000
<b>Fair Value</b> (average of ValuStrat and Colliers International report)	<b>1,310,550,000</b>

# Conclusion

## Calculation for Recoverable Amount Value in Use

### Value in Use :

Value in use for both segments of the project is as follow:

Valuers	In SARs thousands
Al Andalus Mall	1,179,472
Staybridge Suites	186,141
Total Value in Use	1,365,613

### Recoverable Amount :

A comparison between the fair value of property as mentioned at the start of report will be done with the value in use of both the properties. The higher amount among the both will be considered the recoverable amount.

Recoverable Amount	In SARs thousands
A. Fair Value (average of ValuStrat and Colliers report)	1,310,550
B. Value in Use	1,365,613
Recoverable Amount (higher of A vs. B)	1,365,613



# Conclusion

## Comparison between Carrying Amount and Recoverable Amount

### Carrying Amount :

Carrying amount was obtained from the management of AlAhli REIT Fund (1) for both the Al Andalus Mall and Staybridge Suites. The total carrying amount was for the properties amounted to SAR 1,345,000,000.

### Recoverable Amount :

The recoverable amount as obtained after applying the IAS – 36 procedure as mentioned in the Value in Use segment. A comparison between fair value and value in use of the properties was carried out and the recoverable amount, being the higher of the two amounts, was determined as SAR 1,365,613,000.

## Final Assessment

As per the details mentioned in the Value in Use segment a final comparison between the carrying amount and recoverable amount was carried out. As per the requirements mentioned in the IAS – 36 (Impairment of Assets), if the recoverable amount of the subject property is lower than the carrying amount of the property the asset is considered as impaired.

In the case of AlAhli REIT Fund (1), the recoverable amount was calculated at SAR 1,365,613,000 whereas the carrying amount as obtained from the management is SAR 1,345,000,000.

The calculations after the analysis for impairment testing as above disclose that the Carrying Amount AlAhli REIT Fund (1) properties is less than the Recoverable Amount by an amount of SAR 20,613,000. Therefore the properties are not subject to any impairment charge.

Recoverable Amount	In SARs thousands
Carrying Amount	1,345,000
Recoverable Amount	1,365,613
Carrying Amount less than Recoverable Amount – No Impairment Charge	20,613

# Conclusion

## Valuation Sign off

We have assumed that the information provided by the client in relation to revenues and operating expenses associated with the business is accurate and that we have been provided with information that has significant effect on the value of business. We believe that this report and valuation fulfills the requirements of your instructions. This report is issued without any prejudice and personal liability. Based on above we have concluded the value in use of business as at 31<sup>st</sup> December 2018 is:

**Alaldalus Mall – SAR 1,179,472,000**

**Staybridge Suites – SAR 186,141,000**

**Total Value – SAR 1,365,613,000**

Truly,

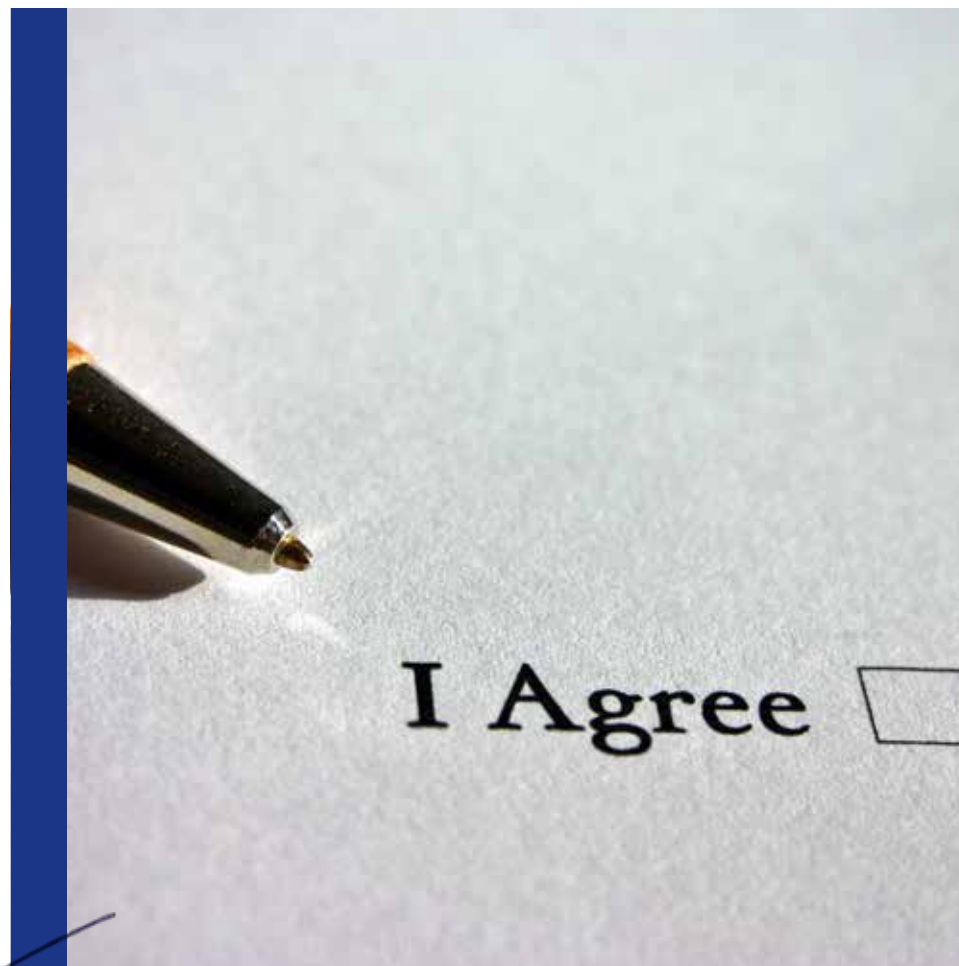


**Ibraheem Alzuhimeel**

TAQEEM Membership No.  
2210000013

**Abdullah Alassaf**

TAQEEM Membership No.  
2210000014



For and on behalf of OceanX Company jointly working with Insights Financial & Management Advisory and Research



**Disclaimer**

# Disclaimer

This report has been prepared for AlAhli REIT Fund (1) to calculate Value in Use of their businesses under International Accounting Standards (IAS) 36, “Impairment of Assets”, located in Jeddah, Kingdom of Saudi Arabia i.e. Al Andalus Mall and Staybridge Suites Hotel.

The terms of our engagement were such that we were mandated to rely solely on the information provided to us by the client.

Values will differ or vary periodically due to various unforeseen factors beyond our control such as supply and demand, inflation, local policies and tariffs and change of various inputs, etc.

The scope of our work did not include any due diligence procedures. It should not be construed that we have verified any of the information provided to us, or that our inquiries could have verified any matter, which a more extensive examination might disclose.

This report is issued for the internal use of client, and that of their professional advisers, for the specific purpose to which it refers. Insights will not accept any responsibility to any third party for the whole or any part of its contents.

We are unaware of planning or other proposals in the area or other matters which would be of detriment to the subject land, although your legal representative should make their usual searches and enquiries in this respect.

We have assumed that the land is not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and good title can be shown. For the avoidance of doubt, these items should be ascertained by the client’s legal representatives.







## Risk Assessment

# Risk Assessment

**The subject properties Al Andalus Mall and Staybridge Suites are exposed to certain risks which can be described as below:**

## Rentals

Considering the current outlook of the real estate market, there might be by and large uncertain or declining trend for the rentals in the real estate market in the projected period of cash flows.

## Low Occupancies

Generally the low occupancy rates in the market is a very high risk indicator. Even with reduced tenancy the investor still faces maintenance costs and property taxes on his properties.

## Future Supply

Future supply in the market can affect business. The development of new malls or hotel in the catchment area will result in high competition. With more traffic in the catchment area this will also result in location risk for the properties.

## Impairment Risk

Impairment testing is not just an accounting exercise; it is an assessment of the business and its true value. The relevance of real estate asset impairment has increased in recent years due to economic conditions. Therefore, stakeholders need to be aware of the impairment risk and should factor it into their investing decision-making process.



# Risk Assessment

**The subject properties Al Andalus Mall and Staybridge Suites are exposed to certain risks which can be described as below (cont'd) :**

## **Economic Conditions**

The economic conditions can impact significantly while determining future cash flows and hence the value of business. Slow economic activity might impact overall commercial activities in the catchment area.

## **Environment Risk**

Environmental legislation and regulations have become increasingly important in the recent years. Extreme weather or directly related regulations might affect the project. These events may impact the project's profitability, ability to service the debt obligations and future cash flows.

## **Political Stability**

Government is focusing on social spending and employment as a strategy for maintaining stability. It is focusing on investments in infrastructure and human resources development that will provide employment and better services for Saudis. Assuming the government's strategy succeeds, the outlook of real estate market will be fairly positive.





**Annexures**



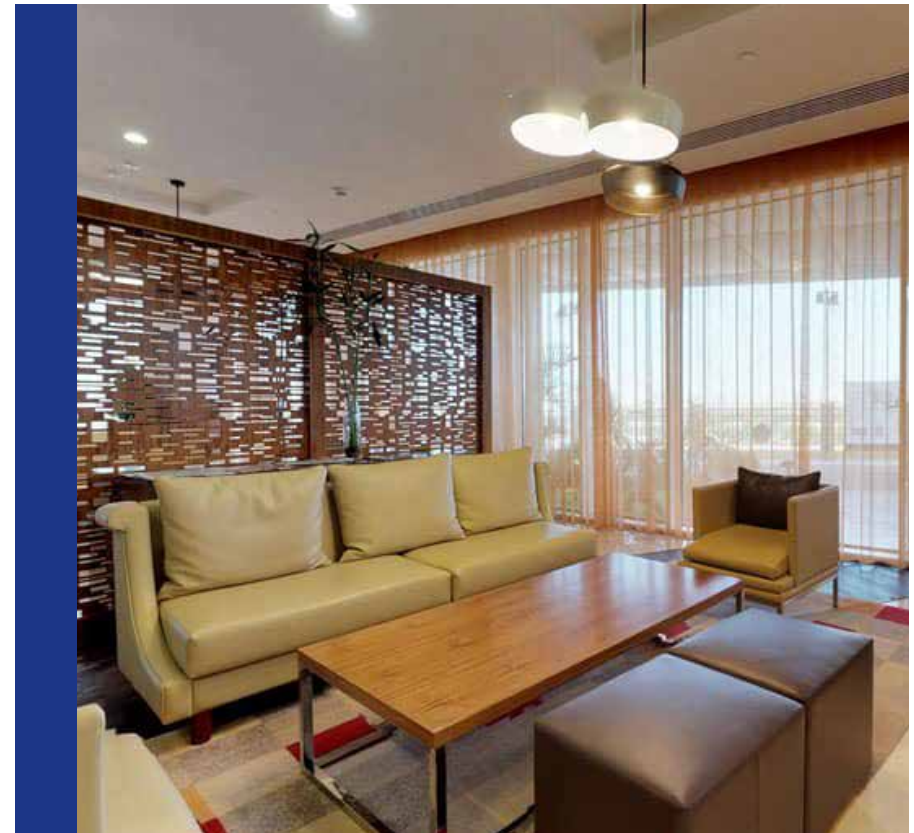
# Property Pictures

## Al Andalus Mall



# Property Pictures




## Staybridge Suites





# Thank You !



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